# CENTRAL BANKS PREPARE TO DISTRIBUTE FOREIGN CURRENCY AT HOME DURING THIS CRISIS

The Federal Reserve, and at least five other central banks, set up agreements to distribute each other's currencies in the event of a global funding crisis. Central banks agreed to establish temporary bilateral currency swap arrangements ''so that liquidity can be provided in each jurisdiction in any of their currencies should market conditions so warrant,'' said the Fed earlier in the week, in a press release, calling the agreement a ''contingency measure.'' The European Central Bank and the central banks of Canada, Switzerland, Japan and the U.K. agreed to the arrangements. The bilateral agreements were announced alongside coordinated action by these six central banks that are aimed at boosting dollar liquidity. For example, the bilateral swaps would enable the Fed to provide euros, Swiss francs, or British pounds to U.S. banks if it is needed. Dino Kos, who is a former New York Fed executive vice president in charge of open market operations, said that the accord allows a broader distribution of liquidity and allows a bank to deal directly with its home central bank. ''At present, there is no need to offer liquidity in non-domestic currencies other than the U.S. dollar,'' the Fed said earlier in a statement. ''The central banks judge it prudent to make the necessary arrangements so that liquidity support operations could be put in place quickly should the need arise.'' Michael Feroli, who is the chief U.S. economist at JPMorgan Chase & Co., called the bilateral arrangements ''a novel step and a curious feature of today's announcement'' that ''are apparently being set up as a backup plan in the event of a worsening in global financial conditions.'' A sovereign default in Europe, for example, could tighten the funding for hundreds of banks around the world. Rather than the European operations of Citigroup Inc. or Morgan Stanley seeking euros from the ECB, the Fed could contribute to euro liquidity by doling out loans to those institutions in the U.S. The central banks agreed on Wednesday to lower the cost of dollar swaps arrangements. The premium banks also pays to borrow dollars overnight from the central banks will fall by half a percentage point down to 50 basis points. A basis point is around 0.01 percent. The cut in the dollar swap rates is a message from the central banks. ''Please use it, and we are going to make it cheaper for you to use,'' said Kos, who is now managing director at the New Your research firm Hamiltonian Association Limited. The dollar swap lines will be extended by almost six months to February 1, 2013. The new pricing will be applied to operations starting on December 5. The bilateral swap agreement is also in a place through February 1, 2013.