RMB Internationalization and Practical Use in Caribbean

Xinxiang WEN
E-mail: wxinxiang@pbc.gov.cn
Secretary General
Monetary Policy Committee
People’s Bank of China
July, 2017
1. Overview of China's Macroeconomy
2. Development of RMB Internationalization
3. Practical Use of RMB in Caribbean
PART ONE  |  Overview of China's Macroeconomy
Overview of China’s Macroeconomy

Top engine of world economic growth

The 3rd most attractive investment destination

Stable and promising economy

The "Belt and Road" initiative and RMB Internationalization
Top engine of world economic growth

- China’s GDP (2016)—74 trillion yuan
  - 6.7 percent growth
  - 15.1% of the global total
- Largest contributor to world growth
  - 2nd largest economy, important and influential
  - 33.2% of global economic growth (in 2010 constant prices, WB), more than US, EU and Japan

Main countries’ economic growth rate
China's economy is stable and promising

- China's economy is stable and promising
  - Stable performance with good momentum in 2016
  - Improved quality, returns and economic structural adjustment
  - Emerging industries, transformation and upgrading of traditional industries
  - Imports and exports (2016)—24.3 trillion yuan, trade surplus (for 20 yrs)—3.4 trillion yuan
  - CPI 2%

- Stable RMB exchange rate at an adaptive and equilibrium level
  - International environment, “Black Swan”, e.g. British exit, American election, Italian referendum, global exchange rate change, and RMB/USD depreciation expectation
The 3rd most attractive investment destination

- Rapid economic growth & stable investment environment
  (Global Investment Regional attractiveness Report, Kearney, 04. 2017)

- The 2nd largest foreign investment country & the 3rd largest foreign capital inflow
  - Foreign investment soared by 44% to 183 billion US dollars
    (The World Investment Report 2017)
  - Global foreign direct investment (FDI) inflows totaled 134 billion US dollars

- Increased holding of RMB treasury bonds by foreign institutions
  - Main way for foreign institutions to increase RMB assets holding
  - RMB Government bond held by foreign institutions—428.877 billion yuan by the end of May 2017
In 2016, the volume of RMB settlement in cross-border trade and direct investment with the countries and regions along the routes totaled 1.26 trillion yuan, laid the foundation of promoting economic co-operation among countries along the proposed Belt and Road routes.

As a next step, China will continually improve its cross-border RMB framework, deepen RMB’s role as currency of payment, investment, financing, trade and international reserve in “the Belt and Road” construction, so as to provide better service for the needs of “the Belt and Road”.

2017 《Government work report》
Maintain the RMB's stable position in the global monetary system. Pursue the Belt and Road Initiative.

Guided by the principle of achieving shared growth through consultation and collaboration, we will accelerate the building of overland economic corridors and maritime cooperation hubs, and establish cooperative mechanisms for achieving compatibility in customs clearance procedures along the routes.
Development of RMB Internationalization

RMB's function as a payment currency is constantly strengthened

RMB's function as an investment currency deepens unceasingly

RMB's function as a reserve currency is gradually emerging

The infrastructure for the RMB internationalization is further improved
RMB's function as a payment currency is constantly strengthened

- The world's 7th largest payment currency
  - 1.6% global payment currency by value in April 2017 (SWIFT)
  - 40% the global acceptance of RMB in June 2016, 22% increase
- The 2nd largest cross-border currency in China
  - 9.8 trillion yuan cross-border RMB payments settlements in 2016
  - 25.2% b/t the Mainland and overseas parties
  - 2nd largest for seven years
- Widerange of global acceptance
  - 250k enterprises and 245 banks cross-border RMB business (by May 2017)
  - 195 countries reaching
RMB's function as an investment currency deepens unceasingly

- **RQFII**
  - 487 foreign institutions into the Chinese interbank bond market (by May 2017)
  - Total investment 806.6 billion yuan
  - 3.4 trillion yuan foreign held RMB-denominated (bonds, stocks, deposits and other financial products)
    - Increase 515.8 billion yuan over the end of 2013

- **RMB-denominated international bonds**
  - 696.6 billion yuan RMB-denominated international bonds (BIS, 2016)
  - 566.6 billion yuan RMB bond by foreign institutions offshore (Dim Sum Bond and Formosa Bond, etc.)
  - 130 billion yuan bonds issued onshore by non-residents (Panda Bonds)
RMB's function as a reserve currency is gradually emerging

October 1, 2016, official inclusion of RMB in SDR basket, the 5th currency after the dollar, euro, yen and pound

$84.5 billion RMB foreign exchange reserves, accounting for 1.07%, ranking 7th among the eight currencies listed (IMF, by the end of 2016)

€ 500 million ECB foreign reserves investment in Chinese Renminbi equivalent in the first half of 2017

58 foreign central banks or monetary authorities have included RMB in foreign exchange reserves.
RMB’s function as a reserve currency is gradually emerging

- Bilateral local Currency Settlement.
  - Bilateral trade agreements with neighboring countries
  - Use of 2 sides currency or RMB in border trade and general trade settlement since the 1990s,
  - Local currency settlement with 9 countries

- Bilateral local Currency Swap
  - 36 overseas central banks or monetary authorities
  - Total size of the agreements RMB 3.34 trillion yuan
The infrastructure for the RMB internationalization is further improved

- RMB clearing arrangements in 23 countries and regions (include. southeast Asia, Europe, the Middle East, America, Oceania and Africa)
- Facilitated the usage of RMB in trade and investment.
The Phase One of CIPS started operation in October, 2015. The completion of CIPS marks an important progress in payment system to be used in domestic and international payment.

The infrastructure for the RMB internationalization is further improved

01 Real time gross settlement of fund transfer of both individual customers and financial institutions.
02 One-point entry by all direct participants for centralized clearing through a shortened route of clearing to achieve efficiency.
03 Adopt the internationally used ISO 20022 message dashboard in order to facilitate straight-through processing of cross-border businesses.
04 Operation hours covering the time zones of Europe, Asia, Africa and Oceania, where the RMB business mainly take place.
05 Special line for domestic direct participants.
RMB has joined the SDR basket. The status of China as a major trading and investment country, and “the Belt and Road” initiative will bring broad space and development potential for RMB internationalization.
PART THREE | Practical Use of RMB in Caribbean
Cross-border RMB business of member states of the CBD in Caribbean Region

Cross-border RMB settlement

- 384.26 billion yuan cross-border RMB settlement volume between China and member states of the CBD in Caribbean region (2016)
- 130.15 billion yuan RMB settlement of goods trade, decreasing 58.3% yoy
- 5.21 billion yuan cross-border service trade and other items settled in RMB, up 77.8% yoy
- 187.51 billion yuan direct investment settled in RMB, increase of 107.5% yoy

Bilateral local currency swap

Brazil
- March 26, 2013
- Bilateral local currency swap agreements
- RMB 190 billion yuan/60 billion Brazilian Real, --- 3 years, expired

Surinam
- March 18, 2015
- Bilateral local currency swap agreements
- RMB 1 billion yuan/0.52 billion Surinamese dollar
- 3 years.
Practical Use of RMB in Caribbean

**Foreign central banks and similar institutions**
- Interbank bond market
- Interbank foreign exchange market
- Bilateral local currency settlement
- Bilateral local currency swap

**Financial institutions**
- Interbank bond market
- Interbank foreign exchange market
- Cross-border trade financing
- Panda bonds
- RQFII

**Enterprise**
- RMB cross-border goods trade
- RMB cross-border service trade and other current account settlement
- RMB cross-border direct investment
- RMB cross-border financing
- Panda bonds
- RQFII
The benefits of RMB settlement for overseas financial institutions and enterprises

Avoiding exchange rate risks, reducing exchange cost

Promoting investment and trade with China

Sharing achievements of China’s reform and opening-up

Accumulating customer resources, expanding the scope of business

Entering the Chinese market, sharing the achievements of China’s economic development

Improving capacity and efficiency of capital management and asset allocation

Establishing local RMB offshore markets
The benefits of RMB settlement for Overseas Merchants

For Overseas Merchants, RMB settlement can facilitate payments between Overseas Merchants and Chinese tourists, and will stimulate their consumption. Tourists will pour into the overseas tourist attraction if RMB settlement is available.

The 1st international outbound travel market
- 135 million
- 6 percent growth (UNWTO World Tourism Barometer 2016)

The 1st international outbound tourism expenditure country
- 261 billion dollars
- 12 percent growth
- 1933 dollar per capita
- 20.9% of the global total (UNWTO World Tourism Barometer 2016)
Overseas enterprise can use RMB for imports and exports of goods, service trade and other current items settlement.
2. Overseas investors direct investment and trade financing settlement in RMB

Foreign enterprises apply directly to the bank for RMB settlement to invest in RMB. Include:
- funding newly set-up enterprises
- mergers and acquisitions of domestic enterprises
- equity transfer
- raising capital
- providing loans for existing enterprises
- transferring RMB overseas due to capital reduction, conversion, liquidation and other proceeds.

RMB settlement for overseas investors

1. Registration at bank
2. Open a special deposit account
3. Money transfer
4. Using money as ruled by the law

Foreign enterprises can raising funds for their cross-borderer businesses through overseas clearing banks, participating banks or domestic banks.

Process of cross-border RMB business funding
Foreign Institutions Enter China’s Inter-bank Bond Market

- **Foreign institutions enter the inter-bank bond market**
- **Trade parties:** Foreign Central Banks and Similar Institutions, Overseas RMB business clearing Banks and participating Banks and overseas institutional investors

  - Filling management, no line of limit, funds remitted freely

For more information, please visit [http://www.nafmii.org.cn/ggtz/gg/201604/t20160415_52577.html](http://www.nafmii.org.cn/ggtz/gg/201604/t20160415_52577.html)

(Details, Procedures, FAQ)

---

### Procedures for Foreign Central Banks and Similar Institutions to Enter China’s Inter-bank Bond Market

<table>
<thead>
<tr>
<th>Foreign Central banks and similar institutions</th>
<th>Three ways</th>
<th>PBOC agent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Banks with qualification of international clearing and agent</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct investment</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Overseas Institutional investors</th>
<th>Trade products</th>
</tr>
</thead>
<tbody>
<tr>
<td>overseas institutional investors; bonds, bond repurchase, bond lending, Bond Forward and interest rate swap, forward rate agreement</td>
<td></td>
</tr>
</tbody>
</table>

- **Registration**
- **Signing agency agreements**
- **Preparation** (Authorization, Inbound fund transfer, transaction agreement)
- **Outbound fund transfer**
- **Investment & Settlement**
- **Opening accounts**
- **FX conversion in to RMB if needed**

To enter the China Interbank FX market, please refer to the Procedures for Foreign Central Banks and Similar Institutions to Enter China’s Inter-bank FX Market.
Foreign central banks and similar institutions enter China’s inter-bank foreign exchange market

| Three ways | PBC agent
To be an overseas member of the Chinese inter-bank foreign exchange market directly
Become members of the inter-bank foreign exchange market agent. |
|------------|------------------------------------------------------|
| Trade products | All listed FX products include at sight, forward, changeover, option;
Currency Code Of Transaction include all FX currencies such as US dollar, Euro, Yen, HK dollar, English pound. |
| Trading mode | Inquiry and match (bidding) mode. |

Trading parties
- Foreign central Banks (monetary authorities) and other official reserve management agency
- International financial organizations
- Sovereign wealth funds
- Overseas participating banks

Trading currencies: 23 trading currencies listed for trade in the inter-bank foreign exchange market, including USD, EUR, JPY, HKD, GBP, AUD, NZD, SGD, CHF, CAD, MYR, RUB, ZAR, KRW, AED, SAR, HUF, PLN, DKK, SEK, NOK, TRY, and MXN.

There is no limit to the amount of trade, and the money can be freely remitted overseas.
Since the 1990s, China had signed bilateral local currency settlement arrangements with neighboring countries, allowed the use of either local currency or RMB in border trade or general trade.

The currency settlement arrangements can be classified into two categories:

1. **Border trade currency settlement arrangement**
   - Allow the use of either local currency or RMB in bilateral trade along the border areas

2. **General trade currency settlement arrangement**
   - Allow the use of either local currency or RMB in general trade

**Positive influences**

- Reduce the exchange costs of bilateral trade, investment enterprises and individuals, avoid exchange rate risk
- Standardize trade settlement and foreign exchange market order, curb the market demand and living space of the foreign exchange black market and underground bank;
- Promote the economic development of the border areas
6、Bilateral Local Currency Swap

Bilateral Local Currency Swap
- 2 central banks (monetary authority)
- Promises to exchange currencies for a certain purpose within a certain time limit

Significance
1. Micro-perspective
   - Reduce exchange costs
   - Avoid exchange rate risk.
2. Macro-perspective
   - Balance the international payments
   - Maintain financial stability.
3. - Liquidity shortage of domestic currency overseas
   - Promote domestic currency settlement
   - Facilitates trade and investment.

Bilateral Local Currency Swap mechanism
7、RMB-denominated Bonds Issued by Overseas institutions in Mainland China (Panda Bonds)

- Issuance of Panda Bonds increased rapidly since 2015
- 146.4 billions Panda Bonds issuance
- Foreign non-financial enterprises, financial institutions, international development institutions and foreign governments

Bond-issuing subject
Foreign government agencies, international financial institutions, international development institutions, and financial institutions as well as non-financial enterprises legally registered overseas (including Hong Kong, Macao, and Taiwan)

Opening an Account
Overseas institutions can open overseas institutions RMB settlement account (NRA), or entrust the lead underwriter to open the custody account.

Money transfer
The funds raised by the issuance of panda bonds can be remitted abroad.

Bond market
Foreign institutions can issue panda bonds in the interbank bond market, the Shanghai Stock Exchange and the Shenzhen Stock Exchange.
RQFII Management requirements

**Credential license**
It should be financially steady, with good credit standing, and its registration place and business qualifications are in compliance with the CSRC regulations;
Its corporate governance and internal control shall be effective. The practitioners shall be in line with the relevant qualification requirements of the country or region where they are;
Operational performance is standard. No major penalty by the local supervision departments in the past three years or since it has been set up.

**Quota assess**
Filing with relevant authorities within the basic quota+amount beyond the basic quota needing approval and management.

**Lock-up period and funds remitted inward and outward**
Except open-ended funds, RQFII’s Lock-up Period for principals from other products (or funds) is 3 months. The open-ended fund may be remitted and transferred daily by the custodian according to the net amount of the purchase or redemption. After the lockup period ends, the custodian can be entrusted to go through procedures for outward or inward remittance of principals from other products or funds.
Thank you!