

Anselmo Teng: Internationalization of the RMB and the role of Macao as a financial platform

Address by Mr Anselmo Teng, Chairman of the Monetary Authority of Macao, at the “2013 Internationalization of RMB Global Forum”, jointly organised by the Shanghai Institute of the International Financial Centre of the Shanghai University of Finance and Economics and the Centre for International Finance and Regulation (Australia), Shanghai, 26 May 2013.

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Dear Delegates,

Ladies and Gentlemen,

- 1) First of all, I would like to express my gratitude to the Shanghai Institute of the International Financial Centre of the Shanghai University of Finance and Economics for inviting me to this forum. At the moment, the internationalization of the RMB not only attracts the attention of the Mainland community, but also global financial markets. I am very pleased to take this opportunity today to present some of our views on this important topic and the role of Macao as a financial platform.

The internationalization process of the RMB

- 2) Over the years, in order to deepen further financial reforms, the RMB internationalisation process has been gradually implemented. In the 12th Five-Year plan, the Central Government has clearly stated the strategic plan of “expansion of RMB cross-border use and gradual realisation of RMB capital account convertibility”. In recent years, to steadily and consistently promote the RMB internationalisation, the People’s Bank of China (PBOC) and relevant government agencies have broadened the flow-back channel for the RMB, increased the scope for RMB cross-border use and opened up RMB foreign direct investment to foreign enterprises.
- 3) After the eruption of the global financial crisis in 2008/09, however, the international financial landscape has undergone significant transformation. While the world would welcome China’s currency reform towards free convertibility, concerns for destabilising capital flows, against a backdrop of prolonged adoption of quantitative easing policies by advanced countries, have notably heightened. International organisations such as the IMF holds a more “practical” position that capital controls are a legitimate part of the toolkit to manage capital flows in certain circumstances, especially for Emerging-Market Economies. With proper control of systemic risk in mind, the degree of stability of the international financial system would correspondingly affect the pace of the currency reform in China. Relaxation of capital control towards free convertibility and hence the internationalization of the RMB, while I believe would remain the ultimate goals of the currency reform, would proceed at a gradual pace, ensuring the stability, safety and soundness of the Chinese financial system.
- 4) From the perspective of the theory of international finance, the realisation of currency internationalisation hinges on two parameters, namely (i) free convertibility of the currency; and (ii) use of the currency in international trade and financial transactions. The first parameter falls into the scope of a country’s monetary and exchange rate policies while the second is directly related to a country’s share in international trade and financial activities.

In July 2009, the PBOC and relevant ministries of the State Council jointly promulgated the “Management of Cross-Border RMB Trade Settlement Pilot

Programme”, which was a pivotal step of the endeavour of the government to promote the internationalization of the RMB. With the incessant expansion of the pilot units, virtually all Mainland enterprises which are qualified to import and export can have a free hand in using the RMB to settle all transactions with their trade partners globally.

An update of the RMB business in the Macao Special Administrative Region (MSAR)

- 5) With the rapid development of the economy, there is an accelerated economic integration between the Mainland and Macao. As a result, RMB business develops quickly in Macao. At the moment, RMB deposits in Macao accounts for about 10% of the deposits in the banking system. There is a marked progress in the RMB cross-border trade settlement despite a slow start. Cross-border trade settlement transacted in 2011 increased substantially by 10 times from 2010 and the volume in 2012 continued to record an increase of over 60%. In the first quarter this year, the substantial growth continued; the volume of cross-border trade settlement rose by almost 80% and already reached 40% that of last year.
- 6) The Monetary Authority of Macao, in the course of managing the fiscal reserve of the government, has invested in the onshore market through the CIBM quota (i.e. China Interbank Bond Market quota) granted by the People’s Bank of China. We also invest in the RMB offshore market in Hong Kong as a supplement to the onshore RMB portfolio. From a more global perspective and looking ahead, along with an increasing weight in the RMB in global trade settlement and a rising investment interests from abroad, the internationalization path of the currency would lead to more market opportunities, both for the domestic mainland investors and offshore international investors.

The economic situation and the banking sector of Macao and how the RMB business evolves

- 7) Under the auspices of the Central Government, the Macao economy has enjoyed rapid growth. Since its return to the Motherland, the overall economy of Macao has been expanding at a compound rate of 12.4%. In 2012, per capita income exceeded USD76,000. As a special administrative region, the economy of Macao can be classified as small, but it can and should contribute to the process relating to the “internationalization” of the RMB. As a matter of fact, Macao is always an advocate of free market system, there is no exchange control; the financial markets and institutions operate freely; there is free flow of funds into and out of the MSAR, which together laid down the foundation of its fine system. There are 29 banks operating in the Macao banking system. They are of different origins; the Mainland, Chinese Taipei, HKSAR, Singapore, the US, the UK and Portugal. As at 31/03/2013, non-performing loan ratio was a meagre 0.14%, profit for the first quarter of 2013 was up 27.4% year-on-year, CAR (Capital adequacy ratio) was around 15%. There are good risks management, corporate governance, internal control and effective supervision in the banking system. The banks have long been enjoying security and stability.

Apart from servicing local needs, Macao banks are making use of Macao as a platform in developing cross-border financial business with other nations and regions. This has in fact provided facility and foundation for the “internationalization” endeavour of the RMB. Particularly, Macao banks have accumulated ample experience in the operation and management of RMB business. As early as in 2004, Macao became one of the pilot areas for RMB offshore business while the PBOC appointed a clearing bank for RMB business to banks that offer individual RMB business in Macao relating to deposit, exchange, remittance and bank card. In July

2009, Macao banks were allowed to conduct settlement for cross-border trades denominated in RMB. At the moment, RMB is freely circulated in Macao like other currencies. As long as the funds will not flow back to the Mainland, banks in Macao have a free hand in handling all types of RMB business to cater to the needs of the market. Besides, the Real Time Gross Settlement System of Macao has interface capabilities with the Mainland and will surely facilitate cross border clearing for the RMB.

The role of Macao as a trade platform between the Mainland and Portuguese speaking countries

- 8) On a more international perspective, Macao has been exploiting its special geographical and historical conditions in performing its liaison platform function for economic cooperation between China and Portuguese speaking countries, namely Angola, Brazil, Cape Verde, East Timor, Guinea-Bissau, Mozambique, Portugal and São Tomé e Príncipe. They have a total population of more than 200 million and endowed with abundant natural resources and energy potentials. In the 12th Five-Year-Plan, it is stipulated that Macao will have strong support in the development of a service platform for the economic cooperation between China and Portuguese speaking countries, whereby appropriate economic diversification of Macao can be promoted.

Recently, there is an increasing rise in economic activities between China and Lusophone countries. Trade volume with the 8 Lusophone countries amounted to USD128.8 billion in 2012, which was a 10.1% increase year-on-year. There is a great demand in the market for related financial services. Macao can fully embody its platform function by providing solid financial support services for trade. 5

- 9) Some Portuguese speaking countries would like to share Macao's experience in managing RMB business as well as the experience in dealing with investment in the currency. To this end, recently, the Central Bank of Mozambique, under the terms of the "Memorandum of Understanding" with the Monetary Authority of Macao, arranged to send officers to Macao in mid-April with a view to making preparation for future development.
- 10) On the other hand, banks with capital from China and Portugal account for the lion's share in Macao's banking industry. Some banks of Chinese capital have executed business cooperation agreements with financial institutions of some Portuguese speaking countries. Under such indigenous competitiveness, the MSAR Government is leading local financial institutions to make full use of the development opportunity offered by Portuguese speaking countries to further expand their business. As such, we can grasp the chance and direct suitable financial institutions and enterprises to invest in those countries through Macao as the platform. We follow the strategic direction of "internationalization" as postulated by our country. Such a move will have spill-over effect on other economic/trade activities, and such support services can be provided by the Macao financial system.
- 11) In November 2010, the then Premier of the State Council, Mr. Wen Jiabao, visited Macao for the 3rd Ministerial Meeting of the "Forum for Economic Cooperation between China and Portuguese Speaking Countries". He announced a series of policy measures to promote Macao to be the platform for economic cooperation between the countries. He hoped that Macao would perform "core function" in promoting RMB trade settlement in the process, which would further embody Macao's position as platform for economic cooperation between China and Lusophone countries.
- 12) Macao's uniqueness and competitive edges support its development into a RMB settlement platform for commercial and trade activities between the Mainland and

Portuguese speaking countries. At the moment, the division of labour between the two financial centres, Shanghai and Hong Kong, is clear cut; Shanghai is the “onshore” RMB centre while Hong Kong is the leading “offshore” centre. It is envisaged that Macao can strengthen its cooperation with Shanghai and Hong Kong, exploring the opportunity arising from the orderly financial reform in the Mainland. To cope with the need of the country, Macao can serve as a platform for regional economic and trade cooperation, by which it can help create an accommodative environment conducive to external trade, overall economic development, financial reform and modernization of our country. Under such positive interaction, we can promote jointly the process of the internationalization of the RMB.

Thank you!