China Raises Key Rate For 1st Time Since Crisis

BEIJING (AP) — China raised its key interest rate Tuesday for the first time since the global crisis as it tries to control inflation and rapid growth even as other Asian economies move to keep their recoveries on track.

The rate hike, China's first since 2007, reflected Beijing's focus on guiding growth to a more sustainable level rather than reving up the economy after it expanded by 10.3 percent in the second quarter.

The People's Bank of China, the central bank, might have felt forced to act after bank lending surged in September despite government orders to control credit, said economist Mark Williams of Capital Economics in London.

"I suspect the People's Bank feels it needs to give a strong signal to banks that this has to stop," said Williams.

The rate on a one-year loan was raised by 0.25 percentage points to 5.56 percent effective Wednesday, said the central bank. The one-year rate paid on deposits was raised, also by 0.25 percentage points, to 2.5 percent.

The move came despite mounting efforts by other governments in the region to support growth as the global recovery falters.

Australia's central bank raised interest rates six times beginning in October but more recently has held rates steady, citing Europe's debt crisis. South Korea also was expected to consider a hike but has held its key rate steady.

The timing of Tuesday's announcement also might have been dictated by the Chinese political calendar.

Communist Party leaders wrapped up a major meeting Monday aimed at crafting an economic blueprint for the coming five years. They might have wanted to delay new of a rate hike to keep any negative reaction by Chinese financial markets from overshadowing publicity about the gathering.

China rebounded quickly from the global crisis on the strength of a 4 trillion yuan ($586 billion) stimulus and a flood of lending by state banks. Easy credit fueled a surge in real estate and stock prices, prompting Chinese regulators to tighten controls earlier this year as other economies were still struggling with recession.

Last week, major Chinese banks were ordered to increase reserves in a move to shrink the pool of money for credit, according to Chinese news reports. They said the move might have been prompted by the credit surge, which saw bank loans made in September jump 10 percent from August's level.

The government says banks will be allowed to lend a total of 7.5 trillion yuan ($1.1 trillion) this year, down from a record 9.6 trillion yuan ($1.4 trillion) in 2009. Bank lending has been rising in recent months at a rate of 18 percent over the previous year.

Analysts said last week's move, instead of a rate hike at that time, suggested the central bank faced opposition to an across-the-board increase from Chinese leaders who worried it might derail growth. Chinese leaders have warned that despite its robust expansion, the country faces uncertain global conditions.

Beijing also is trying to control steadily rising inflation that hit 3.5 percent in August — above the official annual target of 3 percent. Analysts believe September inflation, due to be reported Thursday, rose still further.

"The fact that inflation has been rising does provide some cover for the People's Bank to raise rates if they thought they were too low," Williams said. "It's easier to raise rates when inflation is rising than when it is falling."

Higher interest rates in China might attract more inflows of speculative "hot money" that regulators worry might be fueling a dangerous bubble in stock and real estate prices. Beijing has tried to block such flows, and analysts suggested earlier that might have been a reason for delaying a rate increase.