Central Bank Cuts Credit Interest Rate, Reserve Requirement Ratio

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China's central bank said on Monday it would reduce the benchmark loan interest rate and the reserve requirement ratio for commercial banks to ensure a steady and rapid economic growth. The benchmark interest rate for one year yuan denominated loans will be adjusted down 0.27 percentage points from Tuesday, its first downward movement since October 2004.

In addition, the ratio of deposit lenders are required to set aside will be down 1 percentage point from Sept. 25, the People's Bank of China said.

However, the country's major lenders will be exempt from the reserve requirement ratio adjustment. They include the Industrial and Commercial Bank of China, the Agricultural Bank of China, the Bank of China, the China Construction Bank, the Bank of Communications and the Postal Savings Bank of China.

The reserve requirement ratio would be reduced by 2 percentage points for local financing institutions in areas badly hit by the May 12 Wenchuan earthquake, the central bank said.

After adjustment, the interest rate for one-year loans in the Chinese currency will be 7.20 percent. The overall reserve requirement ratio will be 16.5 percent, down from a record 17.5 percent after five consecutive increases this year.

The move reflected the government's concern over the slowing economy and was a result of long-time consideration, said Zhuang Jian, a senior economist with the Asian Development Bank Resident Mission in China.

"It showed the government was eager to maintain the economic growth as enterprises faced difficulties, especially funding strain. The eased inflationary pressure also provided more room and time for the adjustment."

China reported last week its consumer price index in August rose 4.9 percent from a year ago, down from the 12-year high of 8.7 percent in February and the lowest since July 2007.

There had been long debate in China on whether the government should loosen its tight monetary policy as its economy slowed, Zhuang said.

The country started to adopt a tight monetary policy from the second half of 2007 to curb inflation. Its gross domestic output posted a year-on-year growth of 10.4 percent in the first half of 2008, 1.8 percentage points lower from the same period last year.

"The news would bolster investor confidence in China's economy and somewhat offset the impact of the bad news in the U.S.," Tang Min, the China Development Research Foundation deputy secretary, told Xinhua.

He was referring to the Sunday reports that U.S. investment bank Lehman Brothers had filed for bankruptcy protection while its rival Merrill Lynch agreed to be taken over.

"The central bank gave a big present," said Tang. "The lending rate was cut by 1 percentage point this time, much larger than the usual 0.5 or 0.25 percentage points in previous adjustments." However, Tang said officials still intended to keep liquidity in check as the deposit interest rate would stay the same.

Zhuang told Xinhua China was prudent in the policy adjustment. "The government still placed priority on controlling inflation as the deposit reserve ratio was not lowered for the top-four lenders." That action would also give small- and mid-sized banks an advantage in extending loans and benefit small enterprises, which were the main customers of those banks and had suffered most in the past quarters, he said.

China's gross domestic product had decelerated for four consecutive quarters through June. Its export growth slowed 5.3 percentage points year on year to 22.4 percent in the first eight months of this year.

The central bank said its move was to "solve prominent problems in the current economic operation, implement the principle of giving different policies for different needs and optimizing the economic structure, and to ensure a steady, rapid and sustained development."

The adjustment would show its effect in the next two to three months and further actions would depend on how the economy reacted, Zhuang said. (Xinhua)

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