

# *How RMB Devaluation Impact on Enterprises Financial and Its Coping Strategies*

**Yurui Huang**

*Sendelta International Academy Shenzhen, Shenzhen, Guangdong, 518000, China  
rickyhuang20060803@163.com*

**Keywords:** RMB devaluation, Financial management, Causes, Strategies

**Abstract:** With China's financial system further opening up to the outside world, the changes of RMB exchange rate are full of uncertainties, which have multifaceted and multi-level impacts on the national economy, especially for the import and export enterprises with more foreign trade transactions. All those pose great challenges to export-oriented enterprises. That is why there is also a growing demand for export-oriented enterprises to hedge exchange rate risks.

## **1. Introduction**

As the world's largest developing country, China's economy is growing rapidly and remains strong, but this is largely based on the premise of “high input, high consumption and high emission”, which leads to the increasingly serious problems of resource constraints and environmental degradation. Natural resources are affected by the traditional way of economic development, and it is impossible to achieve sustainable development. Therefore, China must adopt a sustainable development strategy to develop the economy, which is the necessary path of development. The report of the 17th Party Congress first clearly put forward the goal of building an ecological civilization, pointing out that we should “build an ecological civilization and basically form an industrial structure, growth pattern and consumption pattern that conserve energy and resources and protect the ecological environment”. The report of the 18th National Congress focuses on the overall development and points out the general layout of “The Five-sphere Integrated Plan”, which elevates ecological civilization to a more important position to promote the construction of ecological civilization. In the 19th Party Congress, General Secretary Xi Jinping further pointed out that “building an ecological civilization is a thousand-year plan for the sustainable development of the Chinese nation”. In the 19th Party Congress, General Secretary Xi Jinping further stated that “building an ecological civilization is a thousand-year plan for the sustainable development of the Chinese nation”. The theory of ecological civilization construction is becoming more and more perfect, and the related development countermeasures are also becoming more and more perfect. By changing the traditional development mode, developing the circular economy, constructing the resource recycling system, promoting the recycling of resources, industrializing remanufacturing and other projects to promote the development of a circular economy, and promoting the scale of renewable resources, the construction of ecological civilization can achieve a solid foundation, which fully reflects the harmony and unity of ecological

civilization and economic values. It becomes the logical starting point for the development of green investment and circular economy [1].

## **2. Exploration of the Reasons for RMB Devaluation**

### **2.1 China's Economic Growth is Weak and Downward Pressure is High**

In 2012, China's GDP growth rate fell from 9.49% in 2011 to 7.75%. In the following two years, the growth rate was 7.69% and 7.27%, respectively. The growth rate has maintained 7 for two consecutive years. The economic data released by China's National Bureau of Statistics show that in the third quarter of 2015 GDP growth rate broke 7 for the first time, with a year-on-year growth rate of 6.9%, and China's economy entered a new normal. The Blue Book of the Academy of Social Sciences predicts that China's economic growth rate in 2016 will be 6.6%-6.8%. The paper points out that there are mismatches, divergences, and differences between the old and new drivers of economic growth, leading to increasing difficulties and challenges in coordinating and balancing policy regulation between stabilizing growth, removing production capacity, and deleveraging. It can be seen that China's current economic form faces many challenges, on the one hand, the general situation of the world economy is in the doldrums, and external demand is insufficient.

### **2.2 Weak Exports and Plummeting Foreign Exchange Reserves**

The data released by the General Administration of Customs on January 13, 2016, showed that the total value of China's imports and exports in 2015 was RMB 2,458.49 billion, down 7% year-on-year; the total value of exports was RMB 1,413,569.1 billion, down 1.8% year-on-year; and the total value of imports was 104,492.08 down 13.2% year-on-year. Due to the world economic downturn, global trade is in a period of deep adjustment, the export situation is not very optimistic. At the same time, China's foreign exchange reserves have generally shown a decline since 2015, with data released by the State Administration of Foreign Exchange showing that China's foreign exchange reserves have fallen from \$3,813.414 billion in January to \$3,330.362 billion, a shrinkage of nearly \$500 billion in just one year, with a drop of nearly \$108 billion in a single month in December alone. The reasons for the rapid decline in foreign exchange reserves are more complex.

## **3. The Impact on Corporate Finance**

### **3.1 The Impact on Corporate Finance**

Driven by the early widening of the RMB-USD interest rate differential and the unilateral appreciation of the RMB, the size of companies' overseas liabilities also climbed. Data from the State Administration of Foreign Exchange showed that the size of China's foreign debt was about US\$390.2 billion at the end of 2008, while it had climbed sharply to US\$895.5 billion at the end of 2014. The depreciation of the RMB made many enterprises cry out for help, especially real estate enterprises that consistently issued US dollar bonds, so many of them started to repay their US dollar debt early, which also had an important impact on their capital institutions. The change in the exchange rate is bound to increase the cost of overseas debt issuance by enterprises. With abundant domestic liquidity and an improved financing environment, enterprises will choose to issue more RMB bonds in China while reducing USD bonds to avoid exchange rate risks.

### **3.2 The Impact on Business Operations**

It is good for exports and promotes product sales. The depreciation of the yuan is undoubtedly good news for exporters, as exports denominated in U.S. dollars become relatively cheaper with the depreciation of the yuan. Trade data released by the General Administration of Customs showed that China's import and export declines both narrowed in December 2019, with exports sliding 1.4% at an annual rate in December, compared with an expected 8% decline and a 6.8% decline in the previous value. Huang Songping, the spokesman for the General Administration of Customs, said the December trade data rebounded due to the tailing factor, but it is undeniable that the depreciation of the yuan since the 811 exchange rate reform has also played a role in boosting it. For enterprises with high import dependence such as the steel industry, their cost of imported iron ore has increased with the devaluation of the RMB, further compressing their profit margins and reducing their effective cash flow. (3) Promoting an increase in earnings of enterprises' overseas assets. Some enterprises in China that have implemented overseas development strategies and allocated part of their assets to foreign currency assets such as U.S. dollars have benefited from the depreciation of the RMB, and their foreign currency deposits and accounts receivable have appreciated, which has increased their effective assets and enhanced their operating capacity [2].

### **3.3 Impact on Business Investment**

With the devaluation of the RMB against the US dollar, foreign currencies such as the euro and the Australian dollar have also continued to weaken against the RMB, making Chinese companies rush to invest in Europe, Australia. According to the data previously released by PwC, in the first half of 2015, the number of overseas M&A transactions by Chinese enterprises increased by 17% year-on-year to 174; the deal value approached US\$35 billion, up 24% year-on-year, which is at a historical high, fully indicating that the investment activities of enterprises were not seriously affected by the devaluation of RMB, but grew in an orderly manner amid the policy dividend and relaxed macro environment.

## **4. Financial Management Suggestions for Enterprises to Cope with RMB Devaluation**

### **4.1 Reducing Foreign Currency Debt and Recapitalizing Institutions**

China's enterprises issued a large amount of debt overseas under the previous unilateral appreciation of the RMB and poor domestic financing environment, forming a huge stock of overseas debt, which is generally denominated in US dollars and undoubtedly caused a huge debt burden for enterprises in the context of the appreciation of the US dollar against the RMB, while the domestic financing environment has been greatly improved: the People's Bank has cut interest rates and quotas several times since 2015, guiding interest rates downward; The SEC has gradually implemented the reform of registration system, abolished administrative approval and rectified China's equity market, opening the door for enterprises to go public and raise capital; the government's policy tilt towards SMEs. In short, the financing cost of enterprises has been reduced, so enterprises, especially the real estate industry, should re-evaluate the cost of financing overseas and domestically, change the previous financing channel of issuing a large number of US dollar bonds, actively respond to exchange rate changes and adjust their capital structure.

### **4.2 Adjusting the Product Structure and Upgrading Products**

For a long time, China's exports are mostly low value-added products such as garments, home

appliances, chemicals, etc., with profit margins of less than 10%, and small fluctuations in exchange rates may eat up a large part of profits. Therefore, export enterprises should seize the opportunity to invest their capital and manpower in R&D (research and development) to enhance their independent innovation capability, while focusing on absorbing advanced management experience from abroad, carrying out comprehensive upgrading, combining with China's "supply-side" reform, creating an upgraded version of China's economy, and improving the competitiveness of our products in the international market. To enhance the competitiveness of our products in the international market, actively create brand advantages, create international brand names, and meet the international demand for high-end products. At the same time, we will seize the opportunity of "Internet+" and build a cross-border e-commerce platform to save costs and enhance information advantages.

### 4.3 Strengthening the Management of Accounts Receivable and Rational Allocation of Foreign Currency Assets

On the one hand, foreign trade enterprises should do a good job in managing accounts receivable during the period of RMB exchange rate decline, and can choose to delay the settlement of USD accounts receivable to earn more exchange gain in the case of further RMB decline. As for the assets such as Euro and Japanese yen that depreciate relative to RMB, you can adopt the strategy of timely settlement of foreign exchange to avoid expanding the exchange loss and causing the increase of financial expense. On the other hand, for the appreciated foreign currency income, enterprises can use it as a short-term investment variety and allocate foreign currency assets reasonably to optimize cash structure to reduce cash holding cost, hold foreign currency in an appropriate amount and manage foreign currency debts and liabilities flexibly. The financial managers of enterprises should pay attention to the national economic situation and exchange rate changes, and adjust the settlement and sales strategy in time to ensure the maximum benefit of enterprises.

## 5. Conclusion

The synergistic development of green investment and circular economy can help promote social progress. Traditional investment models, traditional economic models, and policies will undergo significant changes with the development of green investment and circular economy, which in turn will involve economic, social, environmental, and resource aspects, etc. This requires not only highly authoritative laws to support, but also relevant local laws and regulations that are complementary to the region's own conditions from a regional perspective. The legislation can implement resource conservation and improve the quality of economic growth into specific daily activities, and promote the overall green investment and circular economy in the region to further improve. Although some relevant laws and policies have been formulated at the national level, in some regions there is a lack of laws and regulations formulated from regional development planning and different decision-making levels systematically, and the specific implementation rules of relevant laws are not clear yet. Therefore, it is imperative to improve the regional laws and regulations and policy system of regional green investment and circular economy.

## References

- [1] Sun Yiyuan. *The impact of central bank exchange rate communication on the RMB exchange rate-based on the predictive value test method* [J]. *Hainan Finance*, 2021(11):26-36.
- [2] Yang Zihan, Sun Jiuwen. *The impact of RMB exchange rate changes on the structure of the three major industries: an empirical analysis based on the vector error correction model* [J]. *Financial Theory Exploration*, 2021(05):26-35.