



NEXT RENMINBI HUB TO BE ESTABLISHED IN BUDAPEST

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Following Asia, so-called renminbi hubs are being set up in Europe as well. After Luxembourg, London, Frankfurt and Paris, the next one will be established in Budapest. The symbolic foundation stone of the Budapest renminbi hub was laid by the People's Bank of China (PBC, the central bank of the People's Republic of China) and the Magyar Nemzeti Bank on 27 June 2015 by signing a [Memorandum of Understanding on clearing and settlement](#) in Basel at the headquarter of Bank for International Settlements (BIS).

The renminbi hubs provide clearing and settlement infrastructure necessary for the transactions carried out in renminbi outside China, and making use of the Chinese financial liberalisation measures, they may offer an increasingly wide choice of financial services to a growing clientele. First typically the settlements related to foreign trade and tourism increased in the hubs, but FX market and bond market activities are also gaining importance in a number of renminbi hubs, including Singapore, London and Luxembourg. Prior to setting up the financial background infrastructure and services of renminbi hubs, renminbi initiatives were announced. The launching of the Budapest Renminbi Initiative in March 2015 was proposed by the MNB, following the example of the Bundesbank, the Bank of England, Banque Centrale du Luxembourg and Banque de France.

This analysis is the fifth part of a series of articles. The first part of the series described the [milestones of the internationalisation of renminbi](#), the second part dealt with [exchange rate policy of the Chinese central bank, as well as the details of the foreign exchange swap agreement concluded with the MNB and other central banks](#) while the third part reviewed [the central bank's responsibilities](#) related to the internationalisation of renminbi. The fourth article in the series outlined [the future prospects of Chinese capital flows](#).

1. RMB HUBS IN EUROPE, FOLLOWING ASIA

The primary objective of renminbi hubs is to facilitate the international use of the renminbi in trade and financial settlements. For geographical, political and cultural reasons, the first hubs opened in the Far East, e.g. in Hong Kong, Singapore and Taiwan. They were followed by European hubs (in Germany, France, the United Kingdom and Luxembourg). In line with the steps of liberalisation of external economic relations, the services of the renminbi hubs first covered the transactions related to foreign trade (e.g. trade settlement and financing, account maintenance), then were extended to capital market and FX market services as well.

Not surprisingly, the most important hub is in Hong Kong, where renminbi deposits, trade with China and the renminbi securities market are the largest in international comparison (Table 1). At the same time, in terms of FX and capital market services, the financial centres of Europe have been playing an increasingly important role in the United Kingdom and Luxembourg as well. The analysis prepared by [SWIFT](#) with the involvement of market participants expects the fastest growth potential exactly in the case of these services. The analysis is corroborated by the latest actual data revealing that the value of renminbi settlements is multiplying every year in the FX and bond markets.

Table 1: Main features of the renminbi hubs

	Settlement bank	RMB deposits (bn RMB, 2014. 12.)	Trade of goods with China (2013, bn USD)	Securities market			Average daily trading volume of RMB foreign exchange (%, 2013. ápr.)
				RQFII (bn RMB)	Number of listed bonds (2013. 12)	Portfolio investments to China (2012 vége)	
ASIA							
Hong Kong	BOC	945	401	270	98	288	49,5
Singapore	ICBC	254	76	50	74	50	23,7
Taiwan	BOC	268	197	100	13	na.	2,6
EUROPA							
Luxembourg	ICBC	67	2		40	38	0,4
United Kingdom	CCB	15	70	80	15	33	24,2
France	BOC	20	50	80	4	13	1,1
Germany	BOC	20	162	80	3	3	0,5
Total		1589	958	660	247	425	102
Business potential according to SWIFT		average	average	high			high

Sources: SWIFT, Monetary Authority of Singapore, Hong Kong Monetary Authority, PWC

Note: The total average FX market turnover referred to by the Bank of China (BoC), the Industrial and Commercial Bank of China (ICBC), the China Construction Bank (CCB) and PWC (2014) do not add up to 100 because of the rounding off.

External trade

In the renminbi hubs, first the settlements related to foreign trade and tourism increased, because the restrictions on current balance of payments transactions were abolished by the Chinese authorities first. By the beginning of 2014, within Chinese trade settlements the value of trade settled in RMB rose to around 25 per cent. Due to their geographical closeness, Hong Kong and the Asian renminbi hubs are China's most important trading partners, which have facilitated the use of the renminbi in Asia in recent years. The largest trading partner of China in Europe is Germany.

RMB deposits

In the renminbi hubs, in addition to foreign trade settlements, commercial banks' renminbi deposits provide the liquidity for settlements. Renminbi deposits are concentrated in Hong Kong (Table 1), where two thirds, i.e. approximately RMB 1,000 billion (USD 160 billion), of the Asian and European deposits are held. Renminbi deposits increased mainly as a result of trade settlements and expectations relating to the appreciation of the renminbi. At the same time,

dynamic growth was observed in Singapore and Taiwan in the Asian region in the past years. Of the European hubs, in Paris the liquidity relating to Chinese banks' activities in Africa appears as renminbi deposits.

RMB clearing hubs

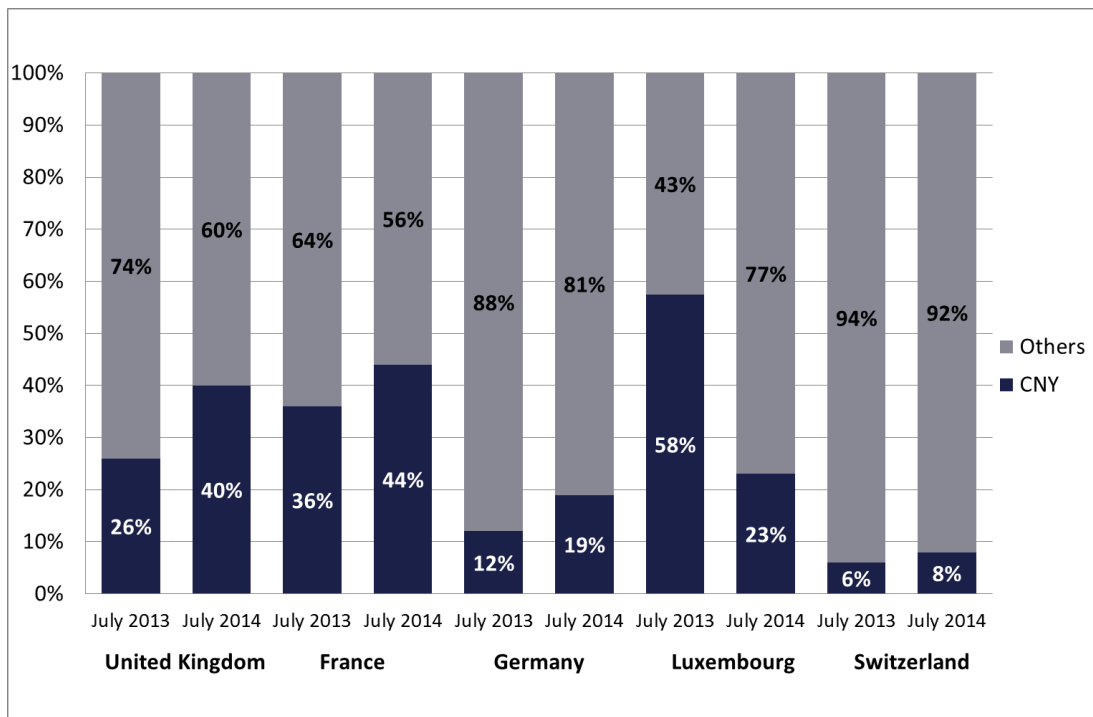
Outside China, the renminbi hubs also provide the infrastructure necessary for carrying out the transactions, including the financial settlement of foreign trade or capital transactions. In the first step the Chinese banks may function as typical commercial banks (providing correspondent banking services) and maintain renminbi bank accounts for companies, allowing the execution of payment transactions launched in renminbi among account holders within the bank and also carrying out cross-border renminbi transactions through their parent bank. Smooth service provision also requires that the PBOC designate the given Chinese bank as official clearing bank.

In the past year, the PBOC concluded agreements relating to clearing and settlement issues with central banks typically after a swap line agreement had been signed, and the official clearing bank was also appointed nearly simultaneously. Namely, official clearing banks are able to ensure access to the Chinese systems and markets in a direct manner, which may presumably allow the provision of faster, cheaper and also more comfortable payment services for clients. China's leading banks received official clearing bank status: the Bank of China (BoC) in Hong Kong, France, Taiwan, Germany and Budapest, while the Industrial and Commercial Bank of China (ICBC) in Singapore and Luxembourg, and the China Construction Bank (CCB) in the United Kingdom.

According to SWIFT statistics¹, of the European renminbi hubs, in France the weight of the renminbi in the settlements with China rose to 44 per cent in July 2014 (from 20 per cent two years earlier), followed by the United Kingdom (with a 40 per cent weight of RMB settlements), Luxembourg (23 per cent) and Germany (19 per cent).

¹ http://www.swift.com/assets/swift_com/documents/products_services/RMB_tracker_Aug2014_SdC.pdf

Chart 1: Weight of renminbi payments (value) in European renminbi hubs



Source: [SWIFT Renminbi Tracker](#)

According to data released by the People’s Bank of China ([PBOC Monetary Policy Report², 2014 Q3](#)), in 2014 Q3 the volume of cross-border renminbi settlements increased by 37 per cent year-on-year, and the value of the transactions reached RMB 1,530 billion (USD 250 billion). 174 countries have executed renminbi payments of all sizes worldwide.

Renminbi securities market hubs

Following Japan, the Chinese onshore bond market is the second largest one in Asia. For the time being, only some foreign institutions that have investment quotas are present in the onshore bond market (central banks, institutional investors etc.). A prominent role in the intermediation of investments is played by Hong Kong, as this insular country has the largest RQFII (Renminbi Qualified Institutional Investor) quota, and most of the portfolio investments were received from here. In addition to Hong Kong, an important role in the offshore market is played by Luxembourg, where most of the renminbi securities are traded outside Asia, and an increasingly important renminbi securities market is the United Kingdom.

FX market hubs

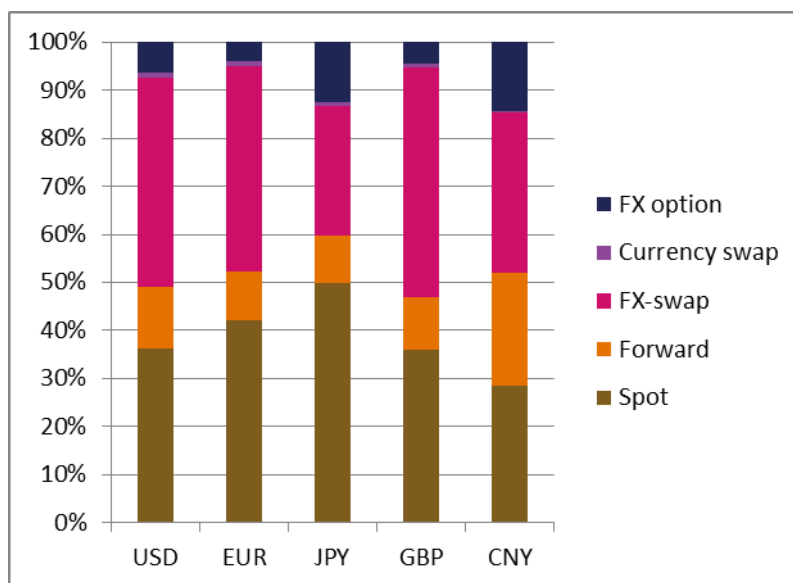
Offshore renminbi FX market trading essentially takes place in Hong Kong, London and Singapore.

² http://www.pbc.gov.cn/image_public/UserFiles/english/upload/File/2014Q3%20MPR_EN_nancy.pdf

Products related to the renminbi are offered by various international exchanges, e.g. Euronext, the Hong Kong and the Chicago Stock Exchanges as well as the Moscow and Singapore Exchanges. Stock exchange renminbi products facilitate both foreign trade settlements and the hedging of the foreign-exchange risk of financial transactions, and they also offer an opportunity for hedging or exploiting the increasing RMB exchange rate volatility resulting from the gradual changeover to the free floating exchange rate regime.

According to the [BIS](#) and [London renminbi FX market](#) surveys, in addition to spot transactions, FX swaps and forward transactions were the most popular in the case of the Chinese renminbi in 2013, mainly in the segment with a maturity of up to one year.

Chart 2: FX market turnover by currency and type of transaction



Source: [BIS](#)

Hong Kong – the number one renminbi hub

As a result of its special status (geographical location, the dual character of the political and economic systems), Hong Kong has become the first and [most important renminbi hub](#). In the past years, more than three quarters of trade and other renminbi settlements were concentrated here, and in 2007 already the first offshore renminbi bond was also issued. By October 2014, the total bond portfolio reached RMB 368 billion, while 80 issuers issued bonds with a total value of RMB 167 billion in the first ten months of 2014.

Hong Kong was the first RMB hub that received an RQFII quota in 2011, and in Hong Kong the real-time gross settlement system also receives renminbi items. In October 2014, a total 224 banks were members of the renminbi settlement system, and its monthly turnover reached RMB 800 billion. The settlement system is connected to the mother country’s settlement system (CNAPS – China National Advanced Payment System), so it allows transfers to the mother country as well.

The 12th Chinese five-year plan strengthened Hong Kong's function as a financial hub, especially in terms of renminbi services. Financial services are supported by the fact that most of the renminbi deposits are also concentrated in Hong Kong.

The position of Hong Kong is further reinforced by the Shanghai–Hong Kong Connect programme launched in November 2014, which connects the stock exchanges of Shanghai and Hong Kong, allowing the investors of mainland China and Hong Kong to trade in the equities listed in the two markets.

The HIBOR, the first official renminbi interbank rate outside China was introduced in Hong Kong. It serves as a reference rate for offshore market participants. In addition, the Hong Kong Monetary Authority (HKMA) is involved in the offshore market issuance of Chinese government bonds.

Singapore – the most important renminbi hub of the ASEAN countries

Singapore plays a prominent role in China's Southeast Asian economic relations. It is of global importance because of its commercial port, and a target country for a high volume of Chinese direct capital investment.

Singapore is the most important foreign exchange trading centre in Asia, while globally it is the third one behind the United Kingdom and the United States. Consequently, significant growth took place in renminbi FX transactions as well. The Singapore Exchange had opened an office in Beijing already in 2008. Starting from 2011, renminbi bonds were also traded on the exchange, and as of March 2012 the renminbi was introduced to the foreign exchange trading system as well.

Renminbi deposits grew fast in Singapore, their holdings increasing from RMB 60 billion in 2006 to RMB 277 billion by December 2014 [according to central bank data](#) (MAS – Monetary Authority of Singapore). In 2012, Singapore concluded an agreement on bank services as well upon signing the China–Singapore Free Trade Agreement (CSFTA).

Taiwan, the late starter

Similarly to other Asian renminbi hubs, Taiwan has strong ties to China. Nevertheless, improvement in political relations with China was needed prior to setting up the renminbi hub (PWC, 2014). At the same time, in spite of the active trade settlements, mother country banks were not allowed to establish branches until 2012. In 2013, BOC Taiwan was awarded the official clearing bank status, and since then the most dynamic increase in settlements [has been observed in Taiwan](#), in addition to Hong Kong.

Renminbi deposits rose rapidly in the past years, from 39 billion to 215 billion (January 2014). In the Taiwan FX market, according to the 2013 survey conducted by the BIS, the weight of renminbi transactions is around 10 per cent, i.e. much higher than the 1.7 per cent typical of the global market. Taiwan received a RMB 100 billion RQFII quota, which is considered high in international comparison.

United Kingdom – advantages stemming from the role of global financial centre

According to [an earlier evaluation by SWIFT](#), compared to other centres, the strength of the United Kingdom and London is in their existing experience in financial services and their leading role in international bond issuance and in the FX market. The [turnover in the London renminbi spot FX market](#) grew by 160 per cent year-on-year in 2014 H1, and the increase was already nearly twentyfold compared to 2011. In aggregate, London accounts for one quarter of the global offshore renminbi FX market turnover (half of the turnover outside Hong Kong).

In 2014 H1, renminbi deposits amounted to RMB 25.4 billion in London. Within that amount, corporate deposits (RMB 16.7 billion) and interbank deposits (RMB 6.4 billion) had the highest shares.

An important milestone was the designation of the renminbi clearing bank: the China Construction Bank was appointed in July 2014. Similarly to Germany and France, the United Kingdom received an RQFII investment quota of RMB 80 billion.

Another important event was that the government of the United Kingdom issued renminbi bonds in 2014.

Luxembourg

Luxembourg has become one of the most important hubs of cross-border RMB transactions in the euro area. The central bank of Luxembourg ([Banque Centrale du Luxembourg](#)) concluded an agreement with the PBOC in 2010, then, in 2013 the Ministry of Finance launched the initiative supporting RMB transactions with the objective to make **Luxembourg one of the hubs of international renminbi transactions in the euro area.**

The three largest banks of China (BoC, ICBC, CCB) chose Luxembourg as their seat, which greatly contributed to Luxembourg's becoming one of the most important renminbi hubs that provide banking services in Europe in terms of deposits (RMB 67 billion), listed bonds (RMB 32.9 billion) and assets in investment funds (RMB 261.8 billion).

Germany – Frankfurt

Germany is China's most important trading partner in Europe and the fifth most important one globally. Trade volume between the two countries amounted to EUR 140.6 billion in 2013. In 2012, during the Sino-German Government Consultation the two countries concluded an agreement that they would increase the use of RMB and EUR in trade settlements. In July 2013 they set up a working group with the objective of making Frankfurt an international RMB hub.

RMB FX transactions are less significant in Frankfurt, while bond issuances are much more dominant. French and German companies are the main European issuers of RMB bonds in Hong Kong; around one third of the RMB bonds listed at the Luxembourg Stock Exchange are related to them. More than 40 RMB bonds are listed in Germany.

France – Paris

In terms of trade volume, France is China's fourth largest European partner. According to Paris Europlace, approximately 10 per cent of the trade between China and France is settled in renminbi. With this, **it is the first in the euro area and the fourth largest globally in terms of the value of RMB payments.**

FDI from China to France rose from RMB 40 million to RMB 240 million between 2006 and 2010, with a further increase to RMB 372 million in 2011. RMB deposits also increased considerably, reaching RMB 20 billion by 2013, which is the double of the previous year's amount. As a result, Paris has the second highest amount of RMB deposits following Luxembourg. **French companies are among the most important European issuers of RMB bonds:** 6 companies and 3 banks issued 16 bonds with a value of RMB 10 billion.

In November 2013, France and China concluded an agreement on the development of the Paris offshore RMB market and, as part of the agreement, on designating a clearing bank in Paris.





2. RENMINBI INITIATIVES WITH CENTRAL BANK PARTICIPATION

European authorities participated in setting up and developing renminbi hubs both as initiators and members through the so-called *renminbi initiatives* (Table 2). The London initiative was launched by the British Finance Minister together with the Policy Chairman of the City of London, and the Ministry of Finance is a member of the initiative.

Several central banks undertook an active role in connection with the tasks discussed [in the third part](#) of the series of articles (FX reserve management, liquidity management, clearing transactions, financial stability etc.). These banks are the Bundesbank, the Bank of England, Banque Central du Luxembourg and Banque de France.

Priority objectives of the renminbi initiatives in international practice include the outlining of the possibilities and the implementation of the passage between offshore and onshore markets, the identification of the most important types of RMB transactions and the licensing of the appearance among the listed currencies of the trading system in the Chinese onshore market similarly to other currencies (USD, NZD, EUR, GBP, JPY, HKD, AUD, MYR). Based on SWIFT statistics and experiences collected in London, one of the major business possibilities in the receiving countries may be related to FX market services.

Table 2: Renminbi initiatives in Europe

City	Country	Initiative	Private sector	Government sector
Frankfurt	 Germany	RMB Initiative group	Agricultural bank of China, Baker and McKenzie, Bank of China, China Construction Bank, Citi, Commerzbank, Deutsche Bank, Deutsche Borse, DZ Bank, Frankfurt Main Finance, Gize, Helaba, HHSBC, ICBC, IHK, KfW, King and Wood, Messer, pwc, Simmons and Simmons, SWIFT, Volkswagen	Bundesbank, Ministerium für Wirtschaft, Energie, Verkehr und Landesentwicklung
London	 United Kingdom	City of London initiative	Agricultural Bank of China, Australia and New Zealand Banking Group Limited, Bank of China, Bank of Communications (UK), Barclays, China Construction Bank, Citi, Deutsche Bank, HSBC, ICBC, JP Morgan, Royal Bank of Scotland, Standard Chartered	City of London, HM Treasury, Bank of England, Financial Services Authority
Luxembourg	 Luxembourg	Luxembourg Center for International RMB Business in the Eurozone	Bank of China, China Construction Bank, Clearstream, Luxembourg Stock Exchange, ICBC, Luxembourg Bankers' Association (ABBL), Luxembourg Fund Association (Alfi)	Finance Ministry, Commission de Surveillance du Secteur Financier
Paris	 France	Paris Europlace - Your Hub to the Eurozone	Bank of China, Paris, BPCE Natixis, BNP Paribas, Crédit Agricole, HSBC France, ICBC (Industrial and Commercial Bank of China), Paris, Société Générale	Bank de France, Trésor Français

Considering the favourable international experiences, within the framework of the Central Bank Renminbi Programme, the Magyar Nemzeti Bank launched the Budapest Renminbi Initiative, the plenary meeting of which was held [on 26 March 2015](#). The most important objective of the initiative is to identify the business opportunities related to the renminbi as well as the necessary development needs in connection with the FX and capital market and settlement infrastructure, relying upon the joint efforts of the corporate sector, financial institutions and state organs involved in the renminbi settlement.

The Budapest Renminbi Initiative may facilitate the widening of the choice of investments and sources of funding in Hungary as well as the utilisation of the advantages stemming from the increase in the international weight of the renminbi, and, in view of the regional role of Budapest, it may generate cross-border market activity and income for Hungary and the region.

Taking account of the international practice, the Budapest Renminbi Initiative is organised around working groups:

- (i) financial market working group,
- (ii) real economy working group,
- (iii) settlement working group.

The financial working group discusses the issues related to investment quotas, the issuance and quotations of renminbi securities, central bank instruments and FX market trading. The real economy working group discusses issues related to export and import settlements, and formulates positions concerning domestic banks' renminbi services (account maintenance, deposit collection, lending etc.) with the involvement of banks and foreign trading companies. The settlement working group deals with the continuous monitoring of renminbi settlements, their improvement, if necessary, as well as with building out the connection to the renminbi hubs.

Table 3: Working groups of the Budapest Renminbi Initiative

Financial market working group
<ul style="list-style-type: none"> •Negotiates RMB investment quotas with PBC for the hungarian institutions •Renminbi denominated securities issuance and quotes, settle RMB fund for inland investors •RMB central bank instruments • Introduction of RMBHUF to the CFETS (similarly to RMBAUD, RMBEUR, RMBGBP) •Spot/Forward/Swap/Futures trading • Interbank fixing questions
Real economy working group
<ul style="list-style-type: none"> •Export-import settlements • Measuring the needs of the companies (in foreign trade) • RMB trade financing • RMB deposits and loans (for companies in foreign trade) • RMB accounts
Clearing and settlement working group
<ul style="list-style-type: none"> • Deals with permanent monitoring and necessary development of renminbi settlements and clearing

The [plenary meeting of the Budapest Renminbi Initiative](#) was opened by Mingyou Bao, Chief Representative, London Office of the People’s Bank of China (the central bank of the People’s Republic of China) and by MNB Deputy Governor Dr. Ádám Balog.

Following the introduction of the MNB’s Renminbi Programme, in the money and capital market section of the meeting the representatives of two leading Chinese banks, the Bank of China Hong Kong and the Industrial and Commercial Bank of China Europe, held presentations about international experiences in renminbi settlements and the bond market as well as their regional plans. György Barcza, the Chief Executive Officer of the Government Debt Management Agency presented the opportunities and challenges of issuances in the renminbi bond markets, also mentioning the possibilities of issuance in Hungary. In addition, the Director of the Monetary Policy and Financial Analysis Directorate of the MNB presented the future of financial liberalisation in China. In the real economy section, the Chinese Economic and Commercial Counsellor and the representative of Wanhua-Borsodchem presented the plans relating to the development of economic partnership between China and Hungary. The Hungarian Investment Promotion Agency informed the participants of the meeting about investment opportunities in Hungary. In the settlement section, the representatives of BOC Luxembourg and OTP Bank as well as Lajos Bartha (MNB) outlined the possibilities and challenges of the development of renminbi clearing.

The People’s Bank of China (PBC, the central bank of the People’s Republic of China) and the Magyar Nemzeti Bank signed a [Memorandum of Understanding on clearing arrangements](#) in Basel on 27 June 2015; following the designation of a renminbi clearing bank it may support

the development of the Budapest renminbi hub. Pursuant to the MoU, the parties will cooperate in the supervision and oversight of the RMB business, the exchange of information as well as the assessment and improvement of the system. The establishment of the RMB settlement and clearing system in Budapest is expected to give momentum to companies' and financial institutions' cross-border RMB transactions in China and Hungary, and will promote bilateral trade and the liberalisation of investments. The parties also agreed that within the framework of regular dialogue they would review the relevant events affecting the renminbi liquidity situation and the stability of the renminbi market, and would discuss the necessary amendments. In addition, the PBC decided to extend the system of Renminbi Qualified Foreign Institutional Investors (RQFII) to Hungary, providing a quota of RMB 50 billion to the latter.