Economists are betting China will cut banks’ reserve requirements in the coming weeks even as limited loosening over the past four months indicates leaders want to maintain a clampdown on inflation and property prices.

Authorities have held off for more than two months on announcing a third reduction since November in the reserve-requirement ratio, bucking earlier predictions from institutions including Credit Agricole CIB and Haitong Securities for the government to have acted by now.

A ratio reduction may still happen “any weekend from now” and at latest by the labor-day holiday that ends May 1, said Mizuho Securities Asia Ltd.’s Shen Jianguang. While economic growth slowed last quarter to the least in almost three years, authorities may be seeking to avoid a rebound in inflation that was below the government’s 4 percent target in February and March.

“The slowness in action may indicate the central bank remains concerned about inflation and doesn’t want to use an RRR cut to send a strong signal to the market about loosening,” said Shen, who is based in Hong Kong and previously worked at the European Central Bank.

Zhang Zhiwei, chief China economist at Nomura Holdings Inc., said yesterday that authorities may lower the ratio twice more this year, including next month.

China’s benchmark Shanghai Composite Index rose 0.6 percent as of the 11:30 a.m. local-time break on speculation the government will increase fiscal spending on infrastructure and lower the reserve-requirement ratio to bolster economic growth.

Adequate Cash

The People’s Bank of China pledged to ensure adequate availability of cash in the financial system by using tools including reductions in the reserve-requirement ratio, the official Xinhua News Agency said in an April 18 report on an interview with an unidentified person at the central bank.

Authorities will “appropriately take targeted liquidity management actions” based on circumstances including foreign-capital inflows and funding demand, the report said, citing the official. The person didn’t give a timetable for any reserve-ratio cut and said liquidity in the banking system remains adequate.

China held off on a reduction in bank reserve requirements for longer than some economists predicted at the start of the year. Barclays Capital Asia Ltd., JPMorgan Chase & Co. and Industrial Bank Co. said in January that ratios were likely to fall ahead of the weeklong Lunar New Year festival, which boosts demand for cash and ran through Jan. 28.

Saturday Announcement

Instead, China announced its latest move almost a month later, on Feb. 18, a Saturday evening. The previous move was announced Nov. 30, a Wednesday evening.
The country’s growth has moderated for the past five quarters as Europe’s debt crisis crimped exports and government curbs on lending and home purchases dampened demand at home. Gross domestic product in the world’s second-largest economy increased 8.1 percent in the first quarter from a year earlier, down from 8.9 percent in the previous three months.

Inflation accelerated to 3.6 percent in March from a year earlier after easing to a 20-month low of 3.2 percent the previous month. The government has said it wants to hold consumer price gains to about 4 percent this year.

Analysts in a Bloomberg News survey last month unanimously said banks’ reserve requirements will fall this year, while nine out of 20 predicted lower benchmark borrowing costs.

A reserve-ratio cut may be the first option for China to loosen policy, and the government may preemptively take steps to ease liquidity pressures, China Securities Journal reported today without citing anyone.

**Loans Rise**

Regulators eased credit restrictions at three of the nation’s biggest banks, people with knowledge of the matter said last month. New yuan loans rose last month to the highest level in a year while money supply growth accelerated.

Wang Jun, a researcher with the government-backed China Center for International Economic Exchanges in Beijing, said the central bank “hasn’t met market expectations so far” on the use of the ratio as a principal monetary-policy tool to fuel economic growth.

The ratio instead is mainly used “to adjust liquidity caused by foreign exchange inflows,” Wang said in an interview.

Joy Yang, chief economist for Greater China at Mirae Asset Securities (HK) Ltd., said there is “no immediate need” to cut the ratio because “liquidity remains ample.” There still may be two or three reductions this year, said Yang, who previously worked at the International Monetary Fund.

**Australia Export Prices**

In the Asia-Pacific region, Australian export and import prices fell, and Malaysian inflation probably slowed. Australian export prices dropped 7 percent in the first quarter, the biggest decline in more than a year. Import prices for the same period also fell 1.2 percent, the statistics bureau announced today. Malaysia will say that the rise in consumer prices slowed in March to 2.1 percent, according to the median estimate in a survey of 15 economists.

German business confidence probably declined in April for the first time in six months. The IFO Institute’s business climate index is released today.

The U.K. will report that retail sales rose in March from February, according to a survey of 22 economists.

Canada will announce today that inflation slowed in March to 2 percent from 2.6 percent, according to the median estimate from a survey of 25 economists. Mexico may say that unemployment for March fell to 4.7 percent, according to a survey by Bloomberg News.

**HSBC Index**
Investors will get an early glimpse into China’s second-quarter performance on April 23, when HSBC Holdings Plc and Markit Economics release their preliminary reading of this month’s purchasing managers index in manufacturing. The gauge fell to 48.3 in March from February’s 49.6, showing a fifth month of contraction. A reading above 50 indicates expansion.

Wang Jun said a reserve-ratio cut is likely in the second quarter and the level may decline to 19 percent by the end of the year, from the current 20.5 percent.

The government’s “hesitancy” in cutting the ratio in recent weeks “could be due to concern that such action may fuel unnecessary market expectation that the stance on monetary policy is being shifted or loosened,” Wang said.

Interest rates are a “more important” tool for influencing demand in the economy and the fact that they’ve been unchanged since July shows the “monetary policy stance has been kept stable,” Wang said.

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