



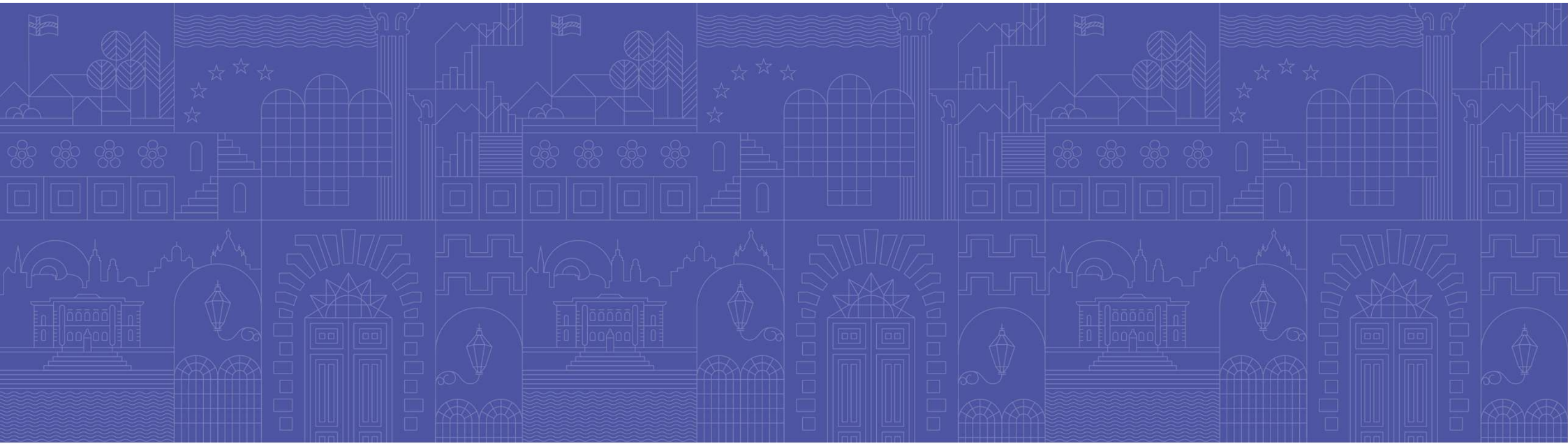
Lending out reserves with a facility & the dangers of stigma

BoF & SUERF conference on monetary policy implementation

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Introduction: Two points on rate steering

- 1. New implementation frameworks and advances in technology could prompt a rethink of how reserves are lent to counterparties**
 - Let's think outside the box a bit today!
 - Ample reserve and demand-driven regimes in particular could benefit from even more flexible provision of liquidity. This could lead to an on-demand facility
 - Facility could also expand to 24/7/365 liquidity provision for payment purposes (e.g. CBDC and instant payments)
- 2. Stigma is a profound challenge for post-crisis frameworks**
 - Not only in steady-state but in particular during transition



Fixed-rate full-allotment (FRFA) lending facility

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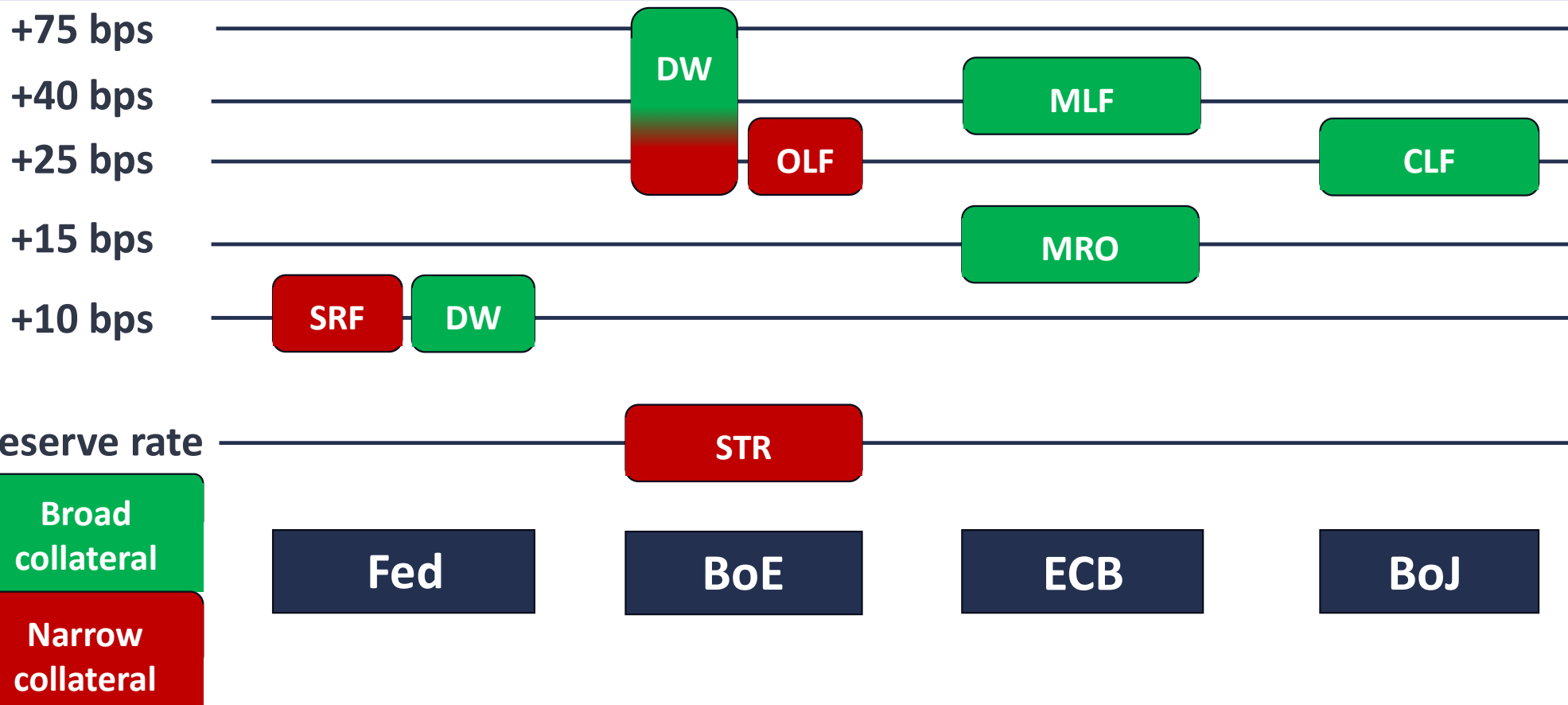
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Overview of global regular short-term liquidity provision. All provide intraday credit



What could the FRFA-facility look like?

Allotment	Maturity	Rate	Availability
Automatic "full allotment", amount continuously adjustable on-demand	Overnight open-ended, or flexibly decided by the counterparty (subject to max. maturity limit)	Refinancing rate charged daily	Open every day e.g. within payment system business hours or during a predefined time-window

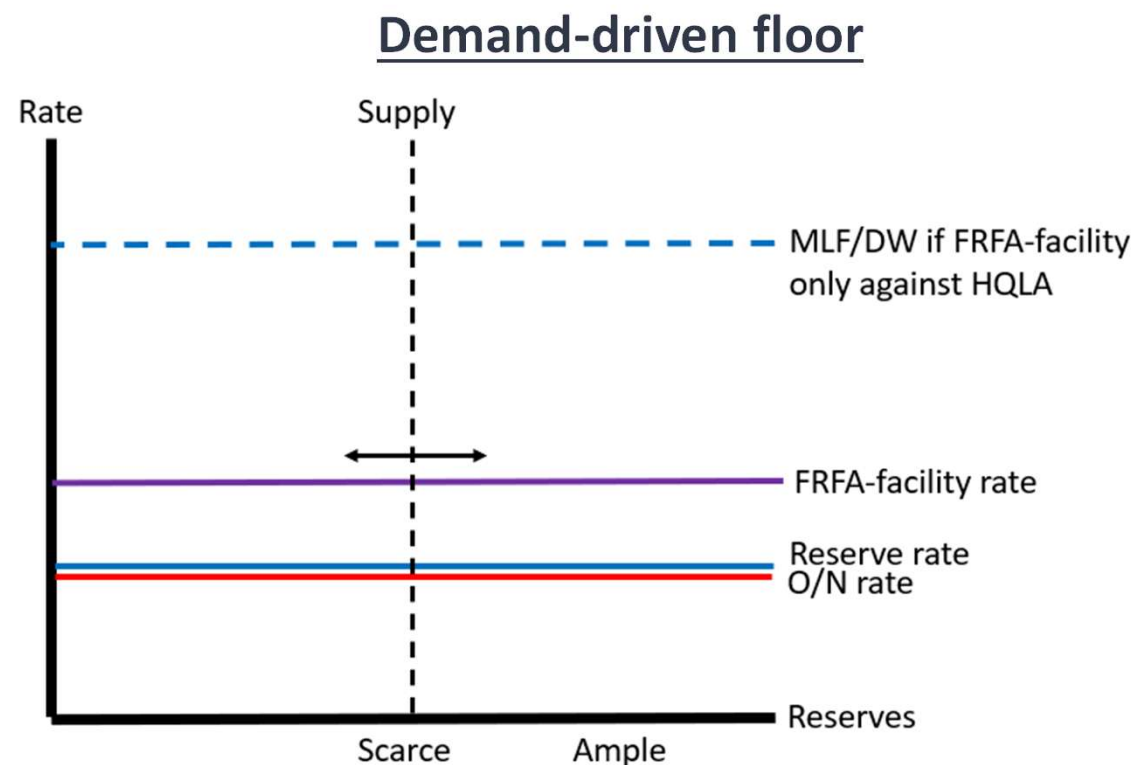
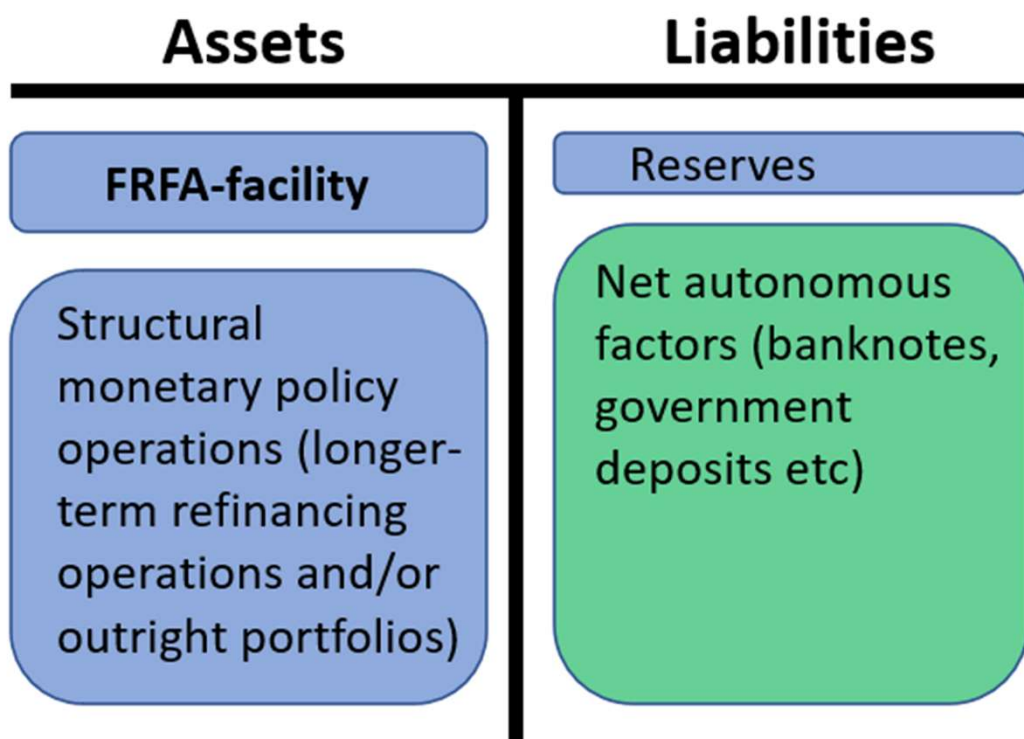
- **Other features:**

- Central banks provide technical support to counterparties
- Real-time settlement in payment system

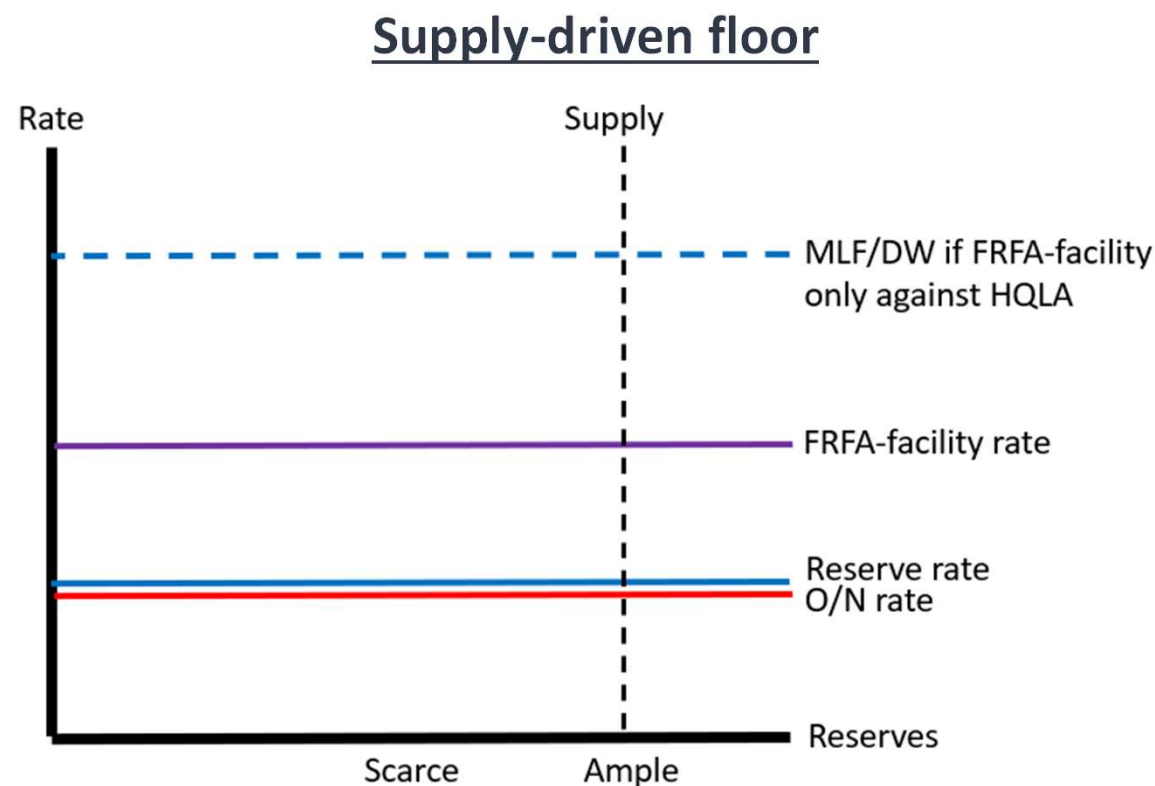
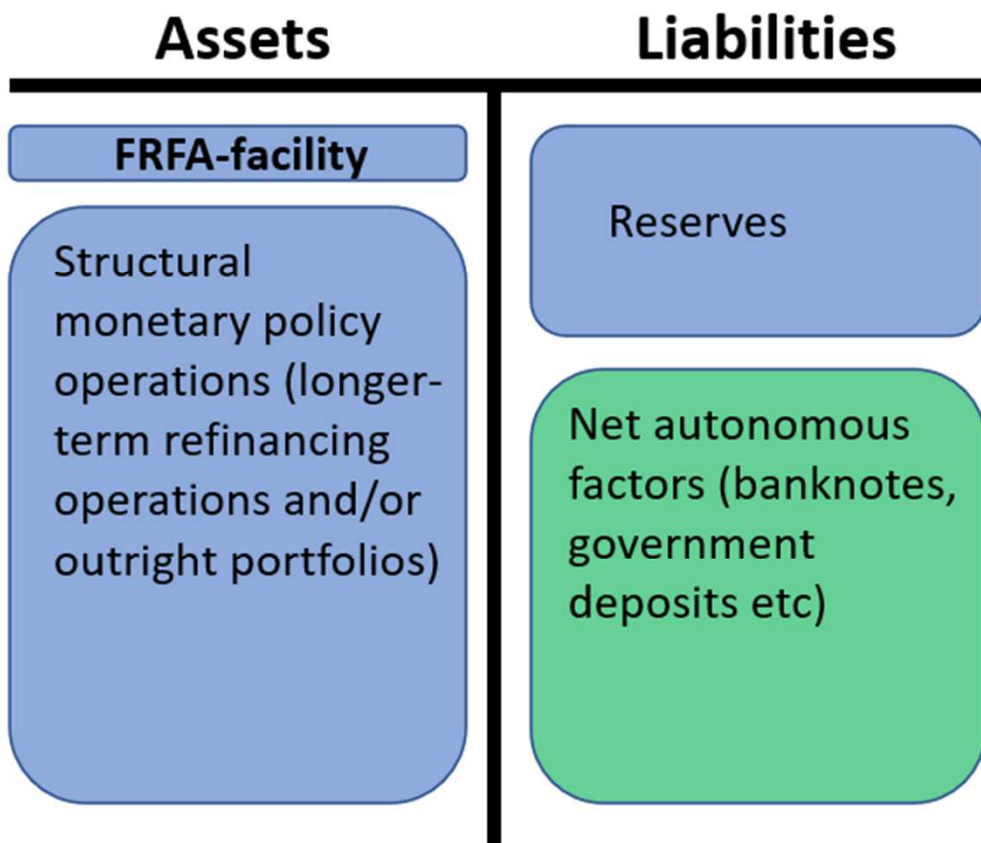
- **Integral part of design: collateral and accompanying operations**

- Can have broad collateral if intention to steer rates with a reserve rate
- Narrow collateral (e.g. HQLA) when used to steer rates towards refinancing rate
- Can be supplemented by longer-term operations against broad collateral
- In some frameworks, MLF/DW could remain to decrease stigma and provide a backstop against broad collateral if FRFA-facility has narrow collateral

FRFA-facility as marginal liquidity in a demand-driven floor



FRFA-facility as backstop in a supply-driven floor



Some pros and cons of the FRFA-facility

Pros

Ultimate **rate steering capability** in (narrow) corridor if market for reserves closely aligned with refinancing operations via similar collateral pool (e.g. HQLA)

Ultimate **flexibility** in demand-driven floor

Effective backstop in a supply-driven floor

Very **resilient** against liquidity shocks

Simplifies operational framework and **decreases** operational burden

Cons

High **central bank intermediation**, crowding out interbank market

Operational changes in payment systems for settlement and publication

However, this also means...

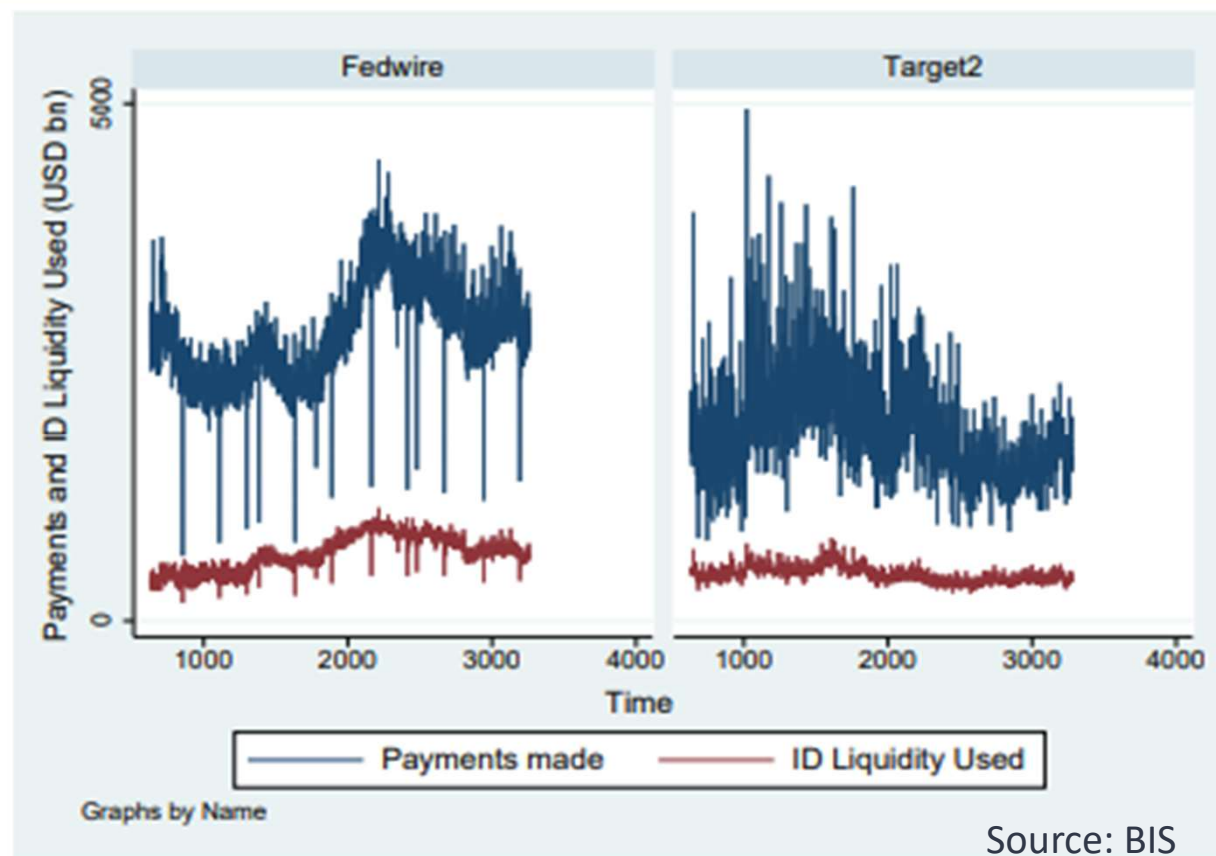


1. **The leanest-possible balance sheet** due to low reserve-buffer demand
2. Provides a **solution for uncertainty** about 1) reserve demand and 2) interbank market functioning
3. With HQLA-collateral, **low risk and market distortion, no regulatory arbitrage**

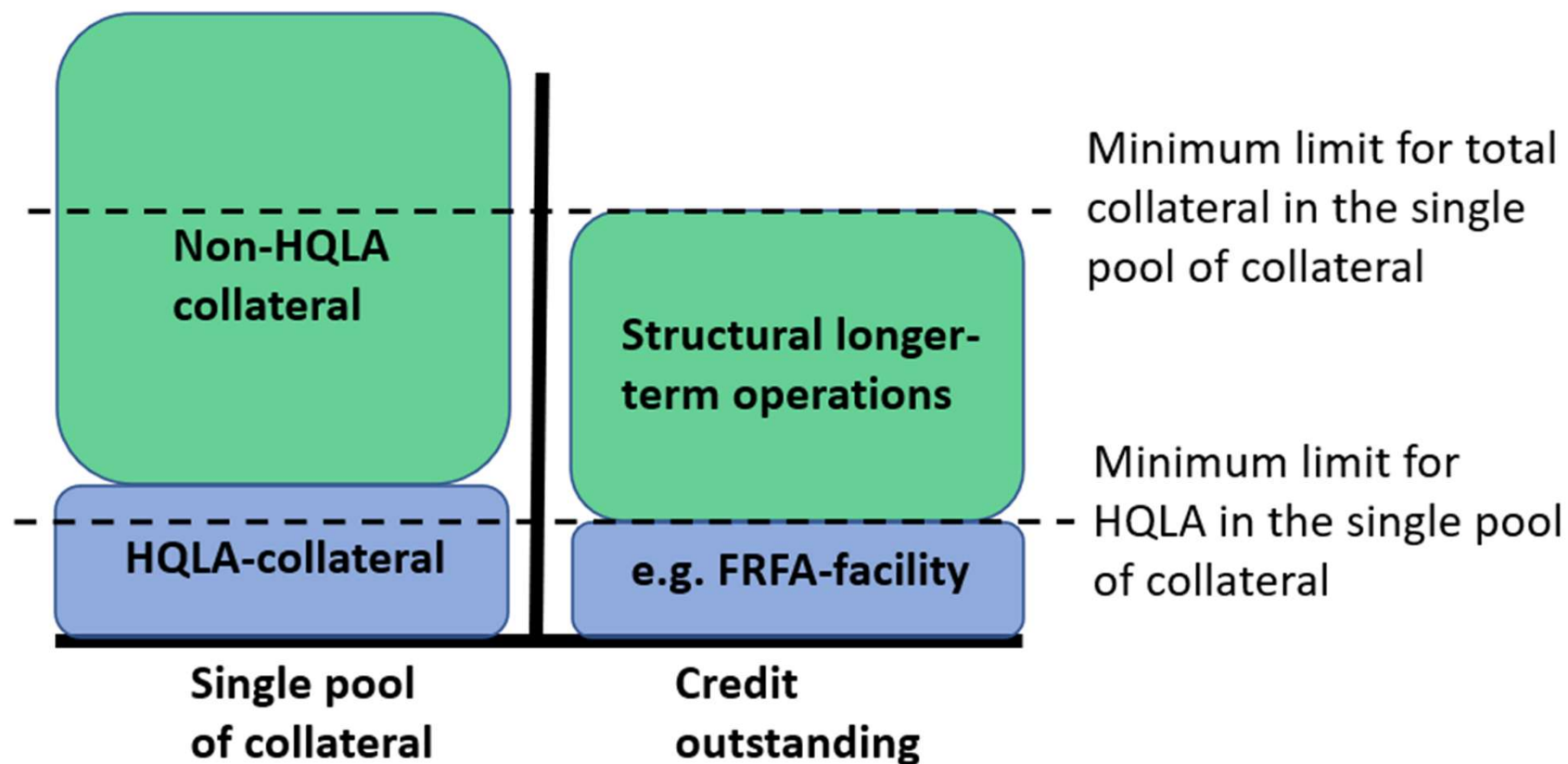
N.B. Further work on interaction of FRFA-facility with liquidity regulation, market for collateral and MM-rates would be useful

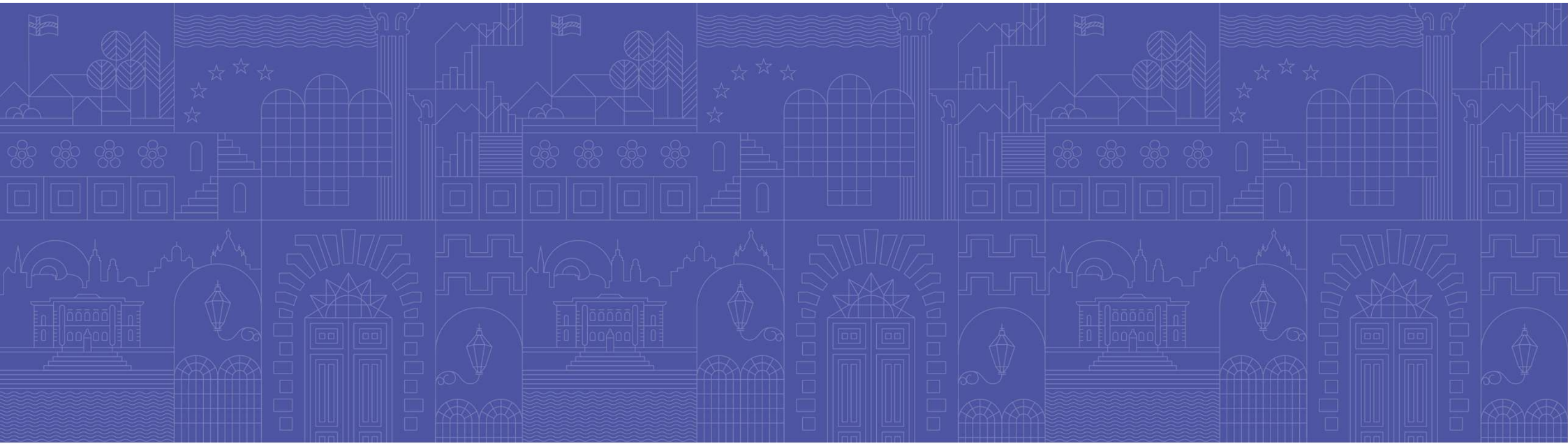
Provision of liquidity in 24/7/365 landscape of payments

- **Extension of payment system operating hours** (instant payments, CBDC and possible cross-border connectivity) will increase need for liquidity buffers
 - Should the provision of liquidity also develop to respond to these changes and how?
- **As reserves are reduced** the questions around managing liquidity for payment system purposes are also becoming more pertinent
- **FRFA-facility could help** with these issues also:
 - No need to maintain large reserve buffers ex-ante
 - Could also be used to increase reserve balances intraday if needed
 - The SNB will provide Payment System Support Facility (PSSF) as of 2027. PSSF is available 24/7/365 on a secured basis at any time



Pool limit can achieve tiering within single pool of collateral





Stigma

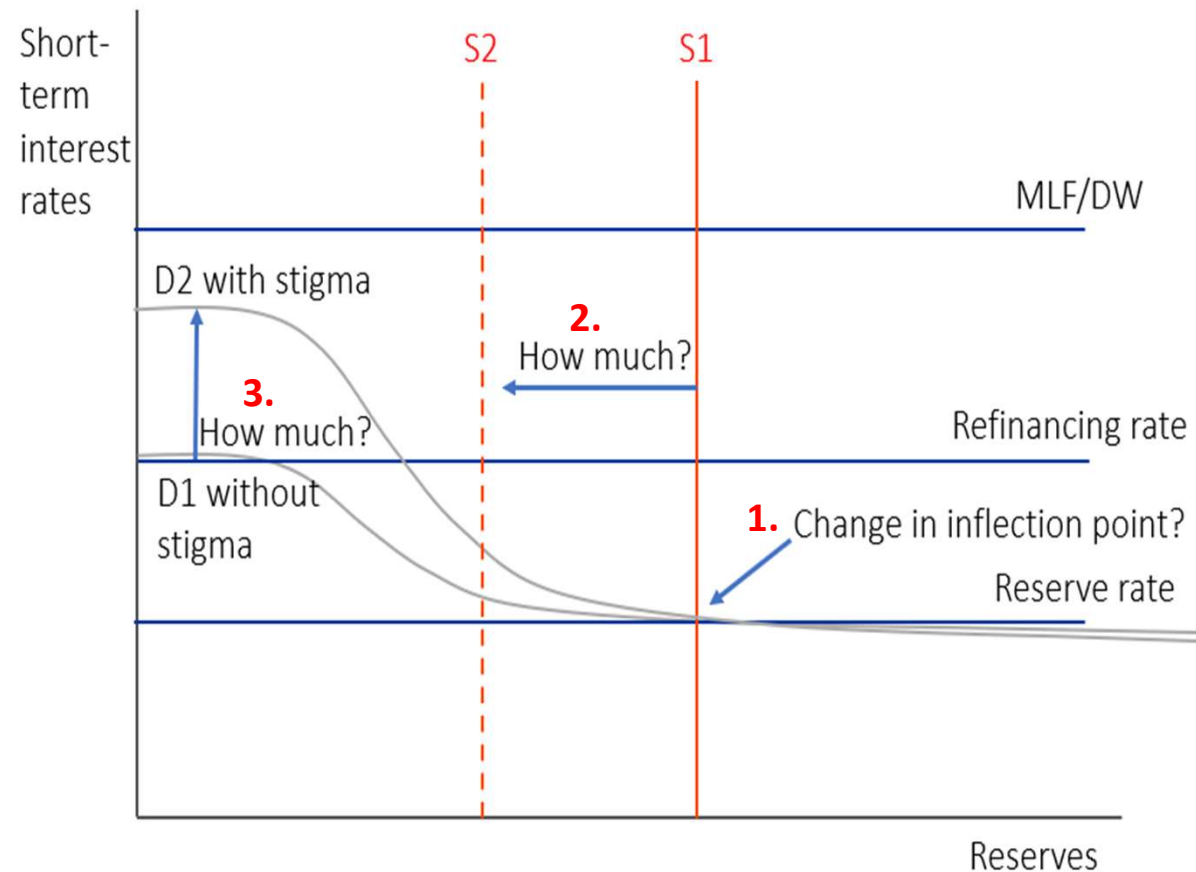
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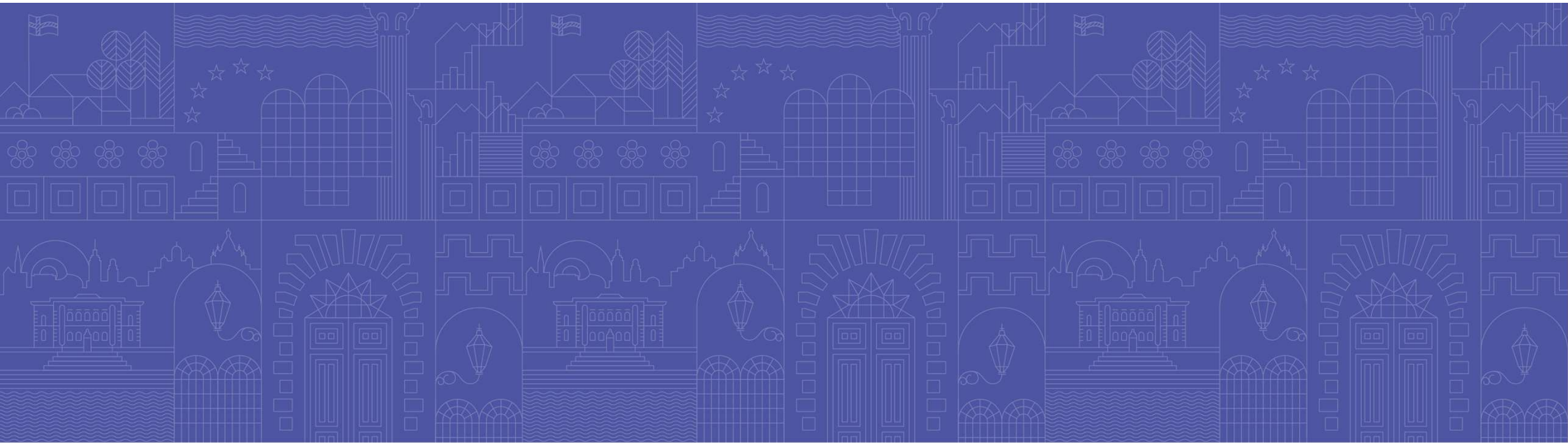
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Stigma in credit operations would be a challenge especially in the new operational frameworks

- There is probably at least **some stigma** in liquidity-providing central bank operations
 - In the euro area, uneven distribution of excess liquidity and fragmentation in funding markets increases the risk of stigma
- **Stigma is a challenge** for rate steering especially in a demand-driven floor
 - Rates can deviate from reserve rate and be volatile. The "ceiling" may not be effective in capping rates
 - hampers transmission and has costs
- **Stigma is hard to cure**
 - Communication and certain calibration of parameters may help





Thank you!

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