

**International Business Committee**

**Pilot Scheme for Using Renminbi for Trade Settlement**

This paper provides an update on a pilot scheme for using Renminbi for cross-border trade settlement (“pilot scheme”) as announced by the Mainland authorities on 8 April 2009.

**Background**

2. Renminbi business in Hong Kong started in 2004, and is supported by a clearing arrangement provided by the People’s Bank of China. The scope of business has been subsequently expanded twice, in October 2005 and in January 2007<sup>1</sup>. Banks in Hong Kong now offer a range of Renminbi services, including deposit taking, currency exchange, remittance, credit cards, use of cheques, and issuance and trading of Renminbi bonds.

3. At end-February 2009, Renminbi deposits in Hong Kong amounted to RMB 54 billion, with a total of 1,171,228 Renminbi accounts and 39 banks in Hong Kong engaging in Renminbi business. Since the launch of Renminbi bonds in June 2007, there have been seven issues, involving a total amount of RMB 22 billion, in Hong Kong to date.

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<sup>1</sup> The expansion measures in 2005 included: (i) widening of the definition of designated merchants under the arrangement for Renminbi business in Hong Kong, and designated merchants would be able to open Renminbi deposit accounts (in addition to conducting one-way exchange of their Renminbi receipts into Hong Kong dollars); (ii) relaxation of the limits for exchange and remittance of Renminbi by individuals; (iii) removal of the cap on credit limits for Renminbi cards issued by banks in Hong Kong (RMB 100,000 per card); and (iv) Hong Kong residents would be able to open Renminbi cheque accounts and use Renminbi cheques for consumer spending in Guangdong Province within a limit of RMB 80,000 per account per day. Issuance of Renminbi bonds was introduced in 2007.

## **Latest developments**

4. The State Council of the Central People's Government announced on 8 April 2009 that it has decided to introduce the pilot scheme. Initially, on the Mainland side, Shanghai and four cities in the Guangdong Province (namely, Guangzhou, Shenzhen, Zhuhai and Dongguan) have been selected for operating the pilot scheme. The scheme is expected to cover imports, exports as well as re-exports to and from the selected Mainland cities.

5. As a trading partner of these cities, Hong Kong has completed the necessary technical preparations for becoming the first place outside the Mainland to benefit from the pilot scheme. Once the scheme is launched, enterprises in Hong Kong will be able to settle in Renminbi their trades with the Mainland companies participating in the pilot scheme through banks in Hong Kong.

6. It is our understanding that the relevant authorities on the Mainland are working on the operational arrangements for the pilot scheme. The pilot scheme will commence once the Mainland authorities have promulgated the administrative rules. Such rules will also provide further technical details on the arrangements.

## **Expected benefits**

7. The close trading partnership between Hong Kong and the Mainland provides a solid foundation for the use of Renminbi for settlement of trade transactions between the two places. In particular, the pilot scheme is significant in three aspects:

- (i) It enables enterprises to manage flexibly and thus reduce the risks arising from fluctuations in exchange rate. This comes as a timely and pragmatic improvement to the business environment in which importers and exporters operate;
- (ii) It will provide new business opportunities for the banking sector in Hong Kong. After the scheme is launched, banks in Hong Kong can provide related Renminbi services to Hong

Kong enterprises. In other words, the customer base of Renminbi services of the banks in Hong Kong will be expanded extensively from individuals to enterprises; and

- (iii) There will be a further diversification of Renminbi assets in the Hong Kong banking system, thereby increasing the liquidity of Renminbi and enhancing the Renminbi clearing platform in Hong Kong. These are conducive to the further development of Renminbi business in Hong Kong.

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