

# PRESS RELEASE

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## The Riksbank is reducing the foreign exchange reserve and upgrading the terms and conditions for Emergency Liquidity Assistance

*The Riksbank has a gold and foreign exchange (FX) reserve to be able to perform its monetary policy and financial stability remit. This involves, among other things, the Riksbank having a contingency plan for the provision of liquidity in foreign currency to the financial system, including via Emergency Liquidity Assistance (ELA). The contingency need is crucial when it comes to assessing the necessary size of the gold and FX reserve. As a result of changes in, for example, banks' balance sheets and Nordea's relocation to Finland, this contingency need is now deemed to have decreased somewhat. The Riksbank has therefore decided to allow the value of the gold and FX reserve to decrease by 8 billion US dollars (USD), to USD 48 billion.*

*The Riksbank has also upgraded the principles for the interest rate on ELA. Among other aspects, the principles cover the risks taken by the applicant bank historically.*

The Riksbank deems the contingency need in foreign currency to have decreased somewhat for several reasons:

- Changes have occurred in banks' balance sheets that have affected their need for emergency liquidity.
- Nordea's relocation to Finland means that the allocation of responsibility between the Riksbank and the ECB or the Bank of Finland in the event of a crisis has changed.

Moreover, the Riksbank has upgraded the gold reserve so that the gold can be converted into liquid funds at short notice.

The appropriate size and composition of the gold and FX reserve is ultimately a matter of judgement as there are major uncertainty factors. In the Riksbank's calculations, the contingency need is deemed to amount to USD 48 billion in a 'base scenario'.



## **The Riksbank to allow three currency loans at the Swedish National Debt Office to mature**

The Riksbank has therefore decided to reduce the gold and FX reserve by not refinancing the currency loans from the Swedish National Debt Office that mature in May, July and October 2019. These loans amount in total to about USD 8 billion. The value of the gold and FX reserve will thus amount to USD 48 billion. On 30 November 2018, the value of the gold and FX reserve was USD 56 billion or SEK 506 billion.

## **The interest rate on ELA reflects historical risk management**

If banks encounter liquidity problems in a crisis, the Riksbank can help stabilise the payment system by rapidly providing liquidity, for example in the form of Emergency Liquidity Assistance (ELA). The Riksbank's capacity for providing ELA helps to prevent financial crises and hence maintain the monetary policy transmission mechanism.

However, it is of the utmost importance that banks themselves manage their short-term liquidity risks in all significant currencies. They do this, for example, by holding adequate liquidity reserves.

The Riksbank has now upgraded the principles that apply when pricing ELA in both Swedish and foreign currency.

- The interest rate on such a loan will be set higher than the rate at which comparable banks can borrow on the market.
- The Riksbank will consider the credit risk associated with the lending as well as the risks taken earlier by the bank in question, focusing especially on liquidity risks.

The aim is to clarify that greater risk-taking in significant currencies will lead to a higher interest rate. The purpose of the principles is to protect the Riksbank's balance sheet, and hence the taxpayer's money, by reducing the incentive of banks to take major risks.