



# Basis for decision

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DEPARTMENT: Markets Department/Monetary Policy Department

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

### Proposal for Executive Board decision

The Executive Board decides to

- 1) adopt the "Policy for the Riksbank's framework for the implementation of monetary policy" in accordance with the proposals of [Annex 1](#);
- 2) instruct the Riksbank to cease daily fine-tuning transactions as of 9 October 2019;
- 3) establish that the interest rate on the Riksbank's standing deposit facility as of 9 October 2019 shall amount to the applicable repo rate after a deduction of 0.10 percentage points;
- 4) establish that the interest rate on the Riksbank's standing lending facility as of 9 October 2019 shall amount to the applicable repo rate plus 0.75 percentage points; and to
- 5) instruct the head of the Markets Department to report back to the Executive Board with amendments to the Riksbank's framework for the implementation of monetary policy in accordance with the remaining proposals in stage two of the referred memorandum "The Riksbank's new operational framework for monetary policy".

### The matter at hand

The operational framework for the implementation of monetary policy shall enable the Riksbank to influence Swedish market rates. The primary objective of the operational framework is to ensure that short-term market rates are close to the Riksbank's policy rate, referred to as the repo rate<sup>1</sup>. The Riksbank determines the pricing of deposits and

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<sup>1</sup> The Riksbank's repo rate was introduced as the policy rate when then Riksbank's current operational framework for the implementation of monetary policy was launched in 1994. The Riksbank started by carrying out weekly repos with two-

loans at the Riksbank, thereby influencing the price formation for close substitutes to these investments and credits on the market. Changes in short term market rates, in turn, affect other rates in the economy and financial conditions more generally. Like many other central banks, the Riksbank has in practice focused on controlling the overnight rate on the market. This is the rate that the central bank has the greatest possibility of influencing.

However, developments in the surrounding world give cause for reform of the Riksbank's operational framework for the implementation of monetary policy to keep it robust and flexible in the future.

The most important drivers of change in the surrounding world are

- increased interest in becoming a monetary policy counterparty to the Riksbank,
- factors that affect the Riksbank's management of liquidity – such as the special deposit facility for central counterparties (CCPs) – and
- developments on the payment market with a greater volume of instant payments that require the Riksbank's payment system, RIX, to have longer opening hours and that the settlement service for instant payments in Riksbank money to be offered by the Riksbank in the near future.

The operational framework needs to be adapted in order to tackle these changes and similar phenomena that may arise in the future so as to be able to continue to influence market rates effectively.

On 2 July, the Executive Board therefore resolved to circulate a proposed new operational framework for the Riksbank for consultation among the Riksbank's monetary policy counterparties and other interested parties ("The Riksbank's new operational framework for monetary policy", reference number 2019-00786). The proposal included two stages of changes to the Riksbank's operational framework for the implementation of monetary policy.

According to the proposal, the first stage could be implemented in the autumn of 2019 and would involve the Riksbank:

- i. ceasing to conduct daily fine-tuning transactions,
- ii. setting the interest rate in the standing deposit facility at the prevailing repo rate minus 0.10 percentage points and establishing that, until further notice, the interest rate on the standing deposit facility will amount to the applicable repo rate plus 0.75 percentage points, and
- iii. restricting the offered volume of Riksbank Certificates.

It is proposed that the second stage be implemented as soon as the technical conditions exist to differentiate the prices of various pools of eligible collateral in the Riksbank's collateral management system QCMS and to manage negative lending rates in the RIX payment system. The remaining changes in stage two that are proposed in the referred

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week maturities. To supply liquidity, the Riksbank has carried out monetary policy repos at the repo rate. In addition, to drain liquidity, the Riksbank has issued Riksbank Certificates, also at the repo rate. This was in order to signal that the Riksbank was directing its interest rate management towards interest rates with slightly longer maturities. Although the Riksbank is free to determine the maturities of monetary policy repos and Riksbank Certificates from time to time, the maturity has mostly been one week since July 1996.

memorandum “The Riksbank’s new operational framework for monetary policy” would involve the Riksbank:

- i) replacing the term “the Riksbank’s repo rate” with “the Riksbank’s policy rate”,
- ii) setting the interest rate in the standing lending facility at the prevailing policy rate plus 0.10 percentage points, and
- iii) tightening requirements for collateral for the standing lending facility and retaining current requirements for collateral for intraday credit.

These changes should be implemented within two years.

## Considerations

The proposed changes are primarily justified by the need both to simplify the operational procedures of the framework in a way that is independent of the closing times of the RIX payment system and to make the framework independent of autonomous factors that could disrupt the Riksbank’s ability to stabilise the overnight rate close to the repo rate.

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

It is deemed appropriate for the Executive Board, at an overall level, to set the framework for the system the Riksbank uses to control interest rates in the economy, in accordance with the Executive Board’s monetary policy decisions. The Riksbank’s tasks and role in society are based on the Sveriges Riksbank Act (RBL) and Instrument of Government (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.

### **Changes to the Riksbank’s operational framework for monetary policy in stage 1**

*The Riksbank ceases to conduct daily fine-tuning transactions*

The current system of manual fine-tuning is complicated by the banking system’s liquidity position being affected by a number of autonomous factors that are difficult to forecast. Manual processing also has the disadvantage that it is linked to operational risks. These disadvantages mean that there is reason for the Riksbank to move towards a more automated process with as few manual elements as possible.

*The interest rate in the standing deposit facility is set at the prevailing repo rate minus 0.10 percentage points*

Monetary policy counterparties currently invest an average of 80 per cent of the banking system’s liquidity surplus in Riksbank Certificates at the repo rate and the remaining part in daily fine-tuning deposits at an interest rate 0.10 percentage points below the repo rate. Accordingly, the monetary policy counterparties, on a daily basis,

invest a certain part of their liquidity at the repo rate minus 0.10 percentage points. If the Riksbank ceases daily fine-tuning deposit transactions and, instead, introduces an automated system with only one standing deposit facility, the interest rate for the standing deposit facility can be set at a level that is the same as the interest rate for fine-tuning deposit transactions, namely 0.10 percentage points below the repo rate.

### **Tools to stabilise the overnight rate close to the repo rate**

During the transitional period, from the implementation of the changes to the operational framework in the first stage until the introduction of the new operational framework in its entirety, the interest rate corridor will be asymmetric. To ensure that the overnight rate is traded close to the repo rate in the lower part of the corridor, the Riksbank needs to ensure that enough liquidity is available on the overnight market. This can be achieved in several ways, including restricting the volume of Riksbank Certificates offered.

#### *The Riksbank limits the issue volumes of Riksbank Certificates*

When the Riksbank ceases to make daily fine-tuning transactions, the operational framework can, in practice, be said to be automated. At the end of the day, the monetary policy counterparties can invest funds in standing deposit facilities at the same interest rate they previously had for fine-tuning deposits in the Riksbank.

At present, the Riksbank conducts market operations to ensure the banking system's daily liquidity position towards the Riksbank is close to zero. The Riksbank therefore offers the monetary policy counterparties the chance to invest almost their entire liquidity surplus in weekly issues of Riksbank Certificates at the repo rate.

To prevent volatility on the overnight market during the transitional period from the introduction of the changes in stage 1 until the introduction of the new operational framework in its entirety, the Riksbank will instead ensure that the banking system has a daily liquidity surplus against the Riksbank.

Such a daily liquidity surplus can be achieved by the Riksbank offering the monetary policy counterparties the chance to invest an amount in those weekly issues of Riksbank Certificates that fall below the banking system's liquidity surplus against the Riksbank. The determination of issue volumes is made with the aim of stabilising the overnight rate sufficiently close to the policy rate.

By limiting issue volumes of Riksbank Certificates, the Riksbank can ensure that a sufficient volume of liquidity is available over night, with the aim of pricing on the overnight market. The Riksbank will regularly evaluate suitable issue volumes to stabilise the overnight rate on the market sufficiently close to the policy rate.

#### *Riksbank Certificates can be redeemed in advance*

Monetary policy counterparties will continue to have the possibility of releasing liquidity by redeeming Riksbank Certificates in advance.

#### *If necessary, the Riksbank may conduct market operations to supply liquidity*

Even if the Riksbank ceases to conduct daily market operations, the Riksbank may need to supply liquidity in stressed situations via market operations, just as previously.



## **Proposal**

In light of this, it is proposed that the Executive Board passes a resolution in accordance with the proposed decision above.