

China asks IMF to explain new forex rules; delays report

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WASHINGTON, Sept 20 - China requested an International Monetary Fund team return to Beijing this week to explain the IMF's new currency surveillance rules, which were revised in June and opposed by China, IMF sources said on Thursday.

China's move has delayed the completion of the IMF's so-called Article IV report on China, which details annual economic consultations between the IMF and Chinese officials.

The discussions took place on Monday between Chinese authorities and a technical team from the IMF.

"The surveillance decision came out after the Article IV could be properly concluded, so in countries where this happened, teams are supposed to discuss with the authorities how to implement the decision," one insider explained.

Still, the report will be the first for China under the new IMF currency surveillance rules approved by the IMF board in June, a move that was widely interpreted as increasing pressure on Beijing over its policy on its currency, the yuan.

The new rules stipulate that member countries, as well as avoiding currency manipulation and intervention, should avoid policies that result in external instability.

One insider said a preliminary report on initial IMF consultations before China requested further talks on the surveillance framework contained "strong language on China's foreign exchange rate policy."

China is not the only country whose annual economic health check has been delayed by the fund's controversial new foreign exchange policy, but it is by far the most important.

The Chinese currency, the yuan, has already risen about 9.0 percent against the U.S. dollar since China abolished its fixed exchange rate regime in July 2005 and allowed a managed float.

But many economists believe an even stronger yuan is vital to rebalance both the Chinese and the world economies, while policy makers, especially in Washington, hope a hard-hitting report by the IMF will help prod Beijing to let its currency rise further to reflect China's strong economic fundamentals.

China's economy has been growing at an annual rate of about 10 percent in recent years, though inflation has begun to rise again also and is now running at about 6.5 percent annually.

China has indicated it may ask the IMF to return one more time to Beijing for policy discussions before the report is concluded, which is "months" away.

China opposed changes to the surveillance framework in June saying the decision was pushed through by powerful developed countries and cautioned the move could hurt the Fund's reputation.

One insider said China was "pushing back" against a policy it believes was crafted to help Washington press its case that the yuan is undervalued, and he said the policy would put greater pressure on emerging market countries than on developed states.

Beijing's request for further consultations also highlights some confusion among members countries and staff about how the new framework, which on paper appears simple and straightforward, is applied in practice, the insiders said.

"At some point we'll have to have a discussion on how to apply this thing to China. We're not at that stage yet. It's a question of months, not days," one insider said.

Eswar Prasad, Tolani senior professor of trade policy at Cornell University and a former IMF official, said China wants to make sure that the new IMF surveillance rules are being applied even-handedly across the entire IMF membership.

"The Chinese have two concerns. Firstly, that any statement about the degree of exchange rate misalignment coming from the IMF could feed into trade disputes with the United States, which are beginning to heat up further.

"Secondly, the Chinese are waiting to see if the new surveillance decision will be applied uniformly across all countries, including industrial countries. After all, misalignment is a concept that could apply equally well to countries with floating exchange rates," he added.