

Monetary policy implementation regimes and the structural liquidity position of the banking system in Sweden 1904-2014

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The central bank balance sheet

Assets = Liabilities and capital

Uses = Sources

$$R + B^{gvt} + OA^{banks} + OA^{others} + L^{banks} + L^{others} = D^{banks} + D^{others} + N + C$$

R = gold and foreign exchange

B = government bonds

OA^{banks} = other assets, banks counterparts

OA^{others} = other assets, others counterparts

OL^{banks} = other liabilities, banks counterparts

OL^{others} = other liabilities, others counterparts

N = notes

D = deposits

C = capital

The structural liquidity surplus of banks relative to the central bank

- $S = D^{banks} + (OL^{banks} - OA^{banks})$
- $(OL^{banks} - OA^{banks}) =$ net repo operations and standing facilities

Liquidity creating factors

Use the balance sheet to solve for the determining factors:

$$S = (D^{banks} - L^{banks}) + (OL^{banks} - OA^{banks}) = (OA^{others} - OL^{others}) - D^{others} + L^{others} + R - N - C$$

where

$(OA^{others} - OL^{others})$ = Outright Open Market Operations, *OMO*.

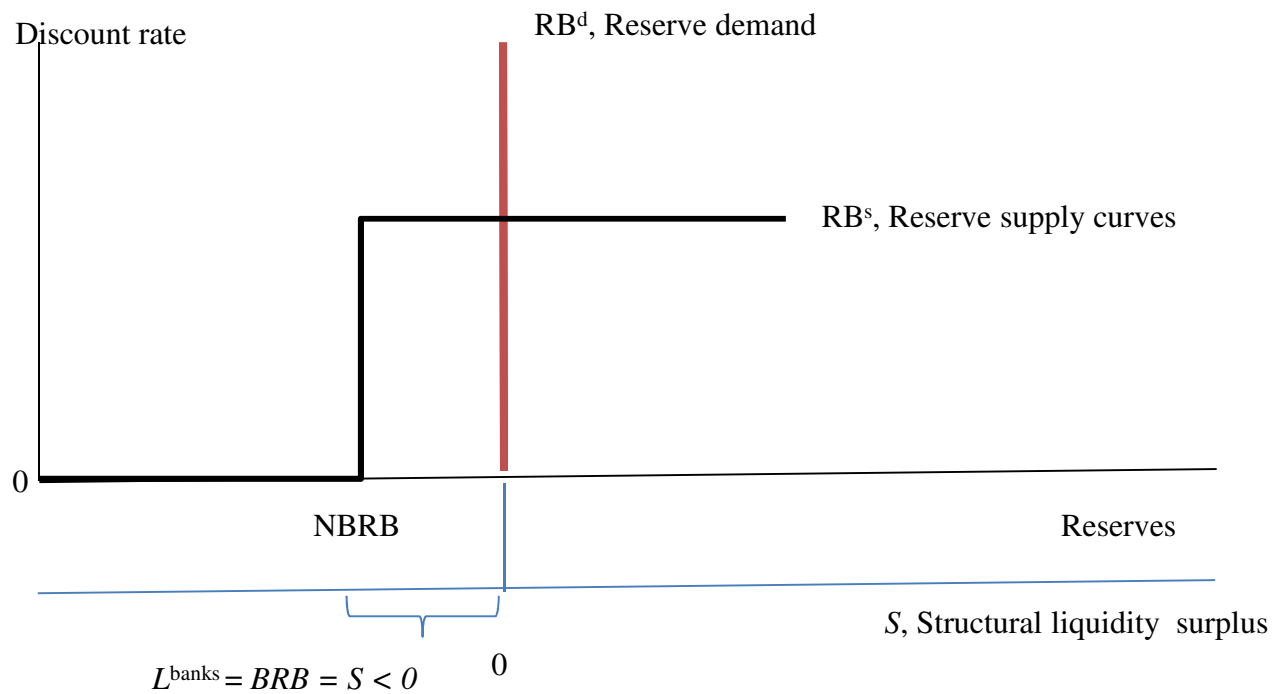
D^{others} , N , C = autonomous factors, *AUT*

R autonomous under fixed exchange rates

R like *OMO* under flexible exchange rates

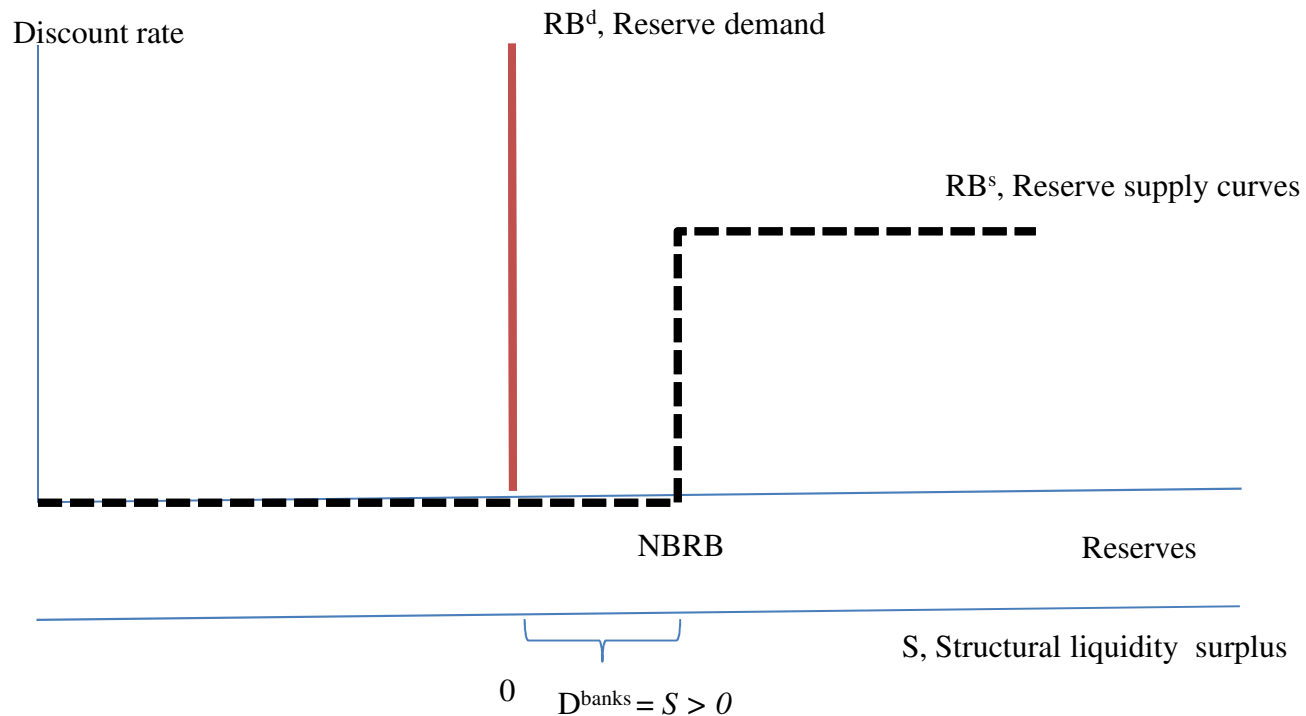
An active ($S < 0$) discount window:

The supply and demand for reserves with a discount window and a deposit facility with zero interest rate when non-borrowed bank reserves is smaller than reserve demand.



A passive ($S > 0$) discount window:

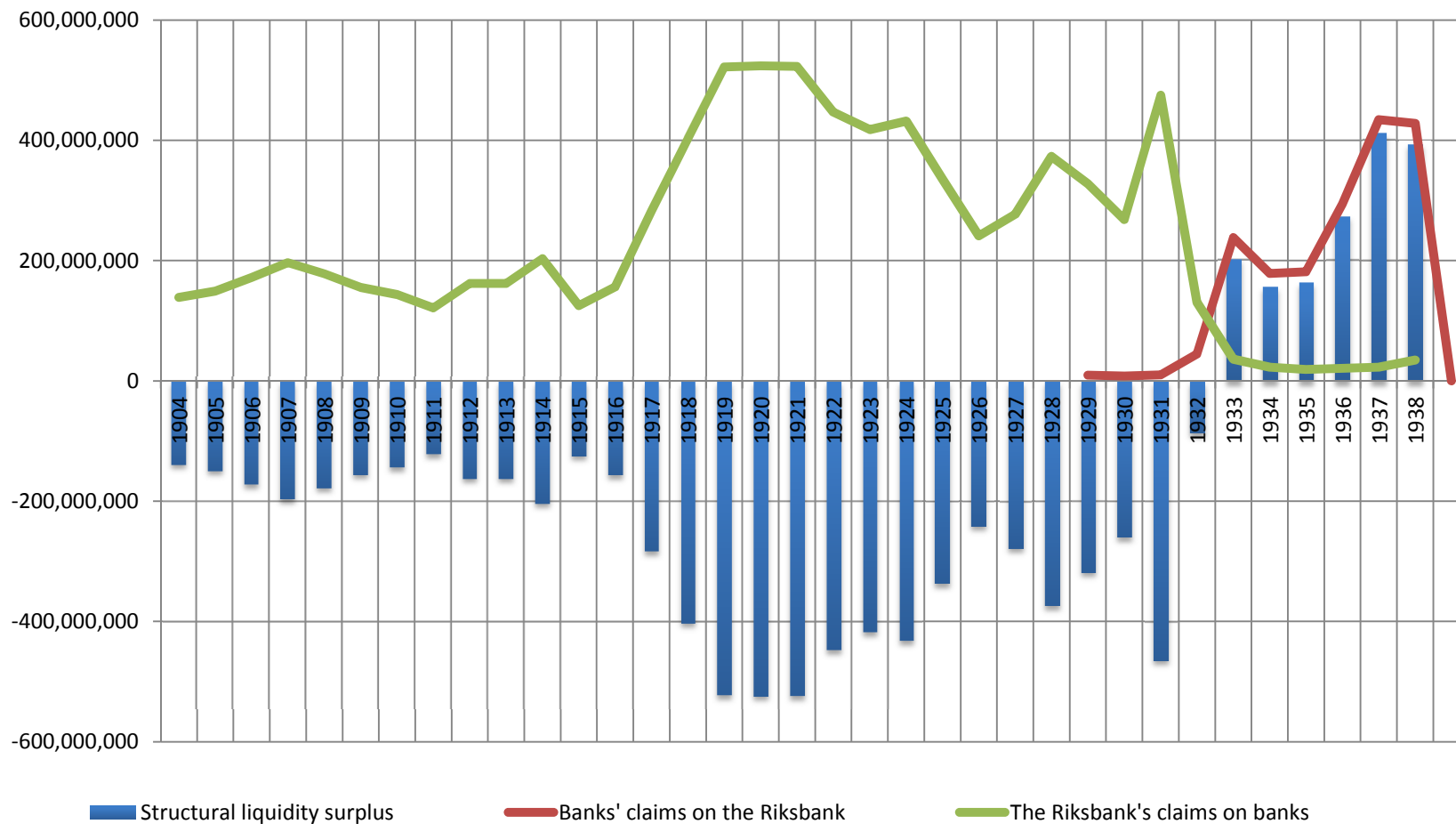
The supply and demand for reserves with a discount window and a deposit facility with zero interest rate when non-borrowed bank reserves, $NBRB$, is greater than reserve demand.



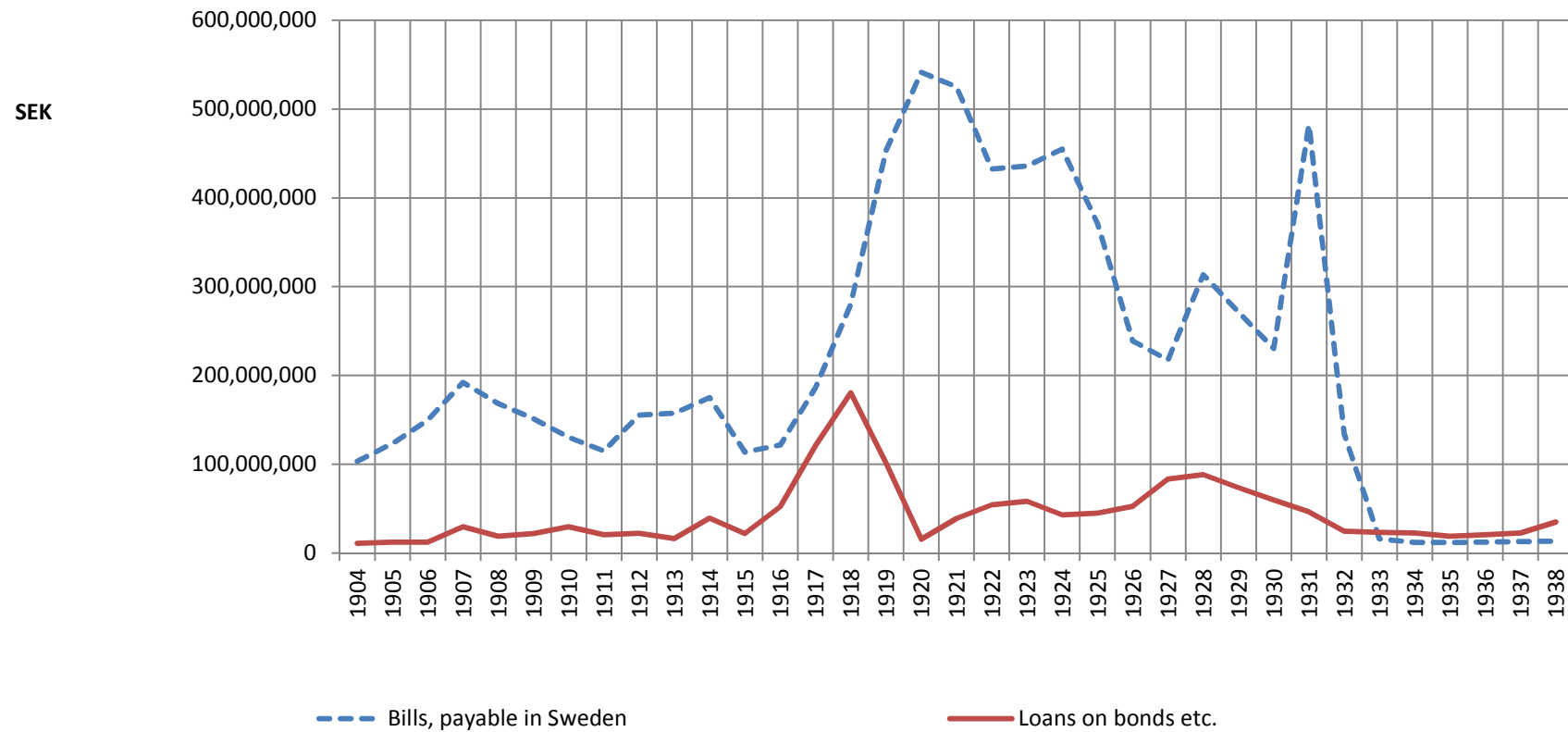
The Riksbank balance sheet 1904, billions, SEK.

Assets		Liabilities	
Reserves	119	Deposits	48
Other assets, banks	159	Notes	172
Other assets, other	18	Other liabilities	12
		Capital	65
Sum	296	Sum	296

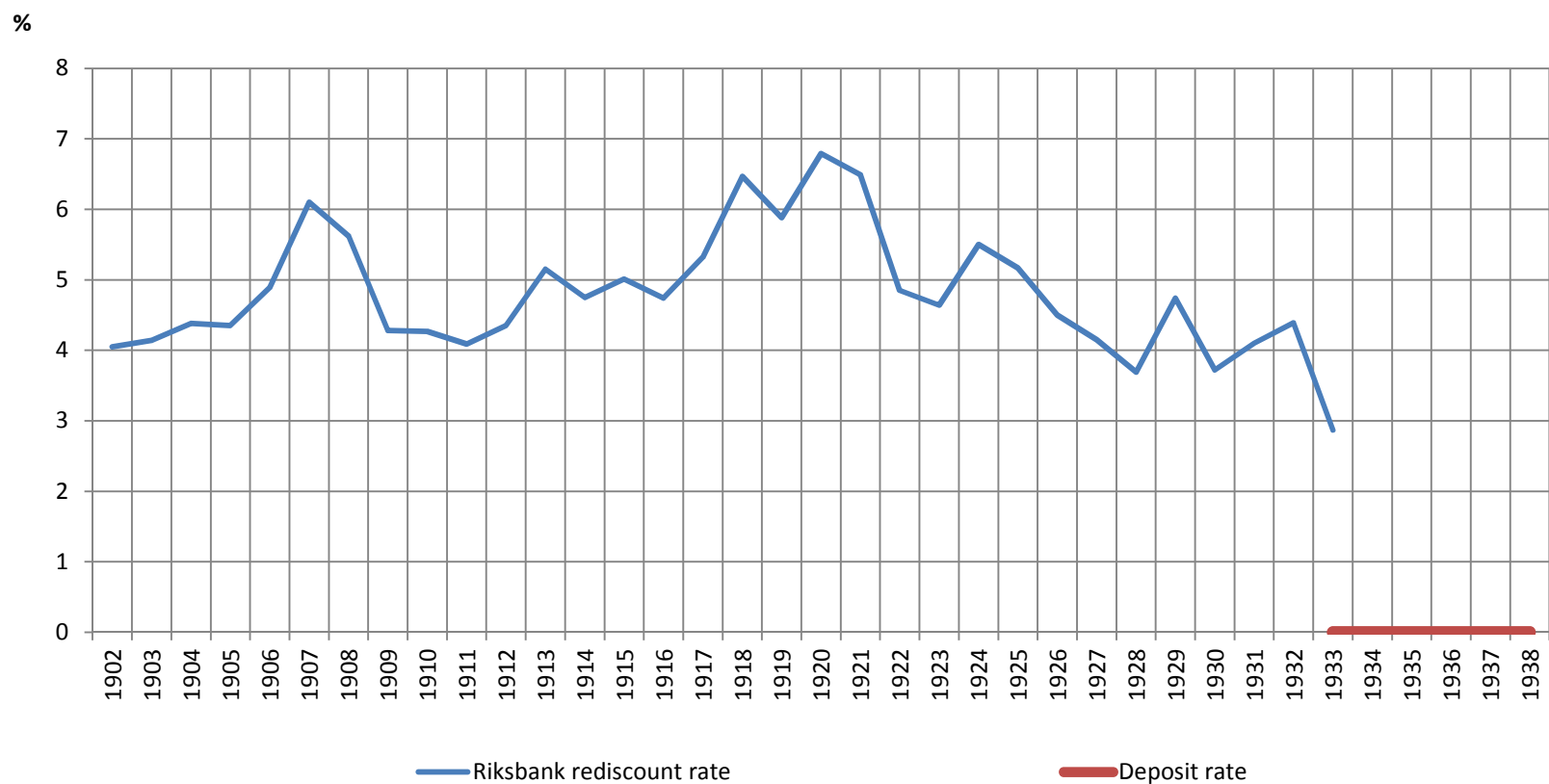
The banks' liquidity position toward the Riksbank 1904-1938.



The Riksbank's claims on the banks 1904-1938.

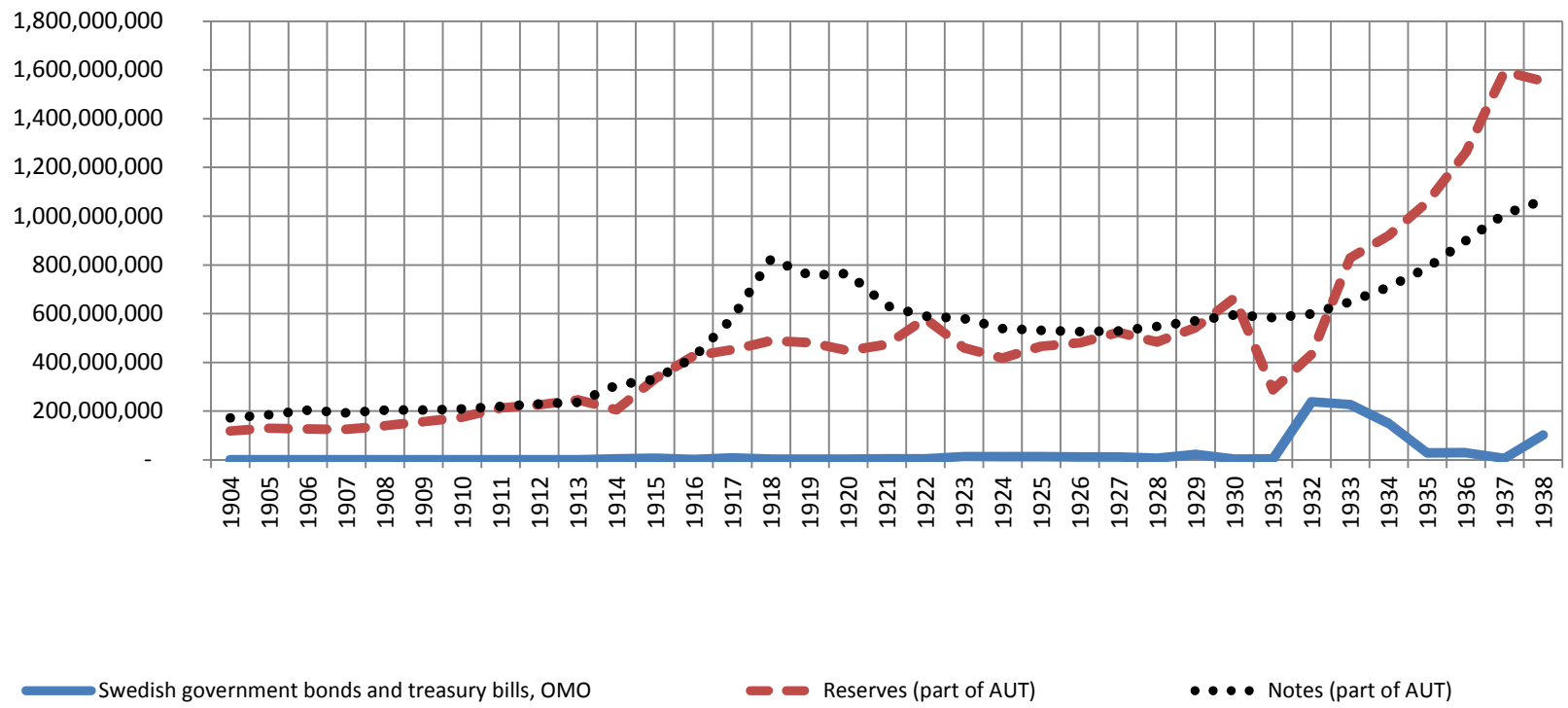


The Riksbank rediscount rate 1904-1932 and the banks' deposit rate at the Riksbank 1933-1938



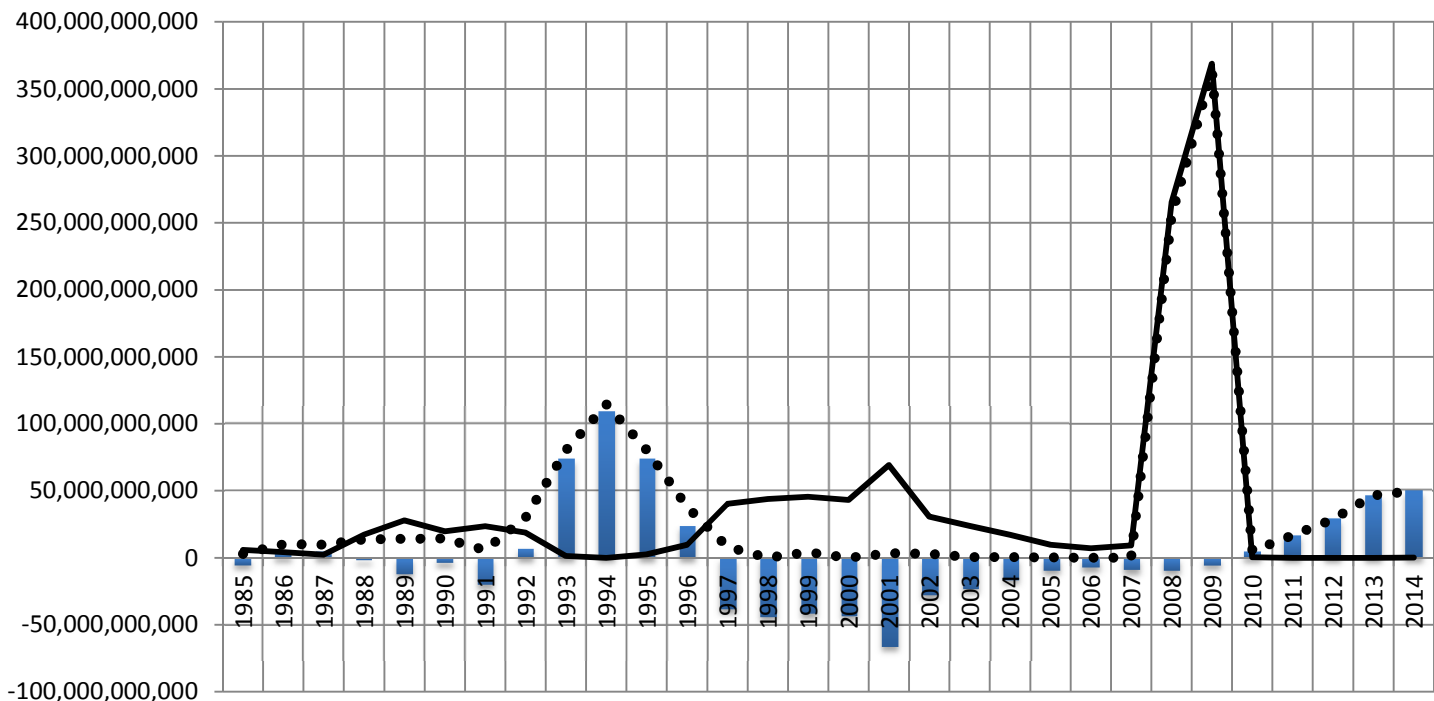
Liquidity creating factors 1904-1938

SEK



The banks' liquidity position toward the Riksbank 1985-2014

SEK



Structural liquidity surplus

•••• Banks' claims on the Riksbank

— The Riksbank's claims on banks

The interregnum 1939-1984

