



Decision Memorandum

DATE 29 October 2009
DEPARTMENT: Financial Stability Department
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DNR

■ Variable-interest rate loans in Swedish kronor

Proposed decision

It is proposed that the Executive Board decide that:

1. The Riksbank will continue to regularly offer loans in SEK against normal collateral to the Riksbank's monetary policy counterparties at maturities of three, six and twelve months. 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 will be set at the average repo rate during the maturity of the loan plus a supplement. The supplement will be 0.25 percentage points for loans with a three-month or six-month maturity and 0.30 percentage points for loans with a twelve-month maturity.
3. The loans will be offered through auctions held up to the end of May 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 600 billion.

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. The maturities were originally three months and six months respectively. In November 2008 the Executive Board decided to introduce a programme for these loans to increase transparency and thereby make it easier for the banks to plan their supply of liquidity.²

¹ See the Executive Board's decision memorandums dated 2 October 2008 and 5 October 2008.

² See the Executive Board's decision memorandum dated 20 October 2008.

The pricing, which was originally at a fixed interest rate, was change in February 2009 to a variable interest rate to better correspond to the prevailing market expectations of interest rate cuts.³ To further facilitate bank funding the programme was extended in May 2009 to include loans with a maturity of twelve months.⁴

The demand for these loans has declined substantially since the summer. These loans peaked at around SEK 265 billion at the turn of the year 2008/2009, but in October 2009 had fallen to around SEK 90 billion. The fact that lending has declined indicates that conditions in the financial markets have improved over the summer. At the same time, the Riksbank's total lending has increased as a result of the fixed-interest rate loans that were announced in connection with the monetary policy meetings in July, September and October.

Over the past six months the situation on the financial markets has improved. Both funding costs and access to funding have improved, even at longer maturities. However, the positive developments in the market are still largely dependent on extensive measures by the Riksbank, other Swedish authorities and also other central banks, which are supporting the financial system.

Considerations

There are still reasons why the Riksbank should continue offering loans in Swedish kronor with three-month, six-month and twelve-month maturities. The auctions will be held with a minimum bid rate equivalent to the average repo rate during the maturity of the loan plus a supplement. It is difficult to determine the exact maturity and credit risk premiums. The interest rate differential between the interbank rate, loans without collateral, and the expected policy rate is one possible basis. During the period from 2003 up to October 2009 the average interest rate differential was approximately 0.20 percentage points for three-month and six-month maturities respectively. For twelve-month maturities it was on average 0.25 percentage points. As the Riksbank's loans are granted against collateral, the supplement should normally be slightly lower than this level. The minimum supplement has been 0.15 percentage points, regardless of maturity, since February 2009. As a result of the improvement in market funding opportunities, however, there is reason to consider a change in pricing to reduce the Riksbank's lending facility in Swedish kronor in the long term as market conditions gradually improve further. By gradually raising the price in line with the further improvement in market conditions, the facility will be phased out naturally and the banks will be encouraged to gradually reduce their dependence on Riksbank loans. Given this, the supplement on top of the average repo rate during the maturity should be set at 0.25 percentage points for loans with three-month and six-month maturities and at 0.30 percentage points for loans with twelve-month maturities.

Since November 2008 auctions have been held regularly in accordance with a published timetable to facilitate the banks' planning of their liquidity supply. This also justifies an extension with the same regularity. Auctions of loans with a three-month maturity should thus be held approximately once a fortnight and loans with a six-month and twelve-month maturity respectively should be held approximately once every four weeks.

The auction volumes have varied over time and the size has depended on the prevailing market conditions and the bids received earlier. This decision is currently delegated by

³ See the Executive Board's decision memorandum dated 12 February 2009.

⁴ See the Executive Board's decision memorandum dated 7 May 2009.



the Executive Board to the Head of the Monetary Policy Department. It is proposed that the same system should apply, with the addition that a decision should be made after consultation with the Head of the Financial Stability Department.