A currency swap pact between the People’s Bank of China (PBC) and the Monetary Authority of Hong Kong (HKMA) was announced by the central government in December 2008 as one of the 14 measures in 7 areas to support financial stability and economic development in Hong Kong. The two parties signed the agreement today (January 20) after finalizing details.

The currency swap arrangement is another area of monetary cooperation between the PBC and the HKMA in addition to existing collaborative work. With the agreement, short-term liquidity support can be provided to Hong Kong operations of mainland banks and mainland operations of Hong Kong banks in case of need. This will bolster investor confidence in Hong Kong’s financial stability, promote regional financial stability and the development of yuan-denominated trade settlement between Hong Kong and the mainland. The agreement has a term of three years, which can be extended upon agreement by the two parties. It can provide liquidity support up to 200 billion yuan or 227 billion HK dollars.