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CONFIDENTIAL

August 23, 1984

To: Members of the Executive Board  
From: The Secretary  
Subject: People's Republic of China - Real Effective  
Exchange Rate - Information Notice

The attached information notice on the real effective exchange rate of the Chinese yuan is circulated for the information of the Executive Directors.

If Executive Directors have technical or factual questions relating to this paper, they should contact Mr. G. G. Johnson (ext. (5)8671).

Att: (1)



INTERNATIONAL MONETARY FUND

PEOPLE'S REPUBLIC OF CHINA

Real Effective Exchange Rate--Information Notice

Prepared by the Asian and Exchange and Trade  
Relations Departments

(In consultation with the Legal and Research Departments)

Approved by Tun Thin and Manuel Guitian

August 23, 1984

The recent evolution of China's real effective exchange rate, as measured by the standard index developed in connection with the information notice system, is set out in the attached table and chart. Based on this index, as of June 1984 the Chinese yuan has depreciated in real effective terms by more than 10 percent since the last occasion on which the Executive Board had an opportunity to discuss China's exchange rate policy--the 1983 Article IV consultation in November 1983. The depreciation is estimated to have amounted to 10.5 percent.

The Chinese authorities have indicated that the official exchange rate for the yuan is determined through a peg to a basket of internationally traded currencies. Between November 1983 and June 1984 the yuan depreciated by 10.1 percent against the U.S. dollar, and by 7.9 percent in nominal effective terms. By August 14 there had been a further depreciation of 4.6 percent against the U.S. dollar, resulting in a rate of Y 2.356 per US\$1. China's rate of inflation has been moderate relative to those of its trading partners.

The internal settlement rate, which applies to all foreign trade and trade-related transactions, also gives an indication of competitiveness. This rate has remained unchanged at Y 2.8 per US\$1 since it was introduced in January 1981.

These developments and their implications will be reviewed in the forthcoming staff report on China's 1984 Article IV consultation, which will be discussed by the Executive Board in October or November 1984.

Table. People's Republic of China: Real Effective Exchange Rate and Related Series

(Indexes: 1980 = 100)

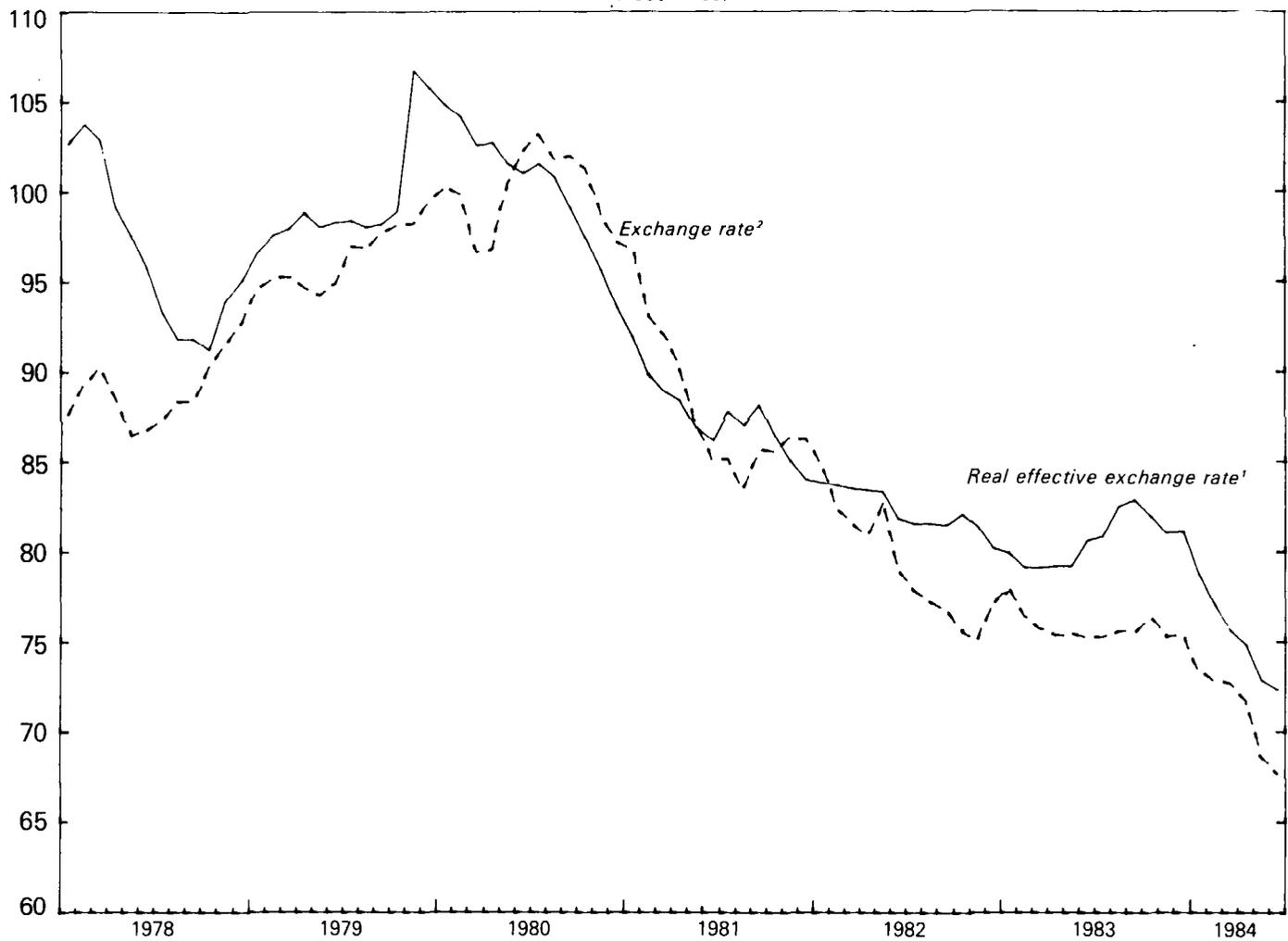
	Real Effective Exchange Rate <u>1/</u>	Nominal Effective Exchange Rate <u>1/</u>	Relative Consumer Prices in Local Currencies	Official Exchange Rate in U.S. Dollars <u>1/</u>	Consumer Price Index <u>2/</u>
<u>Quarterly</u>					
1978					
I	103.2	89.9	114.8	89.1	91.3
II	97.6	86.5	112.9	87.3	91.3
III	92.1	83.2	110.8	88.0	91.3
IV	93.5	85.7	109.0	91.6	91.3
1979					
I	97.5	90.8	107.4	95.0	91.5
II	98.4	93.8	104.9	94.6	91.9
III	97.9	95.8	102.3	97.2	92.3
IV	103.9	99.6	104.3	98.6	96.7
1980					
I	104.0	100.6	103.4	98.9	99.3
II	101.7	100.6	101.1	99.8	99.8
III	100.2	100.9	99.3	102.3	100.4
IV	95.6	98.2	97.3	99.0	101.0
1981					
I	90.4	94.7	95.4	93.9	101.7
II	87.1	93.0	93.6	87.3	102.2
III	87.5	95.1	92.0	84.7	102.9
IV	85.2	94.1	90.5	86.0	103.5
1982					
I	83.8	93.7	89.4	82.9	103.9
II	82.8	93.9	88.2	80.9	104.2
III	81.4	93.8	86.7	77.3	104.6
IV	81.2	95.0	85.5	76.0	104.9
1983					
I	79.5	93.6	85.0	76.7	105.5
II	79.7	94.8	84.1	75.4	106.2
III	82.0	98.5	83.2	75.5	106.9
IV	81.4	99.7	81.7	75.7	107.5
1984					
I	77.6	96.3	80.5	73.0	108.1
II	73.6	92.4	79.7	69.4	108.6
<u>Monthly</u>					
1983					
Nov. <u>3/</u>	81.1	99.1	81.8	75.3	107.6
Dec.	81.2	100.0	81.3	75.4	107.7
1984					
Jan.	79.2	97.8	80.9	73.4	107.8
Feb.	77.5	96.4	80.4	72.8	108.1
Mar.	76.0	94.7	80.3	72.7	108.3
Apr.	75.1	94.1	79.8	71.7	108.4
May	73.1	91.7	79.7	68.6	108.6
Jun.	72.5	91.3	79.5	67.7	108.8
<u>Percentage change</u>					
Nov. 1983-					
June 1984	-10.5	-7.9	-2.9	-10.1	0.8

1/ Increases mean appreciation.

2/ Since China's consumer price index is available only on an annual basis, monthly price data have been constructed by interpolation of the annual data. For 1984 the annual rate of inflation is estimated to be 2 percent.

3/ Date of latest consideration by Executive Board.

CHART  
CHINA  
INFORMATION NOTICE SYSTEM INDEX OF REAL EFFECTIVE EXCHANGE RATE  
(1980 = 100)



<sup>1</sup>Trade weighted index of nominal exchange rates deflated by seasonally adjusted consumer prices. Increase means real appreciation.

<sup>2</sup>Exchange rate index (U.S. dollar per yuan).

