

China Rolls Out Mini-Stimulus To Fight Slump

Joe McDonald, AP Business Writer

BEIJING (AP) — China is rolling out a mini-stimulus to fight its economic slump but is moving cautiously after its massive response to the 2008 global crisis left a painful hangover of inflation and debt.

Beijing has yet to announce a total price tag. But measures announced piecemeal in recent weeks include 66 billion yuan (\$10 billion) to build affordable housing and 26.5 billion yuan to subsidize sales of energy-efficient appliances.

That limited size should make the effort more manageable than the 4 trillion yuan (\$586 billion) avalanche of spending and bank loans in 2008. But its power to boost growth in a \$2.5 trillion economy also will be smaller.

Still, analysts say the measures should be enough to drive a rebound and keep growth for the year at or slightly above 8 percent.

"I do think it will make a big difference," said Nomura economist Zhiwei Zhang.

"Second-half GDP growth will be better than the first half, to a large extent driven by this support," Zhang said. "Without it, I think growth probably would trend down."

After spending two years enforcing lending and investment curbs to cool inflation and an overheated economy, communist leaders began gradually reversing course in December following a plunge in demand for China's exports.

Their efforts took on more urgency after economic growth plunged to a nearly three-year low of 8.1 percent in the first quarter and factory output in April grew at its lowest rate since the 2008 crisis. Analysts say growth should slow further in the current quarter.

The Cabinet publicly confirmed its strategic shift last week, promising to "give more priority to growth."

The impact should start to show up in stronger growth in August or September, according to Standard Chartered economists Stephen Green, Li Wei and Lan Shen.

The International Monetary Fund and the World Bank are forecasting 8.2 percent growth this year. Some private sector analysts lowered their own growth targets following April's weak data but to a still-robust range of 8 to 9 percent — far above the low single-digit levels of the United States, Europe and Japan. The government's official target is 7.5 percent.

The appliance subsidies might help to spur consumer purchases but measures

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announced so far rely heavily on more spending on building airports and other public works and encouraging private sector investment.

Construction spending pumps money into the economy quickly but raises the risk of setting back the government's longer-term effort to reduce China's heavy reliance on investment to drive growth. Easing investment curbs also threatens to add to a glut of unneeded mills and factories in steel and other industries.

The government has approved a new subway project for the eastern city of Nanjing and new airport projects in six provinces and regions, according to Chinese media. News reports say the approval process for private sector investment has speeded up.

Dozens of new wind, hydro and other renewable power projects have been approved by the country's planning agency, the National Development and Reform Commission.

Cities such as Beijing, Shanghai and Fuzhou in the southeast are speeding up construction of expressways and subway projects. Other cities have received approval to upgrade hospitals, water treatment and other public facilities.

The NDRC has approved three major new steel projects, including a 64 billion yuan (\$10 billion) investment by Baosteel Group, China's biggest steel producer.

A top economic planner, Vice Premier Wang Qishan, called in March for a campaign to boost exports by 10 percent this year, according to news reports. That would be well above the zero to low single-digit growth forecast by some analysts.

The huge stimulus in response to the 2008 crisis helped China rebound quickly and pushed economic growth to almost 11 percent in 2010. But it also fueled inflation and a bout of stock market and real estate speculation.

Inflation spiked to a 37-month high of 6.5 percent last July, with food prices surging 14.8 percent, before subsiding to 3.4 percent in April, below the government's 4 percent target for the year.

Local governments that splurged on building new roads, bridges, schools and other public works were left with heavy debts to state banks that some may be unable to repay.

This year, Beijing is imposing more control, requiring central government approval for major investments and calling for projects to have long-term benefits.

"I think the government understands the undesirable side effects, and this time around they will try to stabilize growth around 8 percent," said Zhang. "I think they want to avoid overshooting."

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