Curbs on investing abroad loosened

China's foreign exchange regulator yesterday loosened curbs on overseas direct investment in a bid to facilitate qualified local companies to invest and expand abroad.

The State Administration of Foreign Exchange (SAFE) said it would expand the sources of capital Chinese companies can use to finance outbound investment and permit funds to be transferred overseas without prior approval, according to two statements on the regulator's website yesterday. The new regulations will take effect from Aug 1.

"The rules are intended to give companies more room to develop overseas and reduce their pain in adjusting growth and models," Liu Guangxi, a top official at SAFE's capital-account department said at a press briefing in Beijing.

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"The changes will help China to realize a more balanced management of both capital inflows and outflows," he said.

China's foreign exchange reserves hit $2 trillion for the first time, according to fresh figures released by the central bank on its website yesterday. A large bulk of new reserves of $178 billion was added to the foreign exchange reserve in the second quarter, to $2.132 trillion.

The country wants to diversify foreign investments to reduce the impact of any drop in the value of US Treasuries, the supply of which is ballooning as US President Barack Obama borrows record amounts to fund stimulus spending and end a recession in the world's largest economy.

"The SAFE move is an encouraging development and very much in-line with our belief that China's currency policy is aimed toward an eventual balance between inflows and outflows," Patrick Bennett, Asia Foreign Exchange & Rates Strategist with Societe Generale in Hong Kong, told China Daily in an email.

"This new initiative will help to create an improved balance of flows over the medium-term," he said.

"The move is focused on foreign direct investment, and will not allow Chinese firms to use the forex reserves to invest in other countries' stock market or other speculative activities," Liu of SAFE said, dismissing concerns that the new move would turn China's huge foreign reserves into other countries' "hot money".

Chinese companies will be able to finance overseas investments by purchasing foreign exchange or borrowing it from local banks, as well as using any existing holdings they have, SAFE said. They will also be permitted to reinvest income from their offshore investments abroad.

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