



PBOC Watch

8 October 2008

PBOC Cut Rates Again to Boost Market Confidence

The People's Bank of China (PBOC) announced today that it would cut the one-year benchmark lending and deposit rate by 27 basis points effective from 9th October. In addition, PBOC will also reduce the reserve requirement ratio (RRR) imposed on commercial banks by 50 basis points effective on 15th October.

Separately, the State Council announced today to remove the remaining 5% income tax on interest rate earnings on all deposits.

- Today's announcement, though widely expected by the market, could be viewed as a coordinated rate cut together with the other key central banks in the world.
- The rate cut was the second time in three weeks, reducing the benchmark policy lending to 6.93 percent and the benchmark deposit rate to 3.87 percent. Meanwhile, the RRR for small and medium banks is to be cut to 16% and that for six large commercial banks (ABC, BOC, CCB, ICBC, BOCOM, and Postal Bank) is to be cut to 17%.
- The RRR reduction is equivalent of injecting RMB225.1 billion (or USD32.95 billion) additional liquidity into the banking system, which will help boost confidence for the flagging stock market that has fallen by over 60% this year.

Given China's monetary policy had been tightened substantially coming into this downward economic cycle, the PBC has plenty of room to ease going forward should China's economic growth decelerate further. However, we believe that monetary policy will be more effective to help counteract the rapidly falling external demand if it is also accompanied by expansionary fiscal policy.

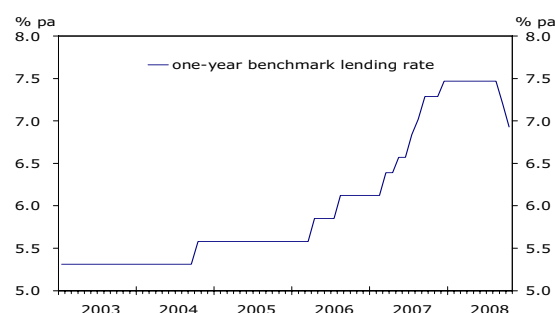
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Chart 1: Lending Rate



Source: PBOC.

Table 1: RRR developments

Date of Announcement	Date of Change	Before the change	After the change
08-Oct-08	15-Oct-08	16.5*	16.0**
15-Sep-08	25-Sep-08	17.5	16.5*
07-Jun-08	25-Jun-08	17.0	17.5
07-Jun-08	15-Jun-08	16.5	17.0
12-May-08	20-May-08	16.0	16.5
16-Apr-08	25-Apr-08	15.5	16.0
18-Mar-08	25-Mar-08	15.0	15.5
16-Jan-08	25-Jan-08	14.5	15.0
08-Dec-07	25-Dec-07	13.5	14.5
10-Nov-07	26-Nov-07	13.0	13.5
13-Oct-07	25-Oct-07	12.5	13.0
06-Sep-07	25-Sep-07	12.0	12.5
30-Jul-07	15-Aug-07	11.5	12.0
18-May-07	05-Jun-07	11.0	11.5
29-Apr-07	15-May-07	10.5	11.0
05-Apr-07	16-Apr-07	10.0	10.5
16-Feb-07	25-Feb-07	9.5	10.0
05-Jan-07	15-Jan-07	9.0	9.5
03-Nov-06	15-Nov-06	8.5	9.0
21-Jul-06	15-Aug-06	8.0	8.5
16-Jun-06	05-Jul-06	7.5	8.0
24-Mar-04	25-Apr-04	7.0	7.5
23-Aug-03	21-Sep-03	6.0	7.0

Source: PBOC.

Notes: *For small and medium sized banks only, while the RRR for the big four, Bank of Communications, and the Postal Savings Bank of China remained unchanged.

**The required reserve ratio (RRR) for small- and medium-sized financial institutions will be 16.0%, and 17.0% for the six largest banks.