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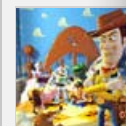
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SEPTEMBER 4, 2009

China Set to Buy \$50 Billion in IMF Notes

Article

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By **MEENA THIRUVENGADAM**

WASHINGTON -- China is on track to become the first purchaser of notes issued by the International Monetary Fund, a move that would diversify its foreign asset holdings and could give the IMF's quasi-currency more clout.

The IMF on Wednesday said China has signed an agreement to purchase approximately \$50 billion in notes from the fund. The notes are denominated in Special Drawing Rights, a quasi-currency issued by the fund and promoted by China as a potential replacement for the dollar as the world's reserve currency.

The agreement is the first of its kind for the fund and marks China's most visible step toward shifting its investment focus away from the U.S. Treasury market.

"The symbolism is very important here. It is no longer the U.S. dollar alone that the Chinese have access to," said Eswar Prasad, a senior fellow at the Brookings Institution and former head of the IMF's China division.

Countries including Brazil, Russia and India also have expressed interest in purchasing IMF notes, whose issuance is meant to bolster the fund's lending capacity and help fulfill a Group of 20 pledge to strengthen the Fund's own capital position.

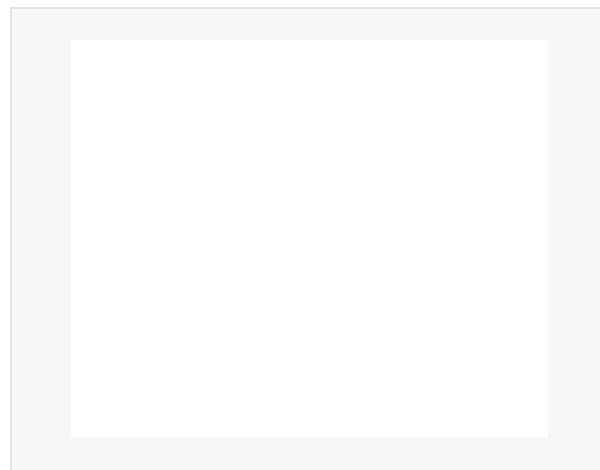
Still, "For China this is particularly significant in the context of their strong desire to have an alternative to the dollar for parking their reserves," Mr. Prasad said. "Having a large stock of IMF bonds in circulation that are denominated in SDRs is definitely going to give a boost to the Chinese proposal of increasing the importance of the SDR."

But with a limited market for IMF notes, Eurasia Group Associate Nicholas Consonery doesn't expect the agreement will spur sharp declines in China's purchases of Treasury securities. "At the margin they are trying to make efforts to diversity future asset purchases, but we have no expectation that this, in any immediate sense, will present a real viable alternative for China," he said.

China in June held more than \$776 billion worth of U.S. Treasury securities, several times the total amount of notes the IMF is expected to issue. China is the largest foreign holder of U.S. Treasury Securities.

While Mr. Prasad expects the agreement won't have a significant short-term impact on the U.S. dollar, he notes the situation could change in the longer-term.

"It is no longer a pipe dream for the SDR to become a serious reserve currency," he said.



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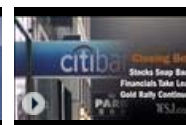
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A Treasury spokesman had no comment.

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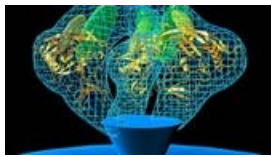
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