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AVDELNING: Avdelningen för Penningpolitik
HANDLÄGGARE: Gunnar Blomberg, Kristian Tegbring
HANTERINGSKLASS: Ö P P E N

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

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■ The monetary base – the Riksbank changes statistical definition

Current reporting

Statistics regarding the monetary base have aroused growing interest, partly because of analyses of how the central banks' different types of extraordinary measures affect liquidity in the economy. In Sweden this question has become topical as a result of the loans to the banks that the Riksbank has been providing since autumn 2008. These transactions are reflected in the asset side of the Riksbank's balance sheet. They appear on the liabilities side of the Riksbank's balance sheet in the form of the banks' deposits and holdings of Riksbank Certificates. The liquidity reserve the banks thus receive at the Riksbank is not, however, reflected in the monetary base as this concept has so far been defined in the Riksbank's statistical reporting.

The Riksbank has been publishing statistics on the monetary base since the year 2000, see <http://www.riksbank.se/svenskstat/> partly as a result of this being a requirement for Sweden's participation in the international statistics standard, the SDDS¹ which was drawn up by the International Monetary Fund, the IMF. When the Riksbank began to publish this data, it chose to define the monetary base as identical to the banknotes and coins in circulation according to the Riksbank's balance sheet, which is equal to the general public's and financial institutions' holdings of banknotes and coins. The banks' deposits in the Riksbank had been very marginal during a long period of time and issues of Riksbank Certificates had not occurred since the mid-1990s (see Figure 1). As of autumn 2008 both of these units have expanded. There is thus reason to adjust the definition and the reporting of the monetary base in such a way as to include all relevant parts. The new definition also corresponds better with international practice.

International recommendations for the monetary base term

The International Monetary Fund discusses the term monetary base in its Monetary and Financial Statistics Manual². According to the IMF's manual, the monetary base is not a money supply term; it is instead a measure of the funding base for the money supply in its various measures. The manual does not provide any exact definition, but rather a description of how the term is normally defined. The manual thus provides a certain amount of freedom in the application of the term.

According to the IMF manual, the term monetary base includes;

¹ The SDDS (Special Data Dissemination Standard) was established in 1996 and includes requirements for which statistics a country should supply. The SDDS is the most demanding statistical standard, with 64 countries now included (as at November 2007).

² Monetary and Financial Statistics Manual, 2000.

1. Banknotes and coins in circulation. This corresponds to the general public's and financial institutions' holdings and can be read in the Riksbank's balance sheet.
2. The banks' deposits with the central bank. This refers primarily to short-term assets in the central bank, while the assets that are tied up for longer periods are not normally included. The manual does not state any maturity limit in this respect. Nor are deposits where use is limited, or conditions are prescribed for use, normally included in the monetary base term according to the IMF manual.
3. The central bank's liabilities to other sectors are normally included, particularly if these liabilities are included in one of the broad money supply measures. One example of these liabilities is the Riksbank Certificate issued by the Riksbank. This Certificate can be sold on to other sectors and the Riksbank will then have a liability to these.

With the ESCB system, that is, the central banks within the EU, there is no agreed joint definition of the term monetary base. However, the ECB applies a measure that is closely linked to the IMF description. The statistics on the monetary base reported by the ECB include banknotes and coins in circulation, counterparties' reserves in the Eurosystem in the form of minimum reserve requirements and surpluses as well as use of the Eurosystem's deposit facility.

New definition of monetary base

The term monetary base is now being redefined to better concur with the term recommended by the IMF and used by the ECB. The term now includes

1. Banknotes and coins in circulation, in accordance with the definition currently used for the monetary base.
2. The banks' deposits with the Riksbank.
3. Claims on the Riksbank as a result of the Riksbank Certificates issued.

The new definition means in practice that the term is extended to include fine-tuning and the deposit facility with a maturity of one day (overnight) as well as the current Riksbank Certificates that normally have a maturity of one week. The Riksbank Certificates should be included in the monetary base regardless of the holder, for instance, in cases where they have been resold to other players.

This new definition means, as a result of the liquidity contribution the Riksbank provided to the banks in autumn 2008, a substantial change in the size of the monetary base. During the years 1992-1997 one can see a substantial change, as the Riksbank issued Riksbank Certificates during these years.

See the figures below.

Figure (1) Historical series for monetary base, SEK million

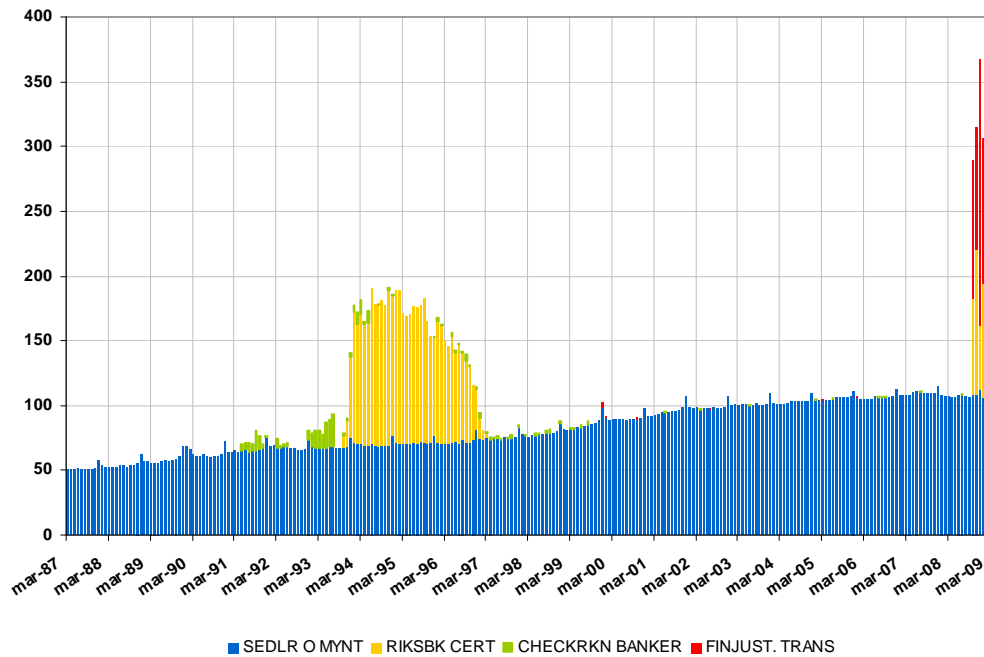
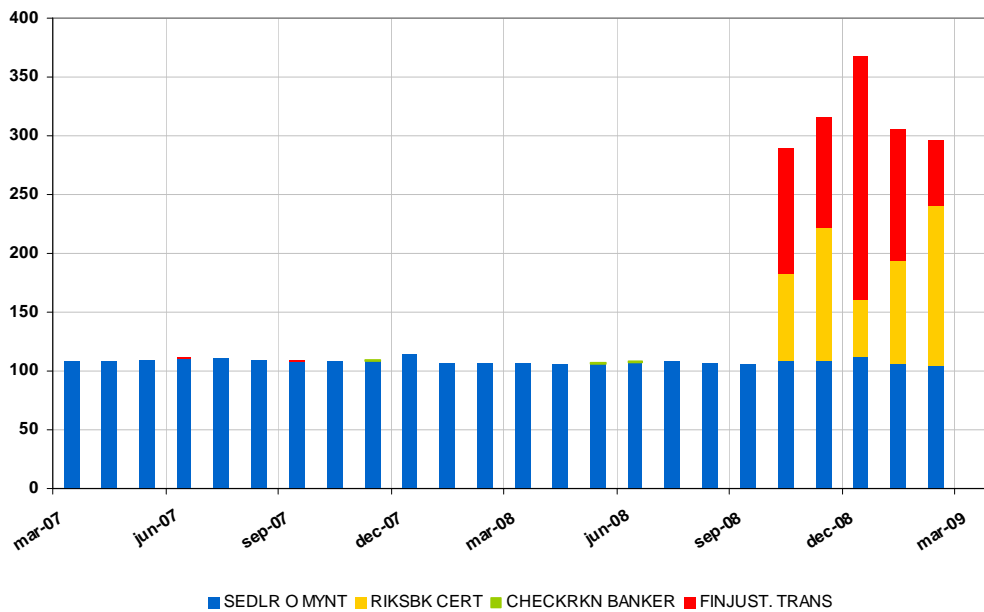


Figure (2) Monetary base, SEK million



Dissemination of statistics on the monetary base

Statistics on the monetary base will be presented in Statistics Sweden's publication for financial market statistics in connection with reporting of the monetary aggregates (see www.scb.se). This reporting will begin with effect from the figures published on 29 May.

The annex contains a monthly series for the monetary base in accordance with the new definition.



The contact persons at the Riksbank are Kristian Tegbring and Gunnar Blomberg, tel. +46-(0)8 – 787 00 00.

