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IMF Said Ready to Cut China Current-Account Surplus Forecast

By Sandrine Rastello - Apr 11, 2012

The International Monetary Fund is set to lower its forecasts for China's medium-term current-account surplus, according to two officials who have seen the draft report.

The Washington-based IMF in September estimated surpluses of more than 7 percent of gross domestic product for 2015 and 2016. The new forecasts for the broadest measure of trade will be published April 17 in the IMF's World Economic Outlook, according to the officials, who spoke on condition they wouldn't be named because the figures haven't been made public.

China, the world's second-largest economy, amassed $3.18 trillion of foreign reserves at the end of last year, provoking accusations from U.S. lawmakers that it was keeping its currency weak to promote exports. The lowered forecasts for China's current account may reduce pressure on the nation to allow its currency to appreciate, said Eswar Prasad, a former head of the China division at the IMF.

The new IMF outlook "definitely implies that the estimates of under-evaluation are going to be reduced," said Prasad, a senior fellow at the Brookings Institution in Washington. "The big question is whether" it will be "enough to eliminate the sense of substantial undervaluation," he said.

The prospective reduction of the forecasts was reported earlier by the Wall Street Journal. IMF spokesman William Murray declined to comment on the story.

Near 'Equilibrium'

The IMF staff, in its assessment of China's economy last year, estimated that the yuan was "substantially below the level consistent with medium-term fundamentals," a conclusion disputed by Chinese authorities, who cited faulty current- account projections among other arguments.

The yuan may be near an "equilibrium" and policy makers will allow greater exchange-rate volatility, Premier Wen Jiabao said on March 14.

China's current-account surplus was 2.7 percent of GDP last year and will, over three to five years, "go to about 3 percent," according to estimates by Wang Tao, an economist with UBS AG in Hong Kong. Credit Agricole SA projects it will fall to 1.4 percent this year and 1.1 percent in 2013.

"The case that the yuan is not that undervalued is becoming a mainstream economic view," said Yao Wei, an economist with Societe Generale AG in Hong Kong. "Confirmation from the IMF provides political support for China in its dealings with the U.S. and other economies."

Unexpected Surplus

China's current-account excess has shrunk from more than 10 percent of GDP in 2007. The nation yesterday reported an unexpected trade surplus for March as import growth trailed forecasts, underscoring the risks of a deeper slowdown in an economy that has powered global expansion.

Inbound shipments rose 5.3 percent, the customs bureau said, below the 9 percent median estimate in a Bloomberg News survey. Exports increased 8.9 percent from a year earlier, more than forecast, leaving a trade surplus of $5.35 billion, compared with a median projection for a $3.15 billion deficit.

The yuan had its first quarterly decline since December 2009 in the first three months of 2012, sliding 0.06 percent to close at 6.2980 per dollar on March 30 in Shanghai, according to the China Foreign Exchange Trade System.

Still, the currency remains "substantially undervalued, by about 30 percent against the dollar," Arvind Subramanian, a senior fellow at the Peterson Institute for International Economics in Washington and a former assistant director of research at the IMF, wrote in the Financial Times on April 9. "The mercantilist juggernaut is alive and well," he wrote.

The current account shows trade and income transactions, including investment income, between residents and nonresidents.

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