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October 25, 1983

To: Members of the Executive Board

From: The Secretary

Subject: People's Republic of China - Staff Report for the  
1983 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1983 Article IV consultation with the People's Republic of China. A draft decision appears on page 21.

This subject has been tentatively scheduled for discussion on Monday, November 21, 1983.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Allen, ext. (5)8381.

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INTERNATIONAL MONETARY FUND

PEOPLE'S REPUBLIC OF CHINA

Staff Report for the 1983 Article IV Consultation

Prepared by the Staff Representatives for the  
1983 Article IV Consultation

Approved by Tun Thin and Manuel Guitian

October 24, 1983

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PEOPLE'S REPUBLIC OF CHINA

Staff Report for the 1983 Article IV Consultation

I. Introduction

The 1983 Article IV consultation discussions with China were held in Beijing from July 20-30, 1983. The Chinese delegation was led by Mr. Shang Ming, Advisor to the People's Bank of China, and included representatives of the following institutions: the People's Bank of China, the Ministries of Finance, Foreign Affairs, Foreign Economic Relations and Trade, and Labor and Personnel, the State Planning Commission, the State Administration of Exchange Control, the State Statistical Bureau, the State Price Bureau; the Bank of China, the Agricultural Bank, the Capital Construction Bank, the China Investment Bank, and the General Administration of Customs. The staff team <sup>1/</sup> also met with Mr. Lu Peijian, President of the People's Bank of China. Mr. Zhang Zicun, Executive Director for China, participated in the discussions as an observer.

II. Background

After two years of rapid expansion, stabilization and retrenchment measures were introduced in late 1980, when symptoms of overheating became apparent. The rapid and simultaneous expansion of consumption and investment had led to increasing pressures on resources, manifesting themselves in unusually rapid price increases, a substantial budget deficit, an unanticipated expansion of currency in circulation, and a widening current account deficit in the balance of payments. The stabilization program was supported in March 1981 by the use of Fund resources in the first credit tranche.

The authorities' adjustment efforts in 1981 centered on a sharp cut in investment, in part designed to strengthen public finances, and a reduction in the rate of economic growth to a more sustainable level. The growth of consumption would be restrained, and in order to improve the situation on the consumer goods market and reduce the growth in currency in circulation, priority was to be given to light industry, while the growth of heavy industry was to be sharply reduced. Other elements of the adjustment strategy included stricter price controls and a more careful import policy.

The stabilization program was largely successful, although some objectives were not achieved. The rate of growth of real national

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<sup>1/</sup> Messrs. Neiss, Saito, De Wulf (all ASD), Allen (ETR), Feltenstein (FAD), Goldsbrough (RES), and Ms. Murrell (secretary, ASD).

income in 1981 fell to 5 percent, in line with the target, and this decline was associated primarily with a decline in heavy industrial production (Table 1 and Chart 1). Fixed investment in State-owned units was reduced from Y 56 billion to Y 44 billion, but this decline was achieved almost entirely by reducing the part of investment financed through the State budget 1/ from Y 35 billion to Y 25 billion. Fixed investment undertaken by enterprises and financed from their own or borrowed resources or by local authorities from extrabudgetary funds fell only slightly. (This investment is referred to as extrabudgetary investment.) The cutback in centrally-financed investment expenditures had a positive effect on the State budget, allowing the deficit to be sharply reduced.

Regular wage increases were effectively controlled, although bonus payments continued to rise, and the growth in nominal consumption was reduced to 10 percent from the 15-16 percent recorded in the two previous years. Excess demand for consumer goods was reduced, and the rate of growth in currency in circulation fell from 29 percent in 1980 to 15 percent in 1981. These reduced pressures combined with stricter price controls allowed the rate of increase in the cost of living index to be reduced from 8 percent to 3 percent. The balance of payments strengthened, with the current account moving into surplus as exports remained buoyant and imports were reduced. The fall in imports was partly attributable to more cautious import licensing policies and partly to lower imports of heavy industrial inputs following reduced demand from that sector.

In 1982, output grew impressively: real national income rose by 7 percent, as compared with the target of 4-5 percent growth. Agricultural results were especially favorable, with an increase in production in 1982 of 11 percent as a result of both improved production incentives following the rise in procurement prices, the decentralization of decision-making and other reform measures, as well as unusually good weather. Industrial production also rose faster than planned, in particular because heavy industrial activity surged, although at the cost of exacerbated energy shortages and of some decline of the growth rate of light industry. Similar results are expected for 1983, when agriculture is expected to show a return to more normal, albeit high, growth rates, and heavy industrial activity is expected again to grow faster than light industry.

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1/ The State budget consolidates the budgets of the Central Government and local and provincial governments. The gross financial operations of State-owned enterprises are not included in the State budget, nor are considerable extrabudgetary funds of local and provincial governmental units, administrative units, and State enterprises, which in the case of the last mentioned primarily arise from retained earnings.

Table 1. China: Major Economic Indicators, 1979-83  
(Changes in percent, except where otherwise indicated)

	1979	1980	1981	1982	1983 <u>1/</u>
Macroeconomic variables					
Nominal national income	11	10	7	8	8-10
Real national income	7	6	5	7	6-8
Agricultural production	9	4	7	11	7
Industrial production	9	9	4	8	9
Consumption	16	15	10	9	9
Investment (accumulation)	7	--	-5	11	8
Cost-of-living index	2	8	3	2	2-3
Current account (US\$ bn.) (In percent of GDP)	-2.2 (-0.9)	-3.3 (-1.1)	1.4 (0.5)	5.7 (2.2)	6.4 (2.3)
International reserves (US\$ bn.) <u>2/</u> (In months of imports)	2.7 (2.0)	3.1 (1.7)	5.6 (3.2)	11.8 (8.0)	19.0 (12.4)
Policy variables					
Budget financed fixed investment (Y bn.) <u>3/</u>	42	35	25	28	30
Overall budget deficit (Y bn.) <u>4/</u> (In percent of GDP)	21 (5.3)	15 (3.5)	6 (1.3)	7 (1.4)	8 (1.5)
Domestic credit	15	27	14	12	11
Currency in circulation	26	29	15	11	15-20
Wages <u>5/</u>	9	14	1	3	...

Sources: Appendix Tables I-IV.

1/ Staff estimates.

2/ End of period.

3/ Budget-financed investment in plant and equipment of state-owned units (budget-financed "capital construction").

4/ GFS definition.

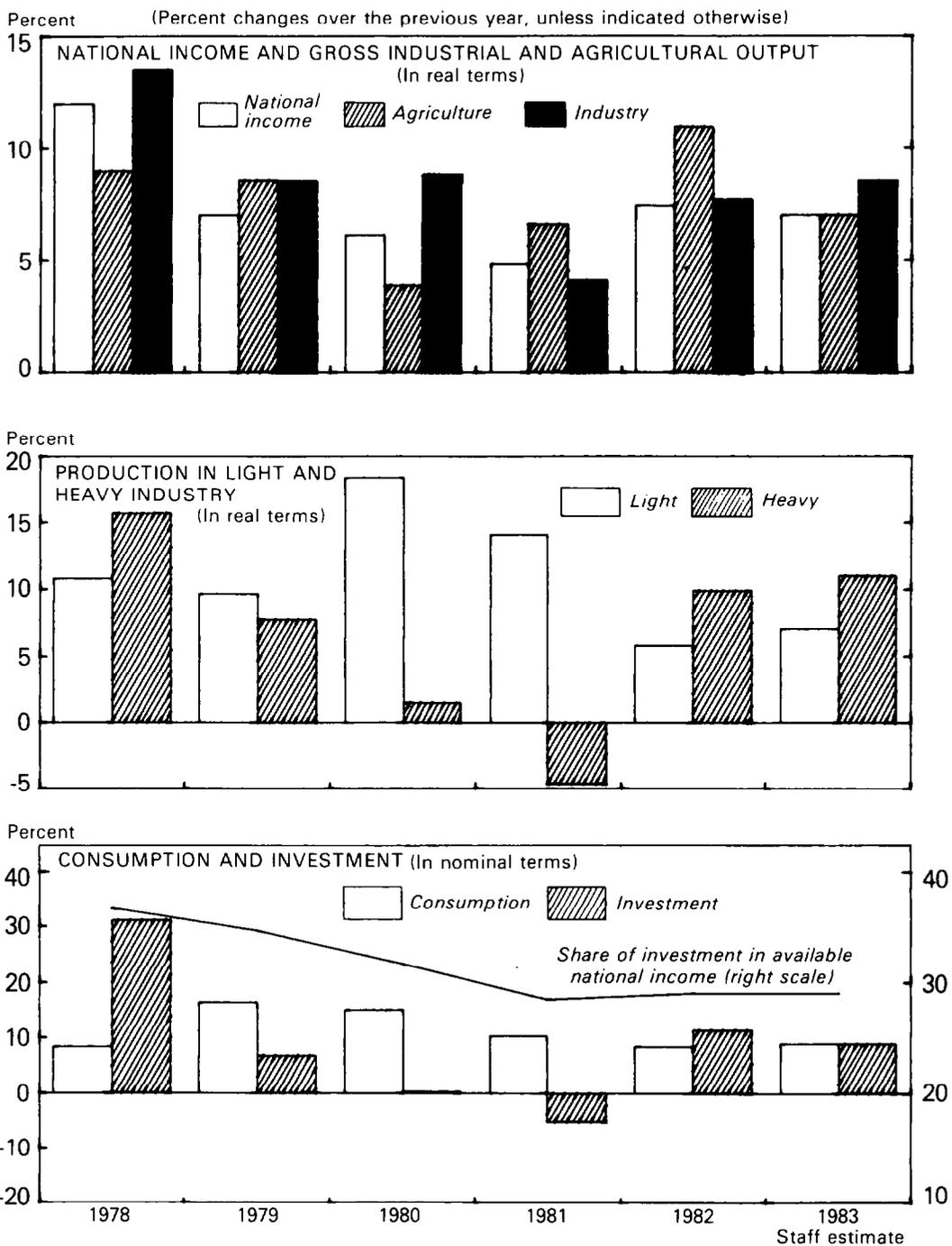
5/ Annual average wages of workers and staff in state-owned enterprises; excluding bonuses.

The authorities have maintained cautious demand management policies throughout 1982 and 1983. At the center of their attention has been the need to control the level of investment expenditure, in order to reduce the excess pressure of demand on resources. The intention was to allow no increase in fixed investment in State-owned units in 1982, but it nevertheless rose by 25 percent. Centrally-financed investment rose only modestly, but extrabudgetary investment of enterprises and provincial and local governments increased sharply from Y 19 billion to Y 27 billion. Some of this increased investment was accounted for by housing construction in line with the authorities' plans, but the overshooting of the investment target as a whole has contributed to straining the resources of the economy, delaying the completion of key investment projects. In the first half of 1983, provincial and enterprise investment expenditures have continued at high levels, and new measures have been introduced to control this expenditure effectively and to preserve sufficient scope for investment expansion by the central authorities, particularly in the energy and transportation sectors.

Consumption grew by 9 percent in nominal terms in 1982, and is expected to increase at a similar rate in 1983. Household incomes rose as bonus payments continued to increase and as agricultural procurement continued at a high level, although both wages and agricultural procurement prices were effectively controlled. It proved possible to contain the growth in currency in circulation to 11 percent, and to keep the growth of the cost-of-living index (mainly consisting of State-fixed prices) to 2 percent. Nevertheless, demand on consumer markets remains strong, and while the cost of living index is again likely to rise by only 2 percent in 1983, currency in circulation is expected to rise by between 15 and 20 percent.

The increasing demand pressures in the economy, indicated by energy, construction materials, and some other shortages, have not been reflected in the balance of payments. Export volume continued to grow rapidly in 1982, despite the recession in China's main export markets, while import growth has been slower than expected following the cutback in major import-intensive investment projects introduced in 1981 and a generally more cautious import policy. These developments, combined with a sharp improvement in the terms of trade and greater investment income from China's foreign exchange reserves, allowed a current account surplus of about 2 percent of GDP to be recorded in 1982 and a similar surplus is expected for 1983. The authorities made early repayments of about US\$1 billion of external debt in 1982, but the size of the surplus still permitted a doubling of international reserves to \$12 billion (equivalent to 8 months of imports). In 1983 international reserves are projected to rise to

## CHART 1 CHINA OUTPUT, CONSUMPTION AND INVESTMENT, 1978-83





some \$19 billion, about 13 months of imports. <sup>1/</sup> Total external debt at the end of 1982 was only \$6 billion, or about 2 percent of GDP, and China's debt service ratio is about 5 percent, excluding the early repayment of loans.

### III. Policy Issues--Report on the Discussions

#### 1. Investment policies

Since the stabilization program was launched in late 1980, controlling the level of investment has been one of the primary concerns of the Chinese authorities. Actual investment levels, however, have continued to exceed targets each year. After a decline of 20 percent in fixed investment in State-owned units in 1981 to Y 44.3 billion, a similar amount was planned for 1982, but investment actually increased to Y 55.5 billion (Table 2). In 1983, it was initially the intention to reduce this investment expenditure to Y 50.7 billion, but in the first five months of 1983 a growth rate of 17 percent was recorded, and even with strict restraint in the remainder of the year, 1983 investment is likely to exceed the 1982 level.

The Chinese representatives explained that these high levels of investment spending have resulted in severe shortages of timber, cement, and steel and in the scattering of physical and financial resources over too many projects. This in turn has lengthened the construction cycle of projects and caused cost overruns. Investment has also preempted resources from consumption and been associated with the rapid growth of currency in circulation in 1983. The high level of investment has stimulated the growth of heavy industry, which has in turn drained energy and other resources from light industry, contributing to the decline in the rate of growth of the latter.

An excessively high rate of investment may intensify the degree of shortage in the economy to such an extent that regular production activities are hampered. The lengthening of the gestation period of projects may also sharply reduce their rate of return. On the basis of their experience, the Chinese authorities consider a steady investment rate in the range of 25-30 percent of national income to be optimal. After a number of years during which the rate remained well above this level, it was brought down to 28 percent in 1982, is expected to be kept to about 29 percent in 1983, and to remain at this level during 1984 and 1985.

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<sup>1/</sup> During 1983, China also made an early repurchase of its first credit tranche drawing from the Fund, and the Chinese yuan has recently been included in the Fund's operational budget.

Table 2. China: Investment and Related Data, 1979-83

	1979	1980	1981	1982	1983 Staff Estimates
	(In billions of yuan)				
Gross fixed capital formation	103.9	111.3	101.1	120.0	130.0
Fixed investment in state-owned units <u>1/</u>	52.3	55.9	44.3	55.5	60.0
Budget financed	(41.9)	(34.9)	(25.2)	(27.7)	(30.0)
Extrabudgetary	(10.4)	(21.0)	(19.1)	(27.8)	(30.0)
Other fixed investment <u>2/</u>	51.6	55.4	56.8	65.4	70.0
Stock building and work in progress	32.2	27.2	32.8	27.1	...
	(In percent)				
Investment (accumulation) as a share of national income	34.6	31.6	28.5	29.0	29.0

Source: Recent Economic Developments, Tables 1 and 4.

1/ This item corresponds to "capital construction" in national data.

2/ Includes investment in collectively-owned units and by households and equipment renewal and technical transformation of State-owned units.

Since 1981, it has been the extrabudgetary investment of enterprises and provincial and local governments that has been largely responsible for the level of investment exceeding targets. Fixed investment financed from the State budget was cut back by 28 percent in 1981 to Y 25.2 billion in order to reduce the overall volume of investment expenditure; such investment stayed restrained in 1982, only rising by Y 2.5 billion. Investment financed from extrabudgetary resources, however, fell by 9 percent to Y 19.1 billion in 1981, and grew to Y 27.8 billion in 1982, exceeding the total of budgetary investment. In the first half of 1983, extrabudgetary investment has continued to grow rapidly. This disparate behavior meant that centrally-financed projects bore the brunt of the reduction in investment, and by the start of 1983, the authorities considered it necessary to expand investment in key centrally-financed projects, especially in the energy and transport sectors.

This buoyant extrabudgetary investment activity is partly due to the greater amount of financial resources at the disposal of enterprises and localities following the economic reform measures of recent years. Nevertheless, the use of a large volume of retained earnings can only be part of the explanation, as some of the excessive investment was financed from unplanned bank loans. In addition, enterprises have diverted working capital for investment purposes and have passed construction activities off as technological transformation, for which resources are more readily available. A further reason for this extrabudgetary investment activity is the reduced central control and greater autonomy given to enterprises and local government to invest. At these levels the incentive for investment can be very strong. On the one hand, it may be financially profitable, a reason why local authorities have encouraged the expansion of processing industries which generate tax revenue, even though they may duplicate existing capacities and increase the demand for energy and scarce raw materials. On the other hand, a project may serve to alleviate certain shortages, or eliminate dependence on unreliable suppliers, or be seen as contributing to regional development.

The Chinese representatives indicated that while efforts to control such investment have been unsuccessful hitherto, these efforts would be renewed and strengthened in the second half of 1983. At their disposal, the authorities have economic means, administrative measures, and moral suasion. The economic means consist of measures to reduce the amount of extrabudgetary resources available to finance investment. The issue of Treasury bonds is expected to contribute to this, as well as a new 10 percent tax on extrabudgetary funds. Stricter credit controls are to be enforced, with local bank branches made subject to an overall credit ceiling, and a requirement that bank finance can only be made available for projects where a feasibility study has been made and where the investing enterprise already has 30 percent of the total financing available. The separation of the central and commercial

banking functions of the People's Bank of China, discussed below, should strengthen the effectiveness of these measures.

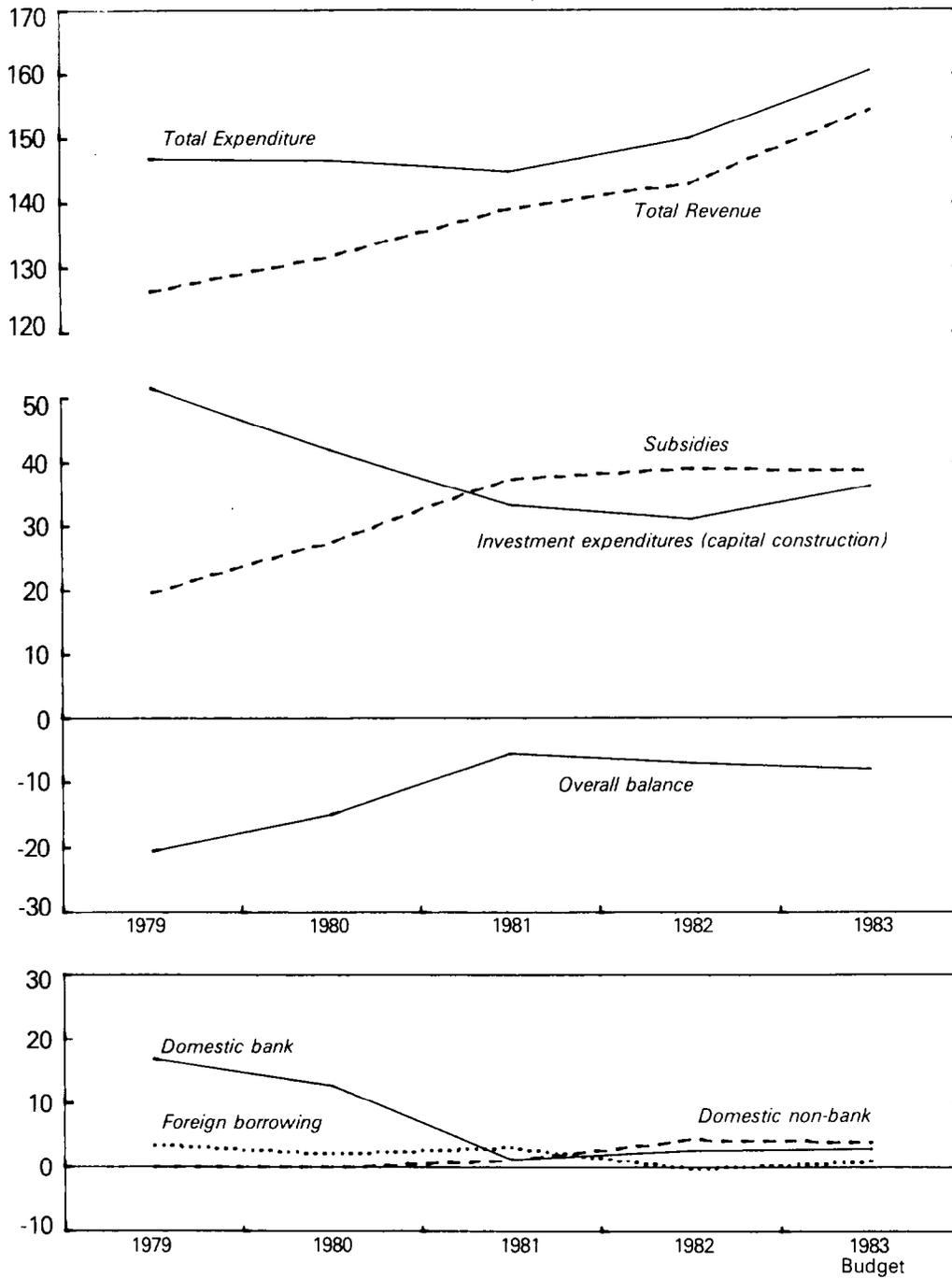
More reliance is being placed on administrative measures and moral suasion. The State Planning Commission, the Ministry of Finance, the People's Bank of China, and the Capital Construction Bank are all to send teams out into the field to scrutinize investment projects and to halt those not meeting certain criteria. In particular, all investment not included in the plan is to be halted, as is planned investment where it can be shown that it has been incorrectly located or poorly designed. Planned investment projects which have not yet been started will be re-examined. In addition, the banks will scrutinize the use made of enterprises' capital construction deposits and will make no further capital construction loans to local authorities. In order to protect key investment projects, a special distribution network has been established to supply them with building materials and equipment on a priority basis. Under moral suasion comes the ruling that local authorities and enterprise managers will be held responsible for any unplanned investment, however financed. In July an emergency circular was issued to all provinces by the State Council and as a result conferences have been held in most provinces to discuss the problem of extrabudgetary investment and appropriate measures for dealing with it.

The difficulties in controlling extrabudgetary investment point to the need to develop more effective instruments of indirect economic control to complement the decentralization of decision-making. The use of administrative measures, while necessary in current circumstances, may undermine the decentralization, and in any case suffers from the disadvantage in a country of China's size that the measures must be implemented locally by bodies that may have an interest in the investment project in question. Fiscal and monetary policy instruments are being used by the authorities to supplement directives, but in their present form, their effectiveness appears limited. The authorities are, however, experimenting and more appropriate forms of these instruments are very likely to evolve in due course. To some extent, local decisions could be better directed were the price system a more accurate guide to resource availability.

## 2. Fiscal policies

The weakness of Central Government finances has remained a matter of concern to the authorities for some years. With the decentralization of financial resources since 1978, extrabudgetary revenues and expenditures have almost doubled, affecting the growth of budgetary revenues and requiring a cut in central investment spending (Table 3 and Chart 2). At the same time, the growing volume of subsidies, particularly for urban food consumption and agricultural inputs, pre-empted a part of State revenues. The share of subsidies in total expenditures rose from 14 percent in 1979 to 26 percent in 1982, while that of investment

CHART 2  
CHINA  
STATE BUDGET<sup>1</sup>, 1979-83  
(Billions of yuan)



Source: Data submitted by the Chinese authorities and staff estimates.

<sup>1</sup>GFS definitions.



Table 3. China: Selected Budget Indicators, 1979-83

(In billions of yuan)

	1979	1980	1981	1982		1983 Budget
				Budget	Outcome	
Revenue	<u>126</u>	<u>132</u>	<u>139</u>	<u>140</u>	<u>143</u>	<u>152</u>
Profit remittances	69	71	73	73	69	71
Other	57	61	66	67	74	81
Expenditure	<u>147</u>	<u>147</u>	<u>145</u>	<u>148</u>	<u>150</u>	<u>161</u>
Capital investment <u>1/</u>	52	42	33	30	31	36
Subsidies	20	27	37	38	39	39
Other	75	78	75	80	80	86
Overall budget deficit (As percent of GDP)	<u>21</u> (5.3)	<u>15</u> (3.5)	<u>6</u> (1.3)	<u>8</u> (1.5)	<u>7</u> (1.4)	<u>8</u> (1.5)

Source: Appendix Table II.

1/ Includes foreign-financed investments which are included in extra-budgetary financed fixed investment in Tables 1 and 2.

expenditure declined from 35 percent to 21 percent. After overall budget deficits of 4-5 percent of GDP were recorded in 1979 and 1980, the authorities succeeded in reducing the deficit sharply in 1981 largely by dint of cutting investment expenditure and raising tax revenues. The overall deficit remained unchanged in 1982 as both revenues and expenditures increased. In the 1983 budget, steps have been taken to strengthen revenue collection, and a 10 percent tax on extrabudgetary funds has been introduced. This will allow an expansion in budgetary investment expenditures for the first time since 1979.

While the deficit has been controlled, the Chinese authorities remain concerned about the strength of public finances, since revenues ultimately depend on the profitability of State enterprises, which has stagnated. Profits increased in 1982 at a much slower rate than industrial production, and about 20 percent of State-owned enterprises recorded losses. The poor level of enterprise profitability has been attributed to a combination of poor management, uncompetitiveness, operation at below capacity rates, and the pricing system.

A major policy change in 1983 has been the replacement of the system of profit remittances by state enterprises in some sectors with a system of profit taxation. This is designed to alter the structure of incentives facing enterprises in such a way as to stimulate their efforts to raise their efficiency. The new system is designed to put more pressure on loss-making enterprises by ending automatic subsidies and to encourage other enterprises to earn higher profits on the understanding that it will be shared with the tax authorities rather than confiscated. For the time being, a special adjustment tax will be levied to mitigate the effect of the change in the tax system on enterprises, but it is the intention to phase out this tax. In the staff's view, a more rational price system, that would ensure that profitability reflected real conditions rather than price quirks, would enhance the effectiveness of the new tax system.

The rapid growth of subsidies between 1979 and 1981 tapered off in 1982, as no major increases in procurement prices were introduced. The Chinese representatives indicated their awareness of the burden that subsidies were imposing on state finances and noted that measures were being introduced to prevent any further growth. Without such action, the volume of subsidies would continue to increase as agricultural procurement rose and living standards improved. For some items it was the intention to narrow the gap between retail and procurement prices: the subsidy on diesel fuel in rural areas had already been reduced. The central authorities were also considering requiring localities to take over part of the financing burden for subsidies. However, such measures would only be taken cautiously, as they considered it essential that living standards, particularly in rural areas, not be allowed to suffer.

### 3. Monetary policies

The main objective of monetary policy in China has been to control the expansion of currency in circulation, which the authorities try to keep broadly in proportion to nominal retail sales. They control currency issue not so much through credit policy as by directly influencing the factors responsible for the injection and withdrawal of currency from circulation. After increases in the supply of currency in 1979 and 1980 that exceeded the rise in retail sales by a large margin, there was a return to balance by 1982. In this year, currency in circulation rose by 10.9 percent, somewhat less than planned, while the value of retail sales rose by 9.3 percent. In 1983, there are signs that the growth of currency in circulation will exceed that of retail sales. In the first half of the year, currency in circulation rose by 14.7 percent while retail sales only increased by 10.4 percent. For the year as a whole, currency in circulation is expected to rise by between 15 and 20 percent as compared with the planned increase of 11 percent (Table 4 and Chart 3).

The Chinese authorities consider the two most important elements in the injection of currency to be wage payments and agricultural procurement. The rate of wage increases fell sharply in 1981 (Table 1) and has remained modest since then. However, the total wage bill rose by 6.1 percent in 1981 and somewhat faster at 7.6 percent in 1982, partly because of increased activity and employment levels, but also as a result of an excessive expansion of bonus payments. These amount to about 10 percent of the wage bill and rose by 14.1 percent in 1982. For 1983, an increase in the wage bill of 4.2 percent was projected, but this could well be exceeded. Wage payments have continued at a high level as a result of investment activity, the spread of bonus schemes, and the use of extrabudgetary funds for such payments. In addition, certain wage increases granted in 1982 were only paid retroactively in 1983 and some further wage increases are expected in the second half of the year.

Higher levels of agricultural procurement inject more money into the economy, but the higher retail sales that ensue bring about some corresponding withdrawal. As a result of increases in procurement prices and the good harvests in 1981 and particularly in 1982, agricultural procurement rose by 13 percent in value terms in the former year and by a further 11.9 percent in the latter. In 1983, there has been some expansion in the amount of loans granted in rural areas, particularly to households specializing in certain categories of farming or nonagricultural activities. Should the harvest prove good, the repayment of these loans should withdraw a certain amount of currency from circulation.

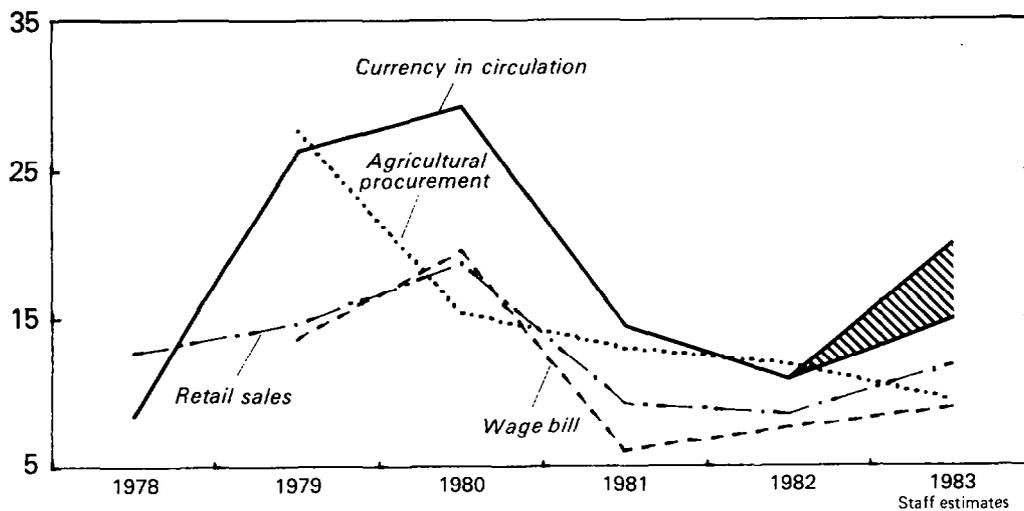
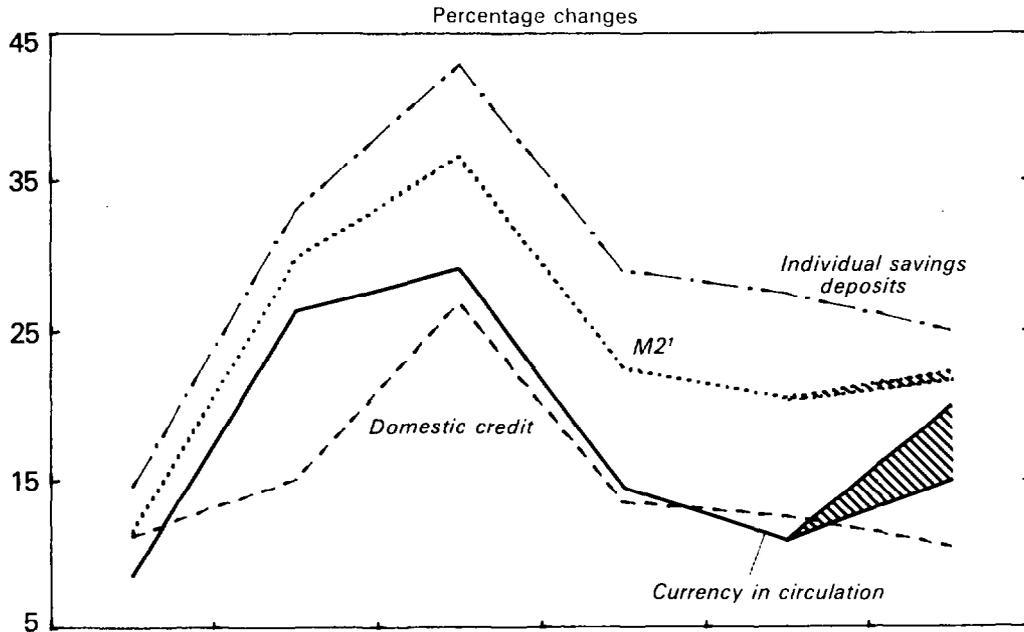
Table 4. China: Selected Monetary Indicators, 1980-83

(Annual percent change)

	1980	1981	1982	1983 Staff Estimate
Domestic credit	27	14	12	11
Total liquidity	33	20	15	17
Of which:				
Currency in circulation	29	15	11	15-20
Individual time deposits	41	28	31	25
Ratio of retail sales to currency in circulation	6.7	6.4	6.3	6.2-5.9

Source: Appendix Table III.

### CHART 3 CHINA MONETARY AND RELATED AGGREGATES, 1978-83



Sources: Data supplied by Chinese authorities; and staff estimates.  
1 M2 currency in circulation plus individual time and savings deposits.

Staff estimates



The Chinese authorities consider the main items causing the withdrawal of currency in circulation to be retail sales and savings. The growth in the volume of retail sales in 1982 and 1983 was made possible by good agricultural results and an improvement in the quality and variety of goods in the market. The rate of growth of light industrial production, however, fell to 5.7 percent in 1982, and may only be slightly higher in 1983: thus the increase in sales of light industrial products was partly matched by a fall in inventories. Some price changes in 1982, in particular the raising of cotton textile prices and the lowering of those for synthetics, contributed to a better matching of supply and demand for individual items. Nevertheless, there are signs of upward price pressures in 1983. Agricultural negotiated prices have increased and there have been some illicit price increases; on the other hand, the authorities have reduced the prices of some manufactured items in excess supply and have strengthened price controls.

The growth of individual time deposits has been extremely rapid in recent years. In both 1981 and 1982 the rate of increase was maintained at about 30 percent and is expected to fall only slightly to 25 percent in 1983. This impressive performance can be largely attributed to rising real incomes, better organization of savings collection, and more flexible interest rate policies. In early 1982, interest rates on time deposits over six months were raised by 0.2-2.2 percentage points to 5.7-9.0 percent per annum, substantially higher than the 2 percent rate of increase in the cost of living. In addition to savings deposits, the purchase of Treasury bonds by individuals has also withdrawn money from circulation in 1982 and 1983.

On the basis of historical statistics, the authorities consider a velocity in terms of the ratio between retail sales and currency in circulation of about 7 to be normal. Since 1980, the ratio has been lower than this and the slowdown can be partly attributed to the spread of the production responsibility system and other reforms requiring the greater use of cash, particularly in rural areas. A further decline in velocity is predicted for 1983.

The other elements of monetary policy consist of supervising the expansion of credit and the use of deposits. Credit expansion moderated to 13.5 percent in 1981 and 11.9 percent in 1982 as a result of the reduction in the budget deficit and the effect of the stabilization program on economic activity. This moderate growth of credit was possible as a result of the drawdown of inventories, but also indicates the very liquid position of the enterprise sector as a whole, which has run down deposits rather than take fresh credit. At the same time, despite the efforts to control investment, credit for investment purposes rose sharply in 1982, considerably exceeding the planned targets. The growth of credit is planned to fall to 8 percent in 1983.

A major reform in the Chinese banking system, involving the separation of the central banking functions of the People's Bank of China from its commercial banking functions, became effective on October 1, 1983. An Industrial and Commercial Bank has been established to perform the latter functions, such as giving credit to enterprises and managing deposits and individual savings accounts. The People's Bank of China will exclusively perform the normal functions of a central bank, including planning and managing the credit and currency plan, regulating the establishment and activity of specialized banks, acting as State Treasury, managing foreign exchange reserves, and setting interest rate policies. The central bank will control the volume of credit in the economy both by means of the credit plan and of a redeposit requirement imposed on the specialized banks. The activities and responsibilities of other specialized banks, including the Bank of China, remain unchanged.

The aim of this reform is to allow the pursuit of a more active credit policy and a more effective central control of the economy's overall liquidity by using economic means as a supplement to administrative measures and the credit plan. In the past, credit policy as such has not played a very active role in economic management, since decisions to give credit were strictly subordinated to the requirements of the plan and production. Credit has been issued automatically for activities sanctioned by the plan, and local bank managers have been subject to demands for additional credit which they have been unable to withstand. The new system may place more constraints on the credit activities of commercial bank branches, allowing them to refuse credit when this is desirable from a macroeconomic point of view. However, it is not possible to appreciate all the implications of this reform at present; this will only be possible once the system has been functioning for some time.

#### 4. External sector policies

The stabilization measures introduced in late 1980 and 1981 rapidly moved the balance of payments into surplus. After a deficit in 1980, a current account surplus of \$1.3 billion was recorded in 1981 and a surplus of \$5.7 billion in 1982 (Chart 4). Similar surpluses were recorded in the overall balance of payments. This balance of payments surplus, which is expected to continue in 1983, was much larger than expected or planned, and largely reflects developments in the trade account (Table 5).

Following the introduction of more outward-looking policies in the late 1970s, exports have continued to grow strongly, despite less buoyant international market conditions. The stabilization program resulted in the stagnation of imports, which in volume terms have shown little change since 1980. In 1981 the reduced levels of heavy industrial activity induced a sharp cut in imports of materials for

Table 5. China: Selected Export and Import Indicators, 1979-83

	1979	1980	1981	1982	1983 Forecast
	<u>(Annual percent change)</u>				
Exports	40	34	14	4	5
(Volume)	(23)	(16)	(11)	(9)	...
(Unit value)	(14)	(15)	(3)	(-4)	...
Imports	44	25	--	-10	3
(Volume)	(21)	(7)	(-5)	(5)	...
(Unit value)	(19)	(17)	(5)	(-15)	...
Terms of trade	-5	-1	-2	13	...
	<u>(Percent share)</u>				
Exports					
Mineral fuels	19	25	24	24	...
Other primary products	34	28	25	23	...
Textiles	18	16	15	15	...
Other manufactured products	29	31	36	38	...
Imports					
Food	14	16	20	22	...
Other primary products	14	19	21	20	...
Machinery and equipment	26	27	25	19	...
Other manufactured products	46	38	34	39	...

Source: Ministry of Foreign Economic Relations and Trade.

this sector, while in 1982 larger imports of heavy industrial raw materials were accompanied by reduced imports of machinery and equipment following the cutback in centrally-financed investment projects in 1981 and lower imports of materials for light industry. The reduction in budgetary-financed fixed investment had a disproportionate effect on imports of investment goods, since the projects affected were much more import-intensive than the more buoyant investment financed by extrabudgetary resources. Imports have also been restrained through a more careful import licensing policy introduced after import decision-making had been partially decentralized. Although it had been the intention in both 1982 and 1983 to step up imports, particularly of equipment for the technological rehabilitation of enterprises, import growth has been hampered by delays in approval or in ordering and by congestion in some ports.

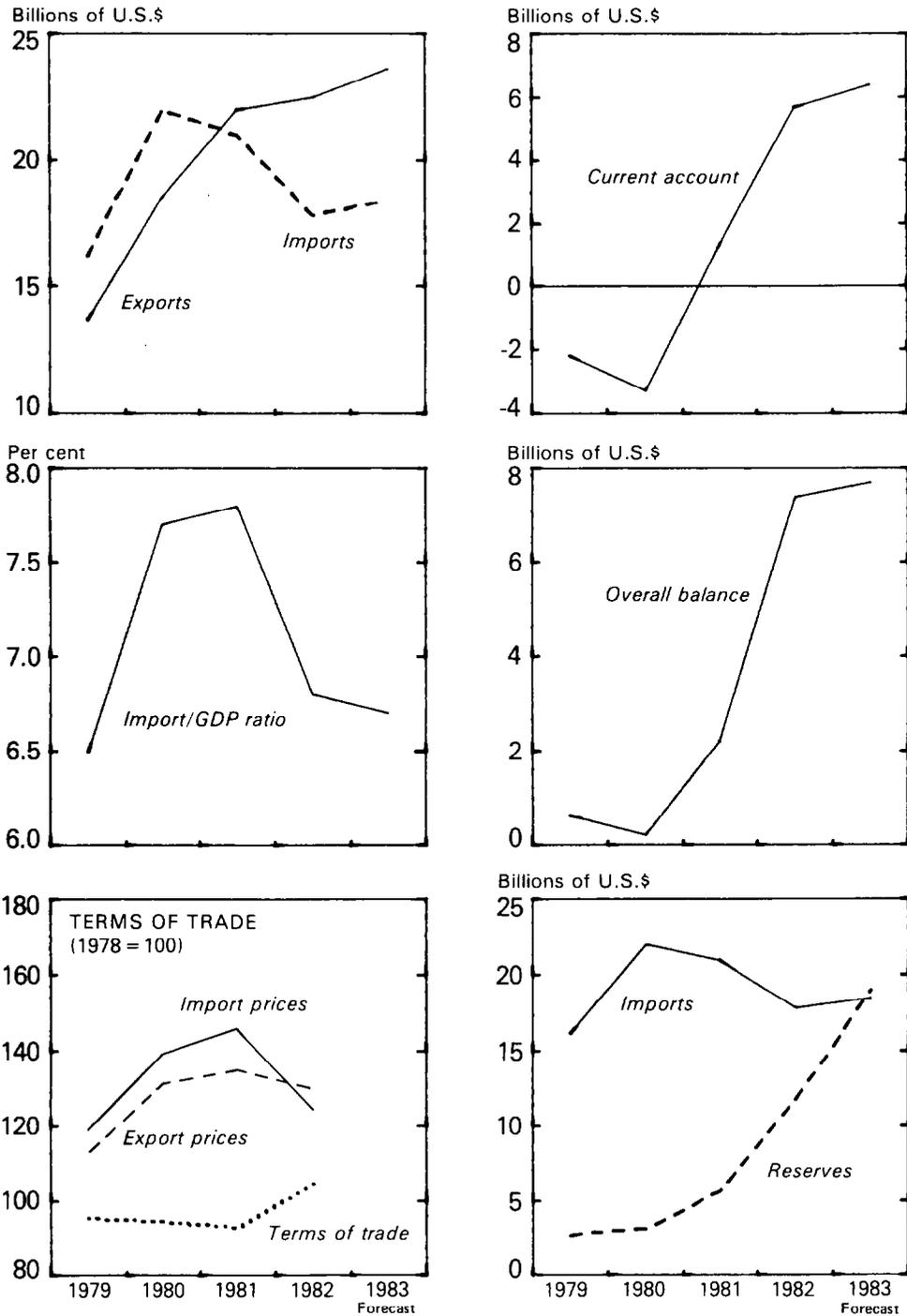
While China's external debt of about \$6 billion is relatively small, the authorities used the current account surpluses in both 1981 and 1982 to repay ahead of schedule a number of foreign loans bearing market interest rates. Borrowing, however, remains part of the open external policies being pursued by the Chinese authorities. They have continued to borrow in small but gradually increasing amounts, particularly when capital is available on favorable terms. In the course of the last two years, they have contracted for loans from the World Bank and other international financial institutions, as well as signing agreements with a number of foreign governments and making use of available export credit facilities. <sup>1/</sup> Most of the borrowing has come from Japanese sources. The debt service ratio, excluding the effect of early repayments, remains at about 5 percent, and on the basis of a mechanical projection shows no sign of rising significantly above this figure in the near future (Appendix Table V). External reserves reached the equivalent of 8 months' imports by the end of 1982, and are expected to grow further to over 12 months of imports by the end of 1983.

The staff team argued that the authorities could usefully expand imports, given the comfortable external position, domestic shortages, and the scope for raising productivity through the use of imported technology. In response, the authorities stressed that the present strength of the balance of payments and reserves was temporary, since it resulted largely from an improvement in the terms of trade and the reduction of plant and equipment imports, following the cutback in centrally-financed investment projects. They considered that as key projects are stepped up, plant and equipment imports will rise; the volume of imports of raw materials for heavy industry and the construction sector is already rising rapidly. Furthermore, the policy of

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<sup>1/</sup> The Chinese authorities are also establishing effective debt monitoring arrangements, as discussed in the accompanying recent economic developments paper, to be issued shortly.

### CHART 4 CHINA EXTERNAL SECTOR, 1979-83



Sources: Information provided by the Chinese authorities and staff estimates.

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opening up the economy is continuing with the recent revisions of regulations concerning the activity of foreign firms and joint ventures, which should facilitate direct investment and related imports. In all, the authorities' view was that despite the present temporary strength in the external position, China will revert to its position as a net capital importer because of its high import requirements, especially of investment goods. They indicated that upgrading and expanding exports remained the basis of China's external policies, and this would ensure that the cautious stance on external borrowing could be maintained.

China maintains a dual exchange system, with an official exchange rate pegged to a basket of currencies and a more depreciated internal settlement rate, which applies to most trade transactions, pegged to the U.S. dollar. The latter rate appreciated in trade-weighted terms by *some 10 percent between January 1982 and July 1983 (Chart 5)*, and this had eroded some export incentives. No major changes have taken place in the system since the previous consultation, and the system itself is described more fully in the previous consultation report. The exchange system allows international prices to have only a limited effect on the domestic economy.

The authorities have characterized their current exchange system as temporary. The Chinese representatives stated that they favored a unified exchange rate system in principle, but that the current arrangements would stay in force for the time being. The question of an appropriate exchange rate system for China was under active study, as was the appropriate level of the exchange rate. Relative domestic and foreign prices were being compared as part of this study, as well as the theoretical and practical issues connected with exchange rate determination.

Independently, the question of a reform of domestic prices was being studied by the State Price Bureau. Data are being collected throughout the economy on production costs, and a study group is considering the relative advantages of different methods of calculating a set of rational prices. As in the case of the exchange rate study, a number of theoretical problems have not yet been resolved. Neither study is expected to be completed in the immediate future. The staff representatives indicated the importance of international relative prices as one input into any decision on restructuring domestic prices. The implementation of the current studies would provide an excellent opportunity for a comprehensive reform of China's exchange and price systems.

#### IV. Staff Appraisal

China's economic performance over the last few years has been impressive. Overall economic and financial stability, which was threatened in the late 1970s, has been restored, and at the same time, relatively rapid economic growth has been maintained. The balance of payments has moved into substantial surplus and, with a larger share of output distributed for consumption, living standards have improved.

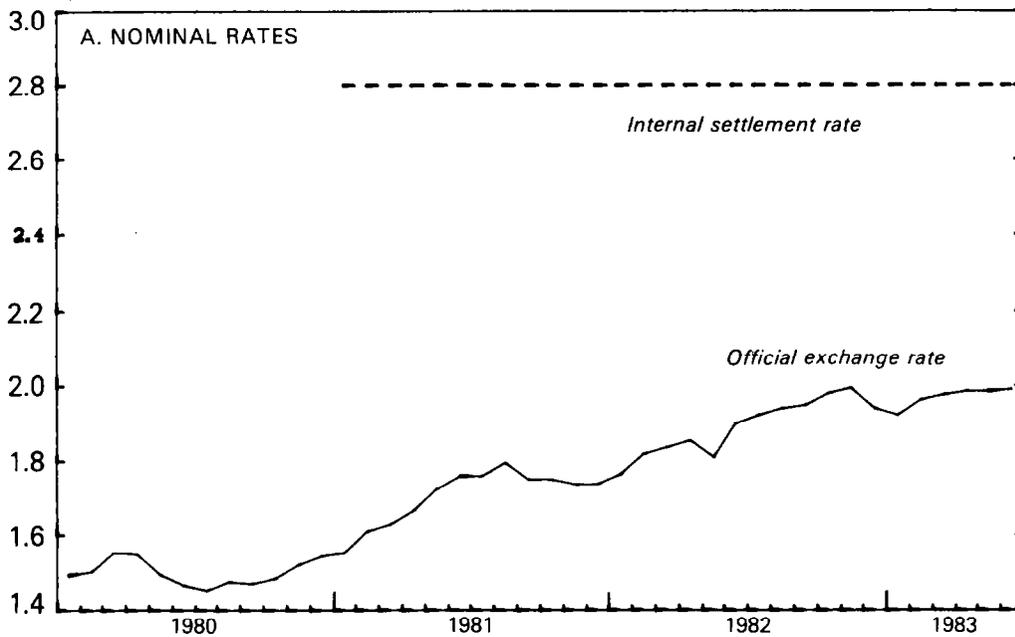
Stable financial conditions had been re-established by 1981 through decisive cuts in investment, credit, and currency expansion, all of which resulted in a direct reduction in demand pressures and imports. The policies needed to bring the country's development objectives into line with domestic and foreign resource availability over the longer term were taken in time to prevent the prolonged world recession and high interest rates from weakening the balance of payments. In fact, the external position has improved rapidly and is expected to remain strong as long as cautious financial policies are continued.

The maintenance of economic growth at a relatively high rate during a period of financial adjustment owes much to the various economic reforms undertaken to raise incentives and productivity, which, together with generally favorable weather, have contributed to a substantial rise in agricultural output in particular. Sustained overall growth is expected to continue at the rates achieved over the past two years.

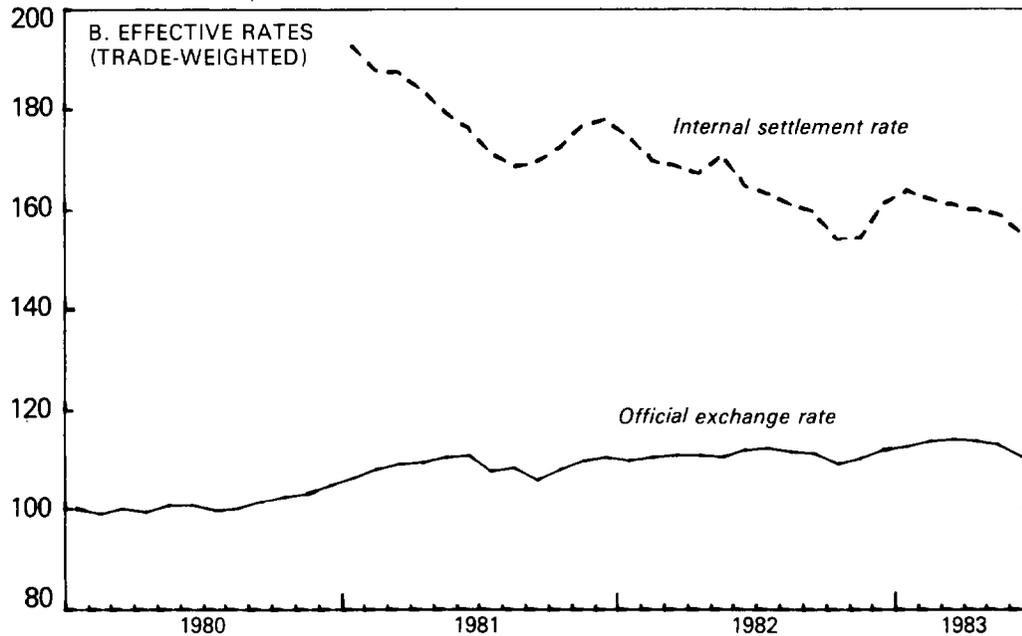
Despite the underlying improvements in the economy, there are signs that macroeconomic imbalances have re-emerged recently, as the combined demand of investment and consumption is posing strains on domestic resource availability. With the excess of investment over planned levels in the first half of 1983, accompanied by an acceleration in currency expansion, pressure on domestic resources has begun to mount, although this has not been reflected in domestic prices or imports. Import levels are still influenced by the previous cutbacks of large import-intensive investment projects, while the expansion of equipment imports to modernize industry--the major objective of China's import policy--will take some time to be realized. The price level is influenced by a policy of keeping prices of basic materials and essential consumer goods stable, through efforts to ensure adequate supplies, and by administrative price controls and subsidies. Sectoral demand pressure has, however, strained the supply of construction materials, energy, and other key industrial inputs and has led to delays in the completion of important investment projects. Against this background, the cautious growth targets of the authorities and their efforts to keep the competing demands of investment and consumption within the limits compatible with overall stability are well justified.

### CHART 5 CHINA EXCHANGE RATES, 1979-83

Yuan per U.S. dollar



Index: Official rate Jan., 1980 = 100<sup>1</sup>



Sources: Information provided by the Chinese authorities and staff estimates.  
<sup>1</sup> Higher figures indicate more depreciated rate.



Since the 1981 budget, these efforts have concentrated on expenditure cuts in the Central Government to offset excess demand in the extrabudgetary public and in the State enterprise sectors. However, the scope for further use of this strategy is limited, if necessary progress is to be made in developing China's infrastructure. The authorities also do not wish to return to a system where central planning covers all aspects of economic activity, since their policy is to maintain the momentum of the economic reforms, supplementing planning with market mechanisms. In these circumstances, the authorities are giving more weight to monetary and fiscal policies in the task of macroeconomic management. This approach is indicated by the increased use of taxation to influence investment activity and by the separation of central and commercial banking functions. The strengthening of monetary and fiscal instruments to regulate the overall volume of expenditure in the economy is a necessary counterpart to the increased importance of decentralized decision-making in the economy. The shape and use of these policy instruments is, of course, being determined by the specific conditions of China's economic system.

There is scope to complement domestic demand management with a more liberal import policy, given the strong external reserve position achieved over the past three years. An expansion of imports will also contribute to growth and efficiency through accelerated introduction of new technology and of competition in the domestic market. The authorities see little benefit for the economy in a further buildup of reserves, in particular given the large needs of a low-income country, and they envisage an increased but still sustainable flow of imports over the medium term. Such a development will be in line with their determination to maintain China's "open door" policy, and be beneficial both to China and to the world economy.

The authorities' studies of possible changes in the price system are followed with interest by the staff, given the importance of prices in providing information to planners and to those units making decentralized production and investment decisions. Such changes of the price system, adapted to the specific conditions of China's economic system, should also provide an opportunity to establish a closer degree of linkage of domestic and international prices by means of an appropriate exchange rate system. The authorities expect that this process of price reform will take time. Eventually, it should contribute significantly to the efficiency of the economy and increase the mutual benefits of China's integration with the world economy.

China maintains a dual exchange rate system consisting of an official rate and a more depreciated internal settlement rate. The latter rate applies to trade transactions, and, for an increasing but still small proportion of these transactions, affects domestic prices received by export producers or paid by import users. The internal settlement rate, which is pegged to the U.S. dollar, has appreciated

in effective terms over the last few years. In light of these and other developments, including changes in relative prices, the authorities are reviewing the appropriateness of this rate, as well as the exchange rate arrangements in general, with a view to establishing an exchange system that is responsive to China's development needs. In the staff's view, this could best be achieved through a system based on a unified rate.

The dual exchange rate system and the tax on remitted profits of joint ventures, which have been in force since 1980, constitute multiple currency practices subject to approval under Article VIII. The staff believes that China's strong external position renders these practices unnecessary and does not recommend their approval by the Executive Board. Since the last consultation, China has terminated bilateral payments arrangements with two Fund members and reduced restrictions on current transactions regarding salary remittances. The staff welcomes these steps and hopes for further progress in these areas in the future.

It is proposed that the Article IV consultation with China be held on the standard 12-month cycle.

V. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The Fund takes this decision relating to China's exchange measures subject to Article VIII, Section 3, in concluding the 1983 Article XIV consultation with China, in the light of the 1983 Article IV consultation with China conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).
2. China continues to maintain restrictions on the making of payments and transfers for current international transactions in accordance with Article XIV. The Fund notes with satisfaction the termination by China of two bilateral payments arrangements with members of the Fund and the intention of the authorities to eliminate the remaining arrangements with Fund members. China also continues to maintain a dual exchange rate system, consisting of an official rate and an internal settlement rate, and an exchange tax on remitted profits of joint ventures, both of which give rise to multiple currency practices subject to approval under Article VIII, Section 3. The exchange restrictions, multiple currency practices and bilateral payments arrangements to which this decision relates are described in SM/83/ (10/ /83) and in SM/83/ (10/ /83).

Table I. China: National Income and Output, 1979-83

	1979	1980	1981	1982	1983 Estimate
	(In percent change)				
National income (constant prices)	7.0	6.1	4.8	7.4	6-8
Gross agricultural output (constant prices)	8.6	3.9	6.6	11.0	7.0
Gross industrial output (constant prices)	8.5	8.8	4.1	7.7	9.0
Light industry	9.6	18.4	14.1	5.7	7.0
Heavy industry	7.7	1.4	-4.7	9.9	11.0
	(In millions of tons)				
Grain	332.1	320.6	325.0	353.4	342.5
Cotton	2.2	2.7	3.0	3.6	...
Oil bearing crop	6.4	7.7	10.2	11.8	...
Coal	635.0	620.0	622.0	666.0	670.0
Crude oil	106.2	106.0	101.2	102.1	100.0
Steel	34.5	37.1	35.6	37.1	35.5
Cotton yarn	2.6	2.9	3.1	3.5	...
Cotton cloth (bn. meters)	12.2	13.5	14.3	15.4	...

Sources: State Statistical Bureau; and State Planning Commission.

Table II. China: State Budgetary Operations, 1979-83

(In billions of yuan)

	1979	1980	1981	Revised	Preliminary	Budget 1983
				Budget 1982	Outcome 1982	
Revenue	<u>126.3</u>	<u>131.6</u>	<u>139.0</u>	<u>140.0</u>	<u>143.0</u>	<u>152.4</u>
Tax revenue	53.8	57.2	63.0	68.0	70.0	73.0
Gross profit remittances	68.9	70.9	72.7	69.3	68.6	71.0
Other	3.6	3.5	3.3	2.7	4.4	8.4
Expenditure	<u>146.9</u>	<u>146.6</u>	<u>144.8</u>	<u>147.6</u>	<u>150.1</u>	<u>160.5</u>
Current	<u>86.2</u>	<u>96.9</u>	<u>105.0</u>	<u>111.6</u>	<u>111.9</u>	<u>118.3</u>
Subsidies	<u>19.6</u>	<u>27.4</u>	<u>37.3</u>	<u>38.2</u>	<u>39.0</u>	<u>38.6</u>
Defense	22.3	19.4	16.8	17.9	17.7	17.9
Other	44.3	50.1	50.9	55.5	55.2	61.8
Capital	<u>60.7</u>	<u>49.7</u>	<u>39.8</u>	<u>36.0</u>	<u>38.2</u>	<u>42.2</u>
Capital construction	<u>51.5</u>	<u>41.9</u>	<u>33.1</u>	<u>30.3</u>	<u>30.9</u>	<u>36.2</u>
Other	9.2	7.8	6.7	5.7	7.3	6.0
Surplus (+)/Deficit (-)	<u>-20.6</u>	<u>-15.0</u>	<u>-5.8</u>	<u>-7.6</u>	<u>-7.1</u>	<u>-8.1</u>
Financing	<u>20.6</u>	<u>15.0</u>	<u>5.8</u>	<u>7.6</u>	<u>7.1</u>	<u>8.1</u>
Domestic	<u>17.0</u>	<u>12.8</u>	<u>2.6</u>	<u>7.2</u>	<u>7.3</u>	<u>7.1</u>
Bank	<u>17.0</u>	<u>12.8</u>	<u>1.4</u>	<u>3.0</u>	<u>2.9</u>	<u>3.1</u>
Nonbank <sup>1/</sup>	--	--	<u>1.2</u>	<u>4.2</u>	<u>4.4</u>	<u>4.0</u>
Foreign <sup>2/</sup>	<u>3.6</u>	<u>2.2</u>	<u>3.2</u>	<u>0.4</u>	<u>-0.2</u>	<u>1.0</u>
Gross borrowing	<u>3.6</u>	<u>4.3</u>	<u>7.3</u>	<u>4.4</u>	<u>4.0</u>	<u>5.4</u>
Less: amortization	--	2.1	4.1	4.0	4.2	4.4
	(As percent of GDP)					
Subsidies	5.0	6.4	8.1	7.7	7.9	7.2
Capital construction	13.2	9.8	7.2	6.1	6.3	6.7
Budgetary savings <sup>3/</sup>	10.2	8.1	7.4	5.8	6.3	6.3
Overall deficit	-5.3	-3.5	-1.3	-1.5	-1.4	-1.5
Bank-financed deficit	4.4	-3.0	-0.3	-0.6	-0.5	-0.6

Sources: Data supplied by the Chinese authorities; and Fund staff estimates.

<sup>1/</sup> Treasury bonds.<sup>2/</sup> Foreign borrowing by the Ministry of Finance through the Bank of China, including all official loans, deferred payments, energy credits, and buyers' credits.<sup>3/</sup> Revenue minus current expenditure.

Table III. China: Monetary Survey, 1980-83

	1980	1981	1982	1983 Staff Est.	1980	1981	1982	1983 Staff Est.
	<u>(In billions of yuan; at end of year)</u>				<u>(Change in percent)</u>			
Net foreign assets	-2.8	2.7	16.1	31.7	--	--	496.3	96.9
Domestic credit	253.3	287.5	321.6	356.3	26.8	13.5	11.9	10.8
State budget (net)	3.7	1.4	4.3	7.3	...	-62.2	207.1	69.8
Other <u>1/</u>	249.6	286.1	317.3	349.0	19.5	14.6	10.9	10.0
Currency and demand deposits	45.2	53.3	60.4	72.4	33.3	17.9	13.3	19.9
Currency	34.6	39.6	43.9	51.8	29.1	14.5	10.9	18.0
Demand deposits	10.6	13.7	16.5	20.6	49.3	29.2	20.4	24.8
Other deposits	147.9	177.9	205.3	237.2	32.4	20.3	15.4	15.5
Individual time deposits	32.1	41.1	53.7	67.1	41.4	28.0	30.7	25.0
Enterprise deposits	70.8	1.7	87.3	91.7	20.2	15.4	6.8	5.0
Other <u>2/</u>	45.0	55.0	64.3	78.4	49.5	22.2	16.9	21.9
Total liquidity	193.1	231.2	265.7	309.6	32.6	19.7	14.9	16.5
Other liabilities (net)	57.4	59.0	72.0	78.4	9.1	2.8	22.0	8.9

Sources: Consolidated balance sheets of the People's Bank of China, Bank of China, and the Agricultural Bank of China; the balance sheets of the Rural Credit Cooperatives and staff estimates; the operations of the Capital Construction Bank of China are not included; the reconciliation between this table and the data published in IMF, International Financial Statistics, is given in Annex I to the recent economic developments paper, which will be issued shortly.

1/ Credit to industrial and commercial enterprises and to agricultural production units.

2/ Deposits of government units, organizations, the armed forces and schools, budgetary deposits of local authorities and enterprises with the Capital Construction Bank of China earmarked for investment and redeposited with the People's Bank of China and other deposits with the Rural Credit Cooperatives.

Table IV. China: Balance of Payments, 1979-83

(In millions of U.S. dollars)

	1979	1980	1981	1982	Staff Forecast 1983
Current account	<u>-2,227</u>	<u>-3,281</u>	<u>1,349</u>	<u>5,667</u>	<u>6,420</u>
Exports, f.o.b.	13,658	18,492	22,027	22,476	23,600
Imports, f.o.b.	-16,212	-22,049	-21,047	-17,830	-18,440
Trade balance	-2,554	-3,557	980	4,646	5,160
Services net	-299	-294	-203	550	740
(Credit)	(1,693)	(2,409)	(3,130)	(3,513)	(4,000)
(Debit)	(-1,992)	(-2,703)	(-3,333)	(-2,963)	(-3,260)
Net unrequited transfers	626	570	572	471	520
Net invisibles	327	276	369	1,021	1,260
Capital account	<u>2,830</u>	<u>3,507</u>	<u>854</u>	<u>1,697</u>	<u>1,270</u>
Long-term capital inflow	1,435	2,716	1,985	2,884	2,600
Long-term capital outflow	-613	-956	-933	-1,662	-1,330
Short-term capital net	1,554	76	-959	-56	--
Errors and omissions	454	1,671	761	531	--
Overall balance <u>1/</u>	<u>603</u>	<u>226</u>	<u>2,203</u>	<u>7,364</u>	<u>7,690</u>
Exceptional finance					
Early repayment	--	--	-800	-1,100	--
Trust fund	--	--	379	--	--
Allocation of SDRs	--	146	142	--	--
Overall balance <u>2/</u>	603	372	1,924	6,264	7,690
Reserves and related items <u>3/</u>	<u>-603</u>	<u>-372</u>	<u>-1,924</u>	<u>-6,264</u>	<u>-7,690</u>
Gold <u>4/</u>	-6	19	55	27)	
Foreign exchange	-597	-108	-2,511	-6,352)	
Reserve position in Fund	--	-191	191	--)	-7,207
SDRs	--	-92	-183	61)	
Use of Fund credit	--	--	524	--	-483

Sources: Bank of China; and Fund staff estimates.

1/ Excluding exceptional finance and counterpart items.2/ Including exceptional finance and counterpart items.3/ (-) indicates increase.4/ Difference between the U.S. dollar value initial stock at SDR 35 per fine ounce and the final stock at that price.

Table V. China: Medium-Term Balance of Payments and Debt Scenario, 1982-87

	1983-87	1982	1983	1984	1985	1986	1987
	Assumed Growth	Actual	Forecast	Projected Values			
	(In percent)	(In billions of U.S. dollars)					
<b>A. Balance of payments</b>							
Exports	10	22.5	23.6	26.0	28.6	31.4	34.6
Imports	25	-17.8	-18.4	-23.1	-28.8	-36.0	-45.0
Invisibles (net)	10	<u>1.0</u>	<u>1.3</u>	<u>1.4</u>	<u>1.5</u>	<u>1.7</u>	<u>1.8</u>
Current account		<u>5.7</u>	<u>6.4</u>	<u>4.3</u>	<u>1.3</u>	<u>-2.9</u>	<u>-8.6</u>
Gross borrowing	15	2.1	1.7	2.0	2.2	2.6	3.0
Amortization		-1.8	-0.8	-0.9	-0.9	-1.1	-1.2
Other capital (net)	20	<u>0.3</u>	<u>0.3</u>	<u>0.4</u>	<u>0.5</u>	<u>0.6</u>	<u>0.7</u>
Capital account		<u>0.6</u>	<u>1.3</u>	<u>1.5</u>	<u>1.8</u>	<u>2.0</u>	<u>2.4</u>
Overall balance		6.3	7.7	5.8	3.1	-0.9	-6.2
Total reserves							
(end of year)		11.8	19.0	24.8	27.8	26.9	20.8
(In months of imports)		(8.0)	(12.4)	(12.9)	(11.7)	(8.9)	(5.6)
<b>B. External debt</b>							
End-year stock		6.0	6.1	7.2	8.5	9.9	11.7
Debt service							
Principal		2.2	0.8	0.9	0.9	1.1	1.2
Interest <u>1/</u>		0.6	0.6	0.7	0.8	0.9	1.1
(Debt service ratio) <u>2/</u>		(10.9)	(4.7)	(5.0)	(5.1)	(5.6)	(5.7)

Source: Staff estimates.

Note: This table is not intended as a forecast of balance of payments developments. The assumed growth rates are chosen to illustrate the strength of the balance of payments at present, and are not predicted values.

1/ Assumes 10 percent interest on average stock of debt.

2/ As a percent of exports of goods and services.

Fund Relations with China

(September 30, 1983)

Representation: The People's Republic of China assumed representation of China in the Fund on April 17, 1980.

Quota: SDR 1.8 billion: China has consented to the increase in its proposed quota under the Eighth General Review to SDR 2,390.9 million.

Status: China continues to avail itself of the transitional arrangements of Article XIV.

Reserve tranche drawings: China made a reserve tranche drawing of SDR 218 million effective November 4, 1980 and of SDR 150 million effective January 8, 1981.

Use of Fund resources: On March 2, 1981, a stand-by arrangement in the first credit tranche equivalent to SDR 450 million was approved. On May 20, 1983 and on August 1983 China made early repurchases of SDR 333.8 million and SDR 116.2 million.

Trust Fund loan disbursements:  
(Second period) SDR 309.53 million.

Fund's holdings of renminbi: SDR 1,799 million or 99.9 per cent of quota, of which none are subject to repurchase.

SDR position: SDR 296.93 million (125.40 per cent of net cumulative allocation of SDR 236.80 million).

Designation Plan and Operational Budget  
(Sept.-Nov. 1983): China is included in the Designation Plan for SDR 90.9 million and in the Operational Budget for SDR 93.8 million.

- Exchange arrangements: China's currency, the renminbi, is linked to a basket of internationally traded currencies, weighted with reference to their importance in China's external transactions. The representative rate is determined as the mid-point between the buying and selling rate of the renminbi to the U.S. dollar. As of October 1, 1983, the representative rate for the renminbi was Y 1.9654 per U.S. dollar. China maintains an internal settlement rate of Y 2.8 per U.S. dollar for all trade and traderelated transactions. This constitutes an unapproved multiple exchange practice.
- Last consultation: Article IV consultation discussions were last held from April 5-15, 1982. The Staff Report (SM/82/129) was discussed by the Executive Board on August 1, 1982.
- IMF Institute: Since October 1980, seven officials of the Bank of China, eight of the People's Bank of China, two of the Ministry of Finance, one each from the State Statistical Bureau and the General Customs Administration have participated in courses organized by the IMF Institute. Last September, the Bureau of Statistics organized a BOP course in Beijing. On October 10-28, 1983, the IMF Institute will organize a course on Banking and Monetary Policy in Xian, China.
- Colloquium held in China by External Relations Department: The External Relations Department organized a colloquium in Beijing on October 20-28, 1982. The proceedings of this colloquium were recently published in a book, The Fund and China in the International Monetary System, edited by A.W. Hooke.

Relations of China with the IBRD

Representation: The People's Republic of China assumed China's representation in the World Bank on May 15, 1980.

Capital subscription: China's authorized capital is 23,232 shares or 3.24 per cent of the total authorized capital of the Bank.

Lending activities:	<u>Commitments</u>		<u>Disbursements</u>	
	IDA	IBRD	IDA	IBRD

(In millions of U.S. dollars)

FY 1981	100.0	100.0	--	--
1982	60.0	--	0.1	--
1983	150.4	463.1	36.2	0.6

Approved projects: FY 1981, university development project; FY 1982, North China Plain agricultural project; FY 1983, port facilities, agricultural education and research, China Investment Bank, two oilfields, and a land reclamation project.

Economic Development  
Institute:

Beginning in May 1981, the Economic Development Institute has held five courses a year for China, making it EDI's largest country program. Chinese participants have also been attending EDI regional courses and courses in Washington.

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CHINABasic Data

Area: 3,748,800 sq. miles (9,597,000 sq. km.)

Population (end 1982): 1,015.4 million

Rate of population increase  
in 1983: 1.45 per cent

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
<u>National income</u> 1/ (in billions of yuan)				
At current prices	335.0	368.8	394.0	424.7
At 1975 prices	316.4	341.0	351.2	...
<u>GDP</u> (in billions of yuan, at current prices)	390.3	429.5	458.7	493.0
<u>GDP per capita</u> (US\$)	260	292	271	259

Annual percentage changes in  
selected economic indicators

National income (in real terms)	7.0	6.1	4.8	7.4
Gross industrial output	8.5	8.8	4.1	7.7
Gross agricultural output	8.6	3.9	6.6	11.0
Gross fixed investment	8.7	7.1	-9.2	18.7
Budgetary revenue (GFS)	2.4	4.2	5.6	2.8
Budgetary expenditure (GFS)	19.9	--	-1.2	3.6
Currency in circulation	26.3	29.1	14.5	10.9
Domestic credit	15.1	26.8	13.5	11.9
Retail price index	2.0	6.0	2.4	2.1
Agricultural procurement prices	22.1	7.1	5.9	2.2
Value of imports (balance of payments basis in dollars)	45.4	36.0	-4.5	-15.0
Value of exports (balance of payments basis in dollars)	42.2	35.4	19.1	2.0
Total international reserves (minus gold)	38.3	18.1	98.3	124.6

## CHINA

Basic Data (concluded)

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
<u>Ratios to GDP (in per cent)</u>				
Agricultural production	33.8	34.1	36.1	38.4
Industrial production	39.3	39.3	37.2	36.3
Total investment	34.9	32.2	29.2	29.7
Budgetary expenditure (GFS)	37.6	34.1	31.5	30.3
Budgetary revenue (GFS)	32.3	30.6	30.3	28.9
Imports of goods and services (balance of payments basis)	6.5	7.7	7.8	6.8
Exports of goods and services (balance of payments basis)	5.4	6.4	8.2	8.6
Currency in circulation	6.9	8.1	8.7	9.6
Domestic credit	51.1	58.9	62.6	65.0
<u>Balance of payments (US\$ mn.)</u>				
Exports, f.o.b.	13,658	18,492	22,027	22,476
Imports, f.o.b.	-16,212	-22,049	-21,047	-17,830
Trade balance	-2,554	-3,557	980	4,646
Current account balance	-2,227	-3,281	1,347	5,667
Capital account	2,830	3,507	854	1,697
Overall balance (deficit -)	603	372	1,924	6,264
<u>International reserves</u>				
(In months of imports)	2.0	1.7	3.2	8.0
<u>Debt service payments</u>				
(Per cent of current account receipts)	2.3	5.8	5.4	6.6
			(8.6) <sup>2/</sup>	(10.9) <sup>2/</sup>
<u>Official exchange rate</u>				
(Yuan per U.S. dollar, average during the year)	1.550	1.498	1.705	1.889

<sup>1/</sup> Excludes nonmaterial services.

<sup>2/</sup> Includes early repayments.

