



Decision memorandum

DATE: 15 July 2010
DEPARTMENT: Financial Stability Department
REFERENCE:
HANTERINGSKLASS:

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DNR 2010-577-AFS

■ Variable-rate loans in Swedish kronor

Proposed decision

It is proposed that the Executive Board decide that:

1. The Riksbank will continue to offer loans in Swedish kronor against normal collateral to the Riksbank's monetary policy counterparties with a 28-day maturity. The auctions will be held approximately every fourth week, and so as to coincide with the maturity of the outstanding fixed interest-rate loans.
2. The minimum interest rate on these loans will be set at the average repo rate during the maturity of the loan plus a supplement of 0.50 percentage points.
3. The loans will be offered through auctions held in accordance with the published timetable up until 6 October 2010.
4. The Head of the Monetary Policy Department or a person he appoints in his stead will be given the task of determining, after consultation with the Head of the Financial Stability Department, the more detailed terms for the loans. A decision made in line with this delegation may not entail the outstanding volume of Riksbank loans as referred to in point 1 above exceeding SEK 400 billion.
5. This decision replaces points 2–5 of the previous decision, DNR 2010-374-AFS, of 19 April 2010. The decision will apply to new loans provided in the auctions taking place as from 26 July 2010.

Background

Since October 2008, the Riksbank has offered loans in Swedish kronor with longer maturities and against collateral to monetary policy counterparties on a regular basis.¹ The purpose of these loans has been to facilitate the banks' funding and the functioning of the credit markets when access to normal market funding disappeared. When the lending was at its peak, the loans offered covered several maturities; three, six and twelve months.² Since February 2009, the pricing has been at a variable rate.³

¹ DNR 2008-765-AFS

² DNR 2009-452-AFS

As market conditions have improved, the demand for these loans has declined substantially. The outstanding volume has fallen as loans that have matured have not been renewed. At the end of June 2010, the outstanding loans amounted to approximately SEK 49 billion. This should be compared to the peak of approximately SEK 265 billion at the start of 2009. During the same period, on the other hand, the Riksbank's total lending increased in connection with the three fixed interest-rate loans decided upon at the Monetary Policy Meetings held in July, September and October 2009. The outstanding volume for these loans amounted to around SEK 195 billion at the end of June.

Since autumn 2009 the conditions for the loan facility have been tightened to further increase the incentives for the banks to increase their market funding and thereby reduce their reliance on government support. By gradually raising the price and at the same time reducing the maturity, the aim was to gradually phase out the Riksbank's loans with longer maturities.⁴ The most recent change was made in April, when loans with maturities of three months and six months were replaced by loans with a maturity of 28 days.⁵ After the most recent change there have only been bids received at one single auction, in connection with the first of the Riksbank's fixed-interest loans maturing in June. On this occasion loans to the value of SEK 111 billion in Swedish kronor matured, and loans corresponding to SEK 20 billion were extended. All in all, the volume of outstanding loans thus declined substantially.

Since November 2008, the Riksbank's auctions have been held regularly in accordance with a published timetable to facilitate the banks' planning of their liquidity supply. According to the current timetable, the Riksbank is to offer loans once every four weeks.

Considerations

The financial markets have been affected by unease over sovereign debt problems in southern European countries since the spring. However, for some time now, there have been signs of an improvement. Swedish banks have had good access to market funding in Swedish kronor throughout the spring. Some further large sums will fall due for payment in connection with the Riksbank's two remaining fixed-interest rate loans maturing in August and October 2010.

Given this, the assessment is that the Riksbank should offer the banks a funding opportunity over the summer and autumn, in connection with these two maturities which together entail a total of SEK 195 billion. Such funding should, however, be so expensive that the banks will prefer to choose normal market funding. Consequently, the Riksbank should continue to offer loans, but with maturities of 28 days. The facility will thereby function as an underlying, confidence-building form of insurance for the banks. The Riksbank deems that the likelihood that the banks will need to use this facility is low.

As previously, pricing will be based on a variable interest rate, i.e. the repo rate plus a supplement. The amount of this supplement must strike a balance; with the price being neither so low that the loans become considered preferable to functioning market financing nor so high that the facility no longer fulfils its function. The alternative cost for lending from the Riksbank would be, for example, the cost for loans on the interbank market or market borrowing through bank certificates. As lending from the

³ DNR 2009-275-AFS

⁴ DNR 2009-879-AFS and DNR 2010-187-AFS

⁵ DNR 2010-374-AFS

■ Riksbank is against collateral, unlike loans on the interbank market, the cost of the Riksbank's loans should be lower than those of the interbank market, all other factors being equal. On the other hand, the price of the Riksbank's loans should include an insurance premium, as it is always possible to borrow from the Riksbank. Given the prevailing levels of market prices combined with the assessment that the banks have good access to market funding in Swedish kronor, the minimum supplement for a loan with a maturity of 28 days has been set at 0.50 percentage points. This supplement makes the Riksbank's loans an expensive alternative to market funding of an equivalent maturity.

As previously, the auctions should occur in accordance with a timetable published in advance, so as to facilitate the banks' planning of their liquidity supply. The loans should be offered approximately once every four weeks, in accordance with the current timetable, to give the banks the opportunity to refinance the coming maturities of the Riksbank's fixed-interest rate loans. The loans should be offered until 6 October 2010 to cover the last of the Riksbank's three major maturity dates.

Decisions on the auction volumes are delegated by the Executive Board to the Head of the Monetary Policy Department, who makes the decisions in consultation with the Head of the Financial Stability Department. This delegation should continue to apply in the future.