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Money

'Softened' IMF tone eases yuan pressure

By Wang Bo (China Daily)
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Allowing for gradual appreciation of Chinese currency recognized

Beijing - The International Monetary Fund's (IMF) softened tone toward China's exchange rate regime will ease pressure on the appreciation of the yuan, when the world's third-largest economy faces increasing risks of a slowdown, Chinese economists have said.

In a summary of comments by the IMF's 24-member executive board on Chinese policy released on Tuesday, the Washington-based lender welcomed China's recent decision to return to a managed floating exchange rate system but contended that the yuan was still "undervalued".

The tone was slightly different from the IMF's long-held position, which claimed that the Chinese currency is "substantially undervalued". IMF Managing Director Dominique Strauss-Kahn reiterated the stance in June.

China scrapped the yuan's 23-month-old peg to the US dollar and pledged to seek greater flexibility in the value of its currency on June 19. The yuan has edged up about 0.7 percent since.

"Given the current downside risk that the Chinese economy is facing and the complicated external environment, it is not realistic to expect the yuan to appreciate significantly," said Zhang Xiaojing, a senior economist at the Chinese Academy of Social Sciences. Zhang said he expects the yuan to rise about 3 percent this year.

"The view showed that the IMF has recognized China's effort in pursuing greater currency flexibility and generally agreed with the country's approach to let the yuan appreciate in a gradual manner," Zhang said.

The country's economic growth slowed to 10.3 percent in the second quarter, from the 11.9 percent three months earlier, due to tightening measures on the property sector and control on credit growth. These added to uncertainty in the country's economic outlook for the rest of the year, analysts said.

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However, the IMF report indicated that it remained optimistic about China's growth outlook, forecasting that the Chinese economy will expand at 10.5 percent this year.

Hu Xiaolian, vice-governor of the People's Bank of China, the central bank, said in an article published on the bank's website last week that the exchange rate will maintain overall stability at a reasonable and balanced level. But the currency might show "two-way movements" against a single currency depending on market conditions, Hu said.

The IMF report said some of its board members agreed that the exchange rate is undervalued, but other members disagreed with the assessment of the exchange rate, noting that it is based on uncertain forecasts of the current account surplus.

The IMF's conciliatory tone came after the release of the much-awaited US Treasury report earlier this month, when it admitted that China's economic rebalancing policies have led to "a significant decline" in its current account surplus and "China has made progress" in rebalancing its growth. The Treasury report did not label China as a currency manipulator.

Chinese economists forecast that the country's exports will face tougher conditions in the second half due to lackluster external demand, which will lead to a further drop in the country's trade surplus.

"Since the outbreak of the financial crisis, it was the international capital flow, rather than current account surplus, that has contributed much to an imbalance in China's international payments," said Dong Xiaojun, professor at the economic research center with the Chinese Academy of Governance.

Current account surplus accounted for 69 percent of China's international payment surplus in 2009, compared with an average of 76.2 percent in the past decade, Dong said. The figure has dropped to 43 percent in the first quarter of this year, she said.

"Therefore, it is not reasonable to blame China's exports as the cause of the country's surplus in international payments. Countries implementing loose monetary policy during the crisis should also take the blame," she said.