

China's Policy Chiefs Talk up Economic Prospects

September 8, 2008

(Adds quotes, stock market reaction)

By Eadie Chen

XIAMEN, China, Sept 8 (Reuters) - China's economy is in good shape and policy makers are confident that they can sustain stable growth while reining in inflation, Vice-Premier Wang Qishan said on Monday.

China has become an important driver of global growth in recent years and investors are concerned that a slowdown in the economy, the world's fourth-largest, is proving too abrupt.

But Wang, who has overall responsibility for economic and financial affairs, said the economy was responding as expected to the government's policy fine-tuning.

"We have taken a series of measures in a timely fashion," Wang told an investment conference in this southern city.

"The macro controls are now having an impact and the economy is developing as we expected. The overall economic situation is quite sound," he said.

China's annual economic growth slowed to 10.1 percent in the second quarter of this year from 11.9 percent in all of 2007.

Figures for August due this week are likely to show further signs of softness, increasing the chances of a further relaxation of the tight monetary policy stance adopted last year to bring down inflation.

The central bank has already increased lending quotas by 5 percent, instructing banks to steer the extra loans to small firms, the agricultural sector and rural regions.

Wang acknowledged that China had run into headwinds, including slowing external demand, higher energy prices and global financial turbulence.

A string of natural disasters, including fierce snow storms that swept the south of the country in January and an earthquake in Sichuan in May that killed at least 70,000 people, had made matters worse.

But Wang said: "We are capable of and confident about surmounting the current difficulties and challenges to realise our goal of keeping stable and fairly fast economic growth while curbing excessive price rises."

STOCK MARKET BLUES

The bullish outlook did nothing to help the Shanghai stock market, which fell 2.68 percent to a 21-month low despite a surge across the rest of Asia triggered by the U.S. Treasury's bailout of mortgage lenders Fannie Mae and Freddie Mac.

But Commerce Minister Chen Deming echoed Wang's optimism, telling the forum that disruptions caused by the Olympic Games would not affect the overall momentum of the economy.

"Currently China's domestic consumption is rising rapidly. Growth in our exports and imports is also stable. So the driving forces of the economy will not change because of the Olympics."

China closed hundreds of factories around Beijing and restricted traffic to clean up the capital's air for the Aug. 8-24 Games and the Paralympics, which began at the weekend.

Chen acknowledged that some Olympic host countries had suffered a post-Games growth hangover. "But this is not inevitable. It depends on the situation of the particular nation," he said.

In the case of Beijing, the capital city accounts for only 4 percent of national output and less than 1 percent of investment.

What's more, massive needs stemming from industrialisation, urbanisation and consumers' demand for higher-quality goods would serve as new engines of growth, Chen said.

However, Jiang Xiaojuan, vice-head of the Research Office of the State Council, said China was confronted by a host of new challenges, including the rising cost of labour and the growing difficulty of conserving resources and protecting the environment.

"These problems are global. The fundamental solution to these problems is innovation, which can increase the efficiency of resource allocation and total factor productivity," she said. (Writing by Alan Wheatley; editing by Ken Wills)

Source: guardian.co.uk