Top News

# Yuan may be fully convertible in '3-5 yrs'

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Cross-border trade using RMB will be extended nationwide, official says

BEIJING / SHANGHAI - A senior economist has said China could achieve full convertibility of the yuan in three to five years - much sooner than previous forecasts.

Xiang Songzuo, deputy director of the International Monetary Institute with Renmin University of China, told China Daily on Friday that full convertibility of the yuan could be achieved within that time span, citing sources from the central bank.

It is the earliest estimate for the full convertibility of the yuan, as most other experts have said such a move was about a decade away.

The People's Bank of China, the country's central bank, declined to comment on Friday.

Wu Xiaoqiu, senior finance professor of Renmin University of China, said it is possible for China to achieve full convertibility of the yuan by 2015.

"The yuan could become familiar to global investors very soon and become a global reserve currency," he said.

The World Bank said in a report on Tuesday that by 2025 the yuan could become a major global currency together with the US dollar and the euro - echoing China's rising say in the world economy.

The dollar, the predominant global reserve currency, has had its credibility dented as the loose monetary policies of the United States damaged the interests of other countries, including China, analysts said. The euro, on the other hand, is suffering setbacks as Europe encounters financial turbulence.

Currently, the Chinese currency is not freely convertible for foreign direct investment and securities transactions, as the country is fearful of possible financial turbulence caused by abnormal capital flows.

Zhou Xiaochuan, the central bank chief, said at the Lujiazui Forum in Shanghai on Friday that when cross-border use of the yuan hits a certain level, there will be a natural demand for full convertibility.

China has been trying to improve the yuan's global clout by encouraging its use in foreign trade and investment.

Zhou's remark to "cautiously" allow the yuan to be used in cross-border financial deals would mark a further step to making it a major world reserve currency.

China launched a pilot program in 2009 to allow banks to conduct trade settlements using the yuan in four cities.

The scheme has been expanded to 20 provincial regions, with the volume of cross-border settlements reaching 530 billion yuan ($81.5 billion) in the first four months of this year, Li Bo, a senior central bank official, told the Shanghai forum.

Li added the practice of cross-border yuan-denominated trade settlement will be extended throughout China this year.

Li said the central bank is also working on rules to allow yuan-denominated foreign direct investment.

China's foreign trade volume could hit $3.9 trillion this year, with yuan-denominated trade

China's foreign trade volume could hit $[illegible] trillion this year, with yuan-denominated trade settlements reaching $200 billion - 5.1 percent of the total trade - up from about 2.6 percent in 2010, said Anthony Lin, Shanghai general manager of Standard Chartered Bank (China) Ltd on Friday.

"Based on my understanding, the move will probably allow foreign central banks to buy Chinese government bonds and the yuan through bond-issuing in Hong Kong to invest in the mainland," said Peng Wensheng, chief economist with China International Capital Corp Ltd.

"That means more capital inflows, and that will put pressure on China's monetary policy."

Lu Zhengwei, chief economist of the Industrial Bank, also said the increased cross-border use of the yuan will increase the amount of yuan in offshore accounts, opening up the possibility of speculative activities that threaten to destabilize the yuan's exchange rate.

"The yuan's increased cross-border use is a mixed blessing. I couldn't agree more that it should be conducted cautiously."

Xiang with Renmin University said the government should regulate capital inflows and outflows to prevent risks.

"It doesn't mean China will let foreign capital come and go without any restriction. It still has regulations in place to monitor capital flows, just like other developed countries do," he told China Daily.

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