

**China's central bank cuts interest rates** - *English.news.cn* (2014-11-21)

### INTEREST RATE CUT

- The PBOC cut the benchmark rate from Saturday:
  - ✧ For one-year deposits rate, it was cut by 25 basis points, standing at 2.75%.
  - ✧ For one-year lending rate, it was cut by 40 basis points, down to 5.6%.
- This is the first adjustment to the benchmark rates since July 2012.
- The intention of interest rate cut: to help alleviate problems facing many enterprises.
- The background of the interest rate cut decision: State Council measures to ease financial burdens on companies, including speeding up the growth of private banks.

### DOWNWARD PRESSURE

- The economy is under pressure as
  - ✧ GDP expanded by 7.3 percent year on year in Q3, compared with 7.5 percent in Q2 and 7.4 percent in Q1.
  - ✧ Q3 growth was the slowest quarterly growth since Q1, 2009.
- The prominent problems for the real economy are high financing costs and obstructions.
- According to central bank, it is important to reduce high financing costs for enterprises, small and micro-firms in particular.

### NO CHANGE IN MONETARY STANCE

- The cuts should not be interpreted as a shift from "prudent monetary policy".
- The cuts will add flexibility to interest rate instruments to fine-tune in line with economic developments.
- There is no need for strong stimulus as the economy is growing healthily relying on innovation than investment.
- The PBOC lifted the upper limit of the floating band of deposit rates to 1.2 times the benchmark from the existing 1.1 times.
- This move not only gives a bigger role to market mechanisms in interest rate formation, but is also a step toward full liberalization of deposit rates in the future.

1. Source: [http://news.xinhuanet.com/english/china/2014-11/21/c\\_133806163.htm](http://news.xinhuanet.com/english/china/2014-11/21/c_133806163.htm)