China Reserves

Economist, 2007.1.27

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2007.05
China reserves

- One trillion-plus of foreign-exchange reserves
- Wen Jiabao: explore new ways of investing the money
- What new ways?
Profit

- PBOC: a profit of $29 billion (2006), more than any of the world’s commercial banks
- “Much attention has been given to the large losses that the PBOC could suffer if the yuan rose sharply against the dollar”
- Why? 70% of reserves are held in dollars
- Because of a modest rise in the yuan, it was estimated that “the bank suffered a balance-sheet loss of 26 billion yuan ($3.3 billion)”
Net interest rate income

- In 2006, PBOC earned an estimated 343 billion yuan on its foreign reserves
- It has to pay interest of 90 billion yuan on banks’ reserves held at the central bank and on bills it issued
- Putting everything together, PBOC earned a total profit of $29 billion
- Citigroup and Bank of America each earned $21 billion in 2006
Why earnings are so vast?

- Because “the interest rate it pays on its own bills is much lower than American interest rates”
- Same in Taiwan
2001年央行盈餘占財政總收入的5.74%, 2003年大幅增加至13.18%, 2005年為8.88%。

Tax on what?