

Banks' reserve ratio raised to 15%

The central bank yesterday raised commercial banks' reserve requirement ratio - or proportion of money they must hold in reserve - by 0.5 percentage point, the first time this year.

It is the 11th hike since the start of 2007 and, effective from January 25, will push up the ratio to 15 percent.

The People's Bank of China said in a statement that the move was to implement the nation's policy of strengthening macroeconomic measures, tightening liquidity in the banking system, and reining in excessive money and credit growth.

The government pledged at the Central Economic Work Conference early last month that it would implement tightening measures to prevent the economy from overheating and structural price rises from evolving into entrenched inflation.

As the economy is expected to expand by about 11.5 percent for the whole of last year, excess liquidity has become a concern for policymakers as the trade surplus continued to expand, although the growth is slowing.

"It (the move) supports our view that liquidity will be the main target of the central bank's 'tight' monetary policy this year," said Sun Mingchun, economist with Lehman Brothers in Hong Kong, who expects the ratio to be raised to 18 percent by the end of this year.

Sun noted that after a series of reserve requirement hikes, liquidity has become tight at small banks, and further hikes may hurt them more than big banks.

"Therefore, the central bank may consider introducing differential policies," he said.

Source: China Daily
