The Global Network of Liquidity Lines

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Discussion by Amy W. Huber

The Wharton School

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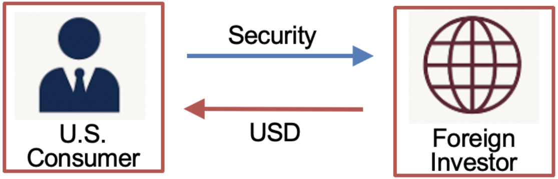

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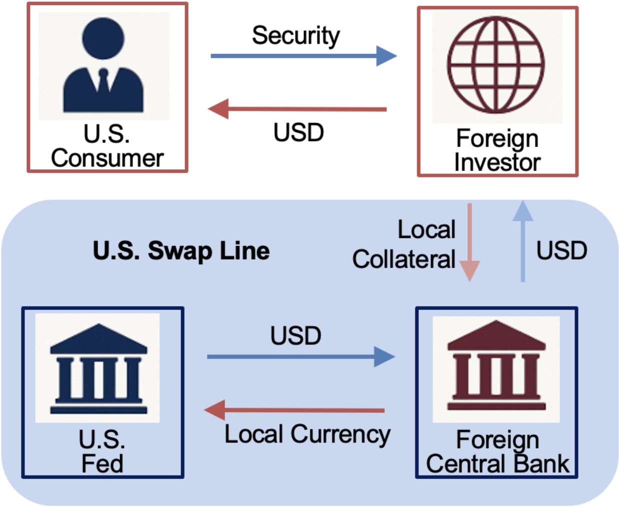

Liquidity lines and this paper

- Liquidity lines: key tool to support the offshore funding market.
  - Ultimately benefiting domestic economic growth.
- This paper: seminal contribution to understanding liquidity lines.
  - Traces the evolution of liquidity line networks.
  - Connects liquidity lines to CIP deviations.
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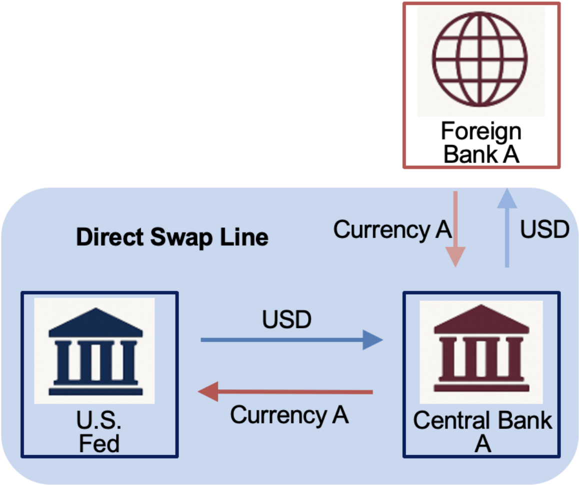
- Discussion: reflect on insight to frame evaluations of liquidity line networks.
  - E.g., the U.S. swap line network: Too few connections? Too fragile?

Key insight—visualized



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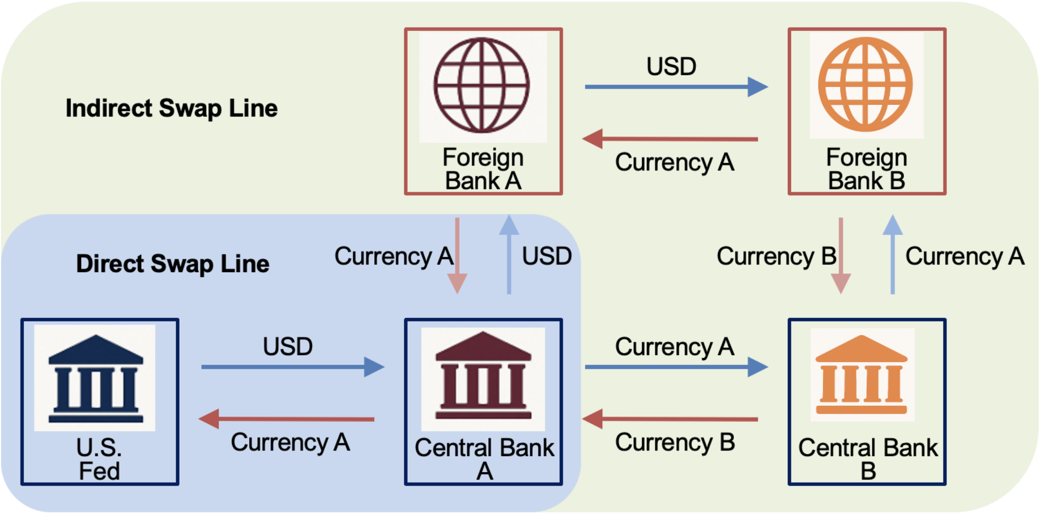

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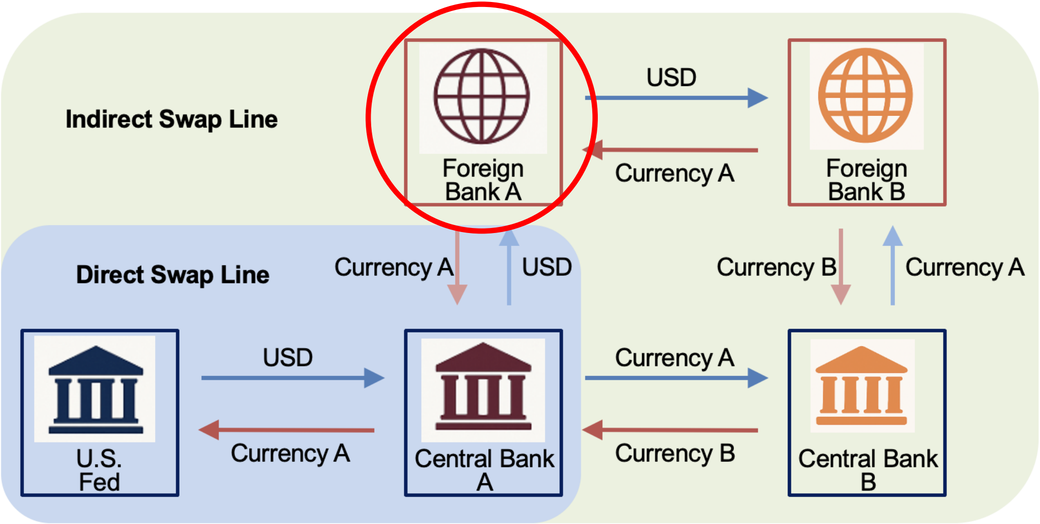

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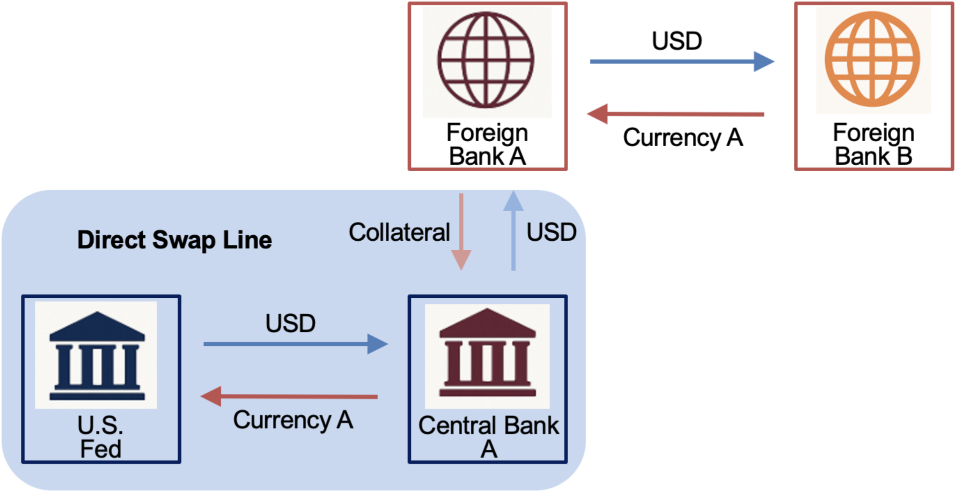

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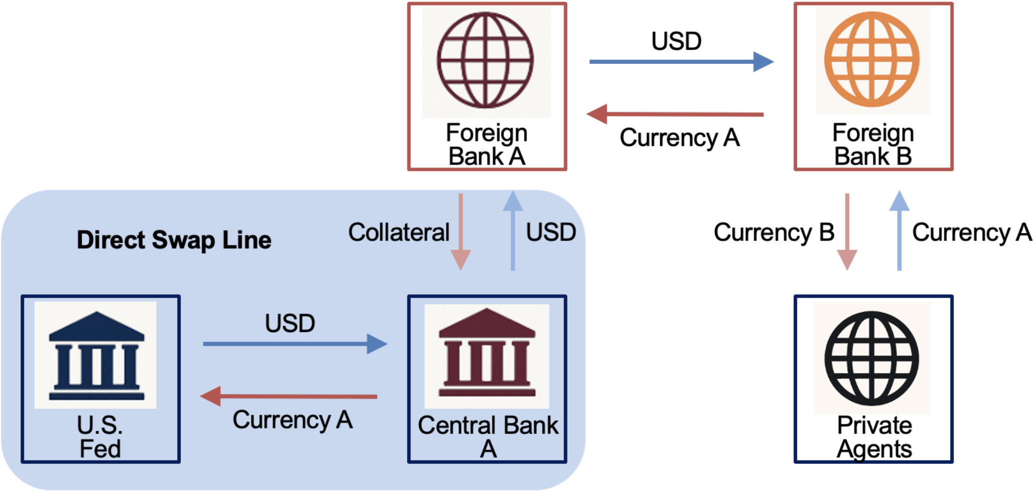

Market forces interconnect financial markets

- Market forces direct private agents to redistribute resources.
  - ⇒ Currency and funding markets rarely operate in isolation.
  - ⇒ Shocks propagate rapidly across currencies (An and Huber, 2024).
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- But central banks do not have one arbitrary liquidity line.
  - ⇒ Market forces don't always work perfectly.
- Can we learn from existing liquidity lines where markets break down?
  - ⇒ Where the market falls short is where liquidity lines are most needed.

Limitation of the market—externality

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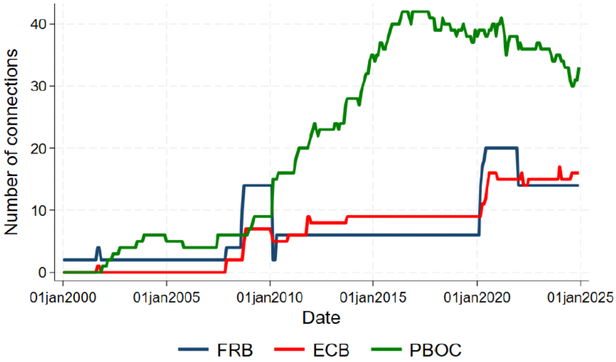
    - E.g., financial and trade shocks in neighboring countries can ripple into Japan.
    - Government internalizes the benefit of distributing USD cheaply.
- Implication: Direct liquidity lines are desirable in jurisdictions with substantial cross-border trade and financial linkages.
    - One of the Fed's first swap lines: NAFTA.

Limitation of the market—capital control



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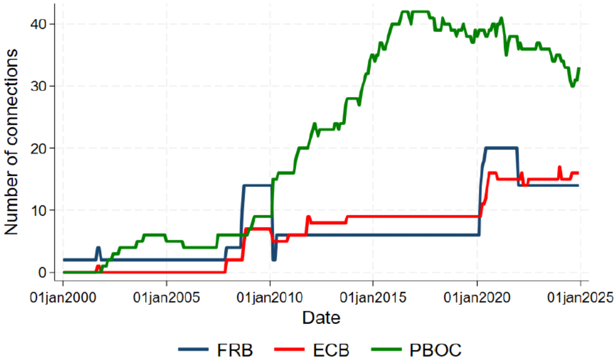

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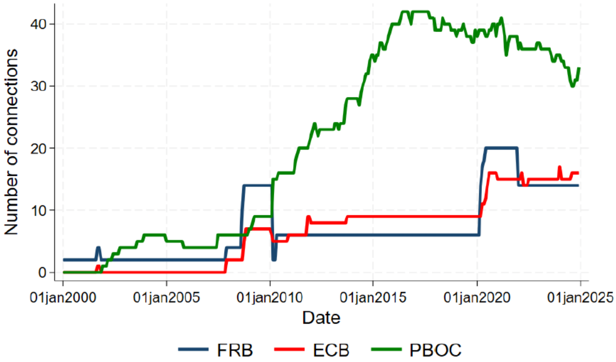

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- Implication: To achieve the same reach, countries with capital control need more direct bilateral liquidity lines.

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- How is the Fed doing?
  - Fewer swap lines than PBoC, but all are well-targeted at major trading partners.
  - Not necessarily vulnerable to PBoC withdrawal, as many countries likely have indirect access to USD through the ECB, BoJ, or BoE via private markets.

Is the Fed's swap line network optimal?

- It does have broad and targeted reach. But at what cost?
  - This paper: reduced FX reserves.
  - Background: in aggregate, foreigners are holding more USD securities (Du and Huber, 2024).
  - Implication: USD securities are increasingly held by private agents (Ding, Lewis, and Zeng, 2025).

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  - Implication: USD securities are increasingly held by private agents (Ding, Lewis, and Zeng, 2025).
- If a concern, the FIMA repo facility offers a potential alternative.
  - Provides quick USD liquidity from Fed against Treasury securities as collateral.
  - Not an injection of new USD funding, but a conversion of assets into liquidity, hence encourages precautionary holdings of Treasurys.

Conclusion

- Authoritative paper on the evolution of liquidity lines.
  - Key insight: Indirect liquidity lines extend the reach of a direct liquidity line beyond its immediate recipient.
- Insight extended: Market forces instrumental in extending reach.
  - Breadth and precision of liquidity lines: depend on market functioning.
  - Best place for liquidity lines: presence of externalities and/or capital control.
- Optimal support of offshore funding is crucial. This paper offers an important foundation for further collective progress.

An, Y., and A. Huber. 2024. Demand propagation through traded risk factors. Working Paper.

Ding, D., K. Lewis, and Y. Zeng. 2025. Intermediated dollar lending of last resort: from dollar safety to treasury fragility. Working Paper.

Du, W., and A. Huber. 2024. Dollar asset holdings and hedging around the globe. Working Paper.