

## Box 1

### Internationalisation of the Chinese renminbi – state of play

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Prepared by Massimo Ferrari

The international use of the Chinese renminbi regained some strength in 2018 after the launch of several initiatives by Chinese authorities to raise its global status. However, international use of the renminbi remains substantially below the peak levels of 2015.

One popular indicator of the internationalisation of the renminbi is its role in international payments (see the left panel of Chart A). SWIFT data show that the average share of the renminbi declined from 2.2% in 2015 to about 1.8% in 2018, although it remains the fifth most used currency in international payments. A composite index of the renminbi's global role suggests that it is less strong in 2018 than it was in 2015 (see the right panel of Chart A). The currency's international role actually declined just after it was included in the special drawing rights basket.

By contrast, use of the renminbi as a currency of denomination for international bonds and reserves increased noticeably in 2018. But at less than 2%, the share of the renminbi in global foreign reserve portfolios, outstanding amounts of international bonds and international liabilities remains small overall (see the left panel of Chart B).

The Chinese authorities have taken initiatives to foster the international use of the renminbi. They launched several projects in 2017 and 2018 under the umbrella of the Belt and Road Initiative to support use of the renminbi as an invoicing currency for trade and to create direct trade routes between China and other economies.<sup>10</sup> The Shanghai International Energy Trading Centre launched an oil futures contract denominated in renminbi in 2018, with the goal of elevating it to benchmark

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<sup>10</sup> The Belt & Road Initiative is a Chinese-led project to expand trade links between Asia, Africa and Europe launched in 2013. In 2017 the Chinese government committed an additional USD 124 billion to the project.

status in the Asia-Pacific region. Within the space of a few months, trading volumes in the contract reached levels not too far off those in more established benchmarks, such as WTI or Brent (see the right panel of Chart B). Plans for financial products traded directly in renminbi are also under consideration.<sup>11</sup> The expansion of the Chinese banking sector – which, since 2016, has held total assets larger than those of European banks – notably to developing economies, may also have been another factor underpinning the renminbi’s global appeal, through the financing of international trade in renminbi, for example.

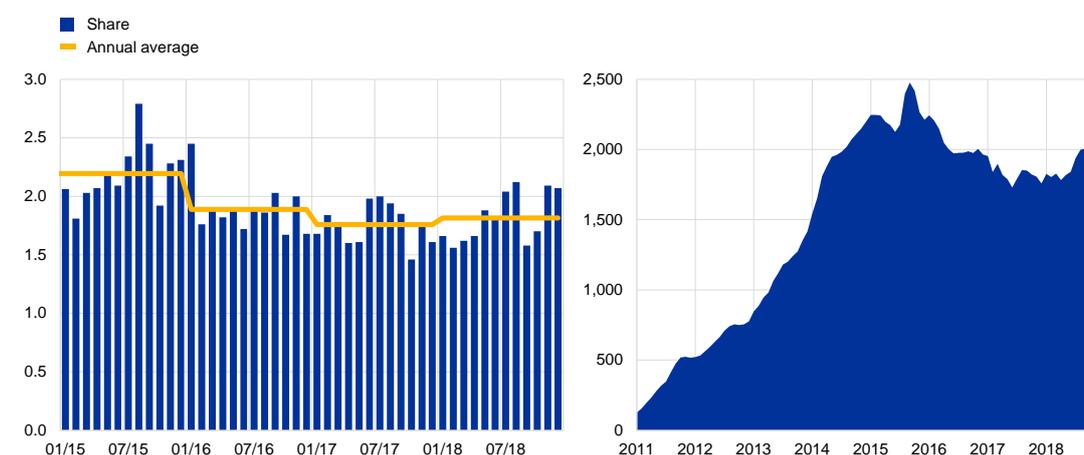
Time will tell whether these measures will succeed in increasing the global attractiveness of the renminbi. Complementary reforms to open China’s capital account and move to market-based exchange rate determination are also likely to be important if the renminbi is to reach its full potential.

### Chart A

Indicators pointing to a small increase in the role of the renminbi in 2018

**Change in the renminbi’s share as an international payment currency (left panel) and a composite indicator of internationalisation (right panel)**

(left panel: percentages; right panel: index)



Sources: SWIFT (left panel); Bloomberg, Standard Chartered (right panel).

Notes: The latest observation is for December 2018 (left panel) and 31 January 2019 (right panel). Inbound plus outbound traffic based on value (left panel). The Renminbi Globalisation Index (RGI) tracks four components with weights inversely proportional to their variance, namely deposits, trade settlement and other international payments, dim sum bonds and certificates of deposit issued, and foreign exchange turnover (all from an offshore perspective and denominated in renminbi) in several countries (Hong Kong, Singapore, Taiwan, the United States, the United Kingdom, Korea, France) (right panel).

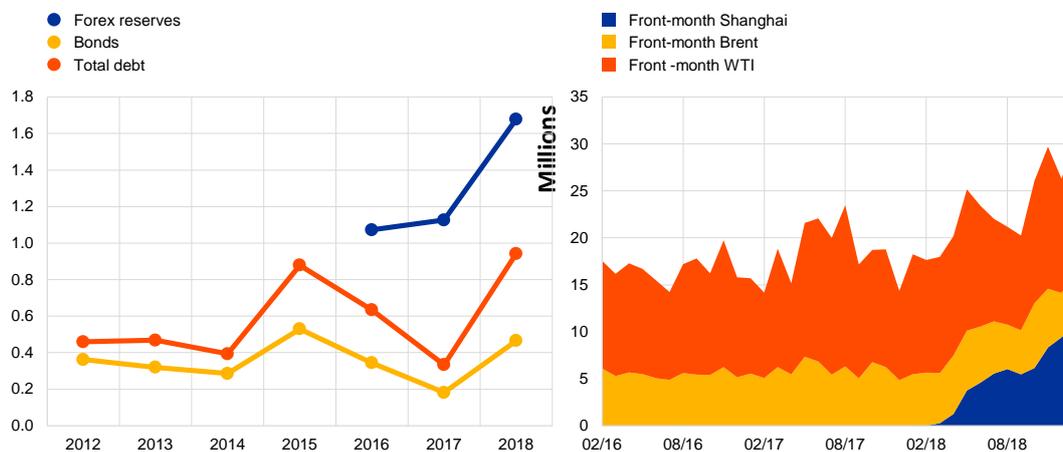
<sup>11</sup> This falls under Bond Connect, a trading platform allowing foreign investors to invest directly in the Chinese interbank bond market.

## Chart B

### Indicators pointing to a more significant increase in the role of the renminbi in 2018

Change in the share of the renminbi in total international debt, bonds and official foreign exchange reserves (left panel) and in selected oil future benchmarks (right panel)

(left panel: percentages; right panel: million lots per year, with each lot equalling 1,000 barrels)



Source: Dealogic, Haver Analytics, IMF, People's Bank of China and ECB staff calculations (left panel) and Bloomberg (right panel).  
 Note: The latest observation is for December 2018 (left panel) and for January 2019 (right panel).

<sup>12</sup> Excluding Argentina and Turkey (against which the euro appreciated by about 50% and 20% in bilateral terms respectively), the euro appreciated against the currencies of several emerging market economies, such as the Brazilian real (+2%) and the South African rand (+10%).