Chinese officials told European Union business executives that the yuan will achieve “full convertibility” by 2015, EU Chamber of Commerce in China President Davide Cucino said.

“We were told by those officials by 2015,” Cucino told reporters in Beijing yesterday, declining to identify the government departments involved. He said the step-by-step process was indicated at a meeting in the last several weeks.

A freely traded currency would mark one of the biggest policy shifts since policy makers embraced private enterprise three decades ago. Such a timeline would help China deflect criticism from U.S. and European lawmakers that the world’s second-biggest economy is gaining an unfair advantage in global trade by artificially keeping the yuan undervalued. It would be a year faster than the schedule expected by 57 percent of 1,263 global investors in a Bloomberg survey published in May.

“Making the yuan fully convertible will lead to foreign inflows into China and a stronger yuan,” said Sacha Tihanyi, a Hong Kong-based strategist at Scotia Capital. "Making the yuan fully convertible is also the key step in pushing it as a reserve currency and enhancing its use in global trade.”

The yuan advanced 0.12 percent to 6.3863 per dollar as of 2:17 p.m. in Shanghai, according to China Foreign Exchange Trade System. The currency gained 6.4 percent in the past year and touched a 17-year high of 6.3705 on Aug. 30. Its 0.9 percent advance in August was the biggest in 2011.

**Acceleration Tolerated**

The latest timeframe would be more aggressive than China’s 12th five-year plan through 2015, released in March, which said the nation was aiming at “gradually realizing the renminbi’s convertibility under the capital account.” A State Administration of Foreign Exchange press officer, who asked not to be identified, declined to comment beyond recent statements. SAFE said in a March release it would “actively and prudently push ahead” with convertibility.

“This does sound a bit too early,” said Stephen Green, head of Greater China research for Standard Chartered Plc in Hong Kong. “Even Taiwan and South Korea don’t have full convertibility yet. And if you look at the volatility in global markets right now that looks set to continue for the next few years, this target seems unlikely.”

The People’s Bank of China said on Aug. 1 it will manage the yuan more actively against a basket of currencies, instead of just the dollar, and allow market forces to play a greater role. The central bank fixes a reference rate for the yuan and limits daily gains or losses to 0.5 percent from that level. The country also limits conversion for investment purposes, and has amassed record foreign-exchange reserves of $3.2 trillion by selling yuan to curb its appreciation.

**Yuan Hubs**

U.S. Vice President Joe Biden told his counterpart Xi Jinping on Aug. 18 during his state visit that China must address its undervalued exchange rate and remove import barriers to spur trade and investment, administration officials said.

China has started a program to promote use of the currency in global trade. The government issued draft guidelines in August for foreign direct investment in the country using yuan raised offshore and plans to let qualified fund managers invest such funds in China’s stocks and bonds. A similar program already allows licensed companies to convert a quota of foreign exchange into renminbi for investment in Chinese markets.

Barclays Capital wrote in a Sept. 5 note that China will likely achieve basic convertibility of the capital account over the next five years, although restrictions on the amount of money that fund managers can move across the border may remain.
Chinese Vice Premier Wang Qishan is due to meet with U.K. Chancellor of the Exchequer George Osborne in Britain today. Wang will support efforts by U.K. banks to establish a yuan offshore trading center in London, the Financial Times reported yesterday, citing unidentified British officials.

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