

**EXECUTIVE
BOARD
MEETING**

SM/16/211
Supplement 1
Correction 1

July 25, 2016

To: Members of the Executive Board

From: The Secretary

Subject: **People's Republic of China—Staff Report for the 2016 Article IV
Consultation—Informational Annex**

Board Action: The attached corrections to SM/16/211, Sup. 1 (7/8/16) have been provided by the staff:

**Factual Errors Not
Affecting the
Presentation of Staff's
Analysis or Views**

Pages 3 and 5

Questions: Mr. Daniel, APD (ext. 39698)
Mr. Guo, APD (ext. 34705)

basket of currencies. The stated intention of the Chinese authorities was to increase the flexibility of the renminbi's exchange rate. The authorities indicated that they will not publish the currencies in the reference basket and their relative weight. The PBC indicated that it would adjust the exchange rate trading band as necessary to reflect market developments and financial and economic conditions. Under the new regime, the band around the daily trading price of the U.S. dollar against the renminbi was kept at ± 0.3 percent around the central parity published by the PBC while the trade prices of the non-U.S. dollar currencies against the renminbi were allowed to move within a certain band announced by PBC, which was initially set at ± 1.5 percent and increased to ± 3 percent in September 2005. In August 2005, the governor of PBC revealed that U.S. dollar, euro, Japanese yen, and Korean won were the main currencies included in the basket; and U.K. pound, the Thai baht, and the Russian ruble were among other currencies included in the basket. In May 2007, the band around the daily trading price of the U.S. dollar against the renminbi was widened to ± 0.5 percent. After maintaining the renminbi closely linked to the U.S. dollar between July 2008 and June 2010, the PBC announced on June 19, 2010 a return to the managed floating exchange rate regime prevailing prior the global financial crisis with the exchange rate allowed to move up to ± 0.5 percent from a central parity rate to enhance the effectiveness of monetary policy. As of today, the band has been widened to 2 percent, allowing daily fluctuations relative to the central parity rate. The trading prices for the RMB against the euro, Japanese yen, pound sterling, Australian dollar, Canadian dollar, and New Zealand dollar float within a 3 percent range of the current day's middle exchange rates for the RMB against these currencies. The trading prices against the Malaysian ringgit and the Russian ruble float within a 5 percent range of the current day's middle exchange rates of the RMB against these currencies. The trading price of the RMB against the Thai baht in regional interbank markets floats within a 10% range of the reference price.

On January 4, 2006, over-the-counter (OTC) trading of spot foreign exchange was introduced with 15 banks initially designated as market makers. The number of market makers has since risen to 31 with all the banks approved as spot market makers, and 27 approved as forward and swap trading market makers by the end of 2014. The centralized spot foreign exchange trading system (CFETS) remains operative, but its central parity rate (renminbi against the U.S. dollar) is now based on a weighted average of CFETS and OTC transactions. Under the new system, CFETS first inquires prices from all market makers before the opening of the market on each business day, exclude the highest and lowest offers, and then calculates the weighted average of the remaining prices in the sample as the central parity for the renminbi against the U.S. dollar for the day. The weights for the market makers, which remain undisclosed, are determined by the CFETS using various factors, including the transaction volumes of the respective market makers in the market. ~~The method for determining is as follows:~~ The CFETS determines the middle rate for the renminbi against ~~the~~ ringgit, yen, Hong Kong dollar, pound sterling and ~~the~~ ruble similarly. ~~The middle exchange rates of the renminbi against the euro and Hong Kong dollar, and pound sterling, respectively, are determined through cross rates by the CFETS based on the day's foreign exchange middle rate for the renminbi against the U.S. dollar and the exchange rates for the U.S. dollar against the euro, yen, Hong Kong dollar, and pound sterling on international foreign exchange markets.~~

enterprises in 20 provinces and cities in the Mainland may use renminbi for outward FDI in those countries which accept such settlement. In December 2011, a new pilot scheme was announced to allow up to RMB20 billion in portfolio flows into the securities markets (through a renminbi Qualified Foreign Institutional Investor scheme), and in October, rules were published to allow overseas firms to invest renminbi raised offshore in the Mainland as foreign direct investment. Since 2012 all residents and nonresidents can use RMB for FDI. RMB qualified foreign institutional investors (RQFIIs) may invest in domestic securities markets. Under the expanded RMB qualified foreign institutional investors (RQFII) scheme, Hong Kong subsidiaries of Chinese financial institutions, as well as financial institutions registered and operated in Hong Kong SAR, may invest in domestic securities markets using RMB proceeds raised overseas. RMB clearing banks were or will be established in these countries/regions.

As of 2016, resident-associated companies of multinational corporations may directly lend to overseas-associated enterprises within a certain limit; they may also provide loans to overseas-associated enterprises through domestic banks. Foreign loans to domestic institutions, with a maturity of more than one year, are subject to NDRC approval. Short-term external borrowings are subject to the limits of SAFE approval. ~~All external borrowing must be registered with the SAFE.~~

Article IV Consultation:

China is on the standard 12-month consultation cycle. The 2015 Article IV mission was concluded on May 27, 2015 and the staff report was published on August 14, 2015.

Technical Assistance:

Technical assistance provided from 2001 through September 2016 is summarized in Annex V.

Resident Representative:

The resident representative office in Beijing was opened in October 1991. Mr. Alfred Schipke is the Senior Resident Representative and Mr. Waikai Raphael Lam is the Deputy Resident Representative,