



Bank of Mount Vema Liquidity Swap Facilities



June 18, 2018

The Royal Mount Vema Reserve Bank has authorized the Bank of Mount Vema to engage in reciprocal currency arrangements (central bank liquidity swap lines) with foreign central banks to help provide liquidity in golles to overseas markets and foreign currency to the Mount Vema market.

When requested, swap lines will be opened for deals with the U.S. Federal Reserve, the Swiss National Bank, the Reserve Bank of Australia, the Banco Central do Brazil, the Bank of Canada, the Bank of England, the European Central Bank, the Bank of Japan, the Bank of Korea, the Monetary Authority of Singapore, and including the Bank of China, with other central banks to be listed on as needed bases, at lower interest rates.

The swaps will involve two transactions. When a foreign central bank draws on its swap line with the Bank of Mount Vema, the foreign central bank sells a specified amount of its currency to the Bank of Mount Vema in exchange for golles at the prevailing market exchange rate. The Bank of Mount Vema holds the foreign currency in an account at the foreign central bank. The golles that the Bank of Mount Vema provides are deposited in an account that the foreign central bank maintains at the Bank of Mount Vema.

At the same time, the Bank of Mount Vema and the foreign central bank enter into a binding agreement for a second transaction that obligates the foreign central bank to buy back its currency on a specified future date at the same exchange rate. The second transaction unwinds the first. At the end of the second transaction, the foreign central bank pays interest, at a market-based rate, to the Bank of Mount Vema.

When the foreign central bank lends the golles it obtained by drawing on its swap line to institutions in its jurisdiction, the golles are transferred from the foreign central bank's account at the Bank of Mount Vema to the account of the bank that the borrowing institution uses to clear its golle transactions. The foreign central bank remains obligated to return the golles to the Bank of Mount Vema under the terms of the agreement, and the Bank of Mount Vema is not a counterparty to the loan extended by the foreign central bank. The foreign central bank bears the credit risk associated with the loans it makes to institutions in its jurisdiction.

The foreign currency that the Bank of Mount Vema acquires is an asset on the Bank of Mount Vema's balance sheet. The golle value of amounts that the foreign central banks have drawn but not yet repaid

is reported as "Central bank liquidity swaps". Because the swap will be unwound at the same exchange rate that was used in the initial draw, the golle value of the asset is not affected by changes in the market exchange rate. The golle funds deposited in the accounts that foreign central banks maintain at the Bank of Mount Vema are a Mount Vema Reserve Bank liability. In principle, draws would initially appear as "foreign and official" deposits. However, the foreign central banks generally lend the golles shortly after drawing on the swap line. At that point, the funds shift to the line "deposits of depository institutions".

When a foreign central bank draws on its swap line to fund its golle tender operations, it pays interest to the Bank of Mount Vema in an amount equal to the interest the foreign central bank earns on its tender operations. The Bank of Mount Vema holds the foreign currency that it acquires in the swap transaction at the foreign central bank (rather than lending it or investing it in private markets) and does not pay interest.