



Basis for decision

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DEPARTMENT: Markets Department

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

REG. NO. xxxx 2105,
Markets Department

■ Interest rates for standing facilities and fine-tuning transactions

Proposed Executive Board decision

The Executive Board decides to

- Repeal the decision dated 28 October 2014 "Interest rates for standing facilities and fine-tuning transactions" (reference number 2014-740-AFM).
- Set the lending rate for fine-tuning transactions at the prevailing repo rate plus 10 basis points.
- Set the deposit rate for fine-tuning transactions at the prevailing repo rate minus 10 basis points.
- Set the lending rate in the standing facilities at the prevailing repo rate plus 75 basis points.
- Set the deposit rate in the standing facilities at the prevailing repo rate minus 75 basis points.
- The above decisions will apply with effect from 18 February 2015.

Background

The Riksbank's operational framework for the implementation of monetary policy essentially consists of three components: the standing facilities for lending and deposits, the weekly operations and the daily fine-tuning transactions. At present, the payment system has a liquidity surplus of around SEK 54 billion. As the payment system is a closed system and must balance every day, this means that the banking system as a whole places this amount with the Riksbank. The Riksbank borrows this surplus partly through weekly issues of Riksbank Certificates with a maturity of one week at the repo rate, partly through daily fine-tuning transactions overnight at the fine-tuning rate.

Fine-tuning transactions have normally been done at the repo rate plus/minus 0.10 percentage points. When the decision was taken on 27 October 2014 to cut the repo

rate to zero, it was also decided that the fine-tuning transactions would be done at the repo rate to avoid negative interest rates. If the Riksbank cuts the repo rate below zero to make monetary policy more expansionary, there is no longer a reason for this.

Considerations

If the repo rate is cut below zero, it is appropriate to restore the pricing of the fine-tuning transactions so that deposits via fine-tuning transactions are again done at the repo rate minus 10 basis points and lending via fine-tuning transactions is done at the repo rate plus 10 basis points. This aims to restore the alternative cost structure on the overnight market.

The deposit and lending rates in the Riksbank's standing facilities should be held unchanged at the repo rate plus/minus 0.75 percentage points. This means that the deposit rate in the standing facilities will remain negative. In practice, a negative interest rate on the deposit facility has functioned well. Since October 2008, the banks' deposits in the deposit facility have amounted to on average around SEK 80 million a day.

The current interest rates on the standing facilities and fine-tuning transactions were set by a decision by the Executive Board on 28 October 2014, "Interest rates for standing facilities and fine-tuning transactions" (reference number 2014-740-AFM). If the Executive Board decides that the repo rate shall be negative, the decision on the interest rates for standing facilities and fine-tuning transactions should be replaced by a new decision that will apply until further notice. This means that the deposit rate on the fine-tuning transactions will be the prevailing repo rate minus 10 basis points and the lending rate on the fine-tuning transactions will be the prevailing repo rate plus 10 basis points. The width of the interest-rate corridor for the standing facilities remains unchanged.