

## LCQ13: Offshore Renminbi businesses

Following is a question by the Hon Chan Chun-ying and a written reply by the Acting Secretary for Financial Services and the Treasury, Mr Joseph Chan, in the Legislative Council today (January 15):

Question:

Hong Kong used to be the premier global centre for offshore Renminbi (RMB) businesses, with over RMB1 trillion being parked in Hong Kong during the peak period at the end of 2014. However, the volume of offshore RMB transactions in Hong Kong has shrunk year after year in recent years, and RMB deposits also dropped to RMB636.4 billion in October 2019. On the contrary, despite the fact that London, a competitor of Hong Kong, established its offshore RMB centre only in 2011, it has now replaced Hong Kong as the largest offshore RMB foreign exchange (FX) transaction centre globally. In August last year, the market shares of London and Hong Kong in offshore RMB FX transactions were 43.9 per cent and 24.37 per cent respectively. In addition, the Government of the United Kingdom proposed in June 2019 that banks should be allowed to include RMB-denominated bonds in their eligible collateral lists so as to further consolidate London's position as an offshore RMB FX transaction centre. In this connection, will the Government inform this Council:

1. whether it has conducted studies on the specific causes for the volume of offshore RMB transactions in Hong Kong shrinking year after year in recent years; if so, of the details; if not, the reasons for that;
2. given that London has overtaken Hong Kong to become the largest offshore RMB FX transaction centre globally within a short period of a couple of years, whether the Government has conducted studies on and drawn reference from the factors contributing to the success of London; if so, of the details; if not, the reasons for that; and
3. given that the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area has expressed clear support for "strengthening Hong Kong's status as a global offshore RMB business hub", and that Hong Kong is facing challenges from other financial centres in this regard, whether the Government has any long-term and specific plans to enlarge Hong Kong's share in the global offshore RMB businesses, as well as to consolidate and enhance Hong Kong's status as an offshore RMB business hub; if so, of the details; if not, the reasons for that?

Reply:

President,

Our reply to the three parts of the question is as follows:

The Bank for International Settlements (BIS) is internationally

recognised for assessing foreign exchange (FX) trading activities. According to the results of its Triennial Survey of FX and Derivatives Market Turnover, Hong Kong remained the largest global offshore Renminbi (RMB) FX market, with an average daily turnover of US\$107.6 billion in April 2019 (increased by 39.6 per cent from April 2016) which is 90 per cent higher than that of the runner-up market, the United Kingdom. Detailed figures are tabulated as follows:

Average daily turnover of RMB FX (US\$ billion)			
	Hong Kong	United Kingdom	Singapore
April 2013	49.5	24.3	23.9
April 2016	77.1	39.2	42.5
April 2019	107.6	56.7	42.6

The RMB transaction statistics quoted in the question were compiled by the Society for Worldwide Interbank Financial Telecommunication (SWIFT). We understand that the figures are based on the value of RMB FX and derivatives trades confirmed via SWIFT messages, and the trade value is attributed to a specific geographical location based on the SWIFT addresses of the message senders and recipients. It is worth noting that the SWIFT addresses may not necessarily reflect the actual geographical location where an FX transaction is arranged or executed. In fact, another set of statistics tracking RMB payments compiled by SWIFT shows that Hong Kong has been handling more than 70 per cent of global offshore RMB payments for many consecutive years.

As for the BIS survey, it collects FX turnover data through central banks and other authorities around the world. The data reporting institutions include large commercial and investment banks as well as securities dealers, and the turnover data can better reflect market liquidity. The International Monetary Fund also made reference to the BIS survey results when considering the inclusion of RMB into its Special Drawing Rights currency basket in 2015. This demonstrates the authoritativeness of the BIS survey.

In fact, since our Country's promotion of RMB internationalisation in 2009, Hong Kong's status as the global offshore RMB business hub has continuously been consolidated and strengthened, as reflected by various RMB business indicators. Some examples are:

- Following some consolidation after reaching the peak in 2014, the size of Hong Kong's offshore RMB liquidity pool has been stable at the level of around RMB650 billion in recent years and Hong Kong continues to be the largest global offshore market. According to the statistics in the 2019 RMB Internationalisation Report published by the People's Bank of China, Hong Kong's offshore RMB accounted for roughly half of the world's stock as at end-2018.

- The average daily turnover of Hong Kong's RMB Real Time Gross Settlement system maintained at a high level of over RMB1,100 billion in 2019, about 55 per cent higher than that in 2014, demonstrating the strong momentum of RMB financial activities supported by Hong Kong's RMB liquidity pool.
- The mutual access schemes between the capital markets in Hong Kong and the Mainland have been popular among international investors. With the inclusion of RMB assets into major international financial market indices, the average daily turnover under the Northbound Trading of Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect reached RMB41.7 billion last year, an increase of 104 per cent from the preceding year. As of end-September 2019, more than 65 per cent of international investors' holdings of Mainland equities were held through Stock Connect. In 2019, Bond Connect recorded an average daily turnover of RMB10.6 billion, an increase of nearly 200 per cent from the preceding year. Since the launch of Bond Connect until the end of 2019, Mainland bonds allocated by foreign investors through Bond Connect have accounted for 25 per cent of the increase in Mainland bonds held by all foreign investors during the same period. Last November, Bond Connect turnover accounted for 66 per cent of the total foreign turnover in the China Interbank Bond Market. These reflect that Hong Kong is a major platform for international investors to allocate RMB assets.

Looking ahead, capital will continue to flow into RMB assets upon rising demand from international investors. Hong Kong will play an even bigger role as the gateway for international investors to participate in the Mainland's financial market. The Government and the regulatory authorities will continue to discuss with the relevant Mainland authorities and the industry to enhance the existing Connect schemes, with a view to strengthening Hong Kong's role as the global offshore RMB business hub.

Moreover, the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area (Outline Development Plan) supports the consolidation of Hong Kong's status as a global offshore RMB business hub, injecting new impetus to such development. We have been working closely with the Mainland authorities to implement relevant policy initiatives on financial co-operation in line with the broad directions set out in the Outline Development Plan. After the meeting convened last November, the Leading Group for the Development of the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) announced a series of policy measures, including supporting the use of mobile electronic payment by Hong Kong residents on the Mainland, pilot scheme for Hong Kong residents to open Mainland personal bank accounts in GBA remotely by attestation and exploring the establishment of a cross-boundary wealth management connect (WMC) scheme. Among others, we are discussing closely with the Mainland authorities with a view to introducing WMC as early as practicable to meet the demand for cross-boundary wealth management of residents in the two places and to promote the liberalisation of the

Mainland's capital account and RMB internationalisation. We will continue to seize the opportunities of GBA to explore more policy measures on an early and pilot implementation basis to facilitate the cross-boundary use of RMB by individuals, enterprises and financial institutions in the region, elevating Hong Kong's position as the global offshore RMB business hub.