Decision memorandum

DATE: 2 September 2009
DEPARTMENT: Monetary Policy Department
REFERENCE:
HANTERINGSKLASS:

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Lending at 12-month maturity at a fixed interest rate

Proposed decision

It is proposed that the Executive Board decide that:

1 The Riksbank will offer loans against normal collateral to the Riksbank's monetary policy counterparties, including the restricted monetary policy counterparties, at a fixed interest rate compatible with current monetary policy.

2 The loans shall be offered through an auction where the monetary policy counterparties present bids stating both interest rates and the desired loan volume and with a minimum bid rate stipulated by the Riksbank. The minimum bid rate shall be set at the repo rate plus an addition determined by the Executive Board.

3 The Riksbank's monetary policy counterparties will be offered loans in an auction to be held on 14 September as follows

   a. The minimum bid rate for the auction will be the repo rate with an addition of 0.15 percentage points.

   b. The loan volume offered is SEK 100 billion.

   c. The payment date is 16 September 2009.

   d. The maturity of the loan is 343 days, that is, almost 12 months.

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.

Background

During the financial crisis the Riksbank and other central banks have implemented a number of measures to facilitate the supply of credit and the functioning of the financial markets. The Riksbank has been offering loans in both Swedish kronor and US dollars to its monetary policy counterparties since October 2008. During the same period the Riksbank has cut the repo rate from 4.75 per cent to 0.25 per cent to attain an inflation rate compatible with the inflation target and to dampen the fall in the real economy.

The Riksbank's assessment in July 2009 was that supplementary measures were needed for monetary policy to have the intended effect. The Riksbank then offered a loan at a fixed interest rate with a relatively long maturity to its monetary policy counterparties. The Riksbank's assessment is that the loan contributed to lower funding costs for the Swedish bank system and thus probably to lower interest rates for companies and households.

The Riksbank's assessment is that supplementary measures are still needed for monetary policy to have the intended effect. The fact that the Riksbank is offering loans at a fixed interest rate and at a relatively long maturity to its monetary policy counterparties will contribute to lower funding costs for the Swedish bank system and probably to lower interest rates for companies and households.

Considerations

The lowest permitted bid rate used in the auction should be compatible with the Riksbank's forecast for the repo rate during the maturity considered relevant. The proposal is therefore that the loans should be offered at the repo rate plus an addition.

The loans will have a maturity of approximately twelve months. The time of the auction should be soon after the monetary policy decision has been published, but with sufficient scope to allow the monetary policy counterparties time to prepare for participation in the auction.

The loans at a fixed interest rate are separate from the already existing lending facility at a variable interest rate. The existing lending facility at a variable interest rate will be supplied regularly as long as is necessary to maintain the stability of the financial system.

The terms for the lending facility with a fixed interest rate should be similar to the terms applying to lending at a variable interest rate in terms of counterparties, eligible collateral, documentation and routines.

An appropriate volume for this lending entails a deliberation where the impact on the money market rates is probably greater when the loan volumes offered are large, but large volumes may substantially increase the Riksbank's balance sheet. The loans at a fixed interest rate are not included in the maximum outstanding volume applying to the loans already offered at a variable interest rate.