

**SUDDEN STOPS:**

**COUNTRIES vs. BANKS**

**or**

**THE IMF vs. CENTRAL BANKS**

Ricardo Reis

LSE

# Domestic banks became global

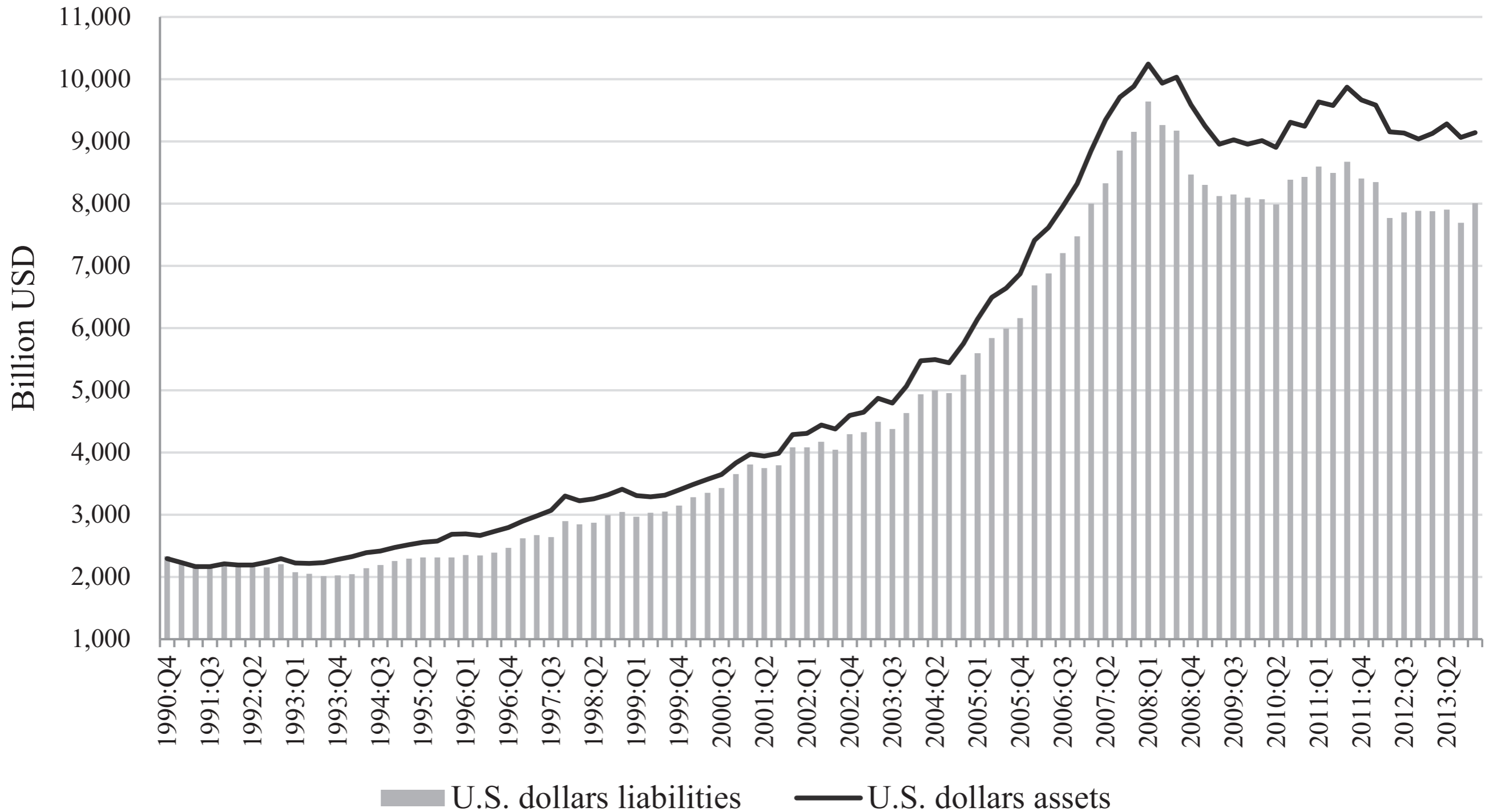


FIGURE I

Dollar Assets and Liabilities of Foreign Banks

Source: Ivashina, Scharfstein, Stein (2015)

# A MMF-driven sudden stop of USD

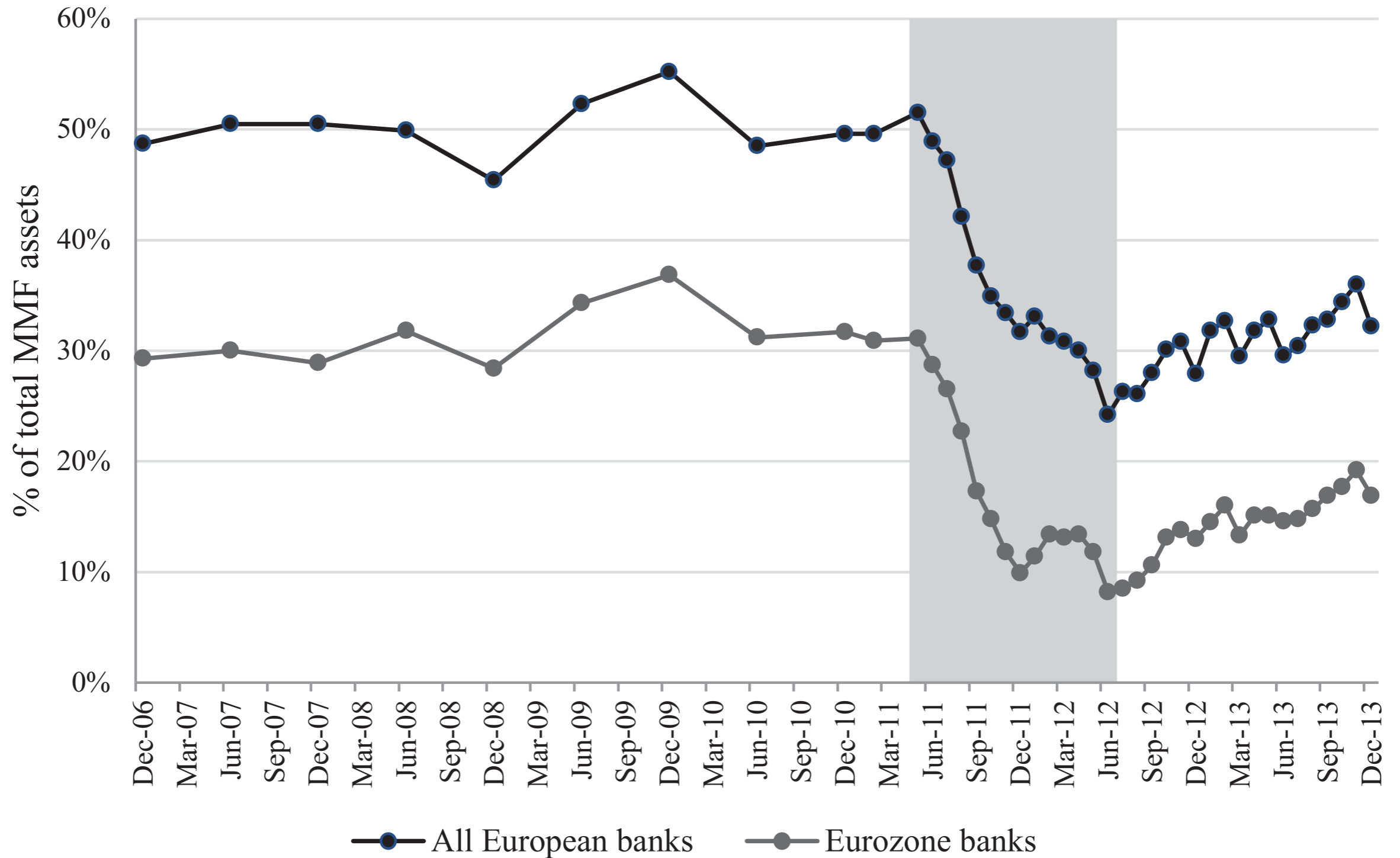
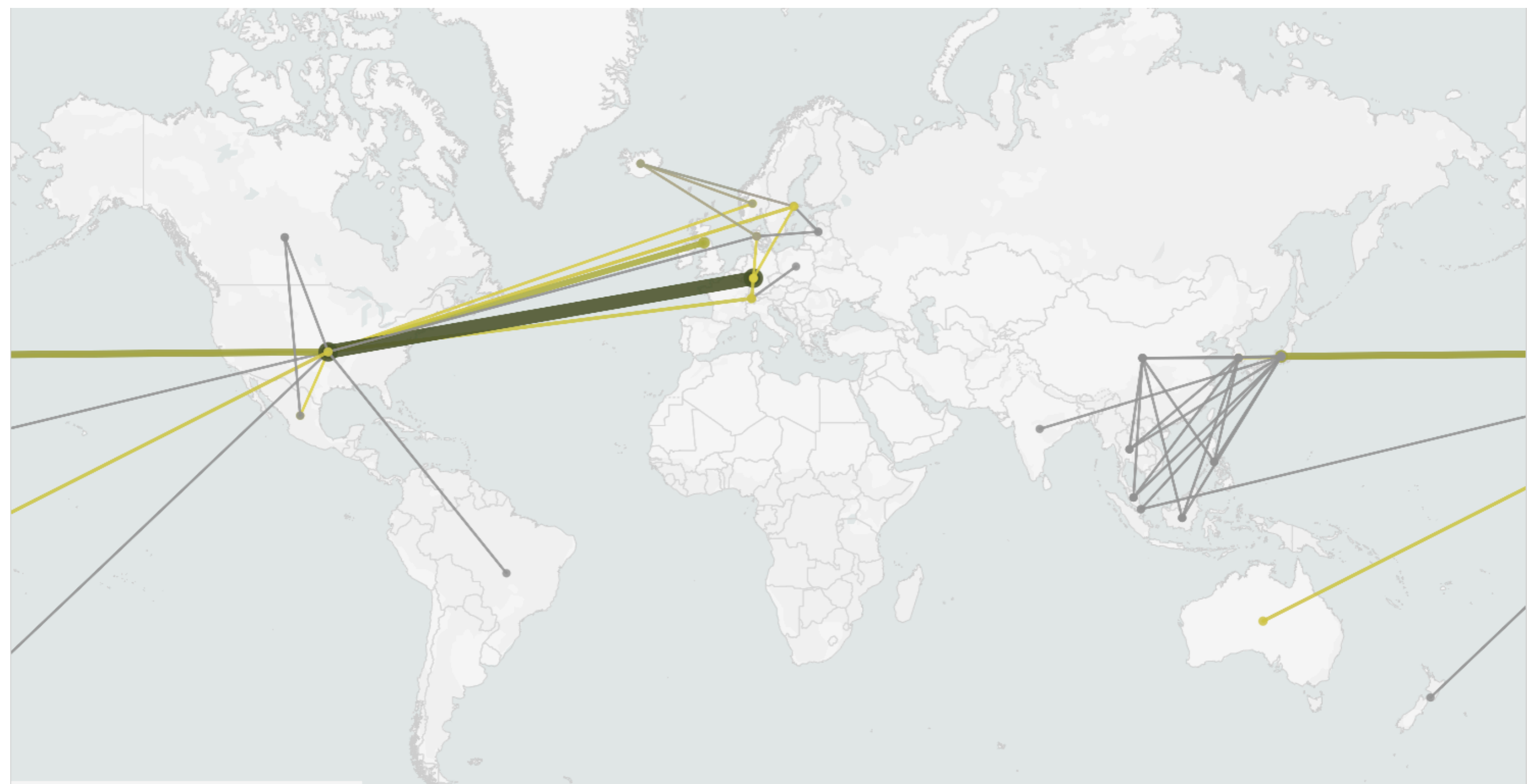


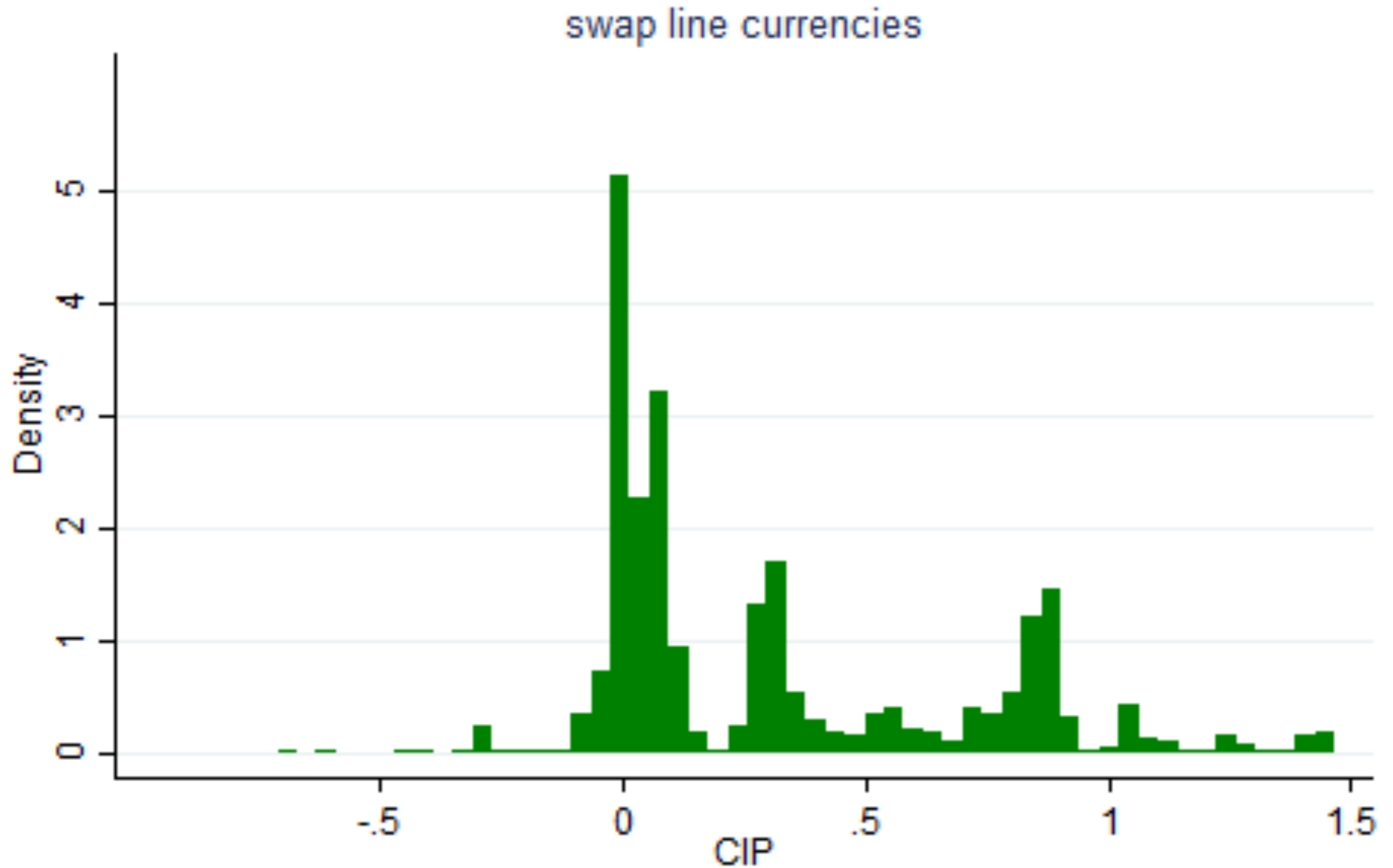
FIGURE II

Money Market Fund Exposure to European Banks

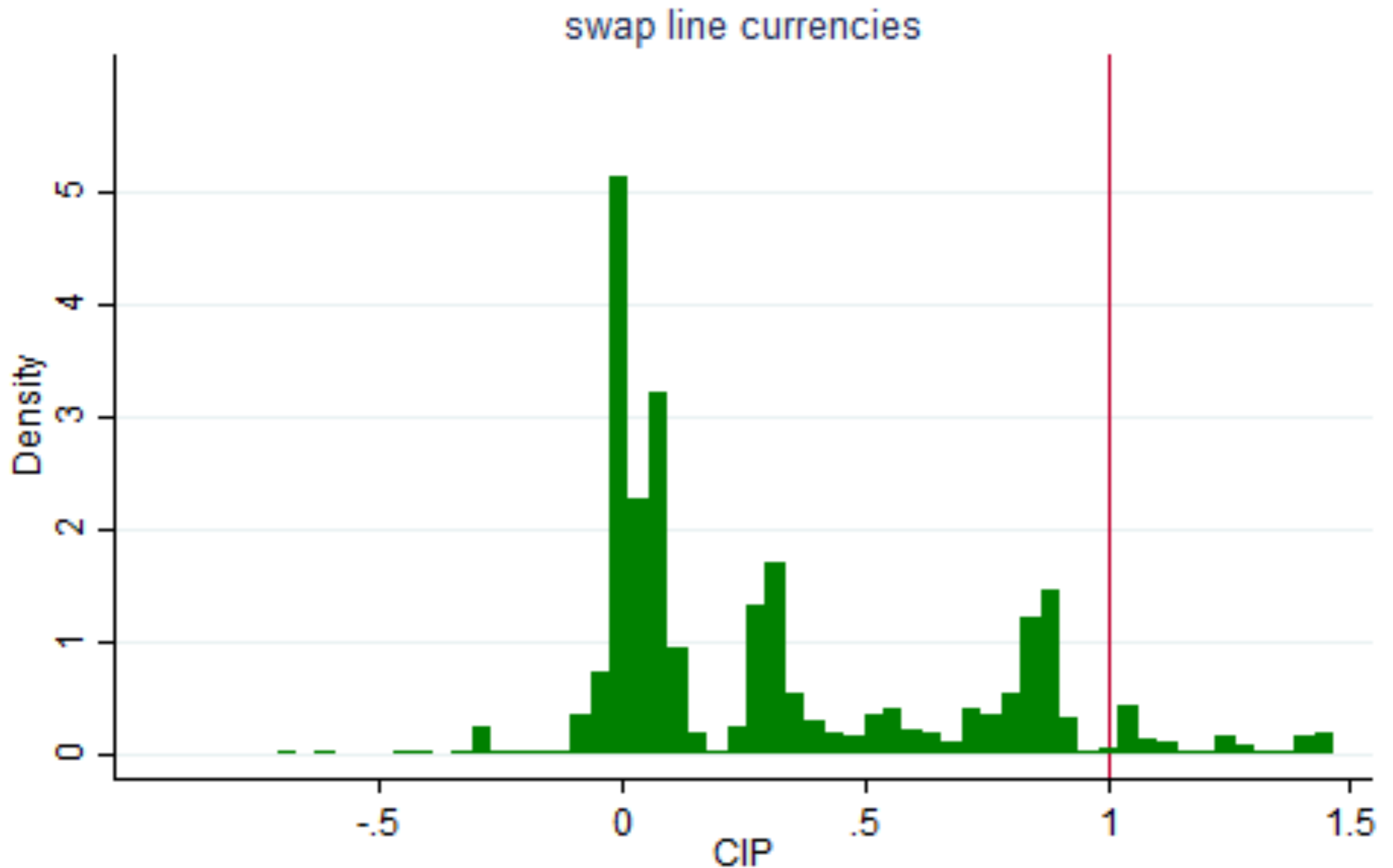
# 2008 CB swap lines as response



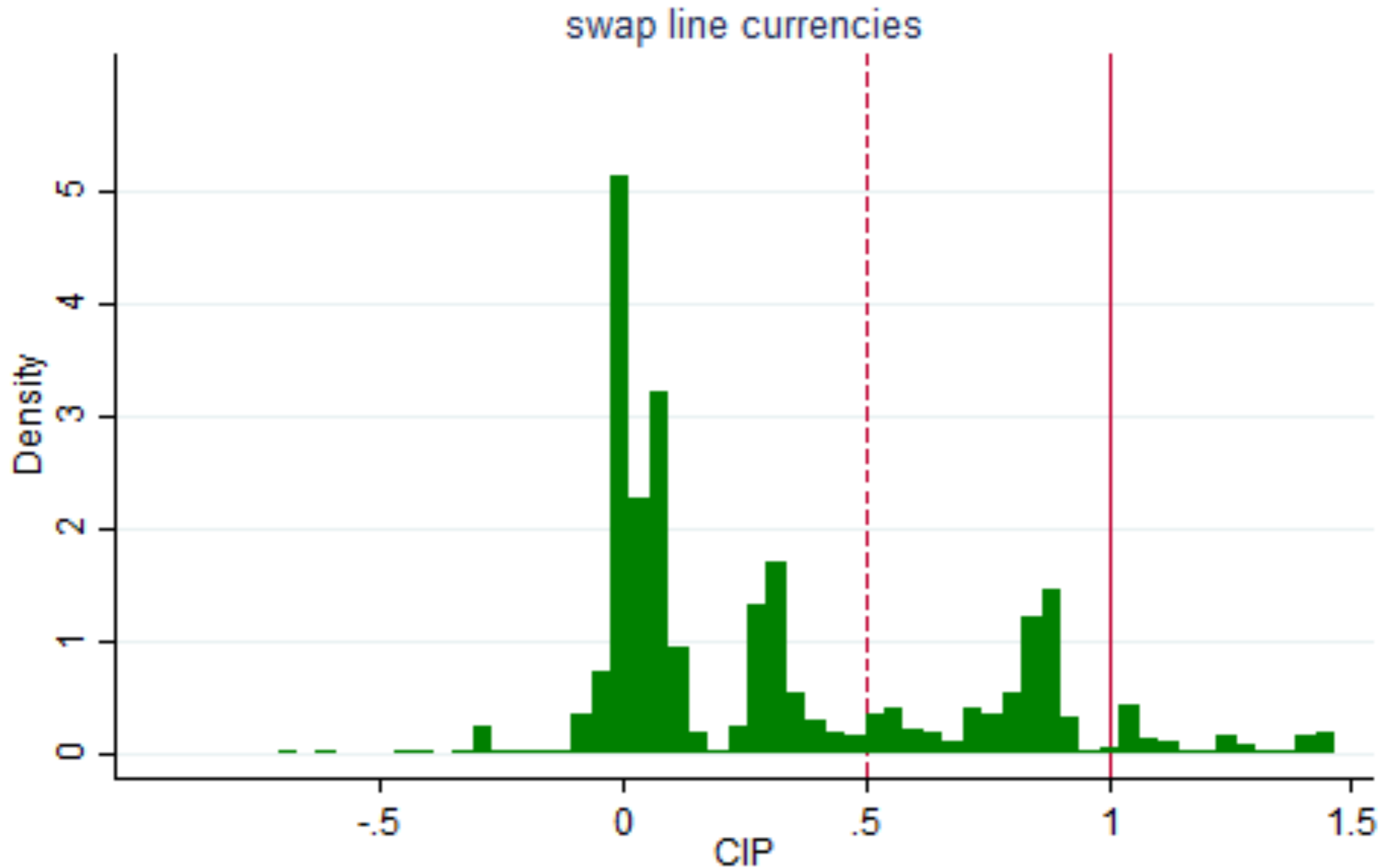
# Currency basis quotes, Nov-11



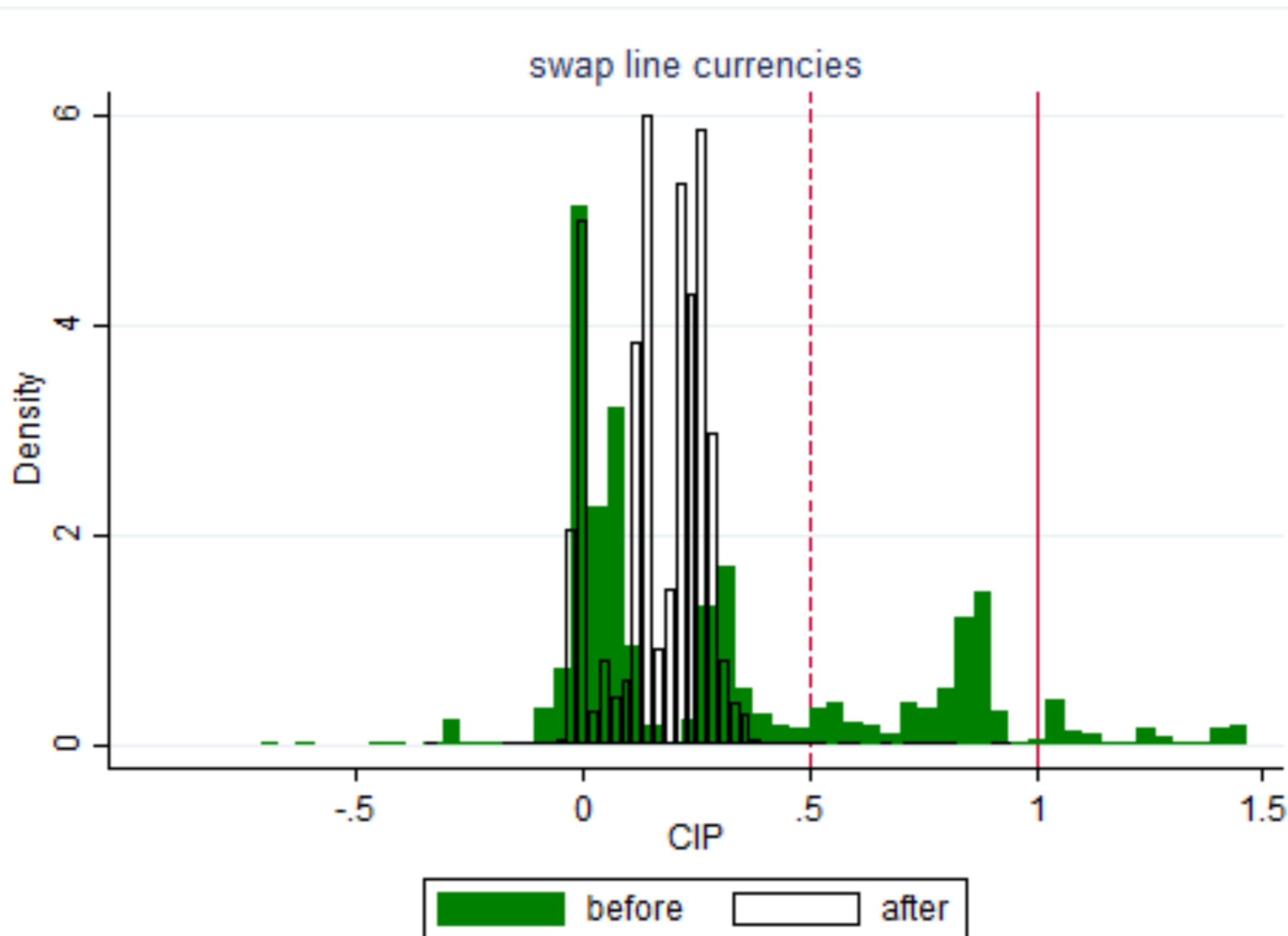
# Swap rate: 100bp spread



# Reduced on 29 Nov to 50bp

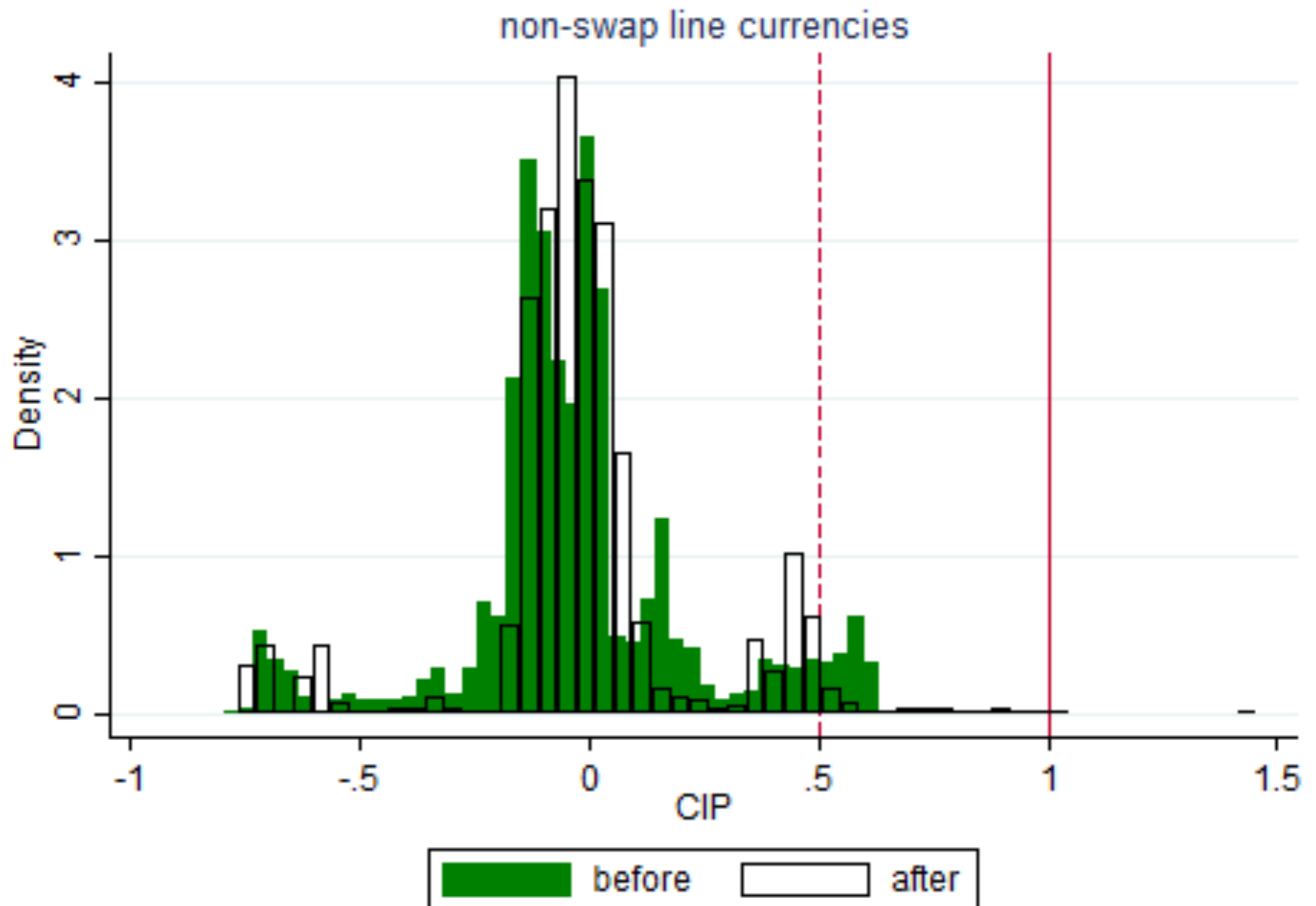


# Dramatic fall in market rates, Dec-11

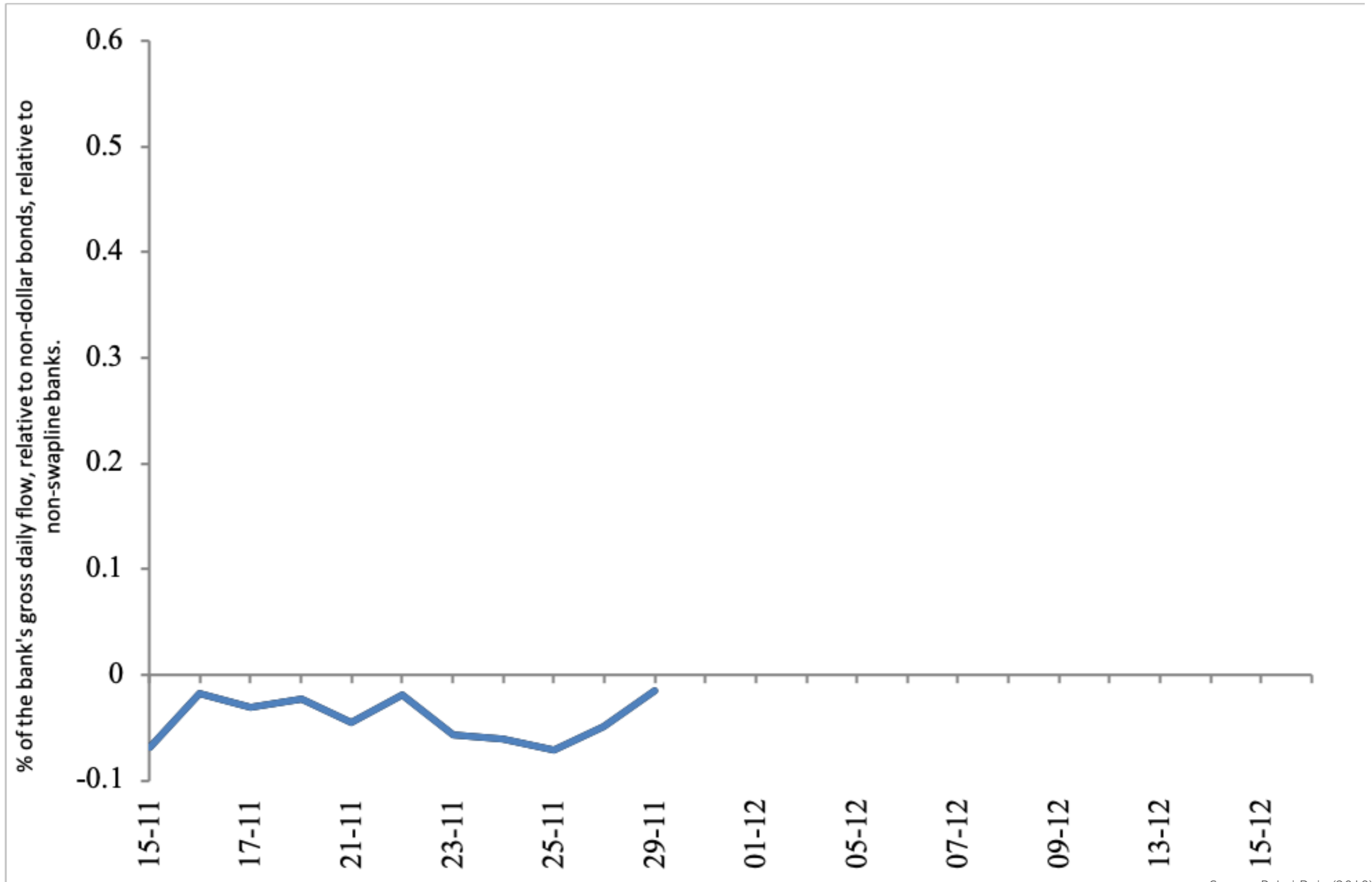




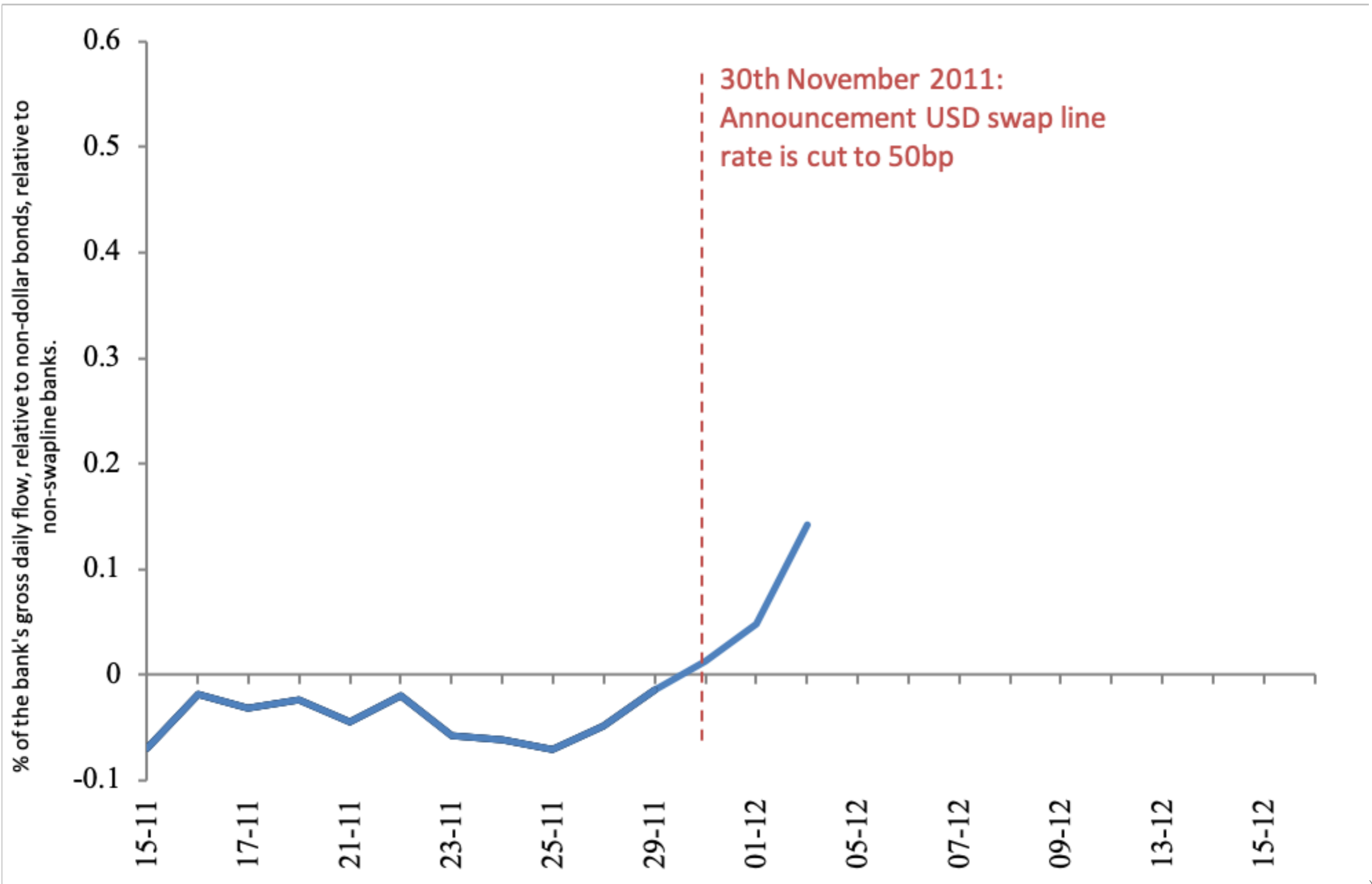
# No effect on non-swap line currencies



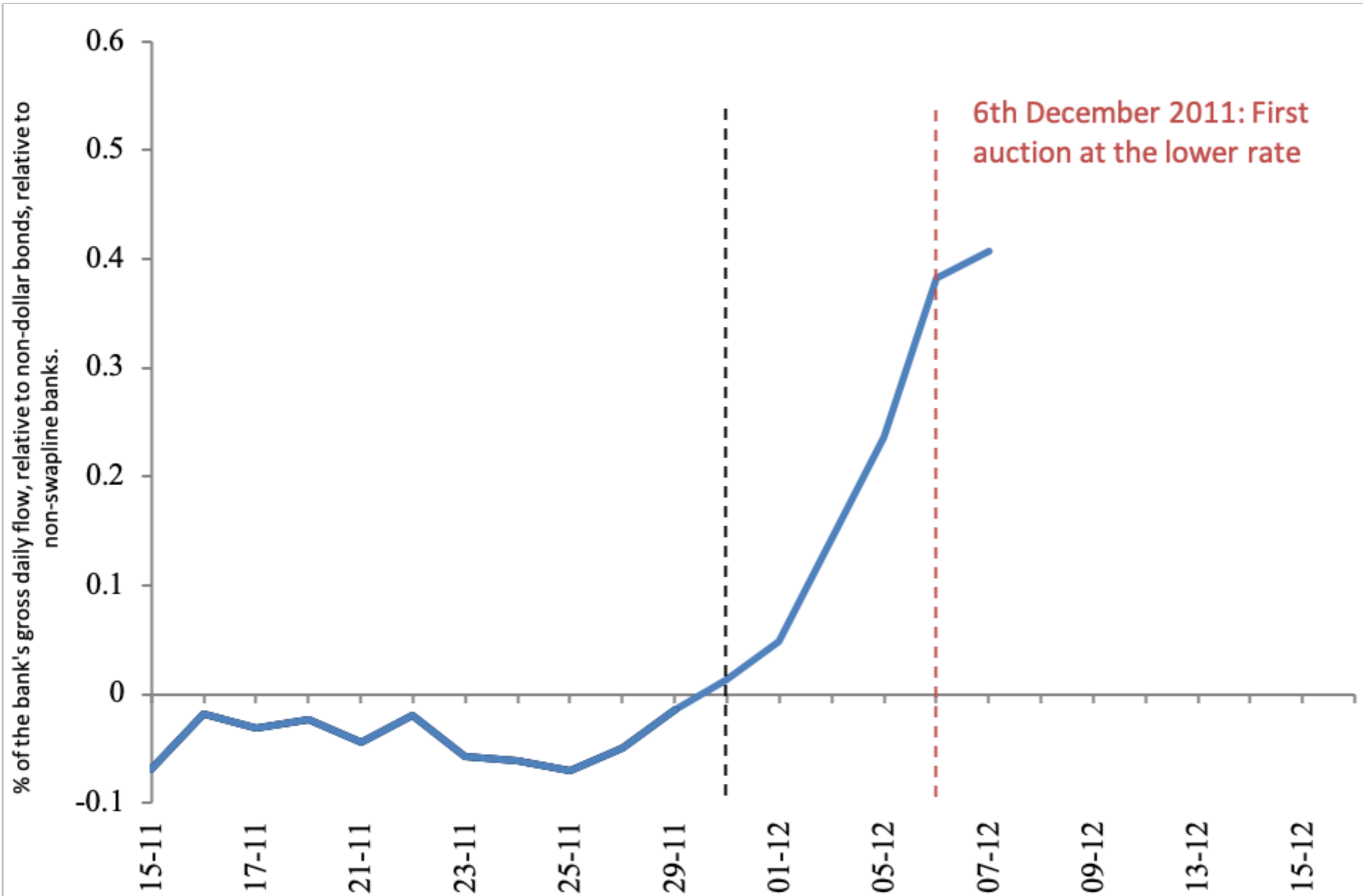
# Cumulative inflow to USD corporate bonds



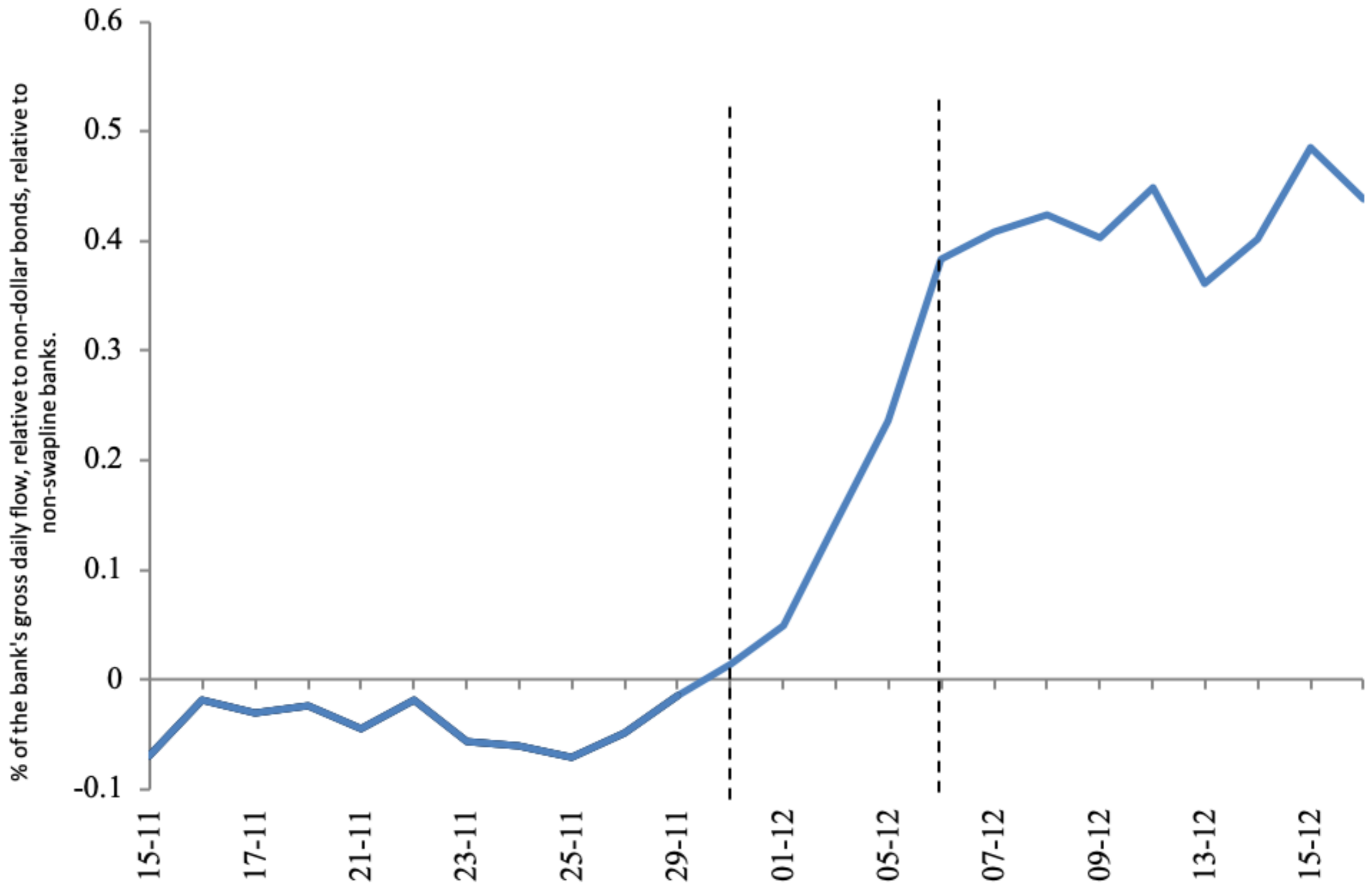
# Cumulative inflow to USD corporate bonds



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# CB swap lines vs. IMF loans

## **Central banks:**

- Create liquidity instantly
- Assess solvency of banks
- Judge quality of collateral
- Address liquidity, bear minimal credit risk
- Monetary, not fiscal
- Collateral, not conditionality

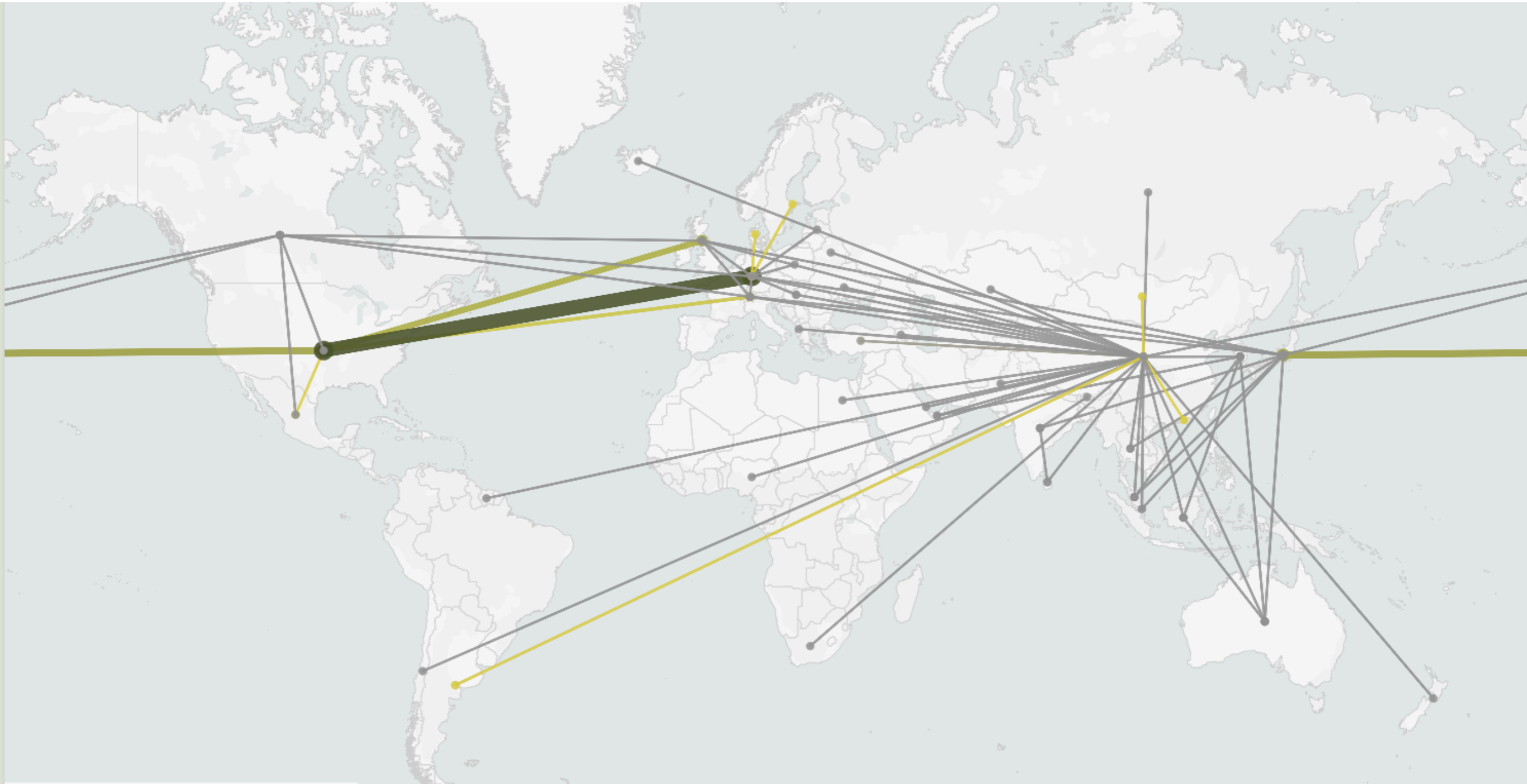
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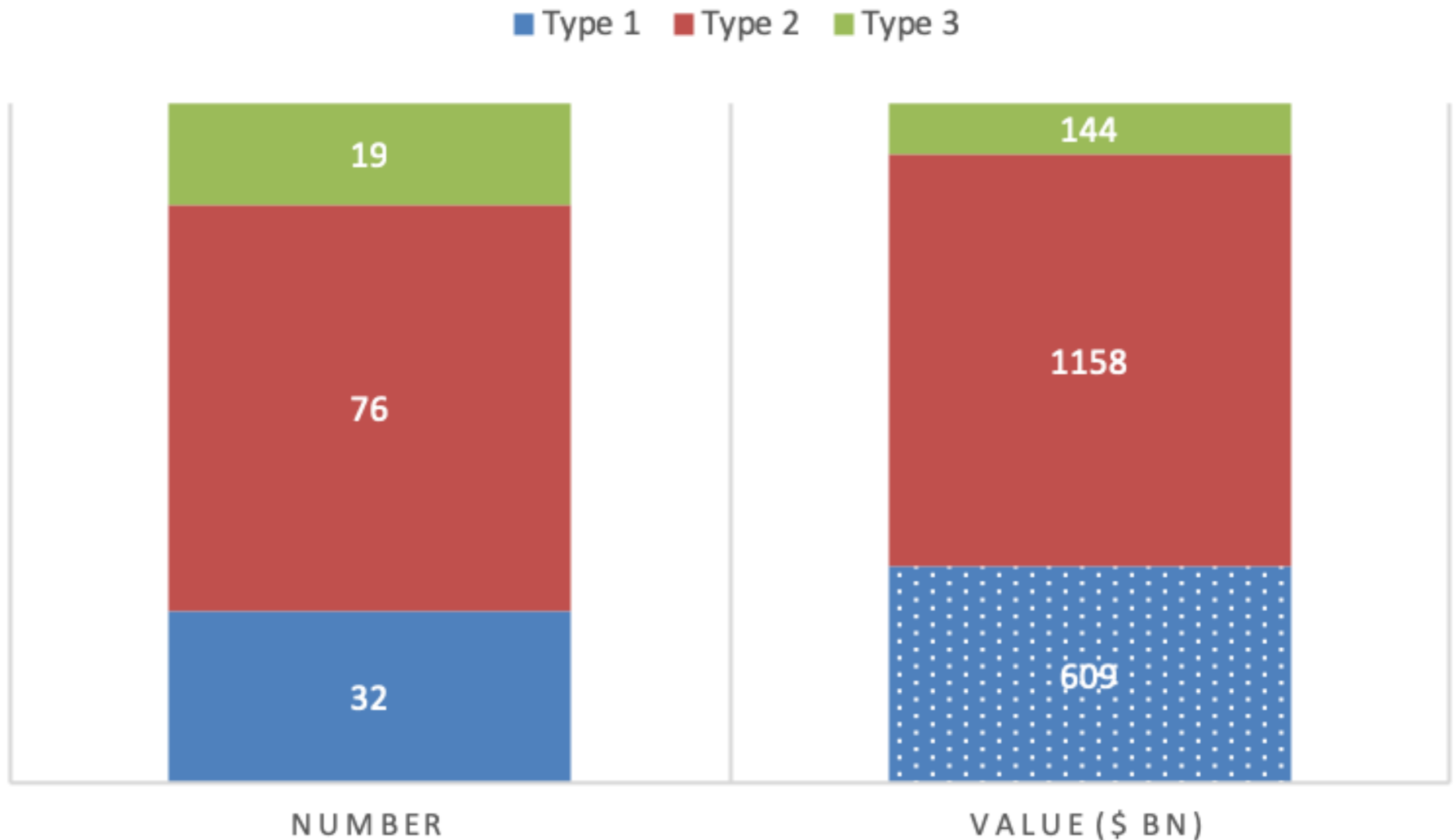
***Not IMF's comparative advantage,*** although bank-sovereign diabolic loop.

# But many swap lines today...





# And of very different types



# Could the IMF be a backstop for USD swap lines?

Take away all sovereign risk from the Fed, set the margins of domestic currency for the recipient CBs. If they default, line is part of program.

