

FX Viewpoint

Currencies
Global

RMB: Internationalisation is not over

- ◆ Foreign holdings of RMB assets have dropped since 2022, but this alone does not mean RMB internationalisation is stalling
- ◆ The use of RMB in global payments and public financing is rising on the back of China's trade and financial linkages
- ◆ RMB swap lines, trade agreements, and the Belt and Road Initiative should support a higher level of internationalisation

In mainland China's financial markets, the last two years have also been a period of RMB depreciation, falling interest rates, and stock market weakness. Some may wonder if all these have undermined the RMB's global standing. Indeed, **the RMB has not made much progress as a reserve currency** (for the public sector) **and an investment currency** (for the private sector) **since 2022**. The IMF's Currency Composition of Official Foreign Exchange Reserves (COFER) survey suggests that the RMB's share of global allocated reserves peaked at 2.83% in 1Q22 and has fallen by 0.46ppt since then, as of 3Q23. Foreigners have reduced their holdings of domestic RMB assets (including domestic RMB bonds and onshore China equities) over the past two years (*CEIC, PBoC*, 6 March 2024).

A period of portfolio outflows by foreign investors does not necessarily mean the RMB's prospects as an international currency are bleak

However, **RMB internationalisation is multi-faceted**. In fact, **the RMB's role as a settlement currency has expanded**. RMB settlement accounted for 26% of China's total goods trade at the end of 2023, up from the 10-15% range it was languishing at during 2017-21 (*CEIC, SAFE*, 6 March 2024). The RMB's market share in global SWIFT payments also surged in 2023, from 2.2% in December 2022 to 4.5% in February 2024 (*Bloomberg, SWIFT*, 6 March 2024). The RMB replaced the JPY as the fourth most active currency for global payments in late 2023.

The use of RMB in global payments is rising

The RMB is also developing as a financing currency. Alongside trade settlement, the RMB has naturally gained a little market share in global trade finance. **The issuance of both Dim Sum bonds** (which refer to RMB-denominated bonds that are issued in Hong Kong) **and Panda bonds** (which refer to RMB-denominated bonds that are issued in mainland China by offshore companies) **has picked up pace in recent years**. Gross issuance of Dim Sum bonds reached RMB1trn for the first time in 2022 and rose further to RMB1.26trn in 2023 (*Wind, Markit iBoxx*, 6 March 2024). Gross issuance of Panda bonds nearly doubled in 2023 to RMB154bn (*Wind*, 6 March 2024). The rising issuance of RMB-denominated bonds by foreign entities or in offshore markets may reflect the currency's relatively lower borrowing costs vs major currencies (e.g. USD and EUR). Besides, in December 2022, Chinese regulators clarified that funding proceeds raised through Panda bonds can be repatriated overseas, providing much-needed flexibility to foreign issuers.

The RMB as a financing currency has been another area where progress has been made

But what is more interesting is that in recent years, **the Chinese government has become an international lender of last resort**. The government's overseas lending portfolio, which used to be dominated by USD-denominated infrastructure project loans, is gradually shifting towards RMB-denominated emergency liquidity support. AidData¹ estimates that the share of RMB-denominated loans in new lending commitments from China has soared from 6% in 2013 to 50% in 2021, while the USD-denominated loans' share decreased from 93% to 44% over the same period.

The RMB has also made progress as a public financing currency

For the RMB to achieve a higher level of internationalisation, empirical studies suggest that **deeper trade and financing links as well as better infrastructure for RMB settlement will be key**. The People's Bank of China's (PBoC) RMB swap lines, trade agreements, and the Belt and Road Initiative are likely to remain influential. **e-CNY also has the potential to provide significant efficiency gains in cross-border payments, in our view.**

RMB swap lines, trade agreements, and the Belt and Road Initiative should support RMB internationalisation

¹ AidData, November 2023. "Belt and Road Reboot: Beijing's Bid to De-Risk Its Global Infrastructure Initiative". Accessed at <https://www.aiddata.org/publications/belt-and-road-reboot>

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