



Decision guidance

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DEPARTMENT: Markets Department

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Transition to self-financed foreign exchange reserves

Decision by the Executive Board

The Executive Board decides the following:

1. that purchases of foreign exchange made as part of the transition to self-financed foreign exchange reserves shall be completed by 31 December 2022 at latest,
2. to task the Head of the Markets Department, with the right to delegate this to another, after consultation with the Executive Board, with drawing up a plan for the purchases of foreign currency in accordance with the considerations in this decision, and to decide on the details regarding making the purchases, and
3. to publish the decision on 3 February 2022.

Background

On 12 January 2021, the Executive Board decided that the Riksbank would change the financing method for its foreign exchange reserves with effect from February 2021, by purchasing foreign currency on the foreign exchange market at an even pace and paying for these purchases in Swedish kronor, and repaying the currency loans the Riksbank has taken through the Swedish National Debt Office (ref. no. 2021-00032). The Riksbank intended to purchase a total of USD 14.5 billion and EUR 5.5 billion by the end of 31 December 2023. The purchases of foreign exchange would be spread out evenly over time and made in relatively small amounts with the aim of having the smallest possible effect on the krona exchange rate.

The aim of transitioning to self-financed foreign exchange reserves is to secure the robust long-term funding of the foreign exchange reserves. This change thus has no monetary policy purpose.

In the decision from 12 January 2021, the Riksbank noted that the size of the foreign exchange reserves would vary somewhat during the transition period as the maturity structure of the currency loans and the planned purchases of foreign exchange do not

match each other. To avoid the foreign exchange reserves becoming too small for shorter periods, it would therefore be appropriate to refinance individual currency loans during the transition period. At the same time, the Riksbank noted that the need to refinance currency loans would also be affected by the rate at which purchases of foreign exchange were executed.

Considerations

Since February 2021, the Riksbank has purchased US dollars and euros with the objective of having purchased a total amount of USD 14.5 billion and EUR 5.5 billion by 31 December 2023. The purchases replace loans the Riksbank has taken through the Swedish National Debt Office with the corresponding amounts. These purchases of foreign exchange would be spread out evenly over time and made in relatively small amounts to give them the smallest possible effect on the foreign exchange market and the krona exchange rate. The transactions would be made with due caution and taking into account the conditions on the market, such as depth, flows and stability.

In April 2023, the final currency loan, in an amount of EUR 4 billion, will mature. When it matures, the foreign exchange reserves will decrease by the same amount and the foreign exchange reserves will then become smaller than is desirable until the end of 2023. This is negative from a contingency perspective. The Riksbank has previously mentioned that it could be appropriate to refinance some individual currency loans but that, at the same time, this matter would be affected by the planned purchases of foreign exchange.

By the end of 31 December 2021, the Riksbank had purchased USD 4.6 billion and EUR 1.7 billion, after which the purchases have continued according to plan over the start of 2022. The Riksbank's assessment is that the implementation of the purchases has gone very well. The krona exchange rate was affected when the Riksbank announced the purchases, but only to a limited extent. It has subsequently not been possible to see whether the transactions themselves have had any effect on the foreign exchange market or the exchange rate. This is in accordance with the Riksbank's expectations and has now been confirmed by experiences from the actual purchases.

In light of the successful implementation of the purchases, the Riksbank deems it possible to increase the rate of purchases so that all foreign exchange has been purchased by the end of 31 December 2022. Bringing the purchases forward will prevent the foreign exchange reserves from becoming too small in 2023. The Riksbank will purchase the same total amount of foreign exchange as previously announced but, from 7 February 2022, purchases will be made at a higher tempo corresponding to SEK 11.6 billion per month instead of the current figure of SEK 5.5 per month.¹ The Riksbank considers it better to increase the rate of purchases to avoid the foreign exchange reserves becoming too small in 2023 than to raise new loans via the Swedish National Debt Office. Currency borrowing via the Swedish National Debt Office can generally be an important tool to strengthen the foreign exchange reserves under certain conditions. However, in this case, it is better to increase the rate of purchases as this fits better with

¹ The decision from 12 January 2021 sets the monthly purchase rate at SEK 5 billion. Exchange rates as per 31 January 2022 mean that this now corresponds to SEK 5.5 billion.

the decision to transition to fully self-financed foreign exchange reserves involving the maturity of currency loans.

As before, the new amounts that the Riksbank will purchase per month will be spread out evenly and the purchases made on individual days will continue to be small in relation to the daily turnover on the foreign exchange market. On the global spot market, an average of SEK 175 billion is exchanged every trading day between EUR and SEK and SEK 165 billion is exchanged between USD and SEK.² As the higher purchase rate does not mean that the Riksbank will be purchasing more foreign exchange in total, but only that the previously announced purchases will be brought forward, the Riksbank's assessment is that the increased purchase rate will only have a very small effect on the krona exchange rate.

Just as before, the transactions will be made with due caution and taking into account the conditions on the market, which is why the volumes may vary on individual days, even if the Riksbank will strive for the most even pace of exchange possible. It is the responsibility of the Head of the Markets Department, with the right to delegate to another person, to implement the currency purchases. The Head of the Markets Department is therefore tasked with deciding on the details regarding the implementation of the currency exchanges. To ensure the exchanges are made in a form and at a pace that is compatible with the considerations in this decision, the decisions regarding purchases of foreign currency shall be made in consultation with the Executive Board. Consultation can best take place by the Head of the Markets Department presenting an overall plan for purchases in each currency regarding amounts and times.

In the decision guidance from 12 January 2021, the Riksbank noted that the risks on the balance sheet would increase with the transition to self-financed foreign exchange reserves. The imminent increase of the rate of purchases means that risks in the short term will become marginally higher in that the transition is being accelerated. In the longer term, however, risks will not be affected by this decision.

² Bank for International Settlements (2019), "BIS Triennial Central Bank Survey of Foreign Exchange and Over-the-counter (OTC) Derivatives Markets in 2019". This report presents data on global trading. For translation into Swedish kronor, exchange rates as per 31 January 2022 have been used. According to the Riksbank's reporting of turnover statistics on the foreign exchange market, which only covers the Riksbank's counterparties, the daily turnover was on average of SEK 80 billion between EUR and SEK and SEK 81 billion between USD and SEK in 2019.