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January 3, 1994

To: Members of the Executive Board
From: The Secretary
Subject: China - Unification of Exchange Rates

The Secretary has received the following memorandum dated December 30, 1993, from Mr. Zhang:

I would be most grateful if you would inform the Executive Board of the following communication from my authorities.

On behalf of the Chinese Government, I wish to inform you that the State Council has decided to unify the current dual exchange rate system from January 1, 1994.

The new exchange rate mechanism will be a unified, market-based and managed floating system. Each day the People's Bank of China (PBC) will publish the median of the renminbi buying and selling rates against the U.S. dollar based on the previous day's prevailing rate on the interbank foreign exchange market. At the same time, PBC will publish the renminbi rates against other major currencies according to world currency market developments. Accordingly, banks licensed to conduct foreign exchange business will quote their transaction rates within the floating margins set by PBC. In addition PBC will trade on the foreign exchange markets through sales and purchases to assure the domestic value of the renminbi and help harmonize rates quoted by different banks and secure market stability.

At the same time, the present foreign exchange retention system will be abolished, and government approval will no longer be required to make payment for trade and trade-related international current transactions. Under the new system companies will be allowed to sell renminbi to banks in exchange for foreign currency to make payments as long as they can provide the required documentation, such as import contracts. Foreign exchange certificates will no longer be issued. Those in circulation will gradually be phased out.

This measure is another critical step in pushing ahead with financial reform in China and will have positive implications for establishing and improving China's socialist market economy.

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