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Newspaper Edition

## Hint of new measures to prevent overheating

By Shamim Adam 2008-5-6

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CHINA'S economy is at risk of overheating and policy makers may raise interest rates and do more to soak up the cash flooding the financial system, officials said.

"We will combat demand and prevent rapid economic growth from turning into overheating," Vice Finance Minister

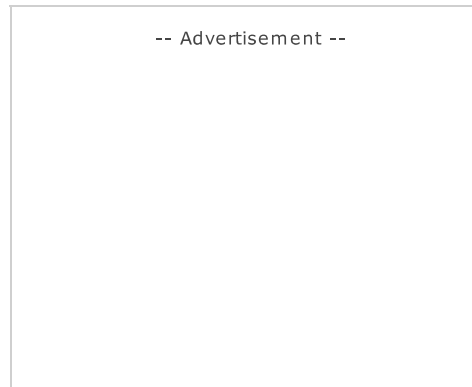
Li Yong told delegates at the Asian Development Bank's annual meeting in Madrid yesterday.

Consumer prices rose 8.3 percent in March, close to an 11-year high, as food costs soared and the trade surplus pumped US\$13 billion into the financial system. China is trying to cool growth without triggering a slump in the world's fastest-growing major economy as export demand wanes, Bloomberg News said.

"We always say there is a possibility to use interest rates" to restrain inflation, central bank Governor Zhou Xiaochuan said in Basel, Switzerland, adding that policy makers have a range of options.

China's economy, the world's fourth-largest, expanded 10.6 percent in the first quarter, down from 11.2 percent in the previous three months. Consumer prices climbed 8.7 percent in February, the fastest pace since 1996.

"Growth has started to slow, why take the risk of taking additional cooling measures and risk stalling the economy?" asked Leslie Phang, Singapore-based head of private clients at Schrodgers Plc, which manages US\$275 billion.





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### New situation

Overseas investors attracted by the yuan's gains and rising interest rates have channeled money into China, adding to the inflows from trade and foreign direct investment. The benchmark one-year lending rate is at a nine-year high of 7.47 percent after six increases last year.

Rate cuts by the United States Federal Reserve have created a "new situation" for China, attracting short-term investors, Zhou said.

He added that the Chinese government is monitoring the inflows of so-called hot money.

"China is a very large economy - usually a small amount of abnormal capital inflow doesn't have a serious impact on monetary policy," Zhou said.

China will do a lot more to "sterilize" inflows, Li said.

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