

## Box 2

### The internationalisation of the renminbi: regaining strength?

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Notwithstanding earlier predictions that the renminbi would dethrone the US dollar as the leading international currency, the global role of the renminbi remains more limited than the shares of China in global trade and output.<sup>18</sup> In 2021 China accounted for 19% of global output, whereas the share of the renminbi in various measures of international use was much lower (see **Chart A**).

Several recent developments, however, might herald signs of a potential turnaround in the international role of the renminbi. First, China has made rapid progress in the development of a digital yuan which, if allowed to be used across borders, could support the international role of the renminbi. In January 2022 China launched a large retail central bank digital currency pilot project to enable domestic residents and foreign visitors to the Winter Olympics in February 2022 to use the digital yuan, with some restrictions. Take-up by foreigners during the Winter Olympics was limited. However, the digital yuan may still be used at some point in the future to settle a share of Chinese

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<sup>18</sup> On whether the Chinese renminbi would dethrone the US dollar as the leading global currency, see, for example, Subramanian, A. (2011), “Eclipse: living in the shadow of China’s economic dominance”, *Peterson Institute for International Economics*.

imports and exports, for example in the context of the Belt and Road Initiative, thereby supporting the global status of the Chinese renminbi.<sup>19</sup>

Another relevant development pointing to an increase in the international appeal of the renminbi was the inclusion of Chinese bonds in major global bond benchmarks.<sup>20</sup> In line with evidence for other emerging markets in the past, this development led to an increase in foreign ownership of Chinese domestic government bonds, especially among US and euro area private sector investors.<sup>21</sup> For example, fixed-income funds domiciled in and operating outside the United States increased their exposures to assets denominated in renminbi from close to zero in 2017 to over 5% of total assets in 2021.<sup>22</sup> A further factor that may potentially support the international role of the renminbi is the resilience of the net capital flows to China – especially inflows – which remained positive in the past years. In particular, net bond inflows amounted to USD 147 billion in 2020 and USD 53 billion in 2021, despite the COVID-19 pandemic.

Finally, according to some observers, the recent Russian invasion of Ukraine and the financial sanctions imposed on Russia could accelerate a rebalancing of global reserve portfolios and payments away from the US dollar and the euro towards the renminbi (see **Box 1** in this report).

Based on the evidence to date, the share of the renminbi as a reserve currency has increased in the recent years, but remains modest compared with other major currencies, at around 2.8% of global official foreign exchange reserves in 2021 (see **Chart A(a)**). Since 2020, the countries with the largest share of official foreign exchange reserves in renminbi have included Russia (17%) and Tanzania (16%).<sup>23</sup> Use of the renminbi as an international financing currency remains limited; renminbi-denominated bonds account for less than 1% of the total issuance of international bonds. Use of the renminbi for international loans, i.e. by lenders resident outside China, is negligible (see **Chart A(a)**). However, cross-border lending by Chinese institutions has grown significantly. Based on available data up to 2017, China has become the world's largest official creditor, ahead of the World Bank and the IMF.<sup>24</sup> In the period 2000-2017, the average share of the renminbi in China's official lending was 11%. The renminbi share is usually higher in Asia and Africa (see **Chart B**) and

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<sup>19</sup> The Belt and Road Initiative is a Chinese-led project launched in 2013 aimed at expanding trade links between Asia, Africa and Europe. China is taking part in pilot projects to test a potential multi CBDC framework (mBridge). See the BISIH (Bank for International Settlements Innovation Hub) (2021), "[Inthanon-LionRock to mBridge - Building a Multi CBDC Platform for International Payments](#)", joint report by the BIS Innovation Hub Hong Kong Centre, the Hong Kong Monetary Authority, the Bank of Thailand, the Digital Currency Institute of the People's Bank of China and the Central Bank of the United Arab Emirates, Bank for International Settlements, Basel, 28 September.

<sup>20</sup> Chinese bonds were included in Bloomberg's Barclays Global Aggregate Bond Index (with a weighting of 7.8% in 2019), in JP Morgan's Government Bond Index for Emerging Markets (with a weighting of 10% in 2020), and in the FTSE Russell World Government Bond Index (with an estimated weighting of 5.3% in 2021).

<sup>21</sup> See Raddatz, C., Schmukler, S. and Williams, T. (2017), "International asset allocations and capital flows: the benchmark effect", *Journal of International Economics*, Volume 108, September, pp. 413-430; Broner, F., Martin, A., Pandolfi, L. and Williams, T. (2021), "Winners and losers from sovereign debt inflows," *Journal of International Economics*, Volume 130, May; Clayton, C, Dos Santos, A., Maggiori, M. and Schreger, J. (2022), "Internationalizing like China", mimeo.

<sup>22</sup> The shares are calculated using a commercial dataset (Lipper for investment Management) and update analysis in the previous edition of this report (Anaya Longaric, P. and Habib M. (2021), "The US dollar bias of US fixed-income funds", [The International role of the euro](#), European Central Bank, Frankfurt am Main, June 2021.

<sup>23</sup> See Arslanalp, S., Eichengreen, B. J. and Simpson-Bell, C., op. cit.

<sup>24</sup> See Horn, S., Reinhart, C. and Trebesch, C. (2021), "China's overseas lending", *Journal of International Economics*, Volume 133, November.

when loans are provided on concessional terms, through a government agency, with a developmental or representational intent.<sup>25</sup>

In terms of cross-border payments, SWIFT data point to a pickup in the share of the renminbi to above 2% in 2021 (see **Chart A(a)**). In December 2021 the renminbi exceeded the Japanese yen as a global payment currency by value, becoming the fourth most active unit, behind the US dollar, the euro and the pound sterling. Use of China's cross-border interbank payment system (CIPS), which the People's Bank of China launched in 2015, has increased steadily. Average daily transactions have surged from RMB 8 billion in value in 2015 to RMB 334 billion in 2021. The volume of transactions in CIPS remains roughly 1% of the volume of global payments handled by the SWIFT system, but it might rise further following the imposition of sanctions on Russia, such as the ban of some Russian banks from SWIFT. Use of the renminbi for invoicing imports and exports has also increased, although it remains at low levels (see **Chart A(b)**). Research suggests that renminbi invoicing has been supported by the establishment of currency swap lines by the People's Bank of China and other central banks.<sup>26</sup> Finally, more recently, following stable demand for yuan-denominated oil futures contracts, initially launched in 2018, China launched yuan-denominated energy options contracts open to foreigners.

Various factors might have hindered further progress in the international use of the renminbi. For instance, research suggests that geopolitical tensions, particularly China's trade disputes with the United States, might have been one such factor.<sup>27</sup> Incomplete openness of China's capital and financial account (particularly for capital outflows), capital controls and the lack of full exchange rate flexibility are other factors believed to impair the internationalisation of the renminbi.<sup>28</sup> The recent slight increase in the weighting of the renminbi as part of the revision of the Special Drawing Rights (SDRs) basket, which will come into effect in August 2022, may support the global profile of the renminbi.<sup>29</sup> However, a clear-cut impact of the inclusion of the renminbi in the SDR basket in 2016 on the international role of the Chinese currency is not visible so far.

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<sup>25</sup> Custer, S., Dreher, A., Elston, T.B., Fuchs, A., Ghose, S., Lin, J., Malik, A., Parks, B.C., Russell, B., Solomon, K., Strange, A., Tierney, M.J., Walsh, K., Zaleski, L., and Zhang, S. (2021), "[Tracking Chinese development finance: an application of AidData's TUFF 2.0 Methodology](#)", AidData, William and Mary, Williamsburg, 29 September.

<sup>26</sup> Boz, E., Casas, C., Georgiadis, G., Gopinath, G., Le Mezo, H., Mehl, A. and Nguyen, T. (2022), "Patterns of invoicing currency in global trade: New evidence", *Journal of International Economics*, Volume 136; Bahaj, S., Reis, R. (2020), "Jumpstarting an international currency", CEPR Discussion Paper, No. 14793; Georgiadis, G., Le Mezo, H., Mehl, A. and Tille, C. (2021), "[Fundamentals vs. policies: can the US dollar's dominance in global trade be dented?](#)", *Working Paper*, No 2574, ECB, July.

<sup>27</sup> Cheung, Y.W., Grimm, L. and Westermann, F. (2021), "The evolution of offshore renminbi trading: 2016 to 2019", *Journal of International Money and Finance*, Volume 113, Issue 113.

<sup>28</sup> See latest update of dataset described in Fernandez, A., Klein, M., Rebucci, A., Schindler, M., Uribe, M. (2016), "Capital Control Measures: A New Dataset", *IMF Economic Review*, Volume 64, August and Allen, F., Gu, X. and Jagtiani, J. (2022), "Fintech, cryptocurrencies, and CBDC: financial structural transformation in China", *Journal of International Money and Finance*, Volume 124, June.

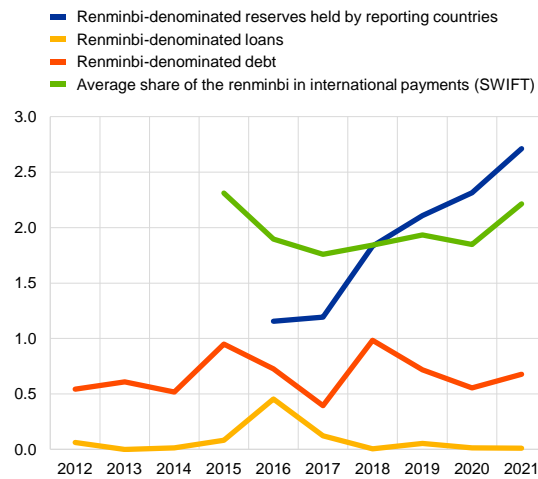
<sup>29</sup> With effect from 1 August 2022, the IMF has determined that the five currencies that meet the selection criteria for inclusion in the SDR valuation basket will be assigned the following weights based on their roles in international trade and finance: U.S. dollar 43.38 percent, euro 29.31 percent, Chinese renminbi 12.28 percent, Japanese yen 7.59 percent, pound sterling 7.44 percent.

## Chart A

Evidence of an increase in the global role of the renminbi from a low level

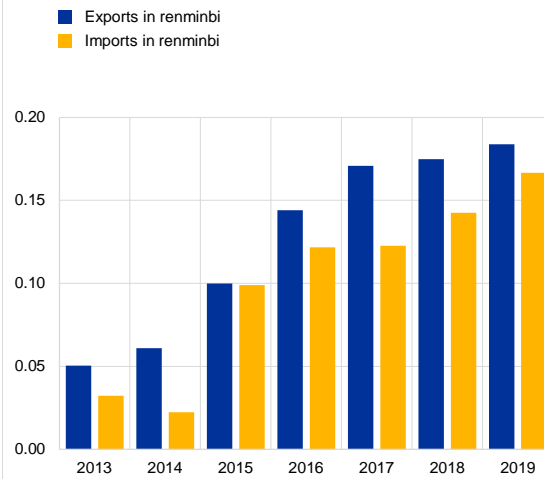
a) Share of the renminbi in selected measures of international currency use: non-trade use of the renminbi

(percentages)



b) Share of the renminbi in selected measures of international currency use: trade use of the renminbi

(percentages)



Sources: Dealogic, Haver Analytics, IMF, People's Bank of China, SWIFT, Boz et al., op. cit. and ECB calculations.

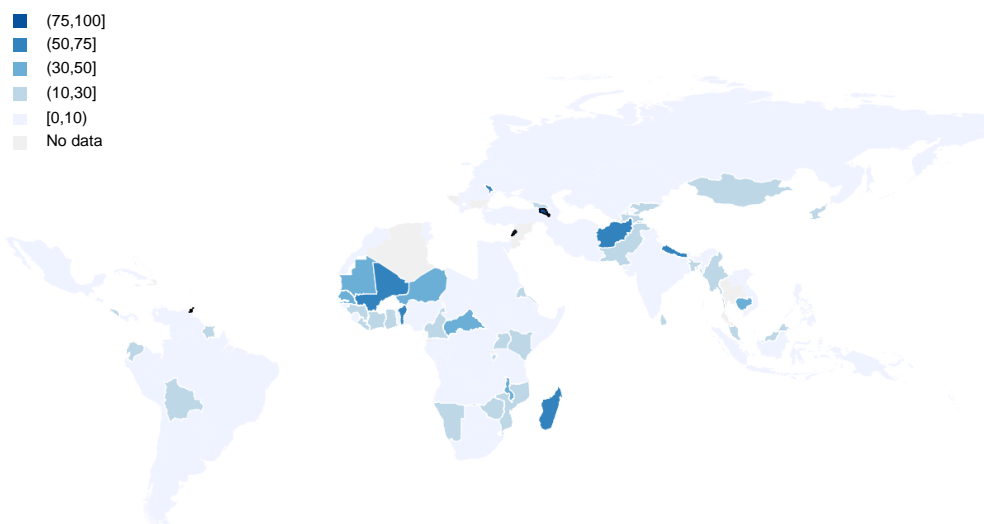
Note: Exports and imports in renminbi are constructed as the weighted average of global trade invoiced in renminbi. The latest observations are for 2021 (left panel) and 2019 (right panel).

## Chart B

China's official lending in renminbi is more significant in some parts of Asia and Africa

Share of the renminbi in China's official lending between 2000 and 2017

(percentages)



Sources: AidData and ECB calculations.