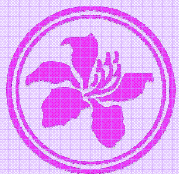


Hong Kong's Expanding Role as an Offshore RMB Centre

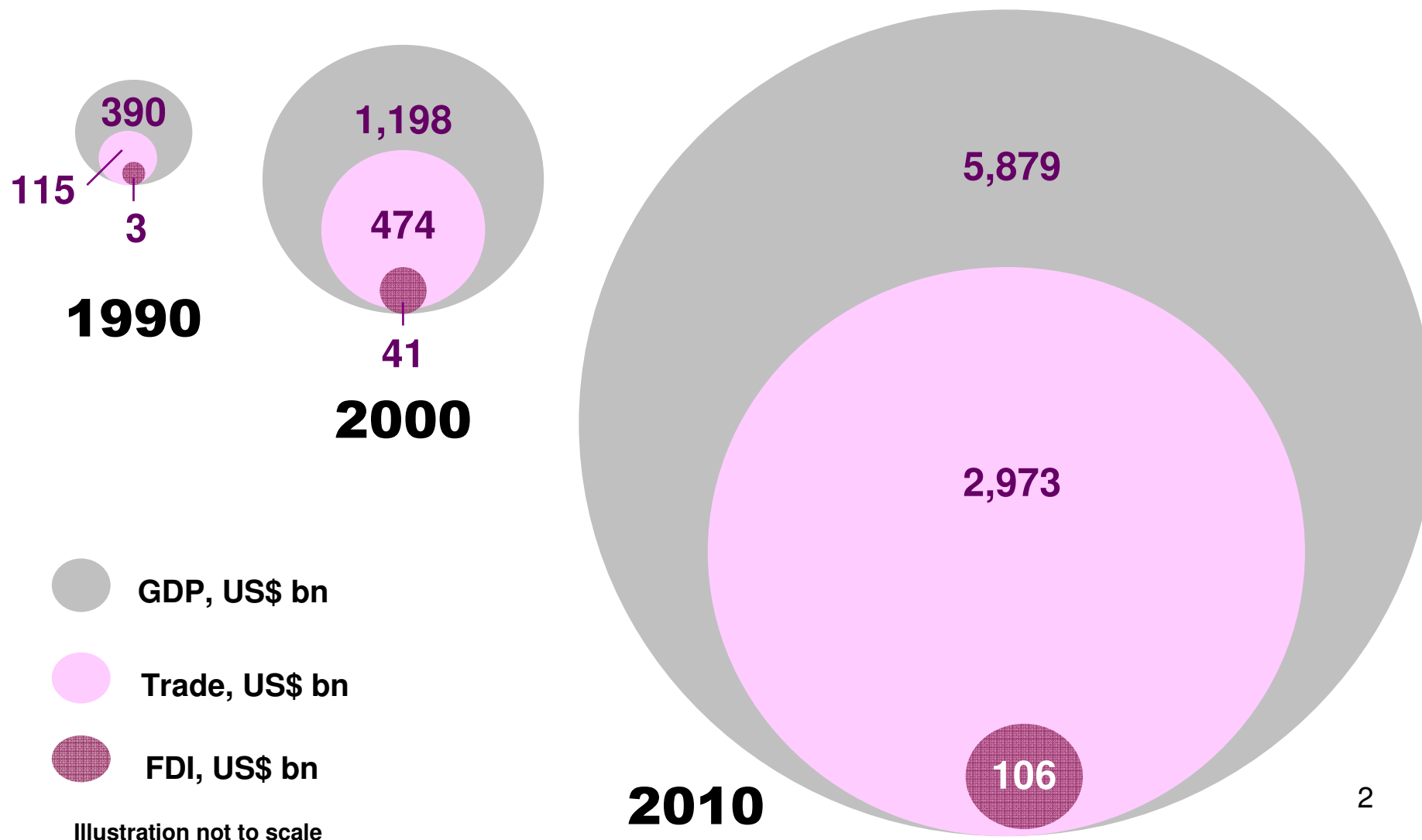
Goldman Sachs Global Macro Conference

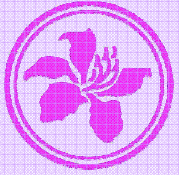
Peter Pang
Deputy Chief Executive
Hong Kong Monetary Authority
22 February 2011





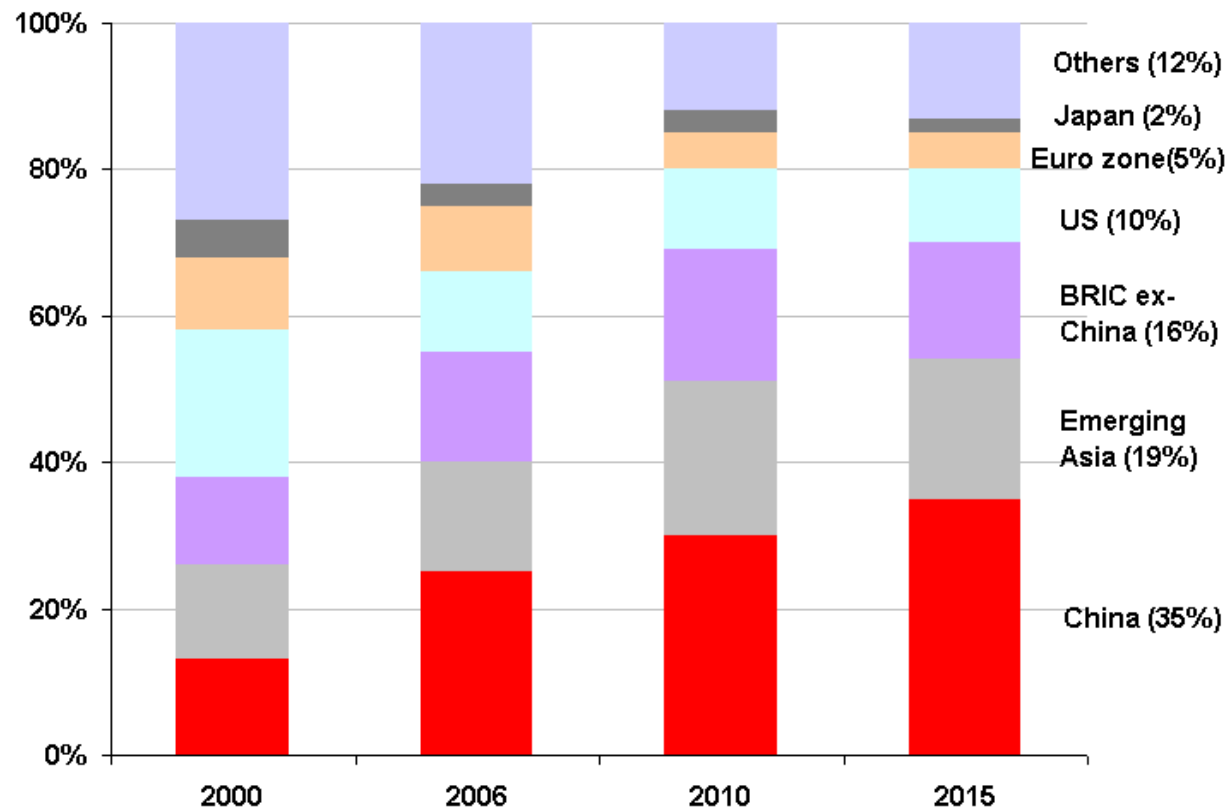
Mainland's Phenomenal Growth Propels Wider External Use of RMB



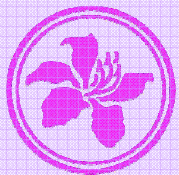


This Trend is Likely to Continue

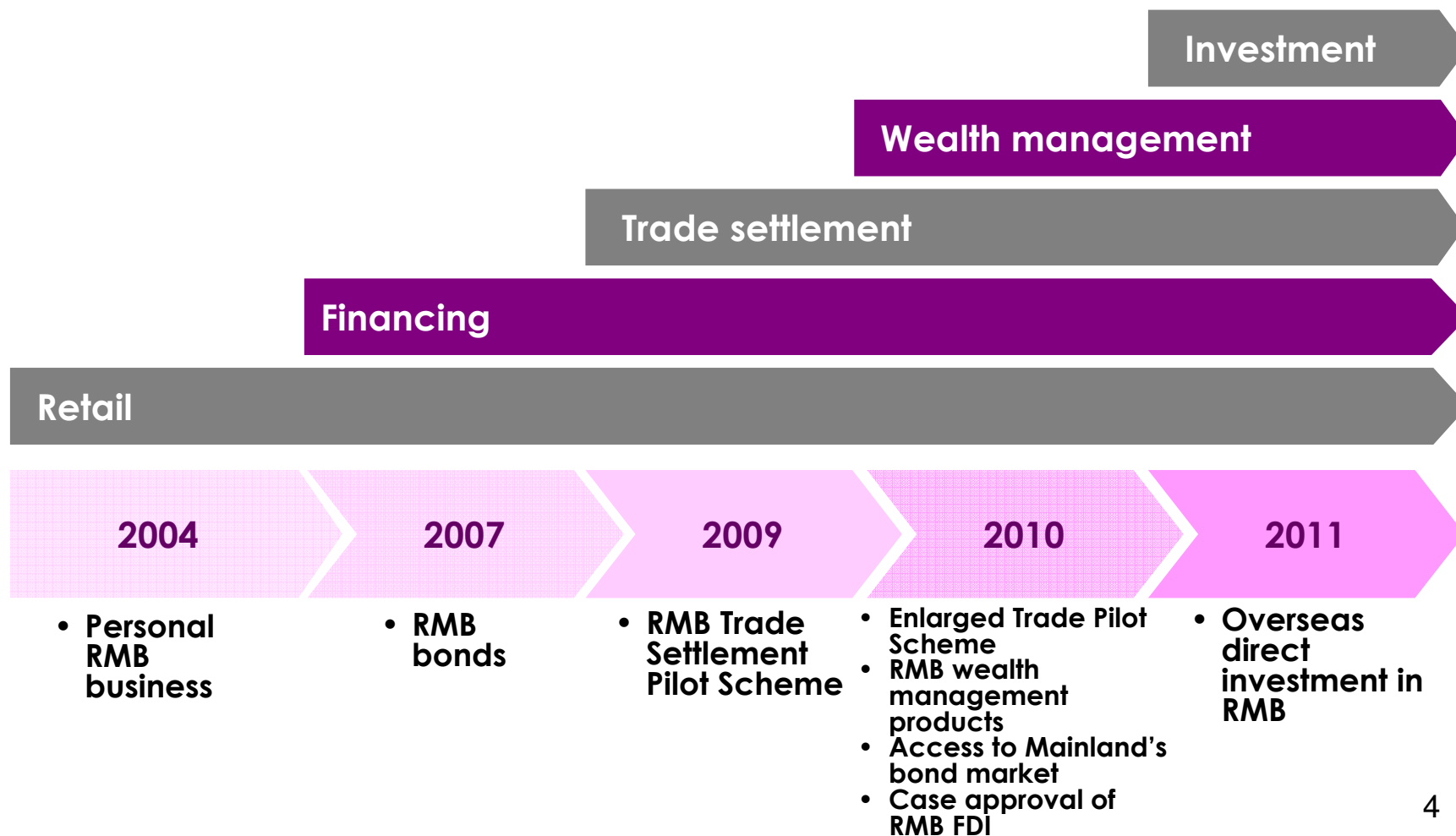
Sources of global economic growth

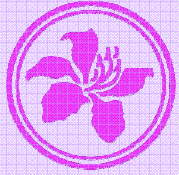


As projected by the IMF, more than one-third of global growth would be contributed by Mainland China by 2015. It is expected that the importance of Mainland China in the global economy and financial system will also increase accordingly.

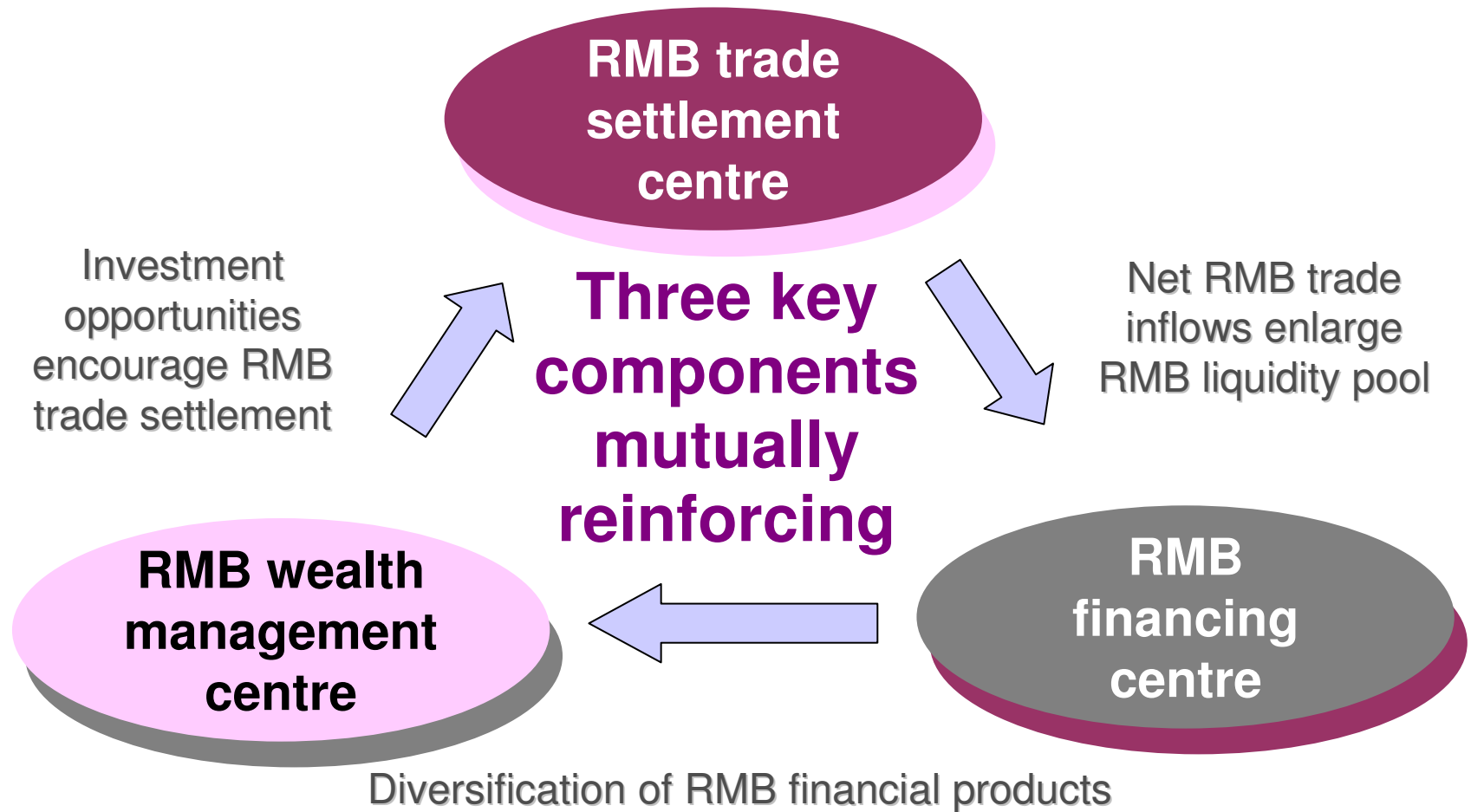


Mainland's Global Economic Activities Drive Expansion of Hong Kong's RMB Business





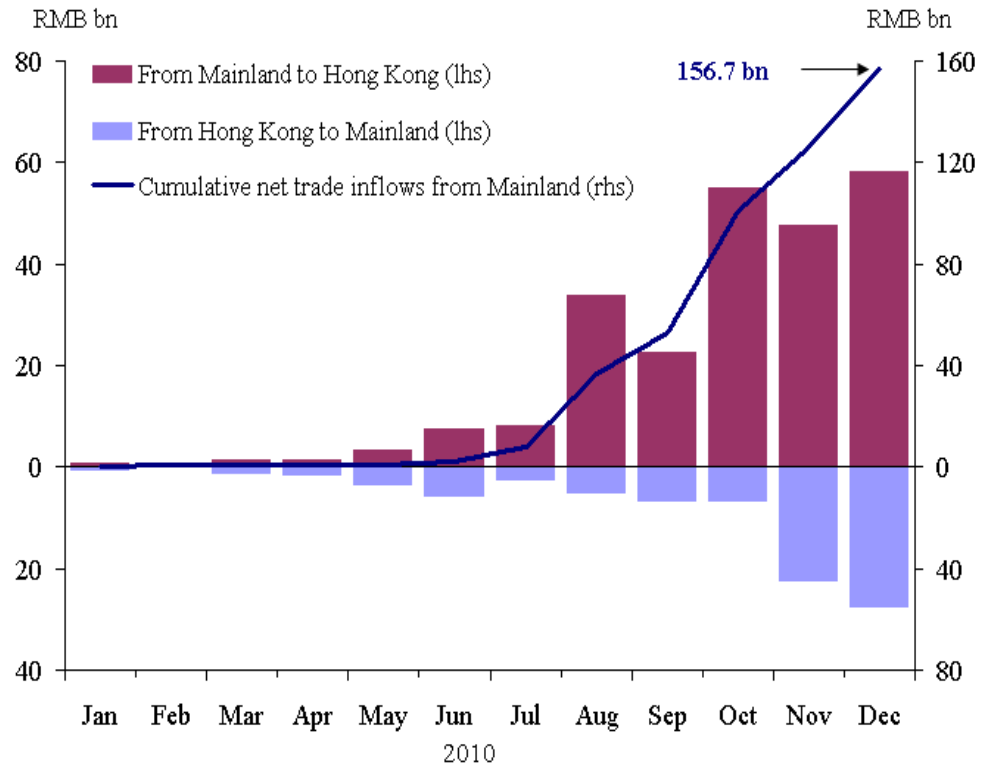
Hong Kong's Head Start as an Offshore RMB centre



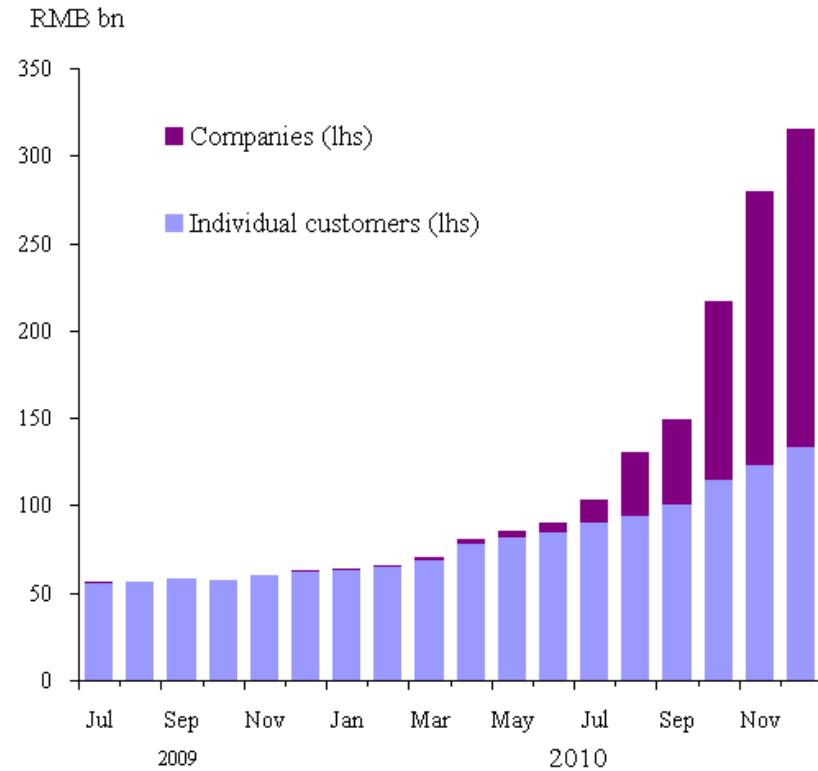


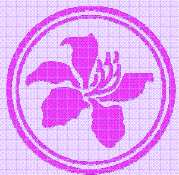
Trade Settlement – Key Driver of Expansion of RMB Pool

Net RMB trade settlement



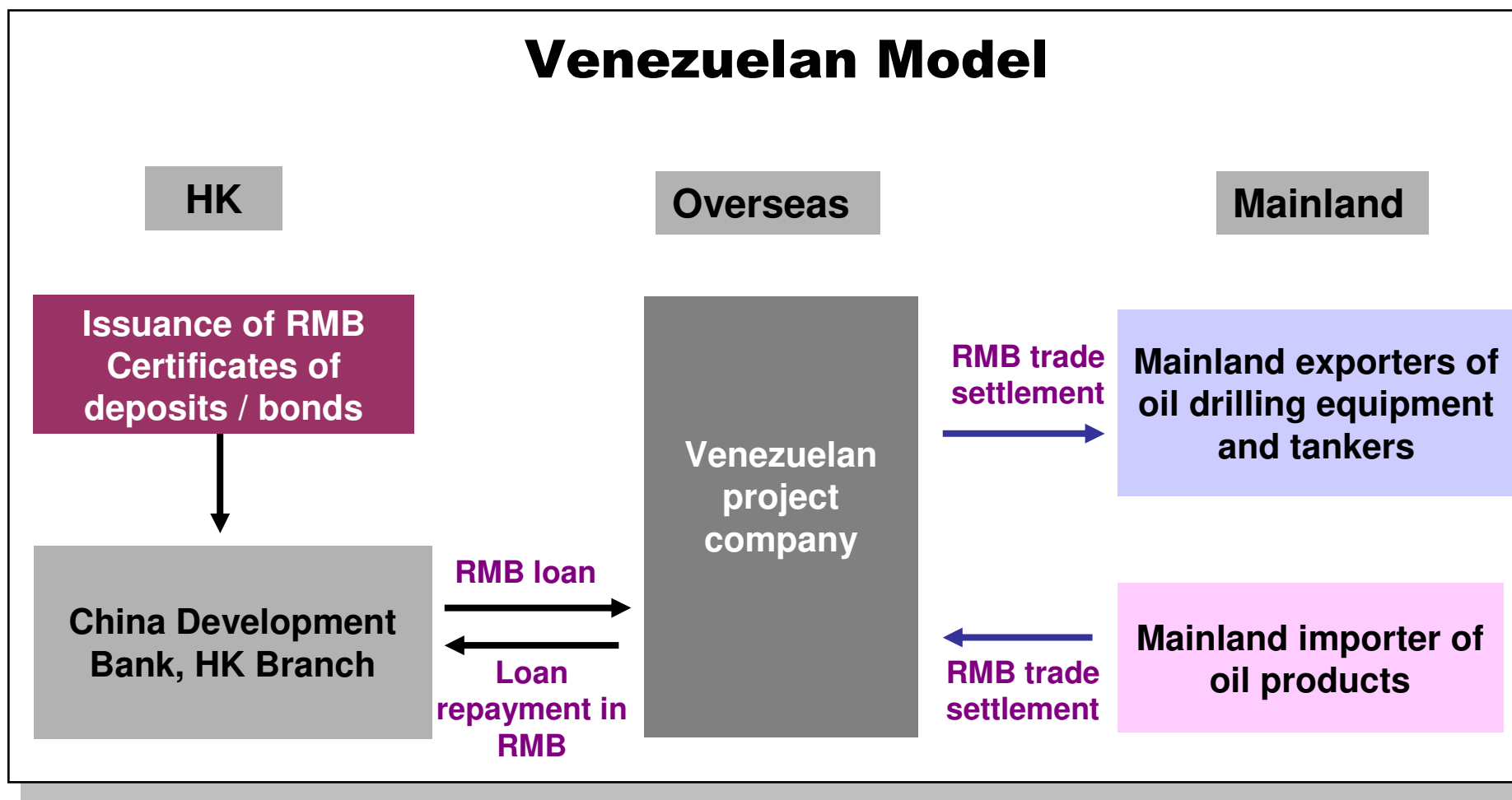
RMB deposits in HK

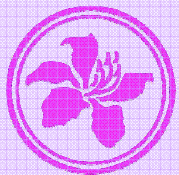




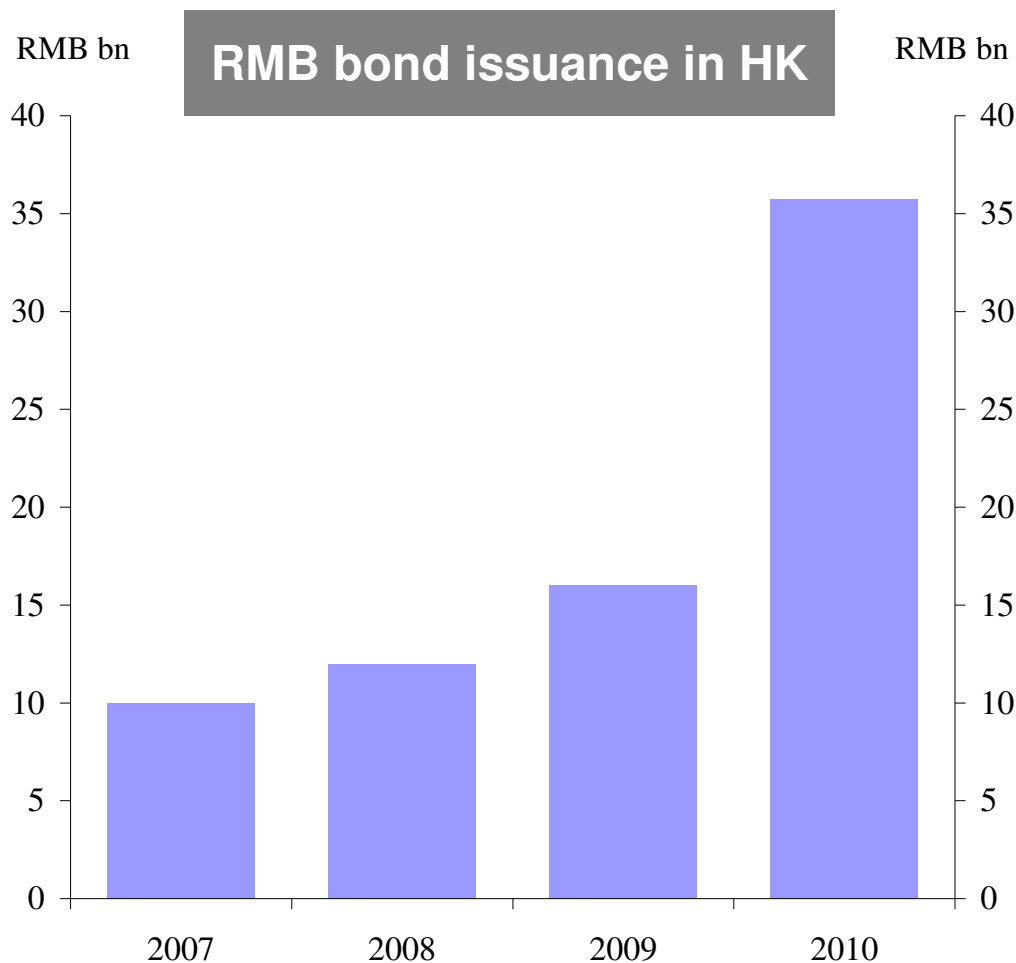
Trade Settlement – Key Driver of RMB Financing

Venezuelan Model

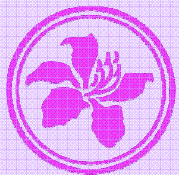




Trade and FDI - Key Drivers of RMB Bond Market Development



- **Expansion of issuers:** from Mainland financial institutions to HK corporation (Hopewell Highway Infrastructure), multinationals (McDonald's) and international financial institutions (Asian Development Bank and World Bank)
- **Tenors:** from 2 - 3 years to up to 10 years
- **Funding cost:** currently lower than that in the onshore market

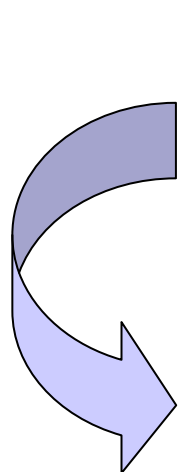


The Next Development Focus – RMB Direct Investment

**Further reinforcing two-way cross border flow of RMB
and the link between offshore RMB market with China's
real economic activities**

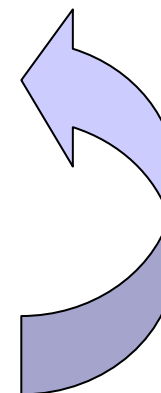
**RMB trade
settlement
by
Mainland
importers**

**RMB
Outward
Direct
Investment**



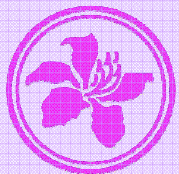
Mainland

Hong Kong

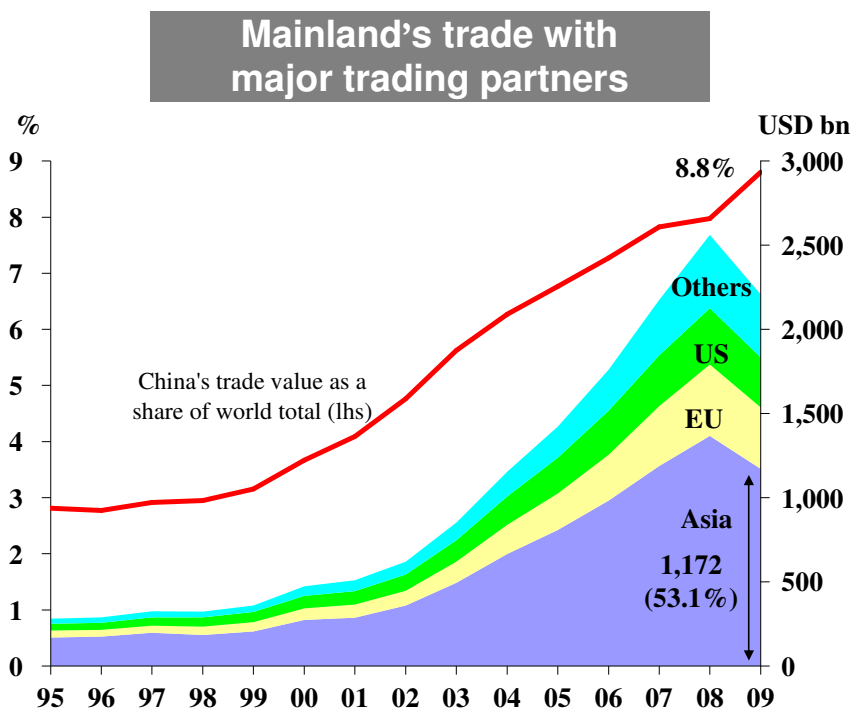


**RMB trade
settlement
by
Mainland
exporters**

**RMB
Foreign
Direct
Investment**



Potential Growth in RMB Trade Settlement



- Mainland accounts for 8.8% of global trade
- Mainland's RMB trade settlement (RMB 506 bn) about 2.5% of Mainland's total trade in 2010 (RMB 20,100bn)
- HK accounts for about 75% of Mainland's RMB trade settlement in 2010 (RMB 506bn)



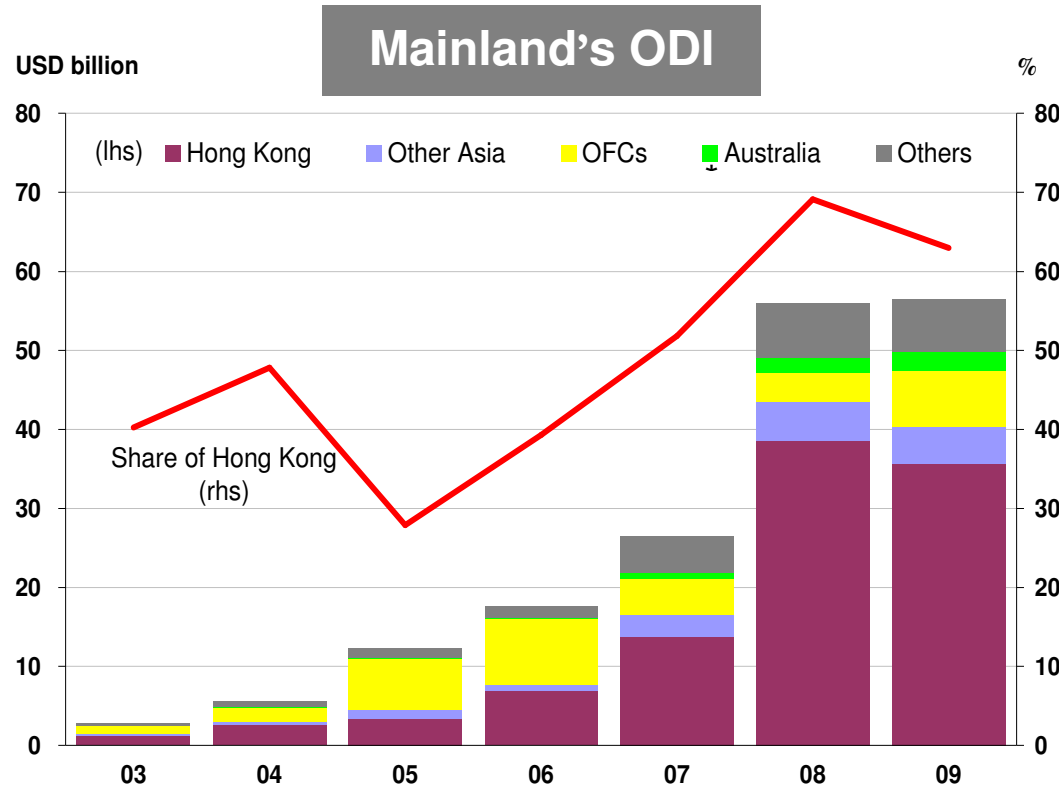
What if: Mainland's RMB trade settlement = 10% of Mainland's total trade?

RMB 2,010 bn of China trade will be settled in RMB

RMB 1,507 bn will be settled through HK (4 times of 2010 actual: RMB 369 bn)



Business potential from Mainland's ODI

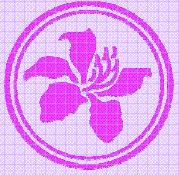


- **2009: Mainland's total ODI amounted to US\$ 57bn (RMB 390 bn) or 1.1% of GDP (Japan: 1.5%; US: 1.8%)**
- **Over 60% of ODI (US\$ 36 bn) invested in or through Hong Kong**
- **Mainland policy and global environment favour rapid expansion of ODI activities by Mainland entities**

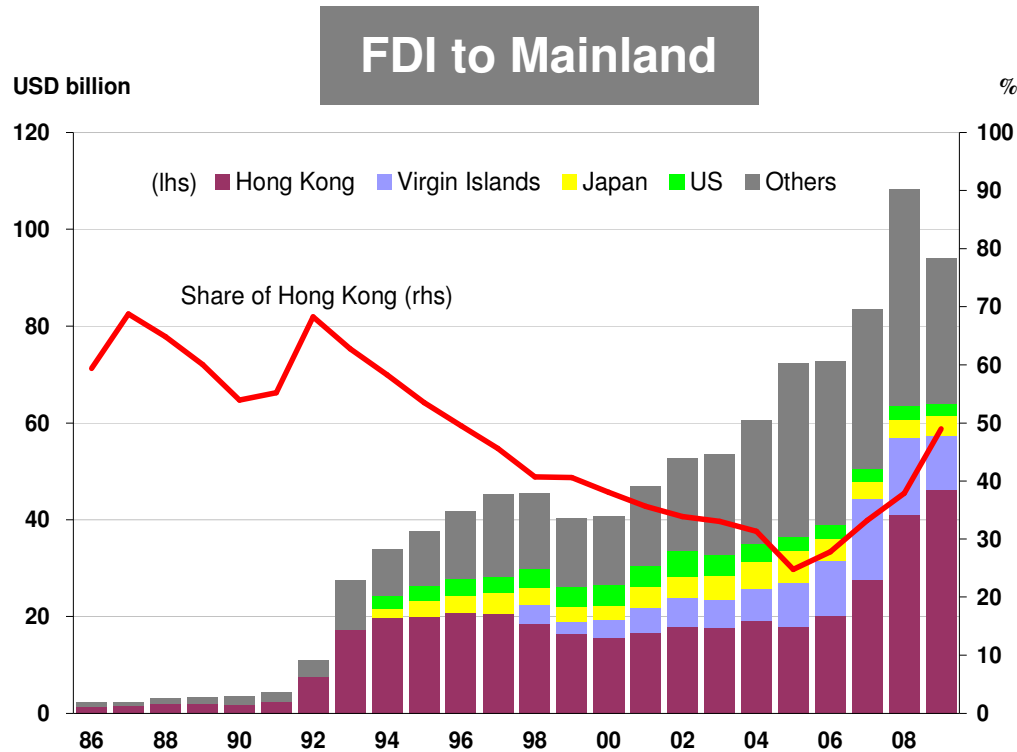


What if: Mainland's ODI at 1.5% of GDP? US\$ 74bn (RMB 500 bn) in or through HK

Mainland's ODI at 1.8% of GDP? US\$ 90 bn (RMB 610 bn) in or through HK



Business Potential from Mainland's FDI



- 2009: HK's investment of US\$ 46 bn (or RMB 300 bn) accounted for nearly 50% of Mainland's total FDI
- 2010: FDI into Mainland financed by RMB bond issuance in HK was only about RMB 1.58 bn (1.5% of Mainland's FDI)
- Huge growth potential after formalization of RMB FDI



What if: 10% of Mainland's total FDI financed by RMB bonds in HK?
About US\$ 10 bn (or RMB 66 bn)



Why Hong Kong

- Multi-currency and multi-functional financial platform
- Buy / sell RMB of reasonable size
- Unique RMB RTGS clearing platform outside Mainland
- Unique RMB conversion window
- Growing and largest pool of RMB liquidity outside of Mainland
- The only RMB bond market outside Mainland
- Dual channel for trade settlement: Clearing Bank and a large network of Correspondent Banks
- Increasing range of RMB financial products outside Mainland