

Svante Öberg: Monetary policy, financial stability and the Riksbank's balance sheet

Speech by Mr Svante Öberg, First Deputy Governor of the Sveriges Riksbank, at the Lund University, School of Economics, Stockholm, 1 December 2009.

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Introduction

The Riksbank has for just over a year now taken forceful action to limit the negative consequences of the financial crisis. Using the Riksbank's balance sheet as a starting point, I shall explain today what we have done.

The Riksbank's assignments are to maintain price stability and to promote a safe and efficient payment system. These two assignments result in two main tasks for the Riksbank – monetary policy and financial stability – two tasks that are interlinked. A stable financial system is necessary to conduct effective monetary policy and price stability is part of an efficiently-functioning payment system.

During the financial crisis and the ensuing economic downturn the link between the two tasks has been strengthened. The Riksbank has implemented extraordinary measures in both areas to be able to carry out its tasks. The two tasks are also reflected in the Riksbank's balance sheet.

I shall describe how the Riksbank has implemented monetary policy and the measures taken to stabilise the financial sector. It is primarily through changing the terms for various items on the balance sheet that the Riksbank has carried out its two tasks during the financial crisis. I shall therefore first provide a general outline of the Riksbank's balance sheet structure. After this I shall discuss in greater depth the individual items on the balance sheet, to see how they have been affected over the past year. I shall conclude by looking ahead and discussing the question of when and how the extraordinary measures can be phased out.

The Riksbank's balance sheet

Let us begin by looking at how the Riksbank's balance sheet looks in rough outline under normal circumstances and at how it has changed during the crisis. The Riksbank's balance sheet, like those of other companies and organisations, reflects the activities we conduct. The liabilities side shows how our activities are financed and the assets side show what the financing is used for (Figure 1).

Figure 1

The Riksbank's balance sheet

Assets	Liabilities
Gold and foreign currency reserve	Banknotes and coins
Lending to banks	Deposits from banks
Other assets	Other liabilities
	Own capital

Under normal circumstances the Riksbank primarily finances itself by issuing banknotes and coins and through its own capital. Banknotes and coins in circulation normally comprise the largest individual item on the liabilities side. Own capital is the next largest. In addition, the

liabilities side in principle consists of deposits from banks and the item “Miscellaneous”. These items are usually small and less important than banknotes and coins and own capital.

The Riksbank’s assets normally consist mainly of gold and the foreign currency reserve. The gold reserve is a remnant of the days when banknotes and coins could be redeemed for gold at the Riksbank. This link no longer exists and gold is now regarded purely as a financial asset. The foreign currency reserve should primarily be used to allow the Riksbank to carry out its tasks with regard to monetary policy and financial stability. It consists of securities in foreign currency that are easy to sell and have a low risk.

During the financial crisis the Riksbank has increased its lending to the banks to a great extent. As a result, the size of the Riksbank’s balance sheet has increased dramatically. Lending to the banks prior to the crisis was negligible, but during the crisis it has grown into the most prominent item on the assets side. The increased lending in turn results wholly in increased deposits in the Riksbank by the bank system as a whole, to which I will return later. This has meant that deposits from the banks have become the dominant item on the liabilities side. The Riksbank’s balance sheet increased in autumn 2008 within the space of three months from around SEK 200 billion to around SEK 700 billion (Figure 2).

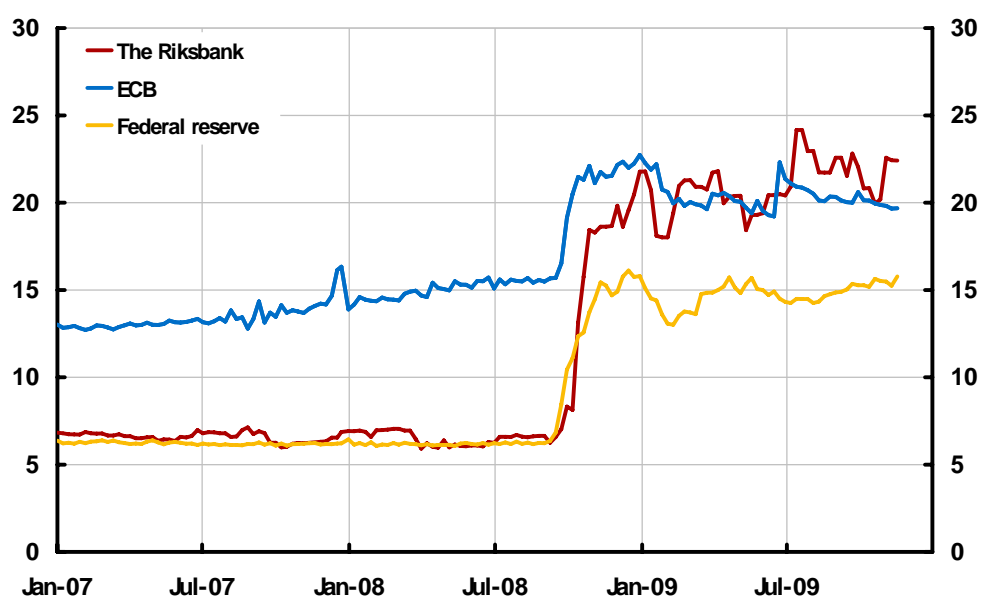
Figure 2
The Riksbank’s balance sheet total
SEK billion



Source: The Riksbank.

Central banks in other countries have also expanded their balance sheets. Owing to the nature of the crisis and the structure of the financial systems in different countries, the central banks have implemented different measures and to a different extent. However, common to them all is the fact that their balance sheet totals increased dramatically immediately after the US investment bank, Lehman Brothers, filed for bankruptcy in September 2008 (Figure 3).

Figure 3
Central banks' balance sheet totals
 Percentage of GDP



Sources: Respective central banks.

How has the work on our two main tasks affected the Riksbank's balance sheet? Let me begin by discussing monetary policy and then move on to financial stability.

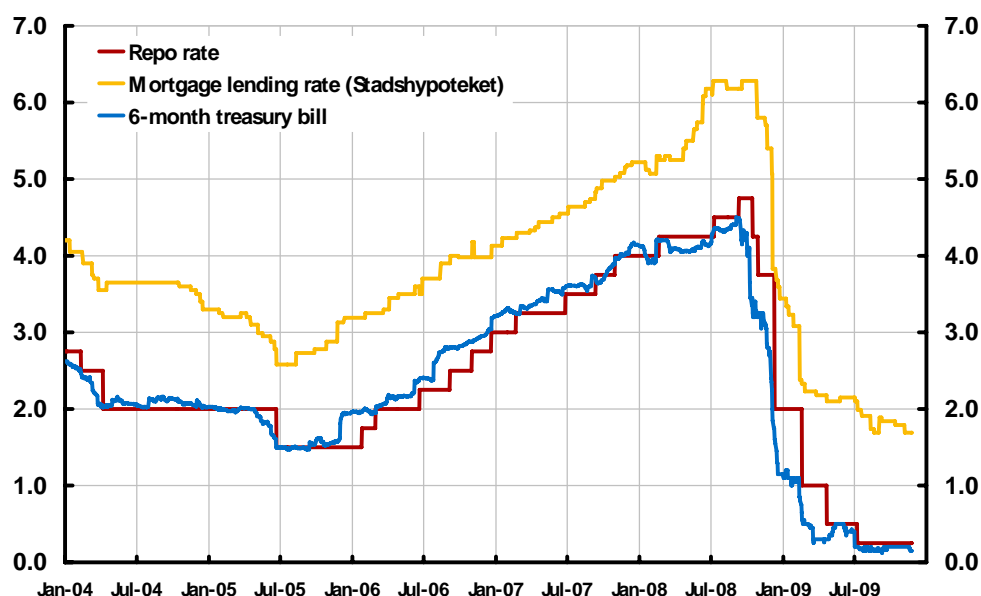
Monetary policy

The target of monetary policy is to maintain inflation at 2 per cent. The Riksbank normally steers the short-term interest rate to attain this target. The short-term interest rate in turn affects other interest rates, and thereby activity and prices in the economy. The Executive Board of the Riksbank decides on the repo rate at its monetary policy meetings. This shows the level at which the Riksbank wants the short-term interest rate to lie. The repo rate has a direct impact on other interest rates in the economy. I shall now describe how this works in practice and how it is reflected in the balance sheet.

To counteract the deep recession the Riksbank has rapidly cut the repo rate to 0.25 per cent and announced that it will remain at this low level until next autumn (Figure 4).

In normal circumstances the Riksbank can steer the short market rates without any tangible effect on its balance sheet. This is because the banks usually turn to one another directly to smooth deficits and surpluses in liquidity instead of turning to the Riksbank. They then pay an interest rate that is the same as the repo rate. The repo rate thus has a direct impact on the interbank rate and through this on short-term interest rates paid by companies and households.

Figure 4
The repo rate and other interest rates
 Per cent



Sources: Reuters EcoWin and the Riksbank.

However, this mechanism has not functioned during the financial crisis. Banks that have had surplus liquidity have wished to keep it available for their own use instead of lending it to banks with a deficit. The global financial crisis has also led to the Swedish markets experiencing problems with funding in the financial markets. During autumn 2008 the Riksbank therefore began to offer loans at longer maturities to the bank to facilitate their funding. As a result of this, the banks have had large liquidity surpluses and have to a great extent invested the surplus in the Riksbank. There are several possibilities for doing so.

Firstly, the Riksbank issues Riksbank Certificates every week with a one week maturity and at an interest rate that is the same as the repo rate decided on, that is, at present 0.25 per cent. This assumes that the bank system – as is now the case – has a surplus and needs to invest money. If the bank system instead has a deficit, as was the case just over a year ago, then the Riksbank will implement what are known as repos every week with a week's maturity. This means that the Riksbank buys securities from the banks with a simultaneous agreement that a repurchase will be made one week later and where the interest rate is the repo rate that has been decided.

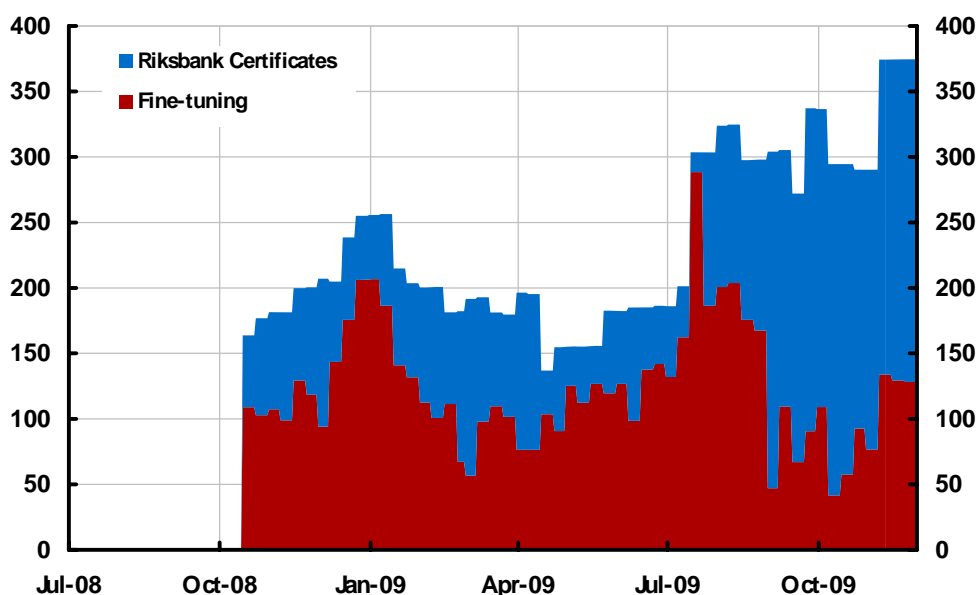
Secondly, the Riksbank carries out what are known as fine-tuning transactions every day to smooth the daily fluctuations in the bank system's regular payments. The banks can invest money in the Riksbank overnight at an interest rate of 10 basis points below the repo rate, that is, at present 0.15 per cent. This also assumes that the bank system as a whole has a surplus towards the Riksbank at the end of the day. If they instead have a deficit, the banks can borrow money from the Riksbank overnight at a rate that is 10 basis points above the repo rate. The fine-tuning is normally very small, but during the crisis it has grown to entail very large amounts.

Thirdly, there are so-called standing facilities. The banks have the right to borrow from the Riksbank overnight at a lending rate that is 50 basis points higher than the repo rate, and the right to invest surplus in the Riksbank at a deposit rate that is 50 basis points lower than the repo rate. But these possibilities are very little used, as there are other alternatives that are more advantageous for the banks.

Something that has attracted relatively great attention internationally is the fact that the low repo rate and the application of an interest rate corridor of plus/minus 50 basis points for the Riksbank's standing facility means that the Riksbank in principle applies a negative interest rate for deposits in the Riksbank. In practice, this is of little significance, as only a very small part of the banks' liquidity surplus is invested in the standing deposit facility. Instead, the banks invest most of their liquidity surplus at a positive interest rate in the daily fine-tuning transactions or the weekly Riksbank Certificates.

Initially, the banks invested the majority of their large surpluses in autumn 2008 in the Riksbank as "fine-tuning". As a result of the crisis the banks had a substantial need of immediate access to liquidity. More recently they have invested most of their surplus in the weekly Riksbank Certificates, which is a sign that market conditions have improved (Figure 5).

Figure 5
Riksbank Certificates and fine-tuning
 SEK billion



Source: The Riksbank.

The fact that the increased lending results in an equal increase in deposits is due to all transactions in Swedish kronor being made through the banks' accounts in the RIX payment system, which the Riksbank administers. The loans are distributed in the Riksbank's auctions by means of the banks presenting bids for how much money and at what interest rate they want to borrow at each separate auction. Immediately after the auctions are over the money is distributed between the banks according to the bids that have come in. The Riksbank credits an amount corresponding to the allocation in the respective bank's account in the RIX system. Then when the banks' transactions and payments are made during the day, the allocation of money between the banks changes, but the money never leaves the system.

As we have already noted, the Riksbank has lent money to the banks on a wide scale since last autumn as a result of the financial crisis. However, monetary policy motives have gradually also gained significance in the lending. As the repo rate is close to zero and can in practice hardly be cut further, a need has arisen to supplement monetary policy with loans at longer maturities and at a fixed interest rate to also bring down slightly longer rates. The Riksbank has therefore on three different occasions (in July, September and October)

offered loans of up to SEK 100 billion with a maturity of almost one year and at a fixed interest rate, to contribute to bringing down the interest rates households and companies have to pay. On the first two occasions the loan amount was fully subscribed, but on the most recent occasion the amount borrowed was SEK 95 billion.

By setting interest rates on Riksbank Certificates and fine-tuning – and as we will come to shortly – setting interest rates on the Riksbank's loans to the banks, the Riksbank has been able to steer the short-term rate throughout the crisis.

To summarise, monetary policy has been aimed at keeping inflation close to the target and at the same time dampening the fall in economic activity during the financial crisis. The repo rate has been quickly cut to an extremely low level. The steering of the short-term rates has functioned well throughout the crisis. The normal aim of only steering the shortest interest rate has been supplemented with lending to the banks at longer maturities to be able to also influence interest rates further out on the curve. This means that monetary policy approaches questions regarding financial stability, which I will now discuss.

Financial stability

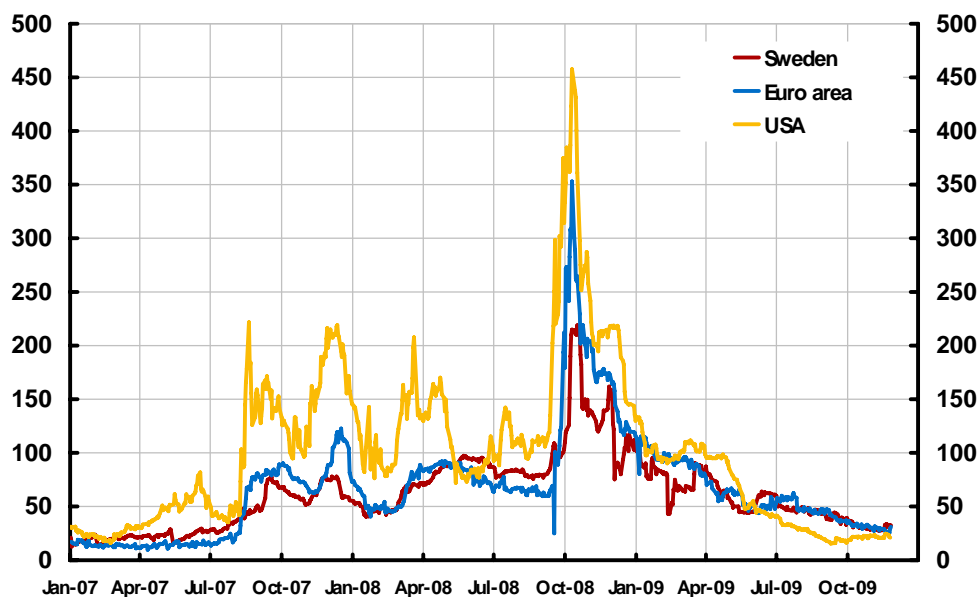
Financial stability is the Riksbank's other main task. Put simply, it is a question of ensuring that the financial system is stable and that the payment system functions. The banks play a central role in financial stability as the majority of payments go through the bank system.

The Swedish banks fund half of their borrowing through deposits from the general public and half of it through loans from one another and on the financial markets. If problems arise that prevent the banks from obtaining funding by borrowing from one another or on the financial markets, they can borrow from the Riksbank. The Riksbank is what is usually known as the lender of last resort.

Figure 6

TED spread

Difference between 3-month interbank rates and government security rates
Basis points

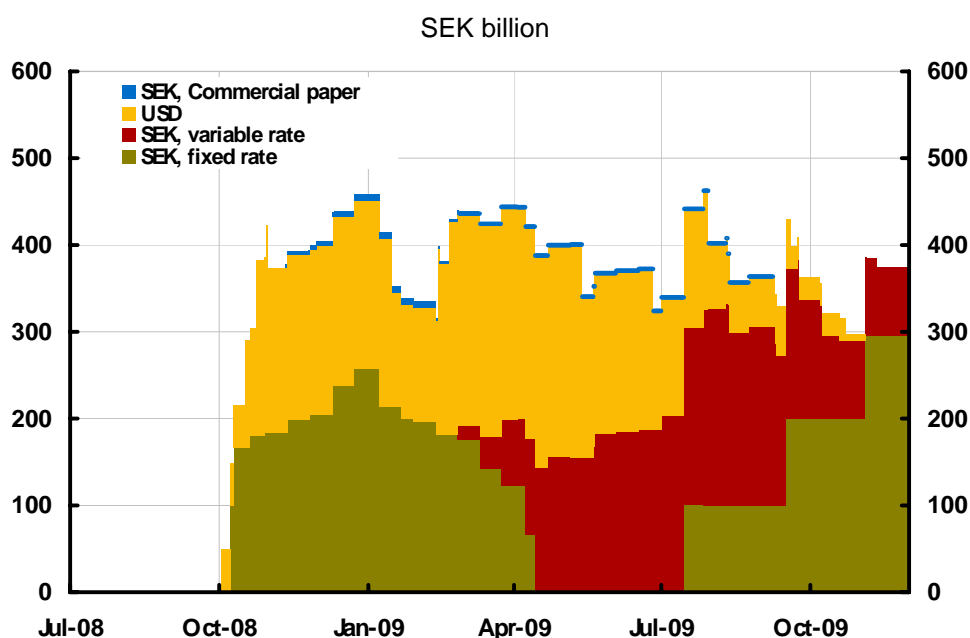


Sources: Reuters EcoWin och Riksbanken.

During the financial crisis several financial markets ceased functioning. The banks' confidence in one another declined and they became unwilling to lend to one another. Developments during the crisis can be illustrated by, for instance, the so-called TED spread, the difference between the interest on three-month interbank loans and three-month treasury bills. As confidence between the banks declined, the TED spread increased during the crisis and peaked when Lehman Brothers fell (Figure 6).

This meant that it became expensive and difficult for the banks to fund themselves. In this situation the Riksbank began to lend money to the banks at longer maturities to secure their funding. During three months in autumn 2008 the Riksbank increased its lending to the banks by more than around SEK 450 billion. To begin with the Riksbank granted loans in kronor at three-month and six-month maturities, but gradually the maturities were increased to twelve months. Lending at a variable interest rate has declined over the past six months, but has been supplemented by the previously-mentioned lending at a fixed interest rate of almost SEK 300 billion (Figure 7).

Figure 7
The Riksbank's lending in SEK and USD



Source: The Riksbank.

The Riksbank has also granted loans in US dollars. During the crisis there was a shortage of dollars around the world and the banks experienced difficulty in obtaining funding in dollars. At most, lending in dollars corresponded to around SEK 250 billion in spring 2009. Since then the banks' interest in borrowing dollars from the Riksbank has declined. Quite simply, it has become cheaper for the banks to borrow dollars in the market than from the Riksbank, which is a sign that the financial markets are gradually functioning better. These loans have now ceased.

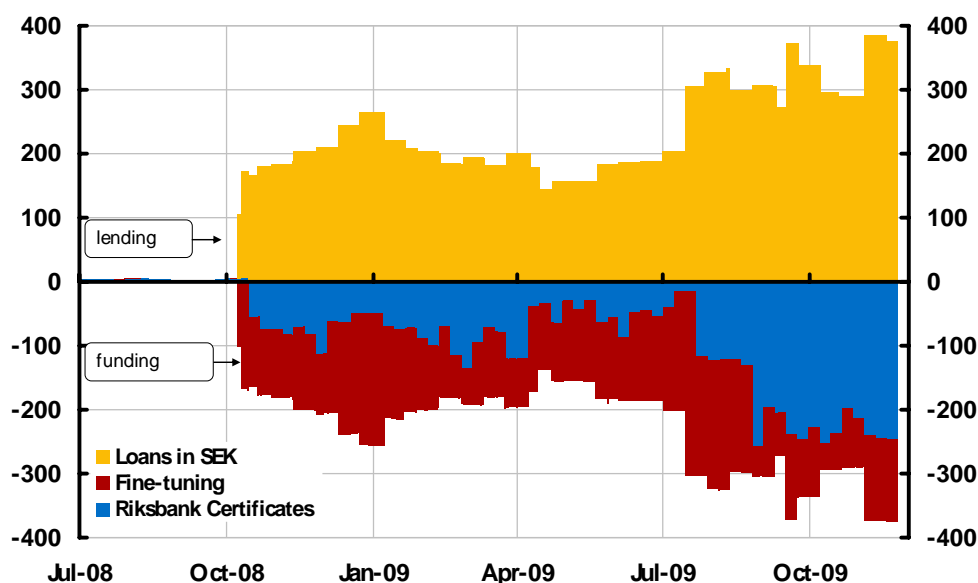
For simplicity's sake I am talking about lending to the banks. But the correct designation for the group of institutions which can borrow from the Riksbank is monetary policy counterparties. Over the past year we have extended the number of counterparties who can act as counterparts in our fine-tuning transactions and introduced a new category of counterparties, known as restricted monetary policy counterparties, who can purchase

Riksbank Certificates and take part in the Riksbank's auctions of loans at longer maturities, without being participants in the RIX system.¹ We have also given special liquidity assistance in autumn 2008 to Kaupthing and Carnegie, which they have since repaid.

All lending by the Riksbank is against collateral. Over the past year we have extended the eligible assets that can be used as collateral, but this still encompasses securities that are safe assets. The securities accepted are debt securities issued primarily by the Swedish government and by Swedish mortgage institutions.

All increased lending by the Riksbank ends up in some form of increased deposit on the Riksbank's balance sheet. While there can be long transaction chains, as all payment flows in kronor go through the banks' accounts in the RIX payment system, the money never leaves the system. It is merely moved between the banks' different deposit accounts with the Riksbank. The Riksbank's lending in kronor to the banks has thus been entirely funded through deposits from the banks (Figure 8).

Figure 8
The Riksbank's deposits and lending in kronor
 SEK billion



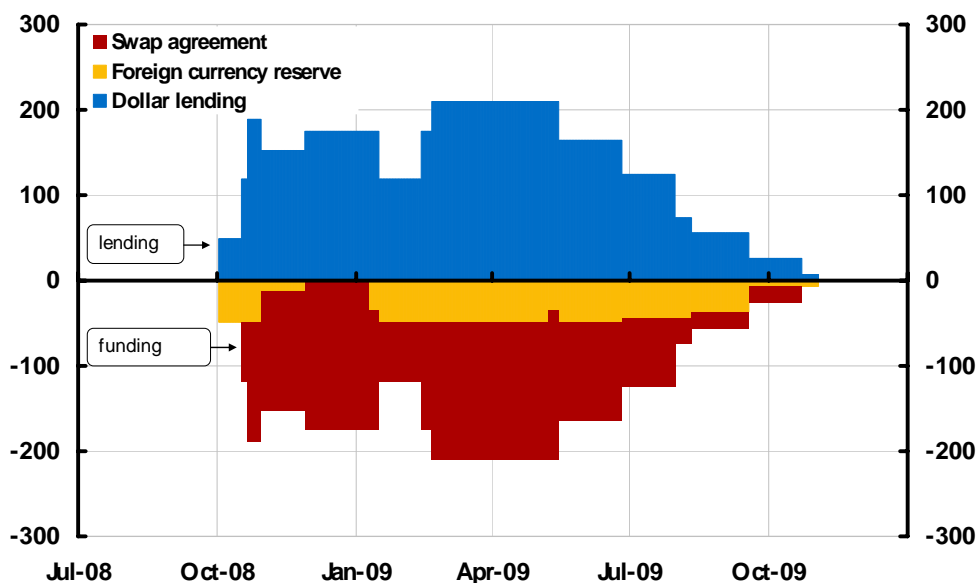
Source: The Riksbank.

The interest rates on the banks' borrowing from the Riksbank, like the previously-discussed interest rates on the Riksbank Certificates and fine-tuning transactions, are related to the repo rate. The banks pay an interest rate that corresponds to the repo rate with a certain premium. The banks thus pay a higher interest rate for their borrowing from the Riksbank than they receive in interest on their deposits with the Riksbank. At the most recent auction of loans in SEK, for instance, the interest rate was 0.40 per cent for both fixed-interest rate loans and variable-interest rate loans. As mentioned earlier, the banks currently receive interest of 0.25 per cent on Riksbank Certificates and for fine-tuning overnight deposits they receive 0.15 per cent. In this way the Riksbank steers market rates by setting the interest rates for the Riksbank's deposits and lending.

¹ The monetary policy counterparties consist of 14 banks and the restricted monetary policy counterparties are currently Svensk Exportkredit, Kommuninvest i Sverige, Sparbanken Finn and Öhman Fondkommission.

The Riksbank's lending in dollars has been funded by using the foreign currency reserve and through loans from the US central bank. I will return to this later. The interest rate for the dollar loans has been determined through a premium on the short-term interest rate on dollars in the United States. The Riksbank has paid the same interest rate to the US central bank. The Riksbank's dollar lending peaked in the spring, but has now come to an end (Figure 9).

Figure 9
The Riksbank's lending in dollars and its funding
 SEK billion



Source: The Riksbank.

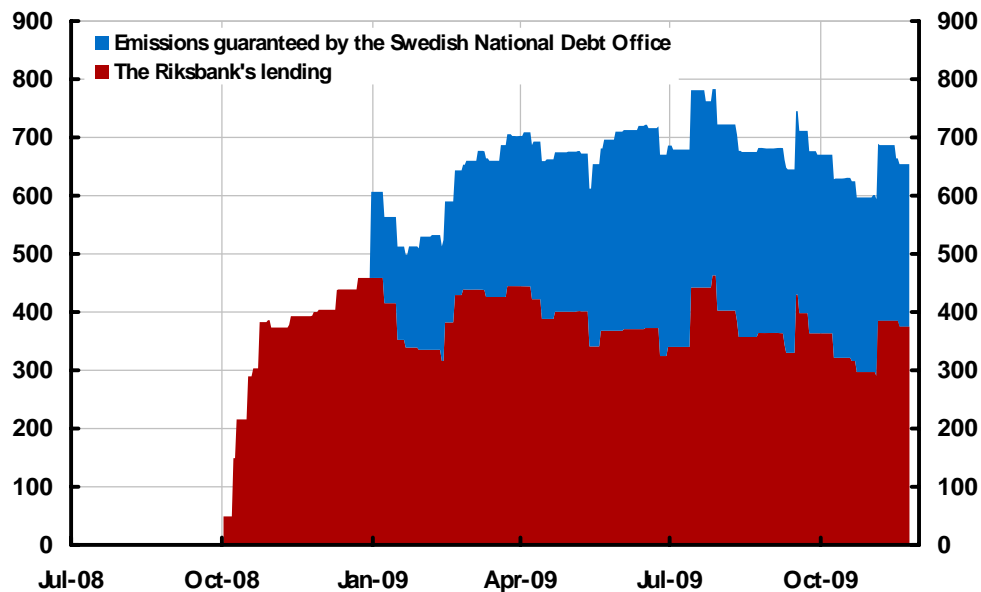
The Riksbank makes a profit on the loans and deposits, through its interest rates. The total profit for the Riksbank during the period from the beginning of October 2008 to the end of October 2009 amounts to around SEK 2.3 billion. The fact that the Riksbank makes a profit on its lending and deposits in kronor is not the purpose of these measures, but rather a side-effect. At the same time it is important to set the interest rates in a way that avoids directly subsidising the bank system.

In addition to the Riksbank's measures the Swedish banks have received other forms of support during the financial crisis. They have also been able to borrow from other central banks. As part of the government's stability package, with effect from December 2008 financial institutions can apply to have their borrowing guaranteed by the government through the Swedish National Debt Office. At present nine financial institutions have received loans amounting to just over SEK 300 billion with such guarantees. All in all, the bank lending supported by the Riksbank and by the Swedish National Debt Office amounted at most to almost SEK 800 billion in July this year (Figure 10).

Figure 10

The Riksbank's lending and government-guaranteed borrowing

SEK billion



Sources: The Swedish National Debt Office and the Riksbank.

To summarise, the measures to safeguard financial stability during the financial crisis were mainly aimed at quickly providing the banks with wide scale funding in SEK and USD. During the crisis the Riksbank has acted in its traditional role as lender of last resort. The difference this time, compared with the traditional role, is that it has not merely involved short-term loans in kronor, but also lending at longer maturities and in dollars.

Gold and foreign currency reserve

The Riksbank has a substantial gold and foreign currency reserve. It consists of gold and assets in different currencies, which can be quickly converted to liquid funds. The main part of the foreign currency reserve consists of securities in foreign currency, with a small percentage of bonds issued by US mortgage institutions and some Australian states. The currency distribution up to the crisis was that half of the currency reserve was listed in euro, 20 per cent in US dollars, 10 per cent each in British pounds and Norwegian kronor and 5 per cent each in Canadian and Australian dollars. During the crisis there has been a greater emphasis on euro and dollars.

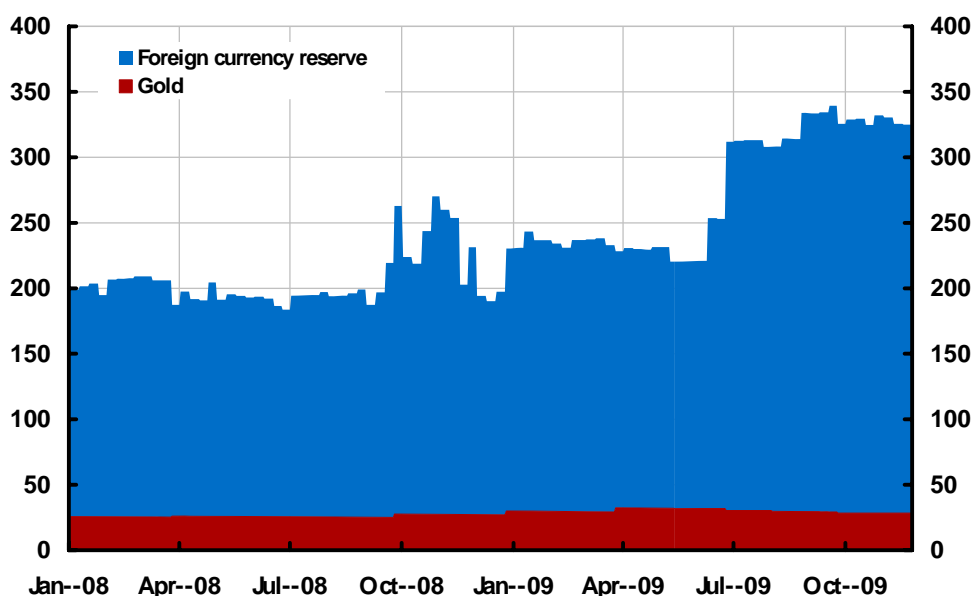
The gold and foreign currency reserve serves three purposes. Firstly, the Riksbank has traditionally held a gold and foreign currency reserve to be able to support the Swedish krona's exchange rate. This was a particularly strong reason up to 1991, when Sweden had a fixed exchange rate. But it has no major significance now that we have a floating exchange rate and an inflation target.

Secondly, a gold and foreign currency reserve is needed to be able to provide temporary liquidity assistance in foreign currency to banks suffering liquidity problems. During the crisis the banks experienced problems with funding in foreign currency, particularly dollars. The Riksbank therefore lent dollars to the Swedish banks, partly funded through the currency reserve.

Thirdly, Sweden has international commitments through, for instance, the IMF to be able to support other countries in crisis with loans in foreign currency. These commitments have increased substantially during the crisis. The Riksbank has established swap agreements with the central banks in Iceland, Latvia and Estonia, to be able to provide loans in foreign currency to stabilise the financial situation in these countries. Moreover, the Riksbank has increased its commitments to the IMF. All in all, international commitments have increased by more than SEK 50 billion in connection with the crisis and they may increase further.

Prior to the financial crisis the gold and foreign currency reserve amounted to around SEK 200 billion, and then accounted for more or less all of the Riksbank's assets. The foreign currency reserve has been strengthened this year. The Riksbank has borrowed a further amount in foreign currency through the Swedish National Debt Office, totalling the equivalent of around SEK 100 billion. Some of the foreign currency reserve has been lent out during the crisis and the value in Swedish kronor has been affected by the depreciation in the krona. The size of the foreign currency reserve has thus varied during the crisis (Figure 11).

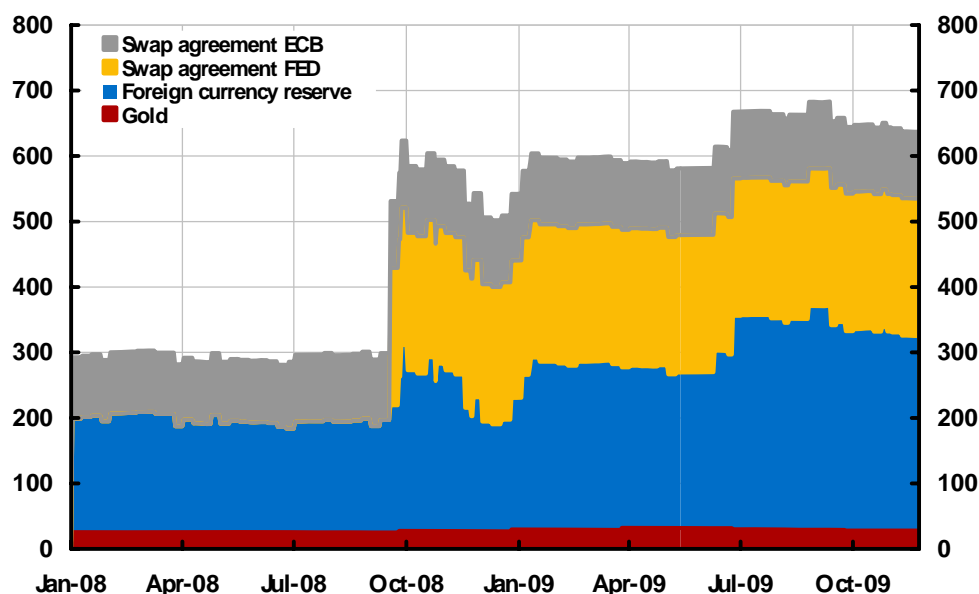
Figure 11
Gold and foreign currency reserve
 SEK billion



Source: The Riksbank.

The gold and foreign currency reserve the Riksbank held prior to the crisis was not sufficient to cover the lending and the increased commitments occasioned by the crisis. During the crisis there arose, for instance, a global shortage of dollars. To safeguard the banks' funding in foreign currency the Riksbank – like other central banks – entered into a swap agreement for USD 30 billion, corresponding to around SEK 200 billion, with the US central bank (Federal Reserve) to enable it to borrow US dollars in exchange for Swedish kronor. Prior to this the Riksbank had entered into a similar swap agreement for EUR 10 billion, corresponding to just over SEK 100 billion, with the European Central Bank (ECB) in December 2007, to be able to borrow euro in exchange for Swedish kronor. The Riksbank also has the opportunity to borrow currency from the *Bank for International Settlements* (BIS) in Basel (Figure 12).

Figure 12
Reserves including swap agreements
 SEK billion



Source: The Riksbank.

To recap, during the financial crisis the Riksbank has used measures such as swap agreements with the ECB and Federal Reserve and borrowing through the Swedish National Debt office to improve the scope for providing the financial sector with loans in foreign currency and to meet its increased international commitments. All in all, the reserves including the swap agreements have increased from around SEK 200 billion to more than SEK 600 billion. During the crisis the Riksbank has at most lent dollars corresponding to around SEK 250 billion.

Banknotes and coins, capital, etc.

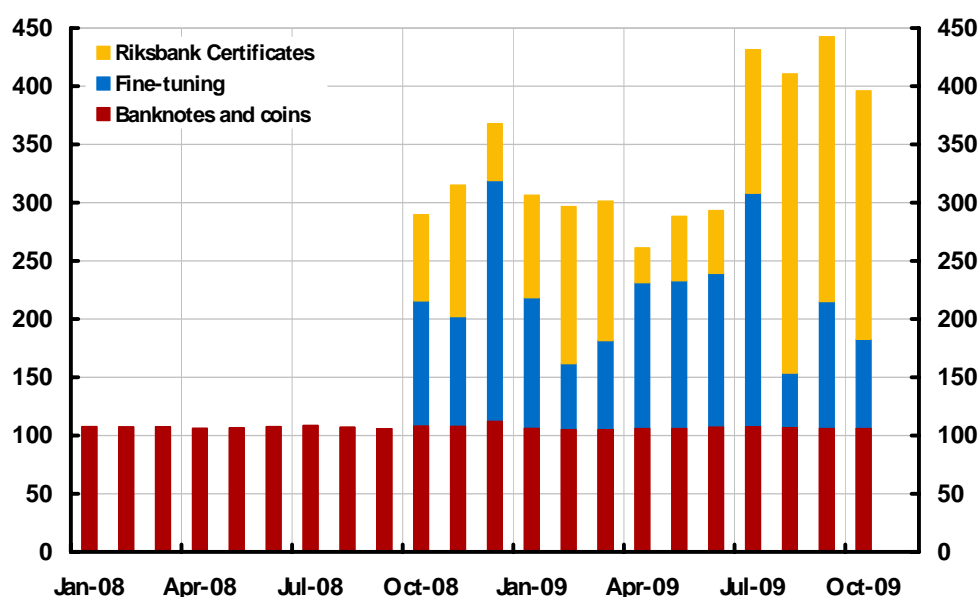
The Riksbank has the monopoly on issuing banknotes and coins in Swedish kronor. The volume of banknotes and coins in circulation is normally the largest item on the liabilities side of the balance sheet. The size of this item is governed entirely by the general public's demand for cash and it has not been significantly affected by the financial crisis (Figure 13).

Banknotes and coins are an important source of funding for the Riksbank. Cash in the form of banknotes and coins does not accrue any interest for the holders. The general public's holdings of banknotes and coins are entered into the Riksbank's balance sheet as an interest-free liability. The Riksbank invests a corresponding amount, with a deduction for the cost of managing banknotes and coins, in yield-bearing financial assets. This equivalent amount is in practice part of the foreign currency reserve. The return the Riksbank receives on these financial assets comprises what is known as seigniorage income. In 2008 seigniorage income amounted to around SEK 5 billion, which corresponds to a return of 4.6 per cent.

Figure 13

Banknotes and coins – monetary base

SEK billion



Source: The Riksbank.

Another concept that has been discussed to some extent in connection with the financial crisis is what is usually known as the monetary base. This consists of banknotes and coins in circulation plus the banks' deposits with the Riksbank through Riksbank Certificates, fine-tuning and standing facilities. During the financial crisis the banks' deposits with the Riksbank increased substantially, as mentioned earlier, when the Riksbank increased its lending to the banks. The monetary base has thus increased by around 300 per cent.

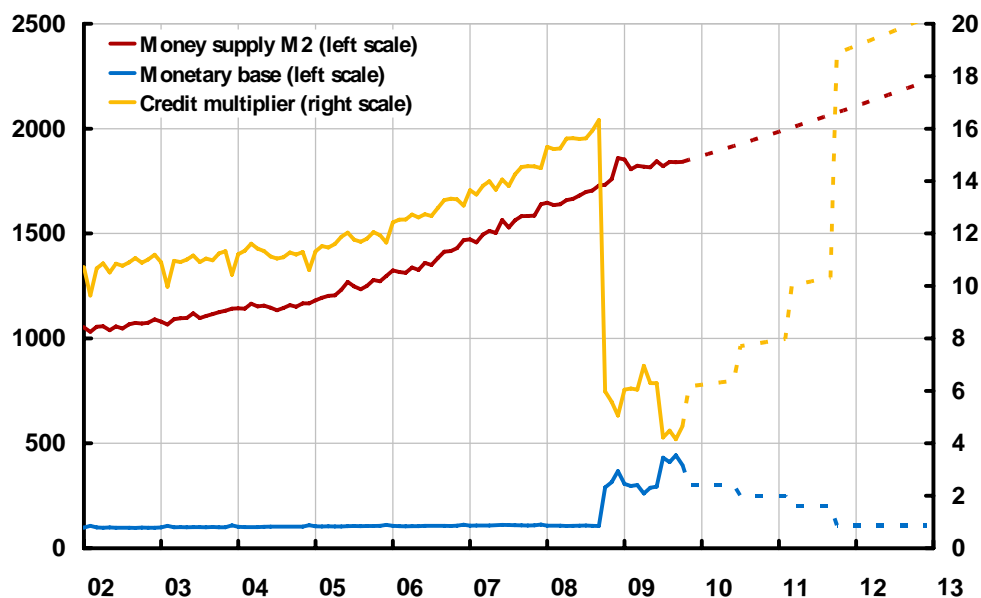
In simpler economic models one usually assume that there is a fixed relationship between the monetary base and the money supply.² The question that has been discussed is whether the large increase in the monetary base could give rise to rapid inflation. But for this to happen the money volume in society must also increase, that is, as well as the monetary base increasing, the general public's deposits in the banks must increase. This could happen if the increase in the monetary base leads to the banks increasing their credit granting to the general public and if this in turn leads to the general public depositing more money with the banks. In the prevailing economic downturn this has not been the case. The banks have tightened their credit granting, while demand for credit has declined, particularly from companies.

A more reasonable interpretation of what has happened is that the banks have increased their demand for liquid reserves in the Riksbank. Put simply, one can say that the bank system as a whole has borrowed as much from the Riksbank as it is willing to invest as a deposit with the Riksbank. Thus, the ratio between the monetary base demanded and the money supply has increased, or in other words what is known as the *credit multiplier* has

² Money supply here refers to the general public's holdings of banknotes and coins and the general public's deposits with the banks.

declined. When the situation on the financial markets normalises we expect the credit multiplier to return to its earlier level (Figure 14).³

Figure 14
The credit multiplier
 SEK billion and ratio



Note. M2 consists of the general public's holdings of banknotes and coins and their deposits in the banks on call and other deposits at longer durations. The broken line gives an example of a possible adjustment to a normal level.

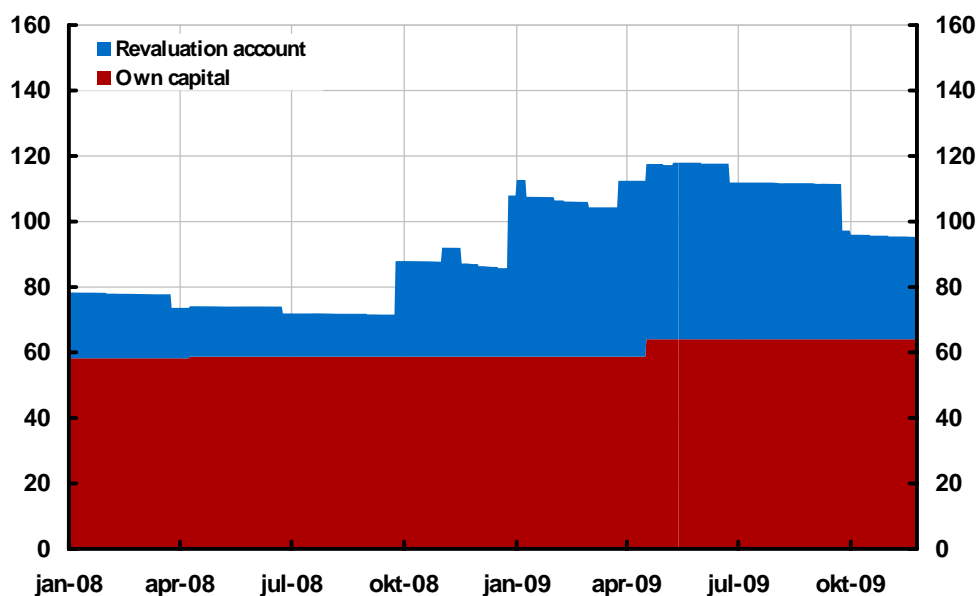
Sources: Statistics Sweden and the Riksbank.

The Riksbank's capital currently amounts to around SEK 64 billion. The return on the capital is intended to fund the Riksbank's activities. It should also cover any losses that might arise in the Riksbank's activities. This could be losses arising in the daily management of the Riksbank's financial assets or when the Riksbank provides liquidity assistance to the banks.

One item on the balance sheet that has increased over the past year is the revaluation account. This is where unrealised gains and losses are booked that comprise the difference between the purchase value and current market value of the Riksbank's assets. As a result of the krona having weakened and the price of gold having risen, the value of the gold and foreign currency reserve has increased. This increase in value on the assets side corresponds on the liabilities side to an increase in the revaluation account (Figure 15).

³ The credit multiplier is usually defined as the ratio between the money supply and the monetary base; see also the box Unconventional measures and the risk of inflation in the Monetary Policy Report, October 2009, Sveriges Riksbank.

Figure 15
Capital and revaluation account
 SEK billion



Source: The Riksbank.

The Riksbank's assets are managed to provide a good return. The return over the past fifteen years has been around 7 per cent a year. As a result of the assets normally consisting mainly of gold and foreign assets, the return in Swedish kronor can vary substantially from year to year. The weakening of the krona during the financial crisis has paradoxically meant that the Riksbank's results have improved. In addition, the Riksbank's results have been positively affected by the lending to the banks. Some of the profits are paid as dividends to the Treasury. A principle for allocating profits is applied to even out the dividends paid to the Treasury. This entails 80 per cent of the average net income for the past five years, excluding exchange rate and gold evaluation effects, being transferred to the Treasury. The part of the profits not paid to the Treasury is transferred to the Riksbank's capital.

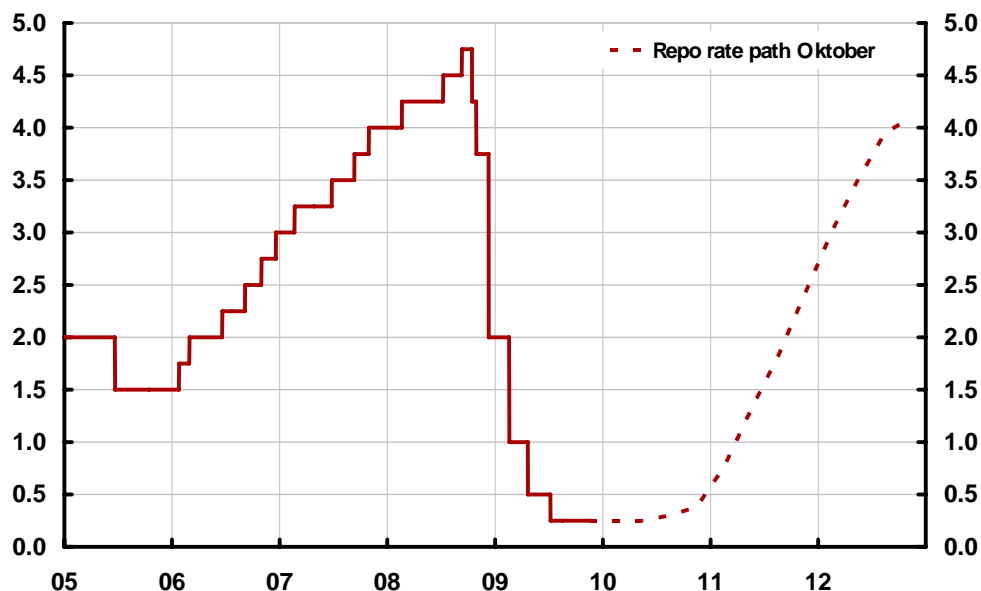
In addition to the items already discussed (Riksbank Certificates, fine-tuning, banknotes and coins, capital and revaluation account), there are a number of other items on the liabilities side of the balance sheet. The largest of these is the debt to the Swedish National Debt Office for the loan the Riksbank has taken to reinforce the foreign currency reserve. The other items are normally small and less important. See the appendix with Figures 17 and 18 the Riksbank's assets and liabilities.

Concluding remarks

In conclusion, I would like to refer to my introduction. The Riksbank has for just over a year now taken forceful action to limit the negative consequences of the financial crisis. Monetary policy has been aimed at dampening the fall in economic activity; the repo rate has been cut to an extremely low level and supplemented with lending to the banks with longer maturities to be able to also influence interest rates further along the curve. The measures to safeguard financial stability have been aimed at providing the banks with funding in SEK and USD. The possibilities to provide the financial sector with loans in foreign currency and to be able to meet the increased international commitments have been reinforced by the swap agreements with the ECB and the Federal Reserve and the borrowing through the Swedish National Debt Office.

There are clearer signs that the world economy is beginning to recover, and the financial markets are gradually functioning better. As the financial sector stabilises, the need for extraordinary measures will decline. According to the forecast we made in October, the repo rate will probably need to begin being raised in autumn 2010 (Figure 16).

Figure 16
Repo rate and repo rate path
 Per cent



Source: The Riksbank.

The other question with regard to phasing out the extraordinary measures is when and how we should phase out the loans to the banks. The Riksbank, unlike many other central banks, has not purchased any securities, which makes phasing out the support measures relatively uncomplicated. The dollar loans have already ceased, as it became cheaper for the banks to borrow dollars on the market than through the Riksbank. The loans in kronor may be concluded in October 2010 as long as no decision is taken on new loans.

The extraordinary measures will thus cease once the economy has recovered, and the situation in the financial sector has stabilised. The Riksbank's balance sheet will then decline. However, the financial crisis has shown that we should maintain a greater readiness to meet any new problems than we had prior to the crisis. How this might affect the balance sheet is a question the Riksbank will be considering over the coming period.

Appendix: Figures 17 and 18 The Riksbank's assets and liabilities

Assets, SEK million	30.09.09	31.12.07	Changes
Gold	28 295	25 827	2 468
Foreign currency reserves	297 335	172 544	124 791
Dollar lending to the banks	25 869		
Lending in SEK to monetary policy counterparties	337 501	9 129	328 372
Other assets	7 529	4 394	3 135
Total assets	696 529	211 894	484 635

Liabilities, SEK million	30.09.09	31.12.07	Changes
Banknotes and coins	105 998	114 324	-8 326
Fine-tuning, etc.	109 073	143	108 930
Riksbank Certificates	227 489		227 489
Swap agreements with FED and ECB	20 253	82	20 171
Loans through the SNDO	91 186		91 186
Repos foreign currency reserve	8 461	12 035	-3 574
Liability to IMF (SDR)	24 912	2 517	22 395
Other liabilities	11 705	4 277	7 428
Provisions	257	206	51
Revaluation accounts	33 170	20 063	13 107
Capital	64 025	58 247	5 778
Total liabilities	696 529	211 894	484 635

Source: The Riksbank.