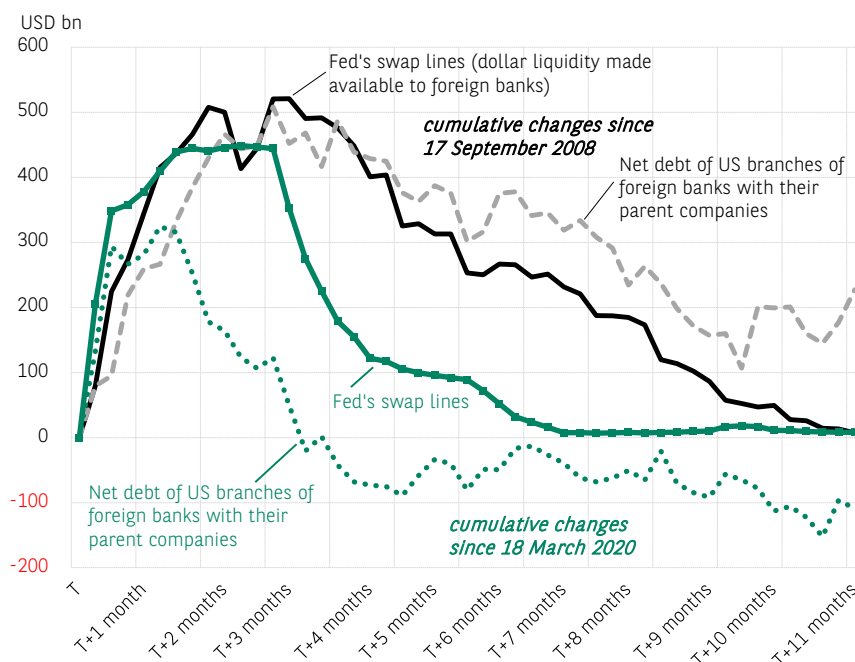


30 June 2021

UNITED STATES: MOST OF THE DOLLARS ISSUED VIA THE FED'S SWAP AGREEMENTS RETURN TO US SOIL

Céline Choulet

US dollar swap lines and financing of US resident banks



Source: Federal Reserve, BNP Paribas

On 16 June, the US Federal Reserve (Fed) extended its temporary swap agreements through 31 December 2021*. This facility, which offers foreign central banks the possibility of obtaining dollars from the Fed and then lending them to local commercial banks, is not being drawn on much today, but it did help alleviate global pressures on the USD liquidity due to the Covid-19 shock. These swap agreements had already been set up during the 2008 financial crisis, albeit in a distorted manner, since they were largely used as a substitute for the discount window. In the end, most of the liquidity lent by the Fed as part of these swap agreements was lent out again to the US branches of foreign banks to counter the abrupt drying up of the USD short-term debt market. This can be seen in the concomitant drawdown of swap lines and the swelling of net cross-border debt with their parent companies. The same thing was observed in 2020, but to a much lesser extent since the nature of the shock was not the same.

* With the central banks of Australia, Brazil, South Korea, Mexico, Singapore, Sweden, Denmark, Norway and New Zealand. Since October 2013, the Fed's swap agreements with the five central banks of the Eurozone, the UK, Japan, Switzerland and Canada are permanent and unlimited. C. Choulet (2020), "The Fed: the global lender of last resort", BNP Paribas, Conjoncture, April 2020

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