



Memorandum

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SVERIGES RIKSBANK
SE-103 37 Stockholm
(Brunkebergstorg 11)

Tel +46 8 787 00 00

DNR

■ Extension of the maturity for the Riksbank's long-term loans in SEK to twelve months

Background

Since autumn 2008 the Riksbank has regularly held auctions for loans in SEK, both against the collateral the Riksbank normally accepts, and against newly-issued commercial paper with a slightly poorer credit rating than those normally accepted as collateral. The allocation of loans among the Riksbank's monetary policy counterparties has been achieved by means of auctions. The Riksbank has stated a minimum interest rate for these auctions, which corresponds to the average repo rate during the maturity of the loan plus a supplement. At most this lending amounted to SEK 265 billion at the end of 2008/beginning of 2009, and as of 28 April it had fallen to SEK 157 billion.

One purpose of the Riksbank's lending has been to facilitate the banks' funding and the functioning of the markets. The lending has had the intended effect in that it has contributed to securing the banks' short-term financing, and interbank market rates have become lower than they would otherwise have been. The scope of the lending against newly-issued commercial paper has not been as extensive as expected, but it has nevertheless had some positive effect on companies' opportunities to issue commercial paper. At the same time, the Riksbank's lending, in that it has a dampening effect on interest rates, has contributed to monetary policy having the intended impact and to enabling the autumn's repo rate cuts to alleviate the downswing in economic activity.

The situation in the world's financial markets is still far from normal and measures are regularly being taken by governments and central banks. As far as the Riksbank is concerned, this means that there is reason to consider even longer maturities for the loans the Riksbank offers in regular auctions, in that it will improve the banks' liquidity and make it easier for them to provide companies with longer loans.

Considerations

The auctions for these loans should, as with the loans that have three-month and six-month maturities, be held with a minimum interest rate equal to a variable rate plus a supplement. The variable rate is the average repo rate during the maturity of the loan. The supplement should be 0.15 percentage points, which also applies to the loans with three-month and six-month maturities.

It is difficult to determine suitable volumes for these auctions in advance and some flexibility may be needed in the final formulation of the auctions. It is therefore suggested that the Executive Board delegates to the Head of the Monetary Policy Department, within these guidelines, to adjust the scope of the auctions according to

the prevailing market conditions and the bids received. However, the maximum amount that the Riksbank has lent at a particular point in time may not exceed the amount set by the Executive Board. The Riksbank is prepared to supply the liquidity needed to maintain the stability of the financial system, but if it is necessary to increase the total lending volume above what the Executive Board has decided, this will require a new, separate decision by the Board.

Proposed decision

It is proposed that the Executive Board decide that:

- 1 The Riksbank introduced a further maturity for loans in Swedish krona against ordinary collateral to the Riksbank's monetary policy counterparties. In addition to the three-month and six-month loans granted so far, auctions for loans with a maturity of twelve months should be held. Auctions of loans with a three-month maturity will be held approximately once a fortnight and loans with a six-month and twelve-month maturity respectively will be held approximately once every four weeks.
- 2 The minimum interest rate on these loans granted against normal collateral will be set at the average repo rate during the maturity of the loan plus a supplement. The supplement will be 0.15 percentage points for loans with 3, 6 and 12 months maturities.
- 3 The loans will be offered through auctions held up to the end of November 2009.
- 4 The Head of the Monetary Policy Department or a person he appoints in his stead will be given the task of determining the more detailed terms for the loans. A decision made in accordance with this delegation may not entail that the outstanding volume of Riksbank loans referred to under point 1 and the loans granted with commercial paper as collateral exceeds SEK 600 billion.