

Riding the waves: Stocktaking RMB Internationalization Development

February 2025

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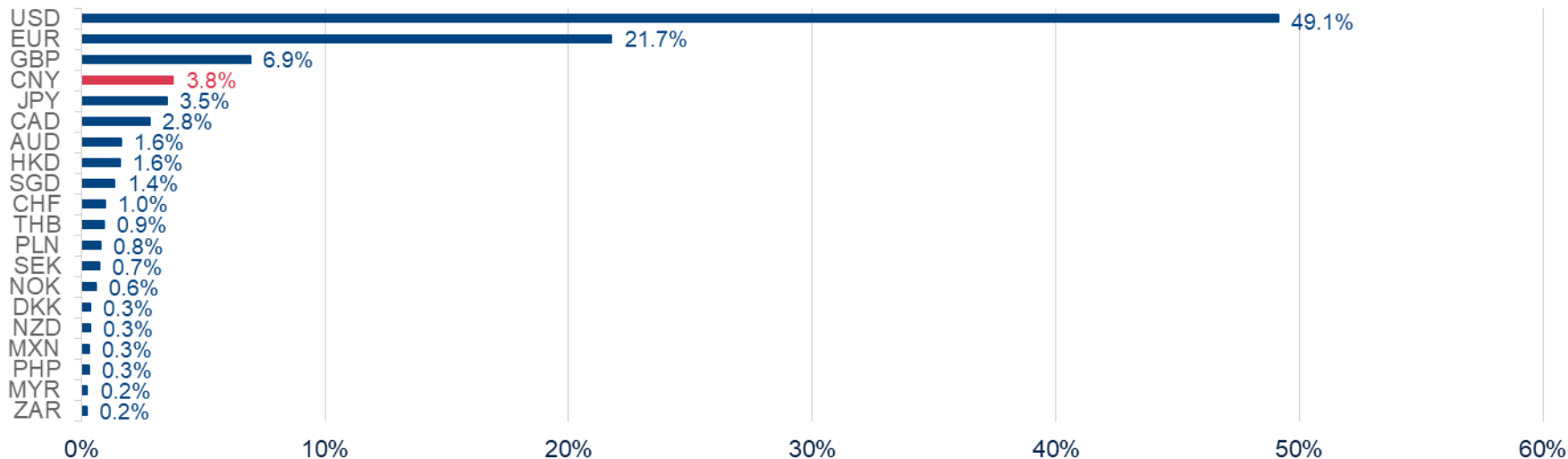
01

China's growing integration in to global financial markets

RMB's share as an international payment currency is on the rise...

RMB'S SHARE AS A GLOBAL PAYMENT CURRENCY

(DECEMBER 2024)



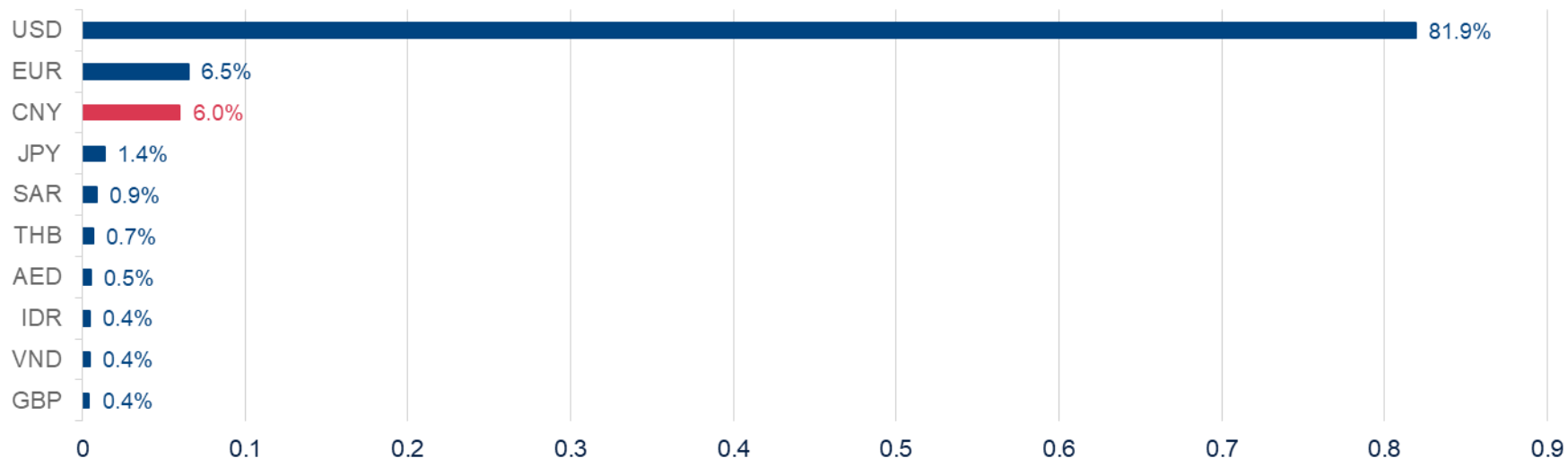
Source: Swift RMB Tracker & BBVA Research.

In December 2024, the RMB remained the 4th most active currency for global payments by value, with a share of 3.75%, up from the 2023 average of 3.0%. The amount of RMB cross-border receipts and payments has reached RMB 64 trillion in 2024, a year-on-year increase of nearly 23%.

...the same as its share in global trade financing

RMB'S SHARE AS A GLOBAL PAYMENT'S CURRENCY IN TRADE FINANCE

(DECEMBER 2024)



Source: Swift RMB Tracker & BBVA Research.

RMB ranked as the third most-used currency in trade finance, accounting for 6% of international trade transactions in December 2024, following the USD and EUR. This marks an increase from the 2023 average of 4.8%.

Trading activities in RMB rising in tandem with its global usage

CURRENCY DISTRIBUTION OF OTC FOREIGN EXCHANGE TURNOVER

(NET-NET BASIS, 1 PERCENTAGE SHARES OF AVERAGE DAILY TURNOVER IN APRIL²)

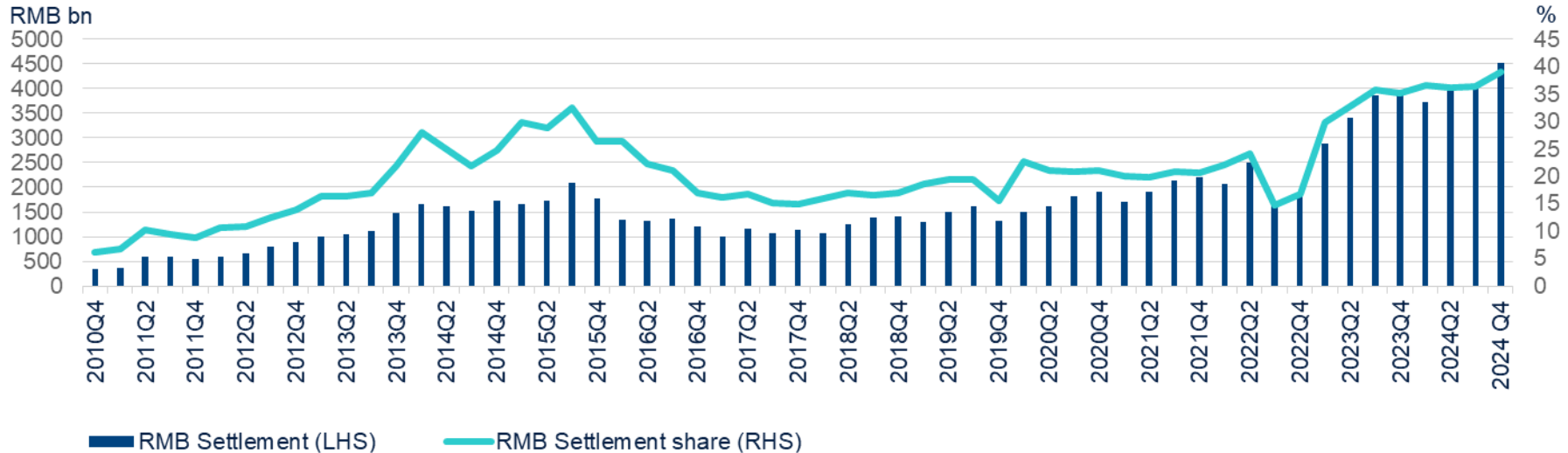
Currency	2010		2013		2016		2019		2022	
	Share	Rank	Share	Rank	Share	Rank	Share	Rank	Share	Rank
USD	84.9	1	87.0	1	87.6	1	88.3	1	88.5	1
EUR	39.0	2	33.4	2	31.4	2	32.3	2	30.5	2
JPY	19.0	3	23.0	3	21.6	3	16.8	3	16.7	3
GBP	12.9	4	11.8	4	12.8	4	12.8	4	12.9	4
CNY³	0.9	17	2.2	9	4.0	8	4.3	8	7.0	5
AUD	7.6	5	8.6	5	6.9	5	6.8	5	6.4	6
CAD	5.3	7	4.6	7	5.1	6	5.0	6	6.2	7
CHF	6.3	6	5.2	6	4.8	7	5.0	7	5.2	8
HKD ³	2.4	8	1.4	13	1.7	13	3.5	9	2.6	9
SGD ³	1.4	12	1.4	15	1.8	12	1.8	13	2.4	10
SEK	2.2	9	1.8	11	2.2	9	2.0	11	2.0	11
KRW ³	1.5	11	1.2	17	1.7	15	2.0	12	1.9	12
NOK ³	1.3	13	1.4	14	1.7	14	1.8	14	1.7	13
NZD ³	1.6	10	2.0	10	2.1	10	2.1	10	1.7	14
INR ³	0.9	15	1.0	20	1.1	18	1.7	16	1.6	15
MXN ³	1.3	14	2.5	8	1.9	11	1.7	15	1.5	16

Source: BIS 2022 3-year survey & BBVA Research.

Over the years, the RMB has moved up in both ranking and share in global FX markets, reflecting its growing acceptance in international trade, finance, and investment.

Last year more than one-third of China's external trade settled in RMB

% OF RMB SETTLED TRADE HAS BEEN INCREASING STEADILY

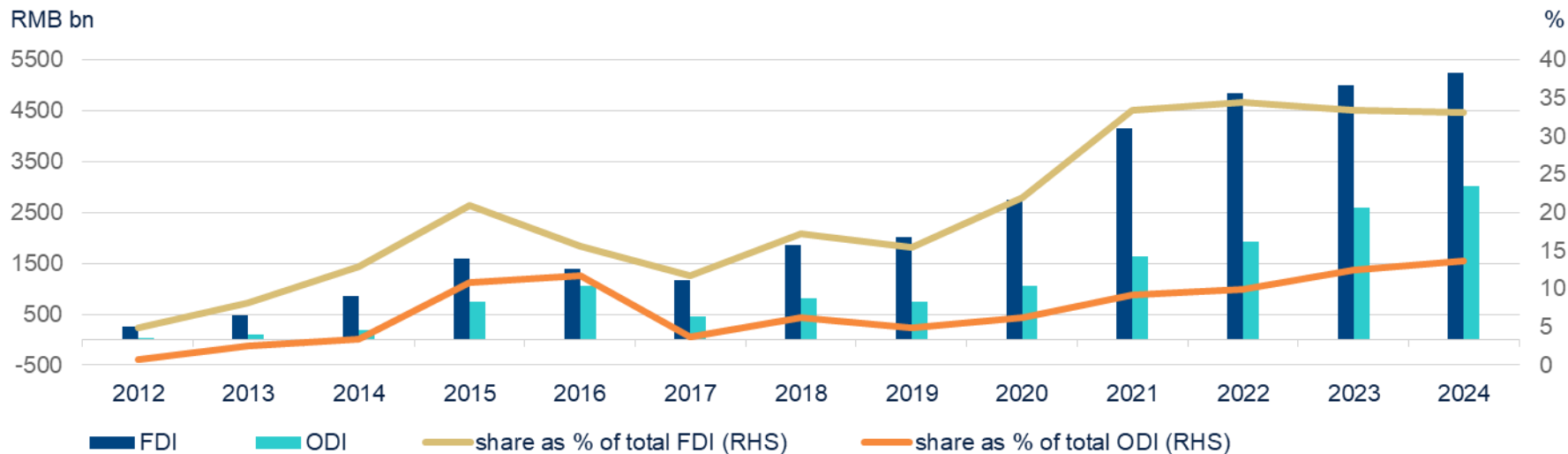


Source: CEIC & BBVA Research.

The amount and share of RMB settlements have seen a resurgence since 2020, reaching nearly 40% of mainland China's external merchandise trade by Q4 2024. This growth has been driven by China's efforts to promote the RMB's global use amid geopolitical and economic shifts.

More China's FDI and ODI are denominated in RMB

THE SHARE OF RMB DENOMINATED FDI AND ODI INCREASED

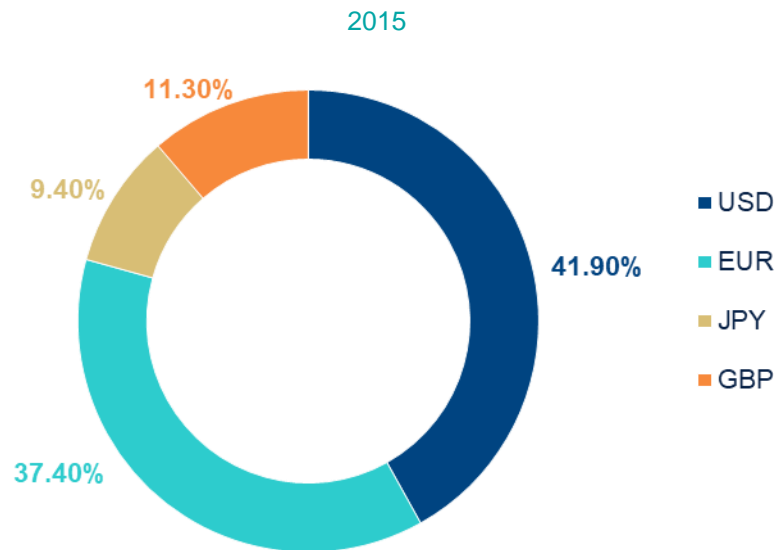


Source: SAFE, CEIC & BBVA Research.

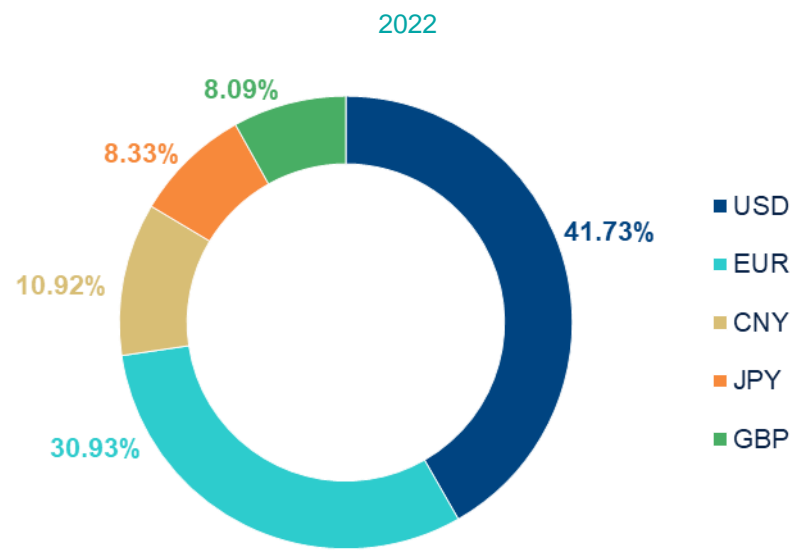
RMB-denominated FDI has seen notable accelerations in growth since 2019. Additionally, the rise of RMB-denominated ODI signals that Chinese enterprises are increasingly using RMB for international expansion.

RMB joined SDR in 2015, and the IMF raised its share in 2022

THE INTERNATIONAL STATUS OF THE RMB IS ENDORSED BY THE IMF



Source: IMF & BBVA Research.



Source: IMF & BBVA Research.

The International Monetary Fund (IMF) reform provides an opportunity for the RMB to join SDR. In 2022, the IMF raised the RMB's weighting from 10.92% in 2016 to 12.28%, with the RMB grabbing the share of the EUR.

RMB enters into other countries' foreign exchange reserves...

IMF COFFER database started to report RMB's share in global foreign reserves in 2016.

WORLD CURRENCY COMPOSITION OF OFFICIAL FOREIGN EXCHANGE RESERVES

(US DOLLARS, MILLIONS)

	2022Q3	2022Q4	2023Q1	2023Q2	2023Q3	2023Q4	2024Q1	2024Q2	2024Q3
Total Foreign Exchange Reserves	11540111	11921738	12029905	12055391	11850350	12346796	12388993	12348685	12730449
Allocated Reserves	10693547	11040016	11151747	11176208	10977208	11452983	11492540	11460174	11843255
Claims in U.S. dollars	6426887	6460212	6631024	6640387	6496518	6690479	6773360	6674650	6796979
Claims in euros	2083693	2248992	2183141	2204443	2146827	2284334	2252127	2263500	2370601
Claims in Chinese renminbi	281708	288420	287731	273383	260612	262171	246977	245002	257175
Claims in Japanese yen	563250	611831	608490	600180	601302	651677	654663	641220	689201
Claims in pounds sterling	487972	540916	530659	532625	527924	557131	562239	565603	588528
Claims in Australian dollars	204778	217083	221620	219699	222536	245534	248367	256396	268722
Claims in Canadian dollars	261883	263610	271646	279602	275398	296470	295577	306782	324441
Claims in Swiss francs	24696	25210	28164	21165	19794	22266	21914	22419	19822
Claims in other currencies	358678	383743	389272	404724	426297	442919	437315	484603	527786
Unallocated Reserves	846565	881721	878159	879183	873142	893814	896453	888511	887194

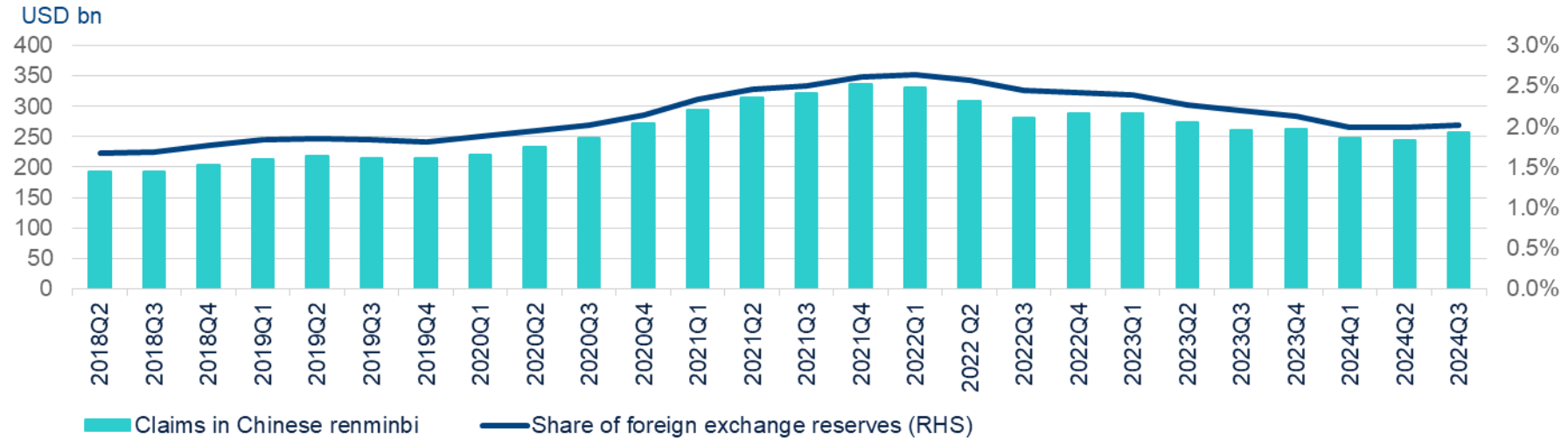
Source: IMF & BBVA Research.

The ECB has included certain RMB assets into its foreign exchange reserves (June 2017), several other central banks have followed suit to include the RMB in foreign exchange reserves, including Germany, France, UK, Russia, Switzerland, Nigeria, South Korea, Japan, Malaysia and Chile.

... although its share shows up-and-downs after Covid-19 pandemic

Claims in Chinese RMB as share of foreign exchange reserves.

AS % OF OFFICIAL FOREIGN EXCHANGE RESERVES

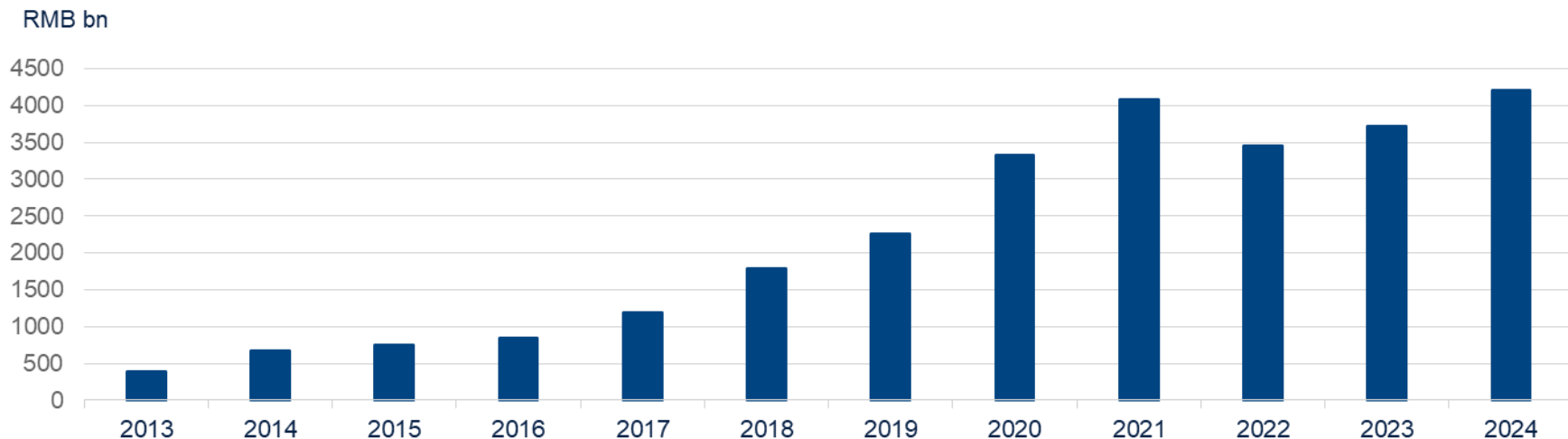


Source: IMF & BBVA Research.

More and more countries and economies have announced the inclusion of the yuan in foreign exchange reserves. However, its share still lagged behind other major currencies.

Foreign holding of Chinese bonds reached a record high in 2024

FOREIGN HOLDING OF CHINESE BOND INCREASED SIGNIFICANTLY DUE TO LOW COST OF RMB

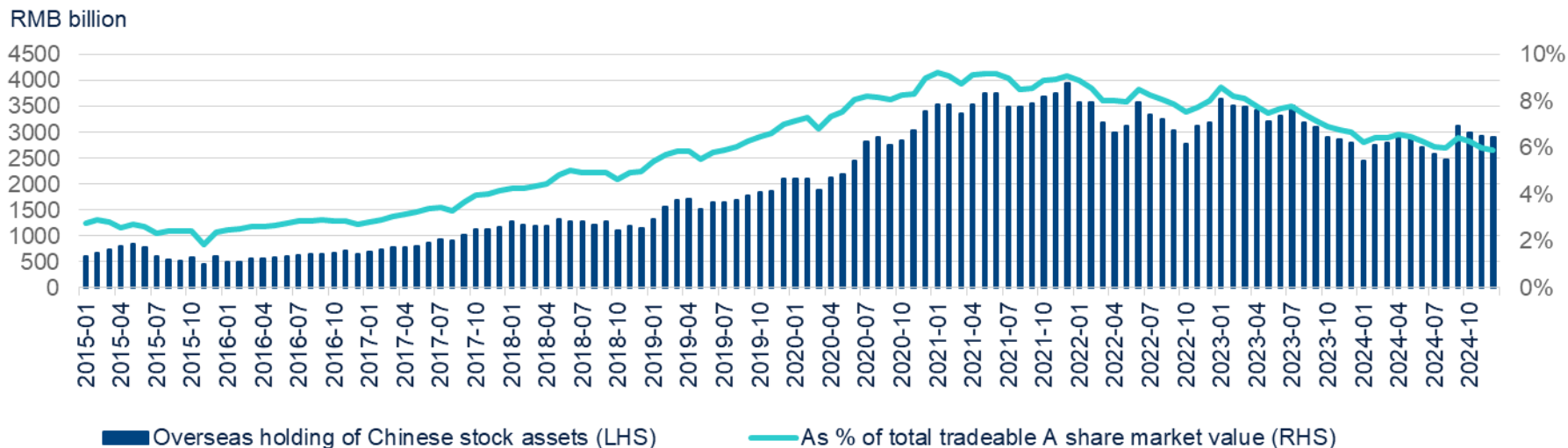


Source: CEIC & BBVA Research.

Overseas investors have significantly increased their holdings of Chinese bonds, particularly in periods where RMB funding costs were low. By the end of 2024, overseas investors held around RMB 4.2 trillion Chinese bond, accounting for 2.7% of total Chinese domestic bond assets.

By contrast, foreign investors hold of tradable A-share market value showed a declining trend since the start of 2022

OVERSEAS RMB STOCKS SHOWED A DECLINING TREND SINCE 2022 DUE TO MARKET



Note: Foreign investors access the Chinese stock market through cross-border funds, QFII/RQFII, and investments in PE funds.

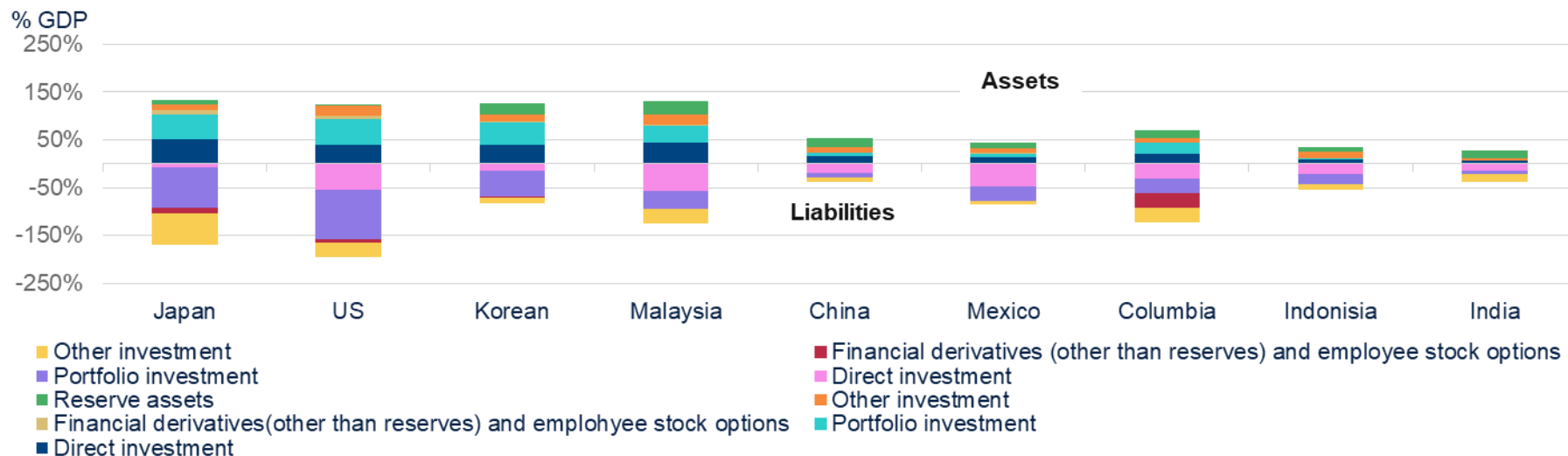
Source: CEIC & BBVA Research.

Cross-border funds are relatively flexible and more sensitive to short-term market fluctuations, leading to more frequent inflows and outflows during market adjustments. In contrast, long-term funds such as QFII/RQFII focus more on fundamentals and maintain relatively stable shareholdings.

The structure of China's international investment position become more balanced, adding resiliency to external shocks

INTERNATIONAL INVESTMENT POSITION 2023

(% OF GDP)

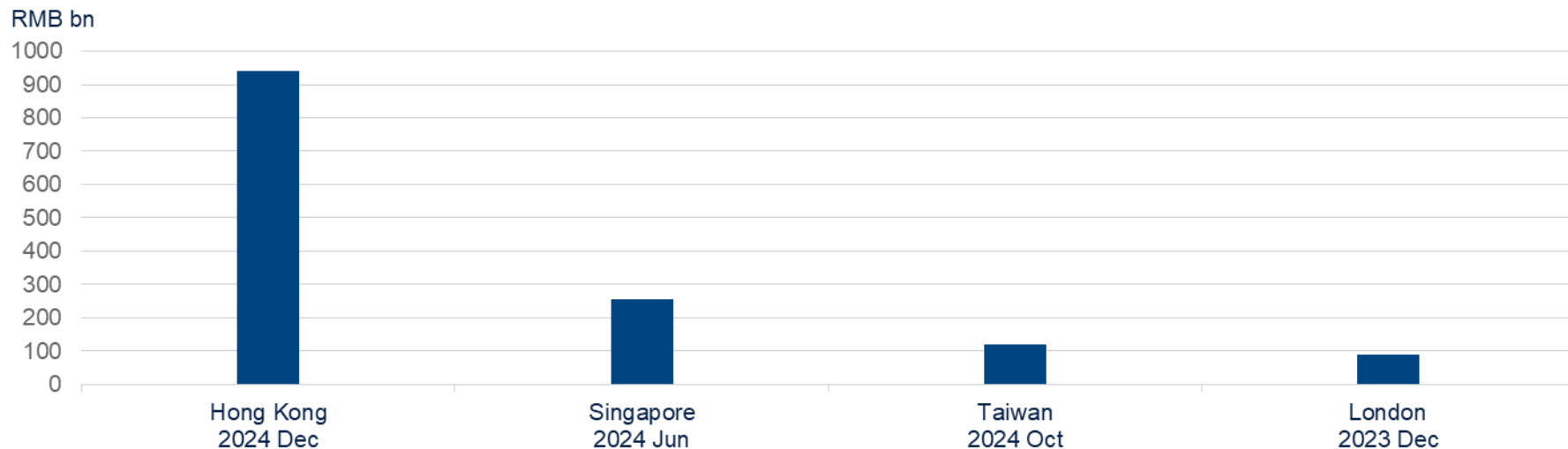


Source: IMF & BBVA Research.

China's FX reserves account for 36% of total foreign asset holding in 2023, compared with approximately 71% in 2010, reflecting a more-balanced structure in its international asset and national savings.

Hong Kong remains the leading offshore RMB center

HONG KONG HAS THE LARGEST VOLUME OF OFFSHORE RMB DEPOSITS



Source: Media reports, Bloomberg & BBVA Research.

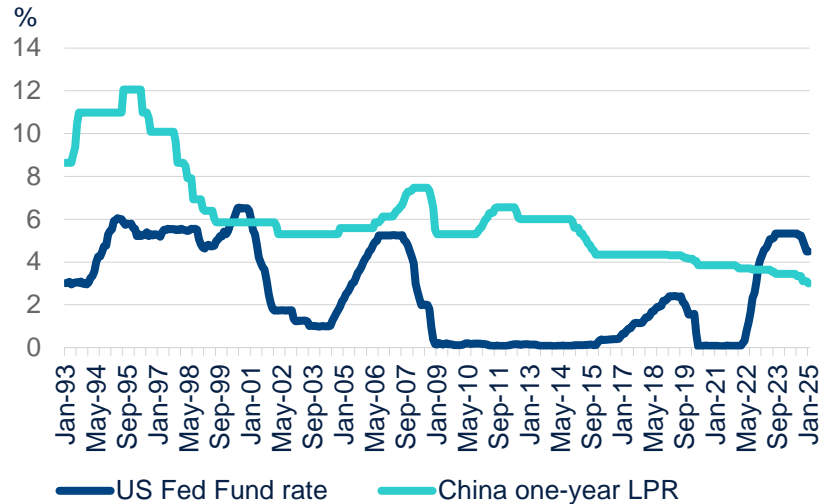
Hong Kong remains the largest RMB offshore market, while other cities are catching up.

02

US-China interest rate
revision has elevated
financing demand for RMB

Interest rate differential reversion between China and US

THE REVERSION OF CHINA-US POLICY RATE CONTINUES DUE TO UNSYNCHRONIZED BUSINESS CYCLE



Source: Haver & BBVA Research.

THE RATE REVERSION HAS SIGNIFICANTLY AFFECTED FOREIGN BANKS' LENDING STRATEGIES IN CHINA

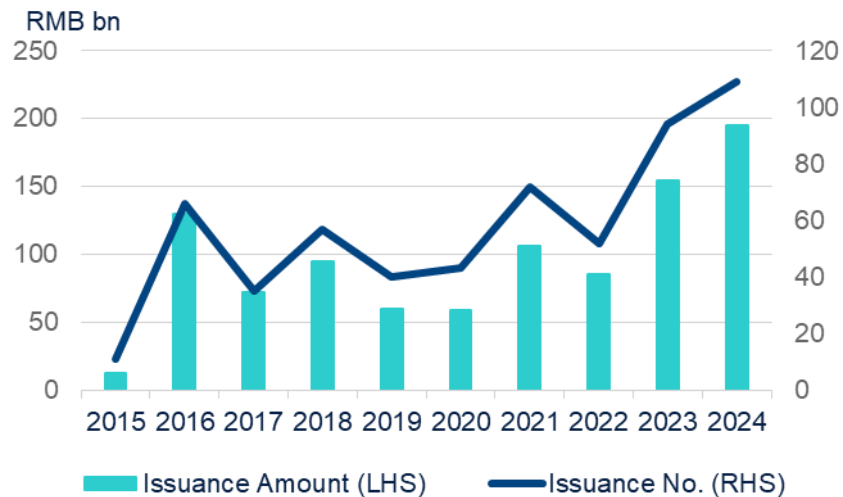


Source: Haver & BBVA Research.

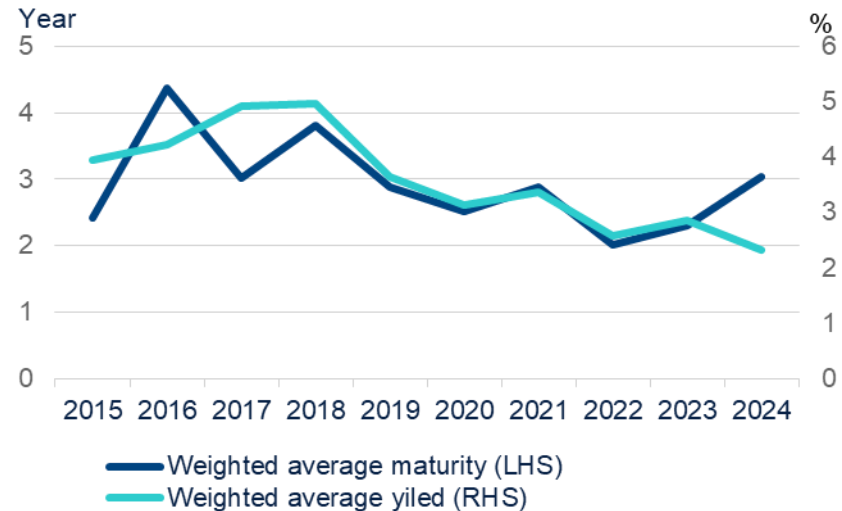
The diverging China-US monetary policy has led to the continuing China-US policy rate reversion. As USD funding became expensive and RMB liquidity remained scarce, foreign banks reduced their corporate lending and redirected their assets toward safer and more liquid assets, such as government bonds or interbank lending.

... boosting the Panda bond issuance over the past couple of years

PANDA BOND ISSUANCE REACHED HISTORICAL HIGH IN 2024



THE PANDA BOND YIELD IS UNDERGOING A DECLINING TREND AMID CHINA'S LOW INTEREST RATE ENVIRONMENT

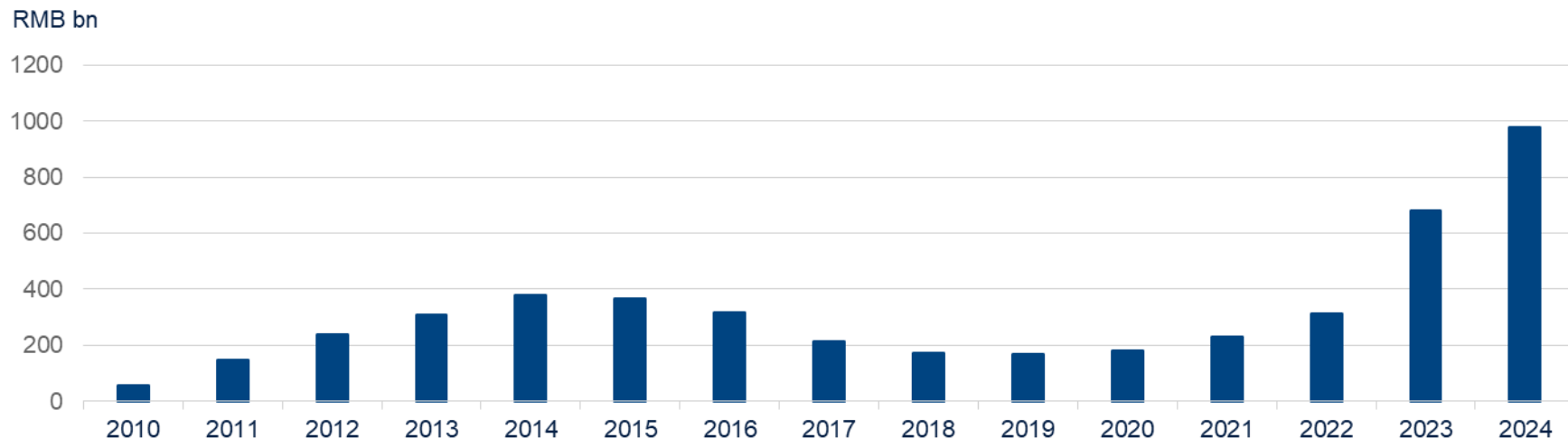


Source: BIS & BBVA Research.

The popularity of Panda bond issuance—RMB-denominated bonds issued by foreign institutions—continues to rise in 2024. Compared to the entire year of 2023, the number of issuances and the total issuance amount increased by 16% and 26%, respectively, both reaching record highs.

Dim Sum Bond market in Hong Kong accelerated its expansion in 2024

HONG KONG DIM SUM BOND MARKET

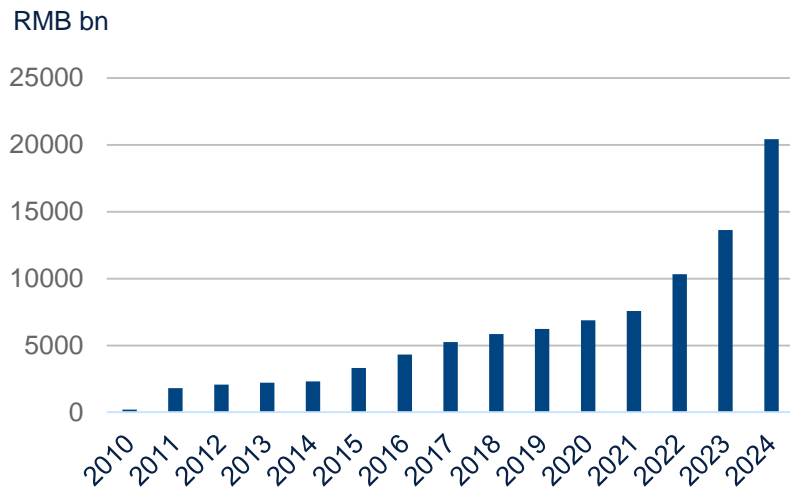


Source: Media reports, Bloomberg & BBVA Research.

Dim Sum bonds, RMB-denominated bonds issued in Hong Kong, have also seen significant expansion in 2024, with their outstanding size tripling from the 2022 level and surpassing RMB 900 billion.

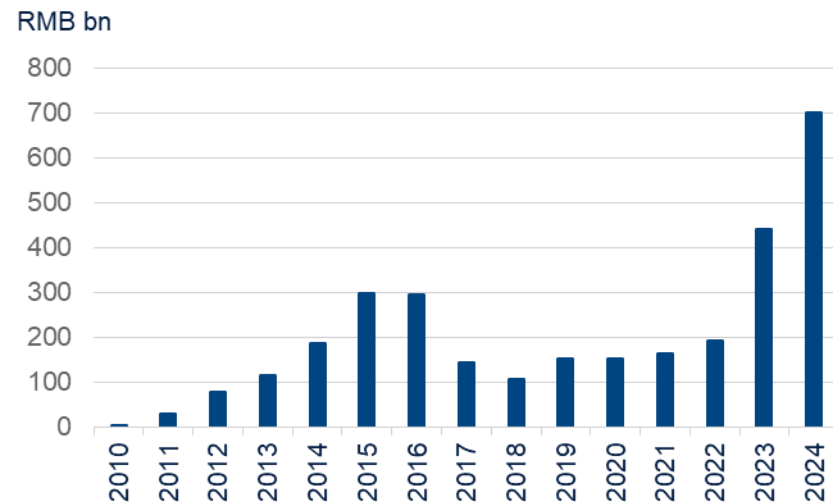
Cross-border RMB loans also sees a significant jump in recent years

CROSS-BORDER RMB LOANS ALSO INCREASED SIGNIFICANTLY DUE TO LOW COST OF RMB



Source: PBoC data & BBVA Research.

...SO DID THE RMB LOANS IN HK AS THE LARGEST RMB OFFSHORE CENTER



Source: Haver & BBVA Research.

The cross-border RMB Loans increased sharply to RMB 20.4 trillion in 2024, more than double the level of RMB 10.3 trillion in 2023. Moreover, the size of RMB loan outstanding in Hong Kong rose more than 50% from the level of 2023, reaching RMB 700 billion.

03

De-dollarization en route

Phases of Cross-Border Interbank Payment System (CIPS)



PHASE 1

2015: Launch of CIPS

- 11 Chinese Banks
- 8 registered entities of overseas banks

PHASE 2

CIPS 1.0 2015-2017: Initial Phase

Supporting direct yuan settlements

CIPS 2.0 2017-2020: Expanded Phase

Including more global payment network integration and international use of RMB

PHASE 3

2020-Present:

Increasing number of countries and banks involved in cross-border RMB settlements.

Future phase:

ongoing expansion

CIPS is a Chinese cross-border payment system created by PBOC to facilitate the international use of the RMB, with objectives to provide an independent international RMB payment and clearing system connecting both onshore and off shore clearing market and participating banks.

How does the CIPS different from SWIFT system?

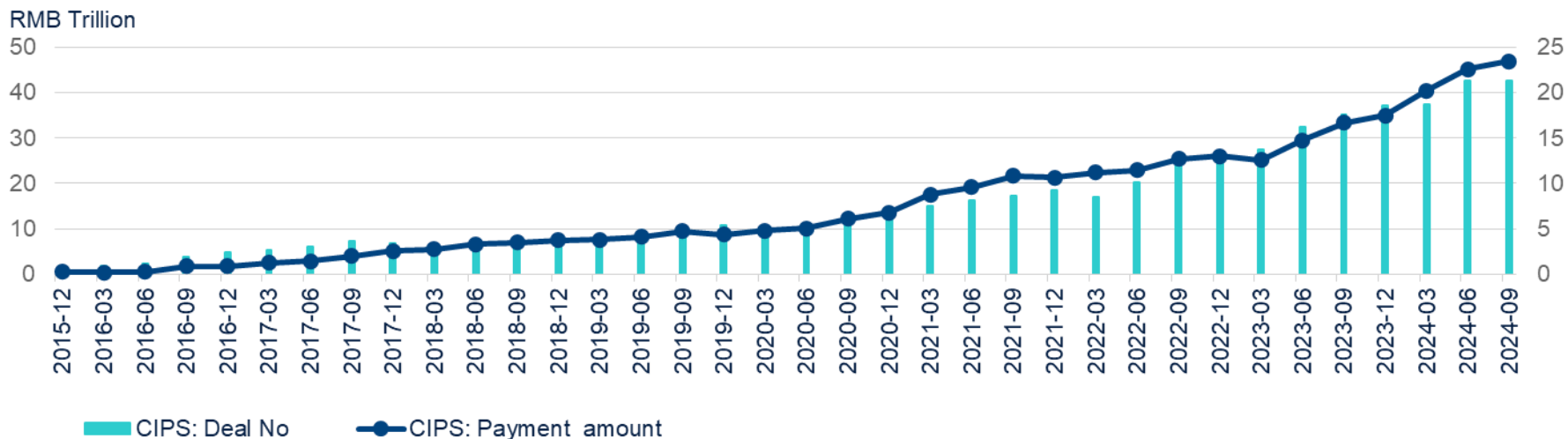
Feature	CIPS	SWIFT
Primary Function	A payment system used to process and settle cross-border transactions in RMB.	A global financial messaging network that facilitates communication between banks about payment instructions.
Focus	Specifically designed to facilitate RMB transactions and promote RMB internationalization.	Supports a wide range of financial transactions in global currencies through an extensive network.
Payment Settlement	Settles RMB payments in real-time or near real-time, reducing reliance on intermediaries.	Does not directly settle payments. Relies on the correspondent banking model.
Governance	Operates by China International Payment Service, a company overseen and regulated by the People's Bank of China (PBOC).	A cooperative society owned by the member financial institutions.
Costs	Multiple intermediaries causing delays and higher fees.	Real-time transaction processing, lower costs, and greater transparency.

Source: BIS & BBVA Research.

While CIPS has its own messaging system, it still relies on the SWIFT network to send messages between banks, especially those not directly connected to CIPS.

Business Trends Since the Launch of CIPS

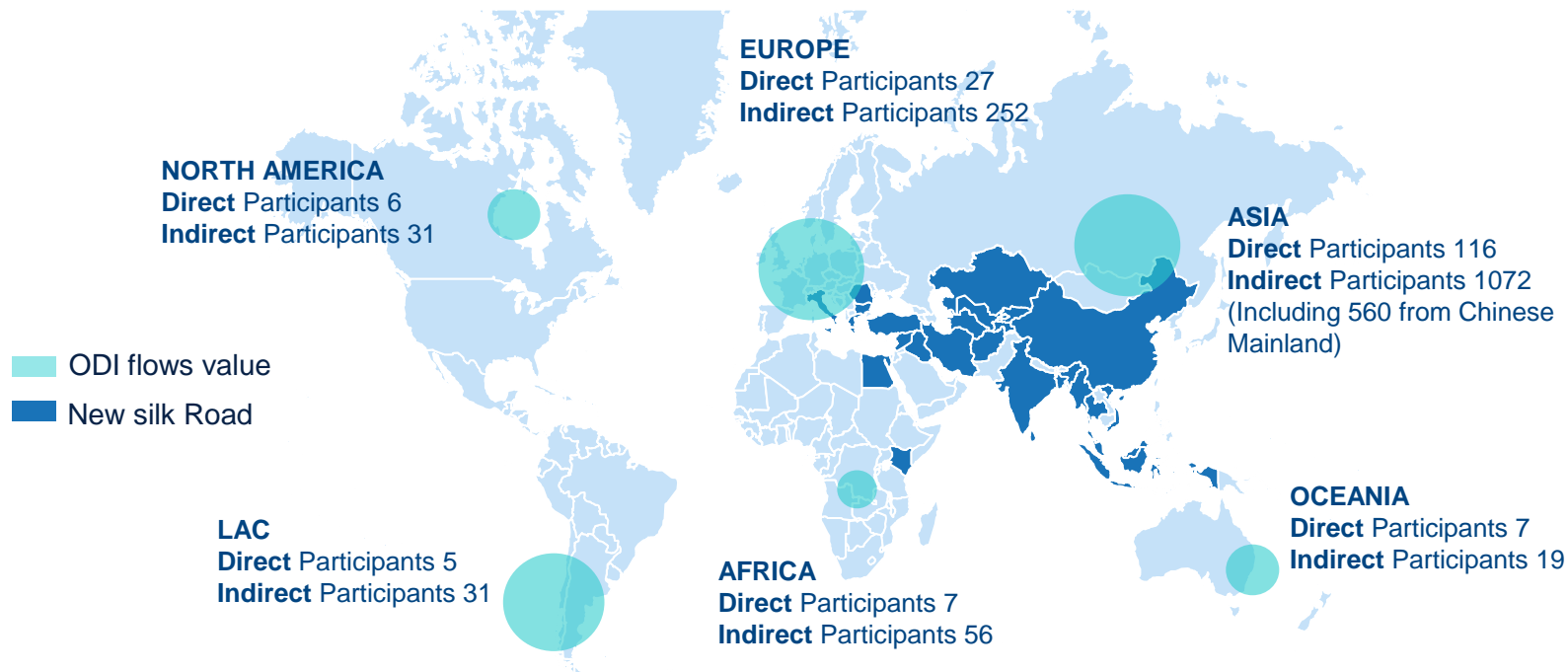
INCREASING DEAL NO. AND PAYMENT AMOUNT ARE SAW IN THE CIPS



Source: BIS & BBVA Research.

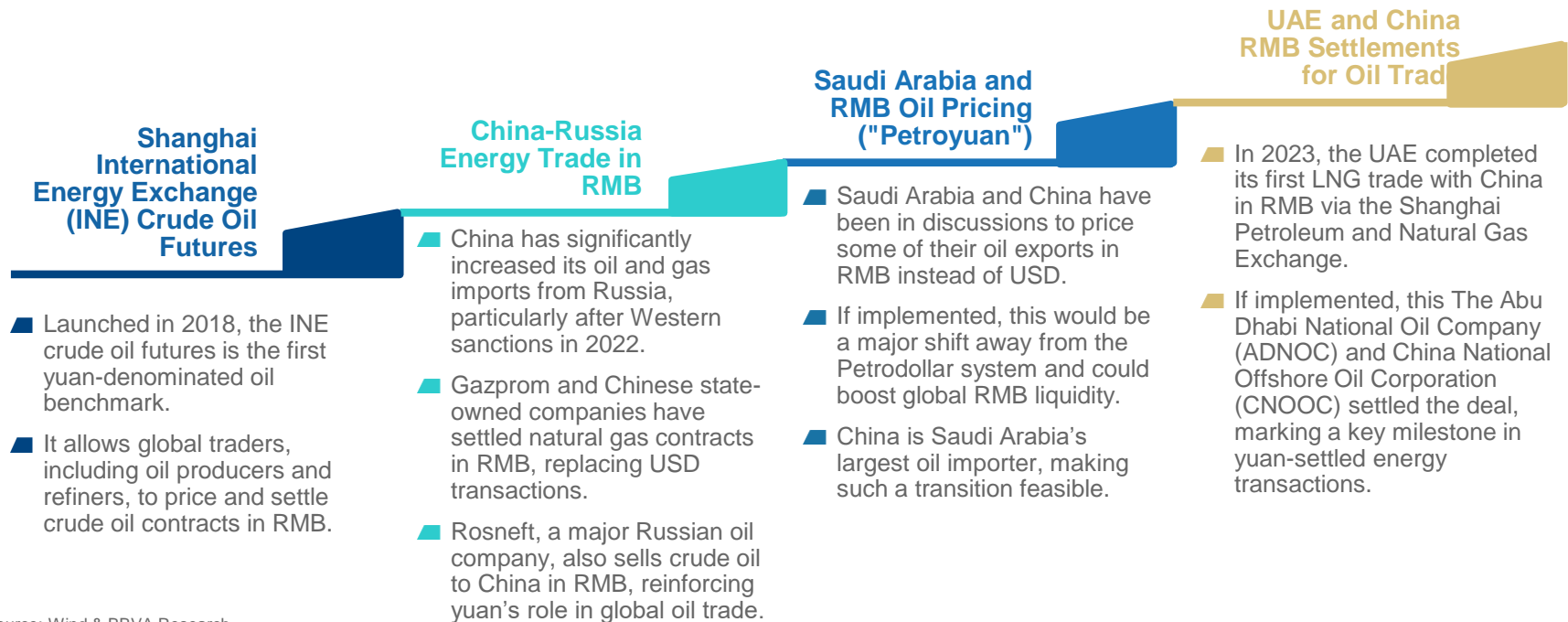
In 2024, CIPS processed a total of RMB 175 trillion in cross-border payment transactions, representing a year-on-year growth of 43%. From its launch in 2015 to the end of December 2024, CIPS has cumulatively processed approximately RMB 600 trillion in various payment transactions.

Cross-Border Interbank Payment System (CIPS) Worldwide Participants



By the end of 2024, the system had 1629 users across 119 countries, including 168 directly participating banks and 1461 indirect participants. The indirect participants accounted for 63% of the total.

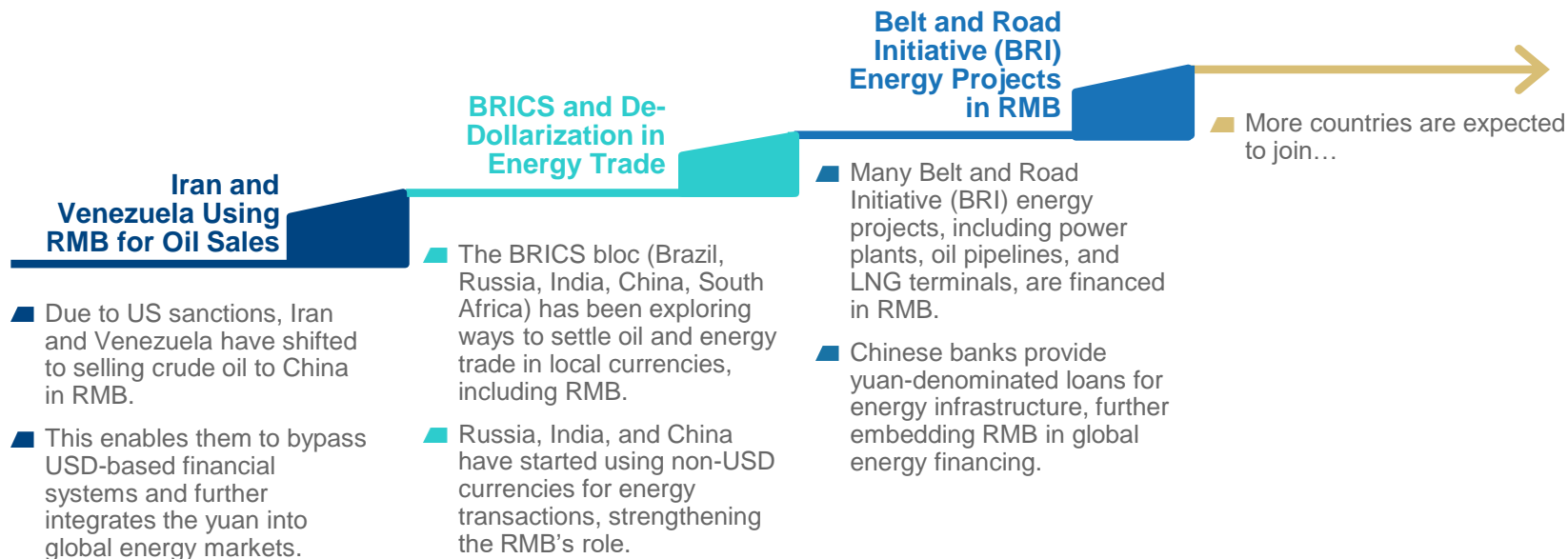
The RMB is progressively being used in global energy markets (1)



Source: Wind & BBVA Research.

The internationalization of the RMB has accelerated in the global energy sector, with an increasing number of transactions being settled in RMB.

The RMB is progressively being used in global energy markets (2)

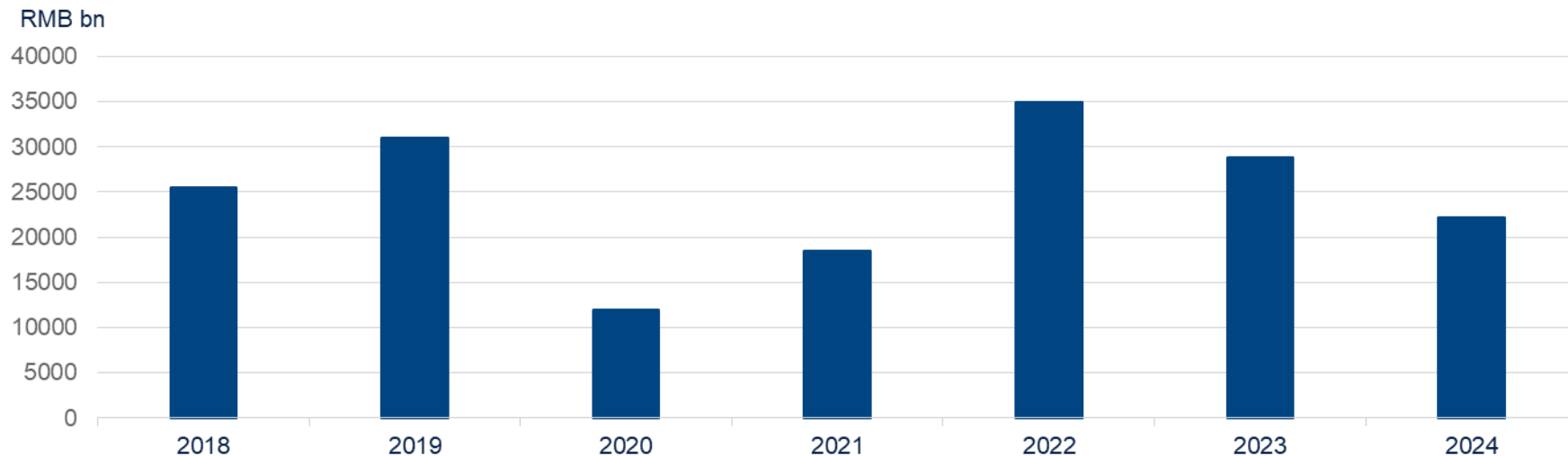


Source: Wind & BBVA Research.

The internationalization of the RMB has accelerated in the global energy sector, with an increasing number of transactions being settled in RMB.

The Shanghai crude oil futures market is increasingly recognized as a nascent crucial oil futures contract market

SURGE IN INE CRUDE OIL FUTURES TRADING

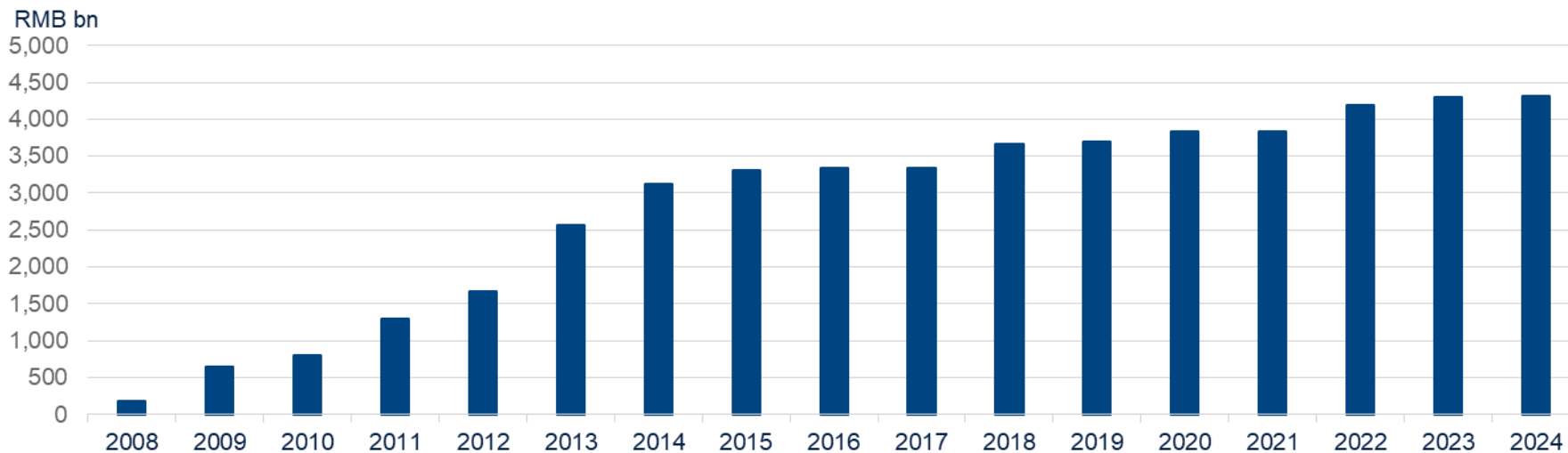


Source: Wind & BBVA Research.

INE's Shanghai crude oil futures contract market is now the world's third most-traded crude oil futures contract market, following only the US West Texas Intermediate (WTI) and London Brent (Brent) crude oil futures in trading volume.

China's central bank signs 40 currency swap agreements with foreign counterparts

CHINA: CENTRAL BANK'S CURRENCY SWAP SCALE



Source: Wind & BBVA Research.

As of February 2025, the PBOC has signed bilateral currency swap agreements with over 40 foreign central banks or monetary authorities, with 31 are in force, amounting to around RMB 4.31 trillion yuan. Some of them were used by the counterparty authorities (Argentina, Russia) to meet their international financing needs when being cut off other international funds.

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