



# MEMO

DATE: 10 May 2012  
DEPARTMENT: Monetary Policy Department  
REFERENCE:  
CLASSIFICATION:

SVERIGES RIKSBANK  
SE-103 37 Stockholm  
(Brunkebergstorg 11)

Tel +46 8 787 00 00  
Fax +46 8 21 05 31  
registratorn@riksbank.se  
www.riksbank.se

---

DNR 2012-396-APP

## ■ Establishment of a securities portfolio in Swedish kronor

### Proposed Executive Board decision:

- The Riksbank should establish and manage a securities portfolio in Swedish kronor within the framework specified in this memo and according to the rules in the supplement.

### Background

Already before the financial crisis began, most central banks owned securities in their own currencies. In the 1990s, the Riksbank also had a securities portfolio in Swedish kronor which mainly consisted of government bonds and smaller holdings of treasury bills and mortgage bonds.<sup>1</sup> This portfolio was transferred to the Swedish National Debt office in 2001. It is the Debt Office's role to maintain the Swedish government bond market and the assessment at the time was that a domestic securities portfolio at the Riksbank would not perform any significant monetary policy function.

However, the experience gained during the financial crisis demonstrates how important it is to be able to quickly take measures that lie outside the ordinary measures that a central bank uses to implement monetary policy. During the financial crisis of 2008-2009, the Riksbank took several extraordinary measures that promoted the functioning of the financial markets and the monetary policy transmission mechanism.<sup>2</sup> Other central banks took similar measures. However, unlike many other central banks, the Riksbank did not purchase any government bonds or covered bonds, although the alternative of buying such securities was discussed at the Riksbank.<sup>3</sup>

---

<sup>1</sup> The value of this portfolio peaked at approximately SEK 150 billion in the early 1990s and was around SEK 25 billion at the end of the decade.

<sup>2</sup> For example, the Riksbank loaned large amounts of Swedish kronor and US dollars to the banks against collateral. The Riksbank also widened the circle of counterparties so that more credit institutions could get access to the Riksbank's lending in Swedish kronor. The institutions were also able to use a wider range of securities as collateral for these loans.

<sup>3</sup> See the minutes of the Executive Board's monetary policy meeting on 20 April 2009.

■ In the autumn of 2008, the National Debt Office also took market-maintenance measures by issuing large quantities of treasury bills and investing the revenues in covered bonds.<sup>4</sup> These measures helped to reduce the acute stress that had arisen on the market for covered bonds and that had seriously undermined the functioning of this market. The Riksbank's extraordinary loans with, among other things, covered bonds as collateral further improved the functioning of the market.

## Considerations

The Riksbank's operational framework for the implementation of monetary policy has demonstrated that it works well in both normal conditions and in situations like the recent financial crisis. But this does not mean that it will be possible to manage a potential future crisis in the same way and with the same tools. It may therefore be worthwhile for the Riksbank to be able to take extraordinary measures on systemically-important securities markets with the aim of either safeguarding financial stability or contributing to a more effective transmission mechanism. It is difficult to define exactly what measures may be needed in an acute situation in advance. However, one example of such a measure could be to purchase government bonds and/or covered bonds in a situation in which the policy rate has approached zero at the same time as monetary policy needs to be more expansionary. Another example could be to provide a repo facility for securities with the aim of promoting the functioning of systemically-important markets, for instance the market for covered bonds, in a situation in which these markets have been seriously disrupted. Determining the shape and form of potential extraordinary measures in detail does not lie within the scope of this decision. The Riksbank will have to return to this issue should it become relevant in the future.

An important lesson from the crisis is that changes to the monetary policy operational framework and the implementation of new measures require some preparation. It would therefore represent good risk management to ensure already at this stage, when conditions are normal, that the Riksbank is prepared to deal with a crisis by complementing the Riksbank's toolkit with a limited securities portfolio in Swedish kronor.

### *The need for a securities portfolio*

By acquiring a securities portfolio in Swedish kronor, the Riksbank can ensure that necessary systems, agreements, routines and knowledge are in place if it becomes necessary to rapidly take extraordinary measures in the future. The portfolio should be able to handle the buying and selling of debt instruments issued by the Swedish government as well as covered bonds in Swedish kronor. The portfolio should also be able to conduct repo transactions with these securities.

A securities portfolio in Swedish kronor is compatible with the Sveriges Riksbank Act providing that the acquisition of debt instruments issued by the government takes place on the secondary market. The ban on monetary financing is stipulated in Chapter 8, Article 1 of the Act and states that the Riksbank may not extend credit to or purchase debt instruments directly from the state. Acquisitions can therefore only

---

<sup>4</sup> The National Debt Office supplied the money market with large quantities of treasury bills. The Debt Office used the revenues from this to purchase covered bonds with a resale agreement. The Debt Office thereby conducted so-called repo transactions with the banks which entailed the Debt Office investing its surplus in loans to the banks with covered bonds as collateral. The loans had the same maturity as the issued treasury bills.

■ be made on the secondary market and in such a way that the purpose of the ban is respected.

At present the financial markets are working well and the Riksbank sees no need for extraordinary measures. The securities portfolio should be built up gradually and the size of the portfolio should also be limited so that it does not risk affecting the formation of interest rates on the market. The day-to-day management of the portfolio should be conducted in a transparent way. This will underline the fact that the Riksbank's purchase and sale of securities is not intended to send any monetary policy signals; nor should these operations be perceived as a form of intervention on the money and bond markets.

#### *Further information on the framework for the securities portfolio*

Against the background of these considerations, the Head of the Monetary Policy Department proposes that the Riksbank should establish a securities portfolio in Swedish kronor. The portfolio should be able to handle the buying and selling of debt instruments in Swedish kronor that are issued by the Swedish government, as well as covered bonds in Swedish kronor. The securities portfolio should mainly consist of Swedish nominal government bonds in the maturity segment 2 to 10 years, which is the most liquid segment of the outstanding central government debt in Swedish kronor. The portfolio should also be able to conduct repo transactions for Swedish kronor or debt instruments in Swedish kronor that are issued by the Swedish government, as well as for covered bonds in Swedish kronor.<sup>5</sup> The interest rate for all of the transactions in the portfolio will be determined bilaterally between the Riksbank and the counterparty on the basis of current market rates. All transaction will be conducted in line with prevailing market practice. Repo transactions will only be conducted on the Riksbank's initiative and may not entail maturities that extend beyond the period of a monetary policy decision.

Beginning in the second half of 2012, the securities portfolio will gradually be built up to a nominal value of SEK 10 billion over the course of approximately 12 months. The portfolio's modified duration should amount to approximately 5. The chosen duration reflects the approximate modified duration in the nominal central government debt's set of bonds with maturities between 2 and 10 years. Setting a limit for the portfolio's duration also makes it less sensitive to changes in market rates.

The securities portfolio should be built up by redistributing some of the Riksbank's assets in foreign currencies to assets in kronor. This entails the Riksbank gradually selling holdings in foreign currencies in the foreign exchange reserve to a value in Swedish krona that corresponds to the purchases of permissible securities for the portfolio. This will be done in such a way that the exchange rate is not affected. This redistribution means that the Riksbank's balance sheet total will remain unchanged.

---

<sup>5</sup> A repo transaction entails a spot transaction for the sale of a security in exchange for Swedish kronor at the same time as it is agreed to buy back the same security against kronor at a predetermined date in the future.