

RMB included in IMF SDR basket – a new starting point for a long march

As from 1 October 2016, the Renminbi (RMB) or the yuan which is the official currency of the PRC, will become the fifth currency after the US dollar, the Euro, the Japanese yen and the British pound, all comprising the Special Drawing Rights (SDR) basket created by the International Monetary Fund (IMF). This results from a decision of the IMF announced on 30 November 2015, recognizing the RMB as a currency that is widely-traded and used for international payments, or more specifically a "freely usable currency". This also signifies IMF's recognition of China's substantial reforms that have supported the internationalization of the RMB.

While the domestic capital market is not fully liberalized yet, China has been working towards a "managed" capital account convertibility of RMB for years. Some key initiatives it undertook include:

- the introduction of the RMB-denominated qualified institutional investor program (RQFII) in 2011 and the extension of this program to 14 jurisdictions to date;
- the establishment of the China (Shanghai) Pilot Free Trade Zone in 2013;
- the opening up of the domestic inter-bank bond market to qualified foreign institutions since 2014;
- the launch of the Shanghai-Hong Kong Stock Connect program in 2014; and

- the launch of the Mainland-Hong Kong Mutual Recognition of Funds regime in 2015.

We expect the IMF decision to further accelerate China's monetary and financial reforms through:

- the implementation of the Qualified Domestic Individual Investor (QDII2) program which would create channels for cross-border investments by individual investors;
- the expansion of the Stock Connect program to other major capital markets outside Hong Kong;
- the expansion of the Mutual Recognition of Funds program to other jurisdictions such as the UK;
- the expansion of the Panda Bond program to foreign commercial organizations;

- the launch of crude oil futures products available for foreign investment;
- the issuance of financial products on the Chinese domestic markets by foreign investors; and
- the further relaxation and expansion of the QFII and RQFII regimes.

While inclusion of the RMB into the IMF SDR basket signifies a great achievement for China, it is just a new starting point for a long journey towards market liberalization. We anticipate an exciting and progressive development on the use and investment of RMB-dominated assets. Please watch out for our upcoming briefings that focus on discussing the impact of and opportunities arising from this important RMB liberalization initiative.

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