



[2016 White Paper] on RMB Internationalization

RMB Officially Included in the SDR Currency Basket

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[FOREWORD]



- O RMB internationalization continues to move forward in 2016. China's economy maintains medium-to-high speed of growth, steadily gaining a higher share in global trade market. RMB interest rate and exchange rate become more market-oriented and international cooperation in RMB achieves remarkable success this year. Market mechanism plays a more and more important role in RMB internationalization. On one hand, RMB internationalization weaves its way under the combined downside effects of weak global economy's recovery, China's L-shaped economic trend, US interest rate rise expectations and Britain's exit from the EU. On the other hand, RMB internationalization advances in a wave-like pattern with the long-term upward trend supports from China's sustaining economy growth, reforms to facilitate capital account convertibility and two-way opening of the financial market, deeper international financial cooperation and especially RMB officially included by IMF (International Monetary Fund) in SDR (Special Drawing Right) currency basket.
- O The 2016 edition of White Paper on RMB Internationalization outlines the latest developments in RMB internationalization from the prospects of enterprises. The feature of this year's survey is "RMB Officially Included in the SDR Currency Basket", focusing on the reactions of enterprises responding to the RMB as one of the SDR basket currencies and its effects on RMB internationalization.
- O This year's survey covers 3,477 domestic and overseas enterprises, of which domestic enterprises account for 72% and overseas enterprises account for 28%. Representing a larger proportion compared with last year, overseas enterprises are from 41 countries and regions, covering nine countries more than last year. The White Paper on RMB Internationalization exclusively complied by the Bank of China has been issued for four consecutive years since 2013, featuring a large sample size, broad coverage and up-to-date topics. The White Paper provides a unique prospective for domestic and overseas market subjects to understand and study the market trends of RMB internationalization, recognized and supported by all social sectors.



BOTH DOMESTIC AND OVERSEAS MARKET ENTITIES TOOK AN OPTIMISTIC ATTITUDE ON RMB INTERNATIONALIZATION

DOMESTIC AND OVERSEAS ENTERPRISES REMAINED OPTIMISTIC ON THE INTERNATIONAL
CURRENCY STATUS OF RMB 05
NEARLY 70% OVERSEAS ENTERPRISES PLANNED TO USE RMB OR INCREASE THE PERCENTAGE
OF RMB USE 05
RMB USE REMAINS STABLE OUTSIDE MAINLAND CHINA, HONG KONG, MACAU AND
TAIWAN06
THE CHANNEL FOR RMB USE IS STILL COMPARATIVELY CONCENTRATED

NEW POLICIES PROVIDE LONG-TERM SUPPORTS FOR RMB INTERNATION-ALIZATION

• THE MACRO-PRUDENTIAL MANAGEMENT POLICY OF CROSS-BORDER FINANCING WAS
AFFIRMED BY DOMESTIC ENTERPRISES 07
DOMESTIC ENTERPRISES HOPE TO PARTICIPATE IN THE OFFSHORE RMB MARKET 07
DOMESTIC ENTERPRISES EXPECTS THE RMB INTERNATIONALIZATION POLICY WILL EXPAND
TO NEW AREAS 08
RMB INTERNATIONALIZATION INFRASTRUCTURES HAD REMARKABLE
ACHIEVEMENTS
RMB INTERNATIONALIZATION GAINED IN-DEPTH DEVELOPMENT IN FIELDS RELATED TO
FREE-TRADE ZONES (FTZS) 09
• RMB PRODUCTS COVERED BROADER AREAS ALONG THE "BELT AND ROAD" 09
RMB HAS BUILT A FIRMER FOUNDATION AMONG FORTUNE 500 COMPANIES 10
• RMB HAS STRENGTHENED ITS FUNCTION AS AN INTERNATIONAL PRICING CURRENCY 10
• RMB MAY BECOME AN IMPORTANT SUPPLEMENT FOR INTERNATIONAL LIQUIDITY 11
SPECIAL TOPIC: RMB OFFICIALLY INCLUDED IN THE SDR CURRENCY
BASKET
• THE CONTINUED FINANCIAL REFORM OF CHINA BUILT THE SOLID FOUNDATION FOR RMB
BEING INCLUDED IN SDR CURRENCY BASKET14
• INCLUSION OF RMB IN SDR BASKET HAS RAISED THE INTERNATIONAL STATUS OF RMB 14
• MORE ENTERPRISES PAY MORE ATTENTION TO THE RMB EXCHANGE RATE CHANGES
AGAINST A BASKET OF CURRENCIES 15
• CROSS-BORDER RMB USE UNDER CAPITAL ACCOUNT HAS BECOME A NEW IMPETUS TO RMB
INTERNATIONALIZATION 16
OVERSEAS ENTERPRISES HAVE A POSITIVE ATTITUDE TO PARTICIPATE IN THE RMB FINAN-
CIAL MARKET 17

APPENDIX: EXPLANATION OF SURVEY SAMPLES

BOTH DOMESTIC AND OVERSEAS MARKET ENTITIES TOOK AN OPTIMISTIC ATTITUDE ON RMB INTERNATIONALIZATION

■ With the interest rate generally deregulated and the RMB central parity exchange rate regime reformed, the market operation mechanism for RMB internationalization is further improved and the market plays a stronger role in improving resource allocation in 2016. RMB internationalization fluctuates in the short term as the market environment changes, while the fundamentals of RMB internationalization improves continuously, underlying the long-term upbeat prospects of RMB internationalization.

• Domestic and overseas enterprises remained optimistic on the international currency status of RMB

■ About 42% of domestic and overseas respondents believe that RMB may become an international currency with a status close to US dollar and Euro and about 30% believe that RMB may become an international currency with a status and role close to Japanese yen and British pound, suggesting that 72% of respondents have positive expectations of the international currency status of RMB, basically the same as last year.

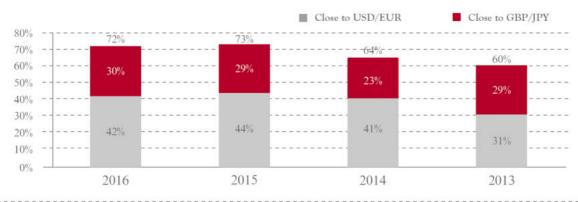


Fig. 1: Expectations for the International Currency Status of RMB

- Nearly 70% overseas enterprises planned to use RMB or increase the percentage of RMB use
- The survey shows that, though affected by the combined downside effects of weak global economy, US interest rate rise expectations and Britain's exit from the EU, 67% of overseas respondents plan to use RMB or increase the percentage of RMB use in cross-border trade, keeping a high level during these years.

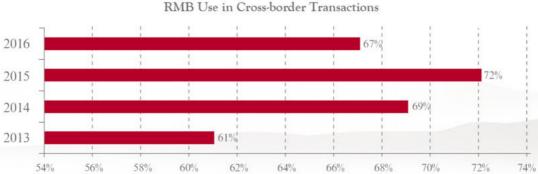


Fig. 2: Percentage of Overseas Enterprises Planning to Use RMB or Increasing

RMB use remains stable outside Mainland China, Hong Kong, Macau and Taiwan

- The survey results show that 68% of overseas respondents have conducted cross-border RMB transactions with mainland China, up 9 percentage points from last year, while a significantly lower portion of cross-border RMB transactions are conducted with Taiwan, Hong Kong and Macau.
- RMB used outside mainland China, Taiwan, Hong Kong and Macau is as broadly as last year. 5% of overseas respondents have conducted cross-border RMB transactions with Japan, South Korea and ASEAN and 7% of overseas respondents conducted cross-border RMB transactions with Europe, up 1 and 2 percentage points from last year respectively.



Fig. 3: Geographic Distribution of Counterparties in Cross-border RMB Settlement

• The channel for RMB use is still comparatively concentrated

■ About 77% of overseas respondents would convert their RMB revenue into US dollar or local currencies, while the percentage of overseas respondents that would continue to hold RMB in the form of deposit, invest in RMB bonds, and invest in RMB equity were 13%, 3% and 3% respectively.

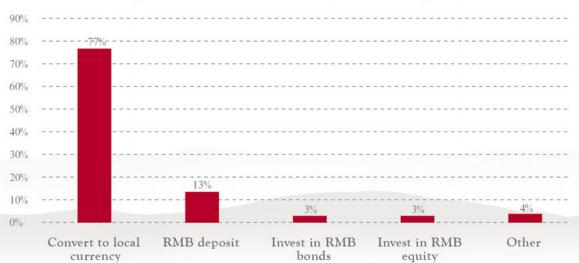
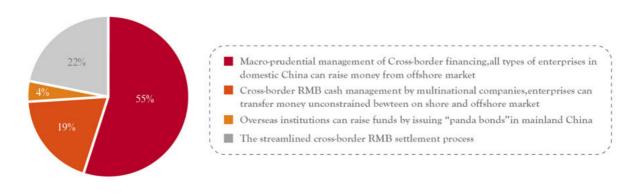


Fig. 4: Channels for RMB Use Held by Overseas Enterprises

NEW POLICIES PROVIDE LONG-TERM SUPPORTS FOR RMB INTERNATIONALIZATION

- The macro-prudential management policy of cross-border financing was affirmed by domestic enterprises
- The survey results show that of main RMB international polices, the macro-prudential management policy of cross-border financing was fully affirmed by domestic respondents, 55% of which acknowledge this policy's positive effect in promoting operating activities of companies.
- According to the macro-prudential management policy, the upper limit of cross-border financing risk-weighted balance of an enterprise is calculated and adjusted in accordance with leverage and macro-prudential coefficient, basing on the entities' capital or net assets. Enterprises have the discretion to raise RMB or foreign currency denominated financing from offshore market. This policy cancels the approval requirements of cross-border financing and grants enterprises more autonomy in cross-border financing, applauded broadly among enterprises.

Fig. 5: Domestic Enterprises' Interest in and Recognition of Cross-border RMB Policy



- Domestic enterprises hope to participate in the offshore RMB market
- 25% of domestic respondents hope to participate in foreign exchange settlement and sales in offshore RMB market and 20% of domestic respondents hope to participate in RMB derivatives activities in offshore RMB market, indicating that about 45% of domestic respondents express their willingness of participating in offshore RMB market.
- About 30% of domestic respondents expect the policies of permitting RMB denominated investment in overseas assets market by domestic individuals to be launched, reflected the strong demand for individuals investing in overseas investments and property.

Fig. 6: Domestic Enterprises' Expectations of the RMB Internationalization Policy in the Next Phase



- Domestic enterprises expects the RMB internationalization policy will expand to new areas
- Though RMB internationalization is a market-driven process, the survey results show that 41% of domestic respondents expect RMB internationalization policies to be further issued and deepened.
- A series of policies on RMB cross-border use issued by regulatory authorities have a common feature of gradually reducing restrictions and increasing the convenience of cross-border RMB use. Such policies provide room for the market mechanism to play a bigger role. In that sense, domestic enterprises' expectations for policies is reflection that market mechanism is playing a more important role in RMB Internationalization process.

Fig. 7: Domestic Enterprises' Suggestions on "Expanding Cross-border RMB Use"

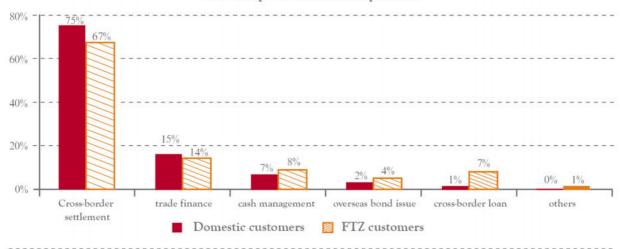


RMB INTERNATIONALIZATION INFRASTRUCTURES HAD REMARKABLE ACHIEVEMENTS

- RMB internationalization gained in-depth development in fields related to free-trade zones (FTZs)
- Compared with the total samples of domestic respondents, a higher proportion of FTZ enterprises use global cash management, overseas bond issue, cross-border loan and other products than domestic enterprises, suggesting that FTZ relevant policies better satisfied enterprises' diversified demand for cross-border RMB services. That facilitates in-depth development of RMB internationalization and lays a more solid foundation among customer groups.

Fig. 8: Use of RMB Internationalization Products by FTZ Enterprises versus

Total Sample of Domestic Respondents



- RMB products covered broader areas along the "Belt and Road"
- In recent years, Chinese banks have increasingly intensified efforts in establishing outlets in countries along the "Belt and Road", where Chinese enterprises see their overseas direct investments growing fast. Those factors provide an impetus to the use of RMB products and services along the "Belt and Road".
- This survey shows that 74% of respondents along the "Belt and Road" have easy access to RMB products and services locally, up 2 percentage points from last year, showing continued improvements in the coverage of RMB products and services along the "Belt and Road".

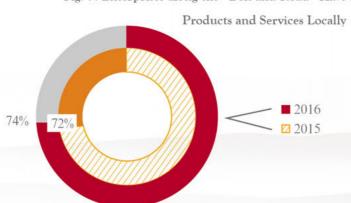


Fig. 9: Enterprises along the "Belt and Road" Have Easy Access to RMB

• RMB has built a firmer foundation among Fortune 500 companies

■ The survey results show that Fortune 500 companies are more optimistic on the future international currency status of RMB and more willing to increase the use of RMB. Furthermore, Fortune 500 companies have stronger intent to hold RMB assets than the total overseas respondents in average. Overall, Fortune 500 companies are gradually becoming a customer group that uses cross-border RMB more actively.

Fig. 10: Fortune 500 Companies' Expectations of the International Currency Status of RMB & Their Use of RMB

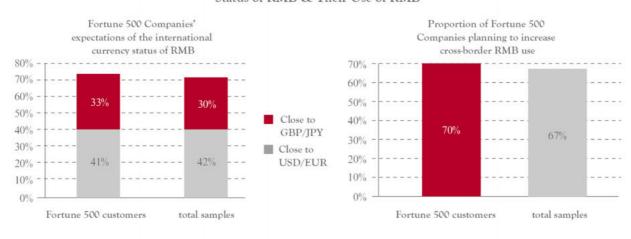
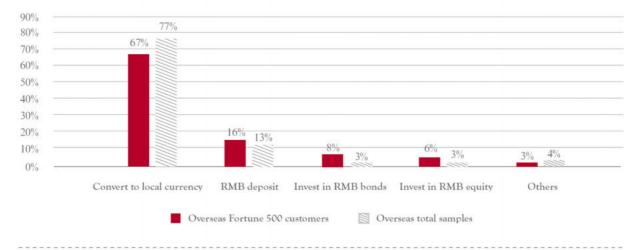


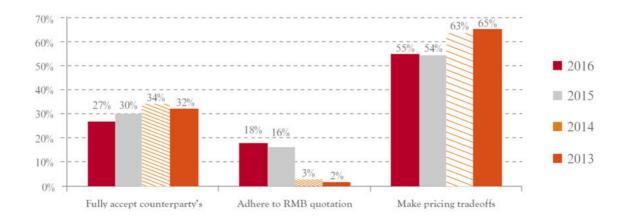
Fig. 11: Channels for RMB Use by Overseas Fortune 500 Companies



RMB has strengthened its function as an international pricing currency

• At the micro level, the pricing currency function of RMB translates into enterprises' capacity to adhere to RMB denominated-price and pass on the risk of exchange rate changes in cross-border transactions. If enterprises fully accept the quotation from counterparties and expose themselves to exchange rate risk, RMB does not exercise its pricing currency function, though cross-border transactions still can be settled in RMB. ■ The 2016 market survey shows that 27% of domestic respondents fully accept quotation in the currency designated by the counterparty and take the risk of RMB exchange rate fluctuations, a percentage down for three consecutive years. 18% of domestic respondents adhere fully to RMB quotation, a percentage on the rise for three consecutive years, indicating that the pricing currency function of RMB is improving at the micro level, more and more enterprises adhere to the RMB-denominated quotation and RMB internationalization is increasingly manifesting its positive effect in mitigating the exchange rate risk of enterprises.

Fig. 12: Pricing Strategy of Domestic Enterprises Given RMB Exchange Rate
Fluctuations



• RMB may become an important supplement for international liquidity

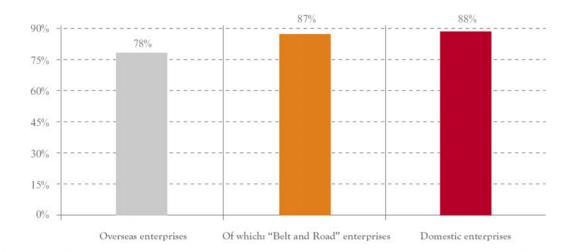
■ Though the central banks of the US and major European countries, Japan continue an easy monetary policy, the current landscape of easing international liquidity might be changed as the US economy is showing signs of recovery and the expectations of US dollar interest rate rise are growing.

When asked if RMB will be used as an alternative option given tightening global liquidity in the future, both domestic and overseas respondents give a positive answer. About 78% overseas respondents confirm that they will consider using RMB as an alternative option if the liquidity of USD dollar or other major international currencies is tightened in the future.

■ Of enterprises along the "Belt and Road", 87% of respondents will consider using RMB as a supplement for international liquidity.

■ The survey results show that RMB has been recognized by most overseas enterprises as an important supplement for international liquidity, which leads to the preliminary judgment that RMB will increase its function as a global public product which will be used to smoothen the substantial fluctuations in international liquidity and mitigate the subsequent turmoil in the international global market.

Fig. 13: Proportion of Enterprises Considering RMB as International Liquidity Supplement









SPECIAL TOPIC: RMB OFFICIALLY INCLUDED IN THE SDR CURRENCY BASKET

- The continued financial reform of China built the solid foundation for RMB being included in SDR currency basket
- In recent years, China's economic and financial reform achieved active results. RMB interest rate liberalization and RMB exchange rate regime reform continued to advance, the opening of financial market and the infrastructure of cross-border RMB settlement and clearing achieved significant progress, and the data submission standard and transparency were well improved. These all contributed to the inclusion of RMB as SDR basket currency.
- Providing representative RMB interest rate and exchange rate.

For RMB interest rate, the yield of three-month Chinese government bonds is used in the calculation of the SDR interest rate. For RMB exchange rate, the representative exchange rate of the RMB is the RMB exchange rate against the U.S dollar posted at 16:00 pm by the China Foreign Exchange Center (CFETS). The Bank of England provides the RMB exchange rate against the U.S. dollar at noon in the London market, as its value determination exchange rate. From 4th of Jan 2016, the trading system running time of China Foreign Exchange Center was prolonged. The RMB central parity exchange rate and floating range and market management system applying time of and market maker quotation were both expanded too.

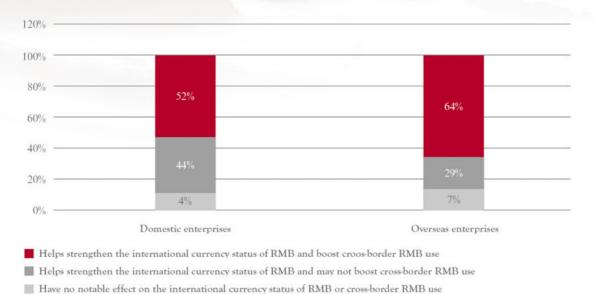
- Opening up Chinese inter-bank bond market and foreign exchange market.
- On July and September 2015, People's Bank of China (PBOC) issued the policies on access of foreign central banks and international financial institutions and sovereign wealth funds to the inter-bank bond market and foreign exchange market. On February 2016, PBOC opened up inter-bank bond market to foreign private institutions. On April 2016, PBOC further cleared the operation procedure for foreign central banks and similar institutions to access to the above mentioned markets.
- The infrastructure of cross-border RMB settlement and clearing achieved significant progress, and the data submission standard and transparency were well improved.

The phase one of RMB Cross-border Inter-bank Payment System (CIPS) started operation on 8 October 2015, which greatly enhanced the clearing and payment efficiency for financial institutions in the cross-border RMB and offshore RMB business. In data submission, China officially adopted the Special Data Dissemination Standard (SDDS) of IMF. In addition, China actively participate in the Currency Composition of Official Foreign Exchange Reserves (COFER) investigation and Coordinated Portfolio Investment Survey (CPIS) held by IMF and submit the required data to the International Banking Statistics (IBS) of Bank for International Settlements (BIS).

Inclusion of RMB in SDR basket has raised the international status of RMB

■ The International Monetary Fund (IMF) officially included RMB in the Special Drawing Rights (SDR) basket on October 1st 2016. Around 93% of domestic respondents and 96% of overseas respondents believe that the inclusion of RMB in SDR helps strengthen the international currency status of RMB.

Fig. 14: Influence of SDR Inclusion of RMB on the International Status and Cross-border Use of RMB

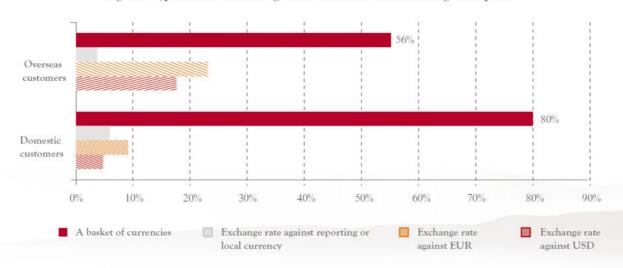


■ The survey shows that 64% of domestic enterprises and 52% of overseas enterprises believe that the SDR inclusion of RMB helps strengthen the international currency status of RMB and further boost cross-borderRMB use.

• More enterprises pay more attention to the RMB exchange rate changes against a basket of currencies

• An important part of the RMB exchange rate regime reform is to emphasize changing the perspective of observing RMB exchange rate and strengthening the pegging to a basket of currencies in an effort to improve the RMB stability to a basket of currencies. Therefore, the market survey for 2016 looked into enterprises' perspective of RMB exchange rate observation.

Fig. 15: Types of RMB Exchange Rate Most Concerned among Enterprises



The survey results show that the RMB exchange rate against a basket of currencies is the biggest concern of over 50% of overseas respondents and 80% of domestic respondents. A low proportion of overseas respondents pay attention to the RMB/USD exchange rate, RMB/EUR exchange rate or RMB exchange rate against reporting or local currency. With the RMB middle price regime reform advancing, RMB value will fluctuate more widely against US dollar and domestic and overseas enterprises have paid more attention to the RMB exchange rate against a basket of currencies, thereby assessing RMB exchange rate changes more comprehensively.

• Cross-border RMB use under capital account has become a new impetus to RMB internationalization

■ This year, the RMB settlement growth under goods trade is slowing down, while the RMB use under capital account is surging. In the first 3 quarters of 2016, cross-border RMB payments under capital account accounted for 44% of total cross-border RMB payments in the same period, up 3 percentage points from 2015.

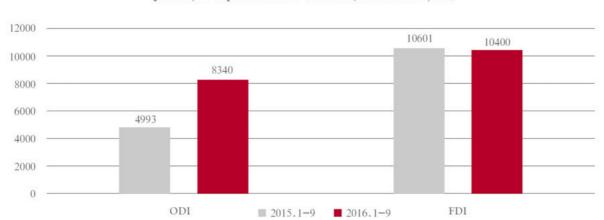
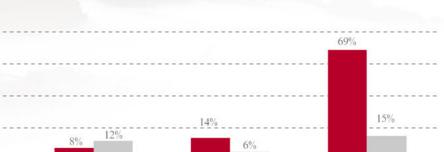


Fig. 16: The Scale of RMB Settlement in Direct Investments (January to September 2015 and 2016, 100 million yuan)

- RMB direct investments grew fast under capital account. In particular, China's overseas direct investment (ODI) kept growing rapidly at a year-on-year rate of 67% in the first 3 quarters of 2016, far beyond the year-on-year growth rate of of foreign direct investment (FDI) in the same period. If this trend continues, future direct investments might be net RMB outflows to further expand the size of cross-border RMB use.
- Compared with the survey results in 2015, the proportion of enterprises seeing fast growth in cross-border trade settlement fell considerably, while the proportion of enterprises confirming rapid growth in cross-border direct investment rose by 8 percentage points and nearly 70% of respondents acknowledge rapid growth in cross-border RMB payments other than cross-border trade settlement, financing settlement and direct investment settlement. The survey results show that cross-border capital flows are growing fast and, what's more, might be used for more complicated and diverse purposes. Therefore, strengthening the monitoring of cross-border capital flows is becoming more and more important.



Cross-border direct investment

Others

Fig. 17: Cross-border RMB Payments by Type

• Overseas enterprises have a positive attitude to participate in the RMB financial market

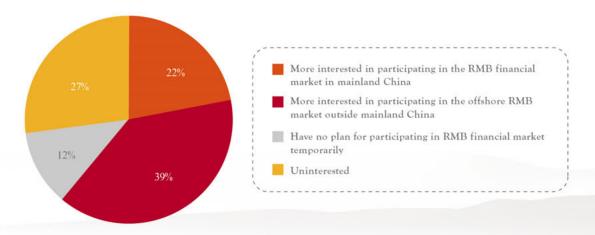
■ 2016

■ 2015

Cross-border financing

- Cross-border RMB capital flows are more frequent and overseas RMB funds are more eager to participate in the domestic RMB financial market. Following the expansion of overseas investor groups in the inter-bank bond market, PBOC issued a policy in 2016 to encourage overseas institutional investors to invest in the inter-bank bond market as medium- and long-term investors. China's financial market has been further opened up.
- Over 60% of overseas respondents are interested in participating in the RMB financial market. Specifically, 22% of enterprises are more interested in participating in the domestic RMB financial market and 39% of overseas respondents are more interested in participating in the offshore RMB market. Investors' active participation in onshore and offshore market help increase the two-way openness of the financial market, increase the size and efficiency of the RMB financial market and better serve RMB internationalization.

Fig. 18: Purpose of Overseas Enterprises to Participate in the RMB Financial Market



80%

60%

40%

20%

0%

66%

9%

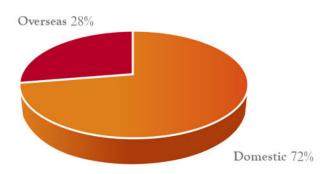
Cross-border trade settlement

APPENDIX: EXPLANATION OF SURVEY SAMPLES

Overview of samples

■ This survey received valid response from 3,477 enterprises, a number same as the previous year. Specifically, there are 2,520 domestic respondents, accounting for 72% of total, and 957 overseas respondents, accounting for 28%. Overseas respondents are from 41 countries or regions, 9 more than last year.

Fig. 1: Overview of Samples

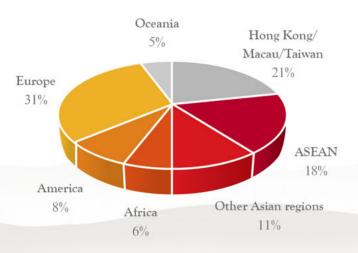


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Distribution of overseas respondents by region

Overseas respondents are broadly distributed, mainly in Europe, Hong Kong, Macau, Taiwan and the Asia
 Pacific, basically covering main areas of RMB use at present.

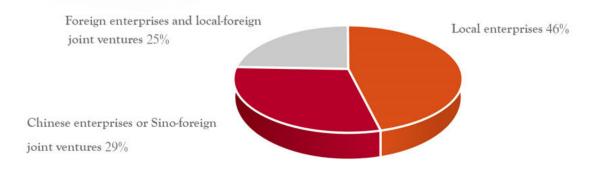
Fig: 2. Distribution of Overseas Respondents by Region



Distribution of overseas respondents by nature

■ Of overseas respondents, local enterprises account of the largest percentage of 46%, followed by Chinese enterprises or Sino-foreign joint ventures accounting for 25%. Other foreign enterprises account for about 29% of total.

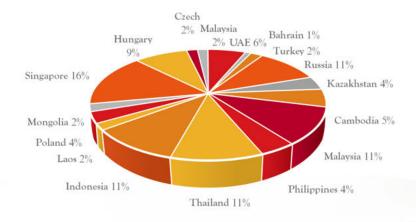
Fig. 3: Distribution of Overseas Respondents by Nature



Distribution of respondents along the "Belt and Road"

■ In this survey, overseas institutions of BOC distributed the questionnaire to 238 enterprises in 17 countries along the "Belt and Road", namely, Mongolia, Russia, Kazakhstan, Turkey, UAE, Bahrain, Poland, Hungary, Czech, Singapore, Thailand, Philippines, Malaysia, Indonesia, Myanmar, Cambodia and Laos.

Fig. 4: Distribution of Respondents along the "Belt and Road"



RMB Officially Included in the SDR Currency Basket



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