

Transition to the ‘New Normal’: The RMB and China’s International Role

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*演讲题目：向“新规范”
转型：人民币及中国的国际角色*

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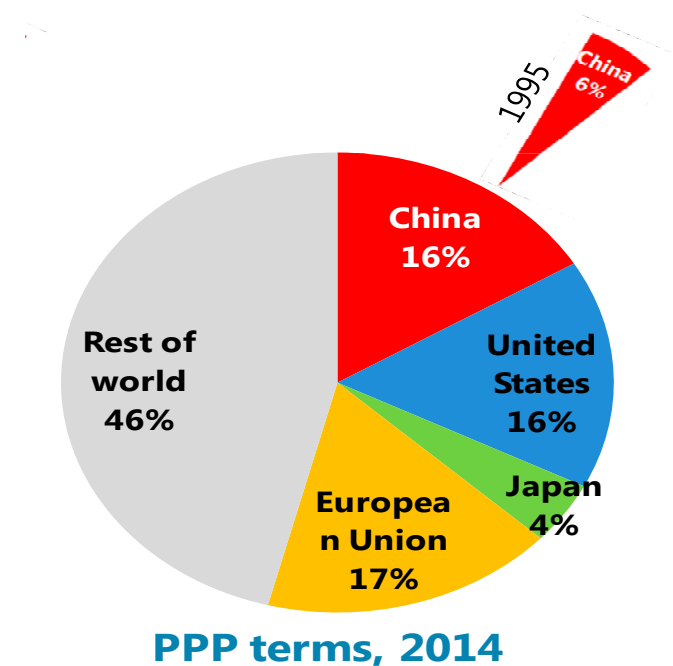
Roadmap

- China's role in the world
- RMB internationalization: stock taking and drivers
- Policies to foster RMB internationalization
- China and the international monetary system and infrastructure investment
- Takeaways

China's role in the world

RMB internationalization and international role: mutually reinforcing

- Share of world output and global growth
- China's trade integration
- Global spillovers
- Financial sector liberalization and gradual capital account opening



; and IMF staff calculations.

New paradigm: "going global"

- 13th FYP and 3rd Party Plenum (shaping the global agenda)
 - Global governance
 - Development of international economic order
- Going global
 - Investing abroad
 - Global companies

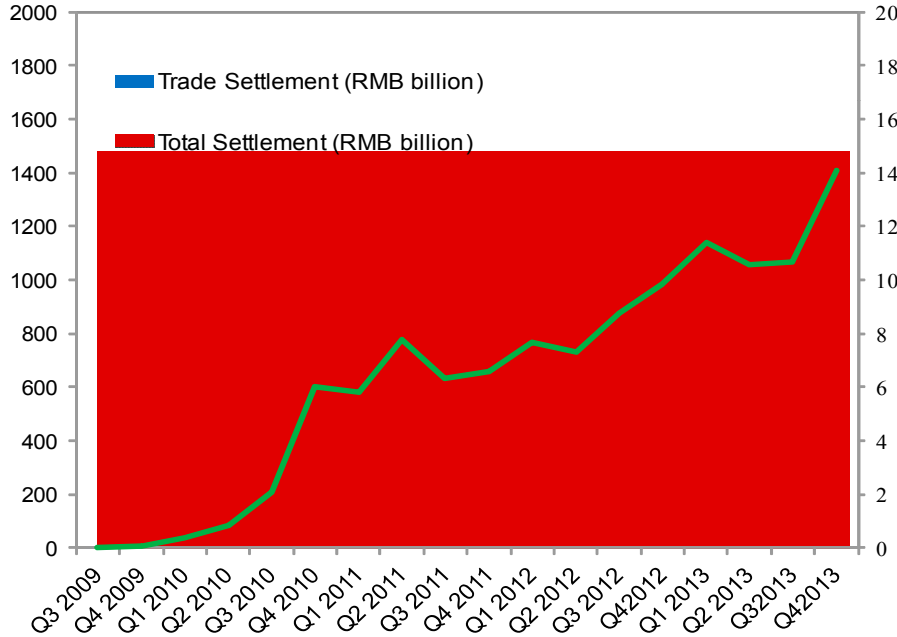
RMB internalization: stocktaking and drivers

Different dimensions

- Medium of exchange
 - Foreign exchange transactions associated with cross-border trade in goods, services, and financial instruments (currency, bonds, equity, etc.)
 - Official foreign exchange intervention
- Store of value
 - Savings/investments vehicles used by private companies and households (banks and capital markets)
 - Reserve currency/swap lines
- Unit of account
 - Global pricing
 - Pegging of currencies
 - SDR

RMB for international payments increased significantly

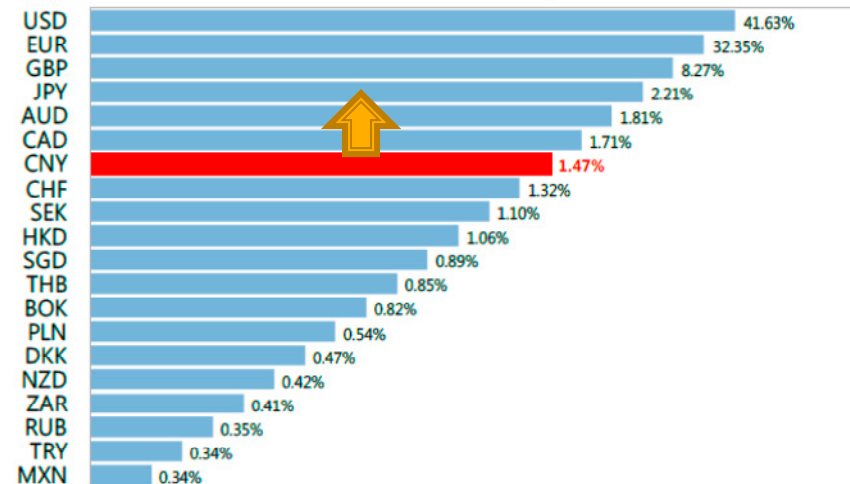
Use of Renminbi in China's cross border transactions



Sources: PBoC, China's Customs, Staff Calculations.

RMB as World Payments Currency in Value

(May, 2014; customer initiated and institutional payments. Inbound and outbound traffic. Based on value.)



Source: SWIFT watch.

Sharp rise in offshore RMB deposits and bond issuance, but from low levels

Table 4. International Banking Liabilities

(shares in percent of global total) 1/

	2010:Q2		2015:Q2		
	US\$ bn	%	US\$ bn	%	
USD	13,064	48.7	14,050	52.8	
EUR	8,909	33.2	7,573	28.5	
GBP	1,719	6.4	1,538	5.8	
JPY	970	3.6	687	2.6	
CHF	436	1.6	RMB	479	1.8
			CHF	474	1.8
Other	1,721	6.4	Other	1,814	6.8
			<i>Memo item:</i>		
			RMB 2/	1,139	

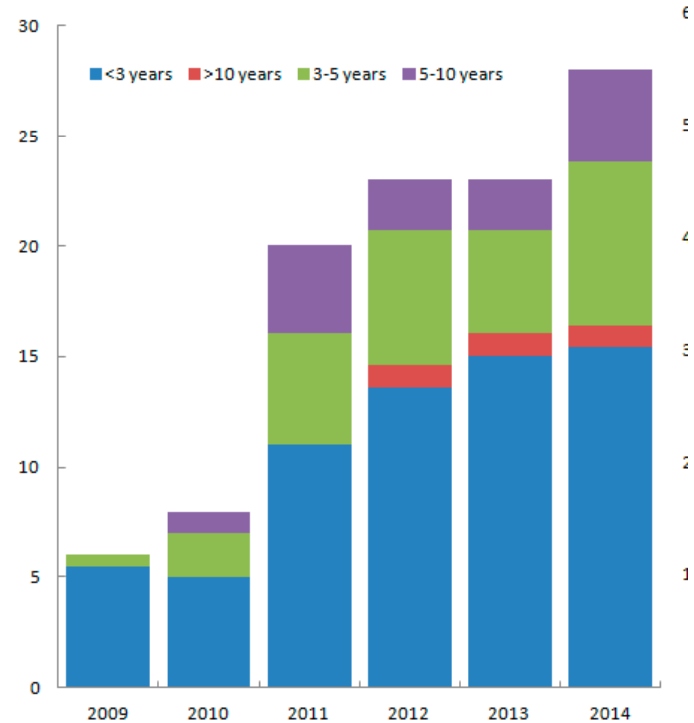
Sources: BIS Locational Banking Statistics; IMF staff calculations based on BIS data; Haver Analytics; and national sources.

1/ Hong Kong SAR, Macao SAR, and Taiwan Province of China are treated as domestic.

2/ Amount for RMB if Hong Kong SAR, Macao SAR, and Taiwan Province of China were treated as international.

CNH Bonds: New Issuance

(in billions of RMB; by maturity (Sovereign bonds))

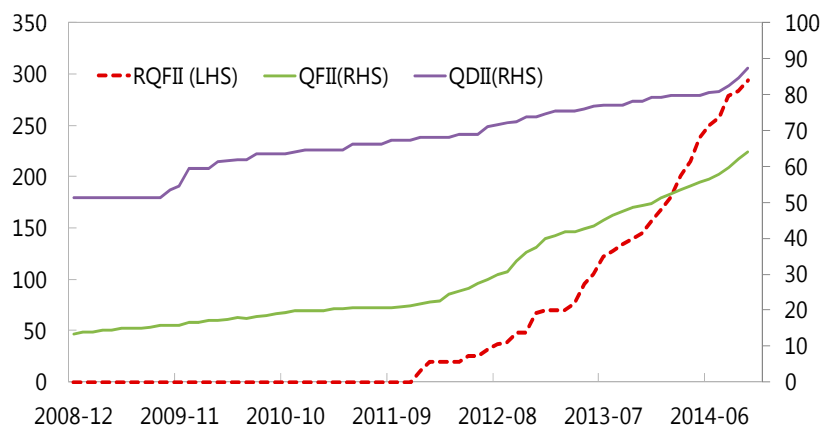


Sources: Bloomberg; and IMF staff estimates.

Long list of reforms

Capital Account Progress 1/

(in billions of RMB, LHS; in billions of USD, RHS)



Sources: WIND, Staff estimates

1/ RQFII: RMB Qualified Foreign Institutional Investors
 QFII: Qualified Foreign Institutional Investors
 QDII: Qualified Domestic Institutional Investors

-
- 2004 Hong Kong becomes the first offshore centre to develop personal RMB services.
 - 2005 China moves to a managed floating exchange rate regime based on market demand and supply with reference to a basket of currencies.
 - 2007 First RMB-denominated bond issued by the China Development Bank in Hong Kong.
 - 2008 PBoC signs a bilateral currency swap agreement with the Bank of Korea.
 - 2009
 - RMB trade settlement pilot scheme for Hong Kong, Macau and ASEAN launched in five mainland cities.
 - First offshore RMB sovereign bond issued in Hong Kong by the Ministry of Finance.
 - mainland subsidiaries of Hong Kong banks allowed to issue RMB bonds in Hong Kong
 - 2010
 - Pilot scheme for RMB trade settlement expanded to 20 provinces and municipalities. Overseas trade settlement rolled out to rest of the world.
 - the First offshore RMB product platform created in Hong Kong.
 - RMB settlement for capital account items proposed for Shanghai.
 - RMB Overseas Direct Investment trial launched.
 - 2011
 - FDI in RMB settlement business is at a pilot stage.
 - RMB Qualified Foreign Institutional Investor (R-QFII) scheme launched.
 - 2012
 - PBoC expands the USD-RMB daily trading band from 0.5% to 1%.
 - The City of London launches an initiative to make London a centre for RMB business.
 - The first R-QFII quotas were allocated to clients of Hong Kong-based mainland brokerages.
 - Taiwan's central bank announces that it has signed a deal with Beijing to set up a clearing system for the RMB to create a new offshore market (the CNT).
 - RQFII and QFII schemes expanded significantly.
 - Bank of England (BoE) and the People's Bank of China (PBoC) agree to sign a three-year GBP-RMB swap agreement.
 - 2013
 - Allowing QFII to invest in interbank bond market if permitted by PBoC.
 - 2014
 - PBoC declares it will carry out the RMB interest rate swap central clearing business.
 - PBoC expands the USD-RMB daily trading band from 1% to 2%.
-

Sources: PBoC, HKMA, HSBC

Determinants of RMB internationalization

- Dependent variables: proxies for RMB internationalization:
 - HK RMB deposit growth (or offshore RMB deposit)
 - Offshore RMB-denominated bond outstanding
- Independent variables: policies
 - In July 2009, pilot RMB trade settlement scheme is announced.
 - In June 2010, participating provinces in RMB trade settlement scheme expanded to 20 provinces and cities
- Independent variables: proxies for RMB appreciation expectation
 - NDF vs CNY (peg or closing rate; adjusted by China/US. bond yield)
 - CNY vs CNH
- Control variables: HK total deposit, China's total trade, RQFII, SWAP

Results

- Appreciation expectations most important factor
- Offshore deposit growth
- Offshore bond growth

Dependent variable: RMB deposit in HK (log-difference)			
	(1) NDF vs Peg	(2) NDF vs Closing	(3) CNY vs CNH
Expected appreciation	0.0146*** (0.00277)	0.0123*** (0.00315)	0.0326*** (0.0102)
Policy dummy 1 (July-2009)	-0.0171 (0.0157)
Policy dummy 2 (June-2010)	0.00629 (0.00887)	0.0101 (0.0124)	...
Log difference of other control variables	Insignificant		
Period	Jan-09 to Sep-14	Nov-09 to Sep-14	Jun-11 to Sep-14
Observations	69	59	40
R-squared	0.395	0.300	0.312

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Steady implementation of reforms to foster RMB internationalization

- Strengthening of policy frameworks (monetary, exchange rate, fiscal)
- Structural reforms
- Sustainable growth, stability, predictability

Financial	Fiscal	External	Structural
Better pricing of risks; fully liberalize interest rates	New budget law framework on local gov't finance; tax reforms	Greater exchange rate flexibility	Open-up for competition; level playing field; harden SOE budget constraints
Resolving implicit guarantees; greater tolerance of defaults	Realigning local gov't spending and revenue responsibilities;	Gradual capital liberalization	Advance in urbanization and hukou reforms

China and the international monetary system and infrastructure investment

Weaknesses of international monetary system

Global adjustment mechanisms

Asymmetric burden of adjustment between deficit and surplus countries

Monitoring and management of capital flows

No global oversight framework for cross-border capital flows

Global liquidity provision

Declining size and ad hoc access to the global financial safety

Supply of safe assets

Dominance of U.S dollar and insufficient supply of global safe assets

China's contribution: regional arrangements and bilateral swap lines

China: Bilateral Currency Swap Arrangements

Country	Size (in billions of RMB)	Start Date	Duration
Total (18)	2718		
Asia (10)	1655		
Hongkong SAR ¹	400	22-Nov-11	3 Years
South Korea ²	360	28-Oct-12	3 Years
Australia	200	22-Mar-12	3 Years
Malaysia ³	180	8-Feb-12	3 Years
Singapore ⁵	300	7-Mar-13	3 Years
Indonesia ⁷	100	23-Mar-09	3 Years
Thailand	70	22-Dec-11	3 Years
New Zealand ⁸	25	18-Apr-11	3 Years
Pakistan	10	23-Dec-11	3 Years
Mongolia ⁴	10	6-May-11	3 Years
Other (8)	1063		
ECB	350	8-Oct-11	3 Years
United Kingdom	200	22-Jun-13	3 Years
Russia	150	13-Oct-14	3 Years
Brazil	190	26-Mar-13	3 Years
Argentina*	70	2-Apr-09	3 Years
United Arab Emirates	35	17-Jan-12	3 Years
Belarus*	20	11-Mar-09	3 Years
Ukraine	15	26-Jun-12	3 Years
Turkey	10	21-Feb-12	3 Years
Hungary	10	9-Sep-13	3 Years
Kazakhstan	7	13-Jun-11	3 Years
Iceland ⁶	4	9-Jun-10	3 Years
Albania	2	12-Sep-13	3 Years
Uzbekistan	1	9-Apr-11	3 Years

* Expired, but a new agreement is under discussion.

¹This is a new agreement. The old one was signed on Jan 20, 2009 with a size of RMB 200 billion

²This is a new agreement. The old one was signed on Apr 20, 2009 with a size of RMB 180 billion

³This is a new agreement. The old one was signed on Feb 8, 2009 with a size of RMB 80 billion.

⁴The original size was RMB 5 billion. On Mar 20, 2012, a supplementary agreement was signed to increase the size to RMB 10 billion.

⁵This is a new agreement. The old one was signed on July 23, 2010 with a size of RMB 150

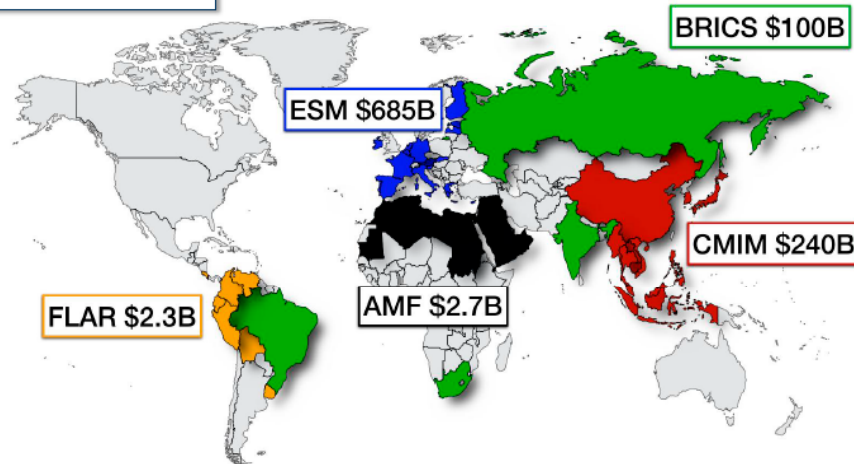
⁶The agreement was renewed on Sep 11, 2013.

⁷The agreement was renewed on Oct 1, 2013.

⁸The agreement was renewed on Apr 25, 2014.

Fragmented Global Financial Safety Net

Regional Financing Arrangements



Possible implications of RMB inclusion in the SDR basket

- SDR more attractive reserve asset
 - Diversification
 - Representation of major currencies
- More robust international monetary and financial system



China's increasing role in infrastructure investment

- China Development Bank
- AIIB (new)
- EBRD (under discussion)
- Silk Road Fund (new)
- Possible China—CEEC finance company (under discussion)
- BRICS Development Bank (new)

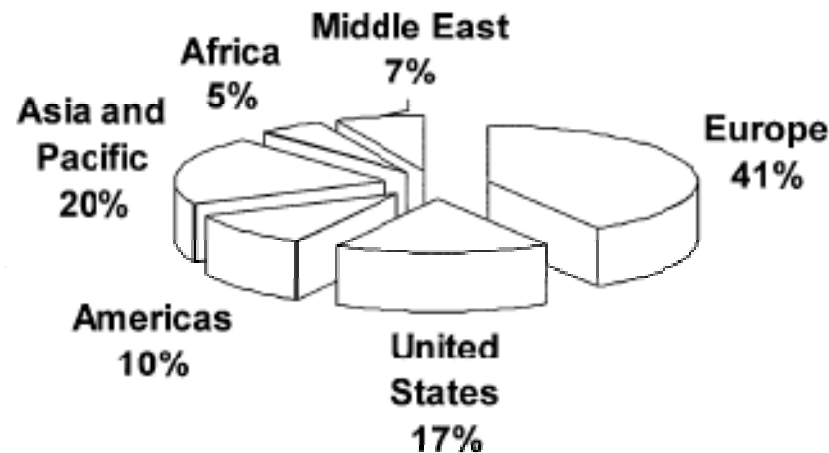
Takeaways

- China's global economic role and RMB internationalization mutually reinforcing
- China's strategy of "going global" and actively contributing to shaping global economic governance are important pillars.
- RMB internationalization driven by exchange rate expectations—going forward will critically depend on further reforms and policies
- China is contributing to strengthening global monetary financial system and infrastructure financing

Thank you

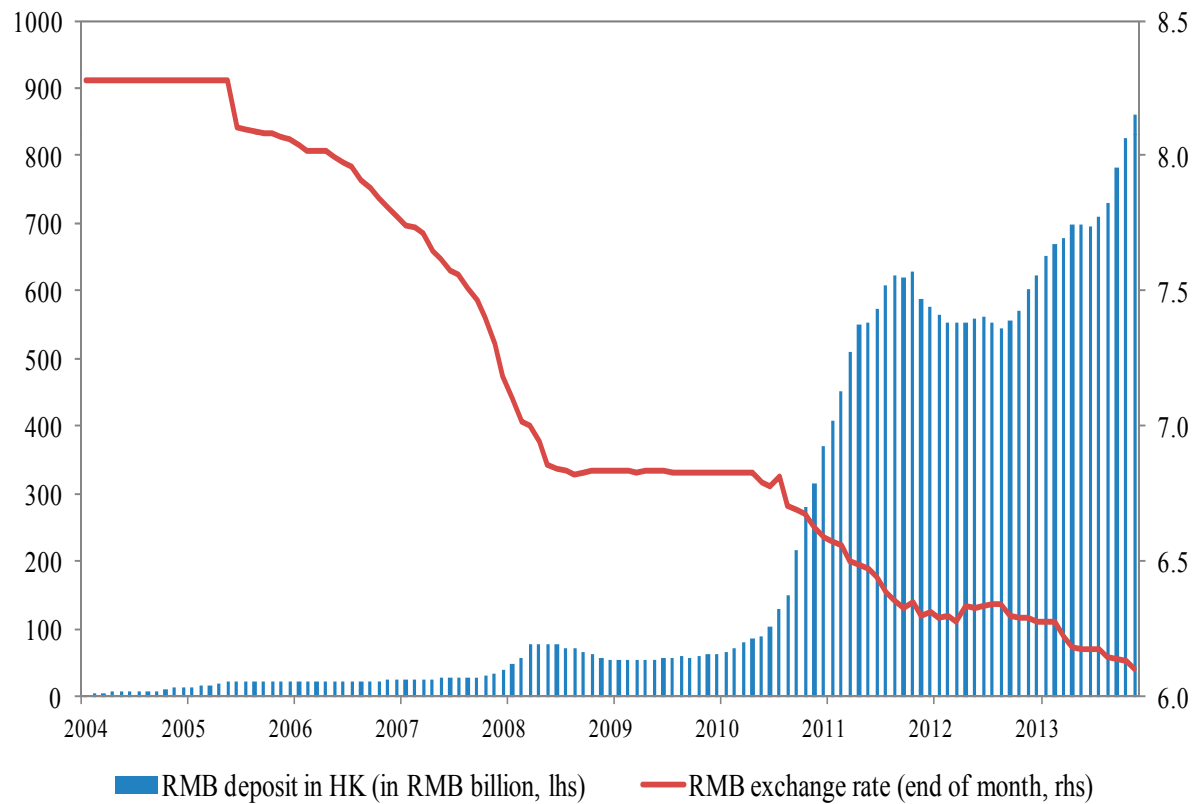
China's quota currently 3.81 percent of votes, would increase to over 6 percent

IMF Quotas (in percent of total)



Sharp rise in offshore RMB deposits, but from low levels

RMB deposits in Hong Kong and RMB per US dollar exchange rate



Sources: PBoC, HKMA

Possible implications of RMB inclusion in SDR basket

- Further increase in trade finance (currently already 1/3)
- Increased settlement in RMB
- Reserve managers strong interest in accessing the Chinese interbank bond market (some 40 central banks already hold RMB assets)
- Australia's reserve target 5 percent
- Additional bond issuance (official and private sectors)