China Unexpectedly Cuts Interest Rate as World Markets Sag

The central bank lowered a key rate in its latest effort to steady China's economy, as Asian stock markets followed Wall Street down.

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Reporting from Beijing

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China's central bank on Thursday cut a key interest rate, in Beijing's second move this week to try to offset a weakening economy and a housing market crisis.

The unexpected action came as stock markets fell sharply across most of Asia, in an echo of Wall Street's sharp drop the day before. Market indexes fell roughly 1 to 3 percent in Australia, Japan, South Korea and Hong Kong.

But share prices were down by less in Shanghai and Shenzhen. That could reflect a favorable response by investors to the central bank's rate move, or a sign of intervention by the Chinese government, which plays an extensive role in the country's stock markets.

As markets opened in China on Thursday, the People's Bank of China, the central bank, reduced its interest rate for one-year loans to commercial banks to 2.3 percent, from 2.5 percent. It was the biggest cut to that rate since a similar reduction in April 2020, when the Chinese economy was struggling because of a nearly national lockdown in the early days of the coronavirus pandemic.

The central bank surprised markets because it normally reviews the one-year loan rate only on the 15th of each month. It kept the rate steady on July 15, and also left it unchanged on Monday when it adjusted other rates.

The People's Bank of China said in a statement only that Thursday's rate cut was intended to "maintain reasonable and sufficient liquidity in the banking system at the end of the month."

The one-year rate is important as a guide to commercial banks on the interest rates that they use for loans to corporate customers and also to the financing units of local governments. Beijing blocks local governments from borrowing directly from banks, but has allowed them to set up financial units that do so.

Many of these financial units are now deep in debt, and the local governments that control them have been cutting the salaries of teachers and other civil servants to conserve cash.

The reduction in the one-year interest rate followed moves by the central bank on Monday to lower other rates that it controls. The actions came after a conclave of the Communist Party's leadership on economic policy last week that did not produce the broad course correction that many economists have recommended.

The party reaffirmed its commitment to pursuing economic self-reliance through further investment in industry, while saying less about consumer spending.

Top Chinese economists defended the party's plan at a government-organized news briefing in Beijing on Thursday afternoon. Liu Xiaoguang, an economic development specialist at Renmin University in Beijing, pointed out that the plan calls for more assistance to families for child-rearing and elder care.

“We will have huge potential to unleash in those two industries,” he said.

By reducing rates now, instead of waiting for a possible cut by the U.S. Federal Reserve this autumn, China runs the risk of prompting more companies and households to move money out of the country as they seek to earn more interest elsewhere. That could cause China’s currency, the renminbi, to weaken further against the dollar.

Lower rates might also prompt a revival of speculative borrowing schemes that were a problem for Beijing several years ago.

But Eswar Prasad, a Cornell University economist who specializes in China’s monetary policy, said that such concerns appeared to be secondary right now. “Supporting growth is taking precedence over other objectives, such as limiting financial risks or preventing currency depreciation,” he said.

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Keith Bradsher is the Beijing bureau chief for The Times. He previously served as bureau chief in Shanghai, Hong Kong and Detroit and as a Washington correspondent. He has lived and reported in mainland China through the pandemic. More about Keith Bradsher

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