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China: The PBoC's stance on RMB and global imbalances

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China's PBoC has just issued a statement on its policy stance on RMB and global imbalances. The PBoC said that it maintains a market-driven, managed floating RMB, intervening only against extreme volatility. It argued that trade surpluses do not automatically cause appreciation, as capital flows and financial markets dominate valuation. The PBoC rejected the claims of undervaluation and competitive devaluation, and it views global imbalances as structural issues spanning saving gaps and bottlenecks in both deficit and surplus nations. The statement emphasised that the Chinese government, through its 15th Five-Year Plan, supports rebalancing by boosting domestic consumption and reforming global financial governance. The PBoC's overall view is in line with our view that *China's surging trade surplus is more due to the falling real effective exchange rate rather than the nominal one,* pointing to the need for ending deflation and boosting domestic demand in China. The statement might also suggest that the PBoC is reluctant to allow (not to mention push for) fast RMB (nominal) appreciation to address the imbalance.

A year of debate over China's surplus and the RMB

We think today's PBoC RMB view statement is best read against a year in which China's external surplus has moved to the centre of the global policy debate. Despite an unprecedented tariff war with the US, China's goods trade surplus reached a record USD1.2trn in 2025, up near-20% from 2024, as exports rose by 5.5%, while imports were flat. The surplus reached a further USD806bn in January-August 2026, up 3.1% y-o-y, notwithstanding robust import growth. These developments support our view, *which we have been highlighting* since December 2025, that the current "China shock 2.0", unlike the first, involves high value-added products that compete directly with some DMs' industrial core.

A new thesis has broadened the debate even further this year. *A research paper* published by the Peterson Institute for International Economics (PIIE) in May extended the critique to low- and middle-income economies, arguing that a "China squeeze" is compressing their industrialisation space and that an undervalued RMB may have played a role. Meanwhile, the IMF's 2026 External Sector Report, which identified China and the US as the main drivers of excess global imbalances, has been widely read as suggesting RMB undervaluation is around 20%.

An ever-widening EU-China trade imbalance

Europe is arguably where these pressures are most acute, in our view. China's goods surplus with the EU rose to USD292bn in 2025 from USD132bn in 2020. China's customs data show that it averaged around USD30bn per month in January-August 2026, *suggesting a potential new annual high* of around USD364bn (Figure 2). German Chancellor Friedrich Merz has previously called for "Plaza Accord"-style talks on the RMB, and ECB President Christine Lagarde has cited an IMF estimate of 15-16% undervaluation. The EU-China Trade and Investment Consultations (TIC), *launched in June with October set as the first checkpoint,* are currently holding their second ministerial meeting between European Commissioner for trade and economic security Maroš Šefčovič and China's Commerce Minister Wang Wentao in Beijing this week (8-9 October) amid heightened tensions. We suspect the timing for releasing this RMB view statement by the PBoC may have been carefully chosen, as Brussels has been the most vocal critique of Beijing's FX policy over the past year.

Furthermore, Beijing has reportedly rejected an EU request to cap Chinese hybrid vehicles at about 15% of the EU market, down from more than a third currently (Source: *FT*). The European Commission is also said to be formally considering safeguard measures, including limiting imports of PHEVs from China (Source: *Bloomberg*). More recently, Berlin and Paris have jointly proposed an instrument modelled on US Section 301 ahead of next week's EU leaders' summit (Source: *Dow Jones Newswires*).

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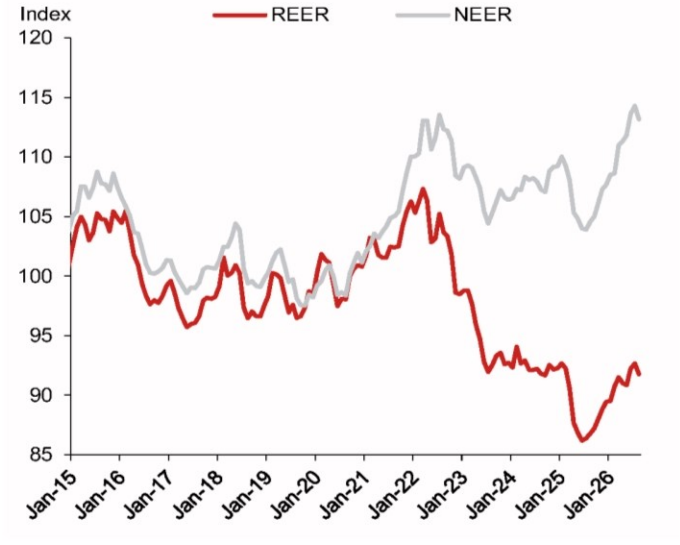
The G20 turns the spotlight on surplus economies

The G20 Finance Ministers and Central Bank Governors meeting held in North Carolina on 31 August-1 September may be another important backdrop to the PBoC's statement. China was the only member that declined to endorse the US-drafted text, objecting to four of its paragraphs. Without unanimity, the meeting could not adopt a joint communiqué and instead the US issued a chair's statement. The statement called on countries to "eliminate non-market policies and practices that exacerbate imbalances". It also urged those with "excessive and persistent external surpluses" to "remove distortions that constrain domestic consumption and that result in an over-reliance on exports for growth". US Treasury Secretary Scott Bessent later described China's current account surplus as "unsustainable". PBoC Governor Pan Gongsheng, for his part, argued that addressing global imbalances requires all countries to pursue their own structural reforms. In our view, the PBoC's statement in a way formalises and expands Pan's position in North Carolina. It argues that global imbalances require joint action by surplus and deficit economies, and that deficit countries should undertake fiscal consolidation.

The widening gap between the REER and NEER of the RMB

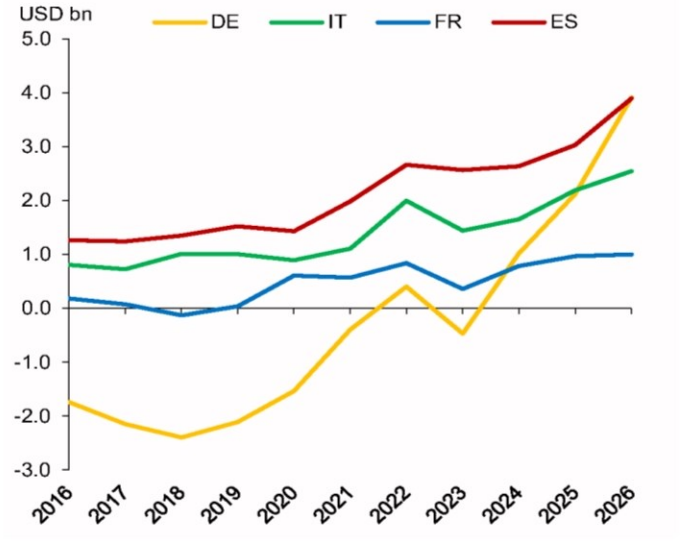
BIS data point to a widening divergence between the RMB's nominal and real effective exchange rates. The broad nominal effective exchange rate (NEER) rose by 8.8% between mid-2025 and August 2026 and reached an all-time high of 114.3 in July 2026 (Figure 1). This is broadly consistent with the PBoC's characterisation of the RMB as having remained strong among major currencies. Since end-2025 alone, the NEER has appreciated by 5.1%, while the real effective exchange rate (REER) has risen by only 2.6%, to 91.8 in August 2026. The REER remains 14.5% below its March 2022 peak, having fallen in June 2025 to its lowest level since November 2011. As a result, the ratio of the REER to the NEER, a proxy of China's real price level relative to its trading partners, fell to a record low in July 2026. It has declined by around 15% since early 2022 and by a further 2.3% in the first eight months of 2026. In our view, this reflects persistent domestic disinflationary pressures, which have offset much of the RMB's nominal appreciation and preserved the price competitiveness of Chinese exports. Without reflation of the domestic economy, gradual nominal appreciation alone is unlikely to narrow China's trade surplus materially, as *we previously highlighted.*

Fig. 1: China's effective exchange rates in real and nominal terms



Source: BIS, Wind, Nomura Global Economics

Fig. 2: China's monthly trade surplus with the EU reached historical highs across the EU Big 4



Note: 2026 data are from January to August.
Source: General Administration of Customs, Wind, Nomura Global Economics

Appendix

Summary of "The People's Bank of China's Policy stance on the RMB Exchange Rate"

This document systematically outlines China's RMB exchange-rate regime, the underlying logic of currency movements and China's strategic commitments to global economic rebalancing. It directly addresses international accusations of RMB manipulation, clarifies the complex relationship between exchange rates and the balance of payments, and sets forth medium- to long-term structural reform plans.

I. Core structure of China's exchange-rate regime

China maintains a managed floating exchange-rate system driven by market supply and demand, adjusted with reference to a currency basket. The PBoC remains committed to market-oriented currency reform.

- **Market-driven valuation:** Market forces play the decisive role. The PBoC does not target specific exchange-rate levels and ended routine foreign-exchange interventions in 2017 to foster two-way RMB flexibility.
- **Targeted volatility control:** Policy intervention is restricted to managing extreme short-term volatility. Under major external shocks, macro-prudential tools guide market expectations. Direct intervention is reserved strictly for extreme scenarios to curb herd behavior and prevent destructive exchange-rate overshooting – an approach consistent with international norms.
- **Enhanced Transparency:** China publishes balance of payments and foreign-exchange data under the IMF's Special Data Dissemination Standard (SDDS) and will expand its foreign-exchange data submissions to the IMF starting in 2027.

II. RMB historical performance and declining trade sensitivity

- **Resilience and stability:** Since the 2005 currency reform, the RMB has remained strong, while exhibiting natural two-way fluctuations. China consistently rejects competitive devaluation, maintaining exchange-rate stability during major global crises without seeking unfair trade advantages.
- **Reduced sensitivity to FX swings:** Chinese exports have shifted toward mid-to-high-end manufactured goods, while global supply chains share exchange-rate risks. Approximately 30% of China's trade is settled in RMB, and around 30% of foreign-trade enterprises actively use currency hedging tools—both metrics are expected to rise.
- **Limits of central bank intervention:** Given the immense size of global FX markets, central banks cannot alter long-term exchange-rate trends through intervention alone. Sustained currency weakness fails to provide lasting trade competitiveness.

III. Disconnecting exchange rates from current account balances

Exchange rates are influenced by a complex matrix of economic growth, monetary policy, capital flows, geopolitical risks and market sentiment. A current account surplus or deficit alone does not dictate whether a currency should appreciate or depreciate.

1. **Dominance of capital flows:** Cross-border financial transactions far exceed trade volumes, meaning capital account dynamics frequently drive currency movements. For example, the South Korean won and Japanese yen have depreciated despite current account surpluses, whereas the US dollar has remained strong despite persistent current account deficits.
2. **Capital outflows counter balance surpluses:** Even with sizeable current account surpluses, capital flows outward through foreign investment, maintaining an overall balance of payments equilibrium. Surpluses do not automatically lead to currency appreciation.

IV. Limitations of IMF equilibrium-exchange-rate models

Academic consensus remains elusive on the methods for estimating equilibrium exchange rates. The IMF's External Balance Assessment (EBA) is a broad diagnostic tool for external imbalances rather than a precise equilibrium-exchange-rate model and its distinct modules often yield conflicting results.

- **Analytical constraints:** Due to sample selection constraints, parameter settings and limited explanatory power, EBA outputs should serve only as academic references.
- **Misinterpretation warning:** Real effective exchange rate findings from the EBA must not be conflated with judgments on the nominal RMB-USD exchange rate or used to justify claims of RMB undervaluation.
- **IMF policy focus:** The IMF's actual policy advice for China prioritizes structural reforms—such as boosting domestic demand—rather than forced nominal RMB appreciation.

V. Multilateral drivers of global economic imbalances

Global economic imbalances stem from evolving international labor divisions, structural flaws in the global monetary system and cross-country saving-investment gaps. They cannot be blamed solely on surplus nations.

- **Reserve currencies and structural bottlenecks:** Reserve-currency issuing nations maintain chronic deficits driven by fiscal expansion and low domestic saving rates. Meanwhile, declining industrial competitiveness in certain nations stems from domestic energy costs, lagging infrastructure, regulatory burdens and innovation deficits.
- **Rejecting protectionism:** Blaming external exchange rates reflects protectionist sentiment and avoids necessary domestic adjustments. Both surplus and deficit nations must commit to medium- and long-term structural reforms rather than relying on short-term reactive measures.

VI. China's strategy for global economic rebalancing

China has made tangible contributions to global dynamic rebalancing by reducing its current account surplus-to-GDP ratio and significantly increasing consumption's contribution to GDP growth.

Under the **15th Five-Year Plan**, China will advance structural economic adjustments by:

- Stimulating domestic consumption and driving effective investment.
- Improving the business environment and expanding high-standard market opening.
- Accelerating science and technology innovation while refining income distribution and social security systems.
- Developing the domestic consumer market and participating in global financial governance reforms to promote an open, inclusive, and balanced global economy.

Key takeaways

The RMB exchange rate is fundamentally market-determined, with policy interventions limited to curbing severe market overshooting. No direct linear relationship exists between exchange rates and current account balances. Resolving global economic imbalances requires structural adjustments across all major economies rather than competitive currency devaluations or targeted exchange rate claims.



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Appendix A-1

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