

China orders lenders to rein in overseas loans

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China ordered foreign and local banks to rein in overseas borrowings in a bid to curb speculative capital inflows, a document obtained by Bloomberg News showed.

Overseas loans with a maturity of less than a year will be limited to US\$12.7 billion by June for 23 foreign banks and to US\$8 billion for 19 local banks, the State Administration of Foreign Exchange document showed. That's a cut of 15 percent for global lenders from the March-end levels, and 5 percent for domestic banks, said Xu Hanfei, an analyst at Industrial Bank Co in Shanghai. The new quotas run through March 31, 2009.

China's foreign-exchange reserves rose to a record US\$1.68 trillion at the end of March, the central bank said on April 11, fueling concerns that inflows of speculative capital will hamper efforts to damp inflation close to the fastest in 11 years.

"Growth in foreign-exchange lending beat that of yuan loans from last year," said Li Huiyong, an analyst at Shenyin Wanguo Research and Consulting Co in Shanghai. "Short-term lending is one of the channels for inflows of so-called hot-money."

Premier Wen Jiabao has said top priorities this year are curbing prices and preventing overheating.

The central bank has ordered lenders to set aside larger reserves three times this year. (Shanghai Daily)

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