

Can Renminbi-bonds scale as a viable option for developing countries?

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Executive Summary

China's role in financing emerging markets has shifted rapidly over the past decade. After a period of large-scale official lending through policy banks, financial flows from China are now net negative while many Emerging Markets and Developing Economies (EMDEs) remain confronted with high refinancing needs and costly access to hard-currency markets. At the same time, China has intensified efforts to internationalize the use of its currency, the renminbi (RMB), through a range of instruments: central bank swaps, direct lending, and, increasingly, by admitting foreign issuers into its domestic bond market.

Panda bonds are RMB-denominated bonds issued by foreign issuers in mainland China, on its onshore bond market. They have entered a new phase. After years in which the market was largely confined to firms operating in China, regulatory reforms have made it more accommodating to sovereign issuers. In particular, updated use-of-proceeds rules now allow, under conditions, the remittance of proceeds offshore. This coincided with market expansion: outstanding Panda bonds reached around USD 45 billion in 2024, surpassing the size of the Samurai (yen-denominated) market. This paper seeks to explain this growth and to guide potential issuers. What are the factors that they should consider when thinking about issuing in RMB?

The paper's argument is that two forces drove this change. The first is on the supply side, through a policy-driven effort to foster this market. Reforms to facilitate Panda bond issuance stem from a deliberate effort to broaden the RMB's role in international finance, coming alongside efforts to convert existing loans denominated in U.S. dollars into RMB. **The second is on the demand side: EMDEs find such issuance financially attractive.** Chinese interest rates have been lower than U.S. rates since the Federal Reserve began to tighten its monetary policy.

However, these forces should also lead to caution from EMDE sovereigns, as headline Panda yields might be misleading. Two additional cost layers are typically decisive: credit enhancement, which is necessary to meet the high-grade requirement of Chinese investors, adding costs and complexity to transactions; and either a direct cost to hedge against the risk of RMB appreciation, or an unhedged risk, which would be significant.

For EMDE debt managers, the decision to issue a Panda bond should be based on the relevant benchmark: the all-in, swap-adjusted cost of borrowing. A proper opportunity analysis should not be based on the yield at issuance of the Panda Bond (in RMB), but rather converted into an equivalent Eurobond (in USD) or a domestic bond (in local currency). A key reason is that most exports are denominated in USD, which provides a natural (partial) hedge against USD exchange rate movements, while the RMB remains a marginal trade invoicing currency. Our analysis of three African countries that publicly announced plans to issue Panda bonds is that there seems to be value in issuing in RMB rather than USD. However, once swap-adjusted into local currency, domestic debt remains cheaper.

Since the cost advantage is not obvious, further policy efforts are required to turn Panda bonds into a significant additional option for EMDEs. It advances three policy levers, by order of complexity and feasibility:

1. **Use intermediary issuance:** MDBs and regional DFIs issuing onshore and on-lending to EMDEs would familiarize Chinese investors with EMDE credit risk.

2. **Scale up credit enhancement** from MDBs and potentially Chinese policy and commercial banks to crowd in domestic Chinese institutional investors for sub-investment-grade sovereigns.
3. **Explore carefully designed loan-for-Panda bond swaps** (a “Shanghai Model” analogous in spirit to the Brady Plan) where parts of China’s existing loan stock could be converted into tradable instruments supported by credible credit enhancement, thereby easing refinancing pressures while deepening the sovereign Panda curve.

Our conclusion is that the particular features of Chinese capital markets make it attractive for issuers, but also require careful market shaping. We develop the regulatory determinants of deepening markets for Panda bonds. We also show that the specificities of the Chinese markets, with a closed financial account and limited risk appetite, make it hard to become scalable without additional financial engineering where policy banks take part in the credit risk.

Introduction

Once a major source of capital for EMDEs, China's role has recently flipped. Between 2008 and 2018, China played a central role in filling the external financing gap of emerging economies. By committing nearly half a trillion dollars to low- and lower-middle-income countries, China stepped in when advanced economies reduced their investments in low-return projects such as public infrastructures in emerging economies. This trend was reversed during the pandemic, when new loan commitments fell sharply, reaching record lows with the two main providers - China Development Bank (CDB) and the Export-Import Bank of China (CHEXIM) - showing declining risk appetite.

This decline has coincided with a broader liquidity squeeze across many EMDEs. Developing economies now face net negative transfers, with outflows to reimburse creditors exceeding inflows. This has been true for China since 2019, but also for other creditors such as bondholders. International Financial Institutions (IFIs) have partially offset the decline in private and bilateral lending, but these new financings cannot substitute for the scale and sectoral focus that once characterized the Chinese Belt and Road Initiative (BRI).

As debt-servicing pressures intensify, many emerging and developing economies are looking for ways to refinance their existing debt at a lower cost. For commercial debt, market access has partially reopened, but sometimes at prohibitive cost. Even though spreads between U.S. Treasuries and emerging market Eurobonds have returned to their pre-2019 averages, yields remain high with frontier economies, such as Kenya, Angola, and Nigeria, issuing in 2025 at levels below but close to 10%, which might signal future debt distress.

On the other hand, China has been actively promoting a broader international use of the RMB. This policy orientation has been explicitly articulated at the highest political level: the recent call by Xi Jinping to build the RMB into a "strong currency" that attains global reserve currency status (Xi, J., 2024) underscores this strategic ambition. Although the expansion of RMB invoicing and settlement in international trade has been the most visible channel, Beijing has also pursued a set of voluntary policies aimed at strengthening the currency's international role. A central pillar of this strategy is the liberalization of China's capital markets, designed to make RMB-denominated financial instruments more accessible to non-residents. This includes the gradual opening of the equity and bond markets to foreign investors and, more modestly but still strategically, the admission of foreign issuers into the onshore bond market - creating the Panda bond market.

After years of gradual regulatory adjustments, the Panda bond market now appears to have crossed an important threshold. Reforms adopted since the early 2010s have eased several constraints that had long limited its relevance for sovereign issuers. In particular, changes to use-of-proceeds rules have introduced a degree of conditional flexibility, allowing foreign issuers, under clearly disclosed and monitored conditions, to remit proceeds offshore or convert them into other currencies. Together with streamlined issuance procedures, differentiated disclosure requirements for sovereigns, and other tools to facilitate issuance, these reforms have substantially lowered the operational barriers to entry. From a purely regulatory standpoint, Panda bonds are therefore no longer an experimental or marginal instrument.

Yet, have these regulatory and institutional changes been sufficient to make Panda bonds a genuinely attractive financing option for sovereign EMDEs? The answer is far from obvious. While Egypt's 2023 transaction demonstrated that, under specific conditions (short maturities and strong multilateral guarantees), Panda bonds can deliver highly competitive funding costs, the deal has so far remained an exception rather than a template. Since then, among the numerous EMDEs that have publicly announced plans to issue a Panda bond, none has translated it into a transaction.

This gap between stated interest and actual issuance suggests that access to the Panda bond market is constrained by more than regulation alone. Beyond legal eligibility, sovereign issuers must confront a set of financial and market realities: the structure of China's domestic investor base, which remains strongly skewed toward highly rated and short-dated instruments; the likely need for external credit enhancement; and the management of foreign-exchange risk when issuing in a currency that does not naturally match fiscal revenues. These concerns are compounded by expectations that the RMB could appreciate over the medium term as China keeps pushing for its internationalization and gradually rebalances its growth model. Once these factors are taken into account, the apparent cost advantage implied by low RMB interest rates may narrow substantially or disappear altogether.

Finally, if Panda bonds are to become a credible alternative financing option for EMDE sovereigns, additional measures would need to be considered by Chinese authorities and multilateral development banks (MDBs). The development of the Panda bond market has so far been largely policy-driven, and scaling it up is therefore likely to require further policy support rather than reliance on market forces alone. Two precedents are particularly instructive. First, the expansion of China's own domestic debt market was actively supported by policy banks, which could, in principle, play a similar catalytic role for the sovereign Panda bond market. Second, the emergence of the USD Eurobond market in the 1980s was facilitated by the Brady Plan, which combined debt restructuring with credit enhancement to create a liquid and investable asset class. Together, these experiences suggest that moving Panda bonds beyond a niche instrument would require deliberate risk-sharing and institutional backing, rather than incremental regulatory reform alone.

This paper addresses these questions in three steps. The first section reviews the evolution of the Panda bond regime and the regulatory reforms that have facilitated its recent expansion. The second assesses whether a credible financial case can be made for sovereign EMDE issuance, focusing on credit enhancement, currency risk, and the all-in, swap-adjusted cost of borrowing. The final section explores policy options to support a broader and more durable participation of sovereigns in the Panda bond market.

1. Overview of the Panda bond market

Definition. Panda bonds are RMB-denominated debt instruments issued by non-Chinese (offshore) entities in mainland China's (onshore) bond market. Issued under Chinese law and settled in RMB, Panda bonds provide direct access to China's domestic capital markets, now the second largest in the world, after the U.S.

Panda bonds are not international bonds. In contrast to Eurobonds, which are distributed through international capital markets and offered globally, Panda bonds are part of the domestic debt market and offered only to its domestic investors. Another key distinction is on the legal side: Eurobonds are typically governed by English or New York law and structured through private law contractual arrangements combined with regulatory exemptions from domestic public offering regimes, whereas Panda bonds are issued onshore in China and subject to mandatory registration, differentiated disclosure, and ongoing supervisory control under China's financial regulatory framework.

Other kinds of RMB-denominated debt exist for foreign issuers. Dim Sum bonds are issued offshore (typically in Hong Kong) and denominated in the form of yuan that can be traded outside China (CNH). They can be considered as "Eurobonds in RMB/CNH", sharing their legal features (contract-based and opting for English or NY law) and serving as a flexible financing instrument. Between Panda Bonds and Dim Sum bonds lie FTZ (Free-Trade Zones) offshore bonds: bonds issued within free-trade zones like Shanghai, benefiting from more relaxed capital control rules than Panda bonds but closed to the domestic debt market like Dim Sum bonds.

Table 1 – RMB-denominated debt for foreign issuers

	Type of RMB	Market of issue	Applicable Law
Panda bonds	CNY	China (mainland)	Chinese law
Dim Sum bonds	CNH	Offshore (Hong Kong, Singapore...)	Contract-based (mostly NY of English law)
FTZ bonds	CNY	China (FTZ)	Chinese law (with exemptions)

How the Panda bond regime evolved: step-by-step chronology

A cautious beginning. Panda bonds were first introduced in 2005 when the People's Bank of China (PBoC), the Ministry of Finance (MOF), the National Development and Reform Commission (NDRC), and the China Securities Regulatory Commission (CSRC) issued provisional rules officially permitting international development institutions to issue RMB-denominated bonds in China's interbank market. The Asian Development Bank (ADB) and the International Finance Corporation (IFC) became the first issuers, marking a milestone in China's gradual financial opening.

This initial phase, however, remained primarily experimental due to strict capital controls and limited RMB convertibility. This significantly constrained the potential of market development. In particular, regulatory requirements mandated that funds raised through RMB bond issuances shall be used exclusively for projects in China and prohibited their conversion into foreign currencies and

transfer overseas (see article 17 of the provisional rules). As a result, market activity was modest, characterized by a narrow issuer base and limited issuance volumes. The policy objective during this period was not to promote market expansion, but rather to test and establish the institutional and legal foundations for future growth.

After five years of implementation, changes began to be introduced. The provisional rules were revised in 2010, with particular emphasis on article 17. Under the amended framework, and subject to compliance with PBoC regulations, issuers were allowed to remit RMB-denominated proceeds directly overseas and convert them into foreign currency. However, this could only be done with prior approval of the SAFE (the government agency managing foreign exchange reserves and cross-border capital flows) and under the conditions to disclose the intended overseas use of proceeds and submit periodic reports.

This revision constituted an institutional turning point in the development of the Panda bond market. By partially lifting the earlier constraint that confined proceeds to onshore use, it enabled Panda bond issuance, for the first time, to support cross-border activities. At the same time, the retention of approval and reporting requirements underscored China's incremental approach to market opening, seeking to balance financial risk control with gradual liberalization.

Standardization Stage: Market Expansion and Disclosure Rules (2015–2021).

A gradual opening. Since 2015, as China has gradually opened its capital markets and advanced RMB internationalization, the Panda bond regime has experienced steady improvement. Issuance channels expanded from the interbank market to stock exchanges (Shanghai, Shenzhen, and Beijing), thereby broadening¹ the investor base beyond large financial institutions and signaling China's intent to mainstream Panda bonds into its domestic financial system. Eligible issuers extended beyond MDBs to include sovereign governments, foreign financial institutions, and multinational corporations. At the same time, issuance methods diversified from exclusively public offerings to include private placements, increasing flexibility and market participation.

Stronger rules for sovereign borrowers. A landmark development in this phase was the introduction of the 2018 Interim Measures², which instituted a more structured regulatory framework with differentiated requirements for sovereign issuers and multilateral development banks:

- **Issuance capacity:** Issuers were required to demonstrate prior international issuance experience and a strong record of debt-servicing capacity, ensuring creditworthiness and market discipline;
- **Regulatory registration:** All issuers are mandated to register with the National Association of Financial Market Institutional Investors (NAFMII), thereby integrating them into China's institutional regulatory system; and
- **Tailored disclosure standards:** Instead of corporate-style financial reporting, sovereign and multilateral issuers were required to disclose fiscal data (e.g., government revenues, expenditures, and deficits), debt levels (total stock, structure, and repayment arrangements), and macro-credit indicators (such as GDP growth, foreign reserves, and credit ratings).

¹ Interoperability between China's domestic exchanges remained limited for several years. The Shanghai and Shenzhen stock exchanges only became interoperable in 2022, and the Beijing Stock Exchange was established separately in 2021.

² <https://www.pbc.gov.cn/english/130733/2025080815071473847/index.html>

These reforms elevated again the Panda bonds closer to the level of international standards. They made Panda bonds more transparent, credible, and internationally recognized as a financing instrument for foreign issuers.

Hybrid Stage: Market Facilitation and Regulatory Optimization (2022–Present).

Retain or remit: use of proceeds rules. Since 2022, capitalizing on earlier regulatory reforms and market expansion, the Panda bond regime has entered a phase focused on regulatory optimization. The PBoC, together with the SAFE, have streamlined rules governing the use of proceeds. Originally, funds raised through Panda bonds had to be kept and used strictly onshore, often for activities linked to China during 2005–2010. Since 2010, regulations have been gradually relaxed: issuers have been allowed to retain proceeds domestically for local operations or, subject to approval, remit them abroad for use in their home markets (see Box 1).

Box 1 – From capital control to conditional flexibility: how China redefined the use of Panda bond proceeds

For much of its early history, the Panda bond market was constrained by strict rules on the use of proceeds. Funds raised by overseas issuers were required to remain onshore and be used for activities linked to China, reflecting the authorities' cautious approach to capital account opening and their preference for anchoring RMB usage within domestic economic activity. Typically, a car manufacturer would raise RMB to finance the construction of the activities of a plant located in China. This framework limited the relevance of Panda bonds for sovereign issuers seeking to finance budgetary needs or projects outside mainland China, as remittance offshore or FX conversion typically required special approval from the PBoC and SAFE during this period.

A significant shift occurred in 2023 with a joint decision issued by PBoC and SAFE. The *Notice Concerning the Proceeds Management for Yuan-Denominated Bonds Issued by Overseas Issuers in China (Yinfa No. 272 [2022]³)* came into effect in January 2023. Rather than fully liberalizing capital flows, the notice introduced a registration-based management regime for Panda bond proceeds, replacing earlier approval-driven arrangements. Under this framework, overseas issuers must open a dedicated "special account" with an onshore bank, register each issuance tranche with SAFE via their lead underwriter, and ensure that all inflows and outflows are traceable and consistent with disclosed purposes.

Crucially, the notice confirms that overseas issuers may remit proceeds offshore, or retain them onshore, provided that their use is consistent with the prospectus or other issuance documents. The prospectus becomes not merely a disclosure instrument but a binding policy anchor governing cross-border use of funds. This reflects China's preference for controlled experimentation over full capital account liberalization.

The reform therefore creates conditional flexibility rather than free convertibility. While Panda bond proceeds are now permitted to be remitted offshore and converted, their use remains strictly purpose-bound and subject to ongoing regulatory monitoring. Although the current framework does not expressly exclude the large-scale conversion of proceeds into hard currency for general budgetary financing, it primarily encourages overseas issuers to conduct cross-border receipts, payments, and utilization in RMB. As a result, the feasibility of such conversion continues to depend on regulatory discretion and the broader policy environment, rendering it politically sensitive and

³ <https://www.pbc.gov.cn/en/3688241/3688636/3688660/2025080817523268751/index.html>

potentially misaligned with China's objective of promoting RMB use in trade, investment, and finance. In this sense, the notice enhances the operational viability of Panda bonds for sovereign and multilateral issuers but with a degree of flexibility that falls short of that offered by Eurobonds.

In the latest round of reforms, the framework has become even more flexible, allowing issuers to transfer proceeds offshore. The transfer is allowed, provided that such use is clearly disclosed in the prospectus and consistent with the stated purpose of the issuance. However, proceeds remain purpose-restricted and closely monitored by regulators. Issuers must therefore prepare compliance documentation, and the transfer process remains contingent on approval procedures, which can entail uncertain timelines and outcomes. This evolution marked a major step in making Panda bonds more relevant for sovereigns and MDBs seeking financing for projects outside China, while preserving the authorities' control over capital outflows.

Facilitation of the issuance process. NAFMII also introduced mechanisms to facilitate issuance, including Tapping Arrangements, which allow sovereigns and MDBs to reopen existing bonds under identical terms, and the Frequent Issuer Program (FIP), which offers streamlined disclosure and reduced administrative costs for regular issuers.

Notably, the 2024 guideline established three issuance pathways for foreign governmental agencies and international development institutions:

1. **Public Offering** – targeting institutional investors in the interbank market, requiring comprehensive documentation, including government approval, prospectus, financial reports for the past three years, legal opinions, and, where available, credit ratings.
2. **Private Placement** – offering streamlined procedures with simplified registration, investor recommendation letters, and privately negotiated disclosure.
3. **Shelf Registration** – providing a two-year registration period, allowing eligible issuers to issue bonds in tranches to qualified institutional investors. Tranche issuance can continue beyond 12 months upon filing with NAFMII.

This institutional architecture underscores China's intent to reinforce the role of Panda bonds in the country's financial opening and RMB internationalization strategy. Unlike earlier phases, which focused primarily on market access, this stage prioritizes market facilitation, liquidity, and sustainability, offering multiple issuance options to accommodate diverse issuer needs. Since 2018, Panda bonds have officially transitioned to a registration-based system, with reforms promoted by the People's Bank of China and the Ministry of Finance replacing the previous approval regime, thereby significantly enhancing issuance efficiency and market access.

By 2023, the system had become fully institutionalized. It now provides a mature and transparent regulatory framework, including registration validity periods (two years), tranche issuance flexibility, private placements, and tapping arrangements, for sovereign and multilateral development institutions issuing bonds in China.

Box 2 - The hybrid nature of Panda bonds

Panda bonds can be understood as a hybrid debt instrument situated between China's domestic regulatory framework and international bond market practices. They are issued, registered,

cleared, and supervised within China, primarily in the interbank bond market, under Chinese monetary policy, foreign exchange controls, and self-regulatory mechanisms. At the same time, their issuer base, disclosure requirements, risk structure, and financing objectives are inherently cross-border. This hybridity does not represent full capital account liberalization; rather, it reflects a deliberate institutional convergence that selectively incorporates international mechanisms while maintaining domestic regulatory control and capital flow manageability.

From a governance perspective, the Panda bond regime embodies a hybrid regulatory architecture. The issuance system has progressively transitioned toward a registration-based approach, while introducing international-style facilitation tools such as unified registration (DFI), the Frequent Issuer Program (FIP), tapping arrangements, and shelf-style issuance. These mechanisms enhance issuance efficiency and flexibility, yet remain embedded within China's capital control and self-regulatory framework, supporting both ex-ante access controls and ongoing supervision. In terms of disclosure, regulatory reforms have progressively harmonized reporting standards across categories of overseas issuers and permitted prospectus formats tailored for mature international issuers, thereby improving comparability and investor familiarity—while disclosure continues to function as a regulatory anchor for continuous oversight of issuance and proceeds usage, rather than relying solely on market discipline.

A comparison with Eurobonds further illuminates the hybrid positioning of Panda bonds. Eurobonds operate predominantly under international market conventions, emphasizing market self-discipline and disclosure within environments of relatively free capital flows; their oversight spans multiple jurisdictions in a relatively fragmented manner, without a single global standard. By contrast, the Panda bond regime applies more detailed and prescriptive rules on issuance registration, disclosure obligations, and cross-border supervisory coordination, alongside differentiated treatment for issuer types. While Eurobonds prioritize market-driven coordination, Panda bonds embody a governance model that balances market facilitation with policy priorities, including capital account management and RMB internationalization.

How big is the Panda bond market? Characteristics and size

For years, Panda bonds were barely more than a curiosity. The market remained tiny until recently, both compared to international bond markets in hard currencies and to China's sprawling domestic bond market. Issuances were dominated by offshore corporates using the instrument as a financing or liquidity tool. But "offshore" did not mean foreign (i.e., non-Chinese): the bulk of these issuers were "Red-chip" companies, Chinese-owned firms incorporated in places like Hong Kong or the Cayman Islands, which account for more than 60 percent of the Panda bond market in outstanding volume. A smaller share has come from foreign corporates with manufacturing bases or operational footprints in mainland China (often seeking onshore RMB funding to match local expenditures).

To date, the typical Panda bond is not a sovereign. The Panda bond market remains Chinese savings funding Chinese companies. These bonds tend to be short-dated (1–3 years), carry AAA ratings, and offer a modest yield premium over Chinese government bonds. At first glance, emerging market sovereigns do not seem like natural issuers in this market. To date, 6 sovereign issuers have tapped the Panda bond market, with only two that have issued more than once (Hungary and The Philippines). Two sovereign issuers (The United Kingdom and Mongolia) have issued RMB denominated bonds outside of mainland China – the so-called Dim Sum Bonds.

Table 2 - List of sovereigns having issued RMB-denominated bonds.

Sovereign issuer	Coupon	Issue Date	Maturity Date	Format	Amount Issued (USD)
United Kingdom	2.70	21/10/2014	21/10/2017	Dim Sum (outside China)	415,996,450
Mongolia	7.50	30/06/2015	30/06/2018	Dim Sum (outside China)	137,826,476
Korea	3.00	15/12/2015	16/12/2018	Panda bond	413,724,624
Hungary	6.20	25/04/2016	25/04/2019	Dim Sum (outside China)	139,293,226
	4.85	26/07/2017	27/07/2020	Panda bond	139,293,226
	4.30	17/12/2018	19/12/2021	Panda bond	278,586,452
	2.50	22/07/2025	24/07/2028	Panda bond	556,839,379
	2.90	22/07/2025	24/07/2030	Panda bond	139,209,844
Poland	3.40	25/08/2016	26/08/2019	Panda bond	418,585,182
The Philippines	5.00	20/03/2018	23/03/2021	Panda bond	203,138,913
	3.58	15/05/2019	20/05/2022	Panda bond	347,840,605
Portugal	4.09	30/05/2019	03/06/2022	Panda bond	278,427,441
Egypt	3.51	16/10/2023	17/10/2026	Panda bond	487,234,457
TOTAL					3,955,996,275

Source: Refinitiv

An attractive cost of borrowing could, in theory, attract sovereign EMDEs. While the Federal Reserve has held rates high and Japan has edged away from ultra-low yields, China has moved in the opposite

direction. With 10-year China Government Bond (CGB) yields around 1.6 percent in early 2025, issuing in RMB has become attractive for borrowers seeking lower funding costs. Since Panda bonds are priced off Chinese government benchmarks, the yield gap with US Treasuries and Japanese government bonds (JGBs) has widened (making Panda bonds potentially cheaper than USD-denominated Eurobonds or JPY-denominated Samurai bonds).

That said, this is still a niche market. The recent growth is real, but modest in scale, and sovereign participation remains anecdotal. The total outstanding volume of Panda bonds now exceeds that of the Samurai bond market, a notable milestone that requires perspective. The contraction in Samurai issuance owes much to the sharp depreciation of the yen, which has temporarily reduced the appeal of JPY funding. In reality, Panda bonds are still far from the depth and maturity that the Samurai market had less than 10 years ago. This comparison serves as a reminder that the current cost advantage of the RMB borrowing might be cyclical. Yet sovereign, supranational, and sub-sovereign agency (SSA) issuers make up only a small slice of the market. A handful of sovereigns have tested the waters alongside Asia-based multilaterals such as the AIIB and ADB. But the trend remains fragile.

Political and diplomatic backing – Panda bonds in the RMB internationalization strategy

Given the limited role of the renminbi in sovereign reserves, the Panda bond market still requires strong official backing to overcome weak natural demand. Unlike corporates funding local operations, sovereigns rarely invest or spend in China. Even those with strong trade ties to Beijing mostly settle transactions in US dollars. RMB reserves remain a very small share of most EMDEs' official portfolios. And even during the peak of the Belt and Road Initiative (BRI) lending, most loans from Chinese institutions were denominated in dollars (not yuan). That leaves two main motivations for sovereign RMB borrowing: economic diplomacy and portfolio diversification.

Internationalizing a currency such as the RMB requires expanding its use beyond national borders.

This implies having non-residents willing to use it as a medium of exchange (for instance, when firms invoice their cross-border trades in RMB), as a store of value (when investors buy Chinese equities or domestic debt), or as a unit of account (when a bond is denominated in RMB). Because these uses do not emerge automatically, policy intervention often plays a catalytic role in the early stages.

China has adopted several policies to “jumpstart” the international use of the renminbi. One set of policies targets supporting RMB use in trade and payments. The establishment of swap lines between the PBoC and more than 40 other central banks was instrumental in ensuring that even countries without RMB reserves can count on a liquidity backstop from China in the event of a liquidity crisis (Bahaj, S., & Reis, R., 2020). Another set of policies was the cautious opening of Chinese capital markets, in particular, the bond market was first opened to “stable” investors (such as central banks) before considering more “flighty” investors (such as hedge funds) (Clayton, et al., 2022). This was done through regulatory improvements, as well as key infrastructure such as Bond Connect⁴.

Opening the market to foreign issuers through Panda bonds complements these reforms. Panda bonds extend the opening of the Chinese onshore bond market to the issuer side. By allowing non-Chinese borrowers to raise RMB funding in the onshore market, they expand the stock of RMB-

⁴ Bond Connect was a key initiative in crowding in foreign investors onto the Chinese debt market. Launched in 2017, it is the platform that links the Chinese Interbank Bond Market (CIBM) with the world.

denominated liabilities held by foreigners and help familiarize sovereign issuers with China's financial infrastructure.

Sovereign issuances have often – if not always – coincided with diplomatic gestures toward China.

In 2014, Chancellor George Osborne announced the UK would become the western hub for RMB trading⁵; that same year, the government issued the first-ever Western sovereign RMB bond (not yet a Panda bond since issued in London), explicitly to add RMB to its reserves. In 2015, South Korea became the first sovereign issuer of a Panda bond, with the operation seen as a positive signal sent to China. In Southeast Asia, the Philippines debuted its Panda bond in March 2018, shortly after former President Duterte's diplomatic pivot toward Beijing, and as part of efforts to align financial and infrastructure ties.

More recently, this use of Panda bonds as part of financial diplomacy has become more prominent.

By 2024, Panda bonds were explicitly integrated into China's foreign financial diplomacy. At the FOAC Beijing Summit in September 2024, President Xi Jinping explicitly stated that "China will encourage and support Africa in issuing Panda bonds in China" to enhance cooperation. This commitment materialized in 2025, when the African Export-Import Bank successfully issued RMB 2.2 billion in Panda bonds.

The recent push to promote Panda bond issuance can also be seen as a response to the sharp decline in Chinese lending.

In the past, the availability of large-scale loans under the BRI reduced the need for emerging economies to issue Panda bonds. Now that lending from institutions such as the China Development Bank and the Exim Bank of China has fallen, Chinese authorities appear increasingly keen to encourage EMDE sovereigns to consider the Panda bond market as an alternative financing channel. The case of Kenya is particularly illustrative: after financing the first phase of the Standard Gauge Railway with loans from the Export-Import Bank of China, the country is now considering including RMB borrowing through a Panda bond issuance as part of the financing mix for the next phase, alongside additional loans from Chinese banks.

2. The case for Panda bonds as an alternative financing instrument for EMDEs

Opportunities for EMDEs: portfolio diversification, risk mitigation, and diplomatic benefits.

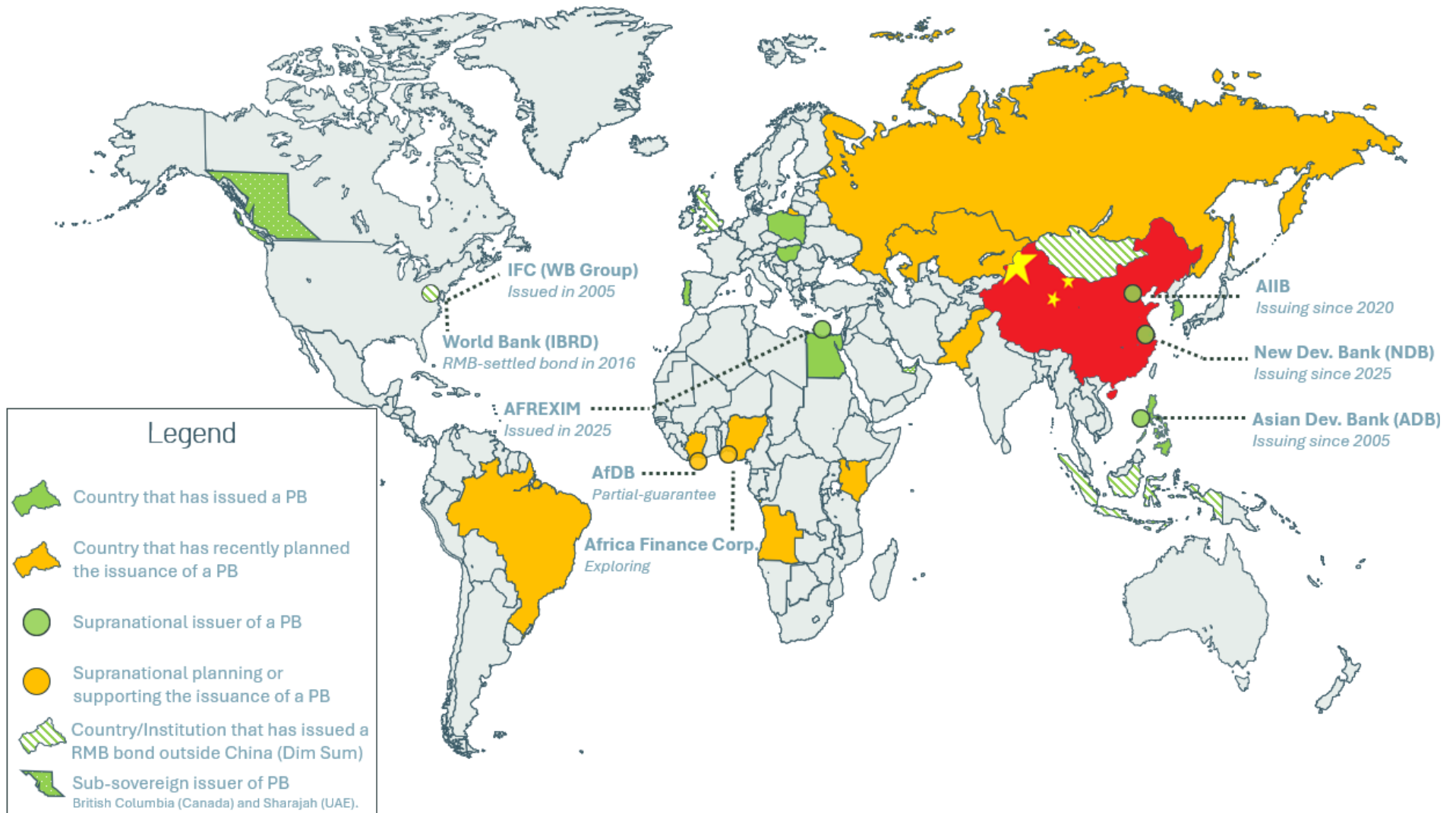
Diversifying funding sources is now a priority, not a luxury. Relying solely on Eurobond markets has left many EMDEs exposed to global risk cycles. Panda bonds offer a way to broaden the investor base, potentially absorbing demand from Chinese institutional investors who are less sensitive to the Fed cycle and more receptive to issuers with diplomatic or economic ties to Beijing.

Portfolio diversification makes sense but is not risk-free. By diversifying their debt portfolios (borrowing not only in local currency and U.S. dollars but also in renminbi), sovereigns can reduce their overall exposure to currency-specific shocks. In theory, spreading borrowing across multiple currencies smooths the impact of exchange rate fluctuations and mitigates dependence on a single market's liquidity cycle. However, instruments such as Panda bonds (or other forms of RMB borrowing, including bilateral debt swaps currently making headlines) come with their own costs and risks.

China's financial system has the depth and liquidity to support sovereign-scale funding. The interbank market in particular offers the scale needed for benchmark-sized sovereign issuance. While foreign participation remains limited, the opening of the market is ongoing. Bond Connect was a key initiative in crowding in foreign investors onto the Chinese debt market. Launched in 2017, it is the platform that links the Chinese Interbank Bond Market (CIBM) with the world. Based in Hong Kong, it can be accessed via standard trading platforms, such as Bloomberg, with no prior registration requirements, thereby contributing to the Chinese debt market being included in major world bond indices (Clayton et al., 2022).

Swap lines also offer support to the development of the sovereign Panda bond market. Swaps are agreements allowing two central banks to exchange their currency for a short period of time. Swap lines with the People's Bank of China (PBoC) engender confidence that RMB can be obtained from the Chinese central bank even in the absence of liquid markets in RMB securities and contributes, along with the opening up of the bond market and the increased use of RMB in trade invoices, to the internationalization of the RMB (A. Naef et al, 2022). The PBoC has negotiated with over 40 countries, giving its partner central banks access to some \$600 billion worth of RMB (B. Steil and E. Harding, 2024). Analysis of the actual usage of this short-term RMB funding shows that it has been used by EMDEs facing balance-of-payments pressures alongside IMF support (J. Watrous and S. Paduano, 2025).

Figure 1- Map of current and potential Panda bond (sovereign, supranational and sub-sovereign issuers)



Source: authors - the comprehensive table of issuers and related sources is available in Annex

Constraints for EMDEs: currency risk, limited liquidity, and barriers to entry

Currency risk does not depend on whether issuers repatriate the use of proceeds or retain them in China. As discussed above (see Box 2), Chinese regulatory bodies have gradually relaxed the use-of-proceeds rules, allowing the issuer to remit RMB liquidity outside China, provided that such use is clearly disclosed in the prospectus and remains consistent with the purpose of the issuance. While retaining funds onshore makes more sense from a Chinese policy perspective (RMB internationalization), EM sovereign issuers might prefer to use Panda bonds as a budgetary tool or a reserve management instrument, which requires converting the RMB proceeds into local currency or a hard currency such as U.S. dollars or euros. In both cases, issuing a Panda bond creates a foreign exchange risk that must be managed.

A sovereign can naturally hedge this exposure when the RMB liability created by the issuance of the Panda bond is matched by RMB-denominated revenues. This can be exports settled in RMB, for instance when directed to China. Invoicing in RMB has been one channel of RMB internationalization, but for it to be a substantial source of revenues, an EMDE would need to run a surplus, which is structurally not the case. The other source of natural hedging is tax revenues paid in RMB. This can constitute a more reliable and sustained source of RMB reserves. In practice, however, only one concrete example seems to exist: in Zambia, where Chinese mining companies are important, taxes paid in RMB accounted for around 15% of total government revenues in 2025.

Beyond natural hedges, countries might need to consider financial derivatives. Since only a few EMDEs might be able to generate sufficient and predictable RMB revenues, natural hedging might remain the exception rather than the rule. More usual hedging instruments should then be considered. Chinese authorities explicitly allow overseas issuers to manage exchange-rate risk through financial derivatives. In practice, this includes instruments such as cross-currency swaps and FX forwards, allowing issuers to stabilize debt-service costs over the life of the bond.

However, the scope and effectiveness of RMB hedging instruments remain constrained. Onshore CNY derivatives have a limited market liquidity and relatively short available tenors, which complicates their use for sovereign-scale transactions. In some cases, several swaps might be necessary: one from CNY to USD and another from USD to the local currency (given that most EMDE local currencies don't have an FX market with RMB). Most importantly, hedging is not costless: once the cost of the swap is priced in, the all-in cost of borrowing after hedging may converge toward (or even exceed) domestic or hard-currency alternatives. Whether Panda bonds remain economically attractive after hedging therefore depends less on the headline interest rate than on the full cost structure, an issue discussed in detail in Box 3.

Box 3 – Are Panda bonds competitive once all costs are taken into account?

Headline yields on Panda bonds do not reflect the effective cost of borrowing for foreign EMDE issuers, particularly when part or all of the proceeds are intended to be remitted outside China. Two structural elements explain this gap. First, access to the onshore Chinese bond market is likely to require credit enhancement for most EMDE sovereigns, which comes with an annual guarantee fee. Second, issuing in renminbi (especially in CNY, the onshore currency in which Panda bonds are settled) creates foreign-exchange exposure for issuers whose liabilities and expenditures are largely denominated in USD, EUR or their local currency (LCY). Whether this foreign exchange risk is actively hedged or implicitly borne on the sovereign balance sheet does not change the need to assess its economic cost.

(i) The all-in cost of borrowing in RMB: yield at issuance + guarantee fee

The yield at issuance, excluding the guarantee cost, can easily be anticipated. Based on past sovereign issuances, the level of the Panda bond coupon is expected to be priced at around 100 basis points above the China Government Bond (CGB) curve: this spread is deducted from the observation of the 7 sovereign Panda bonds issued since 2016 including Egypt's 2023 transaction (which priced at 116 bps above CGB curve). Given that the current 3-year CGB bond yield is currently around 1.4%, this implies an indicative yield at issuance of **around 2.4% percent for a three-year maturity** under current market conditions.

However, since market access is expected to rely on external credit enhancement, the guarantee fee has to be included. Recent experience suggests that such enhancement would take the form of concessional guarantees provided by multilateral development banks (MDBs). The AIIB-AfDB co-guarantee on Egypt's Panda bond provides a useful benchmark, with annual guarantee fees of 50 and 80 basis points respectively, broadly in line with World Bank pricing for short-term sovereign policy-based guarantees. To avoid understating costs and to reflect potential structuring fees and pricing heterogeneity across guarantors, we assume an **annual guarantee fee of 60 basis points**. By adding the expected yield at issuance (2.4%) and this guarantee fee, **we can anticipate the yield at issuance for a 3 years Panda Bond issued by a sovereign EMDEs to be at around 3%.**

(ii) Equivalent borrowing cost in other currencies: hard and local currency

A debt management office must then assess whether this guaranteed Panda bond funding is competitive with equivalent borrowing in international markets, notably through a USD or EUR-denominated Eurobond. Making such a comparison requires expressing the RMB liability in foreign-currency terms. In practice, this is done through a currency swap that converts RMB cash flows (interest and principal) into USD (or EUR) cash flows over the life of the bond. While the mechanics are complex and market data are not fully transparent, discussions with market participants indicate that Panda bonds swapped into USD translate into a USD funding cost are priced as a spread over short-term US-treasury benchmark rates. As a result, we conclude that there is currently a significant premium to issuing in RMB compared to USD, even when hedged, of about 100 basis points. Unhedged exposure increases the premium, but at the risk of possible RMB appreciation.

Beyond external markets, EMDE sovereigns should also compare the cost of external borrowing with domestic borrowing. Comparing Panda bonds to a local-currency Treasury bond requires expressing the Panda bond as a synthetic local-currency liability. As there is currently no meaningful market for direct CNY-local currency swaps, this conversion necessarily involves two steps: first swapping RMB into USD, and then swapping USD into local currency using non-deliverable cross-currency swaps. The resulting synthetic local-currency rate represents the effective cost of Panda bond funding fully hedged into local currency and can be directly compared with yields on domestic Treasury bonds, which do not require currency hedging or guarantees.

(iii) Comparative analysis for Kenya, Nigeria and Côte d'Ivoire

		RMB vs. USD			RMB vs. LCY		
	(i) Panda bond + guarantee	(ii) Panda bond with swap to USD	USD-Eurobond *	Arbitrage? **	(iii) LCY-Panda bond	LCY debt *	Arbitrage?
Kenya			USD 6.15%	Yes	KES 11.958%	KES 11.38%	No
Nigeria	RMB 3%	USD 4.65%	USD 6.25%	Yes	NGN 16.55%	NGN 17.36%	Yes
Côte d'Iv.			USD 5.18%	Equivalent	XOF 6.61%	XOF 6.32%	No

The table below applies this framework to three African sovereigns (Kenya, Nigeria, and Côte d'Ivoire) that have publicly communicated interest in issuing Panda bonds. For each country, we report (i) the expected Panda bond yield at issuance, including the guarantee fee, (ii) the USD-equivalent cost after swapping the RMB liability into USD, (iii) the local-currency-equivalent cost after full hedging, and compare them with the yield on comparable USD-Eurobond and domestic Treasury bonds.

*Source: Refinitiv and DMO websites

**Yes: spread is > 75bps, issuing in RMB is more favourable than the equivalent

Equivalent: RMB is close to currency equivalent, no clear arbitrage

No: spread is negative (issuing in RMB is more expensive)

The results highlight that Panda bonds are competitive against USD-Eurobond funding. When expressed in USD terms, guaranteed Panda bonds are generally slightly less expensive than unsecured Eurobonds, reflecting a potential arbitrage situation potentially fueled by political support and low-cost guarantee. Current compression of yields on the USD-Eurobond market might however erase this advantage for RMB funding. Also, once more, RMB-funding for EMDEs will most probably not be a way of getting USD: this comparison remains theoretical.

These results vary significantly across countries when fully hedged into local currency. Panda bonds tend to produce synthetic funding costs above prevailing domestic yields (except for Nigeria). While this leaves limited scope for pure interest-rate arbitrage, Panda bonds may still offer strategic value by allowing sovereigns to access offshore liquidity, diversify their investor base without putting pressure on already solicited domestic debt markets.

Liquidity and other barriers to entry

Liquidity in the Panda bonds market is improving, but still shallow by global standards, leading to higher refinancing risk. In terms of trading volume, the average monthly trading volume in 2023 was around 30 billion yuan (US\$ 4.1 billion), while it exceeded 50 billion yuan (US\$5.5 billion)⁶ in 2024. These

⁶ <https://www.yicai.com/news/102409010.html>

numbers remain low compared to the Eurobond market, where the monthly turnover for bonds issued by EM sovereigns is roughly twenty times larger than these volumes, incorporating overall trading volumes for Panda bonds⁷. The risk of not being able to roll over RMB debt in the future is therefore higher and highly dependent on investor sentiment, as well as on the stance of Chinese regulators.

Credit ratings remain a structural consideration rather than a formal barrier for EMDE sovereigns.

Although Panda bond issuers may include a rating from a Chinese credit rating agency, it is not mandatory, and especially not for private placements, which can proceed without one. However, in practice, many issuers opt for Chinese ratings because they are often perceived to be relatively more favorable than international ratings. The deeper constraint lies in investor risk preferences: China's bond market overwhelmingly favors highly rated issuers, and appetite for below-investment-grade sovereign debt is extremely limited. Consequently, credit enhancement remains essential. Multilateral guarantees, like those provided by AIIB and AfDB in Egypt's 2023 green Panda bond, are likely to remain the key enablers of future EMDE participation.

⁷ According to the *Emerging Markets Debt Trading Volume Survey (Q2 2025)* published by the Trade Association for the Emerging Markets (EMTA) total secondary market turnover in EM sovereign Eurobonds reached about US \$339 billion over the quarter. This corresponds to an average of roughly US \$110 billion per month.

3. Policy Recommendations

To unlock the full potential of Panda bonds for EMDEs, tailored solutions are required. Standard market issuance for low-rated sovereigns will remain difficult given Chinese investors' preference for high-grade and short-term instruments. Yet there are pragmatic ways to bridge this gap. Below are three mechanisms that could be further developed to help low-rated countries access RMB financing, manage risk, and strengthen their integration into China's domestic bond market.

MDB intermediation: Onshore issuance and on-lending to EMDEs

Unlike most EMDE sovereigns, MDBs don't need credit enhancement to access the Panda bond market. Many MDBs - including the Asian Infrastructure Investment Bank (AIIB), the Asian Development Bank (ADB), and the New Development Bank (NDB) have already issued successfully onshore without guarantees, benefiting from high credit ratings. This creates a straightforward intermediary channel: MDBs can tap the Panda bond market directly at favorable terms and subsequently on-lend the proceeds to sovereign borrowers that would otherwise struggle to issue standalone RMB debt.

This intermediary model already mirrors practices long used by Chinese policy and commercial banks. Chinese banks' lending model relies on borrowing from the Chinese domestic debt market and on-lending those funds (at a margin) to sovereigns and infrastructure projects in developing economies. In that sense, MDB on-lending leverages a familiar structure for Chinese investors while reducing the execution and disclosure burden for first-time sovereign issuers, potentially helping them build a track record before attempting standalone transactions in the onshore market.

Afreximbank could act as a catalytic precedent. Among MDBs and DFIs that have tapped the Panda bond market, Afreximbank's RMB 2.2 billion issuance in April 2025 is particularly notable. Given its short 3-year maturity, it is best viewed as funding diversification rather than a strict on-lending operation. Even so, by establishing an African multilateral curve in the onshore RMB market, it can be scaled to larger volumes and evolve into a conduit for intermediated RMB financing to low-rated countries with little or no standalone market access.

That said, the scalability of this model appears to be difficult in practice. Afreximbank's recent credit setbacks and rating downgrade significantly reduce the likelihood that this model can be expanded in the near term. Also, none of the other regional peers have followed through: the Africa Finance Corporation (AFC), which announced plans in early 2025 to issue a Panda bond, has yet to materialize the operation.

Credit enhancement for sovereign market entry

Why are guarantees necessary?

We anticipate that guarantees and other credit enhancements will remain necessary, especially for countries seeking to access the market in the short term. Such countries, usually with access and experience of the USD Eurobond Market, might still face barriers to entry if their credit rating is not investment grade. This will be especially the case for a public offering that involves a higher disclosure burden, longer approval process, and reputational risk.

The example of Egypt's 2023 Panda bond issuance, backed jointly by AIIB and AfDB, illustrates how it both offered access to domestic Chinese investors, and to green bond investors, which is an important pool in China. Moreover, the dual guarantee also aimed to familiarize Chinese investors with Egypt's credit profile, building a track record of confidence that could eventually enable the country to return to the Panda bond market with lower guaranteed coverage in the mid-to long term (AIIB, 2023).

Who could guarantee Panda bonds?

The question of who should provide guarantees is central to making Panda bonds viable for low-rated EMDEs. The Asian Infrastructure Investment Bank (AIIB) has so far been the most active and credible multilateral development bank (MDB) to provide such guarantees, as shown by Egypt's 2023 issuance. Yet, its internal strategy on financing operations in non-regional member countries makes large-scale replication difficult (AIIB, 2018).

Other MDBs could, in theory, offer similar credit enhancement. ADB is already expected to work with AIIB to help Pakistan access the market. However, the prospect of having other MDBs, such as the World Bank, to play the same role in the current geopolitical context is highly unlikely. The New Development Bank (NDB) appears as a potential alternative, particularly for BRICS members, but its capital base and operational scale might remain limited for widespread use. Without stronger coordination among MDBs, the supply of multilateral guarantees will probably remain insufficient to open the RMB market to a broader set of sovereigns.

An alternative route could come from Chinese policy banks. Historically, China Development Bank, and to a lesser extent Export-Import Bank of China, played a key role in China's domestic financial development: they first lent directly to local governments, then supported the emergence of local government financing vehicles, and finally contributed to the growth of China's sub-sovereign bond market (M. Chen, 2024). In a similar spirit, they could now help internationalize the RMB by guaranteeing Panda bonds issued by EMDE sovereigns. Such a shift would also serve their own balance-sheet objectives, reducing direct exposure to sovereign risk while supporting the transition from bilateral lending to market-based financing. Policy-bank guarantees would therefore represent both a continuity of China's financial development model and a strategic tool to deepen RMB internationalization and reduce reliance on traditional BRI lending.

A further option would be for large Chinese commercial banks to provide guarantees for sovereign Panda bond issuances. Unlike policy banks, the five major state-owned commercial banks⁸ are already dominant participants in the China Interbank Bond Market (CIBM) and are well known to domestic institutional investors. This familiarity could facilitate investor acceptance of guaranteed sovereign Panda bonds, as these institutions have established credit curves and balance-sheet capacity that investors know how to price. In practice, commercial banks may also be able to deploy guarantee structures more rapidly than policy banks, likely at a higher cost. While such guarantees would not be concessional in the MDB sense, they could nonetheless play a catalytic role in bridging the gap between bilateral lending and fully unsecured sovereign issuance, especially for higher-rated EMDEs or for pilot transactions aimed at building a track record in the Panda bond market.

⁸ Industrial and Commercial Bank of China (ICBC), Bank of China (BoC), China Construction Bank (CCB), Agricultural Bank of China (ABC) and Postal Savings Bank of China (PSBC)

Tranching and structured finance

Finally, guarantees can be combined with structured financing techniques that Chinese investors already know well. By applying tranching, risk can be layered so that the senior tranche is guaranteed (typically lifted to AAA) while the subordinate tranche carries the sovereign's own credit risk. This approach aligns with the strong preference of Chinese institutional investors for highly rated instruments, while still allowing EMDE issuers to place part of their risk directly in the market. Private placements can be particularly useful at this stage, since they allow tailored transactions with a small group of domestic banks, insurers, or policy funds, reducing disclosure burdens while testing investor's appetite for subordinated exposure. In doing so, EMDEs could broaden investor interest and gradually create a pathway for non-AAA sovereign Panda bonds, with guarantees serving as a bridge rather than a permanent requirement.

Debt-for-Panda bond Swaps – How converting bilateral loans could scale up the market?

For countries with high exposure to Chinese debt and related sustainability risks, a Panda bond-based restructuring plan could be considered. This idea, outlined as part of the “Shanghai Model of Debt Restructuring” and discussed in recent pieces (Y. Qian 2021, Y. Wang and Z. Zhai 2025), would involve converting outstanding loans from Chinese policy and commercial banks into Panda bonds, tradable on the Chinese interbank market. The approach aims to relieve debtor countries from near-term repayment pressures while fostering the emergence of a genuine sovereign segment within the Panda bond market.

The logic mirrors the Brady Plan of the late 1980s, which transformed distressed bank loans into tradable collateralized bonds. Under the Brady architecture, debtor countries borrowed from the IMF and World Bank to purchase U.S. Treasury securities that served as collateral for the principal or interest of the new Brady bonds, improving credit quality and attracting institutional investors. A Chinese adaptation, as proposed by Zhou Chengjun (former PBoC director, May 2021 speech), would follow the same mechanics: debtor countries would take out new financing (potentially from Chinese policy banks, the PBoC, or a multilateral partner) to acquire high-quality Chinese government bonds (CGBs) or green sovereign bonds issued by China. These securities would then be pledged as collateral for the RMB-denominated Panda bonds, replacing the original loans. In effect, China would replicate the Brady model's credit-enhancement channel using domestic safe assets (CGBs instead of USTs) while turning non-performing or stressed external loans into standardized tradable instruments on the interbank market.

For highly indebted countries, this conversion mechanism could materially ease refinancing pressures. This obviously concerns countries where China is an important bilateral creditor. On the one hand, the repurchase of Chinese loans coming due in the coming years provides liquidity for the indebted country. On the other hand, the credit enhancement opens the gate to the low-yield Chinese debt market, this time for refinancing only, but potentially for new capital in the future.

Such an initiative can also scale up the Panda bond market. Much as the Brady Plan in the late 1980s is often seen as the starting point of the modern emerging market Eurobond market, by transforming illiquid bank loans into tradable securities, a Shanghai-model Panda bond could similarly take the Sovereign Panda bond market to the next level. By securitizing China's existing loan exposure, Beijing

could provide liquidity to Chinese financial institutions and advance the international use of the renminbi.

A back-of-the-envelope calculation illustrates the potential scale. According to World Bank IDS data and based on FDL's debt sustainability analysis, countries classified as *at risk of insolvency* (breaching solvency thresholds in 2023) and *at risk of liquidity* (facing liquidity pressures between 2024–2029 but not insolvent in 2023) owe China, respectively USD 65 billion and USD 11.5 billion, until 2031. If only 5% of this stock were converted into Panda bonds under a Brady-style securitization, the resulting issuance would amount to roughly USD 4 billion. This is almost a 10% expansion of the current Panda bond market and a doubling of the amount of RMB-denominated sovereign bonds issued since 2015. Even a partial restructuring of this scale would therefore have a non-trivial impact on market size and could create the critical mass needed for a more liquid and credible sovereign Panda curve.

To be effective, however, several difficult conditions should be met. First, the new bonds should carry much longer maturities than the original loans to reduce near-term pressures. So far, the Panda bond market has been heavily concentrated on short maturities, still useful for liquidity purposes, but whether Panda bond investors will have the appetite and risk-management tools to hold long-term sovereign debt remains unclear. In addition, the RMB financial market remains insufficiently equipped with hedging products to manage currency risk (in case of RMB appreciation) and interest rate risk (in case Chinese rates pick up), reducing the attractiveness of such instruments for both issuers and investors.

A second challenge is structural: China's low-interest-rate environment makes Brady-style collateralization expensive. As long as rates in China remain low, buying zero-coupon CGBs would require high upfront cash, absorbing much of the resources that potential credit enhancers would have. The economics are therefore less favorable than in the original Brady era, when U.S. Treasury yields were sufficiently high to make collateralization relatively affordable.

To address this constraint, alternative forms of credit enhancement could be explored. Structured-finance techniques, such as tranching, are interesting given market experience in China (see section 2). Another is rolling interest-payment guarantees provided by an MDB or Chinese policy bank: by covering only successive coupon payments rather than the full principal, it could provide credible risk mitigation at a significantly lower fiscal cost. Both solutions would avoid the prohibitive upfront cost implied by a Brady-style collateralized credit enhancement.

Third, large-scale swaps must be embedded in broader restructuring packages. If not combined with debt relief, debt-service constraints could persist, merely shifting risks forward. As the Latin American experience shows, the Brady Plan itself only succeeded because it came after the Baker Plan (a strategy based on new money and no face-value reduction), which failed to restore debt sustainability.

The capacity of policy banks, let alone commercial banks, to publicly accept haircuts will remain low until Chinese authorities dedicate fiscal resources to cover these losses. This would require adjusting the "policy of loss avoidance" (Makoff et al., 2025) that Chinese authorities have observed in recent sovereign restructuring processes (and also in domestic banking crises).

As a conclusion, a Brady-like plan to scale up the Panda bond market is appealing but probably not feasible for now. It is theoretically coherent because it would respond to the reduction in capital flows

from Chinese banks, help reduce debt pressures, and, more broadly, be consistent with the “marketization” of Chinese development finance (M. Chen, 2024). In reality, China and EMDE’s recent choices to opt for loan rollovers and partial currency conversions from USD to RMB suggest a more cautious, bilateral approach. For now, the Panda bond swap remains more a conceptual framework than a policy instrument, probably reflecting China’s preference for controlled experimentation over rapid market liberalization.

Can Renminbi-denominated

Annex: list of countries and supranational financial institutions that have or might issue Panda bonds

COUNTRY/REGION	STATUS	WHAT OFFICIALS HAVE SAID / DONE	SOURCE
AFRICA			
EGYPT	Issued	Egypt issued a RMB 3.5bn <i>Sustainability</i> Panda Bond (Oct 2023), guaranteed by AIIB & AfDB. It is also considering swapping in RMB some existing loans with	(AfDB) (China Global South Project)
KENYA	Exploring	Debt Management DG said Kenya is evaluating Panda bonds (alongside Samurai/SLBs) as part of diversification.	(Reuters)
NIGERIA	Exploring	China pledged support for Nigeria's Panda bond issuance during FM Wang Yi's visit.	(Reuters)
ANGOLA	Exploring	Panda bonds is one of the different alternative bond options considered to diversify the investor base	(Reuters)
CÔTE D'IVOIRE	Exploring	Local coverage notes authorities consider Panda bonds as part of diversification.	(Sika Finance)
ASIA			
SOUTH KOREA	Issued	First sovereign issuer in 2015	(Bloomberg)
PHILIPPINES	Issued	First ASEAN sovereign Panda (2018) and second tranche (2019); official DOF/BoT releases.	(treasury.gov.ph)
EMIRATE OF SHARJAH	Issued	The Emirate of Sharjah is <i>not</i> a fully sovereign state (as it is one of the seven emirates of UAE), but does issue bonds as a sub-sovereign issuer, including two Panda bonds in 2018 and 2025	(Zawaya)
MONGOLIA	Issued a Dim Sum Bond	Issued in 2015 RMB 700 million (\$115 mln). No issuance since then.	(Reuters)

INDONESIA	Issued a Dim Sum Bond	Indonesia issued in october 2025 two bonds for RMB 6 billion (\$ 842 million) maturing in 5Y and 10Y. It was listed in Singapore.	(Financial Times)
PAKISTAN	Planning	Finance Minister said Pakistan is preparing a debut Panda with AIIB and ADB guarantees; also sought larger RMB swap line.	(Reuters)
KAZAKHSTAN	Planning	Ministry of Finance announced the plan to issue Panda bonds worth \$300-350 million in the course of 2026 along the issuance of Eurobonds.	(Zawya)
EUROPE			
HUNGARY	Issued	RMB 5bn sovereign Panda (Jul 2025) via Ministry/National Economy announcements.	(Global Capital)
POLAND	Issued	RMB 3bn sovereign Panda (2016); follow-on noted in later coverage; MoF archive.	(mf-arch2.mf.gov.pl)
UNITED KINGDOM	Issued a Dim Sum bond	The UK issued in 2014 a RMB 3 billion (£300 million) RMB bond listed in London. The objective was to make London a RMB hub.	(Gov.UK)
SLOVENIA	Planning	Slovenia plans to issue up to Rmb5bn (\$700mn) in 2026	(Financial Times)
RUSSIA	Exploring	The MoF will issue T-Bonds denominated in RMB but on the Russian domestic debt market. It's strictly not a PB, but it's goes in the same direction.	(Bloomberg)
AMERICA AND LATAM			
BRITISH COLUMBIA	Issued	The province of British Columbia Canada issued in 2016, being the first sub-regional issuer in the market	(ICMA)
BRAZIL	Planning	Deputy Finance Minister told FT Brazil is planning a sovereign Panda to deepen China ties.	(Financial Times)
MEXICO	Exploring (historic)	In 2019, Mexico head of DMO announced that issuing a Panda bond was considered as a diversification strategy. No plan followed up.	(Reuters)

MDBS/DFIS		
ADB (ASIAN DEVELOPMENT BANK)	Issued	Frequent Panda issuer across cycles. - CNY8.3 bn (Mar 2025). ADB's largest Panda to date; earlier 2005 inaugural. (ADB)
IFC (WORLD BANK GROUP)	Issued	Among the very first Panda issuers (2005) in China's interbank market. (ICMA)
WORLD BANK (IBRD)	Issued a RMB settled bond	SDR-denominated, RMB-settled bond issued onshore in 2016 (CIBM). Not RMB-denominated, so not a Panda strictly speaking, but still tapped onshore market (World Bank)
AiIB	Issued and supporting	Multiple Panda bonds since 2020; CNY2 bn 2-yr in July 2025 with record demand. Also guaranteed Egypt's 2023 sovereign Panda (AiIB)
AFREXIM NDB (NEW DEVELOPMENT BANK)	Issued Issued	First PB in 2025 (RMB 2,2 billion, 3Y) (AFREXIM) Repeated large Panda issues; CNY7 bn (Apr 2025) and CNY6 bn (Jan 2025); largest MDB Panda issuer. (NDB)
AFC (AFRICA FINANCE CORPORATION)	Planning	Obtained a AAA rating from Chinese CRA announced a potential Panda bond issue by year-end 2025. However, it did not materialize. (Bloomberg)
AFDB (AFRICAN DEVELOPMENT BANK)	Supporting	Partial credit guarantee for Egypt's sovereign Sustainability Panda (RMB 3.5 bn, Oct-2023). Doesn't seem to be involved in future deals. (AfDB)

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