

Renminbi banking business in Hong Kong

by the External Department

Hong Kong's renminbi banking business was launched in early 2004 to facilitate cross-border tourist spending and to further strengthen economic integration between Hong Kong and the Mainland. The services cover renminbi deposit-taking, exchange, remittance and bank cards. The business has grown steadily in the past year, but further development depends on the pace of financial liberalisation on the Mainland.

Introduction

February 2005 marked the first anniversary of the launch of renminbi banking business in Hong Kong, which opened up a new channel for the flow of renminbi funds between Hong Kong and the Mainland through the banking system. The clearing arrangement was also the first of its kind outside Mainland China.

This article provides an initial assessment of the business for the banking industry, its clients, and the supervisory authorities. It paves the way for a discussion of where the service can be improved and ways to expand the scope of business at a pace that is consistent with financial system reforms on the Mainland.

Background

Before 1993, circulation of the renminbi outside Mainland China was not allowed and tourists were required to convert all renminbi into foreign currencies when travelling abroad. The restriction was lifted in March of that year when individuals were allowed to take cash of not more than RMB6,000 yuan into or out of the Mainland each time they travelled. This limit was raised to RMB20,000 yuan from 1 January 2005. Over time, this has resulted in a build up of renminbi banknotes outside the Mainland. Cash exchange markets for renminbi also developed in many neighbouring economies,

including Hong Kong, as local residents considered it more convenient to exchange between their local currencies and renminbi at home rather than on the Mainland.

Because there was no lawful way to channel renminbi back to the Mainland through the banking system, the renminbi cash exchange markets that developed in neighbouring economies were segregated from the official foreign exchange market on the Mainland. Exchange rates in different places deviated from the official Mainland rates, while many of the renminbi cash exchange markets were dominated by moneychangers that were generally subject to less stringent supervision than banks.

Towards the end of 2001, the People's Bank of China (PBoC) and the Hong Kong Monetary Authority started discussions to establish a legitimate channel that allowed renminbi cash circulating in Hong Kong to flow back to the Mainland. After two years, the PBoC announced on 18 November 2003 its agreement to provide clearing arrangements for banks in Hong Kong that engaged in four types of personal renminbi business: deposit-taking, exchange, remittance, and bank cards. Through a competitive bidding process, the Bank of China (Hong Kong) Limited was chosen and appointed by the PBoC on 31 December 2003 as the Clearing Bank for renminbi business in Hong Kong for a period of three years.

The first phase was launched on 18 January 2004, just before Chinese New Year, when shops and ATM machines in Hong Kong began accepting debit and credit cards issued by banks on the Mainland. The second phase started on 25 February 2004, with banks in Hong Kong launching deposit-taking, currency exchange and remittance services to customers. The third phase, on 30 April 2004, saw banks offering renminbi debit and credit cards to customers for use on the Mainland.

Arrangements for renminbi business in Hong Kong

Participating Banks

Banks in Hong Kong can participate in any, or all, of the four types of renminbi business after entering into settlement agreements with the Clearing Bank. Mainland authorities still maintain restrictions on cross-border renminbi fund flows and these restrictions are stipulated in the settlement agreements as conditions for renminbi clearing services. Banks participating in renminbi business in Hong Kong may enter into settlement agreements with the Clearing Bank voluntarily.

According to the agreements, Participating Banks have their renminbi funds from customer deposits placed in interest-bearing settlement accounts at the Clearing Bank. No renminbi lending can be provided by the Participating Banks. Terms and interest rates on deposits may be determined by Participating Banks at their discretion. For renminbi positions resulting from the provision of exchange business to customers, Participating Banks square these positions with the Clearing Bank within a reasonable period of time.

Clearing Bank

The Clearing Bank is the conduit through which renminbi is “repatriated” to China. It maintains an account with the Shenzhen Branch of the PBoC and places renminbi deposits collected from Participating Banks into this account. The Clearing Bank pays interests to Participating Banks at a rate that is

based on the interest rate on deposits paid to the Clearing Bank by the PBoC. The Clearing Bank is also entitled to a special membership at the China Foreign Exchange Trade System, where it may square the renminbi positions from the exchange business of Participating Banks.

Individual clients

Participating Banks can offer renminbi deposit accounts to Hong Kong residents (such as Hong Kong Identity Card holders), with no limit on deposit or withdrawal amounts. Individuals can also exchange renminbi into Hong Kong dollars, or vice versa, for an amount of not more than the equivalent of RMB6,000 yuan per person per transaction, if the exchange is made in cash, and for an amount of not more than RMB20,000 yuan per person per day, if the exchange is made through a deposit account. Depositors can remit renminbi from Hong Kong to “personal savings accounts” (個人儲蓄賬戶) under the same name at banks on the Mainland, subject to a daily remittance limit of not more than RMB50,000 yuan per person. The unused portion of such outward remittance can be remitted back to renminbi accounts in Hong Kong under the same name. Verification is required but there is no time constraint or daily limit for the remittance of unused renminbi funds. Participating Banks can issue debit and credit cards to Hong Kong residents for use on the Mainland, with maximum credit limits of RMB100,000 yuan.

Corporate clients

Shops in Hong Kong can join the China Unionpay system and accept renminbi debit and credit cards issued by Mainland banks for use at point-of-sale. ATM machines in Hong Kong can also support the withdrawal of Hong Kong dollar banknotes of not more than the equivalent of RMB5,000 yuan, by using renminbi bank cards. Participating Banks can offer a one-way exchange service to designated merchants engaged in personal tourism or consumer services, such as shopping, catering and accommodation, for exchange of their renminbi cash receipts into Hong Kong dollars without any daily limit.

Business turnover

The launch of renminbi business in Hong Kong has been smooth. The response from the public has been positive and the amount of renminbi deposits has been growing steadily. At the end of 2004, 38 banks in Hong Kong were participating in renminbi business, including nearly all the major retail banks. The latest development in renminbi business is summarised below.

Deposits

At the end of 2004, outstanding renminbi deposits in Hong Kong amounted to RMB12.1 billion yuan, with 55% in time deposits (Table 1). Some 277,008 accounts were opened, with an average deposit size of RMB43,781 yuan. Interest rates offered by major banks in Hong Kong for renminbi savings deposits ranged from 0.46% to 0.51% in 2004. After an initial surge due to pent-up demand, the growth of renminbi deposits stabilised before picking up again in October and November amid higher market expectations of a renminbi appreciation (Chart 1). Nevertheless, the size of renminbi deposits in Hong Kong remains limited, accounting for 0.3% of the total deposits in Hong Kong at the end of 2004 (Chart 2).

CHART 1

Total outstanding and average balance of RMB deposits

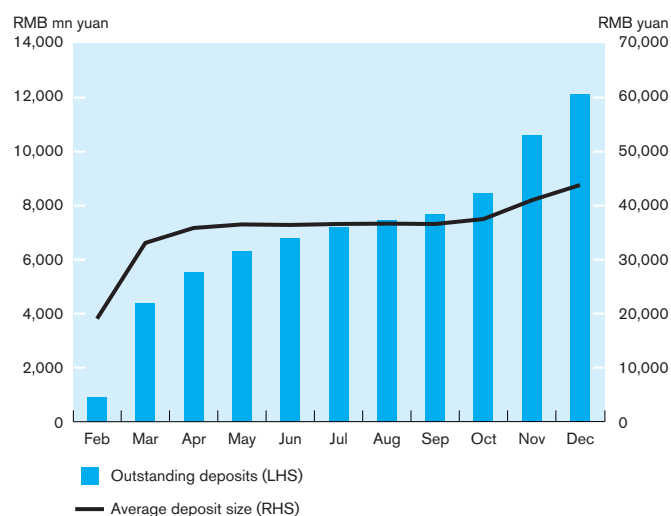


CHART 2

Share of renminbi deposits in Hong Kong

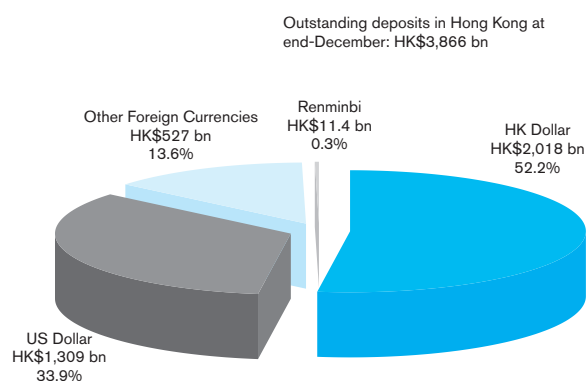


TABLE 1

Renminbi deposits in Hong Kong

As at the end of	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Outstanding balance (RMB million yuan)	895	4,394	5,546	6,298	6,803	7,177	7,455	7,669	8,433	10,582	12,128
Time deposits (RMB million yuan)	191	2,298	3,040	3,551	3,950	4,244	4,430	4,533	4,829	5,777	6,710
Savings deposits (RMB million yuan)	704	2,096	2,506	2,747	2,853	2,933	3,025	3,136	3,604	4,805	5,418
Average deposit size (RMB yuan)	19,052	33,071	35,834	36,489	36,391	36,571	36,638	36,565	37,476	40,961	43,781
Average interest rates offered by major banks during the month (% p.a.)											
Savings	0.51%	0.51%	0.51%	0.51%	0.48%	0.48%	0.48%	0.48%	0.46%	0.46%	0.46%
1-month deposits	0.57%	0.57%	0.57%	0.57%	0.59%	0.59%	0.61%	0.61%	0.60%	0.60%	0.60%
3-month deposits	0.57%	0.57%	0.58%	0.58%	0.60%	0.59%	0.61%	0.61%	0.60%	0.60%	0.60%

Exchange

The demand for the renminbi exchange service stems mainly from individual customer needs to open renminbi deposit accounts. Since the start of renminbi business, and up to the end of 2004, individual customers sold an equivalent of RMB12.1 billion yuan of Hong Kong dollars for renminbi through the Hong Kong banking system, while individuals sold RMB1.9 billion yuan for Hong Kong dollars (Table 2 and Chart 3). The business for one-way conversion (from the renminbi to the Hong Kong dollar) offered to designated merchants remains limited, with a total of RMB775 million yuan sold to the banking system in exchange for Hong Kong dollars.¹ In summary, there was a net inflow of RMB9.4 billion yuan (US\$1.1 billion equivalent) into the Mainland.

Since the introduction of renminbi business, banks in Hong Kong have offered much narrower spreads for renminbi exchange rates. This has helped attract more cash exchange business involving renminbi to be channelled through the banking system (Chart 4).

Remittances

Remittances from Hong Kong to the Mainland, since the launch of business and up to the end of 2004, totalled RMB263 million yuan, with the size of each

CHART 3

Currency exchange in renminbi

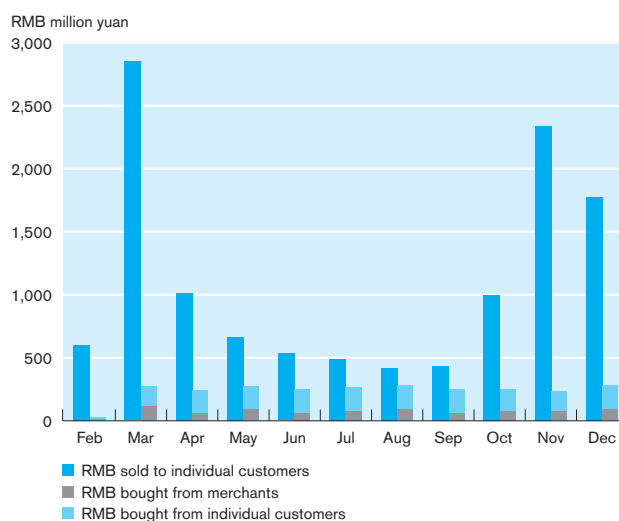
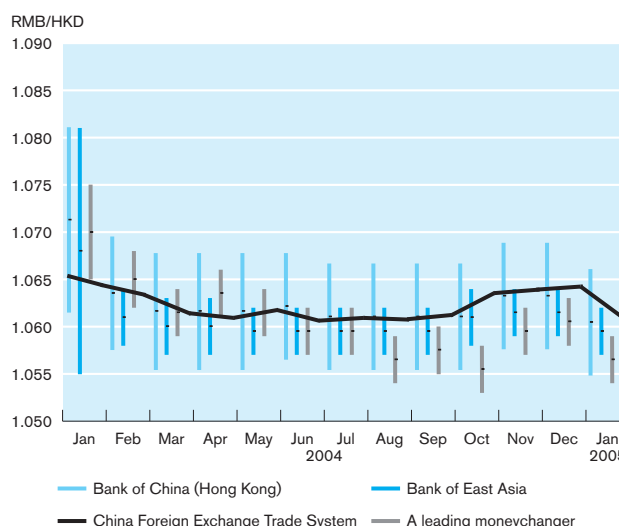


CHART 4

Renminbi exchange rates in Hong Kong



Source: Hong Kong Economic Times

TABLE 2

Currency exchange in renminbi in Hong Kong

	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Renminbi converted into HK dollars	26	272	242	274	251	269	283	253	247	234	284
by individuals	17	162	177	191	193	194	199	195	171	164	197
by merchants	9	110	65	83	58	75	84	58	76	70	87
(RMB million yuan)											
HK dollars converted into renminbi (RMB million yuan)	600	2,838	1,009	656	529	484	416	430	987	2,334	1,769

¹ The weak demand for services by designated merchants may reflect the current restriction that renminbi deposit-taking services are provided only to individuals.

transaction averaging RMB41,635 yuan in December 2004² (Table 3). Total remittances from the Mainland to Hong Kong was negligible.

Credit and debit cards

There has been a steady increase in the use of renminbi debit and credit cards by Mainland tourists in Hong Kong since the service began. By the end of 2004, Mainland tourists had spent HK\$2,152 million using renminbi debit and credit cards in Hong Kong and had withdrawn HK\$782 million from ATM machines in Hong Kong. During the week of the National Day holidays in October 2004, renminbi debit and credit card spending at point-of-sale in Hong Kong amounted to HK\$89.4 million, while ATM withdrawals totalled HK\$34.3 million. The average size of debit or credit card spending by Mainland tourists was HK\$2,989 per transaction. This was much higher than the average transaction size of other overseas tourists in Hong Kong.

The clearing arrangements for the use of renminbi cards by Hong Kong residents on the Mainland were completed on 30 April 2004. By the end of 2004, there were six Participating Banks offering renminbi cards to Hong Kong residents. Total spending at point-of-sale and ATM withdrawals amounted to RMB64.26 million yuan.

Concluding remarks

The launch of renminbi business in Hong Kong represents the first pilot scheme by Mainland authorities to provide renminbi clearing arrangements beyond the borders. It is an important step in the further liberalisation of Mainland China's financial system and in the development of the renminbi as a widely acceptable currency for international trade and financial transactions. The HKMA will continue its dialogue with Mainland authorities to improve the services provided in Hong Kong.

TABLE 3
Renminbi remittance

	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Remittance from HK to the Mainland											
Amount (RMB million yuan)	0.58	18	17	18	23	23	26	28	30	34	44
No. of transactions	89	512	468	482	615	603	674	728	752	1,293	1,066
Average size (RMB yuan)	6,461	35,863	36,229	37,537	37,720	37,504	39,288	38,981	39,281	26,315	41,635

² The relatively weak demand for remittance services may be related to the requirement that the remittances can only be sent to the Mainland bank account bearing the same name. This may have limited demand for the service, as current demand for remittances in foreign currency stems primarily from the need to settle payments related to cross-border trade.