

# Renminbi trade settlement pilot scheme

by the External Department

The launch of the pilot scheme for cross-border trade settlement in renminbi (the Pilot Scheme) on 6 July 2009 was a significant milestone in the continuing development of renminbi business in Hong Kong. The scope of renminbi banking has been expanded with authorized institutions now offering a range of services for trade enterprises using renminbi as the settlement currency for their trades with Mainland China. This article gives an overview of the Pilot Scheme and the related arrangements in Hong Kong.

## The Pilot Scheme in brief

The “Administrative Rules for the Pilot Scheme for Settlement of Cross-border Trade in Renminbi”, promulgated on 1 July by the People’s Bank of China together with other Mainland authorities, set out the overall framework for the Pilot Scheme. Further information was provided in the supplementary Q&As and guidelines issued subsequently.

Under the Pilot Scheme, cross-border trade transactions (both imports and exports) between the approved areas of Mainland China and selected areas outside the Mainland are eligible for settlement in renminbi. At present, Shanghai, Guangzhou, Shenzhen, Dongguan and Zhuhai are the approved Mainland cities; and Hong Kong, Macau and the ASEAN member countries have been specified as areas outside the Mainland that are covered by the Pilot Scheme. To become Mainland designated enterprises under the Pilot Scheme, enterprises in the five Mainland cities have to be granted approval by the central authorities on the recommendation of their respective provincial governments. No specific eligibility requirements have been set for the enterprises outside the Mainland to participate in the Pilot Scheme, although there is a strong emphasis that all trade settlements in renminbi should have a genuine trade background with the Mainland designated enterprises.

The operation of the Pilot Scheme also necessitates the provision of related renminbi services by commercial banks to the enterprises concerned. Banks in the approved areas of Mainland China have been allowed to provide the Mainland designated enterprises with services relating to settlement of trades in renminbi. Banks in the selected areas outside the Mainland participating in the Pilot Scheme (non-Mainland participating banks) may provide renminbi services to enterprises that choose to settle trade transactions in renminbi with the Mainland designated enterprises. Such services include:

1. **Deposit-taking:** Enterprises located in areas covered by the Pilot Scheme with genuine trade background can open renminbi deposit accounts with non-Mainland participating banks. Such deposit accounts are primarily for handling renminbi receipts and payments related to the settlement of trade transactions with the Mainland designated enterprises. The renminbi funds held in such deposit accounts can also be used for investing in renminbi bonds issued in Hong Kong.
2. **Currency exchange:** Currency exchange can be provided based on actual trade transactions. The exchange of Hong Kong dollars or other currencies for renminbi is limited to the amount of actual trade transactions (which should be paid directly to the Mainland designated enterprises),

or for repayment of trade finance provided by the non-Mainland participating bank concerned.

Renminbi funds maintained in a deposit account, which are expected to come from trade receipts and other permitted inflows, can be converted to Hong Kong dollars or other currencies.

3. **Remittance:** Two-way remittances can be conducted between the enterprises outside the Mainland and designated Mainland enterprises for actual trade transactions. Local fund transfer services are also available, but such transfers are confined to those between the “same-name” accounts of the same enterprise held at different banks for pooling renminbi funds to make payments in relation to trade settlements.
4. **Trade finance:** Renminbi trade finance can be provided for trade transactions with the Mainland designated enterprises. Such trade finance is limited to the amount of a corresponding trade transaction, and should be paid to the Mainland designated enterprise directly. This means funds so provided should not be deployed for other purposes or kept as renminbi deposits. Interest rates on the trade finance are determined by the banks concerned on a commercial basis, having regard to factors including their own liquidity position, the cost of funds, and the credit risk of customers.
5. **Cheques:** Renminbi cheques can be used for transferring funds between the “same-name” accounts held by the same enterprise at different banks for pooling renminbi funds for trade settlement. Enterprises can also use renminbi cheques to make payments for the subscription and acquisition of renminbi bonds.

The provision of the above services is facilitated by the relevant clearing and settlement services. Under the new arrangement, non-Mainland participating banks can engage banks in Mainland China as correspondent banks or the Clearing Bank, or both, for renminbi business in Hong Kong to handle the associated settlement of renminbi funds at the wholesale level. Non-Mainland participating banks

can thus obtain renminbi funding through several means, in addition to renminbi deposits taken from their own customers. They can convert renminbi with the Clearing Bank or Mainland correspondent banks, and borrow renminbi from the Clearing Bank, Mainland correspondent banks, or other non-Mainland participating banks.

In the Scheme’s first month of operation, 66 renminbi trade settlement transactions amounted to RMB 42.8 million were conducted between Hong Kong and Mainland China, with 46 transactions (totalling RMB41.1 million) involving payments to Hong Kong and 20 (totalling RMB1.7 million) to Mainland China. At the end of July, 25 authorized institutions in Hong Kong had entered into a clearing agreement with the Clearing Bank, including 16 which had also entered into agreements with Mainland correspondent banks.

## Significance of the Pilot Scheme

The introduction of the Pilot Scheme is significant in many aspects. For individual companies, the Scheme provides trade enterprises with a new choice of settlement currency, allowing them greater flexibility in managing risks arising from fluctuations in exchange rates. It is not only a timely response to the global financial crisis, but will also be conducive to promoting trade activities between Mainland China, Hong Kong and the ASEAN member countries.

The Pilot Scheme also represents an important breakthrough for renminbi business in Hong Kong. For Hong Kong banks, the customer base of renminbi services is widened to cover also trade enterprises, an important expansion over the previous scope of catering to individuals and designated categories of local merchants only. Banks are now in a position to provide a greater range of renminbi services, including trade finance, meaning new business opportunities for the banks. The further diversification of renminbi assets and increased liquidity as a result of the new renminbi business will also help bolster the renminbi clearing platform in Hong Kong, contributing to its development as a regional renminbi settlement centre.

At a more strategic level, the introduction of the Pilot Scheme is a distinct achievement in developing a mutually-assisting, complementary and interactive relationship between the financial systems of Mainland China and Hong Kong. The related renminbi cross-border interbank funding arrangements provide a much wider scope for the mobility of renminbi funds between the Mainland and Hong Kong. Looking ahead, with the substantial experience gained in conducting renminbi business since 2004<sup>1</sup>, Hong Kong is ready to play a bigger role in the increasing use of renminbi outside Mainland China.

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<sup>1</sup> Please see separate box on *Renminbi business in Hong Kong at a glance* for details.

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## Renminbi business in Hong Kong at a glance

Renminbi business in Hong Kong started in 2004 and its scope has been expanded since then. Prior to the recent introduction of the renminbi trade settlement business, banks in Hong Kong participating in the renminbi business scheme offered a range of retail banking services such as deposit-taking, currency exchange, remittance, debit and credit cards, cheques, and the subscription and trading of renminbi bonds. To support the operation of renminbi business, the Renminbi Real Time Gross Settlement system in Hong Kong was upgraded from the Renminbi Settlement System in June 2007. Below is a review of these services.

**Deposit-taking:** Hong Kong residents, “designated merchants” (those belonging to the seven categories of retail sales, catering, accommodation, transportation, communications, medical and educational services), as well as trade enterprises (from July 2009), can open renminbi deposit accounts with Hong Kong participating banks. At the end of July 2009, the outstanding amount of renminbi deposits was RMB55.9 billion. There were 1,217,737 renminbi accounts, with an average

deposit size of about RMB46,000 per account (Chart 1).

**Currency exchange:** Individuals can exchange renminbi for Hong Kong dollars or vice versa, up to the equivalent of RMB20,000 per person per transaction, if the exchange is made in cash, and up to RMB20,000 per person per day, if the exchange is made through a deposit account. Designated merchants can exchange renminbi cash obtained from their normal course of business for Hong Kong dollars (one-way) without limit. For renminbi bond issuers on the Mainland, conversion of renminbi to Hong Kong dollars can be conducted for the settlement of expenses incurred in bond issuance. Starting from July 2009, trade enterprises can exchange Hong Kong dollars for renminbi or vice versa, based on actual trade transactions. In the first seven months of 2009, an average of RMB1.3 billion was exchanged for Hong Kong dollars and RMB1.8 billion equivalent of Hong Kong dollars was exchanged for renminbi through Hong Kong participating banks each month (Chart 2).

CHART 1  
Renminbi deposits

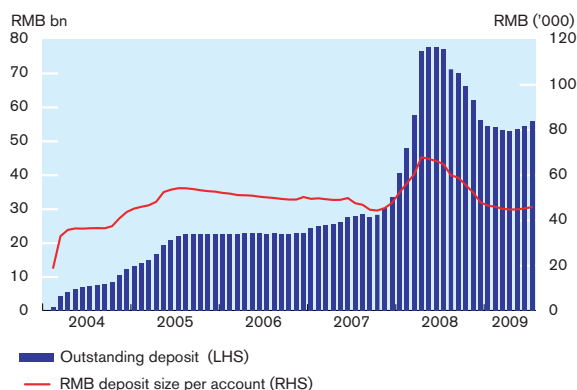
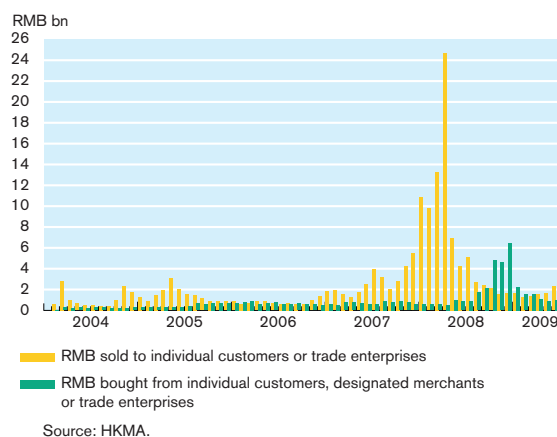
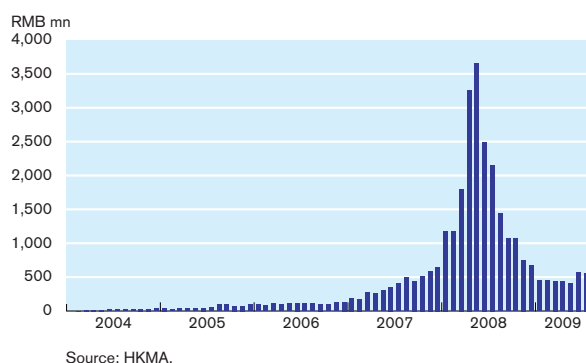


CHART 2  
Renminbi currency exchange

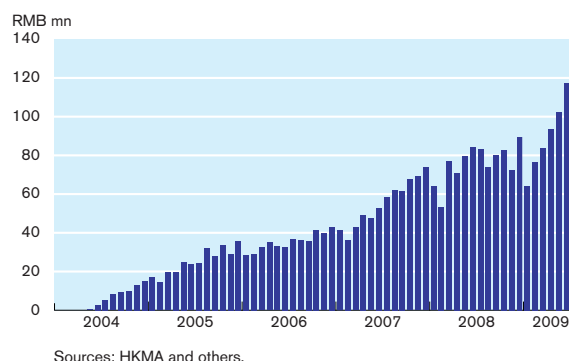


**Remittance:** Hong Kong residents can remit renminbi to their own accounts with their Mainland banks, subject to a daily limit of RMB80,000 per account. In the first seven months of 2009, an average of RMB478 million was remitted by individuals from Hong Kong to the Mainland each month (Chart 3). Apart from individuals, issuers of renminbi bonds in Hong Kong can remit proceeds from bond issuances to the Mainland. With the launch of the renminbi trade settlement pilot scheme in July 2009, trade enterprises in the selected areas outside the Mainland can remit renminbi to the pilot cities on the Mainland or vice versa, based on actual trade transactions.

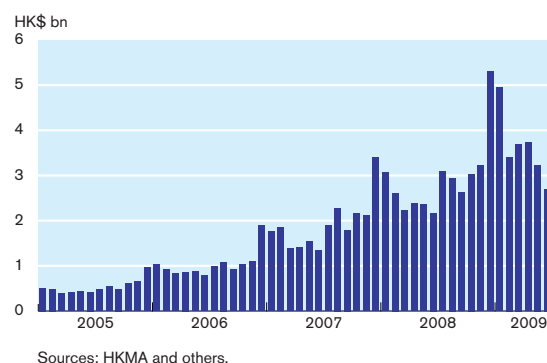
**CHART 3**  
Renminbi remittance by Hong Kong residents



**CHART 4a**  
Use of renminbi debit/credit cards on the Mainland



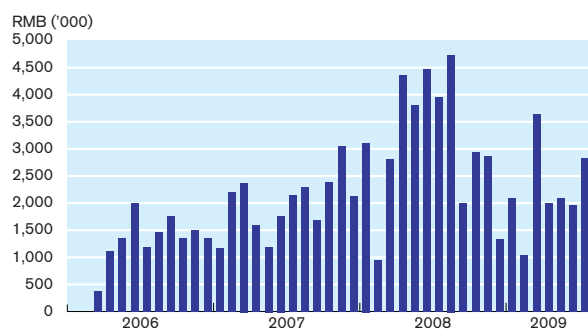
**CHART 4b**  
Use of renminbi debit/credit cards in Hong Kong



**Credit and debit cards:** Hong Kong participating banks can issue renminbi debit and credit cards to Hong Kong residents for use on the Mainland. Renminbi debit and credit cards issued by Mainland banks are also accepted by retailers in Hong Kong. In the first seven months of 2009, Hong Kong residents spent and withdrew a monthly average of RMB94 million on the Mainland using renminbi debit or credit cards. On the other hand, Mainland visitors on average spent and withdrew HK\$3.7 billion each month in Hong Kong during the same period (Charts 4a and 4b).

**Cheques:** Renminbi cheques drawn on current accounts held with Hong Kong participating banks can be used both in Hong Kong and on the Mainland. Within Hong Kong, customers can make payments and fund transfers in relation to subscription and acquisition of renminbi bonds. On the Mainland, renminbi cheques can be used for consumer spending in Guangdong Province, subject to a daily limit of RMB80,000 per account. For the first seven months of 2009, the monthly average of funds cleared through renminbi cheques was RMB2.2 million (Chart 5).

**CHART 5**  
Renminbi cheques



Source: HKMA.

**Renminbi bonds:** Since 2007, Mainland financial institutions, after obtaining relevant approval from Mainland authorities, can issue renminbi bonds in Hong Kong. The range of issuers was extended this year to the Mainland subsidiaries of Hong Kong banks. Twelve issues of renminbi bonds amounted to RMB32 billion have been offered in Hong Kong so far. All these issues attracted an encouraging response, indicating a strong investor demand for renminbi bonds in Hong Kong.