Money supply to be raised to boost liquidity

The country's top policymakers have announced a series of measures to boost the supply of money and stabilize the capital market to arrest the slowing down of the economy.

The State Council, the country's Cabinet, has raised the money supply growth target from 16 percent in 2008 to 17 percent, which will be "3 to 4 percentage points above the total growth of economic output and consumer prices" next year.

The measure, announced late on Saturday night, is one of the 30 designed to "strengthen the financial sector's support" to the economy to ensure a stable and relatively fast growth.

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The measures came three days after the Central Economic Work Conference, which reiterated the government's decision to boost domestic demand to tackle the global economic slowdown.

Analysts said the 30 measures would help act as a booster for the government's $586-billion stimulus package, which extends up to 2010.

"Policy at the moment is generally being focused on boosting liquidity in the banking sector and making sure that it is used to fund investment in infrastructure projects," Glenn Maguire, chief Asia-Pacific economist at Societe Generale SA in Hong Kong, said yesterday.

Other steps announced over the weekend to tackle the downturn include:

Aiming to achieve a loan growth of 4 trillion yuan ($586 billion) for all financial institutions and increasing the loan quota for policy banks by 100 billion yuan this year;

Suspending sales of three-year central bank notes and reducing sales of one-year and three-month bank notes;

Supporting enterprises to conduct mergers and acquisitions through the capital market, and allowing overseas banks to provide loans to domestic firms for the purpose;

Setting up futures for other commodities such as steel and grains; and

Asking insurers to expand insurance coverage to areas such as agriculture, cars, house purchase and short-term export credit.

The growth of money in the country shrank from 16 percent in August to 15 percent in November as businesses and consumers cut their spending owing to the global financial crisis.

Spooked banks grew more cautious, approving new loans very cautiously because of worries over corporate profitability.

The latest steps are expected to help the government implement its proactive fiscal and relatively loose monetary polices to boost growth.

As part of the policies, the central bank has cut the benchmark-lending rate from 7.47 percent to 5.58 percent since September. It has lowered lenders' reserve requirement ratio and scrapped curbs on local banks' monthly loans, too.

Call to lend more

A top banking official urged lenders to provide more loans to ensure a relatively fast economic growth, even though it could mean an increase in bad loans.

"Bad loans will certainly increase this year, posing a real challenge for banks," Liu Mingkang, chairman of China Banking Regulatory Commission, said at a conference over the weekend.

But "we encourage banks to offer a helping hand to enterprises with good fundamentals," Liu said, because "it would be costlier to let them go under".

Some banks have responded to the call. China Merchants Bank, for instance, pledged on Saturday to offer at least 5 billion yuan to smaller firms next year compared with less than 10 billion yuan over the past two decades.

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