

China: bank loan prime rate unchanged despite economic challenges

Banks in China have kept the 1-year and 5-year Loan Prime Rates unchanged. As the economy continues to face big challenges the recovery will likely be a slow one



Leading members of the People's Bank of China, including Governor, Yi Gang (waving)

Slow recovery without interest rate cut

China's banks did not cut the one-year and five-year lending concession rates (LPR) today, even though the economy still faces many challenges.

Unemployment is the key economic issue, as we expect the service sector to continue to be hit by limited people flows during the summer holidays. Travellers are still concerned that they will become stranded if they travel, either because they may get Covid themselves or become close contacts of positive cases. And while the manufacturing sector appears to have picked up, its growth has come mainly from coal mining and processing to ensure adequate power supplies for the hot summer months. Other manufacturing activity remained weak in May.

Infrastructure benefited from the LPR cuts in May. But infrastructure alone cannot absorb all of the unemployment.

The yuan has got supported from no rate cut decision

USD/CNH has gained support at around 6.710 following the decision to leave interest rates unchanged. We expect the onshore USD/CNY to do the same.

Rate cuts are still in the cards

With the weak economic recovery, rate cuts in the coming months are still likely as we expect the economic recovery to be slow under the Covid-zero policy.

After this rate pause, the government should hand out more fiscal stimulus as monetary policy is now a secondary policy tool for supporting the economic recovery. Some local governments have stepped up to boost fiscal stimulus by [selling assets](#), which indicates that local government debt could become a hot topic again.