

Policy



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SVERIGES RIKSBANK
SE-103 37 Stockholm
(Brunkebergstorg 11)

Tel +46 8 787 00 00
Fax +46 8 21 05 31
registratorn@riksbank.se
www.riksbank.se

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

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

1 Starting points and preconditions

The Riksbank's tasks and role in society are based on the Sveriges Riksbank Act (1988:1385) (RBL) and the Instrument of Government (1974:152) (RF). These laws specify what the Riksbank shall and may do. In addition to the legislation, there are natural parts of a central bank's operations that need to be considered. Given these starting points and conditions, the current policy specifies which fundamental principles shall apply to the manner in which the Riksbank is to design and manage the operational framework for the implementation of monetary policy.

1.1 Monetary policy

The Riksbank is responsible for monetary policy (RF 9:13). The objective of the Riksbank's monetary policy is to maintain price stability (RBL 1:2). The Riksbank may, for monetary policy purposes, (i) grant credit against adequate collateral and receive deposits, (ii) purchase, sell and mediate securities, foreign exchange and the rights and obligations linked to these assets, (iii) issue its own promissory notes (RBL 6:5).

1.2 Liquidity management

The Riksbank is responsible for providing Swedish banknotes and coins. This activity may be conducted in collaboration with others (RBL 5:3). The Riksbank may grant

credit for monetary policy purposes, but only against adequate collateral (RBL 6:5). If there are exceptional circumstances, the Riksbank may, with the aim of supporting liquidity, grant credit or provide guarantees on special terms to banking institutions and Swedish companies that are under the supervision of Finansinspektionen (RBL 6:8).

1.3 Settlement of payments

The Riksbank may provide a system for the settlement of payments and may participate in the settlement of payments in other ways. The Riksbank may grant participants in the system credit over the day, but only against adequate collateral (RBL 6:7). The Settlements Act¹ sets limits on who can be a participant in the system.

1.4 Accounts in the Riksbank

The Riksbank may also accept deposits for monetary policy purposes (RBL 6:5). The Riksbank may also accept deposits from central government (RBL 8:1). Such deposits can take the form of a balance in an account at the Riksbank. Sweden's international commitments and the Riksbank's cooperation with other central banks may require the Riksbank to provide accounts in Swedish kronor to international financial institutions or organisations and central banks.

2 Principles for the operational framework for the implementation of monetary policy

The Riksbank must make use of an operational framework for the implementation of monetary policy that makes it possible to influence financial conditions so that the Riksbank's target of price stability can be achieved. The framework must have an operational target and is formed of provisions dealing with monetary policy instruments, counterparties and the securities and other claims that form eligible collateral for credit. So that this can be implemented appropriately, the operational framework must be managed in accordance with the following principles.

2.1 The Riksbank's operational targets

The operational framework for the implementation of monetary policy shall be designed in such a way as to give the Riksbank the possibility of influencing Swedish market rates. The Riksbank determines the pricing of central bank money – the monetary policy counterparties' short-term claims on the Riksbank as well as banknotes and coins – and thereby influence the pricing of close substitutes to central bank money on the money market. In turn, claims in the money market rates, under normal circumstances, will affect other interest rates in the economy and the financial conditions more generally through what is known as the monetary policy transmission mechanism.

2.2 Monetary policy counterparties

The Riksbank's monetary policy counterparties shall be credit institutions that are participants 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 relationships with a correspondent bank. The Riksbank can thereby ensure that the implementation of monetary policy is not influenced by uncertainty



factors depending on third parties, such as technical problems affecting a correspondent bank. If there are special reasons,

1 The Act (1999:1309) on Systems for the Settlement of Obligations on the Financial Market.

the Riksbank can make exceptions to the principle that a monetary policy counterparty has to be a credit institution.

2.3 Standing facilities

The Riksbank shall use standing facilities to set limits for the overnight rate. By offering the monetary policy counterparties a standing facility for deposits over night at the *deposit rate* and a standing facility for lending over night at the *lending rate*, the Riksbank can control the interest rates for overnight loans – the *overnight rate* – between the counterparties. The idea is that the overnight rate will function as an anchor for other money market rates.

2.4 Market operations

Market operations can be used to stabilise the overnight rate between the Riksbank's deposit and lending rates or to more directly influence the financial conditions at times when the transmission from the overnight rate is not functioning satisfactorily. Market operations can be carried out in the form of repos, credit against collateral, purchases or sales of securities, issues, deposits and foreign exchange swaps. The Riksbank chooses the transaction form that is deemed most appropriate on any given occasion.

2.5 Procedures for market operations

If practically possible and appropriate, market operations shall be performed via tender procedures, otherwise via bilateral procedures. A tender procedure ensures equal treatment of the counterparties and is therefore preferable, as long as it does not counteract the aim of the transaction.

2.6 Counterparties in market operations

With the exception of purchases and sales of securities, only monetary policy counterparties shall normally be counterparties in market operations. If there are special reasons, the Riksbank can also implement other forms of market operation with institutes other than monetary policy counterparties.

2.7 Counterparties in foreign exchange transactions

In transactions involving exchanges between Swedish kronor and foreign currency, the Riksbank shall use a special category of counterparty that is 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.

2.8 Collateral for credit

When granting credit for monetary policy purposes, the Riksbank shall only lend funds to solvent counterparties and shall require adequate collateral to limit its credit risks. Adequate collateral shall be formed of market-listed debt instruments with very high credit ratings issued by companies or institutions in Sweden or

another country deemed to have an adequate legal system and efficient financial infrastructure. For debt instruments linked with particular risks, such as systemic risks or concentration risks, special restrictions may be introduced. Holdings in accounts with the Riksbank or other central banks can also be considered adequate collateral. If there are special reasons, the Riksbank can also accept a direct guarantee from the Swedish state. All collateral must be valued in an adequate manner on a daily basis.

2.9 Amendments to provisions and collateral

The provisions concerning collateral for credit shall be adjusted to the requirements of the implementation of monetary policy or measures for monetary policy purposes. However, amendments to the provisions must be of such a nature that collateral is always deemed to be adequate.

2.10 Incentive-compatible structure

The operational framework shall give the monetary policy counterparties incentives to manage their liquidity in a way that furthers the Riksbank's possibilities to control short-term money market rates.

2.11 Liquidity management

The Riksbank shall make sure it has instruments that make it possible to influence the banking system's liquidity position vis-à-vis the Riksbank in an efficient way. Access to instruments that affect the banking system's liquidity position make it possible for the Riksbank to contribute to stable price formation on the overnight market.

2.12 Requirements for the Riksbank's counterparties

The Riksbank shall set requirements aimed at ensuring that counterparties act in a manner that contributes to the efficiency of the operational framework for the implementation of monetary policy. These requirements mean, for example, that the counterparties shall assist the Riksbank to gather information on the market's functioning, development and so on. This gathering of information is aimed at making the implementation of monetary policy more efficient. Consequently, this primarily refers to information concerning the counterparties' use of the monetary policy instruments and trade and pricing on the foreign exchange market. Various kinds of risk – operational, financial and so on – shall, as far as possible, be limited by the imposition of appropriate requirements by the Riksbank on its counterparties.

3 Detailed rules for the Riksbank's monetary policy operational framework

Detailed rules concerning the operational framework for the implementation of monetary policy shall be compiled in the *Terms and Conditions for RIX and Monetary Policy Instruments* (the Terms and Conditions). The Markets Department is responsible for drawing up the parts of the Terms and Conditions that concern the implementation of monetary policy.