

IMF World Economic Outlook Projections for China – April 2004 (China excerpt)

Surging growth in China has helped to boost intraregional trade and support regional growth, but signs of incipient overheating suggest that a further tightening of macroeconomic policies is now warranted. While strong fixed investment has helped to underpin real GDP growth, there are growing concerns about overinvestment in several sectors where output is booming and input prices have increased sharply. Despite measures to rein in money and credit growth—including open market operations and an increase in reserve requirements—and tighter prudential oversight of bank lending, credit growth remains strong. To mitigate the risk of overheating and avoid the buildup of sectoral imbalances, additional tightening of policies is needed in the period ahead to slow GDP growth to a more sustainable rate. Given the strength of the external position, the desirability of improving the effectiveness of monetary policy, and the need to facilitate adjustment to structural changes over the medium term, it remains in China's interest to move gradually to greater exchange rate flexibility. Fiscal consolidation is a key objective for the medium term, given pension reform costs, the sizable contingent liabilities associated with banking weaknesses, and the need to improve the social safety net and health care. Also, while the central bank recently recapitalized two of the four large state-owned banks and further liberalized lending rates, it will be important to implement concrete restructuring plans in the banking system, accelerate asset disposals by asset management companies, and restructure and diversify ownership of state-owned enterprises.

	2002	2003	2004 Proj.	2005 Proj.
Real GDP ¹	8.0	9.1	8.5	8.0
Consumer Prices ¹	-0.8	1.2	3.5	3.0
Current Account Balance				
US\$ Billions	35.4	29.6	25.0	33.0
Percent of GDP	2.8	2.1	1.6	1.9

Source: IMF, [World Economic Outlook, April 2004](#)

¹ Percentage change