

## POLICY FOR THE RIKSBANK'S OPERATIONAL FRAMEWORK FOR THE IMPLEMENTATION OF MONETARY POLICY

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# Policy for the Riksbank's operational framework for the implementation of monetary policy

## Content and purpose

This policy specifies guiding principles for the design and management of the Riksbank's operational framework for the implementation of monetary policy.

## Target group

The policy is aimed at employees with a direct or indirect link to the Riksbank's implementation of monetary policy.

# Table of contents

Policy for the Riksbank's operational framework for the implementation of monetary policy	1
Content and purpose	1
Target group	1
1 Introduction	3
1.1 Underlying regulatory framework	3
1.2 Definitions	3
2 Roles and responsibilities	4
3 Principles for the operational framework for the implementation of monetary policy	5
3.1 The Riksbank's operational target	5
3.2 Monetary policy counterparties	5
3.3 Standing facilities	5
3.4 Market operations	6
3.5 Execution of market operations	6
3.6 Counterparties in market operations	6
3.7 Counterparties in foreign exchange transactions	6
3.8 Collateral for credit	6
3.9 Changes to provisions on collateral	7
3.10 Incentivised structure	7
3.11 Liquidity management	7
3.12 Requirements for the Riksbank's counterparties	7
4 Detailed rules for the Riksbank's operational framework for the implementation of monetary policy	7
5 Compliance	7
6 Entry into force	8

# 1 Introduction

The operational framework for monetary policy consists of three main components: counterparties, monetary policy instruments and collateral. To enable the Riksbank to influence financial conditions so that the Riksbank's price stability target is attained, the Riksbank shall implement the Executive Board's monetary policy decisions in practice. This is achieved by deciding which categories of participants are to be allowed to be monetary policy counterparties and on what terms they are to be allowed access to the Riksbank's monetary policy instruments.

This policy sets out the guiding principles that the Riksbank shall apply when implementing monetary policy and designing the operational framework for monetary policy.

## 1.1 Underlying regulatory framework

Sveriges Riksbank Act (2022:1568).

Rules of Procedure for Sveriges Riksbank.

## 1.2 Definitions

**Central bank reserves** – claims of monetary policy counterparties on the Riksbank in the form of deposits and Riksbank Certificates in Swedish kronor.

**Issuance** – the issue of Riksbank certificates.

**Financial corporations** – companies defined as financial corporations according to Chapter 1, Section 2 of the Sveriges Riksbank Act.

**Deposit rate** – rate of interest applied in the usage of the relevant standing deposit facility.

**Credit institution** – an institution that meets the definition in Article 4.1.1 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012.

**Market operations** – instruments used by the Riksbank to conduct transactions in the market for monetary policy purposes.

**Counterparty in foreign exchange transactions** – an institution with which the Riksbank has a valid affiliation agreement regarding counterparties in foreign exchange transactions.

**Monetary policy instrument** – market operations and standing facilities.

**Monetary policy counterparty** – an institution with which the Riksbank has a valid affiliation agreement regarding monetary policy counterparties.

**Monetary policy framework** – the policy framework that enables the Riksbank to influence the financial conditions so that the Riksbank’s objective of price stability is achieved.

**Repos** – instruments used for monetary policy purposes – transactions regarding the sale of securities with simultaneous repurchase.

**Riksbank Certificate** – a short-term debt instrument issued by the Riksbank.

**RIX** – The Riksbank’s notified settlement system that provides the settlement services RIX-RTGS and RIX-INST, where settlement takes place via accounts at the Riksbank.

**RIX participant** – an institution with which the Riksbank has a valid affiliation agreement regarding RIX and also the Riksbank in its role as sending and receiving account holder.

**Standing facilities** – the lending and deposit facilities the Riksbank provides for monetary policy purposes, to be used by authorised institutions at their own initiative in accordance with predetermined conditions.

**Standing deposit facility** – a standing facility for deposits.

**Standing lending facility** – a standing facility for credit.

**Lending rate** – the interest rate applied to the utilisation of the relevant standing lending facility.

**Foreign exchange swaps** – instruments used for monetary policy purposes where the Riksbank buys or sells Swedish kronor against another currency and, at the same time, respectively sells or buys back Swedish kronor forward at a specified repurchase date.

## 2 Roles and responsibilities

According to the Riksbank’s Rules of Procedure, the Executive Board decides on matters of principle or major importance (decisions of principle) for monetary policy.

AFM is responsible for preparing the Executive Board’s decisions on the design of the Riksbank’s operational framework for the implementation of monetary policy and for implementing the Executive Board’s monetary policy decisions.

### 3 Principles for the operational framework for the implementation of monetary policy

The Riksbank shall use a monetary policy framework that makes it possible to influence the financial conditions so as to achieve the Riksbank's objective of price stability. The monetary policy framework shall have an operational target and shall regulate monetary policy instruments, counterparties and securities as well as other claims that constitute eligible collateral for credit.

#### 3.1 The Riksbank's operational target

**The operational framework for the implementation of monetary policy shall be designed so as to enable the Riksbank to influence Swedish market rates.** The Riksbank determines the pricing of central bank reserves – the short-term claims of monetary policy counterparties on the Riksbank – and thereby influences the pricing of close substitutes for central bank reserves in the money market. Under normal circumstances, changes in money market rates will, in turn, affect other interest rates in the economy and the financial conditions more generally through the so-called monetary policy transmission mechanism.

#### 3.2 Monetary policy counterparties

**The Riksbank's monetary policy counterparties shall be credit institutions that participate in RIX.** Direct participation in RIX means that a monetary policy counterparty's transactions with the Riksbank are not dependent on the counterparty's agreements and relations with a correspondent bank. This allows the Riksbank to ensure that the implementation of monetary policy is not affected by uncertainties due to third parties, such as a technical problem at a correspondent bank. If there are special reasons, the Riksbank can make exceptions to the requirement that a monetary policy counterparty must be a credit institution.

#### 3.3 Standing facilities

**The Riksbank shall use standing facilities to set limits on the overnight rate.** By offering monetary policy counterparties standing facilities for overnight deposits at *deposit rates* and for overnight loans at *lending rates*, the Riksbank can steer the interest rate on overnight loans – the *overnight rate* – between the counterparties. The aim is for the overnight rate to act as an anchor for other money market rates.

### 3.4 Market operations

**The Riksbank can use market operations to stabilise the overnight rate between the Riksbank's deposit and lending rates and to influence the financial conditions more directly in markets close to the overnight market.** Market operations may take the form of repos, collateralised credit, purchases or sales of securities, issues, deposits and foreign exchange swaps. The Riksbank chooses the form of transaction that is deemed most appropriate at any given time.

### 3.5 Execution of market operations

**Market operations shall be executed by means of tendering procedures where practicable and appropriate, otherwise by means of bilateral procedures.** A tendering procedure ensures equal treatment of counterparties and is therefore preferable, as long as it does not defeat the purpose of the transaction.

### 3.6 Counterparties in market operations

**Only monetary policy counterparties shall normally be counterparties in market operations other than the purchase and sale of securities.** If there are special reasons, the Riksbank may conduct other forms of market operation with institutions other than monetary policy counterparties.

### 3.7 Counterparties in foreign exchange transactions

**For transactions involving exchanges between Swedish kronor and foreign currencies, the Riksbank shall use a special category of counterparties that are deemed to have a good capacity to trade in the relevant currencies.** Both domestic and foreign credit institutions can be counterparties in foreign exchange transactions.

### 3.8 Collateral for credit

**When granting credit for monetary policy purposes, the Riksbank may only lend funds to solvent counterparties and must require adequate collateral to limit its credit risks.** Among other things, adequate collateral refers to market-listed debt instruments with a very high credit rating issued by companies or institutions in Sweden or in another country that is deemed to have an adequate legal order and a well-functioning financial infrastructure. For debt instruments associated with specific risks, such as systemic or concentration risks, special restrictions may be imposed. A credit balance on an account with the Riksbank or another central bank may also be deemed to be adequate collateral. If there are special reasons, the Riksbank can also accept a direct guarantee from the Swedish government. All collateral must be valued daily.

### 3.9 Changes to provisions on collateral

**The provisions on the collateralisation of credit shall be adapted to the requirements of the implementation of monetary policy or measures for monetary policy purposes.** However, changes in the provisions must be such that the collateral is always deemed adequate.

### 3.10 Incentivised structure

**The operational framework should give monetary policy counterparties an incentive to manage their liquidity in a way that supports the Riksbank's ability to steer short-term money market rates.**

### 3.11 Liquidity management

**The Riksbank shall have instruments that make it possible to influence the banking system's liquidity position towards the Riksbank effectively.** The availability of such instruments enables the Riksbank to contribute to stable price formation in the overnight market.

### 3.12 Requirements for the Riksbank's counterparties

**The Riksbank shall impose requirements aimed at ensuring that the counterparty acts in a way that contributes to the smooth functioning of the operational framework for the implementation of monetary policy.** For example, these requirements may involve the participation by counterparties in the collection of data by the Riksbank on market developments, functioning and so on. This data collection aims to increase efficiency in the implementation of monetary policy. As far as possible, different types of risk – operational, financial, etc. – shall be limited by appropriate requirements being set by the Riksbank for its counterparties.

## 4 Detailed rules for the Riksbank's operational framework for the implementation of monetary policy

Detailed rules relating to the operational framework for monetary policy shall be compiled in the Terms and Conditions for RIX and Monetary Policy Instruments. AFM is responsible for drawing up the terms and conditions relating to the implementation of monetary policy.

## 5 Compliance

The Head of the AFM is responsible for

- applying this policy
- adopting, if necessary and in accordance with the Rules of Procedure of the Riksbank, additional rules and/or procedures related to this policy
- reviewing compliance with this policy
- reporting to the Executive Board on compliance with this policy.

## 6 Entry into force

This policy enters into force on 1 January 2025 and replaces the previous version (ref.no. 2023-01368) decided by the Executive Board on 14 December 2023.