

## **Carl-Ludwig Thiele: RMB initiative – one year after start of clearing**

Speech by Mr Carl-Ludwig Thiele, Member of the Executive Board of the Deutsche Bundesbank, at the European-Chinese Banking Day during the 18th Euro Finance Week, Frankfurt am Main, 16 November 2015.

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Ladies and gentlemen

I am delighted to be speaking about such an interesting topic at this year's European-Chinese Banking Day. At last year's China Day, we celebrated the first RMB transactions processed by the RMB clearing bank in Frankfurt. So how do things stand now, one year on, with regard to the development of the RMB and the clearing of RMB transactions?

### **Development of the RMB hub in Frankfurt**

China has been experiencing an enormous economic upturn since the end of the 1970s, and has now become the second-largest economy in the world. In just one generation, therefore, China has made the quantum leap from donkey carts to high-speed Transrapid trains. The importance of the Chinese economy to the world economy is growing visibly. Six years ago, its share in global gross domestic product was roughly 9%; this year, it looks set to hit 14%.

Given the ever growing importance of the real economy, the Chinese government has for some years now been pursuing a policy of cautiously opening up the financial market and is endeavouring to gradually internationalise the RMB. Even though the US dollar is still the most widely used currency for trade with China, the use of the RMB as a currency of account has gained significant ground in the past few years. In trade finance, the Chinese currency has surpassed the euro and now occupies second place, directly after the US dollar.

Measured in terms of transaction values, the RMB edged up to fourth place in August in the international payment transactions ranking. According to data from SWIFT, more than 1,700 banks worldwide (from a total of just over 10,000 participants in the SWIFT network) clear payments in RMB.

In the past, the Chinese government strengthened the RMB offshore markets, giving importers outside China a means of paying in RMB. For the political leaders, this was part of the long-term strategy to open up the markets with greater convertibility of RMB while retaining the ability to exercise control. This is because clearing in the RMB offshore markets requires the appointment of a (Chinese) RMB clearing bank.

As part of this strategy, the Chinese central bank designated the Frankfurt branch of the Bank of China as the official RMB clearing bank for Frankfurt and Germany in June of last year. Four offshore RMB clearing banks have been named in Europe (in Frankfurt, London, Paris and Luxembourg) by the People's Bank of China, the Chinese central bank. There are now 14 clearing banks globally.

### **New developments in the RMB clearing infrastructure**

With the introduction of the new China International Payment System (CIPS), China has taken another major step in forging ahead with the internationalisation of the RMB. The Chinese central bank commenced operation of CIPS a little over a month ago. It was co-developed by 19 banks, including eight foreign institutions, such as Deutsche Bank, Hongkong and Shanghai Bank (HSBC) and Citibank. These are now the first banks to be directly connected – albeit via their branches in mainland China – to CIPS. In a second step, foreign banks are to be enabled to participate directly from outside China. This will include the offshore RMB clearing banks.

CIPS is designed to provide an infrastructural buffer for the expected growth in RMB transactions. CIPS processes offshore RMB payments only. At a political level, CIPS will foster integration in the international clearing system, cut down the drawbacks in clearing efficiency with respect to other currencies (especially USD) and promote the use of RMB in global trade. CIPS is generally viewed as a measure flanking the RMB's advancement into a global reserve currency, as manifested by the aim of being included in the basket of special drawing rights.

On the whole, the relationship between China and Germany has developed very positively also beyond the economic cooperation. The foundation of the Sino-German Centre of Finance and Economics about two months ago in Peking, a German Chinese scientific research institute, is an obvious demonstration of the further growing cooperation. I am of the opinion that such cooperation is very useful in the restructuring phase of the Chinese economy.

And another key milestone in the German Chinese cooperation is approaching. In just two days, the first official trading platform for Chinese investment products denominated in RMB outside the People's Republic of China will go into operation. The Deutsche Börse Group, the Shanghai Stock Exchange and the China Financial Futures Exchange made an announcement this May about their joint venture to set up the China Europe International Exchange. The new exchange grants investors access to the Chinese capital market during European and US trading times.

The new enterprise is based in Frankfurt. The German-Chinese exchange will operate using the established and globally available infrastructure of the Deutsche Börse Group. The three joint venture partners intentionally chose Frankfurt as the financial platform from which to offer their service in a European regulatory environment and in the European and American time zones. The money flows resulting from securities settlement are to be channelled through the clearing infrastructure provided in Frankfurt.

In my view, China's real economic development and the launch of the China Europe International Exchange will give rise to additional volumes of RMB payments. The German banking industry will decide which channels shall be used to clear RMB payments. Nevertheless, I would wish that the German banking community will support the German financial market to become an RMB hub. This could be done by processing RMB transactions via the RMB Clearing Bank in Frankfurt.

### **Potential prospects**

The Bundesbank operates the TARGET2 system together with the French and Italian central banks, while the Eurosystem is currently looking at strategically enhancing its market infrastructures. For example the Eurosystem discusses to offer multicurrency services in a future TARGET2 system. For such a new service the Renminbi and its processing would be a candidate.

A connection on infrastructure level between the Chinese payments traffic and an enhanced TARGET2 system – we can call it TARGET3 – would also be an option. However this will only be possible, if both systems use a harmonised ISO 20022 standard. This is not yet the case today.

All in all the surrounding will remain interesting and exciting. Many new ideas and visions can still be developed.