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# China's Interest Rate Cut: No Surprise; More to Come

We argued earlier in the week that recent data showed China's monetary policy as lagging, and highlighted the danger that the economy would, because of external shocks or of its own internal dynamics, converge towards a much weaker rate of growth than anticipated.

The policy implication, given extremely low inflation, was—from our perspective—clear: the cost-benefit balance *should* lead to further near-term easing, including both reserve-requirement and interest rate cuts.

We maintain this view even after today's 25 basis points cut of the benchmark borrowing rate, 31 basis points reduction of the lending rate and the authorization for banks to reduce lending rates by up to 30 percent from the benchmark on a case by case basis.


What seems to have changed is the PBOC's stance, their degree of comfort with the path of the economy eroding along with the data, and with the deterioration of the international business climate—particularly in Europe, China's main trade partner—which is evidenced by the synchronized easing by the ECB and the Bank of England.

It is also quite possible that the shift in China's central bank policy (two interest rate cuts in one month) point to a weaker-than-Consensus Real GDP growth figure for the second quarter (DE's estimate: 7.6% year-on-year; Consensus: 7.8% year-on-year).

Whether this is the case or not, the PBOC's rapid interest rate cuts reveal their implicit admission of the evident: the degree of policy easing applied during the first few months of the year was insufficient to reverse the decline of the economy's rate of growth; more will probably be done near-term; most of the action, for now, concentrated on the monetary policy front.