Bank reserve ratio raised for fourth time

BY | FROM | 2008-05-13 08:23

The central bank yesterday announced it will raise the reserve requirement ratio, or proportion of money banks must set aside in reserves, by half a percentage point.

The move, in a quick response to rising inflation in April, will push the ratio to 16.5 percent. It is the fourth such increase this year and will take effect from April 20.

The increase in ratio will absorb up to 200 billion yuan based on the current lending volume of banks and will affect small banks more seriously, said Zhao Xijun, finance professor of Renmin University of China.

"The move, shortly after the release of April CPI data, was not surprising," Liang Hong and Song Yu, economists with Goldman Sachs (Asia), said in a research note.

The National Bureau of Statistics yesterday said April inflation hit 8.5 percent year-on-year, 0.2 percentage point higher than in March. Analysts said part of the reason for such high inflation is excess liquidity in the market, which the latest central bank move can help mop up.

Excess liquidity has been a serious problem since last year and many economists have said the authorities may need to raise the ratio to as high as 18 percent to solve the problem.

But even if it is raised to 18 percent, it may not effectively curb inflation, said Gao Shanwen, chief economist with Essence Securities.

Agreed Liang and Song: "While the move demonstrates the central bank's tightening stance, small hikes in the ratio are not sufficient to control monetary expansion and inflation."

They said the authorities may have to take more tightening measures to curb inflation. "The central bank may implement further tightening measures, including regular hikes to the reserve requirement ratio and benchmark interest rates, continued credit rationing in commercial lending, as well as faster appreciation of the currency."

Some analysts, however, said raising interest rates won't be necessary.

"Food price rises may ease in May, which will slow down overall inflation growth," said Zhao Jianxing, an analyst with China Merchant Securities.

Moreover, since major developed economies such as the US are not in an interest rate hike cycle, if China raises interest rates, more speculative money might flood in, he said.(China Daily)

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