

Interest rates cut again to spur growth



A bike rider passes the People's Bank of China, China's central bank, in Beijing in this file photo. The central bank slashed the lending and deposit rates by 0.27 percentage points as of Dec 23 as the latest move to stimulate economy. [Asianewsphoto]

The central bank has rolled out the fifth interest rate cut in four months - in its latest attempt to shore up investment and boost the economy.

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The People's Bank of China lowered the benchmark one-year lending and deposit rates by 0.27 percentage point to 5.31 percent and 2.25 percent, effective from today, it said in a statement.

The central bank also lowered the reserve requirement ratio for lenders by 0.5 percentage point to 13.5 percent. The reduction in the reserve requirement, which refers to the deposits commercial banks are required to set aside in reserves, will take effect from Thursday. Analysts estimate the move will free up another 300 billion yuan (\$43billion) for possible lending.

"The combination of interest rate and reserve requirement ratio cuts will be more effective in helping stabilize the weakening economy," Dong Xian'an, a macroeconomics analyst at China Southwest Securities, said.

Latest figures show the national economy is slowing drastically as a recession tightens its grip in the nation's major trade partners such as the US and Japan.

The nation's exports dropped by 2.2 percent year-on-year in November, the first time in seven years; while year-on-year industrial output growth slowed to 5.4 percent in November, down from 8.2 percent in October.

GDP growth slowed to 9 percent in the third quarter of this year, the fifth quarterly decline. Many economists forecast that growth could drop below 8 percent in the fourth quarter.



Analysts say the government's decision to reduce borrowing costs and pump up money supply would support its recent moves to boost investment and spur domestic demand.

"Monetary policy is now all about freeing up funds to be lent to government-backed investment projects, as well as driving down borrowing costs," said Stephen Green, an economist with Standard Chartered Bank.

Top policymakers announced a 4 trillion yuan (\$586 billion) economic stimulus package last month. Besides 1.18 trillion yuan from the State coffers, the lion's share of the package will be financed by bank loans.

The central bank has lowered interest rate by 216 basis points over the past four months, including a cut of 108 basis points on Nov 26, the biggest in 11 years. Earlier this month, the State Council, or the Cabinet, also raised the money supply growth target from 16 percent in 2008 to 17 percent, trying to ensure ample liquidity.

Zhou Xiaochuan, governor of the central bank, said earlier this month that China was facing pressure to cut interest rates from now until early next year.

The World Bank forecast that China's GDP growth could be as low as 7.5 percent next year. Many economist forecast that it could be about 8 percent.



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