

Will the R enminbi become a reserve currency?

Abstract

In recent years, the authorities in the People's Republic of China (PRC) have made great efforts to internationalize its currency. Will Renminbi (RMB) finally become a reserve currency? This paper addresses the above question from an institutional analytical framework. We find that if only economic fundamentals are used in the prediction, the expected share of the RMB in global currency reserves could reach 10% at the end of 2011. However, if institutional variables are included, the predicted share comes down to around 2%, which is a more realistic prediction. The work then proposes reform actions in developing China's institutional environment so as to facilitate the RMB to realize the 10% potential. In general, we believe that the RMB's international role should increase in the coming years, but it will take a relatively long period before it plays the role of a global reserve currency.