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News Analysis: Lower oil prices a boon for China's economy

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Since China replaced the United States in 2013 as the world's largest net oil importer, falling oil prices have benefited economic development.

The Bank of America Merrill Lynch said that for every 10 percent fall in the price of oil China's GDP growth would be boosted by around 0.15 percentage points, lower consumer inflation by around 0.25 percentage points and would improve the current account balance by 0.2 percent of GDP.

Oil prices, which have lost a third of their value since June, hit fresh four-year lows on Thursday after the OPEC producer club decided not to cut output despite a huge oversupply in the world market.

The benchmark Brent crude oil has fallen to below 80 U.S. dollars a barrel, a sharp drop from market levels of over 100 dollars three months ago.

China is dependent on imports for nearly 60 percent of its domestic oil supply. The fall in oil prices, therefore, translates into huge foreign exchange savings.

According to data from the National Bureau of Statistics, the country imported 281.92 million tons of crude oil in 2013, worth 219.6 billion dollars.

It means China will save up to 30 billion U.S. dollars in oil imports this year if the declining trend in oil prices continues, said Lin Boqiang, director of China Center for Energy Economics Research at Xiamen University.

China International Capital Corp. (CICC) expects the average oil price in 2015 to be 20 percent lower than in 2014, which would generate 47 billion dollars in trade gains for China, or 0.5 percent of GDP, and boost household income and corporate profit growth.

Lower oil prices may squeeze profit margins of oil refiners, but could significantly bring down expenditure for heavy users, such as logistics firms, airline carriers and private car users.

The nation's oil price adjustment mechanism calls for changes when international crude prices change by more than 50 yuan (8.14 dollars) per tonne during a time span of 10 working days.

China's retail fuel prices have been cut for the eighth-consecutive time since July as the government reacts to lower crude prices and the country is very likely to announce price cuts again late on Friday.

Moreover, lower oil prices will not only be passed on to downstream industries but also influence the prices of other energy and grains through the substitution effect. The impact of oil prices on agricultural product prices is more important for China than for developed countries due to the higher proportion of food consumption in the country, CICC said.

Falling oil prices will also benefit the consumer sector as lower inflation raises consumption through higher disposable incomes.

CICC noted lower oil prices will provide Chinese policymakers with more room to ease monetary policy.

Last week, the central bank cut benchmark interest rates for the first time in more than two years to support the economy, which grew at its slowest pace since the depths of the global financial crisis in the third quarter, and is likely to register its weakest annual growth rate in more than 10 years.

On the stock market, airlines surged on Friday on hopes of lower fuel costs. Air China, China Southern Airlines and China Eastern Airlines all climbed by the daily limit of 10 percent while China COSCO Holdings Company Ltd. increased 9.43 percent.