

International Liquidity Provision During the Crisis

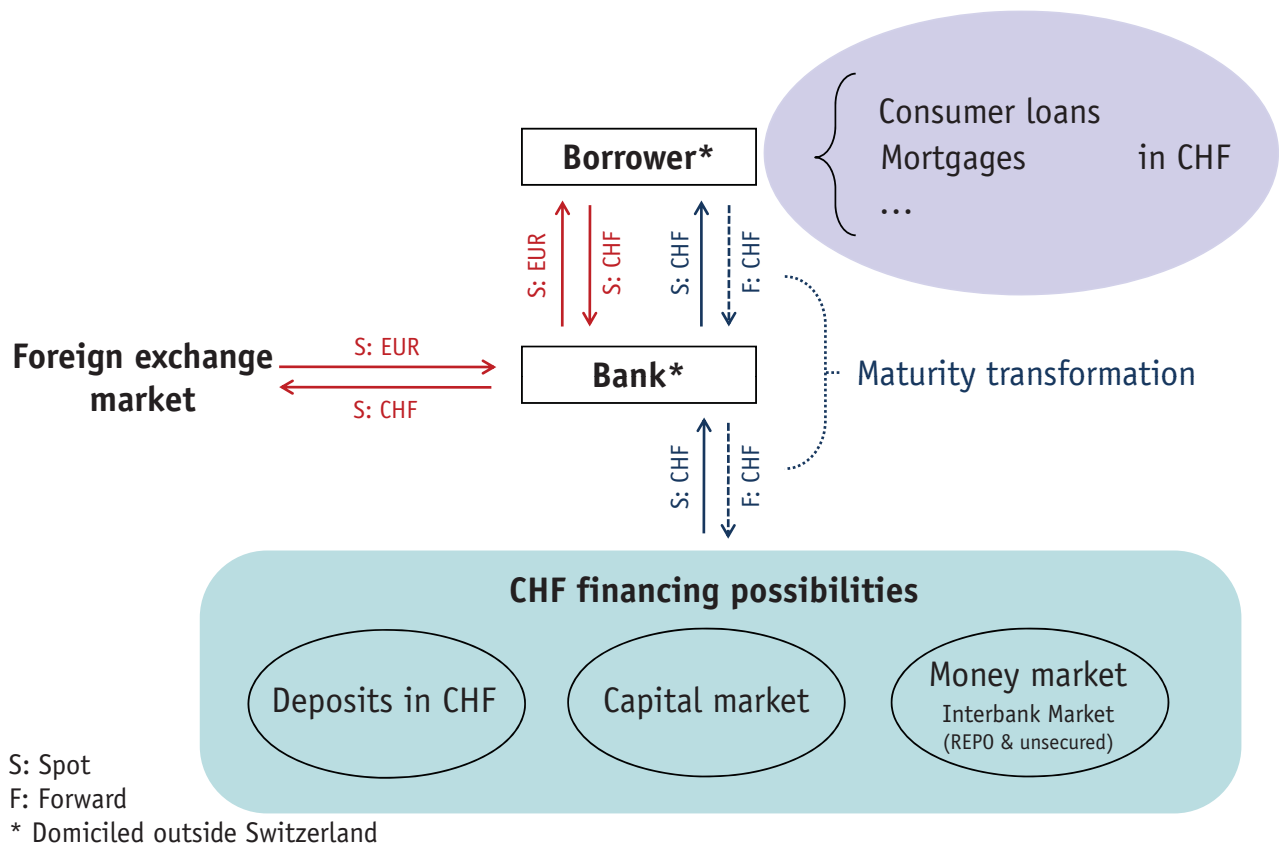
Sébastien Kraenzlin
Swiss National Bank

NBP-SNB Joint Seminar
“Monetary Policy and Financial Stability after the Crisis”

Part I: Systemic CHF Shortages: Sources and Measures

Part II: The Shift in Liquidity Provision

Once Upon a Time...



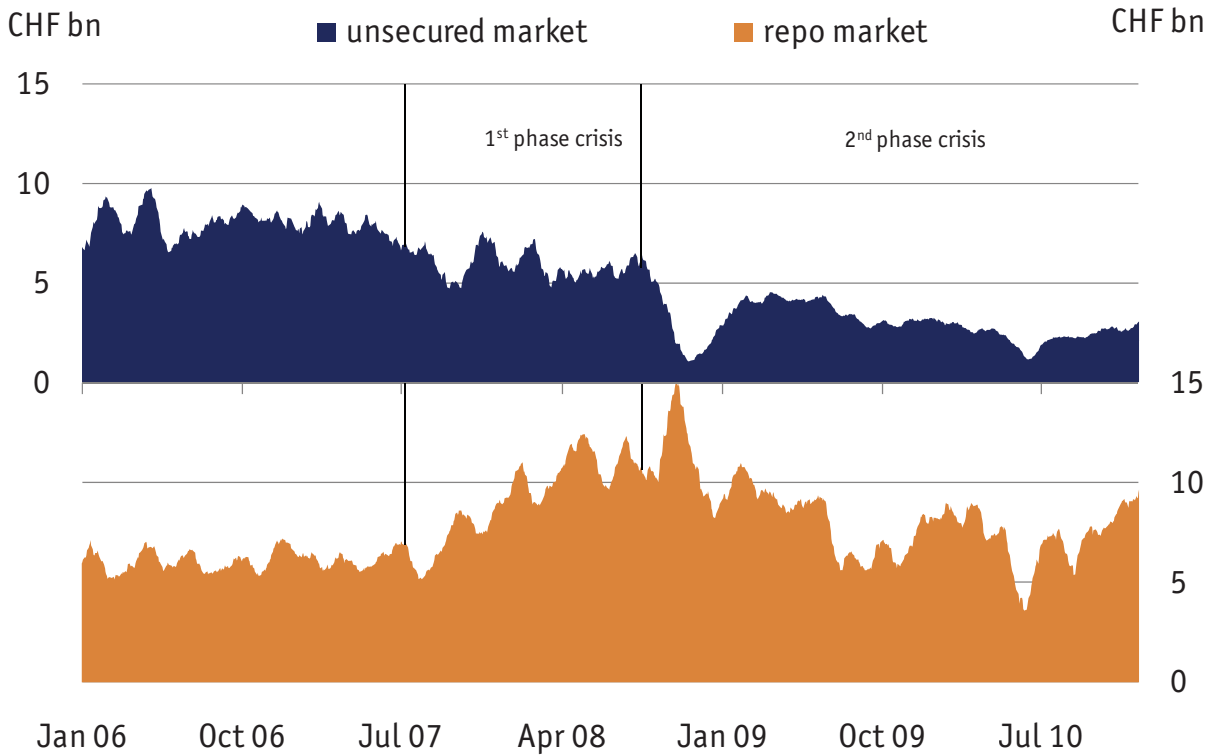
CHF Loans to Non-Banks

Country	CHF Loans*			2007 in % of total loans
	1998	2002	2007	
Hungary		1	33	31
Poland		6	31	17
Austria	17	45	84	13
Luxembourg	14	24	25	8
Greece	3	2	10	3
UK		12	24	1
Germany	21	64	60	1
France	8	13	30	1
EMU	78	163	238	1.2

* in CHF bn

Source: Brown et al. (2009)

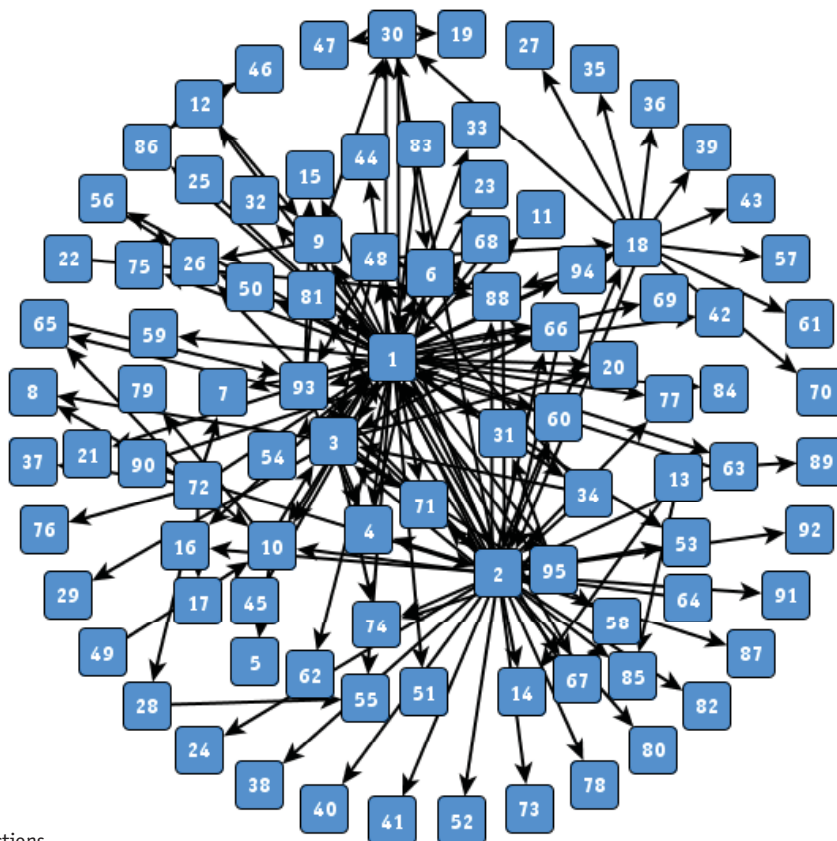
Turnover in Unsecured Interbank Market Collapses



Note: 14-day moving average; only interbank transactions

Source: SNB, Eurex

Activity May 2005



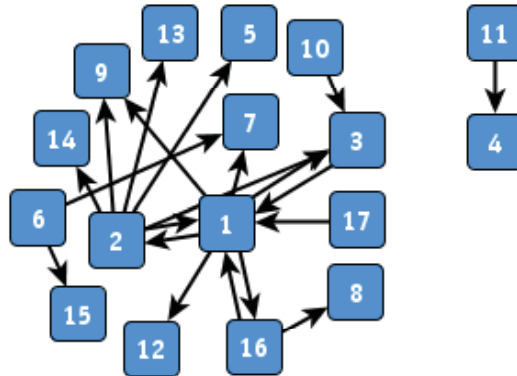
Note: Only interbank transactions

Source: SNB

Activity October 2008

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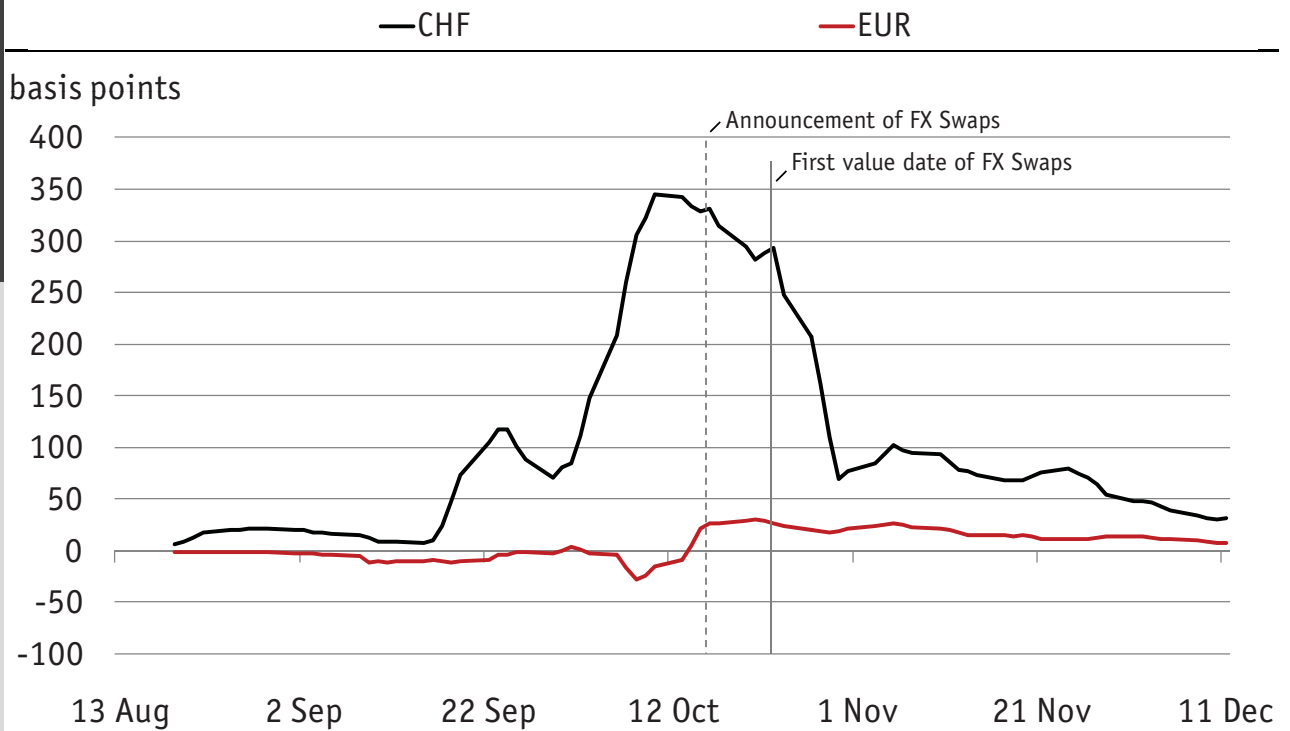
Note: Only interbank transactions

Source: SNB

Systemic CHF Shortages During the Crisis

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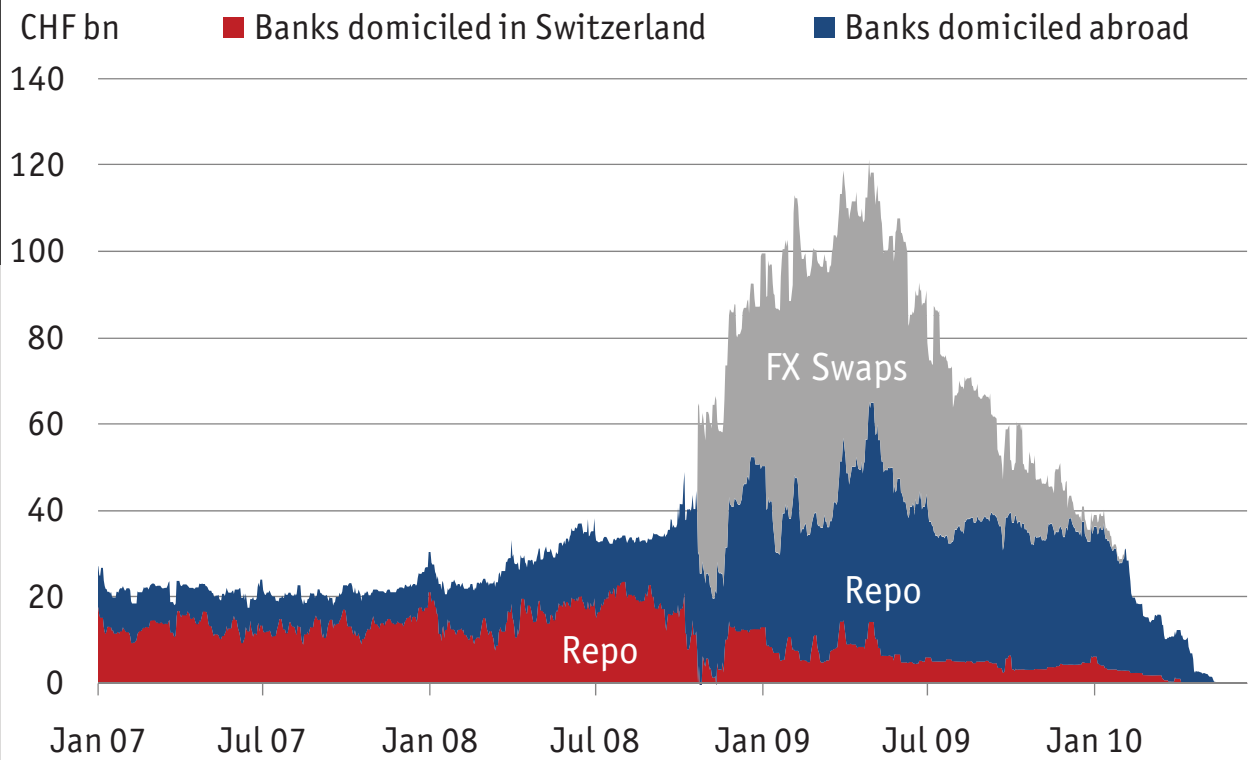
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Note: 5-day moving average; CHF unsecured rate-SARON; EUR EONIA-GCPI

Source: SNB, SWX, Bloomberg

Reanimating FX Swaps



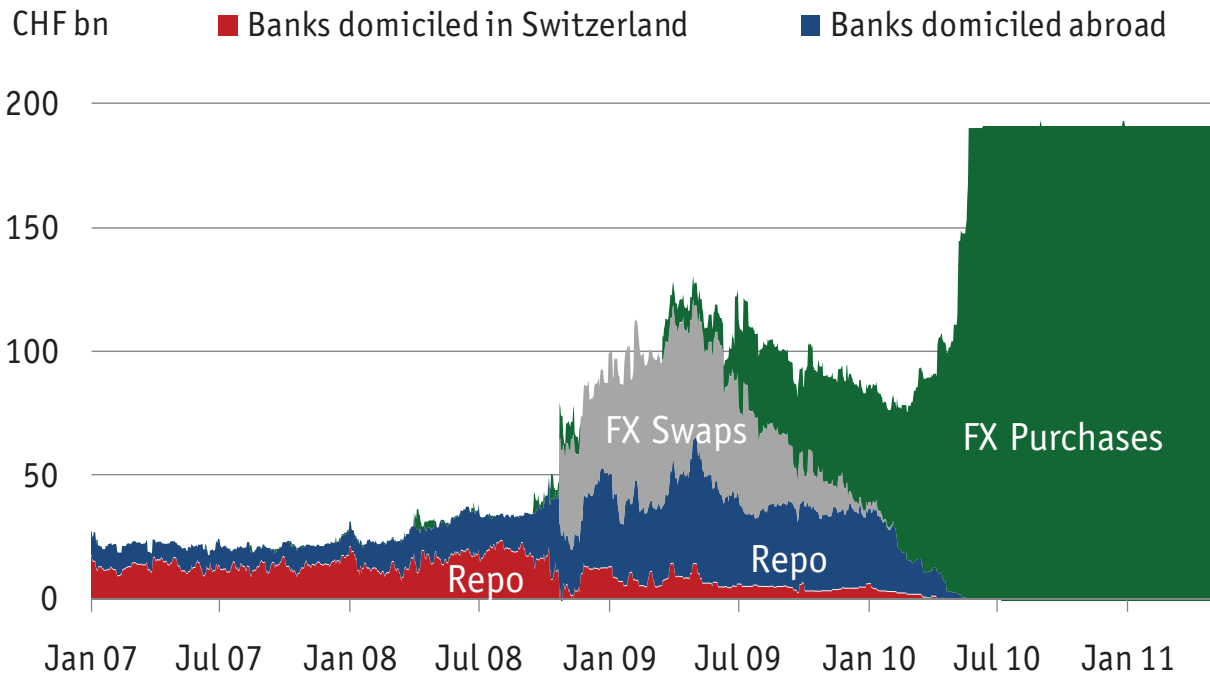
Part I: Systemic CHF Shortages: Sources and Measures

Part II: The Shift in Liquidity Provision

The Shift in Liquidity Provision

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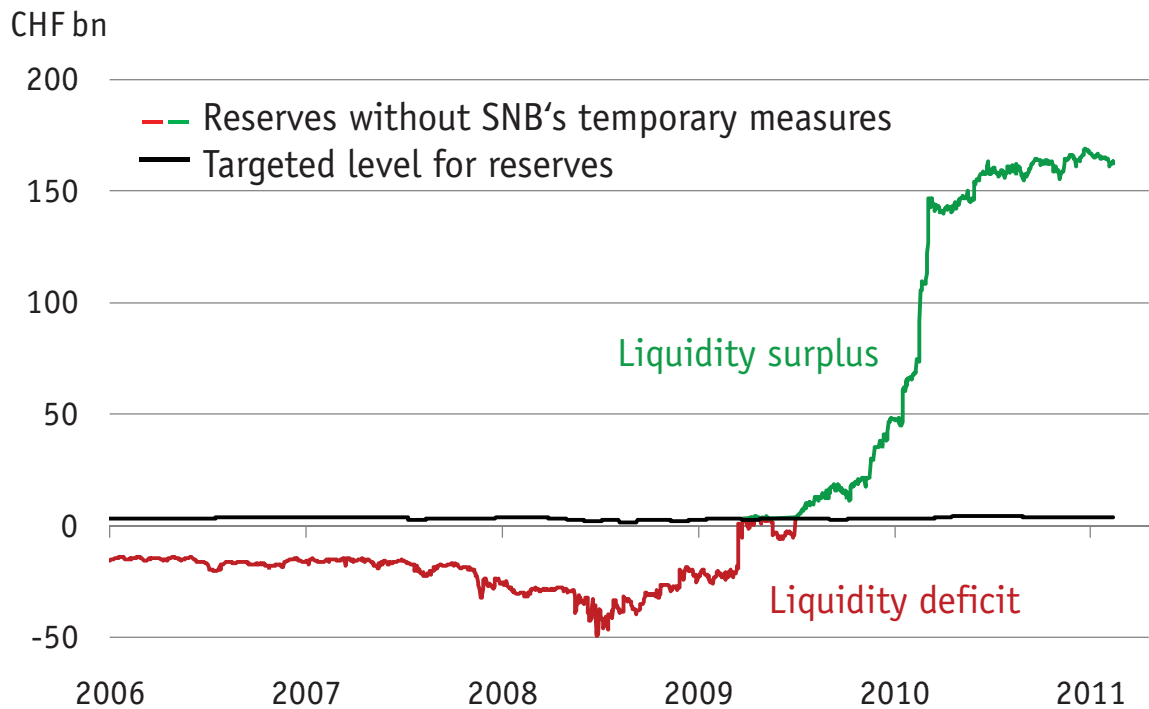


Source: SNB

New Environment for Interest Rate Steering

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Source: SNB

Instruments and Implementation

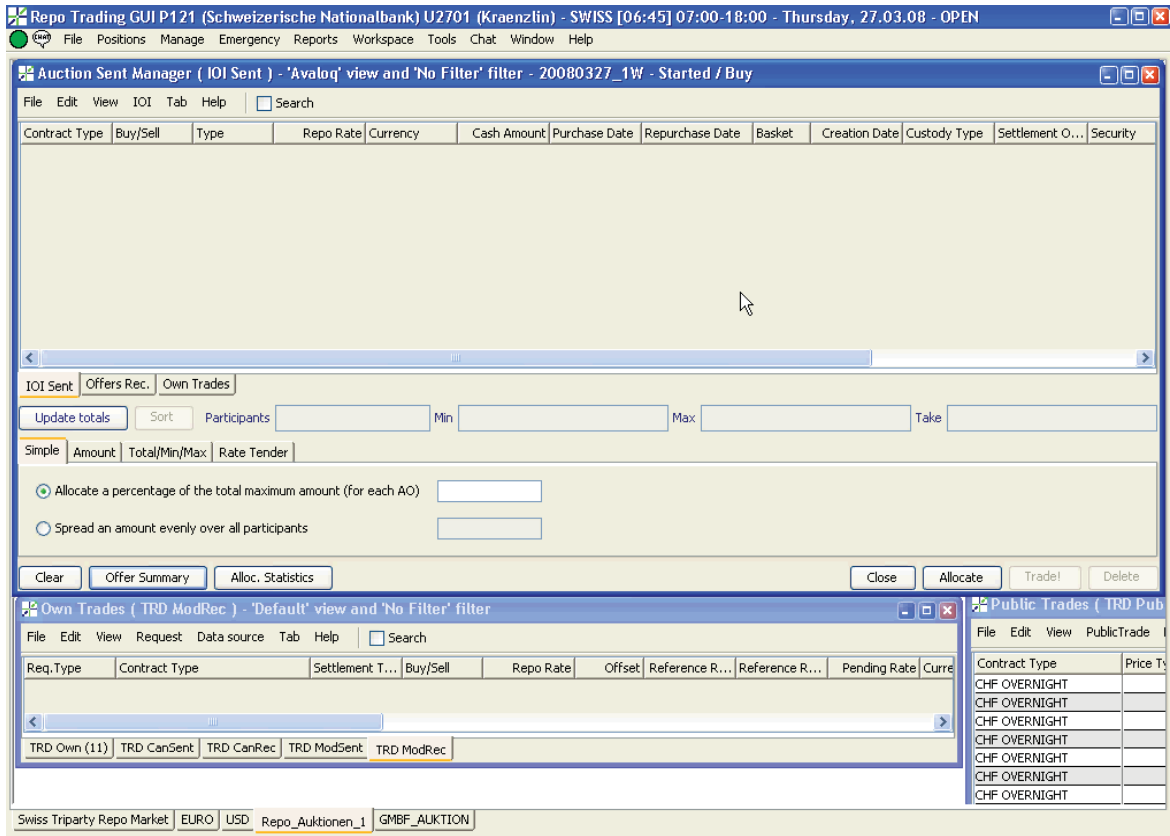
- Regular monetary policy instruments
 - Open market operations
 - Repo auctions, fine-tuning operations, issue of SNB Bills
 - Standing facilities
 - Intraday facility, liquidity-shortage financing facility

- Open access policy
 - Wide range eligible collateral (w/r to currencies)
 - Counterparties: Banks domiciled in and outside Switzerland, Swiss insurance companies

Open Market Operations: Repo Auctions

- Purpose: managing CHF 3M-Libor
- Fixed rate tender auctions (with proportional cut)
- Price and allocation amount defined by SNB (flexible)
- Maturity: 1 week
- Daily at 9 a.m. CET

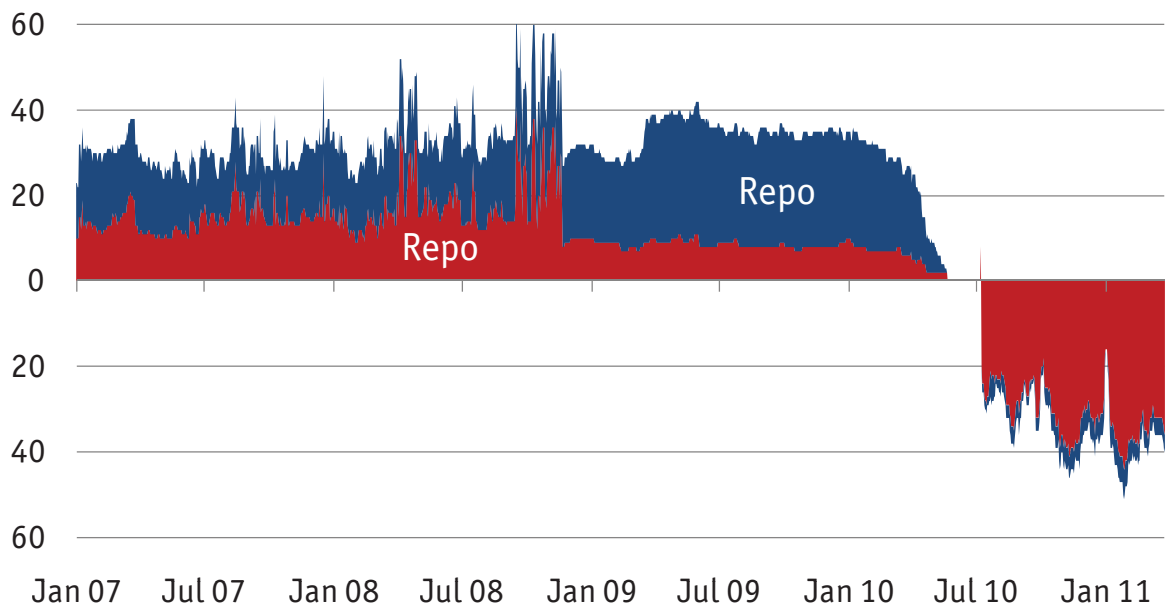
SNB's Repo Auction



Counterparties: Open Access Policy

■ Banks domiciled in Switzerland ■ Banks domiciled abroad

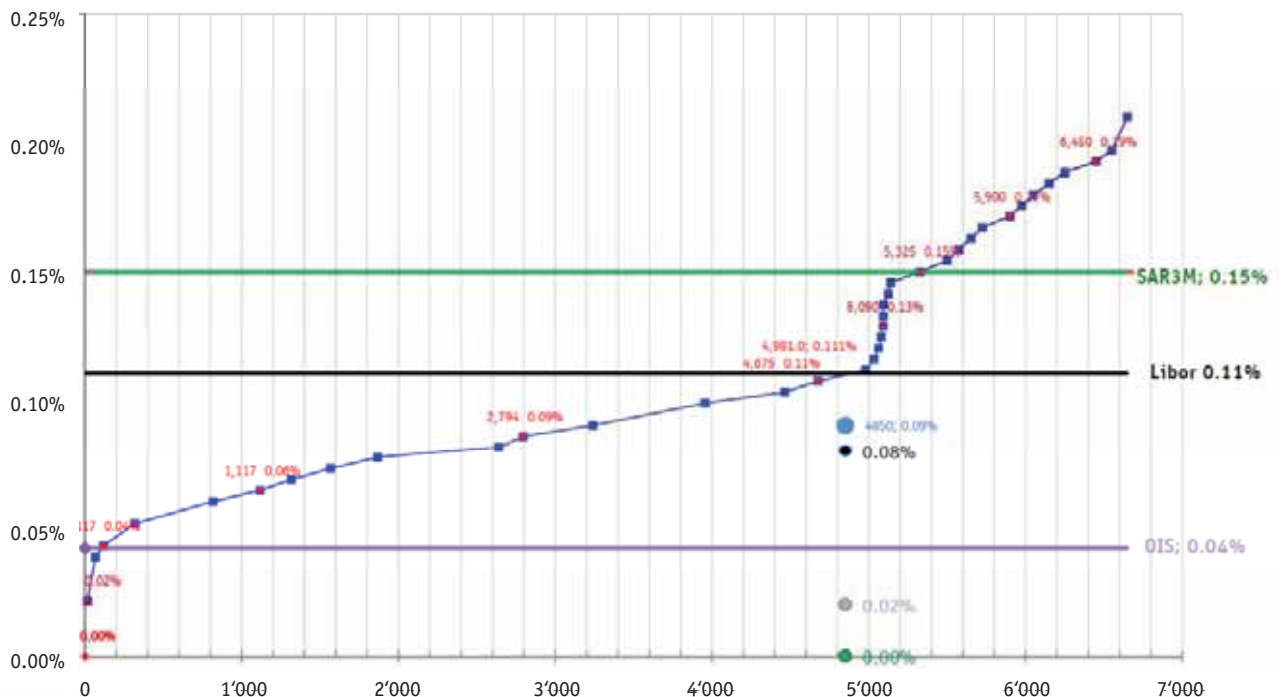
Number of Banks



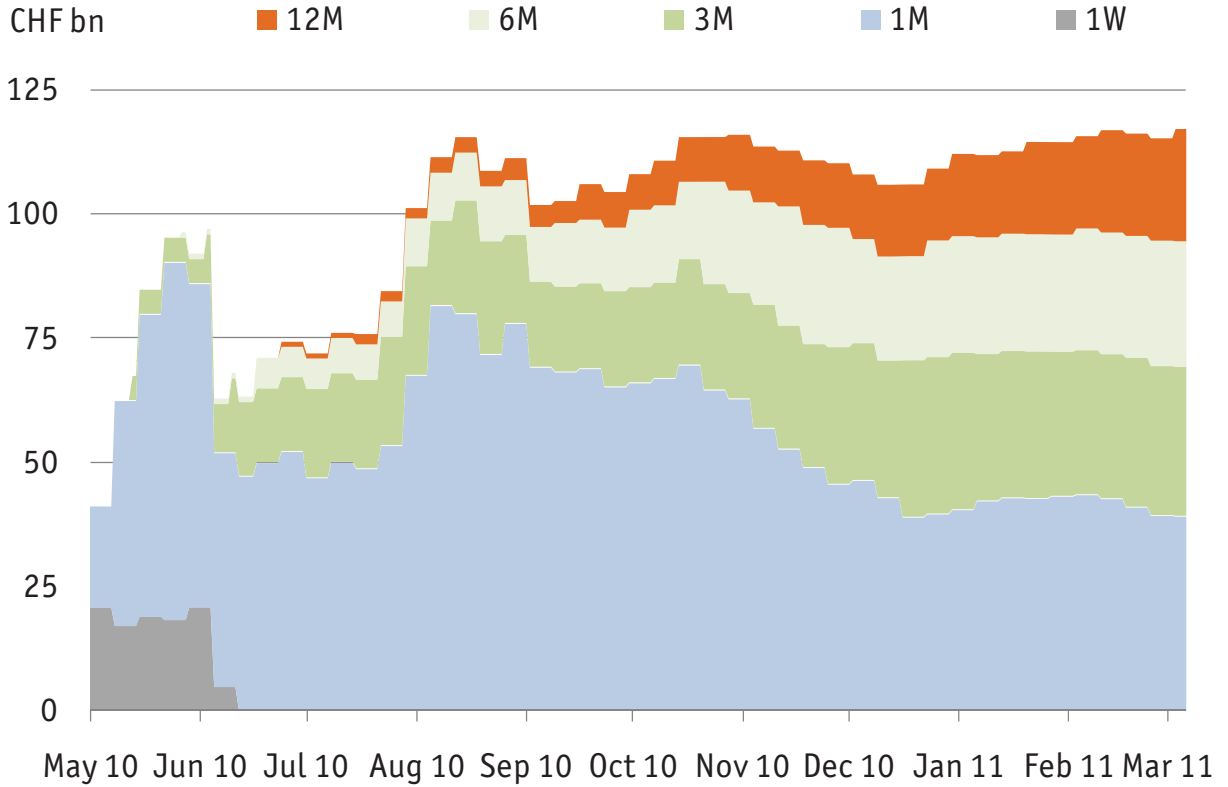
Open Market Operations: SNB Bills

- Purpose: absorbing large amounts of liquidity without interest rate signal
- Variable rate tender auction with American allocation
- Maturity: 28 days (weekly) and 84, 168, 336 days alternating
- Eligible for SNB-repos

Example: Demand for SNB Bills

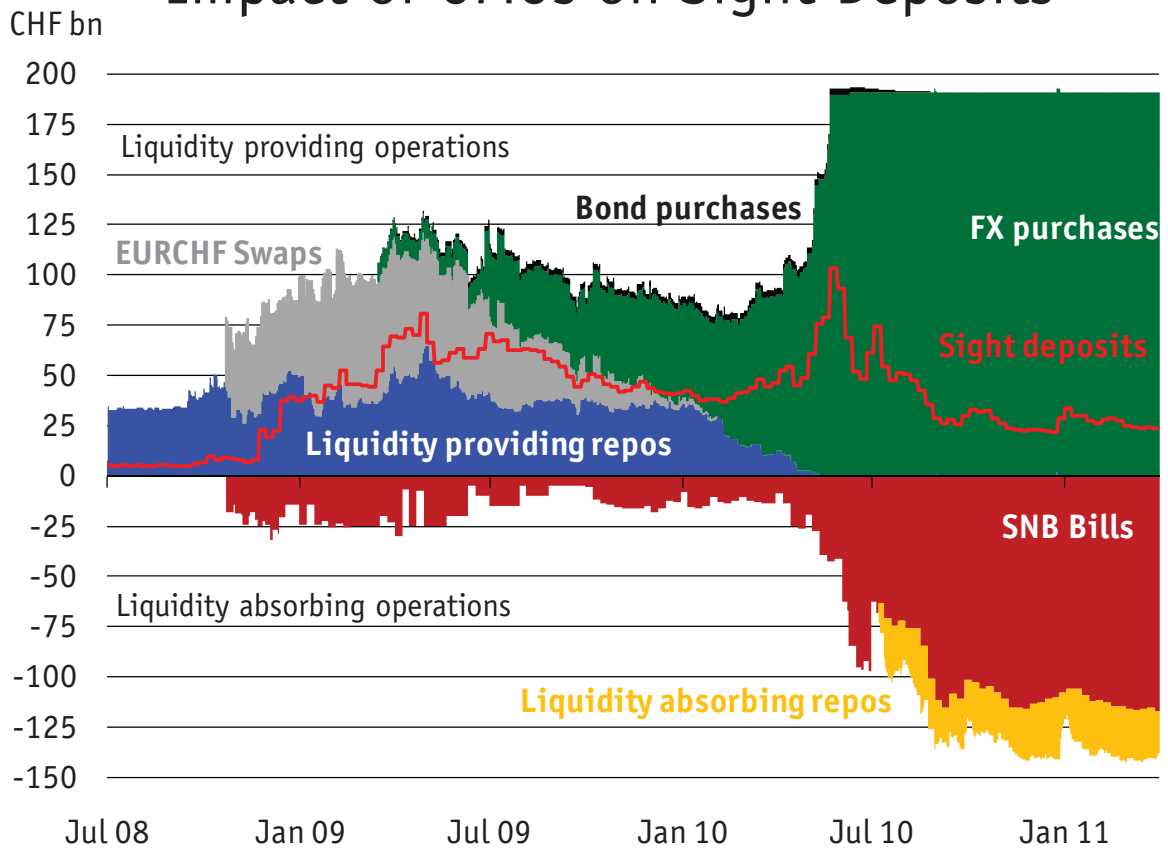


Outstanding Volume of SNB Bills



Source: SNB

Impact of OMOs on Sight Deposits



Source: SNB

Challenges

- Shift from liquidity providing to absorbing regime
- Pulling vs. pushing the rope
- Multi-instrument approach (repo and SNB Bills auctions)
- Different set of counterparties in new regime
- First experiences in new regime with monetary policy implementation are promising, but more experience needed

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