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The Euro's Global Backstop: Building an ECB Swap-Line Network

by Paolo Stohlman

- The EU must support global euro liquidity, reducing dependence on the US dollar and exposure to external financial shocks.
- Swap lines serve as an essential tool when paired with deeper capital markets, eurobonds, and a political commitment to a global euro.
- A permanent, tiered swap-line network should include all non-euro EU members, accession countries, and strategically important foreign partners.

Europe's geoeconomic agenda is **crowded**. The savings and investments union (SIU), integrated capital markets, an EU-wide safe asset and the digital euro all compete for political attention. In this laundry list of objectives, global central-bank swap lines might be judged technical and secondary. That would be a mistake.

Swap lines are agreements between central banks to exchange currencies, allowing the receiver to provide emergency foreign-currency liquidity to its domestic financial system. By borrowing from a central bank with a reserve currency against its own, the receiving central bank can support banks facing funding shortages without forcing asset sales or bailouts. The central banks then re-sell their currencies back to each other at the original

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exchange rate, and potentially with an agreed upon interest. The arrangement benefits both: it reduces default risks for the receiver and limits the transmission of financial stress back to the currency-issuing country. But for the swap line to be effective, the central bank needs to be both willing to extend them as well as appealing to foreign banks. The European Central Bank (ECB) has every reason to strengthen its reputation as an anchor of international monetary stability by making strategic use of swap lines.

If the EU wants a more international euro, it must address the related responsibilities that implies

The background of all this is that Europe should prepare for a world in which the dollar-centred financial system is less certain. The United States' willingness to maintain the global financial safety net is perceived as **less secure** and US policy as **highly unpredictable**. If the EU wants a more **international euro**, it must address the related responsibilities that implies. That means gradually equipping the ECB to act as a global lender of last resort for the euro.

A geopolitical opening for the euro

Europe's objective should not be to displace the dollar, which is both **improbable** and **perhaps undesirable**, rather to establish the euro as a credible alternative anchor.

The euro is the world's second most important currency, representing roughly one-fifth of **global foreign exchange reserves**. Since 2015, demand for euro-denominated European assets increased from 54 to 66 per cent of all euro area cross-border liabilities, increasing by more than **9 trillion euros**, as international euro-denominated debt issuance also reached **record highs**. Over the past two years of increasing macroeconomic turbulence, the euro has acted as a **safe-haven currency** while limiting excessive appreciation, demonstrating its ability to absorb shocks and maintain stable exchange-rates.

A more global euro would function as a **geopolitical shield** in a turbulent world. It would reduce European exposure to **exchange-rate shocks**, **US monetary policy spillovers** and the **extraterritorial reach of US financial sanctions**, all particularly important for an economy partly reliant on imported energy. It could create structurally stronger demand for European assets, **lowering financing costs** for joint projects such as defence, the green transition and industrial policy.

An international euro requires a liquidity backstop

Reserve-currency status is not secured through trade agreements and press releases. International users must believe that euro liquidity will remain available when markets dry up. Until recently, this belief was **unquestioningly placed** in the US Federal Reserve, which demonstrated its trustworthiness during the **global financial crisis** and again during the **Covid-19 pandemic**. Its swap lines enabled foreign central banks to supply dollars to financial institutions in their jurisdictions, easing funding stress and limiting forced bailouts. This sent a clear message: offshore dollar finance would be backstopped.

Europe has a direct interest in providing a similar backstop for offshore euros. When a foreign central bank or financial institution cannot obtain euro liquidity, it chooses to sell euro-denominated bonds. In a **systemic shock**, simultaneous offloading of euro-denominated assets can raise yields and transmit stress into euro-area funding markets.

The ECB itself **recognises** that international liquidity lines can prevent rapid asset sales and other disruptions to monetary-policy transmission. Acting as an international liquidity provider is not charity; it is a way of protecting Europe's own financial conditions.

One of the ECB's responses has been to create the Eurosystem Repo Facility for Central Banks, or **EUREP**. In February 2026, the ECB decided to extend access to the facility for central banks worldwide. Eligible central banks may borrow up to **50 billion euros** against specified high-quality euro-denominated collateral. This crucial institutional advance will extend the ECB's liquidity reach, which had been **limited** to non-euro EU member states like Romania and Hungary and a few neighbouring countries such as Albania and Montenegro. Repos, however, are an incomplete solution. They require borrowers to possess **pre-approved**, euro-denominated assets and apply risk-mitigating **valuation haircuts**, in line with a stricter version of the ECB's general collateral framework. These safeguards reduce risk for the ECB, but they make repos less useful to swiftly increasing available euro liquidity.

Swap lines sit higher in the **liquidity hierarchy**. They allow two central banks to exchange currencies directly, enabling the recipient to create euro liquidity for its domestic financial system without first liquidating reserves or assembling eligible collateral. A credible global euro should use both: repo facilities as a global backstop and swap lines for geopolitically key relationships.

Building a strategic European swap network

Outside of its membership in the **Fed's swap network**, which includes the central banks of Canada, United Kingdom, Switzerland and Japan, the ECB's own swap agreements are **limited**. It maintains standing lines with Denmark and Sweden, as well as a **reciprocal arrangement** with the People's Bank of China. The patchwork of swaps and repo facilities is insufficient for achieving a global euro. Europe should replace ad hoc agreements with a tiered, permanent swap strategy based on transparent criteria.

The first tier should *cover all non-euro EU members*, indiscriminately. Since the 2008 financial crisis, **differentiated access** to liquidity lines among non-euro EU member states has rewarded some, such as the Nordics and Croatia, and excluded others, particularly Romania and Hungary. Allowing liquidity arrangements to vary among member central banks fragments the European financial bloc and weakens the euro's role as the Union's monetary anchor.

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A second tier should *extend progressively to accession countries*, including Ukraine and Moldova, as their financial systems stabilise and become **closely integrated** with Europe. Euro swaps could complement development finance and single market integration, strengthening the euro's primacy across Europe. Also in this tier could be swap agreements with Norway and Iceland, as they continue to move **towards closer integration** with the EU, including through financial market participation.

A third tier should *target major strategic partners*. The EU's recent successes in deepening trade relations with South America's Mercosur trade bloc could be complemented by a financial dimension establishing a swap line with the Brazilian central bank, for example. Similar trade agreement-swap line pairings could be crafted with Chile, Australia, South Korea and Singapore: all strategic partners, with institutional credibility and potentially increasing euro funding needs. Though central bank reserves are rarely publicly available, **geopolitically aligned** jurisdictions typically hold substantial quantities of an ally's currency in their central banks, commercial banks and institutional investors. A credible liquidity backstop would make those assets more attractive by reducing the risk of offloading in downturn moments.

Swap agreements decrease monetary uncertainty, generating a **win-win cycle**. Greater confidence in access to euro liquidity would encourage foreign institutions to hold more euro-denominated assets, reducing **financing costs**. In moments of market stress, this would make it easier for European investors to hedge foreign exposures back into euros, thanks to the increased euro-liquidity abroad. Firms are more likely to invoice and settle transactions in euros when their domestic central bank can supply emergency euro liquidity.

Swap lines are not risk-free, but their structural features contain important protections. The recipient central bank remains responsible for repayment and bears the credit risk of lending onward to domestic institutions. Exchange-rate risk is mitigated by reversing the transaction at the initial rate. The primary risks are losses if foreign central banks fail to repurchase their currency and the entrenchment of incentives for excessive borrowing abroad, both of which can be contained through careful partner selection.

China has already demonstrated how a network of more than **40 bilateral swap agreements** can support currency **internationalisation**. Europe need not reproduce Beijing's model. Yet, it should not treat the architecture of international liquidity as geopolitically neutral. Decisions about who receives emergency access to a currency inevitably shape **corporate borrowing** and **political influence**.

From regional central bank to global steward

Swap lines cannot internationalise the euro on their own. They protect demand for euro assets during stress, but they cannot manufacture it. A global currency requires an abundant supply of reliable safe assets. The SIU, greater integration of fiscal governance and permanent supply of Eurobonds should remain priority.

Thus, the real constraint is political. The ECB must preserve its operational independence, highlighting how liquidity facilities contribute to monetary-policy transmission and financial stability. But becoming a global lender of last resort requires European leaders to accept that global monetary power brings balance-sheet exposure, diplomatic consequences and difficult choices about picking partners. Trade policy, enlargement, development finance, energy security, defence and monetary power should be treated as interconnected components of a broader geoeconomic strategy. This will mean greater political will and a higher risk tolerance. Europe has often responded to crises just in time or after the strategic costs of inaction have already become apparent. It should not repeat that pattern as the international monetary system becomes more fragmented.

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