
Stimulus plans - Stimulus funds help end crisis in China

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China Daily reported that workers are busy building the new Dongbei Special Steel Group plant at Dalian in Liaoning province. China is experiencing a construction boom thanks to a CNY 4 trillion stimulus package initiated by the government.

Top legislative officials said the government should improve the portfolio of the stimulus package to avoid over construction. The comments come one year after the government made a swift response to combat the worst global financial crisis since the 1930s.

Fully approving the package essential role in reviving the economy and improving people livelihoods, officials at the 11th session of the Standing Committee of the 11th National People Congress said the package was correct, timely and effective.

So far the government has spent CNY 1.18 trillion in public projects since the Q4 last year. Some CNY 252.2 billion was spent in agriculture, CNY 213.4 billion in large scale infrastructure and CNY 92.6 billion in education and health.

By the end of August, more than 1.26 million flats of low rent housing were under construction. Nearly 4 million square meters of new school buildings have been completed in the middle and western rural areas. However, bad planning and insufficient financing have been exposed after the NPC dispatched special research teams to 18 provinces from May to August.

Mr Shi Xiushi a member of the finance and economy committee of the NPC said "Some regions made plans for the financial aid from central government and caused waste. He said that "Some technology innovation projects are not well prepared or do not fit their area's industrial structures."

The research teams also doubted the practicality of building roads that link villages with only a few farmers in some rural areas. On the other hand a drastic decline in local financing has also challenged some public projects requiring a large proportion of local investment.

The top legislature said the package should be optimized in order to prevent repeated construction and the local governments should be more risk-conscious about bank loans.

Mr Jia Kang director of the Research Institute for Fiscal Science at the Ministry of Finance "More research is necessary before a project starts said "Related departments should be involved in making plans or else we won't avoid wastes."

Mr Louis Kuijs a World Bank economist, praised China's stimulus package success in fueling a boom in infrastructure investment and keeping consumer confidence up. But he also pointed out potential risks.

He said that "Some of the increase in bank lending has flown to the property and stock markets. Particularly in the Q3 on the back of a recovery in the real estate market an increasing share of the new lending went to mortgages."

Mr Kuijs said he believes it's too early to say that China is facing asset price bubbles. He said that "But with today loose monetary conditions the risks of unwarranted asset price rises and misallocation of credit increases over time."

Mr Kuijs said besides the huge investment in infrastructure, more is needed to boost the role of consumption in China's economy on a sustained basis.

(Source from China Daily)

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