



EIICHI SEKINE

Nomura Institute of Capital Markets Research

RMB-Denominated Trade Settlements Increased Sharply in 2022

—Current Status of RMB Internationalization—

Record High Cross-Border Payments Denominated in RMB

The People's Bank of China (PBOC) released its China Monetary Policy Report Q4 2022 on February 24, 2023. The report provides the latest evidence that RMB's internationalization is progressing, with cross-border RMB settlements increasing to RMB42.1 trillion in 2022, the highest level since China lifted its ban on RMB trade settlements in July 2009 (Table 1). In addition, RMB-denominated settlements accounted for 49% of China's total annual cross-border settlements denominated in both RMB and foreign currencies, the highest ratio on record.

RMB-denominated settlements under China's current account, which includes settlements for trade in goods and services as well as income and current transfers increased 32.0% year-on-year in 2022 to a record high of RMB10.5 trillion. Cross-border settlements under the capital account, which includes direct investments, securities investments, and other investments, also reached a new high in 2022, totaling RMB31.6 trillion, although a detailed breakdown was not available

Table 1: RMB-Denominated Cross-Border Settlement Amounts

	2014	2015	2016	2017	2018	2019	2020	2021	2022
	unit: RMB trillion								
Total for RMB settlements	—	12.1	9.9	9.2	15.9	19.7	28.4	36.6	42.1
(Year-on-year growth rate)	—	21.7%	-18.6%	-6.7%	46.3%	24.1%	44.3%	29.0%	15.0%
(Share of total cross-border settlements)	23.6%	28.7%	25.2%	22.3%	32.6%	38.1%	46.2%	47.4%	49.0%
Current account transactions	6.6	7.2	5.2	4.4	5.1	6.0	6.8	8.0	10.5
(Year-on-year growth rate)	41.6%	10.4%	-27.7%	-17.0%	19.0%	18.2%	12.1%	17.4%	32.0%
(Share of all current account transactions)	20.0%	22.6%	16.9%	13.0%	14.0%	16.1%	17.8%	17.3%	—
Goods	5.9	6.4	4.1	3.3	3.7	4.2	4.8	5.8	7.9
Services	0.7	0.8	1.1	0.6	0.8	1.0	0.9	1.1	2.6
Income & current transfers	—	—	—	0.5	0.7	0.8	1.0	1.0	—
Capital account transactions	—	4.9	4.6	4.8	10.8	13.6	21.6	28.7	31.6
(Year-on-year growth rate)	—	43.4%	-5.1%	4.7%	65.0%	26.7%	58.7%	32.8%	10.0%
(Share of all capital account transactions)	—	47.9%	56.8%	66.0%	88.7%	96.5%	92.3%	91.6%	—
Direct investments	1.0	2.3	2.5	1.6	2.7	2.8	3.8	5.8	—
Securities investments	—	0.3	0.2	1.9	6.4	9.5	16.5	21.2	—
Other investments	—	—	—	1.3	1.7	1.3	1.3	1.6	—

Notes: 1. Growth rates and percentages are as reported in the PBOC statistics or calculated by the author if not included in PBOC statistics.

2. RMB share of all capital transactions is calculated by the author.

3. RMB share of current account settlements in 2014-2016 is for trade in goods only.

4. Securities investments in 2015 and 2016 refer to Stock Connect transactions only.

Source: Nomura Institute of Capital Markets Research, based on the PBOC's annual "RMB Internationalization Report" and its China Monetary Policy Report Q4 2022

at the time of this writing. This article discusses the progress of RMB internationalization in 2022, based on information obtained from published materials available as of May 2023.

Trends in RMB-Denominated Trade Settlements in 2022

RMB-denominated settlements accounting for larger share of China's trade

As noted above, China lifted its ban

on RMB-denominated trade settlements in July 2009. After totaling RMB3.58 billion in 2019, RMB-denominated trade settlements rose steadily to an initial peak of RMB7.23 trillion in 2015, when the RMB was first included in the basket of currencies that determines the value of the International Monetary Fund's (IMF) Special Drawing Rights (SDRs). RMB-denominated settlements accounted for 25.0% of China's total trade in 2015.

Fast-forwarding to 2022, RMB-denominated trade settlements on a quarterly basis totaled RMB2.07 trillion in January-March (21.9% of China's trade during the quarter), RMB2.51 trillion in April-June (24.3%), RMB2.92 trillion in July-September (25.9%), and RMB3.01 trillion in October-December (27.3%). As this data shows, RMB-denominated settlement is on the rise in terms of both absolute value and

share of China's total trade (Figure 1).

Turning to the global foreign exchange market turnover statistics released by the Society for Worldwide Interbank Financial Telecommunication (SWIFT), RMB's share has been rising recently, from 1.78% in February 2022 to 4.72% in April 2023 (Figure 2). That 4.72% figure ranks RMB as third among major currencies used in trade finance, with the USD first at 83.95% and the EUR second at 6.54%. The JPY is fourth at 1.41%.

Factors behind the increase in RMB-denominated trade settlements

- **RMB internationalization as an economic stimulus**

No detailed analyses of the increase in RMB-denominated trade settlements in 2022 are yet available in the Chinese-language literature, partly due to statistical

Figure 1: RMB-Denominated Trade Settlement Amount and Share of China's Total Trade (Flow)

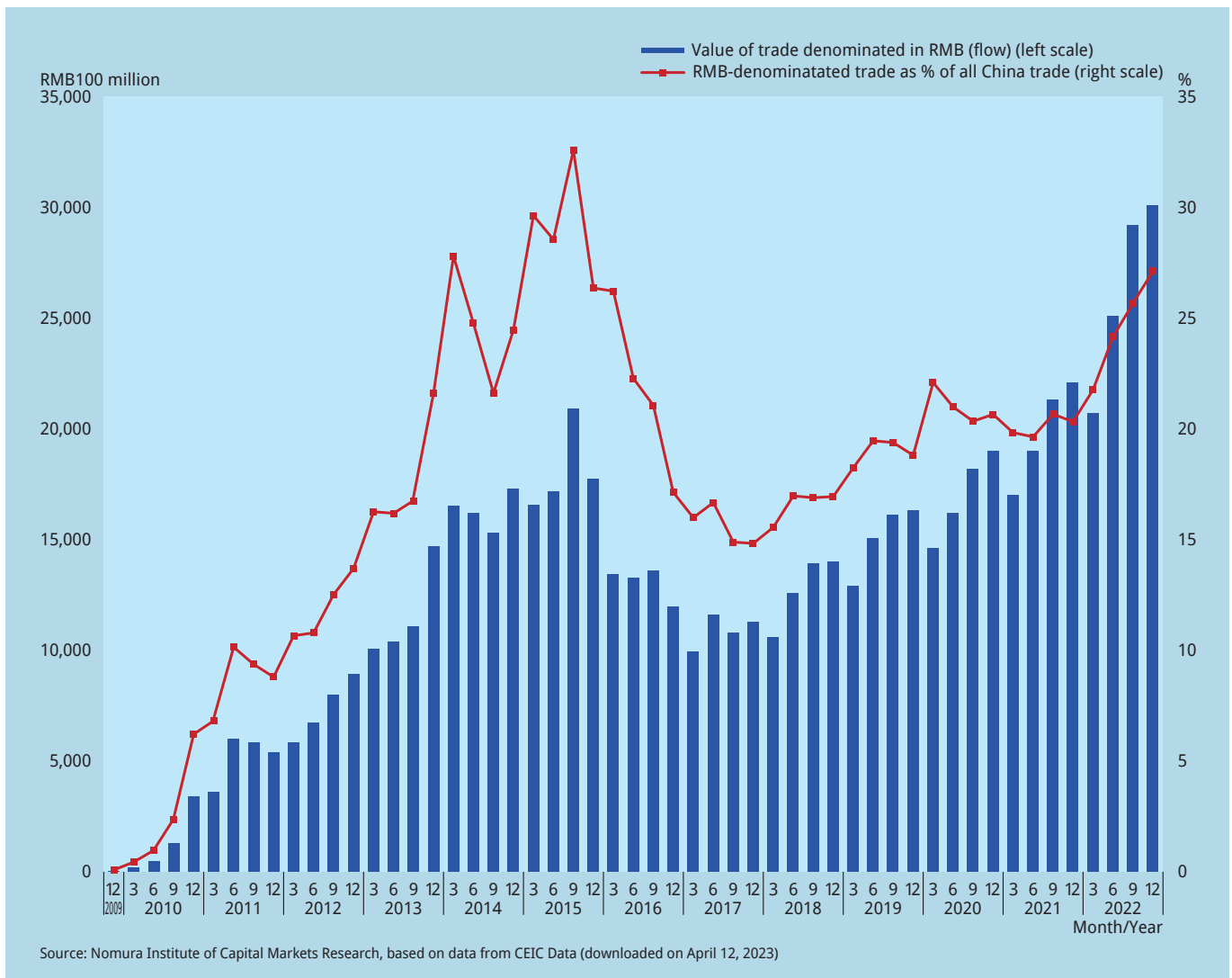
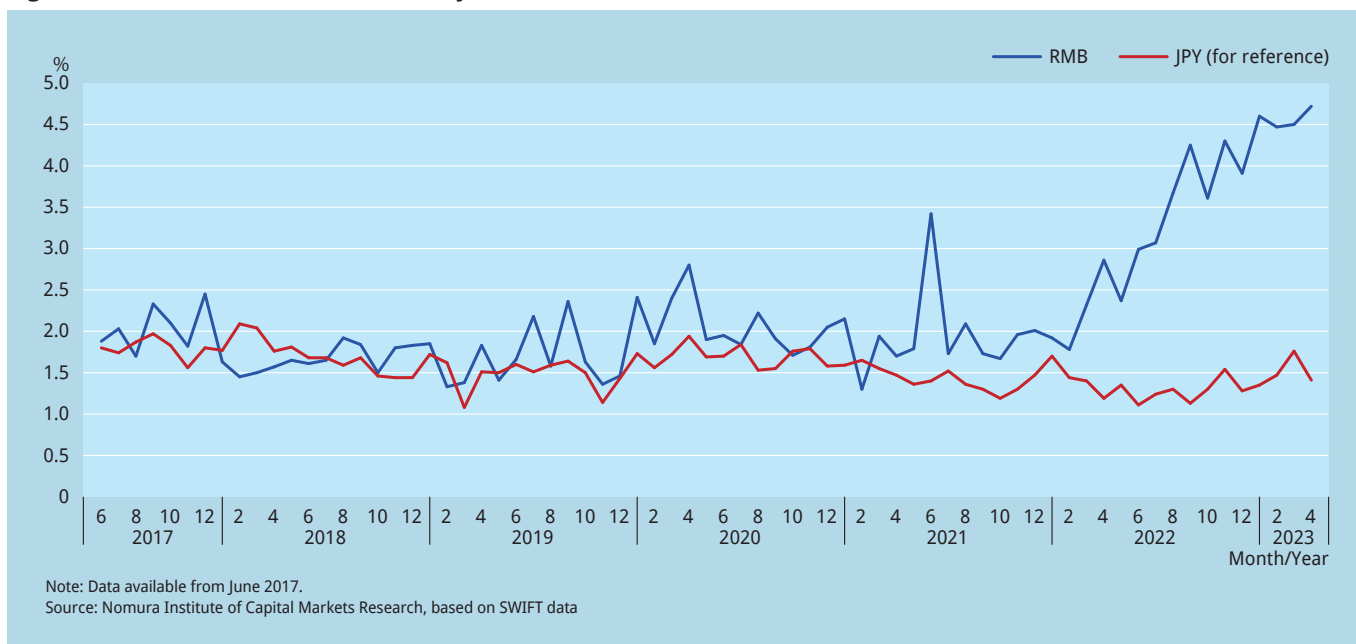


Figure 2: RMB's Share as Global Currency in Trade Finance Market



constraints. However, several possible factors for the increase are worth examining. One is support from government policy, as indicated in notifications and guidance given to enterprises and banks.

Among finance-related economic measures implemented by the Chinese government in 2022, the PBOC and the State Administration of Foreign Exchange (SAFE) issued the *Notice on Strengthening Financial Services for COVID-19 Containment and Socio-Economic Development*, on April 18, 2022.¹ This notice consists of 23 articles, including the following two articles indicating support for companies' exports and foreign exchange risk hedging that also contribute to RMB internationalization.

(Article 16) Step up facilitation for trade:

- We will expand the policy for facilitating trade-related foreign exchange payments and receipts of quality enterprises nationwide, steadily carry out the pilot programs for a higher-level facilitation of RMB settlement for trade and investment, and encourage banks to incorporate more quality small and medium-sized enterprises (SMEs) into the coverage of the facilitation policies.

(Article 18) Improve exchange-rate risk management service for enterprises:

- Financial institutions should promptly meet the needs of foreign trade enterprises and other market

entities for hedging exchange-rate risks, support enterprises to expand cross-border RMB settlement, improve management of and services for foreign exchange derivatives, and reduce enterprises' costs for hedging risks.

In a follow up to the 23-article notification, the PBOC issued the *Notice of the People's Bank of China on Supporting Cross-Border RMB Settlement for New Business Forms of Foreign Trade* on June 20, 2022. This notice instructs domestic commercial banks to accept and recommend RMB-denominated trade settlements not only from commercial banks but also from non-banking payment institutions that have obtained internet payment business permits and from other qualified clearing institutions in order to promote trade by individuals and micro-enterprises.

• RMB internationalization under the framework of an economic partnership agreement

The Regional Comprehensive Economic Partnership (RCEP) Agreement is a large-scale free trade agreement signed by 15 Asia-Pacific nations, including Japan and China, that account for about 30% of the world's population, global Gross Domestic Product (GDP), and global trade. With the RCEP Agreement scheduled to come into effect for the first 10 ratifying countries on January 1, 2022, the Standing Committee of the State Council of the

People's Republic of China (executive cabinet of China's government) decided on a policy at its December 23, 2021, meeting for steadily implementing the RCEP Agreement to promote the development of China's trade and investment and the upgrading of domestic industry.

On January 24, 2022, China's Ministry of Commerce and five other government ministries, including the PBOC, announced the *Guiding Opinions on the High-Quality Implementation of the RCEP*.² The Guiding Opinions' key tasks in the area of financial support include "Improve the role of RMB settlement in supporting the development of trade and investment." The PBOC is tasked with overseeing the following specific measures to realize that goal.

- Promote the use of RMB settlements in trade and investment activities in the RCEP region, help market players reduce exchange costs, and avoid exchange rate fluctuation risks.
- Continue to optimize policy arrangements and infrastructure construction to provide a good institutional environment for the cross-border use of RMB.
- Guide financial institutions to improve their financial services, support financial institutions in innovating RMB trading, investment, and hedging products, and provide



market players with convenient and efficient cross-border RMB financial products and services.

• **Deregulation initiatives**

On April 28, 2022, the Shanghai Securities News introduced Shenzhen City efforts related to the pilot test to enhance the convenience of cross-border RMB payments. In June 2020, under the Guangdong Pilot Free Trade Zone (FTZ), the geographical scope of the test was expanded from the Qianhai-Shekou area to the entire city of Shenzhen, and transaction screening was shifted from pre-screening of each payment to inspections of sample post-payments by designated blue-chip companies. Under the pre-screening system, external payments required the submission of a large number of materials, such as remittance application forms, contracts and receipts, customs declaration forms, etc., and the contents of major transactions were examined one by one. The shift to inspections of post-payment samples greatly simplified business processes and reduced average processing time for the applicant company to one-third the time required under the pre-screening system.

• **Impact from trade structure**

The above policy support for and deregulation of RMB-denominated trade

settlements may have promoted changes in China's trade structure in 2022.

According to data released by General Administration of Customs China (GACC) on January 13, 2023, China's total trade value in 2022 increased 4.4% year-on-year to USD6,309.6 billion, with exports expanding 7.0% to USD3,593.6 billion and imports rising 1.1% to USD2,716.0 billion, record highs for both exports and imports. A GACC spokesperson stated that China's share of exports in the global market in 2022 was 14.7%, maintaining China's position as the world's largest exporter for the 14th consecutive year. The total value of China's trade in RMB terms increased 7.7% year-on-year, with the export value up 10.5% and import value up 4.3%.

As for RMB-denominated trade, it may have become easier for Chinese importers to win acceptance of RMB-denominated transactions and settlements in the resource sector, where domestic demand conditions increased Chinese importers' bargaining power with trade partner countries seeking to expand exports to China. According to statistics released by China's National Bureau of Statistics on February 28, 2023, soaring global commodity prices pushed up the import values for such items as soybeans, crude oil, natural gas, and coal, despite decreased import volumes. For example, the value

of crude oil imports in 2022 amounted to RMB243.5 billion, up 45.9% year-on-year. Looking at major trade trends by country and region, strengthened China-Russia relations, which have come into greater focus owing to the current international situation, contributed to China's exports to Russia expanding 17.5% year-on-year to RMB512.3 billion, accounting for 2.1% of China's total exports, while imports from Russia increased 48.6% to RMB763.8 billion, 4.2% of China's total imports.

Developments Related to Promotion of RMB Internationalization since 2022

Measures to expand RMB-denominated transactions between mainland China and Hong Kong

• **Hong Kong as the main hub for RMB-denominated cross-border settlements**

RMB-denominated cross-border settlements in 2022 totaled RMB42.1 trillion,

of which current account transactions accounted for RMB10.5 trillion, or 24.9% of the total, and capital account transactions accounted for RMB31.6 trillion, 75.1% of the total.

At the time of this writing, RMB-denominated settlements' share of all cross-border current account transactions and capital account transactions has not been disclosed. However, the data for 2021 (Table 1 above) included in the PBOC's 2022 RMB Internationalization Report show that RMB-denominated cross-border settlements totaled RMB36.6 trillion, of which current account transactions accounted for RMB8 trillion, 17.3% of all China cross-border transactions on its current account, while RMB-denominated capital account transactions of RMB28.7 trillion accounted for 91.6% all cross-border transactions on China's capital account. The geographical distribution of cross-border RMB settlements with mainland China reveal that Hong Kong accounted for 48.6% of all RMB-denominated cross-border settlements in 2021, followed by Singapore (11.3%), the United Kingdom (5.4%), and Macau (3.9%). Other than current account transactions, securities investment in mainland China via Hong Kong (qualified investors, Stock Connect, and Bond Connect) contributed significantly to the increase in RMB-denominated settlements.

• Two new Connect channels

The promotion of RMB internationalization via Hong Kong has included several key developments since 2022. For starters, two new Connect channels were established in 2022, the 25th anniversary of Hong Kong's return to mainland China (July 1, 2022).

The first new channel is exchange-traded fund (ETF) Connect, a mutual market access program for trading ETFs in mainland China and Hong Kong. ETF Connect allows Hong Kong qualified investors and brokers to buy and sell 83 ETFs listed in mainland China and mainland investors to buy and sell four Hong Kong-listed ETFs. Trading via the ETF Connect began on July 4, 2022.

The second new channel, announced on July 4, 2022, is Swap Connect, a mutual market access program for trading derivatives. In its initial stage, Swap Connect will enable trading of interest rate swaps in mainland China from the Hong Kong side in the so-called "Northbound" route. Regulations governing trading on Swap Connect were announced on May 5, 2023, by the PBOC, the Hong Kong Securities and Futures Commission, and the

Hong Kong Monetary Authority. Trading began on May 15, 2023.

• Strengthening the RMB-denominated securities trading platforms

During 2022, several new measures to strengthen platforms for RMB-denominated securities trading via Hong Kong were announced. On September 2, 2022, the China Securities Regulatory Commission (CSRC) announced the following three measures aimed at deepening mutual stock market access between mainland China and Hong Kong and further promoting RMB internationalization: (1) expansion of the range of stocks eligible under the Stock Connect channels for trading between mainland China and Hong Kong by including foreign companies primarily-listed in Hong Kong and a wider range of companies listed on the Shanghai and Shenzhen markets (implemented from March 13, 2023); (2) establishment of an RMB-denominated stock trading platform in Hong Kong to support RMB internationalization; and (3) the introduction of central government bond futures trading in Hong Kong to accelerate the opening of the government bond futures market to both domestic and overseas investors.

Revision of currency weights in IMF's SDR currency basket

• RMB's weight raised from 10.92% to 12.28%

On May 14, 2022, the IMF announced the result of its latest quinquennial review of weightings in the basket of currencies that make up its SDRs.

On November 30, 2015, the IMF Executive Board decided to include the RMB as a constituent of its SDR currency basket and set new weightings for currencies in the basket as follows: USD 41.73%, EUR 30.93%, RMB 10.92%, JPY 8.33%, and GBP 8.09%, making the RMB the third largest currency in the basket (Figure 3).³ The timing of the IMF's next quinquennial review was delayed by the COVID-19 pandemic, but on May 14, 2022, the IMF Executive Board announced the results of its review of SDR basket weightings as follows: USD 43.38%, EUR 29.31%, RMB 12.28%, JPY 7.59%, and GBP 7.44%. The updated basket weightings went into effect on August 1, 2022.⁴

• PBOC statement

On May 15, the day after the IMF's announcement, the PBOC issued a press release reporting the results of the IMF's review of SDR currency weightings and indicated its intention to continue work-

ing together with other financial supervisory and regulatory authorities to "push forward the opening-up of the Chinese financial market."⁵ Specific opening-up measures mentioned in the PBOC release included (1) simplifying the procedures for foreign investors to invest in the Chinese market, (2) enlarging the universe of investable assets, (3) extending the inter-bank foreign exchange market's trading hours, and (4) improving data disclosures.

These measures indicate that the PBOC was conscious of the statement in the IMF release that "Directors broadly acknowledged the progress made on financial market reforms in China, while calling for additional efforts to further open and deepen the onshore RMB market, with some Directors also stressing the need to further enhance data transparency." Accordingly, later that same month on May 27, the PBOC, the CSRC, and SAFE, released a joint announcement outlining matters related to facilitating investment in China's bond market by overseas institutional investors.

Changed wording in reference to RMB internationalization

• New policy approach revealed in Report to the 20th National Congress of the Communist Party of China

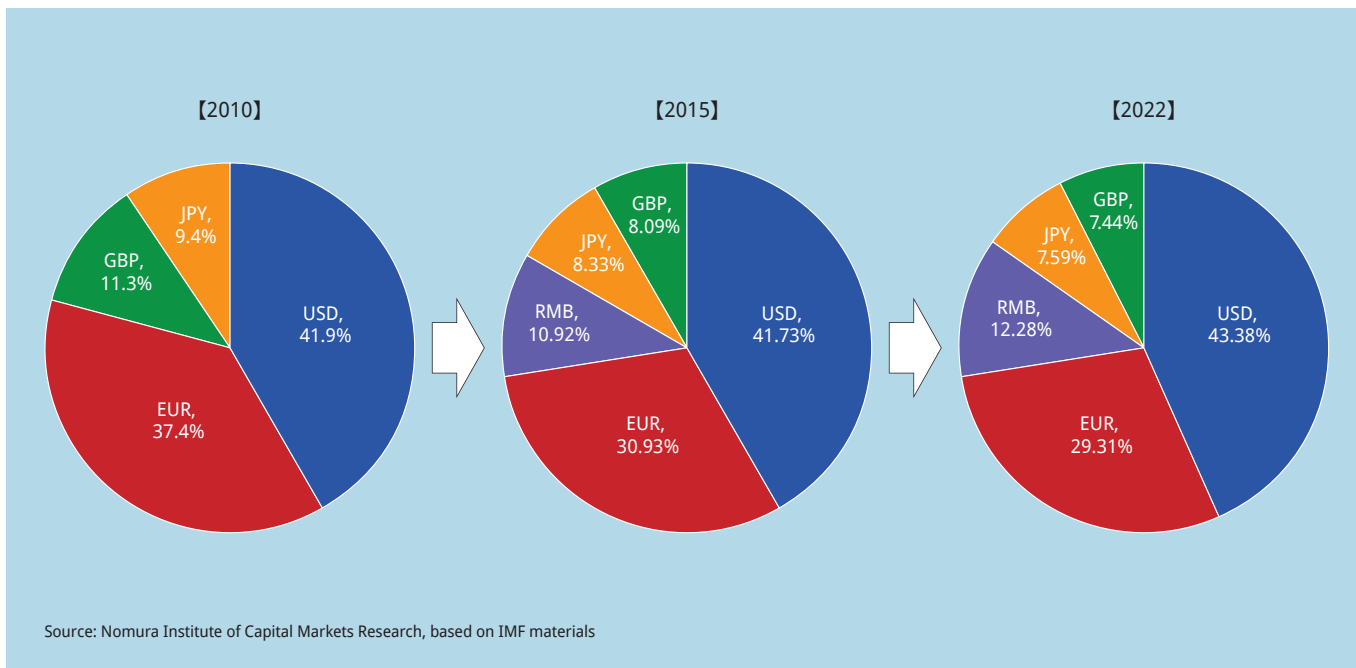
Not long after the IMF revised its SDR currency weightings and China eased restrictions on RMB-denominated transactions in May 2022, the PBOC released its *China Monetary Policy Report for Q2 2022* on August 10, 2022. In this report, the PBOC stated that it would (1) "continue to advance RMB internationalization stably and prudently" and (2) "steadily move ahead with the convertibility of the RMB under the capital account."

However, in President Xi Jinping's *Report to the 20th National Congress of the Communist Party of China* held in October 2022, the reference to RMB internationalization was "promote the internationalization of the RMB in an orderly way," changing the previous wording from "stably" to "orderly." Some researchers have interpreted this change in wording to mean that the Chinese government intends to accelerate its efforts to realize RMB internationalization by strengthening independent and systematic efforts (Tu Yonghong, Deputy Director at the International Monetary Institute at Renmin University of China).

• Foreign exchange trading hours extended

In line with this new RMB interna-

Figure 3: SDR Currency Basket Composition



tionalization policy approach, trading hours at the Shanghai Foreign Exchange Market have been extended from 9:30 a.m. to 11:30 p.m. local time to 3 a.m. the next day, since January 3, 2023. As this extension aims to increase the convenience of transactions with investors in different time zones in Europe and the United States and enhance the attractiveness of investing in RMB-denominated assets, it may be said to be a response to the aforementioned IMF advice.

Looking Ahead

According to SAFE, RMB-denominated settlements accounted for 48.6% of all cross-border settlements by non-banking sectors (companies, individuals, and non-banks) in March 2023, exceeding the share of USD-denominated settlements (46.7%) for the first time. Looking forward, the following recent developments may be considered factors that will further increase cross-border RMB settlements.

First, China and Brazil agreed on March 30, 2022, to abandon the USD as

an intermediary currency and settle all bilateral trade and financial transactions using the RMB and Brazil's real. Earlier, in February 2023, the two countries' central banks agreed to establish an RMB clearing bank in Brazil. In addition, during his visit to the New Development Bank⁶ in Shanghai on April 13, 2023, Brazilian President Luiz Inacio Lula da Silva urged the BRICS nations to make international payments in their own currencies.

Second, Argentina announced on April 26, 2023, that it would shift payments on its imports from China from the USD to the RMB. As a result, Argentina is now making payments in RMB equivalent to USD1.04 billion in April and about USD790 million a month from May. The Argentine government's decision is a response to the depreciation of the Argentine peso and capital outflows.

Third, on March 28, 2023, China National Offshore Oil Corporation (CNOOC) and French oil giant TotalEnergies SE completed the first RMB-denominated settlement of a purchase of liquefied natural gas (LNG) through the Shanghai Petroleum and Natural Gas Exchange (SHPGX, established in March 2015). CNOOC purchased about 65,000 tons of LNG produced in the United Arab Emirates. The CNOOC-TotalEnergies transaction was the first concrete result following President Xi Jinping's advocacy at the first China-Gulf Cooperation Council (GCC) Summit held Riyadh, Saudi Arabia on December 9, 2022,

for making full use of the functions of the SHPGX to promote RMB-denominated settlements for oil and natural gas trades. In the future, SHPGX plans to cooperate with China's Cross-Border Interbank Payments System (CIPS), Chinese and foreign financial institutions, and other interested parties to establish a safe, stable, and highly efficient cross-border RMB-denominated settlement system for oil and other products.

There are two types of RMB internationalization that perhaps should be considered separately. The first is RMB internationalization related to increasing the ratio of RMB settlements in China's transactions with external entities. The second is the promotion of the RMB as an international currency widely used in transactions involving third-country entities. Under the new RMB internationalization policy approach implemented since China's 20th National Congress, deregulation and promotional measures to increase the use of the RMB in China's transactions with other countries are steadily advancing. Under the PBOC's RMB-denominated bilateral currency swap agreements with other countries' central banks, the outstanding balance of RMB withdrawn by other countries' central banks totaled RMB109.085 billion as of the end of March 2023, up RMB20.0 billion from the end of 2022 and the second largest quarterly increase on record. The PBOC does not disclose RMB amounts used by other countries, but it



has suggested that central banks in other countries have increased their use of RMB withdrawals to settle trade and investment transactions with China. As for the second type of RMB internationalization, the international situation that has emerged since February 2022 has led some countries, especially emerging economies, to begin reducing their dependence on the USD in foreign exchange transactions. This so-called “de-dollarization” trend is focusing greater attention on what role China’s RMB might play in international financial markets in the future.

Notes

- 1 PBOC, *Notice on Strengthening Financial Services for COVID-19 Containment and Socio-Economic Development*, April 18, 2022.
- 2 China Ministry of Commerce, PBOC, et al, *Guidance from 6 departments including the Ministry of Commerce on high-quality implementation of the Regional Comprehensive Economic Partnership Agreement (RCEP)*, January 24, 2022.
- 3 Responding to the global financial crisis that started in September 2008, then-PBOC Governor Zhou Xiaochuan pointed out the inadequacies of the international monetary system that used a specific national currency as a global reserve currency (key currency) with the U.S. dollar in mind, in a paper titled “Reform the International Monetary System” published on March 23, 2009. In this paper, Zhou proposed the creation of a so-called “super-sovereign reserve currency” as “an international reserve currency that is disconnected from individual nations” and suggested that the IMF’s SDR should be assigned a greater role as a reserve currency. This proposal became the driving force behind the IMF’s inclusion of the RMB as an SDR basket currency and propelled the internationalization of the RMB to promote its inclusion in the basket.
- 4 IMF, “IMF Executive Board Concludes Quinquennial SDR Valuation Review and Determines New Currency Weights for SDR Valuation Basket,” May 14, 2022.
- 5 PBOC, “IMF Executive Board concludes SDR valuation review,” May 15, 2022.
- 6 The New Development Bank is an interna-

tional development financial institution established in July 2015 by the five BRICS nations—Brazil, Russia, India, China and South Africa.

EIICHI SEKINE

Managing Director, Nomura Institute of Capital Markets Research

Eiichi Sekine is Managing Director and Chief Representative in the Beijing Representative Office of Nomura Institute of Capital Markets Research (NICMR). He has held his current position since July 2010. His area of research covers financial and capital markets in China. He joined NICMR in May 2006. Previously he worked for Japan Bank for International Cooperation for about fifteen years. During that time he studied Chinese in Beijing University and was posted in the bank’s Beijing Office. Sekine graduated from the Law Faculty of Waseda University in 1991 and earned a Master of Arts from the Graduate School of Social Sciences at Waseda University in 2002.