



恒生銀行

HANG SENG BANK

# Press Release

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## **RMB BOND PLATFORM IN HK REQUIRES BROADER ACCESS TO EXISTING RMB SERVICES**

Establishing an RMB bond issuance mechanism in Hong Kong, as proposed by the Financial Secretary in his Budget Speech in March, would require broader market access to existing RMB deposit services, according to the latest issue of *Hang Seng Economic Monthly*.

Banks in Hong Kong have been offering a number of RMB financial services since February last year. This development was made possible by mainland China relaxing its capital controls by offering RMB settlement services for Hong Kong. At the same time, however, tight restrictions were imposed on the RMB services – including deposits, currency exchange and remittances – to be made available in Hong Kong.

The report states that any plan to set up an RMB bond platform in Hong Kong would have to address such issues as who can buy the bonds, where bond buyers can obtain RMB and what bond issuers can do with the RMB raised.

Resolution of these issues would require a substantial relaxation of the restrictions that currently govern the offering of RMB financial services in Hong Kong. Changes that would likely be necessary include allowing corporations to open RMB deposit accounts, relaxing the daily currency exchange limit of RMB20,000, allowing financial institutions to invest in RMB bonds and allowing corporations to remit RMB to and from the Mainland.

Expanding RMB financial services to include an RMB bond issuance mechanism is a big step that should be viewed as a long-term goal. However, the report argues that, launched at the right time, an RMB bond issuance platform in Hong Kong could serve as a bridge between those searching for RMB financial assets outside the Mainland and the funding needs of Mainland enterprises, similar to the role currently played by Hong Kong's stock market on the equity side.

The report states that given the high level of economic activity between Hong Kong and the Mainland, rationale exists for extending RMB services in Hong Kong for the benefit of individuals and corporations in both the Mainland and Hong Kong.

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## **RMB Bond Platform In HK Requires Broader Access to Existing RMB Services/ 2**

In the more immediate future, this could include broadening access to existing RMB financial services to serve the needs of corporations with operations that spread across Hong Kong and the Mainland. These enterprises must currently handle their RMB transactions on the Mainland, while settlement of transactions in other currencies is completed in Hong Kong. Extending RMB deposits to these companies would allow them to settle all transactions in Hong Kong, which would help reduce their transaction costs and enhance their operating efficiency.

However, the report notes that any expansion of RMB financial services offered in Hong Kong will continue to reflect the compromise between capital control concerns and the need to meet the growing demand for RMB services outside the Mainland, and that this balancing act is necessary in order not to expose the Mainland's currency and financial systems to excessive risk.

The report states that the Mainland's willingness to switch the RMB currency system from a US dollar peg to a managed float with reference to a basket of currencies is revealing. One implication is that the government has greater confidence in the strength of the domestic banking system following the latest capital injection and set of reforms.

Against this backdrop, a study into the potential benefits and risks of allowing enterprises with operations in both Hong Kong and the Mainland to have access to RMB financial services in Hong Kong would be a worthwhile one.

The report concludes by noting that Hong Kong is uniquely placed to meet the growing demand for RMB financial services outside the Mainland and remain a pioneer in handling offshore RMB financial transactions.

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