



Population	1,325.6 million
Population growth	0.6 percent
Surface area	9,598,088 sq. km.
Capital	Beijing

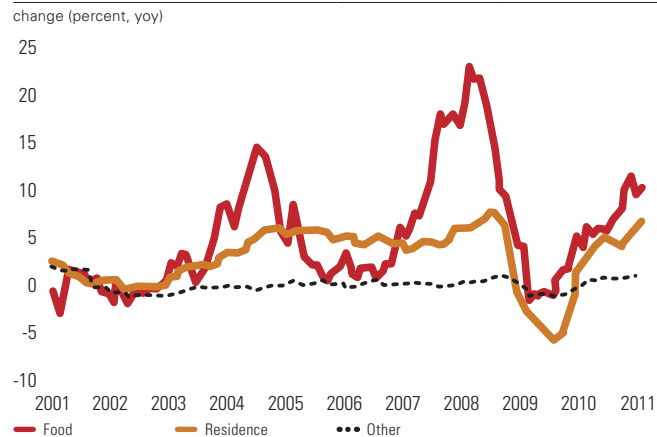
Source: World Development Indicators.

China's economy ended 2010 on a strong note. Real GDP grew 9.8 percent from a year earlier in the fourth quarter, bringing full-year growth to 10.3 percent. This was a surprise because year-on-year (yoy) growth had been slowing from almost 12 percent in the first quarter to 9.6 percent in the third quarter as a result of a fading fiscal stimulus and monetary normalization. Growth in the fourth quarter was boosted by a temporary spurt in both consumption and investment in November. The robust fourth quarter notwithstanding, the slowdown in growth appears set to continue into 2011 and 2012.

The contribution of net external trade to GDP growth eased in the fourth quarter. Reflecting robust domestic demand, import volume expansion remained strong in 2010, especially for "non-processing" imports used in China's domestic economy. These continued to grow strongly even as processing import growth slowed throughout 2010 together with processing exports. This deceleration was also visible in overall export numbers. Exports outpaced imports substantially in the first three quarters, in volume terms, providing a fillip to growth. This was not repeated in the fourth quarter due to the spurt in domestic demand. As a result, the external trade surplus for 2010 ended up a bit lower

than previously expected, as did the current account surplus.⁴⁴

Consumer Price Inflation



Source: CEIC.

Consumer price inflation rose on higher food prices while housing prices continue to occupy policymaking. Consumer price inflation trended up to 4.9 percent (yoy) in January (see Figure). About two-thirds of this inflation was attributable to food prices which have been driven upward by problematic weather domestically and by hikes in international food prices.⁴⁵ Housing-related costs have also risen substantially. Prices other than those of food and housing remain contained and core inflation was 1.7 percent in December (yoy). With housing prices quite resistant to previous measures taken in 2010 to contain them, the government took further tightening measures in end January, including raising the minimum down payment ratio for mortgages for a second house to 60 percent.

Looking ahead, China's economic prospects remain sound although some risks remain. Real growth is expected to slow to 9 percent in 2011 and ease somewhat further in the medium term. The expansion

⁴⁴ Within the current account, net income came out much lower than expected.

⁴⁵ China's wheat and rice prices do not closely follow international prices since they are managed by policymakers. In contrast, China's prices of corn and soybeans do follow international prices fairly closely and higher prices for these products have helped drive up prices for meat and eggs.

should remain supported by healthy corporate and infrastructure investment and industrialization. Consumption should be buoyed by rising real wages and employment growth in the labor market. Growth may ease further, however, as global growth decelerates and the domestic macroeconomic stance is normalized further.

Inflation is unlikely to escalate but expectations matter and there are risks. Food prices are unlikely to continue to rise at the recent pace and inflation is unlikely to escalate as core inflation remains in check. The ability to absorb commodity input price shocks in China is enhanced by the capacity for rapid productivity growth⁴⁶ and by rising wages which help reduce the real impact of price shocks in food and fuel. Moreover, core inflation has been low to start with because of the rapid productivity growth in industry. Nonetheless, with inflation expectations now having risen substantially and with the labor market less loose than it used to be, macroeconomic policy will need to play an important role in limiting the spill-over of food prices into other prices and wages. A less easy monetary stance would also help slow down property price increases.

Further normalization of the macroeconomic stance is needed to guard against risks. In addition to inflation and asset prices, other risks include the quality of banks' portfolios and non-performing loans in particular. The authorities are broadly on track to normalize the overall monetary stance. As part of this process, they have started to raise interest rates, with three increases since October 2010, and have increased required reserves. International liquidity may at times pose challenges to monetary policy, but these should be more manageable in China than in emerging markets that are smaller or have more open capital accounts. Nonetheless, measures can be taken to enhance protection against unwanted capital flows.

A mild withdrawal of stimulus is expected for 2011. The preliminary target for the 2011 fiscal deficit is 2 percent of GDP compared to the 2.3 outcome on a cash basis in 2010. Such a fiscal stance seems broadly appropriate, given the robust macroeconomic outlook.

The preparations for the 12th Five Year Plan (2011–2015) call for focus on structural issues and reforms. Changing the growth pattern is rightly a key target. The need to rebalance so that growth is led more by domestic demand, and by the service sector, seems stronger now than 5 years ago, in part because the international environment is less favorable. Such rebalancing will not happen by itself—this will require significant policy adjustment. Recent China Quarterly Updates discuss different elements of the reform agenda.

Private sector development should be a key area of focus. The November 2010 China Quarterly Update discussed policies that would help boost private sector development, focusing on opening up sectors and reducing entry barriers, addressing investment climate constraints, and supporting research and development and innovation by the private sector. Further progress in energy conservation and renewable energy calls for further rebalancing the pattern of growth, energy pricing reforms, more market-based mechanisms, lower cost of renewable energy, and accelerated development and diffusion of new energy technologies.

⁴⁶ Kim And Kuijs, 2007. Raw Material Prices, Wages, And Profitability In China's Industry—How Was Profitability Maintained When Input Prices And Wages Increased So Fast?, World Bank China Research Paper No. 8

China Key Economic Indicators

	2008	2009	2010e	2011f	2012f	2010				2010			2011
	Year	Year	Year	Year	Year	Q1	Q2	Q3	Q4	Oct	Nov	Dec	Jan
Output, Employment and Prices													
Real GDP (% change y-y)	9.6	9.2	10.3	9.0	8.5	11.9	10.3	9.6	9.8	..	..	..	..
Industrial production index /1	..	..	..	..	..	..	..	..	..	..	..	..	..
(% change y-y)	9.9	8.7	..	..	..	19.8	16.0	13.5	13.3	13.1	13.3	13.5	..
Unemployment (%) 2/	4.2	4.3	4.1	..	..	4.2	4.2	4.1	..	..	..	..	..
Real wages (% change y-y)	10.4	12.4	..	..	..	..	..	..	..	..	..	..	..
Consumer price index (% change y-y)	5.9	-0.7	3.3	4.7	3.4	5.2	6.8	4.5	5.7	4.4	5.1	4.6	4.9
Public Sector													
Government revenues (% GDP)	19.5	20.1	20.9	21.1	21.5	..	..	..	..	..	..	..	..
Government expenditures (% GDP)	19.9	22.4	22.5	22.8	23.0	..	..	..	..	..	..	..	..
Government balance (% GDP)	-0.8	-2.8	-1.6	-1.7	-1.5	..	..	..	..	..	..	..	..
Domestic public sector debt (% GDP) /3	17.0	18.0	19.0	..	..	..	..	..	..	..	..	..	..
Foreign Trade, BOP and External Debt													
Trade balance (billions US\$)	297.3	198.2	184.5	173.2	207.0	14.5	41.2	65.6	63.1	27.1	22.9	13.1	6.5
Exports of goods (billions US\$)	1,429	1,202	1,578	1,744	1,878	316.1	389.1	429.8	443.5	136.0	153.3	154.1	150.7
(% change y-y) 4/	17.3	-15.9	31.3	10.5	7.7	28.7	40.9	32.2	24.9	22.8	34.9	17.9	37.7
Key export (% change y-y) 5/	16.8	-15.7	31.4	..	..	28.3	40.8	32.5	25.2	23.0	35.0	18.6	..
Imports of goods (billions US\$)	1,131	1,003	1,393	1,570	1,671	301.6	347.8	364.2	380.3	108.8	130.4	141.1	144.3
(% change y-y) 4/	18.4	-11.3	38.9	12.7	6.4	64.7	44.1	27.4	29.5	25.4	37.9	25.6	51.4
Current account balance (billions US\$)	436.1	297.1	306.2	321.2	332.2	..	..	..	..	..	..	..	..
(% GDP)	9.6	6.0	5.2	4.9	5.3	..	..	..	..	..	..	..	..
Foreign direct investment (billions US\$) /6	108.3	94.1	105.7	..	..	45.6	121.1	198.7	279.4	92.0	116.4	168.3	120.3
External debt (billions US\$)	390.2	428.6	..	..	..	..	..	..	..	..	..	..	..
(% GDP)	8.6	8.6	..	..	..	..	..	..	..	..	..	..	..
Short-term debt (billions US\$)	226.3	259.3	..	..	..	..	..	..	..	..	..	..	..
Debt service ratio (% exports of g&s)	1.8	2.87	..	..	..	..	..	..	..	..	..	..	..
Foreign exchange reserves, gross (billions US\$)	1,952	2,405	2,853	3,120	3,574	2,453	2,460	2,654	2,853	2,767	2,774	2,853	..
(months of imports of g&s)	20.7	28.8	24.6	23.8	25.7	97.6	84.9	87.5	90.0	25.4	21.3	20.2	..
Financial Markets													
Domestic credit (% change y-y)	15.9	31.7	19.9	..	..	21.8	18.2	18.5	19.9	19.3	19.8	19.9	18.5
Short-term interest rate (% p.a.) 7/	2.8	2.8	3.3	..	..	2.8	2.8	2.8	3.3	2.8	2.8	3.3	3.3
Exchange rate (RMB/US\$, eop)	6.84	6.83	6.65	..	..	6.83	6.82	6.75	6.65	6.67	6.66	6.65	..
Real effective exchange rate (2000=100)	110.3	104.7	109.7	..	..	105.2	108.3	108.9	109.7	107.4	107.9	109.7	..
(% change y-y)	12.9	-5.0	4.7	..	..	-7.2	2.3	2.4	4.7	0.2	1.5	1.8	..
Stock market index (Dec. 19, 1990=100)/8	1,821	3,277	2,808	..	..	3,109	2,398	2,656	-159	2,979	2,820	2,808	..
Memo: Nominal GDP (billions US\$)	4,521	4,990	5,879	7,013	8,206	..	..	..	..	..	..	..	..

Source: National data sources.

f = forecast

1/ Annual data are not comparable with the quarterly and monthly data. Annual data cover all industrial enterprises while the quarterly and monthly ones only refer to those enterprises with sales value above RMB 5.0 million.

2/ Official urban unemployment only, not including laid-off workers

3/ Includes treasury bonds, policy financial bonds and other financial bonds (end-period outstanding)

4/ Nominal growth rate

5/ Manufactured exports

6/ Gross FDI utilized

7/ Central Bank loans to financial institutions, less than 20 days

8/ Shanghai Stock Exchange A-Share Price Composite