BANK OF ENGLAND

Press Office
Threadneedle Street
London EC2R 8AH
T 020 7601 4411
F 020 7601 5460
press@bankofengland.co.uk
www.bankofengland.co.uk

News release

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Quarterly Bulletin pre-release articles: 'Bringing down the Great Wall? Global implications of capital account liberalisation in China' and 'Banknotes, local currencies and central bank objectives'

China's financial system is still very closed relative to other economies. But there are increasing signs the authorities are in favour of relaxing capital controls and promoting greater use of the Chinese currency abroad. While timescales are still uncertain, the People's Bank of China has indicated that full liberalisation could potentially occur over the next decade.

If China does liberalise, few other events over the next decade are likely to have more impact on the shape of the global financial system. 'Bringing down the Great Wall? Global implications of capital account liberalisation in China' introduces the topic and presents a scenario for the potential scale of China's global financial integration in 2025. Based on some simple but plausible assumptions, it suggests that China's gross international investment position – defined as the average of external assets and external liabilities, excluding central bank reserves – could increase very considerably relative to the size of the world economy, from around 5% of world GDP today, to 30% in 2025. The article also discusses some of the factors that could drive the large movements in capital flows into and out of China that would give rise to this scenario.

The global financial integration of China has the potential to be a force for economic growth and financial stability not just in China but also globally. And the UK economy is likely to be relatively more affected than most, due to its large and open financial system and existing strong financial linkages with China. However, the process of liberalisation would also be accompanied by risks which national authorities and international bodies will need to monitor and take appropriate policy actions to mitigate. The Bank is currently working closely with the People's Bank of China regarding the development of offshore renminbi activity in the United Kingdom and will continue to look for other ways to support a successful integration of China into the global financial system.

The second Bulletin article to be released on Thursday 12 December considers the Bank of England's issuance of banknotes and how this feeds into its monetary stability objective – which includes maintaining confidence in the physical currency. This requires people to be confident that the banknotes they hold will continue to be widely accepted at face value. The promise by the Bank of England to make good the value of its banknotes for all time, as well as its use of robust security features and a wide-ranging programme of education on how to identify genuine banknotes, helps to ensure that this objective is met.

Banknotes are, however, just one form of payment instrument used alongside other physical media of exchange, such as cheques or retail vouchers. A few UK towns and cities have set up their own local currencies, issuing physical instruments that are akin to vouchers that can be used to purchase goods or services from participating retailers within a particular area. Local currency schemes aim to boost spending within the local community and among locally owned businesses in particular, as well offering other benefits such as reduced environmental footprints or signalling a commitment to supporting the local community.

'Banknotes, local currencies and central bank objectives' explains what local currencies are in more detail and how they differ from banknotes as a store of value and medium of exchange. The article also considers the channels through which local currency schemes could, in principle, impact upon the Bank's monetary and financial stability objectives. Given that the schemes currently operating in the United Kingdom are – at present – small relative to aggregate spending in the economy, and are typically backed one-for-one with sterling, they are unlikely to present a risk to the Bank's monetary or financial stability objectives. Nevertheless, bearers of local currency vouchers should be aware that they do not benefit from the same level of consumer protection as banknotes issued by either the Bank of England or the authorised commercial issuing banks in Scotland and Northern Ireland.

The rest of the Q4 edition of the Bulletin will be published at 00:05hrs on 20 December 2013.

Note to Editors

Copies of the Quarterly Bulletin are available from:

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