

[Home](#) > [News & Events](#) > [Press Releases](#) > 2016

PBC Normalizes Deposit Reserve Requirement on Offshore Financial Institutions' Onshore Deposits

In December 2014, PBC published PBC Documents〔2014〕No. 387, specifying that offshore financial institutions' deposits in onshore financial institutions should be included into the categories of deposits that require deposit reserve, while the required reserve ratio was set at zero temporarily. After over one year's preparation, relevant technical condition is ripe. PBC has decided that, starting from January 25th, 2016, PBC will normalize deposit reserve requirement on offshore financial institutions' onshore deposits. The above mentioned offshore financial institutions do not include foreign central banks and similar institutions such as other official reserve management institutions, international financial institutions, and sovereign wealth funds.

Normalizing deposit reserve requirement on offshore financial institutions' onshore deposits is a further improvement of China's current deposit reserve system. This measure will not affect onshore RMB liquidity. PBC will utilize a combination of policy measures to keep the liquidity of the banking system at an appropriately adequate level.

Normalizing deposit reserve requirement on offshore financial institutions' onshore deposits introduces a long-term, counter-cyclical mechanism for regulating China's cross-border capital flow in RMB, which is an important step in improving our macro-prudential policy framework. This measure helps inhibit the pro-cyclical

behavior in RMB's cross-border flow, guiding offshore banks to enhance their RMB liquidity management, and helping maintain the stability of the financial system.

The PBC will keep supporting the cross-border use of RMB on a steady pace, facilitate international trade and investment, and promote the healthy internationalization of RMB.

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