China allows release of critical IMF report

By P. Parameswaran (AFP) – 2 days ago

WASHINGTON — China allowed an IMF report critical of its currency policy to be released Thursday for the first time in four years, signaling Beijing's confidence that it can control the debate on the yuan.

The Washington-based International Monetary Fund staff report charged that the yuan was "substantially" undervalued despite Beijing's decision more than a month ago to let the currency be traded more freely.

Aside from a clear difference in view on the current value of the yuan, which the United States and other nations think has been kept low by Beijing for a trade advantage, the report also reflected an opinion split on China's current account surplus -- the broadest measure of its trade with the world.

"I would hope to believe the fact that the Chinese decided to release the staff report reflects a view on their part that the report was balanced, was fairly reflective of their views as well as the staff's views and the overall picture that it was even-handed," said the IMF China mission chief Nigel Chalk.

"Obviously there was a difference of view on the currency and there was a difference of view on the prospects of the current account," said Chalk, who led an IMF mission to China for annual consultations on Beijing's policies ahead of preparation of the report.

China has disallowed the annual IMF staff report from being made public since 2006, protesting against the fund's characterization of its currency and pressuring the board to omit its findings, sources said.

Under IMF rules economies can choose whether to allow the body's staff reports to be publicly released.

Many analysts believe the yuan is vastly undervalued against the dollar -- by as much as 40 percent -- despite a June 19 decision by the Chinese central bank to let the yuan trade more freely.

Since the move, the yuan, which had been effectively pegged at 6.8 to the dollar since mid-2008, has appreciated by less than one percent.

Beijing's allowing the publication of the IMF staff report "signals increasing confidence on China's part that it can control the debate about its currency," Eswar Prasad, former head of the IMF China division, told AFP.

The debate has divided the IMF.

The split appeared between the IMF executive board and the staff, who went on the mission, as well as within the board.

The IMF board, in a report Tuesday on the consultations with China, said not all directors agreed the exchange rate was undervalued and that "a number" of them disagreed with the staff?s assessment of the exchange rate.

The staff report points out that the yuan exchange rate is "substantially below the level that is consistent with medium-term fundamentals."

The executive directors' report felt the yuan was just undervalued and that a number of them supported China's position.

"The fact that the IMF executive board was clearly much more supportive of China's currency policy than the IMF staff seem to have been may also have emboldened China because it feels that it has fewer detractors in the international community," said Prasad, economics professor at Cornell University.

The board also accused the staff of basing China's current account surplus projections on "uncertain forecasts."

The Chinese authorities argued that China's current account surplus will remain about four percent of gross domestic product whereas the IMF staff projected that it will revert back to eight percent of GDP.

"This issue has broader implications because if China runs a big current account surplus, somebody has to be running a current account deficit on the other side," Prasad said, citing the constant trade deficit row with the US.

Often blaming the burgeoning US trade deficit with China on the undervalued yuan, US lawmakers have been pushing Beijing to allow its currency to rise, saying it could reduce the flood of red ink.

Last year, the deficit rose to a whopping 227 billion dollars.

A key US House of Representatives committee with power over taxes and trade said Thursday it would hold a September 15 hearing to weigh possible new steps to press China over its currency policy, the panel's chairman said Thursday.

"There is no real question that China's deliberately undervalued exchange rate is unfair, contributes to global trade imbalances, and costs the United States jobs and economic growth, particularly in the manufacturing sector," he said House Ways and Means Committee Chairman Sander Levin.

The IMF report said the Chinese yuan was "substantially" undervalued

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