Measuring Renminbi Misalignment: Where Do We Stand?

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Summary

The value of China’s currency, the renminbi (RMB), and the conduct of China’s exchange rate policy have generated intense debate in academic and international policy circles. Despite the accumulation of empirical evidence regarding the degree of RMB misalignment over the past few years, the debate continues unabated. In this study, we highlight the challenges to properly assessing the nature and degree of currency misalignment, in terms of the choice of the model, the method of calculation, and data uncertainty. In particular, we demonstrate the susceptibility of misalignment estimates to model selection and data revisions. Further, we explicitly discuss the implications of sampling uncertainty for determining the extent of RMB misalignment.