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Annex to the minutes B

DATE: 25 November 2020
DEPARTMENT: Markets Department, Monetary Policy Department and Financial Stability
Department

Programme for the Riksbank's asset purchases for monetary policy purposes in 2021

Decision by the Executive Board

The Executive Board decides

1. that the Riksbank's programme for purchasing assets for monetary policy purposes will be extended to 31 December 2021, and shall include purchases of securities issued in Swedish krona to a total nominal amount of up to SEK 700 billion,
2. that the Riksbank within the scope of this programme, in addition to offering to purchase from monetary policy counterparties bonds issued in Swedish krona by Swedish non-financial corporations pursuant to the decision on 30 June 2020, between 1 January and 31 March shall
 - a. purchase Swedish nominal and real government bonds and Swedish sovereign green bonds to a total nominal amount of SEK 13.5 billion,
 - b. purchase Swedish treasury bills to a total nominal amount of SEK 10 billion,
 - c. purchase bonds issued by Swedish municipalities and regions and by Kommuninvest i Sverige AB to a nominal amount of SEK 23.5 billion, which may also include purchases of green municipal bonds,
 - d. purchase covered bonds issued by Swedish institutions to a nominal amount of SEK 70 billion, and
 - e. offer to purchase from monetary policy counterparties commercial paper issued in Swedish krona by Swedish non-financial corporations to such a nominal amount that the Riksbank's holdings in commercial paper acquired within the scope of the asset purchase programme during the purchase period considered in this decision at each time of purchase do not exceed SEK 32 billion,

3. that the Riksbank when purchasing corporate bonds with effect from January 2021 shall only offer to purchase bonds issued by companies deemed to comply with international standards and norms for sustainability,
4. to give the Head of the Markets Department the task of determining, with the right to delegate this to another, after consultation with the Head of the Monetary Policy Department and the Head of the Financial Stability Department, with the right for each of these department heads to delegate this task to another, the exact date of and offered amounts at each auction and purchase offer, and on the details regarding terms and conditions for, and information on, the Riksbank's purchases of government bonds, treasury bills, municipal bonds, covered bonds, commercial paper and corporate bonds,
5. that the Head of the Markets Department shall at least once every second month also consult with the Executive Board prior to decisions on the exact dates of and amounts offered at auctions and purchase offers and on the details regarding terms and conditions for, and information on, the Riksbank's purchases of commercial paper to be made until the next consultation, and
6. to publish this decision on Thursday, 26 November 2020, at 9.30 am.

Background

As part of the Riksbank's measures to counteract the effects of the coronavirus pandemic on the Swedish economy, the Executive Board decided in March 2020 that the Riksbank would during the period March–December 2020 purchase bonds to a total nominal amount of up to SEK 300 billion (ref.nos. 2020-00373 and 2020-00397). This purchase programme includes purchases of government bonds, bonds issued by Swedish municipalities and regions and Kommuninvest i Sverige AB, covered bonds issued by Swedish institutions and bonds and commercial paper issued by Swedish non-financial corporations.

The Riksbank's measures have contributed to developments on the financial markets gradually stabilising, resulting in lower interest rates and better functionality. This has enabled robust companies to ensure their financing during the crisis. However, it was assessed at the beginning of the summer that the economic situation could rapidly deteriorate further and require continued support from the Riksbank. The Executive Board of the Riksbank therefore decided on 30 June 2020 to extend the purchase programme until 31 June 2021 and to expand the total nominal purchase amount to up to SEK 500 billion (ref.no. 2020-00744).

Up to 23 November 2020, the Riksbank has purchased within the scope of this programme government bonds for SEK 38.5 billion, municipal bonds for SEK 35.0 billion, covered bonds for SEK 189.0 billion, commercial paper for SEK 11.7 billion and corporate bonds for SEK 1.8 billion. These purchases follow the Executive Board's decision of 30 June 2020 on the allocation of the extended purchase programme between different types of asset up to 31 December 2020.

On 31 August 2020, in connection with the decision regarding the method for the Riksbank's purchases of corporate bonds (ref.no. 2020-00861), the Executive Board stated that climate change and other sustainability aspects comprise financial risks that

can ultimately constitute a threat to macroeconomic stability and price stability. At the same time, the Executive Board announced that the Riksbank, taking into account the requirements imposed by its tasks, might in future take sustainability into account when choosing corporate bonds within the scope of the asset purchase programme. In accordance with this stance, the Executive Board returns in this decision to the issue of principles regarding the integration of sustainability considerations into the Riksbank's purchases of corporate bonds.

Considerations

The coronavirus pandemic is continuing to dominate developments in the global economy. In recent months, a second wave of infection has hit many countries and tighter restrictions have been reintroduced. This shows the extent of uncertainty that the global economic recovery is still facing and means that the conditions for this recovery have deteriorated. The Riksbank has therefore revised down the forecasts for growth in the coming six months, both internationally and in Sweden, and the inflation outlook for the coming years is also assessed to be a little weaker.

The various measures implemented by the Riksbank since the spring to counteract the negative effects of the pandemic are helping to ensure that the interest rates charged to households and companies are kept low and that the credit supply functions. However, the situation on the financial markets remains sensitive and dependent on the countries' very extensive economic policy measures. The fact that the spread of infection has also picked up again entails a setback for the recovery, and risks leading to interest rates rising rapidly and the credit supply deteriorating. This can in turn lead to long-term lower output and employment in Sweden, which can make it more difficult to attain the price stability target.

To counteract the economic downturn and facilitate the recovery, the monetary policy thus needs to be made even more expansionary over the coming year. It is therefore important that the Riksbank continues to support the Swedish economy by purchasing assets, and does so over a longer period of time and to a greater extent and at a faster pace than was previously anticipated.

Extended programme for asset purchases

The Riksbank's programme for asset purchases helps to hold interest rates at low levels and fosters market functionality. This gives participants in society better financing possibilities, which is important to the recovery of the Swedish economy. The fact that the increased spread of infection in Sweden and abroad is expected to result in a new economic slowdown justifies extending the programme until 31 December 2021 and expanding it by SEK 200 billion to a total nominal amount of up to SEK 700 billion.

With effect from January 2021, the programme shall also include purchases of Swedish treasury bills. For treasury bills to be eligible for purchase within the framework of the programme, they must be tradeable debt instruments and have a remaining time to maturity of at least 70 days at the time of purchase. The purchase programme is thus assessed to be able to have the broadest possible impact on interest rate-setting given the current market conditions.

By expanding the purchase programme in this way, it will become clear that the Riksbank will provide extensive monetary policy support as long as is necessary. At the same time, the prevailing uncertainty makes it particularly important for the Riksbank to maintain a high degree of flexibility and adapt monetary policy according to the current needs so that interest rates in the economy do not rise in an unsustainable manner and the financial conditions do not worsen. The exact purchase amounts at the time of the respective auction or purchase offer are therefore not to be established very far in advance, but shall be determined regularly on the basis of an ongoing analysis of economic developments. This makes it possible to adapt the purchase amount and the allocation of the purchases between types of asset as effectively as possible with consideration to the up-to-date assessment of what comprises the best monetary policy stimulus at each given time. The extension and expansion of the asset purchase programme through this decision means that the Swedish economy is expected to receive the necessary support from monetary policy next year.

Further purchases of assets during the first quarter of 2021

According to the assessment of the need to maintain an expansionary monetary policy prevailing at the time of this decision, the Riksbank should continue to purchase assets between 1 January and 31 March 2021. The increased spread of infection during autumn 2020 and the setback to the recovery this entails justify that the purchases during the first quarter of 2021 should be made at a faster pace than applies to the purchases during the second half of 2020.

It is therefore appropriate that during this period the Riksbank should purchase nominal and real Swedish government bonds and the Swedish sovereign green bonds for a total nominal value of SEK 13.5 billion, Swedish treasury bills for a total nominal amount of SEK 10 billion, bonds issued by Swedish municipalities and regions as well as Kommuninvest i Sverige AB for a nominal amount of SEK 23.5 billion, and covered bonds issued by Swedish institutions for a nominal amount of SEK 70 billion. In addition, the Riksbank shall offer to buy commercial paper issued in Swedish krona by Swedish non-financial corporations to such an extent that the Riksbank's total holdings of these securities at each time of purchase do not exceed SEK 32 billion. Within the amount allocated for purchase of municipal bonds, the Riksbank may also purchase green bonds issued by Swedish municipalities and regions and Kommuninvest i Sverige AB.

For the Riksbank to ensure that these purchases have a broad impact on interest rate-setting, they should continue to be made in a market-neutral way and through a bid procedure on the secondary market in accordance with the instructions in the decision on purchases of government bonds dated 27 April (ref.no. 2020-00380), covered bonds dated 27 April (ref.no. 2020-00401), municipal bonds dated 15 May (ref.no. 2020-00511) and commercial paper dated 8 May (ref.no. 2020-00418).

The green bonds issued by the Swedish state differ from other government bonds only with regard to the investor's opportunity to follow the state expenditures to which each bond is linked and the environmental and climate effects these expenditures help attain. The corresponding difference applies to green bonds issued by Swedish municipalities and regions and Kommuninvest i Sverige AB in relation to other municipal bonds. Green sovereign bonds and green municipal bonds shall therefore be managed on the same

terms as apply to the other government bonds and municipal bonds within the framework of this purchase programme.

The purchases of treasury bills, like the purchases of government bonds, shall be made weekly, on the secondary market and by means of a bid procedure via an electronic platform to maintain a transparent and efficient implementation of the purchase programme, taking into account the prevailing market conditions. The Riksbank's monetary policy counterparties and the Swedish National Debt Office's current primary dealers in government treasury bills shall be given the opportunity to participate in the bid procedure in the equivalent way as during the government bond purchases. The purchases of treasury bills the Riksbank is making within the scope of the asset purchase programme should not be directly connected to the Swedish National Debt Office's issues on the primary market. The Riksbank's counterparties in the bid procedure should, according to the terms and conditions for these, ensure that the purchases do not cover treasury bills that the counterparties have acquired directly from the Swedish National Debt Office for the purpose of selling them to the Riksbank. Given that the purchases should not be made in direct connection with the Swedish National Debt Office's issues on the primary market, it may also be appropriate to make the purchases of treasury bills and purchases of government bonds on different dates.

The purchases of corporate bonds are not affected by this decision. Consequently, the purchases shall be made between 1 January and 31 March 2021 in an amount corresponding to the decision that the Riksbank shall up to 30 June 2021 offer to purchase from monetary policy counterparties bonds issued in Swedish krona by Swedish non-financial corporations to a nominal amount of SEK 10 billion (ref.no. 2020-00744). When making these purchases the Riksbank shall take into account the instructions in the same decision. This means that the purchases of corporate bonds shall continue to be designed in a way that enables the Riksbank to include green corporate bonds in its asset portfolio. Furthermore, the purchases of corporate bonds shall be made taking into account the provisions following from the considerations regarding sustainability below.

This decision means that the Riksbank shall during the first quarter of 2021 purchase assets for a total nominal amount of up to SEK 120 billion. The Riksbank's asset purchases for this period will thus exceed the corresponding purchases in the fourth quarter of 2020. They are also larger than the purchases implied by the scope of the expanded asset purchase programme for the respective quarters during the remainder of 2021.

Sustainability considerations regarding purchases of corporate bonds

When the Riksbank uses a particular statutory tool to attain a monetary policy purpose, the Riksbank needs to manage potential risks entailed by the tool in a way that minimises these risks. The Riksbank is also obliged to ensure that its activities are run efficiently and that it uses state resources prudently. The Riksbank's purchases of corporate bonds are justified in terms of monetary policy and made in accordance with the legal regulations and principles applying to the Riksbank's activities. For that reason, the Riksbank has, inter alia, to manage the risks that arise from purchases of corporate bonds, especially risks to the Riksbank's financial position. Some of these risks are linked

to sustainability on the basis of the assumption that it is more risky to buy bonds issued by companies that are in breach of universal norm-based principles.

Given this, it is appropriate that the Riksbank when purchasing corporate bonds, with effect from January 2021, shall only offer to purchase bonds issued by companies deemed to comply with international standards and norms for sustainability. The principles in UN Global Compact are one example of the standards and norms that may be applicable in this context.

The purchase offer shall cover corporate bonds selected by the Riksbank on the basis of its own assessments founded on sustainability data produced by an external supplier of data for sustainability analysis. In order to use state resources prudently and contribute to good public administration based on the state's core values, the Riksbank shall, when choosing corporate bonds with consideration to sustainability, take into account the principles of equality, objectivity and proportionality. This means that companies that are similar shall be treated equally, that departures or exemptions from this shall only be made on factual grounds, at the same time as the decision to reject bonds issued by a company shall be in reasonable proportion to the negative consequences this choice may have for the company. In this context, the Riksbank shall also take into account the principle of market neutrality. This means that the choice of corporate bonds based on sustainability considerations shall be made with the aim of avoiding distorting effects on the market for these assets, in accordance with the monetary policy aim decided upon for the asset purchase programme.

This decision means that the Riksbank shall apply a norm-based negative screening when selecting corporate bonds prior to each auction and purchase offer. However, it cannot be ruled out that some time after the implemented purchase it may turn out that the Riksbank owns bonds issued by a company that for some reason is no longer deemed to comply with the standards and norms. In such a case, that part of the Riksbank's bond holdings shall be managed taking into account monetary policy deliberations made by the Executive Board at the time in question, which may result in the Riksbank abstaining from further purchases or selling the holding.

In addition to applying the norm-based negative screening when purchasing corporate bonds, the Riksbank also intends to measure and report carbon footprint in its corporate bond portfolio. This will enable the Riksbank to promote the reporting of climate pollutant factors in general and to create incentives for companies and other organisations to measure and report their greenhouse gas emissions. In this way, the Riksbank can also contribute to the work on identifying, assessing and giving consideration to climate-related risks to which financial companies are exposed in their business models. This work is a step in managing the risks to sustainable development resulting from climate change. It is also of great relevance for the Riksbank, as inadequate management of financial risks to sustainable development constitutes a general threat to the financial system and thus to economic developments. When the Riksbank clearly reports the carbon footprint in its bond portfolio, the transparency in the Riksbank's activities will be further increased.

Detailed design of the purchase programme

It is the responsibility of the Head of the Markets Department, with the right to delegate to another person, to determine the exact date and offered amounts at each auction

and purchase offer, and on the details regarding terms and conditions for, and information on, the Riksbank's purchases of government bonds, treasury bills, municipal bonds, covered bonds, commercial paper and corporate bonds. 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 each of them to delegate to another person.

Prior to deciding the exact date and offered amounts at each auction and purchase offer regarding the Riksbank's purchases of commercial paper, the Head of the Markets Department shall also consult with the Executive Board. During these consultations, the Head of the Markets Department shall reconcile the details regarding the terms and conditions for and information on the purchases. The consultations with the Executive Board shall be held at least once every second month and refer to purchases of commercial paper that are to be made during the period up to the next consultation, provided that market conditions at any particular time do not give rise to a need for more frequent consultations.

The Head of the Markets Department shall also inform the Executive Board if developments on the financial markets motivate an amendment to the Riksbank's asset purchase programme.

Other considerations

The Riksbank's asset purchases are justified in terms of monetary policy and made with the support of Chapter 6, Article 5 of the Sveriges Riksbank Act (1988:1385). The government bond and treasury bill purchases are assessed as being 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. The need to manage financial risks linked to sustainability in connection with the purchases of corporate bonds follows on from Chapter 9, Article 1a of the Sveriges Riksbank Act (1988:1385).

In the same way as in the decisions of 30 June and 31 August 2020, the purchases to be made between 1 January and 30 June 2021 are deemed to entail only marginally increased financial and operational risks for the Riksbank. The decision to take sustainability into account when purchasing corporate bonds through a norm-based negative screening means that the increase in financial risks is partially counteracted. The risks in question are assessed to remain manageable.

At the time of this decision, there is considerable uncertainty regarding economic developments both in Sweden and in other countries. There is every indication that monetary policy stimulus will be needed in the form of low interest rates and a large amount of liquidity for the foreseeable future. The combination of appropriate measures is constantly being evaluated and will be adjusted to economic developments. The Executive Board is therefore prepared to take further measures and to provide the necessary liquidity, even between ordinary monetary policy meetings. Moreover, the Executive Board can always adjust the plan for asset purchases that applies at any given time by deciding to raise or lower the purchase amounts for the respective type of asset in accordance with an updated policy assessment. Nor can it be ruled out that the Executive Board decides to cut the repo rate should it consider this measure to be effective and appropriate with respect to monetary policy requirements.