SAFE to strengthen check on cross-boarder capital flows

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The foreign exchange regulator said yesterday it will strengthen management of cross-border capital flows and short-term bank borrowing this year.

It will carry out checks on cross-border capital flows, particularly how foreign currency converted into yuan is used in China, the State Administration of Foreign Exchange (SAFE) said.

The government is trying to meet the needs of local institutions and individuals holding and using foreign currencies, the regulator said at a recent foreign exchange conference.

China faces pressure from its increasing foreign exchange reserve as the trade surplus continues to grow. At the end of 2007, the foreign exchange reserve was $1.53 trillion, up 43.3 percent year-on-year.

The government has taken measures to redress the trade imbalance and also encouraged companies and individuals to hold foreign currencies and invest abroad to reduce reserve pressure.

Last August, it scrapped limits on companies converting current account foreign exchange holdings into yuan. They can now hold all foreign currency revenue from trade instead of converting part of it to yuan.

The government is also ramping up checks for illegal capital inflows in the form of short-term foreign borrowing.

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