China locked into financial policy

China has reiterated its commitment to proactive financial policies and moderately loose monetary policies amid market speculation that it might be preparing an exit strategy.

Despite the fact that the country's economic growth is likely to speed up in the fourth quarter, the government will stay the course on its fiscal stimulus spending and its support of loose monetary policy, said Vice-Premier Li Keqiang yesterday at the International Tax Dialogue Global Conference.

On the subject of the $586-billion stimulus package's role in reviving the economy, Li said: "The stimulus package is practical, timely and effective. But the stimulus financial policies should also be flexible and sustainable."

According to the figures released by the National Bureau of Statistics last week, China had year-on-year GDP growth in the third quarter of 8.9 percent. The growth rate was 7.7 percent overall for the first three quarters of 2009.

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Li attributed the economy's recovery to rising domestic demand, saying the expected tax cut of 550 billion yuan ($80.55 billion) this year would not only prop up domestic demand but also help adjust the structure of the economy.

The vice-premier also emphasized that it was important to keep stable tax policies because China is facing a crunch time in the revival of its economy.

The government has not decided whether it will extend the tax break for the auto market into next year. Car sales boomed in 2009 because of cuts in purchase tax. Auto sales in China reached 9.66 million in the first three quarters, exceeding total sales in 2008.

Li Wenjie, general manager of property agency Centaline China (North China region), said continuing current tax preferences, including tax cuts on the purchase of a second home, would help maintain a stable and predictable environment for the property market.

However, some economists have cautioned that part of the 8.65 trillion yuan made in stimulus loans during the first nine months of the year flowed into stock and property markets instead of the real economy.

Jia Kang, director of the Research Institute for Fiscal Science at the Ministry of Finance, told China Daily: "The rising expectation of inflation doesn't mean real inflation pressure. So China will continue with its proactive financial policies and moderately loose monetary policy."

The stock market is relatively stable, but the bubbles in the overheated property market should be monitored, Jia said.

Angel Gurria, Organisation for Economic Co-operation and Development secretary-general, said at the same conference that the time was not right for China to abandon its policies.

"I will not recommend the removal of stimulus now. I recommend we start to look for fiscal consolidation," Gurria said.

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