EUREP expansion and the euro – going global

The ECB is expanding its EUREP repo lines from a very limited European audience to the global central bank community. On paper, this addresses financial stability; in practice, it's another step towards the global euro. This has implications for euro government bonds, the role of the euro in trade, and perhaps even reflects ECB tolerance of euro strength

The ECB's expansion of its EUREP repo facility is an important step on the path to a global euro

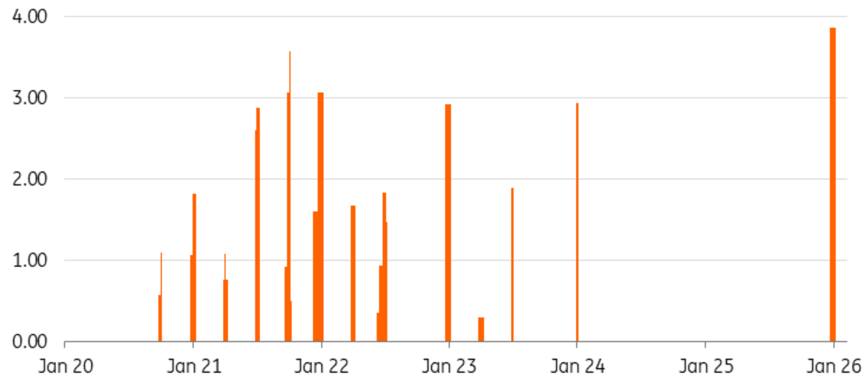
Q: What has been announced?

Following reports from a week earlier, the European Central Bank announced over the weekend that, starting in the third quarter of 2026, it will substantially expand its EUREP euro repo line for central banks. This facility was originally established at the height of the pandemic to provide euro liquidity to eight non-euro area European central banks, including those in Hungary and Romania. This facility is now going global; any central bank is invited to apply to set up a line if it isn't excluded on the grounds of AML or international sanctions.

In exchange for high-quality euro collateral (issued by central, regional or local governments), the facility allows foreign central banks access to euro liquidity at a 'backstop rate' (higher than market) and is to be used in adverse conditions. The announcement has primarily been grounded in the financial stability concerns of a geo-fragmenting global economy. The news was also timed to coincide with Europe's Munich Security Conference.

This facility now looks akin to the Federal Reserve's Foreign and International Monetary Authority (FIMA) repo facility, which was established in 2022 and allows foreign central banks to raise dollar liquidity by repo-ing and not selling US Treasuries. The ECB wants the same to occur here; if there are any squeezes on access to euro funding, foreign central banks can tap into these very generous EUREP lines (€50bn) to access euros as opposed to selling euro-denominated paper.

Use of EUREP has been modest and sporadic since 2020 (EUR bn)



Source: ECB, ING

Q: What does it mean for European Government Bonds?

In theory, this should make central bank FX reserve managers more comfortable in holding European government bond paper – knowing that it can be used to raise euro liquidity in extreme circumstances and avoid the fire sale of eurozone assets that occurred during the eurozone crisis. The collateral criteria allow for euro-denominated, investment grade (BBB- rated or higher) EEA central or local/regional government (€11.6tr outstanding), as well as recognised agency and supranational debt securities to be pledged. While ratings below single-A do translate into a higher haircut schedule, the ECB employs a generous first-best rule across five rating agencies (Fitch, Moody's, S&P, DBRS and Scope). This means that, within EGBs, currently only Greek bonds see the higher haircuts in practice.

Q: What are the broader implications for use of the euro?

The EUREP is a repo facility that provides euro liquidity in exchange for euro collateral and, as such, is different to a FX swap line, where the ECB accepts good-quality FX in exchange for euro liquidity. At present, the ECB has FX swap arrangements with the likes of the Fed, the Bank of England, the Bank of Japan, the Swiss National Bank, the Riksbank and the People's Bank of China.

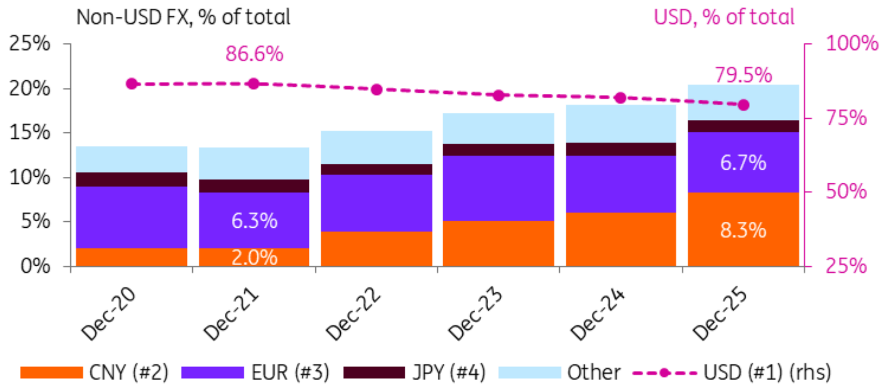
But we think the roll-out of this broader EUREP facility could have the ancillary benefits of FX swap line roll-outs, which countries like China have been pursuing to enhance the use of the renminbi in international trade. Presumably, FX swaps are more accessible, but a euro-denominated facility would be supported by the already deep bond market and large international footing; there are

€11.5tr of EUR-denominated international debt securities outstanding, which is 40.5% of the global market.

China has been expanding the PBoC's bilateral FX swap line network, which functions primarily as an emergency liquidity channel. The bilateral agreement network now covers over 40 countries, with around 35 of those agreements established before 2016, although new lines still appear almost every one to two years. This expansion has supported China's efforts to deepen its international trade and financial ties and advance CNY's international role: between 2021 and 2025, the CNY share in SWIFT trade finance transactions more than quadrupled to 8.3%, overtaking the euro for second place worldwide. At the same time, China's RMB payment system, CIPS, has grown rapidly in geography and volume, reaching RMB700-800bn ($100-115bn) in daily transaction volume.

Greater international comfort in holding the euro in FX reserves should – especially given that 40% of international debt securities are already denominated in euros – support greater use of the euro in trade invoicing and reinforce our view of a gradual transition from a unipolar dollar world to a multipolar world of dollars, euros and renminbi.

Currency share in trade finance



Source: SWIFT RMB Tracker, ING

Q: Does this tell us anything about the ECB's tolerance of a strong euro?

Debate is growing about whether the ECB's desire for a strong international euro means it is prepared to accept a strong nominal euro as well. The official take will be what the appreciation of the nominal trade-weighted euro means for the ECB inflation forecast and whether inflation undershooting would prompt rate cuts. Our take is that it would require a move much closer to 1.25 in EUR/USD before that conversation grows serious.

However, the current geopolitical environment seems to have prioritised the need for a global euro. And we certainly seem a very long way from the period in the mid-2000s when the euro's role as a reserve currency seemed problematic for the ECB. That said, even at these levels, we are hearing today that the French government wants a further economic assessment of whether promoting the use of the euro will push up EUR/USD and hurt French exporters.

Our current baseline sees EUR/USD ending the year at 1.22 – with upside risks.

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