World Bank upgrades 2010 China growth forecasts

Bettina Wassener

The World Bank on Wednesday recommended higher interest rates and a stronger currency for China as it raised growth forecasts for the country, whose rapid economic growth has led to rising inflation expectations and concerns that a bubble is building in the property sector.

In its quarterly assessment of China, which is poised to overtake Japan as the world's second-largest economy after the United States this year, the World Bank raised its forecast to 9.5 percent growth for 2010, from the 8.7 percent it had projected in November. It also estimated that growth would slow somewhat next year, to 8.7 percent.

Separately, Dominique Strauss-Kahn, the managing director of the International Monetary Fund, also said the renminbi's exchange rate was too low. "Some currencies in Asia are undervalued, especially the renminbi," Mr. Strauss- Kahn told a committee of the European Parliament in Brussels.

A massive stimulus package and ample lending by China's state-controlled banks helped the giant economy to avoid a recession last year. China grew 8.7 percent in 2009, less than in previous years but still a huge gain, especially when compared to the drop in gross domestic product that hit most other leading economies. Exports, a main driver of growth, also recovered briskly from their sharp fall in early 2009, allowing China to gain global market share last year. But several problems have emerged: the World Bank on Wednesday singled out the looming property bubble and strained local government finances as "macroeconomic risks" in China.

"Inflation expectations can be contained by a tighter monetary stance and a stronger exchange rate," the organization wrote in its report. The case for a larger role for interest rates in monetary policy is strong. If policymakers remain concerned about interest rate sensitive capital flows, more exchange rate flexibility would help."

The call for flexibility comes at a time when China faces increasing pressure from the United States to let the renminbi appreciate against the dollar. Many U.S. politicians argue that the current level, at 6.8 renminbi to the dollar, gives Chinese exporters an unfair advantage by making their goods cheap for overseas buyers.

In addition, the World Bank said that with output in China now once again "close to potential," the country now needs "a different macro stance than most other countries."

This echoes assessments from many other economists, many of whom expect the Chinese authorities to step up measures to contain bank lending, including by nudging up interest rates again later this year.

"The monetary policy stance needs to be tighter than last year and the case for exchange rate flexibility and more monetary independence from the U.S. is strengthening," the organization said in its update.

"It would also be helpful to increase the tolerance for modest inflation, to ensure room for desirable relative price changes. Strengthening the exchange rate can help reduce inflationary pressures and rebalance the economy. Over time, more exchange rate flexibility can enable China to have a monetary policy independent from U.S. cyclical conditions, with is increasingly necessary."

Fonte: New York Times, New York, 17 mar. 2010, Global Business, online.