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Program on Financial Stability

ECB Announces New Eurosystem Repo Facility to Provide Euro Liquidity

By Aidan Lawson | June 29, 2020

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The Yale Program on Financial Stability updates a spreadsheet on market liquidity programs implemented recently and during previous financial crises. It identifies interesting program features, summarizes program evaluations, and shares general resources on the topic. This spreadsheet can be accessed here.

On June 25 the European Central Bank (ECB) **announced** a new facility to provide euro liquidity to non-eurozone central banks. The announcement does not specify the total size of this new facility.

The Eurosystem repo facility for central banks (EUREP) is designed as a "precautionary backstop to address pandemic-related euro liquidity needs outside [the] euro area" (see

here). It is intended to reduce both the impacts and risks of sudden sell-offs of euro-denominated assets and any potential confidence-related spill-over effects into the euro area. The EUREP complements the ECB's standing swap lines with 11 countries (see **here**) and one bilateral repo agreement (see **here**), addressing the limited access to euros that central banks have.

Any non-Eurosystem central bank can request a EUREP line, even those that already have existing bilateral swap lines or repo arrangements. The ECB's Governing Council, which consists of 25 total members - 6 from the Executive Board and the governors of the 19 national central banks - makes the final decision. Central banks that are accepted will be able to borrow euros in exchange for euro-denominated debt issued either by euro-area governments or supranational institutions.

While a term sheet has not yet been released, the ECB has specified that the facility will be "slightly" more expensive than its existing bilateral swap and repo lines. The range of collateral will be narrower (see **here**). These terms, and the involvement of the Governing Council, reflect the ECB's desire for the facility to be used exclusively as a backstop, rather than a facility that non-euro central banks turn to immediately.

EUREP may also be seen as a complement to its U.S-based counterpart: the Federal Reserve's temporary repurchase agreement facility for foreign and international monetary authorities, or "FIMA repo facility." The FIMA repo facility, created on March 31, mirrors the EUREP's function as a liquidity backstop. However, unlike EUREP, it is only available to central banks and other foreign monetary authorities with existing accounts with the central bank. For more information on the FIMA repo facility, see the following **YPFS blog**. The usage of FIMA repo facility has been low, with $1.4 billion in dollar repos outstanding as of the week of May 13, and limited activity since then.

However, the Fed's existing swap lines with 14 central banks have been used extensively, peaking at over $440 billion at the beginning of May (see **here**). The ECB has not published usage data for their swap lines or bilateral repo agreements. Swap lines were an effective tool in meeting demand for widely used currencies, especially during the Global Financial Crisis (GFC). The Fed's swap lines were used extensively by the ECB, the Bank of Japan, and other major central banks during the GFC (see **here**).

For more information on usage of swap lines currently and during the GFC, see the following **YPFS blog**.

EUREP will be active through June 2021, and the exact pricing, collateral eligibility and tenor of the repos are still unknown. We will publish updates as details become available.

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