ShanghaiDaily.com

Published on ShanghaiDaily.com (http://www.shanghaidaily.com/)
http://www.shanghaidaily.com/sp/article/2010/201005/20100503/article_435928.htm

China to banks: Freeze more money

Created: 2010-5-3 1:06:16
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CHINA yesterday asked banks to freeze more money from lending through a higher reserve requirement, the third move this year amid growing concerns of asset bubbles and economic overheating.

The reserve ratio - the share of deposits a bank must set aside as reserves - will increase 0.5 percentage point on yuan deposits starting May 10, the People's Bank of China, the central bank, said yesterday.

The announcement's timing came on the second day of the nationwide Labor Day holiday when local financial markets are closed.

"The move surprises almost all of my peers. We phoned each other on hearing the announcement, figuring out why such an unnecessary move is announced today," said Lu Zhengwei, an Industrial Bank senior economist.

A decrease in new credit in March, the cooling of inflation from February's high, and the open market operations, through which central banks sell and buy bills to manage liquidity, all suggest that reserve requirement increases are not immediately needed.

"The fast growing foreign exchange reserves, which can lead to bigger supply of liquidity, may be the driver for such a move against a sizzling first-quarter growth," Lu speculated yesterday.

The reserve requirement increase can help freeze 400 billion yuan (US$58.6 billion) of credit.

China's big-five state-owned banks must meet a ratio requirement of 17 percent while smaller joint stock banks must put aside 15 percent of their capital from May 10.

Rural banks and rural cooperatives are exempted from the higher requirement to support rural economy, the central bank said.

China's previous reserve increase was announced on February 12.

China's economy grew 11.9 percent in the first quarter. Housing prices kept its strong momentum, fanning concerns of assets bubbles. The central bank has already rolled out tighter mortgage policy to cool off credit-driven speculation in the home market.

The new move indicated the government was taking further steps to tighten monetary policy in response to concerns of overheating and asset bubbles, Liu Yihui, an expert with the Financial Research Center of the Chinese Academy of Social Sciences, told Xinhua news agency.

"There is an obvious tendency of overheating," Liu said, adding that the central bank should introduce further tightening measures and continue to shift China's monetary policy back to "a normal one."

Tang Min, vice secretary-general of China Development Research Foundation, said the reserve requirement hike was targeted at asset bubbles, especially those triggered by the surging property market.

Regulators took steps to cool the real estate market in the past month by cracking down on real estate speculation and providing more affordable homes.

The central bank would keep a close watch on the property market to see whether these measures took effect, and if not, the PBOC might consider raising interest rates to keep inflation in check, said Tang.

But a monitoring period would precede the rate hike, he said.

Lu said he expects an interest rate increase in the June-to-September period if inflation picks up.