



Mauritius: Africa's first Renminbi Trading Hub?

A new growth frontier and Monetary Policy implications

Nishan Degnarain

Member, Monetary Policy Committee, Central Bank of Mauritius

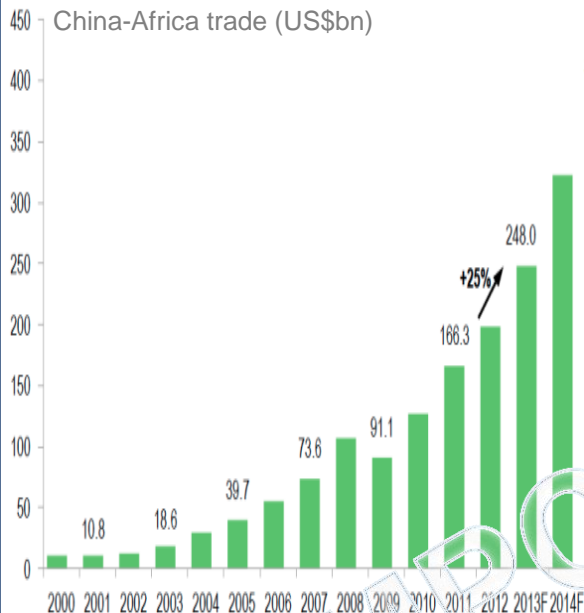
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Preface

- This presentation is a summary of a longer policy paper on the potential of Mauritius as the first Reminbi Trading Hub in Africa
- This document has been produced for the purpose of discussion at the October 2014 Meeting of the Monetary Policy Committee of the Central Bank of Mauritius on the implications of developing a Reminbi Trading Hub for Africa in Mauritius
- This document is for information only and no investment decision should be based on the information provided

Sino-African trade is expected to double by 2020

China-Africa trade increased 10-fold in last decade ...



- Trade grew from \$20bn in 2004 to over \$200bn in 2014 (source MOFCOM)

... is expected to double from \$200bn to \$400bn by 2020 ...



- May 2014: Chinese Premier Li Keqiang announces doubling of China-Africa trade by 2020

... and is diversifying into new sectors

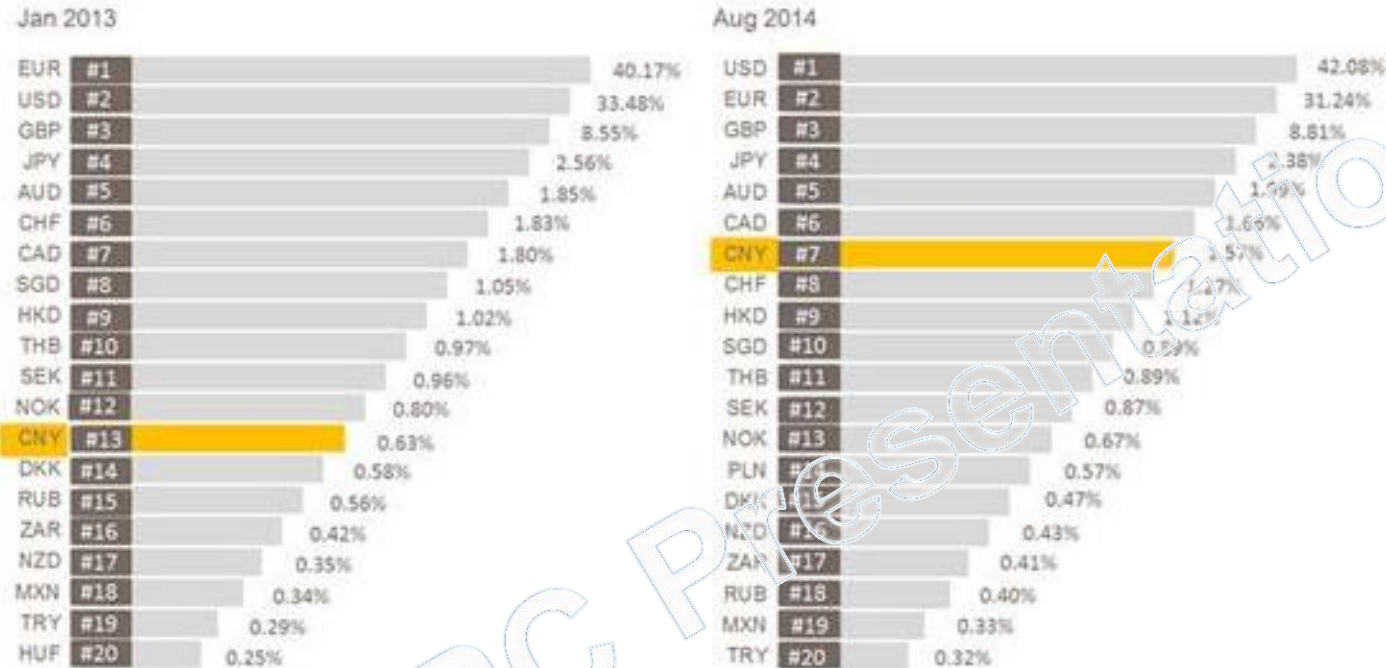


- Trade between Africa and China is two-way, and diversifying beyond natural resources

There will be a growing need for Reminbi denominated transactions in Africa

By 2020 Reminbi is expected to become a global reserve currency

RMB as % of world payments (ranked by value)¹

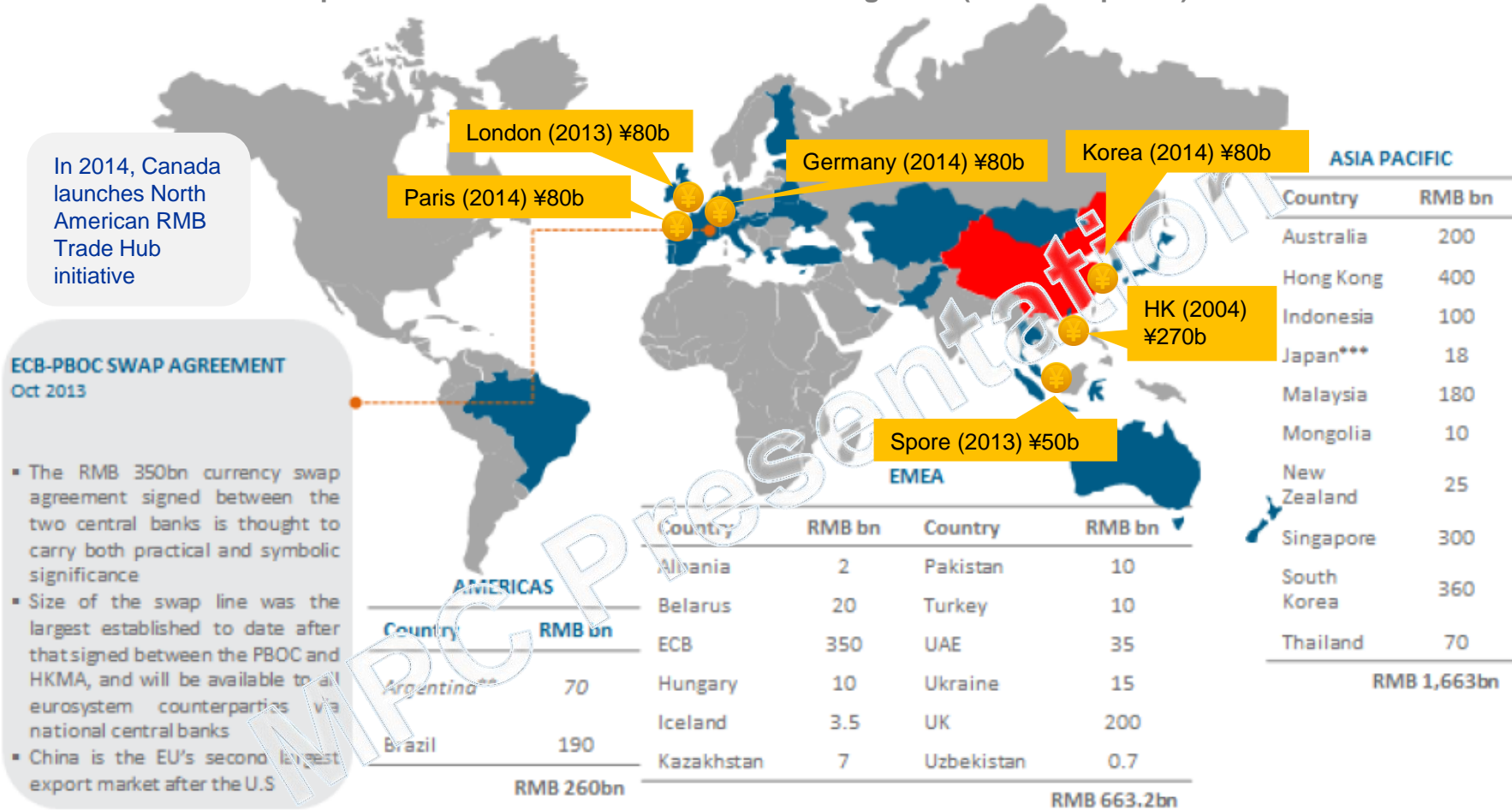


Yuan expected to become world's fourth most traded currency by 2020, behind USD, EUR, GBP

- There is a three step roadmap for Reminbi internationalisation (moving from Trade Finance, to Investment Finance and then ultimately a Reserve Currency by 2020)
- Currently, less than 2% of all payments are traded in RMB, making it the 7th most traded currency
- However, by 2020 it is expected that the RMB will be the fourth most traded currency in the world
- Currently, the IMF does not recognise the RMB as part of National Reserves, but steps are increasingly being taken to do so

There has been a rapid growth in RMB Hubs and bilateral swap lines

PBOC RMB bilateral swap lines with central banks and RMB trading hubs (date and quotas)



In 2014, Canada launches North American RMB Trade Hub initiative

ECB-PBOC SWAP AGREEMENT
Oct 2013

- The RMB 350bn currency swap agreement signed between the two central banks is thought to carry both practical and symbolic significance
- Size of the swap line was the largest established to date after that signed between the PBOC and HKMA, and will be available to all eurosystem counterparties via national central banks
- China is the EU's second largest export market after the U.S

- PBOC has signed RMB-denominated bilateral swap agreements with 24 foreign central banks, totalling RMB 2.6 trillion (\$424bn)
- Over 30 Central Banks currently hold a portion of their National Reserves as Reminbi, and have been increasing the value of these holdings

Note: China's bilateral currency swap agreements are usually 3 years in duration and are extendable. ** Argentina is reportedly in negotiations to renew the currency swap agreement first signed in 2009. *** Japan swap agreement has maximum value of \$3bn.

What would it take for Mauritius to become a Reminbi Trading Hub

Pre-requisites	Detail	Status
1 Sophisticated financial system	<ul style="list-style-type: none"> PBOC requirement is that there is a sophisticated financial system with a well recognised regulator 	<ul style="list-style-type: none"> Mauritius financial services centre is well positioned, with good international standing Two exchanges (SEM, Bourse Africa) Internationally recognised regulators Good credit rating and IMF Article 4 assessments
2 Bilateral Currency Swap Agreement	<ul style="list-style-type: none"> A Bilateral Currency Swap Agreement is a pre-requisite to any Reminbi Trading Hub, and must be agreed between PBOC and BOM 	<ul style="list-style-type: none"> For BOM and PBOC to discuss
3 Local Chinese clearing agent	<ul style="list-style-type: none"> A Chinese Bank is needed to act as a local clearing agent for PBOC 	<ul style="list-style-type: none"> 2 Chinese banks already approached Mauritius 3 additional Chinese banks actively exploring Africa footprint, and using Mauritius as a Regional HQ

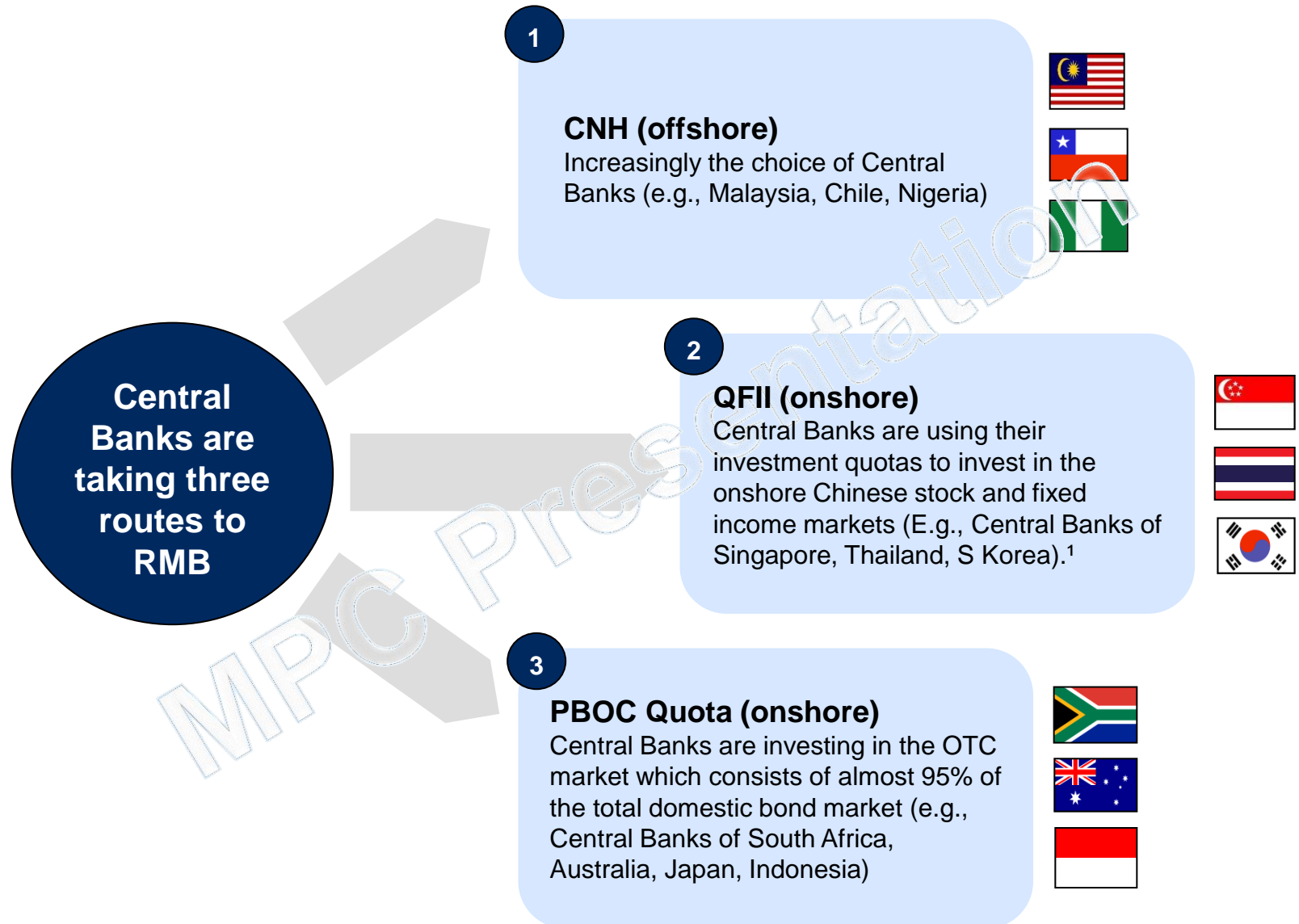
Candidates for first Reminbi Trading Hub in Africa

	African Financial Centres	Global Competitiveness Ranking	Sovereign Credit Rating	Yuan holdings in reserves	Sophistication of financial system (including internationally respected regulator)	Liberal capital controls	Ease of travel visas for African and Chinese citizens	Rule of Law, Democracy, Security	Member of more than one SSA trade zone
1	Mauritius (P Louis)	1st (39)	1st (Baa1 stable)	N/A	Green	Green	Green	Green	
2	S Africa (J'burg)	2nd (56)	2nd (BBB -ve)	Holding	Green	Red	Red	Red	
3	Rwanda (Kigali)	3rd (62)	=8th (B2 stable)	N/A	Red	Red	Green	Green	
4	Kenya (Nairobi)	5th (90)	=6th (B1 stable)	Holding	Green	Red	Red	Green	
5	Ghana (Accra)	7th (111)	=8th (B2 stable)	Holding	Green	Red	Green	Red	
6	Nigeria (Lagos)	10th (127)	4th (Ba3 stable)	\$3bn (1)	Green	Red	Red	Red	
7	Gabon (Libreville)	6th (106)	5th (BB- stable)	N/A	Red	Red	Red	Green	
8	Senegal (Dakar)	8th (112)	=6th (B1 stable)	N/A	Green	Red	Green	Red	
9	Egypt (Cairo)	9th (119)	10th (Caa1 -ve)	N/A	Green	Red	Red	Red	
10	Morocco (Casablanca)	4th (72)	3rd (Ba1 -ve)	N/A	Green	Red	Red	Red	

1. Nigeria's stated target to move RMB holdings from 2% to 7% of Nigeria's 2014 reserves of \$43 billion. Central Banks of Nigeria and Tanzania bought Y500million of a Y3.5bn bond issued by China Development Bank in July 2013

Note: China is ranked 28th in the WEF Global Competitiveness Report and has a Credit Rating of Aa3 stable by Moodys

Three routes for Bank of Mauritius to access the RMB



1. China recently removed the \$1bn cap on QFII quotas for sovereign investors.

Source: Standard Chartered Research, team analysis

Questions for discussion

1. **What are the Monetary Policy implications of Mauritius becoming a Reminbi Trading Hub?**
2. **What are the advantages and risks to becoming a Reminbi Trading Hub?**
3. **What steps can be taken to accelerate the process?**

