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Annex A to the minutes

DATE: 12/03/2020
DEPARTMENT APP, AFM and AFS

Programme for corporate loans via monetary policy counterparties

Decision by the Executive Board

The Executive Board decides

- that the Riksbank will offer up to SEK 500 billion to monetary policy counterparties against collateral for the purpose of increasing their lending in Swedish krona to Swedish non-financial companies, in accordance with the description in the Annex to this decision,
- 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 them to delegate this task to another, the details regarding the terms and conditions for, and information about, the loan programme, and
- to publish the decision at 9.30 am on Friday, 13 March.

Background

The spread of the coronavirus has widespread humanitarian consequences and is affecting the Swedish and global economies to an increasing extent. This has led to considerable fluctuations on the financial markets. Several countries' economies have been significantly affected by the restrictions introduced with regard to travel, transport and public gatherings.

The Riksbank's monetary policy has had a broad impact on financial conditions in the Swedish economy in recent years, and this has contributed to good economic growth and an inflation rate close to the target. However, the spread of the virus will undoubtedly have clearly negative effects on economic activity in Sweden, although it is too early to say how large the effects will be and how long they will last. The information the Riksbank has gathered from around 50 Swedish companies indicates that the impact

on the manufacturing and retail industries has so far been limited. But some companies in the services sector, for instance hotels and travel agents, state that they have been hit much harder. However, many companies are expressing concern that the situation will worsen. For instance, several of the larger manufacturing industries see a risk that smaller sub-contractors will experience funding problems.

The Riksbank's contacts with the financial sectors in Sweden and abroad indicate that there are incipient signs of liquidity problems on the financial markets. The continued turbulence on these markets means that the funding situation for small and medium-sized enterprises in particular could rapidly deteriorate. In this situation, it is important that the banks continue to provide Swedish non-financial companies with funding so that the credit supply to essential robust companies is not threatened.

Considerations

When production and demand decline, companies' incomes also fall, and there may be an increased need for companies to borrow money to weather the period of unease. At the same time, the unease on the financial markets risks leading to a decline in the banks' credit supply to companies, not least to small and medium-sized enterprises. A significant credit crunch for companies could aggravate the decline and increase the risk of long-lasting negative consequences for production and employment in Sweden. There are thus reasons to counteract a development where a credit shortage causes a prolonged decline in the economy. Weaker demand in the economy will probably lead to a fall in inflation.

It is therefore necessary that the Riksbank takes targeted measures in this situation to ensure an efficient credit supply for Swedish non-financial companies. The Riksbank should therefore, for monetary policy purposes, pursuant to Chapter 6, Section 5 of the Sveriges Riksbank Act (1988:1385), establish a programme for corporate loans in Swedish krona, where banks that are monetary policy counterparties to the Riksbank can borrow up to an overall total of SEK 500 billion from the Riksbank for onward loans to Swedish non-financial companies. The programme will thus become an extension of the current monetary policy.

The Riksbank can initiate the loan programme as soon as it is needed. However, it is important that the banks are given the time needed to investigate their needs for additional financing and to prepare to make bids. The programme will therefore be initiated on Friday, 20 March 2020, with a preliminary bid submission opportunity for SEK 100 billion. The ensuing bid dates will be decided at monetary policy meetings on the basis of the Riksbank's assessment at the time of developments on the financial markets and corporate funding needs. The amount to be offered will be determined at the same meetings.

To create incentives for the banks to pass on the loans to non-financial companies, the lending within this programme needs to be designed in an attractive manner with regard to pricing and maturity. It is therefore appropriate that the prices of the loans allocated is at a variable interest rate equivalent to the Riksbank's repo rate, currently 0 per cent. Further, the loans should run for 2 years, which is expected to contribute to bridging over a temporary credit shortage and to securing a safe and long-term funding of these companies.

The loan programme can act in the current situation as a form of insurance for an efficient supply of credit to the companies. To reach the majority of the banks supplying loans to non-financial companies and to ensure equal treatment, the Riksbank should offer all monetary policy counterparties the opportunity to take part in the programme. The loans should therefore take the form of an auction, where the monetary policy counterparties are given the opportunity to bid. In this way, the distribution of the Riksbank's transactions will be transparent to the market. When lending money, the Riksbank will moreover accept the same collateral as applies for the Riksbank's loans in RIX, pursuant to the current *Terms and Conditions for RIX and monetary policy instruments*.

As it is very important to ensure that the loans the Riksbank allocates to its counterparties actually benefit the companies they are aimed at, the Riksbank will follow up and evaluate the counterparties' lending to non-financial companies with the aid of the Financial Market Statistics and the information the counterparties are requested to send in to the Riksbank. The basis for the evaluations is that the respective counterparty shall maintain the lending to the corporate sector that the counterparty already had when the loan programme was initiated. In addition, the evaluation will survey whether the counterparty has succeeded in increasing its corporate lending during the evaluation period. If the counterparty's lending to Swedish non-financial companies has not increased at the time of the valuation by at least one fifth of the amount the counterparty has borrowed from the Riksbank, the cost of the loan will be increased by up to 0.20 percentage points.

It is the responsibility of the Head of the Markets Department, with the right to delegate to another person, to determine the precise details regarding the terms for, and information on, the loan 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 other persons.

Economic developments and the situation on the financial markets, both in Sweden and other countries, are now changing very rapidly. Given this, the Riksbank is ready and prepared to take further measures, even between the ordinary monetary policy meetings. All of the Riksbank's tools can be put to use. How the tools are used will depend on future developments.

Annex

Facts on the Riksbank's programme for corporate loans in Swedish krona via monetary policy counterparties, which will be offered on 20 March 2020.

Total volume:	Maximum of SEK 500 billion
Offered amount on first bid date:	SEK 100 billion
Maturity:	2 years
Interest rate:	Variable interest rate equal to the Riksbank's repo rate at that point in time. If the requirement for onward lending is not met, there will be an additional interest rate corresponding to a maximum of 0.20 percentage points.
Eligible bidders:	Those of the Riksbank's monetary policy counterparties that have registered their interest in participating no later than two bank days prior to the Bid procedure.
Bid procedure:	Bids for volumes are made by telephone and confirmed by e-mail on the bid date.
Allocation:	Pro rata. The highest allocation for an individual counterparty is 25 per cent of the total amount offered.
Terms and conditions	Detailed terms will be published on the Riksbank's website on 16 March 2020.

The programme is aimed at monetary policy counterparties (a total of 22) which at the time of this decision are:

- Avanza Bank AB
- BlueStep Bank AB
- BNP Paribas S.A.
- Citibank Europe plc.
- Danske Bank A/S
- DnB Bank ASA
- Klarna Bank AB
- Kommuninvest i Sverige AB
- Landshypotek Bank AB
- Länsförsäkringar Bank AB (publ)
- Marginalen Bank Bank AB
- Nordea Bank Abp
- Nordnet Bank AB



- Northern Trust Global Services SE
- Santander Consumer Bank AS
- SBAB Bank AB (publ)
- Skandiabanken AB (publ)
- Skandinaviska Enskilda Banken AB
- Sparbanken Syd
- Svenska Handelsbanken AB
- Swedbank AB
- Ålandsbanken Abp