

Central Bank Swap Arrangements in the COVID-19 Crisis
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Discussion by Galina Hale, UCSC

Assumptions and findings

- Questions
 - “**Why?**” What determines which countries got swap lines?
 - “**What effect?**” What was the effect of swap lines and related actions?
- Findings
 - Swap lines to economies with **U.S. bank exposure, more trade with US and military alliances**

This is important because (unlike GFC) this shock did not originate in the U.S.

- USD depreciation, lowered CDS spreads
- *Not sure “spillover” is the right word*

My comments

- GFC as a context and some broad questions that would be good to add to the agenda
- Concerns with specification and some suggestions
- Questions on interpretation

To understand motivation, look back at GFC

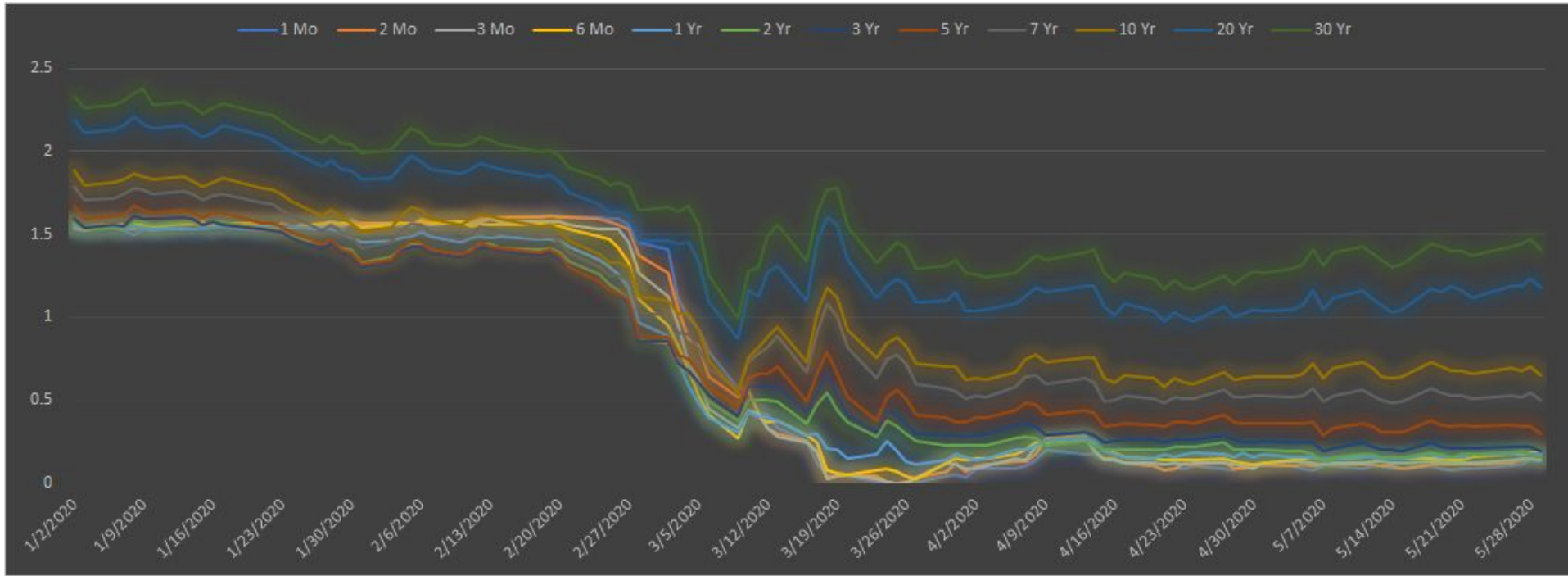
- In December 2007 USD swap lines were established with 14 central banks through February 2010
- Mostly to countries with strong **financial** linkages with the U.S.
- What was the effect on USD?
 - A lot of endogenous stuff!
 - Use of swap line is due to USD shortage
 - No good counterfactual because USD is global currency, swaps affect global supply

GFC swap lines and USD



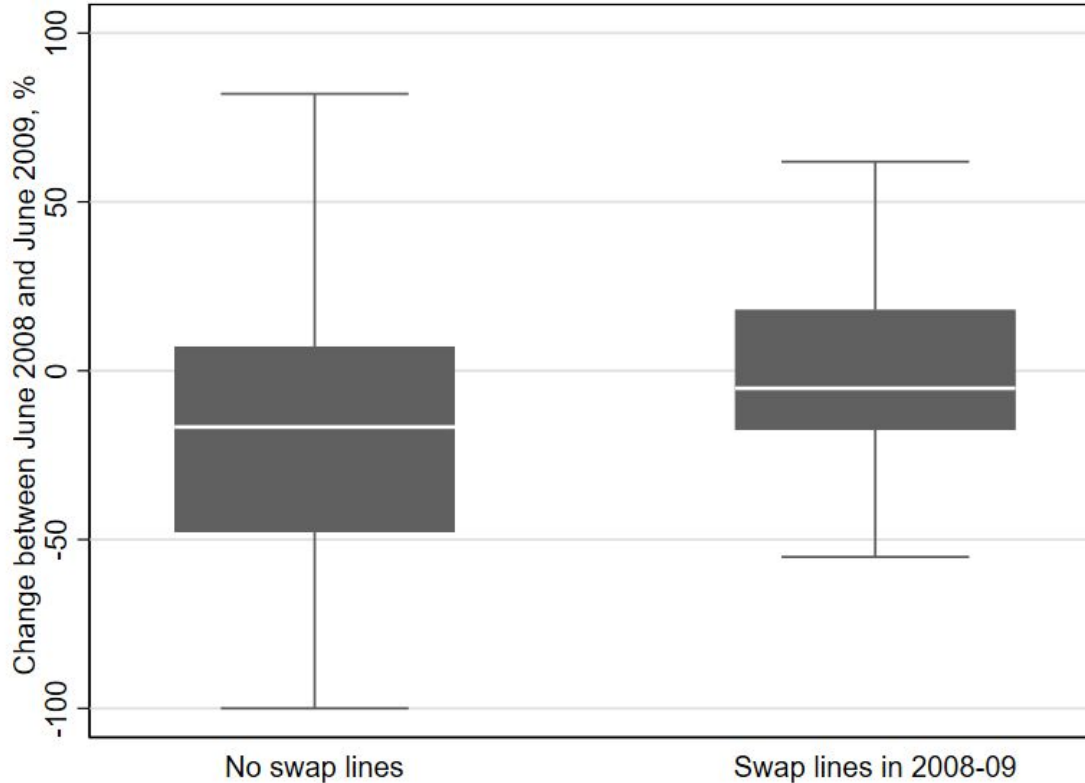
FIMA: I want to know more

- Why couldn't they just sell U.S. Treasuries? Only worth it for LT Treasuries
- Why not just extend swap lines?
- Did FIMA have an effect on U.S. Treasury yields?

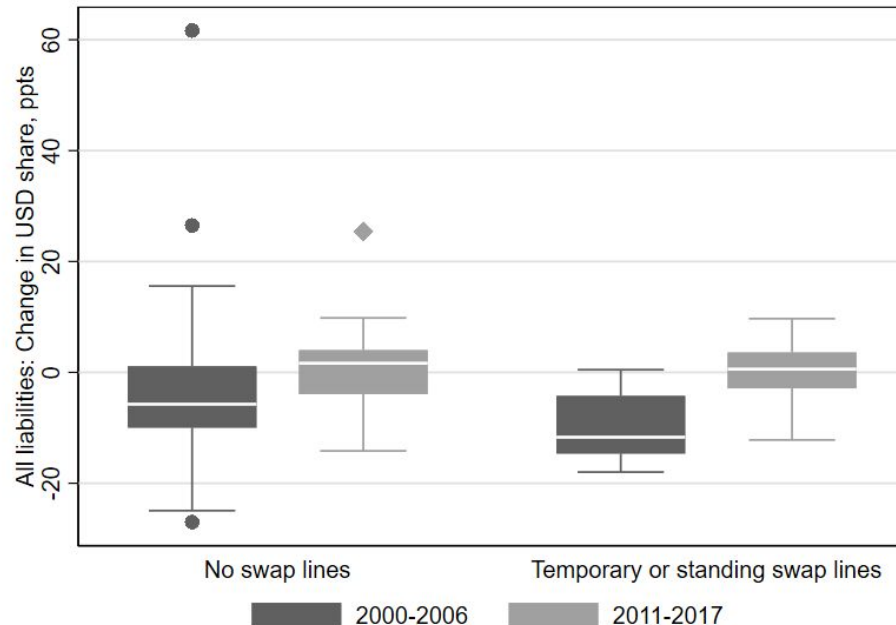
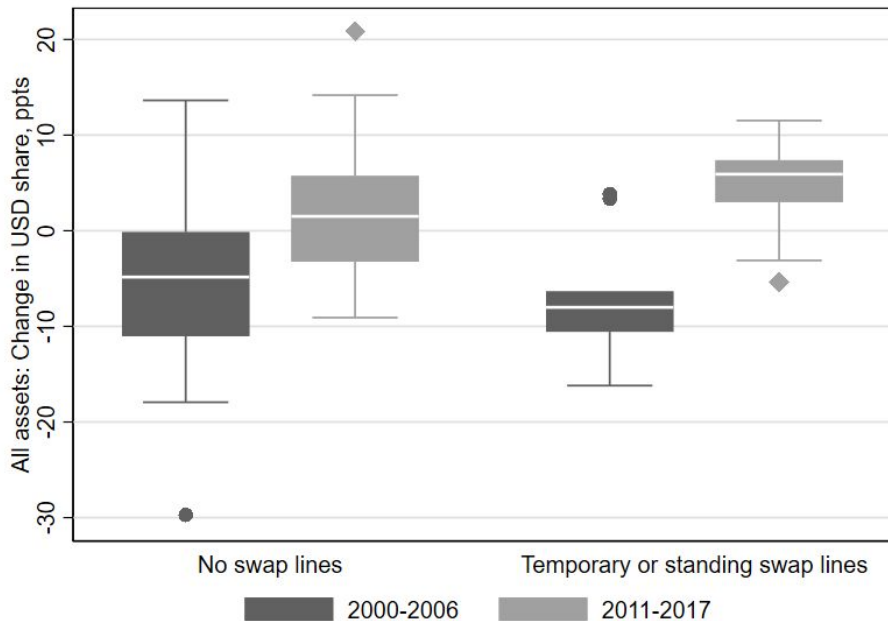


Change in holdings of U.S. Treasuries during GFC

This can be tested for 2020 - June 2020 data are available on US Treasury holdings

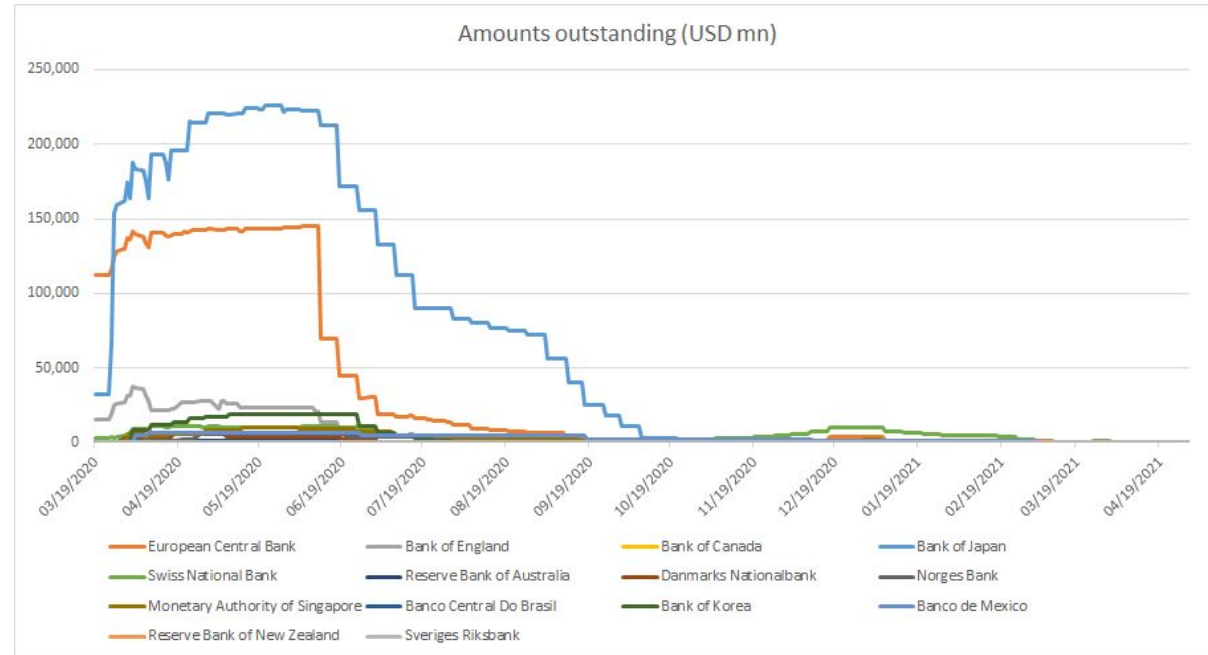


Is there a moral hazard associated with swap lines? External balance sheet management



This time. Use of swap lines

- Any influential countries?
- How correlated are RHS variables?
 - $R^2 \sim 1$
- Why do probit and linear separately, why not Heckman?



Timing matters (and horizon matters).

March 19 - announcement, March 23 QE (controlled for)

- Discuss more announcement vs. auction effects;
 - Demand for USD : speculative (announcement); transactional (auction)
 - Can shed light on the mechanisms



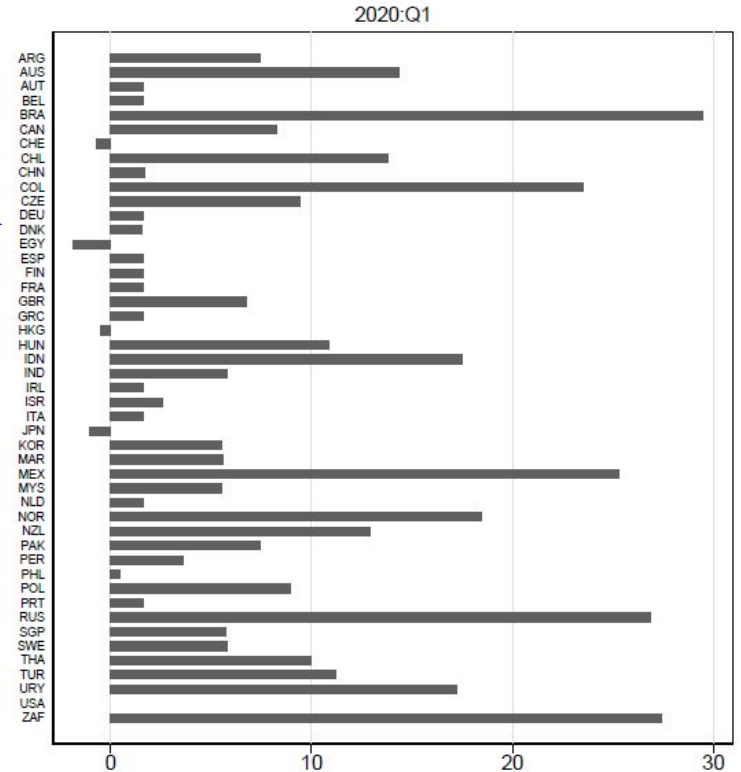
May also want to control for local currency QE

European Central Bank	3/19/2020		
Bank of England	3/19/2020		
Bank of Japan	3/16/2020	4/27/2020	
Bank of Canada	3/27/2020		
Reserve Bank of Australia	3/19/2020		
Reserve Bank of New Zealand	3/23/2020		
Riksbank	3/16/2020		
Bank of Israel	3/16/2020	3/23/2020	
Bank of Korea	3/26/2020		
Banco de la República	3/24/2020		
South Africa Reserve Bank	3/25/2020		
Narodowy Bank Polski	3/17/2020	4/8/2020	
Banca Națională a României	3/20/2020		
Magyar Nemzeti Bank	4/7/2020	4/28/2020	
Hrvatska narodna banka	3/13/2020		
Bangko Sentral ng Pilipinas	3/23/2020	4/13/2020	
Banco de Mexico	4/21/2020		
Central Bank of Turkey	3/31/2020		
Reserve Bank of India	3/18/2020	3/20/2020	4/23/2020
Bank Indonesia	4/1/2020		

"An Event Study of COVID-19 Central Bank Quantitative Easing in Advanced and Emerging Economies", Alessandro Rebucci (Johns Hopkins and CEPR)

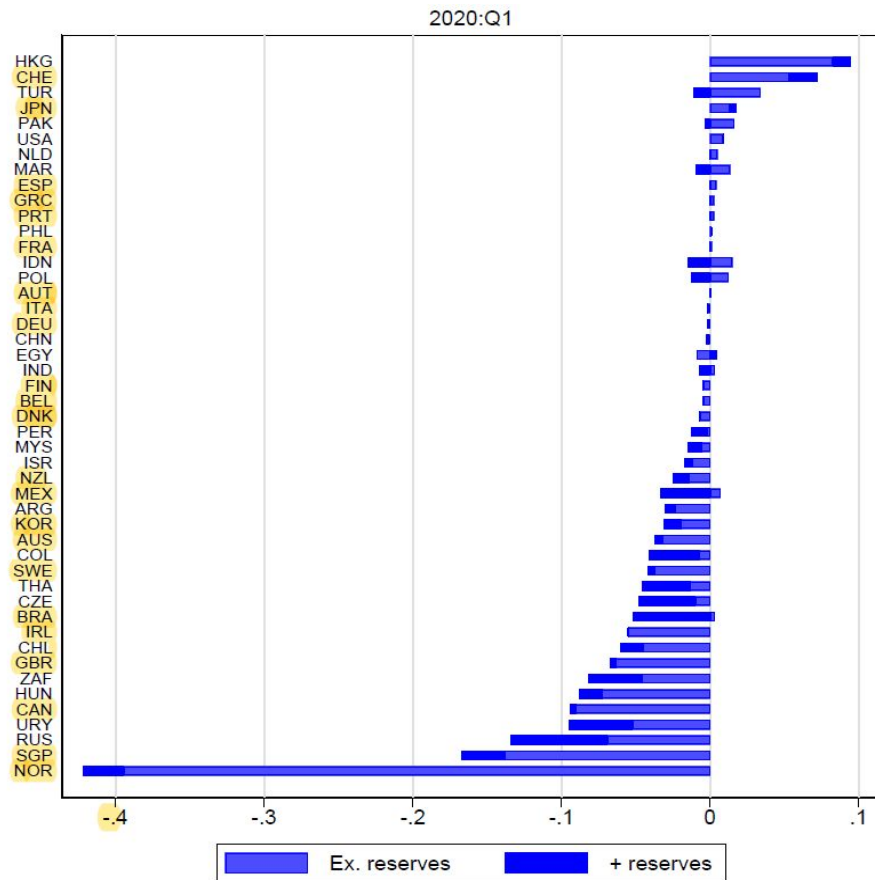
Interpretation questions

- Increase in USD liquidity globally \neq spillover
- Military alliance result is political influence or proxying for something else?
- Trade linkages this time vs. financial linkages in GFC - is it just need-based?



Need-based? Currency-induced valuation losses in 2020Q1

- Negative numbers are gains
- Most countries gained from USD appreciation
 - JPN and CHE losses due to their currencies' appreciation
- Must be other needs:
 - trade finance needs? Any evidence?
 - Sovereign debt service needs? But the problem was not liquidity, but solvency for many EMs
 - Do we know if US banks held sovereign debt of these countries? (BIS)



Conclusions

- I learned a ton
- Very nice paper - highly recommended
- Maybe can address some additional big questions (in this or future papers)