

CHINA ECONOMIC OUTLOOK

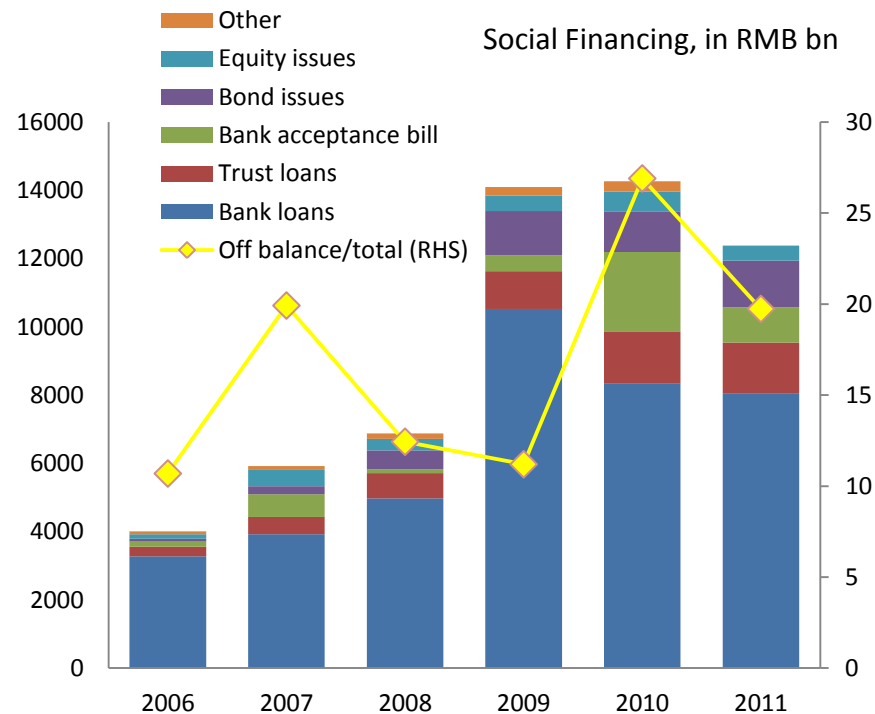
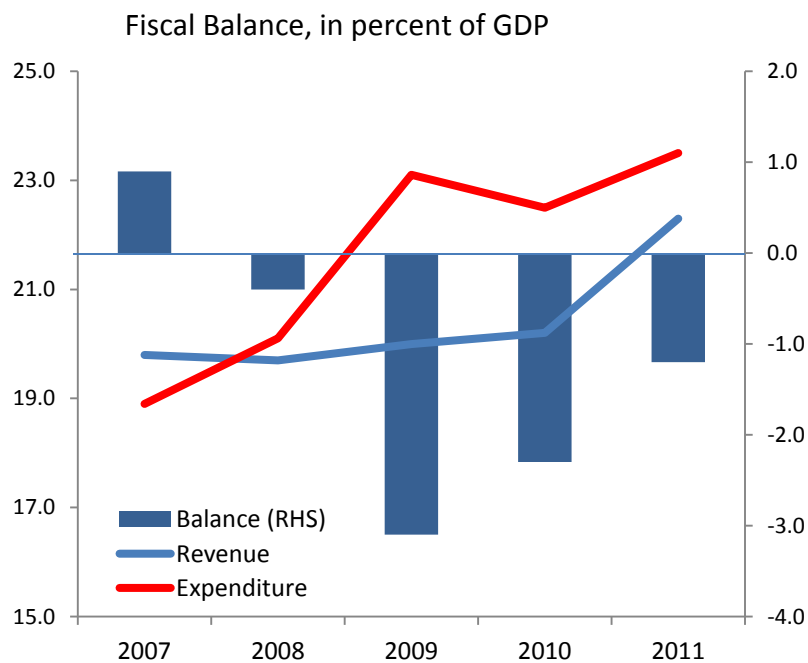
June 2012



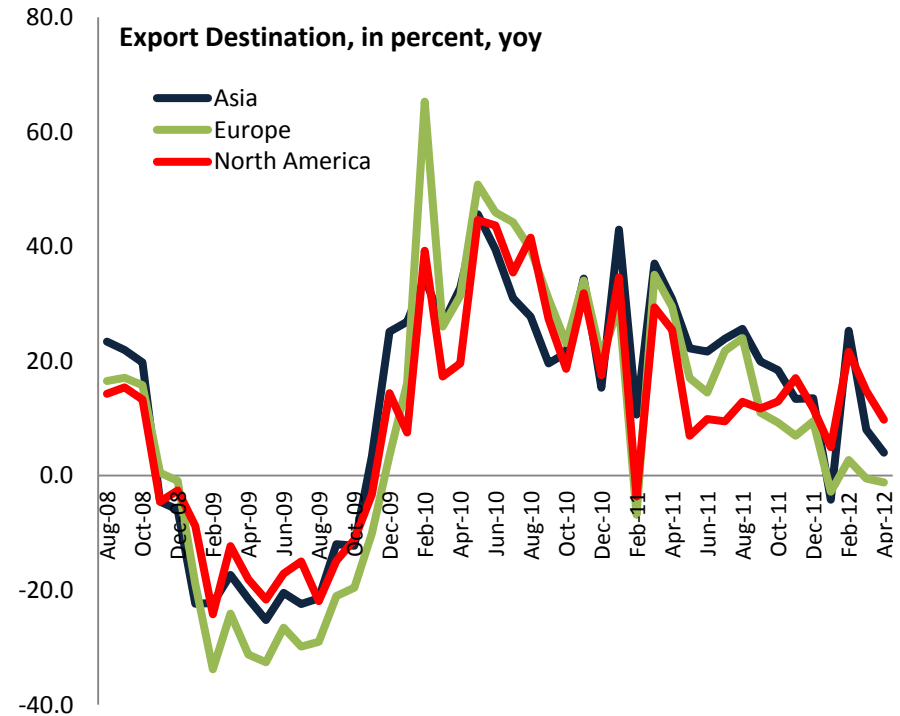
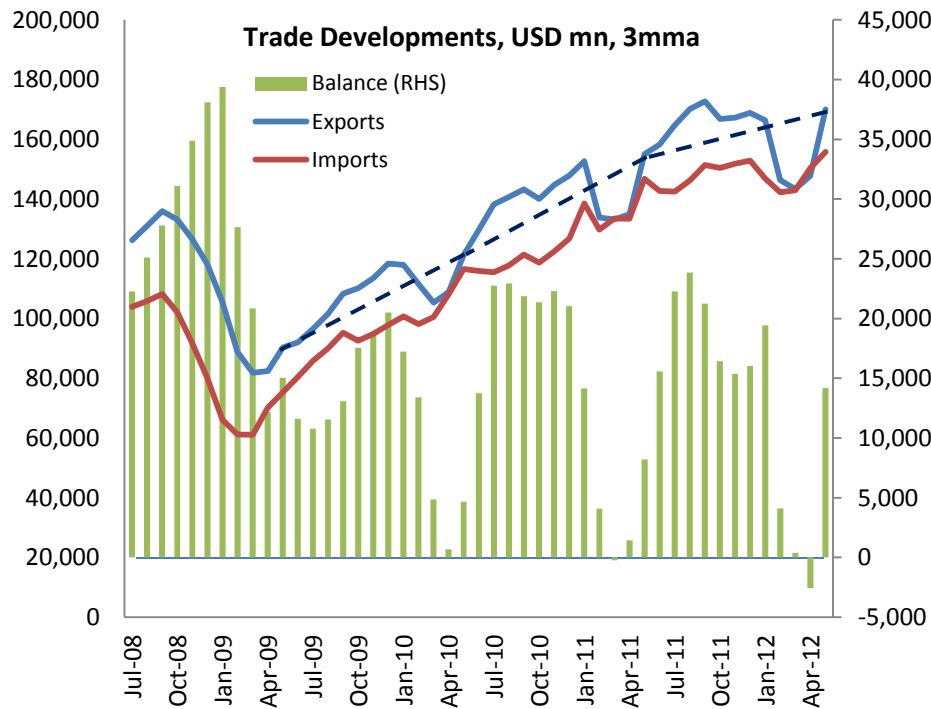
Chief Resident Representative
IMF Resident Representative Office
People's Republic of China

CHINA'S RECENT ECONOMIC PERFORMANCE

Large fiscal and monetary policy withdrawal in 2011



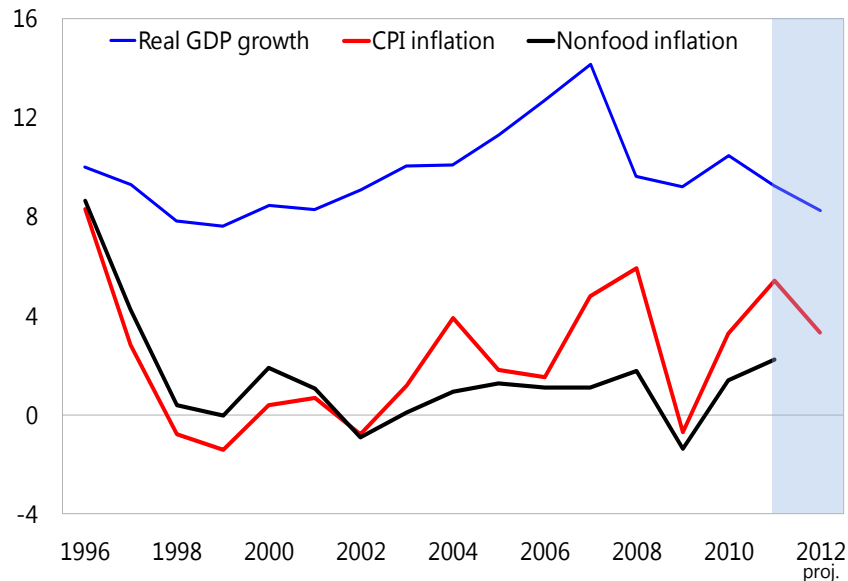
External demand is also weighing down growth



All these factors are contributing to slowing growth in China

CPI Inflation

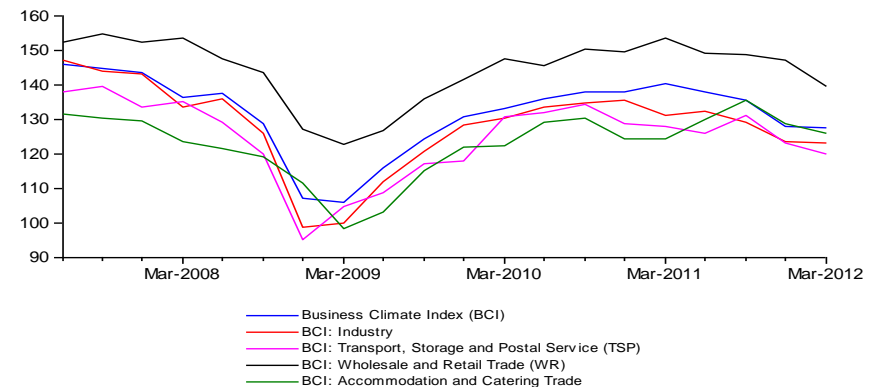
(In percent, year-on-year)



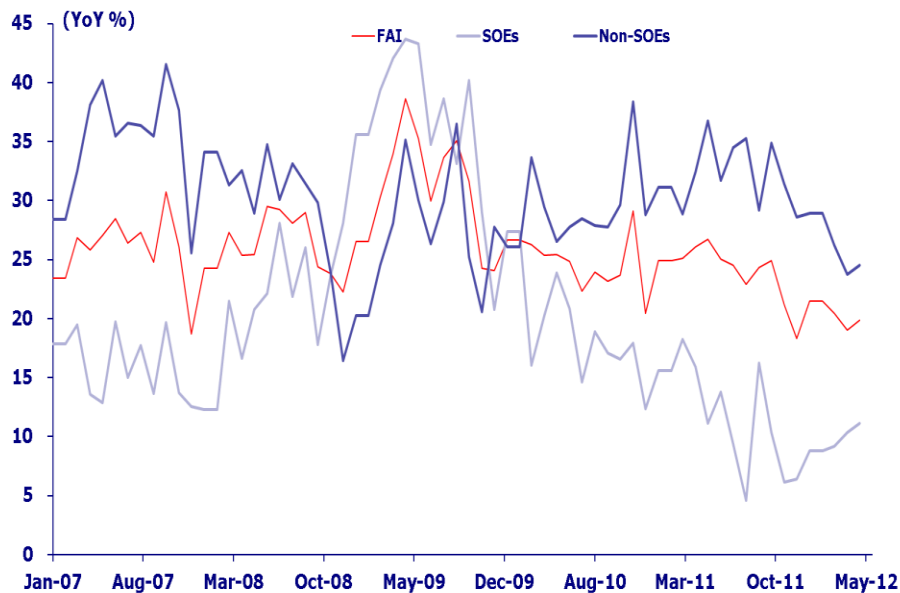
CN: Commodity Retail Sales: YoY: Key Retail Enterprise(3000 Enterprise)
%



CN

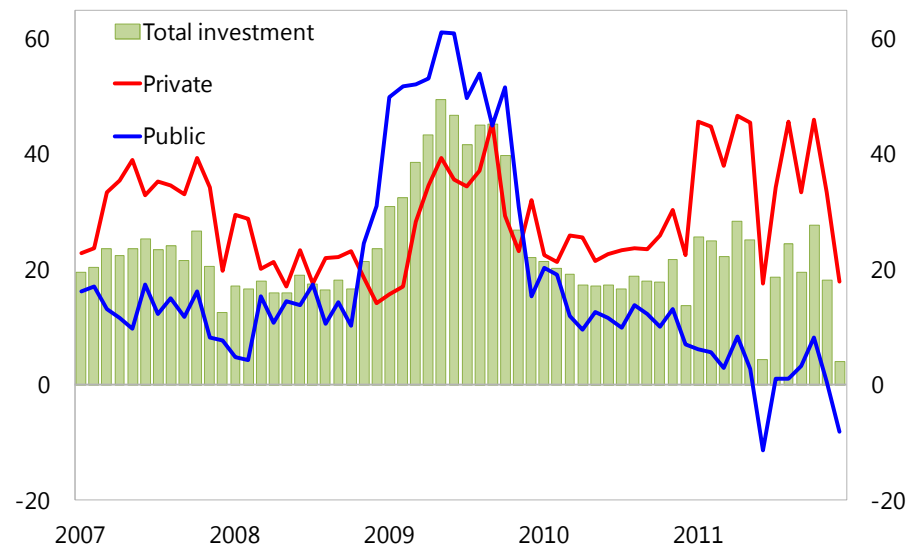


*Recently, fixed asset investments by the private sector
has replaced those by the government*

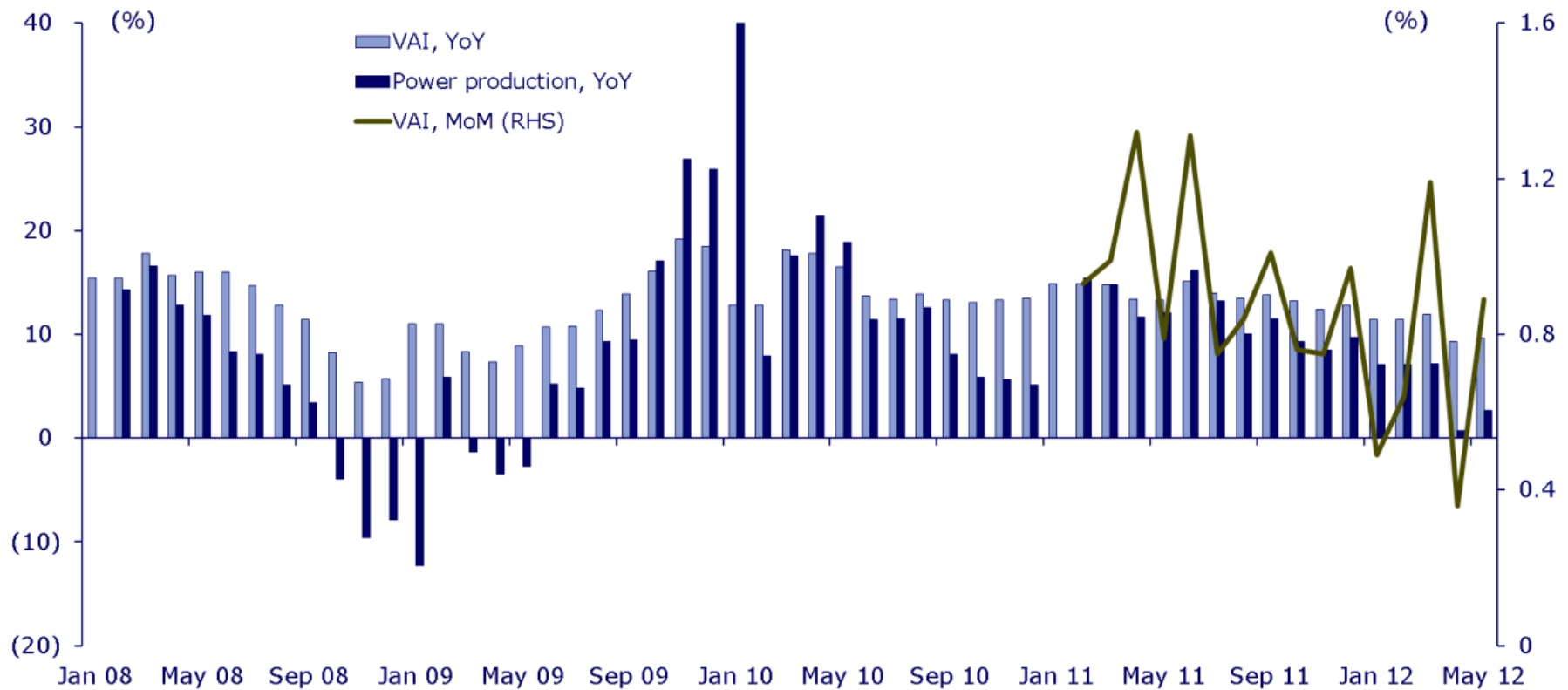


Source: CLSA, Asia-Pacific Market, June 9, 2012

Fixed Asset Investment
(In percent, year-on-year growth)



High frequency data clearly indicate activities are down

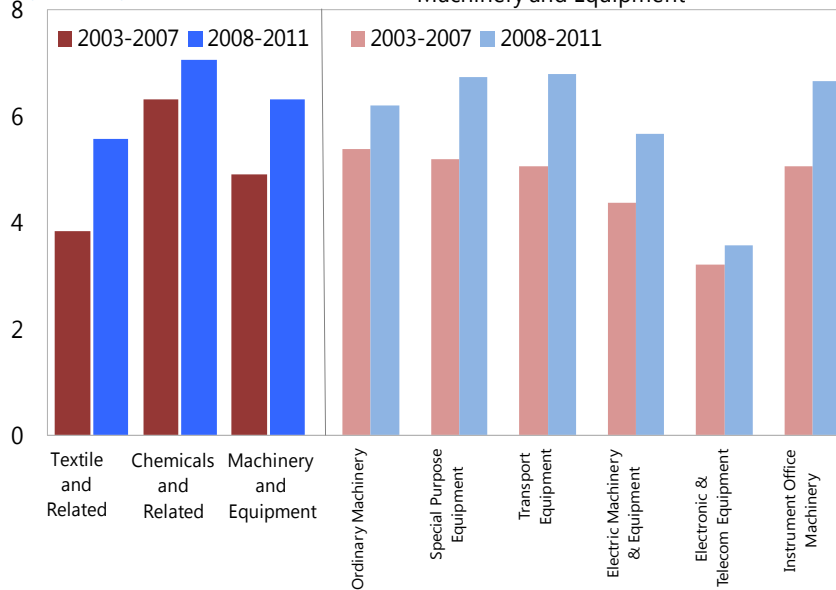


Source: CLSA, Asia-Pacific Market, June 9, 2012

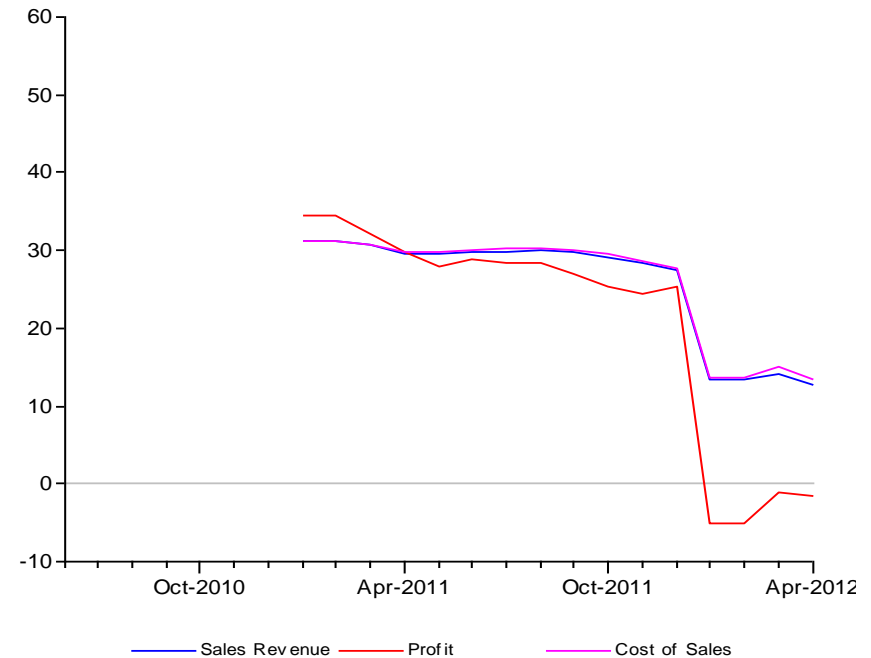
However, corporates have been enjoying healthy profits until very recently

Profit Ratio

(by industry)

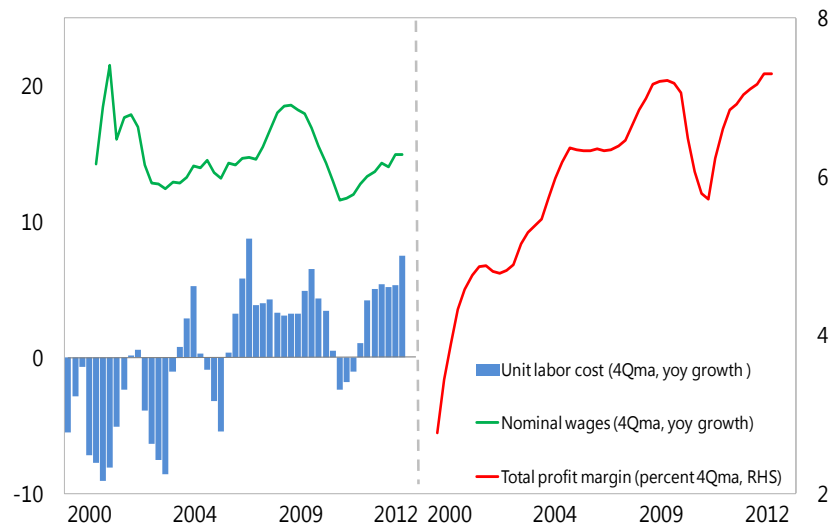


CN: Industrial Enterprise: ytd: YoY %

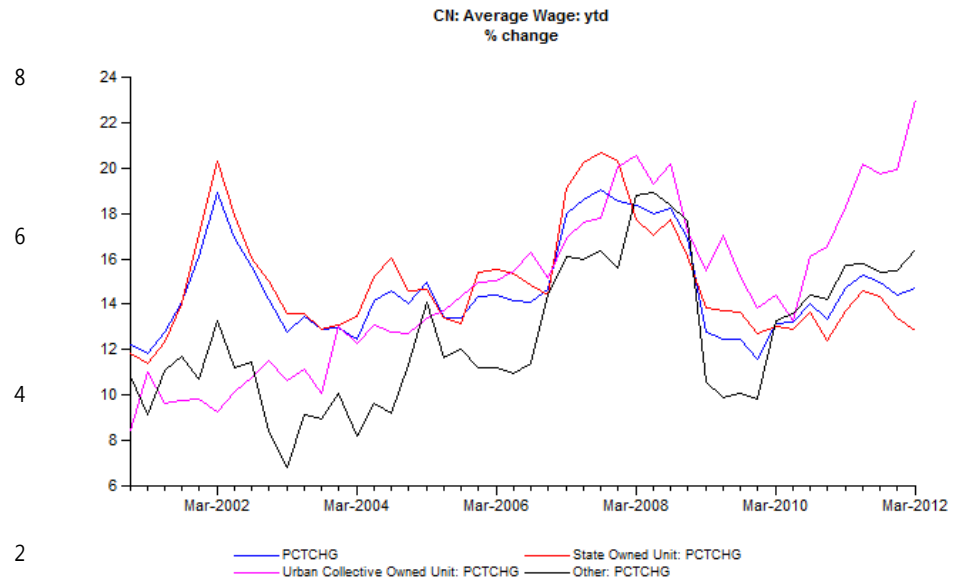


and unit labor costs are still contained

China Unit Labor Cost and Industrial Profit Margin

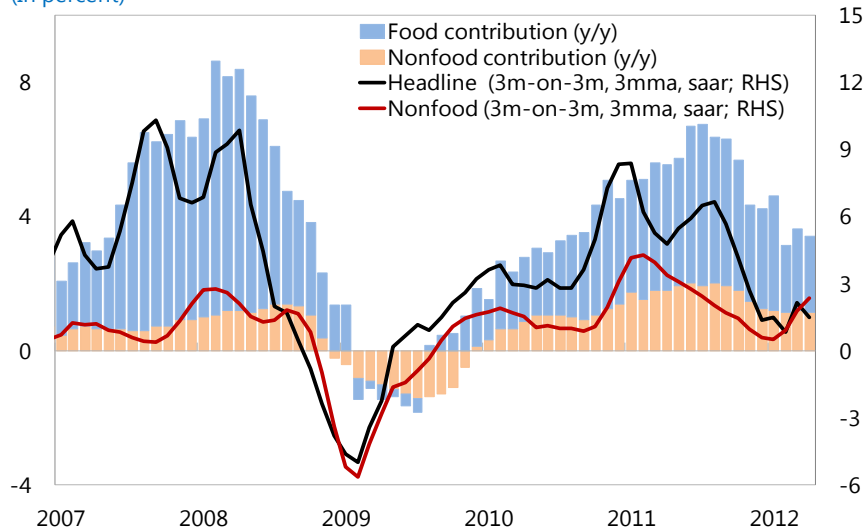


* Imputed wage data for 2011Q4.

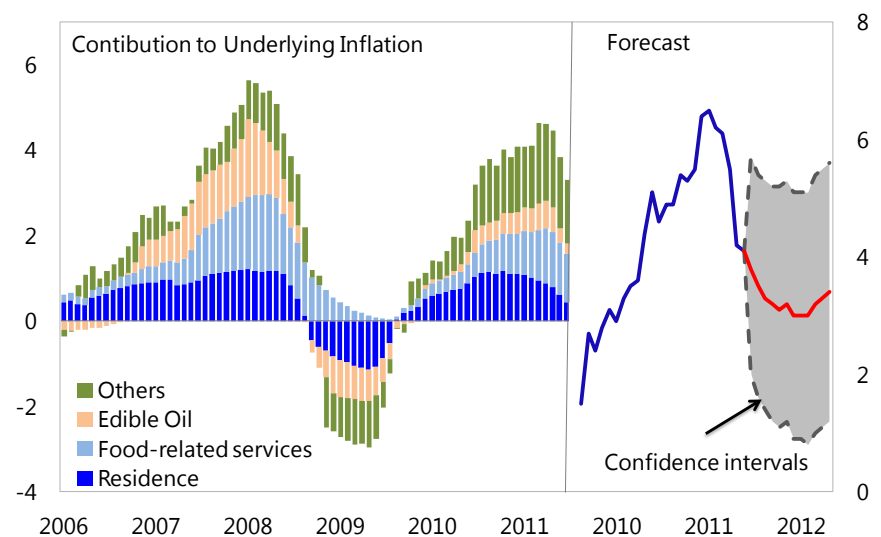


Inflation is stabilizing at a lower level, and is not likely to pick up in the remainder of the year--although volatile food prices remain a significant vulnerability

Inflation
(In percent)



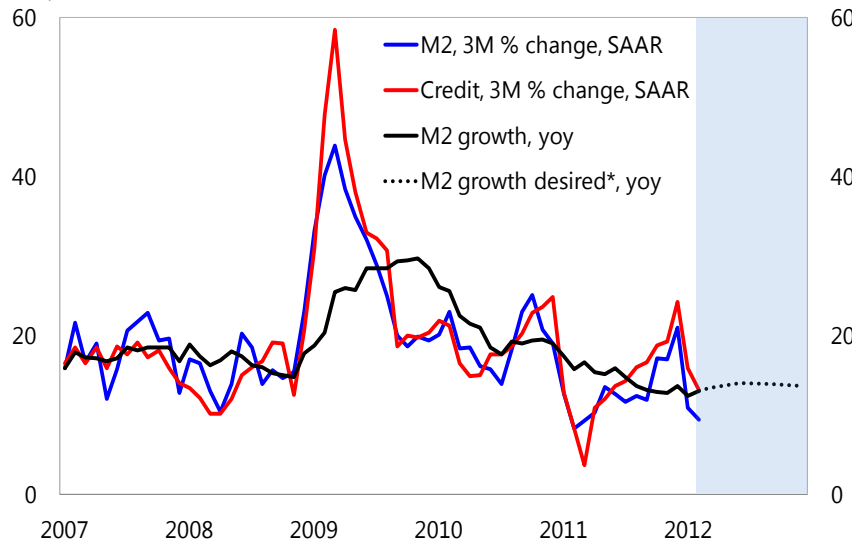
Consumer Price Inflation
(In percent)



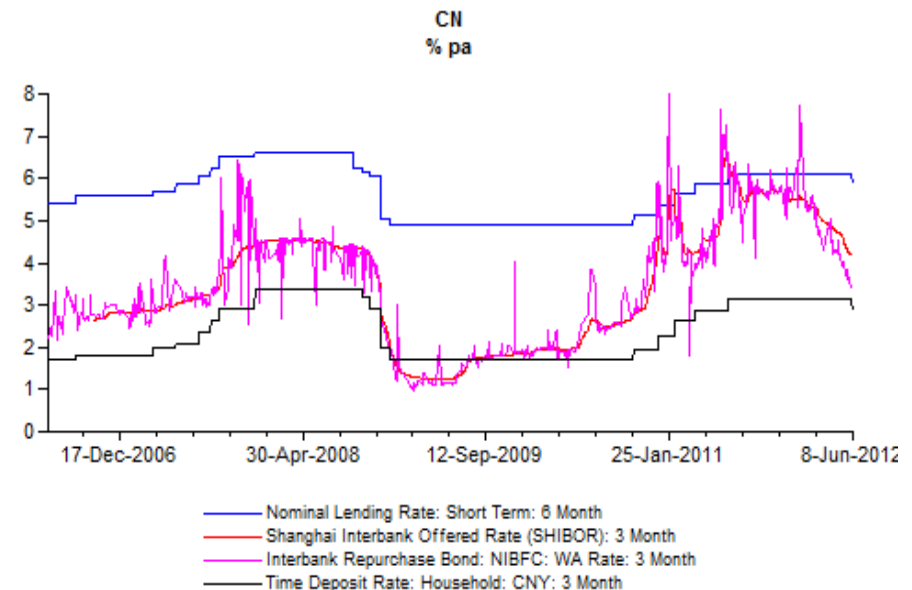
The path for monetary aggregates appears consistent with modestly slower growth and declining inflation

Money Growth

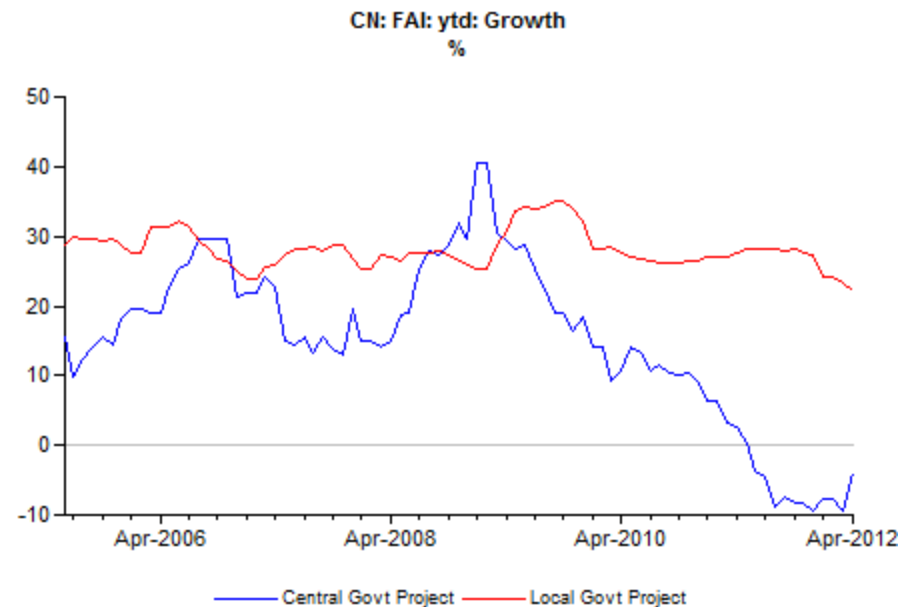
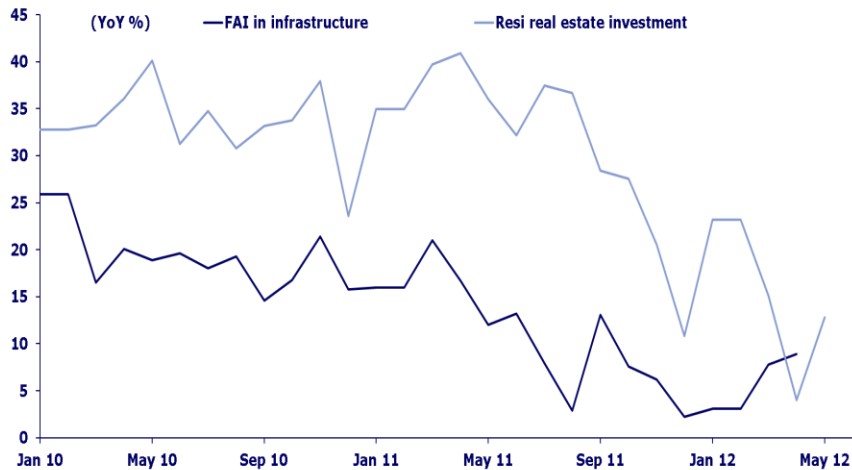
(In percent)



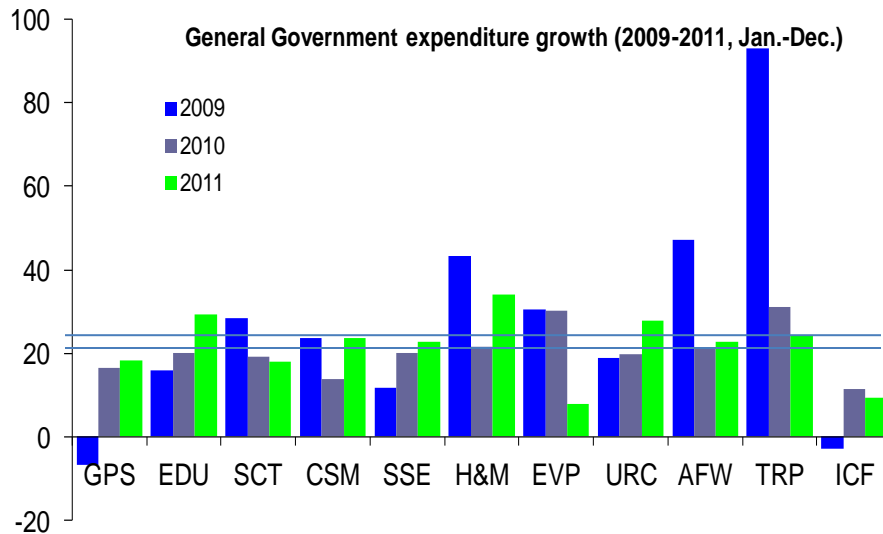
* Based on estimated McCallum-type Rule.



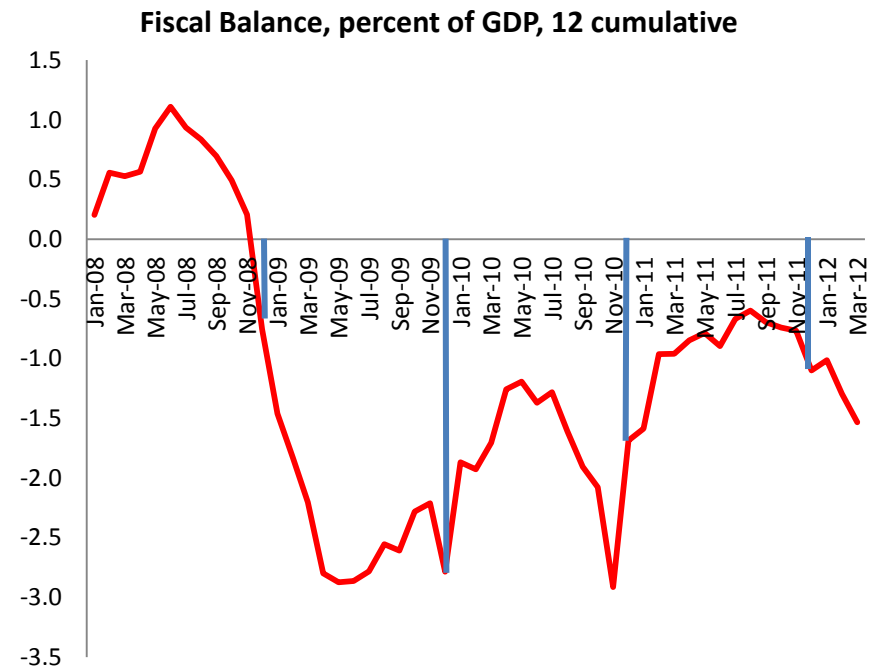
Fine tuning policies and modest acceleration of investment approvals could ensure soft landing



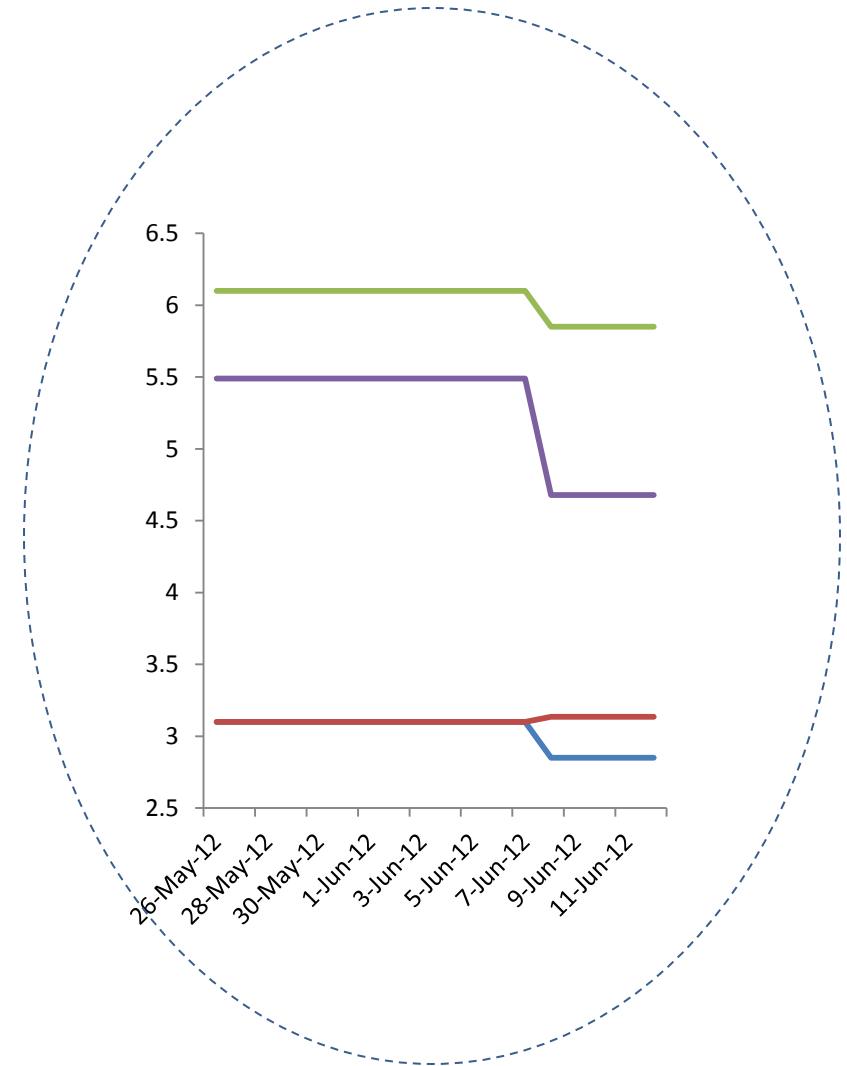
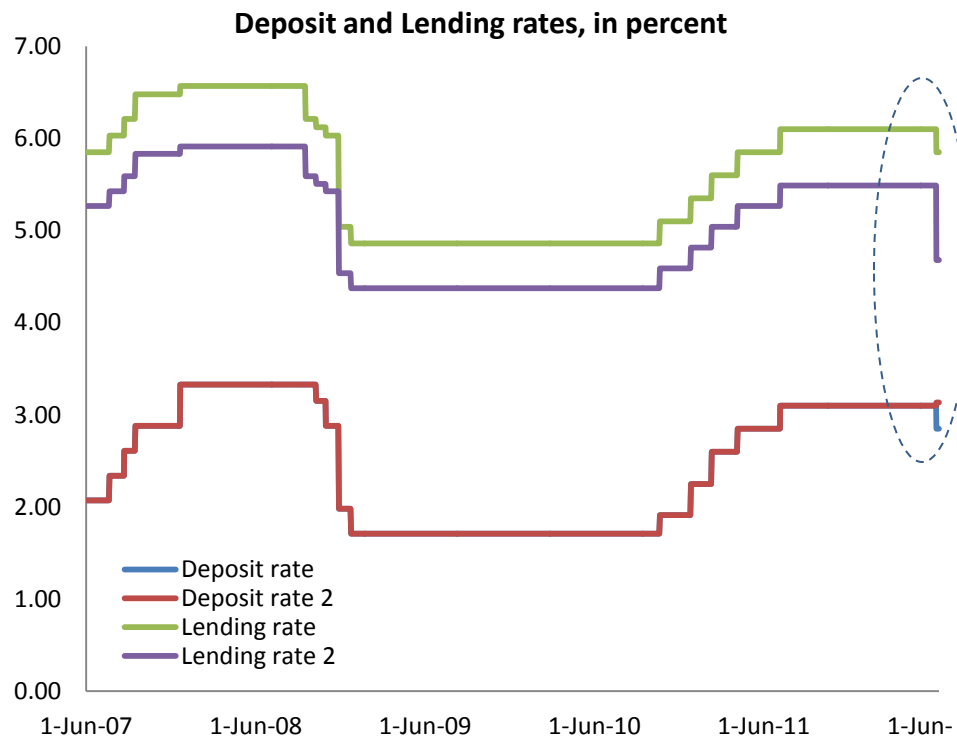
Fiscal policy has already been accommodative since early this year



GPS: general public service; EDU: education; SCT: science and technology; CSM: cultural, sports and media; SSE: social security and employment; H&M: health and medical treatment; EVP: environmental protection; URC: urban and rural community affairs; AFW: agriculture forestry and water Affairs; TRP: traffic and transportation; ICF: industry, commerce and finance affairs.



And monetary policy is being fine tuned

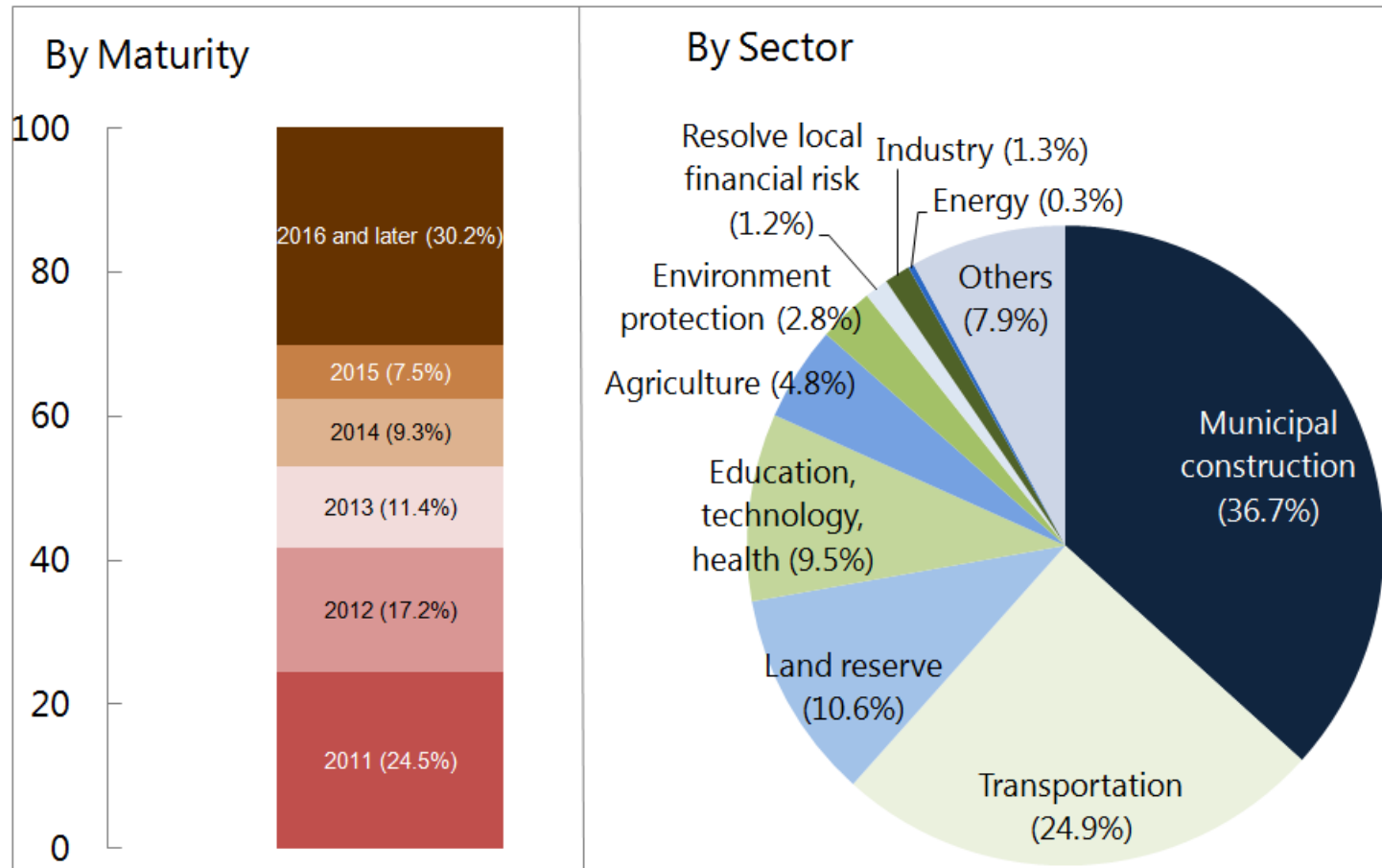


CHINA'S SHORT TERM **RISKS** AND POSSIBLE SPILLOVER

LGFPs are one of the three domestic tail risks

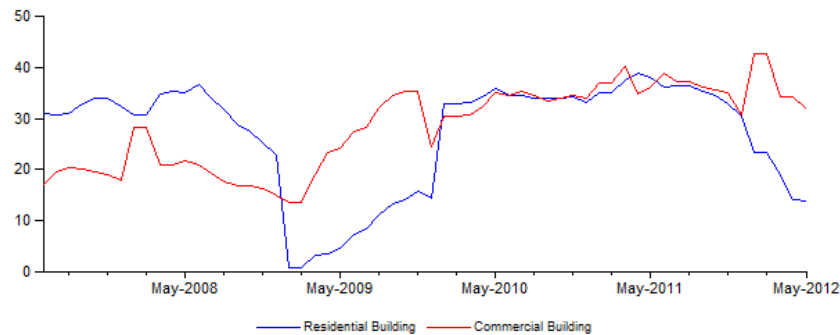
Local Government Debt

(In percent of total)

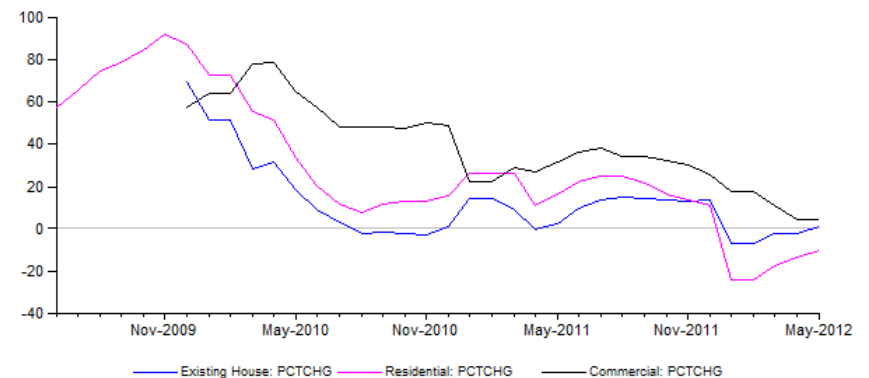


and the impact of a sharp downturn in property market (tail risk) could potentially be large

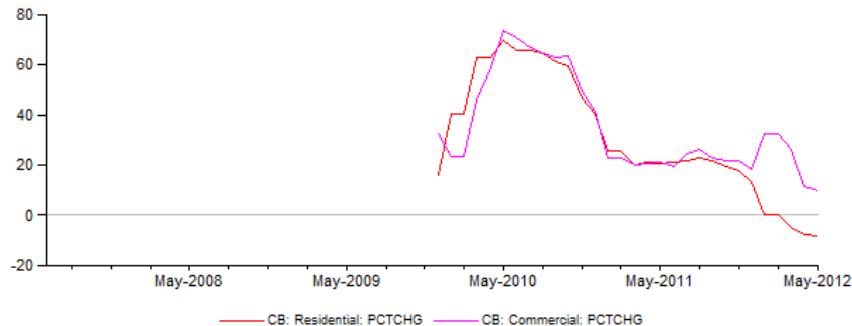
CN: Real Estate Inv: YoY: ytd
%



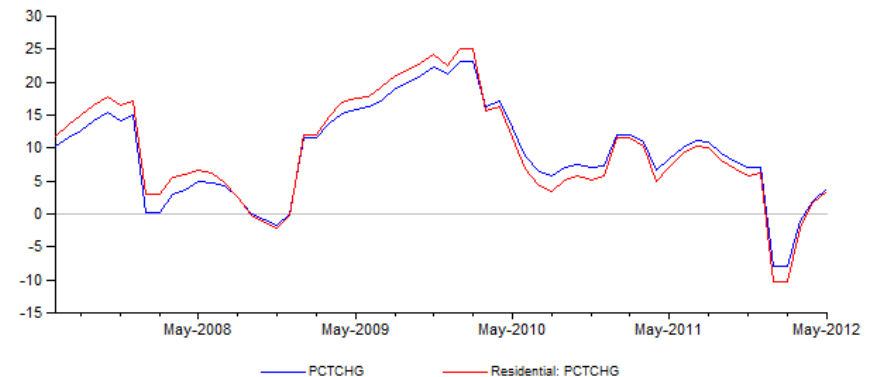
CN: Building Sold: ytd
% change



CN: Floor Space Started: ytd
% change

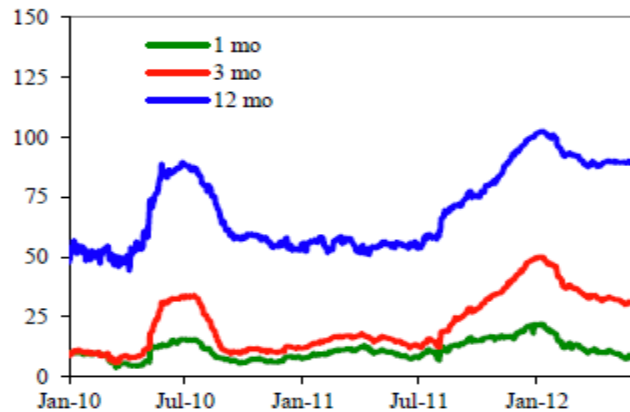


CN: Property Selling Price: ytd Average
% change

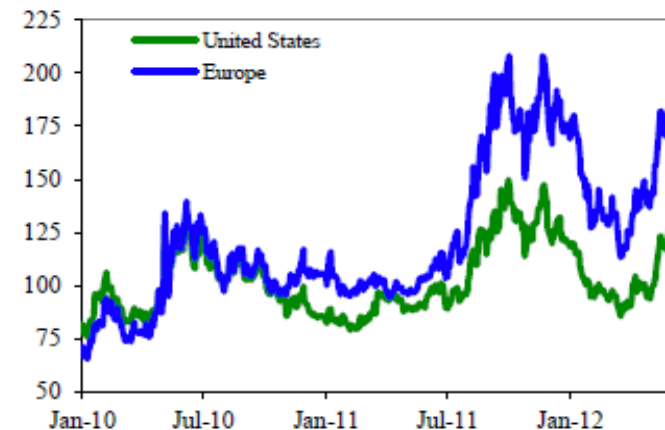


External conditions remain uncertain with renewed increase in risks

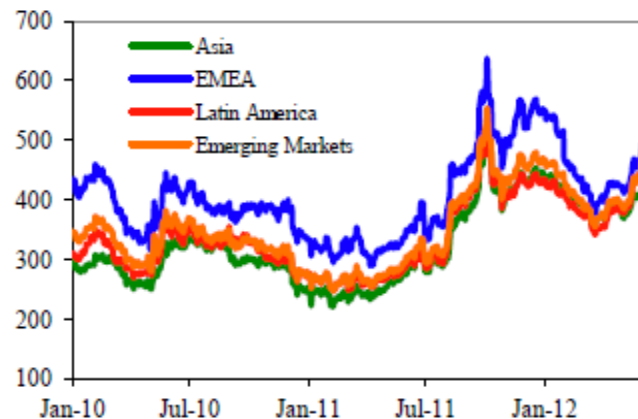
Dollar Libor to OIS Spread
(In basis points)



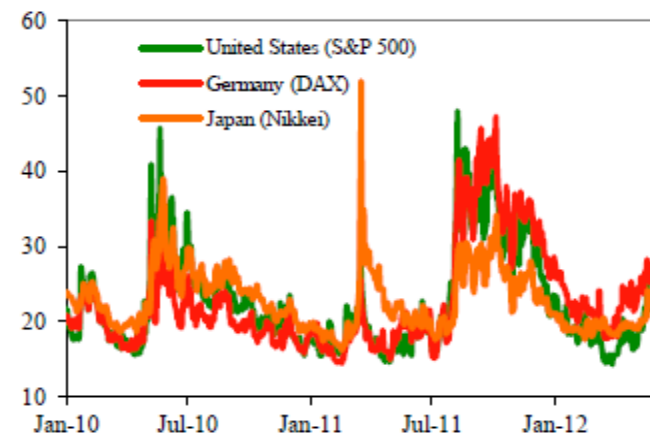
Investment Grade
(5 year protection, in basis points)



Corporate Bond Spreads
(In basis points)



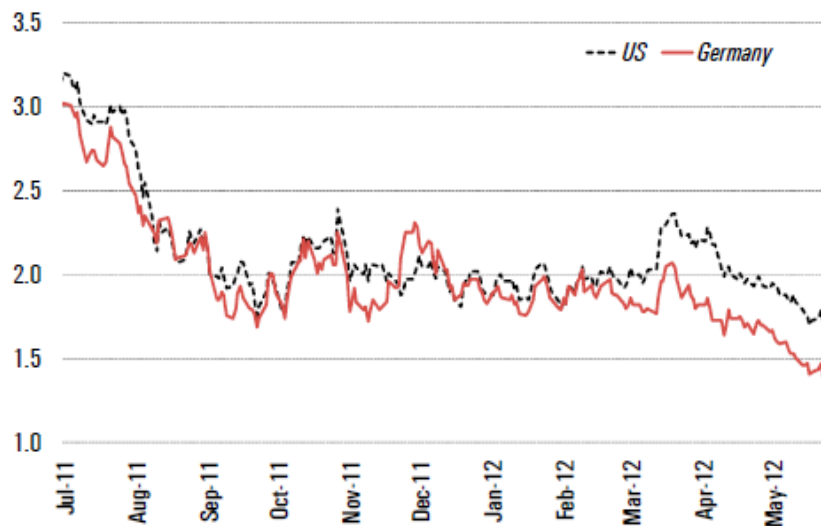
Equity Implied Volatilities
(In percent)



Flight to safe haven continues with advanced economies sending mixed signals

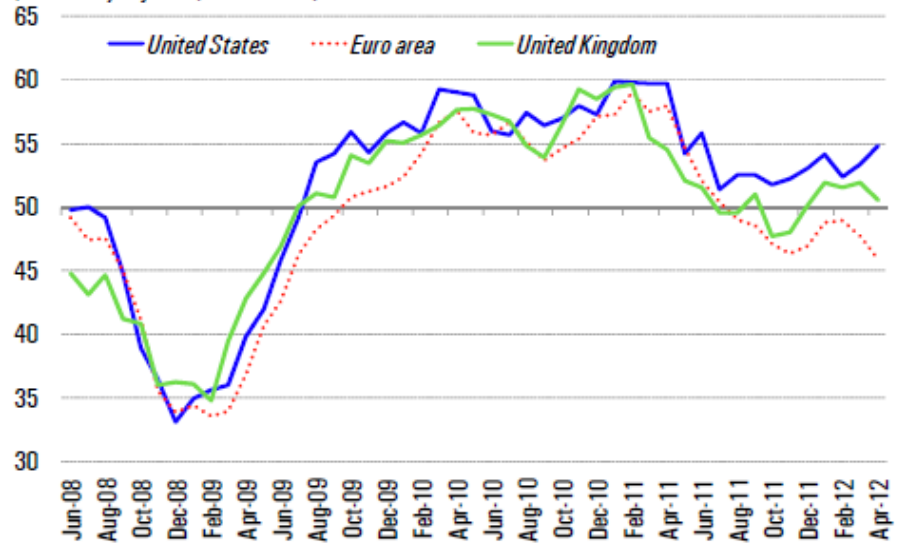
US and Germany: 10-Year Government Bond Yields

(In percent)



Advanced Economies: Manufacturing PMI

(Seasonally adjusted; 50 = neutral)

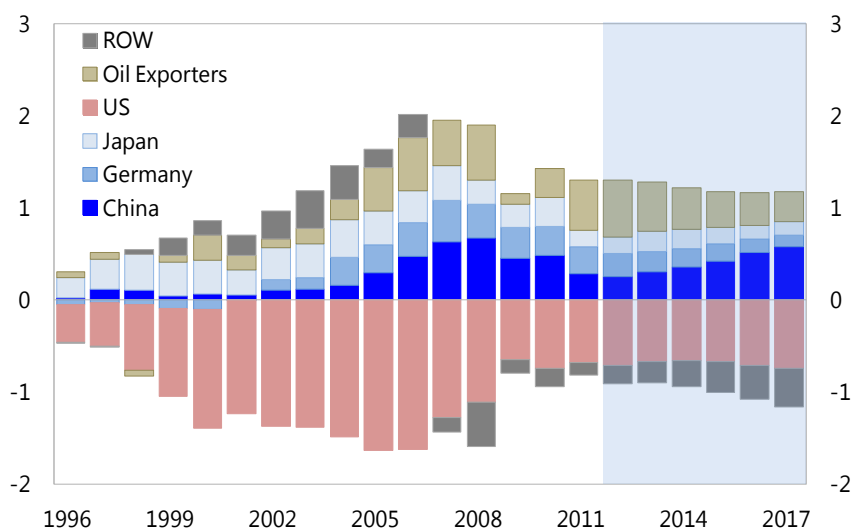


OUTLOOK FOR CHINA'S REBALANCING

Reduction in the current account balance is attributed to various factors

Global Imbalances

(In percent of world GDP)



Sources: World Economic Outlook; and IMF staff calculations.

Table 2: Estimated Contributions to Decline in China's Current Account Surplus, 2007-2011
(In percent of GDP)

	Estimated Trade Elasticities ¹	Reduced - Form Current Account Model
Actual 2007	10.1	10.1
Contributing factors:		
Terms of Trade	1.6	3.0
Foreign Demand	1.6	1.4
Investment	1.9	2.6
REER	2.6	1.3
Others	-0.2	-0.9
Actual 2011 ²	2.8	2.8

Source: IMF Staff calculations.

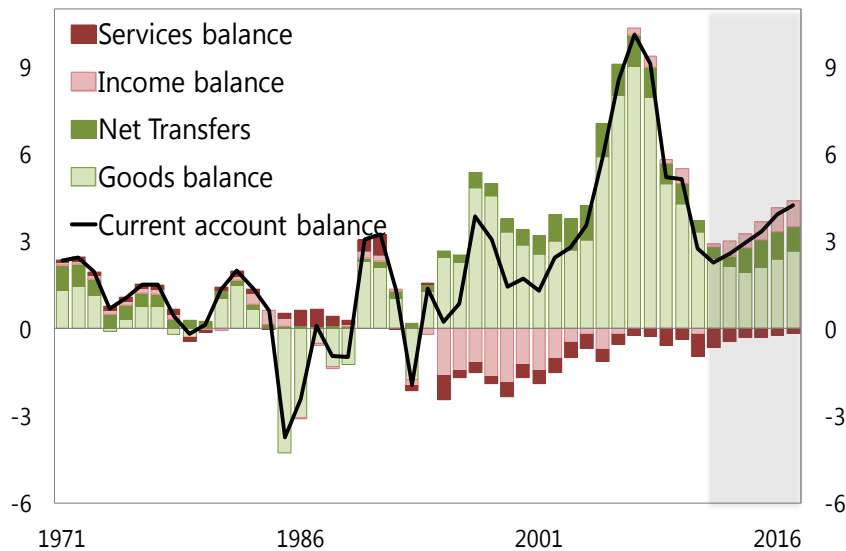
¹Elasticities based on estimated calculations for exports and imports of goods.

²Preliminary actual.

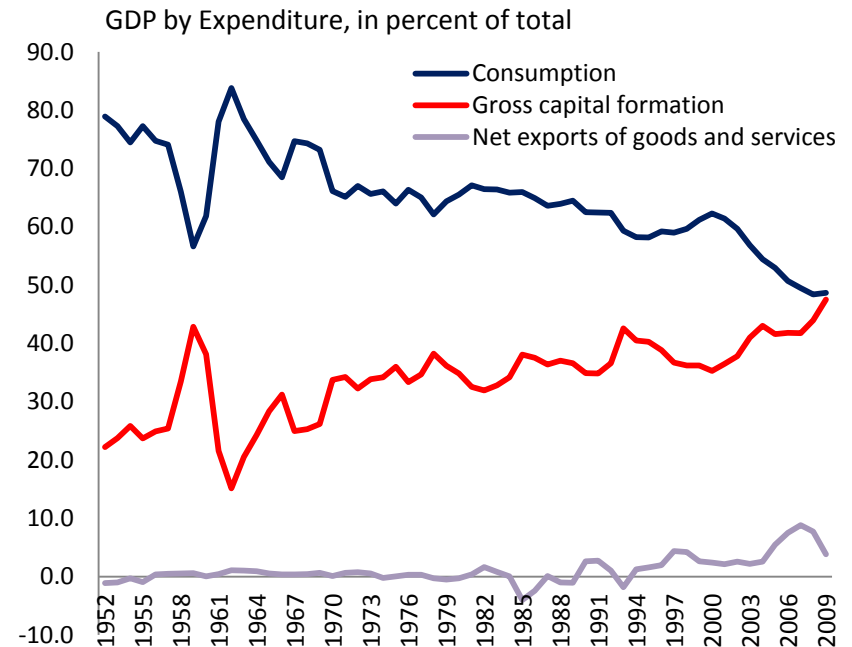
With a lasting recession in Europe on the horizon, the current account surplus is expected to rise; but medium challenges remain

Current Account and Components

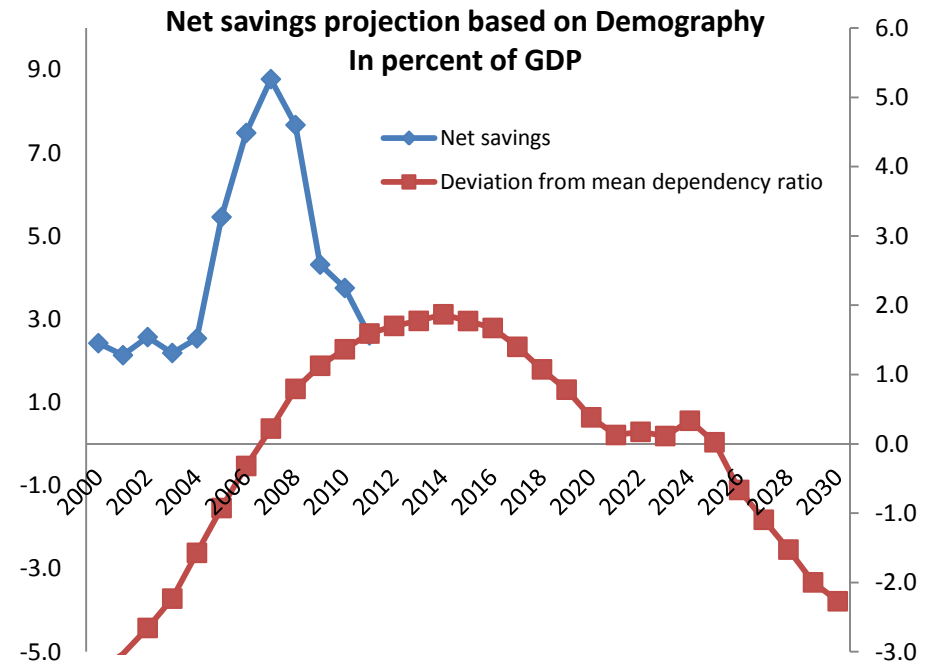
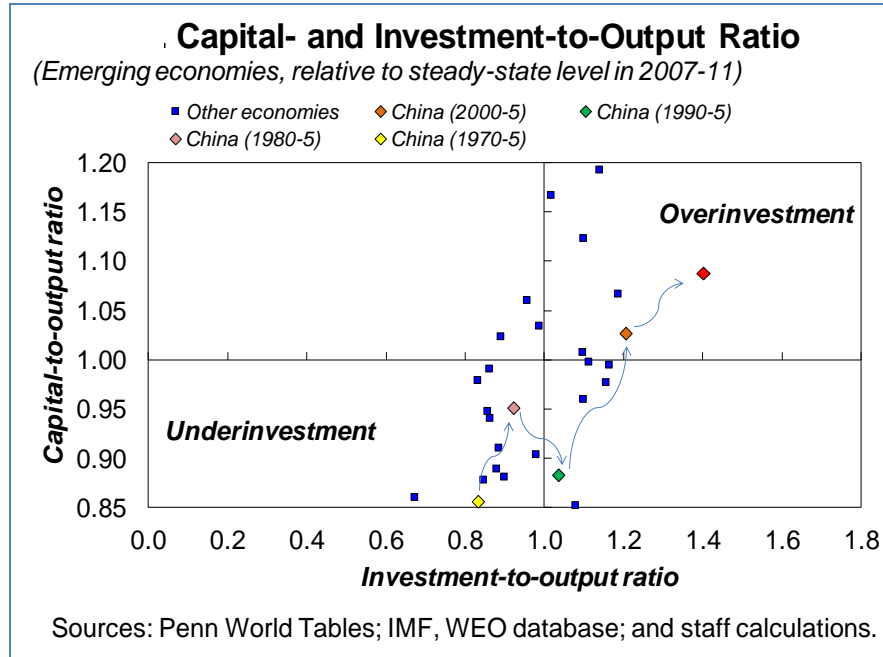
(In percent of GDP)



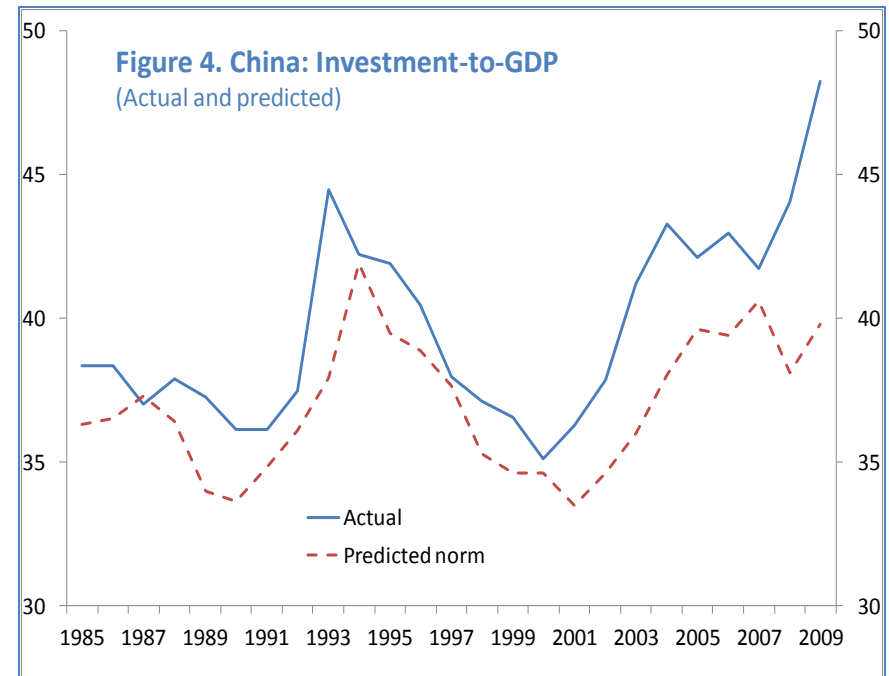
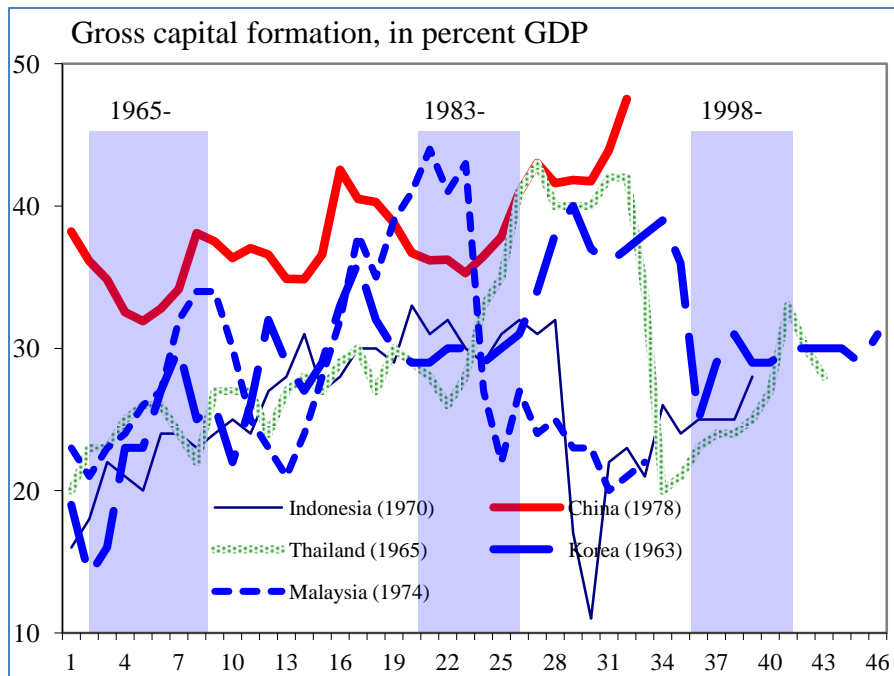
Sources: World Economic Outlook.



The economy is too dependent on excess investment—a model that is not sustainable



While demography shifts will require savings now, investment has been above desired norm





Thank You