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IMFRR1

**Slide 1**

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# China's Recent Developments and Outlook

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The views expressed in this presentation are those of the author and should not be attributed to the IMF, its Executive Board, or its management.

# Summary

- Background: World economy
- **China**
  - Current economic situation
  - Policy issues
  - Reforms

# China: Current situation

- Economic situation remains strong. Main issue: how to sustain this.
- Output growth continues to be robust (10<sup>3</sup>/<sub>4</sub> % during first 3 quarters of 2006).
- Inflation low.
- External position continues to strengthen.
- Substantial liquidity in the banking system.
- Fiscal deficit low.

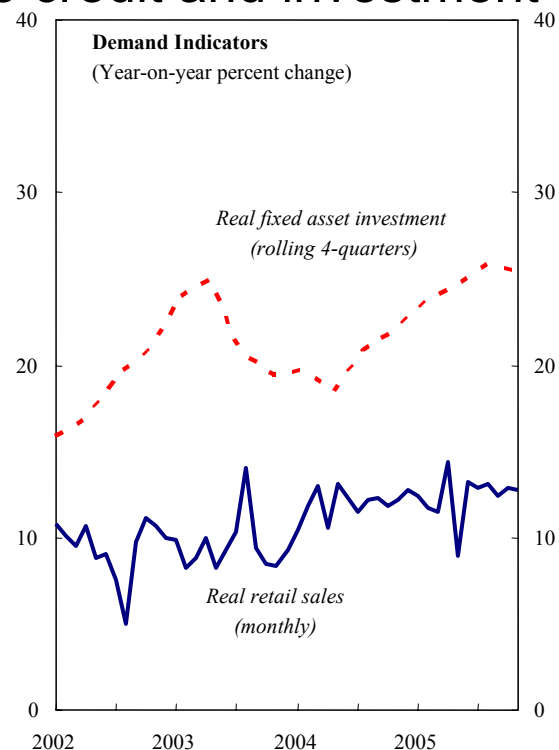
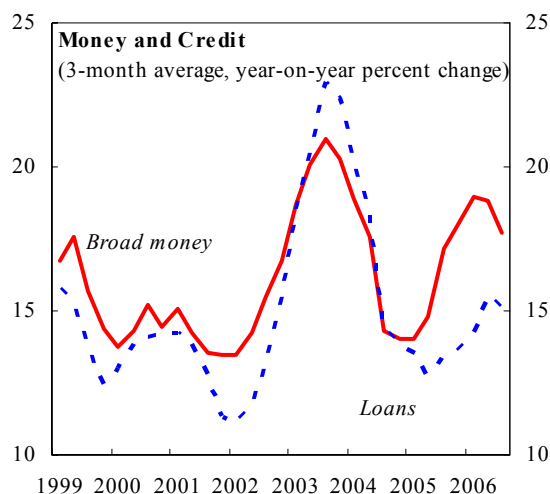
# China: Outlook

- 2006: GDP growth 10½%; inflation below 2%
- Main risks:
  - U.S. slowdown
  - Protectionism abroad,
  - Excess liquidity,

# China: Policy issues

## A. Monetary Policy

- Need for tightening (to forestall NPLs).
- Recent measures to reduce credit and investment expansion had some effect.



## China: Policy issues (contd).

- **But:** risk of rebound in investment.
- **Key policy question: how to sustain the moderation?** (monetary policy stance; exchange rate).

# China: Policy issues (contd)

## B. Fiscal Policy

- Sound public finances, with reorientation toward social services.
- Issues:
  - Health care and education
  - Public pension system
  - Public financial management

# China: Structural Reforms

## A. Banking and Capital Markets

- Banking sector at center of financial sector reform.
- Important recent progress, but some challenges remain.
- Development of capital markets.

# China: reforms (contd)

## B. Other reforms

- State-owned enterprises (dividends)
- Rural-urban disparity
- WTO commitments

# Summary

- World economy strong (5% growth), but downside risks.
- China: continued strong performance (10½ % growth, low inflation).
- To sustain it, need rebalancing of growth away from investment/exports towards consumption by:
  - Moderation in credit growth (to ease investment),
  - Greater exchange rate flexibility,
  - Structural reforms to strengthen social services and reduce incentives for excess saving.