

Discussion: The anatomy of a peg: lessons from China's parallel currencies

By Saleem Bahaj and Ricardo Reis

Bo Sun

UVA Darden

Asian Bureau of Finance and Economic Research Annual
Conference

May 22, 2024

Overview

A high-impact paper that primarily makes two separate, related contributions:

- ▶ Introduction to the unique Chinese monetary policy apparatus
- ▶ Leverage it to test the monetarist view of exchange rate determination

Overview

A high-impact paper that primarily makes two separate, related contributions:

- ▶ Introduce the unique Chinese monetary policy apparatus
- ▶ Leverage it to test the monetarist view of exchange rate determination

Overview

A high-impact paper that primarily makes two separate, related contributions:

- ▶ Introduce the unique Chinese monetary policy apparatus
- ▶ Leverage it to test the monetarist view of exchange rate determination

CNH-CNY

What is the significance of CNH-CNY?

CNH-CNY under the banner of RMB internationalization

The CNH-CNY regime, developed as the operational heart of RMB internationalization, is part of a challenging policy experiment.

- ▶ Emerging country seeking to establish an international currency.

CNH-CNY under the banner of RMB internationalization

The CNH-CNY regime, developed as the operational heart of RMB internationalization, is part of a challenging policy experiment.

- ▶ Emerging country seeking to establish an international currency.
- ▶ Doing so in the era of fiat money

CNH-CNY under the banner of RMB internationalization

The CNH-CNY regime, developed as the operational heart of RMB internationalization, is part of a challenging policy experiment.

- ▶ Emerging country seeking to establish an international currency.
- ▶ Doing so in the era of fiat money
- ▶ **Pursuing currency internationalization without opening the capital account.**

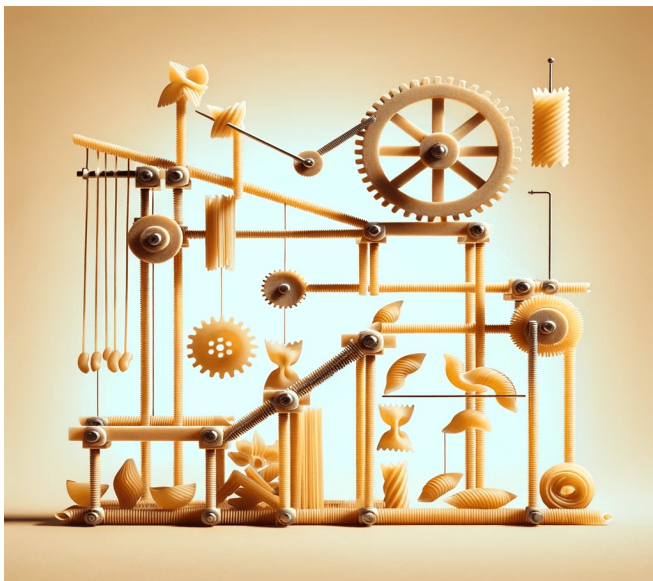
Understanding how CNH-CNY works is crucial for Qs re: RMB internationalization (and the role of the dollar).

The CNH-CNY paradigm

- ▶ CNY: within mainland China
- ▶ CNH: outside China
- ▶ CNY-CNH conversion (being maintained at virtually one)
- ▶ CNY-USD managed float

CNH serves signaling effects.

CNH-CNY: internationalize RMB without opening capital account



This paper illuminates and substantiates it!

Framing of CNH-CNY: “a successful peg”?

- ▶ CNH remains small in size (0.5% of CNY money supply; 7% of China foreign reserves)
- ▶ CNH-CNY: interlinked market(s) for RMB

Framing of CNH-CNY: “a successful peg”?

- ▶ CNH remains small in size (0.5% of CNY money supply; 7% of China foreign reserves)
- ▶ CNH-CNY: interlinked market(s) for RMB
 - ▶ PBoC issue and manage both CNH and CNY
 - ▶ Complying IMF policy of no multiple-currency practice

Gauging the role of monetarism

A unique opportunity to test for the effect of M on E that can address the identification difficulty

- ▶ test M independent r
- ▶ endogeneity of monetary policy
- ▶ reverse causality

Gauging the role of monetarism

A unique opportunity to test for the effect of M on E that can address the identification difficulty

- ▶ test M independent r
- ▶ endogeneity of monetary policy
- ▶ reverse causality

Trade-off: generalizability

- ▶ Regulated market
- ▶ Muted substitution effect?

Ending thoughts

Reduce a peculiar, enormous policy apparatus to traditional monetary and liquidity framework.

Highly impactful, with implications for

- ▶ Growth prospects of the CNH market and RMB internationalization
 - ▶ Parallel to the Eurodollar market when U.S. had capital controls?
- ▶ Implications for the role of the dollar and global monetary order

Causal effect of M on E

