THE IMPACT OF THE RENMINBI INTERNATIONALIZATION ON THE GLOBAL MONETARY ORDER[1]

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ABSTRACT

Background and the purpose: The Chinese economy is the fastest growing and changing economy in the modern world. The importance of the renminbi as an international currency is not relevant to China's economic potential and role in the global economy, however, many scientific studies indicate that the position of that currency in the functions of international money will become stronger in the future. This encouraged the author to assess the consequences of the renminbi internationalisation, in particular the impact on the stability of the international monetary system. An additional aim of the paper is to present the possible scenarios for reform of the international monetary system and assess whether the Chinese currency has a chance to become a global currency.

Methods: The assessment of the renminbi's role in global foreign exchange relations was carried out by analysing the use of Chinese currency in the main functions of international money in official sector (reserve currency, intervention currency, anchor currency) and private sector (investment currency, vehicle currency in international trade and on the foreign exchange market, invoicing and quotation currency) using the Cohen matrix. The author also assessed the benefits for the stability of the international monetary system, resulting from the transition from a system based on the dominance of the US dollar to a multi-currency system, including the renminbi. The study included theoretical research (analysis of the literature and research reports) and empirical research (analysis of statistical data).

Results and conclusions: The author confirmed the research hypothesis: An increase in the use of renminbi in the functions of international currency will increase the stability of the international monetary system by reducing the dependence of this system on the single currency, which is the US dollar.

Keywords: international monetary system, stability, scenarios, renminbi, international currency, SDR

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1. INTRODUCTION

In the contemporary turbulent economic environment and in the era of financialisation of the economy, a significant issue for both academics and practitioners is the stability of the international monetary system (IMS). An important process that has influenced the functioning of the IMS since the beginning of the 21st century is the increasing position of developing countries, especially China. China is one of the largest economies in the world in terms of shares in world GDP, exports and the accumulation of foreign exchange reserves (***fig. 1***).

China's growing economic potential gives reason to expect that the renminbi will also strengthen its position as an international currency. However, for years the system has been dominated by one currency - the US dollar, which may be a source of instability of the system. The risk associated with the domination of one currency in the IMS is the asymmetry in adjustments to shocks. The burden of adjustment lies mainly on non-reserve deficit countries. This asymmetry may lead to the accumulation of global payment imbalances, as persistent surpluses generate demand for financial assets. This demand can be met by the country issuing reserve currency. This asymmetry and the lack of an adjustment mechanism, in particular the real exchange-rate adjustment in surplus countries, is an important reason for the accumulation of global imbalances [22].

Another threat pointed out during the financial and economic crisis of 2008-2009 is related to the monetary policy of the US [22]. The US monetary authorities have focused only slightly on ensuring global liquidity, and the FED has used quantitative easing to achieve its own national objectives, with little regard for the impact of such actions on the international system.

Taking into account the fact that in the contemporary multi-currency system, stabilisation functions have been entrusted to the issuer of the international currency. It was expected that a country with the main reserve currency would stabilise the system by adopting a policy framework ensuring price stability, sound public finances and good financial regulation, but recent events in the United States have put all this into question.

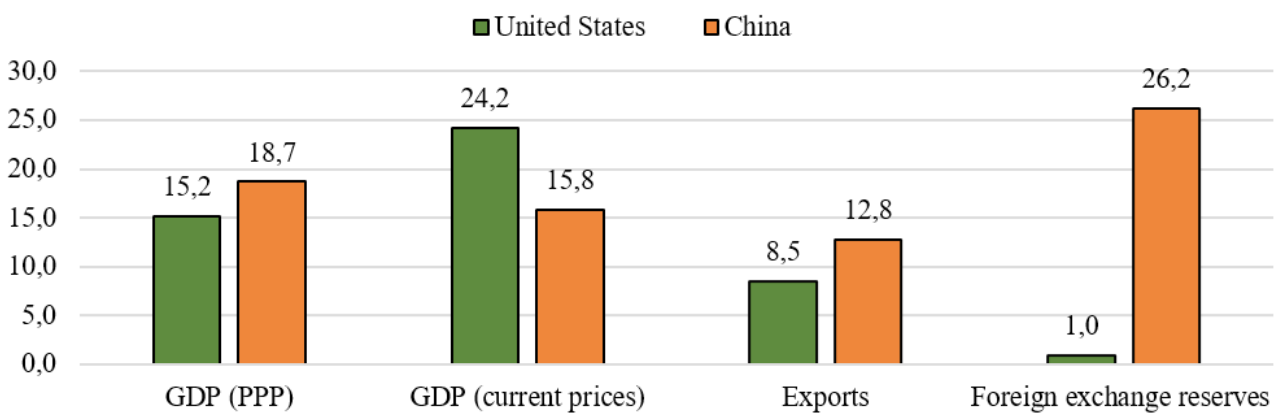

Fig 1. *Shares of the US and China in world GDP, exports and foreign exchange reserves in 2018 (% of world total)*

Source: author's elaboration based on: [20], [33].

I. Angeloni [2], A. Bénassy-Quéré and J. Pisani-Ferry [6] believe that it is difficult to envisage a fully multipolar global economy without a considerable reshaping of the IMS. The presented circumstances encourage to undertake research aimed at assessing the impact of the internationalisation of the Chinese currency on the stability of the IMS. In order to achieve the aim of the study, the author searches for an answer to a research question: Would an IMS based on several reserve currencies, including the renminbi, be more stable and flexible compared to the current hybrid system with a single dominant currency, that is the US dollar.

2. THEORETICAL FRAMEWORK AND LITERATURE REVIEW

The stability of IMS is the subject of consideration of many scientists. Several economic theories have also been devoted to this problem. The hegemonic stability theory suggests that if there is a country with a hegemonic power, it can provide incentives for system stability. Ch.P. Kindleberger [5] believed that this could explain why hegemonic systems may be more stable. In contrast, B. Eichengreen [17] suggested that there was a risk that the hegemon would abuse its position for its own benefits only. According to B.J. Cohen [10] the fragmentation of monetary power may involve economic risk (e.g. increasingly antagonistic relations between currency blocks, which may lead to deglobalization) as well as geopolitical risk (e.g. weaker support for the US dollar may be associated with weaker military protection from the United States).

The sources of instability of the contemporary IMS are also seen in the incompatibility between the unipolar IMS and the multipolar real economy, which contributes to the accumulation of imbalances. This inconsistency is indicated as the cause of the financial and economic crisis 2008-2009 [5]. The problem is the so-called deflationary bias, in which countries (other than the issuer of the reserve currency) want to accumulate official foreign exchange reserves by maintaining a current account surplus in order to self-insure against a reversal of capital inflows.

Another theoretical concept that explains the sources of instability in the contemporary IMS is the Triffin dilemma [5], which was originally formulated to describe the internal inconsistency of the Bretton Woods currency system. In today's system, despite a change in fundamental principles, Triffin's dilemma remains valid and concerns the growing position of developing economies. The contemporary IMS continues to be primarily dollar-based and there is still a conflict of interest between the US monetary policy and the long-term stability of the international monetary system. Although the contemporary international monetary system is no longer based on gold, the United States is still able to increase its foreign debt. This is possible thanks to the growing position of developing countries, which have increased demand for the US dollar-denominated assets. Developing countries' demand for liquid, riskless assets increases the demand for international liquidity, putting downward pressure on the US interest rates and on the US current account. As a result, international investors will either lose confidence in the solvency of the US or fear a massive monetization of the US bonds, which would cause a collapse of the dollar. To avoid this, it would be advisable to develop alternative sources of international liquidity through the internationalisation of other currencies or the de-

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velopment of Special Drawing Rights (SDR) [5]. Thus, a multipolar IMS would alleviate Triffin's dilemma by diversifying the sources of international liquidity. Moreover, the multipolar IMS could also function as a tool to reduce global imbalances because investors would have a choice between many currencies with similar liquidity but issued by countries with different levels of imbalances [16].

However, some authors argue that a multipolar monetary system could contribute to an increase in exchange rate volatility, as greater substitutability in key currencies would contribute to more frequent and greater reallocation of portfolio investments [5].

3. SOURCES OF INSTABILITY IN CONTEMPORARY IMS

Contemporary IMS is marked by imbalances and inefficiencies in adjustment mechanisms, reflected in growing payment imbalances and increasing foreign exchange reserves. On the one hand, the United States contributes to the creation of global imbalances thanks to having an internationally acceptable currency that can finance imports and maintain a permanent trade deficit. On the other hand, the accumulation of imbalances is also influenced by China, implementing a strategy of supporting economic growth by increasing the competitiveness of exports through an active exchange rate policy - maintaining the renminbi exchange rate pegged to the US dollar, the value of which is underestimated, thus improving the competitiveness of Chinese exports [25]. The data presented in figures 2 and 3 clearly indicate that the problem of global imbalances has persisted since the beginning of the 21st century. In developing countries, and especially in Asian countries, there are current account surpluses, while developed countries had a deficit on current accounts for the most part of the analysed period.

This imbalance is even more significant when comparing the situation in current accounts in China and the US. China has a very high surplus, particularly in the years of very good economic conditions, while the US is at the opposite pole.

China's sustained trade surplus results in an accumulation of funds, which are either invested in foreign assets or held in the form of foreign exchange reserves. One of the features of the contemporary world economy is the accumulation of central banks' reserves. This process was intensified in the second half of the 1990s as a response to a number of currency crises, mainly in Asian countries [30]. As a result, global currency reserves increased from USD 1.47 trillion (4.8% of GDP) in 1995 to USD 11.79 trillion (13.9%) in 2018 [9].

An significant process that took place in the accumulation of foreign exchange reserves is the change in the shares of developed and developing countries (*fig. 5*). At the beginning of the 1990s, the shares of developed countries were almost 4 times higher than the shares of developing countries. In 2005, the shares equalled and then increased in developing countries, reaching twice as high as the shares of developed countries during the crisis of 2008-2009. China is the country which has had the largest foreign exchange reserves for several years. China's share in global foreign exchange reserves reached its highest value in 2014 (32.2%), and in February 2019 it fell to 26.2% (**fig. 6**). China's reserves are also very high in relation to its GDP. This ratio increased particularly during the recent financial and economic cri-

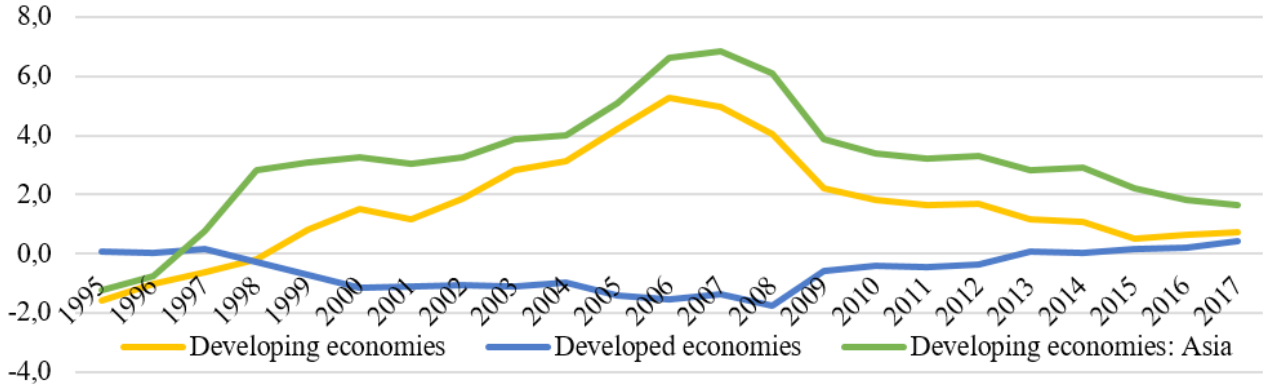

Fig 2. *Current account balance in developed and developing economies in 1995-2017 (% of GDP)*
Source: author's elaboration based on: [33].

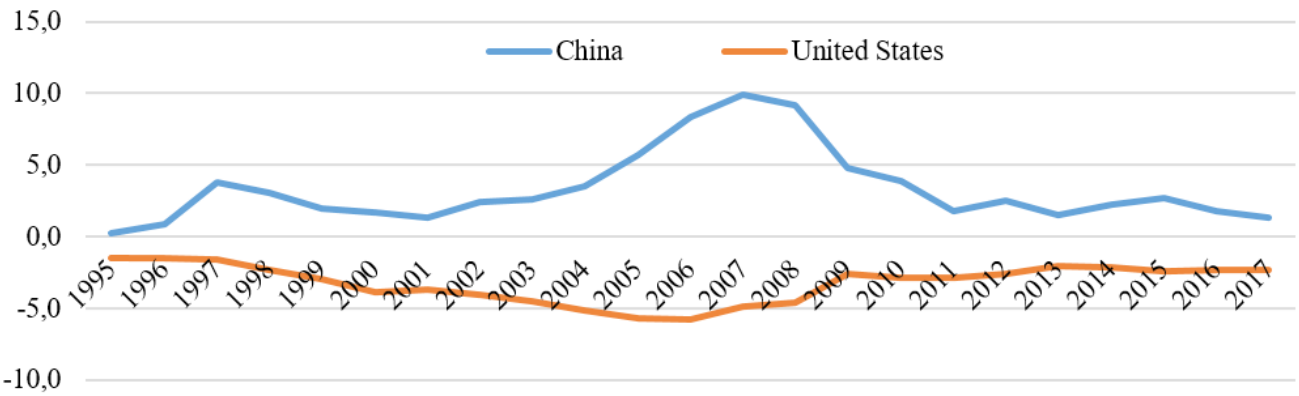

Fig 3. *Current account balance in China and the US in 1995-2017 (% of GDP)*
Source: author's elaboration based on: [33].

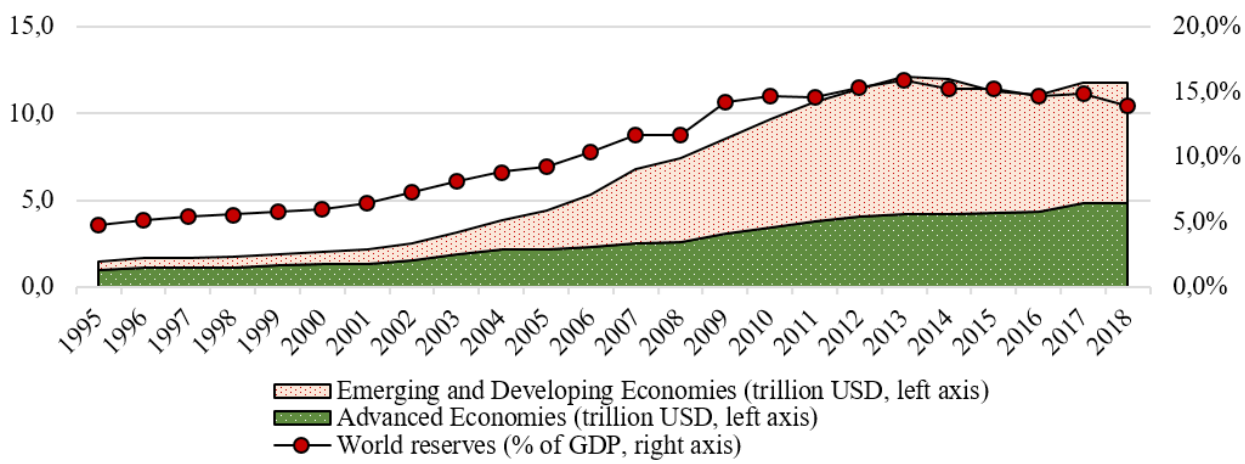

Fig 4. *World foreign exchange reserves (in trillion USD and % of GDP) in 1995-2018*
Source: author's elaboration based on: [9] [20].

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sis and reached 47.2% of GDP in 2009 and 2010. In 2018 it fell to 23.1% of GDP ***(fig. 7)***.

A.Z. Aliber believes that the situation described above led to the global financial crisis in 2008. This explains that the large increase in the export earnings and the trade surpluses of both China and the oil exporting countries including Norway, Saudi Arabia, Kuwait, and the United Arab Emirates has conduced to the surge in cross border investment inflows to the United States and other developed countries [1]. The inflow of capital has led to the supply of credit was much larger than the demand from prime borrowers, and as a consequence, the U.S. banks bought millions of the mortgage loans from subprime borrowers. Therefore, according to Z.A. Aliber, the global financial meltdown of 2008 was caused by the increase in the variability in cross border investment inflows to many countries.

4. PROPOSALS FOR IMS REFORMS TO ENHANCE THE STABILITY OF THE SYSTEM

The main weaknesses of the contemporary monetary system result from the flawed mechanism of international currency supply[1] and the lack of an effective adjustment mechanism. Some also believe that there is insufficient regulation and even call it a non-system. A stable and well-functioning IMS has to ensure adequate creation of global liquidity, include an adjustment mechanism to avoid excessive external real and financial imbalances across nations and define an exchange rate regime among national currencies [11].

[1] It is the unmanageable demand for reserve money in relation to the limited possibility of its supply. Forcing too much supply causes an increase in the payment deficit in the country issuing the international currency, which has serious consequences for stability.

An extensive debate in academic literature and studies of institutions analysing the stability of the global financial system (IMF, BIS, ECB) on the legitimacy of strengthening the stability of the IMS has identified several areas in need of modification within the framework of the existing IMS or thorough reconstruction. E. Dorrucci and J. McKay [13] pointed out the areas that require modification and possible alternative solutions (***tab. 1***).

Two directions of increasing the stability of the IMS emerge in an extensive economic discussion,: the creation of a truly multicurrency IMS with several currencies playing the role of an international currency and the creation of a global system with supranational elements.

I. Multi-currency international monetary system

This would be based on the dominance of several currencies. Three currencies are most often indicated: the US dollar, the euro and the renminbi. Such a solution is supported by the economic strength of the leading economies: the United States, the euro area and China. However, in order for the currency of China to enter this group, it is necessary to carry out reforms of China's financial system and, above all, to make the exchange rate more flexible, to ensure free movement of capital and to develop the domestic financial market [12]. At present, the dollar still maintains its advantage as an international currency, but its position is forecast to decline. Barry Eichengreen explains the inevitability of losing the status of a major international currency by the dollar and argues: the power of modern financial technologies destroys the "network effects" that formed a natural currency monopoly [15]. Moreover, B. Eichengreen, L. Chitu and A. Mehl

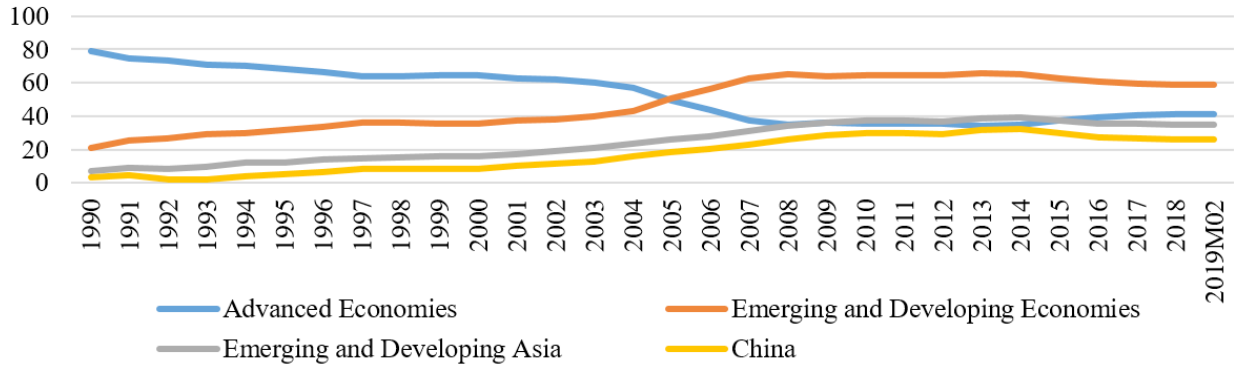

Fig 5. Shares of selected country groups in world foreign exchange reserves (total reserves excluding gold, % of world total) in 1990-2019
Source: author's elaboration based on: [9].

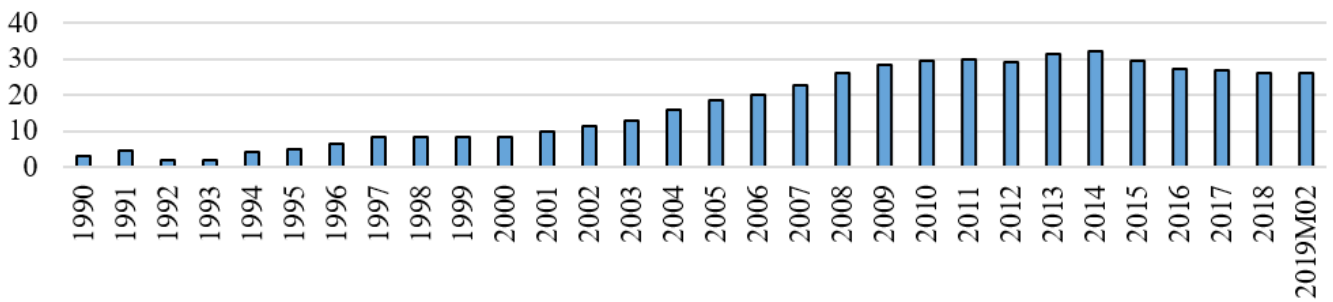

Fig 6. China's foreign exchange reserves in 1990-2019 (% of world total)
Source: author's elaboration based on: [9] [20].

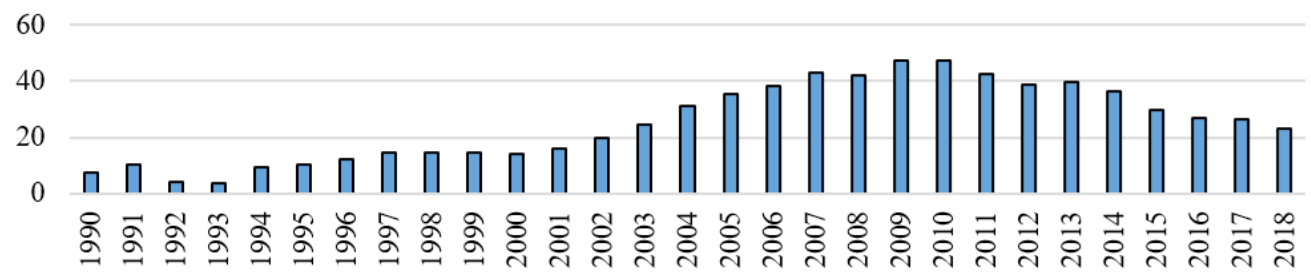

Fig 7. China's foreign exchange reserves in 1990-2018 (% of GDP)
Source: author's elaboration based on: [9] [20].

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stated that the dominance of the US dollar in the foreign exchange reserves is also connected with geopolitical conditions (strategic, diplomatic, and military power), which the authors call Mars hypothesis. The idea is that if a country has such power, foreign governments will see it as in their geopolitical interest to conduct their cross-border transactions using its currency. They find that military alliances boost the share of a currency in the partner's foreign exchange reserve portfolio by close to 30 percentage points [18]. In a scenario where the US withdraws from the global stage and the dollar's security premium disappears, while the level of global reserves remains unchanged, the result is a 30 percentage point reduction in the share of the US unit in the reserves of US-dependent states, and an increase in the share of other reserve units such as the euro, yen and renminbi.

Multi-currency IMS based on three parallel currencies would eliminate some of the drawbacks of the current system. The benefits of such a solution would result from greater discipline of reserve currency issuers, distribution of the benefit known as exorbitant privilege [16], currently enjoyed by the United States, has a larger group of countries, which would reduce the potential for global payment imbalances. In addition, substitutability of reserve assets would increase, which would reduce the currency concentration of reserve assets. A more even allocation of international investment would be an additional benefit.

II. Global system

1. SDR-based international monetary system

One of the proposals to create a global system is to base it on a basket currency such as Special Driving Right. This solution could initially work in such a way that SDRs would operate in parallel with national currencies and then the current reserve currencies would be gradually exchanged for increasing issue of SDR. Ultimately, SDRs could become a global currency that would circulate instead of national currencies. Basing the IMS on SDR would require a significant increase in their

Table 1. Possible avenues for a more stability-oriented international monetary system

Vulnerabilities in:	Therapy:	Progress so far	Potential
(1) Supply of international currencies	Currency competition = *Multi-currency IMS*	+	++
	Basket currency = *SDR-based IMS*	=	?
	Supranational fiat currency = *bancor-based IMS*	-	-
(2) Precautionary demand for international currencies	Global financial safety net	+	+
	More IMF involvement in capital account	=	+
(3) IMS oversight	Focus on cross-country linkages (*IMF, G20, regional*)	+	++
	Current account indicative guidelines	+	?
	Dampen non-precautionary reserve demand	-	?
	Enhancing financial surveillance	+	++
	More traction on major IMS actors	-	?
Market discipline	Financial development in emerging market economies (EMEs)	+	+++
	Re-pricing of sovereign risk, etc.		

Source: [13].

role, in particular: increasing SDR liquidity by developing a private SDR market (promoting the issue of financial instruments in SDRs, invoicing and trade payments, etc.) and additional allocations [31].

The main advantages of IMS based on SDR result from the greater stability of the value of the basket currency compared to individual currencies. Moreover, the relative weights of the individual currencies in the basket automatically adjust to exchange rate fluctuations, which should discipline the issuer of the currency, as excessive issuance will result in a depreciation of the exchange rate, which will be reflected in the weight in the SDR basket. An additional benefit would result from distributing exorbitant privilege to all currency issuing countries included in the SDR basket.

2. Bancor-based international monetary system

The most radical change would be to create global money as a parallel currency or even a currency that would completely replace national currencies [27]. In the IMS reform proposals, the global currency is often called 'bancor', following the idea of J.M. Keynes in the 1940s [23]. This currency would be issued by a supranational central bank. The advantage of this solution would be the independence of the global currency from the influence of national policies, which would make it a risk-free asset. The IMS based on global currency would ensure the symmetry of the system, understood as parallel triggering of adjustment processes in deficit and surplus countries. In addition, adjustment processes would be more automatic. However, the radical nature of this arrangement is controversial. Moreover, the current shape of IMS allows the United States to benefit from exorbitant privilege and finance the current account deficit with an issue of dollars, so it can be expected that the United States will be rather reluctant to create a global currency (at least as long as the dollar enjoys the trust of foreign investors), which significantly limits the chances of implementing this scenario.

The proposal of the International Monetary Fund is of a similar nature, but presents a phased scenario for modifying the IMS: in the short, medium and long term [20]:

1. Multi-polar system, in which several currencies would coexist with full mutual convertibility (it will be the currency area of the dollar, the euro and the Asian currency). This would be a logical consequence of the growing importance of economies other than the US and the EU. The stability of the reserve currency would not depend on a single currency (the dollar), but would be more proportionally distributed and not be exposed to shocks of the single currency.

2. International monetary reserves, whose role would be played by SDRs. It would be a global currency, different from the current SDRs, which would circulate instead of national currencies. Such a currency would not be dependent on problems of a single economy.

3. From SDRs to bancor, the supranational money. This system could be created as the culmination of the previous system. Such money could be created through a treaty and would be "external money", that means, full value. Bancor would be issued by a global central bank. In a more moderate version, the bancor would coexist with national money. Of course, this assumes the total elimination of exchange rate fluctuations.

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A group of economists [2] who prepared a report presenting scenarios of currency order transformation has a slightly different vision of the evolution of the IMF. According to the authors of the report, three scenarios are the most likely:

1) reform of the existing monetary system

2) transformation of the current monetary system towards a multi-currency system

3) establishment of a multilateral monetary order.

The first scenario would mean maintaining the dominance of the dollar. The role of the euro would be closely linked to the level of public debt in the euro area countries. In addition, China's monetary system would be gradually linked to other emerging economies that use managed floating exchange rates and maintain control over capital flows [24]. The second scenario stipulates that there will be three main currencies on the international currency market: the dollar, the euro and the renminbi. All these currencies will have similar significance as reserve currencies, anchor currencies and in private transactions. The third scenario proposes the biggest changes in the monetary system. In this currency reform scenario, the SDR will be given greater significance.

There are also proposals to create full-bodied money, the value of which would be based on bullion or commodities. There are many proposals and they differ significantly from each other. Among such ideas there are most often scenarios of basing the system on precious metals, mainly gold. Such a vision was described, among others, by J. Ricards [28]. According to this author, there are three possible scenarios for the future system: a return to the gold standard, replacing the dollar with new SDRs, but based (partly) on gold, and the worst: a disorderly collapse, with street riots, a possible introduction of autocratic governments, mass bankruptcies not only in the banking system, a collapse of trade.

Gold remains a very attractive asset, also for central banks, which is reflected in the high demand for gold (***tab. 2***). However, according to J. Ricards, the reintroduction of Gold Standard would be extremely difficult both technically and socially. Above all, there would have to be a huge increase in the price of gold on the free market, which would only be possible as a result of a rapid increase in inflation or even hyperinflation, the escape from the dollar and the rush to gold as collateral. This would mean a global crisis on a huge scale, massive bankruptcies, a drop in GDP, changes in the structure of prices of raw materials and commodities and,

Table 2. *Gold demand (tonnes) in 2010-2018*

	2010	2012	2014	2015	2016	2017	2018
Jewellery	2 055,1	2 145,1	2 510,4	2 426,3	2 067,9	2 200,9	2 200,0
Technology	460,5	381,3	348,4	331,7	323,0	332,6	334,6
Investment	1 625,1	1 618,5	892,6	967,6	1 646,2	1 251,6	1 159,1
Central banks & other inst.	79,2	569,3	583,9	576,5	389,8	374,8	651,5
Gold demand	4 219,9	4 714,2	4 335,3	4 302,2	4 426,8	4 159,9	4 345,1
LBMA Gold Price, US$/oz	1 224,5	1 669,0	1 266,4	1 160,1	1 250,8	1 257,2	1 268,5

Source: [34].

above all, the annihilation of the value of a huge mass of financial assets.

However, J. Frankel [19] proposes the use of currency-plus-commodity basket (CCB). Such a solution would be particularly beneficial for countries exporting raw materials, which currently base their exchange rates on a basket of major currencies such as the dollar and the euro. The currency-plus-commodity basket proposal means adding the export raw material of a country to the currency basket. Using a basket would make monetary policy automatically more counter-cyclical. J. Frankel gives the example of Kuwait:: *"If the Kuwaiti dinar were pegged to a basket that gave one-third weight to the dollar, one-third to the euro, and one third to oil, the value of the currency would again automatically move up and down with the value of a barrel of oil"*. The argument in favour of CCB, for a commodity-exporting country, is that it delivers the best of floating together with the best of fixed rates: automatic accommodation of trade shocks, together with a stable and transparent anchor.

It is difficult to assess which scenario would best ensure the stable and efficient functioning of the international monetary system. Alternative solutions are also subject to various constraints and, depending on the time horizon, seem more or less likely to be implemented. The most radical scenarios will be possible if the current system reaches a critical point. This critical point is not yet reached, so more evolutionary scenarios, such as a multi-currency system, are more likely to occur. However, there is no doubt that without a minimum degree of cooperation, especially between countries with systemic relevance, no future IMS will remain stable for long.

5. ASSESSMENT OF THE RENMINBI'S USE IN THE MAIN FUNCTIONS OF THE INTERNATIONAL CURRENCY

The assessment of the use of renminbi in international currency functions can be carried out using the Cohen matrix [30] in private sector (investment currency, vehicle currency in international trade and on the foreign exchange market, invoicing and quotation currency) and in official sector (reserve currency, intervention currency, anchor currency). The availability of data makes it possible to assess the use of renminbi as international payments currency and in foreign exchange turnover in quite a detailed way. China's high share in international trade supports the use of renminbi in international payments. For several years renminbi kept its position as the fifth most active currency for domestic and international payments, with a share of 1.89%. In terms of international payments only, the renminbi ranked eight with a share of 1.22% in March 2019 (***fig. 8***).

On the foreign exchange market, the renminbi position is significantly improving. In 2001, the share of the Chinese currency was insignificant and it was ranked 35th among the currencies used on the currency market. In 2016, the renminbi was already ranked eighth with a share of 4% (***tab. 3***).

The growing use of the renminbi is the result not only of China's economic potential, but also of efforts made by the Chinese authorities. Since the mid-1990s, China has taken significant steps toward the progressive internationalization of the renminbi: it has allowed domestic exporters to invoice their cross-border sales in renminbi; it has cautiously opened the gate to foreign capital inflows; it has developed bilateral swap agreements in renminbi with foreign

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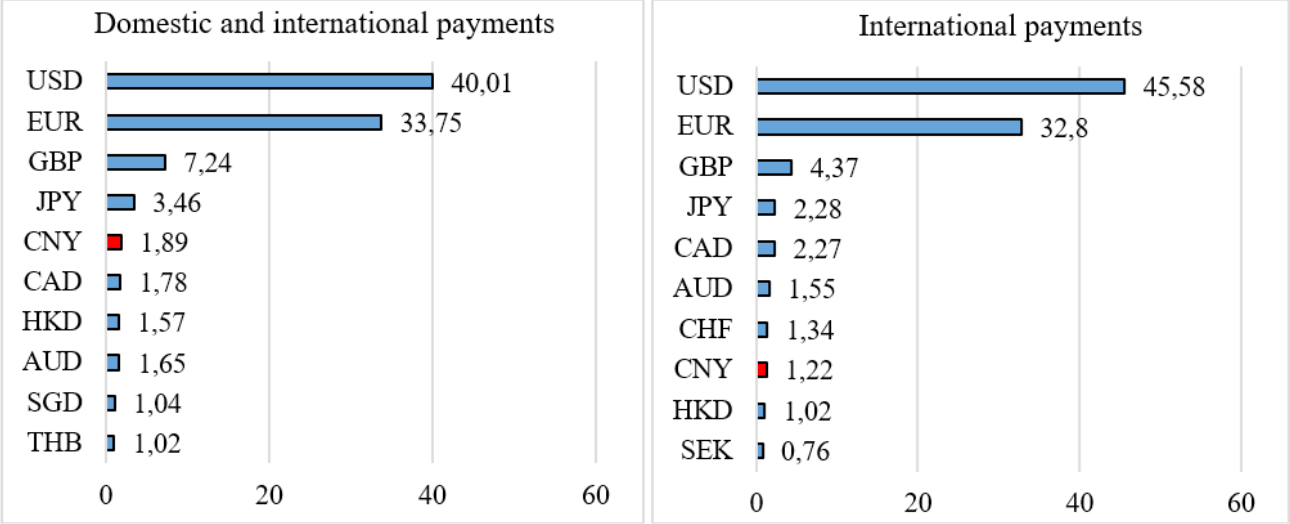

Fig 8. Renminbi's share as an international payments currency (customer initiated and institutional payments) in March 2019
Source: [29].

Table 3. Currency distribution of OTC foreign exchange turnover (in %)

Currency	2001		2004		2007		2010		2013		2016	
	Share (%)	Rank	Share (%)	Rank	Share (%)	Rank	Share (%)	Rank	Share (%)	Rank	Share (%)	Rank
USD	89.9	1	88.0	1	85.6	1	84.9	1	87.0	1	87.6	1
EUR	37.9	2	37.4	2	37.0	2	39.1	2	33.4	2	31.3	2
JPY	23.5	3	20.8	3	17.2	3	19.0	3	23.1	3	21.6	3
GBP	13.0	4	16.5	4	14.9	4	12.9	4	11.8	4	12.8	4
AUD	4.3	7	6.0	6	6.6	6	7.6	5	8.6	5	6.9	5
CAD	4.5	6	4.2	7	4.3	7	5.3	7	4.6	7	5.1	6
CHF	6.0	5	6.0	5	6.8	5	6.3	6	5.2	6	4.8	7
CNY	0.0	35	0.1	29	0.5	20	0.9	17	2.2	9	4.0	8
SEK	2.5	8	2.2	8	2.7	9	2.2	9	1.8	11	2.2	9
MXN	0.8	14	1.1	12	1.3	12	1.3	14	2.5	8	2.2	10

Source: author's calculations based on: [7].

central banks; and it has liberalized the use of deposits in renminbi in Hong Kong and London [5]. Furthermore, the use of renminbi in international payments is also supported by the creation of the Cross-border Interbank Payment System and indirectly also by the implementation of the New Silk Road concept.

The use of the renminbi as an investment currency is supported in particular by the liberalisation of the financial market, including the creation of cross-border Stock Connect platforms linking Chinese and foreign stock exchanges and the Cross-Border Interbank Bond Market (CIBM) as well as the introduction of Renminbi Quali-

Table 4. Currency composition of official foreign reserves in 1995-2018 (in %)

Shares of	1995	1998	1999	2005	2008	2011	2012	2013	2014	2015	2016	2017	2018
U.S. dollars	58,96	69,28	71,01	66,51	63,77	62,59	61,47	61,24	65,14	65,73	65,34	62,72	61,69
euros	-	-	17,90	23,89	26,21	24,40	24,05	24,20	21,20	19,13	19,13	20,15	20,69
Japanese yen	6,77	6,24	6,37	3,96	3,47	3,61	4,09	3,82	3,54	3,75	3,95	4,89	5,20
pounds sterling	2,11	2,66	2,89	3,75	4,22	3,83	4,04	3,98	3,70	4,71	4,34	4,54	4,43
Chinese renminbi	-	-	-	-	-	-	-	-	-	-	1,08	1,22	1,89
Canadian dollars	-	-	-	-	-	-	1,42	1,83	1,75	1,77	1,94	2,02	1,84
Australian dollars	-	-	-	-	-	-	1,46	1,82	1,59	1,77	1,69	1,80	1,62
Swiss francs	0,33	0,33	0,23	0,15	0,14	0,08	0,21	0,27	0,24	0,27	0,16	0,18	0,15
Deutsche mark	15,75	13,79	-	-	-	-	-	-	-	-	-	-	-
ECUs	8,53	1,30	-	-	-	-	-	-	-	-	-	-	-
French francs	2,35	1,62	-	-	-	-	-	-	-	-	-	-	-
Netherlands guilders	0,32	0,27	-	-	-	-	-	-	-	-	-	-	-
other currencies	4,87	4,50	1,60	1,74	2,20	5,49	3,26	2,84	2,83	2,86	2,37	2,49	2,48

Source: author's calculations based on: [9].

fied Institutional Investor Status, which has easy access to Chinese bond markets.

Initiatives taken by China to support the use of the renminbi have also strengthened the position of that currency in official sector. Renminbi is the most important among the currencies of developing countries. Chinese currency accounted for 1.22% of global foreign exchange reserves in 2017 and 1.89% in 2018.

6. INCLUSION OF RENMINBI IN SDR BASKET

Advances in the liberalisation of the financial sector in China, exchange rate policy relaxation and growing role of renminbi have been awarded by its inclusion in the SDR basket. In 2016 the Chinese renminbi was included in SDR basket as fifth currency, but with third biggest share. The weights of the five currencies in the SDR basket since 2016 are as follows: U.S. dollar 41.73%, euro 30.93%, Chinese renminbi 10.92%, Japanese yen 8.33%, Pound sterling 8.09% (*fig. 9*). SDR basket expansion reflects the ongoing evolution of the global economy and it is a step towards multipolar IMS.

Projections of A. Bénassy-Quéré and D. Capelle [3] indicate that the share of renminbi in SDR will grow steadily and, depending on the adopted scenario, it is expected to range from 21.3% to 27.6% in 2030, and from 29.9% to 43.5% in 2050. The authors agree that renminbi could be the main currency of the basket in 2050.

The inclusion of Chinese currency in the SDR basket by the International Monetary Fund means that Chinese currency is recognized as the official reserve currency in the world, which is of great political and prestigious importance for China. It should also encourage foreign entities to use renminbi in international transactions.

It is worth emphasizing that central bank reserve managers are increasingly confident about the role of the renminbi as a reserve currency. As many as 29 reserve managers contributing to the survey expected the Chinese currency to account for 10-20% of their portfolios by 2020 [14].

7. POTENTIAL CONSEQUENCES OF ACHIEVING THE KEY CURRENCY STATUS BY THE RENMINBI

Progressive internationalisation of the renminbi may affect the structure of the IMS and cause its change towards a multipolar system. This means that the system would

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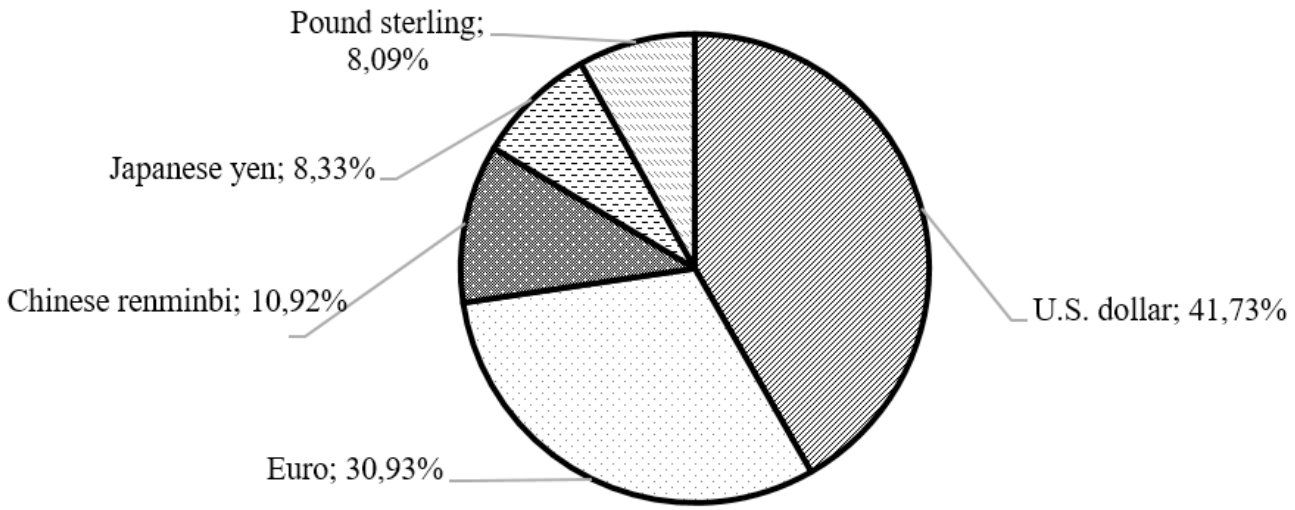

Fig 9. *Structure of the SDR basket*
Source: [30]

be better adapted to the structure of the world economic powers. Moreover, if an increase in the use of the renminbi would require the full floating of its exchange rate, it could reduce global imbalances as well as the asymmetry in the accumulation of foreign exchange reserves. Empirical studies on renminbi misalignment indicate an undervaluation of renminbi from a few percent to 58% depending on the period under examination and the method used [8].

Comprehensive econometric studies assessing the impact of renminbi internationalisation on IMS stability and exchange rate volatility were carried out by A. Bénassy-Quéré and Y. Forouheshfar. The results of their research indicate that further internationalisation of the renminbi and the floating exchange rate will stabilize the euro-dollar exchange rate. The dynamic version of the model further shows that renminbi internationalization helps euro-dollar variations to stabilize net foreign asset positions following a trade shock, through enhanced valuation effects [4].

A. Bénassy-Quéré and Y. Forouheshfar devoted further research to the impact of renminbi internationalisation on IMS stability. Using the three-country, three-currency model, they studied the impact of asymmetric trade shocks on exchange rates and net foreign asset accumulation, depending on the international status of the renminbi [5]. The authors believe that allowing the renminbi to become a key currency would make exchange rates less vulnerable to external shocks. This would also alleviate distortions resulting from Chinese currency pegged to the dollar. In the case of permanent shocks, a higher exchange rate stability would be associated with a slightly higher accumulation of net foreign asset position of country. In the case of temporary shocks, lower exchange rate stability can be interpreted as a reduction in misalignments. The authors conclude that after a period of transition, in which exchange rate volatility may occur, the internationalisation of the renminbi may prove to be a stabilising factor in the international monetary system, especially before China's transition to a fully floating exchange rate system.

With the growing role of the renminbi and gaining reserve currency status, the problem is the lack of economic policy coor-

dination between China and the main issuers of international currencies. However, A. Bénassy-Quéré and Y. Forouheshfar [5] believe that a better balanced IMS, through renminbi internationalisation, could replace the difficult exchange rate coordination that has largely failed since the Plaza (1985) and Louvre (1987) agreements. Indeed, the rebalancing of the IMS would contribute to further stabilisation of exchange rates between key currencies.

6. CONCLUSION

Summarising the studies carried out, it can be concluded that one of the major problems of today's IMS is the lack of effective adjustment mechanisms, resulting in an accumulation of payment imbalances. In particular, surpluses occur in developing countries, mainly in Asia, including China, and deficits are in developed countries. The result is an accumulation of foreign exchange reserves by China and other developing countries. This is damaging for the stability and liquidity of the IMS.

In the elaborated IMS reform scenarios, various groups of economists try to propose a way to eliminate the existing system weaknesses. The solution to the problem could be to reshape the IMS and give more weight to the currencies of developing countries, with China at the forefront, which is also supported by the growing position of these countries in the world economy. The currency that could join the group of currencies on which the system would be based is the renminbi. Despite the internationalisation of the Chinese currency, it has not yet reached the position of a key currency. B. Eichengreen considers that in the coming years, the renminbi will likely play at least some international role, akin to that played by the Swiss franc, the yen or the euro.

If the renminbi became a major reserve currency, China would benefit from greater opportunities to diversify its portfolio, reduce exchange rate risk and lower transaction costs. It would also promote the liberalisation of the Chinese financial market, which would benefit consumers and businesses. In addition, it would be an important element of the transition to a more demand-driven growth model by reducing incentives to build up reserves from prudent motives and maintain an exchange-rate pegging purposes [22].

As regards the stability of the IMS, an increase in the importance of the renminbi, and consequently an increase in the multipolarity of IMS, would ensure greater discipline (less exorbitant privilege), reduce the accumulation of global payment imbalances and the negative effects of the accumulation of foreign exchange reserves, and thus help avoid the risk of losing confidence in the dominant reserve currency as a store of value. A multipolar IMS, in which the renminbi would be one of the main currencies, would also alleviate Triffin's dilemma by diversifying the sources of international liquidity [5].

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