Export fall hits China growth forecast
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The World Bank yesterday lowered its economic growth forecast for China this year to 6.5 per cent, down from 7.5 per cent at the end of last November, after huge falls in exports and shrinking private sector investment.

The downgrade widens the gap between the generally pessimistic forecasts emerging from international economists and estimates published within China, which mainly predict that the country will hit its official government target of 8 per cent growth.

Fewer than a third of 73 Chinese economists surveyed last month by the National Bureau of Statistics said they expected gross domestic product to grow by less than 8 per cent this year. The average forecast was exactly 8 per cent.

Many independent economists say the constant repetition of the government's target could lead officials at lower levels to falsify figures or to try to meet growth targets through wasteful infrastructure projects.

In its quarterly report released yesterday, the World Bank praised China for its efforts to stimulate the economy but warned that exports were likely to shrink this year and that government spending would not entirely replace falling market-based investment.

"We don't see a major rebound happening in China until the world economy rebounds," said Louis Kuijs, senior economist in the World Bank's Beijing office.

Apart from exports, the other main driver of China's economy in recent years has been real estate investment, which appears to have hit a wall as prices and sales volumes slump.

The World Bank predicts the property market will remain weak "for much of 2009", limiting the spending power of local governments, which rely heavily on revenues from land sales and bear much of the responsibility for health, education and social security.

According to official figures, local government's income from land transfers fell 20 per cent last year to Rmb960bn ($140bn, €104bn, £98.5bn).

In order to fund their portion of Beijing's much-vaunted Rmb4,000bn stimulus package, local governments are expected to turn to state-run banks for help, raising fears that the banks will be expected to act as piggy banks for pet political projects.

"Banks should not be pressured to ramp up lending beyond prudent levels," said the World Bank report. "This would risk creating new [non-performing loans]."

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