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IMF Review Calls Yuan Undervalued

By BOB DAVIS

WASHINGTON—The International Monetary Fund, in a long-delayed review of China's economic policies, said the country's stimulus policies had boosted the global economy during a global downturn, but contended that China's currency remains "undervalued."

Some of the staff's conclusions were contained in a three-page summary of comments by the IMF's 24-person executive board on China's policies. The summary was published after a Wall Street Journal story on Tuesday said the staff had concluded that the yuan was "substantially undervalued."

The summary didn't use the word "substantially," which can raise hackles in Beijing. China announced on June 19 that it was adopting a "flexible" currency policy after tying the yuan to the dollar since 2008. Since the announcement, though, the yuan has increased in value less than 1%. An IMF spokesman didn't comment on the conclusions of the staff analysis, whose publication China can block under IMF rules.

While China has permitted publication of summaries before, it hasn't approved the release of the full economic analysis. From 2007 to 2010, China wouldn't cooperate with the IMF on the review, which is supposed to be done annually, because of concerns that the IMF would criticize its fixed exchange rate, IMF officials have said. The current review was started in the spring of 2010.

According to the summary, IMF directors praised China's "decisive policy response to the global economic crisis" and "welcomed" China's decision to let the yuan float somewhat. The directors said it would increase the central bank's flexibility in setting monetary policy.

"Several directors agreed that the exchange rate is undervalued," the report said, without naming names. Several IMF officials said the U.S., Germany, France and the U.K. were among those who held that position.

Eswar Prasad, a Cornell University economist who headed the IMF's China desk and who keeps close tabs on IMF deliberations, said that none of the countries pressed China to let the currency appreciate quickly.

"A number of others disagreed with the staff's assessment of the level of the exchange rate," the summary said. Brazil's executive director has said he backed China's analysis of its trade surplus and financial reserves, but didn't take a position on whether the currency was substantially undervalued.

Many directors, the IMF summary said, stressed that a stronger yuan would "help facilitate a shift from exports and investments to private consumption as the principal driver of economic growth." Such "rebalancing" is a goal of the Group of 20 industrialized and developing countries.

Mr. Prasad and some people at the IMF said the statements by board members were supportive of China, so the summary—which is meant to reflect the board's discussion—couldn't use the phrase "substantially undervalued." He said that according to different methodologies the IMF used, the yuan was undervalued somewhere between 5% and 27%.

On other Chinese economic issues, the IMF's board said it supported a "gradual phase-out" of China's massive fiscal stimulus in 2011. "The policy challenge now is to calibrate the pace and sequencing of exit from fiscal stimulus and credit expansion," the IMF summary said, "while making further progress in reorienting the economy toward private consumption."

The board members also commended China for its "pragmatic deployment" of a range of measures to "contain" the rise in real-estate prices. A number of economists worry that rising Chinese property prices could produce an asset bubble.

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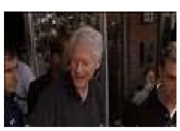

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