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...

Consumer loans
Mortgages in CHF

Foreign exchange market

Bank*

Maturity transformation

S: EUR
S: CHF
S: EUR
S: CHF

CHF financing possibilities

Deposits in CHF
Capital market
Money market
Interbank Market
(REPO & unsecured)

S: Spot
F: Forward
* Domiciled outside Switzerland

CHF Loans to Non-Banks

<table>
<thead>
<tr>
<th>Country</th>
<th>CHF Loans*</th>
<th>2007 in % of total loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hungary</td>
<td>1</td>
<td>33</td>
</tr>
<tr>
<td>Poland</td>
<td>6</td>
<td>31</td>
</tr>
<tr>
<td>Austria</td>
<td>17</td>
<td>45</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>14</td>
<td>24</td>
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<tr>
<td>Greece</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>UK</td>
<td>12</td>
<td>24</td>
</tr>
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<td>Germany</td>
<td>21</td>
<td>64</td>
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<tr>
<td>France</td>
<td>8</td>
<td>13</td>
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<tr>
<td>EMU</td>
<td>78</td>
<td>163</td>
</tr>
</tbody>
</table>

* 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
Systemic CHF Shortages During the Crisis

![Diagram showing CHF and EUR basis points over time]

- CHF
- EUR

- Announcement of FX Swaps
- First value date of FX Swaps

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

- CHF bn
- Banks domiciled in Switzerland
- Banks domiciled abroad

New Environment for Interest Rate Steering

- CHF bn
- Reserves without SNB’s temporary measures
- Targeted level for reserves

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

Source: SNB
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

Source: SNB
### Outstanding Volume of SNB Bills

![Graph showing the outstanding volume of SNB bills from May 10 to March 11, 2011. The graph includes lines for 12M, 6M, 3M, 1M, and 1W.](image)

**Source:** SNB

### Impact of OMOs on Sight Deposits

![Graph showing the impact of OMOs on sight deposits from July 2008 to January 2011. The graph includes lines for EUR/CHF swaps, bond purchases, FX purchases, sight deposits, SNB bills, liquidity providing operations, and liquidity absorbing operations.](image)

**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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