

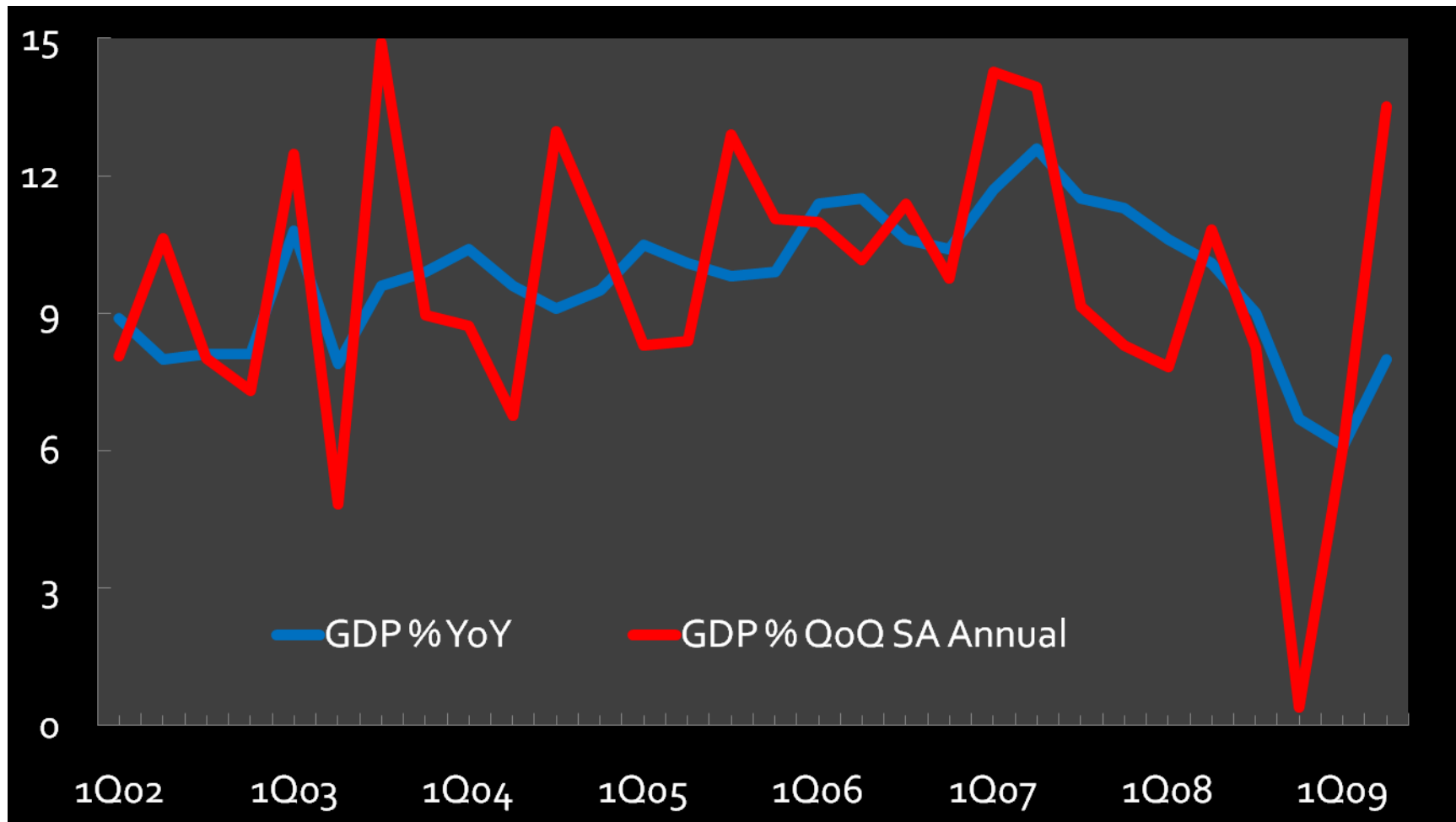
# **China: Economic Recovery and Sustainably Growth**

# Key Messages

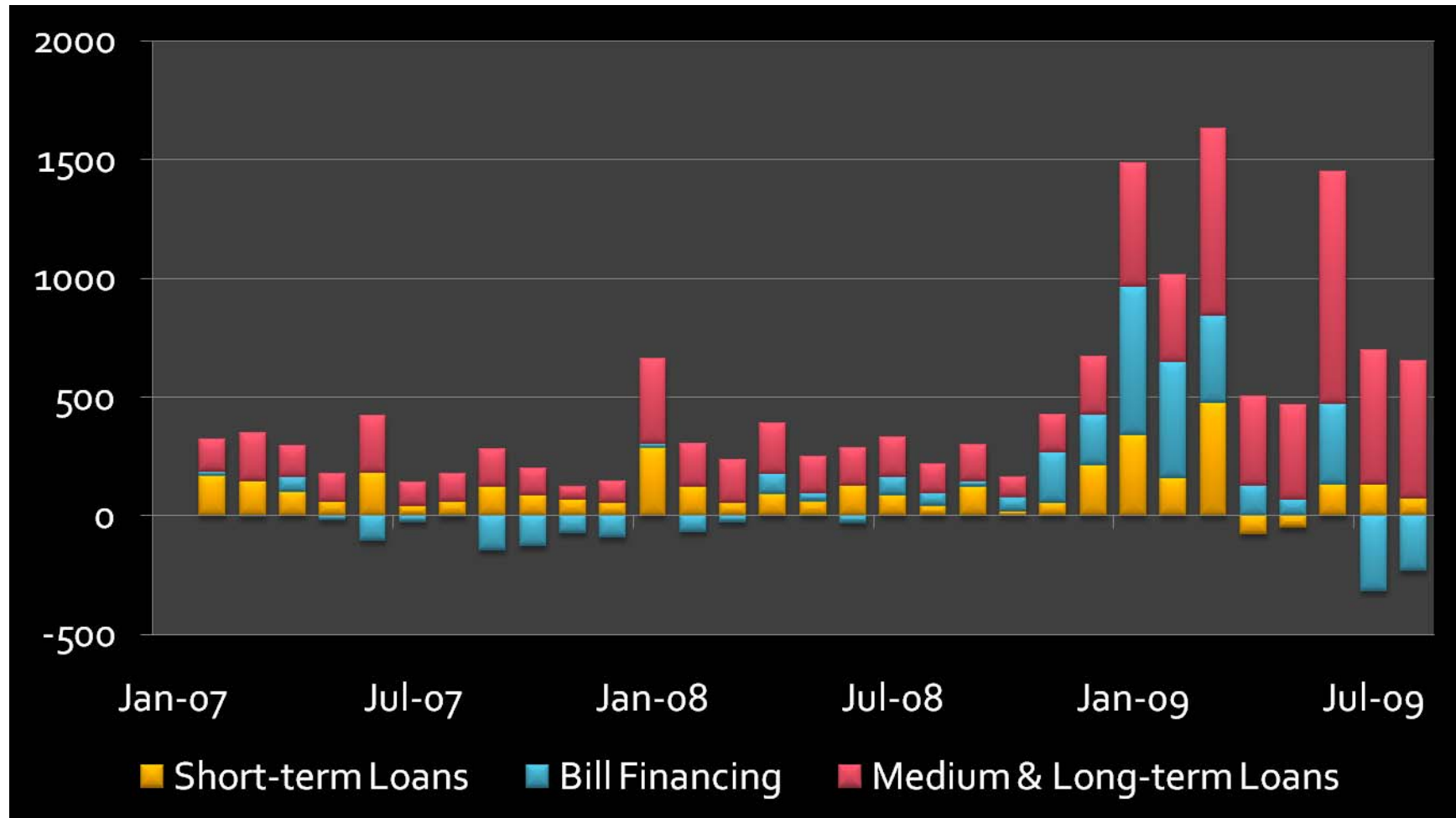
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- China can maintain 8%+ growth given healthy balance sheets of households, corporates, banks and the government
- Liberalization of factor markets is critical for reducing structural imbalances and should be the new policy priority

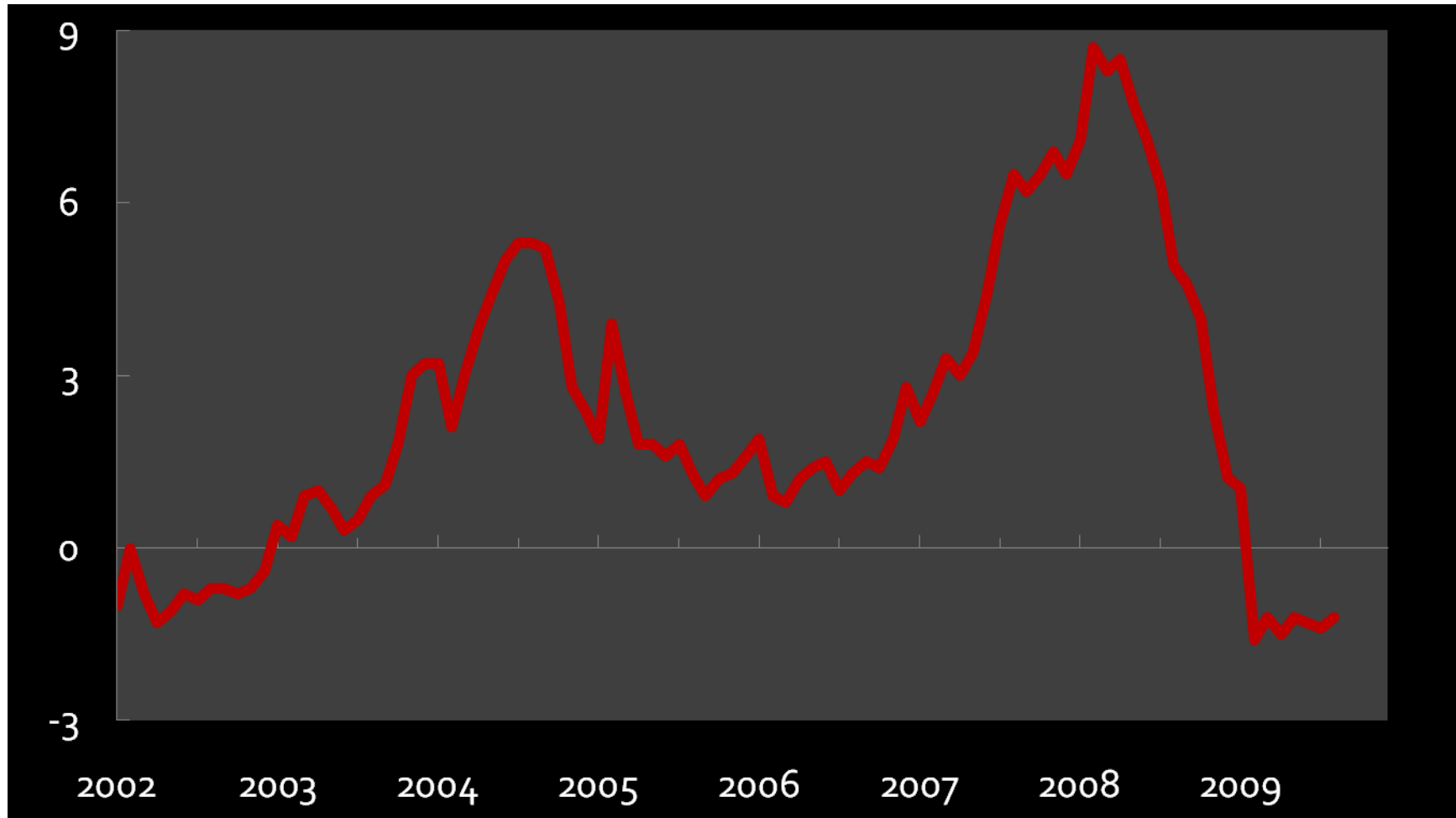
# GDP Growth Rebounded



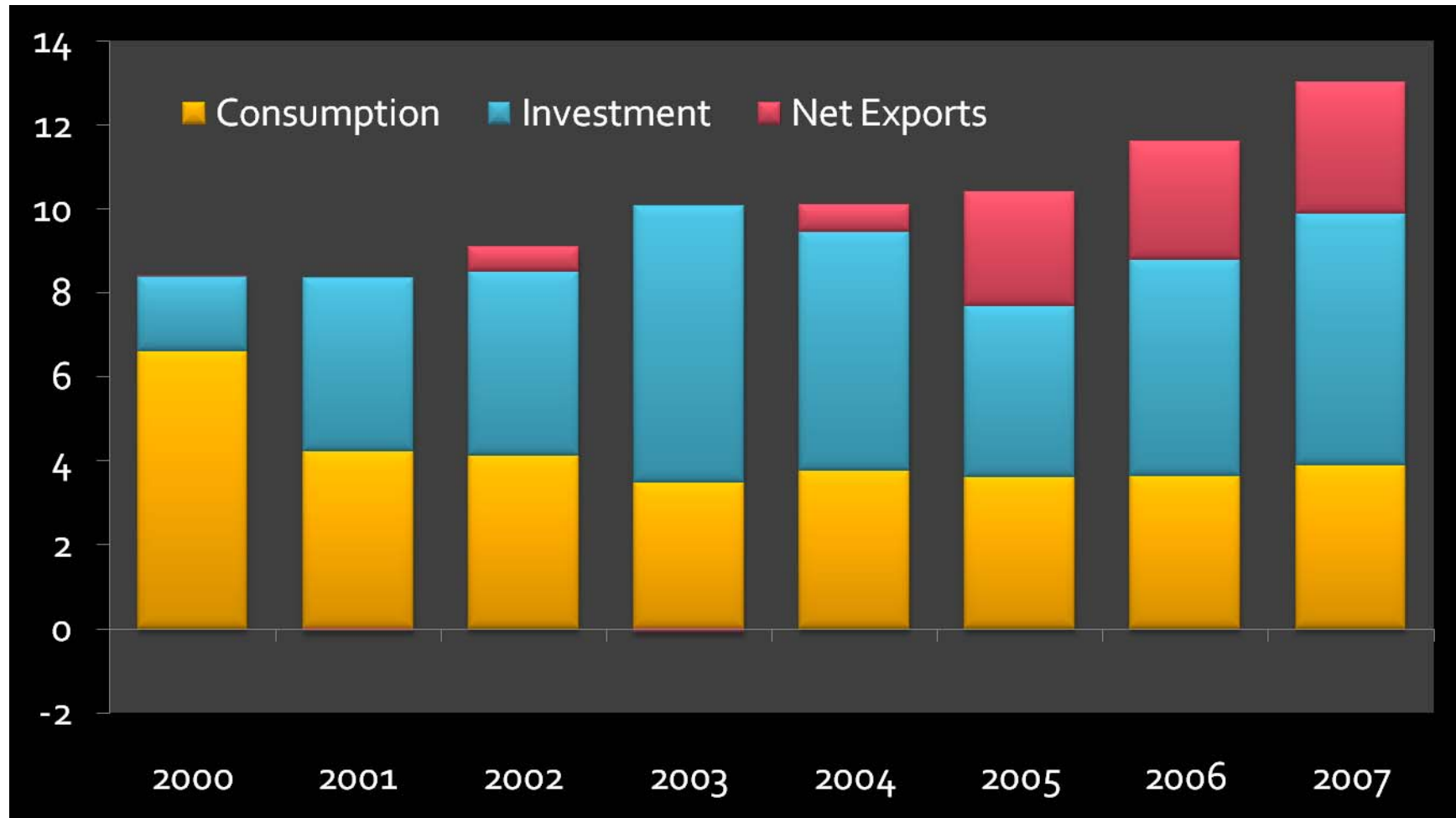
# Massive Credit Expansion



# CPI Is Still Falling



# Imbalances Could Worsen



# Factor Market Distortions

Estimated Producer Subsidy Equivalent (7.2% of GDP in 2008)

	Major policy distortions	CNY billion
Labor	Household registration system that restricts labor mobility; Undeveloped social welfare systems that lower employers' labor cost	411
Capital	Capital account controls that restricts outflows more than inflows; Dominance of the state banks in the banking sector; Interest rates that are highly regulated; Credit allocation that is still subject to some policy influences; Chinese Yuan that is mostly undervalued in recent years	607
Land	Land that is owned by the collectives in the countryside and by the state in the urban areas; Lack of well functioning land market; Local governments competing with more favorable land deals in order to attract outside investment	120
Energy	Upward adjustment of domestic fuel prices that is often frozen when international prices rise quickly; Electricity tariffs that are set for specific user groups by the authorities	204
Environment	Environmental laws and regulations that are often not rigorously enforced	591