



**SVERIGES
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Press Release

CHANGE IN THE MATURITY OF THE RIKSBANK'S REGULAR REPURCHASE AGREEMENTS AND IN THE TIMING OF THE ANNOUNCEMENT OF THE REPO INTEREST RATE

Beginning with the July 2 repo tender, the Riksbank will change the maturity of its repos from two weeks to one week. Consequently, the repos will no longer overlap. The change is purely technical and does not involve any change in the Riksbank's signalling system.

In addition, the announcement of the repo rate will be postponed by one hour, i e until 09.30. Thus, the tender will be announced half an hour after the official opening of the market.

The reason for the change to one-week repos is that the need to drain liquidity has declined markedly during the last twelve months. In other words the volume of the repos, i e the stock of Riksbank certificates, has fallen. This is a consequence of a reduction in the Riksbank's forward debt in foreign exchange, which has led to a reduction in gross foreign exchange reserves. The decline in the Riksbank's gross assets has implied that it has also been possible for deposits in kronor via (reverse) repos to be reduced.

The large liquidity surplus in the Swedish market was the main reason why the Riksbank previously chose to use two-week repos. In this way, half the stock of Riksbank certificates was turned over each week. The disadvantage with overlapping repos was that the incentive to submit bids was greatly influenced by expectations concerning the development of the repo

rate in the period to maturity. When expectations were for a decline in the repo rate during the life of the repo, it was advantageous to try to obtain as large an allocation as possible, and vice versa in case of expectations of a an increase in the repo rate. Accordingly, bidders who received an allocation were alternatively favoured or disfavoured.

This effect of overlapping repos has been understood since the present monetary policy operational framework was introduced in June 1994. However, the practical advantages of turning over only half of the stock of certificates at a time have previously been considered to outweigh the disadvantages. The liquidity surplus on the market has now been more than halved compared to its maximum in 1995. Turning over the entire stock of certificates each week is therefore no longer considered to be a problem from a practical point of view.

The change in the timing of the announcement of the result of the regular repos is made in order for the repo rate to be announced after the opening of the market. An announcement during the normal working hours puts all traders on equal terms in the use of the information. This will improve the functioning of the price mechanism in the money market. With this change the Riksbank complies with a request from the Money Market Council of the Swedish Securities Dealers Association that the repo interest rate be announced during trading.

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