BEIJING—China took action to boost bank lending as it seeks to fine-tune economic policy to support growth, without giving up its recent gains in controlling inflation and property prices.

The People’s Bank of China said on Saturday that it will cut banks’ reserve requirement ratio by 0.5 percentage point, effective Feb. 24, in a move to help boost liquidity and support the economy. The reserve requirement ratio is the percentage of deposits that banks must hold in reserve rather than lend out. The ratio for most large banks will decline to 20.5% after the cut.

The PBOC’s latest move to relax bank’s reserve requirements signals that it’s still focused on growth. But as Heard on the Street Columnist Tom Orlik tells Deborah Kan, it may not be a reason for investors to get excited.

Heard on the Street

- **China to Banks: Holiday’s Over, Start Lending**

Analysts say the move sent a signal that financial authorities are concerned about the risks to growth. But policy is poised between worries about growth and concerns about the aftermath of the lending binge that ran from 2009 into the first half of 2011. That earlier stimulus unleashed a wave of inflation, drove bubbly property prices even higher, and left banks exposed to risks from loans to local-government projects.

Authorities have been at pains to avoid sending a message that they want to pursue growth at the cost of jeopardizing gains they have made in bringing these problems under control. Last week, the central government forced officials in an eastern Chinese city to roll back measures they had publicly announced to ease property-tightening policies imposed by the central government.

Still, one of China’s top economic forecasters said last week that he believed growth this year would stay solid at 8.5%, down only moderately from 9.2% in 2011.

Fan Jianping, director of the State Information Center’s economic forecasting department, said growth would remain buoyant although the property sector will continue to correct in 2012. The center is a think tank linked to the government’s powerful National Development and Reform Commission.
The downturn in the real-estate sector is expected to deepen, the result of deliberate government policy, Mr. Fan said. “In my view prices were too high in 2010 and in some cities they have risen 30% since then,” he said, suggesting that a marked correction in prices is required before the cost of buying a home comes into line with incomes.

The result will be slower growth in real-estate investment, which Mr. Fan expects to fall to 18% in 2012 from 27.9% in 2011. A collapse isn’t in view, he said. "I wouldn't say real estate is a major danger for the economy," he said. "People don't have anywhere else to put their money."

The cut in the banks' reserve requirement caught some analysts by surprise. Some forecasters had expected the central bank might wait till February's economic data come out, because January's data were distorted by the Lunar New Year holiday in that month.

"We weren't expecting an imminent cut, but it didn't come as a big surprise either," said UBS economist Wang Tao. "In recent days, interest rates rose quite a bit in the interbank market, showing that liquidity is very tight."

The one-week lending rate, a key measure of liquidity in China’s banking system, ended Friday at 5.2%, some way above a low for the year to date of 3.3% earlier in February.

HSBC economist Ma Xiaoping said the cut will likely release around 400 billion yuan ($63.5 billion) in liquidity. "This RRR cut is very good news to the market. It will help release liquidity and allow banks to extend more loans," Mr. Ma said. He argued that the cut "reflects that stimulating economic growth is currently the government's priority."

The central bank last cut the reserve requirement ratio on Nov. 30. It raised the ratio six times in 2011 before that, and raised benchmark lending and deposit rates three times.

The latest move to cut the reserve requirement came after data showed that bank lending this year has been weak, raising concerns that a major driver of growth is sputtering. Financial institutions extended 738.1 billion yuan of new loans in January, down 29% compared with the previous year, and the lowest haul for new loans in the first month of the year since 2007.

Inflation in China rebounded unexpectedly in January due to higher food prices during the Lunar New Year holiday. The consumer-price index rose 4.5% from a year earlier, up from a 4.1% rise in December and above economists' forecast of a 4.1% gain.

But analysts generally dismissed the increase as a distortion from the holiday, and most economists expect inflation to resume its moderating trend, which would give the central bank more scope for policy easing.
The move by the central bank follows recent actions to loosen monetary policy by other central banks in the region and around the world, reflecting global concerns over the economic outlook.

In a further sign of monetary easing, China's central bank injected cash into the banking system on Friday via 14-day reverse repurchase agreements with selected financial institutions to ease a liquidity squeeze caused by a large share offering, people familiar with the situation said.

The central bank offered the 14-day reverse repos, a short-term lending facility, at 5.5%, the people said. It isn't clear how big the total offering was.

The PBOC's move came after the completion of China Communications Construction Co.'s five-billion-yuan initial public offering, which is the world's biggest IPO so far this year and has locked up around 80 billion yuan of funds. The IPO contributed to an 800-billion-yuan exodus of deposits from the banking system in January, meaning banks were hard-pressed to find funds to lend.

The liquidity injection on Friday, which isn't part of the central bank's routine weekly open-market operations, also comes as expectations grow for a significant easing in inflationary pressures this month, after the holiday-induced spike last month.

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