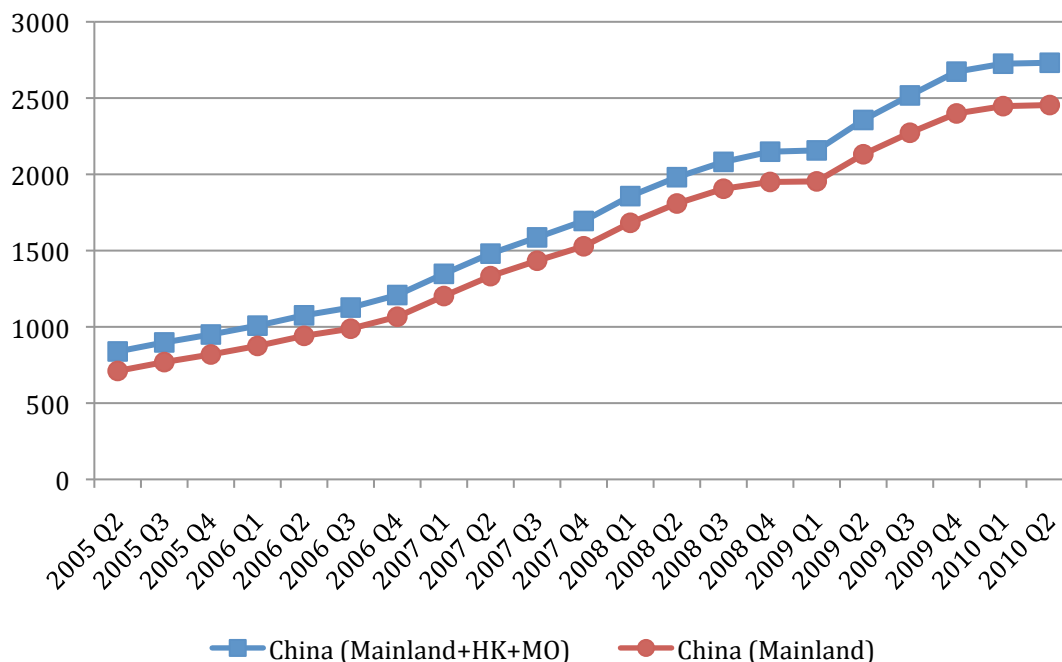


Chinese Foreign Exchange Reserves

(Billions of USD)
2005 Q2 - 2010 Q2



Sources: People's Bank of China; Monetary Authority of Hong Kong; Monetary Authority of Macao

- China's 2.1 percent revaluation of the RMB against the dollar in July 2005 and the subsequent gradual appreciation through July 2008 did little to slow the increase in the accumulation of official foreign exchange reserves. This is evidence that the change was too small and too gradual even to begin the process of reversing China's current account imbalance with the world. In addition, other government policies – particularly large amounts of low-interest lending – negated the expected effects of the appreciation.
- In the eight quarters following the effective repeg in July 2008, official reserves have risen by more than \$645 billion. China likes to claim credit for the “stability” of the RMB exchange rate with the dollar. In fact, the new peg continues to have destabilizing effects, as reflected in the huge run-up in new reserves.
- Overall, China's official reserves have more than tripled since the summer of 2005 to an unprecedented 2.4 trillion dollars. This is far in excess of the level that even the world's largest country would need to finance its imports and repay its debts.
- It must be noted that the official reserves are *net* of China's purchases of raw material and energy deposits around the world and its growing outbound investment under the “going out” strategy.
- Moreover, the official reserves may substantially understate the full extent of hard currencies at China's disposal. When the official reserves of Hong Kong and Macao are included, the total exceeds \$2.7 trillion. If the foreign currency assets of China's sovereign wealth fund, the social security investment fund, commercial bank reserves and individual and corporate accounts are included, the total almost certainly exceeds \$3 trillion.

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August 6, 2010