

UNIST SBA Colloquium

Central Bank Swap Lines, Bank Risk Management and Currency Choice in Trade

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<https://unist-kr.zoom.us/j/86081185496>



(This seminar will be conducted in English)

Abstract

Internationalization of emerging market currencies, especially the Renminbi (RMB), is of significant interest to both academic and policy worlds. This paper investigates the role of central-bank local currency swap lines in promoting the use of local currencies in trade invoicing. While the existing literature has emphasized the direct role of swap lines in trade invoicing, we suggest an indirect role of risk reduction through banks' currency risk management. Using exporter-trading partner-year level data on currency invoicing from South Korea during 2006-2019, we show that signing swap lines between Korea and China likely played a role in the rise of the RMB in the invoicing share among Korean exporters. Conversely, the expiration of a swap line between Korea and Japan likely contributed to a decline in the Japanese yen (JPY) invoicing share. We exploit the firm-level heterogeneity in our analysis by showing that Korean exporting firms whose main banks had more ex-ante exposure to China exhibited greater increase in RMB invoicing. Additionally, Korean banks raised the interest rates on RMB deposits but lowered those on JPY deposits. Our theoretical model suggests that the financial safety net provided by the swap line incentivizes banks to provide higher interest rates for deposits in the partner's currency, and hence promotes the use of the same currency in trade invoicing.

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