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Annex B to the minutes

DATE: 20 September 2021
DEPARTMENT: Monetary Policy Department, Markets Department and Financial Stability Department

The Riksbank is terminating the programme for funding to banks to support corporate lending and some other measures implemented as a result of the pandemic

Decision by the Executive Board

The Executive Board decides

1. to terminate the programme for funding to banks to support corporate lending (UBF Programme) as from 21 September 2021,
2. to remove the possibility for Swedish credit institutions under the supervision of Finansinspektionen to apply to become temporary monetary policy counterparties as from 21 September 2021,
3. to revoke the Riksbank's decisions from 19 March 2020 and 10 March 2021 on amended limit rules for covered bonds as collateral for credit at the Riksbank as from 3 January 2022, which means that
 - a. the collateral value (the market value with a haircut) for covered bonds pledged as collateral for credit at the Riksbank may amount to a maximum of 60 per cent of the total collateral value for the collateral a counterparty pledges to the Riksbank,
 - b. the collateral value for covered bonds issued by an individual issuer, or group of individual issuers, may amount to a maximum of 50 per cent of the total collateral value for covered bonds pledged as collateral, and that
 - c. the Riksbank does not accept covered bonds issued by the counterparty, or other party closely linked to the counterparty, as collateral for credit at the Riksbank,
4. to give the Head of the Markets Department, with the right to delegate to another, 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 another, the task of determining the precise details of the terms for, and information about, the termination of the UBF programme, the management of temporary monetary policy counterparties, and the requisite amendments to the provisions on collateral for credit at the Riksbank in the Terms and Conditions for RIX and Monetary Policy Instruments (RIX Terms and Conditions), and

5. to publish the decision at 09.30 on Tuesday 21 September 2021.

Background

On 12 March 2020, the Riksbank decided to launch a programme for corporate lending via monetary policy counterparties, the Programme for V Credit, of up to SEK 500 billion (ref.no. 2020-00358). The Riksbank assessed then that it was necessary to take targeted measures to secure efficient credit supply for Swedish non-financial corporations.

On 16 and 19 March 2020, the Riksbank decided to increase the scope for using covered bonds as collateral for credit at the Riksbank (ref.no. 2020-00367 and ref.no. 2020-00397). The aim was to increase the impact of the adopted Programme for V Credit, although the relaxation was to apply to all loans at the Riksbank. The relaxation meant that the special limit rules that had applied to covered bonds were discontinued and that temporary, more generous rules were to apply up to 30 December 2024, which was communicated to all RIX participants on 1 July 2020. As a result, covered bonds issued by the counterparty or closely linked party could also be used as collateral at the Riksbank during this period.

To make it easier for the Riksbank's loans to be accessible to the entire Swedish economy, and to increase the monetary policy impact of the Programme for V Credit, the Riksbank decided on 26 March 2020 to allow Swedish credit institutions under the supervision of Finansinspektionen to become so-called temporary monetary policy counterparties. The Riksbank also decided to allow temporary monetary policy counterparties to participate in the Programme for V Credit (ref.no. 2020-00418).

On 10 March 2021, the Riksbank decided to stop offering further loans as part of the Programme for V Credit and instead start a new funding for lending programme, known as the UBF Programme (ref.no. 2021-00388). This programme has the same aim and purpose as the Programme for V Credit but with simpler, more generic and less time-dependent terms and conditions. Similar to the Programme for V Credit, the UBF Programme offers credit in SEK at the Riksbank against collateral to both monetary policy counterparties and temporary monetary policy counterparties.

To date, the counterparties have borrowed SEK 16 billion from the Riksbank within the Programme for V Credit. No counterparty has borrowed within the UBF Programme.

Considerations

Termination of the programme for funding to banks to support corporate lending

In March 2021, the Riksbank noted that the various measures implemented to mitigate the negative effects of the pandemic on the Swedish economy had helped to maintain credit supply and keep interest rates to companies low. In this way, the measures had also helped to make the Swedish economy relatively resilient to the second wave of the pandemic. However, it was important to maintain preparedness to be able to deal with any deterioration in credit supply that might risk stalling the economic recovery and thus hamper the conditions for inflation to rise towards the target. The assessment of the Riksbank was therefore that it was appropriate to continue to offer loans to banks to stimulate lending to companies, but within the framework of a simplified and more effective programme.

During the six months the UBF Programme has been in existence, there has been no demand for loans within the programme. The Swedish economy has largely recovered from the economic downturn that occurred at the beginning of the pandemic. Interest rates and yield spreads are at low levels and the situation on the financial markets has stabilised. In such a situation, it is natural for optimism among market participant to strengthen gradually and for the need for Riksbank measures to strengthen access to liquidity in the financial system to decrease. Surveys by both the National Institute of Economic Research and the Riksbank also show that companies consider the funding situation to be good.

When the UBF Programme was introduced, the Riksbank decided that loans should be offered as long as the total outstanding amount within the Programme for V Credit and the UBF Programme did not exceed SEK 500 billion or until the Riksbank no longer considered there to be a need for further offers. In light of the reasons given above, the Riksbank considers that the need for further offers does not exist and that the UBF Programme can therefore be terminated. This means that the last auction procedure in the UBF Programme was the one that took place on 10 September 2021.

It is the responsibility of the Head of the Markets Department, with the right to delegate to another, to determine the precise details regarding the terms for, and information on, the termination of the UBF Programme. The decision will 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 another.

Removal of possibility to apply to become a temporary monetary policy counterparty

The category of temporary monetary policy counterparty was introduced in March 2020 as a temporary expansion of the number of counterparties, who, in addition to monetary policy counterparties, would have the possibility to participate in the Programme for V Credit and later in the UBF Programme, for as long as the programmes lasted. The aim was to make it easier for the Riksbank's loans to be accessible to the entire Swedish economy. The end of the UBF Programme means that there is no longer any need for the temporary expansion of the number of counterparties and the Riksbank should therefore remove the possibility for Swedish credit institutions under

the supervision of Finansinspektionen to apply to become a temporary monetary policy counterparty. The Executive Board's decision to end the UBF Programme means that, as from 21 September 2021, there will be no facilities at the Riksbank for temporary monetary policy counterparties to use, except for those counterparties with outstanding loans within the Programme for V Credit.

It is the responsibility of the Head of the Markets Department, with the right to delegate to another, to decide the management of temporary monetary policy counterparties. The decision shall be taken after consultation with the Head of the Monetary Policy Department, the Head of the Payments Department and the Head of the Financial Stability Department, with the right for them to delegate to another.

Revocation of decisions on amended limit rules for covered bonds as collateral for credit at the Riksbank

In March 2020, the Riksbank decided to amend the rules that limit the use of covered bonds as collateral for credit at the Riksbank. The aim was to increase the impact of the adopted funding for lending programme, although the relaxation applies to all loans at the Riksbank. The relaxation meant that the special limit rules applying to covered bonds were abolished and that self-issued covered bonds, i.e. covered bonds issued by the counterparty or closely linked party, could also be used as collateral.

On 10 March 2021, the Riksbank decided that this relaxation was to apply to all loans at the Riksbank including loans in the UBF Programme until 31 December 2024, or until the Riksbank took a new decision on the terms for collateral.

The Riksbank's decision to increase the scope for its counterparties to use covered bonds as collateral for credit at the Riksbank was taken to increase the impact of both the Programme for V Credit and the UBF Programme. The measures were also deemed to improve the functionality of the market for covered bonds. When the Riksbank decided on the measures, it was considered appropriate to formulate it as a temporary amendment to the RIX Terms and Conditions that would apply for as long as the Riksbank's funding for lending programmes continued.

In light of the termination of the UBF Programme, the Riksbank decides to revoke the decisions of 19 March 2020 and 10 March 2021 on amended limit rules for covered bonds as collateral for credit at the Riksbank and to reintroduce the previously applicable special limit rules. The limit rules affect all lending facilities at the Riksbank with the exception of existing lending within the Programme for V Credit. To prepare counterparties for the change and to reduce the risk of the termination of generous collateral rules leading to greater uncertainty on the payment market and the financial markets, it is appropriate to reintroduce the previously applicable collateral requirements at the turn of the year. This means that, as from 3 January 2022,

- the collateral value (the market value with a haircut) for covered bonds pledged as collateral for credit at the Riksbank may amount to a maximum of 60 per cent of the total collateral value for the collateral a counterparty pledges to the Riksbank.
- the collateral value for covered bonds issued by an individual issuer, or group of individual issuers, may amount to a maximum of 50 per cent of the total collateral value for covered bonds pledged as collateral, and that

- the Riksbank does not accept covered bonds issued by the counterparty, or by a party closely linked to the counterparty, as collateral for credit at the Riksbank,

As existing lending within the Programme for V Credit is exempt from the limit rules, the change as from 3 January does not apply to these loans. The more generous collateral requirements continue to apply to existing loans within the Programme for V Credit until they fall due.

It is the responsibility of the Head of the Markets Department, with the right to delegate to another, to determine the requisite amendments in the provisions on collateral for credit at the Riksbank in the RIX Terms and Conditions. The decision shall be taken after consultation with the Head of the Monetary Policy Department, the Head of the Payments Department and the Head of the Financial Stability Department, with the right for them to delegate to another.

Other points

The Riksbank's decisions normally have several different, and partly uncertain, consequences for the Swedish economy and the Riksbank's own finances. The benefits of the respective measures therefore have to be weighed against their potential drawbacks and risks. The termination of the UBF Programme, removal of the possibility to apply to become a temporary monetary policy counterparty and the revocation of amended limit rules for collateral requirements are deemed to reduce the risks associated with the Riksbank's own finances somewhat. At the same time, they are expected to have minor effects on credit supply in the economy. The operational risks of amendments to the collateral requirements for credit at the Riksbank are also considered low. The Riksbank considers there to be a high level of risk awareness and an effective approach to risk management in operations. The risk level is therefore manageable for the Riksbank.

The current measures have been justified in terms of monetary policy pursuant to Chapter 6, Article 5 of the Sveriges Riksbank Act (1988:1385).