

CAIJING
ANNUAL CONFERENCE 2009
Forecasts and Strategies

Beijing
December 12, 2008

Session on “Macroeconomic Trends of the World and China”

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^{1/}These are the views of the author and not those of the IMF, its Executive Board, or its management.

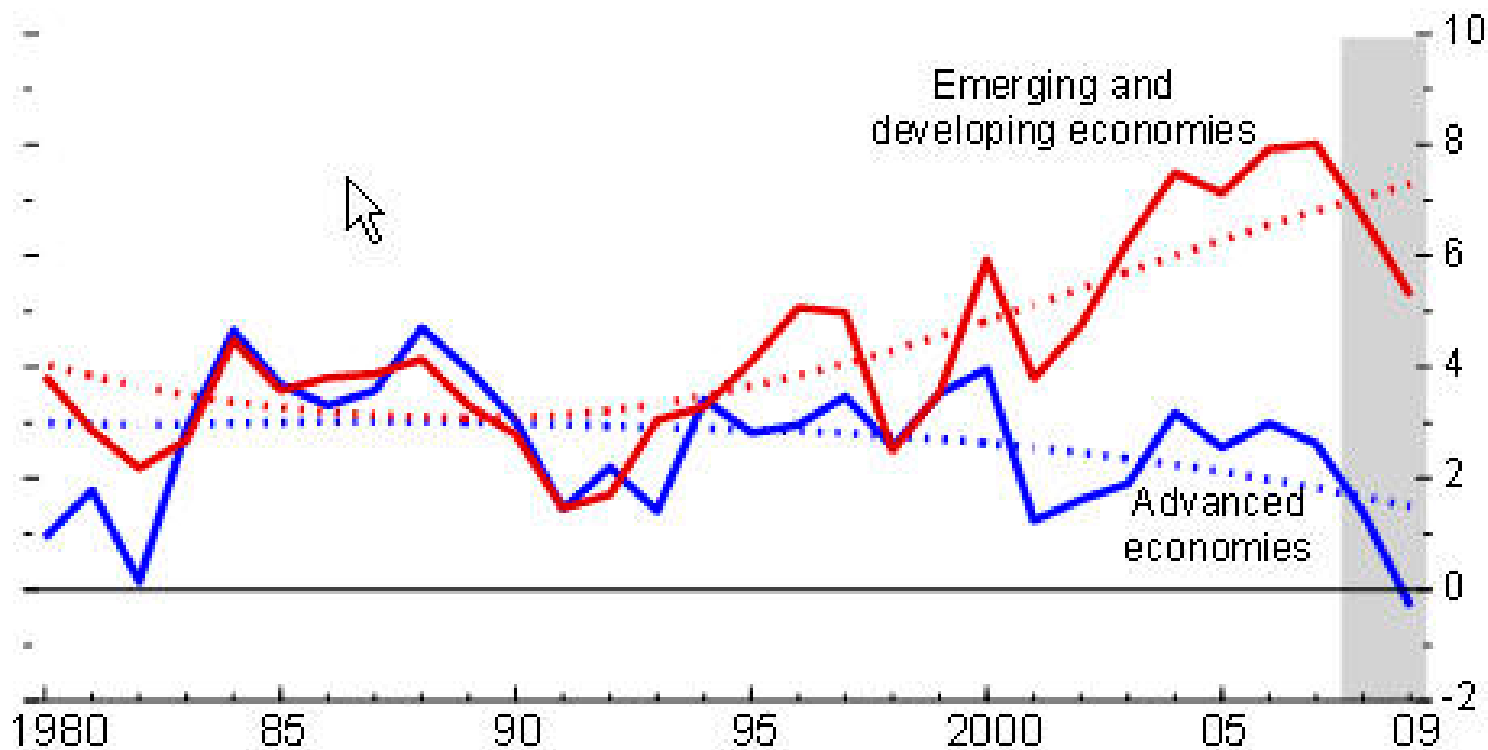
Points for discussion

- World economic outlook for 2009
- Major uncertainties
- Regional economies and global impacts
- China's economic outlook
- Central government economic policy: tradeoffs and trends
- Inflation or deflation?

World economy slowing sharply

Figure 1. Real GDP Growth and Trend

(Percent change)



Source: IMF staff estimates.

Particularly advanced countries

GDP growth (in percent) (WEO Update - November)

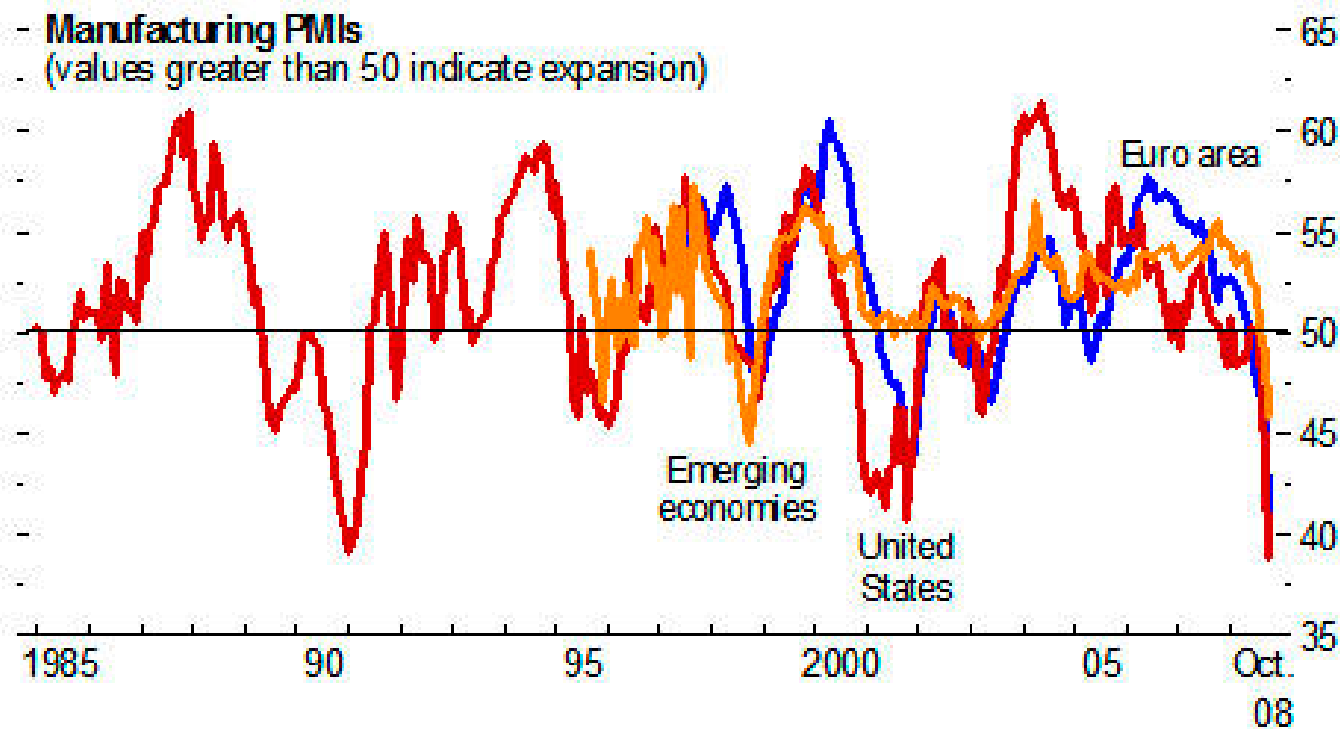
	2008	2009
World	3.7	2.2
Advanced economies	1.4	-0.3
United States	1.4	-0.7
Euro area	1.2	-0.5
Japan	0.5	-0.2
Emerging and developing economies	6.6	5.1

Global financial crisis: origins and policy responses

- **Outline of crisis:**
 - monetary policy and easy regulation spurred risk taking and leverage,
 - supervision/regulation failed to keep pace with financial innovation.
- **Responses:** focus on *financial sector* (liquidity; recapitalization; distressed assets) and on *economic stimulus*.

Uncertainty in outlook: confidence weak...

Figure 4. Business Confidence Indicators



Sources: Haver Analytics; and IMF staff estimates.

...and other questions

- financial restructuring effective?
- risk of negative feedback loops
{financial → real → financial}
- labor-, housing-, and asset markets

Regional economies

- Asia affected through several channels (exports, capital flows, equity prices, confidence, loan quality)
- Growth slowing down: Emerging Asia 9.5% (2007) → 7.7% (2008) → 6.5% (2009)
- Risks on downside. Global economy; tighter financial conditions; robustness of domestic demand.

China's situation and outlook

- **Economy slowing in 2008**, so far mainly due to property (and spillovers)
- **Will slow further in 2009**
- **Government taking action to cushion downturn:**
 - fiscal stimulus (RMB 4 trillion; 14% of 2008 GDP)
 - monetary easing (credit, interest rates, RRR)
 - support for property sector
 - export tax rebates
 - social service reforms (health, education, soc.sec.)

China: Tradeoffs and risks

- **Key medium-term goals still important!** **Re-balancing** toward higher consumption). Consumption-based stimulus better than investment-based; plus other reforms to boost consumption
- **Domestic risk: overcapacity**
(investment → overcapacity → activity ↓, prices ↓, NPLs ↑)
- **External risks:** global growth, protectionism