



Decision Memorandum

DATE: 2010-04-20
DEPARTMENT: Financial Stability Department

SVERIGES RIKSBANK
SE-103 37 Stockholm
(Brunkebergstorg 11)

Tel +46 8 787 00 00
Fax +46 8 21 05 31
registratorn@riksbank.se
DNR

■ Variable-rate loans in Swedish kronor

Proposed decision

It is proposed that the Executive Board decide that:

1. The Riksbank will cease to offer SEK loans at a maturity of three and six months.
2. The Riksbank will regularly 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.
3. 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 0.30 percentage points.
4. The loans will be offered through auctions held in accordance with the published timetable up until 6 October 2010.
5. 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 2 above exceeding SEK 400 billion.
6. This decision replaces points 2–5 of the previous decision, DNR 2010-187-AFS, of 4 February 2010. The decision will apply to new loans provided in the auctions taking place after 3 May 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. The maturities of the loans have been gradually extended and, since May 2009, have been

¹ DNR 2008-765-AFS

three, six and twelve months.² Since February 2009, the pricing has been at a variable rate.³

The demand for these loans has fallen sharply since the summer of 2009. In March 2010, the outstanding loans amounted to approximately SEK 70 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.

In November 2009, the Executive Board decided to increase the interest rate for the loans. The aim was to encourage the banks to increase their market funding and thus reduce their dependence upon government support.⁴ This increase represented the first step in a gradual phasing out of the Riksbank's facility for loans at longer maturities. In February 2010, the Executive Board decided to cease to offer loans with a maturity of 12 months and to further tighten the conditions for loans with the remaining maturities of three and six months by increasing the price.⁵ Following the most recent price increase, no bids have been received for loans with maturities of three or six months, which reflects the improved possibilities for the banks' to obtain market funding.

Since November 2008, 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 a fortnight.

Considerations

Over the last six months, conditions on the credit markets and the possibilities for the banks to obtain funding have improved. This improvement is reflected in both lower costs and better access to long-term funding. However, one factor remains for consideration in the future, namely the large amounts falling due for payment in conjunction with the expiry of the Riksbank's fixed interest-rate loans in June, August and October 2010.

Given the improved situation on the financial markets, there is reason for the Riksbank to reduce the extent of the current credit facility. The Riksbank should thus cease to offer loans with maturities of three and six months. However, our assessment is that the Riksbank should offer the banks a possibility of funding if the markets should become turbulent when the Riksbank's fixed interest-rate loans of SEK 295 billion fall due for payment during the summer and autumn. 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 shorter maturities. 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

² DNR 2009-452-AFS

³ DNR 2009-275-AFS

⁴ DNR 2009-879-AFS

⁵ DNR 2010-187-AFS

interbank market or market borrowing through bank certificates. As lending from the Riksbank is against collateral, unlike loans on the interbank market, the cost of the Riksbank's loans should be lower than the cost of loans from 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. Against this background and prevailing levels of market prices, the minimum supplement for a loan with a maturity of 28 days has been set at 0.30 percentage points. This supplement makes the Riksbank's loans an expensive alternative to market financing of an equivalent maturity.

As previously, the auctions should regularly recur in accordance with a timetable published in advance, so as to facilitate the banks' planning of their liquidity supply. According to the existing timetable, the Riksbank is to offer loans once a fortnight. However, as the aim of the loans with a maturity of 28 days is to provide the banks with the possibility of refinancing fixed interest-rate loans from the Riksbank with approaching maturities, the period of time between the auctions may be extended. Consequently, in order to match the maturity dates of the Riksbank's fixed interest-rate loans, an auction should be held approximately every fourth week, with one additional auction being held on 6 October 2010. Loans should be offered until 6 October 2010 to cover the Riksbank's three major maturity dates.

The auction volumes have varied over time and the size has depended on the prevailing market conditions, the bids received earlier and the amounts of approaching maturities. Decisions on these conditions have currently been delegated by the Executive Board to the Head of the Monetary Policy Department, following consultations with the Head of the Financial Stability Department. This delegation should continue to apply in the future.