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▶ Capital controls tightened to protect reserves

China limits cash moves offshore

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Shanghai | Chinese banks are delaying and even blocking some foreign exchange transactions under a decision by the central government to limit capital leaving the country, a move that could hurt demand for foreign assets including Australian property.

At meetings on Monday and Tuesday afternoon senior bank executives were told by the government to toughen up their capital controls.

While they haven't introduced new rules, one executive told *The Australian Financial Review* banks were using existing measures to slow the amount of money going overseas. The crackdown has seen more stringent checks for both companies and individuals.

"We are now refusing all foreign currency transfers where the documents are not fully complete ... previously the requirements were not so strict," said a bank executive in Shanghai who asked not to be named.

While official figures on Tuesday showed China's GDP grew 6.9 per cent in 2015 and the economy was stable despite the turmoil on financial markets, capital outflows threaten to disrupt growth and force Beijing into a major devaluation of the yuan.

China's managed currency has fallen 3 per cent since August, which should help its economy. There are fears of a larger devaluation and moves by the central bank to prop up the currency.

China's foreign-currency reserves fell $US108 billion ($150 billion) in December to the lowest level in three years. Economists estimate the total amount of capital that flowed out of the country was about $US145 billion.

A former adviser to China's central bank, Yu Yongding, said the decision to tighten existing capital controls was "useful but not sufficient" because the yuan is overvalued.

"If they keep the exchange rate unchanged it encourages outflows because the [yuan] is very expensive to

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Under President Xi Jinping, China's economic management has changed from technocratic to autocratic.

Opinion Geoff Raby **p39**