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CHINESE STATE BANK INTEREST-RATE POLICY, 1949 - 1952

Chung Kan-en

/Charts are appended./

China's interest-rate policy is complex and many-sided, as one would expect in a New Democratic economy comprising five different components. One aspect of the interest-rate policy is to be seen in the relationship between state banks and public enterprises. State banks provide circulating capital to public enterprises to enable them to carry on production and trade. To encourage public enterprises to make exhaustive use of their own capital, to prevent their using excessive amounts of state bank capital, to promote the practice of cost accounting, and to accelerate business capital turnover, the state banks must charge a certain rate of interest on loans to public enterprises. The interest rate increases as the loan period increases.

Another aspect of the interest-rate policy is seen in the relationship between state banks and private enterprises. When state banks grant loans to private enterprises, the objective is to allocate credit to control the development of private enterprise according to plan. Different private enterprises can be stimulated, maintained, or suppressed through the granting or withholding of loans and through controlling the amount and duration of loans. Thus the interest-rate relationship is designed to bring the private sector of the economy under the direction of the socialist public sector.

The interest-rate relationship between state banks and individual producers (farmers and handicraftsmen) is designed to guide them toward cooperative production. Moreover, the interest-rate relationship between private banks and private enterprises is governed by state banks and is an outgrowth of state economic policy.

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When Shanghai was first liberated, there was a period when the People's Bank did not exercise strict control over the market interest rate. From 1 June to 5 September 1949, each time the interest rate had to be changed it was necessary for those engaged in financial operations to consult the financial market for approval. Consequently the People's Bank occupied a comparatively passive position. At this time, private finance capitalists were closely linked with speculative capital, and naturally were unwilling to increase interest rates in order to bring down commodity prices. Therefore, the interest rate posted by the financial market was far different from that on the black market. Within a short time large amounts of capital collected in underground financial organizations. The black-market interest rate dominated the legal interest rate, and served as a sensitive indicator of the availability of capital.

On 6 September 1949, an interest-rate committee was established under the auspices of the finance industry. The 21-man committee, including two representatives of public banks, met daily to decide that day's interest rates on loans and deposits. This system continued until 25 November.

On this date, the method of independent deliberation was abolished and replaced by the direct intervention of the representatives of the state bank. Each day the committee convened to adjust the interest rates on the basis of a systematic policy. After the interest rates were determined, they were telegraphed to banks throughout the entire country as a basis for adjusting interest rates in all parts of the country. But because commodity prices rose suddenly during this period, the interest-rate committee could not completely control the situation by means of raising the interest rates. The underground interest rates consistently exceeded those set by the committee by from 20 to 100 percent.

In the period from 26 November 1949 to the end of February 1950, the state bank not only strengthened its leadership over the interest-rate committee but also itself turned to a policy of systematically adjusting the interest rate. Throughout this period of fluctuating commodity prices, the state-bank interest rates rose to keep pace with the black-market interest rates and increased the pressure on speculators. When commodity prices were falling and leveling out, the interest rates were reduced correspondingly, thus lightening the burden on industrial and commercial enterprises. This policy was not without a stabilizing effect upon the market. However, to bring down commodity prices, various kinds of policies must be applied. It is not enough merely to rely upon the single policy of systematically adjusting the interest rate to bring down prices. Therefore, there was no way to avoid commodity price fluctuation during this time.

In March 1950, control of the entire country's finance and economy was centralized. In April, monetary controls were applied and both currency and commodity prices were basically stabilized throughout the nation. This was a turning point for the state-bank interest-rate policy. Up to this time, the state bank had considered how to apply interest rates so as to stabilize the market. After this, the state bank considered how, on the basis of stabilized currency and commodity prices, to reduce the high interest-rate level throughout the nation, so as to lighten production costs and commodity-flow expenditures; and how to utilize the interest rate to lead and to stimulate business reconstruction and to achieve the tasks set by our state economic policy.

From March to June 1950, the interest-rate committee issued monthly adjustments in interest rates. At the same time, three objective factors operated to bring down the interest rates: (1) underground financial organizations had all but been destroyed; (2) currency and commodity prices throughout the whole country had become stable; and (3) because the whole country's interest rate was under the centralized direction of the main office of the People's Bank, it was possible to supervise the equalization of the interest-rate levels of the various areas. Because of these three conditions, the People's Bank, after March 1950 could make great strides toward equalizing the interest rates of banking groups in other areas with the interest rates of this city. This process was successfully completed in June 1950.

With the coming of 1951, the nation's interest rates, under the centralized control of the main office of the People's Bank, were progressively lowered according to plan. The interest rates were first adjusted in March, the state bank reducing its interest rate simultaneously on public loans and deposits. But to stimulate long term savings by the people, and, at the same time, to encourage production and to promote the exchange of goods between town and country, it was decided to make the interest-rate reduction on private loans greater than that on private deposits. Although the bank's rate of profit was reduced, the increased volume of loans and deposits resulted in a greater surplus.

The second adjustment was made in May. For nearly a year, the interest rate on loans by local banks had remained unchanged from that laid down by the banks themselves in June 1950 -- a monthly rate of .30 to .39 percent. During this interval, deposits had nearly doubled, commodity prices had been stabilized for a long time, and the bank's interest accumulation had expanded. Consequently, it was time to readjust the interest rates on private deposits and loans, and reduce the differential between them. In July, to welcome the autumn harvest and to stimulate production and the interflow of goods between town and country, the interest rate was lowered again. In December, the interest rate on locally issued loans and on parity deposits was lowered; but, to encourage workers to put their year-end bonuses into savings, the rate on fixed deposits was not changed.

On 1 January 1952, the state bank again led our banks to reduce the interest rates on loans and on current deposits. On 1 March, the rate on fixed deposits was adjusted; at the same time the state bank progressively lowered the interest rate on private loans on 5 March, 15 March, and 17 March.

Each time an adjustment was made, different interest rates were set according to the type of industry, the type of management [state, public-private, private], the circumstances facing management and labor-management relations within different enterprises, the length of the loan or deposit, and the type of loan or deposit. In this way, the requirements of state economic policy were met and the interest rate was applied so as to guide enterprises, promote managerial efficiency, and guarantee a reasonable profit. At a time when the value of money had been stabilized, it was necessary also to utilize the interest rate to encourage the conversion of deposits from parity-deposit units to currency, from current to fixed, and from short-term to long-term. Each time the interest rate was adjusted, the requirements of the state's economic policy were substantially revealed in the complex interest rate structure.

Following the Three-Anti and Five-Anti Movements, currency and commodity prices attained over-all stability throughout the nation, the prices of some commodities fell, the black market was swept away, and speculation was rigidly contained. The state bank, on 26 June [1952], opportunely put into effect a sharp reduction in the interest rate, cutting interest on loans to industries by 28 to 50 percent, cutting interest on loans to commercial enterprises by 19 to 39 percent, and suitably reducing the interest on deposits. This marked a great achievement in the state bank's control of interest rates. With the elimination of the five evils and the disappearance of profiteering, the timely large-scale reduction in interest rate by the state bank had a decidedly positive effect in guaranteeing a reasonable profit to enterprises, and in stimulating production and trade between town and country.

The adjustment of the interest rate on this occasion was marked by the following characteristics:

1. Because of the stabilization of currency and commodity prices, and even the reduction of some commodity prices, following the Three-Anti and Five-Anti Movements, the reduction in interest rate was the largest to date.

2. The managers of industrial and commercial enterprises were not the only ones to benefit from the sharp reduction in interest rates on industrial and commercial loans. Because of the lowering of costs in production and trade, the people could benefit from lower commodity prices. The overall reduction in commodity prices resulting from the Three-Anti and Five-Anti Movements led to an increase in the value of money and to an increase in the value of interest payments. Therefore, it would have been unreasonable not to make a corresponding reduction in the interest rate on deposits. Moreover, since the state bank was supplying industrial and commercial loans at a lower interest rate, it was necessary to reduce the interest paid on deposits in order to cut down on expenditures. But to stimulate long term savings by the people, the reduction in interest rate on deposits was not so great as that on loans. As a result the differential between the interest on loans and that on deposits was the narrowest to date.

3. Parity-deposit savings had been initiated during the inflationary period of the past. With the stabilization of commodity prices, especially after the successes achieved in the Three-Anti and Five-Anti Movements, their utility gradually disappeared. Therefore, when the interest rates were adjusted this time, the occasion was used to suspend parity-deposit savings.

4. When savings are deposited for a relatively long period, in general they will satisfy business requirements for relatively long-term capital. In the past there was no differentiation between interest rates on savings deposits and fixed deposits, so that some capital for industrial and commercial enterprises flowed into savings. This enlarged the proportion of current deposits in savings deposits, advanced the turn-over date of savings deposits, and shortened the average turn-over period on savings deposits. When the interest rate was adjusted this time, the interest rate on savings deposits was made slightly higher than that on fixed deposits. Hereafter, savings deposits should become more stable, and the contents of savings deposits should become more self-evident.

5. Formerly, when a loan's due date was extended, the renewal interest rate was calculated only on the period of the loan's extension. There were some who capitalized on this opportunity to avoid paying a part of their interest, thus causing loss to the state. When the interest rate was adjusted this time, it was decided that whenever a loan's due date is extended in the future, the renewal interest rate will be calculated on the period extending from the first day of the loan right down to the new due date. This is a more thorough method of computing interest.

6. Formerly, the interest rate on deposits paid by the state bank was the same as that paid by local banks. However, to promote loans, the interest rate on private loans made by the state bank was lower than that of the local banks. When the interest rate was adjusted this time, the new rates were applied equally to state and local banks, so that the costs of industrial and commercial enterprises could be standardized in the various areas of the country.

7. Formerly, interest rates were varied according to the type of industry, to the period of the loan, and to the type of management /public, private, etc./. When the interest rate was adjusted this time, detailed standards were provided so that variations in the interest rate could be made on loans within the same industry and for the same period of time. Depending on whether the enterprise is directly concerned with the national economy and whether circumstances exist for improving business operations or labor-management relations, different interest rates can now be charged to enterprises within the same industry. In this way, the interest rate can be used effectively to lead and control our enterprises.

The period of the past 3 years, during which the state bank has controlled the interest-rate policy, has been one of turning from reconstruction of the national economy to development of the national economy. During this period, the management of our enterprises has turned from the old blind, extravagant, independent system to the new planned, rationalized, and collective system of management. At the same time, deposits have been converted from parity deposits to currency, from current to fixed, and from short-term to long-term. The interest-rate policy, in combination with other economic policies, has had decisive effect in bringing about these changes.

The attached charts show the changing interest rates on private loans and deposits of the Shanghai State Bank since liberation.

I. Changing Interest Rate on Private Loans of Shanghai State Bank Since Liberation
(Figures in yuan indicate monthly charge per 1,000 yuan)

Adjustment Date		Public Utilities	Industry Communications Education	Commerce	Agriculture
1949	30 Jun	150	150-210	240-300	
	18 Jul	250	250-350	400-500	
	11 Aug	200	200-300	320-400	
	22 Aug	150	150-210	240-300	
	11 Nov	300	300-400	500-600	
	24 Nov	600	600-800	1,000	
	7 Dec	450	450-550	700-800	
	16 Dec	360	360-450	600	
	21 Dec	270-360	270-360	450	
1950	1 Jan	270	270-360	450	
	9 Jan	180-240	180-240	300	
	16 Mar	150-180	150-180	240	
	5 Apr	144	144	180	144
	6 Apr	120	120	150	120
	13 Apr	112	112	140	112
	14 Apr	110.4	110.4	138	110.4
	15 Apr	108	108	135	108
	17 Apr	100.8	100.8	126	100.8
	18 Apr	96	96	120	96
	19 Apr	91.2	91.2	114	91.2
	20 Apr	86.4	86.4	108	86.4
	21 Apr	81.6	81.6	102	81.6
	22 Apr	76.8	76.8	96	76.8
	24 Apr	72	72	90	72
	25 Apr	67.2	67.2	84	67.2
	2 May	62.4	62.4	78	62.4
	5 May	57.6	65	72	57.6
	8 May	55.2	62	69	55.2

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Adjustment Date	Public Utilities	Industry Communications Education	Commerce	Agriculture
1950 10 May	45.6-55.2	51-62	57-69	45.6-55.2
11 May	38.4-48	43-54	48-60	38.4-48
13 May	31.2-38.4	35-43	39-48	31.2-38.4
15 May	24-31.2	27-35	30-39	24-31.2
21 May	24	27	30	24
1 Jul	24	27	30	18
21 Jul	24	27	30	21
21 Nov	24	27	30	16-18
1951 3 Jan	24	27	30	16-18
1 Mar	27	27	30	18
16 Jul	27	27	30	18
1 Aug	25.50	24	25.50	18
16 Oct	25.50	24	25.50	18
1952 1 Jan	25.50	24	25.50	18
1 Mar	25.50	24	25.50	18
15 Mar	24	22.50	24	18
17 Mar	23	22	23	18
21 Mar	23	22	23	18
25 Jun (See Chart IV)				

II. Changing Interest Rate on Private Deposits in Shanghai State Bank Since Liberation
(Figures in yuan indicate monthly interest per 1,000 yuan)

Adjustment Date	Given Deposit
1949 30 Jun	75
18 Jul	130
11 Aug	110
22 Aug	75
11 Nov	140
24 Nov	360
7 Dec	260
16 Dec	210
21 Dec	160
1950 9 Jan	100
16 Mar	70
1 Apr	54
3 Apr	48
5 Apr	36
6 Apr	33
11 Apr	30
13 Apr	27
14 Apr	24
17 Apr	21
19 Apr	18
21 Apr	15
25 Apr	12
5 May	11
10 May	10
12 May	8
13 May	7
15 May	5
19 Jun	7

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Adjustment Date		Given Deposit
1951	1 Jan	7
	16 Jul	6
1952	1 Jan	5.1
	21 Mar	4.5
	25 Jun (See Chart III)	4.5

III. Interest Rates on Private Deposits in Shanghai State Bank (25 June 1952)

Items	Monthly Interest Rates (%)	Explanation
1. General Deposits		
Current	.45	Same as old rate
Fixed period of 1 mo	.60	Same for fixed period of 2 mo
Fixed period of 3 mo	.75	Same for periods above 3 mo
2. Savings Deposits		
Current	.45	
Lump deposit, lump withdrawal after 1 month	.75	Old rate was 1.05%; same for fixed period of 2 mo
Lump deposit, lump withdrawal after 3 months	.90	Old rate was 1.35%; same for fixed periods of 4 and 5 mo
Lump deposit, lump withdrawal after 6 mo	1.05	Old rate was 1.6%; same for fixed periods of 7-11 mo
Lump deposit, lump withdrawal after one year and longer	1.20	Old rate was 2%
Deposit of principal for payment of interest		
3-mo period	.75	Old rate was 1.2%; same for 4 and 5 mo
6-mo period	.90	Old rate: 1.35%; same for 7-11 mo
One year	1.05	Old rate: 1.65%
Fixed savings	80% of interest for same period of time	

Items	Monthly Interest Rates (%)	Explanation
3. Finance Business Deposits		
Current	.45	Same as old rate
Reserve fund	.60	Old rate: 1.05%
Joint deposit reserve fund	.60	Old rate: .90%
Transfer deposits	Add 20% to monthly interest rate for general deposits	

IV. Interest Rates on Private Loans of Shanghai State Bank (25 June 1952)

Item	Monthly Interest Rate (%)	Explanation
1. Secured Loans to Industrial, Communications, Education and Health Enterprises		
1 month	1.05 to 1.35	Old rate for less than 3 months: 2.1%; for 3 months and longer: 2.2%
2 months	1.35 to 1.5	
3 months or longer	1.5 to 1.65	
2. Secured Loans for Trade		
1 month	1.35 to 1.65	Old rate for less than 1 month: 2.2%; for 1 month and longer: 2.3%
2 months	1.65 to 1.80	
3 months and longer	1.8 to 1.95	
3. Bills of Exchange	1.35	Old rate: 1.95%
4. Import Loans	1.5	Old rate: 1.95%
5. Export Loans	1.35	Old rate: 1.8%
6. Large Scale Water Conservation Loans	.75	
7. Small-Scale Water Conservation Loans	.9	
8. Urban Handicraft Industry Loans	Same rate for industrial loans	Old rate also same as that for industrial loans

Item	Monthly Interest Rate (%)	Explanation
9. Private Agricultural, Forestry, Fishing and Livestock Loans	Same rate for industrial loans	Old rate also same as that for industrial loans
10. Marketing of Marine Products	1.35	Old rate: 1.5%
11. Industrial Association Call Loans	1.5	Old rate: 2.4%
12. Mortgage Loans		Old rate: 2.4%

NOTES:

1. Whenever a loan is secured on a deposit certificate of the bank, the interest will be computed according to the above listed interest rates, provided that it is at least 10 percent above the interest rate paid on the original deposit.

2. The renewal interest rate on an extended loan will be calculated for the period beginning with the date of the loan and extending up to the new due date. For example, if the original term of the loan is one month and it is extended over another month, the renewal interest rate will be that for a 2-month period.

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