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# Topics Growing adoption of fast payment systems (FPS) across ASEAN

In the ASEAN region, governments have been leading the introduction of fast payment systems (FPS), which allow money to be transferred via smartphones at any time and support QR code payments. These systems are expected to enhance convenience for consumers and operational efficiency for companies.

## ■ Government-led adoption

FPS enable payments to be made instantaneously, 24 hours a day, 365 days a year. Payments can be broadly divided into wholesale payments, which are between financial institutions, and retail payments, which are between other individuals or entities. FPS are intended mainly for retail payments, particularly small ones. FPS are being introduced worldwide to make payments more convenient and are already in use in more than 70 countries.

Since the mid-2010s, an increasing number of governments of major ASEAN countries have been spearheading the development and adoption of FPS, establishing them as infrastructure open to both banks and non-bank financial institutions. Although there are inter-country differences in the workings of the systems, the organizations that own and operate them, and the amounts of money that can be transferred, they all share two key features. First, they can be used with a smartphone. Second, the bank account details of the recipient are not required to make a payment. Instead, alternative information such as their mobile phone number is all that needs to be entered.

<FPS in ASEAN Countries>

| | FPS | Date introduced |
|---|---|---|
| Singapore | FAST (Fast and Secure Transfer) | March 2014 |
| | <FAST with additional services> PayNow | July 2017 |
| Malaysia | RPP (Real-time Retail Payments Platform) | December 2018 |
| | <Service utilizing RPP> DuitNow | |
| Thailand | PromptPay | January 2017 |
| Indonesia | BI-FAST (Bank Indonesia Fast Payment) | December 2021 |
| Philippines | InstaPay | April 2018 |
| Vietnam | NAPAS FastFund 247 | June 2021 |
| Cambodia | Fast Payment | July 2016 |
| | <Fast Payment upgrade> Bakong | October 2020 |

Source: Prepared by JRI based on information from the countries' central banks and other sources

FPS have also featured a QR code payment function from day one, allowing them to be used for purchases in stores. Underlying this is the fact that in some ASEAN countries, penetration rates of debit and credit cards are low, making the QR code feature vital as an alternative and convenient way of making cashless payments. At the same time, QR code payment standards have been harmonized at the national level, with adherence to the unified standard either encouraged or mandatory.

## ■ Aims of FPS introduction

Why have the governments of major ASEAN countries introduced FPS, equipped them to handle not just transfers but also QR code payments, and introduced uniform standards for QR code payments?

The biggest shared objective of all these governments was to enhance convenience for consumers and operational efficiency for companies, and in turn, to deliver overall economic prosperity. Another powerful motivation in countries where only a small proportion of the population have personal bank accounts was promoting financial inclusion. There were two specific goals. The first was incentivizing people who had hitherto seen no advantage in having a bank account to open one.

. The second was enabling people to access FPS through non-bank financial institutions and conduct financial transactions such as transfers and payments for goods and services easily and cheaply, even without a bank account.

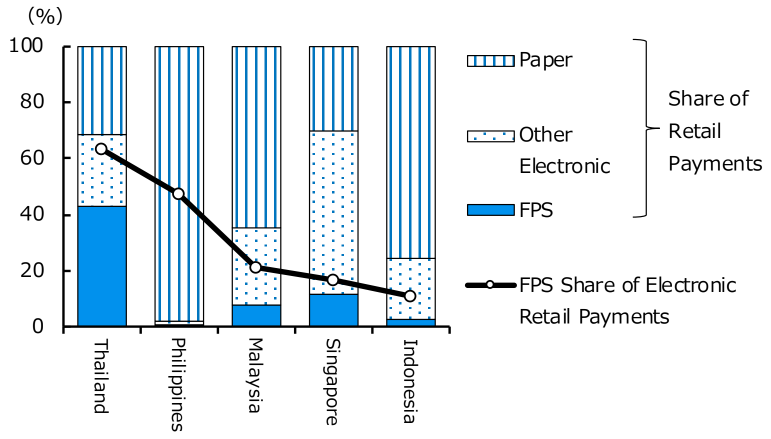
Another aim of popularizing electronic payment methods like FPS was to reduce cash transactions, thereby shrinking the underground economy and increasing tax revenues. The rationale was that with electronic payments, transaction histories are recorded, making it easier for the government to identify the movements of funds.

## ■ Differences in FPS usage by country

FPS usage varies from country to country in the ASEAN region. These differences reflect four factors: the timing of FPS introduction, the degree of development of payment services before FPS introduction, the degree of involvement by banks, and the extent of government use.

Within the ASEAN region, the most popular FPS is Thailand's PromptPay. It is used for 40% of total retail payments and 60% of electronic retail payments (2023). The reasons behind its success include participation by all major banks, a lack of fees for transactions up to a certain amount, and use by the government for the payment of social security benefits and tax refunds.

<FPS Share of Retail Payments (2023)>




Source: Prepared by JRI based on ACI Worldwide, GlobalData [2024], "Prime Time for Real-Time 2024"
Note: The countries' FPS are as follows:
Thailand: PromptPay, Philippines: InstaPay, Malaysia: DuitNow, Singapore: FAST and PayNow, Indonesia: BI-FAST

Use of PayNow in Singapore has also expanded because of the same three factors. However, its shares of total retail payments (total including FAST) and electronic retail payments, respectively, are 10% and less than 20%, significantly lower figures than those for PromptPay. This is presumably because Singapore had been ahead of Thailand in the development of payment services. Since several other payment services were already well established in Singapore at the time PayNow was introduced, use of PayNow offered few new benefits, so its launch did not result in the kind of rapid uptake seen with PromptPay in Thailand.

In Malaysia, DuitNow accounts for 7.4% of total retail payments, lagging behind PromptPay and PayNow. This is probably because it is not used for paying social security benefits and was launched later than PromptPay and PayNow.

Meanwhile, the respective shares of total retail payments of BI-FAST in Indonesia and InstaPay in the Philippines remain at only 2.7% and 0.9%. One reason for this is that when the services were introduced, many banks were unable to participate as they had been slow to perform the necessary upgrades to their systems. Yet it should be noted that the use of cash was deeply rooted and electronic payments in general were underdeveloped in the Philippines when InstaPay was launched. If we look only at its share of electronic retail payments, we find it is close to 50%, putting it second only to Thailand's PromptPay (60%).

## ■ Cross-border connection of FPS

Having introduced their FPS, the next step that ASEAN governments are starting to take is to link them across borders. They are aiming to connect their FPS with those of other countries both in the region and outside it, including developed countries. By doing so, they hope to make it possible to conveniently and inexpensively transfer money internationally and to enable consumers to make QR code payments using a smartphone app when they travel overseas.

Financial innovations have traditionally come from developed countries, so it is noteworthy that these moves are being initiated in emerging countries in the ASEAN region.

**(Kaori Iwasaki)**

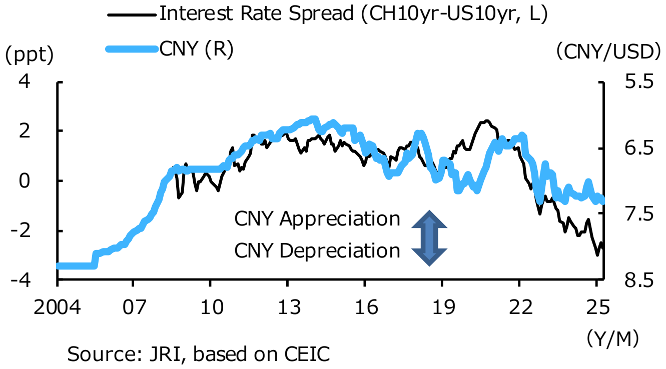
# *Topics* China's growing tolerance of RMB depreciation and resulting risks

The Chinese authorities appear to be trying to shore up their economy by allowing the renminbi to depreciate. However, this may increase risks such tensions with the U.S. escalating further and capital outflows, potentially producing unintended outcomes.

## ■ A widening U.S.-China interest rate differential and higher tariffs on Chinese goods to pile more pressure on the renminbi

The Chinese renminbi has continued to weaken, recently trading at 7.3 yuan to the dollar, meaning it has fallen to a level last seen in around 2007. In the near term, the renminbi is expected to continue weakening for two reasons.

<RMB and Interest Rate Spread between US and China>



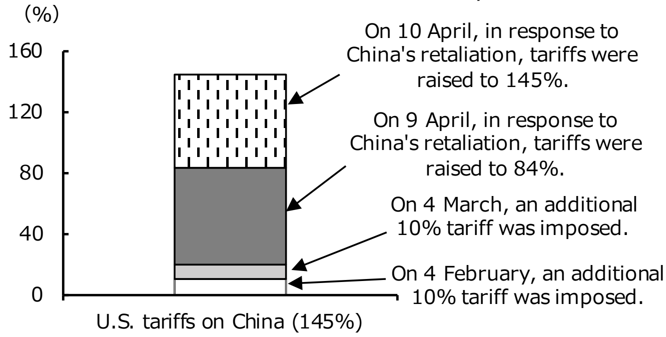

Source: JRI, based on CEIC

The first is a widening interest rate differential between the U.S. and China. U.S. inflation is still running at over 2% and rising import prices, due to higher tariffs, are likely to make it accelerate once more. With the Federal Reserve shunning interest rate cuts, President Trump has been calling for the removal of Fed Chair Jerome Powell, but for a central bank, reducing rates is no simple matter when there is an increasing risk of inflation ramping up again. Furthermore, in early April, uncertainty in financial markets mounted following moves by the Trump administration to push through tariff hikes. This further pushed up bond yields at times.

Meanwhile, China's consumer price inflation has continued to hover at around zero, and signs of deflation have become more apparent against a backdrop of stagnant domestic demand. In addition, although the Chinese government set its annual real GDP growth target at around +5% at the National People's Congress in March, this goal is already becoming difficult to achieve due to the Trump administration's decision to raise tariffs. Calls for monetary easing to support the economy have been growing, and the People's Bank of China is expected to cut interest rates several times this year. This is expected to spur declines in market interest rates in China.

Thus, just as the U.S. faces rising inflationary pressures and the prospect of monetary loosening becomes increasingly distant, China finds itself in a quite different situation, with deflationary pressure and monetary easing increasingly probable. The interest rate differential between the two does therefore not look likely to stop widening any time soon. As this gap is highly correlated with the exchange rate, a widening differential is likely to put downward pressure on the renminbi in the short run.

<Tariffs on Chinese Goods by US>

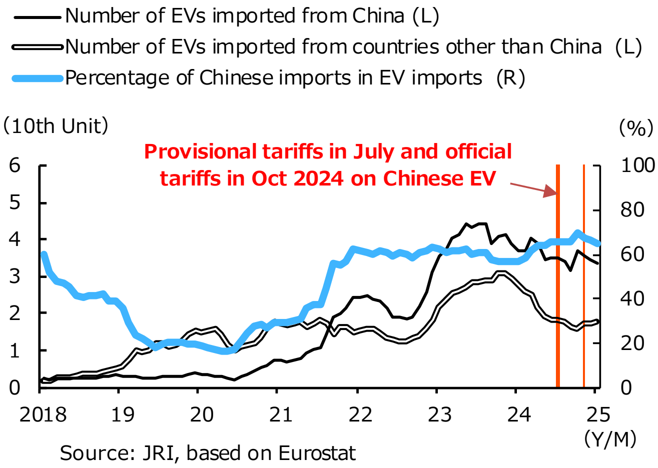



Source: JRI, based on various media reports

The second reason the renminbi is expected to continue weakening is that the U.S. has raised d on Chinese goods. After a bout of tit-for-tat duty hikes by the Trump administration and Beijing, the former ultimately settled on a huge 145% tariff on imports from China. Although the rate were reduced, demand for Chinese products in the U.S. is expected to fall sharply as selling prices rise due to remaining higher tariffs. In addition, with tensions only worsening, it is increasingly likely that the high levies will remain in place for a long time. Chinese exporters are then predicted to accelerate moves to shift production outside China, which will further depress domestic capital investment.

As a drop in Chinese exports to the U.S. is all but inevitable, the Chinese government is likely to start taking steps to help companies diversify and redirect their exports to countries and regions other than the U.S going forward. Given the circumstances, currency depreciation, which enhances export competitiveness, is a policy option that the Chinese government could well choose. Although unlikely to offset the effects of the higher tariff on exports to the U.S., it would provide a tailwind for the expansion of exports to destinations other than the U.S.

<EV Imports and Tariffs on Chinese EV in EU>




Source: JRI, based on Eurostat
Note: Six-month moving average

A further point to note is that the EU began applying provisional offset tariffs on Chinese-made EVs on July 4, 2024, before formally imposing duties of up to 35.3% on October 30 of the same year. Nevertheless, EV exports from China to Europe have remained more or less flat, indicating that Chinese products, exploiting the low prices resulting from a weak renminbi, remain competitive. If the Chinese government strategically adopts a policy of currency depreciation, the country's recent export drive, which has been criticized as "exporting deflation," may gain even more momentum in the future.

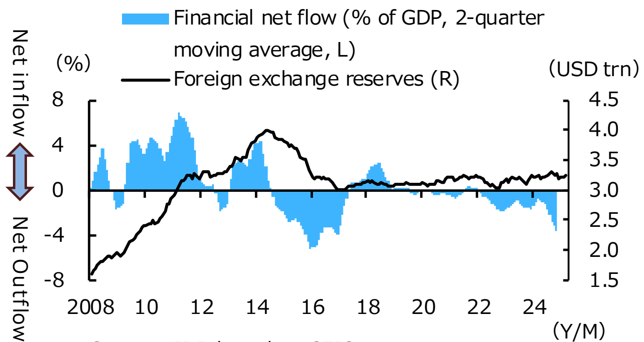
## ■ Concern about intensifying U.S.-China confrontation and the risk of capital flight

Given the underlying differences in the economic environments in the U.S. and China and the trade confrontation between the two countries, the renminbi looks set to continue to face downward pressure. Meanwhile, the Chinese government and financial authorities are expected to tolerate the depreciation as a means of supporting exports and domestic demand.

However, President Trump has criticized the weakness of trading partner currencies for contributing to the U.S. trade deficit, meaning a slide in the renminbi could entail side effects such as further escalation of the U.S.-China confrontation and an increase in U.S. non-tariff measures to limit Chinese exports. In 2019, during his first term, President Trump designated China as a "currency manipulator," and ramped up pressure on China before the "Phase One" U.S.-China trade deal was signed in January 2020. Currently, the U.S. government has done no more than put China on its "Monitoring List" for currency manipulation, but it may increase pressure on China by re-designating it as a currency manipulator ahead of a fresh round of trade negotiations.

The risk of capital flight from China is also increasing. China's financial account, excluding foreign exchange reserves, has in fact been in the red for some time, with capital outflows exceeding inflows, but the size of the deficit has been increasing recently. Notably, there has been a marked deterioration in the direct investment component of the financial account, which includes construction of production facilities. This reflects moves by global manufacturers to decouple from China. Allowing currency depreciation could add fuel to these outflows. Indeed, when the renminbi was devalued in 2015, financial markets

<China's Financial Net Flow and FX Reserves>




Source: JRI, based on CEIC
Note: Financial net flow = direct inv. net flow + portfolio inv. net flow + other inv. net flow

reeled. With capital flight compounding the renminbi sell-off, the Chinese authorities tightened capital controls and spent a mammoth one trillion yuan of foreign exchange reserves defending the currency.

Although the Chinese government tolerating currency depreciation would create a tailwind for a Chinese economy battered by Trump tariffs and still grappling with stagnant domestic demand, it also carries the risk of intensifying the antagonism with the U.S. and triggering capital flight. The Chinese authorities may therefore find it impossible to abandon their cautious stance of avoiding sharp moves in the currency. In this case, a weaker renminbi would end up being of little help for the economy.

**(Minoru Nogimori)**