Credit and Liquidity Programs and the Balance Sheet

Central bank liquidity swaps

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Federal Reserve Bank of New York

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Note: For current information on the Central Bank Liquidity Swaps, visit Central Bank Liquidity Swaps.

Because bank funding markets are global and 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 lines and foreign-currency liquidity 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 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 strains in financial markets and mitigate their effects on economic conditions. The swap lines support financial stability and serve as a prudent liquidity backstop.

The Federal Reserve operates these swap lines under the authority of section 14 of the Federal Reserve Act and in compliance with authorizations, 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 Bank of Canada and Bank of Mexico, established under the North American Framework Agreement (NAFA).

Dollar Liquidity Swap Lines

In response to mounting pressures in bank funding markets, the FOMC announced in December 2007 that it had authorized dollar liquidity 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 Central do Brasil, the Bank of Canada, Danmarks Nationalbank, the Bank of England, the European Central Bank, the Bank of Japan, the Bank of Korea, the Banco de Mexico, the Reserve Bank of New Zealand, Norges Bank, the Monetary Authority of Singapore, Sveriges Riksbank, and the Swiss National Bank. Those arrangements terminated 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 Bank of England, the European Central Bank, the Bank of Japan, and the Swiss National Bank. In October 2013, the Federal Reserve and these central banks announced that their existing temporary liquidity swap arrangements--including the dollar liquidity swap lines--would be converted to standing arrangements that will remain in place until further notice.

In general, these swaps 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 its currency on a specified future date at the same exchange rate. The second transaction unwinds the first. At the conclusion of the second transaction, the foreign central bank pays interest, at a marketbased rate, to the Federal Reserve. Dollar liquidity swaps have maturities ranging from overnight to three months.

When the foreign central bank loans the dollars it obtains by drawing on its swap line to institutions in its jurisdiction, the dollars are transferred from the foreign central bank's account at the Federal Reserve to the account of the bank that the borrowing institution uses to clear its dollar transactions. The foreign central bank remains obligated to return the dollars to the Federal Reserve under the terms of the agreement, and the Federal Reserve 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 Federal Reserve acquires is an asset on the Federal Reserve's balance sheet. Because the swap is unwound at the same exchange rate that is used in the initial draw, the dollar value of the asset is not affected by changes in the market exchange rate. The dollar funds deposited in the accounts that foreign central banks maintains at the Federal Reserve Bank of New York are a Federal Reserve liability.

Foreign-Currency Liquidity Swap Lines

In April 2009, the Federal Reserve announced foreign-currency liquidity swap lines with the Bank of England, the European Central Bank, the Bank of Japan, and the Swiss National Bank. The foreign-currency swap lines could have supported operations by the Federal Reserve to address financial strains by providing liquidity to U.S. institutions in sterling in amounts of up to £30 billion, in euro in amounts of up to 80 billion, in yen in amounts of up to ¥10 trillion, and in Swiss francs in amounts of up to CHF 40 billion. 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 the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, and the Swiss National Bank. These arrangements were established to provide the Federal Reserve with the capacity to offer liquidity to U.S. institutions in currencies of the counterparty central banks (that is, in Canadian dollars, sterling, yen, euros, and Swiss francs). The Federal Reserve lines constitute a part of a network of bilateral swap lines among the six central banks, which allow for the provision of liquidity in each jurisdiction in any of the six currencies should central banks judge that market conditions warrant. In October 2013, the Federal Reserve and these central banks announced that their liquidity swap arrangements would be converted to standing arrangements that will remain in place until further notice. Since their initial establishment in 2009, except for pre-arranged small-value test operations the Federal Reserve has not drawn on any of the foreign-currency liquidity swap lines.

North American Framework Agreement Swap Lines

In 1994, the Federal Reserve established bilateral currency swap lines of $2 billion with the Bank of Canada and $3 billion with the Bank of Mexico for the purpose of promoting orderly currency exchange markets. These lines were established under the North American Framework Agreement (NAFA). The Federal Open Market Committee is asked annually to renew the Federal Reserve's NAFA swap agreements; draws on the lines also are subject to its approval. Canada has never drawn on its line; Mexico last used its line in 1995. In 1994, the U.S. Treasury established a $3 billion NAFA swap line with Mexico, and in 2018, increased it to $9 billion.

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