

Press release

LCQ1: Development of Renminbi offshore business centre

Wednesday, June 22, 2011

Following is a question by the Hon Andrew Leung and a reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (June 22):

Question:

The "Outline of the Twelfth Five-Year Plan for the National Economic and Social Development of the People's Republic of China" was promulgated in March this year with an individual chapter dedicated to Hong Kong and Macao (the dedicated chapter), the contents of which put emphasis on the Central Authorities' support for Hong Kong to develop into an offshore Renminbi (RMB) business centre and an international asset management centre. In this connection, will the Government inform this Council:

- (a) regarding the development of offshore RMB business, of the specific measures the authorities have to respond to the contents of the dedicated chapter, in order to make use of the functions and positioning of Hong Kong in the overall national development strategy as an offshore RMB business centre and an international asset management centre, as well as the progress at present;
- (b) as it has been reported recently that Singapore has declared that it will strive to become an offshore RMB business centre, what measures the authorities have to maintain Hong Kong's competitive edge in offshore RMB business; and
- (c) as the Under Secretary for Financial Services and the Treasury has pointed out recently that, for the internationalisation of RMB to be successful, the offshore RMB centre has to strengthen its functions of "inner circulation" (ie the policy for overseas RMB to flow back into the Mainland) and "outer circulation" (ie the construction of a financial platform to access overseas markets), of the Government's plans in these two aspects?

Reply:

President,

My reply to the three parts of the question is as follows:

(a) The Government has been promoting the development of offshore RMB business since 2004. Along with the introduction of more measures and the deepening of existing measures to expand the use of RMB in cross-border transactions, the offshore RMB business in Hong Kong has grown rapidly in the past year with support from the Central Government and related Mainland authorities.

RMB trade settlement conducted through banks in Hong Kong in the first four months of 2011 amounted to RMB 445 bn, as compared to RMB 369.2 bn in 2010. In the first quarter of 2011, 86% of Mainland's RMB trade settlement was conducted through banks in Hong Kong, showing that Hong Kong is the prime platform for RMB trade settlement.

Driven by RMB trade settlement, RMB deposits in Hong Kong increased significantly and RMB financing activities became more active. In 2010, RMB deposits increased from RMB 60 bn in January to RMB 310 bn in December, and further to RMB 510 bn as of end April this year.

Concurrently, Hong Kong has become the largest offshore RMB bond market. The total amount of RMB bond issuance in Hong Kong increased from RMB 16 bn in 2009 to RMB 35.8 bn in 2010. In the first five months of 2011, the amount of RMB bond issuance exceeded RMB 28 bn. The issuers include multinational corporations like McDonald's and Caterpillar in US, Unilever and Volkswagen in Europe, and also international financial institutions like the World Bank and Asian Development Bank.

As of end April 2011, there were a total of 173 banks participating in Hong Kong's RMB clearing platform. Among these participating banks, 151 were branches and subsidiaries of foreign banks and overseas presences of Chinese banks. They represent a global payment network capable of handling RMB transactions for different parts of the world, providing RMB clearing services between the Mainland and different parts of the world as well as among the various offshore markets.

We conduct roadshows to enhance the awareness of overseas companies and financial institutions on RMB cross-border settlement and bond issuance to support our country's policy of promoting the use of RMB in various parts of the world. We conducted a joint roadshow for the first time in Indonesia and Malaysia last month with the Shanghai Municipal Government Financial Services Office to encourage local financial institutions, chambers of commerce and multinational corporations of Indonesia and Malaysia to participate in related RMB business.

The Hong Kong Monetary Authority also conducted the first overseas roadshow in Australia in mid-March 2011, and visited Russia last week. We will visit more places to further promote RMB trade settlement and Hong Kong's role as an offshore RMB business centre.

The sustained development of offshore RMB business provides the market with a variety of RMB investment products, which also helps consolidate Hong Kong's advantage as an asset allocation platform and promote the development of the asset management business. As of end 2009, the aggregate asset of Hong Kong's fund management business amounted to HK\$8,507 bn, of which over 60% were from non-Hong Kong investors.

(b) Along with our country's policy of further promoting the cross-border use of RMB, more and more overseas companies which have trade and investment relations with the Mainland will use RMB to conduct transactions. To satisfy their demand for RMB financial services, it is a natural development that financial centres (including Singapore) all over the world will develop offshore RMB business.

Hong Kong is one of the major windows and platforms for Mainland's external trade and investment, with close links with the Mainland in the flows of people, goods, capital and information. Hong Kong has a first-mover advantage. We started RMB business as early as in 2004, with substantial growth in areas including deposits, trade settlement, bond issuance and financial products as well as experiences accumulated over the years. Hong Kong now has the largest offshore pool of RMB funds.

We will continue to strive to provide related services for banks and financial institutions in various parts of the world to attract more offshore RMB funds to congregate and circulate in Hong Kong to consolidate our existing edge. We will continue to enhance and optimise the existing RMB financial platform, so as to facilitate the launching of more RMB financial products in the Hong Kong market. We will also conduct more promotion to advance Hong Kong's role and status as an offshore RMB business centre serving global needs.

(c) An important function of the Hong Kong offshore RMB business centre is to provide an efficient market and financial platform to allow the effective circulation of RMB funds. This includes "outer circulation", ie the circulation of RMB funds between Hong Kong and the overseas market and "inner circulation", ie the circulation of RMB funds between the Hong Kong offshore market and the Mainland onshore market.

As an offshore RMB business centre, we are building up in Hong Kong a financial platform for RMB outer circulation, by promoting the use of RMB in international markets under trade account and non-trade account. In terms of trade settlement, Hong Kong only handles 20-30% of Mainland's trade. However, Hong Kong conducted 86% of RMB trade settlement in the first quarter of 2011. This is evidence that many financial institutions in Hong Kong are providing RMB settlement service for overseas corporate clients. Hong Kong also has an edge in promoting the outer circulation of RMB under non-trade account. Currently, over 40% of Hong Kong's deposits are held by non-resident institutions or individuals. Among the RMB deposits held by institutions, 16% are held by overseas institutions. Therefore, RMB funds flowing to Hong Kong are in effect being circulated among international individuals and corporations. Taking bond issuance as an example, there were 16 RMB bond issuances in Hong Kong with an issuance size of RMB 35.8 bn in 2010. The bonds were mainly subscribed by international institutional investors.

We will actively continue to promote the development of RMB business so as to attract more overseas financial institutions and corporations to use Hong Kong's RMB financial platform for the various kinds of RMB businesses. Through Hong Kong's clearing platform, there will be a wider use of RMB for trade and investment between the Mainland and other parts of the world.

In promoting the inner circulation of RMB, we will continue to communicate with relevant Mainland authorities to further promote the use of RMB in cross-border transactions, including the use of RMB in the settlement of foreign direct investment.

Currently, RMB is not freely convertible. Hong Kong will exercise caution in managing cross-border fund flows (particularly inflow of funds to the Mainland), and promote the internationalisation of RMB with sufficient protection of our country's financial security.

Ends