World Bank cuts China growth forecast

Global Times, 2014-4-7, By Song Shengxia

The World Bank on Monday cut China's annual growth forecast for 2014 to 7.6 percent, a level that is still higher than the annual growth target set by the country's central government in March, indicating the bank still remains upbeat about China's economy.

The new forecast is 1 percentage point lower than the previous forecast of 7.7 percent but higher than the average growth prediction for the East Asia and Pacific region of 7.1 percent in 2014, according to a report released Monday by the World Bank.

The report attributed the cut partly to "a bumpy start to 2014" in China, noting that industrial production, exports and Purchasing Managers' Index (PMI) data had been weak in the first two months of the year.

"The cut by the World Bank is in line with the forecasts of many research institutes and economists, due to slow growth in the real estate sector and investment in the first two months," Li Heng, a macroeconomic analyst with Minsheng Securities, told the Global Times on Monday.

The report came after the State Council announced on Wednesday a cut in taxes for micro and small-sized firms and plans to speed up construction of railway lines and renovation of run-down areas.

The announcement of the measures has fueled speculation that the government may resort to large stimulus measures to boost the economy, which has stumbled in the first two months.

The country's February exports tumbled 18.1 percent from a year earlier, following a 10.6 percent gain in January. Industrial output and fixed-assets investment, which are key drivers of economic activity, both slowed down in the first two months.

"The recent growth-supporting measures by the government sent positive signals. Instead of big stimulus, these measures, which are already included in the country's 12th Five-Year Plan (2011-15), will fine-tune the economy and speed up the recovery of economic activity," Li said.

"No big stimulus is expected currently. The government will achieve the right balance between supporting growth and commitment to structural reforms," Xu Hongcai, director of the Department of Information under the China Center for International Economic Exchanges (CCIEE), a Beijing-based think tank, told the Global Times on Monday.

Despite Monday's cut, the report was still positive about China's economic outlook. The forecast for growth in 2015 was kept at 7.5 percent, and the report said China's economy will be less reliant on policy-induced, credit-fueled and investment-led growth.

"The authorities are committed to embarking on structural reforms that will deliver a more sustainable and inclusive growth path in the medium to long term," the World Bank said.

"Pursuing the reforms will not be easy because they may have short-term costs and could entail moving to a slower growth path," it said.

"The moderate cut in China's growth forecast by the World Bank suggests the bank is optimistic about China's growth and confident that China will achieve its annual growth target in the year," said Xu from CCIEE.

China set an annual growth target for 2014 of 7.5 percent at the two sessions in March. In 2013, GDP rose by 7.7 percent, surpassing the official target of 7.5 percent.

Some positive signs about China's economy emerged earlier this month. The official PMI rose to 50.3 in March, up 0.1 from February, the National Bureau of Statistics announced on April 1.

China is expected to announce March data for the Consumer Price Index (CPI) and Producer Price Index (PPI) on Friday.

"The CPI and PPI are projected to be 2.4 percent and -2.4 percent respectively, versus 2.0 percent and -2.0 percent in February," DBS Bank said in a research note e-mailed to the Global Times on Monday.

The central bank will continue to fine-tune policy via open market operations, it said.