

The Ottawa Citizen

IMF upbeat on world economy growth; Strauss-Kahn warns Asia to prepare for new bubbles

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Byline: Peter Brieger
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Illustrations: Colour Photo: Jerome Favre, Bloomberg news / Dominique Strauss-Kahn says the cash flowing into Asia was in stark contrast to the global financial crisis.

Colour Photo: Bobby Yip, Reuters / A participant walks past a poster at the Asian Financial Forum in Hong Kong on Wednesday. The world's economy is recovering more strongly than expected and the growth rate in 2010 is likely to beat the forecast of three per cent.

The managing director of the International Monetary Fund said Wednesday Asia may need to erect temporary capital controls among other measures to guard against the risk of new economic bubbles as speculative money floods into the region.

Dominique Strauss-Kahn said the global economy looked on course to beat the 3.1-per-cent growth forecast currently expected by the International Monetary Fund for 2010, as a post-crisis recovery accelerates.

Speaking in Hong Kong, the IMF managing director also reiterated his call for China to boost the value of its currency, the yuan, which critics say is kept artificially low to boost Chinese exports.

(In Canada, Finance Minister Jim Flaherty confirmed that Canada had agreed to Japan's request to discuss the need for a stronger Chinese yuan at a Feb. 5-6 meeting of G7 finance ministers and central bankers in Iqaluit.)

There is broad concern about the influx of foreign money pouring into Asia, which has sent property prices rocketing as the region leads the recovery.

Strauss-Kahn said the cash flowing into Asia was in stark contrast to the global financial crisis when the fear was of money drying up.

Strauss-Kahn said options to discourage the inflow included cutting interest rates, accumulating reserves or tightening fiscal policy.

"Capital controls can also play a role, particularly where the surge in capital flows is expected to be temporary, or where exchange rate overshooting is a real danger.

"As long as it's temporary, it may be the only way" to ward off a bubble, Strauss-Kahn told the Asian Financial Forum, a gathering of political and business leaders.

And in a veiled comment on China, he said: "In many countries, exchange-rate appreciation should be the key response, especially in those where the exchange rate is undervalued."

In a later statement, Strauss-Kahn said he had told Hong Kong officials that money pouring into the

territory "could lead to rapid credit growth that in turn unduly drives up asset prices and creates macroeconomic volatility".

Economies worldwide went into a tailspin in late 2008 when credit dried up due largely to the collapse of a U.S. property bubble.

But Strauss-Kahn said some emerging economies could begin exiting stimulus programs sooner than rich countries, with world growth likely to outstrip the IMF's forecast figure of 3.1 per cent this year.

Excluding Japan, Asia might expand by more than seven per cent, the IMF boss said.

In his speech, he again dismissed fears of a "double-dip" recession for the world economy -- but said the pace of recovery had been uneven with Asia bouncing back faster than the rest of the world.

Strauss-Kahn said world leaders should press on with financial reforms to prevent a repeat of the credit crisis, including better regulation and oversight of the banking sector.

"We need reform and we need political will," he said.

The New York Times

China on Path to Become Second-Largest Economy

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Byline: EDWARD WONG

BEIJING China announced Thursday that its gross domestic product in fourth quarter 2009 grew by 10.7 percent year-on-year, up from a revised growth rate of 9.1 percent in the third quarter. China's economy is surging forward even as many other nations, including the United States, are still trying to punch through the global recession.

Over the whole year, the Chinese economy grew by 8.7 percent, surpassing the 8 percent growth-rate benchmark that Chinese leaders assert is necessary to maintain social stability. If China keeps up that growth rate, it will likely replace Japan as the world's second-largest economy by the end of this year.

The National Bureau of Statistics also announced Thursday that industrial production in December grew by 18.5 percent and retail sales by 17.5 percent. The December consumer price index rose by 1.9 percent and producer price index by 1.7 percent.

The numbers were generally in line with earlier predictions. Chinese officials are clearly worried about inflation and asset bubbles, especially in real estate, but the latest economic statistics will no doubt fuel the triumphant tone of recent official pronouncements on the Chinese economy. Much of that commentary has emphasized the contrast between China's relatively successful weathering of the global recession and the severe downturn that still afflicts Western economies.

A front-page signed editorial on Jan. 5 in the People's Daily, the official mouthpiece of the Communist Party, praised the Party for its far-sighted economic policies and lauded the Chinese economic model.

"When the financial crisis forced the neo-liberal economic system into a dead end, the shortcomings of the capitalist system was exposed for all to see," the editorial said. "But a China that was pushed to a crossroads proved its 'national capabilities' in taking on a crisis by answering with the advantage of the socialist system with Chinese characteristics."

Chinese officials remain concerned about inflation and excessive bank lending, as well as loan defaults. In recent weeks, they have acted on several fronts to address those issues.

On Jan. 7, the central bank raised a key interest rate, the first time it had done so in nearly five months. Five days later, regulators ordered state-owned banks to set aside a larger share of their deposits as reserves against failed loans. Investors and analysts had not expected such a move until the second quarter of this year.

On Wednesday, Bank Of China ordered its credit

officials to halt any new renminbi loans in an attempt to curb overly fast lending growth in the first few weeks of this month. Liu Mingkang, chairman of the China Banking Regulatory Commission, said in Hong Kong that he expected to see a sharp drop in new renminbi lending, but that his organization had not ordered it.

Economists said China would move to further tighten bank lending to confront inflationary fears and swelling asset bubbles.

"The first half of 2010 is likely to be characterized by gradual policy tightening, chiefly through administrative measures," Jing Ulrich, director of the China equities and commodities division of J.P. Morgan in Hong Kong, wrote in a report on Thursday. "Concerns about capital inflows and the health of the export sector will limit the scope for interest rate tightening, but we do expect to see a moderation in new bank loans and the use of reserve requirements to manage the volume of money supply."

Economic numbers released Thursday also showed China's export industry is still responsible for much of its growth. Some Chinese economists have said China must restructure its economy so that it begins to rely more on domestic consumption and less on exports, which are greatly affected by the overall health of the world economy.

Other countries, especially the United States, have also said the artificially low value of renminbi gives China an unfair advantage in exports, and governments will likely press China much harder this year to strengthen its currency, something that China has resisted doing.

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The Globe And Mail

China's regulators apply brakes to bank lending; Authorities rein in rapid growth in loans - up 32 per cent last year - over fears of brewing bubbles in real estate prices and stocks

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Byline: Andy Hoffman
Source: With files from AP

China's banking regulators are clamping down on a massive lending spree amid fears the world's third largest economy is overheating.

Several major Chinese banks, including Bank of China and Agricultural Bank of China were given verbal orders to halt new lending for the rest of January following a binge of loans in the first two weeks of the month totalling as much as 1.2-trillion yuan (\$175-billion U.S.), according to reports.

Government authorities are worried that free flowing capital lent to Chinese companies and citizens is stoking bubbles in real estate prices and stocks.

"Bank of China's lending system has been 'shut down,' so technically no loans can be issued in the remainder of January," Na Liu, China analyst at Scotia Capital said in a report, citing banking sources in China.

A \$600-billion stimulus package and a willing lending sector has helped shield China from the global recession. But there are concerns that China may move too quickly to choke off capital and stall a nascent global recovery.

In a speech at a conference in Hong Kong yesterday, the chairman of the China Banking Regulatory Commission said China would rein in the rapid growth in loans, which increased 32 per cent in total to 9.5-trillion yuan or about \$1.3-trillion (U.S.) last year.

"We shall control, and we have controlled, the credit growth the whole year round," Liu Mingkang said at a financial forum.

Mr. Liu said that bank loans would decrease to about 7.5-trillion yuan in 2010 and that "corrective actions" had been taken against banks that lent too much or made bad loans.

China's two major stock markets declined about 3 per cent yesterday on worries the new credit restrictions would inhibit investment. As well, the markets were hit by rumours and unconfirmed media reports that China's central bank could increase interest rates by 27 basis points as soon as tomorrow, following the release of GDP data.

Scotia Capital's Mr. Liu said the rumour is unlikely to be true, as "the tightening pace will be deemed to be too quick."

China's central bank hiked banks' reserve ratio earlier this week, increasing the amount of capital they had to have on hand to make loans. China also boosted interest rates on second home mortgages and increased the down payment on second homes to 40 per cent of the purchase price.

"The reactions in the Chinese stock market and property market so far should satisfy the Chinese authorities already, at least in the near term," Mr. Liu said.

China suffered along with the global economy during the worldwide downturn, but it has bounced back faster than economies elsewhere. Beijing hopes cooling the pace of lending will keep its economy growing without creating inflation and overheating. Other nations are counting on that growth and a healthy demand for their goods for their own recoveries.

Chinese regulators are paying special attention to loans for local government projects and real estate. All banks have been ordered to "heighten their vigilance" against credit risk, the regulatory commission's Mr. Liu said.

By most measures, Chinese banks are among the world's healthiest at the moment. Not only are they flush with cash, but their bad loans, known as non-performing loans, stand at just 1.6 per cent.

But with China's economic growth pegged at a blistering 8 per cent after a torrent of lending, banks will see a rise in bad loans in the coming years, though losses are expected to be manageable, said Alistair Scarff, head of Asia financial institutions research for Merrill Lynch in Hong Kong.

Smaller commercial banks in China's cities are likely more at risk than are the country's heavyweight institutions, he said.

At the same time, China's modern banking system has yet to be fully tested.

China's banks have never faced a recession or big losses as profit-driven companies answerable to shareholders. What's more, advanced risk management systems and lending practices are a relatively new arrival at some banks.

"You have a banking system that has never really been through a down cycle," Scarff said. "This is the

first time they're really facing these challenges as separate entities and modern financial institutions."

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