Impact of a renminbi appreciation on inflation in Hong Kong

- A research done by the HKMA shows that appreciation of the renminbi (RMB) has limited impact on inflation in Hong Kong. A 10% appreciation of the RMB against the Hong Kong dollar is estimated to increase Hong Kong's Composite Consumer Price Index (CCPI) inflation by roughly 0.5 percentage points. [1] This figure reflects the impact of RMB appreciation on Hong Kong's inflation through the import price channel.

- The above analysis is based on the following estimates and assumptions:

  - Using data for 2009 from the Census and Statistics Department, we estimate that about 15.5% of the retained imports in Hong Kong came from Mainland China[2].
  - With tradable goods accounting for roughly 30% of the Composite CPI basket, and assuming a complete exchange-rate pass-through to consumer prices, the effect of a 10% appreciation of the RMB on Composite CPI inflation would be 0.5% (10% x 15.5% x 30%).

- In fact, the import price channel is only one of a number of channels through which inflation is affected. For example, an appreciation of the RMB may have an impact on inflation through changing aggregate demand and asset prices. Nevertheless, the impact of these channels is not expected to materially change our estimates because their effects tend to offset each other. The HKMA will continue to monitor closely the impact of RMB appreciation on inflation, and will keep our estimate under constant review.

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[1] *For details, please see Fan (2010), "Implications of a renminbi appreciation for inflation in Hong Kong", HKMA Quarterly Bulletin, June 2010 (refer to Appendix).*

[2] *Retained imports are derived using the formula: Retained imports = imports – re-exports x (1 – Rate of re-export margin). For details, please see Leung and Chow (2007), "How much of Hong Kong's import from Mainland China is retained for domestic use?", HKMA Research Note 01/2007 (http://www.info.gov.hk/hkma/eng/research/notes/pdf/RN-01-2007.pdf).*