



Decision guidance

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DEPARTMENT: AFM, APP, AFS & AFB (Markets, Monetary Policy, Financial Stability and Payments)
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Amendments to the Riksbank's operational framework for the implementation of monetary policy - Step 2

Proposed Executive Board decision

The Executive Board decides

- 1) to change the name of the Riksbank's repo rate to the Riksbank's policy rate,
- 2) to tighten the requirements for collateral for loans in the Riksbank's standing lending facility at the primary collateral volume and determine that the primary collateral volume, on condition that the other applicable conditions are met, consists of:
 - i. securities issued by governments
 - ii. securities issued by central banks
 - iii. other claims on central banks
- 3) to determine rates for the Riksbank's standing lending facility at the prevailing policy rate with a supplement of 0.10 percentage points,
- 4) to establish a supplementary liquidity facility in which the Riksbank offers monetary policy counterparties credit overnight against collateral from the secondary collateral volume,
- 5) to determine that the secondary collateral volume is comprised of other assets accepted by the Riksbank as collateral,
- 6) to determine rates for the Riksbank's supplementary liquidity facility at the prevailing policy rate with a supplement of 0.75 percentage points,
- 7) to task the Head of the Markets Department, with the right to delegate to another person, with determining the precise details regarding the terms for,

and information on, the Riksbank's standing loan facility and supplementary liquidity facility,

- 8) that this decision will come into force on Wednesday, 8 June 2022, and to
- 9) publish this decision on Tuesday, 22 March 2022.

The matter at hand

In 2019, the Riksbank began a reform of the operational framework for the implementation of monetary policy to make it simpler and more flexible. For system-technical reasons, the reform will be implemented in two steps. The Executive Board decided on the changes in the first step on 24 September 2019, and that they would be implemented with effect from 9 October 2019. The current decision covers the changes in the operational framework in the second and final step of this reform.

The Riksbank's operational framework for the implementation of monetary policy makes it possible for the Riksbank to steer the overnight rate and influence Swedish market rates. The operational framework consists of monetary policy instruments, counterparties and collateral for credit from the Riksbank. By determining the pricing of deposits and loans with the Riksbank, the Riksbank steers the overnight rate and influences the pricing of close substitutes for these investments and loans on the market. The primary objective of the operational framework is to ensure short market rates are close to the Riksbank's policy rate. The transmission mechanism means that changes in short market rates also affect other interest rates in the economy, and ultimately, the economy in general.

Developments in the world around us mean that the Riksbank's operational framework for the implementation of monetary policy needs to be reformed, partly to be made simpler and more automated, and partly to become more flexible and independent of autonomous factors that can affect the Riksbank's capacity to stabilise the overnight rate close to the policy rate. Some of the most important changes in the environment are the developments in the payment market and an increased interest in becoming a monetary policy counterparty to the Riksbank. If the operational framework is to be able to continue to impact market rates in an effective manner, it needs to be adapted on the basis of these and The majority of future changes.

Given this, the Executive Board decided on 2 July 2019 to circulate a proposal for a new operational framework for the Riksbank for consultation among the Riksbank's monetary policy counterparties and other interested parties (reference number 2019-00786). The proposal included amendments to the Riksbank's operational framework for the implementation of monetary policy in two steps.

The first step entails the Riksbank:

- i. ceasing to conduct daily manual fine-tuning transactions, and
- ii. determining rates for the Riksbank's standing deposit facility at the prevailing policy rate after a deduction of 0.10 percentage points.

The second step entails the Riksbank:

- i. changing the name of the Riksbank's repo rate to the Riksbank's policy rate,
- ii. tightening requirements for collateral for the Riksbank's standing loan facility and retaining current requirements for collateral for intraday credit,
- iii. determine rates for the Riksbank's standing lending facility at the prevailing policy rate with a supplement of 0.10 percentage points; and
- iv. retaining the possibility to borrow overnight against other collateral accepted by the Riksbank, but then at a higher interest rate.

The amendments to the Riksbank's operational framework for the implementation of monetary policy that are being proposed are of a technical nature and are not intended to change the direction of the monetary policy conducted.

After this, the Executive Board decided, on 24 September 2019, to implement the first step of the reform with effect from 9 October 2019. The Executive Board also decided to task the Head of the Markets Department with providing suggestions for amendments to the Riksbank's operational framework for the implementation of monetary policy in line with the proposals in step two. In connection with this, the Executive Board also reached a decision of principle on implementing step two as soon as possible in terms of system technology – but no later than within two years (reference number 2019–00786). With effect from spring 2022, it is possible in terms of system technology to implement step two. This is around six months later than the original plan, and due to unforeseen technological obstacles.

See Annex 1 to this decision for a more in-depth description of the matter.

Considerations

The Riksbank's changes the name of its repo rate to the policy rate

The Riksbank uses the repo rate to signal which interest rate level is needed to attain the inflation target. The current name, the Riksbank's repo rate, refers to monetary policy repos, which are a monetary policy instrument that has not been used by the Riksbank since the year 2008. This is because the banking system has since then had a liquidity surplus towards the Riksbank and thus not had a regular borrowing requirement from the Riksbank. The change of name shall of course be seen in this light and it is emphasised that the change does not entail any real change. The change merely ensures that the rate has a more appropriate name.

Tightening the collateral requirements for loans in the standing loan facility

Tightening the collateral requirements for loans in the Riksbank's standing loan facility reinforces the counterparties' incentives to seek market solutions to manage their liquidity position. It also creates incentives for the counterparties to primarily use government securities and claims on central banks as collateral for credit from the Riksbank, and secondly more risky assets, such as covered bonds.

Determining interest rates for the Riksbank's standing loan facility at the prevailing policy rate with a supplement of 0.10 percentage points

The interest rate for the Riksbank's standing loan facility was set on 2 July 2020 at the policy rate with the addition of 0.10 percentage points as a part of the measures the Riksbank took to promote the supply of liquidity in the economy and thereby alleviate

the economic consequences of the coronavirus pandemic. The purpose of once again determining the interest rates on the standing loan facility is to clarify that this is a component of the Riksbank's reformed operational framework for the implementation of monetary policy that applies until further notice, even regardless of the development of the coronavirus pandemic.

Introducing a supplementary liquidity facility with lighter security requirements

Given that collateral from both the primary and the secondary collateral mass is accepted as collateral for intraday credit at the Riksbank, it is important to ensure that a situation does not arise in which counterparties can borrow during the day but not overnight. The possibility to borrow overnight from the Riksbank against collateral in the secondary collateral mass shall thus remain to ensure that monetary policy counterparties have access to liquidity overnight even if they do not have sufficient collateral in the primary collateral mass to use the Riksbank's standing loan facility.

Determining interest rates for the Riksbank's supplementary liquidity facility at the prevailing policy rate with a supplement of 0.75 percentage points

The interest rates in the Riksbank's supplementary liquidity facility will reflect the interest spread between securities in the primary and the secondary collateral mass with an addition, partly to create an incentive for the counterparties to first and foremost use collateral from the primary collateral mass when borrowing from the Riksbank, and partly to strengthen the incentive for the counterparties to seek market solutions to manage their liquidity.

Detailed design of the terms for, and information on, the current amendments and when they come into force

It is the responsibility of the Head of the Markets Department, with the right to delegate to another person, to determine the precise details regarding the terms for, and information on, the Riksbank's standing loan facility and supplementary liquidity facility.

It is appropriate that this decision comes into force on 8 June 2022, almost three months after the decision is published on 22 March 2022, so that the Riksbank's monetary policy counterparties have time to adapt to the amendments to the operational framework.