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Discussion of:
Jumpstarting an international currency
by Saleem Bahaj and Ricardo Reis

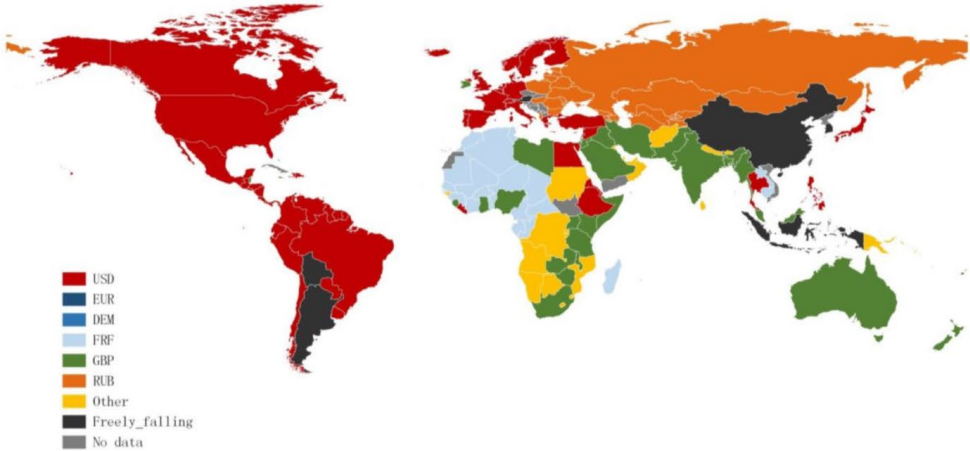
at ABFER 2023

Beatrice Weder di Mauro
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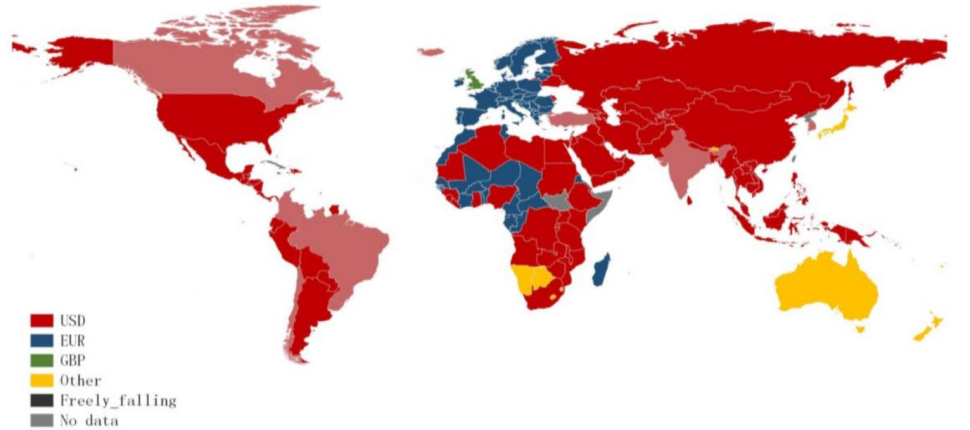
Dollar Dominance - Almost 50 years after Bretton Woods

Figure 3. The Geography of Anchor Currencies, 1950 and 2015

1950

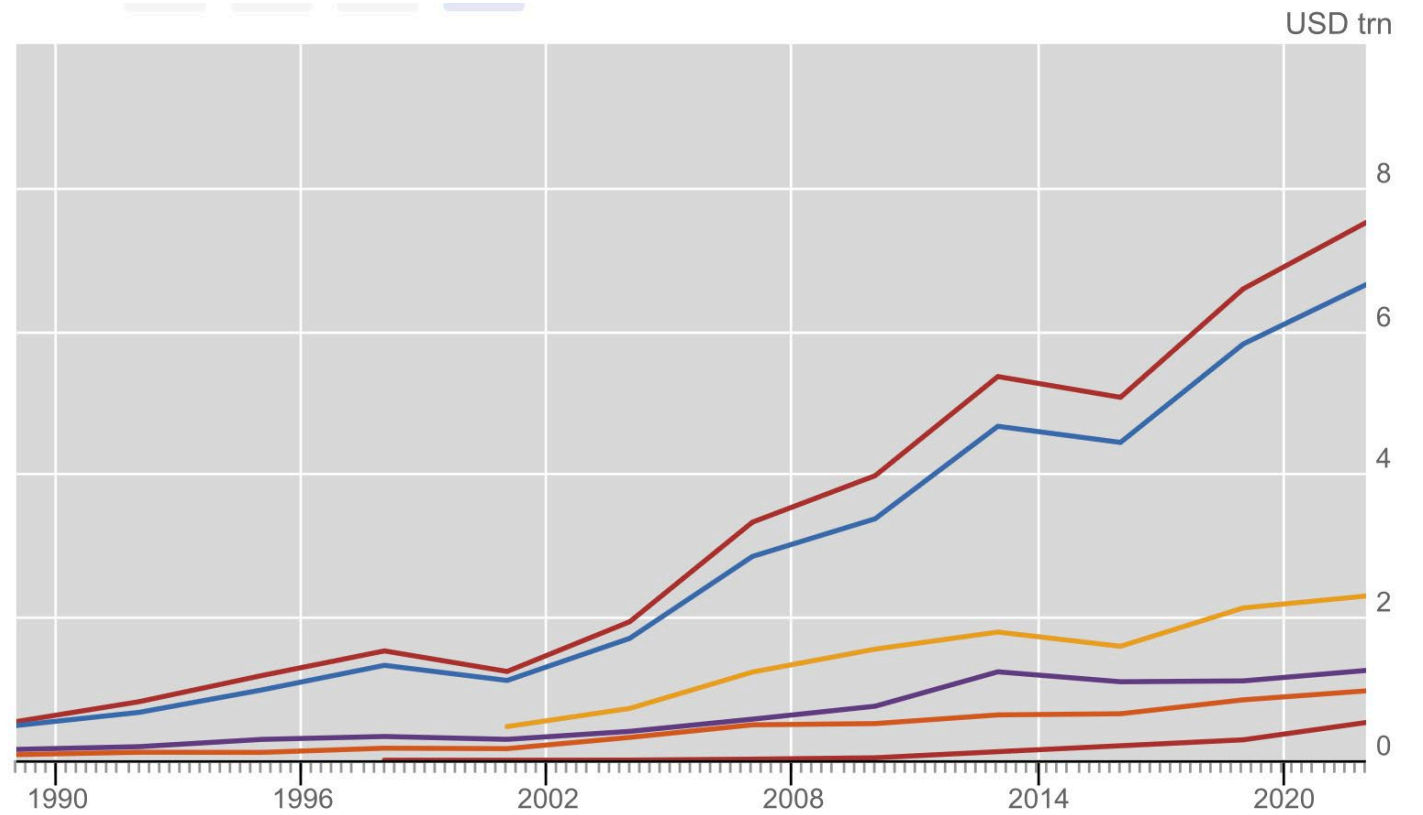


2015



Ilzetzi, Reinhart and Rogoff (2017), NBER WP

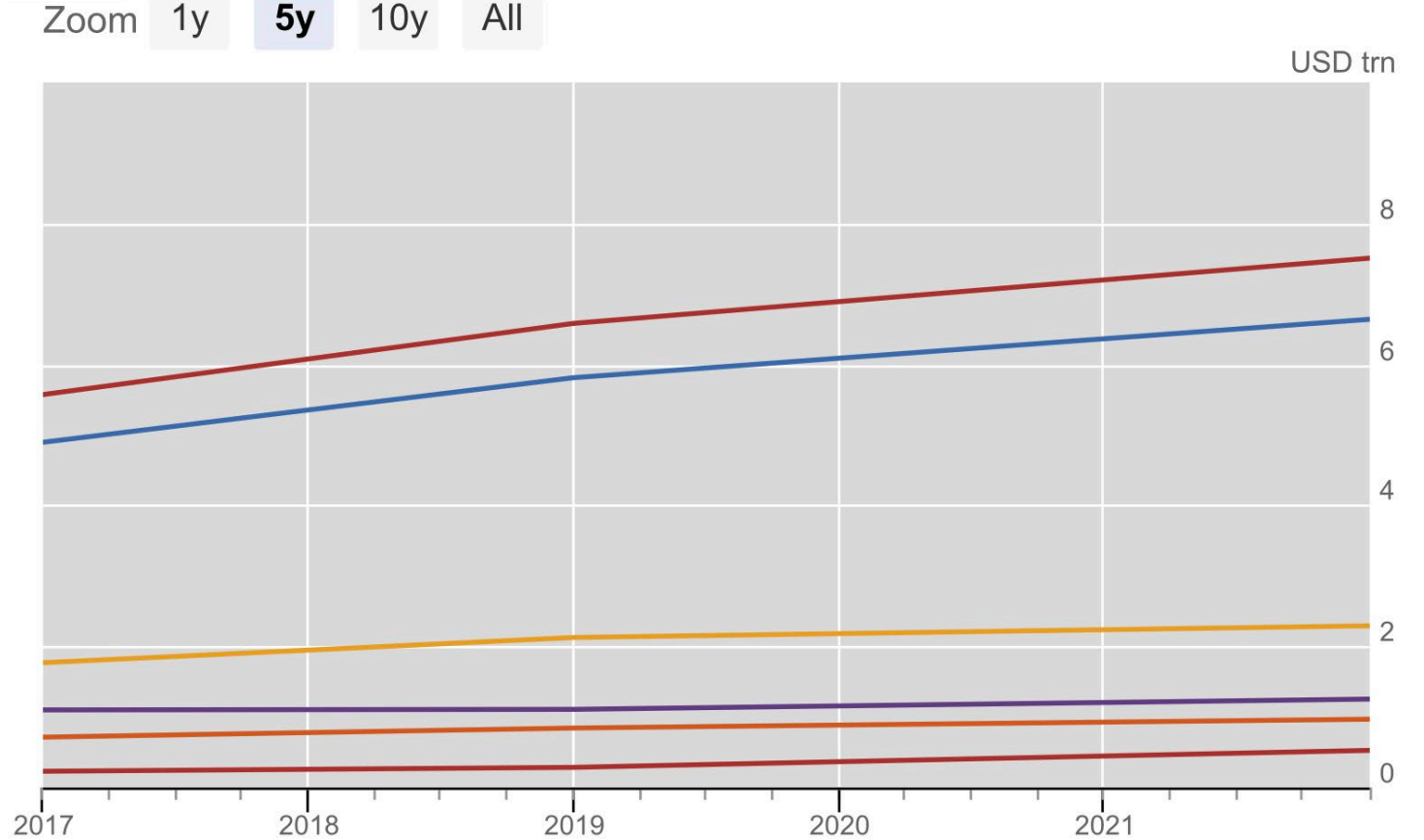
FX turnover, average daily



Currency leg 1

— Total (all currencies) [...] — US dollar [USD] — Euro [EUR] — Yen [JPY]
— Pound (sterling) [GBP] — Australian dollar [AUD] — Canadian dollar [CAD]
— Swiss franc [CHF] — Renminbi [CNY] — Hong Kong dollar [HKD] — New Zealand dollar [...]
— Swedish krona [SEK] — Won [KRW] — Singapore dollar [SGD] — Norwegian krone [NOK]
— Mexican peso [MXN]

FX turnover, average daily



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- Won [KRW]
- Singapore dollar [SGD]
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Dollar in the news



14:02 Wed May 17

World Trending

BUSINESS NEWS MAY 11, 2023 / 11:45 AM / UPDATED 6 DAYS AGO

Analysis-Vast China-Russia resources trade shift dollars in Ukraine fallout

POLITICS

How an Indian cement Russian coal using

PUBLISHED FRI, JUL 8 2022-12:56 AM EDT

REUTERS

WAN
January

财新

CAIXIN

Chinese steelmakers increasingly use yuan to buy iron ore abroad

Steel mills becoming a major force in drive to internationalize China's currency

in



1. <https://asia.nikkei.com/Spotlight/Caixin/What-s-in-store-for-yuan-internationalization-in-2023>
2. <https://www.reuters.com/article/china-russia-yuan-idCAKBN2X206L>
3. <https://www.cnbc.com/2022/07/08/how-an-indian-cement-maker-bought-russian-coal-using-yuan.html>
4. <https://www.bloomberg.com/news/articles/2022-04-07/russian-coal-and-oil-paid-for-in-yuan-to-start-flowing-to-china#xj4y7vzkg>
5. <https://asia.nikkei.com/Spotlight/Caixin/Chinese-steelmakers-increasingly-use-yuan-to-buy-iron-ore-abroad#:~:text=Based%20on%20iron%20ore%20import,similar%20to%20the%20previous%20year.>
6. <https://www.reuters.com/markets/asia/india-discourage-foreign-trade-settlement-chinese-yuan-sources-2023-03-13/>

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Content/ads and analyzing

Contributions of this paper

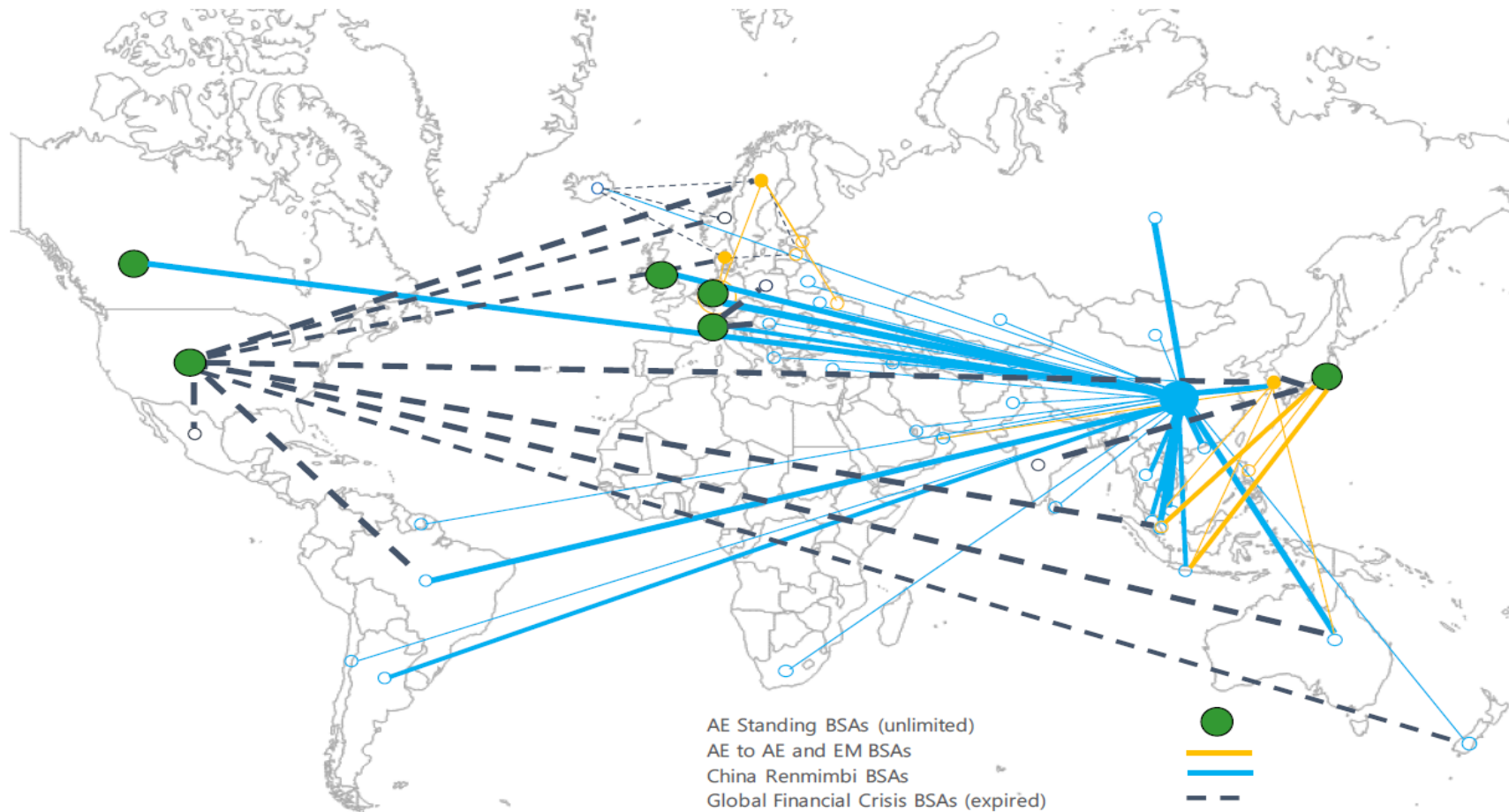
The aim:

- Before a currency can become dominant, it has to **become international**.
- International use : unit of account, medium of exchange (trade, invoicing) store of value (CB reserves) – use in **financing of transactions**
- How can international use be “jumpstarted” (despite capital controls)

Proposed mechanism:

- Having a **swap line** facilitates trade credit - ceiling on interest rates in RMB
- Reduces volatility of funding in RMB
- Firm’s currency choice on invoicing and financing currency
- Reducing interest rate risks puts more firms closer to the threshold for RMB use

Contribution : Understanding Swap lines



Note: The Global Financial Crisis BSAs denote swaps established or expanded during the 2008-09 period, which have subsequently expired and have not been replaced. For all the limited-value BSAs, line thickness denotes the maximum size of the arrangement in U.S. dollar terms.

Sources: Bank of England; and IMF staff estimates.

Contributions of this paper

Data:

- 38 PBoC Swap lines
- **SWIFT data** :
 - Type of message MT 103 and MT202 (single customer and bank-to-bank messages)
 - bilateral payment by country pair, settlements across borders,
 - monthly, by currency 2010-2018, worldwide!

Sound like a full take ..

Contributions of this paper

Data:

- But at the same time – measure of how little we know at
 - no info on the who is making the payment
 - No direct observation of firm level invoicing choice
 - No direct observation of firm level financing

Exclusions:

- all payments that go through multiple jurisdictions and multiple banks, (p.12)
How big is that ? Are most larger payments of this type?
- Excluding financial centers (HK and Macao in China) focus on developing countries
 - Robustness – Appendix 3A – all countries
 - Robustness – trade credit

Identification – done a lot :

It's the Swap line :

- Diff in diff – countries, time, neighbors
- Control for : a RMB clearing bank, member of the AIIB, BRI investment, trade agreements with China
- Its not higher trade with China
- Its not “being a friend of China”
- Instrument swap line with Chinese state visit

And borrowing costs decline

Fully convinced that it is the proposed mechanism?

And not the benefits (future) of being a friend of China?

The magnitudes (takeaway numbers)

Swap line usage : 5-10 bn RMB (2014-20)

Signing a swap line increases share of RMB payments by **1.3 percentage points**

Share of RMB in global payments (2020): **2-3 percent**

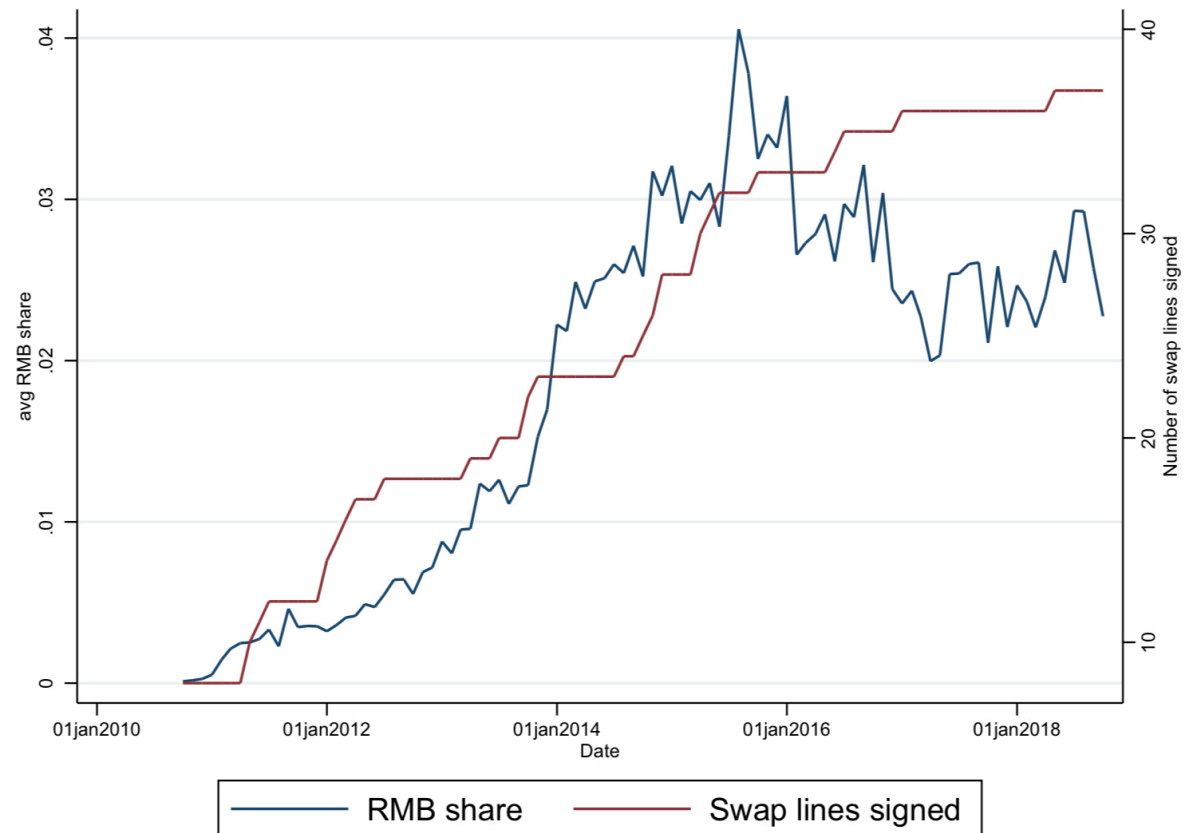
Share of RMB payments in Singapore : about **5 percent**

Question: What is a jumpstart?

A one-time level jump?

A crossing of a critical threshold and then take off/acceleration?

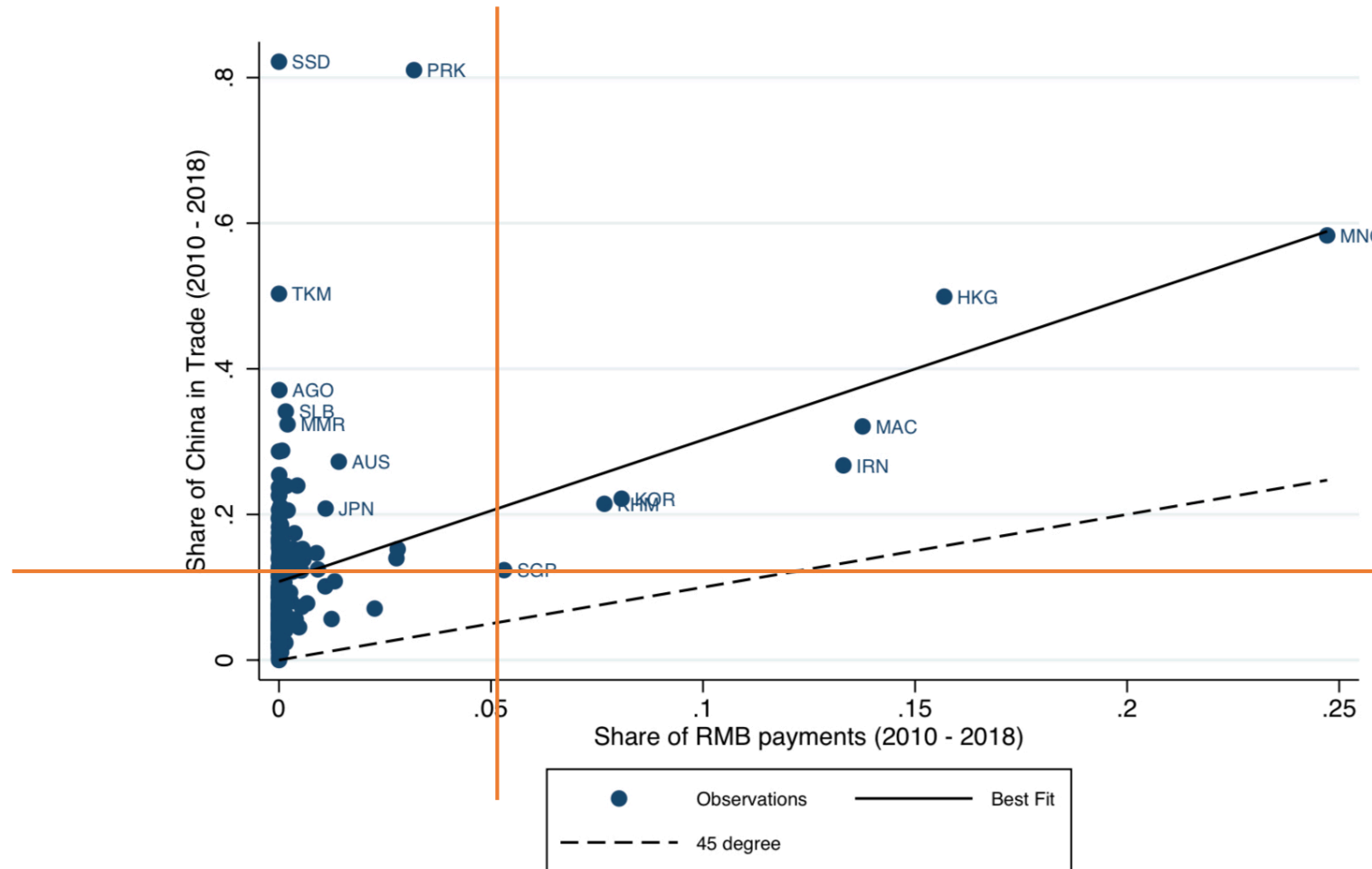
Figure 3: RMB share in global payments (and swap lines)



Question: Jumpstarting - Interpretation, e.g Singapore

A question of time?

Figure 4: RMB payments per country vs. trade with China



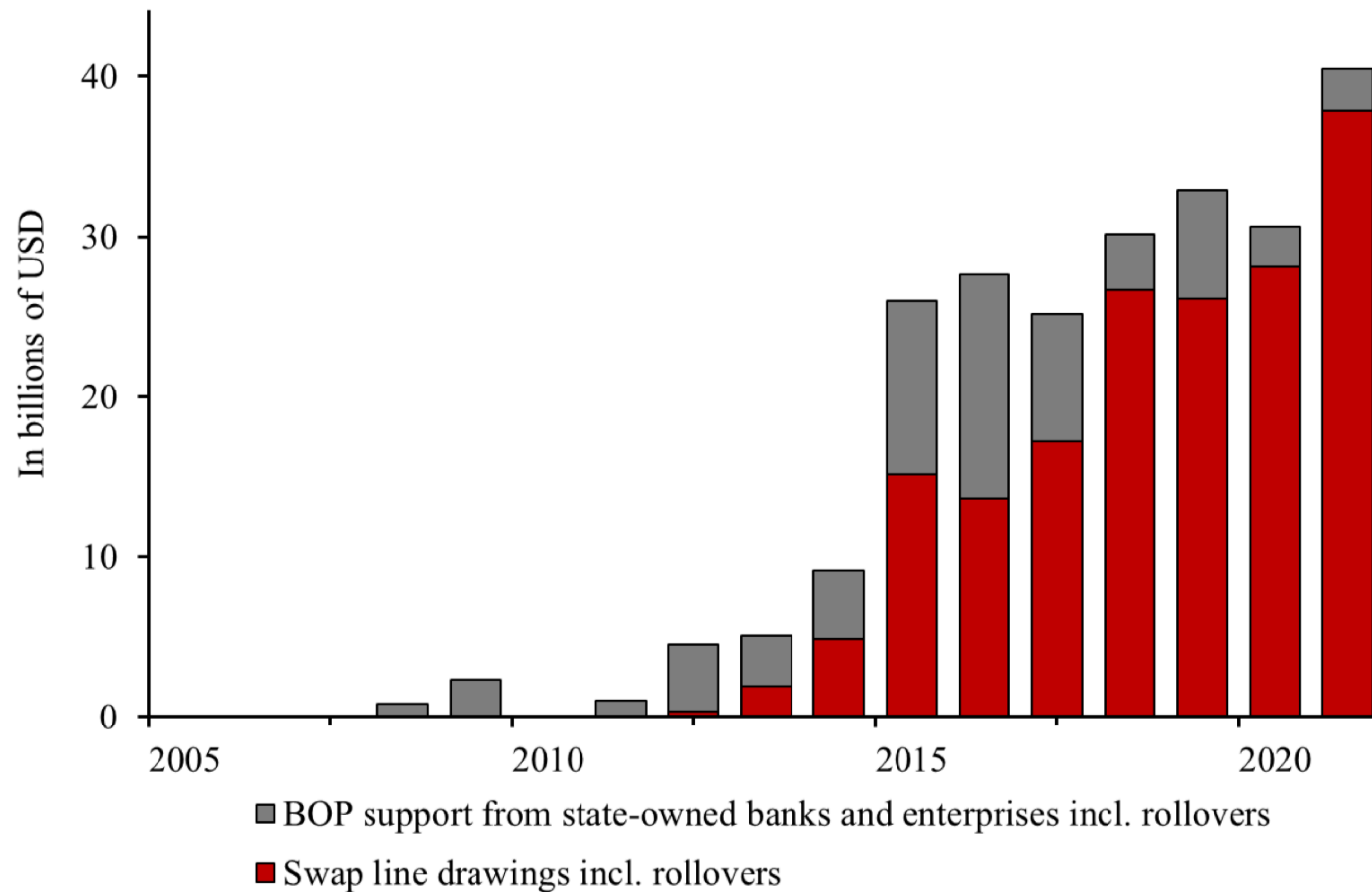
Question – can you say more?

Geography of use of RMB ?

- Which 3rd country-pairs start using RMB in transactions ?
- E.g within Africa – what is the size of those transactions ?

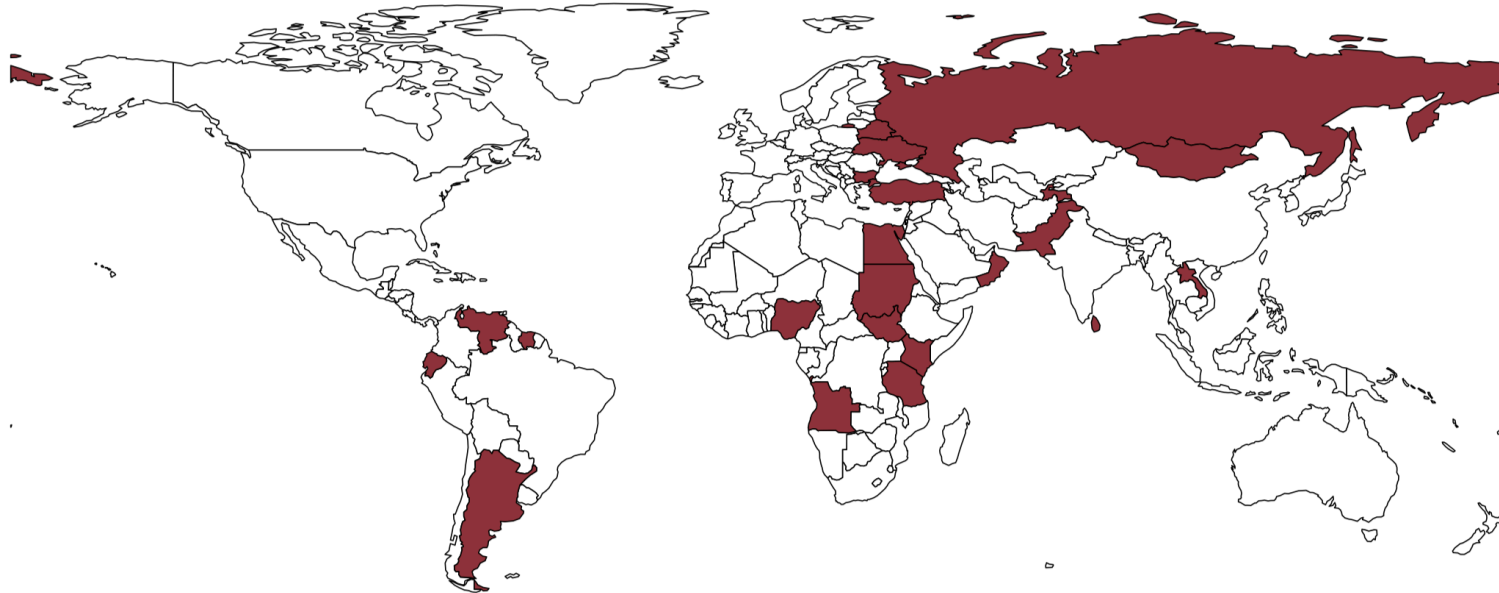
Alternative explanation : China as Lender of Last Resort

Figure 2. China's bilateral bailouts - yearly amounts of cross-border rescue lending



Alternative explanation : China as Lender of Last Resort

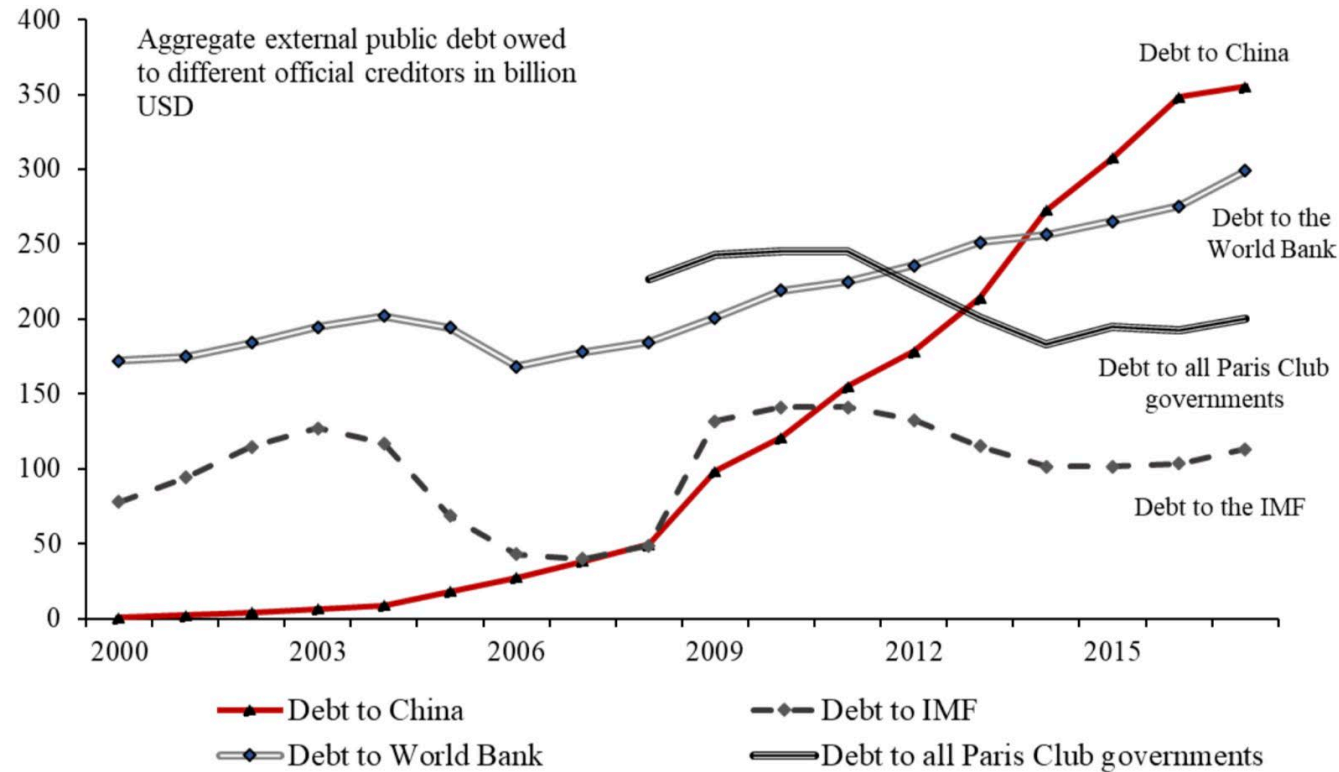
Figure 4. The geography of China's bilateral bailouts



Note: Countries marked in red have received rescue lending from China, either by making drawdowns on their RMB swap lines and/or by receiving balance of payments support from Chinese state-owned banks and enterprises. Swap drawings by non-distressed countries are excluded. See Appendix I for details.

China benefits: Largest official international creditor

Figure 12: China has become the largest official creditor to developing countries



Note: Figure 9 from Horn, Reinhart, and Trebesch (2021). It shows aggregate public debt to different official creditors for all 122 developing and emerging market countries contained in the World Bank International Debt

Beyond this paper

- “Natural” Experiment of jump starting
 - Ukraine war and Russia sanctions
 - Swift sanctions
 - Commodity pricing
 - India
- Firm level survey of currency composition
- Case study of Singapore

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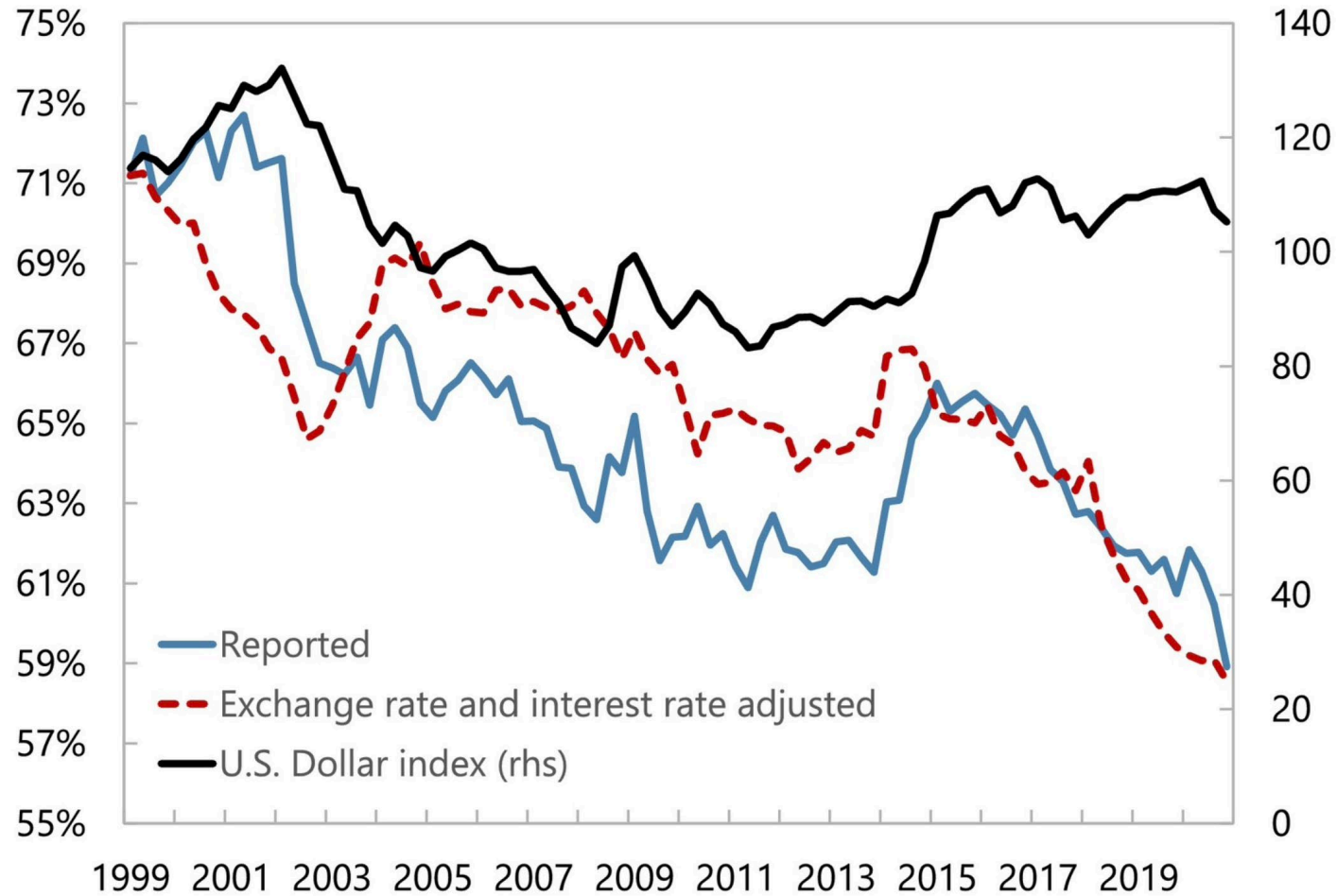
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Beyond this paper

- Rise of non-traditional currencies in CB reserves
- China as an international lender
- China as lender of last resort

Dollar Dominance in reserves declining

(in percent; index Jan-2006=100)



Arslanalp, S, B Eichengreen and C Simpson-Bell (2022), "The Stealth Erosion of Dollar Dominance and the Rise of Nontraditional Reserve Currencies," *Journal of International Economics* 138.

Dollar Dominance in reserves declining

– slow rise of nontraditional currencies in reserves – end 2021

	in bil US\$	as % of Total
Total	1239	100%
Australian dollar	221	18%
Canadian dollar	287	23%
Chinese renminbi	337	27%
Swiss franc	21	2%
Other	372	30%
Korean won	127	10%
Swedish krona	50	4%
Singapore dollar	84	7%
Norwegian krone	51	4%
Danish krone	30	2%
New Zealand dollar	13	1%
Hong Kong dollar	18	1%

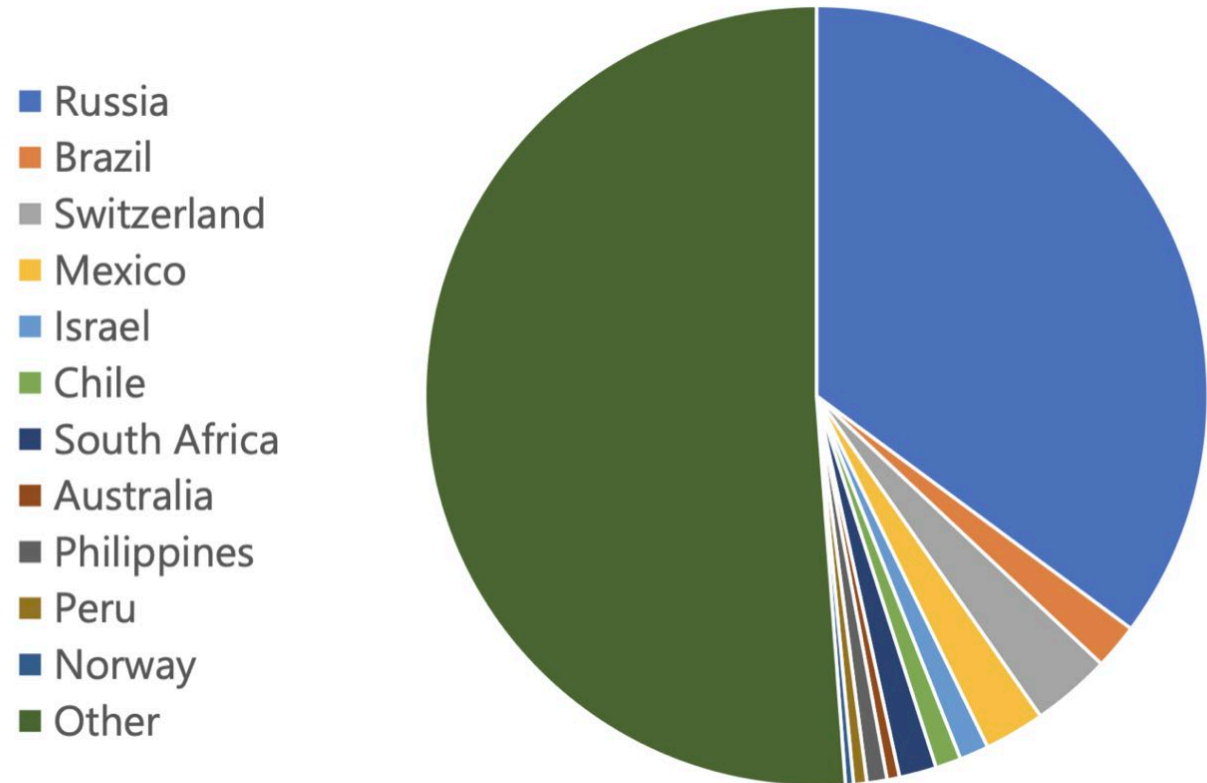
Note: The size of 'other' currencies is estimated based on Arslanalp and Tsuda (2014).

Source: IMF, COFER and CPIS.

Dollar Dominance in reserves declining – who is holding the RMBs

Arslanalp, S, B Eichengreen and C Simpson-Bell (2022), “The Stealth Erosion of Dollar Dominance and the Rise of Nontraditional Reserve Currencies,” *Journal of International Economics* 138.

Figure 2 Countries holding Chinese renminbi in reserves (as a share of total RMB holdings, end-2022)

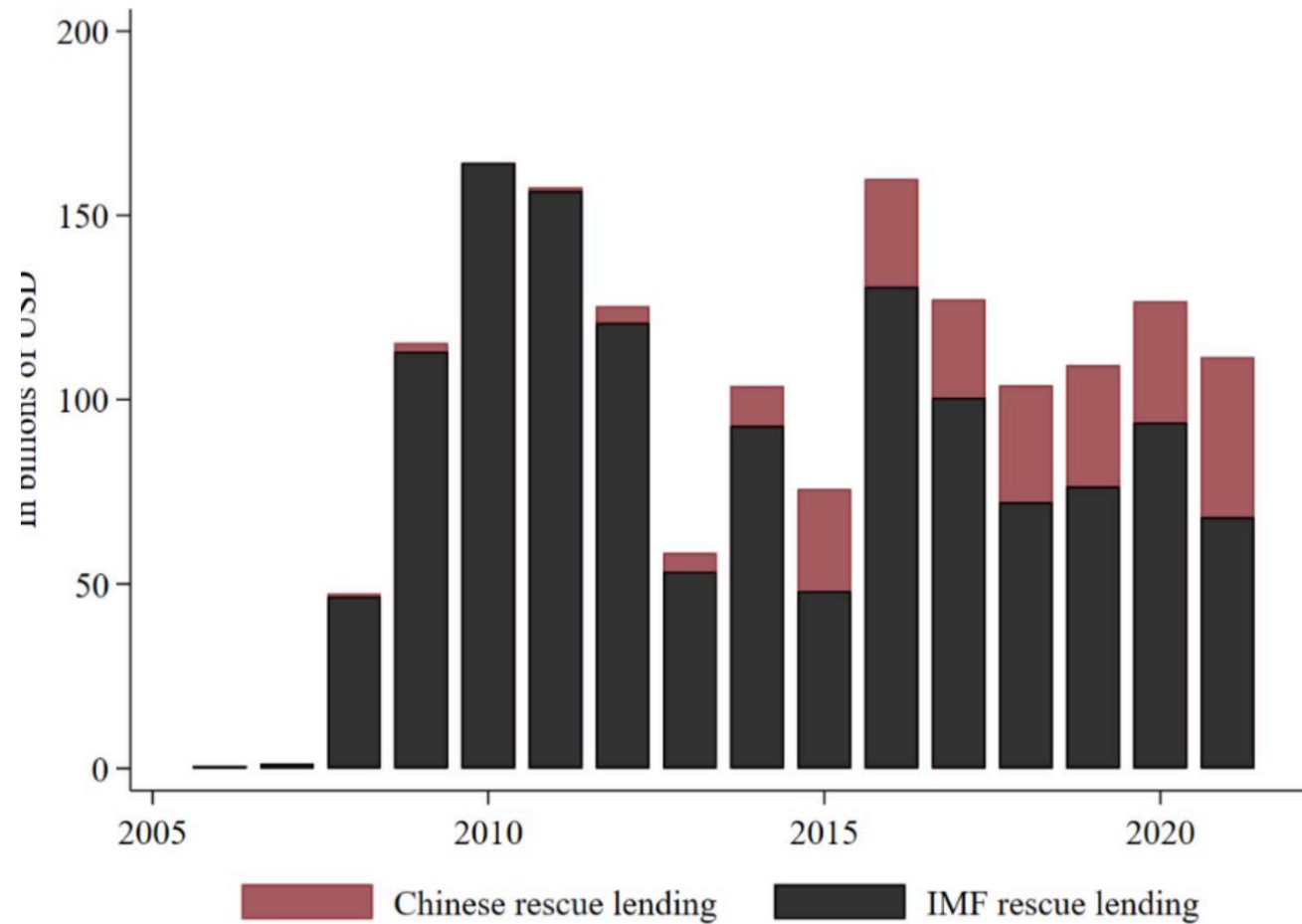


Note: The chart shows identified countries that hold US\$1 billion or more of RMB in reserve assets. Data for the Philippines, Russia, and South Africa are for Dec 2021, Dec 2021 and Mar 2022, respectively.

Source: IMF COFER, IMF Reserve Data Teample, and central bank annual reports.

China as an international Creditor and Lender of Last Resort :

Chinese vs. IMF emergency lending

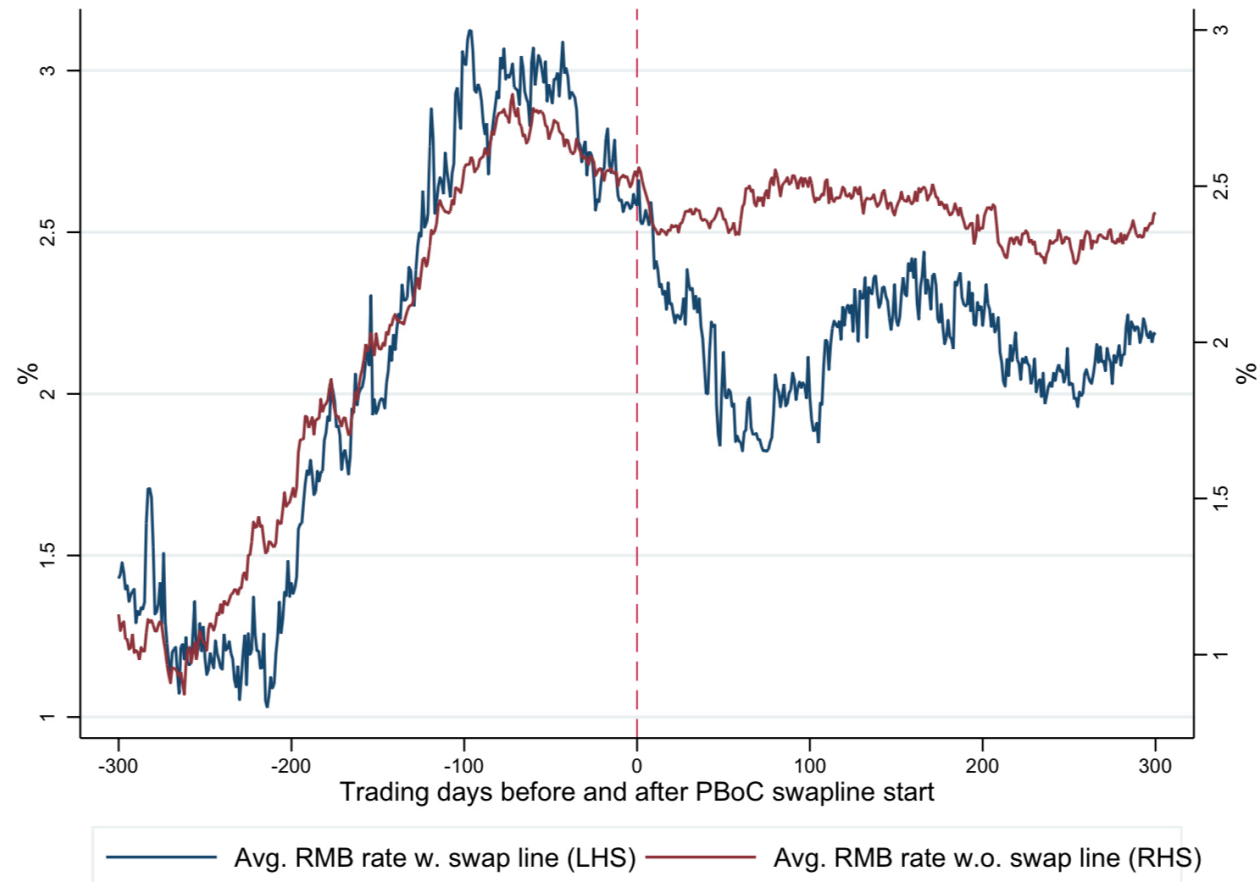


Question: What is a jumpstart?

A one-time level jump?

A crossing of a critical threshold and then take off/acceleration?

Figure 6: Cost of RMB borrowing before and after a swap line is signed



FX turnover

net daily average
and percentage
of total

in April 2022

