China economic growth on track, says Asian Development Bank
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China's economy may still grow around 7.5% this year despite signs of a slowdown, and there is no immediate need for the government to roll out fresh stimulus measures, Asian Development Bank (ADB) President Takehiko Nakao said today.

Nakao, former Japanese vice finance minister for international affairs, told Reuters he expects China's annual economic growth to be still roughly in line with the government's target, although there may be "ups and downs".

ADB is revising its forecast on China's growth for 2014, currently at 7.5%, he said, but did not elaborate.

Chinese leaders face a challenge to keep the world's second-largest economy on an even keel while forging ahead with a long list of market-based reforms announced at a key party meeting late last year, he said.

He said that some short-term stimulus might be necessary to smooth out volatility in the economy, but there was no immediate need, as growth remains healthy due to the country's ongoing urbanisation and rising consumption.

"At this moment, I don't think China needs to resort to a stimulus package," he said, adding that the economy will likely grow at a rate of around 7.5%.

"China is still in the process of urbanisation, and people need places to live. Consumption is growing very fast, more than growth of the economy," he said.

Concerns about the health of the Chinese economy are mounting after a string of data showed growth is slowing more sharply than expected in early 2014, raising doubts if the growth target can be met in the absence of fresh stimulus.

Activity in China's factories slowed for a fifth straight month in March, a preliminary private survey showed on Monday, raising market expectations of government stimulus to arrest a loss of momentum in the world's second-largest economy this year.

Economists in a Reuters poll had earlier predicted China's growth will slow gradually over the next two years as the government forges ahead with structural reforms and seeks to curb elevated debt levels to help create long-term sustainable growth. The economy expanded 7.7% in 2013, hovering near its weakest pace since the late 1990s.

Debt problems manageable

Nakao said he was impressed by Chinese leaders' commitment to market-oriented reforms to help put the economy on a more sustainable footing, but they needed time to implement them.
Liberalising interest rates and the currency regime in China should "go hand in hand", and interest rate liberalisation could be carried out in a step by step manner to ward off possible banking risks, he said.

China's debt problems remain manageable as the economy grows steadily, but public finance reforms – including giving provinces more revenues to match their responsibilities – will be vital for dealing with the root cause of the issue, he said.

"Some companies or local government financing vehicles can go bankrupt if their management is not strong enough, this can happen in any country, but the issue is whether it becomes a systemic issue for the economy or not," he said.

Earlier this month, loss-making Shanghai Chaori Solar Energy Science and Technology Co Ltd missed a bond interest payment, the first such domestic bond default of its kind and an event seen as a landmark for market discipline in the economy.

He said Asian economies were more prepared to cope with any economic turbulence and the region's fundamentals were much stronger than there were during the Asian financial crisis in the late 1990s.

"They are more prepared to take action quickly if there are signs of instability," he said.

"Fragility? I don't buy that idea. Of course, we cannot be complacent, we should always be prepared."

Japan's monetary policy easing, which has supported the economy and boosted the country's foreign direct investment flows to the rest of Asia, could help offset any impact from the withdrawal of US monetary stimulus, Nakao said.

Nakao was named ADB chief in April 2013, replacing Haruhiko Kuroda, who became Bank of Japan governor. – Reuters, March 24, 2014

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