

Inclusion of the Chinese Yuan in the Special Drawing Right

December 2015



Inclusion of the Chinese Yuan in the Special Drawing Right

Background

On 30 November 2015, the International Monetary Fund (IMF) announced the inclusion of the Chinese yuan in the IMF's special drawing right (SDR) basket with effect from 1 October 2016. The yuan is initially assigned a weight of 10.92% in the basket.

The SDR, created in 1969 by the IMF, is a supplementary international reserve asset based on the value of four major currencies, the US dollar, Euro, Japanese yen and Pound sterling. It is not a currency on its own but a claim to reserve currencies owned by member countries of the IMF.



Implications

Inclusion in the SDR is largely symbolic. It implies that the IMF sees the yuan as a safe, freely usable asset and that the IMF recognizes the progress of China's financial reform.

In the short to medium term, the inclusion may lead to an increase in foreign demand for the yuan and yuan-denominated assets, mainly by central banks worldwide who are looking to diversify their reserves. This would provide support to the yuan's exchange rate.

On the other hand, the inclusion means that China's exchange rate policy will face more intense international scrutiny. One of the mechanisms through which the IMF can exert pressure on China's exchange rate policy is its periodic review of the SDR currency basket. China will be expected to limit its currency intervention, allowing market forces to play a bigger role in determining the yuan's exchange rate. In other words, the price of the yuan will likely become more volatile, moving in line with the China's economic performance and international trade flows.

The inclusion in SDR is an important step towards the yuan's internationalization as it boosts confidence in the currency. Together with policies that facilitate the use of the yuan in cross-border trade settlement and financing, such as the Belt and Road Initiative, internationalization of the yuan is set to accelerate.

Contacts

Authors

Denise Cheung

David Sit

Timothy Cheung

Fung Business Intelligence Centre

10/F LiFung Tower

888 Cheung Sha Wan Road

Kowloon, Hong Kong

T: (852) 2300 2470

F: (852) 2635 1598

E: fbicgroup@fung1937.com

www.fbicgroup.com



© Copyright 2015 The Fung Business Intelligence Centre. All rights reserved. The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Though the Fung Business Intelligence Centre endeavours to ensure the information provided in this publication is accurate and updated, no legal liability can be attached as to the contents hereof. Reproduction or redistribution of this material without prior written consent of the Fung Business Intelligence Centre is prohibited.