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**People's Bank of China cuts benchmark bank interest rates, raises the upper limit on deposit interest rates to 130% of the benchmark interest rate**

On February 28, 2015, the People's Bank of China (PBOC) announced to cut RMB benchmark deposit and loan interest rates. **The one-year benchmark deposit and loan interest rates will be both lowered by 0.25%, adjusted to 2.5% and 5.35%, respectively.** The new benchmark interest rates **have been applied since March 1.**

The PBOC also announced to **raise the upper limit of the floating range for deposit interest rates** of financial institutions **to 130% of the benchmark interest from 120%**. This effectively lowers the upper limit of one-year term deposit interest rates by 5 bps from 3.3% to 3.25%.

□ **Second cut in just three months**

Some three months have elapsed since the PBOC last cut the benchmark interest rates on November 22, 2014. **China's consumer price index (CPI) rose 0.8% on year in January** amidst mounting evidence of its economic slowdown and sparking concerns about impending deflation, which may

have been one factor behind the decision to cut now. In a statement, the PBOC hit a positive note, saying: "The consumer price level is at a historic low, leaving room for further interest rates adjustment," but went on to point out that: "The rate adjustment is intended to reinforce the positive results of falling financing costs, and to create a neutral, appropriate monetary and financial environment for the adjustment, restructuring and upgrading of the economy," before emphasizing that: "The focus of the interest rate cut is to **keep real interest rate levels suitable for fundamental trends** in economic growth, prices and employment."

**Table1: RMB Benchmark Deposit and Loan Interest Rates**

Benchmark deposit interest rates		%		
		Pre-adjustment	Post-adjustment	Scope
<b>Ordinary deposits</b>		0.35	<b>0.35</b>	0
<b>Term deposits</b>	3-month	2.35	<b>2.10</b>	- 0.25
	6-month	2.55	<b>2.30</b>	- 0.25
	1-year	<b>2.75</b>	<b>2.50</b>	- 0.25
	2-year	3.35	<b>3.10</b>	- 0.25
	3-year	4.00	<b>3.75</b>	- 0.25
Benchmark loan interest rates		%		
		Pre-adjustment	Post-adjustment	Scope
<b>Respective loans</b>	1-year	<b>5.60</b>	<b>5.35</b>	- 0.25
	1-5 years	6.00	<b>5.75</b>	- 0.25
	Over 5 years	6.15	<b>5.90</b>	- 0.25

\* The new benchmark interest rates have been applied since March 1, 2015.

(Compiled by the Advisory Division from PBOC announcements)

The latest move follows hot on the heels of a **blanket 0.5% cut in the RMB deposit required reserve ratio (RRR)** for financial institutions, which the PBOC announced on February 5, 2015. This cut in the RRR was accompanied by an additional 0.5% for city commercial banks and non-county level rural commercial banks that have complied with prudential requirements and have reached the required ratios in their lending to small and micro enterprises, and an additional 4% for the Agricultural Development Bank of China, which is a policy bank.

#### ❑ Is a deposit insurance system on the horizon?

When the PBOC cut benchmark interest rates in November 2014, it simultaneously raised the upper limit on deposit interest rates to 120% of the benchmark interest rate from 110%. Its decision to raise the upper limit on the floating range of interest rates again just three months later suggests that it is eyeing the introduction of a **deposit insurance system**. On November 30, 2014, the PBOC released draft [Regulations on Deposit](#)

[Insurance](#), and invited comments from the public. The deadline for public comments has now passed and all that remains is for these rules to be officially promulgated. The PBOC has also stated that it intends to lift the ban on the offering of **certificates of deposit (CD)** to corporations and individuals at an appropriate time, which is being seen as an indication of its intention to push ahead with market-based interest rate reform.

**Table 2: A Chronology of Recent Interest Rate Easing Moves by the PBOC**

October 29, 2004	Upper limit on loan interest rates abolished (with the lower limit set at 90% of the benchmark interest rate) Lower limit on deposit interest rates abolished
June 8, 2012	Lower limit on loan interest rates raised to 80% of the benchmark interest rate Upper limit on deposit interest rates set at 110% of the benchmark interest rate
July 6, 2012	Lower limit on loan interest rates raised to 70% of the benchmark interest rate
July 20, 2013	Lower limit on loan interest rates abolished
November 22, 2014	Upper limit on deposit interest rates raised to 120% of the benchmark interest rate
March 1, 2015	Upper limit on deposit interest rates raised to 130% of the benchmark interest rate

(Compiled by the Advisory Division from PBOC announcements)

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