

# The Future of China's Exchange Rate Policy

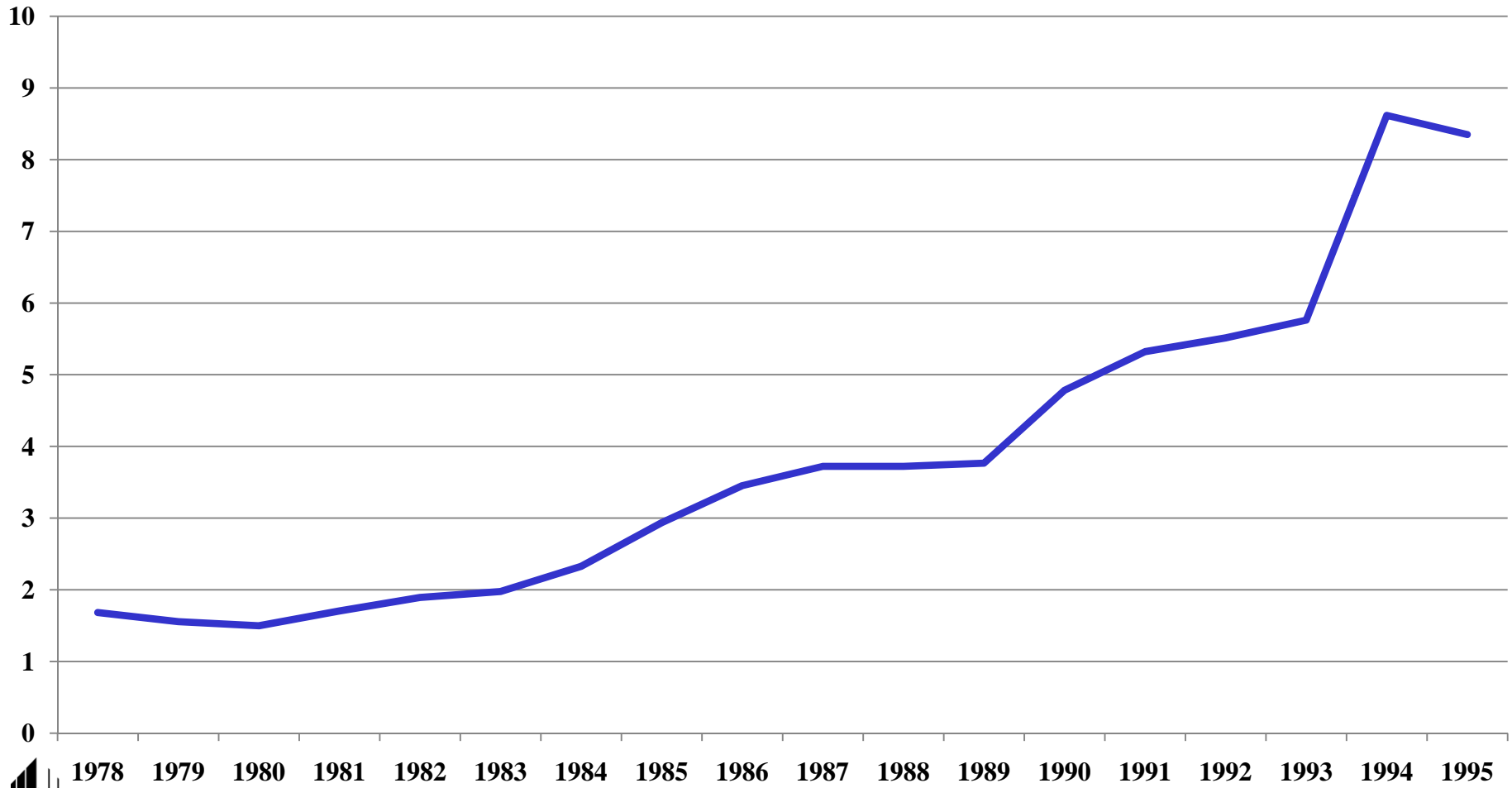
July 21, 2009

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# Bilateral RMB/USD Exchange Rate: Year-End Rate, 1978-1995

RMB to USD1



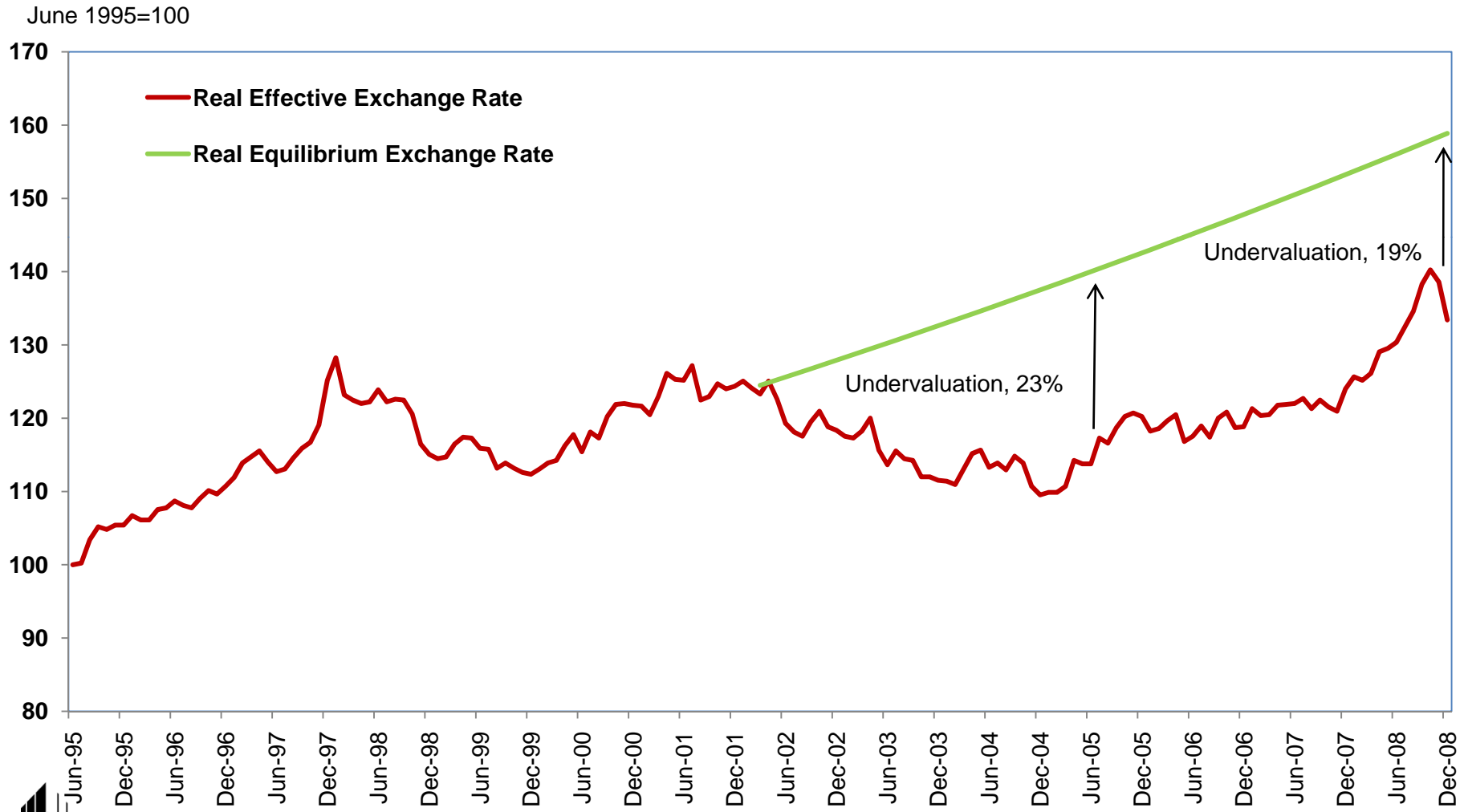
# Evolution of China's Exchange Rate Policy

DATE	Exchange Rate Policy
1979	FX retention, RMB1.6/\$1
1980	Transfer/Sale of retained FX via swap markets
1981	Internal settlement rate, devalued currency by almost 50%, from RMB1.5 to RMB2.8
1981 - 84	Devaluation of official exchange rate
1985	Abolition of internal rate
1985	Devaluation to RMB4.7
Jan 1994	Merger of official and swap rates, at swap rate of RMB8.7
1994 - Oct 1997	Appreciation to RMB8.28
Oct 1997 - July 2005	Exchange rate fixed at RMB8.28

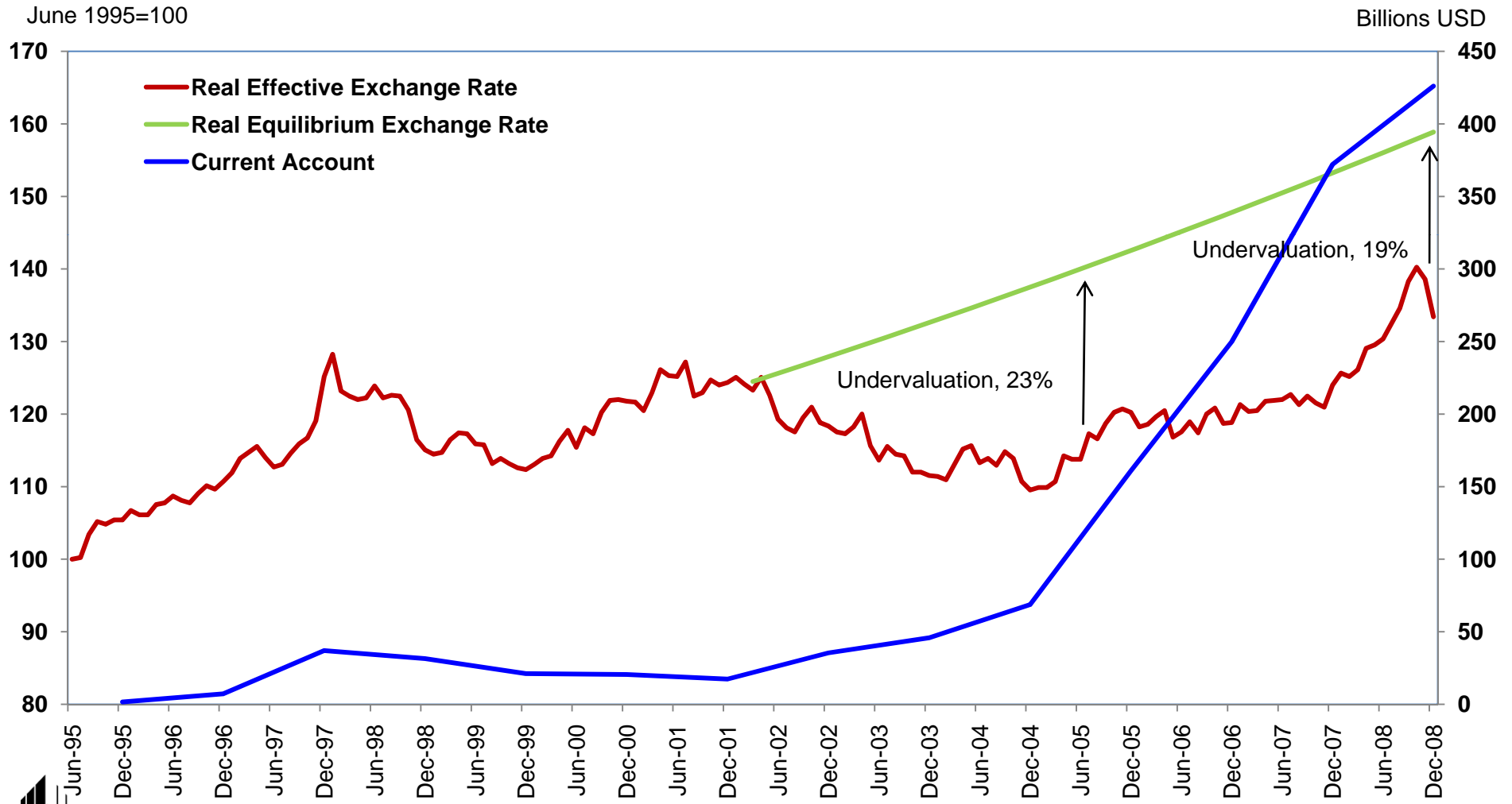
## Mid 1990s: An Equilibrium Exchange Rate

- 1) 80% of all FX transactions taken through swap market at time of unification
- 2) Substantial reduction in exchange controls on current account transactions in 1994
- 3) Current account close to equilibrium in 1994, 1995, and 1996
- 4) Full compliance with IMF Article VIII in November 1996

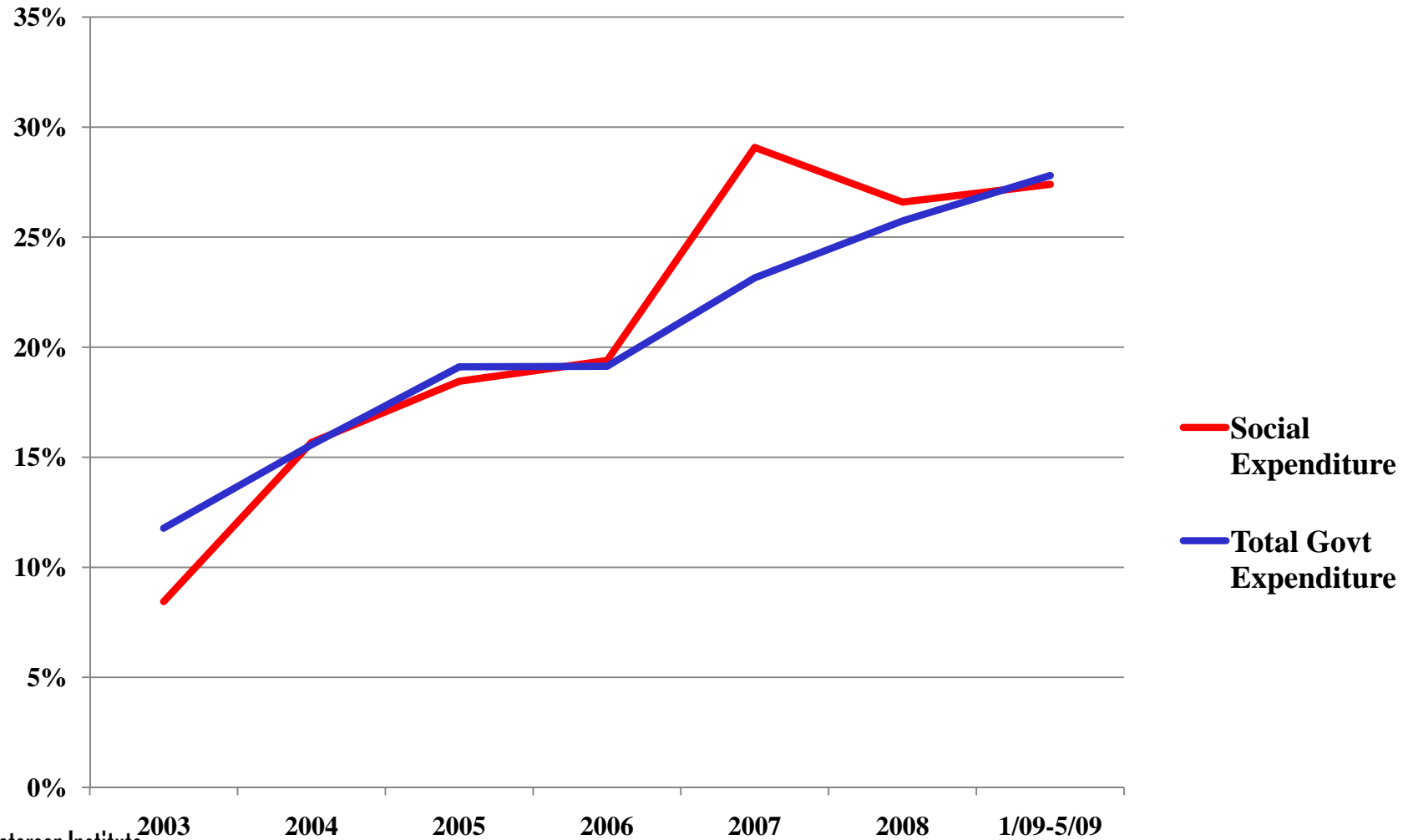
# Real Effective and Real Equilibrium Exchange Rate



# Real Effective and Real Equilibrium Exchange Rate with Current Account



# Social Expenditure and Total Government Expenditure Growth



# Government Social Expenditure Growth

