

Eddie Yue: The development and future of the offshore Renminbi market

Welcome remarks by Mr Eddie Yue, Deputy Chief Executive of the Hong Kong Monetary Authority, at the Third Meeting of the Hong Kong – London RMB Forum, Hong Kong, 26 September 2013.

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The Right Honourable Greg Clark MP, Distinguished Guests, Ladies and Gentlemen:

1. I would like to extend a very warm welcome to all of you to this seminar, which is organised as part of the Third Meeting of the Hong Kong – London RMB Forum. The Forum was launched in January 2012, and it aims to foster cooperation between Hong Kong and London on the development of offshore RMB business. By improving linkages between our two financial centres, it is hoped that the Forum could help to further deepen and broaden the offshore RMB market, and to better enable businesses and financial institutions to capture the opportunities arising from the increased channels for transacting with China.

2. Significant progress has been made in the development of the offshore RMB market since our first meeting in May 2012. It is encouraging to see that market practitioners are making use of the policy headroom to develop RMB products and services to meet their customers' needs. Opportunities in RMB are also being factored into the decision-making of many businesses and financial institutions.

3. Here, instead of focusing on recent developments in RMB, I would like to take a broader and more forward-looking view. In particular, China's financial sector reforms and specifically the eventual opening up of its capital account would likely have profound implications for the global financial landscape. It would be interesting to view RMB developments from the perspective of these potential changes – what do they mean for the global financial landscape and what would be the role of the RMB amid these developments.

4. As we are all aware, China has been moving steadily with financial sector reforms and capital account liberalisation, taking steps towards allowing market forces to play a greater role in its financial system. Recently, the Chinese authorities re-affirmed their commitment to further financial reforms, including the easing of market access, the liberalisation of interest rates, as well as working towards eventually making the RMB convertible under the capital account. And this process has reached an interesting juncture. The future reform and liberalisation efforts will arguably have a greater impact on the global financial landscape than that of measures undertaken so far.

5. As China moves further along the path to open up its capital account, the channels for interaction with global financial markets would broaden and become more efficient. Over the past decade or so, as China rose to become the second largest economy, we have all seen the changes to world economic relationships brought about by China's integration into the global economic system. We are now beginning to see China's integration into the global financial system in a more prominent way.

6. Until now, the channels for cross-border flows are only open to current account items such as trade, and to direct investments under the capital account. Portfolio investments under the capital account into and out of China are mainly confined to designated channels and are subject to quotas, for example, the Qualified Foreign Institutional Investor (QFII) scheme with quotas totalling US\$150 billion, and the Qualified Domestic Institutional Investor (QDII) scheme with quotas of US\$87 billion. It can be reasonably expected that a further opening of the capital account would entail liberalisation of these channels and the addition of new avenues. These would result in an increase in cross-border capital flows.

7. Although it may not be easy to provide a precise estimate of the magnitude of the flows, given that China's economy is the second largest in the world, and taking into account the size of both its domestic savings and its capital markets, one can probably say that the size of capital flows resulting from China's capital account liberalisation would likely be felt in the global financial system.

8. From the perspective of Chinese savers, given their high level of savings and the fact that their investment options are mostly limited to domestic markets at present, there would be a desire on their part for investment diversification into international markets. The resulting investment flows, as they are liberalised, could be substantial for individual markets where these funds flow into.

9. In the other direction, with China being a dynamic and sizable economy, the world's investors would be increasingly keen about participating in China's capital markets, thereby gaining exposure to new investment opportunities. The experience of many other economies also suggests that capital-account liberalisation brings along with it a deepening of financial markets, making them even more attractive to investors.

10. In all of this, the role of the RMB will be crucial. Notwithstanding the current, only partial convertibility of the RMB, it is already the ninth most actively traded currency according to the latest Bank for International Settlements Triennial Survey. And the RMB has advanced to rank eleven as world payments currency according to SWIFT, a financial messaging service provider. Meanwhile the RMB is being added to the foreign exchange reserves of an increasing number of economies.

11. In terms of international transactions where RMB can already play a role, such as in trade settlement and foreign direct investment, transactions in RMB have climbed steadily. Today, some 13 percent of all of China's trade transactions are settled in RMB and about 15 to 20 percent of foreign direct investment into China is conducted in the currency. Bearing in mind that the RMB trade-settlement pilot scheme was only introduced in 2009, this is an impressive achievement in such a short space of time. And there is plenty of room for further expansion of these numbers.

12. The greater use of RMB in international transactions will be closely related to China's financial reforms and liberalisation, with new fund flow channels being opened up in RMB. For example, the RMB QFII scheme allows offshore institutions to use RMB funds to invest in Chinese capital markets, and it is a new channel in addition to the US dollar-based QFII scheme. And further to a recent relaxation, outflows under the QDII scheme can also be made in RMB. Such developments, in turn, will bolster the use of the RMB in trade, foreign direct investment and international transactions, thereby supporting the further development of the offshore RMB market.

13. While recent developments in RMB have been exciting, given the possible scope of future expansion, we are probably still only at the early stage of what could be more significant changes in the years to come. After all, RMB deposits and bonds outstanding in the offshore market only account for about one percent of onshore deposits and outstanding debt respectively. The possibility for expansion remains substantial.

14. One of the aims of the Hong Kong-London Forum is to assess what all this means to the financial institutions and to corporates — many of whose representatives are gathered here today.

15. For corporates, especially those already having business links with China, it is important to get prepared for the increasing use of RMB as a currency for transaction, financing and investments. Indeed some companies have already begun to adapt their internal systems and processes so that they are able to make greater use of RMB, both in dealing with their Chinese counterparts and in their own financial management. This integration of RMB in their business decisions has in many instances served to strengthen their trade and investment links with China.

16. For financial institutions, things are also in motion. It can be envisaged that the intermediation and servicing of capital flows into and out of China present fresh new opportunities, not least with the entry of a whole new grouping of investors into international capital markets. Also, with the institutional management of household savings being relatively low in China at present, an increase to levels more commonly observed in other economies would signify a great deal of opportunities for the asset management sector.

17. Hong Kong, being the gateway to China, has become the hub for cross-border asset management, and it has been a natural base for the managers of QDIIs, QFIIs and RQFIIs. As we look ahead, while the investments funds are coming through Hong Kong as a first step, it does not mean that the flows necessarily have to stop here. As a global financial centre and an important base for asset management, London makes a natural partner for Hong Kong when it comes to serving the growing needs of Chinese investors when they start investing into a wider array of markets and instruments. And similarly, London and Hong Kong could explore synergies when it comes to sourcing the funds for investments into China.

18. I hope I have given you a taste of the many possibilities that lay before us as the RMB moves into the international financial landscape. This is a very exciting juncture and I hope that we – financial institutions, businesses, policymakers – would work together to address some of the issues that may inevitably come up along the process while creating values out of this collaboration. To begin with, today's seminar is a good opportunity for us all to share experiences in RMB and to learn from each other. Let me once again extend the warmest welcome to all of you.

19. Thank you.