ECB USD swap lines
Setup of operation, participation and historical comparison

**ECB USD swap line facility details**

Under USD swap line operations the ECB offers, once a week, to lend an unlimited amount of USD cash at a fixed rate to all eligible institutions against pledged collateral.

Eligible collateral, and associated haircuts, is in line with that used for other ECB facilities. On top of these haircuts there is also an additional haircut of 12% to cover foreign exchange rate risk.

**15th March 2020 changes to operations**

- The rate for borrowing has been lowered from $OIS+50bps to $OIS+25bps
- Tenors have been expanded from 1w to both 1w and c. 3m
- Changes to the ECB operations were aligned with other major central banks that use USD swap lines; BoE, BoJ, BoC and SNB

**Results of first post change operation**

The 18th March operation saw the highest one day allotment of the facility on record with a total of $112bn allotted, full details are in the table on the right.

Per top graph, this took total outstanding USD lending by the ECB above the level seen during the 2011/2012 sovereign crisis but not yet to levels seen in the GFC where outstanding peaked at just under $300bn.
Other central bank USD swap lines
5 central banks coordinated on March 2020 changes

<table>
<thead>
<tr>
<th>Central Bank</th>
<th>Date of auction</th>
<th>Tenors offered</th>
<th>Alloted amount ($bn)</th>
<th># bids</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank of Canada</td>
<td>NA</td>
<td>NA</td>
<td>0</td>
<td>NA</td>
</tr>
<tr>
<td>Bank of England</td>
<td>18-Mar</td>
<td>7d, 84d</td>
<td>15</td>
<td>Not public</td>
</tr>
<tr>
<td>Bank of Japan</td>
<td>17-Mar</td>
<td>7d, 84d</td>
<td>32</td>
<td>Not public</td>
</tr>
<tr>
<td>European Central Bank</td>
<td>18-Mar</td>
<td>7d, 84d</td>
<td>112</td>
<td>66</td>
</tr>
<tr>
<td>Swiss National Bank</td>
<td>18-Mar</td>
<td>7d, 84d</td>
<td>3</td>
<td>15</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>163</strong></td>
<td><strong>&gt;81</strong></td>
</tr>
</tbody>
</table>

International coordination on USD swap lines

The ECB, and 4 other central banks, made a coordinated announcement on March 15\textsuperscript{th} to enhance the terms of pre-existing swap line arrangements with the US Federal Reserve. All pricing was reduced from $OIS+50bps to $OIS+25bps and those CBs already offering weekly standing auctions (BoE, BoJ, ECB and SNB) expanded tenors from 7d to both 7d and 84d.

These 4 CBs subsequently held auctions in the week of the 16\textsuperscript{th}, the results of which are summarised above. A total of $163bn was borrowed by eligible institutions, with the majority being taken from the ECB. The BoC is yet to hold an auction under the revised terms.

On March 19\textsuperscript{th} the Fed announced an extension of USD swap lines to 9 other central banks who had not previously had access;

- $60bn facility for the Reserve Bank of Australia, the Banco Central do Brasil, the Bank of Korea, the Banco de Mexico, the Monetary Authority of Singapore, and the Sveriges Riksbank

- $30bn facility for the Danmarks Nationalbank, the Norges Bank, and the Reserve Bank of New Zealand.
Overview on LTRO (New) and TLTRO III (recalibrated)

**Longer-Term Refinancing Operations (LTRO)**

- **Purpose:** series of weekly operations to bridge the GAP until TLTRO III (old) maturity 24th of June 2020
- **Pricing:** fix rate which will be equivalent to the average of the deposit facility rate over the lifetime of the underlying transaction in arrears
- **Conditions to be met:** no special conditions apply
- **Auction:** full allotment
- **Netting with TLTRO III:** 4 flows if participating

- Allotment of the first transaction (20200027)
  - 18.03.2020 – 24.06.2020
  - 110 bidders
  - Bid-/Allotment-Amount: €109,1bln
  - Market expectation: lower-double-digit billion amount

- Potential reasons: cash frontloading in the light of massive market turmoil, shallow market depth and price instability
- Pricing attractive and liquidity confidence to be created at the lower end of cost
Overview on LTRO (New) and TLTRO III (recalibrated)

Targeted Longer-Term Refinancing Operations III (TLTRO III – Recalibrated)

- **Purpose:** support bank lending towards clients in particular SMEs
- **Pricing:** 25 bps **temporary reduced rate** between June 2020 and June 2021 (independent of lending benchmark, is deducted from MRO and Deposit rate)
- **Conditions to be met:**
  - Benchmark lending target to receive the benefit (delta between MRO and Deposit rate) decreased from **2.5% to 0%** and benchmark lending time horizon has been adjusted (Instead from 1st April 2019 to 31st March 2021, it is now from 1st April 2020 to 31st March 2021).
  - **Maximum TLTRO III borrowing amount** has been increased from 30% to **50% of the stock of eligible loans** as of February 28th 2019
  - Maximum amount **limit per operation of 10% of eligible loans has been skipped**
  - **Early repayment option already in one year** after settlement instead of 2 years

- Allotment of the first (recalibrated) transaction (20200029)
- 19.03.2020 – 29.03.2023
- 114 bidders
- Bid-/Allotment-Amount: €114,9bln
- Market expectation: <€50bln because of high allotment in same week LTRO
- Potential reasons: combination out of high flexibility (re-payment-options), favorable conditions and a lowered benchmark. The higher than expected participation might also result out of the combination from the suspension of the 10% limit and an elevated baseline (increase from 30% to 50%) which provided banks with more leverage of the existing stock of eligible loans. The temporary nature of the defined conditions might create a limitation to the prospective utilization of further TLTROs.
Outlook on Future Utilization TLTRO III (recalibrated)

**Targeted Longer-Term Refinancing Operations III (TLTRO III – Recalibrated)**

- Potential participations are very difficult to predict given the market unrest and stability in forecasting behavioral finance KPIs
- Factors driven a participation could/will be:
  - Conditions defined for eligibility-criteria on loans as well as processes to make such loans available via ACC to NCBs
  - Definition and potential extensions of the existing collateral scheme defined by ECB
  - Interaction/interference with governmental programs
  - Status of the financial markets
  - Old TLTRO III coming off purposes still exist so there will be an incentive to roll over