

# RMB Internationalization: How much is market driven? Not much

**October 17th, 2014**  
**Geneva**

Alicia Garcia-Herrero  
Chief Economist for Emerging Markets – BBVA  
Research

# Most of what has happened is not market driven

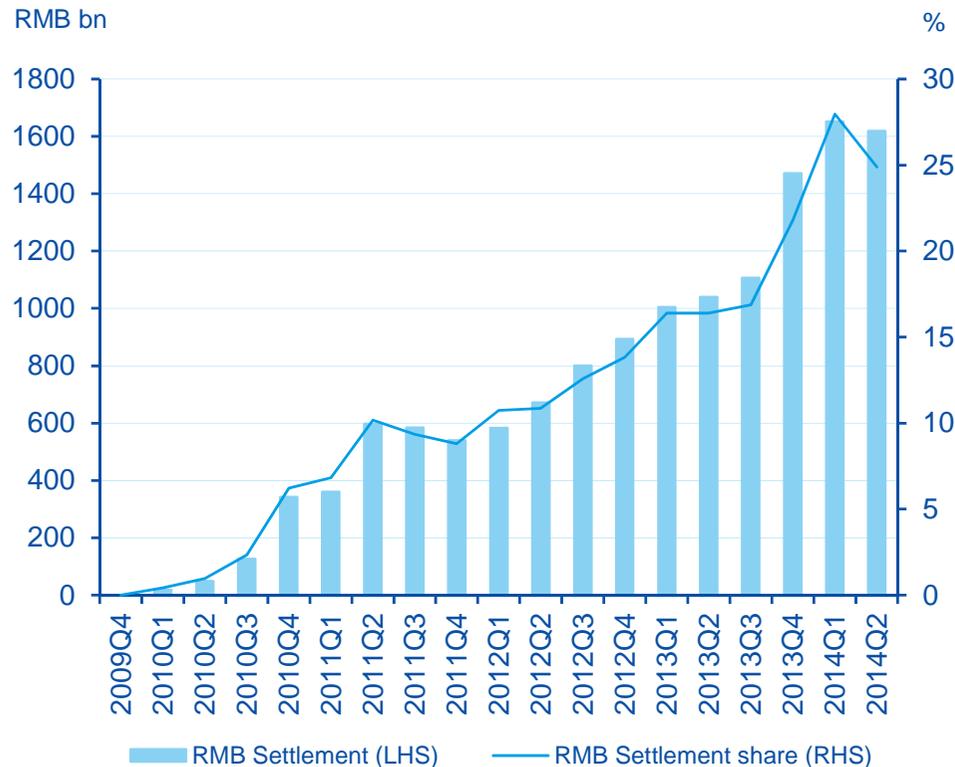
1. Very dependent on RMB value, which is not market driven
2. Swap lines are set by officials
3. Invoicing of trade in RMB “suggested” by importing SOEs (much less for exports)
4. Most of the dim sum bonds by Chinese local governments or SOEs.
4. CBs starting to hold RMBs

# RMB internationalization is continuing

- But very dependent on the RMB value!.

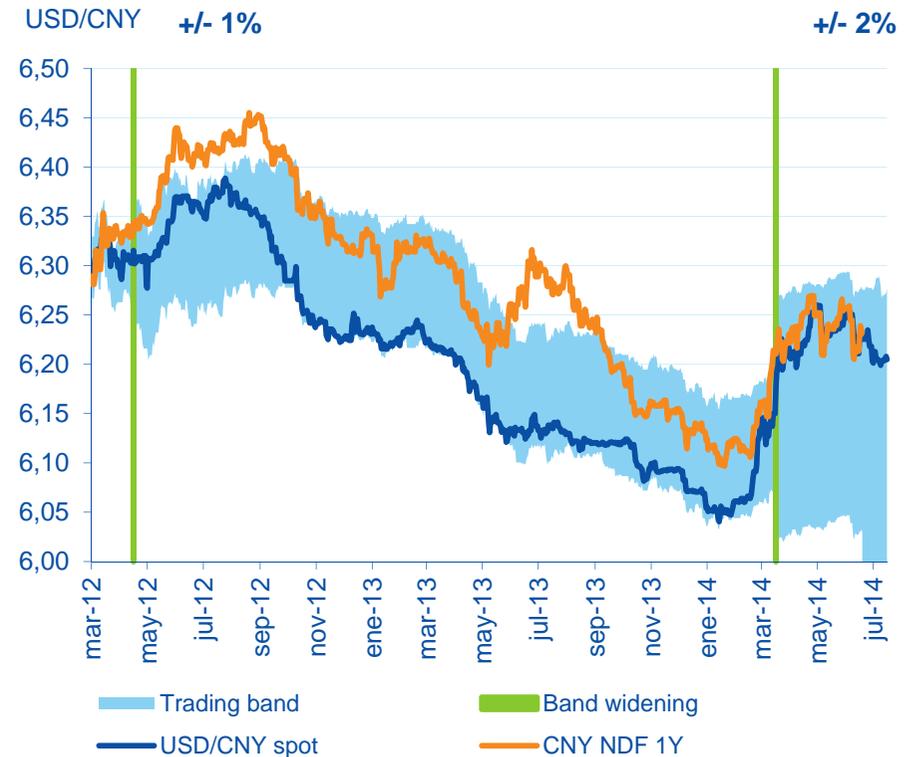
Generally, the percentage of RMB settled trade has increased steadily...

Source: CEIC and BBVA Research



.... however, Q2 decline of RMB settlements is mainly due to the RMB depreciation since March 2014

Source: CEIC and BBVA Research



# BBVA However, reasons not necessarily political: Trade is key

- On RMB swap lines Garcia-Herrero and Xia (2014) analyzes empirically what determines the choice of countries signing an RMB-denominated Bilateral Swap Agreement (BSA) with China:
- The trade motif is very important (no evidence of countries being chosen for “geopolitical” reasons)

Table 4 Determinants of China's RMB BSAs with other countries (as of March 2013)

No. of Obs.		(1) 118	(2) 118	(3) 118	(4) 118	(5) 118
Gravity motif	GDP	0.458** (2.12)				
	DISTANCE	-1.197* (-1.79)	-1.520** (-2.17)	-1.587** (-2.28)	-1.909** (-2.52)	-1.753** (-2.49)
Trade motif	EXP	3.707* (1.70)	4.644* (1.82)	3.116 (1.45)	4.394* (1.71)	3.232 (1.49)
	FTA	1.704** (2.05)	1.905** (2.17)	2.026** (2.35)	1.820** (2.07)	2.034** (2.35)
Financial motif	FDI	44.44 (0.83)	60.28 (0.98)	66.43 (1.02)	66.10 (0.85)	70.64 (0.95)
	CAOP		-0.837** (-2.41)	-0.556* (-1.76)	-0.796** (-2.47)	-0.655** (-2.16)
Macro-economic soundness	INF	-0.049 (-0.52)	-0.000 (-0.07)	-0.043 (-0.52)	-0.001 (-0.10)	-0.001 (-0.07)
	DEFAULT	1.598 (1.46)	3.092*** (2.58)	2.424** (2.12)	2.928** (2.56)	2.447** (2.26)
Institutional motif	GOVQUALITY		1.701*** (2.69)			
	DIF-GOVQUALITY			1.269* (1.95)		
	CORRUP				-1.525*** (-3.05)	
	DIF-CORRUP					1.428*** (2.75)
	_cons	6.327 (1.03)	10.71* (1.74)	10.81* (1.76)	14.24** (2.15)	11.74* (1.94)
	R <sup>2</sup>	0.376	0.413	0.367	0.430	0.407

t statistics in parentheses.

\* p < 0.1, \*\* p < 0.05, \*\*\* p < 0.01.

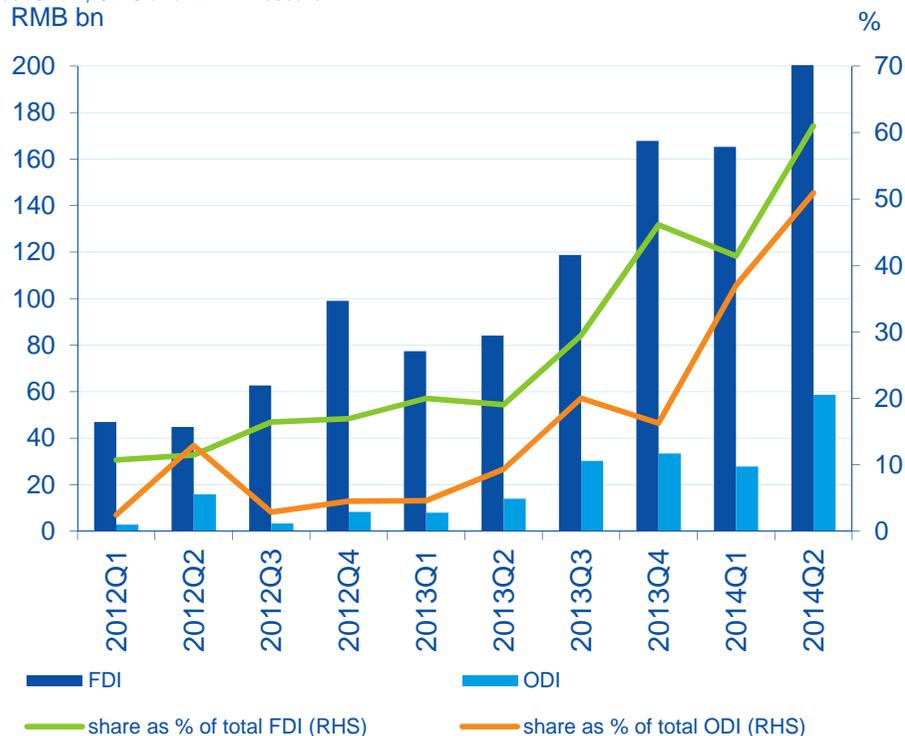
Source: BBVA Research

# The development is also for RMB denominated FDI and ODI

- RMB-denominated FDI and ODI flows have increased substantially over the past year ;
- The share of RMB-denominated FDI rose to 61.6% in Q2 2014, from 18.9% the same period a year ago.
- Meanwhile, the share of FDI outflows denominated in RMB is, not surprisingly, lower at 51.2% as of Q2, but still represents a significant increase from the average level of 5.6% in 2012.

## The share of RMB denominated FDI and ODI increased

Source: SAFE, CEIC and BBVA Research



# Central Banks holding RMB in the region or interested in RMB off-shore

Bank of England first to hold RMB in its reserves in Europe, guess why?

Countries/Economies which announced their inclusion of the RMB in their foreign reserves

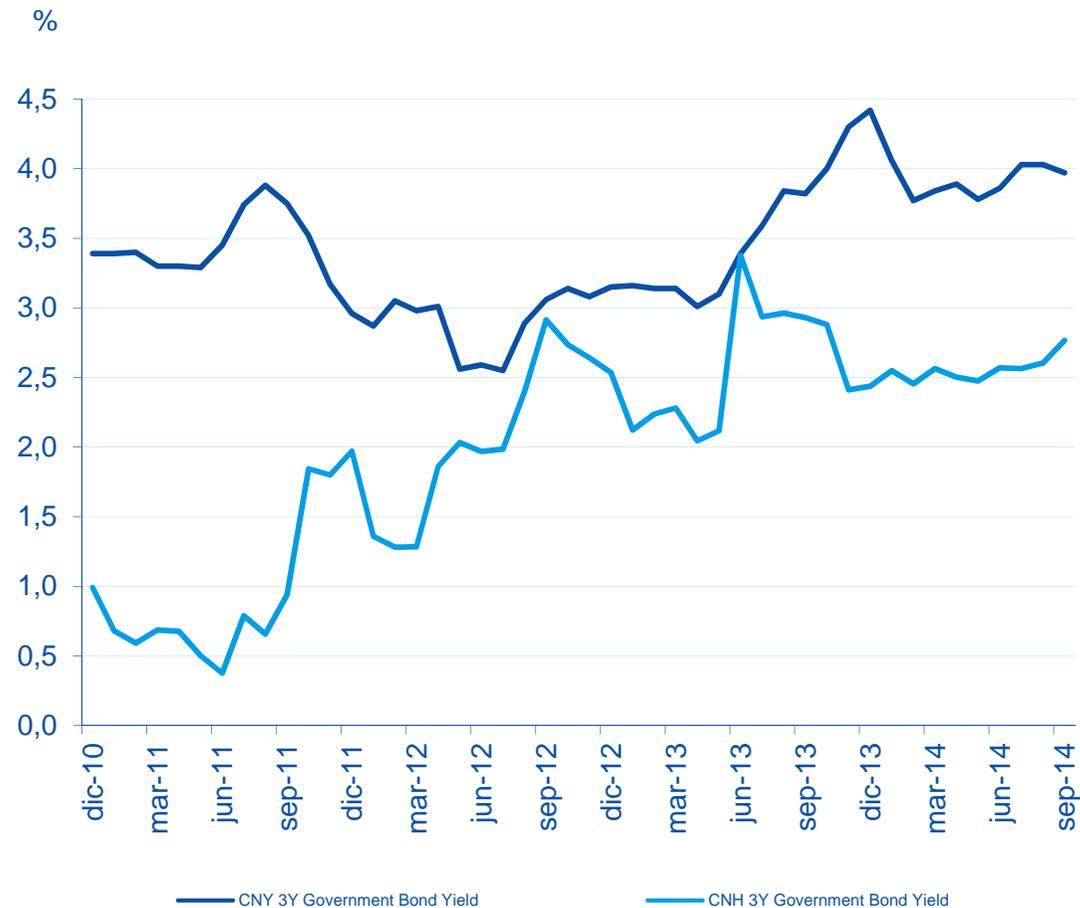
Source: BBVA Research

Announcement Date	Country/Economy	% of RMB Assets in Foreign Reserve
2010 Sep	Malaysia	N.A
2011 May	South Korea	N.A
2011 Sep	Chile	0.30%
2011 Sep	Venezuela	N.A
2011 Nov	Thailand	<1%
2012 Mar	Japan	N.A
2012 Jul	Indonesia	N.A
2013 Apr	Australia	5%
2013 Aug	Belarus	N.A
2013 October	Taiwan	N.A
2013 November	South Africa	3%
2014 January	Nigeria	7%
2014 March	Colombia	N.A
2014 October	UK	N.A.

# Although most of dim sum bond issuance government driven, still pragmatic decision (longer funding cost)

Financing costs are lower in the Dim Sum bond market than onshore market

Source: CEIC, Bloomberg and BBVA Research



# Why would Chinese government want it?

1. Short term, Reminbization of assets...

Not happenening

2. Sharing Chinese liabilities with rest of the world?

Increasingly more relevant as Chinese government and corporates continue to leverage.

**The exorbitant privilege of holding an international currency (i.e., lower funding costs) might –after all – explain the push towards RMB internationalization**

Thank you!

**October 17, 2014**  
**Geneva**

Alicia Garcia-Herrero  
Chief Economist Emerging Markets – BBVA Research