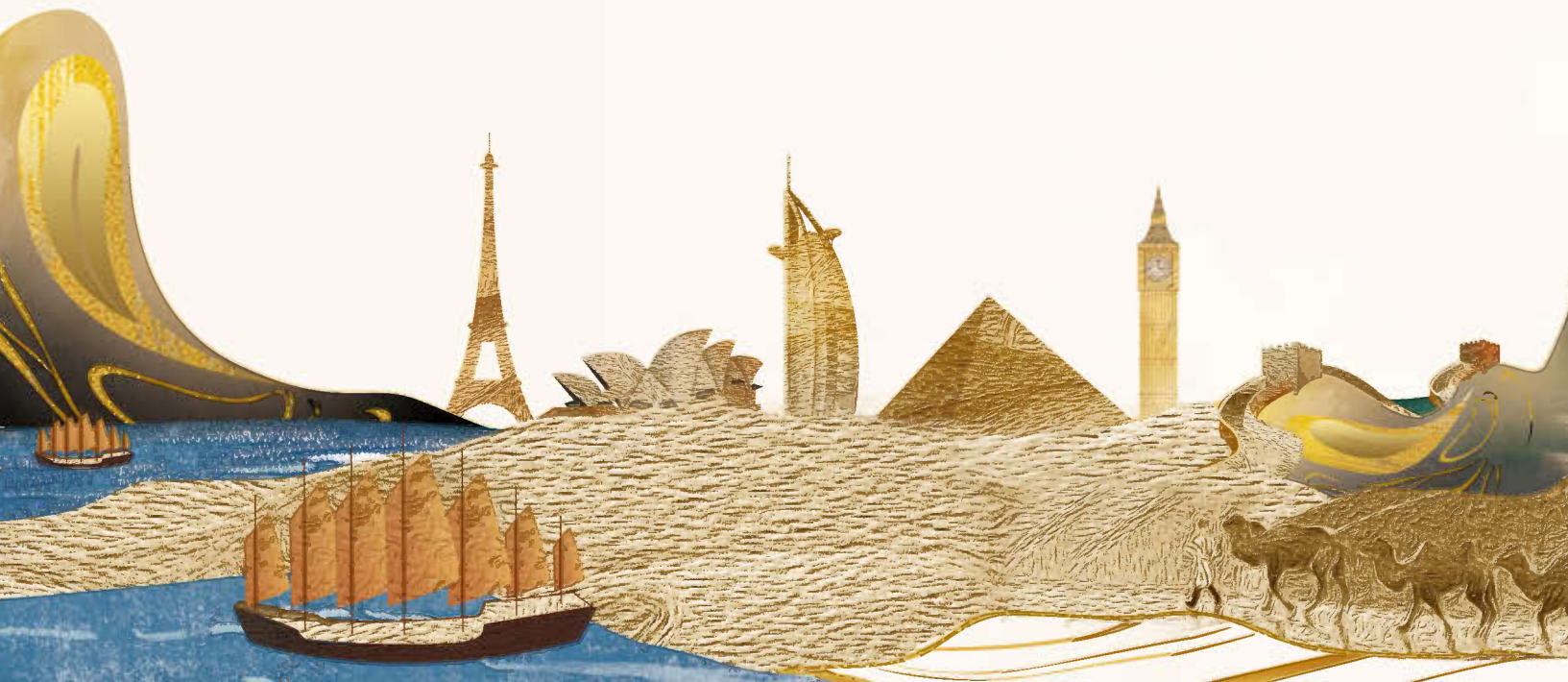




2024

# White Paper on RMB Internationalization

— Cross-Border Use of RMB in the Jointly Build Belt and Road Countries and RMB Financing in Offshore Markets



## Preamble

In the year 2023, China maintained sound momentum in growth, expanding by 5.2% in the year and contributing more than 30% to global growth. The total value of import and export of goods amounts to RMB41.7 trillion, accounting for 14.2% of the world total, flat with a year ago. The sound economic fundamentals have injected confidence and impetus into domestic and overseas market entities who expanded the use of RMB in the cross-border transactions.

In order to provide an accurate picture of RMB internationalization and help further expand and enhance the cross-border use of RMB, Bank of China has collected opinions and feedbacks on RMB internationalization from domestic and overseas market entities for 11 consecutive years. From the feedbacks in 2023, domestic and overseas industrial and commercial enterprises and overseas financial institutions continued to extend positive comments on RMB internationalization in 2023, showing improvements in the inclination to use RMB, the assessment of the function of RMB as international currency and the expectation on the status of RMB as international currency compared with the questionnaire survey results in 2022. The cases where RMB was used by domestic and overseas industrial and commercial enterprises further demonstrated a positive atmosphere that the cross-border use of RMB improved cross border trade and investment facilitation and provided high-quality service for the real economy.

Market data further confirms the positive trends in RMB internationalization. In 2023, China's cross-border RMB settlements exceeded RMB52.3 trillion, a year-on-year increase by 24.1%. In the first 9 months, RMB receipts and payments under cross border trade accounts for 24.4% of the total receipts and payments under cross border trade, which is a year-on-year increase by 7 percentage points. In December of 2023, the share of RMB in global payments and settlements reached 4.14%, an increase by 2.23 percentage points over January. Cross-border RMB settlements in RCEP and "Jointly Build the Belt and Road" countries maintained rapid growth. The increasingly internationalized RMB has shown greater vitality in serving China's higher-standard opening up to the outside world.

As the main banking channel for the cross-border use of RMB, Bank of China helps advance RMB internationalization in a steady, prudent and solid manner. In 2023, the domestic and overseas institutions of Bank of China completed cross-border RMB settlements for more than RMB57 trillion, an increase by 85.6% year-on-year, finished cross-border RMB clearing of RMB938 trillion, a year-on-year increase by 26.6%, and handled personal cross-border RMB settlements of RMB52.9 billion, up by 142.1% year-on-year, maintaining a leading edge over other banks.

At present, the international currency system shows a faster pace of diversification, and business entities have growing intrinsic demand for cross border use of RMB in a complicated and ever-changing international environment. Bank of China will firmly uphold the guiding principle that the financial sector serves the real economy and resolutely implements the work plans of the Central Financial Work Conference to advance RMB internationalization in a stable, prudent and solid manner. The Bank will harness its unique advantages in globalized operation, keep to the fundamental principles while making innovations in cross-border

RMB products and services and help to push the stable and sustainable progress of RMB internationalization with full range of cross-border RMB products and services on all fronts.

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# Chapter I

## Overview

### 1. Policy environment

The Central Financial Work Conference of China called for advancing RMB internationalization in a stable, prudent and solid manner. Under the overall principle of "pursuing mutual benefit and win-win and coordinating development with security on a market-driven basis", the policy arrangements for RMB internationalization were further improved in 2023, with steady progress made in infrastructure development and two-way opening-up of the financial market.

In terms of policies and regulations, the *Notice on Further Supporting Foreign Economic and Trade Enterprises in Expanding the Cross-border Use of RMB to Facilitate Trade and Investment* was issued to further facilitate cross-border use of RMB and better meet business entities' demand in transaction settlement, investment and financing and risk management. The *Opinions on Financial Support for Construction of Hengqin Guangdong-Macao Deep Cooperation Zone and the Opinion on Financial Support for Comprehensively Deepening the Reform and Opening-Up of the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone* were issued to enhance the financial market connectivity and strengthen financial support for Hengqin and Qianhai development and major cooperation platforms in the Guangdong-Hong Kong-Macao Greater Bay Area.

In terms of infrastructure construction, the number of countries and regions with whom China has signed bilateral local currency swap agreements increased to 41, and the scale of the swaps exceeded RMB4 trillion. With new RMB clearing banks set up in Brazil, Cambodia and Serbia, now there are 33 countries and regions with RMB clearing banks in place. At the end of 2023, there were 139 direct participants and 1,346 indirect participants in CIPS cross-border payment and clearing services, representing an increase of 62 and 63 respectively as compared with the

end of the previous year.

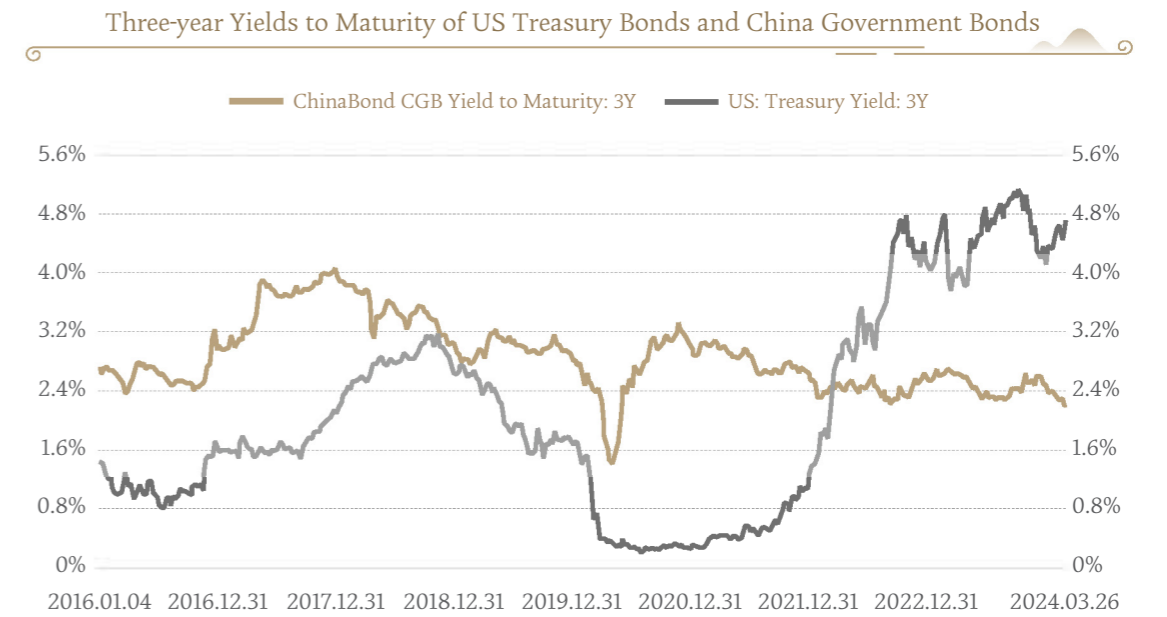
In terms of financial market connectivity, the Swap Connect was officially launched in May 2023 to provide efficient support for overseas investors participating in the financial derivatives markets in mainland China and Hong Kong and to meet investors' demand for interest rate risk management. The pilot program on Cross-border Wealth Management Connect was furthered implemented with improvements in investor entry, scope of participating institutions, scope of qualified investment products, investor's quota and publicity and sales arrangements.

## 2. Market environment

The global economy growth is estimated to be 3.1% in 2023, lower than the average annual growth of 3.8% for the period of 2000 to 2019. Trade in goods totaled about 24 trillion USD (by value of goods), which declined by 5% <sup>①</sup>. China's economic fundamentals remained positive, with GDP growing by 5.2% in 2023 and CPI rising by 0.2% over the previous year. Goods imports and exports totaled RMB41.76 trillion, up 0.2% year-on-year. China's contribution to global economic growth remained above 30%, accounting for 14.2% of global trade in goods.

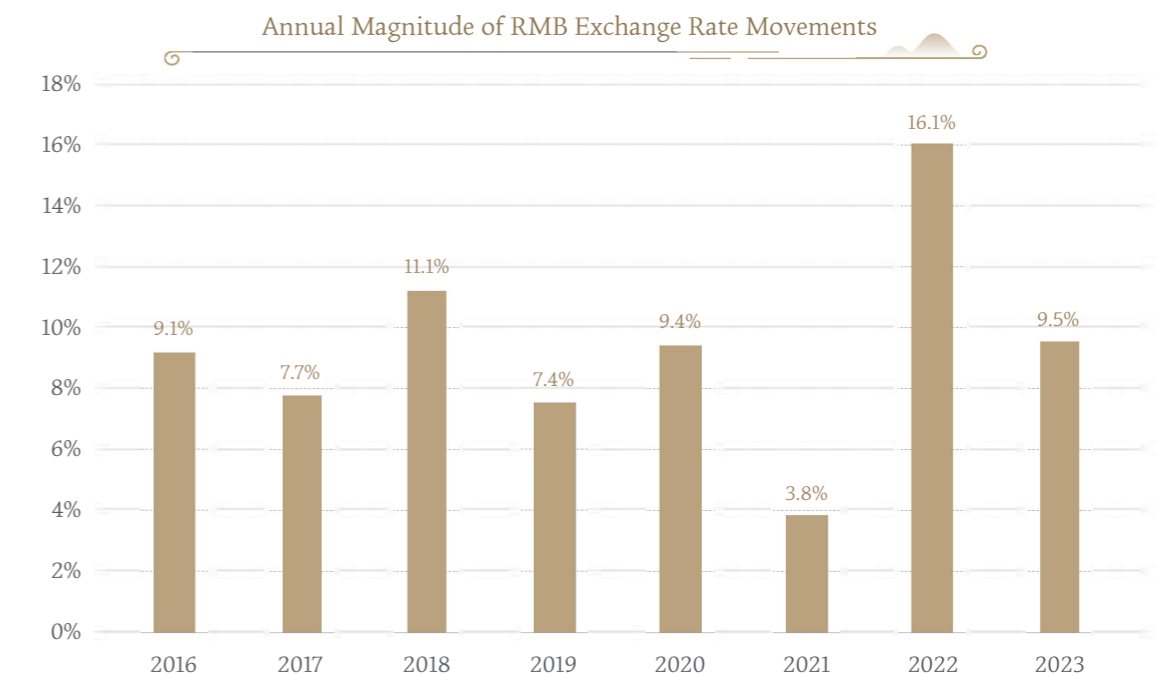
In 2023, the aggregate financing and money supply in China were in line with the economic growth and price level targets. The People's Bank of China (PBC) lowered its required reserve ratio twice and announced two loan prime rate (LPR) cuts, keeping RMB liquidity reasonably ample and RMB interest rates on a steady decline. Globally, RMB interest rate is relatively low in general. Compared with yield to maturity of us treasury bonds with the same terms, RMB interest rate is about 250 bps below that of USD.

①: Data from the IMF World Economic Outlook, Jan 2024 and WTO



Source: Wind

RMB exchange rate against US dollar maintained a high flexibility with two-way fluctuations. The magnitude of RMB exchange rate volatility was 9.5% for the whole year. Despite its drop in comparison with that for the year 2022, RMB exchange rate still saw extreme fluctuations frequently, with the daily range of movements exceeding 300 bps on 91 trading days, only 11 fewer than in 2022.



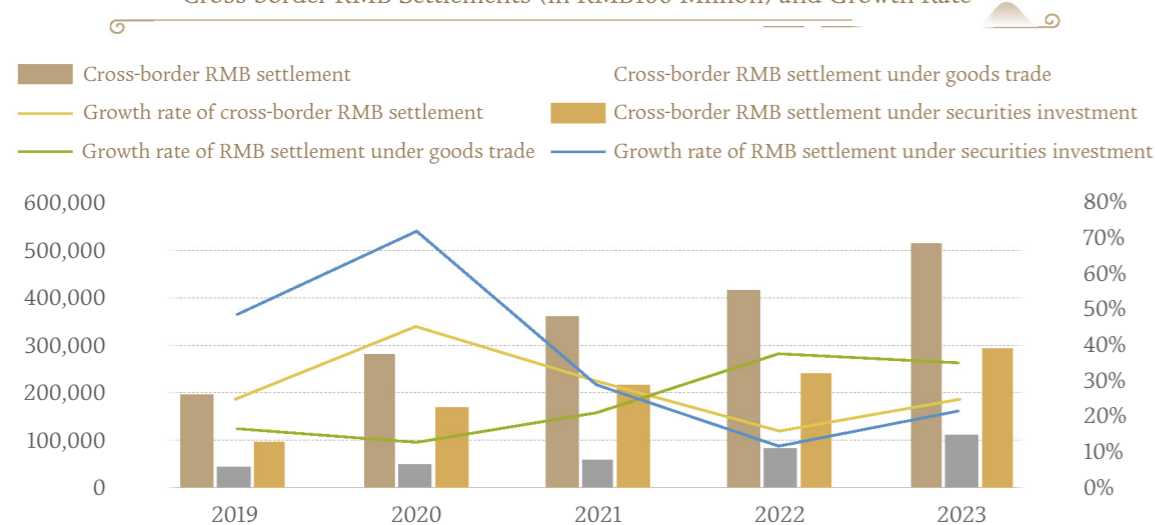
Source: Wind

### 3. Progress in RMB internationalization

The role of RMB as an international currency has further improved, highlighting its increasing importance in serving the real economy, facilitating cross-border trade and investment and shaping a new development pattern.

In terms of cross-border payments, the national cross-border RMB settlements amounted to about RMB52.3 trillion in 2023, representing a year-on-year increase of 24.1%. Specifically, cross-border RMB settlements under the current account stood at RMB14.0 trillion, a year-on-year increase by 33.4%, and cross-border RMB settlements under trade in goods was approximately RMB10.7 trillion, up by 34.9% year-on-year. In the first nine months of 2023, the share of goods trade settled in RMB reached a record high of 24.4%. In banks' cross border receipts and payments as agents for customers in 2023, the share of RMB increased to 48.7% <sup>②</sup>, up by 6.2 percentage points from 2022.

Cross-border RMB Settlements (in RMB100 Million) and Growth Rate

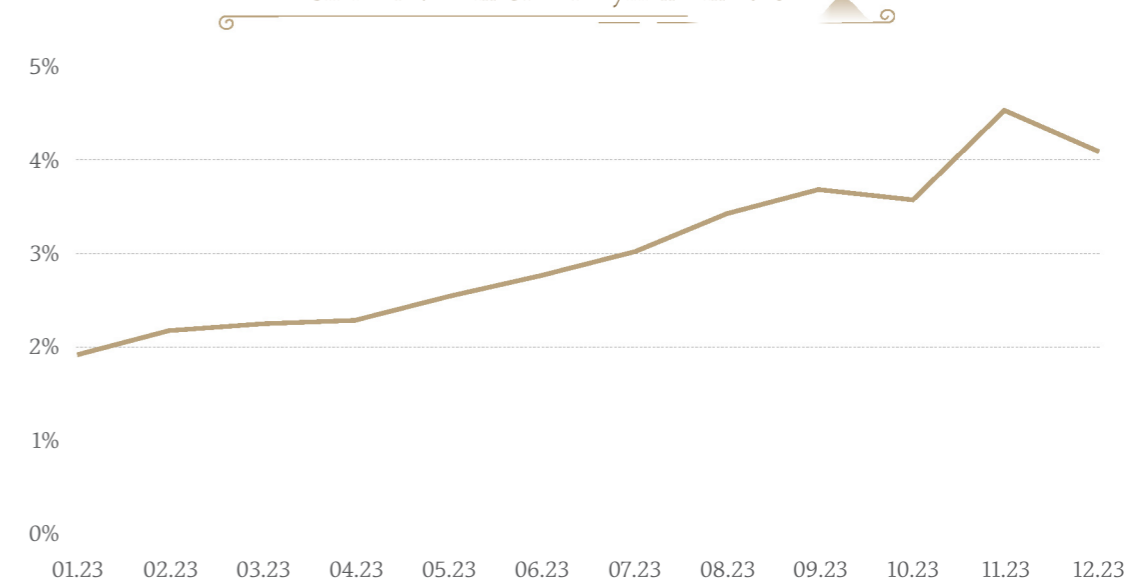


Source: The PBC website

<sup>②</sup>: Calculated on the data from State Administration on Foreign Exchange concerning the cross border receipts and payments through banks as agents for customers, the data is the sum up of receipts and payments under current account and capital accounts. According to data in the websites of the People of Bank of China, RMB receipts and payments under current account account for 27% of the total cross border RMB receipts and payments,

In terms of the share in global payments, RMB took up a steadily expanding share in global settlements in 2023, which reached 4.14% in December, up by 2.23 percentage points from the beginning of the year, and making RMB the world's fourth largest payment currency.

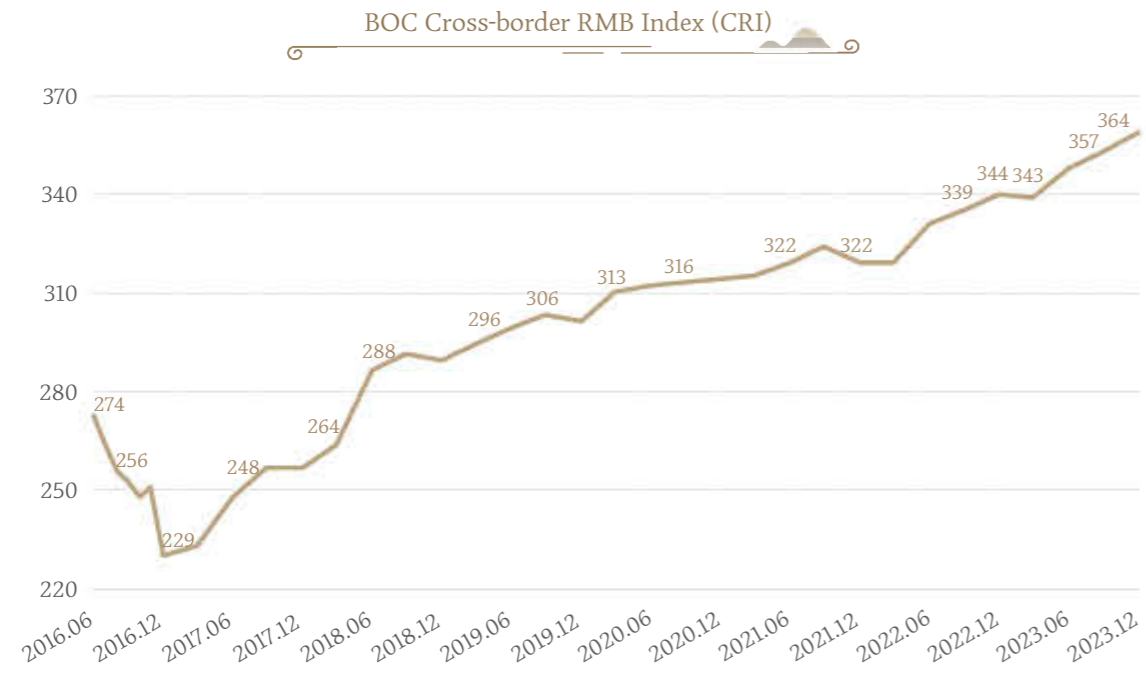
Share of RMB in Global Payments in 2023



Source: SWIFT RMB Monthly Tracker

Cross-border use of RMB has expanded fast in the RCEP region and along the Belt and Road. According to the SWIFT message data, RMB customer remittances (MT103) in other member countries of the RCEP (excluding China) increased by 20.4% in 2023, and RMB customer remittances in countries along the Belt and Road grew by 21.1%.

Cross-border use of RMB remained active. The Bank of China Cross-border RMB Index (CRI), a gauge of the cross-border RMB use activity, moved higher from quarter to quarter and closed the year 2023 with an all-time high of 364 points. According to SWIFT message data, cross-border RMB customer remittances occurred in a total of 161 countries and regions in 2023, showing an increasingly prominent network effect that has boosted cross-border use of RMB.



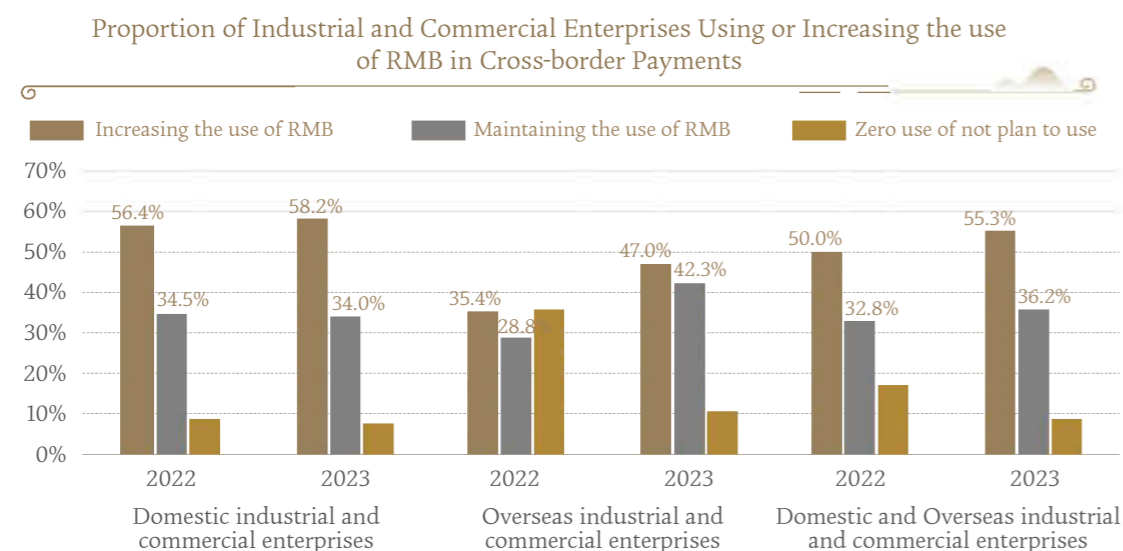
# Chapter II

## Evaluation on the role of RMB as an International Currency

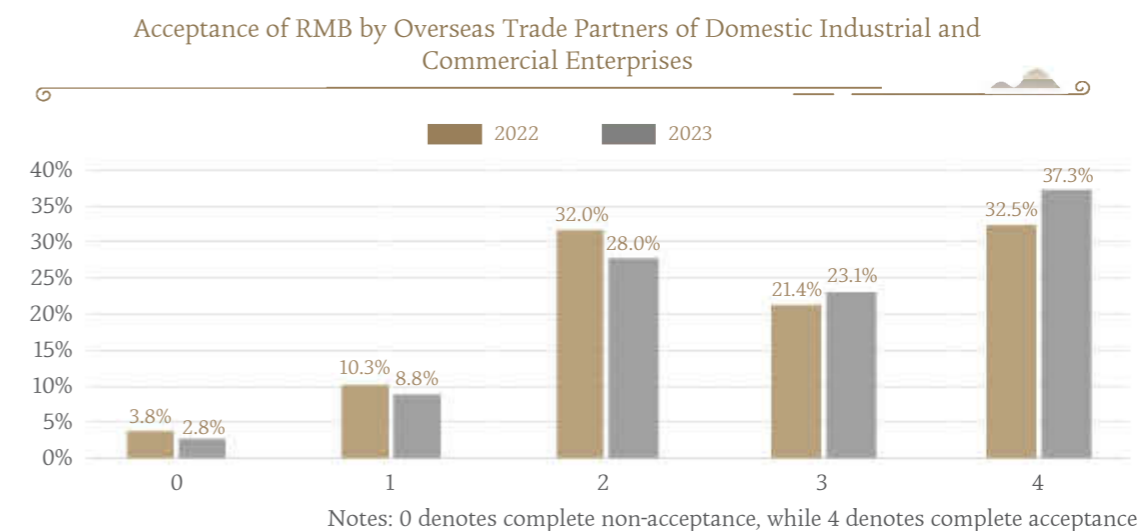
RMB internationalization was advancing stably and prudently in 2023. Domestic and overseas industrial and commercial enterprises gave positive comments on the role of RMB in terms of settlement, financing, invoicing and store of value. The role of RMB as an international currency improved in various dimensions.

## 1. RMB as a settlement currency

**The intention to use RMB for cross-border settlement became more positive.** According to the survey conducted in 2023, more than 90% of domestic and overseas industrial and commercial enterprises indicated that they used RMB for settlement of cross-border transactions or planned to increase the use of RMB for settlement, an increase by 8.7 percentage points from the survey in 2022. Specifically, 58.2% of domestic and 47.0% of overseas industrial and commercial enterprises indicated that they intended to raise the proportion of settlement in RMB, up by 1.8 and 11.6 percentage points from the 2022 survey respectively. The responses showed both domestic and overseas enterprises had stronger desire to use RMB for cross-border settlement, while overseas respondents were more notable in the enhancement of desire to do so.

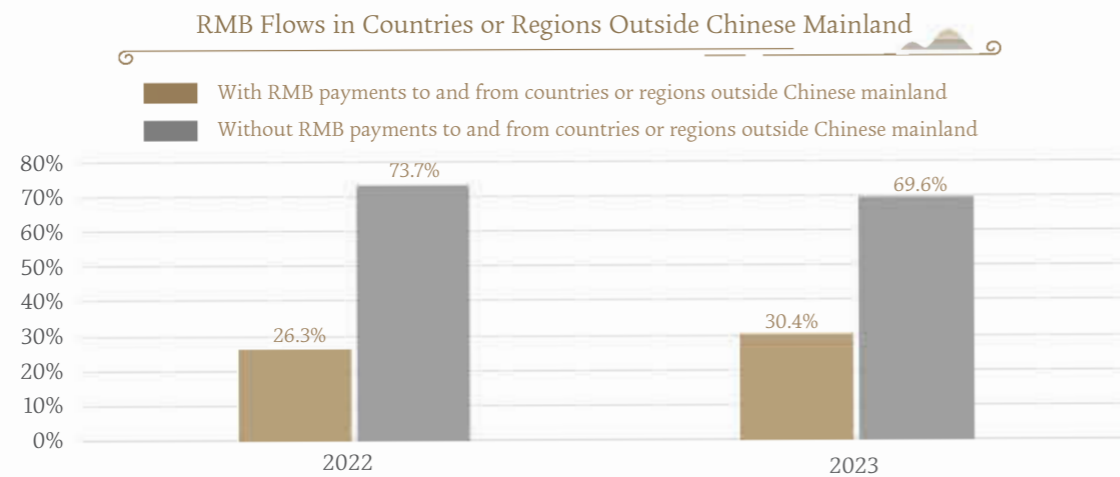


**Foreign trade partners showed higher acceptance of RMB settlement.** Zero indicates complete non-acceptance of RMB; four indicates complete acceptance of RMB. The domestic industrial and commercial enterprises whose overseas trade partners completely accepted RMB (4) or somewhat accepted RMB (3) for settlement represented 60.4% of the total domestic industrial and commercial enterprises surveyed, which rose by 6.5 percentage points from 2022. The respondents reporting their business partners complete accept RMB for settlement accounted for 37.3% of the domestic industrial and commercial enterprises under survey, up by 4.8 percentage points from 2022, while respondents that report their overseas trade partners completely unaccepted RMB (0) represented only 2.8%, down by 1 percentage point from 2022. The survey results show overseas trade partners' stronger inclination to accept RMB for settlement in the trade with China.



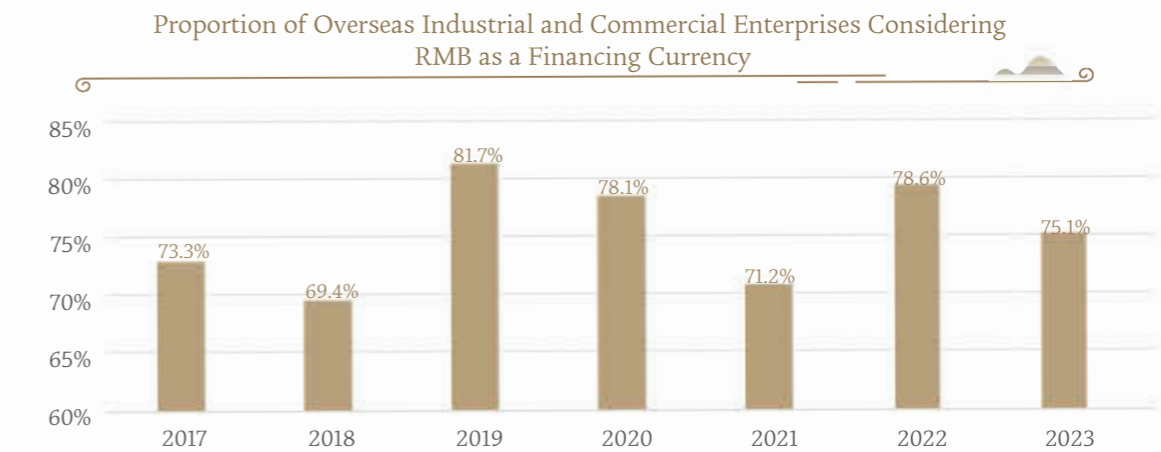
**The circulation and use of RMB in countries or regions outside the Chinese mainland expanded.** 30.4% of the overseas industrial and commercial enterprises surveyed responded that they had cross-border RMB receipts and payments with countries or regions outside

Chinese mainland in 2023, an increase by 4.1 percentage points as compared with the survey result in 2022. This finding is confirmed by the SWIFT system data. According to SWIFT RMB Tracker in December 2023, RMB share in global payments reached 4.14%, manifesting a further rise in the circulation and use of RMB outside the Chinese mainland and a stronger network effect of cross-border payments.

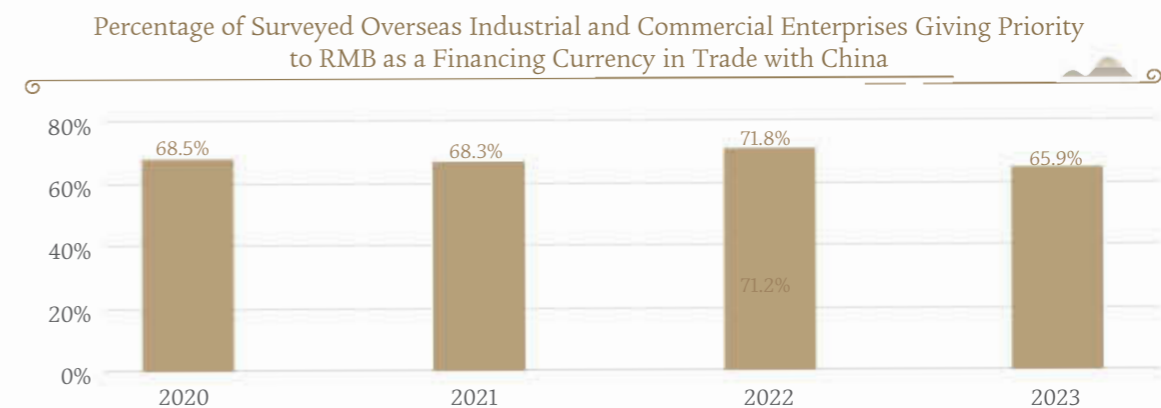


## 2. RMB as a financing currency

**More overseas market entities considered using RMB as a financing currency.** 75.1% of the overseas industrial and commercial enterprises surveyed said that they would increase the use of RMB as financing currency when international liquidities in US dollar, euro and other international currencies are tight. It was lower than that in 2022 but still in the high range. Meanwhile, 65.1% of the overseas financial institutions surveyed said they would consider RMB as an important supplement to international liquidity, up by 14.4 percentage points from the 2022 survey.



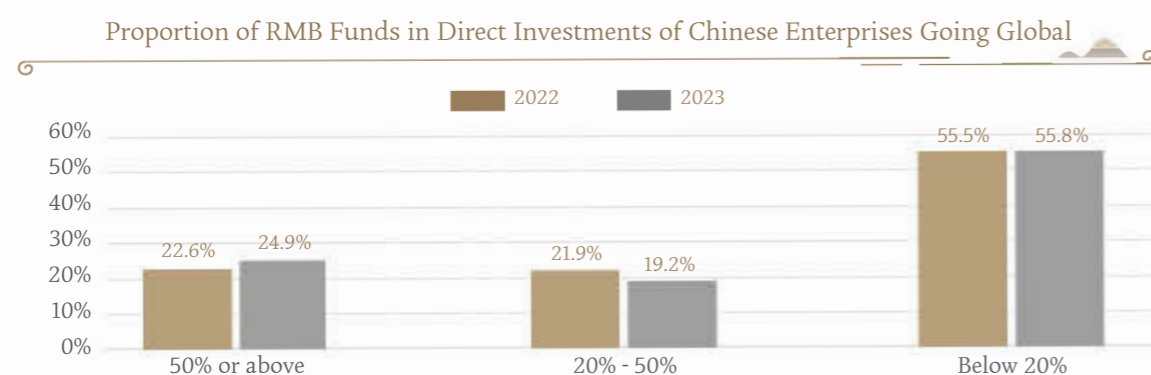
**The inclination to use RMB as a financing currency in trade with China diverge across regions.** Overall, 65.9% of the surveyed overseas industrial and commercial enterprises considered RMB as the preferred financing currency in trade with China, down by 5.9 percentage points ③ from 2022. By region, 77.0% of the industrial and commercial enterprises surveyed in the ASEAN region gave priority to RMB as the financing currency for trade with China, up by 6.4 percentage points from 2022, while 58.2% of the industrial and commercial enterprises surveyed in Europe surveyed gave priority to RMB as a financing currency in trade with China, down by 15.2 percentage points from 2022. The use of RMB for trade financing varied across regions.



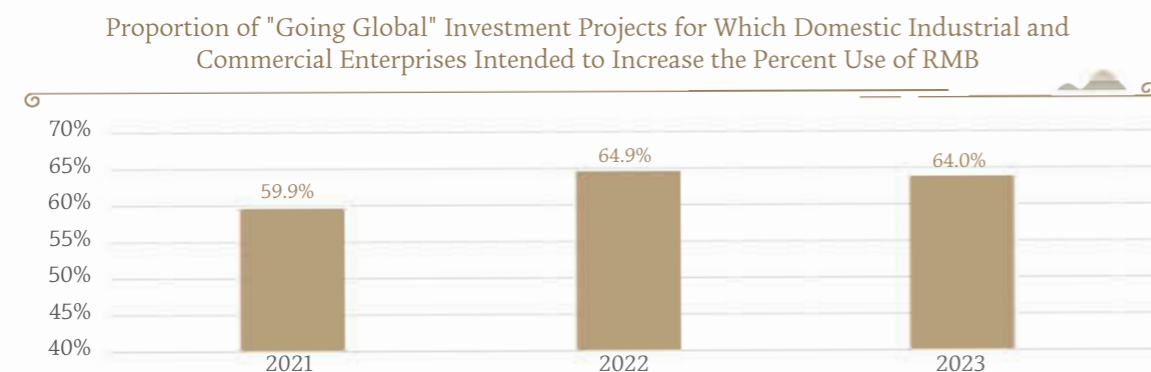
③: The surveyed overseas industrial and commercial enterprises were from 56 countries and regions, European enterprises account for 34%, ASEAN enterprises account for 18%, enterprises from Hong Kong, Macau and Taiwan account for 14%, enterprises from America account for 9%, enterprises from East Asia account for 7%, enterprises from Central Asia, Middle East, South East, enterprises from Africa, enterprises from Oceania account for 6% respectively, for more details about the sample, please see Appendix 1

### 3. RMB as an investment currency

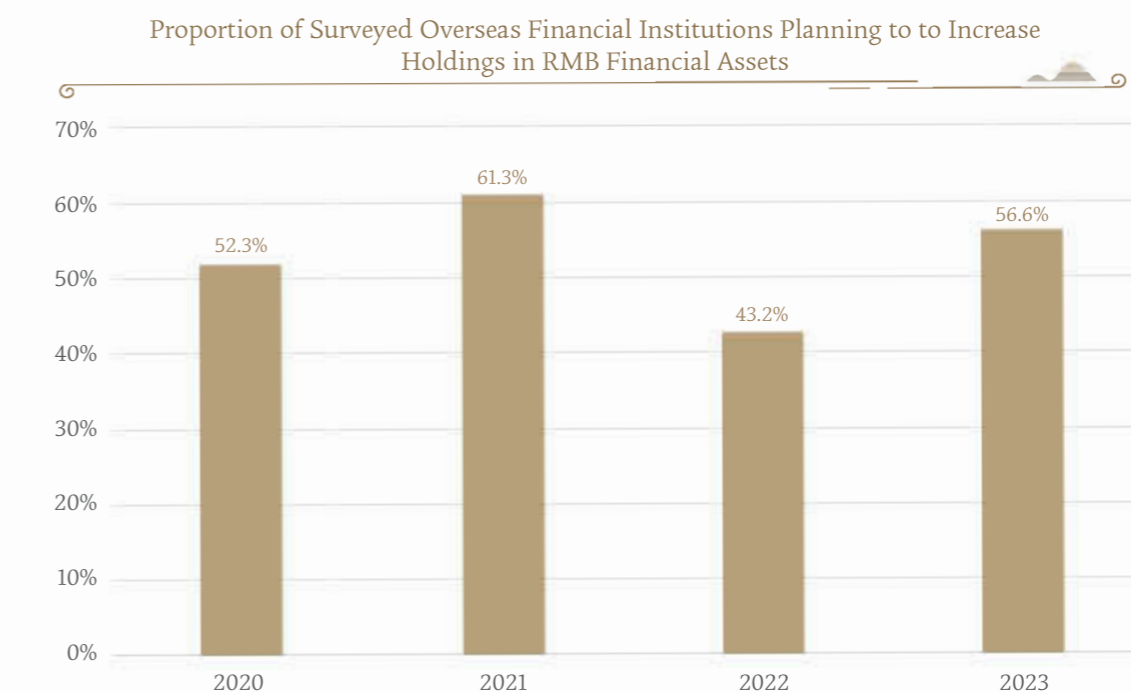
**The role of RMB as direct investment vehicle currency improved.** Of the surveyed Chinese enterprises going global, 24.9% reported that RMB accounted for at least 50% of their foreign direct investment, an increase by 2.1 percentage points from the 2022 survey. RMB continued to enhance its role as a vehicle currency for direct investment.



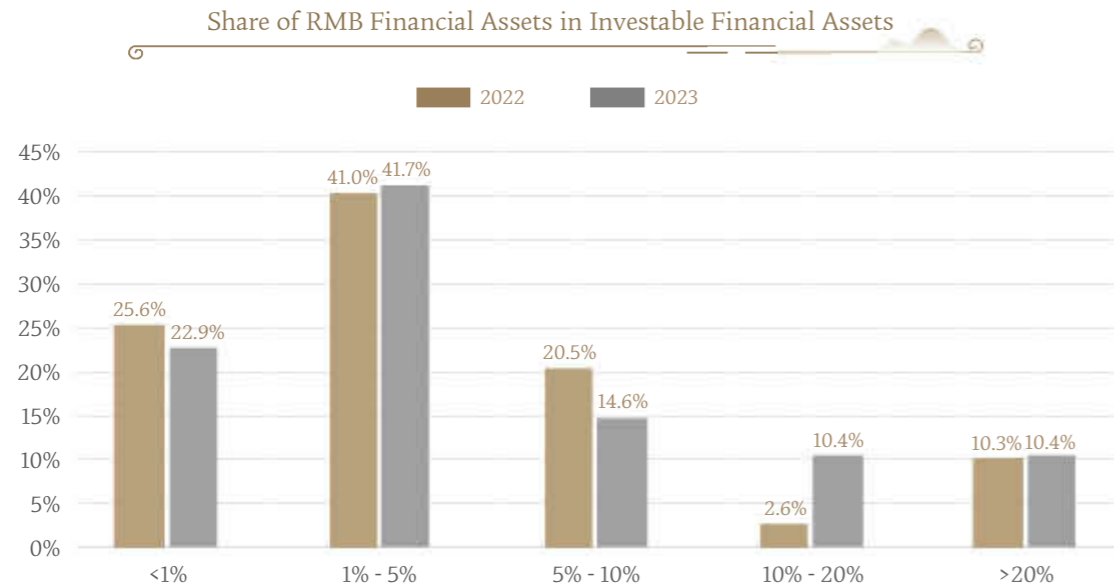
**Respondents showed strong willingness to use RMB for foreign direct investment.** 64.0% of the surveyed domestic industrial and commercial enterprises planned to further increase the use of RMB in their "Going Global" project investments, basically flat with the 2022 survey and at a relatively high level in the past three years. In 2023, China's foreign direct investment flows amounted to approximately RMB1.04 trillion, ranking among the world's top few, manifesting the great potential for RMB as a direct investment vehicle currency.



**Respondents were becoming more positive in allocations to RMB financial assets.** 56.6% of the overseas financial institutions surveyed indicated that they would consider increasing the allocations to RMB-denominated financial assets, an increase by 13.4 percentage points over the 2022 survey. After a transitory adjustment in 2022, the intention of overseas financial institutions to invest in RMB financial assets restored obviously.



**The share of RMB financial assets in investable assets was expanding.** 20.8% of the surveyed overseas financial institutions reported that their exposure to RMB financial assets accounted for more than 10% of investable assets, an increase by 8 percentage points as compared with the 2022 survey. Although financial institutions' allocations to RMB financial assets fluctuated with the changing market conditions, the overseas financial institutions will continue to expand their exposure to RMB financial assets amid the growing connectivity of financial markets and the ongoing improvements in China's economic fundamentals.



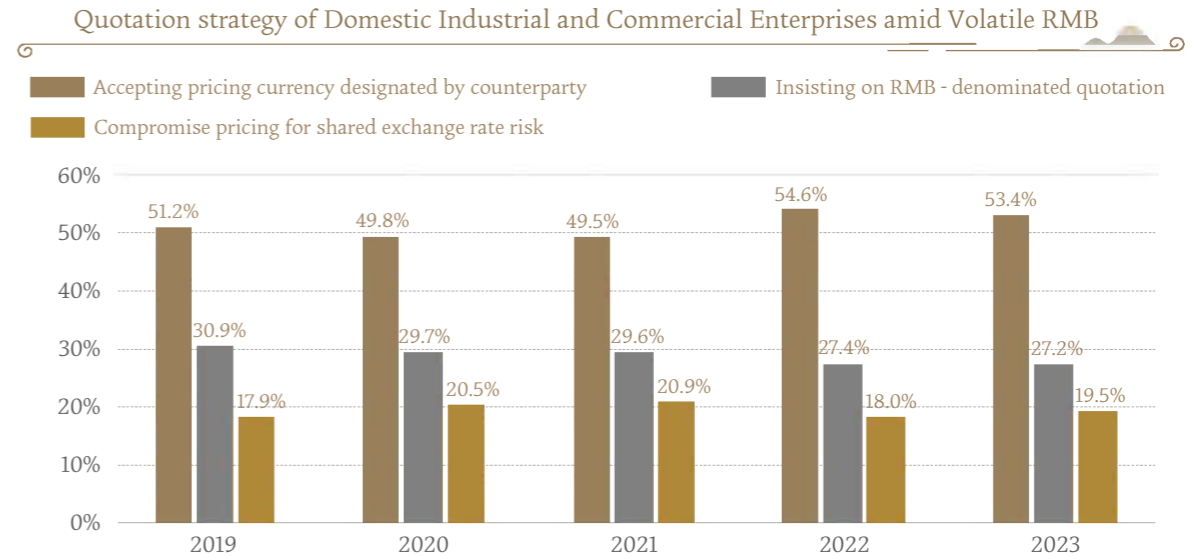
#### 4. RMB as invoice currency

As shown by the survey results from various aspects, the function of RMB as an invoice currency continued to improve steadily in 2023.

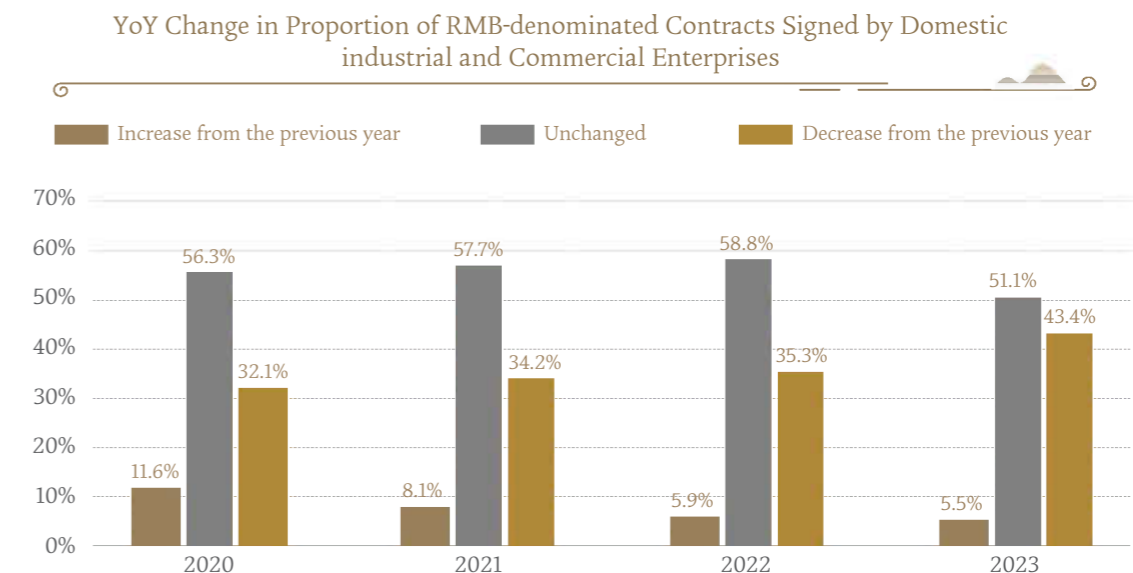
**As for the relative change in bargaining power**, the 2023 survey showed that 31.4% of the surveyed domestic industrial and commercial enterprises responded that their bargaining power in business negotiations improved than the previous year, up by 2.7 percentage points from the 2022 survey. The enhanced bargaining power laid a micro foundation for increasing the use of RMB as invoice currency.

**From the perspective of avoiding exchange rate risk**, the proportion of respondents that insisted on RMB-denominated quotation and leaving the risk of exchange rate volatility to the counterparty increased by 1.4 percentage points as compared with 2022. The proportion of enterprises with compromise pricing for shared exchange rate risk fell by 1.2 percentage points as compared with 2022. The proportion of enterprises fully accepting the pricing currency designated by the counterparty dropped by 0.3 percentage points as compared with 2022. The survey showed that, against the backdrop of two-way

fluctuations in RMB value, more domestic industrial and commercial enterprises adopted RMB as invoice currency to avoid exchange rate risk, given their stronger awareness of currency risk neutrality.



**In terms of the changes in the signed trade contracts invoiced in RMB**, 43.4% of the surveyed domestic industrial and commercial enterprises reported a higher proportion of RMB-denominated contracts than in 2022, showing a rise in the proportion for three consecutive years. The choice of invoice currency is steadily moving in favor of RMB and the role of RMB as invoice currency strengthened.

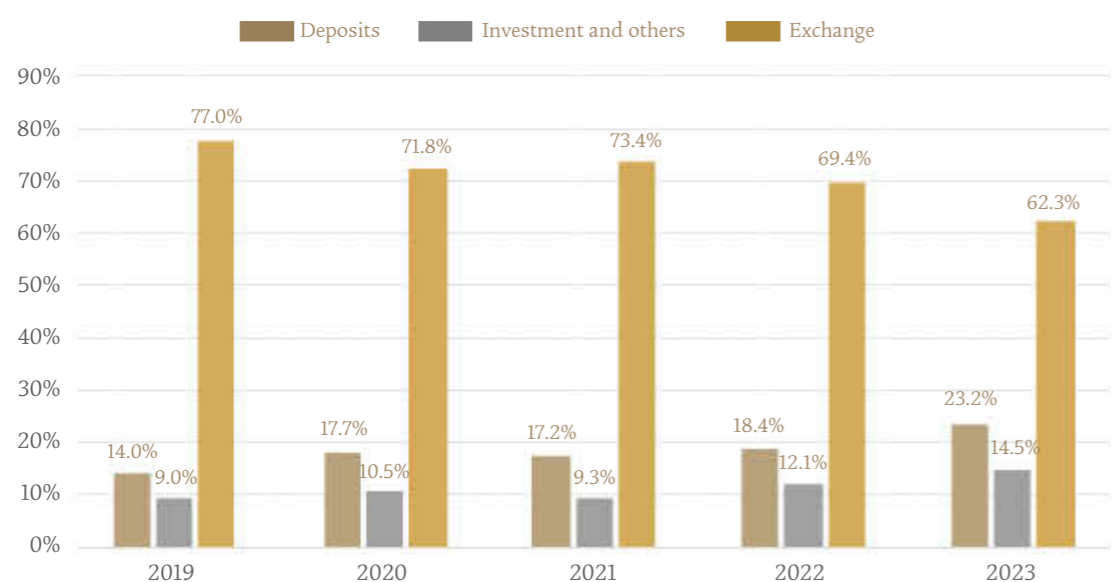


## 5. RMB as a store of value

More overseas industrial and commercial enterprises were willing to hold RMB cash or financial assets to protect their purchasing power. According to the survey, 23.2% of the overseas industrial and commercial enterprises surveyed responded that they would hold their RMB revenue in the form of RMB deposits for payments in the trade with China, up by 4.8 percentage points from 2022. 14.5% of the enterprises chose to invest in RMB financial assets such as bonds, up by 2.4 percentage points from 2022. 62.3% of the enterprises responded that they would convert their RMB revenue into local currencies, down by 7.1 percentage points from 2022.

In 2023, prices remained generally stable in China, with the CPI up by 0.2% year-on-year. In the global context of persistent inflationary pressure, the stable purchasing power of RMB has become more pronounced. More and more overseas industrial and commercial enterprises are willing to hold RMB in the form of deposits. As a universal equivalent of value, RMB has gained wider recognition for its role as store of value.

Holding or Investments of RMB revenue by Overseas Industrial and Commercial Enterprises



### Box: A Survey on Foreign Central Banks' Investment in China's Interbank Bond Market

In May 2022, the International Monetary Fund announced to raise RMB weight in the SDR currency basket from 10.92% to 12.28%, third only to US dollar and euro, recognizing RMB's greater role as a reserve currency. In 2023, Bank of China collected the data on 92 foreign central banks' arrangements for including RMB into reserve assets and on the ways of reserve investment in the interbank bond market, target investment instruments and their willingness to increase exposures. The statistical results are as follows:

#### (1). Investments were mostly self-reliant

Foreign central banks' investment in the interbank bond market is mainly self-reliant. That is, foreign central banks make investment decisions on their own and have their decisions executed through designated settlement agents i.e. mainly the People's Bank of China. In the case of entrusted investment, foreign central banks' reserve assets are managed by an independent asset manager. A few central banks adopt the combination of self-reliant investment and entrusted investment, and some central banks invest through their wholly-owned SPVs.

#### (2). Target investment instruments were mostly China government bonds

The target investment instruments are mainly the China government bonds, other RMB bonds and highly liquid offshore deposits. RMB government bonds are the main category of investment.

#### (3). Positive willingness to invest

Of the 92 foreign central banks, about half has entered and participated in the Chinese interbank bond market. About two thirds would further increase

holdings of RMB reserve assets. Of the central banks that did not enter the Chinese interbank bond market, about one third were pushing forward or considering an entry for investment. On the whole, RMB as a reserve currency is receiving increasing attention from central banks around the world.

(4). The pace of investment was subject to market conditions

Since the second half of 2022, the yields to maturity of the US treasury bonds and China Government Bond became inverted. In consideration of short term yields, some central banks have postponed the decision to expand their investment in RMB assets. Some central banks decided to wait for better investment window, some central banks reduced RMB investment allocation.

(5). The Belt and Road Initiative gave a pronounced impetus

The central banks in Africa, Latin America, South Pacific and Central and Eastern Europe have generally expressed positive intention to invest in RMB as reserve assets. Some central banks have started the market entry process. The economies in the Middle East and Central Asia are paying greater attention to RMB reserve investment. In late 2022, after the first China-Arab States Summit was held, some central banks in the Middle East began to learn about the regulatory and investment policies on RMB bond market. In May 2023 when the China-Central Asia Summit was held, some central banks in Central Asia strengthened communication with Chinese banks on reserve investment in RMB.

# Chapter III

## Cross-border Use of RMB in China

## 1. Cross-border RMB payments from and to the Chinese mainland

Cross-border RMB payments between the Chinese mainland and overseas regions are the source of RMB liquidity for overseas RMB users. The nature, geographical distribution and growth of such payments revealed the following characteristics of cross-border RMB circulation:

**First, RMB payments under current account took up an increasing share.** In 2023, cross-border RMB payments under current account exceeded RMB14 trillion, up by 33.4% year-on-year, accounting for 26.8% of total cross-border RMB payments, an increase by 1.9 percentage points over 2022. More specifically, the proportion of cross-border RMB payments for goods trade gained 1.6 percentage points as compared with 2022.

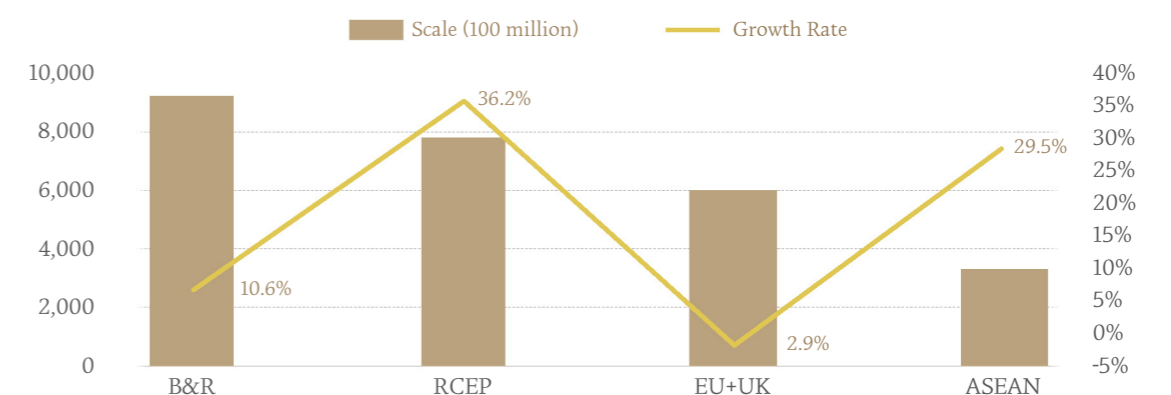
**Second, it is subject to trade flows.** Some regions' share in the cross-border RMB remittances to and from China is proportional to their weight in China's foreign trade. For example, in 2023, the RCEP and EU plus UK accounted for 21.0% and 16.2% of the total cross-border RMB customer remittances to and from China, respectively, while the two regions took up 30.2% and 13.2% of China's trade in goods in the year, respectively. Together, the two regions accounted for 37.2% of China's cross-border RMB customer remittances, and 43.4% of China's trade in goods. The flow of trade is to some extent, influencing the flow of cross border RMB of China.

**Third, the Shanghai International Financial Center is a major hub for cross-border RMB flows.** Shanghai is one of the world's leading trading ports and an international financial center featuring the trading and pricing of RMB financial assets. It serves as a hub in the inbound and outbound RMB flows. In 2023, cross-border RMB

settlements in Shanghai accounted for more than 40% of the national total, and cross-border RMB settlements under securities investment even accounted for about 60% of the country's total. Among the countries and regions where occurred the customer's cross border RMB remittance with mainland China and handled by the domestic branches of Bank of China, the Shanghai Branch of Bank of China covered more than 130. This indicates that Shanghai's RMB receipts and payment covers broad areas of the world, highlighting the Shanghai International Financial Center's position as a global hub for RMB circulation.

**Fourth, China's cross-border RMB payments with the RCEP and the Belt and Road countries grew rapidly.** Hong Kong, RCEP Free Trade Zone and EU plus UK accounted for 37.4%, 21.0% and 16.2% of China's cross-border RMB customer remittances, respectively. The three regions together accounted for 74.6% of the total cross-border RMB customer remittances with the mainland China. Specifically, the growth of cross-border RMB payments between the mainland China and the ASEAN, the RCEP and the Belt and Road countries was prominent, showing solid advances in cross-border RMB circulation characterized by spreading from neighboring countries to regional blocs and achieving rapid growth along the Belt and Road countries.

Scale and Growth rate of RMB Customer Remittances between China and Relevant Regions



Source: Compiled from SWIFT MT103 data

### BOX: Cross border use of RMB in RCEP Free Trade Zone

RCEP Free Trade Zone includes 15 countries, i.e. China, ASEAN Countries, Japan, South Korea, Australia and New Zealand. For the year 2023, RCEP accounted for 30.2% of China's foreign trade, among which ASEAN Countries accounted for 15.4%. Japan, South Korea, Australia and New Zealand together accounted for 14.8%. RCEP accounted for 21.0% of China's cross border RMB customers remittance, among which ASEAN Countries accounted for 8.8% and Japan, South Korea, Australia, New Zealand together accounted for 12.2%. RCEP as a whole, holds an important position in China's foreign trade and take up a large share of China's cross border RMB receipts and payments.

From the perspective of total amount of cross border RMB customers remittance, for the year 2023, the total amount of cross border RMB customers remittance occurred in ASEAN Countries was 2.1 times the amount occurred in Japan, South Korea, Australia, New Zealand together; the cross border RMB customers remittance occurred in ASEAN grew by 22.7%, which was 18.1 percentage points higher than that for Japan, South Korea, Australia, New Zealand together.

Among the total amount of cross border RMB customers remittance, the cross border RMB customers remittance with mainland China occurred in Japan, South Korea, Australia, New Zealand together was 1.4 times the amount occurred in ASEAN Countries; the cross border RMB customers remittance with mainland China occurred in Japan, South Korea, Australia, New Zealand grew by 41.4%. 11.9 percentage points higher than that for ASEAN Countries.

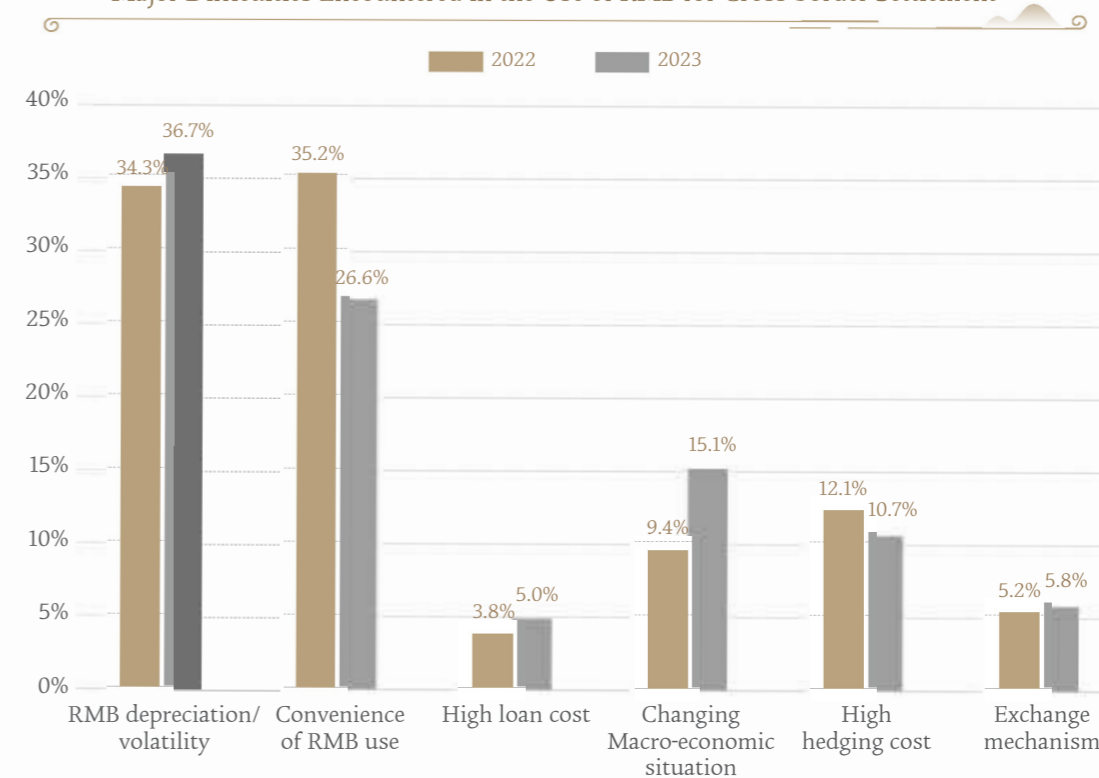
Japan, South Korea, Australia, New Zealand saw larger scale of RMB customers remittance with mainland China and faster growth, but mainly bilateral use with mainland China; ASEAN, as a collective of multi countries,

saw larger scale of RMB customers remittance and is more prominent in multilateral use of RMB.

## 2. Industrial and commercial enterprises' opinions on cross-border RMB products and services

The cross-border RMB circulation at practical level is reflected in the use of cross-border RMB-related products and services. In 2023, domestic industrial and commercial enterprises' willingness to use RMB for settlement further improved, but still faced certain disturbing factors from the changing macro-economic situation. These factors have impacts on domestic industrial and commercial enterprises' experience of using cross-border RMB products from different aspects. As reflected in the feedback from the enterprises, the convenience of cross border use of RMB saw obvious improvement, which will be instrumental in the expanding and upgrading the cross border use of RMB.

Major Difficulties Encountered in the Use of RMB for Cross-border Settlement



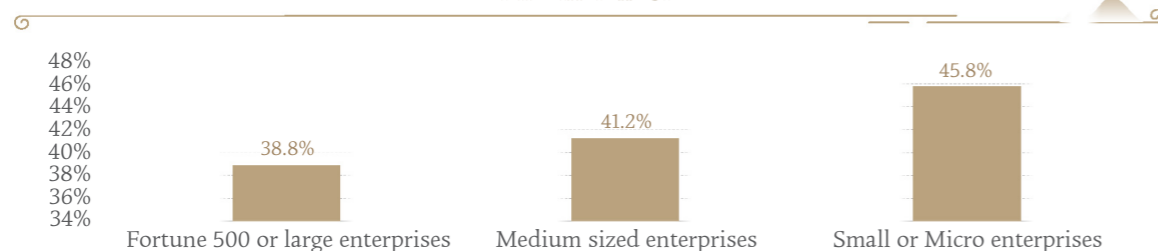
### 3. Characteristics of the use of cross-border RMB products and services by different types of industrial and commercial enterprises

The depth and breadth of the coverage of the cross border RMB services and products on enterprises with different sizes, in different forms of business and at different nodes in the supply chain have effects on the scale and level of RMB cross-border circulation.

#### 1. Enterprises with smaller in size are more active in using RMB as invoice currency and show higher recognition on the convenience of cross-border use of RMB

According to the survey, across the enterprises with different sizes, small and micro enterprises saw more improvements in using RMB as invoice currency. About 45.8% of the surveyed small industrial and commercial enterprises reported increase in RMB-denominated contracts signed over the previous year, about 7 percentage points higher than that of the surveyed large enterprises and 2.1 percentage points higher than that of the surveyed industrial and commercial enterprises as a whole. The survey results manifested to some extent that large enterprises, despite their stronger bargaining power, are facing more difficulties in breaking away with the path reliance with respect to choosing invoice currency. The banking side should provide more effective supports, e.g. systematic solutions, and more fine-tuned services to assist large enterprises using RMB as invoice currency more frequently.

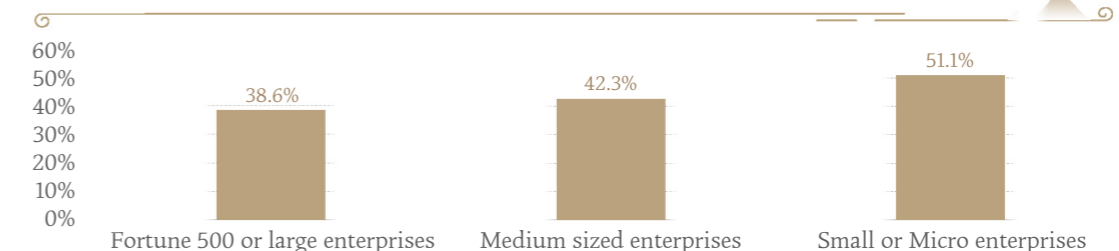
The Percentage of Reporting Increase in RMB Invoiced Contracts Signed For Enterprises With Different Size



Small or micro enterprises showed higher recognition on the convenience of the cross border use of RMB. 51.1% of the surveyed small industrial and commercial enterprises saw no significant difference in the convenience of cross-border use between RMB and other major international currencies, which is 12.5 percentage points higher than that for large enterprises and 8 percentage points higher than that for the surveyed enterprises as a whole. The results of the survey shows that the advantages of cross-border use of RMB in facilitating cross-border trade and investment have benefited the widespread small and medium-sized enterprises and gained higher recognition among them.

The survey results also manifested to some extent that for large enterprises, more cross border scenarios are involved and the structure of the deals are more complex, which call for higher requirements for the convenience of the cross border use of RMB. Further analysis showed that the gaps in the convenience of cross-border settlement between RMB and other major international currencies reported by large enterprises are mainly in the promptness of payment and clearing and the convenience of currency exchange, which accounted for 35% and 25% of the surveyed domestic enterprises respectively. This manifested that for large enterprises, banks should further improve the cross-border RMB settlement and clearing and currency exchange services to continuously improve the service experience of enterprises of different sizes using RMB for cross-border settlement.

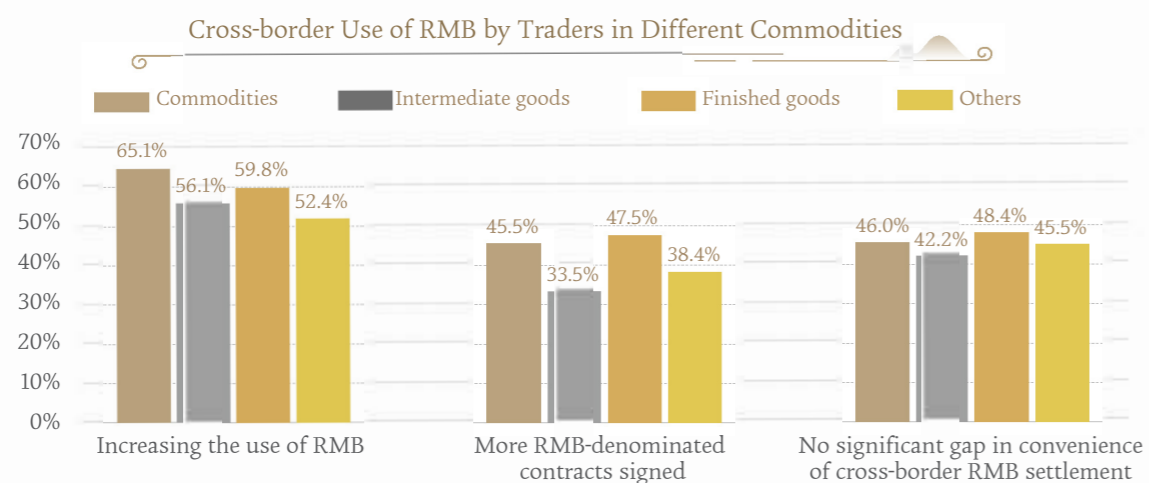
The Recognition on the Convenience of Cross Border Use of RMB for Enterprises in Different Size



## 2. Traders of finished goods are more willing to use RMB for cross border settlement

59.8% of the surveyed domestic manufacturers/traders of finished goods surveyed intended to further increase the proportion of RMB settlement, 3.4 percentage points higher than that of all the domestic enterprises surveyed. The finished product traders also showed higher recognition on RMB as invoice currency and the convenience of cross-border RMB settlement than the surveyed enterprises as a whole. China is a leading country in manufacturing. The trade in finished goods plays an important role in China's foreign trade. The finished product manufacturers/traders' positive inclination to use cross-border RMB settlement displayed the improved capability of cross border use of RMB in serving real economy.

The survey also shows that there is still a certain gap between the intermediate goods traders and the surveyed enterprises as a whole in the recognition on RMB as invoice currency and the convenience of cross-border use of RMB. One of the speculations on the possible reasons for this results is, the intermediate goods traders were weak in bargaining position and has limited voice in deciding invoice currency and settlement currency when negotiating with either fundamental raw materials suppliers or downstream manufactured goods producers.

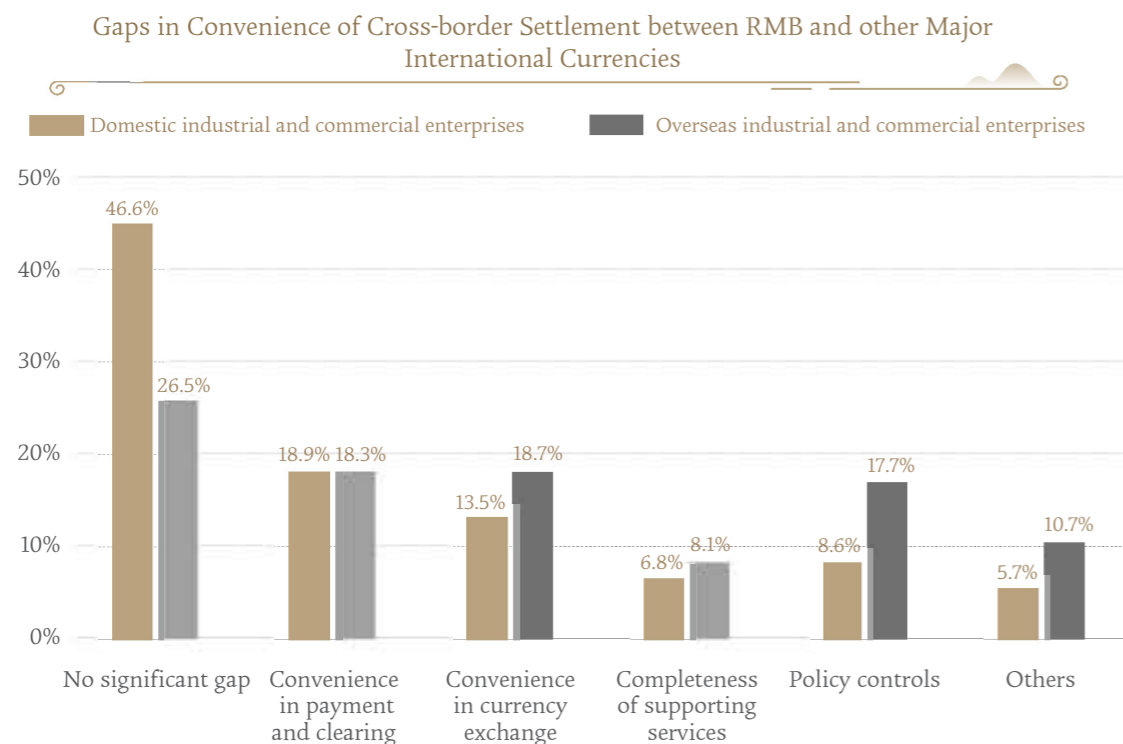


## 3. Domestic enterprises showed higher recognition on the convenience of cross-border use of RMB

According to the survey, 46.6% of the surveyed domestic industrial and commercial enterprises felt no significant difference in convenience of cross-border use between RMB and major international currencies. Benefited from the increasingly favorable policy environment and the broader availability of banks' trade facilitation services, the domestic industrial and commercial enterprises surveyed have given high recognition to the convenience of cross-border use of RMB.

The survey also shows that the convenience of cross-border RMB use was less recognized among overseas industrial and commercial enterprises. Only 26.5% of the overseas respondents felt no significant difference in convenience of cross-border use between RMB and other major international currencies, 20.1 percentage points lower than that of domestic respondents as a whole.

The survey results manifested that, to smooth and expand the cross-border RMB circulation, it is necessary to enhance the service experience of domestic industrial and commercial enterprises in using RMB for cross-border settlement and, it is more necessary to improve the supporting products and services for the overseas cross-border use of RMB products and service packages, continuously improve the service experience of overseas industrial and commercial enterprises and expand and smooth the cross-border RMB circulation through concerted efforts in both domestic and overseas markets.



## 4. Cross-border RMB Products and Services Innovation

To enhance the convenience of cross border use of RMB and better serve the real economy, the financial institutions explore potential demand for cross border use of RMB around key and hot areas of trade growth and strengthen the supporting financial services.

### (1). Provide Cross-border RMB settlement services for Cross-border E-commerce

In 2023, China registered RMB2.38 trillion in cross-border e-commerce imports and exports, up 15.6%. Cross-border e-commerce has become a new force in global trade and an important driver for China's trade growth. Providing better RMB cross-border settlement service for cross-border e-commerce helps improve the trade facilitation on the front of cross-border e-commerce and boost high-quality development of foreign trade. It has become a focal point in banks' drive to expand and improve RMB cross-border settlement.

### Case: Providing Cross-border RMB Settlement Support for Cross-border E-commerce

Company P is currently one of the cross-border e-commerce infrastructure service providers with an outstanding business size and broad service scope. It operates more than 20 branches worldwide serving over 900,000 global merchants, with a business footprint in more than 200 countries and regions. Company P holds over 40 licenses/certifications in Europe, the United States, Japan, India and other countries and regions.

Mainland-based Bank B provides Company P with dedicated service solutions with "Global E-Commerce" as flagship product. By establishing a link with Company P through data interface, Bank B provides comprehensive financial services including online payment, cross-border fund clearing, balance of payments reporting and anti-money laundering for the micro, small and medium-sized cross-border e-commerce businesses and individuals operating on the platform owned by Company P. These services support import and export scenarios and cross-border RMB settlement. Also, Bank B provides comprehensive financial service support such as cross-border finance, inclusive finance, foreign exchange transactions, credit financing, personal finance, finance for the construction of industrial park and e-CNY, which encompass all nodes of Company P's cross-border e-commerce ecosystem and meet the needs of new forms of foreign trade businesses with comprehensive and synergistic financial services.

### (2). Expanding scenarios for cross-border use of e-CNY

E-currency has the advantages of security and efficiency and has been attracting wide attention. The China domestic market saw the e-CNY spreading in concrete progress. Further expanding the scenarios for the

cross-border use of e-CNY will not only better serve the demands of the real economy, but also pave a new path for the international use of RMB.

#### Case: e-CNY Products Better Meet Cross-border Settlement Needs of Individuals, Merchants and Industrial and Commercial Enterprises in Hong Kong

The mobility of people between the Chinese mainland and Hong Kong has increased rapidly amid the ongoing drive for the Guangdong-Hong Kong-Macao Greater Bay Area development. As a result, the corporate and personal customers in the three regions have increasingly stronger demand for cross-border payment instruments that are secure in payment, convenient to use and low in costs. Hong Kong-based Bank Z launched e-CNY services that cover personal digital wallet recharge, cross-border bills collection and corporate cross-border use of e-CNY. This move helps expand the cross-border use of e-CNY to cover more scenarios, serving the real economy on both sides and enhancing the shared prosperity of residents in the Greater Bay Area.

With regard to the personal digital RMB wallet recharge service, Hong Kong residents with Hong Kong mobile numbers are supported to use their HKD or RMB accounts for recharging via Bank Z's mobile banking service. Customers of other local commercial banks are supported in recharging their digital RMB wallets with mainland-based operators via Hong Kong's Faster Payment System (FPS), thus providing greater convenience for Hong Kong users to shop on the mainland. By the end of 2023, more than 13,000 individual customers in Hong Kong had successfully opened e-CNY wallets.

In terms of cross-border merchant bills collection service, real-time quotation and exchange have been realized. Merchants may choose to use HKD or RMB for clearing. The low-cost feature of e-CNY helps merchants reduce their cross-border bills settlements costs. At the end of 2023, the service encompassed

more than 300 local merchants ranging from beauty shops to convenience stores. During the Cross-border Shopping Festival launched in July and September 2023 for southbound and northbound shoppers respectively, the digital wallet attracted broad participation and attention among Hong Kong residents, suggesting huge market potential for the cross-border use of e-CNY among individual customers.

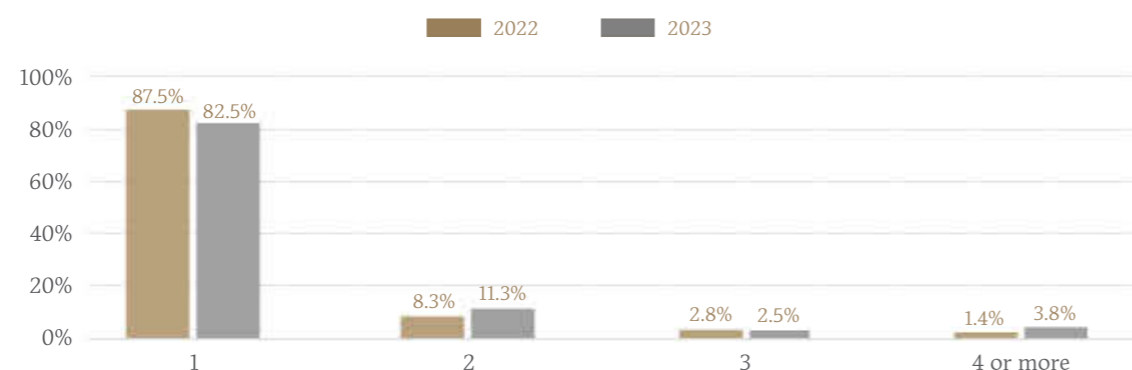
In terms of corporate cross-border e-CNY payments, Bank Z provided a full package of services that include e-CNY recharge, cross-border payment, redemption, account opening and inquiries for local pilot enterprises in late 2023. In December, the Bank successfully completed the payment for a cross-border commodity purchase deal of a pilot group customer, wrapping up the first ever cross-border e-CNY transaction for corporate customers. Subsequently, Bank Z conducted the first ever e-CNY cross-border settlement for gold transactions in cooperation with Shanghai Gold Exchange, opening up a new channel for overseas investors using e-CNY in investing in precious metals in the Chinese mainland.

## 5. Cross-border financial market connectivity products

China steadily advanced the two-way opening-up of its financial market in 2023, further boosting the connectivity between domestic and overseas financial markets and bringing convenience to the optimal allocation of RMB funds across the globe. The financial institutions surveyed in 2023 showed greater diversity of channels through which financial institutions participated in connectivity products. Among the connectivity products or services channels such as Shanghai/ Shenzhen-Hong Kong Stock Connect, Bond Connect, China Interbank Bond Market, Wealth Management Connect, QFI and SDR (Stock Depository Receipts), 17.5%

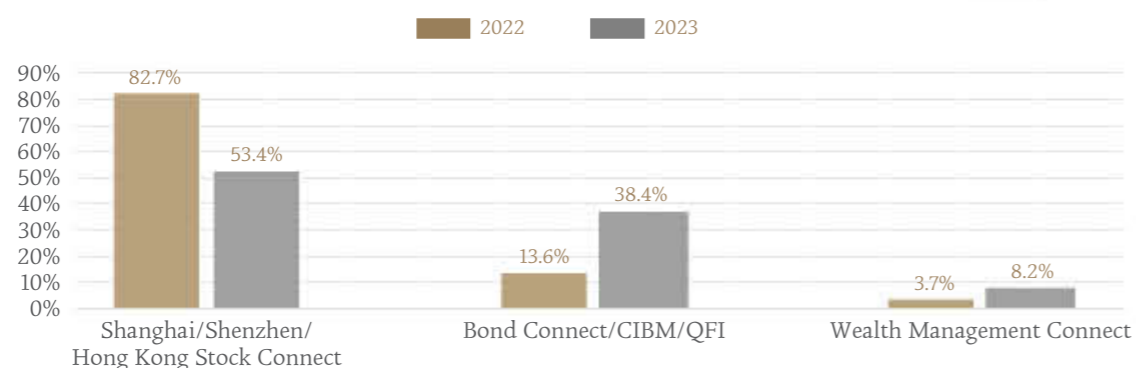
of the surveyed overseas financial institutions participated in two or more of the above connectivity products or service channels, an increase by 5 percentage points as compared with the 2022 survey.

Number of Connectivity Product Categories Overseas Financial Institutions Participated in



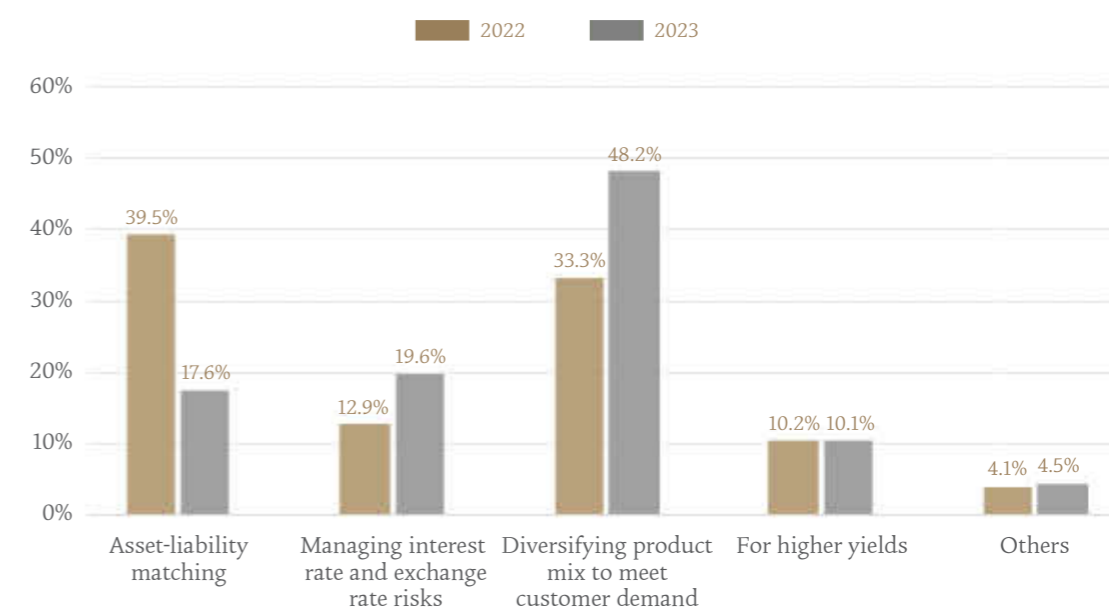
The surveyed overseas financial institutions reported a more evenly distributed pattern of channels through which they participated in the domestic financial markets. Compared with 2022, an obviously larger proportion of overseas financial institutions participated in the domestic financial market through the Bond Connect, QFI and Wealth Management Connect. The target investment instruments, investment scope, investment methods and clearing and custody varied with participation channels. This improved evenness of distribution across channels suggests overseas financial institutions' broader and deeper participation in the domestic financial market.

Participation of Surveyed Overseas Financial Institutions in Four Categories of Connectivity Products



Overseas financial institutions were more proactive in their purposes of participating in the domestic financial market. Compared with 2022, a markedly smaller proportion of overseas financial institutions participated in the domestic financial market for the purpose of asset-liability matching. More of the surveyed overseas financial institutions shifted their main purpose of participating in the domestic financial market to improving the interest rate and exchange rate risk management, enriching product offerings and meeting customers' needs. In particular, the survey shows an increase of about 15 percentage points in the proportion of the surveyed financial institutions participating in the domestic financial market to enrich the cross-border RMB products and services offerings and better meet customers' needs, possibly driven by overseas industrial and commercial enterprises' demand for RMB products and services.

Main Purposes of Overseas Financial Institutions' Participation in RMB Financial Market



The enhanced connectivity of financial markets has better met overseas institutions' demand for RMB products and services. Take the Swap Connect launched in May 2023 as an example. Since its launch, domestic and overseas market entities have traded actively through this channel.

There are a wide range of participants in the Swap Connect program, including foreign central banks, overseas commercial banks, overseas securities companies and overseas funds. As of the end of 2023, a total of 51 overseas institutions participated in the program and 20 domestic Swap Connect market-makers provided quotations for overseas institutions, with an accumulated notional principal of nearly RMB1 trillion.

#### Case: Foreign Investors Manage Interest Rate Risk through Swap Connect

An overseas bank ("Bank A") conducts RMB business in the local market and manages interest rate risks with interest rate derivatives. Before the Northbound Trading of Swap Connect was launched, Bank A usually managed interest rate risks through RMB interest rate swaps in the offshore market. In contrast, the onshore RMB interest rate swap in the Chinese mainland provides higher market liquidity and closer link to the benchmark with a narrower bid-ask spread, implying the likelihood of lower transaction costs and higher hedging efficiency if using onshore interest rate swap. After the Northbound Trading of Swap Connect was opened, Bank A can participate in the onshore interest rate swap market without changing its trading and settlement habits under the Swap Connect mechanism. Therefore, Bank A hoped to further improve its RMB interest rate risk control by participating in the Northbound Trading of Swap Connect.

A large Chinese bank operating in Hong Kong ("Bank C") helped Bank A familiarize itself with the Swap Connect by various means, guided Bank A to prepare for participation in the mechanism and developed a tailor-made service agreement for Bank A with a simplified account opening process and a flexible settlement scheme.

On May 15, 2023, the Northbound Trading of Swap Connect was officially

launched as the world's first central clearing house connectivity project for over-the-counter derivatives. Bank C helped Bank A successfully participate in RMB interest rate swap on the launch date. Bank A thus further broadened the channels and reduce the costs of interest rate risk management.

# Chapter IV

## Use of RMB in Offshore Market

### 1. Overview of the offshore RMB market

In 2023, the cross-border use of RMB continued to expand in offshore market. Cross-border RMB customer remittances outside Chinese mainland increased by 20.4% year-on-year, up by 6.9 percentage points from 2022. RCEP and Hong Kong are the regions with the most active cross-border use of RMB, together accounting for 75% of the cross-border RMB customer remittances outside Chinese mainland.

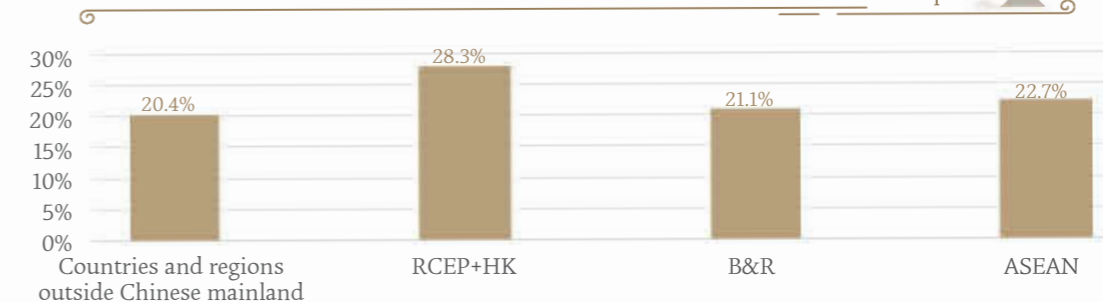
Distribution of Cross-border RMB Customer Remittances in Countries and Regions Outside Chinese Mainland



Source: Compiled from SWIFT MT103 (customer remittance) data

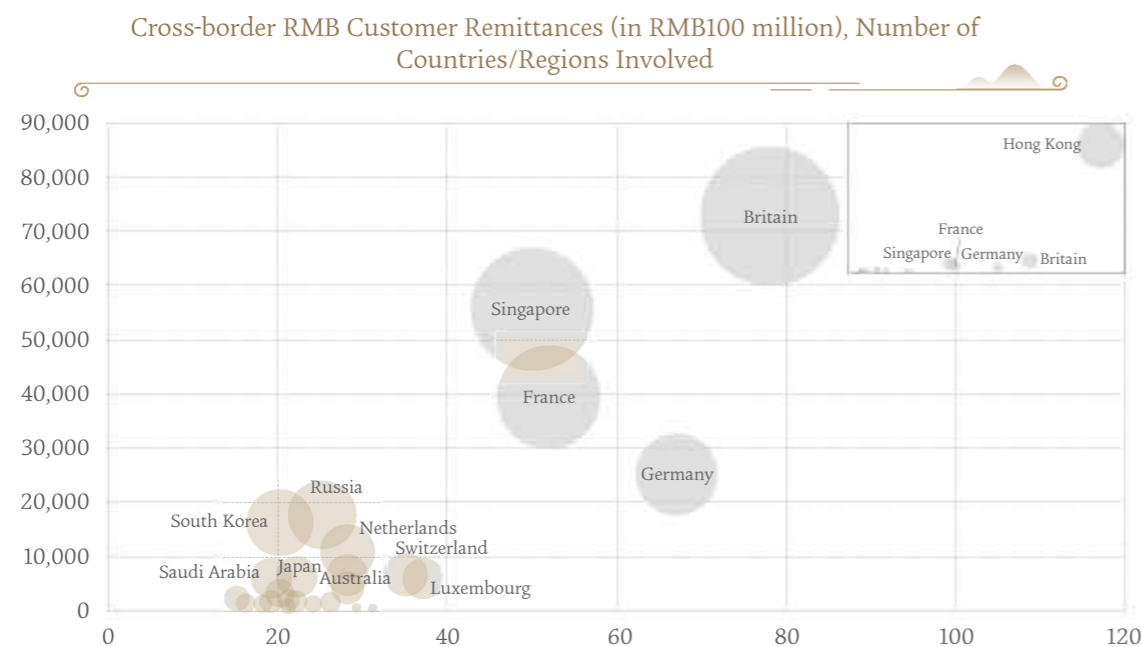
In hot spots, such as ASEAN, RCEP and Hong Kong and the countries along the Belt and Road, the cross-border use of RMB continued to grow rapidly. Some other regions saw the size of cross-border RMB payments growing fast from a low base. For example, the total cross-border RMB customer remittances in the Middle East increased by 99.5% year-on-year.

Growth of Cross-border RMB Customer Remittances in Selected Hot Spots



Note: Compiled from SWIFT MT103 (customer remittance) data; the cross-border RMB remittances of RCEP member countries exclude China.

**RMB offshore circulation has been further expanded its network effect.** The larger RMB flows in overseas markets have given rise to the emergence of some hubs where offshore RMB payment activities are concentrated. Driven by cross-border trade and investment activities, offshore RMB funds spread from these hubs further to other countries and regions to shape a global network of RMB offshore circulation with "one super hub and multiple strong hubs".



Note: Compiled from SWIFT MT103 (Customer remittance) data. The abscissa denotes the number of countries/regions involved, and the bubble size indicates the size of cross-border RMB customer remittances. Only some of the countries or regions are shown in the graph.

Based on the number of countries/regions involved and the size of the cross-border RMB customer remittance, the offshore RMB center can be divided into different levels. The first level is the Hong Kong Offshore RMB center, in 2023, SWIFT message data showed that Hong Kong has cross border RMB customer remittance with 103 countries and regions around the world, undertakes RMB payments and clearings in equivalent to USD159 trillion, which accounts for 73.3% of the global RMB payments and clearings amount. Hong Kong enjoys the most prominent position in the offshore financial center.

The second level includes United Kingdom, Singapore, France and Germany, which has RMB customer remittance with more than 40 countries and regions. The third level includes 17 offshore financial centers, e.g. Luxembourg, Switzerland, Netherlands etc., which has RMB customer remittance with 21-40 countries and regions. In the year 2023, the number of the third level offshore RMB center increased by 4. The aggregate amount of cross border RMB remittance occurred in the offshore RMB centers further increased from 2022.

**The business volume in major offshore RMB center expanded.** Among which, the offshore RMB center in Asia, i.e. Hong Kong and Singapore saw the balance of RMB deposits and loans, the turnover of RMB FX trading grow at faster pace.

Business Size of Major Offshore RMB Markets

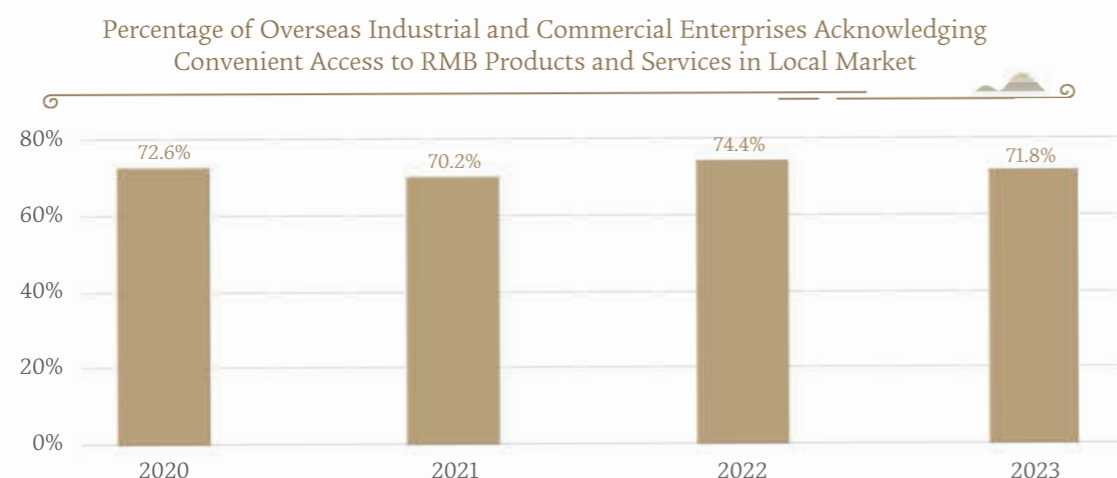
		RMB deposits (RMB100 million)	RMB loans (RMB100 million)	RMB foreign exchange transactions (USD1 billion)	RMB payment and clearing (USD1 trillion)
Hong Kong	Size	9,392	4410	43,216	159
	YoY	12.4%	130.0%	19.6%	17.7%
Singapore	Size	2350	-	8,037	7.6
	YoY	33.5%	-	23.5%	11.4%
Britain	Size	935	334	83,116	11
	YoY	-7.8%	28.8%	3.4%	-0.8%

Note: RMB deposit and loan data are from the websites of relevant central banks/monetary authorities; the data on RMB foreign exchange transactions and RMB payment and clearing are compiled based on SWIFT Market Insight data.

## 2. RMB products and services in offshore market

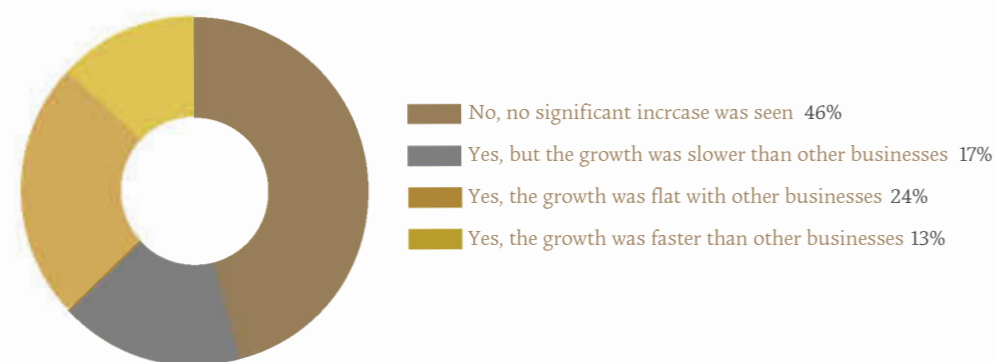
The offshore RMB market is expanding in pace with the growing popularity of offshore RMB products and services. In the 2023 survey, 71.8% of the surveyed overseas industrial and commercial enterprises acknowledged

convenient access to cross-border RMB products and services from the local market to meet their needs.

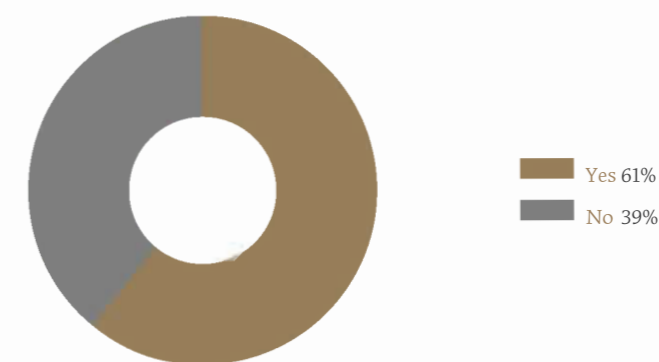


The supply side of RMB products and services in the offshore market also showed positive changes. In the past year, more than half (54%) of the surveyed overseas financial institutions reported growth in customer demand for RMB-related products and services. 37% of the surveyed overseas financial institutions had observed customer demand for RMB-related products grow at par with, or even faster than that for other products and services. Driven by the market demand from overseas industrial and commercial enterprises, more than 60% of the surveyed overseas financial institutions planned to further diversify their RMB-related product offerings to better meet the customer demand.

Did your customers have increased demand for RMB-related products and services in the past year?



Do you have any plan to further diversify your RMB-related product and service offerings?



With the expansion of the cross border use of RMB in the overseas markets, the offshore RMB products and services are used in a broader range of scenarios and have played a bigger role in supporting cross-border trade and investment activities.

For example, to facilitate trade with China, many local enterprises are in need of RMB financing. As a result, RMB trade financing has become an increasingly popular offshore RMB product for local industrial and commercial enterprises. In some countries, RMB financing has successfully entered the mainstream local supply chain finance platforms.

#### Case: Providing RMB Supply Chain Finance for Large Overseas Automakers to Support its Trade with China

An overseas branch ("Branch F") of a Chinese financial institution established business ties with CRX, the largest third-party supply chain platform in Germany. Germany-based Group M is one of the world's top automakers. When learning that Group M was seeking supply chain finance on the CRX platform, Branch F approached the automaker and promoted its services and was finally enrolled as the only Chinese bank candidate for the project.

Branch F continuously refined its service plan to meet the financing needs of Group M: First, Branch F actively communicated with Group M and introduce

the advantages of RMB supply chain finance. Second, it embarked on product innovation to develop a new product relating to non-recourse single factoring and successfully launched it on the CRX platform. Third, Branch F made early preparation for customer's needs and extended credit support.

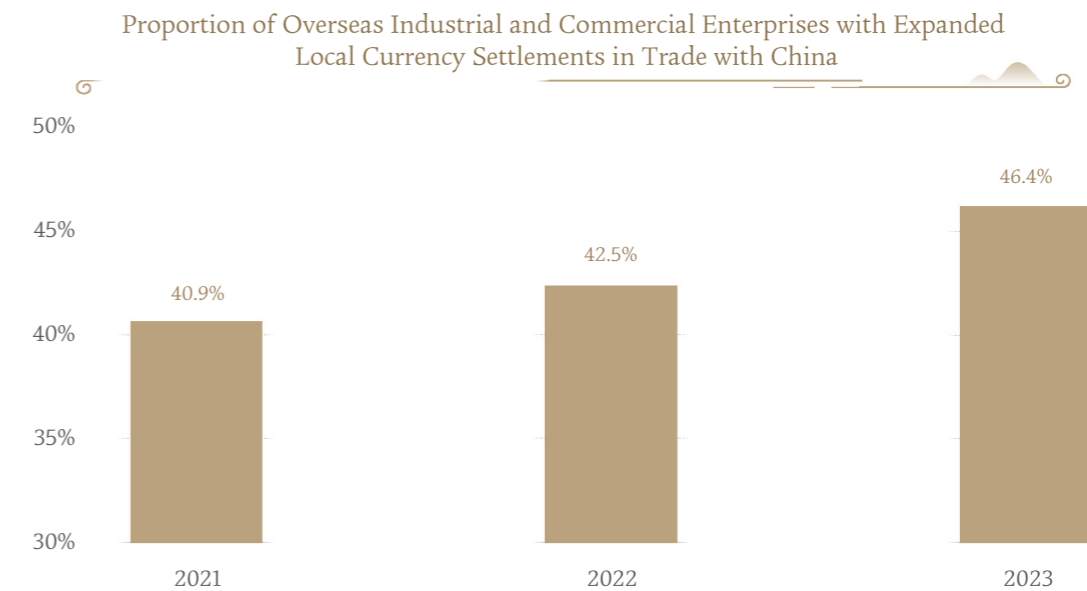
Group M finally decided to adopt the service plan of Branch F and create a special financing module on CRX for non-recourse single factoring. Branch F provided cross-border RMB supply chain finance for Group M through CRX, supporting its purchase of automobile power batteries from the Chinese mainland. As of the end of 2023, the balance of RMB supply chain finance facility provided for Group M was approximately RMB2.4 billion.

### 3. Cooperation in local currency settlement

The cooperation in local currency settlement helps avoid the exchange rate risk, save exchange cost and shield bilateral trade from changes in the liquidity of third-party currencies used for payment and settlement. Also, the cooperation in local currency settlement helps foster and expand the market for direct trading between RMB and the local currency, thus further improving the offshore RMB market. The cooperation in local currency settlement continued to advance steadily in 2023.

First, the willingness to cooperate in local currency settlement has become stronger. In 2023, more countries expressed their interest in local currency settlement cooperation. For example, President of Brazil called for expanding local currency settlement during his visit to China. The Johannesburg Declaration adopted at the 15th BRICS Summit stressed the importance of encouraging BRICS countries and their trade partners to use local currencies in international trade and financial transactions. In the 2023 survey, 46.4% of the surveyed overseas

industrial and commercial enterprises reported an expansion of local currency settlements in their trade with China than in the previous year, an increase by 3.9 percentage points as compared with the 2022 survey, and representing a rise for the second consecutive year.



#### Case: The China-Brazil Trade realized Local Currency Settlement For The First Time

The E Pulp Company was one of the most competitive companies in the pulp industry of Brazil, about 40% of its products was sold to China. In Aug 2023, E company accepted RMB as the invoice currency for its contracts with a Chinese importer and designated the Brazil subsidiary of Bank of China (B bank) as the collection bank.

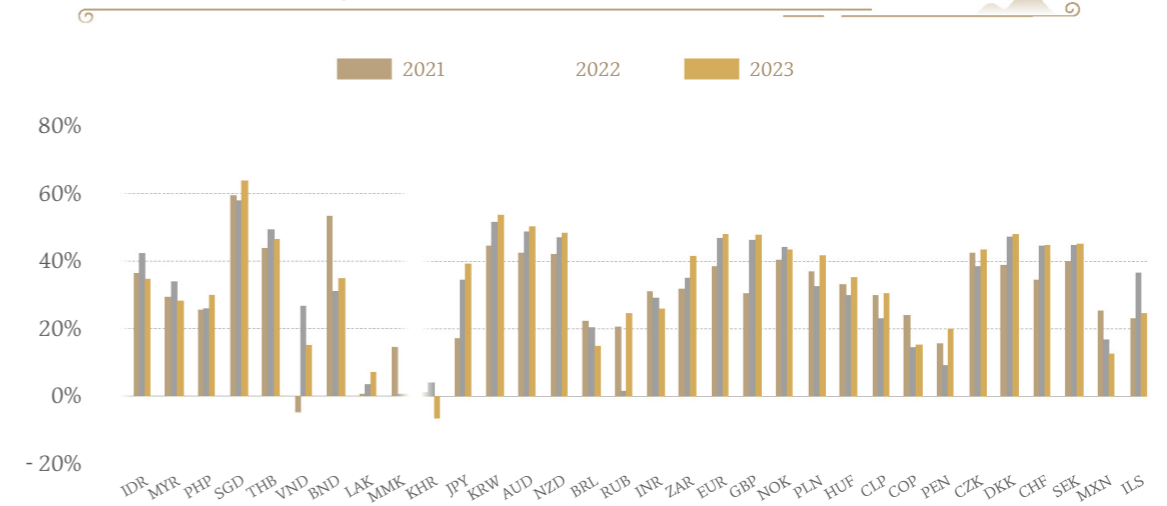
In Sep, B bank received deferred payment LC opened by the Chinese importer and advised the E company, E company presented the shipping documents and invoices as required by the LC. After checking the LC and the documents, B bank made advance payment to E company so as to help E company recoup the working capital earlier. Subject to the foreign exchange management

requirements, B bank converted the sales proceeds in RMB directly into Brazilian Real and remitted it into Brazil for credit into the account of E company and completed the finance and settlement for the pulp export.

The settlement transaction, realized an enclosed settlement process that cover RMB invoicing, RMB settlement and finance and CNY/REAL direct conversion and provided a one-stop solution for Brazil exporters who use RMB as settlement currency and makes an example for more enterprises that use local currency settlement.

Second, the exchange rate environment is conducive to deepening the cooperation in local currency settlement. When the local currencies of both parties in the trade move in the same direction against the US dollar, the two sides will take lower exchange rate risk in local currency settlement. Under the market-oriented principle, enterprises will prefer to settle in the local currency. In the 2023 survey, about 67.5% of the surveyed overseas industrial and commercial enterprises acknowledged that they would be inclined to adopt local currency settlement when currencies moved in the same direction. In 2023, the financial markets' expectations for the Federal Reserve's monetary policy path changed drastically. The US Dollar Index swung widely, and the correlation between RMB/USD rate and other currencies /USD rate increased. In particular, the exchange rate movements relative to US dollar for the currencies of RCEP member countries, such as the Philippines, Singapore, Japan, South Korea, Australia and New Zealand, showed a significantly positive and closer correlation with RMB/USD rate movements.

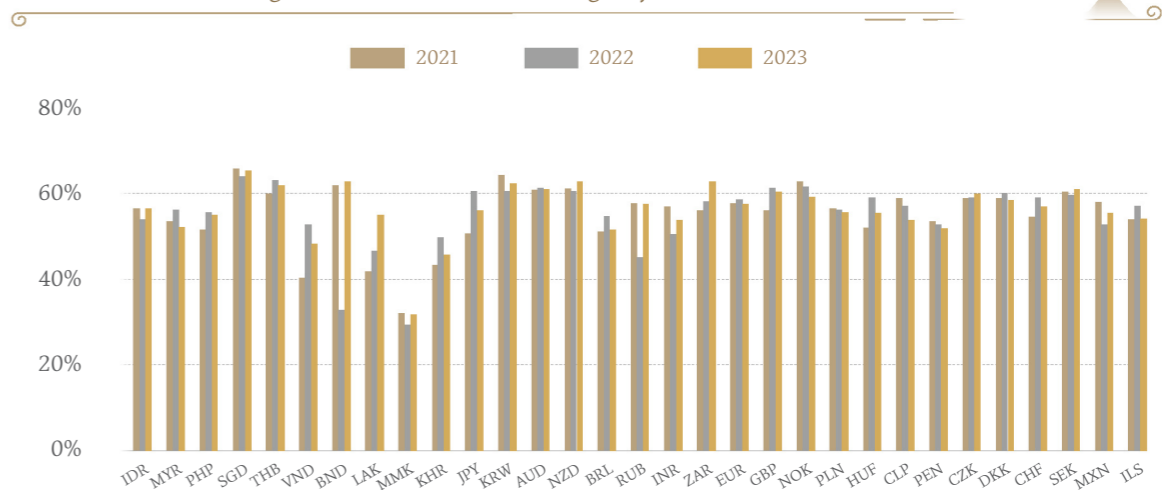
Correlation between the Daily Exchange Rate Movement for Selected Countries' Currencies against USD and RMB/USD: 2023 versus 2022 and 2021



Source: Bloomberg, Hong Kong Institute of Financial Research of Bank of China

With regard to higher-frequency changes, such as daily co-movements in exchange rates of non-USD currencies and the exchange rate of RMB against USD, the percentage of the trading days when the exchange rate of non-USD currencies move in same direction with the that of RMB to the total trading days generally exceeded 50% and was on the rise. i.e. the currencies of Indonesia, Philippines, Singapore and Laos in ASEAN, and the currencies of South Korea, Australia and New Zealand in RCEP.

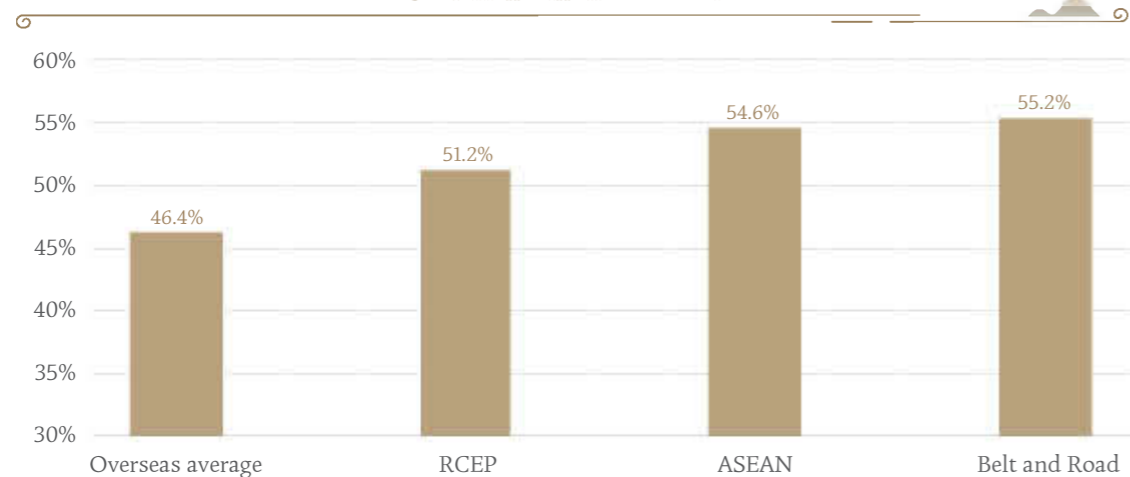
Trading Days with Co-directional Movements between Selected Countries' Currencies versus USD and RMB/USD Exchange Rate as % of Total Trading Days in the Year: 2023 versus 2022 and 2021



Source: Bloomberg, Hong Kong Institute of Financial Research of Bank of China

Third, the demand for local currency settlement further expanded in some hot spots. By region, more than half of the surveyed enterprises in ASEAN, RCEP and the countries along the Belt and Road reported a larger scale of local currency settlements (in RMB or local currency) in the past year, higher than that for the overseas industrial and commercial enterprises as a whole. The bilateral trade between these regions and China has grown rapidly, fueling their demand for local currency settlement and there is considerable potential for the further deepening of local currency settlement cooperation between China and these regions.

Percentage of Industrial and Commercial Enterprises with Expanded Local Currency Settlements in the Past Year



# Topic I

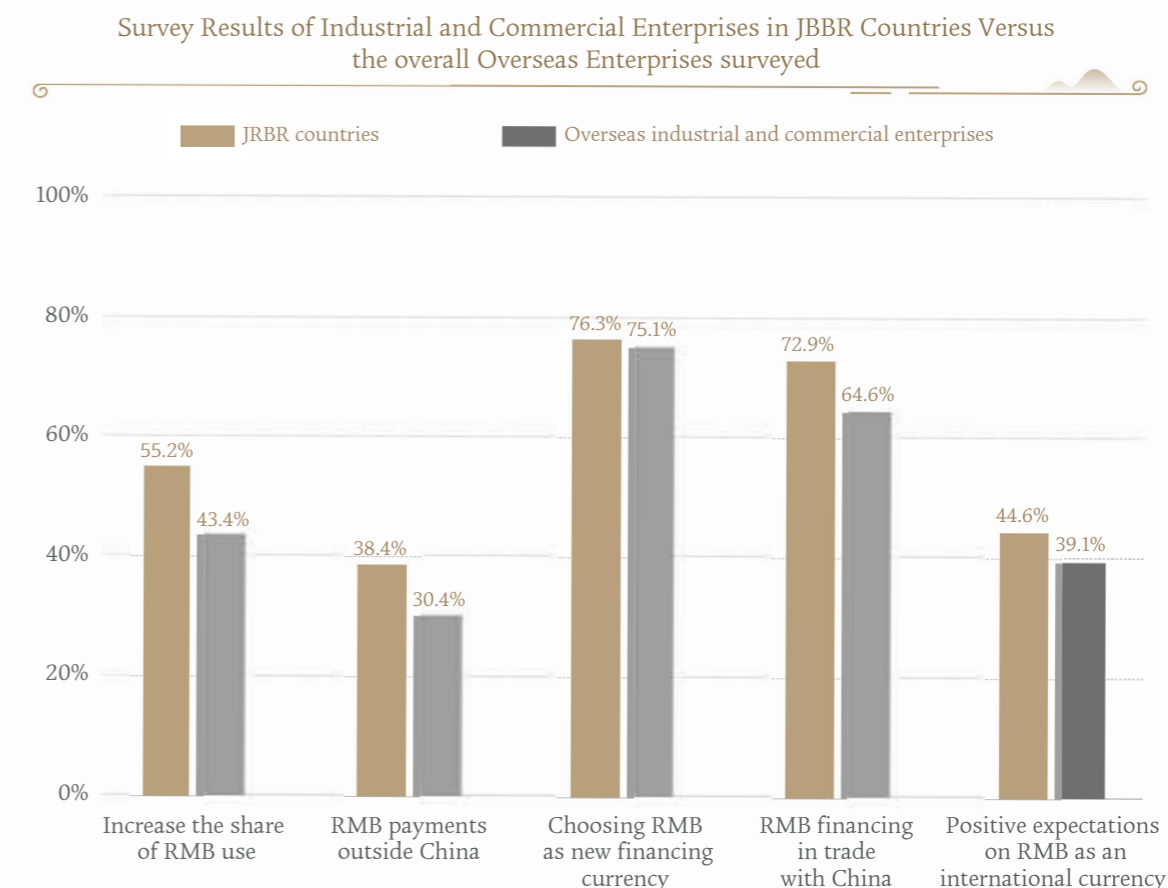
## Cross-border Use of RMB in the “Jointly Build Belt and Road” countries

Since China introduced the "Jointly building the Belt and Road Initiative" in 2013, the economic and trade ties have increasingly strengthened between China and the countries that jointly build the Belt and Road ("JBBR countries"). In 2023, China's trade with JBBR countries totaled RMB19.5 trillion, representing a year-on-year increase by 2.8%, accounting for 46.6% of China's total imports and exports. Both the size and the share reached a record high since the initiative was introduced. Based on the solid economic and trade ties, the cross-border use of RMB has become an important link that boost deeper and solid progress in the Belt and Road Initiative.

### 1. The inclination to use cross border RMB is generally strong

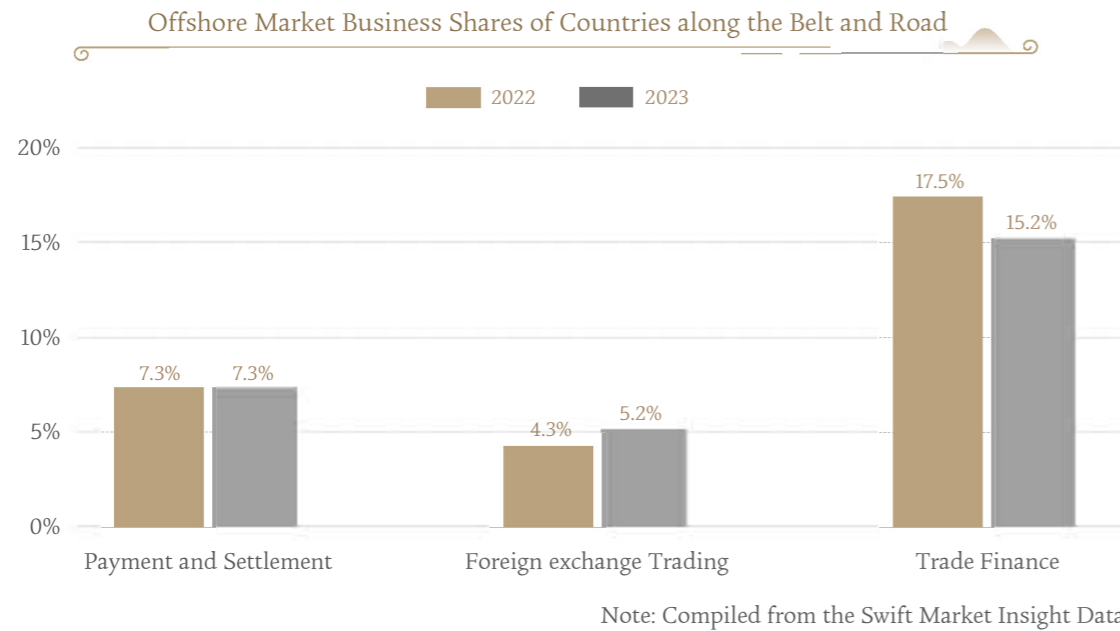
Compared with overseas industrial and commercial enterprises surveyed as a whole, the B&R countries are generally more willing to use RMB. Of the surveyed industrial and commercial enterprises in JBBR countries, 55.2% intended to increase the use of RMB, approximately 11.8 percentage points higher than overseas industrial and commercial enterprises as a whole. The respondents that reported cross-border RMB receipts and payments outside China accounted for 38.4% of the surveyed industrial and commercial enterprises in the JBBR countries, 8 percentage points higher than overseas industrial and commercial enterprises as a whole. When major international currencies underwent a tightening liquidity, a slightly larger share of industrial and commercial enterprises in the countries chose to use RMB as a new financing currency than overseas industrial and commercial enterprises as a whole. The proportion of industrial and commercial enterprises in JBBR countries that considered RMB as the preferred financing currency in trade with China was 8.3 percentage points higher than that of the overall

surveyed overseas industrial and commercial enterprises. The industrial and commercial enterprises in the JBBR countries held more positive expectations on RMB as an international currency.



### 2. The relative position of the offshore RMB market has great potential for improvement

Compared with their share in China's foreign trade, JBBR countries took up a relatively low proportion of the total cross-border RMB business in the offshore RMB market. JBBR countries' share in the global RMB payment and clearing amount (MT103 + MT202) was basically flat with 2022. JBBR countries' share in global RMB foreign exchange transactions expanded and that in global RMB trade finance shrank. In the context that the cross-border use of RMB is broadly accepted in JBBR countries, the relative position of the offshore RMB markets of the JBBR countries has great potential for expansion.



### 3. Cross-border use of RMB helps the Belt and Road Initiative go deeper and more practical

With the ongoing advancement of the Belt and Road Initiative, progress are made in fields such as policy communication, infrastructure connection, smooth trade, free flow of capital and mutual understanding among the people. The cross-border use of RMB has unique advantages in serving smooth trade and free flow of capital, and will play a more positive role in promoting solid progress of the Belt and Road Initiative and fostering more cooperation achievements.

#### Case: RMB-denominated Comprehensive Financial Services Support Major Belt and Road Projects

Malaysia's East Coast Rail Link (ECRL) project is the largest transportation infrastructure project along the Belt and Road, the largest project between China and Malaysia, and one of the largest stand-alone projects implemented overseas by Chinese firms. Total investment in the project is approximately RMB80 billion. The project owner is a wholly-owned subsidiary of the

Ministry of Finance of Malaysia, and the contractor is ECRL, a wholly-owned project company established in Malaysia by a large Chinese company ("Company J"). The Malaysian branch of a Chinese-funded institution ("Branch M") provided comprehensive cross-border RMB products and services for the project.

(1). Providing RMB cross-border settlement services under Bank-Corporation Direct Link

There were a large number of sub-contractors and suppliers for the ECRL project. Company J made over 100 payments a day at peak times under various scenarios of cross-border use of RMB, such as settlement of project payments and payment of expatriates' wages. In order to improve the payment efficiency, the Branch M connected ECRL's financial system with its banking system through the Bank-Corporate Direct Link service. After completing the approval process at its business end, the ECRL can send the payment instructions directly to the bank to initiate the payment, thus enabling the project company to make cross-border RMB payments more efficiently.

(2). Providing RMB financing support

In order to address the mismatch between the project company's spending needs and the project owner's settlement cycle, the Branch M provided a RMB working capital loan to the ECRL taking advantage of the low costs and quick application process of RMB loans in Malaysia. With the payments for project works designated as cash flows for repayment, the loan was approved and provided quickly to ensure smooth project implementation.

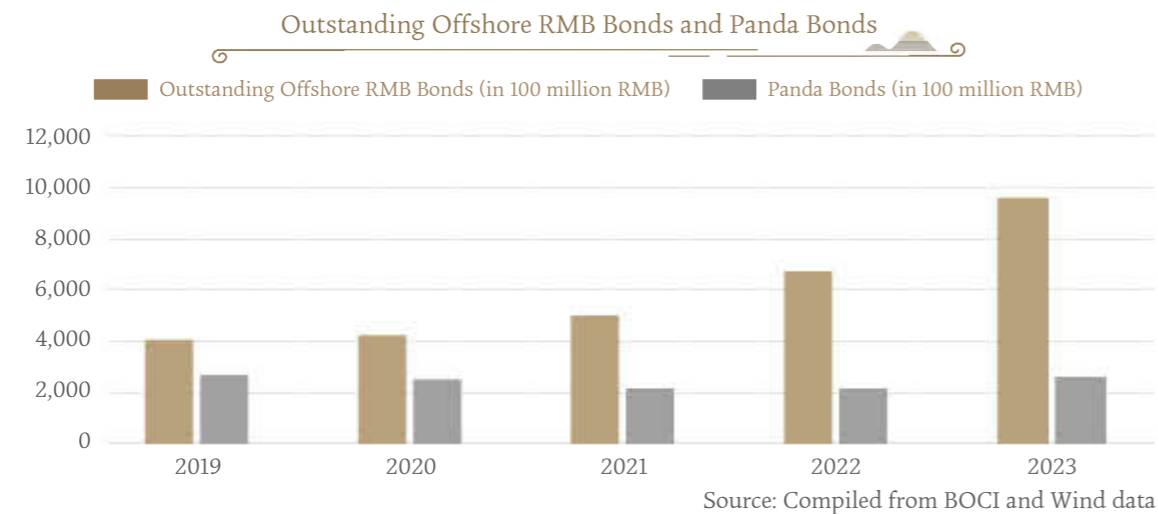
(3). Providing RMB payroll service

The Chinese employees of the project have demand for both Malaysian Ringgit and RMB. A small share of the salaries paid in Ringgit is used for local living expenses, and the large share of the salaries are paid in RMB. Most of the Chinese employees send RMB back to their home countries to support their families. Therefore, the Branch M provided the Chinese workers for the project with one-stop services including opening multi-currency accounts, payrolls service, currency exchange and cross-border direct remittance of RMB. The Chinese workers can open accounts by way of remote video witnessing. The payroll service features were integrated into the Bank-Corporate Direct Link system, enabling the project company to pay wages without leaving office. The online banking and mobile banking services enabled the Chinese workers to effect such transactions as funds transfer, money exchange and repatriation of wages simply with a smartphone. In addition, Branch M exclusively provided the Chinese workers with RMB wages direct remittance service that dispenses with the use of US dollar as intermediate currency, saving the exchange cost and making it possible to receive the remittance on intraday basis.

# Topic II

## RMB Financing in the Offshore Market

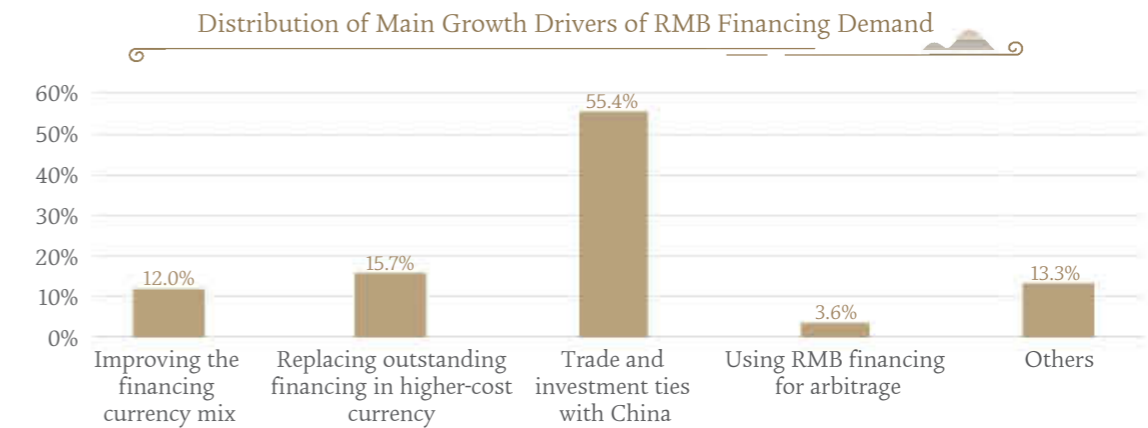
In 2023, RMB financing saw rapid growth in offshore markets. At the end of the year, the outstanding RMB bonds in the offshore market amounted to RMB952.9 billion, a year-on-year increase by 42.4%. Hong Kong as the world's largest offshore RMB market, saw the outstanding RMB loans increase by 1.3 times to RMB441 billion at the end of 2023. The strengthened role of RMB as financing currency is reflected, at the macro level, as improved ability of RMB credit funds to guide the optimization of domestic and overseas resources allocation, which helps further improve the quality and efficiency of serving the real economy by the cross border use of RMB.



## 1. The financing demand comes out of the economic and trade activities with China

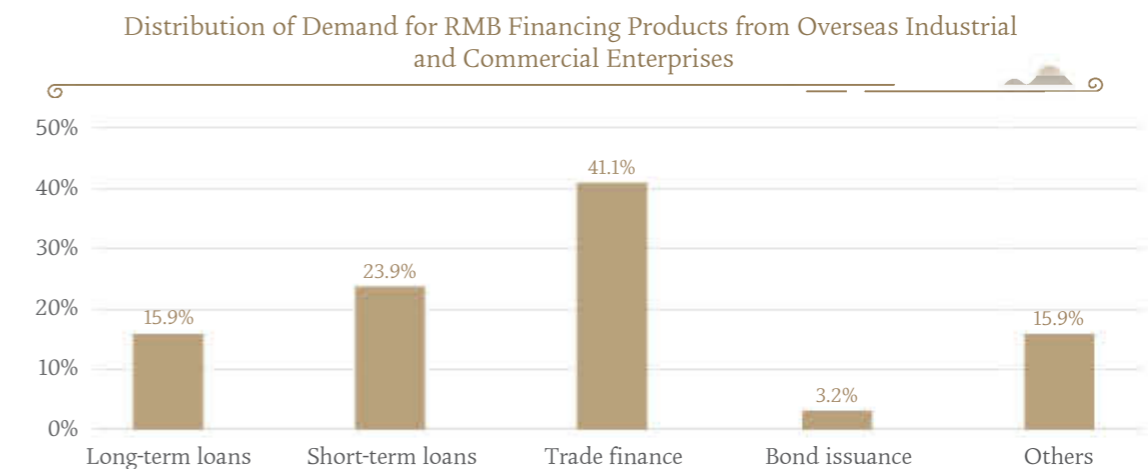
According to the survey on overseas financial institutions, the primary growth driver of RMB financing demand in the offshore market is the economic and trade activities with China, which accounted for 55.4% of the overseas financial institutions surveyed. Secondly, overseas industrial and commercial enterprises' optimization of the financing currency mix and replacement of outstanding financing denominated in currencies with high interest rate are also important growth drivers of RMB financing

demand, which accounted for 12% and 15.7% of the financial institutions surveyed, respectively. The respondents "using RMB financing for arbitrage", which was in low relevance to the real economy, accounted for only 3.6% of the overseas financial institutions surveyed.



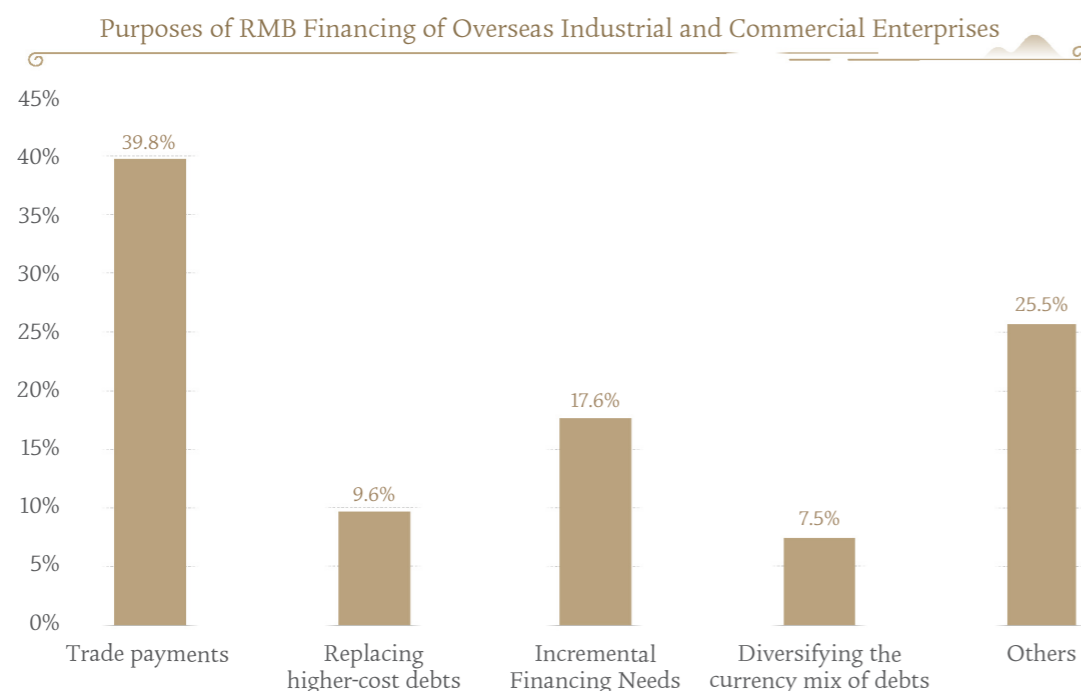
## 2. Demand for financing products focuses on short-term and indirect financing

As shown by the distribution of demand for RMB financing products, the demand of the overseas industrial and commercial enterprises using RMB financing products are more focused on short-term financing, and they use indirect financing much more than direct financing. RMB trade finance products are the most used products, and the respondents in this category accounted for about 40% of the overseas industrial and commercial enterprises surveyed.



### 3. The main purpose of financing is for trade payments

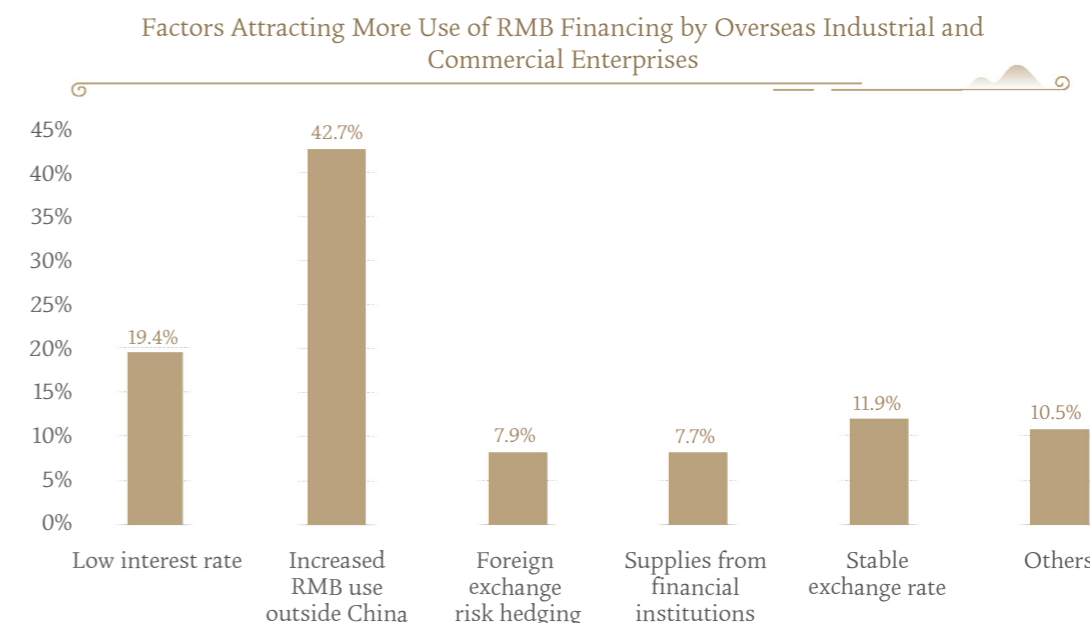
As for the purpose of RMB financing, overseas industrial and commercial enterprises mainly use RMB financing for trade payments, accounting for nearly 40% of the overseas industrial and commercial enterprises surveyed. Given the relatively low interest rate of RMB, some overseas industrial and commercial enterprises began to use RMB financing to meet their incremental financing needs.



### 4. The stronger role of RMB as a settlement currency has made RMB financing more attractive

Among the factors that may attract overseas industrial and commercial enterprises to use RMB financing, i.e. the relatively low interest rate of RMB, the increased use of RMB for payment and settlement in countries and regions outside China, RMB exchange risk hedging instruments cover more currencies by , improved availability of RMB loans or financing products provided by more financial institutions, and the relatively stable exchange rate of local currency relative to RMB, only 19.4% of the

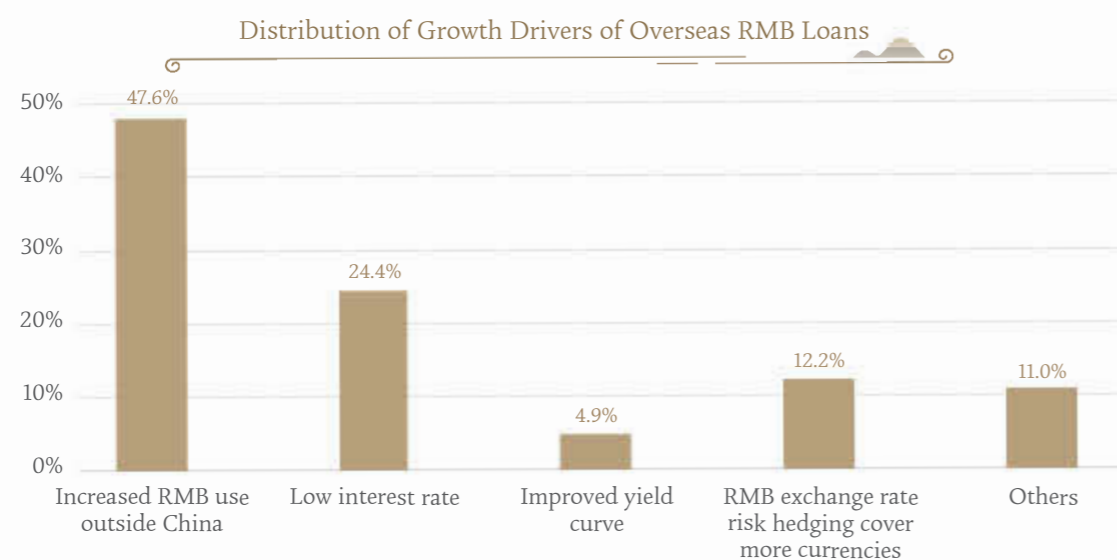
surveyed overseas industrial and commercial enterprises responded that it is the relatively low interest rate of RMB that has attracted them to use more RMB financing. As high as 40% of the surveyed overseas industrial and commercial enterprises reported that the increased use of RMB in countries and regions outside China was the main factor attracting them to use RMB for financing.



The survey on the overseas financial institutions shows similar results. Among the factors that may boost the growth of demands for overseas RMB loans, i.e. the increased use of RMB for payment and settlement in countries and regions outside China, the relatively low interest rate of RMB, the improved RMB yield curve so as to provide more pricing benchmarks for financing needs with different maturities and RMB exchange risk hedging instruments cover more currencies, as high as 47.6% of the surveyed overseas financial institutions chose the increased use of RMB in countries and regions outside China as the primary growth driver of overseas RMB loans.

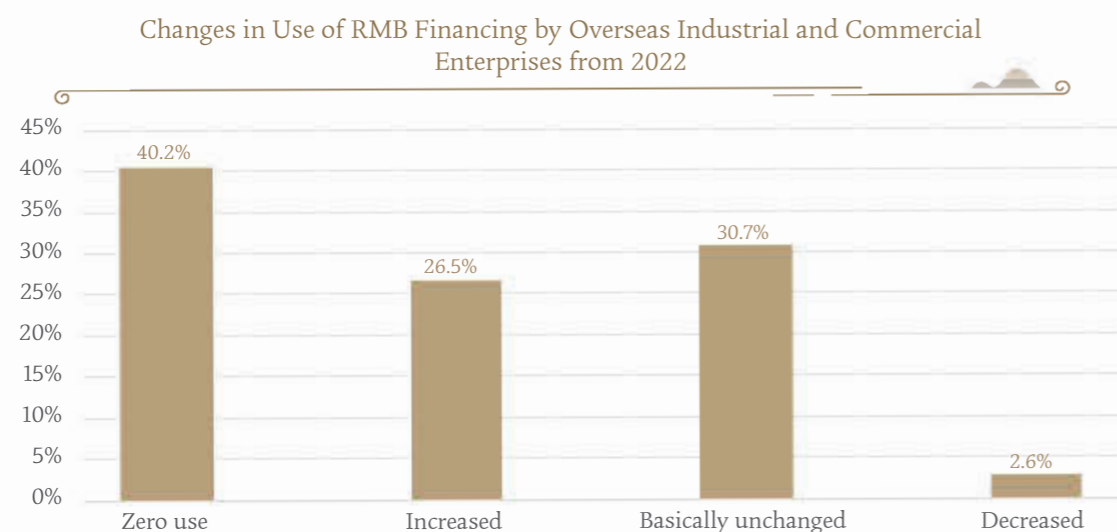
The survey shows that the key to expanding the overseas use of RMB

financing still lies in "self-strengthening", i.e. enhance the multilateral use of RMB abroad.



## 5. The growth potential of RMB financing remains to be further tapped

The survey showed that only 26.5% of the surveyed overseas industrial and commercial enterprises reported an increase in RMB financing over 2022, there were still 40% of the respondents did not use RMB financing. With the improving role of RMB as settlement currency and the wider popularity of RMB financing products and services, RMB financing still has great growth potential in the offshore market.



# Chapter V

## Trends and Prospects of RMB Internationalization

## 1. Cross-border RMB products and services

The survey results and relative data showed that a wider variety of cross-border RMB products and services were available, with RMB used on a larger scale under more diversified service scenarios. The cross-border RMB products and services will grow and evolve along the following three major threads:

**First, serve the real economy more efficiently.** The share of respondents that used RMB for settlement or planned to increase the use of RMB for settlement in cross-border transactions in the surveyed industrial and commercial enterprises rose by 8.7 percentage points as compared with 2022. Under the background of RMB fluctuating against US dollar in both directions, the survey result indicates that more enterprises avoid foreign exchange risk by using cross-border RMB settlement, which not only enhanced the facilitation of cross-border trade and investment but also contributed to the healthy and stable growth of the real economy.

**Second, boost higher-standard opening-up more intensively.** The innovation in cross border RMB products and services will be further integrated into the higher-standard opening-up process. For example, commercial banks provide settlement, quotation, agency and other services for the Bond Connect, Shanghai/Shenzhen-Hong Kong Stock Connect and Swap Connect to enhance financial market connectivity. The banks undertaking pilot program on multi-functional free trade account will further facilitated the orderly cross-border flows of RMB in Hainan Free Trade Port and the Guangdong-Macao In-Depth Cooperation Zone in Hengqin, serving the strategy of upgrading pilot free trade zones.

**Third, control financial risks more effectively.** The weight of RMB

debts in the foreign debts of China is increasing. RMB-denominated foreign debts accounted for 47% of China's foreign debts in 2023, up by 2 percentage points from 2022 and 14 percentage points from 2018. RMB's enhanced role as financing currency reduces the foreign exchange risk exposure of China's foreign debt at the macro level, making foreign debts safer, and helps enterprises reduce currency mismatches in cross border financing at the micro level. Cross-border RMB products and services will play more active role in preventing and controlling financial risks and safeguarding financial security in the future.

## 2. RMB regionalization

The survey result showed the trend of deepening regionalization of RMB, manifesting the stable, prudent and solid progress in RMB internationalization:

**First, RMB regionalization has gone deeper and broader.** ASEAN and RCEP have shown improvements in the willingness to accept RMB, the larger scale of use and more positive support for RMB products and services, their weights in China's cross-border RMB receipts and payments further increased. The ongoing implementation of the Jointly Build the Belt and Road Initiative and the deeper cooperation among BRICS countries have given rise to the emergence of more hot spots for cross-border use of RMB. e.g. Cross-border use of RMB achieved rapid growth in Central Asia, new breakthroughs in cross border use of RMB have been made in some South America countries.

**Second, economic, trade and financial cooperation has continued to inject new momentum.** The increasingly close economic and trade ties between China and relevant regions have cemented the foundation for cooperation in local currency settlement.

Financial cooperation has gone deeper in such fields as currency swap and the direct exchange of local currency with RMB, which helps further improve the infrastructure facilities that support the regional use of RMB.

### Third, RMB gained firmer footing to become anchor currency.

China has further consolidated its position in regional and global trade, which, together with the basically stable prices nationwide, helps to build up firm footing for RMB to become anchor currency. The deeper regional monetary and financial cooperation helps to push forward the coordination on the exchange rate movements of regional currencies. In 2023, despite the high volatility of US Dollar Index, the currencies of many countries moved in better alignment with RMB, thus further cementing the foundation of RMB as a regional anchor currency.

## 3. Offshore RMB market

Data from the survey and SWIFT showed that RMB was used more multilaterally, RMB has some preliminary network effects for international use, reflecting the trend of more complete offshore RMB markets.

### First, more products are available in the offshore RMB market.

RMB has been introduced to mainstream supply chain finance platforms in some regions. The e-CNY products are used in Hong Kong under a wider range of scenarios. Backed by the major Belt and Road projects and overseas cooperation industrial parks, RMB comprehensive financial services have further expanded in overseas markets. With the increasingly broad use of RMB across borders, a series of breakthroughs have been made in hot spots and key areas.

### Second, the offshore RMB market network has been improved.

The survey shows that more overseas industrial and commercial enterprises reported cross-border RMB payments with countries and

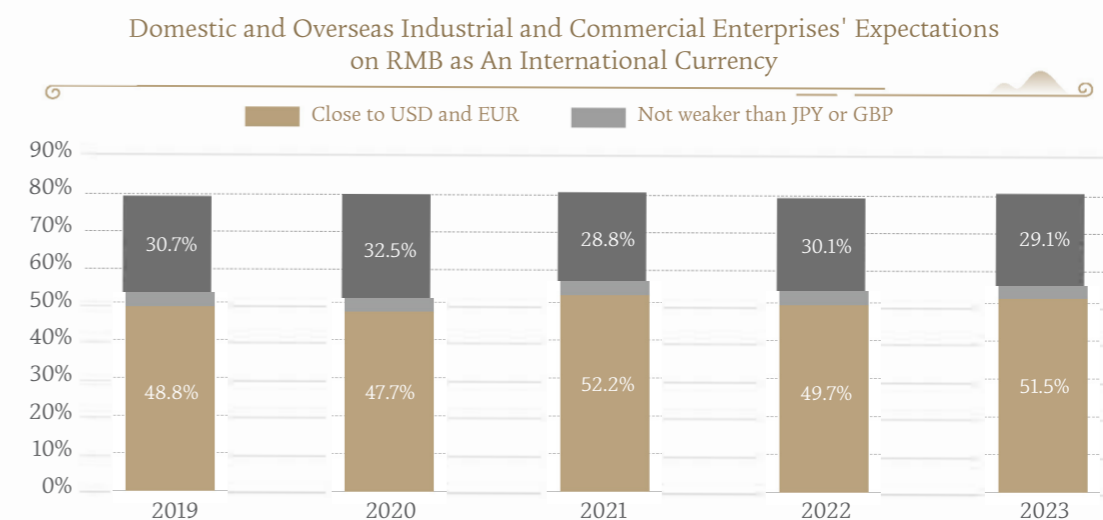
regions outside China. SWIFT message data also shows an increased share of RMB in global payment and settlement. More countries and regions became regional hubs for multilateral use of RMB, suggesting that the offshore RMB market network has improved to underpin multilateral use of RMB on a larger scale.

### Third, some of the offshore RMB centers has strengthened their core positions.

The combined share of the three offshore RMB centers in Hong Kong, London and Singapore in global RMB payments and clearing (MT103 + MT202) rose by 1 percentage point from 2022 to 81.8%, covering a larger number of countries and regions. The important offshore RMB centers have strengthen their position as hubs in global RMB flows with broader stretch of influence.

## 4. The role of RMB as an international currency

Domestic and overseas industrial and commercial enterprises have more positive expectations on the role of RMB as an international currency. 80.6% of the surveyed domestic and overseas industrial and commercial enterprises responded that the role of RMB as an international currency will be no weaker than Japanese yen and British pound in the next ten years, up by 0.8 percentage points from the 2022 survey.



The survey results that domestic and overseas market entities' maintained positive expectations on the role of RMB as an international currency reflected that positive progress has been made in RMB internationalization on various fronts in 2023:

**First, RMB has been used more multilaterally.** Feedbacks from market entities and monthly reports from SWIFT both show significant improvement in multilateral use of RMB in 2023. The share of RMB in global payments rose beyond the range of 2%–3% hovering for many years and remained above 4% for several consecutive months, signaling the further improvement of RMB as a settlement currency.

**Second, the role of RMB as financing currency further improved.** The survey shows that nearly 80% of the surveyed industrial and commercial enterprises in the ASEAN region, where the trade with China is growing rapidly, give priority to RMB as financing currency for trade with China, up by 6.4 percentage points from 2022. Feedbacks from overseas financial institutions indicate that the trade and investment ties with China are the main growth driver for RMB financing demand. The growing demand from the real economy boosted the role of RMB as financing currency.

**Third, the role of RMB as store of value and reserve currency tends to improve.** Overseas industrial and commercial enterprises were more willing to hold RMB deposits and RMB-denominated financial assets as compared with 2022. A larger proportion of surveyed overseas financial institutions considered expanding their exposure to RMB financial assets, and a higher percentage of surveyed overseas financial institutions reported a higher than 10% share of RMB assets in their investable assets. Of the foreign central banks that participated in the Chinese interbank bond market under survey, about two thirds responded

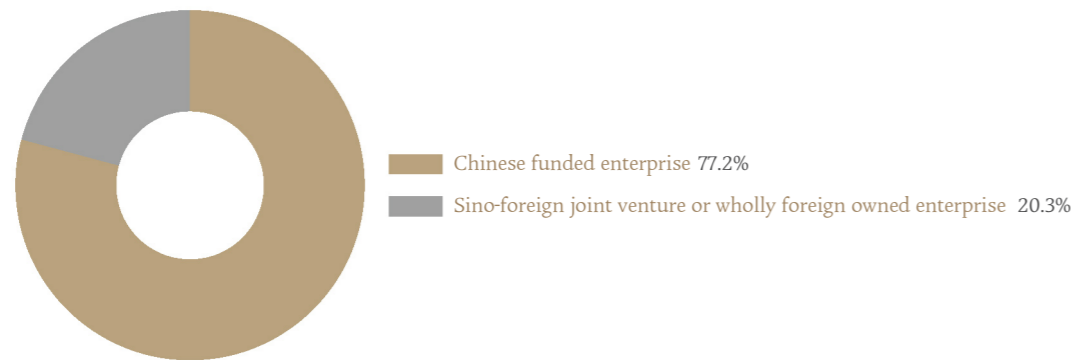
that they would further increase allocation to RMB assets as reserves. The survey results showed in various aspects that RMB tends to enhance its role as store of value and an international reserve currency.

## Appendix I

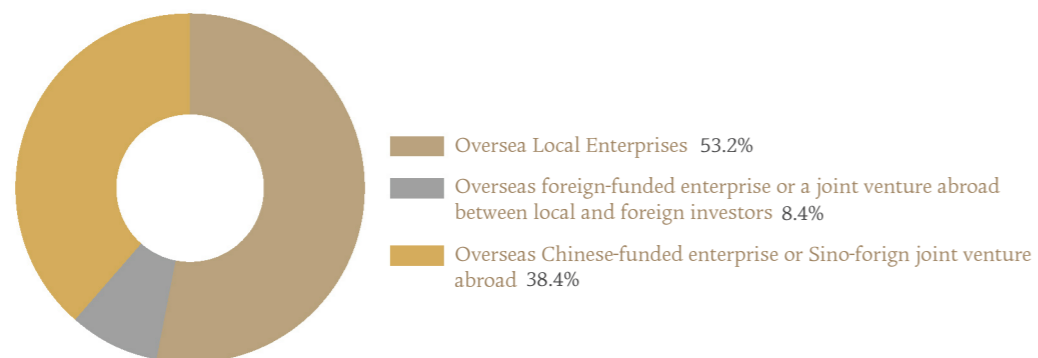
### Description on the Samples of the Survey

The survey questionnaire was distributed and collected from January 5 to January 31, 2024. A total of 3,744 replies from domestic and overseas industrial and commercial enterprises were received, including 2,619 domestic ones. Among all the domestic enterprises, there were 621 replies received from enterprises in the Free Trade Zone (Port) and 323 from "going global" enterprises. A total of 1125 replies were received from overseas enterprises. The distribution of surveyed overseas enterprises is as follows:

#### 1. The distribution of domestic enterprises according to the structure of ownership

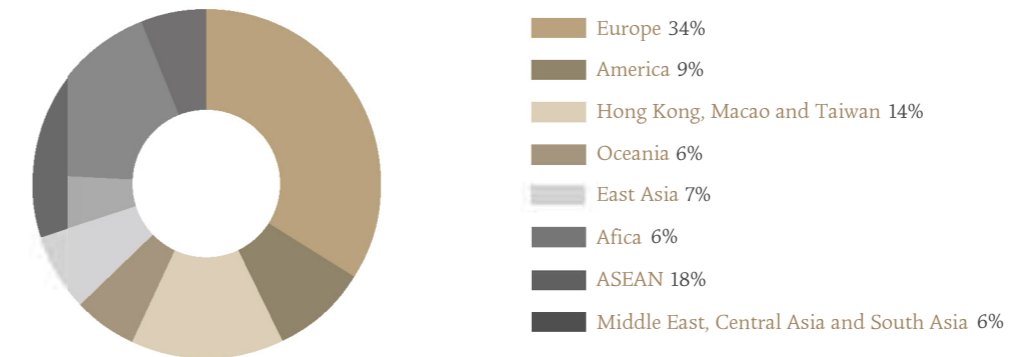


#### 2. The distribution of overseas enterprises according to the structure of ownership



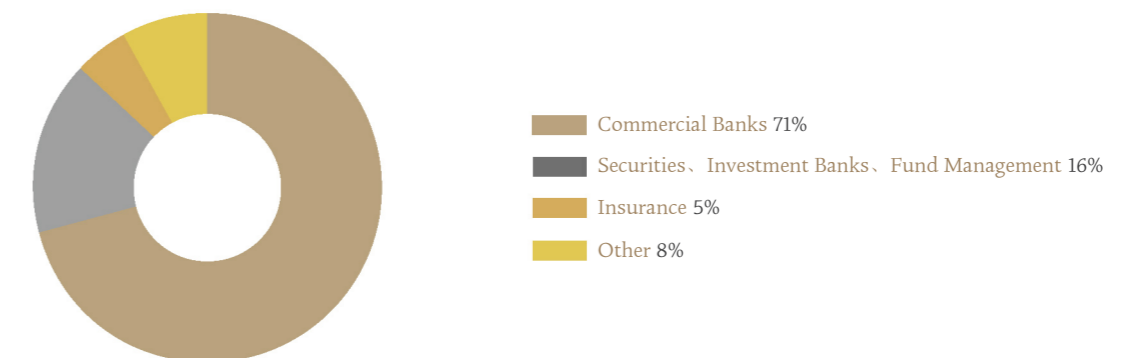
#### 3. The distribution of the overseas enterprises by geographical location

The overseas enterprises are from 56 countries and regions <sup>④</sup>, the distribution by geographical location is as follows:



#### 4. The distribution of the overseas financial institutions under survey:

A total of 82 replies were received from overseas financial institutions. The distribution of surveyed overseas financial institutions is as follows:



④: Hong Kong, Macau, Taipei, Australia, New Zealand, Papua New Guinea, Japan, South Korea, Kenya, South Africa, Angola, Mauritius, Zambia, Djibouti, Morocco, Brunei, Singapore, Thailand, the Philippines, Cambodia, Malaysia, Indonesia, Myanmar, Vietnam, Kazakhstan, Turkey, The United Arab Emirates, Qatar, Mongolia, Pakistan, Sri Lanka, Serbia, Austria, Greece, Czech Republic, Belgium, Germany, France, Netherlands, Romania, Italy, Portugal, Sweden, Switzerland, Hungary, United Kingdom, Russia, Ireland, Brazil, Peru, Mexico, Panama, United State, Canada

## Appendix II

### Major Events of RMB Internationalization (Overseas)

#### Asia

- Starting from 13th March 2023, the expansion of eligible stocks under the Stock Connect program took effect, enabling eligible shares of international companies that are primary-listed in Hong Kong are to be included in southbound trading. The move optimized and expanded the market connection mechanism and will increase the attractiveness of the markets in Hong Kong and Mainland China and will help to boost the use of RMB as investment currency.
- On 19th June 2023, HKEX introduced the HKD-RMB Dual Counter Model to the secondary market for trading and settlement purposes. The HKD-RMB Dual Counter Model is the latest addition to HKEX's ecosystem of offshore RMB products and offers investors the choice of trading the security of a Hong Kong-listed company in either HKD or RMB. Under the Dual Counter Market Making Program, market makers will offer buy and sell quotes on RMB-denominated securities, providing consistent liquidity in RMB counter, and minimizing price discrepancies between the HKD and RMB counters.
- On 15th May 2023, Northbound Trading of Swap Connect was officially launched. It provides a convenient and secure channel for international investors to trade interest rate swap products in the Mainland via a connection between infrastructure institutions in Hong Kong and the Mainland. The scheme aims to facilitate global investors' management of interest rate risks arising from their allocation to Mainland bonds. On the

first day of trading, a total of 27 overseas institutions conducted onshore RMB interest rate swap contract transactions through Swap Connect, exceeding RMB8.2 billion in nominal value.

- In consultation with the relevant financial authorities of the Mainland and Hong Kong, the Macau Monetary Authority announced on 28th September 2023 that they would further upgrade the Cross-border Wealth Management Connect Pilot Scheme in the Guangdong-Hong Kong-Macau Greater Bay Area, which mainly includes optimizing criteria for investor access under the "Southbound Scheme", expanding the scope of participating institutions and qualified wealth management products, and increasing the investment quotas for individual investors. Subsequently, the financial authorities would follow the revision of the relevant implementation rules or guidelines, and plan to launch the 2.0 version of Cross-border Wealth Management Connect Pilot Scheme in 2024.
- On 1th February 2023, the Macau Monetary Authority (AMCM) officially launched the MCSD RMB bond Repo. MCSD RMB Bond Repo is a RMB funding business carried out using as collateral high-quality bonds such as central government bonds, local government bonds and policy bank bonds issued in Macau, with Macau Central Securities Depository and Clearing Co., Ltd. (abbr. as MCSD) as the custodian. MCSD RMB Bond Repo business enriches the methods of RMB liquidity management, and improves the liquidity of RMB bond assets in Macau.
- On 22th May 2023, the first RMB-denominated "Yulan Bond" in the world was successfully issued, the issuance totaled RMB2 billion with 2-year maturity and fixed interest rate of 2.85%.
- On 20th September 2023, The Ministry of Finance of the People's

Republic of China successfully issued 5 billion RMB-denominated offshore bonds, it is the largest issuance with the most diversified investors and order structures in the Macau bond market.

- In May 2023, the Singapore Branch of Bank of China (BOCSG) joined SGX Currency Node project to provide market making services and RMB liquidities. BOCSG became the first Chinese bank that participated the Currency Node market making for OTC transactions.
- On 25th August 2023, the SGX listing ceremony of China Bond-ICBC Green Bond Index was held in Singapore. The index was jointly issued by the Industrial and Commercial Bank of China and China Central Depository & Clearing Co., Ltd (CCDC). It is the first interbank green bond index in the industry based on the latest market standards. It can be tracked and replicated. The index covers the main green products in the interbank market, including green financial bonds, green enterprise bonds and green debt financing instruments.
- In August 2023, an energy trading company in Singapore settled its import payment in RMB by issuing a RMB letter of credit for the purchase of green certified biodiesel additives. It marks the first green energy trade financing transaction denominated and settled in RMB in the Singapore market.
- On 7th December 2023, The Monetary Authority of Singapore (MAS) announced Cross-border E-CNY Pilot initiatives between China and Singapore. Following the signing of a Memorandum of Understanding (MOU) on digital finance cooperation in 2020 between MAS and the Digital Currency Institute of the People's Bank of China (PBCDCI), MAS and PBCDCI are embarking on a pilot program that will allow travelers from both countries to use e-CNY for tourism spending in Singapore and

China.

- Bank of China Phnom Penh Branch joined CIPS in June 2023 as the first bank which join the CIPS.
- On 11th December 2023, under the consultations by the two central banks, Bank of China Phnom Penh Branch is nominated by the People's Bank of China as the designated RMB clearing Bank in Cambodia.
- On 1th November 2023, Bank of China Phnom Penh successfully processed the first RMB to Cambodia Riel FX Forward trade.
- In November 2023, Bank of China Phnom Penh Branch is appointed as the designated RMB Clearing Bank for QR Code Payment between Bakong and UnionPay International. On 22th December 2023, the ceremony on the launch of Cross-Border QR Code Payment between Bakong and UnionPay International was held in Phnom Penh. It marks the official startup of the QR Code Payment Connect between the two countries since the signing of MOU between the National Bank of Cambodia (NBC) and UnionPay International (UPI) on July this year.
- On 8th August 2023, BOC Thailand successfully provided a green loan certified by an independent third-party to Energy Absolute Public Co., Ltd., a leading local new energy listed company, which was the first green RMB trade financing in Thailand.

## Europe

- In April 2023, French state-owned company Total and China National Offshore Oil Corporation signed a liquefied natural gas (LNG) purchase agreement paid in RMB through the Shanghai Petroleum and Natural Gas Exchange. The deal is the first LNG transaction in a Western country to be settled in RMB and is designed to facilitate multi-currency pricing,

settlement and cross-border payments.

- On 23th October 2023, Bank of China (Türkiye) launched cross-border interbank payment system (CIPS), through which the Bank will provide more convenient and efficient RMB-related financial services for most Turkish banks and corporate customers.
- On 8th November 2023, BOC Serbia obtained approval to become a direct participant in the Cross-Border Interbank Payment System (CIPS).
- On 25th December 2023 the People's Bank of China officially appointed BOC Serbia as RMB clearing bank in Serbia.
- In the 4th season of 2023, the Central Bank of a European country has appointed the local branch of Bank of China as its agent to enter the CIBM (China Inter-bank Bond Market).

### Middle East and Africa

- On 12th June 2023, Banque de Chine (Djibouti) SA becomes a Direct Participant of CIPS.
- On 20th November 2023, The Saudi Central Bank (SAMA) and the People's Bank of China have signed a bilateral currency swap arrangement. The maximum value of the swap is RMB50 billion. The maturity of the swap is three years and can be renewed with bilateral agreement.
- On 28th November 2023, The Central Bank of the UAE (CBUAE) and the People's Bank of China signed an agreement to renew the currency swap between the UAE and China. The agreement is valid for 5 years, with a swap scale of 35 billion RMB/1.8 billion UAE Dirhams.

### America

- On 3th April 2023, CME Group, the world's leading derivatives marketplace, announced that it will launch options on its existing USD / CNH futures. It is a supplement to the toolbox of RMB derivatives in the US market and provides investors with a new derivative instrument to implement RMB exchange rate risk hedging.
- On 27th October 2023, Bank of China, as the lead underwriter and bookrunner for the first time, assisted the National Bank of Canada successfully pricing and issuing RMB 1 billion Panda bonds in the Mainland China's public bond market with a three-year term and a coupon rate of 3.2%. The deal is the first panda bond in North America this year and marks National Bank of Canada's return to the Mainland China's public bond market after a seven-year hiatus.
- In October 2023, Bank of China Panama Branch became the direct participant of CIPS, which was the first CIPS direct participant in Central America and Caribbean region.
- In September 2023, Bank of China Panama Branch extended RMB1.4 billion bridge loan to CRRC (Mexico) to support the Guadalajara Light Rail Line 4 project.
- In October 2023, Bank of China (Brazil) S.A. provided RMB working capital loan project for Brazilian local enterprises and Chinese "going global" enterprises, which was the first RMB loan in Brazil.

## Important Note:

The survey results and analyses contained in the White Paper on RMB Internationalization are based on this customer survey sample. Bank of China Limited does not guarantee that the customers surveyed can form a relatively desirable random sample of the market, nor does it guarantee that any bias arising from the sample is fully avoided in the survey results of the report. The content and opinions contained in the report are for informational purpose only and the information and opinions expressed in this report do not constitute recommendations to any institutions, the company shall not be liable for any direct or indirect consequences of investment gains or losses arising from the information provided in this report.

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