

Renminbi as an International Currency: Potential and Policy Considerations

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Summary

The potential of the renminbi as an international currency is underpinned by the large and fast growing Chinese economy. We present empirical evidence indicating that the renminbi has already become a significant force impacting the exchange rates of the Asian currencies. We also estimate a reserve currency model and counterfactual simulations, and suggest that the renminbi's potential as a reserve currency would be comparable to that of the Japanese yen and the British pound if the Chinese currency were to become a fully convertible currency today. The evolution of the international role of the renminbi will depend importantly on the pace of the liberalisation of the restrictions on currency convertibility, which is likely to be governed by the authorities' consideration of the associated benefits and costs. In particular, we see a two-way reinforcement of currency internationalisation and financial market developments and opening in China.