

## The renminbi as a global currency

By Zsanett Sütő

***On 1 October 2016, the Chinese renminbi (yuan, CNY) was added to the SDR basket that comprises of the leading currencies of the world. This is also in recognition of the growing importance of China in the world economy and signals the international role of the Chinese currency in trade settlements and in other markets. Where does the renminbi stands in the world today and what progress has been made in its use in Hungary recently?***

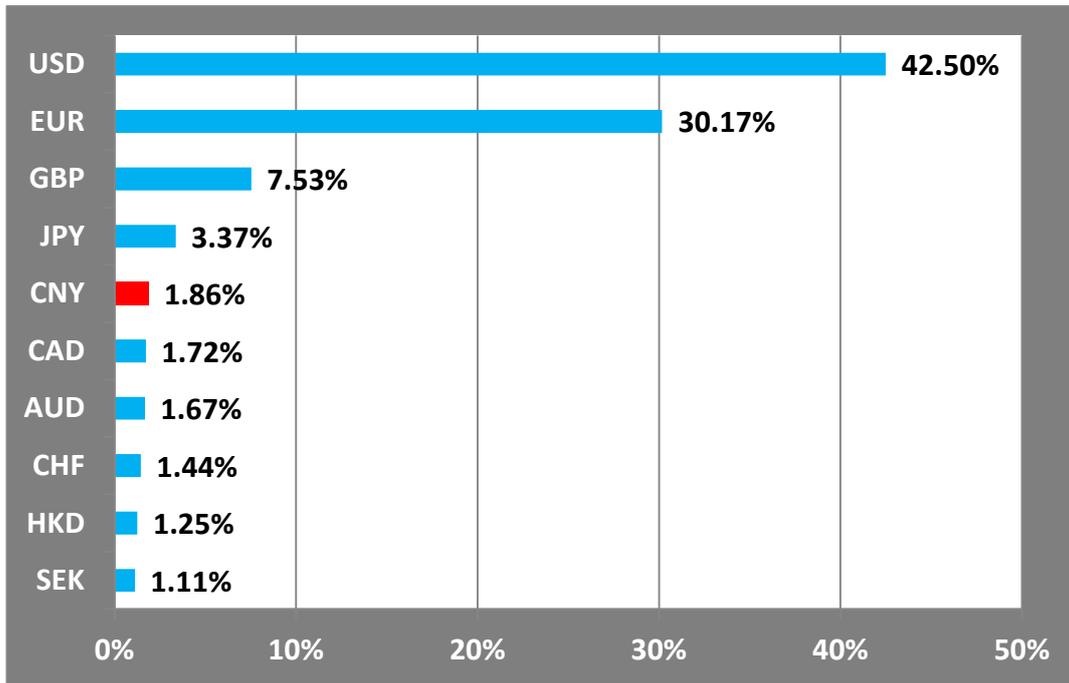
The internationalisation of the Chinese currency has received increasing coverage recently. Making the yuan international then a convertible currency by 2020 is one of the top priorities of Chinese economic policy. Entry into the SDR, the International Monetary Fund's basket of global reserve currencies, represents a milestone on the road to internationalisation. Accordingly, from 1 October 2016 the Chinese renminbi has had a 10.92% weight in determining the value of the SDR used as a unit of account.

For a country's currency, there are several steps to achieve international status. The first step is its use for international trade transactions and financial settlements. A second step is when foreign participants invest in assets denominated in the given currency then regard it as a funding currency. This article focuses on the role of the Chinese currency in cross-border trade settlements and foreign exchange markets, using the latest statistical data.

### **Role of the Chinese currency in international trade and settlements**

[Data](#) from SWIFT, a network enabling financial institutions worldwide to send and receive information about financial transactions, show that the Chinese renminbi is the fifth most frequently used international payments currency in the world. According to the latest [information](#) published by the organisation, use of the renminbi in Europe has been growing: 4% of payment transactions between Switzerland and China/Hong Kong are settled in the Chinese currency, in the case of Germany the RMB's share is 10.9% while in the case of France it is 49.3%, based on August 2016 data.

**Chart 1: Share of selected currencies in international payments  
(August 2016)**

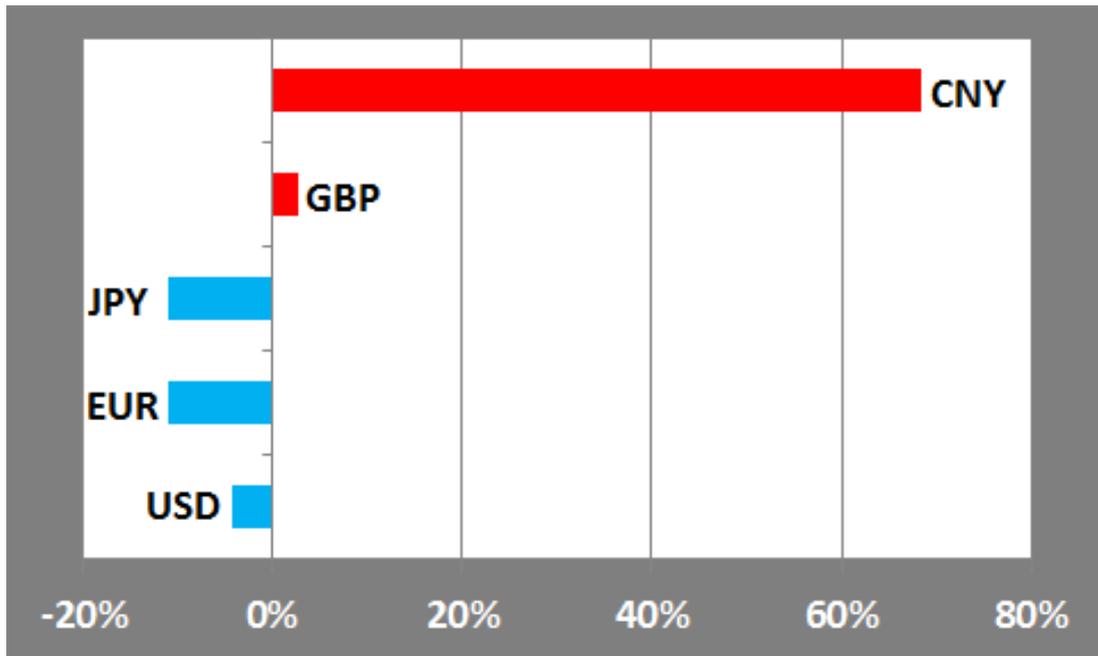


Source: SWIFT, RMB Tracker September 2016.

### **Role of the Chinese yuan renminbi in foreign exchange markets**

Another measure of the Chinese currency's internationalisation is its growing use in over-the-counter (OTC) foreign exchange markets. Based on comprehensive foreign exchange market [data](#) published by the BIS every three years, last in September 2016, only two SDR currencies' turnover increased over the past three years, with the Chinese renminbi being the only one to show a double-digit increase of 68% (Chart 2).

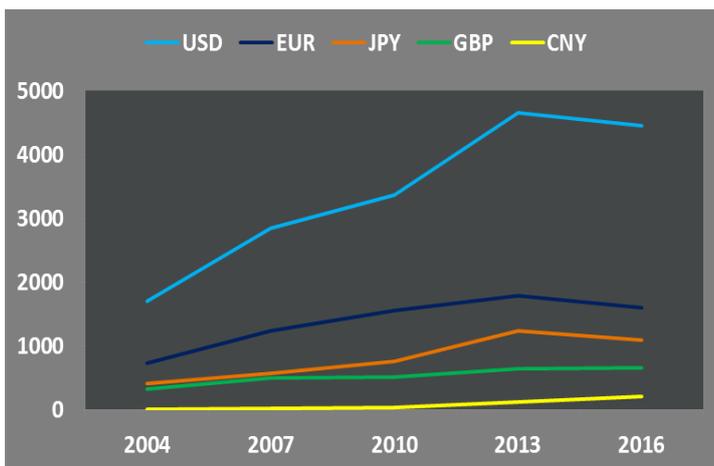
**Chart 2: Changes in SDR currencies' OTC turnover between 2013 and 2016**



Source: BIS, 2016 Triennial Central Bank Survey.

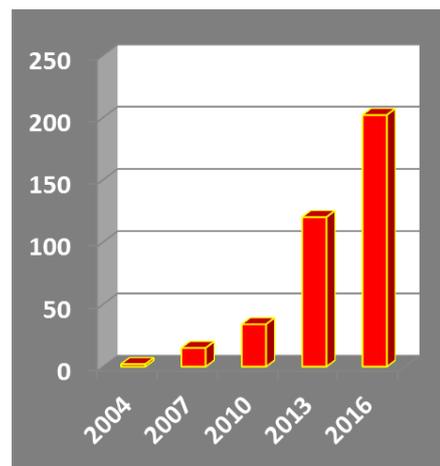
Looking at total turnover of the SDR currencies in OTC foreign exchange markets, the Chinese yuan renminbi currently ranks fifth (Chart 3); however, there has been spectacular growth in turnover of the Chinese currency over the past decade (Chart 4).

**Chart 3: Daily average turnover of SDR basket currencies in FX markets (USD billions, 2004-2016)**



Source: BIS, 2016 Triennial Central Bank Survey.

**Chart 4: Daily average turnover of CNY in FX markets (USD billions, 2004-2016)**



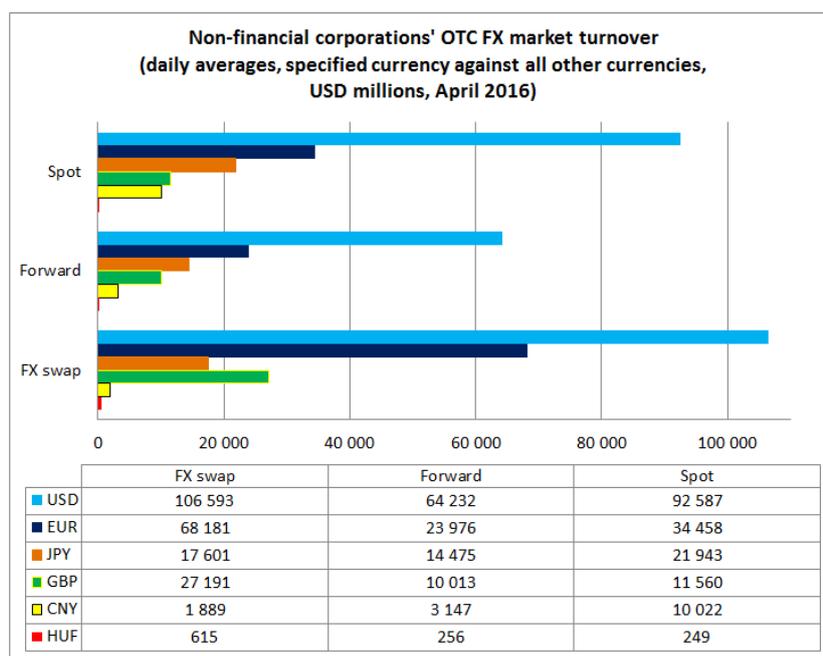
Source: BIS, 2016 Triennial Central Bank Survey.

Over the coming years, it may be worthwhile to follow how the daily average turnover of the renminbi in OTC foreign exchange markets, currently USD 202 billion, will develop in comparison with turnover of the Swiss franc (daily average USD 243 billion), the Canadian dollar (daily average USD 261 billion), the Australian dollar (daily average USD 353 billion) or the pound sterling (daily average USD 650 billion). (By way of comparison, daily average turnover of the forint in OTC foreign exchange markets was USD 15 billion based on April 2016 data from the BIS).

### Non-financial corporations' CNY turnover in OTC foreign exchange markets

Non-financial corporations' renminbi use constitutes one step towards the internationalisation of the Chinese currency. International trade payments have already been discussed. This section describes foreign exchange market developments in more detail. The latest data from the BIS show that in the spot foreign exchange market (where prices are quoted for currency exchanges executed on the second business day after the trade date) transactions conducted by non-financial corporations in the renminbi and the pound sterling, at USD 10 billion on average per day, are of similar magnitude. (The fact that 67% of renminbi turnover related to international payments is conducted in the United Kingdom may have a role in this). By way of comparison: the daily average turnover of non-financial corporations' OTC spot foreign exchange market transactions in the forint is USD 250 million.

**Chart 5: Non-financial corporations' FX market turnover**



Source: BIS, 2016 Triennial Central Bank Survey.

In terms of managing exchange rate risk, it is worth examining the turnover in the forward and FX swap markets. In this area, the renminbi is still lagging behind other SDR basket currencies; however, it should be noted that the market of Chinese FX derivatives is still a developing one. By way of comparison, although the total value of non-financial corporations' trades in forwards in the Chinese currency, at an average of HUF 3 billion per day, is less than that of pound sterling forwards (USD 10 billion) or that of euro forwards (nearly USD 24 billion per day), it exceeds the daily average value of forint forwards (USD 256 million). In respect of trades in the FX swap market, the daily average turnover of non-financial corporations' FX swap transactions in the Chinese currency is nearly three times more than the one in the forint. Obviously, a number of factors can explain the turnover data in a given FX market segment (convertibility, role of the given country in the world economy, degree of economic openness, market infrastructures and regulatory issues). But a discussion of this issue would extend beyond the scope of this paper.

### **The Chinese currency in Hungary**

In addition to the actions by the Magyar Nemzeti Bank related to the internationalisation of the Chinese currency (e.g. swap agreement, Central Bank Renminbi Programme, Budapest Renminbi Initiative, etc.) and a bond issue denominated in the Chinese currency at the beginning of the year, it may be useful to highlight the related steps made by the private sector. The accessibility of basic banking services relates both to international payments and foreign exchange market activity. According to available information, bank accounts in the Chinese currency for corporate customers are currently available at a number of Hungarian banks. Deposits and loans are less widely available.

**Table 1: Accessibility of selected banking services in RMB in Hungary**

	<b>Household clients</b>	<b>Corporate clients</b>
	<b>(Number of banks)</b>	<b>(Number of banks)</b>
<b>RMB account</b>	1-3	8
<b>RMB deposit</b>	1-3	1-3
<b>RMB loan</b>	0	1-3

*Source: MNB.*

Some types of foreign exchange market transactions related to the Chinese currency are also available at a few market participants, although turnover still lags behind that of US dollar or euro transactions (see Table 2; CNY is included in the category 'other').

**Table 2: Turnover of the forint against other currencies in the Hungarian FX market  
(daily averages, USD millions, April 2016)**

<b>EUR</b>	<b>USD</b>	<b>other</b>	<b>CHF</b>	<b>GBP</b>	<b>JPY</b>	<b>SEK</b>
885	724	51	27	15	14	5

*Source: BIS, 2016 Triennial Central Bank Survey.*

To summarise, the growing importance of the Chinese currency has brought about the appearance of financial services provided in the renminbi in Hungary as well. Looking forward, in line with global developments, there may be room for further development in the use of renminbi in Hungary.