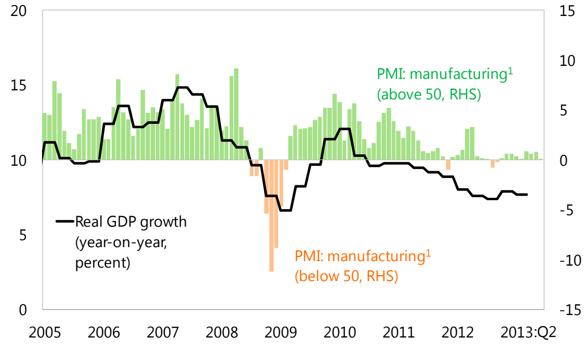
3. Economic outlook. Downside risks to staff's 2013 growth projection have increased. The Purchasing Managers Index, an indicator of industrial activity, weakened slightly in June (to 50.1, from 50.8 in May). Official second-quarter GDP estimates, along with many of the monthly indicators for June, will be published on July 15, 2013 and will provide further insights on the outlook for the remainder of this year.

China: Real GDP Growth and PMI



Sources: CEIC; and IMF staff calculations.
[1] Calculated by subtracting 50.

©International Monetary Fund. Not for Redistribution

INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

Press Release No. 13/260
FOR IMMEDIATE RELEASE
July 17, 2013

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Concludes 2013 Article IV Consultation Discussions with the People's Republic of China

On July 12, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation discussions with the People's Republic of China.[1]

China's economy is expected to grow at around 7¾ percent this year, notwithstanding a moderate slowdown during the first half, with resilient domestic demand offsetting lingering weakness in the external environment. Inflation has continued its downward path, and with persistently high investment contributing to excess capacity in many sectors, is likely to remain subdued around 3 percent this year and next.

Macroeconomic policies have been supportive toward achieving this year's growth target. The overall fiscal deficit is likely to be around 2 percent of GDP, similar to last year. Strong growth in total social financing is expected to underpin a slight rebound of activity in the second half of this year. Capital inflows have resumed in recent months and the renminbi has appreciated by around 1½ percent against the U.S. dollar in the year through June, and by about 6 percent in real effective terms. International reserves have risen to about US$3.44 trillion at the end of March (up from US$3.31 trillion at the end of 2012).

Last year the current account surplus increased slightly to 2¼ percent of GDP, from just under 2 percent in 2011. Nevertheless, China's progress on external rebalancing has been substantial—the current account as a share of GDP is now less than a quarter of its pre-crisis peak in 2007. By contrast, domestic imbalances remain large. National accounts data show that last year gross fixed capital formation grew further as a percent of GDP, while private consumption was broadly unchanged, indicating that a decisive shift toward a more consumption-based growth path has yet to occur. Accelerating the transformation of the

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Washington, D.C. 20431 • Telephone 202-623-7100 • Fax 202-623-6772 • www.imf.org

©International Monetary Fund. Not for Redistribution

growth model remains the main priority, as reaffirmed in recent policy announcements by the new administration.

Executive Board Assessment

Executive Directors welcomed China's continued strong economic growth with subdued inflation. Directors noted nevertheless that the growth outlook is clouded by mounting domestic vulnerabilities in the financial, fiscal, and real estate sectors. At the same time, potential spillovers from developments in the euro area and major advanced economies continue to pose external risks. Directors agreed that China has the capacity to withstand shocks, but considered that a further strengthening of policy buffers over time would be desirable.

Accordingly, Directors underscored the importance of transitioning to a new growth path that is more consumption-based, inclusive, and environmentally friendly. They welcomed the authorities' reform strategy in this direction, which charts a path toward mitigating risks, rebalancing growth, and addressing income disparities, thus safeguarding China's important contribution to global growth.

Executive Directors agreed that the near-term challenge is to contain risks to financial stability, by reining in credit growth and nontraditional forms of lending. Going forward, Directors stressed that a more market-based financial system would help improve the allocation of capital, boost household income, and prevent a further buildup of risks. Emphasizing that financial sector liberalization should progress at the appropriate pace and sequencing, they considered as pressing priorities further deregulation of interest rates, greater use of market-based instruments in monetary management, and enhanced prudential oversight, including over the activities of non-banks.

In this connection, Directors agreed that a more robust and transparent framework for resolution of bad debts and troubled financial institutions would facilitate an orderly exit of weak institutions. They also welcomed the authorities' plan to introduce deposit insurance, and encouraged them to take steps to remove the perception of implicit government guarantees on some financial products, which would ensure a more effective pricing of risk and limit moral hazard.

Directors recognized the contribution of off-budget, quasi-fiscal activity in supporting demand since the global financial crisis. Nonetheless, they encouraged the authorities to unwind it gradually to limit fiscal risks and, if economic growth slows down too sharply, they recommended using on-budget fiscal stimulus, focused on consumption.

©International Monetary Fund. Not for Redistribution

Directors also encouraged continued efforts to strengthen the governance and transparency of local government finances while protecting priority spending. In addition, shifting the tax burden from social contributions toward more progressive and efficient forms of taxation, including a value added tax, would boost the role of private consumption as a growth-driver and reduce income inequality. Directors welcomed the authorities' indication to consider this as part of a comprehensive reform of the social security system.

Taking note of the staff's assessment that the renminbi remains moderately undervalued, Directors considered that a more market-based exchange rate system would facilitate further internal and external rebalancing. They supported the authorities' policy of restraining foreign exchange intervention, thereby allowing market forces to play a greater role in exchange rate determination.

Directors stressed the importance of advancing structural reform under the Twelfth Five-Year Plan. They encouraged continued liberalization of the capital account, carefully sequenced with financial and exchange rate reforms. Further progress on demand rebalancing is particularly crucial, including by opening markets to domestic and foreign competition, especially in the services and upstream industries, raising resource prices and taxes, and increasing dividend payments by state-owned enterprises to the budget.

Recognizing China's rapid economic and financial development and its increasing global importance, Directors supported plans to continue to upgrade the statistical base, which they hoped will eventually lead to China's subscription of the Fund's Special Data Dissemination Standard. In particular, they welcomed the authorities' ongoing efforts to improve data on local government finances.

©International Monetary Fund. Not for Redistribution

China: Selected Economic Indicators

	2008	2009	2010	2011	2012	2013	2014
	(Annual percentage change, unless otherwise specified)						
National accounts and employment							
Real GDP	9.6	9.2	10.4	9.3	7.8	7.8	7.7
Total domestic demand	9.6	13.9	10.6	10.2	8.4	8.3	8.0
Consumption	8.6	9.4	9.2	11.0	8.4	8.5	8.1
Investment	10.8	19.2	12.0	9.5	8.4	8.1	7.9
Fixed	9.5	22.8	11.4	9.1	10.0	8.4	8.2
Inventories 1/	0.8	-0.8	0.5	0.4	-0.5	0.0	0.0
Net exports 1/	0.9	-3.5	0.4	-0.4	-0.2	-0.2	-0.1
Consumer prices							
End of period	1.2	1.9	4.6	4.1	2.5	3.1	3.0
Average	5.9	-0.7	3.3	5.4	2.6	3.0	3.0
Unemployment rate (annual average)	4.2	4.3	4.1	4.1	4.1	4.1	4.1
	(In percent of GDP)						
External debt and balance of payments							
Current account	9.3	4.9	4.0	1.9	2.3	2.5	2.7
Trade balance	8.0	5.0	4.3	3.3	3.9	3.7	3.4
Exports of goods	31.7	24.1	26.7	26.0	25.0	24.6	24.7
Imports of goods	23.8	19.1	22.4	22.7	21.1	20.9	21.3
Gross external debt	8.6	8.6	9.3	9.5	9.0	9.8	10.3
Saving and investment							
Gross domestic investment	44.0	48.2	48.2	48.3	48.8	48.8	49.0
National saving	53.4	53.1	52.2	50.1	51.2	51.4	51.6
Public sector finance							
General government gross debt	17.0	17.7	33.5	28.7	26.1	22.4	19.9
General government balance	-0.7	-3.1	-1.5	-1.3	-2.2	-2.1	-1.8
	(Annual percentage change)						
Real effective exchange rate							
Annual average	9.2	3.4	-0.4	2.7	5.7	...	...
End of period	12.4	-5.0	5.3	5.9	1.1	...	...

Sources: CEIC Data Co., Ltd.; IMF, Information Notice System; and IMF staff estimates and projections.

©International Monetary Fund. Not for Redistribution