

Jumpstarting an International Currency

Saleem Bahaj

Bank of England

and

Ricardo Reis

London School of Economics

December 2020

Summary

Monetary and financial policies that lower the cost of credit for working capital in a currency outside of its country can provide the impetus for that currency to be used in international trade. This paper shows this in theory, by exploring the complementarity in the currency used for financing working capital and the currency used for invoicing sales. Financial policies by a central bank can jump-start the use of its currency outside a country's borders. In the data, the creation of 38 swap lines by the People's Bank of China between 2009 and 2018 provides a test of the theory. Signing a swap line with a country is significantly associated with increases in the use of the RMB in payments to and from that country in the following months.