



Memorandum Decision

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DNR

■ Longer-term loans in Swedish krona

Background

The international financial turbulence is continuing and is now clearly affecting the financial markets in Sweden, the Swedish banks and other financial market participants. The Riksbank is taking measures to facilitate the credit supply to the Swedish banks. It is already the case that an increasingly large share of their financing is of very short duration. To the extent that it has been possible to find longer-term funding at all, this has been much more expensive than usual for the banks. This development also means that the differences in maturity structures between the banks' assets and liabilities are increasing, which affects both the banks' interest rate risks and their liquidity risks.

The difficulties for the banks to obtain financing now risk having negative consequences for the credit supply to companies and households. This entails risks for macroeconomic stability in general.

The situation in Sweden is not unique. Several other countries have seen a similar development. Other central banks have also acted earlier and tried to facilitate long-term funding in the credit markets. The Riksbank is introducing on Monday a three-month credit facility (with payment date on Wednesday) by means of an auction procedure.

Considerations

The situation in the financial markets and internationally gives the Riksbank reason to increase the banks' access to loans at longer terms from the Riksbank. Given the recent developments, it is proposed that the volume of the earlier-announced three-month loans be raised to SEK 100 billion. As a complement to the already announced three-month loans, it is appropriate to also offer loans over a period of six months in an auction to be held on 8 October amounting to an announced sum of SEK 100 billion.

The interest rate on these loans should be in harmony with current monetary policy. It is difficult to determine term premiums, especially in a time of market turbulence but a six-month term premium of 0.40 percentage points can be regarded as a good approximation of normal conditions. The minimum interest rate on these loans should therefore amount to the repo rate plus 0.40 percentage points. The volume announced for these six-month loans should also be SEK 100 billion. At the same time, it is difficult to determine suitable volumes for these auctions in advance and some flexibility may be needed in the final formulation of the auctions. It is therefore suggested that the Head of the Monetary Policy Department adjusts the scope of the auctions according to the prevailing market conditions and the bids received.

Proposed decision

■ It is proposed that the Executive Board decide that

1. the Riksbank shall raise the announced amount for the three-month loans notified earlier from SEK 60 billion to SEK 100 billion in the auction on 6 October.
2. The Riksbank shall offer six-month loans in Swedish krona to the Riksbank's monetary policy counterparties. An auction regarding an announced sum of SEK 100 billion with a duration of 186 days will take place on 8 October. The value date will be 10 October. Further auctions might be necessary later on.
3. The interest rate on these six-month loans will be at least equal to the prevailing repo rate with an addition of 0.40 percentage points.
4. The Head of the Monetary Policy Department is given the task of determining the more detailed terms for the loans.