Press Release

March 19, 2020

Swap Lines FAQs

What is the purpose of the dollar liquidity swap lines?
The dollar liquidity swap lines are designed to help maintain the flow of credit to U.S. households and businesses by reducing risks to U.S. financial markets caused by financial stresses abroad. They improve liquidity conditions in U.S. and foreign financial markets by providing foreign central banks with the capacity to deliver U.S. dollar funding to institutions in their jurisdictions during times of market stress. By helping to stabilize foreign dollar markets, these swap lines also play a role in supporting foreign economic conditions, which also positively benefit the U.S. economy through many channels, including confidence and trade.

Why did you expand the set of countries that are being offered these swap lines?
The swap arrangements were introduced to address stresses in U.S. dollar funding in overseas markets. Such difficulties can add materially to pressures in funding and credit markets in the United States and abroad. The coronavirus is leading to tremendous disruptions of economic activity and financial markets around the world, putting a great many economies and financial markets in distress. Accordingly, in order to improve liquidity conditions and proper functioning of dollar markets globally, we felt we had to ensure that financial institutions in many additional jurisdictions – besides the five jurisdictions with which we have standing U.S. dollar liquidity swap arrangements— would retain access to dollar funding. By taking this action to support

dollar funding markets abroad, we hope to maintain the flow of credit to U.S. households and firms, reduce dislocations to U.S. financial markets emanating from financial turbulence abroad, and, by supporting foreign growth, maintain exports markets for U.S. producers.

Why are you providing swap lines to some economies whose banks do comparatively little business in the United States, and thus would not really help maintain the flow of credit to U.S. households and firms?

Providing swap lines to a wide range of foreign economies helps the U.S. economy and financial system in many ways:

- It helps maintain the flow of lending to U.S. households and businesses by reducing the likelihood that distress in foreign financial markets and economies would weigh on global banks that are active in U.S. markets
- It reduces the likelihood that financial crises could emerge and spread – such crises could disrupt global financial markets and spillover over to harm U.S. markets and economic activity.
- By reducing financial stress, it reduces the likelihood that turbulence and crises would drive up the dollar and weigh on foreign growth, thus hurting our exports and widening our trade deficit.

Who authorized the use of the swaps?

The establishment of these arrangements was authorized by the Federal Open Market Committee (FOMC) of the Federal Reserve System and the policy boards or executives of the respective foreign central banks. In addition, the Federal Reserve had the right to approve or deny requests by foreign central banks to draw on their swap lines.

Which central banks can engage in swaps?

The Federal Reserve has standing swap arrangements with the Bank of Canada, the Bank of England, the European Central Bank, the Bank of Japan, and the Swiss National Bank. On March 19, 2020, it added temporary swap arrangements with the Reserve Bank of Australia, the Banco Central do Brasil, Danmarks Nationalbank (Denmark), the Bank of Korea, the Banco de Mexico, the Reserve Bank of New Zealand, the Norges Bank (Norway), the Monetary Authority of Singapore, and the Sveriges Riksbank (Sweden) to be in place for at least six months; these additions represent countries with which it established lines during the global financial crisis of 2008, which were allowed to expire after that crisis subsided.

Why did you raise the amounts of the swap lines for the countries you added today, relative to their limits in 2008?

Their limits were raised to reflect that the global economy has grown since 2008, both in real and in nominal terms, and therefore larger amounts of funding might be needed to address levels of stress in dollar funding markets.

How are the swaps structured?

The Federal Reserve provides U.S. dollars to a foreign central bank. At the same time, the foreign central bank provides the equivalent amount of funds in its currency to the Federal Reserve, based on the market exchange rate at the time of the transaction. The parties agreed to swap back these quantities of their two currencies at a specified date in the future, which is the next day or as far ahead as three months, using the same exchange rate as in the first transaction. Because the terms of this second transaction are set in advance, fluctuations in exchange rates during the interim do not alter the eventual payments. Accordingly, these swap operations carry no exchange rate or other market risks.

Is the Federal Reserve exposed to foreign exchange or private bank risk in extending these lines?
No. Dollars provided through the U.S. dollar liquidity swaps are provided by the Federal Reserve to foreign central banks, not to the institutions obtaining the funding in these operations. The foreign central bank receiving U.S. dollars determines the terms on which it will lend these dollars onward to institutions in its jurisdiction, including how the foreign central bank will allocate dollar funds to financial institutions, which institutions are eligible to borrow, and what types of collateral they may borrow against. The terms governing these loans of dollars are in all cases released to the public by the foreign central banks. As the Federal Reserve's contractual relationship is exclusively with the foreign central bank and not with the institutions obtaining dollar funding in these operations, the Federal Reserve does not assume the credit risk associated with lending to financial institutions based in these foreign jurisdictions. The provision of dollars and receipt of foreign currency, and the receipt of dollars and return of foreign currency at the swap's maturity date, both occur at the same foreign exchange rate so that the Federal Reserve is not exposed to movements in foreign exchange rates.

Is activity under the liquidity swap arrangements disclosed to the public?
Yes, swap activity is published daily at https://apps.newyorkfed.org/markets/autorates/fxswap
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