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China unveils strategy for economic revisions

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CHINA plans to better coordinate fiscal and monetary policies in 2008 to help reduce its trade surplus and mop up excessive liquidity, Vice Finance Minister Li Yong said yesterday.

The nation's money supply grew at the slowest pace in seven months in December, the central bank said on Saturday, after it took measures to cool inflation and prevent the economy from overheating.

China may face pressure from Europe and the United States to allow faster gains by its currency after the trade surplus surged 48 percent to a record US$262.2 billion last year, Bloomberg News reported.

"This year's fiscal policy will focus on structural adjustments and help essentially solve the problem of excess liquidity," Li said at a conference in Beijing. "Monetary policies should focus on quantitative controls to win more time for structural reforms."

China also needs to use administrative measures to tackle these issues, he said.

The government will adjust resource prices this year to rectify its energy-pricing system and boost domestic spending as its top priority, Li said. Weakness in the US dollar will limit China's ability to raise interest rates and reserve ratios, he added.

"Fiscal policy can play a bigger role," said San Feng, an economist at the State Information Center in Beijing. "The government this year needs to cut its fiscal deficit and debt issuance for long-term construction projects, and it should lower taxes on sectors affected most by price controls."

China will cut the budget deficit "modestly" this year, the finance ministry said last month.

The ministry this year began to tax exports of grain at a rate up to 20 percent to boost domestic supply.

China's total tax revenue jumped 31.4 percent to 4.94 trillion yuan (US$680.2 billion) last year, according to the taxation administration.

The People's Bank of China has pledged a "tight" monetary policy this year, after six interest-rate increases in 2007, to curb lending and prevent escalating asset prices.

"We will decisively fight against inflation and implement tight monetary policies," said Yi Gang, vice governor of the central bank, at the Beijing conference yesterday. "But we will do it prudently to ensure economic stability."

Consumer prices jumped to an 11-year high of 6.9 percent in November, prompting the State Council, the Cabinet, to announce last Wednesday a freeze on energy and utility price gains in the near term.

"The government needs to avoid high inflation expectations," said Xu Lin, head of the fiscal and financial department of the National Development and Reform Commission.

"If price increases slow down, the temporary measures to curb prices can be eased," he told the conference.

China has set a preliminary target for the full-year inflation rate of 4.6 percent in 2008 and that for annual economic growth at eight percent, Xu said.

Both targets need to be officially set at the sessions of the National People's Congress, which are scheduled to be convened in March.

The yuan rose for a fifth week, reaching the strongest level since China scrapped a fixed exchange rate to the greenback in 2005.

The US and Europe say the yuan, even after recent advances, is still at a level that gives local companies an "unfair advantage" in overseas markets.

The December trade surplus shrank to US$22.7 billion from US$26.2 billion in November, as exports grew at the slowest pace in two years, indicating that recent yuan gains, the cooling global expansion and cuts to export-tax rebates on polluting industries are beginning to bite.

China's economy probably expanded 11.5 percent in 2007, the fastest pace in 13 years, according to government forecasts.

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