

CHINA ECONOMY

China's central bank cuts key lending rates, including one for the first time in nearly 2 years

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KEY POINTS

China's central bank cut the one-year loan prime rate by 10 basis points from 3.8% to 3.7%.

The five-year loan prime rate was reduced by 5 basis points from 4.65% to 4.6% — the first cut since April 2020, at the height of the coronavirus pandemic in the country.



Pedestrians walk past the People's Bank of China headquarters in Beijing, China.

Giulia Marchi | Bloomberg | Getty Images

China's central bank cut its benchmark lending rates again on Thursday amid concerns about an economic slowdown in the world's second-largest economy.

The People's Bank of China [reduced the one-year loan prime rate](#) by 10 basis points from 3.8% to 3.7%. In December, the [PBOC cut the one-year loan prime rate](#) for the first time since April 2020.

The five-year loan prime rate was lowered by 5 basis points from 4.65% to 4.6% — it was the first cut since April 2020, at the height of the coronavirus pandemic in the country.

Loan prime rates (LPR) affect the lending rates for corporate and household loans in the country.

Most new and outstanding loans in China are based on the one-year LPR, but the five-year rate influences the pricing of home mortgages, according to Reuters. A snap poll by Reuters had showed that most participants expected China to slash both the lending rates on Thursday.

VIDEO 03:47

Citi expects China's economy to expand by 4.7% in 2022

The rate cuts continue the PBOC's efforts to push down borrowing costs, according to Capital Economics.

"Mortgages will now be slightly cheaper which should help shore up housing demand. The PBOC has already pushed banks to increase the volume of mortgage lending," Sheana Yue, China economist at the firm, said in a note following the announcement.

"Targeted support for property buyers does appear to be limiting one of the more severe downside risks facing the economy," Yue added.

However, Nomura's Chief China Economist Ting Lu said the impact of the LPR cuts "will be quite limited, as these cuts are too small to have a material impact."

"They are unlikely sufficient to clear up the real bottlenecks, and because rates on existing mortgage loans will not be reset this year," he wrote.

Nomura expects further cuts to the one-year and five-year LPR as well as the reserve requirement ratio, and a "significant rise in FX purchases to add liquidity and limit [renminbi] appreciation over the next few months."

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Though China was the first major economy to shake off most of its pandemic-driven economic shock, concerns grew last year around the sustainability of growth. They came as a result of muted consumer spending, tighter regulations, a struggling property sector as well as Beijing's zero-tolerance Covid policy.

On Monday, the central bank [defied market expectations](#) and lowered borrowing costs of medium-term loans for the first time since April 2020.

The [PBOC said it was reducing the interest rate](#) on 700 billion yuan (\$110.33 billion) worth of one-year medium-term lending facility loans by 10 basis points from 2.95% to 2.85%.

Bruce Pang from China Renaissance noted that the central bank's cuts to different rates would help both the slumping property market and struggling small businesses.

VIDEO 02:13

China on high alert as it battles omicron ahead of the Olympics

The varying cuts send a rather strong signal for policy direction, he said. They reflect how the central bank is responding more quickly with efforts to lower financing costs, ease pressure on the property market and spur consumption and investment.

The [Chinese economy grew by 8.1%](#) in 2021 as steadily growing industrial production offset a drop in retail sales. Still, that figure fell short of economists' expectations for an 8.4% growth.

— *CNBC's Weizhen Tan and Evelyn Cheng contributed to the report*

