Credit Suisse Group AG (CSGN) and Deutsche Bank AG reduced forecasts for China’s growth this year as weakness in exports and in investment drag on the world's second-biggest economy.

Credit Suisse reduced its estimate to 7.7 percent from 8 percent, while Deutsche Bank lowered its forecast to 7.9 percent from 8.2 percent, according to e-mailed research notes received today. The predictions indicate the weakest growth since 1999 and compare with a 9.2 percent expansion last year.

Corporate profits are falling, deflation is looming and the nation faces years of “weak” growth, Credit Suisse economist Tao Dong said. To unleash productivity gains and restore the economy’s strength, the government should break monopolies in banking and utilities, open the services industry, and deregulate interest rates and the exchange rate, he said.

“Investment is unlikely to see a meaningful rebound in the foreseeable future,” Hong Kong-based Tao said. “Government stimulus could moderate the downside risks to growth and perhaps cushion the down-cycle, but we do not see it providing sustainable upward growth momentum.”

The cuts to the forecasts and a downgrade in Spain’s credit rating by Moody's Investors Service yesterday sent Asian stocks lower. The MSCI Asia Pacific Index slid 0.3 percent as of 2:05 p.m. in Tokyo.

**Rate Decisions**

In South Korea today, central bank Governor Kim Choong Soo reiterated his concerns about the risks posed by excessive global liquidity.

Elsewhere in the Asia Pacific region, the Reserve Bank of New Zealand kept its benchmark interest rate unchanged, while economists surveyed by Bloomberg News forecast the Philippine central bank will do the same when it announces its decision at 4 p.m. local time. India will also release monthly wholesale inflation data today.

Germany will report wholesale prices for May and the European Central Bank will release its monthly report for June. The European Union’s statistics office will release labor costs data for the first quarter and revised estimates for consumer-price gains in the euro-region last month.

In the U.S., a report today may show the cost of living in the U.S. fell in May for the first time in two years as fuel prices retreated, giving the Federal Reserve more room to stimulate growth. The consumer price index, the broadest of three gauges issued by Labor Department each month, fell 0.2 percent in May after no change in April, a Bloomberg survey showed. The Bloomberg Consumer Confidence Index will also be released today.

**Ratings Downgrade**

Spain’s rating cut yesterday underscored the threat to Asian exporters from Europe’s debt crisis.
“We expect China to be in a weak growth cycle for the next several years featuring a weak credit cycle, weak export cycle and weak property cycle,” Credit Suisse’s Tao said. An emerging “deflationary force” may lead to sharp declines in nominal gross domestic product and corporate profits, he said, adding that the economy is quickly losing momentum.

“Looking back in history, almost every 10 years, China has had one top-down structural reform to unleash improvements in productivity,” Tao said.

A looming once-a-decade power transfer to a younger generation of Communist Party leaders, already complicated by the ouster of Chongqing party boss Bo Xilai, has the potential to delay decisions on reforms.

Banking Monopoly

In line with Tao’s prescription, Premier Wen Jiabao said in April that the government needs to break a banking “monopoly” of a few big lenders that make easy profits. In other steps, the central bank this month loosened limits on banks’ abilities to set interest rates after widening the band for the yuan’s daily moves in April.

Fixed-asset investment excluding rural households rose 20 percent in the first five months, according to the statistics bureau. That was the weakest gain for a January-May period since 2001, according to previously released data. Growth in industrial output and retail sales trailed forecasts in May.

Credit Suisse cut its full-year inflation forecast to 3.1 percent from a previous projection of 3.7 percent. Over the next 12 months, the government may cut bank reserve requirements three times, lending rates twice, and the deposit rate once, Tao said.

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