



UNDER EMBARGO UNTIL 07.00 GMT, WEDNESDAY, 6 AUGUST 2014

CHINA

Country briefing notes

Economic growth could slightly moderate this year

- In 2013, economic growth remained at 7.7%, the same pace as in 2012. Rapid credit growth and concurrent rises in investment as well as increased government spending largely contributed to economic growth.
- The slower growth rates recorded in recent years are in line with the country's structural transformation towards a consumption-led economy.
- The growth in China's services sector output, which overtook manufacturing output in 2013, is an encouraging sign that the economy is gradually diversifying. On the demand side, however, private consumption as a percentage of GDP still stands well below the average value of emerging Asian economies.
- Economic expansion is expected to moderate slightly in 2014 to 7.5%, as economic rebalancing continues. The planned reform packages on taxes and the financial sector towards a more market-oriented economic system are also expected to contribute to the transformation of the economy.

Inflation pressure remained low

- Inflation was unchanged in 2013 at a low rate of 2.6% due to moderate wage growth, lower commodity prices and stronger control of credit expansion.
- In 2014, inflation is forecast to pick up slightly to 3.1% despite slowing economic growth due to liberalization of administrative prices and recovery in global demand that pushes up international commodity prices. The expected inflation could be lower if the global economic recovery is weaker than currently anticipated.

Current account surplus narrowed due to weaker exports

- China's current account surplus narrowed slightly to 2% of GDP in 2013, from 2.6% of GDP in 2012, on the back of weaker export growth. The capital account, on the other hand, turned around from a deficit in 2012 to a large surplus in 2013 due to higher interest rates and strengthening of the Chinese currency.

Macroeconomic policy developments

- Monetary policy tightened in response to rapid credit expansion in the early months of 2013. The authorities are also closely monitoring possible episodes of capital flow volatility related to monetary policy normalization in the United States.
- A mini fiscal stimulus was announced in April 2014 to support economic growth, which included investment in railways and tax cuts for small businesses.

Policy Challenges

- A major policy challenge facing China, as recognized by the Premier, is maintaining a balance between steady economic growth and the need for reforms in support of realignment.
- The new master plan announced in late 2013 to "comprehensively deepen reforms" is the Government's response to a number of socio-economic challenges in China. The reform package includes transitioning to a more market-oriented system, while enhancing its regulatory framework.
- China is also making progress on internationalizing its domestic currency with the opening of a yuan clearing bank in London. The two countries will also allow direct trading between the British pound and the Chinese yuan. A similar agreement has also been made recently with the Republic of Korea.
- China is starting to play a greater role in supporting regional development in the Asia-Pacific region by announcing plans to establish an Asian Infrastructure Investment Bank.

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