

Renminbi

Overseas renminbi lending surges as China steps up campaign to de-dollarise

Beijing's push will speed moves to multi-polar monetary system, analysts say



Hong Kong's 'bond connect' link with the Chinese mainland is part of plans to boost the renminbi's global role © Bertha Wang/AFP/Getty Images

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China's overseas lending in renminbi is soaring, as Beijing steps up its efforts to expand the currency's role in international finance and reduce the country's exposure to the US dollar.

External renminbi loans, deposits and bond investments by Chinese banks quadrupled to more than Rmb3.4tn (\$480bn) over the past five years, as policymakers more aggressively pursue their long-term goal of reducing the centrality of the dollar in global financial flows.

As part of this campaign, China is also opening more channels for foreign investors to buy renminbi-denominated bonds. But officials have focused their efforts on boosting the renminbi's role in trade, partly as a defence against policies enacted in the US and

elsewhere that weaponise the dollar — such as this week’s [EU sanctions](#) targeting Chinese banks accused of helping Russia to secure weapons parts overseas.

“From China’s perspective, [settlement in renminbi] is important because it shows that no matter what happens, it can still trade,” said Adam Wolfe, emerging markets economist at Absolute Strategy Research in London.

Recent data from China’s State Administration of Foreign Exchange shows the external fixed-income assets of Chinese banks more than doubling over the past decade to more than \$1.5tn, with the share denominated in renminbi expanding rapidly to almost \$484bn at the end of June. This includes \$360bn of renminbi loans and deposits, up from \$110bn in 2020.

Similarly, the Bank for International Settlements estimates that overseas bank lending in renminbi to borrowers in developing countries rose by \$373bn in the four years to the end of March.

“The year 2022 marked a turning point away from dollar- and euro-denominated credit and towards renminbi-denominated credit” to such borrowers, the BIS said.

With interest rates in China relatively low, sovereign borrowers including Kenya, Angola and Ethiopia have converted old dollar debts into renminbi this year. Indonesia and Slovenia recently announced plans to issue renminbi bonds, and last month Kazakhstan’s development bank sold a Rmb2bn offshore bond at a yield of just 3.3 per cent.

A big part of the expansion in renminbi lending has been in trade finance. Data from cross-border payments system provider Swift shows that the renminbi’s share of global trade finance quadrupled over the past three years to 7.6 per cent in September, making it the second most-used currency in trade finance after the US dollar.

Renminbi's role in trade finance has surged in recent years

Rmb share of global trade finance (%)



Sources: Swift, Wind

China has further bolstered the use of the renminbi overseas through a network of offshore clearing banks, both Chinese and foreign, and through swap lines with trading partners around the world.

It comes as Beijing has pushed the use of its own cross-border payments system, Cips, where the value of transactions has risen from a negligible amount a decade ago to more than Rmb40tn in every quarter since the start of last year.

Cips transactions have expanded even as the renminbi's share of global payments on the Swift system has fallen. Bert Hofman, a professor at the National University of Singapore's East Asian Institute, said this most likely indicated a migration of payments to the Chinese system — furthering Beijing's desire to move away from a dollar-based global monetary system to a multi-polar one.

Chinese officials believe that “a dollar-based system is inherently unstable and has disadvantages that a multicurrency system would not have”, Hofman said.

Chinese customs data suggests such plans are advancing. It shows the value of Chinese trade transacted in renminbi soaring to more than Rmb1tn a month over the past decade, with about 30 per cent of China's trade and more than half of its cross-border transactions now settled in renminbi.

China's capital controls, however, have long hindered the renminbi's international appeal — according to the IMF, it made up just 2.1 per cent of official reserves at the start of this year. One problem is a lack of readily available renminbi assets.

Policymakers are moving to address this. Hong Kong authorities have embarked on a plan to make the city a hub for fixed income and currency trading. Simultaneously, Beijing has opened its domestic interbank repo market to foreign investors, allowing them to use renminbi fixed-income assets as collateral for renminbi loans.

The repo initiative “deals with some of the pain points for foreign investors”, said Karen Lam, head of Hong Kong securitisation and derivatives at law firm Simmons & Simmons.

“It only makes sense for investors to allocate more into these assets if they are able to use them for more than just holding and generating an income.”

Last month, Hong Kong authorities announced a “road map” to bolster the city’s markets by supporting issuance and liquidity, particularly in renminbi.

“It’s as significant as what Hong Kong did with the stock connect programmes,” said Paul Smith, head of markets for Japan, north Asia and Australia at Citi, referring to the channel connecting the Hong Kong stock exchange to mainland bourses.

“Ultimately, it will accelerate the renminbi as a funding currency.”

Over the summer, Beijing broadened the scope of its bond connect programme to allow more mainland Chinese investors to invest in Hong Kong’s fixed income market, which Smith said connects offshore issuers of renminbi debt with a “deep pool of renminbi liquidity”.

Experts agree that China has little interest in the renminbi taking the place of the US dollar in the global financial system. But by boosting the renminbi’s involvement in international trade and investment, “China may get the best of both worlds,” said Smith at Citi.

Beijing’s policies are bringing that target into view, analysts say.

“The policy is moving very gradually, but all of the elements that would make a much

more rapid internationalisation work — they’re falling into place,” said Hofman.

Additional reporting by Joseph Cotterill in London

This article has been republished to amend the spelling of the professor at the National University of Singapore’s East Asian Institute

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