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Premier Wen says China will cool property prices

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SHANGHAI -- Chinese Premier Wen Jiabao said the government will cool property prices, resist pressure for the yuan to appreciate and keep inflation at “reasonable” levels.

“Property prices have risen too quickly in some areas and we should use taxes and loan interest rates to stabilize” them, Wen said today in an online interview with the official --inhua News Agency. China will “absolutely not yield” to pressure on the yuan, he said.

China's property prices climbed last month at the quickest pace since July 2008, adding to concern that record lending and inflows of money will inflate asset bubbles in the world's fastest-growing major economy. Central bank adviser Fan Gang said Nov. 18 that the nation needs to be on alert for stock, real-estate and commodity bubbles as global capital flows into emerging economies.

“It's difficult to see how serious the government is about cooling the property market,” said Andy --ie, former Morgan Stanley chief Asian economist. “The issue isn't about introducing new measures but enforcing existing measures.”

In November, real-estate prices in 70 major cities rose 5.7 percent from a year earlier, compared with a 3.9 percent increase in October.

China should anticipate that inflation may appear and that the government will keep consumer-price increases within a “reasonable range,” Wen said. The government will also maintain a “moderately loose” monetary policy and a “proactive” fiscal policy, he said.

End of Deflation

Consumer prices climbed 0.6 percent in November from a year earlier, snapping a nine-month run of deflation.

“China will keep its loose stance at least in the first half of next year as inflation is expected to stay within tolerable levels,” said Shen Minggao, chief economist for Greater China at Citigroup Inc. “There won't be significant changes, to maintain policy stability, but some industries with excess capacity have seen credit tightened.”

On Dec. 25, China raised its 2008 growth estimate to 9.6 percent from 9 percent and said this year's quarterly figures will also increase, narrowing the gap with Japan. A record 9.2 trillion yuan (US$1.3 trillion) of loans in the first 11 months of this year drove China's recovery after the global crisis slashed export demand.

China's growth may surge to as much as 12 percent next year, increasing the risk from inflation, unless the government raises interest rates, Zhu Jianfang, chief economist at Citic Securities Co., said Dec. 23.

'Absolutely Not'

Wen reiterated today the government's stance on the yuan after last month rejecting a call by a group of visiting European officials, including central bank President Jean-Claude Trichet, for a stronger currency. China has held the yuan at about 6.83 per dollar since July last year, shielding its exporters from the slump in global demand.

“Maintaining a stable yuan has made an important contribution globally,” Wen said. “We will absolutely not yield to pressure to appreciate.”

Twelve-month non-deliverable yuan forwards indicate that China's currency will appreciate 2.6 percent against the dollar in the next year. The yuan gained about 21 percent in the three years after a fixed exchange rate was scrapped in July 2005.

A US$586 billion, two-year stimulus package and subsidies for consumer purchases helped the economy expand 8.9 percent last quarter, the fastest pace in a year. China is poised to replace Japan as the world's second-biggest economy next year, according to International Monetary Fund projections.