

The Impact of the Internationalisation of the RMB to the Foreign Operations of the Chinese Banks

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Factoring Determining the Internationalization of a Currency

1. Low and stable inflation
 2. Stability of exchange rate
 3. The size of the country's economy & its share of world trade
 4. The broadness & the depth of its financial markets
 5. Political stability & geo-political strength
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Internationalisation of the RMB: Current Account

The rules

1. 5 May 1993, *Agreement for Settlement and Cooperation between China and Vietnam* signed between the central banks
2. 23 Sept 2003, *Measures for the Administration of Foreign Exchange in Border Trade by State Administration of Foreign Exchange*
3. 1 July 2009, *Administration Measures concerning the Trial on the Settlement of Cross Border Trade Using the RMB* jointly issued by seven government agencies

Internationalisation of the RMB: Current Account

The practice

1. 36 bn, 1st quarter of 2011, increased more than 20 times than 1st quarter of 2010
2. Recent survey of 6000 companies of international trade by HSBC, the most favoured currencies in international trade: USD, EUR, RMB, GBP & GPY in the coming six months, but RMB will soon overtake EUR

Internationalisation of the RMB: Capital Account

1. 6 Jan 2011, *Measure concerning the Trial on the Settlement of Offshore Direct Investment Using the RMB* by the PBC
2. 21 June 2011, *Notice Clarifying Certain Issues Regarding the Business of Cross Border RMB* by the PBC

Internationalisation of the RMB: Offshore Market

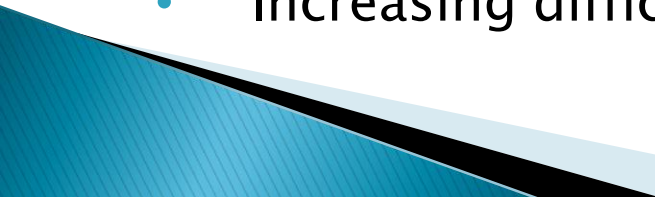
1. Since 2004, RMB widely used in HK: trade settlement, deposits, loans, foreign exchange, credit cards, bond issues, and so on.
2. By the end of March 2011, RMB 451.4 bn deposits in HK, 37 times of amount deposited by the end of 2004, which was only 12.1 bn.
3. At the beginning of 2011, total deposit of the RMB in HK was about 315 bn; by the end of June, the figure was 550 bn, increasing 40 bn monthly

Internationalisation of the RMB: The Pros and Cons

1. The Pros

- Raising international standing
- Reducing foreign exchange risks for business
- Expanding international trade
- Obtaining global seigniorage


2. The Cons

- Affecting financial stability
 - Increasing difficulties in macro economic management
 - Increasing difficulties in RMB management
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Internationalisation of the RMB: The Government Policy

The Chinese government would
**“increase the use of the RMB in
cross trade and investment, and
promote the convertibility of the
RMB under capital account”** – 5 March
2011, Premier Wen Jiabao stated in his
government report to the NPC

The Opportunities for the Foreign Operations of the Chinese Banks

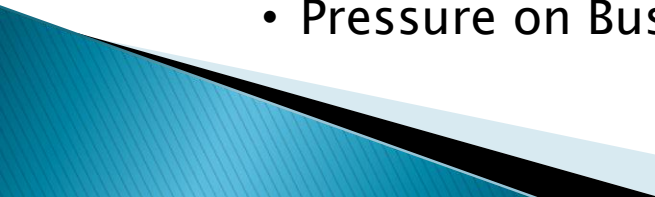
1. Institutional Expansion
 2. Customer Increase
 3. Extended Cooperation with Foreign Correspondents
 4. Increase of Business Volume
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The Challenges to the Foreign Operations of the Chinese Banks

1. Current Position of Chinese Banks

- Size: ICBC, CCB & BOC among the largest 10 banks of the world
- Profits from overseas business: 4%, ICBC; 0.9% CCB; 4% excluding HK & Macau, 4%

2. The Challenges

- System Risks
 - Information Asymmetry
 - Debt Management Risk
 - Liquidity Management Risk
 - Pressure on Business Innovation
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Conclusion

1. Internationalization of the RMB:
evitable and coming
2. Preparing for the positives and
3. Prepared for and avoid the negatives
– swimming only learnt well in the
pool

Thank you!

