Economy

Chinese economy facing downside risk

By Wang Bo (China Daily)
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BEIJING - The Chinese economy is facing a downside risk due to uncertainties brought by the European debt crisis and the country's recent tightening measures, while an economic hard landing is highly unlikely, a senior analyst at a government think-tank said on Wednesday.

"The economy is expected to decelerate from the strong spurt of growth we saw in the first quarter, but an economic slump is unlikely," Zhang Liqun, a senior research fellow at the macroeconomic research department of the State Council Development Research Center, told China Daily.

"The country secured 8 percent growth last year despite the devastating global financial crisis and there is no reason for a big economic fluctuation this year as exports recover," he said.

While fears of contagion from the European crisis began to spread across the world and a flurry of stringent measures were introduced to cool the sizzling domestic property market, the market mood in China has quickly been turning from concern over economic overheating to worry about a sharp economic slowdown.

"The current tightening measures are part of a necessary cooling off," Zhang said.

He noted that it is no longer the government's top priority this year to pursue high GDP growth and what it does care about is how to put the economy onto a sustainable growth track. "Gross domestic product growth of 9 or 10 percent this year would be satisfactory (for policymakers)," he said.

"The main downside risk lies in the recovery of the country's external demand, which is clouded by the ongoing European crisis and the weak US economic recovery," Zhang said.

The Chinese economy expanded by 11.9 percent in the first quarter and consumer inflation climbed to 2.8 percent in April, prompting market speculation that an interest rate hike may be around the corner.

However, Zhang said the monetary authority would be very prudent in raising cost of borrowing, as such a move will curb overall demand for capital and restrain private investment and consumption.

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"This year, monetary policy is aimed at mopping up excessive market liquidity while maintaining market activities, which can be achieved through open market operations and hikes in banks' reserve requirement ratios," he said.

He expected the country's consumer price index (CPI) to move mildly upward without any major abrupt surge this year, reducing the likelihood of an increase in interest rates.

"Consumer inflation is fundamentally decided by the supply and demand of consumer products, which remains largely balanced," Zhang said.

China has reaped a bumper harvest for six consecutive years and the Ministry of Agriculture said on Tuesday that the prospects for the summer harvest are promising. The recent price increase in some agricultural products, such as garlic and mung beans, did not break the fundamental equilibrium of farm goods, and thus will do little to push up CPI, he said.