PRESS RELEASE

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Important to have sufficient foreign currency reserve rapidly available in a crisis

The Riksbank welcomes the fact that the question of financial independence is further being investigated by the Ministry of Finance, and supports several of the proposals in the draft referral to the Council on Legislation. But the Riksbank must have adequate buffers rapidly available in order to cope with a financial crisis. Sweden has a large and expanding cross-border banking sector with major commitments and funding in foreign currency. This poses significant risks to financial stability and ultimately to the national economy. Therefore, the Riksbank does not support the proposal to reduce the foreign currency reserve. The cost for a currency reserve should be seen as an insurance premium to be paid for by banks that create liquidity risks.

The proposed change would mean that the currency reserve was roughly halved from its current level of SEK 457 billion to SEK 200 billion. At the same time, the Swedish banking system's foreign funding has grown substantially during the 2000s.

The Riksbank has a foreign currency reserve to be able to contribute to a stable financial system and influence the Swedish krona for monetary policy purposes. The currency reserve should be large enough to cover the banking system's short-term need for liquidity in the event of a financial crisis.

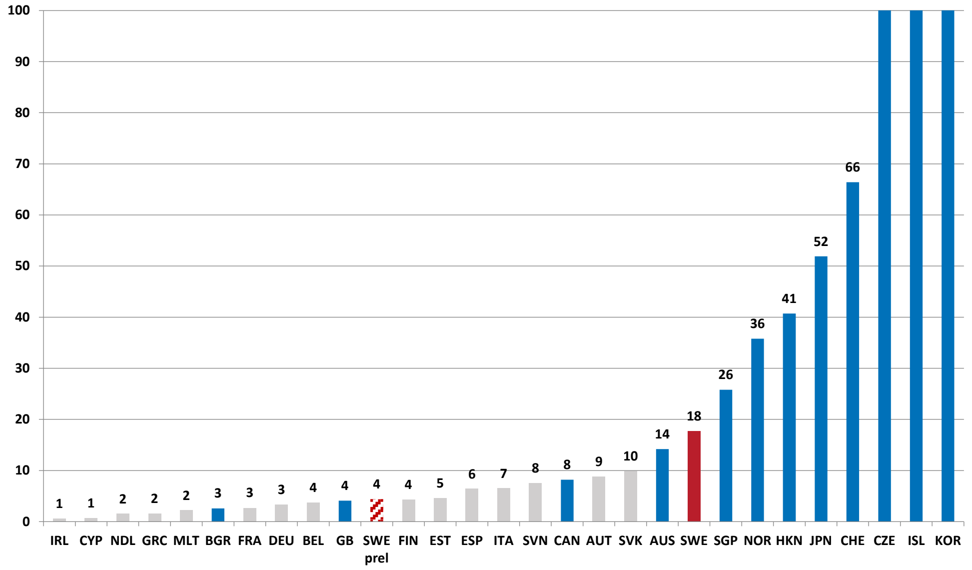
Large banking system entails risks

Today, Sweden has a large banking sector that is expanding and extends over national borders. This entails major commitments and funding in foreign currencies. It involves substantial risks to financial stability and also the economy as a whole. Swedish banks have a total balance sheet corresponding to around four times Sweden's gross domestic product (GDP). The four major banks have liabilities in foreign currency amounting to 175 per cent of Sweden's GDP, or SEK 7,650 billion. The IMF has compared different countries' currency reserves as a share of the country's short-term liabilities in foreign currency. Using this measure, a reduced currency reserve, in accordance with the proposal, would only cover 4 per cent of Sweden's short-term liabilities, compared with 18 per cent today. The countries that have lower currency reserves are mainly euro countries, which enjoy the benefit of having a reserve currency (see figure).

Waiting until a crisis to finance the currency reserve could be problematic. Once a crisis has broken out, it will probably be more expensive to borrow, take longer and may affect the impact of monetary policy. The Riksbank therefore makes the assessment that the currency reserve should not be reduced from its current level. The cost for a pre-financed currency reserve should be seen as an insurance premium. The Riksbank proposes that the scope for letting banks who create liquidity risks pay for the insurance premium be investigated.

The currency reserve as a share of the country's short-term liabilities in foreign currency in 2016

Per cent



The current currency reserve covers 18 per cent of Sweden´s short-term liabilities in foreign currency, compared with 4 per cent according to the proposal presented in the draft referral to the Council on Legislation.

Note: Grey-coloured countries belong to the euro area.

Sources: The IMF and the Riksbank.