Annex B

Executive Board Meeting 121206, § 1

Reservation entered at Executive Board meeting on 6 December 2012

We enter a reservation against the decision to reinforce the foreign exchange reserves by the equivalent of SEK 100 billion, as we consider a better alternative would be to enter into an agreement with the Swedish National Debt Office that the foreign exchange reserves will be restored within 10 banking days after a decision has been made to use the reserves for liquidity assistance. Such an agreement would have the advantage that the taxpayers would not need to pay for the banks' risky borrowing in foreign currencies.

The Riksbank has noted the risks entailed in the banks' short-term borrowing in foreign currencies with regard to the Riksbank's possibility to provide liquidity assistance in a crisis situation since the financial crisis 2008-2009. In spring 2009 the Executive Board of that time decided to reinforce the foreign exchange reserves with SEK 100 billion, from around SEK 200 billion to around SEK 300 billion to increase the Bank's capacity to provide liquidity support if necessary. This was done by means of the Swedish National Debt Office borrowing this amount on the Riksbank's behalf. As the interest rate the Swedish government has to pay to borrow exceeds the interest rate on the assets in which the funds are invested, which are largely US and German government securities, this reinforcement entails certain costs. At present, these costs amount to around SEK 200 million a year. In spring 2009 this reinforcement was considered to provide a suitable balance between on the one hand the need to have a larger buffer to use for liquidity assistance within the space of a couple of days and on the other hand the need to protect Swedish taxpayers from paying for actions by the banks that create stability risks.

At that time a proposal was raised within the Executive Board that if further foreign exchange were to be needed for liquidity assistance, it could be supplied to the Riksbank through an agreement with the Swedish National Debt Office stipulating that the Swedish National Debt Office would restore the foreign exchange reserves by the amounts used. In spring 2010 a draft agreement of this type was drawn up with the Swedish National Debt Office, where the Swedish National Debt Office agreed to supply foreign exchange within 10 banking days after the Riksbank had reached a decision or signed an agreement that meant that currency from the foreign exchange reserves would be used.

The difference between this type of agreement and borrowing in advance is that the latter means the foreign exchange is available a few days earlier at the same time as it entails a cost to taxpayers. The faster accessibility in the event of a crisis thus needs to be weighed against the cost to the taxpayer. Our view in 2009-2010 was that a suitable balance entailed accepting a cost of around SEK 200 million a year to reinforce the foreign exchange reserves by SEK 100 billion,

and at the same time signing an agreement with the Swedish National Debt Office to restore the foreign exchange reserves, which ensured access to further foreign exchange if needed.

The decision we are now entering a reservation against entails borrowing a further SEK 100 billion in foreign currencies. This decision would entail an increase in the Riksbank’s costs of around a further SEK 200 million a year (which can be compared to the annual cost of the Riksbank's operations, which amounts to around SEK 750 million). This would also increase the Swedish national debt by almost 10 per cent (from around SEK 1,070 billion to around SEK 1,170 billion).

We see no reason to make a different assessment now than the one made in 2009-2010 with regard to the need to reinforce the foreign exchange reserves. The situation for the Swedish banks and the Swedish government is much better now than it was then. The Swedish banks are better capitalised and have acquired larger liquidity buffers. At present, for instance, all of the four major banks meet a liquidity requirement in both USD and EUR where they can cover at least 30 days’ net outflows of USD and/or EUR under stressed conditions. Moreover, their exposures to the Baltic countries, which comprised a risk factor in 2009, have declined. The Swedish state’s credit rating is also much better now than it was then, partly because there is no longer concern over problems in the Baltic region meaning that Swedish banks might need government support.

It is thus difficult to find any change with regard to the situation for Swedish banks or the Swedish government that would justify a different assessment than the one made in 2009-2010. The only thing that has happened that could possibly justify a different assessment is that the Swedish government’s commitments to the International Monetary Fund (IMF) have increased and that the euro-area crisis presents a clearer risk now.

However, with regard to the commitments to the IMF, they would be managed much better through an agreement with the Swedish National Debt Office on restoring the foreign exchange reserves when they have been used. Such an agreement would resolve completely the funding requirements linked to these commitments. The IMF produces quarterly forecasts of how much it is expected to want to use out of the maximum amount Sweden has committed to provide to the IMF. Although the IMF has the possibility to exceed these forecasts, in practice the Riksbank will be forewarned in such situations and can therefore make provision by informing the Swedish National Debt Office in good time.

What remains are the risks the euro-area crisis may bring. These risks are difficult to assess, but one can note that the problems in the euro area have so far only made it easier for Swedish banks and the Swedish government to obtain funding. It is difficult to see what type of scenario would cause the Swedish banks to have large, acute liquidity needs at the same time as the Swedish government experienced difficulty borrowing on the international markets. Nor is there any analysis of this issue in the reports on which the decision is based.

The above means that we doubt whether it is possible to justify the costs that a further reinforcement of the foreign exchange reserves would entail in the situation that prevails today. We consider that an agreement with the Swedish National Debt Office regulating how the foreign exchange reserves should be refilled if needed would be a preferable solution. Ultimately, however, this is a question of judgement where one may have different opinions regarding the value of a larger buffer in relation to the costs. There is no discussion of how this assessment should be made in the reports on which the decision is based, and this is a remarkable deficiency with regard to such an important issue.

Apart from the fact that we find it difficult to see any reasons to make a different assessment than the one made in 2009-2010, another important reason for our reservation is that a further reinforcement of the foreign exchange reserves means that a cost justified by the need to insure against the banks' risky funding will burden Swedish taxpayers. This cost, if considered justified, should not only be borne by the banks themselves, it should also be designed to reduce the banks' incentive to devote themselves to the type of funding in foreign currencies that is perceived as high risk. We consider it an important principle to promote financial stability by making it less beneficial to act in a way that gives rise to stability risks instead of using taxpayers' money to create insurance that is more likely to increase the banks' incentives to take risks. We are aware that this argument is also applicable to the decision to reinforce the foreign exchange reserves by SEK 100 billion, in which we took part in 2009. But with regard to the question of whether a possible continued cost for this should be transferred to the banks instead, we consider it appropriate to await the report by the commission of inquiry appointed in October 2011 to examine whether the size and funding of the Riksbank's foreign exchange reserves need to be changed, given the experiences of the financial crisis ("The Riksbank's financial independence and balance sheet – review following the experiences of the financial crisis", Dir. 2011:89). This report will be presented in early 2013.

As a result of what we have stated above, we enter a reservation against the decision to reinforce the foreign exchange reserves by the equivalent of SEK 100 billion in foreign currencies and to give the Governor of the Riksbank or a person appointed by him the task of submitting a request to the Swedish National Debt Office to borrow this amount on behalf of the Riksbank.

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