

CHINA'S CURRENT ECONOMIC SITUATION

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seminar**

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Current Challenges for Macroeconomic Policy

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¹ 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.

Key questions

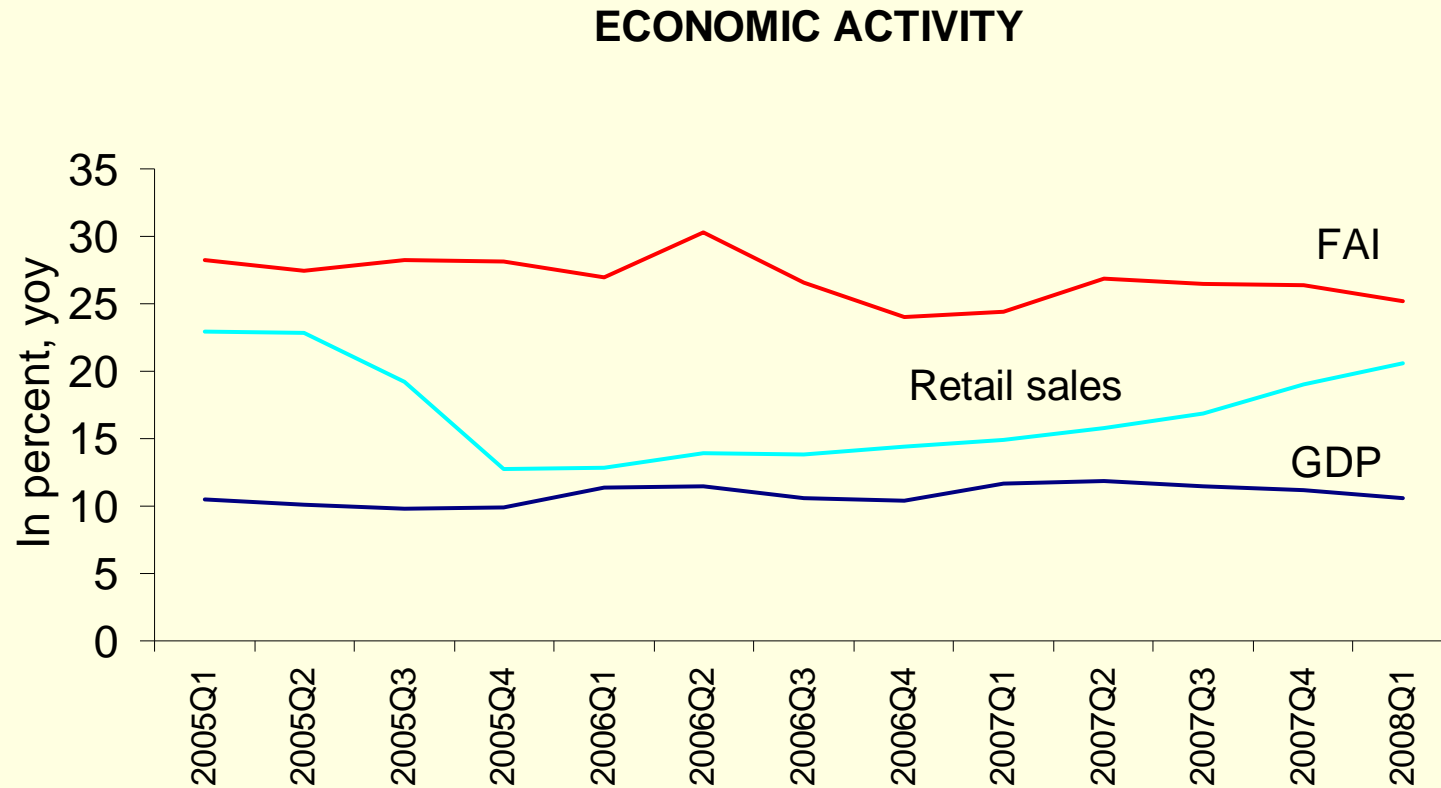
Against background of global financial slowdown/turmoil and domestic challenges:

- How to control inflation and maintain economic growth?
- How to maintain reasonable growth by expanding domestic demand and imports?

Global economy in a difficult position

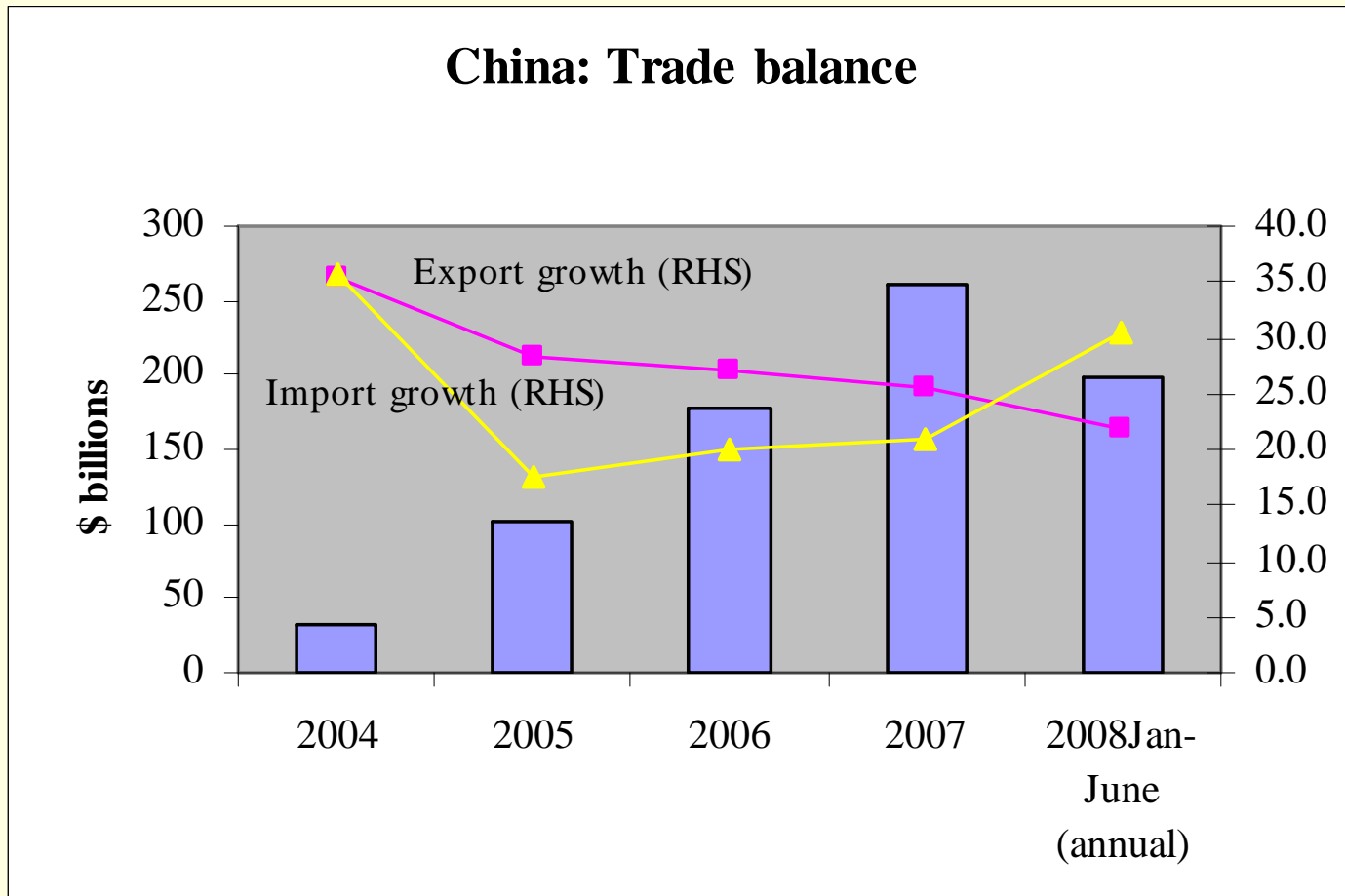
- **Rising inflation** everywhere, especially developing countries;
- **Slowing demand** in many advanced economies, with spillover effects on rest of world;
- **Gradual recovery**, but only in 2009;
- **Risks** from financial markets, inflation.

GDP growth in China slowing because of net exports, but still strong



Source: CEIC

Trade balance declining, but still high



Foreign exchange inflows continue to grow

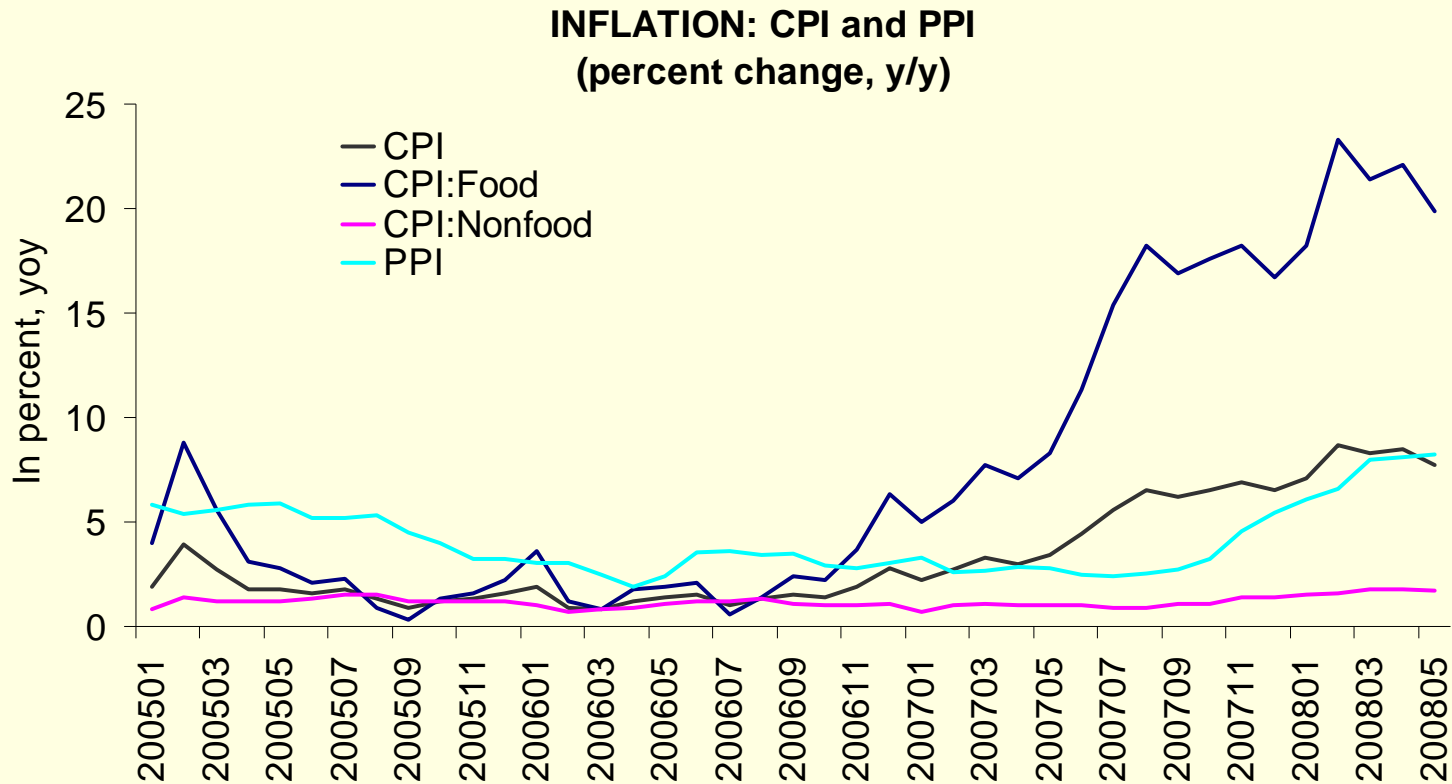
- Reserves = \$1,809 billion as of June 2008
- Increase of \$281 billion in Jan.-June. 2008
- True increase larger; e.g. “other foreign assets” increased by over \$50 billion
- Trade, FDI, other capital, income, valuation, “hot money.”

Exchange rate trends

Dec. 31 2007 to July 16, 2008, RMB:

- appreciated vs. U.S. dollar (7.2 percent)
- depreciated vs. euro (-1.3%), yen (-1.4%)

Inflation remains high

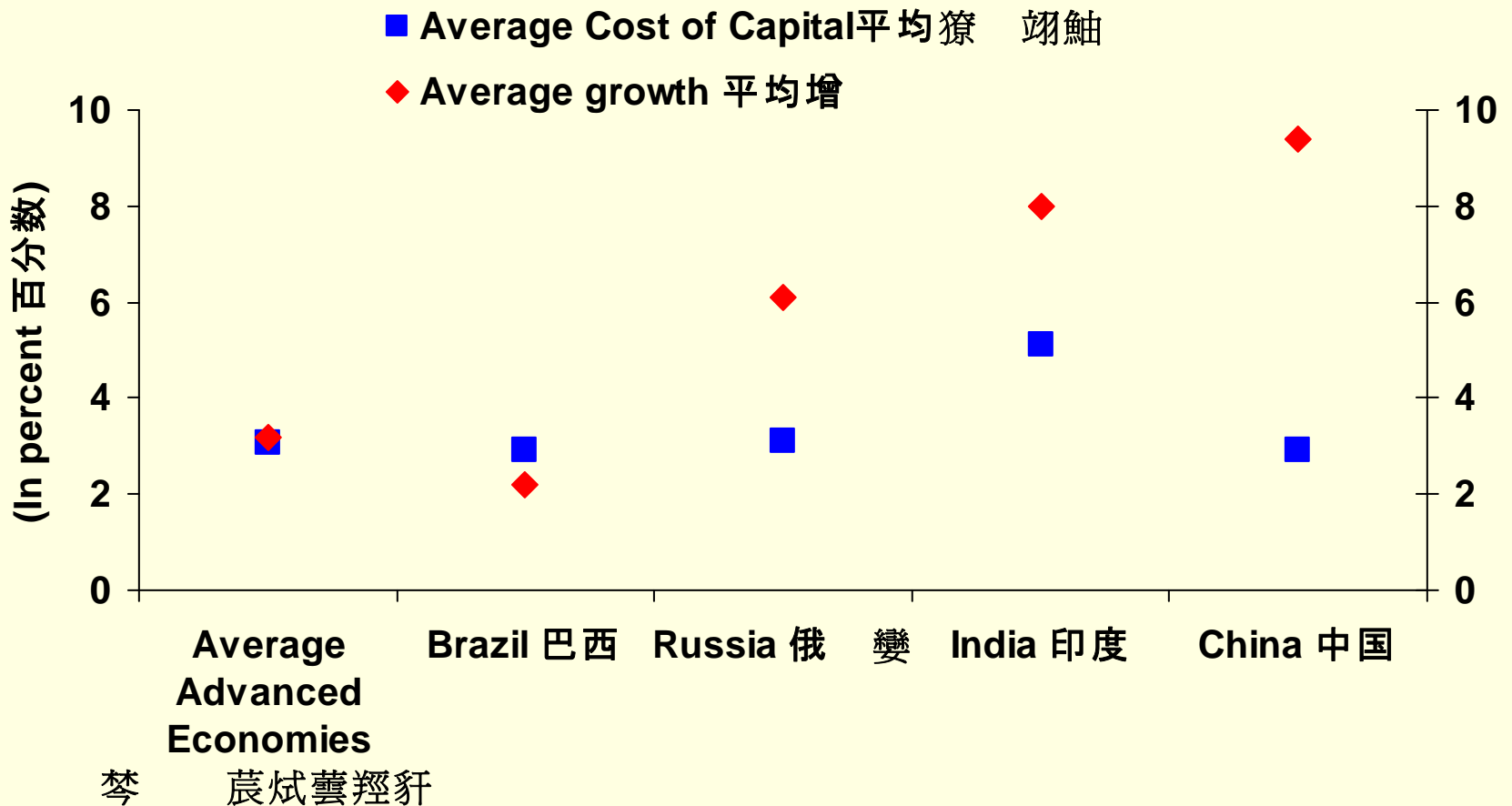


Source:CEIC

Policy tasks?

- **Tight monetary policy** (to manage inflation risks, and contain investment/credit growth);
- Continue **reforms** to strengthen domestic consumption:
 - Financial sector
 - Social programs (health, education, pensions)

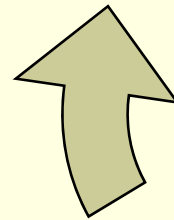
Cost of capital (and other inputs) has been relatively low



Low cost of capital fuels investment, surplus, and liquidity

1. Low cost of capital (and other inputs)
→ **investment**

2. Investment Capacity



Liquidity

Exports

