# Article information:

The Two‐Pillar Policy for the RMB - JERMANN - 2022 - The Journal of Finance - Wiley Online Library
<https://onlinelibrary-wiley-com.virtual.anu.edu.au/doi/10.1111/jofi.13178>

# Article summary:

1. China's recent exchange rate policy for the renminbi (RMB) involves a two-pillar policy that aims to balance exchange rate flexibility and RMB index stability via market and basket pillars.

2. The basket pillar can be measured at a daily frequency, and both pillars receive roughly equal weight in setting the central parity rate.

3. The introduction of the countercyclical factor in May 2017 is used to partially offset the deviation of the previous closing rate from the daytime component of the basket pillar, which may be driven by sentiment-induced "procyclicality" in the foreign exchange market according to the PBC.

# Article rating:

May be slightly imbalanced: The article presents the information in a generally reliable way, but there are minor points of consideration that could be explored further or claims that are not fully backed by appropriate evidence. Some perspectives may also be omitted, and you are encouraged to use the research topics section to explore the topic further.

# Article analysis:

The article "The Two-Pillar Policy for the RMB" provides a comprehensive analysis of China's recent exchange rate policy for the renminbi (RMB). The authors present empirical evidence that a two-pillar policy is in place, aiming to balance exchange rate flexibility and RMB index stability via market and basket pillars. They also develop a flexible-price monetary model for the RMB in which the two-pillar policy arises endogenously as an optimal response of the government.

Overall, the article appears to be well-researched and informative. However, there are some potential biases and limitations that should be considered. For example, the authors rely heavily on data provided by the People's Bank of China (PBC) and may not have access to all relevant information or perspectives. Additionally, while they acknowledge that China's undervalued currency contributes to its trade surplus, they do not explore potential negative consequences of this policy for other countries or global economic stability.

Furthermore, while the authors provide detailed explanations of how China's exchange rate policy works, they do not fully explore alternative perspectives or counterarguments. For example, some critics argue that China manipulates its currency to gain an unfair advantage in international trade. The authors briefly mention this criticism but do not delve into it further.

Another limitation of the article is that it focuses primarily on technical aspects of China's exchange rate policy rather than broader political or social implications. For example, they do not discuss how changes in exchange rates might affect ordinary Chinese citizens or how political tensions between China and other countries might influence currency values.

Despite these limitations, "The Two-Pillar Policy for the RMB" provides valuable insights into how China manages its currency and offers a useful framework for understanding its recent exchange rate policies. It highlights important factors such as market demand and supply conditions as well as changes in the currency basket designed to maintain overall stability. While there may be room for further exploration of alternative perspectives and potential risks associated with this policy, overall this article provides a solid foundation for understanding China's approach to managing its currency.

# Topics for further research:

* Negative consequences of China's undervalued currency on global economic stability
* Criticisms of China's currency manipulation for unfair trade advantage
* Impact of exchange rate changes on ordinary Chinese citizens
* Political tensions and their influence on currency values
* China's role in the global economy and its currency policies
* Historical context of China's exchange rate policies and their evolution over time

# Report location:

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