Discussion of
“Jumpstarting an International Currency”
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Swap lines lower cost of working capital → increase int'l use

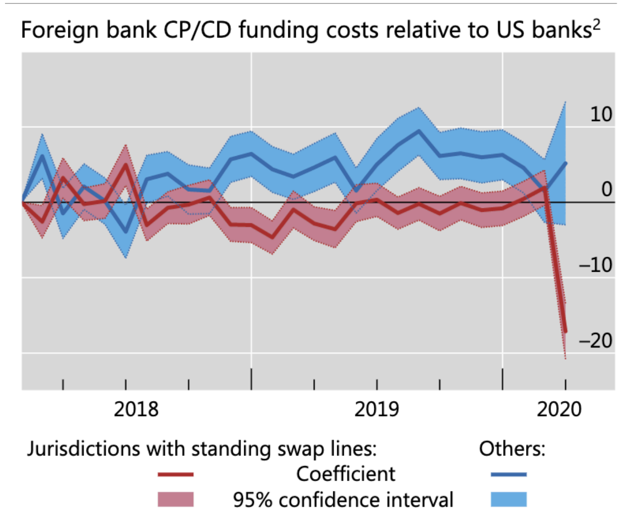
- There are thresholds for key economic variables that a rising currency must meet.
  - Most don't. For some, policy can shift the thresholds and so jump-start the currency.

- Empirically, RMB swap lines:
  - a 14 percentage point increase in the probability of a country making or receiving RMB,
  - an increase in the RMB share of payments of 1.3 percentage points.

- Important paper on an important topic.
  - Swap lines are no doubt a way to promote the internationalization of RMB.
  - But, so many efforts at the same time – hard to disentangle what swap lines actually do.
    - RMB trade settlement, RMB denominated investment, RMB bond issuance, and RMB currency swaps and direct trading (Eichengreen and Kawai (2014)).
  - Important question: why have such great efforts lead to so little change?

Most ideas are music to my ears…

- Eren, Schrimpf and Sushko (2020): Swap lines reduce costs.
  - Swap line banks’ CP/CD USD funding costs were even lower than US banks in March 2020.



- Eren and Malamud (2022): Monetary policy is key in determining the international use.
  - Dominant currency is the one that depreciates in global downturns over horizons of typical corporate debt maturity. Empirically, this is USD, not EUR, CHF or JPY.
  - Fed steps in more than others to avoid deflationary pressures → USD depreciates → nominal USD debt value goes down → default less likely if USD debt as opposed to EUR.

Comment 1: Belt and Road Initiative, and Chinese banks?

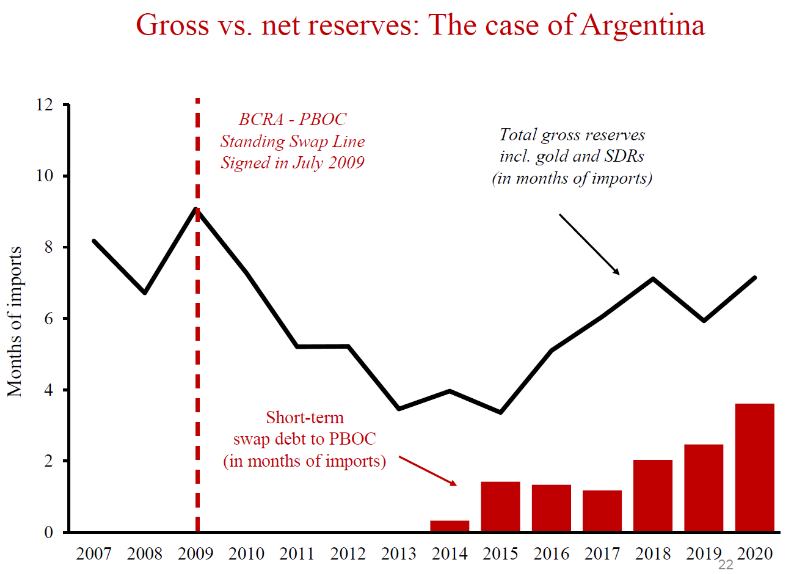
- What if: BRI increases the presence of Chinese banks/corporates AND the probability of swap lines
- These banks/corporate are making cross-border payments to each other in RMB (interoffice).
- From SWIFT (2019):

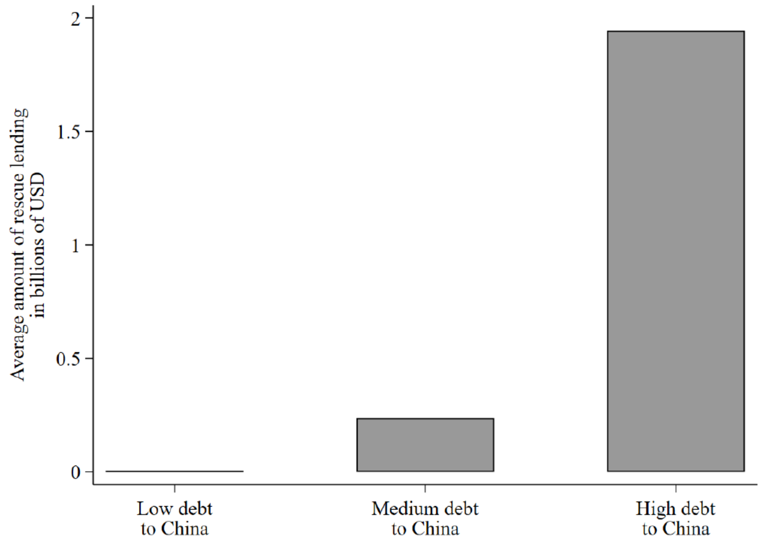
> Some of this is already happening. The number of branches and subsidiaries of Chinese banks connected to SWIFT in BRI countries increased by 31% between 2014 and 2018. Many of these were opened to serve State-Owned Enterprises (SOEs) and Chinese corporates involved in BRI infrastructure projects.

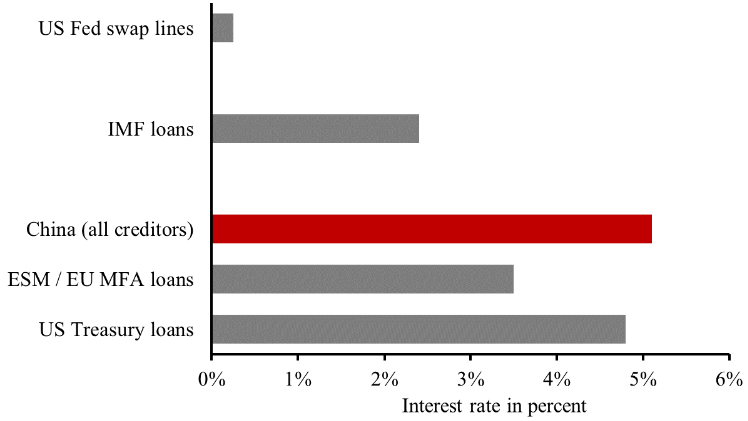
- Or making some cross-border RMB payments could even be a requirement of BRI.
- The empirical specification does not capture this (regs at i,t and only control for a single country's BRI).
- One way to solve it is to look at country pairs where no or at most one country is BRI.
- Generally, I believe the data is richer than what is currently used.
  - Look at bank-to-bank messages and other messages separately for financial vs non-financial flows
  - Look at country-pairs in more detail etc.

Comment 2: What are swap lines actually being used for? Horn, Parks, Reinhart and Trebesch (2023)

- To meet ST liquidity needs & bolster gross reserve holdings
- Targeted at countries with high debt to Chinese banks
- At higher interest rates than all other options.







Interest rates on rescue lending > interest rates on existing debt

- Swap lines are actually used in a very different way than to facilitate trade finance:
  - What other channels might be at play for the introduction of swap lines?
  - And what does it tell us about the internationalization strategy?

Comment 3: ”Jumpstarting”, internationalization, dominance

- How do CHF, JPY, AUD, CAD fit into the model? Similarities/differences to China?
- Trade is just too small a channel for anything more than “an initial push”.
  - Financial channels of internationalization of RMB (Clayton et al (2022))?
  - Important follow-up: How to go from jumpstart to internationalization to dominance?
- RMB shares in payments (SWIFT (2019)), and debt are low (Bertaut et al (2021))

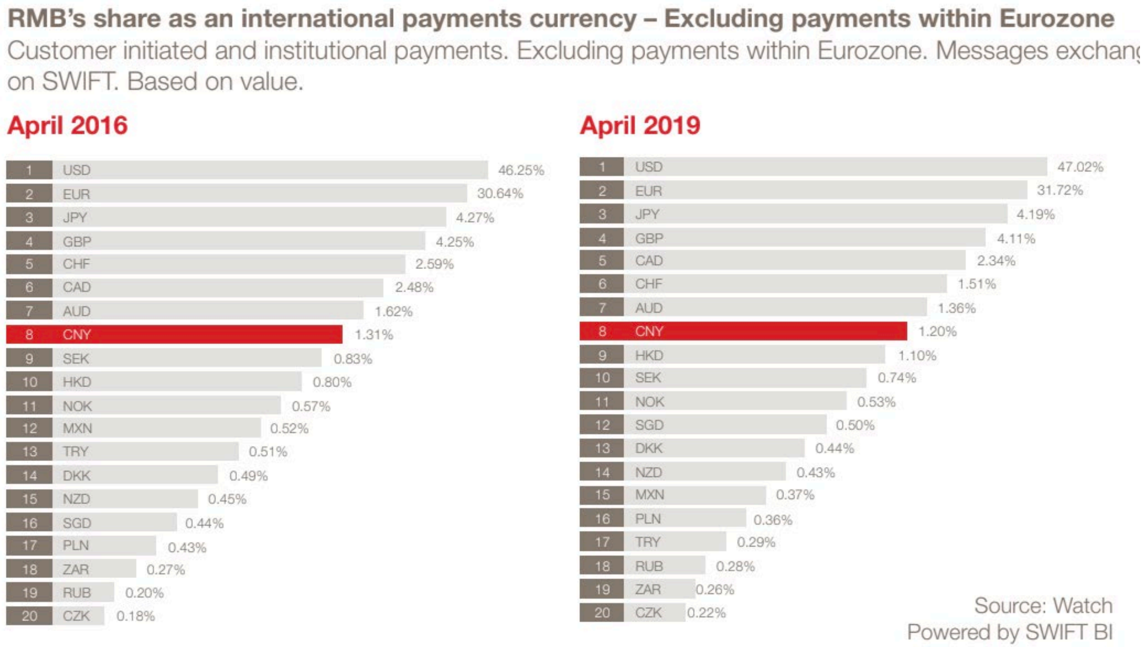
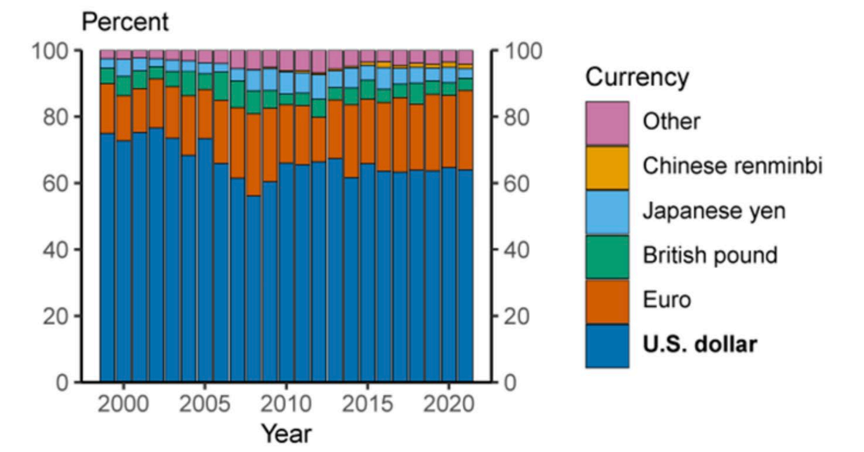


Figure 8. Share of foreign currency debt issuance



Note: Foreign currency debt is denominated in a foreign currency relative to the country of the issuing firm (not the location of issuance). At current exchange rates. Data are annual and extend from 1999 through 2021. 2021 is 2021-H1. Legend entries appear in graph order from top to bottom. Chinese renminbi is 0 until 2008.

Source: Dealogic; Refinitiv; Board staff calculations.

Accessible version

”Jumpstarting”, internationalization, dominance: summary

- Which one of you is swap lines? And why is the car not moving?

Sometimes it takes a few people to push a car.

Comment 4: Trade with China not increasing?

- Zhang, Yu, Yu, Jin (2017) swap agreements would improve bilateral trade with China. For Belt and Road countries, the effect seems to be stronger.

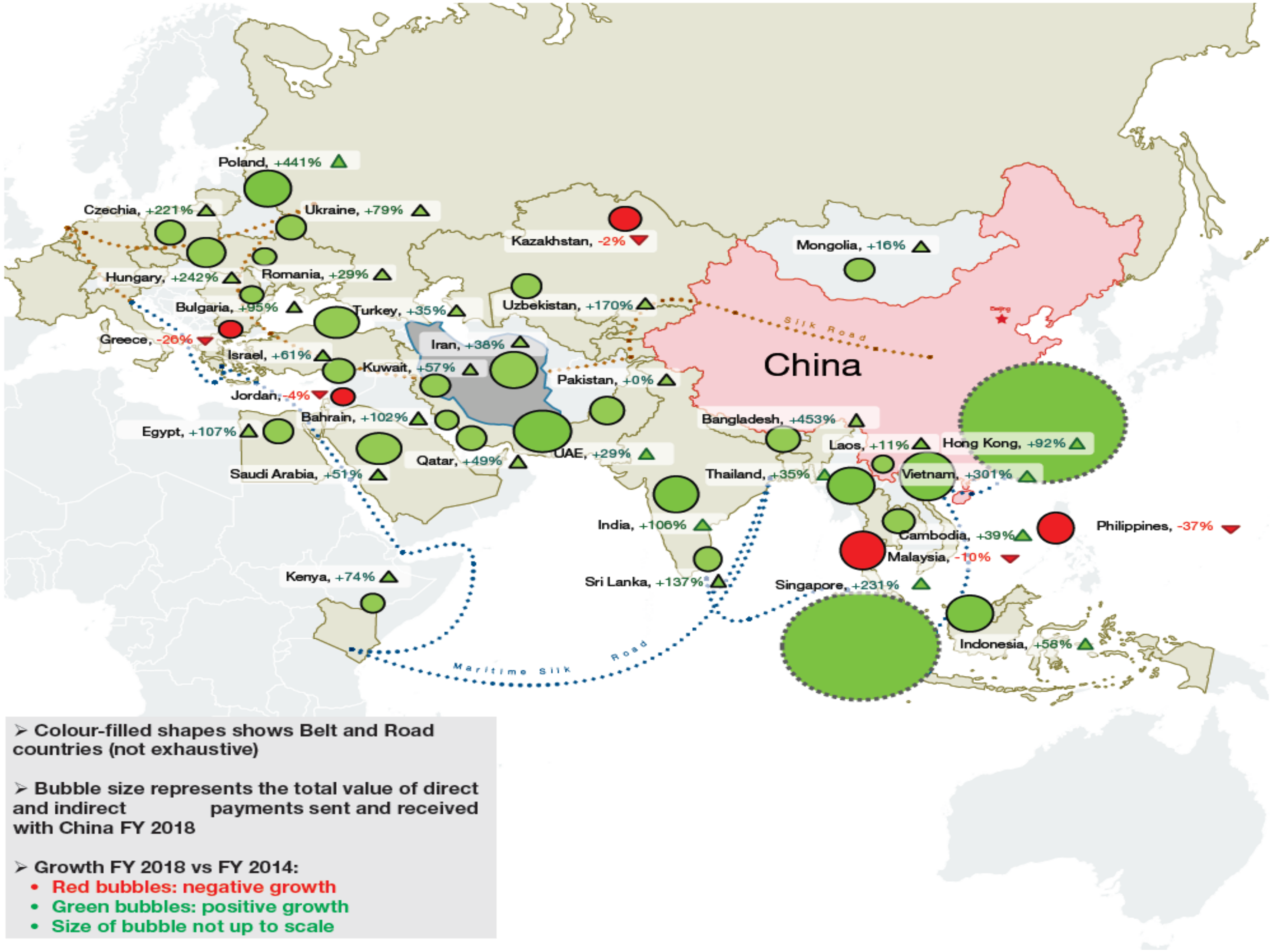
Table 3. Effects of China's swap agreements since 2009 on trade flows.

	All with China				Non-BRI	BRI
Variables	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
Swap Under CMI	–0.115					
	(0.320)					
Swap Beyond CMI		0.304***	0.299***	0.00118	0.131	0.373***
		(0.108)	(0.108)	(0.159)	(0.173)	(0.121)
BRI			0.101	0.0200		
			(0.0938)	(0.0989)		
Swap Beyond CMI*BRI				0.510**		
				(0.199)		
Controlled Variables	YES	YES	YES	YES	YES	YES
Year Fixed Effects	YES	YES	YES	YES	YES	YES
Observations	2,444	2,444	2,444	2,444	1,552	892
Adjusted R-squared	0.784	0.785	0.785	0.785	0.790	0.743

Note: Standard errors in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$. Controlled variables are the same as those reported in Table 2.

Also SWIFT data suggests higher payments to and from China

Payments flows along the Belt & Road countries
Live and delivered, international MT 103 and 202, by value between China and Belt and road countries
All currencies, excluding central banks traffic



➢ Colour-filled shapes shows Belt and Road countries (not exhaustive)

➢ Bubble size represents the total value of direct and indirect payments sent and received with China FY 2018

➢ Growth FY 2018 vs FY 2014:
- Red bubbles: negative growth
- Green bubbles: positive growth
- Size of bubble not up to scale

Comment 5: Currency matching and invoicing

- Gopinath and Stein (2021): banks dollarize lending to be currency matched.

- Bahaj and Reis (2022): Firms match currency of trade finance and invoicing.
    - Firms in EMs often do not match currency exposures unlike banks (Braeuning and Ivashina (2020), Alfaro, Calani and Varela (2022)).
    - Adverse selection: currency mismatch can even be optimal (Eren, Malamud and Zhou (2022)).

- Invoicing decision:
    - By invoicing in RMB, you necessarily restrict your trading counterparties.
    - What if they don't want to trade with you in RMB? Especially with capital controls.
    - More reasonable to think you take as given/negotiate invoicing currency with trading partner and do all other optimizations given that.