China’s forex reserves pass $2,000bn

Print

By Richard McGregor in Beijing
Published: July 15 2009 06:33 | Last updated: July 15 2009 19:07

Beijing’s foreign reserve holdings have surged through the $2,000 billion mark, as money pours back into China to take advantage of faster economic growth and rapidly inflating asset prices.

The flow of funds threatens to renew pressure for a revaluation of the renminbi at a time when the government and domestic business are focused on financial stability.

Chinese string of pearls

Beijing’s development of strategic links and assets is raising anxiety in New Delhi and beyond

An economist at a state think-tank said Beijing was caught in a squeeze similar to the one that bedevilled policymakers earlier this century, with a flood of hot money trying to force the government’s hand on the currency.

“The same expectations of a renminbi appreciation will start to accumulate all over again,” said the economist, who asked not be named.

Those behind the hot money are betting that China’s economic recovery will be sustained.

The second quarter gross domestic product figures, due to be released on Thursday, are expected to record strong growth, of just under 8 per cent for the last three months.

The People’s Bank of China, the central bank, announced on its website that foreign reserves reached $2,132bn at the end of June after a rapid accumulation of funds in the second quarter.

The reserve build-up in the second quarter was $177.9bn, including a monthly record in May of $80.6bn.

The quarterly figure far outstrips China’s trade surplus and inbound foreign direct investment for the same period, proof that the accumulation of funds inside the country is being driven by other factors.

“China’s foreign exchange reserve headache has returned,” said Stephen Green, of Standard Chartered, in Shanghai.

The latest figures also represent an abrupt reversal of an emerging trend of the previous two quarters.

Foreign reserves increased just $7.7bn in the first three months of the year, and $40.4bn in the fourth quarter of 2008, as foreign firms sent profits home and banks demanded repayment of loans.

Chen Xingdong, of BNP-Paribas, in Beijing, calculated that after taking account of the trade surplus, foreign investment and the impact of changes in global currency valuations, about $70bn in hot money came into China in the second quarter.

In the first quarter, by contrast, about $65bn in funds flowed out, he said.

China maintained a virtual US dollar peg for more than a decade until mid-2005, prompting complaints from its major trading partners that Chinese exporters held an unfair pricing advantage.

Beijing’s move to a slightly more flexible exchange rate in mid-2005 and a 20 per cent revaluation against the US dollar over the following three years, relieved much of the political pressure over the currency.

Since mid-2008, however, the renminbi has barely moved against the greenback as Chinese exporters’ sales overseas have dropped sharply because of the global economic downturn,

“We have now moved back to a virtual US dollar peg,” said the think-tank economist.

The central bank, in order to keep the renminbi stable, buys US dollars and other foreign currencies coming into China, and then holds the funds on its balance sheet.