



Nancai Quick Review: An important step forward in currency standing swaps

Nancai Quick Review **南财号**

S Cao Yubo 2022-07-04 19:46

On July 4, according to the official website of the People's Bank of China, with the approval of the State Council, the People's Bank of China and the Hong Kong Monetary Authority recently signed a standing swap agreement to upgrade the currency swap arrangement established by the two parties since 2009 to a standing swap arrangement. Effective, the swap scale has been expanded from RMB 500 billion/HKD 590 billion to RMB 800 billion/HKD 940 billion.

This is the first time the People's Bank of China has signed a standing swap agreement. "Standing" mainly means that the agreement is valid for a long time and does not need to be renewed regularly. At the same time, the exchange process will be further optimized, and the use of funds will be more convenient.

There are similar swap arrangements among the central banks of major international economies. Taking the US dollar currency swap agreement as an example, after the 2008 financial crisis, in order to meet the demand of international financial institutions for US dollar liquidity, the Federal Reserve established the Central Bank Liquidity Swap Lines (Central Bank Liquidity Swap Lines), in the form of currency swaps. Address short-term dollar liquidity shortages in non-US domestic markets. Through the liquidity swap channel, on the one hand, the direct role of currency swap is to avoid exchange rate fluctuation risks, reduce exchange costs, and facilitate international financing and trade. On the other hand, currency swaps serve as a supplementary source of liquidity in the offshore market. Central banks of non-US countries can obtain US dollars from the Federal Reserve without consuming their own foreign exchange reserves to meet the liquidity needs of their domestic financial institutions for US dollars. To a certain extent, it can be used as a policy tool to stabilize exchange rate fluctuations and maintain financial market stability. When the new crown epidemic broke out in 2020, there was a serious wave of asset selling in the world, and there was an extreme shortage of US dollar liquidity. Alleviate the scarcity of U.S. dollar liquidity and maintain the normal operation of the global U.S. dollar



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The People's Bank of China signed the Chiang Mai Agreement at the annual meeting of the Asian Development Bank in 2000, and began to try to sign bilateral swap agreements with the monetary authorities of Asian countries such as Japan, South Korea, and the Philippines. After the 2008 financial crisis, in order to further resist financial system risks, reduce the cost of using third-party national currencies for trade settlement, and promote the internationalization of the RMB, from January 2009 to the end of June 2022, the People's Bank of China has accumulated 40 countries and regions. of central banks or monetary authorities have signed bilateral local currency swap agreements, and the scale of RMB currency swaps has accumulated to 3.66 trillion yuan. The RMB currency swap agreement aims to promote two-sided trade and stabilize exchange rate fluctuations. my country has signed currency swap agreements with foreign monetary authorities, which can directly promote trade between the two parties, use currency swap lines to purchase each other's products and services, and reduce the risk of exchange rate fluctuations. Compared with the use of third-party currencies such as US dollars for payment and settlement , further reducing exchange rate risk and corresponding transaction costs. In addition, signing currency swap agreements with intra-regional trading partners can enhance intra-regional economic development and trade integration, enhance the ability of regional economies to jointly resist the impact of international capital, and further enhance the level of RMB internationalization.

The Hong Kong Monetary Authority was the first monetary authority to sign a currency swap agreement with the People's Bank of China in January 2009. The scale of the first agreement was 200 billion yuan. At present, it has reached 800 billion yuan, and the Hong Kong Monetary Authority has become the largest swap counterparty among all the contracted monetary authorities. This is based on the needs of the Mainland and related deep financial cooperation and development. At present, Hong Kong has become the most important clearing center, product center and capital center for offshore RMB. The Hong Kong Monetary Authority has always been the main swap counterparty of the People's Bank of China, and expanding the scale of currency swaps is conducive to bilateral financial cooperation and stability.

There are certain differences between the RMB currency swap agreement and the USD currency swap agreement. In addition to the large gap in size and number of counterparties, the USD currency swap agreement is mainly to provide USD liquidity in a crisis, which is an important manifestation of the USD's status as an international currency. The RMB currency swap is an attempt to internationalize the RMB. The currency agreements signed between my country and the monetary authorities of other countries and regions are more for the consideration of promoting the development of trade and investment between the two countries. Foreign central banks use RMB to ease the short-term flow of domestic financial institutions. Sexual stress is still limited. In the future, my country will sign stable currency swap agreements with more trading partners and increase the utilization rate of currency swaps, which will further enhance the level of RMB internationalization. There is still a lot of



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Bank of China and foreign monetary authorities has a "notice effect", which gives the other country and financial institutions the opportunity to trade in RMB. The possibility of obtaining short-term RMB liquidity in the case of liquidity shortage will help stabilize the RMB exchange rate and create a good external environment for my country's development.

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