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Research Report

Evolution and challenges of the yuan's internationalisation

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Juuso Kaaresvirta, Eeva Kerola and Riikka Nuutilainen

Evolution and challenges of the yuan's internationalisation

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Evolution and challenges of the yuan's internationalisation

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Evolution and challenges of the yuan's internationalisation

Abstract

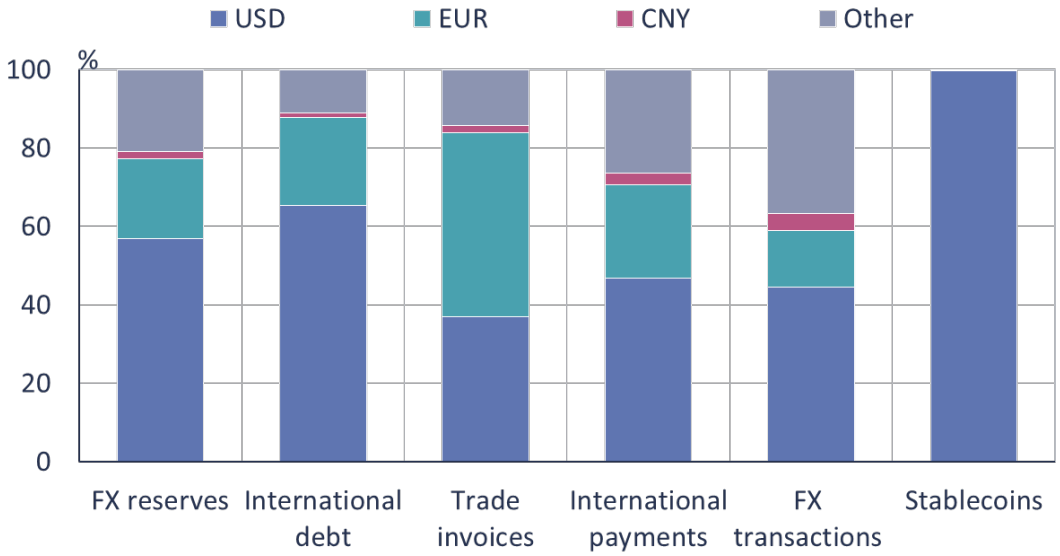
This paper examines recent developments in the internationalisation of the Chinese yuan, focusing on trade and portfolio flows, foreign exchange markets, cross-border payments, and official reserve holdings. The promotion of the yuan's global role has been a deliberate policy objective for Chinese authorities over the past two decades. The use of the yuan in China's own cross-border trade and portfolio flows has increased in recent years. Still, broader international adoption of the yuan remains very small compared to the US dollar and the euro and has not increased markedly in recent years. Under the current Chinese economic and financial framework—characterized by constrained capital account openness and an emphasis on market and exchange rate stability— the scope for a substantial increase in global yuan use remains limited.

Keywords: China, yuan, currency, internationalisation

1. Introduction

Over the past almost two decades, China has sought to elevate the yuan (RMB or CNY) as a global currency together with its broader strategy to strengthen its influence in international finance. These efforts have included initiatives to promote yuan-denominated trade, expand yuan availability in offshore markets, increase yuan-denominated investment products and pricing as well as foster the currency's use in global transactions. China has also utilised its Belt and Road (BRI) initiative to increase the international use of the yuan, for example by offering CNY-denominated financing. While politically the growing international use of the yuan is seen as a matter of global influence and prestige, the underlying objective has also been to reduce reliance on and offer an alternative to the US dollar and enhance China's financial sovereignty.

Figure 1. Overview of global use of major currencies



Sources: BIS, ECB, IMF, and SWIFT.
Note: 2025 or most recent value. Each FX transaction involves two currencies, so the sum of individual currency shares equals 200%. In the figure, FX shares are divided by two.

Despite these ambitions, the yuan's internationalization has progressed only incrementally. Its share in global reserves, trade invoicing, and cross-border payments remains modest compared to major currencies such as the US dollar and the euro or even the British pound and Japanese yen. This divergence between China's aspirations and actual outcomes reflects deep-seated structural constraints – such as capital account restrictions, currency management and limited investor

trust – as well as geopolitical frictions that have intensified in recent years. This paper provides an overview of the current stance of the international use of the yuan and briefly discusses China's position on virtual currencies (box 1), developments in the digital yuan (box 2) and Russia's use of the yuan (box 3).

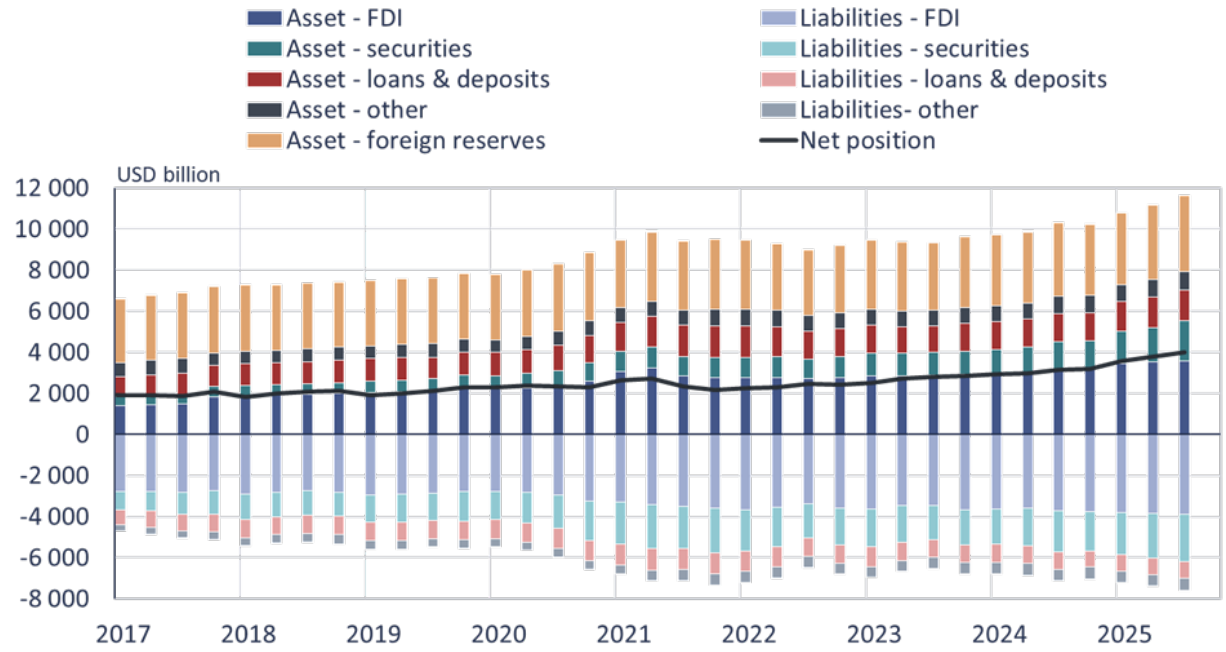
2. China's increasing cross-border capital flows

In China's economic policy broadly, maintaining stability is one of the most important objectives, and this is also reflected in the international use of the yuan. Cross border capital flows are controlled with various restrictions so that, for example, "excessive" appreciation or depreciation of the exchange rate can be mitigated or prevented altogether. At times, such as in 2015, the authorities' view of the appropriate yuan exchange rate differed significantly from the level set by the market. The authorities then unexpectedly decided to devalue the yuan and at the same time significantly tightened restrictions on capital outflows in order to protect the currency's value. The episode reminded market participants that in China the authorities can intervene in market activity unexpectedly. However, over the past ten years, authorities have punched more and more holes into the capital flow restrictions. Chinese investors have been given increasing opportunities to invest their funds abroad, and correspondingly, foreign investors have gained more access to China's markets through various quota based programs like bond and stock connects. Many of these programs have been built between the mainland and Hong Kong, which has become increasingly important financial center for mainlanders.

Due to the gradual relaxation of capital controls, both capital inflows and outflows have increased during the past decade. At the end of 2025, China's stock of international financial assets was USD 11.8 trillion (60 % of China's GDP) and stock of liabilities USD 7.7 trillion (40 % of GDP). The stock of assets held by Chinese residents has almost doubled in decade while the stock of liabilities has grown around 70 %. In recent years, especially the assets have grown rapidly, while inflows have been more modest and the stock of liabilities has been rather stable. The difference between China's foreign assets and liabilities, net international investment position, has swelled to over USD 4 tn (21 % of GDP) at the end of 2025

as the country continues to enjoy persistent large current account surplus. China is the second largest net creditor in the world behind Germany.

Figure 2. China's international investment position



Sources: SAFE and CEIC.

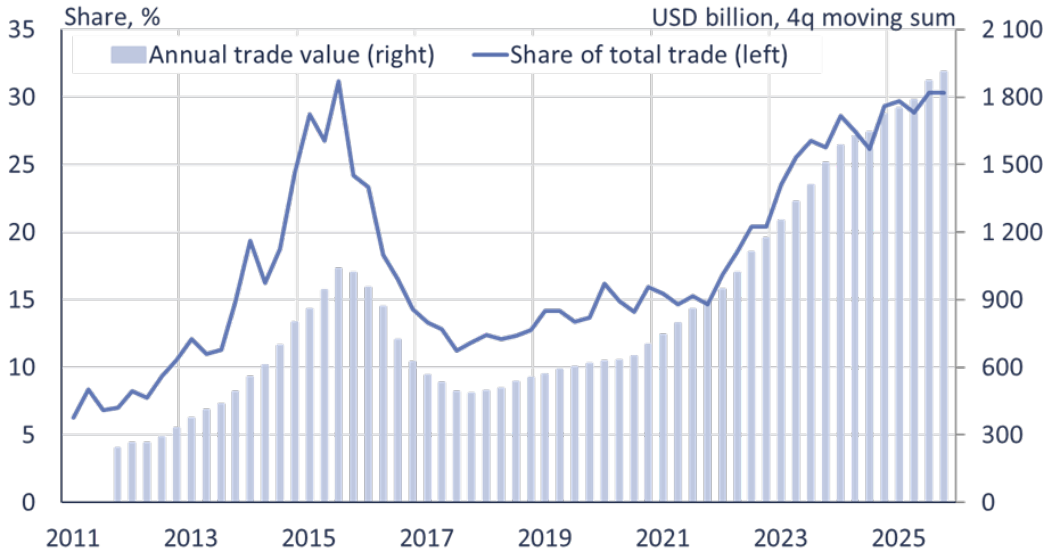
Largest part of China's foreign assets are in reserve assets (USD 3.7 tn), mostly in foreign exchange reserves and monetary gold. China's FDI stock abroad is almost as large (USD 3.6 tn). Stock of loans and trade credits, deposits and other receivables is around USD 2.5 tn. The securities stock is somewhat smaller (USD 2.0 tn), but it has been growing very rapidly, as the stock was USD 1.1 tn at the end of 2023. Part of the rapid increase in securities assets stock might be related to China's current foreign exchange rate policy actions. It is believed that state-owned commercial banks are conducting foreign exchange rate policy interventions on behalf of the central bank. On liabilities, around half of the stock is FDI, almost one third are inflows in securities and the rest are other inflows like loans, credits and deposits. In recent years, FDI stock in China has remained stable while loans to China have been shrinking, but inflows especially into equity have increased.

3. Yuan use in China's cross-border activities

3.1. Trade

The People's Bank of China (PBoC) reports the value of China's foreign trade settled in CNY. Share of goods trade settled in yuan surged from around 15% in 2021 to slightly over 30% by 2025, with annual trade value reaching over USD 1.9 trillion. This reflects China's intentional policy to increase the use of the yuan in trade settlement (especially in early 2010 and again in recent years) for example by offering more favourable terms on yuan contracts. In recent years also geopolitical tensions have encouraged other countries to increase the use of the yuan in their foreign trade, most notably Russia after the imposition of strict Western financial sanctions. In service trade the yuan share is similar as in goods trade.

Figure 3. CNY use in China's goods trade settlement



Source: PBoC, SAFE and CEIC.

Trade settlement currency does not necessarily correspond to invoicing currency, especially in the case of China, where policies have been directed on promoting CNY settlement (see discussion in Boz et al. 2025). Boz et al. (2025) have collected data on the yuan's share as countries trade invoicing currency. The shares vary widely from around 30 % for Russia (corresponding to near to its total trade with China) to negligible shares in most advanced economies (0.3 % in US and Finland, for example). Some countries (like Kazakhstan) did not use yuan at all in their trade invoicing. It can be assumed that nearly all use of the CNY in foreign trade by other

countries occurs in trade with China. There are no available statistics on the use of the CNY in bilateral trade excluding China, but there is very little evidence that such transactions take place. Trade invoicing statistics indicate that the yuan's role in global trade is smaller than suggested by China's trade settlement data. China accounts for roughly 13% of global goods trade, settlement figures imply that the yuan is used in at least 4% of global transactions. However, invoicing data from Boz et al. (2025) puts the yuan's share to much lower (around 1.5% of total imports among the countries in the dataset). Dollar and euro are the dominating invoicing currencies in global trade.

Figure 4. CNY share as trade invoicing currency in selected countries in 2023



Source: Boz et al. (2025).

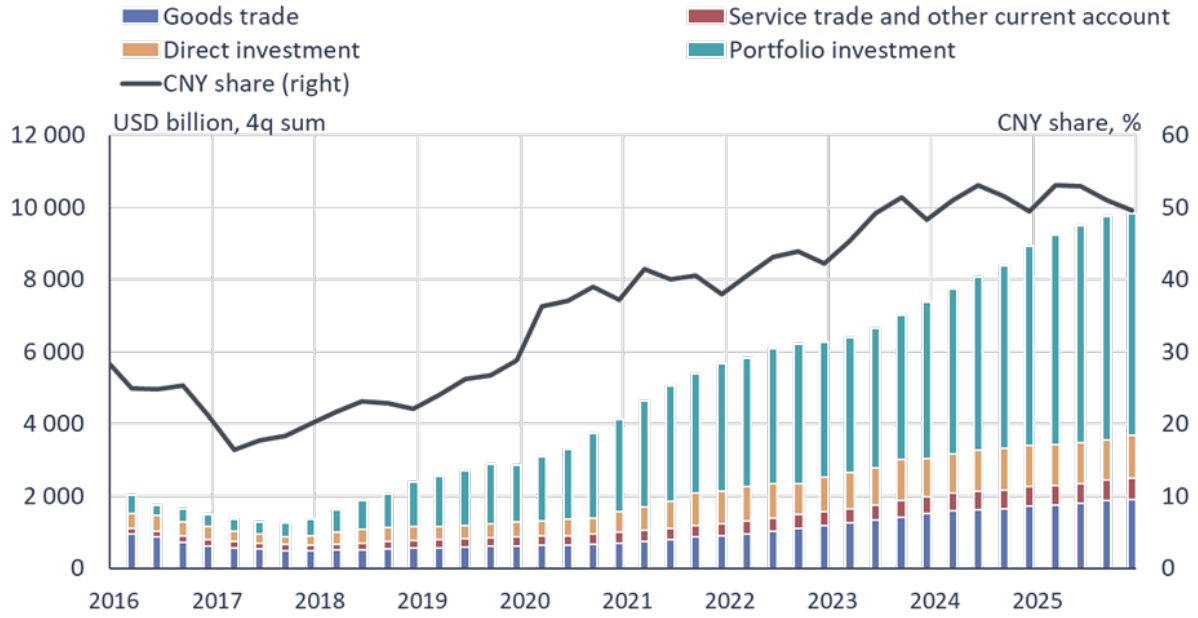
3.2. Investment and other balance of payment flows

China's capital account opening and increasing cross-border investments have increased balance of payments flows in CNY. All portfolio investments in China are done in domestic currency. PBoC statistics show that half of China's balance of payment flows are denominated in CNY. Majority of the CNY flows are portfolio investments. Transactions related to goods trade account around one fifth and direct investment one tenth of the flows.

Trading in portfolio investment assets (mainly stocks and bonds) can be active, and the funds can cross the border many times during one quarter. Foreign

investments in Mainland China have not markedly increased in recent years. The PBoC data shows that the value of domestic equities and bonds held by foreign investors were CNY 3.7 trillion and CNY 3.5 trillion, respectively at the end of 2025. The amounts are more or less the same than in 2021 and the value of equity investment fluctuates with market valuations. Foreign ownership is still only slightly over 3 % in Mainland China stock and less than 2 % in bond markets.

Figure 5. CNY denominated quarterly flows in China's balance of payments and CNY share in total flows

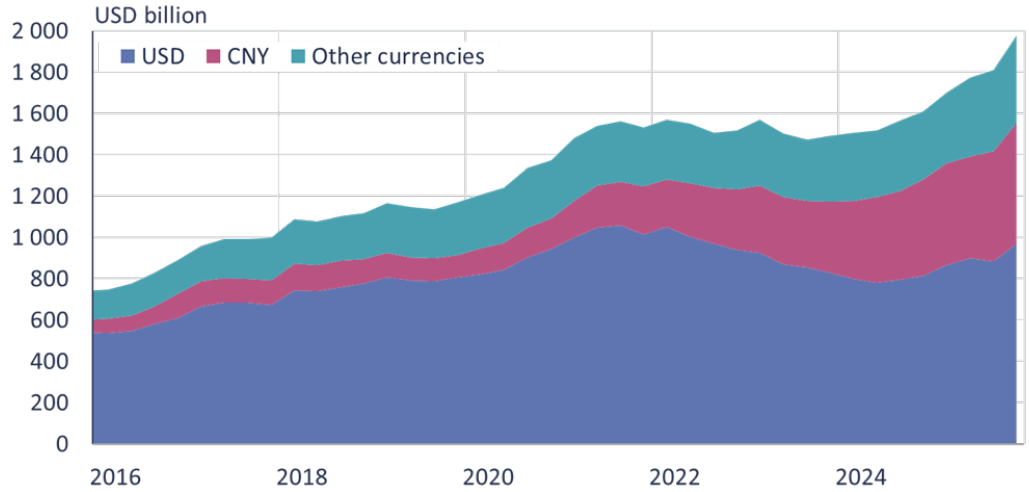


Source: PBoC, SAFE and CEIC.

3.3. Bank lending

The yuan has become more popular in Chinese banks' foreign funding activities. The State Administration of Foreign Exchange (SAFE) data shows that the share of Chinese banks foreign assets in CNY were 30 % of all foreign assets in December 2025 (11 % in December 2020). USD still dominates in Chinese banks foreign assets. These include foreign deposits, loans, bonds and other financial assets held by Chinese depository financial institutions. China has promoted lending especially in the Belt and Road countries. Still only a small share of China's overseas lending is denominated in CNY and three quarters in USD (Horn et al. 2025). Most likely the majority of overseas CNY loans granted by Mainland banks go to finance the subsidiries of Chinese companies.

Figure 6. Chinese banks' foreign assets by currency

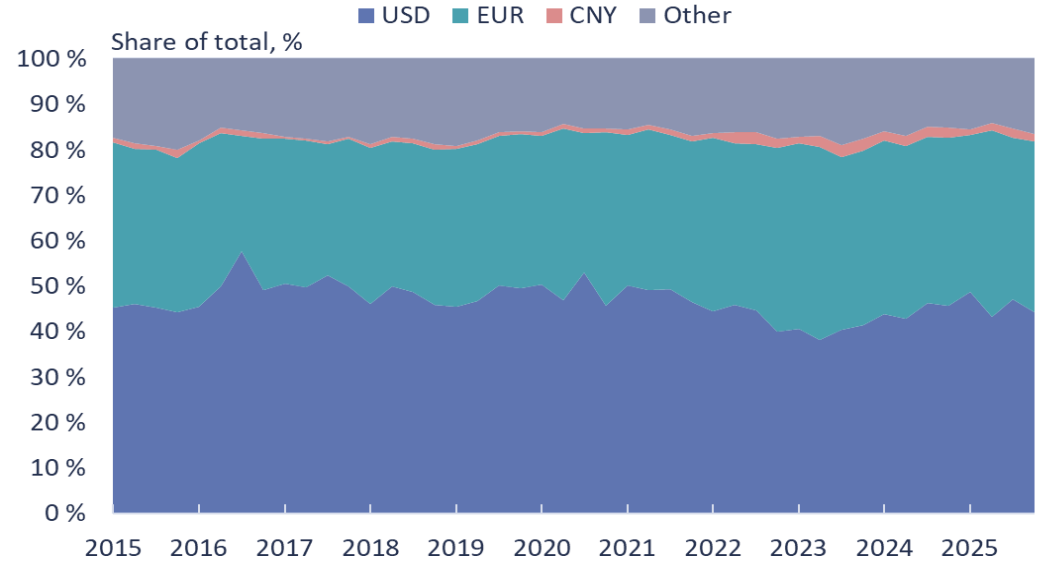


Source: SAFE and CEIC.

3.4. Debt securities issuance in international markets

Perhaps reflecting relatively low interest rates in China, foreign interest in issuing debt securities denominated in CNY has increased in recent years. BIS international debt securities data show that non-Chinese residents' gross issuance of yuan-denominated debt securities tripled between 2019 and 2025. However, the yuan continues to play only a minor role in non-resident debt issuance compared with major currencies such as the USD and the euro. In 2025, the share of CNY-denominated debt in total international debt issued (gross) by non-residents was 1.6%. Of the outstanding debt stock, CNY's share was even smaller, only 0.8% at the end of 2025.

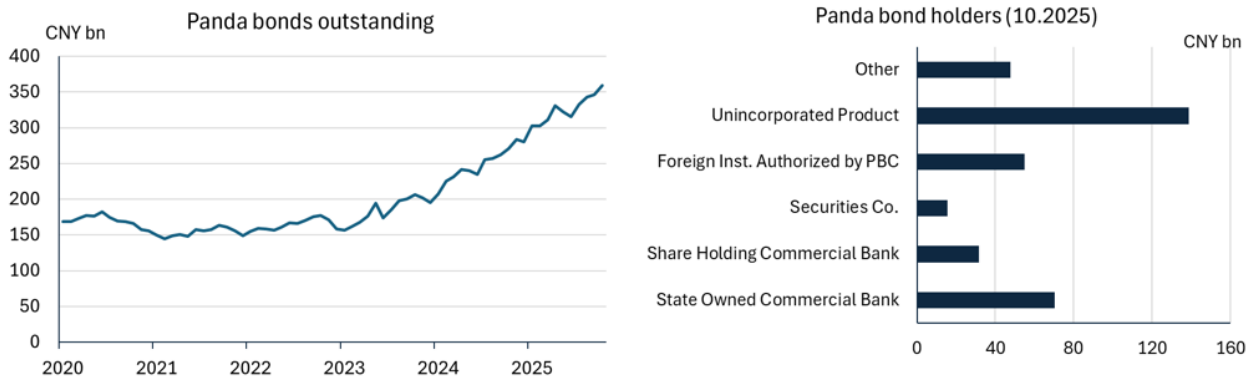
Figure 7. Gross issuance of debt securities by non-residents



Source: BIS

Part of the CNY debt issued by non-residents consists of so-called Panda bonds. Panda bonds are yuan-denominated debt securities issued in China by foreign entities. Over the past couple of years, their issuance has grown rapidly although the overall volume remains quite small. In addition to lower interest rates in China than in many other countries, demand for Panda bonds has been supported by regulatory changes. Since the beginning of 2022, Chinese authorities have allowed funds raised through Panda bond issuance to be used outside China.

Figure 8. Interest in panda bonds has increased but the amount continues to be rather small



Sources: Shanghai Clearing House, CEIC and BOFIT.

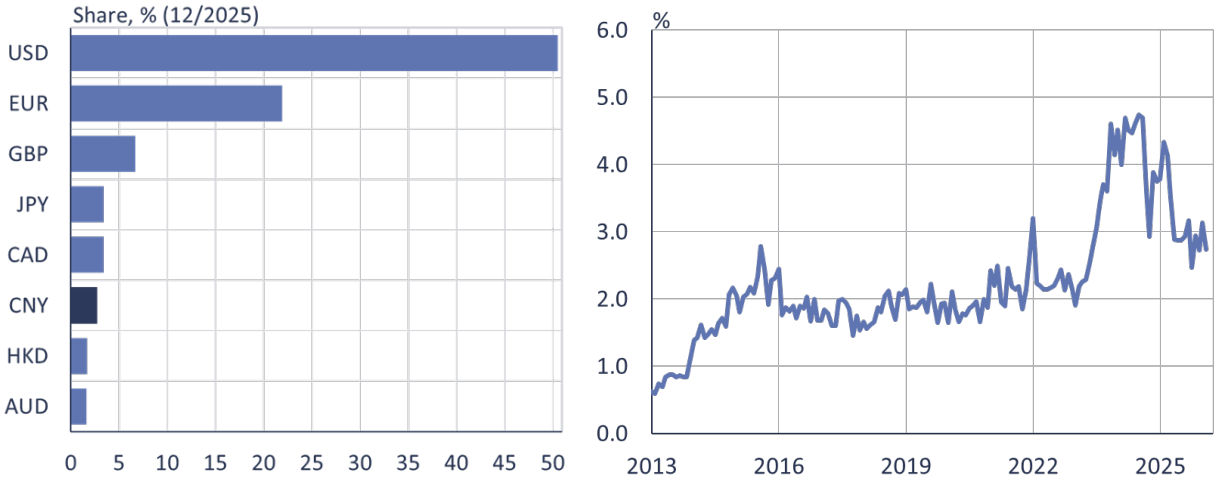
4. CNY use in global payments

The internationalization of the Chinese yuan has progressed slowly, and its role as a global payment currency remains limited. In December 2025, the yuan accounted for less than 3% of SWIFT reported global payment transactions, ranking sixth behind the US dollar (50%), euro (22%), pound (7%), yen (3%) and Canadian dollar (3%). Yuan's share in SWIFT statistics has decreased a bit in recent years. One explanation may be that increasing share of international yuan transactions are done outside the SWIFT messaging network.

China has promoted the international use of the yuan by expanding its own Cross-Border Interbank Payment System (CIPS) for yuan settlements. The CIPS includes its own messaging system and can be used outside the Western systems, like the SWIFT. In the past, most international banks settling their yuan payments using the CIPS still used the SWIFT messaging (Yeung & Goh 2022). The use of

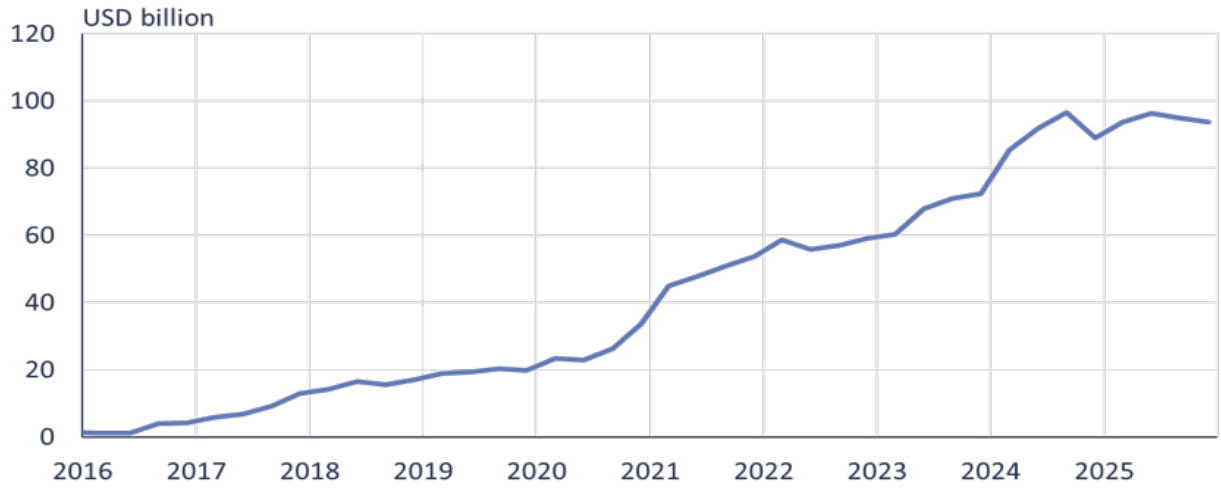
CIPS own messaging may have recently increased. CIPS daily turnover reached nearly USD 100 billion in 2025. The amount is still relatively small relative to global markets and is less than 3% if we take the estimate of Cerrutti et al. (2025) who value the global cross-border payment markets near quadrillion[1] dollars annually. It is also only a fraction of the USD 2.2 trillion processed daily (including both domestic and international payments) by the main clearing and settlement network CHIPS for USD transactions.

Figure 9. Global payment currencies by value (left) and CNY share (right)



Source: SWIFT.

Figure 10. Average daily turnover in Cross-Border Interbank Payment System (CIPS)

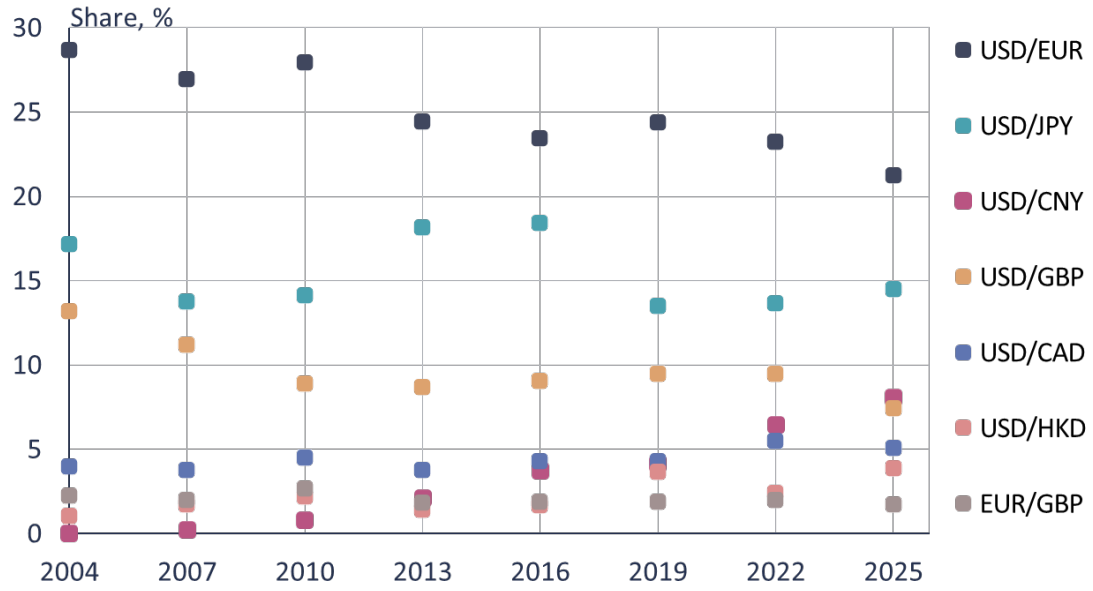


Source: PBoC and CEIC.

[1] Quadrillion is 10^{15} or thousand trillion.

The yuan's use in forex trading has increased but remains far behind USD and EUR. In the most recent BIS 2025 Triennial central bank survey, trading in the USD/CNY currency pair surpassed the USD/GBP and was the third most traded currency pair after USD/EUR and USD/JPY. Yuan was used on one side in 8.5% of all FX trades. USD was used on one side of 89 % trades, EUR 29%, JPY 17 % and GPB 10 %. The shares sum to 200 % as two currencies are involved in each transaction.

Figure 11. Currency pairs in forex trading



Source: BIS Triennial Central Bank Survey.

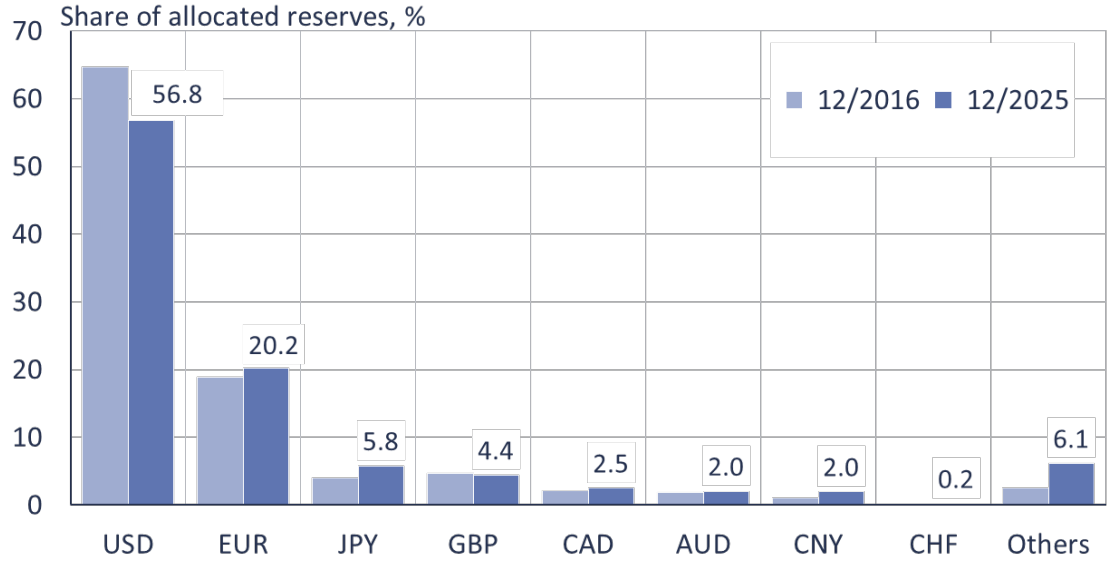
5. CNY in global central bank reserves

5.1. Reserve currencies

The yuan's inclusion in the IMF Special Drawing Right (SDR) basket in 2016 marked a milestone, yet its share in global reserves remains modest. As of December 2025, CNY accounted for 2.0% of allocated reserves of central banks reporting to IMF, up from 1 % in 2016 – far behind USD (57%) and EUR (20%). Central Bank of Russia (CBR) has been sifting its reserves increasingly to CNY starting in 2018 (see Box 2) and likely accounts significant part of the increase since then. The relative shares of currencies are also affected by exchange rate fluctuations over time as the shares are measured in USD.

Laser et al. (2024) show that the share of CNY in central bank reserves have increased the most in Australia & Oceania as well as in Asia, and to some extent in South America. Yuan share in central bank reserves in Euro Area is less than 1 % and zero in North America (US and Canada). Their data show that 1.05 % of ECB reserves were in CNY in 2023. Arslanalp et al. (2025) find that since the war in Ukraine, the share of global reserves held in CNY has lost market share to Singapore dollar and South Korean won. Studies find that countries are more likely to hold the reserves of their alliance countries (see Eichengreen 2025).

Figure 12. Currency composition of central bank reserves



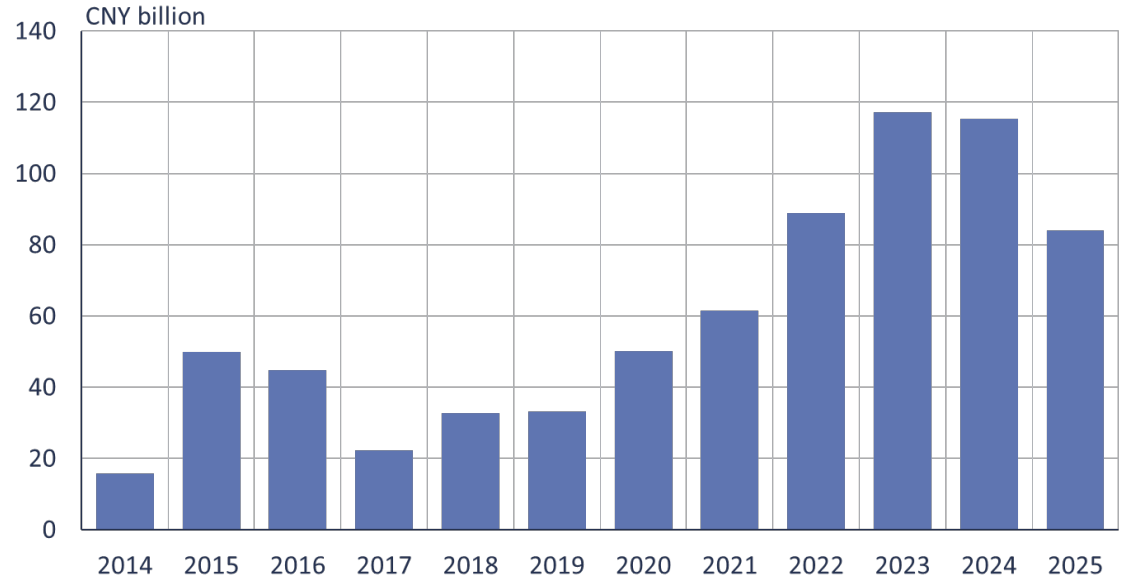
Source: IMF COFER.

5.2. Central bank swap lines

To promote the global CNY use, the PBoC has been active in setting up swap agreements with other central banks to provide backstop CNY liquidity. Contrary to, for example, FED and ECB swap lines, a stated objective of China's swap facilities use is to also to promote trade in CNY. Currently the PBoC has active bilateral agreements with monetary authorities in 32 countries and regions totalling CNY 4.5 trillion. The largest agreements are currently with Hong Kong (CNY 800 bn), Korea (CNY 400 bn), Indonesia (CNY 400 bn), ECB (CNY 350 bn) and UK (CNY 350 bn). Despite the large capacity, these facilities are rarely utilized. According to data provided by the PBoC, the outstanding balance of CNY drawn by overseas

monetary authorities has remained very small compared to the overall scale and it was CNY 81 billion at the end of June 2025. Balance drawn by PBoC under the agreements has been much smaller. Horn et al. (2023) found that the PBoC swaps are quite rarely utilised and mostly by countries experiencing periods of financial or macroeconomic distress. At least 17 countries drew on the PBoC swap lines between 2012 and 2021.

Figure 13. Outstanding balance of CNY swaps drawn by overseas monetary authorities



Source: PBoC and CEIC.

Box 1. Virtual currencies in Mainland China and Hong Kong

China's approach to virtual currencies remains highly restrictive, with the PBoC maintaining a firm stance against privately issued cryptocurrencies and stablecoins. The regulatory environment has shaped the international use of the yuan in digital finance, as the PBoC first banned crypto exchanges in 2017 and later extended the prohibition to all crypto transactions in 2021, including trading, mining and owning. Despite China's historical prominence in crypto mining and yuan-denominated crypto trade, these activities are now illegal, reflecting concerns over financial stability, speculation, and fraud.

While optimism emerged earlier in 2025 that attitudes in Mainland China toward virtual currencies might soften—driven by U.S. policy shifts and Hong Kong's efforts to develop as a stablecoin hub—the PBoC has reaffirmed its strict position. In November 2025 and again in February 2026, the PBoC and other authorities reiterated that all virtual-currency-related activities are illegal, including the on- and offshore issuance of yuan-pegged stablecoins or tokens backed by Mainland Chinese assets and crypto-related services without official approval.

Hong Kong, by contrast, continues to play a central role in Mainland China's cross-border financial activities and remains the most important offshore yuan hub. Its regulatory stance toward virtual assets differs from that of the Mainland. The first crypto exchange licence was granted in 2020, and there are now twelve exchanges operating in Hong Kong. In August 2025, the Hong Kong Monetary Authority introduced a stablecoin regulatory framework. Officials say their approach remains cautious, and only a small number of stablecoins will be approved at the initial stage from the over 30 applications recieved. In March 2026, the initial deadline for approving the first licences was extended. Markets expect the approved stablecoins to be fully asset-backed and HKD-denominated.

Box 2. Digital yuan (e-CNY)

In contrast to the proliferation of privately issued stablecoins, China is doubling down on its official digital currency, the e-CNY. Recent policy developments signal a renewed push to accelerate adoption. The PBoC began issuing the digital yuan in pilot regions in 2019, and the pilot now covers over half of China's provinces. A timeline for nationwide adoption has not been published.

A new action plan took effect in January 2026 to enhance the attractiveness of the digital yuan. It moves the e-CNY away from being treated as digital cash and grants it the same legal status as traditional bank deposits. Banks will pay interest on e-CNY balances held in users' wallets, and the balances are

subject to deposit insurance similar to regular deposits. The change shifts the e-CNY from the central bank's balance sheet to a liability of commercial banks. Banks do not need to hold full reserves against digital yuan balances, which are now subject to standard reserve requirements. The central bank issues the digital yuan to commercial banks, which then distribute it to the public. The move aims to strengthen banks' role in distributing the digital money, ensuring that it remains within the banking system and that banks do not lose deposits if customers convert deposits into e-CNY. Currently, only ten banks are authorized to operate the e-CNY. In March 2026, it was reported that the network would be expanded by twelve additional banks to broaden availability.

So far, the e-CNY has struggled to compete with established payment platforms such as WeChat Pay and Alipay. A key factor in the adoption of digital currency is the evolution of consumer preferences. In China, individuals and businesses have rapidly embraced mobile payment platforms, which are deeply integrated into daily life and offer high levels of convenience and user experience. Currently, the interest rate environment is subdued, with major banks offering just 0.05% on demand deposits. As a result, making e-CNY holdings interest-bearing alone is probably insufficient to drive broader adoption. Only limited data have been published on the popularity and usage of the e-CNY. According to the central bank, since the start of the pilot, 3.5 billion transactions totaling CNY 16.7 trillion had been processed by November 2025. No recent figures on e-CNY issuance or outstanding holdings have been released.

China's ambitions for the e-CNY also extend to cross-border payments and internationalization. A new digital yuan operations center was launched in Shanghai in 2025. The PBoC continues efforts to develop a multilateral cross-border payment platform (mBridge) with central banks in Thailand, the UAE, Saudi Arabia, and Hong Kong. The project has faced setbacks, notably the withdrawal of the BIS in 2024 over concerns about sanctions circumvention, and has since become less transparent. According to the PBoC, a preliminary framework for the e-CNY cross-border infrastructure has been established.

6. Potential for future capital account opening and increasing global CNY use

China's capital account remains only partially liberalized. While significant progress has been made in facilitating cross-border trade and investment flows, full convertibility of the yuan under the capital account is still constrained by regulatory controls. These controls are designed to manage financial stability but simultaneously undermine investor confidence and limit the CNY's attractiveness as a truly global currency. Authorities want to obtain the possibility to intervene in the markets and tweak capital flows or exchange rate if they are deemed to perform adversely.

In recent years Chinese officials have been worried about uncontrolled capital outflows that could shake domestic sentiment and draw out (the presently abundant) funding from domestic markets. In addition, transparency, rule of law, and enforcement issues persist within China's institutional and legal framework. These factors create uncertainty for foreign investors and act as a barrier to greater international adoption of the yuan.

The pace and scope of capital account liberalization is an important factor in future yuan internationalization and will depend on domestic financial reforms, external conditions, and geopolitical considerations. The sophistication and liquidity of China's financial markets as well as the lack of robust hedging instruments for CNY risks lag behind those of established reserve currencies. Opening the capital account would enable freer movement of funds for portfolio investments, lending, and other financial transactions and would likely attract foreign capital and deepen domestic financial markets. On the other hand, open capital account could expose China to volatile capital flows, amplify systemic risks and challenge the effectiveness of the current monetary policy. The US-China trade war and the increasing geopolitical tensions also affect countries willingnes to adopt the yuan.

In practice, China is likely to pursue only a gradual and selective approach, expanding channels for long-term investment while maintaining controls on short-term speculative flows. Initiatives such as the Qulified Foreign Institutional Investor (QFII) program, Bond and Stock Connects, and the expansion of swap lines

indicate incremental steps toward openness while maintaining the possibility to control the investment flows. Eichengreen et al. (2024) argue that it is possible to increase the international use of the yuan with policy support and the backing of central bank dollar reserves even without full capital account liberalisation.

Given the yuan's limited share in global markets, CNY currency risks outside China can be assessed to be manageable. This is the case especially in euro area. The use of the yuan in the euro area's financial system remains extremely limited and thus the risks associated are very low. Yuan-denominated loans are issued only in very small volumes, and the majority of these originate from banks with Chinese ownership. Furthermore, the customer base for such loans is dominated by Chinese and Hong Kong companies. China's strict capital controls and limited access to yuan-denominated instruments further restrict the transmission of risks to the euro area's financial system. Looking ahead, the internationalization of the yuan is likely to remain a gradual process. Moreover, the euro's strong international role, deep financial markets, and robust regulatory framework act as buffers against any larger risks from increased yuan usage.

Box 3. Case Russia

Russia serves as an example on how, on one hand, strict financial sanctions have forced the country to abandon the use of Western currencies, and on the other, it manages its foreign transactions mainly relying on the Chinese yuan. Concurrently also currency risks related to CNY in Russia have increased and there are limited possibilities to hedge against those. Since Russia's full-scale invasion of Ukraine in February 2022, Western sanctions have made the yuan the primary foreign currency available to Russia. With transactions in USD and EUR blocked, the Central Bank of Russia (CBR) now conducts its currency operations exclusively in CNY. The Chinese yuan has also become the only traded currency in Russia's forex markets. As majority of the Russian financial institutions are excluded from SWIFT messaging system, and the adoption of the Russian own SPFS (System for Transfer of Financial Messages) messaging system outside the

country is minimal, Russian institutions are reliant on the Chinese CIPS payment system in foreign payments.

Russia has been diversifying its foreign reserves, including the National Welfare Fund, away from USD and EUR and to increasingly CNY and gold since 2018. Russia ceased to publish the composition of its forex reserves in 2021. At that time still half of the reserves were held in Western currencies, 13 % in CNY and 22 % in gold. Since freezing the CBR's reserves held in Western countries after the full-scale invasion, the foreign reserves now consist solely of yuan and gold as assets. Also, in its foreign trade Russia has shifted away from USD and EUR where possible. In November 2025 Russian Finance Minister Anton Siluanov said that more than 99% of bilateral trade between Russia and China is carried out in national currencies. In all likelihood, most of this is in CNY. This corresponds to a significant share of Russia's total trade, as China's share in Russian imports is already around half and near one third in exports (Simola 2025). Borrowing in yuan has also expanded, marked by Russia's first government bond issue in domestic markets in December 2025. Russian firms have also issued CNY bonds in the domestic market. The yuan's share in domestic bank lending and deposits, however, remains relatively modest. In addition, Chinese banks have a small market share in Russia. The Russian operating environment remains difficult for Chinese firms. The big Chinese financial institutions are careful in their dealings with Russian sanctioned entities because of the fear of secondary sanctions and possible exclusion from USD markets. The financial transactions between Russia and China are carried out increasingly by smaller players. Payment delays have increased and transaction costs remain high.

7. Conclusions

In this paper we have discussed that while China has made incremental progress to increase the international role of the yuan – such as increased its use in domestic trade, increasing investment flows to China, expanding central bank swap lines and promoting panda bonds – major barriers persist. Capital controls, limited market

sophistication as well as regulatory and transparency uncertainties continue to constrain the yuan's international use. The euro area's exposure remains small, and even in extreme cases like Russia, where yuan is the predominant foreign currency, its adoption has been driven more by necessity after the imposition of strict Western financial sanctions than market preference.

The internationalization of the yuan is thus likely to remain a gradual and selective process. The yuan's evolution, nonetheless, warrants monitoring. Continued engagement with international partners, incremental liberalization, and improvements in transparency and legal frameworks will be crucial steps to increase the yuan's international role. Under the current government however, these seem unlikely to advance rapidly.

Beyond domestic policy, the ongoing geopolitical tensions have effects on the global perspective and trust in the Chinese currency. Heightened uncertainty may compel countries to seek alternatives to the dollar. Depending on the viewpoint, however, some countries may seek to reduce their dependencies on China and others seek alternatives to the US. Thus, it is difficult to predict how geopolitical factors will influence the willingness of other countries and international investors to hold and use the yuan.

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