Case Studies and Policy Changes

Fed Creates Dollar Repo Facility for Central Banks, Extending Liquidity to Central Banks that Don't Have Fed Swap Lines

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Original post here.

On March 31, the Federal Reserve announced a dollar repo facility that will allow it to lend dollars to foreign central banks in exchange for US Treasury securities.

The temporary repurchase agreement facility for foreign and international monetary authorities, or "FIMA Repo Facility," will allow foreign central banks to exchange US Treasuries for US dollars through overnight repurchase agreements (repos). They can then make those dollars available to companies in their own jurisdictions.

The unprecedented global COVID-19 crisis has intensified demand across the world for US dollars. Earlier, the Fed announced that it was revising and expanding dollar swap lines with foreign central banks. But the swap lines are now available to just 14 central banks (see the YPFS blog). The new FIMA Repo Facility, available from April 6, will allow the Fed to get dollars to central banks that are not participating in those swap lines. Also, unlike the swap lines, it is not an updated version of a tool used in the global financial crisis in 2007-09.

In FAQs, the Fed said the new facility will help prevent financial stress abroad from elevating risks in US markets: "The facility reduces the need for central banks to sell their Treasury securities outright and into illiquid markets, which will help to avoid disruptions to the Treasury market and upward pressure on yields."

FIMA account holders are central banks and other foreign monetary authorities with accounts at the Federal Reserve Bank of New York (FRBNY). The Fed must approve applications to use the facility.

While transactions would be on an overnight basis, they could be rolled over. They will be conducted at an interest rate of 25 basis points over the Fed's rate on Interest on Excess Reserves, which typically exceeds market rates in normal times.

The transactions will pose no foreign exchange risk or credit risk to the Fed. They will occur entirely in dollars and are fully collateralized by US Treasuries. Margins will reflect margins on similar collateral posted to the Fed's discount window.

The Fed will disclose the amount of activity under the facility in its weekly H.4.1 release.

The Fed has unlimited standing swap lines with five central banks: the Bank of Canada, Bank of England, European Central Bank, Bank of Japan, and Swiss National Bank. On March 20, the Fed and four of these central banks (excluding the Bank of Canada) announced that, beginning March 23, they would temporarily increase the frequency of their 7-day maturity operations from weekly to daily. As of March 25, the Fed had $206 billion outstanding in swaps with those four central banks. On March 19, the Fed announced swap lines with nine more countries, bringing the total to 14.