

CHINA

Vigorous growth has resumed in China thanks to a very large monetary and fiscal stimulus. Momentum picked up in the second quarter and annual GDP growth is projected to exceed 8% in 2009 and 10% in 2010, before easing slightly in 2011 as the impact of the fiscal stimulus ends. The strong increase in domestic demand stemming from the stimulus has drawn in imports, while exports have been weak and may not recover to pre-crisis rates. As a result, the current account surplus is set to fall sharply to 5½ per cent of GDP by 2010 before rising somewhat in 2011, as domestic demand growth eases. Inflationary pressures are likely to remain subdued.

The fiscal stimulus has not endangered public finance sustainability. Indeed, starting from a sizable surplus and negative net government debt on the eve of the crisis, the government can afford to keep spending at higher levels. The composition of public spending, however, ought to be changed to favour outlays on social services, notably education, health and pensions. By contrast, credit growth will need to be reined in to avoid a renewed build-up in poor-quality loans.

China: Macroeconomic indicators

	2007	2008	2009	2010	2011
Real GDP growth	13.0	9.0	8.3	10.2	9.3
Inflation ¹	7.4	7.2	-3.1	-0.2	-0.5
Consumer price index ²	4.8	5.9	-1.1	0.1	1.0
Fiscal balance (per cent of GDP) ³	2.0	1.1	-1.8	-0.9	-0.3
Current account balance (per cent of GDP)	11.0	9.8	6.4	5.4	5.9

Note: The figures given for GDP and inflation are percentage changes from the previous year.

1. Percentage change in GDP deflator from previous period.

2. Change in Laspeyres fixed-base-year index (base year 2005).

3. Consolidated budgetary and extra-budgetary accounts on a national accounts basis.

Source: OECD Economic Outlook 86 database.

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