



China's Inflation Problem: Causes and Consequences

Prepared for the Georgia Tech Global Business Forum

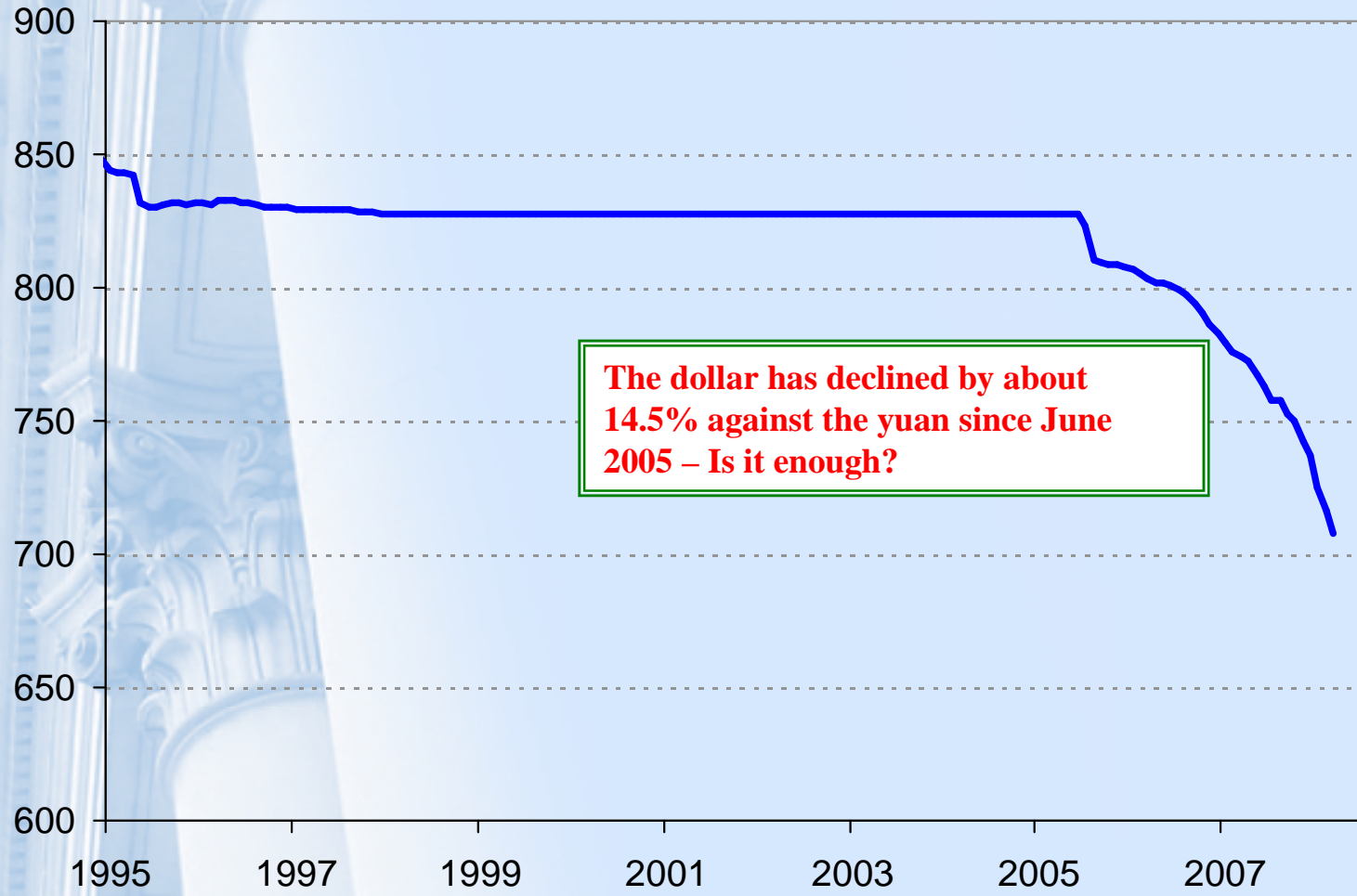
David Altig

Federal Reserve Bank of Atlanta

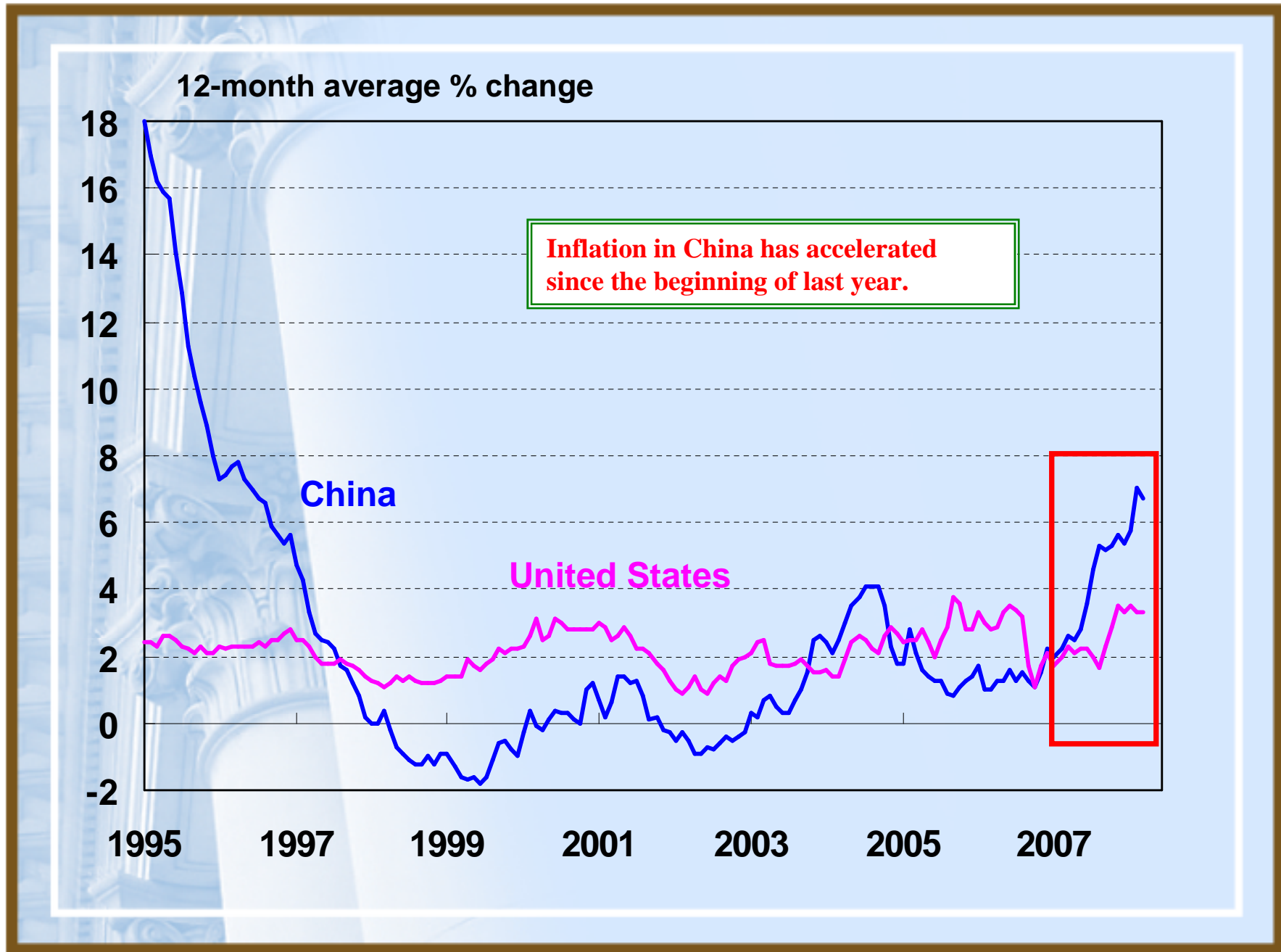
April 23, 2008

China-US Exchange Rate

Average Yuan/100 USD

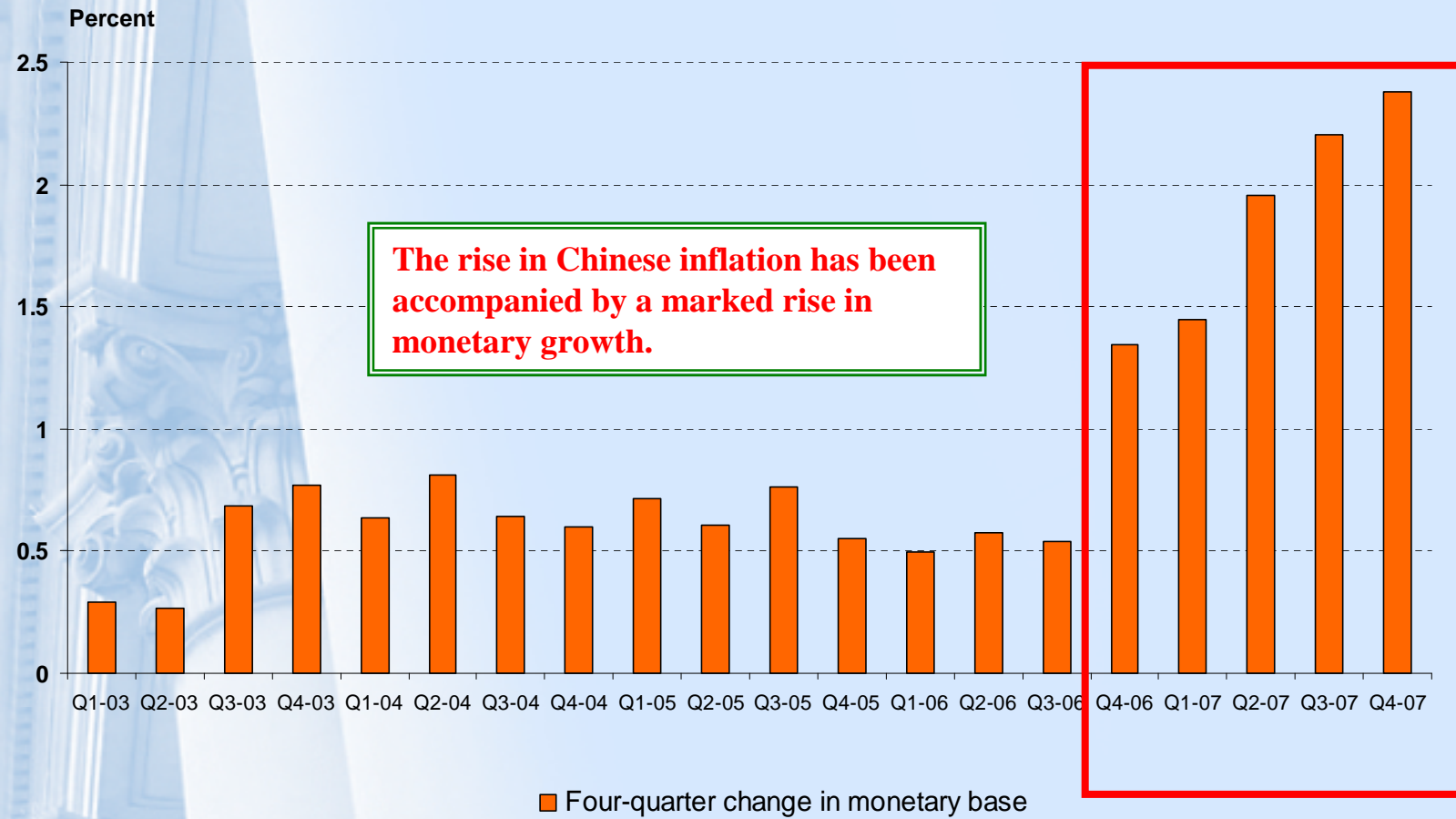


The dollar has declined by about 14.5% against the yuan since June 2005 – Is it enough?

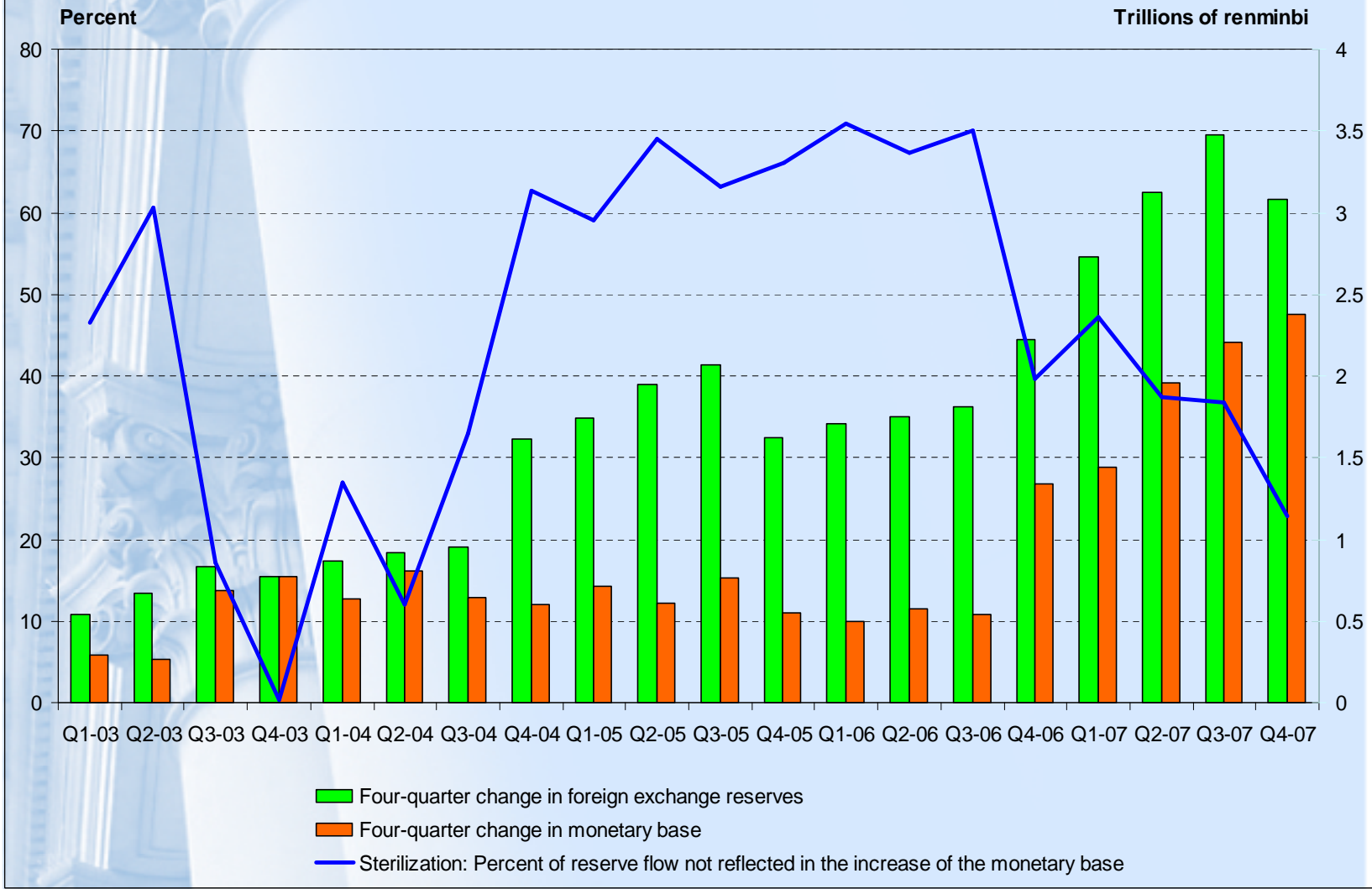


Source: Haver Analytics

Chinese Money Growth



Chinese Sterilization of Reserve Flows



So ...

Exchange rate policy begets
money growth.

Money growth begets inflation.



Exchange rate policy
begets inflation.

The options:

- Accept the inflation.
- Let the currency “float.”
- Find an “administrative” solution.



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