Outbound funds rule tweaked

China's foreign exchange regulator yesterday announced revised rules relaxing controls on companies' overseas investments in a bid to support more enterprises to venture out of the country.

Domestic companies can use their existing foreign exchange reserves or purchase fresh foreign exchange to fund the operations of their overseas subsidiaries from Aug 1, the State Administration of Foreign Exchange (SAFE) said on its website yesterday.

According to an October 2004 SAFE rule, large multinational companies were allowed to use their foreign exchange reserves to lend to overseas ventures but with heavy restrictions.

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"Now, with the new rule, SAFE will allow all companies, including privately owned smaller firms, to purchase foreign currency to fund their overseas subsidiaries," Liu Guangxi, director of SAFE's capital account management department, said.

The new rule states that the total money the parent can lend to its overseas subsidiary should not exceed 30 percent of the former's equity base.

Overseas subsidiaries also will not be permitted to borrow more than the total amount of their investment registered with the administration, from their parent companies.

SAFE said the rule aims to support the overseas expansion of domestic firms, which have had trouble raising funds abroad due to the financial crisis.

The new rules will also simplify approval procedures for outbound investment.

SAFE also said it would establish a risk control mechanism to monitor these outbound investments and ensure the money was being properly used.

"The ease of control on foreign currency outflow will not have any major impact on China's foreign reserves position," SAFE said in the statement.

China has ample cash on hand to support overseas investment, with $2.9 trillion in foreign financial assets, including both official foreign exchange reserves and private holdings, at the end of 2008.

"We had done a stress test, and the maximum possible capital outflow from this new mechanism will be $30 billion," another SAFE official, Sun Lujun, said.

China's outbound investment has been very tepid compared with inflows from foreign investors, but the pace has started to pick up, nearly doubling to $52.2 billion in 2008 from $26.5 billion in 2007.

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