Deposit rates to be liberalized to speed up financial reform

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China is likely to liberalize bank deposit rates in the next one to two years, central bank governor Zhou Xiaochuan said on Tuesday, a signal to speed up financial reform and break the monopoly in the State-controlled banking industry.

"Liberalization of deposit rates is on our agenda, and personally I think it's very likely to be achieved within one or two years," Zhou, head of the People's Bank of China, told a media briefing during the ongoing annual parliamentary meetings, known as the two sessions.

It's the first time Zhou has given an explicit time frame for China's interest rate liberalization. He said various types of emerging businesses are pushing forward interest rate liberalization.

Currently, one-year deposits at commercial banks are capped at 3.3 percent. The fast-growing Internet money market funds such as e-commerce giant Alibaba's Yu'ebao have increasingly pulled money from banks by offering seven-day annualized yields of 5-6 percent to individual investors.

"There have been long-term complaints on the monopolistic position of China's State-owned banks. The emergence of Yu'ebao has to some extent pushed forward reform in the monopolized sector," Zhuang Congsheng, vice chairman of the All-China Federation of Industry and Commerce, told the Global Times on Monday on the sidelines of the two sessions.

Zhou expects that interest rates might rise within a certain period as a result of liberalization, but after that, the interest rates will be decided by a balance in supply and demand.

"Removing the ceiling on deposit rates is the last and most critical step for interest rate liberalization, after the central bank scrapped the floor on lending rates in July 2013," Zhou Jingtong, a senior analyst with Bank of China, told the Global Times Tuesday.

There are also concerns that interest rate reform will destabilize the financial system.

China should also be well prepared for potential risks brought by interest rate liberalization, as many countries, including the US and Japan, suffered from financial turmoil in the five to 10 years after they liberalized interest rates, which also threatened their economic growth, according to Lian Ping, chief economist of the Bank of Communications.

"The potential risks are not likely to hinder ongoing interest rate reform as long as they are controllable," said Xu Hongcai, director of the Department of Information under the China Center for International Economic Exchanges.

It is important for China's policymakers to hold the bottom line and tolerate regional risks when pushing forward financial reform, Xu said.

Regarding the yuan's recent unexpected exchange rate fluctuation, Zhou Xiaochuan told the Global Times that the central bank focuses more on the medium-term trend of the yuan's exchange rate rather than short-term development.

The yuan lost nearly 1.4 percent against the US dollar in February but Xu expects the yuan will appreciate moderately in the medium- to long-term, given China's trade surplus and attractiveness to foreign investment.

In terms of the internationalization of the yuan, the central bank governor played down its increasing role in international settlement, saying it is a long-term task and there is lots of "homework" to do, such as achieving the full convertibility of the yuan.