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Economic Watch

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Economics Analysis

RMB Cross-Border Settlement: Origins, Mechanics, and Opportunities

BBVA

Index

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Summary

After successfully navigating the global financial crisis and regaining a strong sense of economic confidence, China's policy makers have adopted the internationalization of the currency, the RMB, as a main policy goal. China's experiment in this regard is unique in that, contrary to the experience of other international currencies, such as the US Dollar, British Pound, or Japanese Yen, efforts to internationalize the RMB are preceding ahead of the full opening (or convertibility) of the capital account.

One of the first and most important steps toward internationalization of the RMB has been to allow foreign importers and exporters to use RMB as a settlement currency in their trade with China. Starting on a pilot basis in 2009, the program' coverage was expanded in 2010, boosting the amount of trade with China settled in RMB rather than in other international currencies. Hong Kong has been designated as the key offshore RMB financial center, and accordingly, RMB deposits in Hong Kong have surged in recent months.

The so-called Pilot Program for RMB settlement is continuing to be expanded, and is expected to foster a geographical progression of RMB use over time. In the initial stages, economies with close geographical or strategic ties to China are likely to see the fastest growth of RMB trade settlement. Overtime, geographical usage is likely to expand globally as China's trade and investment ties with other parts of the world continue to deepen.

The ongoing internationalization of the RMB is bringing enormous business opportunities to foreign trading firms and banks. Given its special relationship with China and its role as an international financial center, Hong Kong has emerged as the key offshore RMB market, where RMB denominated deposits have ballooned in recent months. A series of investment products and vehicles is becoming available, including the fast-growing "Dim Sum" bond market.

That said, the offshore RMB market is still in a fledgling state, with the benefits to offshore importers of using the RMB as a settlement currency still rather limited. This is due in part to the limited range of investment opportunities and channels, as well as the still relatively scarce offshore liquidity of RMB.

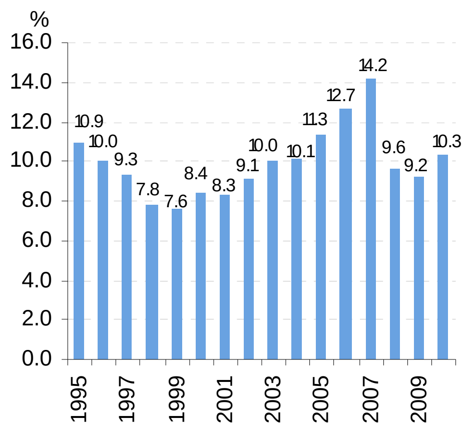
In order to deepen the internationalization of the RMB, and also to limit the risk of financial instability in the RMB market, we expect the Chinese and Hong Kong authorities to take further measures to develop the offshore RMB market. Such steps include the development of a more liquid RMB bond market in Hong Kong and RMB-denominated equity shares. Other key developments will be to increase the channels through which offshore RMB can be repatriated to Mainland China, and efforts to deepen the RMB money market in Hong Kong.

1. Introduction

1.1. The renminbi's growing notoriety

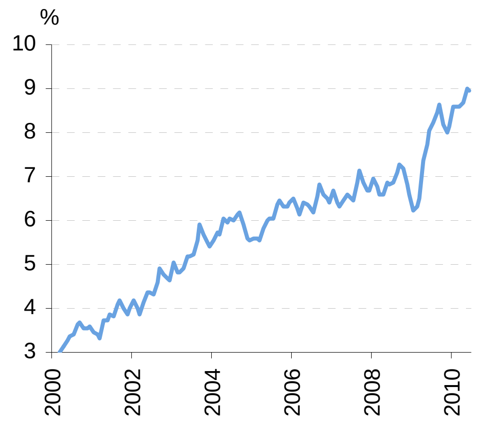
Once an obscure currency primarily used only within China's domestic borders, the renminbi (RMB) has become something a global buzzword. There are good reasons for this notoriety. China's enormous productivity gains, and accumulation of current account surpluses and foreign exchange reserves, have led to growing calls for a speedy appreciation of the RMB. But that's not all. After three decades of rapid economic growth, China has become the world's second largest economy and the largest exporter (Charts 1 & 2).

Chart 1
China's GDP growth



Source: BBVA Research

Chart 2
China's share of world exports



Source: Datastream and BBVA Research

Despite its increasing notoriety, however, up until today the RMB has been disproportionately under-used abroad given the large scale of China's international trade and growing economic influence. It appears that this is about to change. Indeed, over time, China's rapid economic growth and appreciating exchange rate have made the RMB become an increasingly attractive currency to hold, especially in a number of neighboring economies.

1.2 Internationalization of the RMB

The attractiveness of holding RMB abroad was given renewed impetus in July 2009 with the launching of a Pilot Program of RMB Settlement of Cross-Boarder Trade Transactions (the "Pilot Program" henceforth) and subsequent expansion in June 2010. Prior to the Pilot Program, almost all cross-border trade had to be settled in foreign currencies (especially the US Dollar). As recently as the second half of 2009, for example, official figures show that only 0.04% of China's cross-border trade transactions were settled in RMB.

Against this backdrop, the Pilot Program should be viewed as an important step toward China's longer-term goal of internationalizing the currency, one that should create substantial business opportunities for importers, exporters, and investors in China. China's experiment in this regard is unique in that, contrary to the experience of other international currencies, such as the US Dollar, British Pound, or Japanese Yen, efforts to internationalize the RMB are preceding ahead of the full opening (or convertibility) of the capital account.The ultimate internationalization of the RMB could mean its emergence as not only a worldwide invoicing currency in international trade and financial transactions, but also as a potential reserve currency.

The idea that the RMB could replace the dollar as the global reserve currency, however, as has been suggested recently, does not appear feasible, even in the medium term. As economic history shows, a currency's international role is extremely persistent. What appears more feasible - or at least possible - is that the RMB could become a reference currency in Asia at some point in the coming years. A greater role for the RMB in Asia, particularly in becoming a reference currency, could arise within the context of a simple coordination in monetary affairs or, at the other extreme, a full-fledged monetary union.

There is no clearly established framework for defining what it means for a currency to be “internationalized,” but there are schemes detailing what functions a currency should fulfill if it is to be used beyond its borders. Kenen (1983) and Chinn and Frankel (2005) have developed a list of the international functions of a global currency (Table 1). The list is divided into three main groups: store of value, medium of exchange and unit of account. More specifically, an international currency may be used for private purposes for currency substitution, trade and financial transactions, and for invoicing and denomination. On the other hand, the key official uses of an international currency are: as the currency of the reserves of monetary authorities or of the institutions in charge of a country's international reserves; a vehicle currency for foreign exchange intervention by the institution in charge of the international reserves; and, finally, as a reference for pegging a currency, to the extent that a country has a fixed or semi-fixed exchange rate. Its most important uses are as a medium of exchange related to invoicing trade transactions and as a unit of account. Less important is currency substitution, except in countries where another currency is in circulation (this tends to be the dollar), although with the appearance of the euro there have been cases of partial and unofficial “eurization” in some Eastern European economies.

Table 1

International functions of a global currency

Role of the currency	Official use	Private use
Store of value	Currency of international reserves	Currency substitution (dollarization)
Medium of exchange	Vehicle currency for foreign exchange intervention	Invoicing of trade and financial transactions
Unit of account	Anchor for pegging a currency	Denomination (value) for trade and financial transactions

Source: Kenen (1983) and Chinn and Frankel (2005)

1.3 Use of the RMB for trade settlement

Since the launching and subsequent expansion of the Pilot Program (Box 1), foreign importers and exporters have been allowed to use RMB as the settlement currency in their trade transactions with onshore Chinese trading partners. In this regard, they can engage in RMB-related financial transactions with qualified banks (Participant Banks, or PBs), including placement deposits, foreign exchange activities, remittances, checking activities, and trade financing.

Foreign firms can seek returns, albeit still quite limited, on their RMB receipts in Hong Kong’s offshore RMB market, where a number of RMB investment products is being developed, including RMB-denominated CDs, bonds and other structured instruments. Corporations are permitted to issue offshore RMB bonds in Hong Kong and, on a case-by-case basis, to invest the funds back into Mainland China, although this practice is still developing and is subject to approval of the PBoC and SAFE. Alternatively, some corporations may also prefer to use their RMB proceeds in other ways that do not involve repatriating funds back to the Mainland, such as engaging in USD swaps.

Looking ahead, we anticipate further rapid growth of cross-border trade transactions denominated in RMB. In the near term, incentives to hold RMB are likely to continue on expectations of further currency appreciation. Over the medium term, in addition to the further expansion of the coverage of the pilot program and relaxation of relevant quotas and restrictions, the authorities are likely to implement other complementary measures to encourage the offshore holding and use of RMB. The most useful in this regard would include the lifting of restrictions on the inflow of offshore RMB into China in forms of FDI and portfolio investment, although the latter in particular may take a long time given the authorities’ concerns about speculative capital inflows.

Box 1: Steps toward RMB internationalization

In 2009, the Chinese authorities accelerated their efforts to internationalize the RMB by launching the Pilot Program in RMB trade settlement along with other complementary measures to encourage the cross-border use of the currency. In this way, the authorities are seeking to facilitate the internationalization of the RMB to a level commensurate with China's growing significance in the global economy and international trade. Recent steps include the following:

- July 2009: launching of the Pilot Program of RMB settlement of cross-border trade transactions under which designated domestic enterprises are allowed to use RMB as the settlement currency. The domestic scope of the pilot program initially included five Chinese cities: Shanghai, Guangzhou, Shenzhen, Zhuhai and Dongguan; while the overseas scope was confined to Hong Kong, Macao and the ASEAN countries.
- June 2010: the pilot program was expanded further, to incorporate 20 Chinese provinces and, internationally, the rest of world. The domestic expansion included all Chinese importers in the pilot regions and 365 designated Chinese exporters.
- July 2010, the People's Bank of China (PBoC) signed new MOUs with the Monetary Authority of Hong Kong (HKMA) and Bank of China (Hong Kong) on the clearing of RMB businesses, which lifted restrictions on interbank transfers of RMB funds in Hong Kong and made it possible for corporations to purchase RMB from Hong Kong banks.
- August 2010: the PBoC permitted some qualifying overseas financial institutions, including various central banks and commercial banks, to invest in the domestic inter-bank bond market. The measure was taken to broaden the investment channels of offshore RMB resulting from trade settlement.
- December 2010: the PBoC expanded the scope of the trade settlement program to cover large exporters in the pilot regions, bringing the total number of designated exporters to 67,359 (around 30% of total exporters).
- January 2011: the PBoC permitted enterprises in the 20 pilot regions to make direct investments (launching new businesses, mergers and acquisitions, and strategic investment stake, but excluding financial investments).

2. How does cross-border RMB trade settlement work?

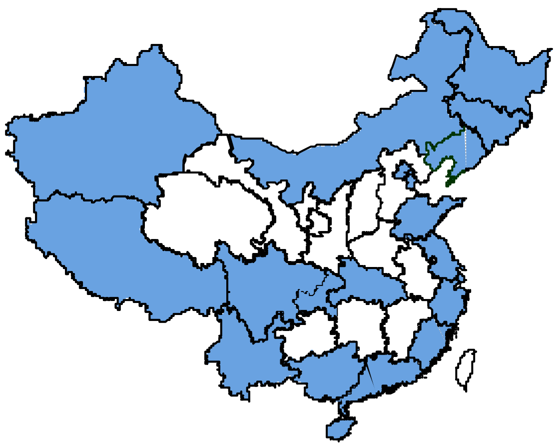
2.1 The scope of the Pilot Program and channels of RMB settlement

The Pilot Program has already been expanded in international scope to become global, and domestically to cover 20 provinces/municipalities (Shanghai, Guangdong, Beijing, Tianjin, Chongqing, Zhejiang, Guangxi, Yunan, Inner Mogolia, Sichuan, Jiangsu, Shangdong, Liaoning, Fujian, Hubei, Helongjiang, Jilin, Hainan, Xinjiang and Tibet). As of 2009, these pilot regions jointly accounted for 95% of the total amount of China's international trade (Chart 3), although given that only eligible exporters are included in the pilot program, the total amount of trade actually covered may be less.

Under the Pilot Program, any foreign trading firm can receive RMB as the settlement currency when it exports to a Chinese enterprise in the pilot region (all Chinese importers are eligible under the scheme). On the other hand, if a foreign firm wishes to pay in RMB for imports from China, its Chinese trading partner must be among the designated enterprises in one of the pilot regions.

Chart 3

Domestic coverage of the Pilot Program



Note: Highlighted regions are covered by the Pilot Program
Source: NBS, CEIC and BBVA Research

There are two channels for the foreign enterprises, via the use of qualified banks (Participant Banks, or PB), to conduct the RMB cross-border trade settlement with their Chinese trading partners. (Box 2).

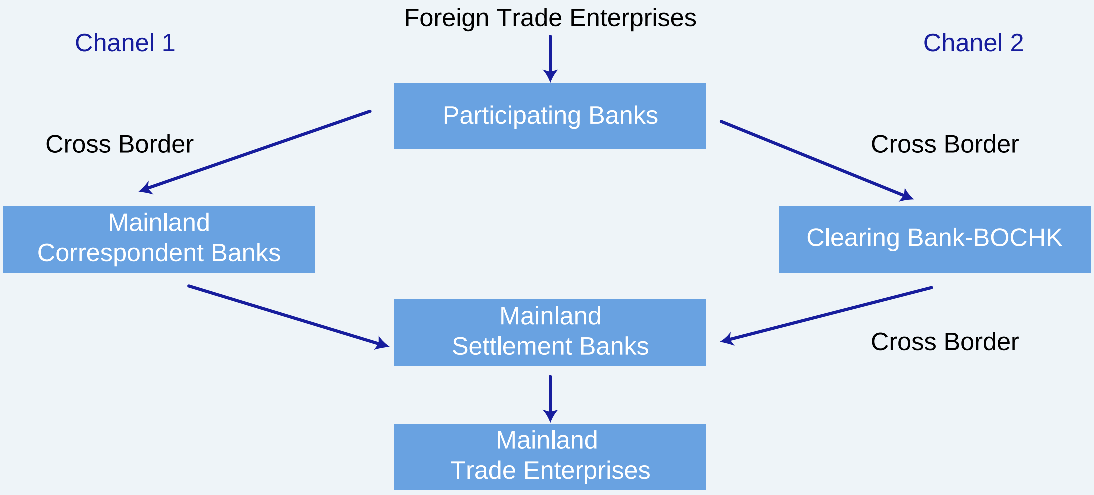
Channel 1: Transacting with the Clearing Bank (CB) in Hong Kong. BOC(HK) is currently designated as the sole CB for RMB settlement in Hong Kong.

Channel 2: Transacting with Mainland Correspondent Banks (MCB). PBs need to execute correspondent bank agreements with their MCBs.

Box 2: Two channels of cross-border trade settlement

There are two banking channels for RMB cross-boarder trade settlement (Exhibit 1). Through the first, any foreign bank serving an overseas importer or exporter can perform the role of a participating bank (PB) and approach a Mainland Correspondent Bank (MCBs) to conduct the RMB settlement transaction. (Channel 1) Mainland correspondent banks consist of all Chinese incorporated banks which are permitted by the PBoC to conduct international settlements business. Mainland correspondent banks can sign an RMB settlement agreement with the participating bank and open an RMB nostro account to handle RMB settlements between their exporter/importer clients. Mainland correspondent banks can also buy and sell RMB to the participating bank within a certain quota set by the PBoC or provide RMB financing to the participating bank. Alternatively, the participating bank can also approach the clearing bank--Bank of China (Hong Kong) to settle in RMB. (Channel 2)

Exhibit 1
Two channels for cross-border trade settlements



Source: CBI and BBVA Research

2.2 Expected geographical progression of cross-border RMB trade settlement business

To date, the cross-boarder RMB trade settlement business is still in a fledgling state. Though expanding since the expansion of the Pilot Program, demand for RMB settlements are concentrated among Asian firms transacting with Chinese counterparts (especially Hong Kong), with the business volume now beginning to expand to other regions (Chart 4). However, the process is likely to take time and the progress for a specific country or region will, of course, depend on its willingness to accept RMB as the trade settlement currency.

The countries or economies most likely to use RMB for their trade settlement with China will have the following characteristics:

1. Those with intention to become an RMB offshore centre or/and use RMB as the local currency eventually;
2. Those having strategic relations or special agreements with China—for example China and Russia agreed to use their own currencies for bilateral trade in November 2010; China also has a series of bilateral currency swap agreements with other countries and regions (Box 3);
3. Those geographically close to China;
4. Those with strong trade and investment ties to China;
5. Those smaller in economic size, with less developed financial markets, or low levels of foreign exchange reserves.

Given the above considerations, we would expect the proliferation of the RMB as a settlement currency to proceed in the following sequence (Chart 5):

First Stage: Hong Kong and Macao (characteristics 1, 3, and 4);

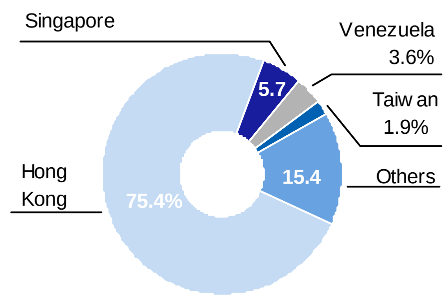
Second Stage: Indonesia, Philippines, Laos, Cambodia, Myanmar, Vietnam, Thailand, and Brunei (characteristics 3, 4, and 5)

Third Stage: Singapore, Malaysia, Taiwan, Mongolia, Korea, and Central Asian economies (characteristics 3, 4, and 5);

Fourth Stage: Russia, Brazil, Turkey, Belarus, Argentina, Iceland, (characteristic 2));

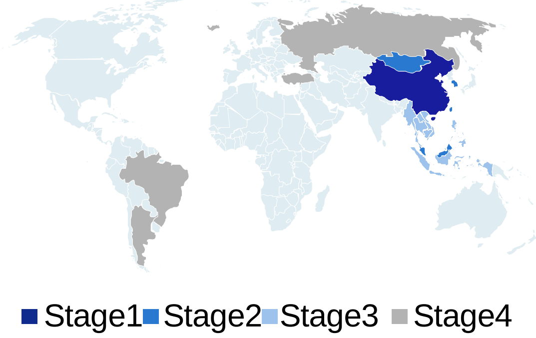
Fifth Stage: Selected economies in the rest of the world (characteristics 4 and 5).

Chart 4
Regional distribution of RMB settlement



As of November 2010
Source: CITIC and BBVA Research

Chart 5
Projected geographical progression



Source: PBOC and BBVA Research

Box 3: China's bilateral currency swap agreements

China began to engage in various forms of regional monetary and swap arrangements in the late 1990s. In the early phase, the main objective was to provide funds to help stabilize crisis economies during the Asian Financial Crisis, beyond funds being provided through international rescue packages arranged by the IMF at that time. Importantly, China's swap arrangements at that time were in US dollars.

Starting in late 2008, during the depths of the global financial crisis, China signed a series of bilateral swap agreements (BSA) with other countries denominated in RMB (Table 2). Under the BSAs, many of which remain in effect, participating countries can settle trade with China in RMB rather than USD or other convertible currencies. In addition to helping to alleviate USD shortages at the time (by allowing trade with China to be settled in RMB), the BSAs were part of the Chinese authorities' early efforts to begin promoting the use of the RMB internationally. A stated policy of the PBoC is to sign more BSAs in the future.

Separately, there is also a set of special swap agreements with Russia, Brazil and Turkey which enable these countries to settle part of their bilateral trade flows in their respective domestic currencies.

Table 2
China's bilateral swap agreements with other countries

BSA	Total Size	Effective Date	Expiration Date
China-Korea	200 bn RMB/38 Tr Won	Dec-08	Apr-10
China-Hong Kong	200 bn RMB/227 bn HKD	Jan-09	Jan-12
China-Malaysia	80 bn RMB/40 bn Ringgit	Feb-09	Feb-12
China- Belarus	20 bn RMB/8 tr BYB	Mar-09	Mar-12
China-Indonesia	100 bn RMB/ 175 tr Rupiah	Mar-09	Mar-12
China-Argentina	70 bn RMB/ Equal Amount Peso	Mar-09	Mar-12
China-Iceland	3.5 bn RMB/66 bn ISK	Jun-10	Jun-13

Source: PBoC and BBVA Research

3. What are the business opportunities?

3.1 Development of RMB settlement transaction

The Pilot Program has fueled rapid growth of RMB-denominated cross-border trade transactions, particularly since its expansion in June 2010 (Chart 6). However, the share of RMB settlement trade volumes still account for a small fraction of China's international trade, about 2.5% of the total imports and exports in 2010. However, this share can be expected to rise in the coming years.

3.2 costs and benefits for trading firms to use RMB as the settlement currency

Using RMB as a settlement currency can bring both costs and benefits to the Trade Firms (TF) and the Multinational Enterprises (MNE) (Table 2). Overall, the incentive for using RMB as a settlement currency is heavily tilted toward Chinese importers, rather than for overseas importers of Chinese goods. As a result, around 80% of RMB-settled cross-border trades are currently in the form of Chinese importers settling in RMB with overseas exporters. One consequence of this, as well as the recent step to allow outward FDI flows to be settled in RMB, is that such flows do not automatically result in a decline in China's foreign exchange holdings, which could frustrate efforts to slow reserve accumulation in the short run.

Table 3

Costs and benefits of the Pilot Program

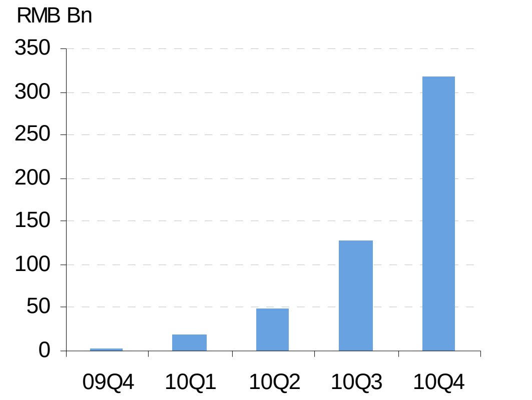
Participants	Advantage (or benefits)	Disadvantages (costs)
Domestic TFs (Domestic Exporters and Importers)	• Eliminate exchange rate risk • Reduce the cost from foreign currency exchange and related hedge (2-3%) • Simplify the procedures of export • Other benefits from the governments' measures to encourage RMB settlement	• Relative higher cost for trade finance • Subject to various quota controls set up by PBoC
Overseas TFs (Mainly Overseas Exporters)	• Strong appreciation expectation of RMB • Higher yield from the growing offshore RMB financial product market • No exchange risk if permitted to invest the offshore RMB back into China as FDI	• Inconvertibility of RMB under the capital account (inflow of offshore RMB approved on a case-by-case basis) • Small and illiquid offshore RMB market
Multinational Enterprises with operations in China	Besides all the above advantages, MNEs can also leverage the interest and exchange rate differentials between the onshore and offshore RMB market to maximize its profitability	

Source: CBI and BBVA Research

3.3 Putting RMB holdings to good use

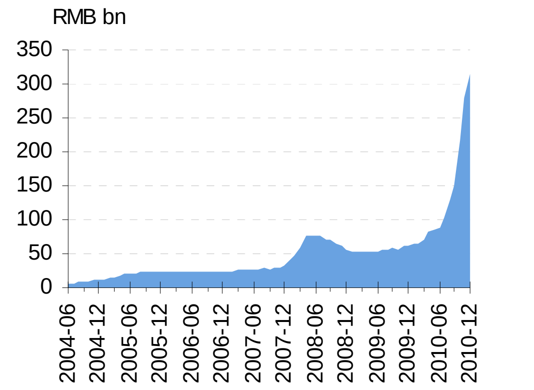
Further development of RMB settlement in international trade will require an expansion of investment channels for offshore RMB held by foreign investors and enterprises. In this regard, Hong Kong is well-placed to take advantage of the growing offshore market business. In particular Hong Kong enjoys certain pre-existing advantages, such as the large share of transshipment trade through its borders, economic integration with China, and maturity of its financial system and role as an international financial center. Added to these advantages is China's policy of promoting Hong Kong's role as the main offshore RMB center, including by establishing MOUs with the HKMA on clearing arrangements, encouraging the development of RMB-denominated financial products, and permitting higher annual RMB conversion limits for individual bank account holders. Indeed, RMB deposits in Hong Kong have grown rapidly over the past year, reflecting both the increasing interest in the public to hold RMB for commercial transactions, as well as in anticipation of the RMB's appreciation prospects (Chart 7).

Chart 6
Value of RMB cross-border settlement



Source: CITIC and BBVA Research

Chart 7
Hong Kong RMB deposits



Source: HKMA and BBVA Research

As one of the important complementary measures of the Pilot Program, in August 2010 qualified financial institutions including foreign central and commercial banks were allowed to invest in China's domestic inter-bank bond market. Regulations on RMB bond issuance in Hong Kong were also liberalized in order to develop an offshore RMB bond market.

Prior to the Pilot Program, only a few Chinese incorporated banks were allowed to issue RMB denominated bond in Hong Kong. RMB offshore bond issuance has been expanding rapidly and now includes a number of high profile corporations and international organizations (Table 3). The outstanding value of the RMB bonds in Hong Kong stood at RMB 49.85 billion at end-2010, an increase of 66% over the past year.

One of the attractions of issuing RMB bonds in Hong Kong is that the interest rate is significantly lower than that on equivalent debt instruments in the Mainland. However, a key impediment is that the transfer of funds raised offshore back into the Mainland is still subject to approval on a case-by-case basis. This makes the attractiveness of issuing offshore much less than otherwise. Looking ahead, we expect a gradual further relaxation of the regulation on the transfer of offshore RMB back to China and more Chinese incorporated non-financial firms to issue RMB-denominated bonds in Hong Kong.

Table 4
Off-shore RMB-denominated bond issues ("Dim Sum Bonds")

	Issue Date	Issuer	Issuer Classification	Coupon	Term	Total (RMB Bn)	Remark
1	13-Jul-10	Hopewell Infrastructure	Hong Kong Enterprise	2.98%	2Y	1.40	1st non-bank issuance
2	16-Sep-10	McDonald	Multinational Enterprise	3.00%	3Y	0.20	1st foreign corp issuance
3	30-Sep-10	Bank of China	China's Commerical Bank	2.90%	3Y	2.80	
4	08-Oct-10	ICBC Asia	Hong Kong Bank	2.30%	2Y	0.12	
5	08-Oct-10	ICBC Asia	Hong Kong Bank	2.65%	3Y	0.05	
6	12-Oct-10	China Development Bank	China's Policy Bank	Floating	3Y	2.00	
7	22-Oct-10	ADB	Supernational Institution	2.85%	10Y	1.20	1st "AAA" international rating
8	29-Oct-10	Sinotruck	Chinese Enterprise	2.95%	2Y	1.00	1st non-bank issuance
9	12-Nov-10	China Resource Power	Chinese Enterprise	2.90%	3Y	1.00	
10	12-Nov-10	China Resource Power	Chinese Enterprise	3.75%	5Y	1.00	
11	19-Nov-10	China Merchants Holding	Chinese Enterprise	2.90%	3Y	0.70	
12	30-Nov-10	MOF	China's MOF	2.48%	10Y	1.00	
13	30-Nov-10	MOF	China's MOF	1.80%	5Y	2.00	
14	30-Nov-10	MOF	China's MOF	1.00%	3Y	2.00	
15	01-Dec-10	Caterpillar	Multinational Enterprise	2.00%	2Y	1.00	
16	02-Dec-10	Exp-Imp Bank of China	China's Policy Bank	2.65%	3Y	4.00	
17	02-Dec-10	Exp-Imp Bank of China	China's Policy Bank	1.95%	2Y	1.00	
18	14-Dec-10	VTB	Foreign Bank	2.95%	3Y	1.00	1st foreign bank issuance
19	14-Dec-10	China Power Intl	Chinese Enterprise	3.20%	5Y	0.80	
20	16-Dec-10	Galaxy Entertainment	Hong Kong Enterprise	4.63%	3Y	1.38	
21	20-Dec-10	MOF	China's MOF	1.60%	2Y	3.00	
22	21-Dec-10	ANZ Bank	Foreign Bank	1.45%	2Y	0.20	
23	23-Dec-10	ABC	China's Commerical Bank	1.20%	1Y	0.50	
24	23-Dec-10	ABC	China's Commerical Bank	1.40%	2Y	0.50	
25	06-Jan-11	RBS	Foreign Bank	1.80%	3Y	0.10	
26	11-Jan-11	SinoChem	Chinese Enterprise	1.80%	3Y	3.50	
27	14-Jan-11	World Bank	Supernational Institution	0.95%	2Y	0.50	

Source: Bloomberg and BBVA Research

In addition to offshore RMB bonds, the Hong Kong market also offers an expanding set of financial investment products for offshore RMB including RMB-denominated CDs, RMB bond funds, insurance and savings plans, and structured investment products. As noted above, the availability of such products is one of the advantages of Hong Kong as an offshore RMB center.

3.4 How foreign banks and investors benefit from RMB settlement

RMB cross-border trade settlement provides new business opportunities for especially for domestic banks in China and in Hong Kong, and elsewhere as well (Table 4). In particular, overseas banks are likely to see an increase in demand for RMB deposits and related RMB financial services. Meanwhile, as noted above, banks in Hong Kong have already been witnessing a sharp increase in RMB deposits, and they have been issuing new RMB financial products on a monthly basis as described above.

Table 5

Business opportunities arising from RMB cross-border settlement

Business Scope	Details
Participant Banks (PB)	Provide cross-border RMB trade settlement services for trading firms including trade settlement and trade finance
Retail and Corporate Banking	Provide offshore RMB services for corporates or individuals such as deposit-taking, currency exchange, remittance, and checking
Investment Banking	Provide equity listing, bond issuance, international asset management and hedging services to enterprises in the mainland

Source: CBI and BBVA Research

4. Policy implications and next steps

The Pilot Program of RMB Cross-Border Trade Settlement is an important step toward the internationalization of the RMB. However, there are still many policy challenges and impediments to the further development of RMB cross–border use:

- To date, offshore importers still have limited incentives to hold and use RMB as a transactional currency. This is due to the limited pool of offshore RMB, which is itself due to a lack of incentives arising from the limited range of RMB investment opportunities and channels. As a result, the majority (80%) of trade transactions involving RMB is concentrated among Chinese importers of foreign goods, rather than of overseas importers of Chinese goods.
- On a related note, offshore RMB accumulated from cross-border trade settlements is still subject to various restrictions of their remittance and usage within China, which discourages foreign exporters or investors from holding RMB;

Looking ahead, although the timing and sequencing has not been specified, the Chinese authorities appear ready to advance the Pilot Program in several directions, including:

- Steps to broaden the channels of investing offshore RMB back into China. In addition to the domestic inter-bank bond market, other segments of the domestic capital market may be opened, for example the on-shore RMB stock market (A-shares), sometimes referred to as a "mini-QFII". A further lifting of restrictions on RMB offshore funds for inward FDI would be a big step forward;
- Existing quotas under the Pilot Program are expected to be lifted or further relaxed over time, along with the introduction of additional facilitating measures. For example, there is currently an aggregate global quota on the amount that participating banks are allowed to engage in RMB transactions, as well as a limit on individuals' day-to-day RMB conversion. These limits are likely to be raised over time;
- Further development of the RMB offshore market in Hong Kong. A wider range of corporations and institutions are expected to issue offshore RMB bonds in Hong Kong, along with the eventual issuance of RMB-denominated equities in the offshore market. Accordingly, a derivatives market for offshore RMB products is likely to be developed.

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