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PBOC's balance sheet is doing the opposite of what the Fed's is doing

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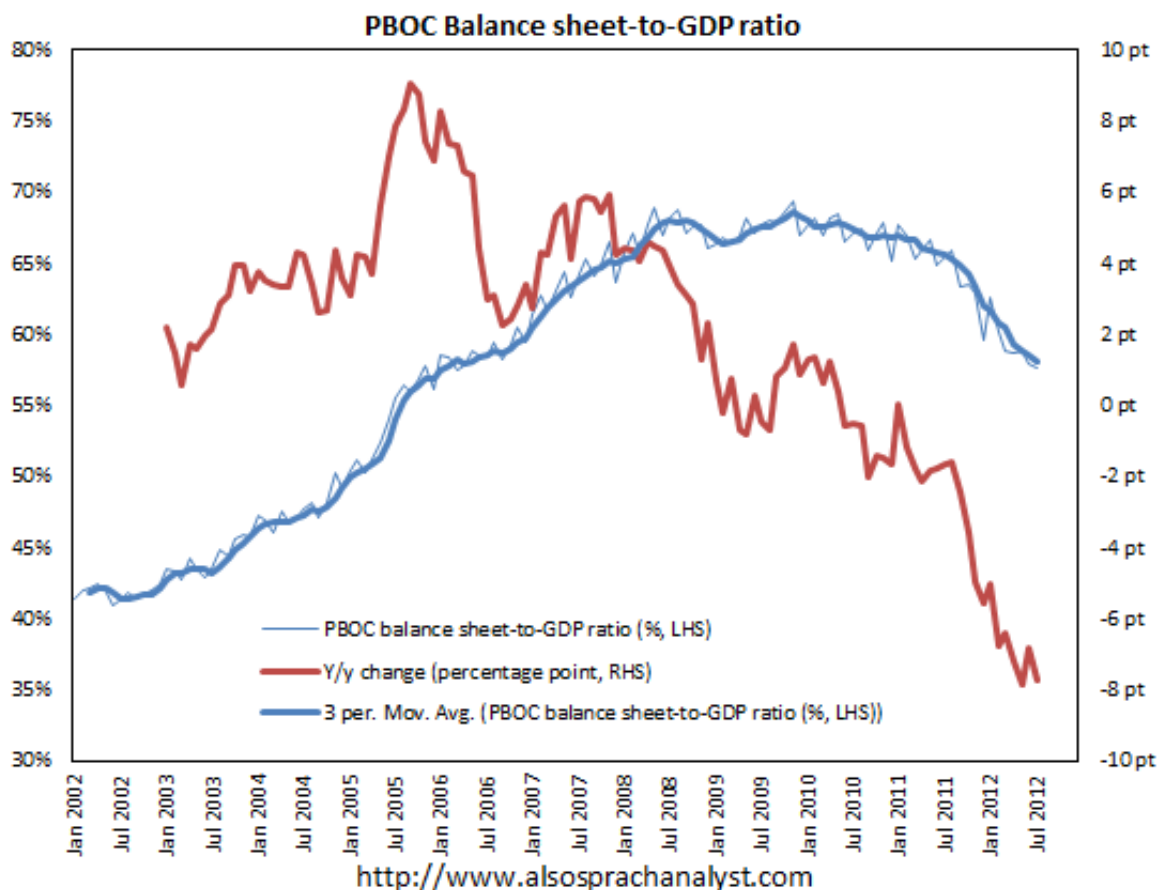
20 September, 2012, 18:47. Posted by [Zarathustra](#)



Earlier, we pointed out that among major central banks, the [Fed's balance sheet is actually the smallest relative to the size of the economy](#), while ECB's balance sheet is growing remarkably quickly. And of course, the Chinese central bank's balance sheet is actually larger than any others'.

But the one thing which really struck us is not the actual size of PBOC balance sheet relative to the size of the [Chinese economy](#). Rather, it is the fact that PBOC balance sheet-to-GDP ratio has actually declined quite sharply, especially since last year. This is totally opposite to the trend one is now seeing with central banks in other major developed economies.

The chart below better visualises the point. It also shows the year-on-year percentage-point change of the PBOC balance sheet-to-GDP ratio.



Source: People's Bank of [China](#)

It comes back again to the point that because [PBOC's foreign assets accumulation has more or less stopped since late last year largely because of larger and persistent money outflow](#), the size of PBOC's balance sheet has remained almost unchanged for almost a year now, while the [economy](#) is still growing, albeit at a slower rate. The result is simple, that the ratio of the size of balance sheet to the size of the [economy](#) decline.

The developed world's central banks are increasing the size of their balance sheets (both in absolute terms and relative to the size of their economies) in order to ease monetary policy at zero bound. The fact that PBOC's balance sheet has stayed almost constant for a year now and that it is shrinking relative to the size of the [Chinese economy](#) means that not only is PBOC not easing at all, monetary condition has probably been tightened inadvertently. Of course, there are still tools to offset such impact, such as "un-sterilised" the previously sterilised inflow by cutting RRR or deploy even more [reverse repo](#). However, we maintain that if outflow gets really bad, there are limits as to how much these tools can help to offset

the tightening of liquidity.

With [QE-Infinity](#), there is some hope that money will once again be encouraged to flow into [China](#). If money inflow is successfully encouraged, it could [help PBOC to ease monetary condition](#), which could possibly be too tight at the present moment. However, any positive impact could well be short-lived, and it could well be fading already.

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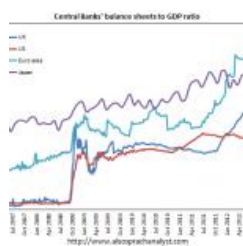
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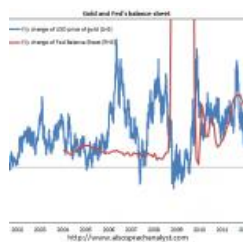
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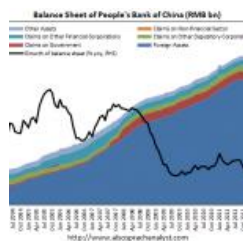
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About Zarathustra

Zarathustra: Founder and Managing Editor of [Also sprach Analyst](#). Once an analyst, now an investor and entrepreneur. Based in Hong Kong, but Londoner at heart.

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John Liu • a month ago

I just kept being amazed by people like Martin Jacques to claim that he found the ultimate answer on China that China is different from the rest of the world in culture hence, the universal rule of economy could not apply to China. Being a Chinese and now, American, as far as I know, no educated Chinese will think they could be excluded from the universal rules, when they say we are different, they are actually saying we don't want do thing as you thought the way you want us to do. As for the economy in China, they are trying their best to present to the world that they don't follow suit with devoloped world, but on the expense of the carriers of the economy, its people, it is not a dispute on if different culture will change basic universal rules, rather, it is a form of ruling on its people to bend the rule of modern economy system, like placing a magic spell, someone is saying I will make u rich, hence you are rich, and you will be poor, then you live in crap. This someone is playing God, who gave it power? The silence of Chinese people and the world.

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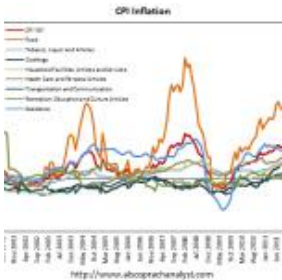
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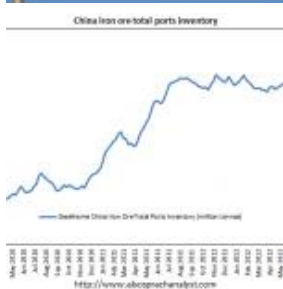
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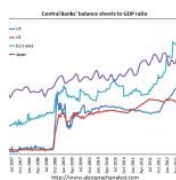
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