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January 14, 1985

To: Members of the Executive Board
From: The Secretary
Subject: People's Republic of China - Exchange Arrangements

Attached for the information of the Executive Directors is a paper on the recent discontinuation of the use of the internal settlement rate by China.

If Executive Directors have technical or factual questions relating to this paper, they should contact Mr. Fetherston, ext. 8761.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

People's Republic of China--Exchange Arrangements

Prepared by the Asian Department and the Exchange and
Trade Relations Department

(In consultation with the Legal Department)

Approved by P. R. Narvekar and Eduard H. Brau

January 14, 1985

The Executive Director for China has notified the Fund that, with effect from January 1, 1985, the use of the internal settlement rate was discontinued (EBD/85/3, January 3, 1985).

The internal settlement rate was introduced on an experimental basis on January 1, 1981, and it remained unchanged at its original level of Y 2.8 = US\$1 until its recent discontinuation. The internal settlement rate was applied to all foreign trade and related transactions, which accounted for more than 90 percent of all external transactions.

As a result of the discontinuation of the use of the internal settlement rate, the official exchange rate for the Renminbi now applies to all foreign exchange transactions. It continues to be adjusted in accordance with movements in the value of a basket of internationally traded currencies, weighted with reference to their importance in China's external transactions and the trends in their related values. On January 2, 1985 the representative rate for the Renminbi notified to the Fund was Y 2.8097 = US\$1.

The staff welcomes the discontinuation of the internal settlement rate, which is viewed as a step in the right direction toward the establishment of an exchange system that corresponds to China's evolving needs. The staff considers that this step will facilitate the ultimate establishment of an effective link between international prices and those faced by domestic producers and consumers. No action by the Board is required.