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# Annex A to the minutes

DATE: 21 April 2020  
Monetary Policy Department, Markets Department  
DEPARTMENT and Financial Stability Department

## Municipal bond purchases for monetary policy purposes

### Decision by the Executive Board

The Executive Board decides

1. that the Riksbank, between 27 April and 30 June 2020, shall purchase bonds issued by Swedish municipalities and regions and by Kommuninvest i Sverige AB to a total nominal amount of SEK 15 billion, in accordance with what is stated in the annex,
2. to instruct the Head of the Markets Department, with the right to delegate this task to another person, and after consultation with the Head of the Monetary Policy Department and the Head of the Financial Stability Department, with the right for them to delegate this task to another person, to determine the exact times for the auctions within the framework of this purchasing programme and offered amounts at each auction, and determine the more precise details regarding the terms for, and information on, the Riksbank's bond purchases, and
3. to publish the decision on Wednesday 22 April 2020 at 09.30.

### Background

The corona pandemic is having widespread humanitarian consequences and is affecting the global and the Swedish economy to a great extent. Governments the world over have introduced different types of measures to limit the spread of the infection. Concern about the pandemic has also led to self-imposed restrictions among households and companies. The measures have led to significant declines in turnover for many companies, not least in the service sector, and the number of corporate bankruptcies has increased. Many companies have furloughed their staff and the number of redundancy notices has risen dramatically since mid-March.

The developments have been reflected in considerable fluctuations on the financial markets. Equity prices have fallen and yield spreads between risky and safe bonds have

increased. There are clear signs that liquidity and market functionality have deteriorated both in Sweden and abroad, that credit supply in the economy has worsened, and that credit has become more expensive. This risks further aggravating the already serious downturn in the economy, with prolonged negative consequences for output and employment in Sweden as a result. It would also make it more difficult for the Riksbank to achieve its price stability target.

## Considerations

To keep monetary policy expansionary, provide support to the economy and support credit supply broadly in the Swedish economy, the Executive Board decided on 16 March 2020 to purchase bonds in the period March–December 2020 to a total nominal amount of up to SEK 300 billion. The decision covers purchases of government bonds, bonds issued by Swedish municipalities and Kommuninvest i Sverige AB, and covered bonds issued by Swedish institutions. On 19 March 2020, the Executive Board decided that during the same period, within the bond-purchasing programme, the Riksbank shall also purchase bonds and commercial paper issued by Swedish non-financial corporations. The extended government bond purchases were initiated on 18 March, the purchases of covered bonds began on 25 March, and the purchases of commercial paper started on 2 April 2020. The purchases of government bonds made within the scope of this bond-purchasing programme are over and above the purchases of government bonds during the period July 2019–December 2020, which the Executive Board decided on in April 2019.

In light of the serious downturn in the economy and the continued large uncertainty over economic developments, it is appropriate for the Riksbank, between 27 April and 30 June 2020, and as a next step in the adopted bond-purchasing programme, to purchase bonds issued by Swedish municipalities and regions and by Kommuninvest i Sverige AB to a nominal amount of SEK 15 billion.

The aim of the bond purchases is to help to keep general interest rates at a low level and to safeguard the monetary policy transmission mechanism. This will in turn keep monetary policy expansionary, lending support to the economy. To achieve this aim, it is important that the purchases have a broad impact on interest-rate setting in the municipal bond market. The purchases shall be implemented in a market-neutral way, and be based on objective criteria and the equal treatment of issuers. This enables the Riksbank's holdings of municipal bonds over time to reflect the outstanding stock of bonds with regard to, for example, issuer, maturity and credit rating. The purchases from April to June 2020 only include fixed-coupon bonds. Any purchases after that may also include floating-rate notes.

The purchases of municipal bonds shall be made on the secondary market. They shall also take place in the form of a bidding procedure in which the Riksbank's monetary policy counterparties can participate. In this way, the pricing and allocation of the Riksbank's transactions will be transparent to the market. Moreover, the bidding procedure is an appropriate way of effectively implementing the current monetary policy measures, taking into account the prevailing market conditions.

It is the responsibility of the Head of the Markets Department, with the right to delegate to another person, to determine the exact times for the auctions and the offered

amounts, determine the choice of bidding procedure on these occasions, and determine the more precise details regarding the terms for, and information on, the bond purchases. The decisions shall be taken after consultation with the Head of the Monetary Policy Department and the Head of the Financial Stability Department, with the right for them to delegate to other persons.

The Riksbank's measures normally have several different, and partly uncertain, consequences for the economy and the Riksbank's own finances. The benefits of the respective measures therefore have to be weighed against their potential drawbacks and risks. All purchases of securities involve some operational risks and greater financial risk for the Riksbank. The municipal bond purchases are considered to increase financial risk only to a limited extent. The Riksbank considers there to be a high level of risk awareness and an effective approach to risk management in operations. The increased risk level is therefore manageable for the Riksbank.

These purchases are part of the bond-purchasing programme adopted on 16 March 2020 and that runs until the end of December 2020. They are justified in terms of monetary policy as described above, pursuant to Chapter 6, Article 5 of the Sveriges Riksbank Act (1988:1385). The municipal bond purchases are judged to be compatible with the appropriate provisions regarding monetary financing, cf. the European Court of Justice's decisions on 16 June 2015 in the case C-62/14 Gauweiler and others and on 11 December 2018 in the case C-493/17 Weiss and others.

Economic developments and the situation on the financial markets, in both Sweden and other countries, remain very uncertain. Given this, the Riksbank is prepared to take further measures and to supply the necessary liquidity, even between ordinary monetary policy meetings. All the Riksbank's tools can be put to use. How the tools will be used depends on future developments.

## Annex

Facts about the Riksbank's purchases of bonds issued by Swedish municipalities and regions and by Kommuninvest i Sverige AB to be made during the period 27 April–30 June 2020 in accordance with the applicable general terms and conditions.

Total nominal amount:	SEK 15 billion.
Type of security:	Bonds issued by Swedish municipalities and regions and by Kommuninvest i Sverige AB.
Announcement of more detailed terms for purchases:	Special terms and conditions are normally published at least 2 days prior to each bidding procedure.
Form of purchase:	Bidding procedure.
Eligible bidders:	Riksbank monetary policy counterparties authorised to participate as bidders in accordance with applicable general terms and conditions.
Form of bid:	Bids on interest rate and volume.
Allocation:	Normally no later than 30 minutes after the final time for submitting bids.
Payment and delivery:	<p>Shall be made the second banking day after the auction concerned in Euroclear Sweden's or Euroclear Bank's securities settlement system.</p> <p>The counterparty is obliged to ensure that the bonds supplied to the Riksbank by the counterparty have not been obtained from the issuer to fulfil delivery.</p>
General terms and conditions:	General terms and conditions will be published on the Riksbank website no later than 24 April 2020.