



Basis for decision

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DEPARTMENT: Markets Department

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■ Interest rates for standing facilities and fine-tuning operations

Proposed decision

- The decision dated 25 October 2010 "Interest rates for standing facilities and fine-tuning operations" (reference number 2010-751-APP) is revoked.
- The lending rate for fine-tuning operations is established at the prevailing repo rate.
- The deposit rate for fine-tuning operations is established at the prevailing repo rate.
- The lending rate in the standing facilities is set at the prevailing repo rate plus 75 basis points.
- The deposit rate in the standing facilities is set at the prevailing repo rate minus 75 basis points.

Background

As of 8 October 2008, the banking system has a liquidity surplus towards the Riksbank. At present, this liquidity surplus amounts to around SEK 54 billion. The Riksbank receives this surplus in deposits, partly through weekly issues of Riksbank Certificates with a maturity of one week, partly through daily fine-tuning operations overnight. The Riksbank pays the repo rate on the Riksbank Certificates, while the fine-tuning operations are carried out at the repo rate minus 0.1 percentage points, or the repo rate plus 0.1 percentage points for lending. The interest-rate corridor for fine-tuning transactions of +/- 0.1 percentage points around the repo rate is intended to give the banks an incentive to bid in issues of Riksbank Certificates.

Considerations

If the repo rate is cut to zero, it is appropriate that the interest-rate corridor around the repo rate for fine-tuning operations is also set at zero to avoid a negative fine-

■ tuning interest rate. Although it is technically possible to have a negative fine-tuning interest rate, it is not clear what the effects would be on the markets. The Riksbank should therefore, as a precautionary measure, choose to retain a non-negative interest rate on the fine-tuning operations.

The deposit and lending rates in the Riksbank's standing facilities should be left 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 not entailed any problem, as operationally the amounts the banks deposit in the facility are small. Since October 2008, the banks' deposits in the deposit facility have amounted to on average around SEK 80 million.

The current width of the interest-rate corridor was set in the Riksbank's decision on 25 October 2010 "Interest rates for standing facilities and fine-tuning operations" (reference number 2010-751-APP). This decision should now be replaced by a new decision that will apply until further notice. Essentially, the new decision means that the change in the deposit and lending rates in the fine-tuning transactions will be the same as the repo rate applying at the time. The width of the interest-rate corridor for the standing facilities remains unchanged.