China: PBOC Q1 monetary policy report: more constructive on growth and inflation, and more focused on risk management

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Bottom line:

The PBOC maintained a measured easing stance in its Q1 monetary policy report released on May 11th, broadly in line with the tone of the Q1 MPC meeting minutes (released on March 31st). Compared with the Q4 report, the central bank sounded more constructive on growth and inflation, citing a strong start of 2026 and PPI inflation turning positive in March. On policy implementation, the PBOC emphasized "*precise and effective*" policy support, but removed the phrase "*carry out counter-cyclical and cross-cyclical adjustments*". On interest rates, the central bank highlighted "*keeping overall financing costs at a low level*". On liquidity management, the PBOC noted falling liquidity demand from financial institutions as seasonal cash demand faded and fiscal spending increased. Together with a special column on macro prudential management, these wording changes suggest greater emphasis on risk management and policy transmission. In our view, this supports our baseline of no policy rate or RRR cuts this year, while the PBOC is likely to maintain ample interbank liquidity to support the real economy. That said, if imported inflation leads to higher inflation expectations and broader domestic price pressures, the PBOC could gradually normalize liquidity conditions and guide overnight repo rates back towards the policy rate.

Main points:

1. In the Q1 monetary policy report (released on May 11th), the PBOC maintained its "*moderately loose*" policy stance, broadly in line with the tone of the Q1 MPC meeting minutes and pointing to a measured easing approach. Compared with the Q4 report, the central bank sounded more constructive on growth and inflation, citing a strong start of 2026 and PPI inflation turning positive in March. Meanwhile, the report also highlighted the need to remain vigilant about the impact of imported inflation on the domestic economy. On policy implementation, the PBOC emphasized "*precise and effective*" policy support, while removing the phrases "*carry out counter-cyclical and cross-cyclical adjustments*" and "*guiding banks to strengthen credit support*".[1] Together with the special columns on macro prudential management and the central banks' role in bond markets, these wording changes suggest greater emphasis on risk management and policy transmission, rather than stepping up broad-based policy easing. In our view, this supports our baseline of no policy rate or RRR cuts in 2026, and suggests that the central bank is more tolerant of slower aggregate loan growth while relying more on structural tools to support high-tech sectors, private

[1] Counter-cyclical measures target short-term growth headwinds, while cross-cyclical adjustments aim to smooth medium-term cycles and preserve policy space over a longer horizon.

enterprises and the services economy.

2. On **interest rates**, the PBOC explicitly stated that it would "*guide overnight market rates to move around the policy rate*" (vs. "*guide short-term market rates to move around the policy rate*" in its 2025Q4 monetary policy report). This echoed the January 15th press conference, where the PBOC officials signaled a greater focus on overnight repo rates as an operational reference for interbank liquidity management. DR001 has remained closer to the lower bound of the interest rate corridor defined by the temporary overnight OMO facilities (Exhibit 1). Banks' effective lending rates remained broadly stable at low levels in Q1 (Exhibit 2). Together with the phrase "*keeping overall financing costs at a low level*" and the call to "*regulate market practices that may weaken monetary policy transmission*", this suggests that the central bank prefers low-profile easing through ample interbank liquidity, which is more reversible and less likely to weigh on banks' net interest margins than policy rate cuts.

3. On **liquidity management**, the PBOC noted that liquidity demand from financial institutions had declined since March, as seasonal cash demand dissipated after the Lunar New Year holiday and fiscal spending increased towards quarter-end. Therefore, the central bank scaled back its liquidity injection. In our view, slower government bond issuance than last year and soft loan demand also contributed to ample interbank liquidity, helping to keep CGB yields broadly stable despite strong economic growth and imported inflationary pressures. Under the "moderately loose" policy stance, the PBOC's liquidity withdrawal has remained measured and limited, mainly through the maturity of existing liquidity injection tools (Exhibit 3). This is also why we removed our RRR cut call. While we do not expect policy rate cuts this year, the bar for rate hikes also remains high; the PBOC can instead tighten liquidity conditions and guide overnight repo rates back toward the policy rate. In our baseline, interbank repo rates are likely to remain low in Q2 for risk management amid the uncertainty around the Middle East conflict. But the PBOC could normalize liquidity conditions if imported inflation leads to higher inflation expectations and broader domestic reflation pressures.

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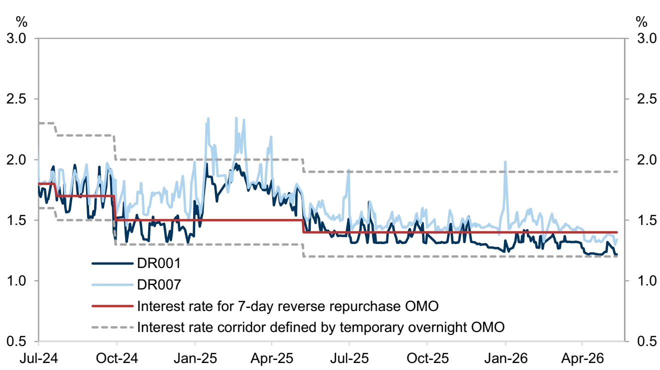
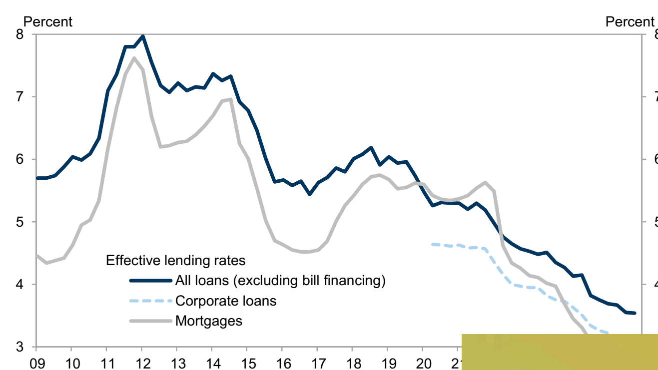
Exhibit 1: Overnight repo rates have remained closer to the lower bound of the interest rate corridor



The grey dashed lines represent the corridor defined by OMO - 20bps and OMO + 50bps, set by the temporary overnight OMOs

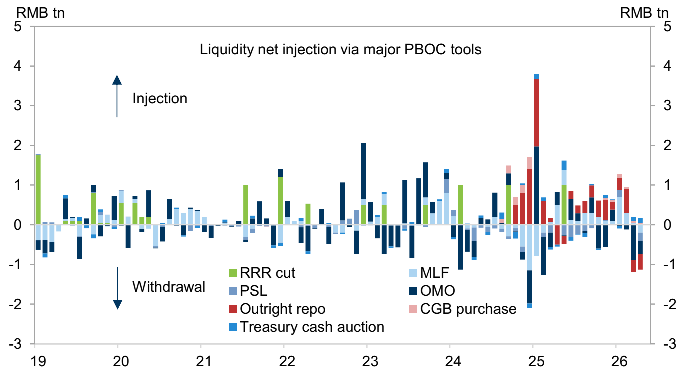
Source: Wind, Goldman Sachs Global Investment Research

Exhibit 2: Effective lending rates stayed low in Q1 2026



Source: PBOC

Exhibit 3: The PBOC drained liquidity in March and April through maturing reverse repos, outright repos, MLF loans and PSL



OMO: open market operation (7/14 day pledged reverse repos); MLF: medium term lending facilities; PSL: pledged supplementary lending.

Source: CEIC, Goldman Sachs Global Investment Research

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