China May Fine-Tune Policy as Cash Squeeze Threatens Growth (1)
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(Updates with economist's comment in fourth paragraph.)

By Bloomberg News

June 24 (Bloomberg) -- China's central bank said it may adjust monetary policy as needed, suggesting officials are more open to loosening policies as a cash squeeze risks exacerbating an economic slowdown.

The People's Bank of China said the nation should "appropriately fine-tune" its policies, according to a statement yesterday that summarized the monetary policy committee's second-quarter meeting in Beijing. It was the first time since September that the panel, led by Governor Zhou Xiaochuan, has used the "fine-tune" phrase.

The comments were released following an easing of the cash crunch on June 21 after a gauge of interbank funding availability rose to the highest since at least 2003. Slowing growth in the world's second-largest economy, a crackdown on illegal capital inflows and efforts to rein in shadow banking have contributed to increased borrowing costs.

"You could see this as one very modest sign that perhaps the People's Bank of China doesn't want to scare the markets and market players too much," Louis Kuijs, chief China economist at Royal Bank of Scotland Group Plc in Hong Kong, said by phone today.

The PBOC, which didn't elaborate on the fine-tuning or reference this month's developments in its statement, reiterated that it will implement a "prudent" monetary policy, a label in place since 2010. The meeting was held "recently," the central bank said without giving a date.

Restructure Economy

"We will optimize financial-resource allocation to make good use of newly added credit and to activate use of granted credit to support economic restructuring, transformation and upgrading in a more forceful way," the PBOC said in the statement.

Risk is rising in China's financial system as the shadow- banking sector expands and financial institutions make more highly leveraged investments to boost profit, the official Xinhua News Agency said in an analysis published yesterday.

Premier Li Keqiang signaled a determination to stamp out speculation funded by cheap money with a June 19 State Council statement saying banks must make better use of existing credit and step up efforts to contain financial risks.

Zhang Zhiwei, chief China economist at Nomura Holdings Inc.
in Hong Kong, said today in a note that while the PBOC's statement was "less hawkish" than in the previous quarter, "we are not convinced that the policy stance has shifted from tightening to loosening."

Independent Action

The PBOC doesn't have the political independence of counterparts such as the U.S. Federal Reserve, meaning senior officials above Zhou must approve major decisions.

China will strive to make its monetary policies more forward-looking, targeted and flexible, the central bank said yesterday. Policy makers are paying close attention to the latest developments in the global and domestic financial markets as well as changes in international capital flows, it said.

China will keep pushing for reform of its yuan exchange- rate mechanism and interest-rate liberalization, the central bank said.

The nation's economy is on a steady path and consumer prices are stable, it said, omitting a line from the first- quarter statement about the need to control inflation. The central bank will use a combination of different monetary instruments as it seeks to guide steady and moderate growth in aggregate financing, it said.

Goldman Sachs

"The liquidity tightening is another indication that the new government has put priorities on tackling the structural problems," Goldman Sachs Group Inc. economists led by Cui Li in Hong Kong said in a report today. "These policies help to foster more sustainable medium-term growth, but will test the government's tolerance for a cyclical downturn," Goldman Sachs said as it cut its 2013 expansion forecast to 7.4 percent from
7.8 percent.

Goldman Sachs also lowered its 2014 growth forecast to 7.7 percent from 8.4 percent.

While tighter funding conditions will have a "relatively modest" impact on growth in the near term, "investment deceleration is likely to be more visible next year as the tighter credit conditions set in," Goldman Sachs said.

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