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## China Raises Bank Reserve Rules, Starting Stock Sell-Off

**By SHARON LaFRANIERE**

BEIJING — Asian markets sagged Tuesday amid concerns that China was reining in credit and might raise interest rates to curb rising inflation.

Investors apparently feared that China's recent efforts to limit easy credit would be followed by tighter lending policies as the government tried to restrain speculation in the nation's fast-growing economy.

The Shanghai Composite Index, China's leading index, fell 2.4 percent, or 75.02 points, closing at 3,019.39, the lowest point since Oct. 30. Hong Kong's Hang Seng, MSCI Asia Pacific and Japan's Nikkei also fell. Bloomberg News reported it was the seventh consecutive day of losses and the longest market retreat in two years for Asian stocks.

"The bottom line is the Chinese government has become a little concerned about the degree of frothiness in the real economy," said Eswar S. Prasad, an economist at Cornell and former head of the [International Monetary Fund's](#) China division.

"The markets sense that a lot more lending restrictions are likely — directly in terms of quantity of credit going out from banks or through additional tightening measures such as increases in interest rates or reserve requirements," he said.

Two weeks ago, Chinese regulators ordered state-owned banks to set aside a larger share of their deposits as a reserve against failed loans. Economists said the move was intended to check the banks' yearlong lending spree that helped China quickly recover from last year's worldwide crisis.

In the first 11 months of 2009, Chinese banks lent \$1.38 trillion (9.4 trillion renminbi), twice as much as they lent during the same period the previous year. Those loans, coupled with the government's aggressive stimulus program, helped China's economy grow by 8.7 percent last year. Growth was stronger than expected in the fourth quarter at 10.7 percent.

But concern about rising inflation and too much speculation in the financial and real estate markets prompted government moves to tighten liquidity. It lowered the target for growth in the amount of loans to 18 percent in 2010, from 30 percent in 2009, according to [UBS](#) Securities.

"The government is trying to strike a very fine balance," Mr. Prasad said. "They want to keep the economy strong, and at the same time they don't want to let the air out of the balloon too quickly."

In a note to investors, UBS Securities said that Asian equity markets tended to initially react negatively to tighter lending policies but recovered quickly. Tighter credit policies in 2007 at first led to sell-offs in the

market but were followed by a run-up in equities, according to UBS.

The International Monetary Fund also struck a reassuring note at a briefing Tuesday in Washington. Officials predicted 10 percent economic growth for China this year.

“There is no serious market bubble risk,” said Jörg Decressin, head of the I.M.F.’s world economic studies division, according to Agence France-Presse.

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