

2009

全球經濟展望研討會

China: Macroeconomic Analysis and Outlook

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中國建設銀行



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Outline

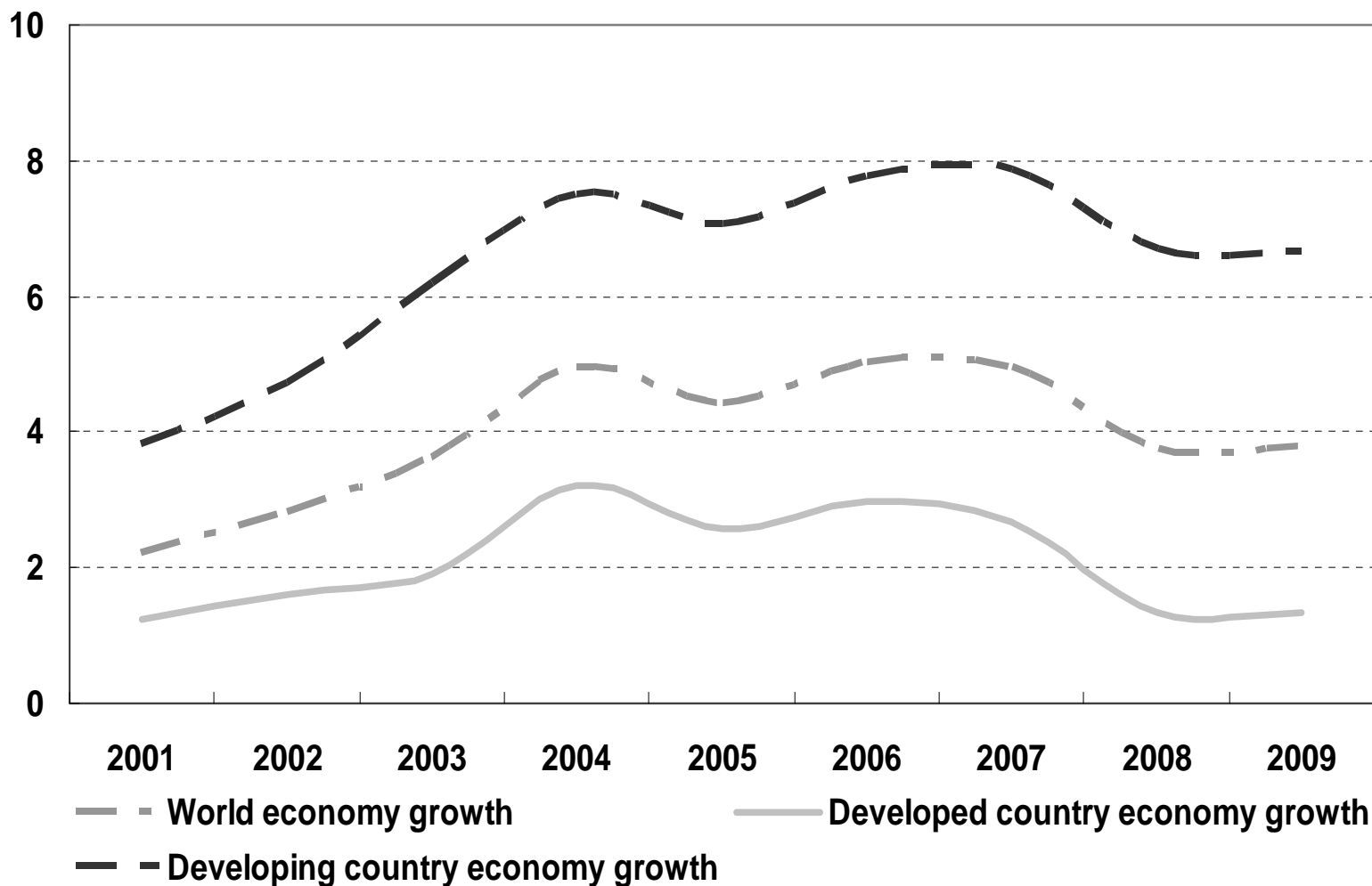
Economic excesses led to asset price bubbles and surging inflation in 2007, triggering credit tightening

China's macroeconomic policy has shifted from controlling inflation to safeguard growth

China economic outlook: subdued but more balanced and sustainable growth

Global growth peaked in 2007

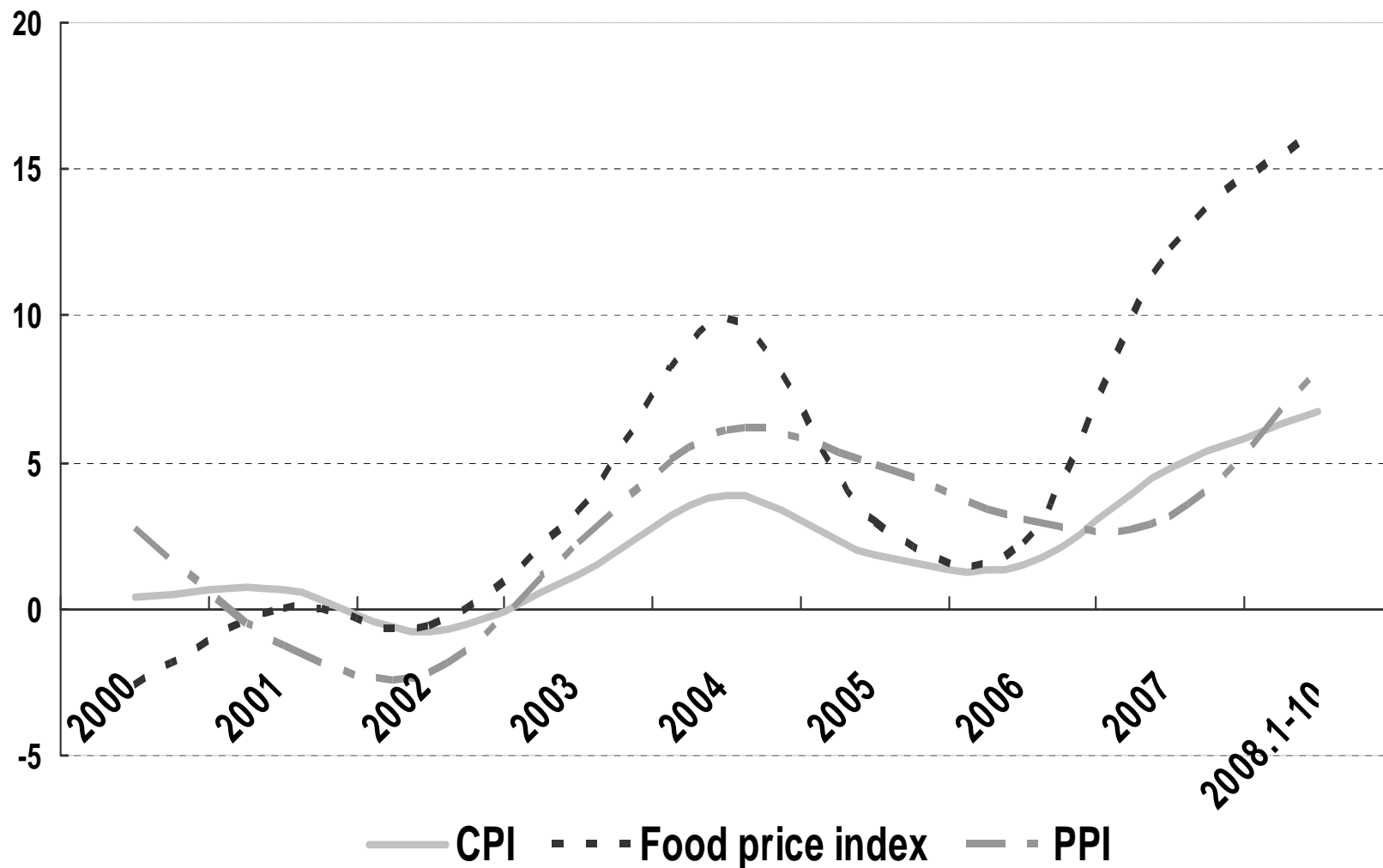
(2001-2009, %)



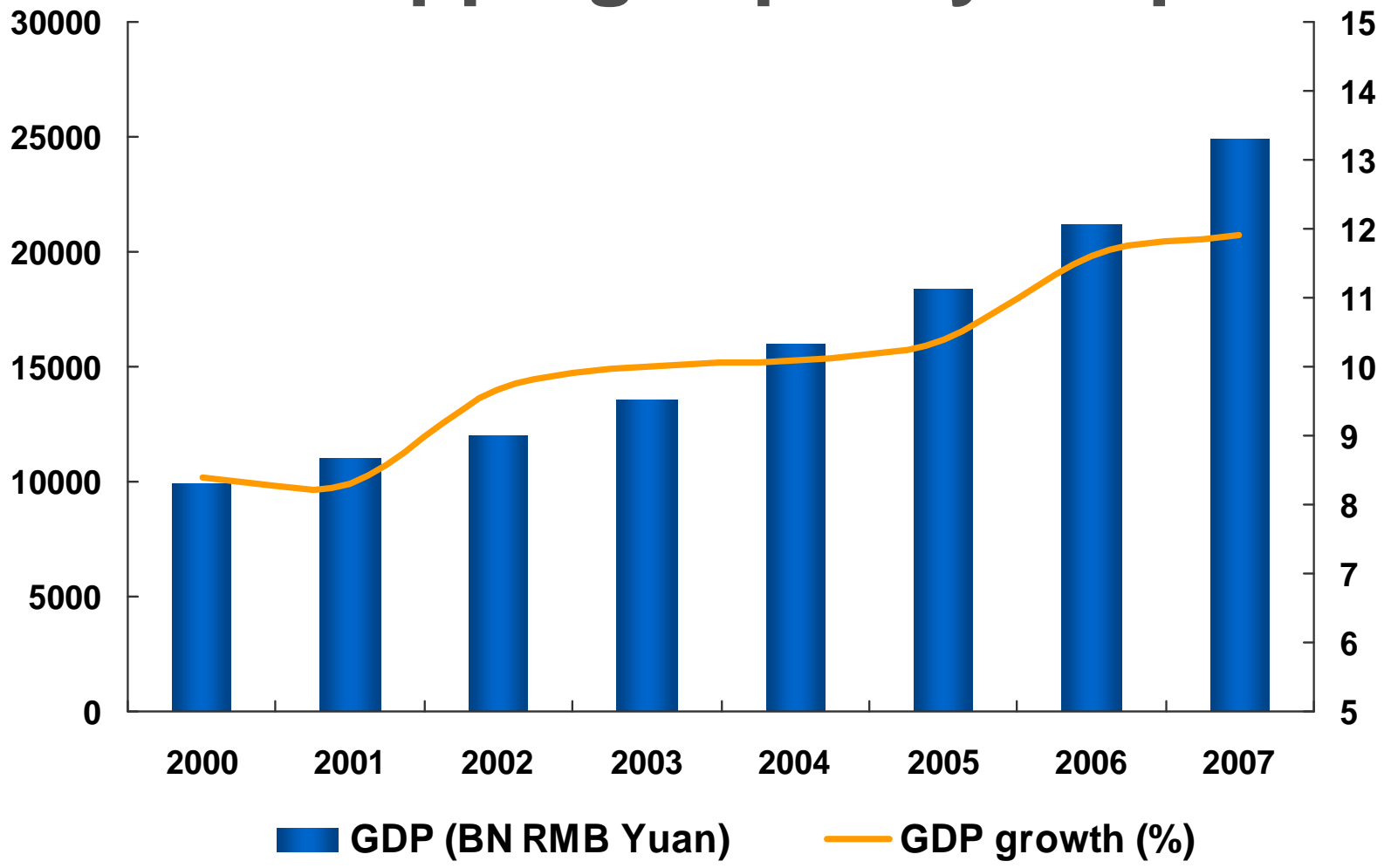
Macroeconomic excesses emerged in 2007

- Excess demand led to rising inflation in 2007, manifested through surging food and commodities prices
- Excessive reliance on foreign trade to fuel growth contributed to both macroeconomic imbalance and inflationary pressure
- The government tightened credits and accelerated the pace of RMB appreciation toward the last quarter in 2007 to rein inflation

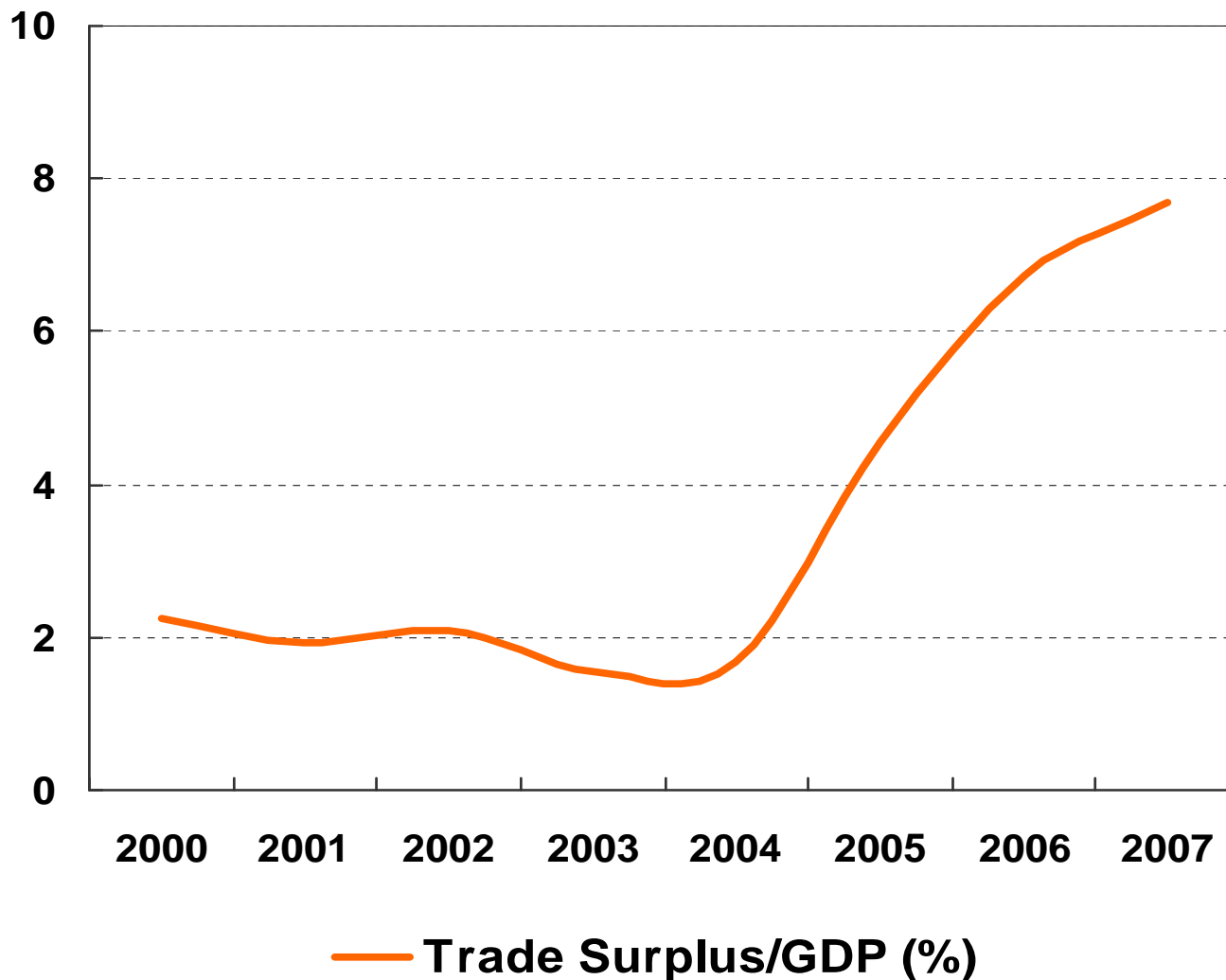
Inflation accelerated in 2007 (%)



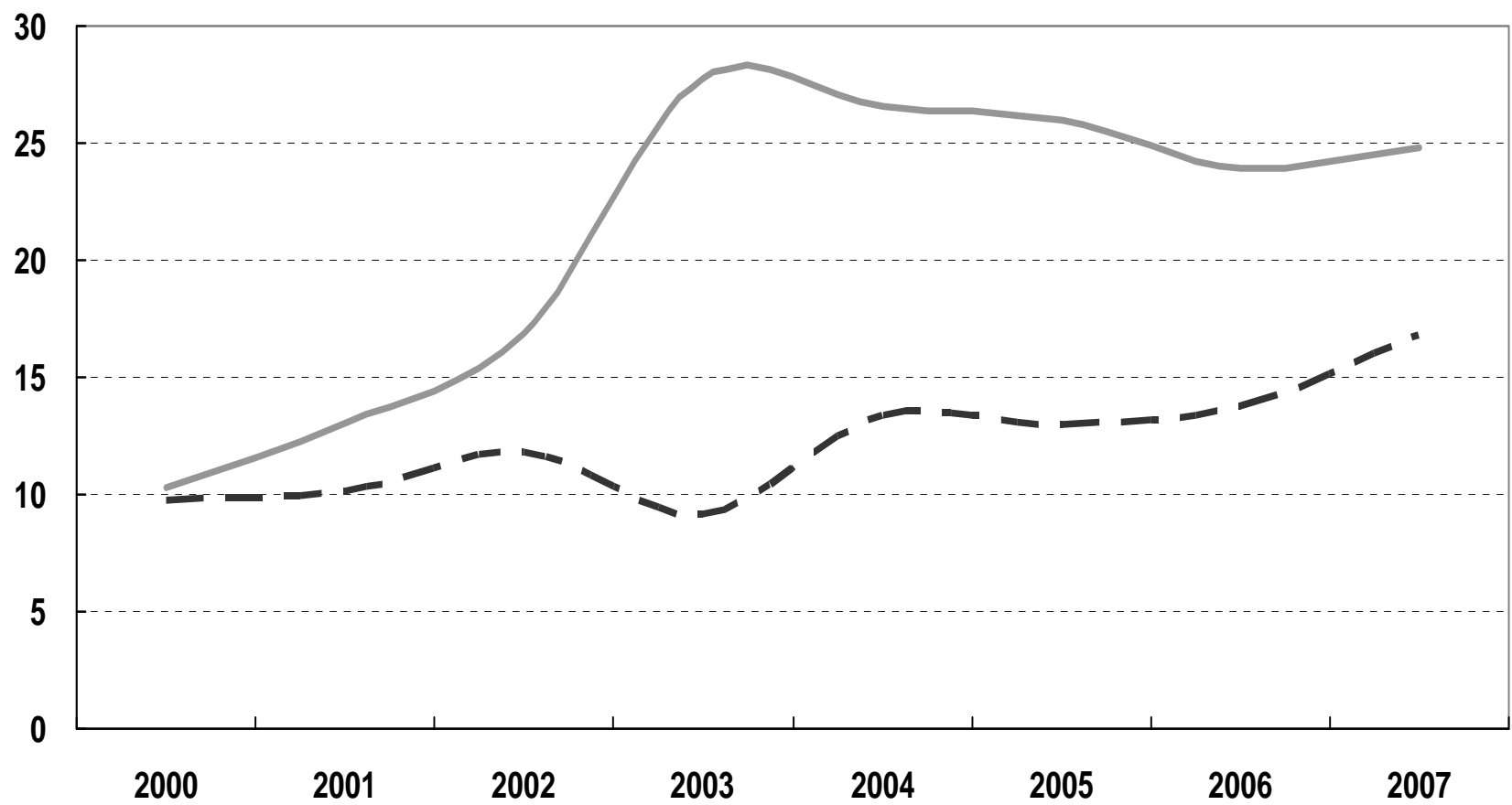
Cause: rapid growth led to demand outstripping capacity output



Booming external trade



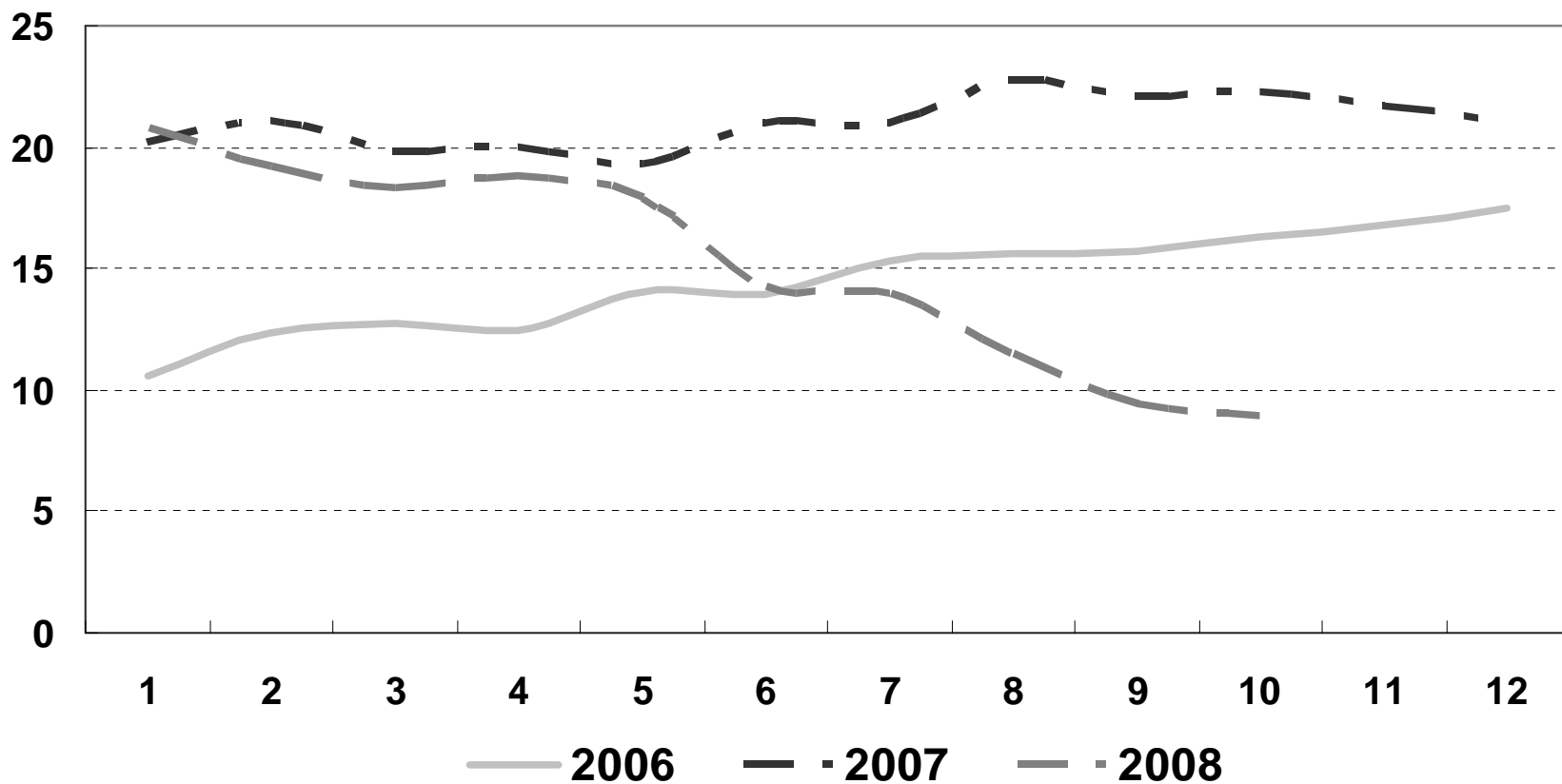
Domestic demand, equally strong



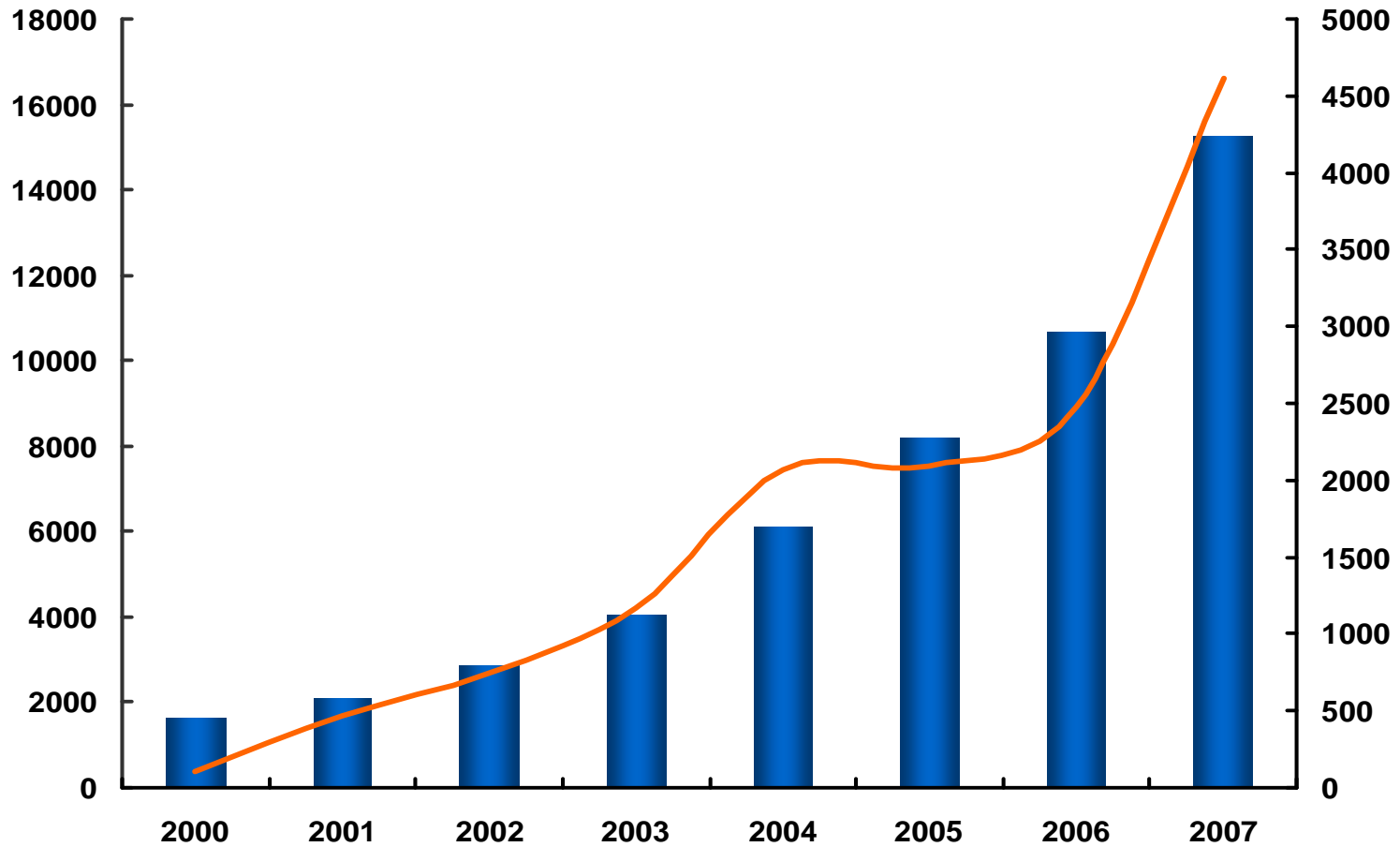
— · Retail sales for social consumer goods growth (%)
— Social investment growth in fixed assets (%)

Monetary growth accelerated in 2007

(M1, %)



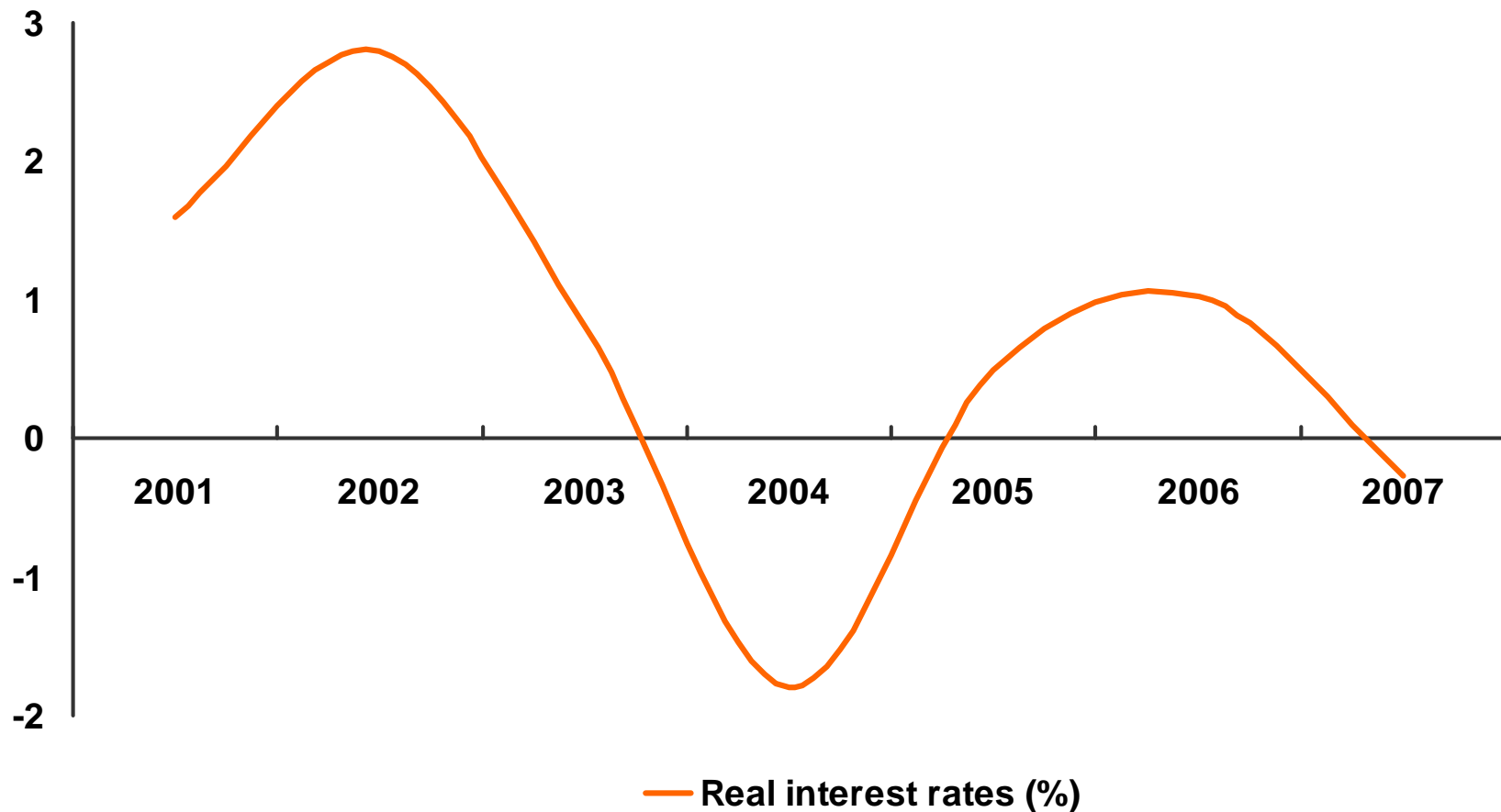
Cause: monetizing foreign exchange reserves (100 million USD)



Foreign exchange reserves

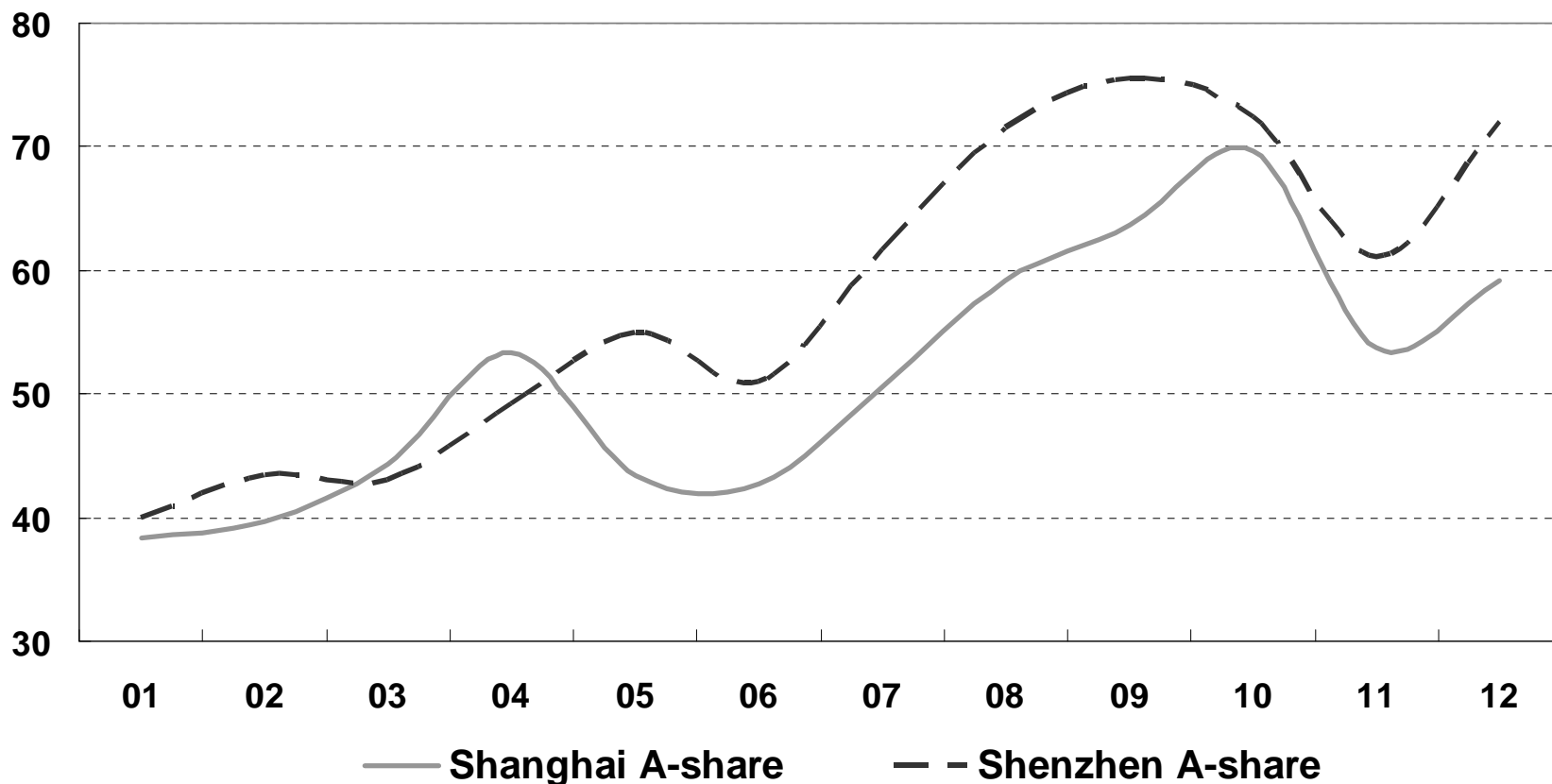
Growth
CIER

Excess liquidity led to low real interest rates (one-year real deposit rate, %)



Result: bubbles in the equity market

(P/Es in Shanghai and Shenzhen A share markets, 2007)

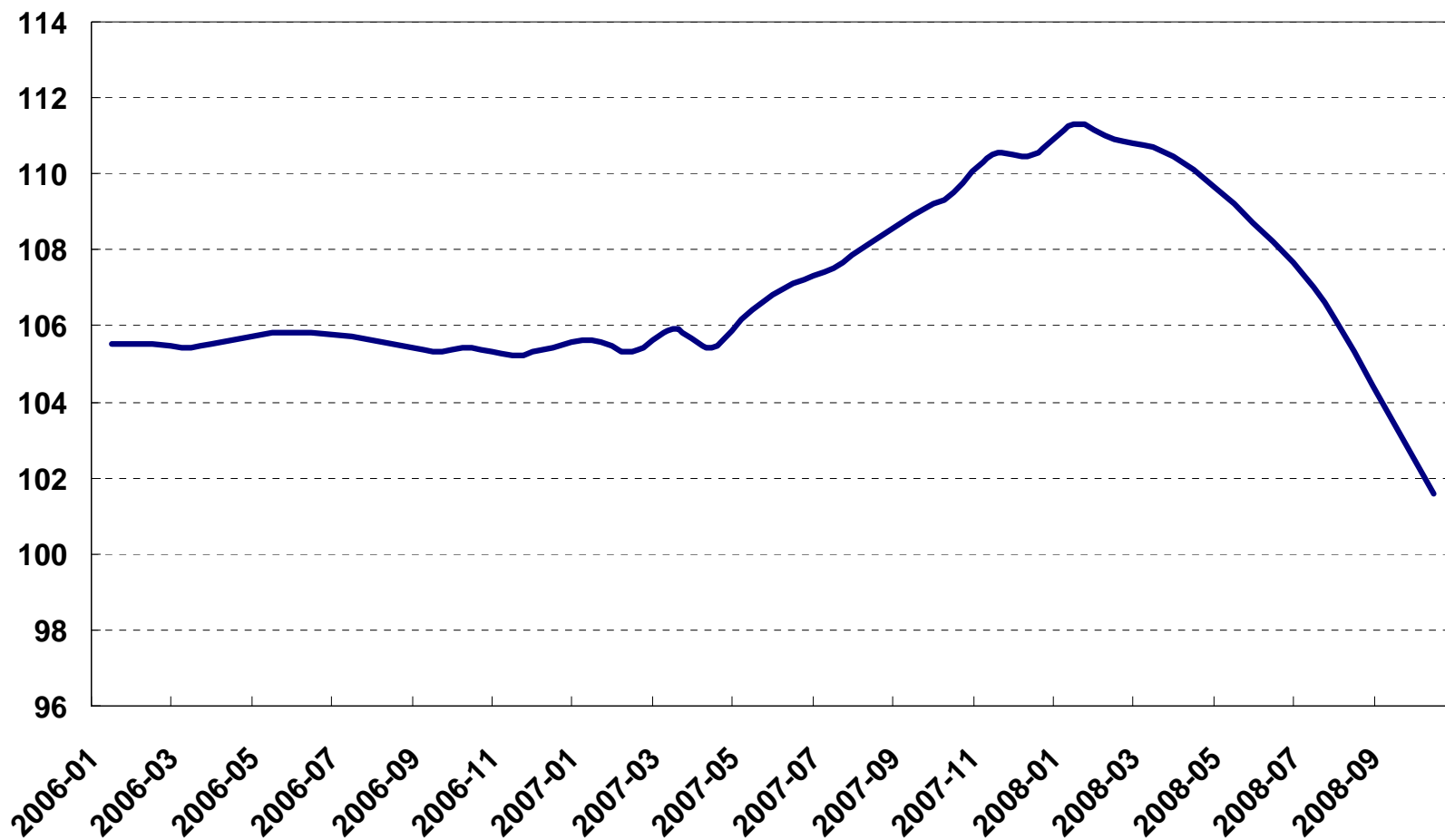


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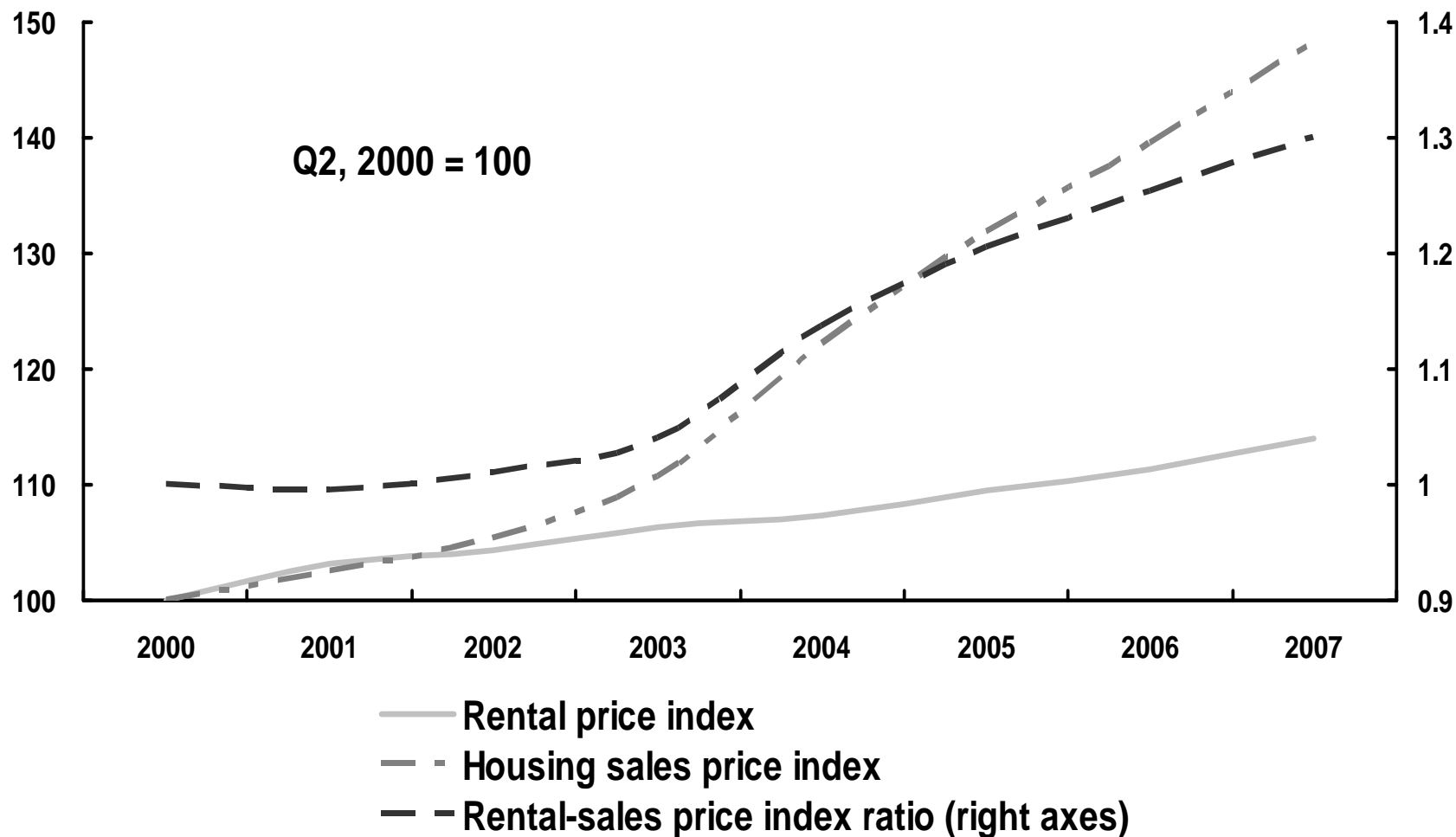
Bubbles in the real estate market

(real estate price index, the previous year=100)

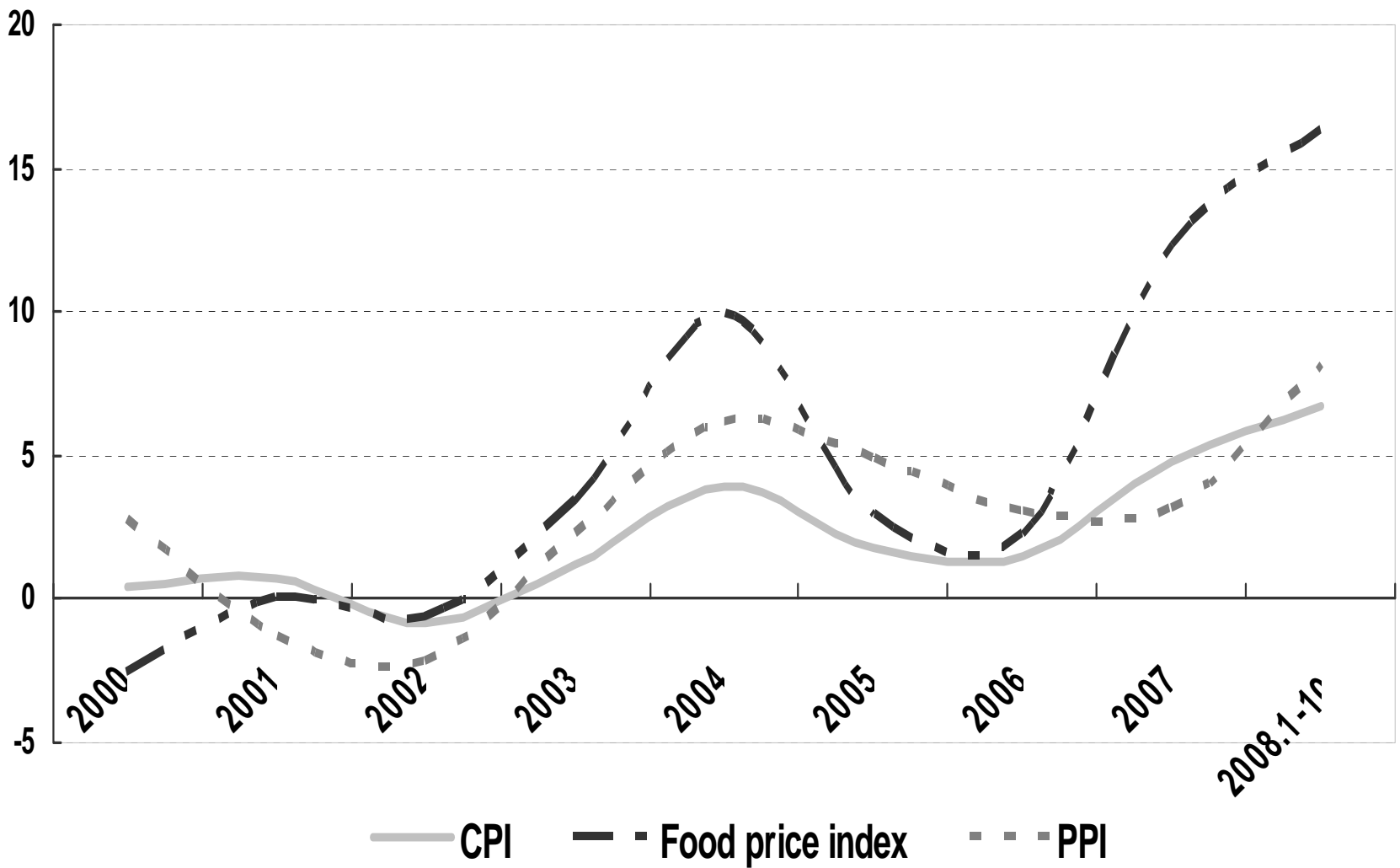


— Real estate price index

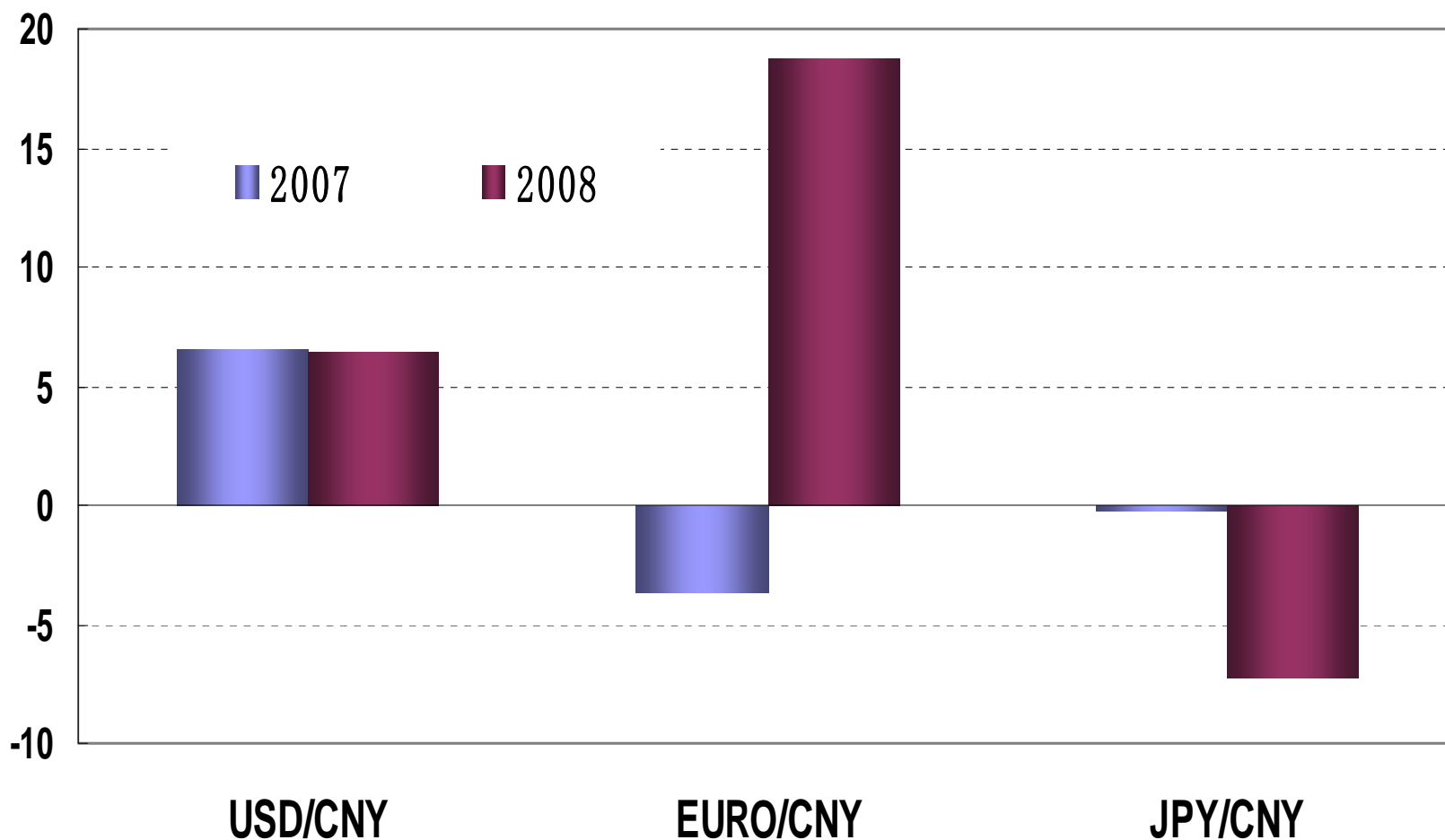
National rental, home price, and price-rental ratio indexes (2nd qtr. 2000 =100)



Result: Inflation surged in 2007 (%)

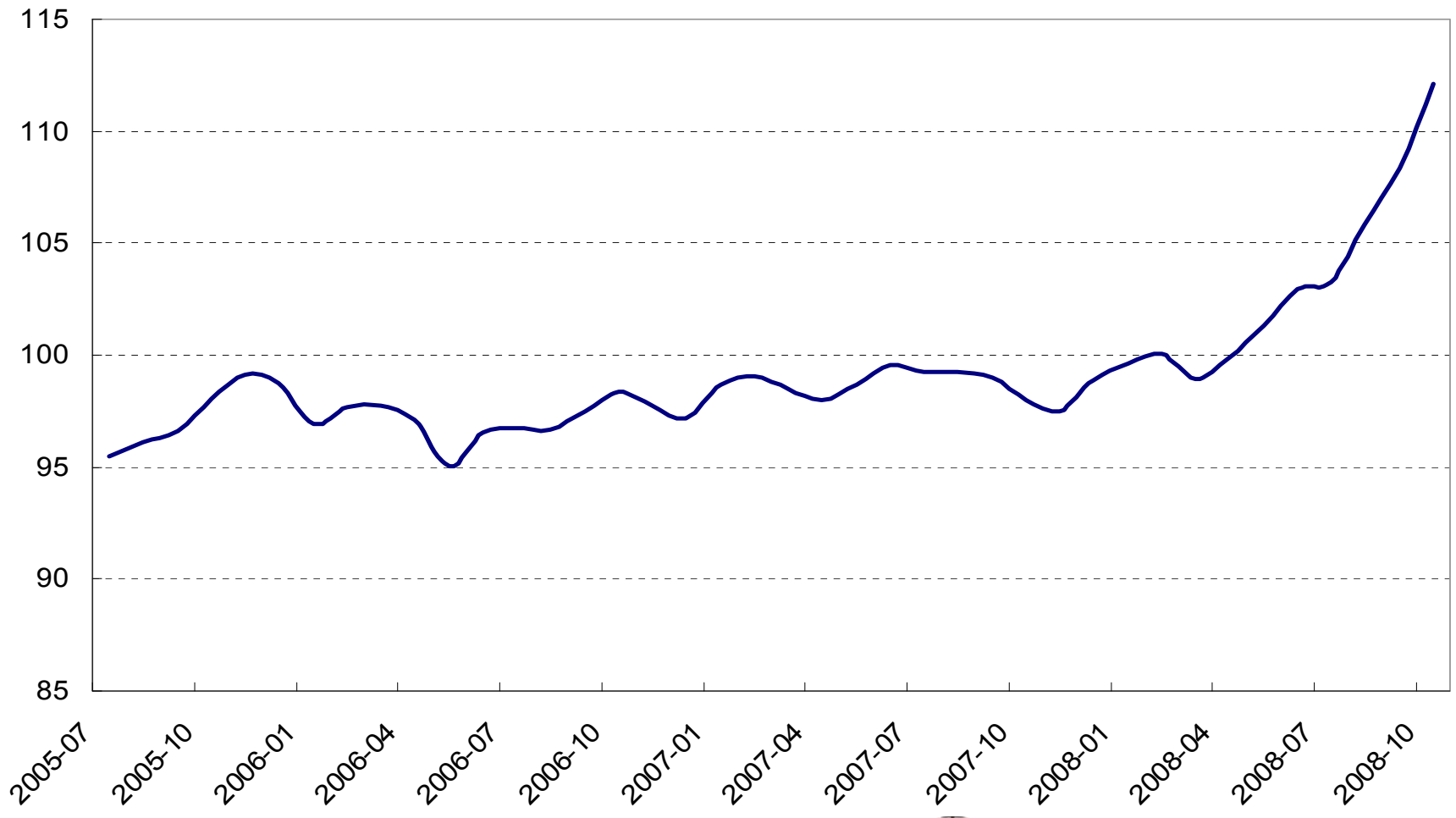


Policy response: RMB appreciation accelerated (%)



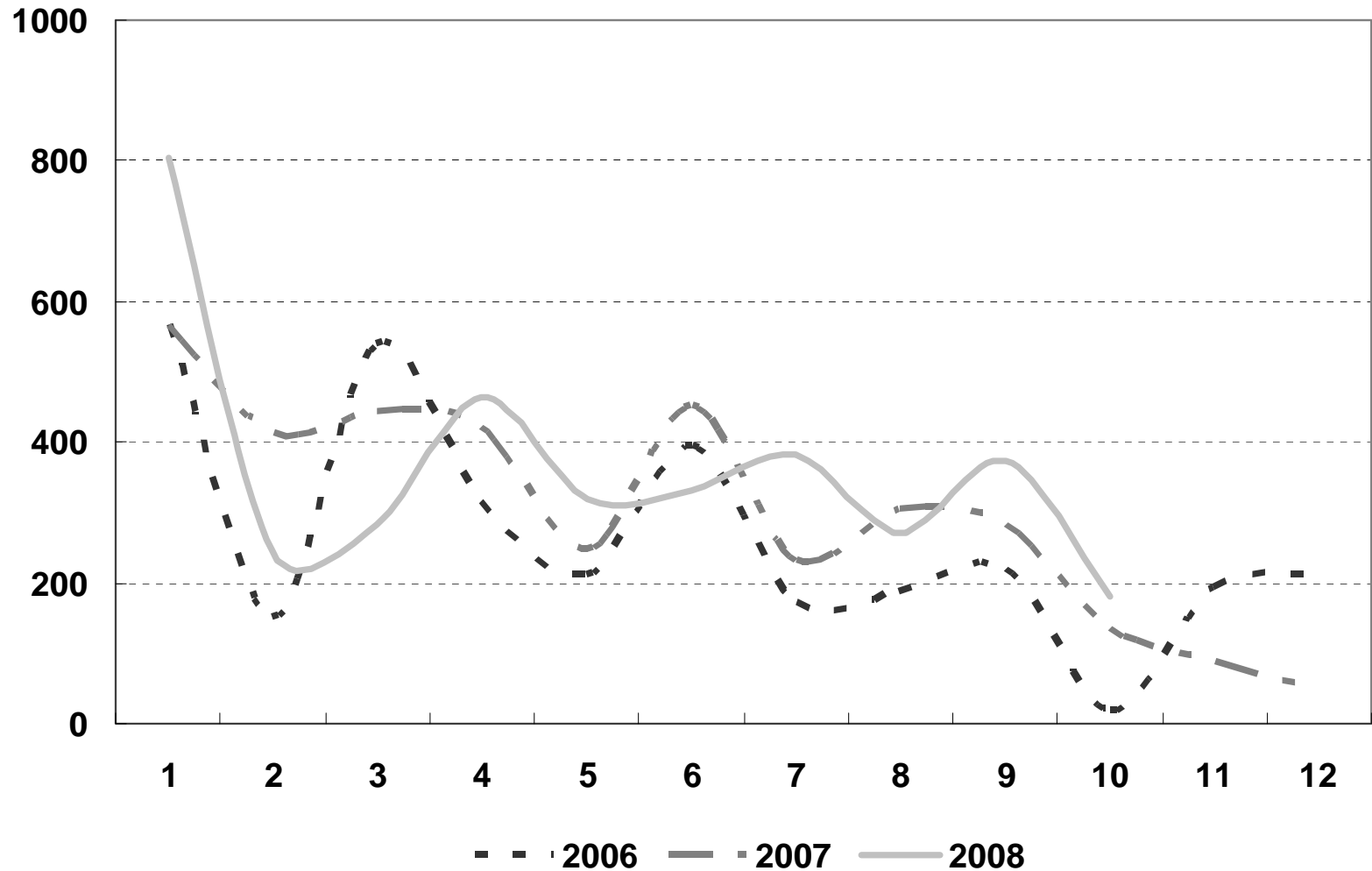
RMB appreciation accelerated

(nom eff. exchange rate, Y2000=100)



Policy response: Credit tightened

(monthly increment in bank credits, billion RMB)



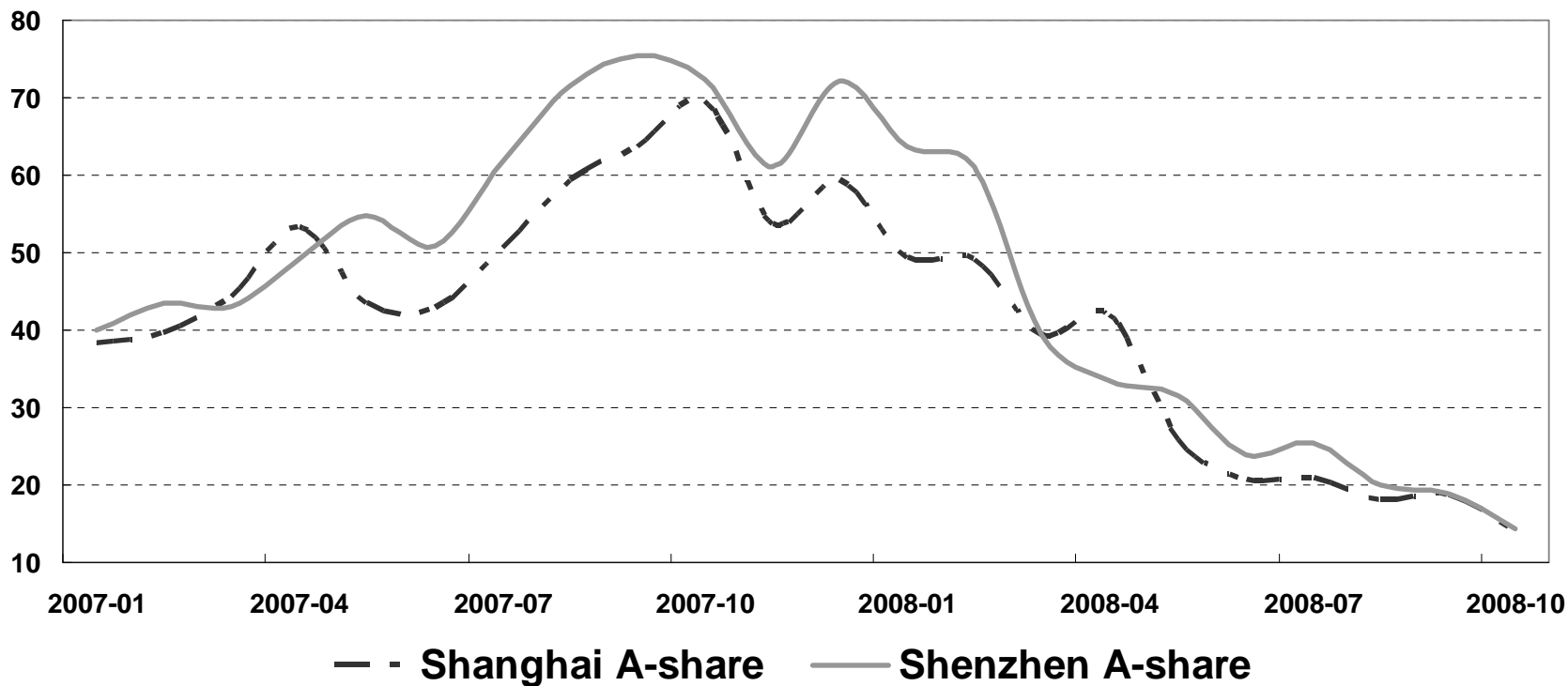
Near-term macro outlook: rebalancing toward sustainable growth

- Global slowdown, currency appreciation, credit-tightening, rising labor costs and raw material prices changed macroeconomic landscape drastically in 2008: profits fell, bubbles burst in the equity and real estate markets
- Rapidly deteriorating foreign trade sharply restrained growth to 9.0% in the third quarter and 9.9% for the first three quarters in 2008, compared with nearly 12% in 2007.
- Inflation also fell consecutively to 4% in October and no longer viewed as a threat
- The government unveiled a 4 trillion (US\$586 billion) fiscal stimulus package to safeguard growth

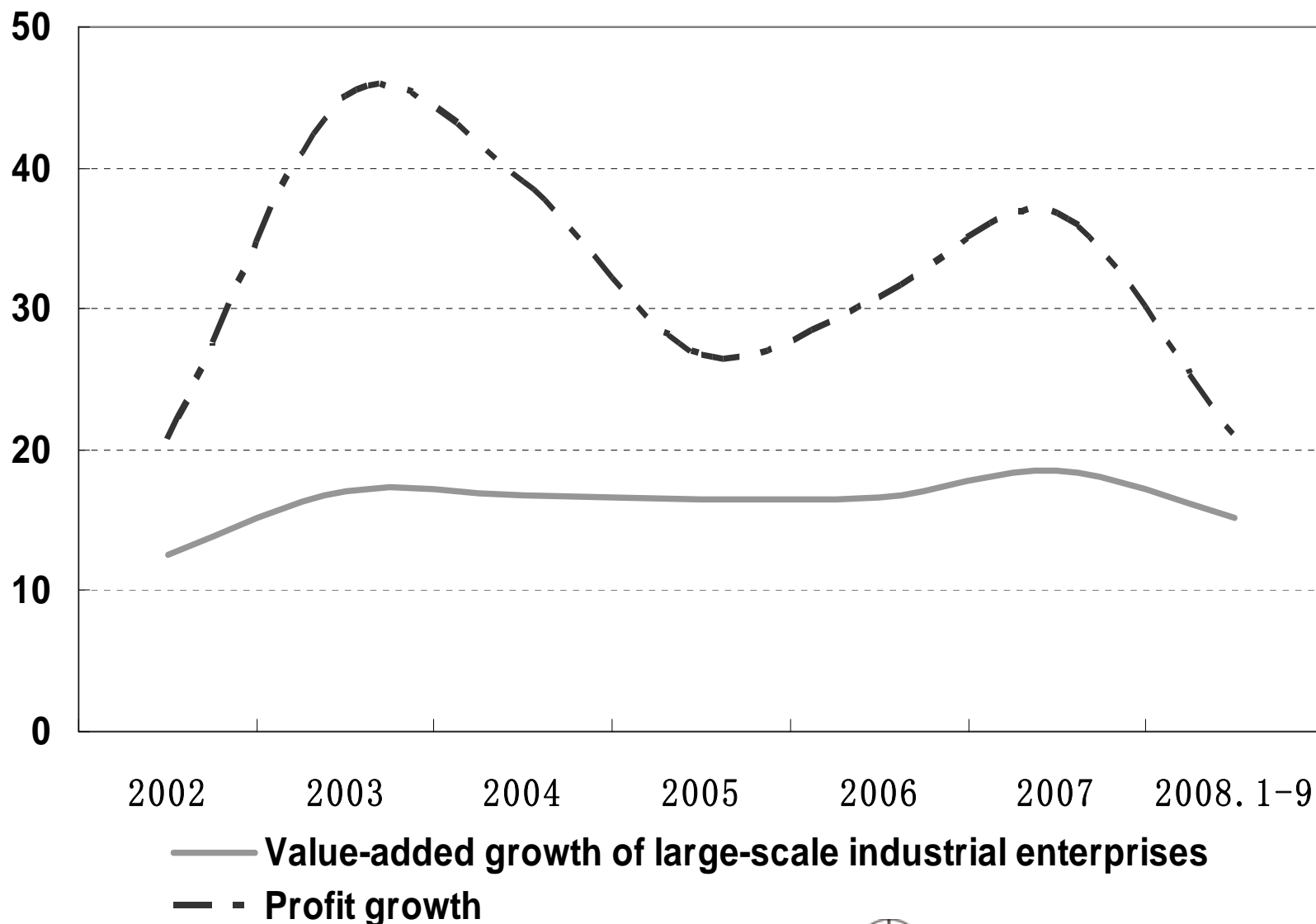
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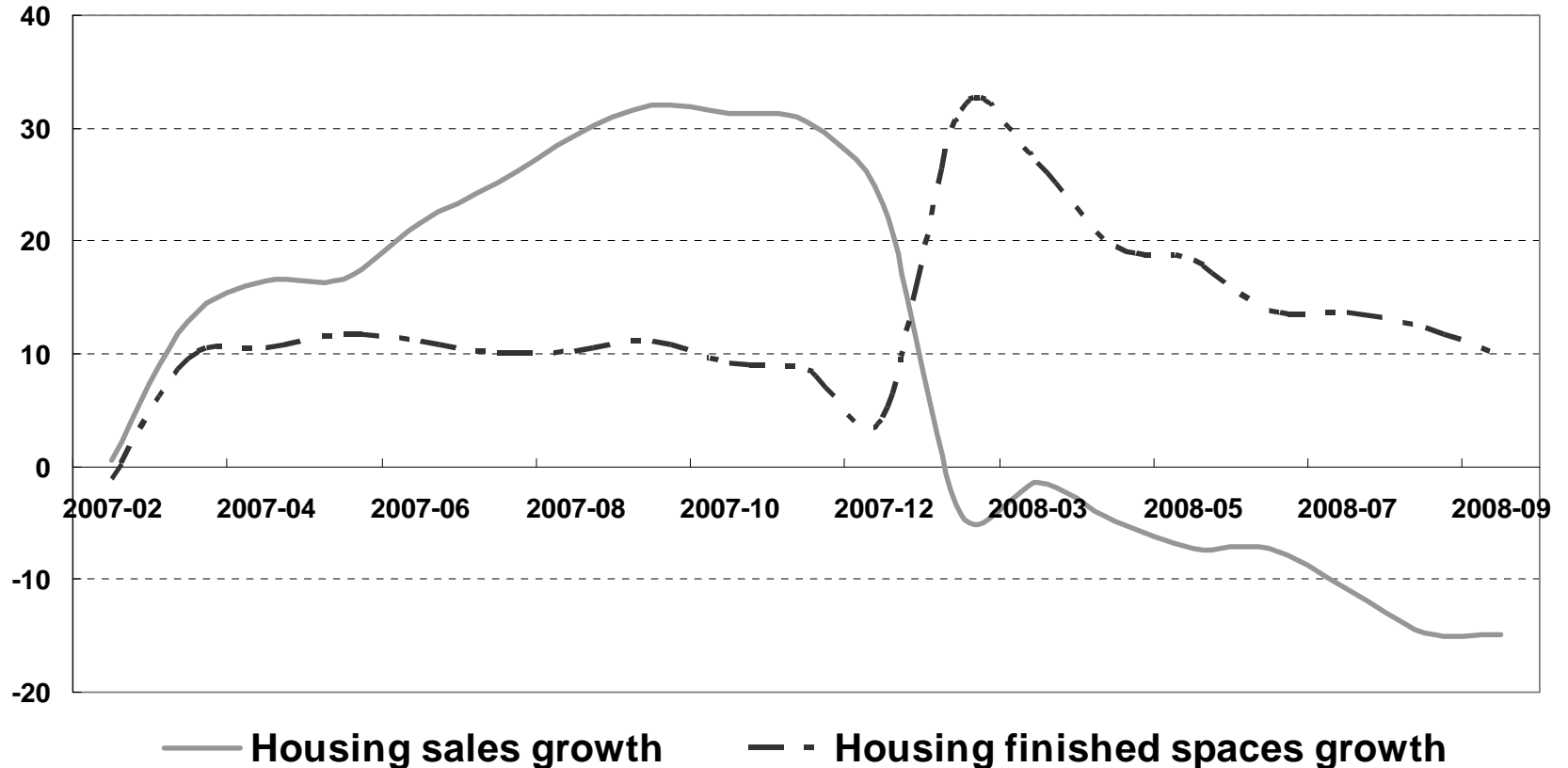
Bursting the stock market bubble (P/Es)



Profit growth decelerated (%)

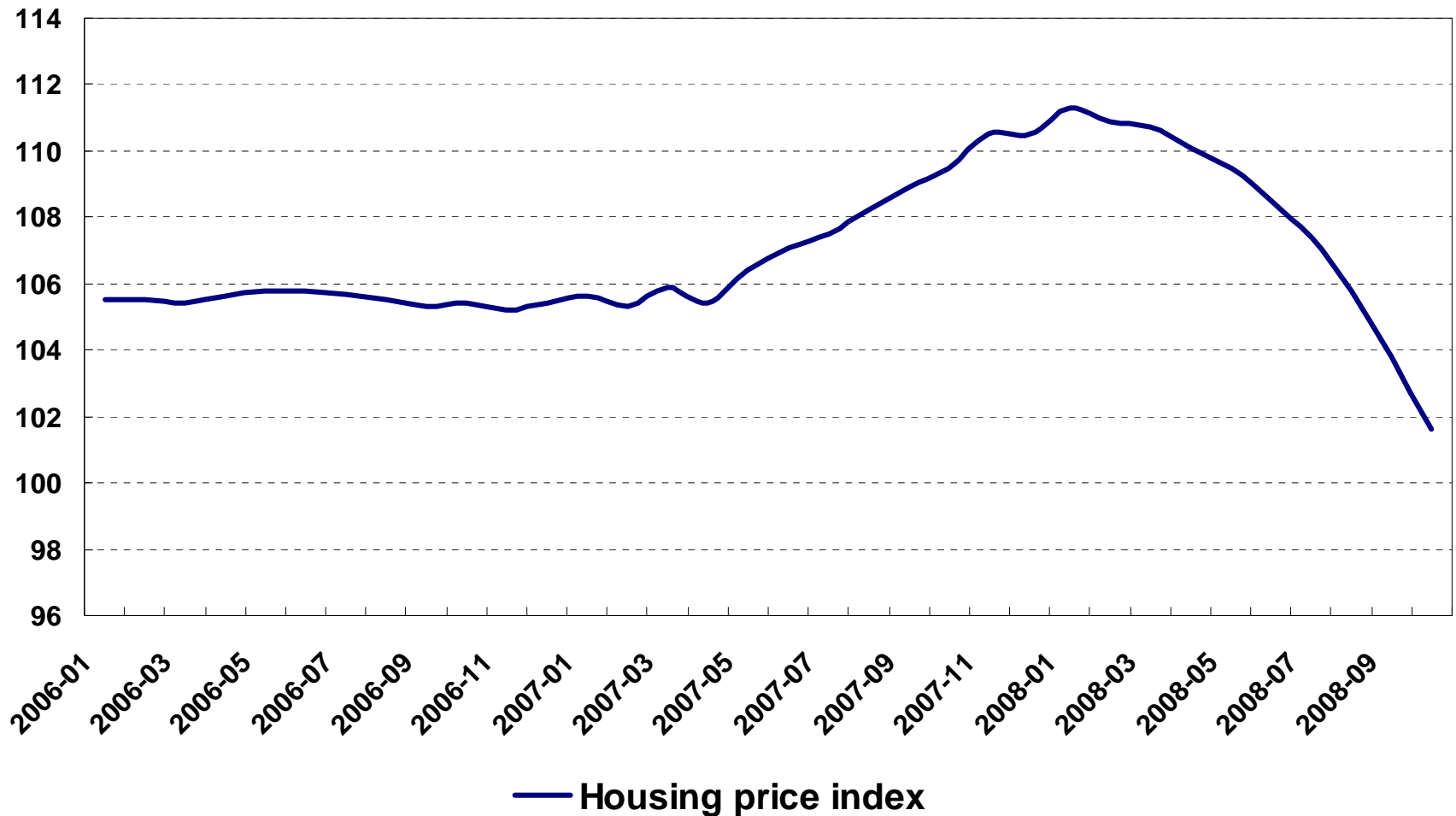


The housing market cools off (growth in sales, finished spaces, %)



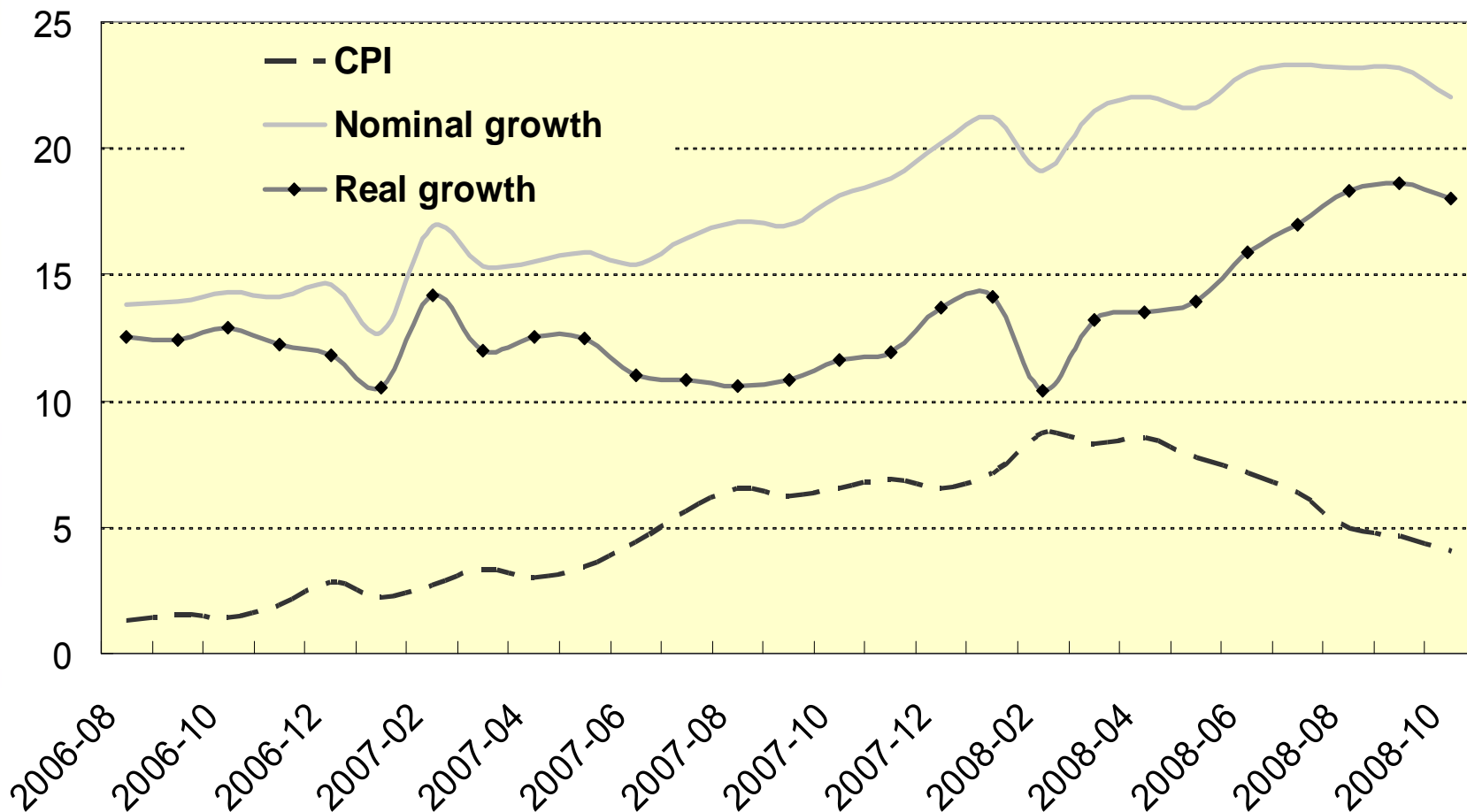
House price inflation slows

(housing price index, previous year = 100)



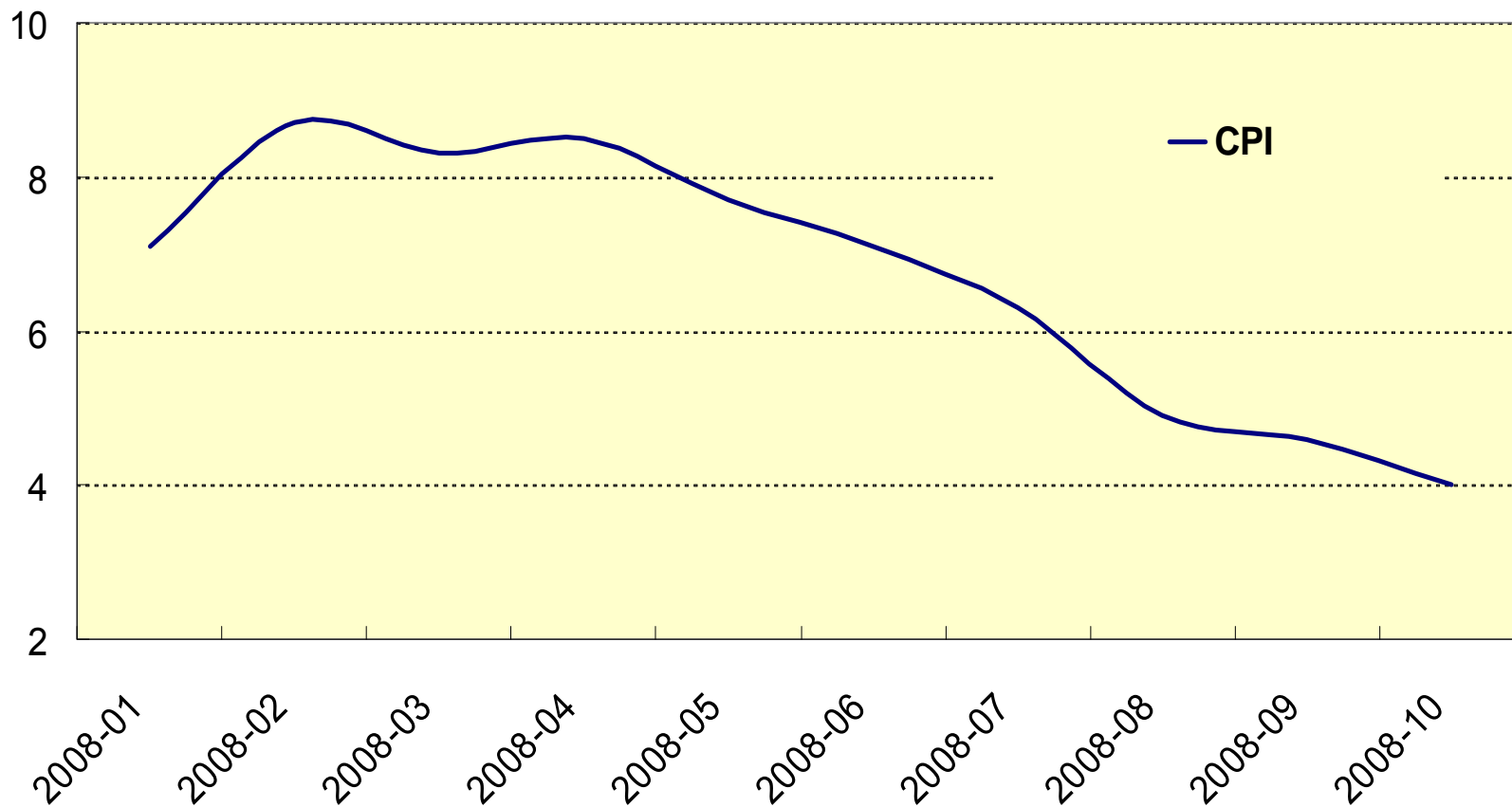
Consumption growth rose as inflation slowed

(growth in nom. and real retail sales, %)

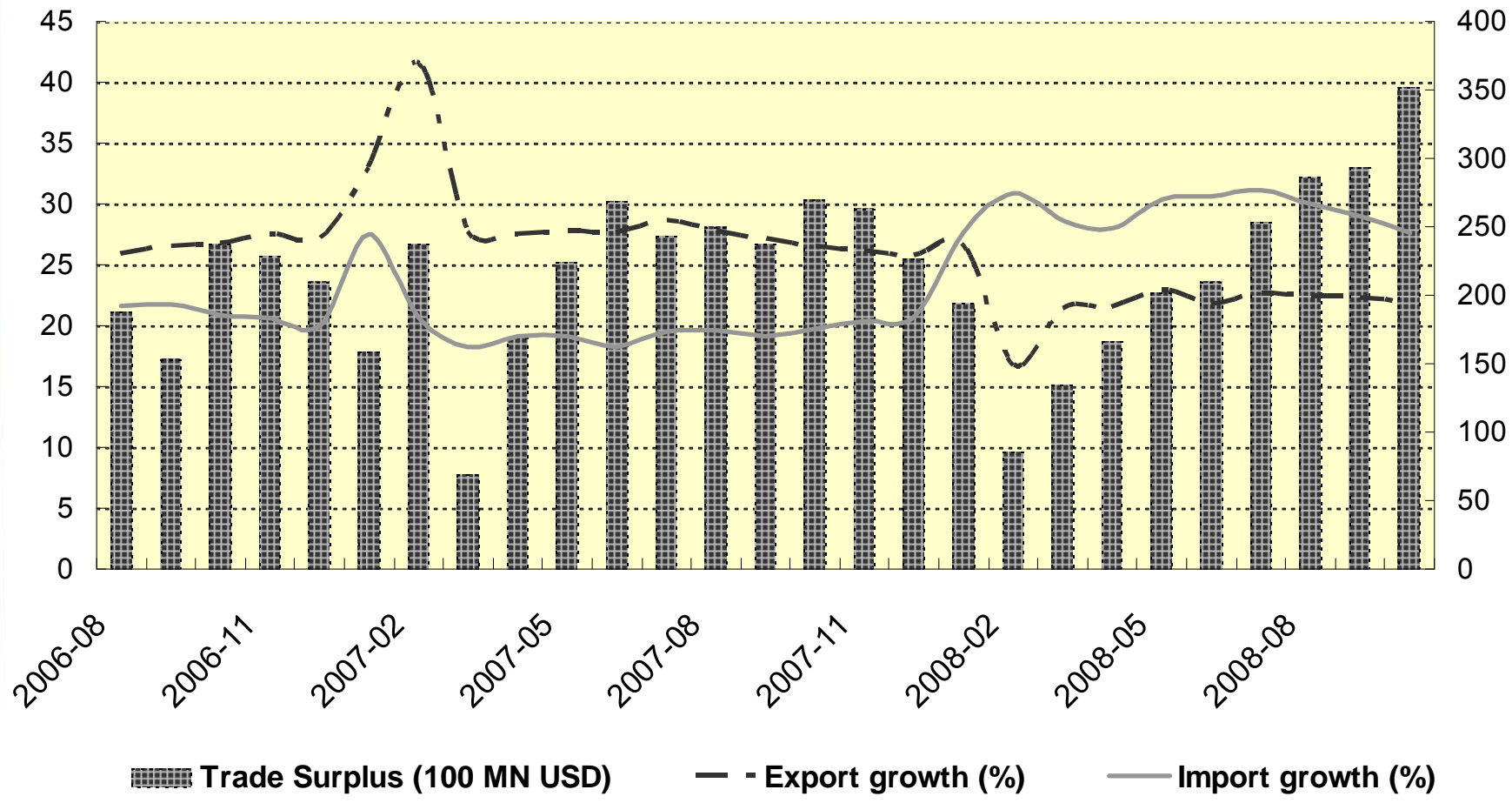


Inflation declined steadily since last May

(previous year = 100)



Export growth slowed while imports accelerated

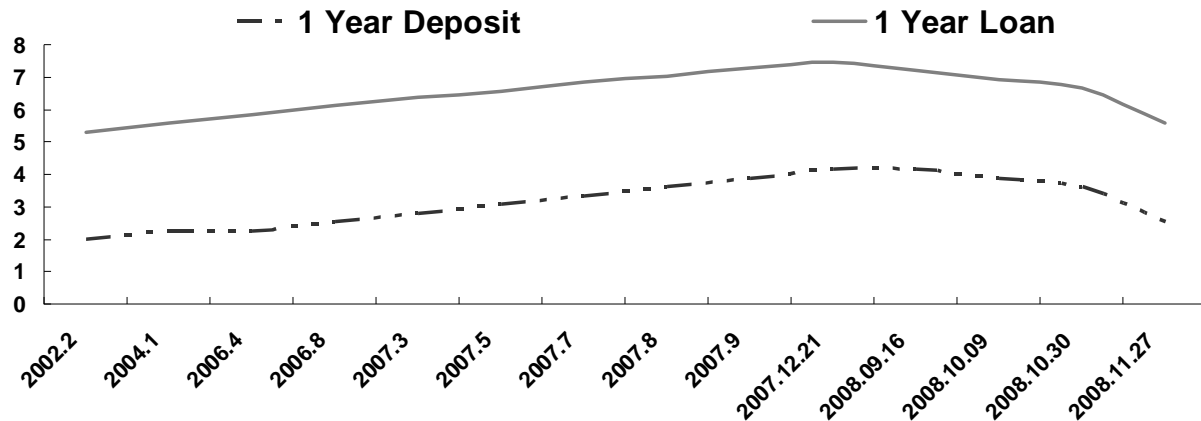


Policy responses to manage the downside risks

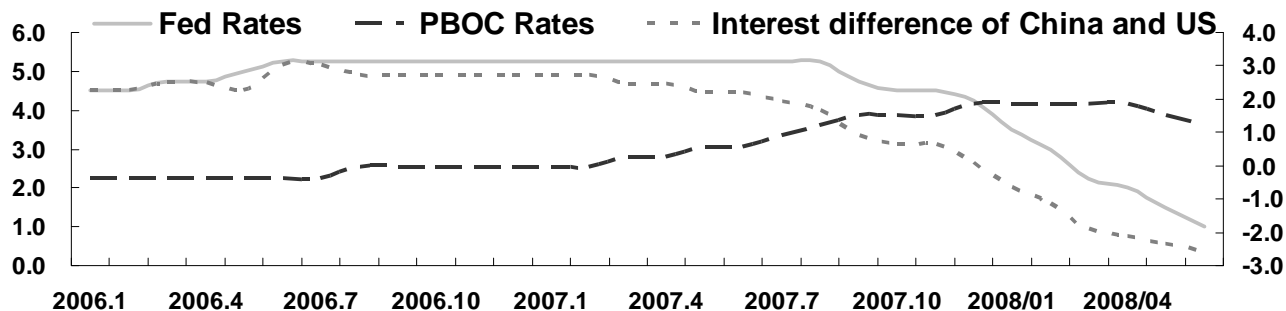
- **Money and credit policy:** Credit quotas were removed; policy rates were lowered including the last cut of 1.08 basis points in one scoop
- **Exchange and trade policy:** RMB appreciation against the US dollar has slowed and may even reverse course; some exports rebate rates are restored, though not yet fully
- **A fiscal stimulus package of 4 trillion (USD 586 billion), about 12% of GDP, was unveiled in November**

Policy response: policy rates lowered sharply

Basic Interest rates of PBOC

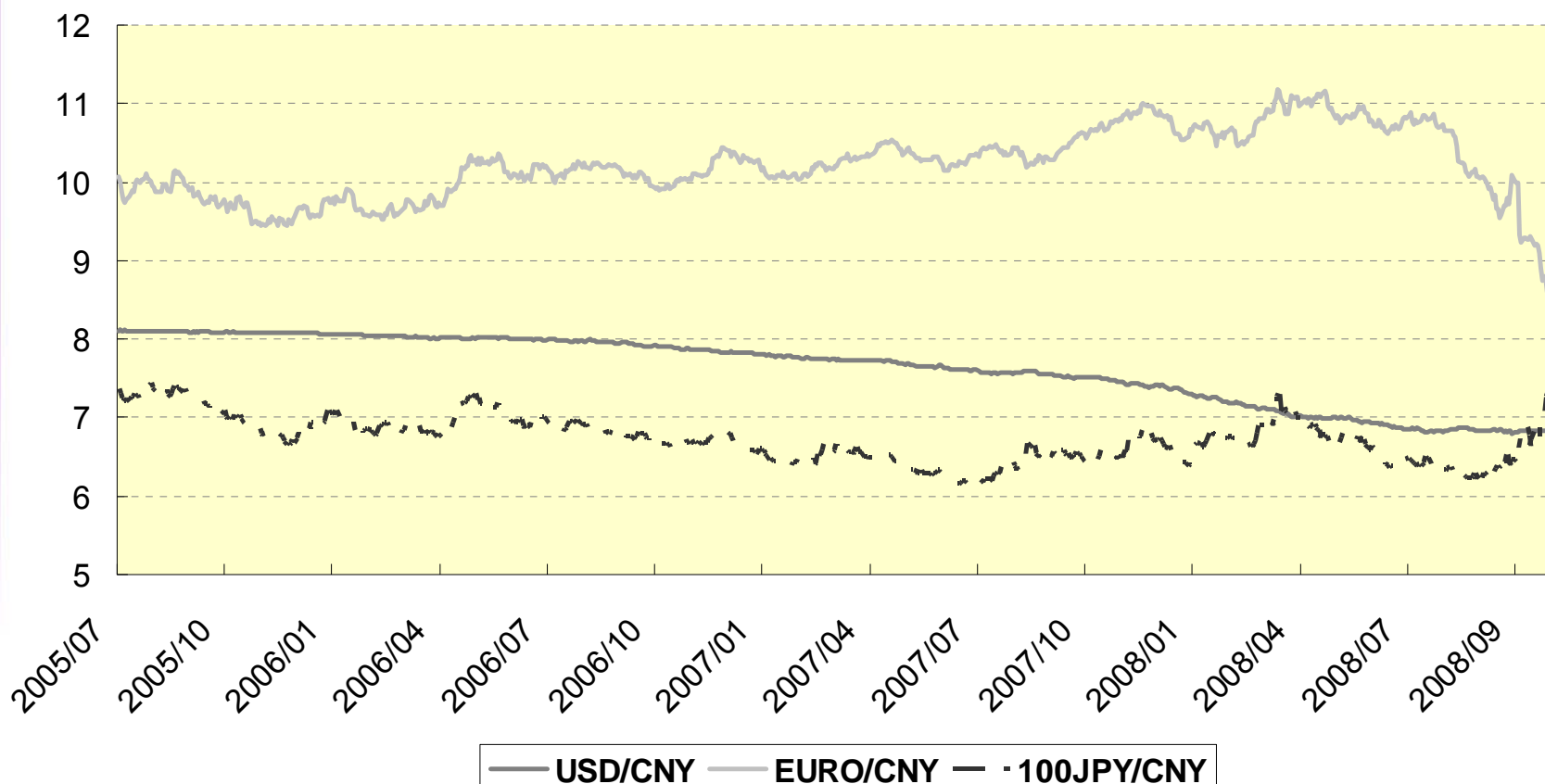


US & China interest rates (1 year deposit)



Policy response: RMB appreciation against the dollar slowed

(trends in RMB against USD, Euro and Japanese yen since the exchange rate reform, direct quotes)



The 4 trillion stimulus package to stimulate domestic demand and growth

- The fiscal stimulus package includes ten measures and costs a total of 4 trillion up to the end of 2010 with 100 billion outlay from the central government reserved for the 4th quarter in 2008
- 1. Accelerate low-income housing construction 280 billion
- 2. Accelerate rural infrastructure construction 370 billion
- 3. Accelerate railway, highway, airport, electric grids and other key infrastructure 1800 billion

Ten fiscal stimulus measures...

- 4. Accelerate health and education development 40 billion
- 5. Strengthen environment 350 billion
- 6. Accelerate indigenous innovation and structural change 160 billion
- 7. Accelerate earthquake reconstruction 1 trillion
- 8. Raise rural and urban household incomes
- 9. Implement VAT reform to encourage innovation and reduce taxes by 120 billion
- 10. Enlarge the support of finance to promote growth

Financing the fiscal stimulus package and impact

- The central government will arrange 1.18 trillion with the rest financed from local governments, the financial sector, and private sources
- The government may issue 500 billion long-term bonds each year during 2009-2010 to finance expenditure
- NRDC estimates the fiscal stimulus package will raise growth by 1 percentage points each year

Concluding remarks : macroeconomic assessment

- With easing inflation and faltering external trade, and a relatively low government debt level (22% of GDP in 2007), the government enjoys the flexibility to use fiscal stimulus to stimulate domestic demand while rebalancing the economy and correcting price distortions, all for achieving sustainable growth
- However, near term uncertainties are rising as the global economy slips deeper into recession. The impact of the large stimulus package in the near term is uncertain while growth weakens rapidly
- Nevertheless, after the crisis is over and the distortions and imbalances are corrected, the longer-term forces such as urbanization will start to reassert resulting in more robust and sustainable growth

- **How fast will China grow in 2009?**
 - **IMF : 8.5% (November 2008)**
 - **The World Bank : 7.5% (November 2008)**
 - **OECD: 8.0% and 9.2% in 2009 (November 2008)**
 - **Focus Economics consensus forecast: 8.5% (November 2008)**