

## Green Finance and Sino-Hungarian Cooperation – Report on the Budapest Renminbi Initiative Conference\*

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On 23 September 2024, the Magyar Nemzeti Bank (the central bank of Hungary, MNB) hosted the Budapest Renminbi Initiative Conference for the eighth time. In order to strengthen good relations with China, the series of events launched by the MNB in 2015 was organised around two themes this year: the role of green finance in the internationalisation of the renminbi, and the present and future of Sino-Hungarian financial cooperation under the Belt and Road Initiative (BRI). The event, co-organised with Bank of China (CEE) Ltd., also commemorated the 75th anniversary of diplomatic relations between Hungary and the People's Republic of China. The distinguished national and international experts who spoke at the conference agreed that green financial cooperation is a key element of the Belt and Road Initiative, which is increasingly important in the development of Sino-Hungarian relations. China is supporting European sustainability ambitions and sustainable economic growth through green investment.

The event was opened by *Barnabás Virág*, Deputy Governor of the MNB. In his opening speech, Virág underlined that 2024 was a special year in two respects, as we celebrated the 100th anniversary of the founding of Hungary's central bank and the 75th anniversary of the establishment of Hungarian-Chinese relations. The increasingly close Hungarian-Chinese relations were well symbolised by the Budapest Renminbi Initiative proposed by the MNB and the related conference, which had contributed to deepening financial and economic relations in both Hungary and the Central and Eastern European region. In addition to the internationalisation of the renminbi, another key theme of the conference was the green sustainability transformation and green finance, in which both Hungary and China were leading the way. A key milestone was reached in 2021 when the MNB became the first central bank in Europe to include the promotion of

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\* The papers in this issue contain the views of the authors which are not necessarily the same as the official views of the Magyar Nemzeti Bank.

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environmental sustainability in its mandate. Under the MNB's Green Programme, a number of initiatives had been launched, such as the Green Mortgage Bond Purchase Programme and the Green Home Programme. Deputy Governor Virág also highlighted the Chinese Belt and Road Initiative in terms of Sino-Hungarian relations, which was the topic of the second panel discussion, noting that the Chinese initiative would make a significant contribution to Hungary's role as an economic bridge between the West and the East, as it would stimulate financial cooperation alongside trade and infrastructure development projects, with a particular focus on sustainability.

*Chao Yang*, First Officer of the Embassy of the People's Republic of China in Hungary, was the special guest at the event's opening ceremony, who praised the friendship between the two countries, which was further strengthened by the visit of Chinese President Xi Jinping in May 2024. In his opinion, we were living in a century of change, in which geopolitical tensions, the recovery of economies after the pandemic and deglobalisation all represented new challenges. China had always supported global economic development and growth, as well as globalisation and the stable functioning of supply chains through its international initiatives, such as the Belt and Road Strategy. International use of the renminbi (RMB) continued to expand, with the value of swap agreements reaching USD 593 billion by 2023 and cross-border clearing in RMB reaching USD 745.8 billion. In December 2023, the share of RMB in global payments reached 4.4 per cent, compared to 2.3 per cent in January. The ever-closer relationship between the two countries was well demonstrated by the fact that China had become Hungary's largest trading partner outside of the EU, and Chinese investments (BYD, CATL, etc.) had created more than 10,000 new jobs. As for the international use of the renminbi, he said that the use of the renminbi was being specifically encouraged among the countries of the East and East Africa.

The third keynote speaker at the opening ceremony was *Jingzhen Lin*, Executive Vice President and Executive Director of the Bank of China. In his speech, he praised Hungary's role in the internationalisation of the renminbi as a regional renminbi clearing hub. Hungary was the first country in the region to establish a renminbi clearing bank and issue green panda bonds. In his opinion, the two countries would be even more closely linked in the future, with direct working capital investment from China to Hungary having reached USD 8.12 billion in 2023. According to Lin, use of the renminbi was becoming more common thanks to regional economic, commercial and financial cooperation, the development of green finance and financial digitalisation. The Bank of China, building on the partnership between the two countries, would continue to work to promote the use of the renminbi in the international market, contribute to the development of green finance and support the realisation of its business opportunities in Hungary.

## **Latest results of RMB internationalisation – How is green finance promoting the RMB's presence in the global arena?**

In the first panel discussion of the conference, the participants discussed the role of green finance in the internationalisation of the renminbi. In his opening speech, *Penghui Jin*, President of the Shanghai Head Office of the People's Bank of China, explained that the Chinese central bank was encouraging financial institutions in both countries to provide more RMB-denominated products, making it easier for companies in both countries to use the renminbi for trade and investment. The central bank also aimed to promote innovation and the use of green financial products, as well as to strengthen communication and cooperation on green financial products and green financial information to achieve green financial market connectivity.

The moderator of the panel was *Ádám Banai*, Executive Director of the MNB, responsible for monetary policy instruments, financial stability and foreign exchange reserves management. Among the panellists, he welcomed *Zoltán Kurali*, CEO of the Government Debt Management Agency, *Feng Li*, Deputy General Manager of the Industrial and Commercial Bank of China (ICBC) (Europe), and *Christoph Nedopil Wang*, Founding Director of the Green Finance and Development Centre at Fudan University.

Zoltán Kurali began by pointing out that the potential of the renminbi was significant and that, recognising this at an early stage, Hungary had already issued four panda bonds to date. With these bond issues, Hungary aimed to ensure its continued market presence in China. There was high demand for green bond issues in the local investment community, thanks in part to the close bilateral relations between the two countries. RMB also played an important role in diversifying Hungary's foreign exchange reserve portfolio. Feng Li then spoke about ICBC's strategy to support the development of Chinese enterprises in export markets, including green investments. To date, ICBC had established 419 overseas branches in 49 regions and countries. In Europe, they were present in 16 countries, with 3 branches in operation in the CEE region. ICBC's local presence not only enabled it to serve Chinese businesses, but also helped local European businesses to enter the Chinese market. Christoph Nedopil Wang gave a concrete example of how the internationalisation of the renminbi could support the green transition. Energy companies, such as Indonesian, Thai and Pakistani energy companies, were heavily dependent on transactions with Chinese suppliers, for example for the purchase of solar panels and batteries. In such cases, the internationalisation of RMB, in particular the use of Chinese financial instruments such as panda bonds, supported the financing of Chinese green technologies to be imported into the country.

The panellists pointed out that as China's global economic weight had increased, the renminbi's international weight had also intensified in recent years. However, RMB's weight in global payments was far below the weight of China's GDP in the global economy, but this gap also represented a huge opportunity. Chinese exporters were leading the global green economy and playing a dominant role, as they accounted for around 80 per cent of solar panels, wind technology, batteries and new energy vehicles; this potential generated further demand for the internationalisation of RMB and the use of green financial instruments.

### **The present and future of Sino-Hungarian financial cooperation under the Belt and Road Initiative**

Hungary is one of the main pillars of the Belt and Road Initiative, which aims to strengthen Eurasian connectivity through infrastructure investments, green and digital projects, and financial and people-to-people links. During the second panel discussion of the conference, participants discussed the present and future of Sino-Hungarian financial cooperation in the framework of the BRI.

*Kexin Li*, CEO of the Bank of China (CEE) Ltd. in Budapest, gave an introductory presentation on the results of the Hungarian-Chinese cooperation and how the financial system could be shaped to meet the needs of future-oriented investments in China and Hungary under the umbrella of the Belt and Road Initiative. The CEO pointed out that in 2015 the Hungarian Branch of Bank of China had become the first RMB clearing bank in Central and Eastern Europe. In 2023, Chinese FDI in Hungary reached USD 8.12 billion. By the end of August 2024, the Hungarian branch of Bank of China had increased its RMB clearing volume by around 50 per cent on an annual basis and issued USD 500 million of sustainable development bonds under the BRI in 2024.

The panel was moderated by *Gergely Baksay*, Executive Director of the MNB, responsible for economic and fiscal analysis and statistics. Among the panellists, he welcomed *Hongcheng Li*, Assistant President of the Silk Road Fund (SRF), *Chengxiang Li*, Head of the RMB Business of Economics & Strategic Planning Department of the Bank of China (Hong Kong), and *Lin Zhang*, Senior Investment Manager of Contemporary Amperex Technology Co., Limited (CATL).

First, Hongcheng Li praised Sino-Hungarian relations, noting that SRF focused mainly on equity investments and also used various investment and financing instruments to support BRI projects. The fund invested in a wide range of areas, such as infrastructure, energy, industrial and financial cooperation. They aimed to ensure financial sustainability and prioritise support for green projects. At the end of June 2024, the Silk Road Fund had total investment of around USD 24.3 billion.

The SRF had set up a Sustainable Investment Committee to align sustainable investment with the international market and regulatory environment.

According to Chengxiang Li, the fact that the relationship between the People's Republic of China and Hungary had reached the level of an all-weather comprehensive strategic partnership, including in the financial field, would help strengthen relations between the two countries. Li pointed out that the Bank of China was the oldest Chinese bank, which had been present in Hungary since 1997 and since then several other Chinese banks had entered the Hungarian financial ecosystem. He praised the Hungarian government's Eastern Opening Policy and the fact that Hungary was one of the first countries to join the BRI. Li pointed out that Hong Kong had the world's largest RMB liquidity stock outside mainland China, with more than RMB 600 billion, and a significant proportion (about 70 per cent) of the world's RMB remittances were channelled through Hong Kong.

Lin Zhang explained that CATL was a world leader in new energy technologies and by the end of 2023 the company already covered 37.5 per cent of the global electric vehicle battery market. CATL aimed to promote the uptake of electromobility and efficient energy storage in Europe, in line with the European Union's green and sustainable ambition to achieve climate neutrality by 2050. In 2022, the company announced a EUR 7.3 billion investment project to build a battery plant with a capacity of 100 gigawatt hours (GWh). CATL took several factors into account when choosing Hungary as the location for the factory: On the one hand, the country had a long history and experience in the automotive industry; on the other hand, it had a well-developed logistics infrastructure, but most importantly, it had a welcoming, favourable investment environment. CATL was increasingly using renminbi in international transactions, thus supporting the internationalisation of the Chinese currency.

During the panel discussion, the speakers agreed that the internationalisation of RMB offered many opportunities for economic operators. Chinese companies could invest more easily in the region thanks to more diversified financing options, and by using the renminbi in their international transactions, they could reduce their dependence on other currencies and transaction costs, thus increasing their financial efficiency.

Following the second panel, MNB Deputy Governor *Barnabás Virág* stressed in his closing remarks that we were living in an era of great transformation, which represented both a challenge and an opportunity. For the banking sector, green finance and digital finance may be the solution – being not just new megatrends, but transforming our lives. The nations, companies and societies which were the first to benefit from these transformations would be the most successful.

In addition, the Deputy Governor of the MNB emphasised that deglobalisation was not the answer to the challenges of the global economy and that success required joint, innovative work.

The full event can be viewed on the conference website: <https://www.mnb.hu/en/the-central-bank/conferences/budapest-renminbi-initiative-conference-2024>