Central bank liquidity swaps

Note: For current information on the Central Bank Liquidity Swaps established in 2020, visit Central Bank Liquidity Swaps. Because bank funding markets are so integrated, central banks have at times broken down, disrupting the provision of credit to households and businesses in the United States and other countries. The Federal Reserve has entered into agreements to establish central bank liquidity swap lines with a number of foreign central banks. Two types of swap lines were established: dollar liquidity swap lines and foreign-currency liquidity swap lines. The swap lines are designed to improve liquidity conditions in dollar funding markets in the United States and abroad by providing foreign central banks with the capacity to deliver dollar U.S. dollar funding to institutions in their jurisdictions during times of market stress. Likewise, the swap lines provide the Federal Reserve with the capacity to offer liquidity in foreign currencies to U.S. financial institutions should the Federal Reserve judge that such actions are appropriate. These arrangements have helped to ease strain in financial markets and mitigate the impact of an economic downturn.

The swap lines support financial stability and serve as a prudent liquidity buffer.

The Federal Reserve operates these swap lines under the authority of section 14 of the Federal Reserve Act and in compliance with regulations, policies, and procedures established by the Federal Open Market Committee (FOMC). Separately, since 1994, the Federal Reserve has had bilateral currency swap agreements with the Canada and Bank of Mexico of $3 billion and $2 billion, respectively, under the North American Framework Agreement (NAFA). The Federal Reserve entered into these swap arrangements to promote orderly currency exchange markets. These lines were established under the North American Framework Agreement (NAFA). The Federal Open Market Committee is asked to renew the renewal of these swap arrangements within 90 days of their initial establishment on February 1, 2010. In May 2010, the FOMC announced that in response to the re-emergence of strains in short-term U.S. dollar funding markets it had authorized dollar liquidity swap lines with the Bank of Canada, the European Central Bank, the Bank of Japan, the Bank of England, and the Bank of Japan, the Bank of Korea, the Banco de Mexico. The Federal Reserve Bank of New Zealand, Norges Bank, the Monetary Authority of Singapore, Sveriges Riksbank, and the Swiss National Bank. These arrangements terminated on February 1, 2010. In November 2011, the Federal Reserve announced that it had authorized temporary foreign-currency liquidity swap lines with these central banks: the Reserve Bank of Australia, the Banco de Mexico. In 2010, the Federal Reserve, these central banks announced that their existing temporary liquidity swap arrangements — including the dollar liquidity swap line — would be converted to standing arrangements that will remain in place until further notice.

In general, these swap lines involve two transactions. When a foreign central bank draws on its swap line with the Federal Reserve, the foreign central bank sells a specified amount of its currency to the Federal Reserve in exchange for dollars at the prevailing market exchange rate. The Federal Reserve holds the foreign currency in an account at the foreign central bank. The dollars that the Federal Reserve provides are deposited in an account that the foreign central bank maintains at the Federal Reserve Bank of New York. At the same time, the Federal Reserve and the foreign central bank enter into a binding agreement for a second transaction that obligates the foreign central bank to buy back currency on a specified future date at a fixed market exchange rate. The second transaction occurs the first. At the conclusion of the second transaction, the foreign central bank pays interest, at a market-based rate, to the Federal Reserve. Dollar liquidity swap lines have maturities ranging from overnight to three months.

When the foreign central bank draws on the swap line it obtains by drawing on its swap line to its jurisdiction, the dollars drawn from the foreign central bank's account at the Federal Reserve to the account of the bank that the borrowing institution uses to clear dollar transactions. The foreign central bank remits obligated to return the dollars to the Federal Reserve under the Federal Reserve Act to pay interest, at a market-based rate, to the Federal Reserve of New York. At the same time, the Federal Reserve and the foreign central bank enter into a binding agreement for a second transaction that obligates the foreign central bank to buy back the borrowed currency on a specified future date at a fixed market exchange rate. The second transaction occurs the first. At the conclusion of the second transaction, the foreign central bank pays interest, at a market-based rate, to the Federal Reserve. Dollar liquidity swap lines have maturities ranging from overnight to three months.

Foreign-currency liquidity swap lines are established under the authority of section 14 of the Federal Reserve Act: Section 14. Open market operations. The Federal Reserve operates these swap lines under the authority of section 14 of the Federal Reserve Act: Section 14. Open market operations. The Federal Reserve operates these swap lines under the authority of section 14 of the Federal Reserve Act: Section 14. Open market operations.

Dollar Liquidity Swap Lines

In response to mounting pressures in bank funding markets, the FOMC announced in December 2007 that it had authorized bilateral currency swap lines with the European Central Bank and the Swiss National Bank to provide liquidity in U.S. dollars to overseas markets, and subsequently authorized dollar liquidity swap lines with each of the following central banks: the Reserve Bank of Australia, the Banco de Mexico. In 2010, the Federal Reserve, these central banks announced that their existing temporary liquidity swap arrangements — including the dollar liquidity swap line — would be converted to standing arrangements that will remain in place until further notice.

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To judge that market conditions warrant. In October 2013, the Federal Reserve and these central banks announced that they had authorized foreign currency swap lines with the following central banks: the Reserve Bank of Australia, the Banco de Mexico. In 2010, the Federal Reserve, these central banks announced that their existing temporary liquidity swap arrangements — including the dollar liquidity swap line — would be converted to standing arrangements that will remain in place until further notice.

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