Frontiers in Business, Economics and Management
ISSN: 2766-824X | Vol. 23, No. 2, 2026

Study on the Practical Impact of the Current Interest Rate Policy on Household Well-being

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Abstract: This paper examines China's interest rate policy adjustments since 2025, and uses official data from the People's Bank of China and the National Bureau of Statistics, as well as practical situations related to people's livelihoods, to anal yze the actual impact of interest rate adjustments on residents' daily economic life. This study finds that the latest round of interest rate cuts and LPR reductions have effectively reduced the cost of housing credit for residents, significantly easing the burden of monthly household mortgage payments. At the same time, the continuous decline in deposit interest rates has caused a drop in residents' savings income, which has significantly guided their financial management behavior. While policies have boosted consumption and reduced social financing costs, they have also had uneven impacts on different income groups, with the elderly and low-income families being more affected by the decline in savings income. This study holds that households should optimize their asset allocation to adapt to the low-interest-rate environment. The policy makers should also be more balanced in terms of regulatory objectives and the security of livelihood, reduce the level of unequal wealth caused by the policy using different supportive actions, and realize the concerted development of economic stability as well as increased standard of living among the population.

Keywords: Interest rate policy, Loan Prime Rate (LPR), Household livelihood, Savings and wealth management, Consumer credit.

1. Introduction

Interest rates are a central monetary policy instrument in macroeconomic regulation, such changes are passed on through the financial market with direct implications on mortgage burden, savings income, consumer decisions of households, and hence, on household assets distribution, as well as economic quality of life [1].

By mid-2025, the economic recovery of China will stay vulnerable, and consumption demand is not yet strong as it could be. Housing market is under structural adjustment stage and expectations in the market are mainly pessimistic. The targeted changes in money supply measures have now become an important factor in the mitigation of development constraints and in ensuring that the people can live comfortably and that their consumption is stabilized.

In May 2025, the People's Bank of China released both reserve requirement ratio (RRR) and interest rate reductions, as two regulatory tools: on the 8th of May, it reduced the 7-day reverse repo rate of the open market by a mere 0.1 percentage point, and on the 15th of May, it reduced the reserve requirement ratio in the financial markets by half a percentage point, which liberated around 1 trillion yuan worth of long-term liquidity. By such set of activities, attempts were undertaken to decrease the social cost of financing, promote market borrowing, instill positive momentum to corporate investments and family spending as well as provide assistance to the gradual recovery of macroeconomics.

According to the information provided on May 20, 2025, the National Interbank Funding Center, under the authority of the central bank, informed the current loan interest rates in the market. The one-year LPR has been lowered to 3.0 percent, and five-year and more LPRs have been decreased to 3.5, which is a decrease of 10 basis points compared to the last month. Since that correction, as of April 2026, the interest rate level has been constant over 11 continuous months and become one of the key pricing references of the personal credit and corporate loans. Affected by policies, the six large state-owned banks have lowered their official deposit rates. The one-year fixed deposit interest rate has dropped to 0.95%, while the three-year and five-year interest rates are 1.25% and 1.30% respectively, characterized by longer-term deposit rates not rising with maturity. Using official data from the PBOC and National Bureau of Statistics, this paper analyzes the impact of interest rate policy on household livelihood from five dimensions, to support household financial planning and policy optimization.

2. The Core Content and Implementation Background of The Current Interest Rate Policy

On May 7, 2025, the People's Bank of China officially launched a package of cuts to the reserve requirement ratio (RRR) and policy rates at a press conference held by the State Council Information Office [2]. According to the announcement of the People's Bank of China, starting from May 15th, the reserve requirement ratio for financial institutions was reduced by 0.5 percentage points. Institutions that have already implemented a 5% reserve requirement ratio are excluded from the adjustment, and it is expected to release long-term liquidity of about 1 trillion yuan, supporting the development of the real economy; Starting from May 8th, the 7-day reverse repo rate was lowered by 10 basis points to 1.4%, and the medium-term lending facility (MLF) rate was simultaneously lowered by 10 basis points to 2.5%, to reduce market financing costs.

After the gradual transmission of policy effects, on May 20th, the central bank authorized the National Interbank Funding Center to release LPR quotes: both core interest rates were lowered by 10 basis points. After adjustment, the LPR level remains stable and has become the core pricing reference for various credit businesses such as personal housing loans and corporate operating loans. In the deposit sector, the central bank keeps on developing the policy of interest rate marketization, by instructing financial institutions of how they can independently adjust their deposits interest rates in response to market demand and supplies and facilitate a gradual reduction in the industry deposit interest rates [3].

This regulatory episode has an explicit macro context. The domestic economy recovery rate in the first quarter of 2025 failed to be strong and most of the important indicators were below projections by the market: the gross retail sales of retail products in China amounted to 124,671 trillion yuan, which is the increase compared to the previous year by 4.6; Investments into fixed assets (except farmers) accounted for 103,174 trillion yuan, which is an increase compared to the previous year by 4.2%. The real estate industry is still in a period of adjustment, with a sales area of 218.69 million square meters of newly built commercial housing in the first quarter, a year-on-year decrease of 3.0%. Market confidence urgently needs to be boosted.

In response to this situation, the central bank has coordinated the use of price-based and quantity-based tools to reduce social financing costs and guide financial resources towards the real economy. The interest rates of structural monetary policy tools have been simultaneously lowered. The interest rates for 3-month, 6-month, and 1-year agriculture-related and micro-enterprise refinancing loans have been reduced to 1.2%, 1.4%, and 1.5%, respectively, and the rediscount rate has been lowered to 1.5%. This will guide financial institutions to increase support for rural areas and small and micro enterprises, stabilize the macroeconomic situation, and strengthen financial security for people's livelihoods.

3. The Practical Impact of Interest Rate Policy on Residents' Housing Consumption

The release of residents' housing consumption demand is closely related to credit costs, and interest rate policies, as the core means of regulating credit costs, have a direct impact on the housing loan market, thereby affecting the debt burden and home purchase decisions of households. In the structure of household debt, mortgage accounts for the highest proportion and is also the most direct and critical carrier for interest rate policies to be transmitted to the livelihood sector. Interest rate changes significantly affect household housing consumption [4].

In May 2025, the loan market quoted interest rate (LPR) was lowered, with 1-year LPR dropping to 3.0% and 5-year and above LPR dropping to 3.5%. Various regions have jointly optimized the pricing of mortgage interest rates and further lowered the credit costs for new mortgages. At the same time, the interest rates for personal housing provident fund loans have been adjusted accordingly. Starting from May 8, 2025, the interest rate for first-time housing provident fund loans with a term of more than 5 years was reduced from 2.85% to 2.6%, a decrease of 0.25 percentage points. The interest rate for second home provident fund loans with a term of more than 5 years will be set at a lower limit of not less than 3.075%, comprehensively reducing the credit costs for residents to purchase houses.

From the actual benefits for the first-time homebuyer group, lower credit costs have produced significant burden-reduction effects [5]. Based on a commercial loan of 1 million yuan, a 30-year term, and equal monthly installment repayment, after the mortgage interest rate was reduced from 4.0% to 3.5%, the monthly payment was reduced from 4,774 yuan to 4,477 yuan, and the monthly average burden was reduced by 297 yuan. The accumulated interest underpaid over 30 years reached 106,900 yuan, effectively reducing the threshold for first-time homebuyers and the pressure to repay loans, helping to unleash reasonable housing consumption demand.

The downward trend in interest rates has also provided certain support for the real estate market. In August 2025, core cities optimized real estate regulation policies, effectively curbed speculative home buying behavior while supporting residents' reasonable housing needs, helping the real estate market operate smoothly. However, it should be noted that the reduction in interest rates has not completely reversed residents' wait-and-see attitude towards home purchases, and insufficient income expectations are still the key factor restricting the recovery of home purchase willingness. Only by combining with supporting policies such as income growth can the transmission efficiency of interest rate policies be fully released and the housing consumption market be steadily recovered.

4. The Adjustment Effect of Declining Interest Rates on Residents' Savings and Wealth Management

Lower interest rates have changed household savings and financial behavior. Deposit rates have fallen below 1%, and the interest income of residents' savings has shown a significant downward trend. This change has a direct and prominent impact on those who mainly rely on interest income to maintain their balance of income and expenditure. It is not difficult to find from the listing interest rate announced by state-owned banks in April 2026 that the one-year fixed deposit interest rate is 0.95%. When residents deposit 100,000 yuan in one-year fixed deposits, the annual interest rate is only 950 yuan, which is a decrease of 1150 yuan compared to the interest rate level of 2.1% in 2023; The interest rate for a three-year fixed deposit is 1.25%, and the total interest for a 200,000 yuan three-year deposit is 9300 yuan, which is directly reduced by half compared to the interest rate level of 3.1% in 2023.

Among various affected groups, the elderly are the most severely affected group. According to data from the China Association on Aging, China's elderly save more than 60% of their income, nearly twice the national average. In addition, their investment channels are relatively single and lack experience in diversified financial management. Most of them can only rely on interest on fixed deposits to maintain daily expenses. Taking a three-year fixed deposit of 1 million yuan as an example, the annual interest in 2023 can reach 31000 yuan, but by 2026 it will only be 12500 yuan. The sharp decline in interest income has directly reduced the elderly's quality of life and spending power [6].

Faced with a sustained low interest rate environment, residents are no longer limited to traditional savings, but actively adjust their financial strategies and gradually reduce their reliance on a single savings method. The "Annual Report on China's Banking Wealth Management Market (2025)" released by the Banking Wealth Management Registration and Custody Center in January 2026 clearly shows that as of the end of 2025, the outstanding balance of the banking wealth management market reached 33.29 trillion yuan, an increase of 11.15% from the beginning of the year.

At present, the market demand for low-risk financial products is strong. The first issue of certificate treasury bonds issued on March 10, 2026 will be sold out on the day of issuance with relatively stable yields. The three-year coupon rate is 1.63%, and the five-year coupon rate is 1.70%, both higher than the fixed deposit rate of the same period. At the same time, diversified asset allocation methods such as gold, systematic investment plans, and large-denomination certificates of deposit (CDs) have gradually become popular. Residents' financial concepts have shifted from passive saving to active financial management. Many people have begun to actively learn financial knowledge and achieve a balance between their asset returns and risks by reasonably matching different risk levels of financial products [7].

5. The Changing Trend of Consumer Credit for Residents in A Low Interest Rate Environment

A low interest rate environment has effectively reduced consumer credit costs, which to some extent boosts their willingness to consume and promotes the steady growth of consumer credit scale. Based on the pricing of the Loan Market Quotation Rate (LPR) in April 2026, the 1-year LPR remains at 3.0%, and the 5-year and above LPR is 3.5%. Currently, the annual interest rate for personal consumer loans has generally fallen to the range of 3.5-4.5%, a decrease of 0.5-1 percentage point from the 2024 interest rate level.

Among various consumer credit products, the downward trend of auto loan interest rates is more obvious, generally stable between 3.0%-3.8%, and the mortgage interest rates for new energy vehicles are even lower. Since 2026, more than 20 car companies have joined forces with financial institutions to launch interest subsidy policies such as 5-year zero interest and 7-year low interest, effectively lowering the threshold for residents to purchase cars [8]. Taking a 3-year equal principal and interest consumption loan of 200,000 yuan as an example, after the interest rate was reduced from 4.5% to 3.5%, the total interest decreased from 13983 yuan to 7983 yuan, a cumulative decrease of 6000 yuan, and the monthly payment also decreased from 5944 yuan to 5778 yuan, which can alleviate the repayment pressure by 166 yuan per month.

Structurally speaking, automobile consumer loans have become an important driving force for the growth of consumer credit. However, while low interest rates activate consumption, they also bring significant credit risks that are noteworthy. Some young people tend to have impulsive consumption behaviors, which can lead to problems such as excessive borrowing and irrational consumption, further increasing personal debt risks [9]. According to the "Overall Operation of Payment System in 2025" by the People's Bank of China, as of the end of 2025, credit card overdrafts reached 123.964 billion yuan, up 26.31% year-on-year, and the industry’s overall debt risk continues to rise.

In addition, more consumer loan funds have been illegally channeled into non-consumer sectors such as real estate and stocks, deviating from the basic positioning of consumer credit services for daily consumption. In response to such issues, financial regulatory authorities continue to increase their efforts to verify the use of credit funds, requiring small loan companies to strictly monitor the flow of funds and strictly prohibit funds from entering prohibited areas such as financial investment and equity investment, in order to standardize the credit market order and maintain the bottom line of preventing and controlling systemic risk in the credit market.

6. The Differential Impact of Interest Rate Policy on Different Income Groups

The divergence in consumer credit reflects the uneven impact of interest rate policy on different income groups. The interest rate regulation policy shows significant differential effects when applied to different income groups, and its policy impact is closely related to the asset liability structure and financial channel selection of each group, which do not benefit all income groups evenly [10]. Most high-income groups bear various types of debts such as mortgage and business loans, and have a diversified asset allocation foundation, allowing them to flexibly choose investment products such as bonds and funds. Against the backdrop of declining interest rates, on the one hand, it can effectively reduce the debt repayment cost of this group and alleviate repayment pressure; On the other hand, they can rely on diversified investment channels to obtain stable returns and are the group that has benefited the most significantly from this round of interest rate adjustments.

The majority of middle-income groups bear the burden of mortgage loans, and asset allocation is mainly in the form of bank savings, facing a dual impact from the interest rate adjustments. Lowering loan interest rates can effectively alleviate the pressure of mortgage repayment and free up some space for household income and expenditure, but at the same time, the simultaneous decline in deposit interest rates has also led to a reduction in savings interest income. After the LPR reduction in May 2025, the mortgage burden of the middle-income group has eased to some extent, but savings income has also decreased. This adjustment plays an important role in decreasing the financial pressure of housing loans on middle-income people; however, it also implies a trade-off between the repayment of debt and the protection of assets.

The effect of interest rate decline can be clearly seen in the low-income and elderly population [11]. The financial assets held by this group are dominated by bank deposits and investment opportunities are fairly restricted. Interest income is an important source to supplement their daily expenses. The continuous decline in deposit interest rates directly leads to a decrease in their investment income, which in turn has a certain impact on their quality of life. From the perspective of urban-rural differences, the financial asset structure of rural residents is relatively single, mainly consisting of traditional fixed deposits, lacking diversified wealth management tools, and the impact of declining interest income is more direct; Urban residents can, to some extent, offset the pressure from declining interest income by allocating treasury bonds, large-denomination certificates of deposit and other products.

Considering the significant differences in interest demands and affordability among different groups in interest rate adjustments, it is necessary to balance fairness and targeting in the policy-making process. By improving the pension security system, introducing universal low-risk financial management tools, implementing targeted livelihood subsidies and other measures, we will focus on safeguarding the basic living interests of low-income and elderly groups, and promote the policy dividends of interest rate regulation to cover various groups in a more balanced manner.

7. Conclusion

Based on the above multidimensional livelihood analysis, interest rate regulation has permeated multiple dimensions of residents' lives, such as housing financing, savings management, consumption choices, and asset allocation. The policy has two effects and varies according to income groups. First, the lowering of LPR has also led to the effective drop in financing costs of the housing loans of residents and consumer credit, which played a positive role in reducing pressure on household debt and promoting resident consumption; Second, the steady decrease in deposit interest rates has greatly diminished the income of residents through savings, especially the elderly and those with low income, who depend on interest income. The advantages and strains that are experienced by various income groups are highly different in policies. A high-income group enjoys the effect of debt reduction and a variety of investment plans whereas a middle-income group feels the squeeze due to the high-end of income and expenses. The vulnerable population is subjected to most of the stress of the falling savings yield.

The paper has some restrictions. The research approach concentrates more on the income-based division of groups and does not elaborate much on the regional variations, household life histories, debt structures, etc. Quantitative investigation of household finance activities is also somewhat limited, and there are areas of expansion of existing findings related to this topic.

When it comes to long-term low interest rate market environment, households ought to shift away from the conventional savings mentality, make sensible changes in their asset allocation process based on their own economic situation, and enhance their power to withstand risks. The actual needs of various groups must be considered in the development of the policy. As part of the implementation of interest rate marketization reform, structural monetary policy instruments should be deployed to boost the welfare of low-income and older populations, enhance their pension and living allowance systems, and ensure the stability of the credit market. More specific institutional mechanisms would help maintain the effectiveness of macroeconomic regulation in addition to fairness in people lives as well as reduce risks of household debts and this would make the interest rate policies more effective in economic stability and enhancing the levels of residents life.

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