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Annex A to the minutes

DATE: 26 March 2020
Monetary Policy Department, Markets Department
DEPARTMENT: and Financial Stability Department

Purchases of commercial paper

Decision by the Executive Board

The Executive Board decides

- that on Thursday 2 April 2020, the Riksbank will purchase commercial paper issued in Swedish krona by Swedish non-financial corporations for a nominal amount of SEK 4 billion, in accordance with the description in the annex,
- to give the Head of the Markets Department the task of determining, with the right to delegate this to another, after consultation with the Executive Board, 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 purchases of commercial paper, and
- to publish the decision on Thursday 26 March no later than 14.00.

Background

The corona pandemic is having widespread humanitarian consequences and is affecting the global and the Swedish economy to a great extent. Across the entire world, strong measures have been adopted to restrict the spread of the virus. Among other things, many countries have implemented travel restrictions and quarantine regulations and have banned events. The precautionary measures adopted by governments, companies and private persons are affecting more and more sectors of the economy. So far, companies in the tourism sector have been hit hardest, but trading companies, with the exception of the food retail segment, have also seen significant falls in turnover and the number of bankruptcies among companies has increased. Over the last week, several major manufacturing companies have also been forced to close their production facilities and lay off their staff due to problems with deliveries of inputs. The abruptness of the downturn is also reflected by the statistics on redundancy notices. Last week, almost 14,000 people were made redundant, which is a higher rate than during the financial crisis of 2008–2009.

There are now clear signs of liquidity problems on the financial markets, both in Sweden and abroad. Several companies report that they are having difficulties in refinancing their loans and several larger manufacturing companies are also worried that their smaller subcontractors and customers will have problems with their funding. The continued turbulence on the financial markets means that the credit supply in the Swedish economy may deteriorate further. This would risk further aggravating the already serious downturn in the economy, with prolonged negative consequences for output and employment in Sweden. It would also make it more difficult for the Riksbank to achieve its price stability target.

Considerations

To support credit supply broadly in the Swedish economy, the Executive Board decided on 12 March 2020 to implement a programme for corporate loans in Swedish kronor, where banks that are monetary policy counterparties to the Riksbank can borrow, in total, up to SEK 500 billion from the Riksbank for onward lending to Swedish non-financial companies. This programme, which aims to secure a functioning supply of credit to Swedish non-financial companies, was initiated on 20 March 2020, with a first auction of SEK 100 billion. On 23 March 2020, the Executive Board decided that four further auctions for a total amount of SEK 400 billion are to be held between 27 March and 17 April 2020.

In addition, with the aim of keeping monetary policy expansionary and providing support to the economy, the Riksbank decided on 16 March 2020 to implement purchases of bonds in the period March–December 2020 to a total nominal amount of up to SEK 300 billion. This 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 programme for bond purchases, the Riksbank shall also purchase bonds and commercial paper issued by Swedish non-financial corporations. The extended purchases of government bonds were initiated on 18 March 2020, and the purchases of covered bonds were initiated on 25 March 2020.

In light of the worsening problems in the corporate sector connected to the corona pandemic, and also in light of the current risk assessment of the measure (see below), it is now appropriate to initiate purchases of commercial paper. It is therefore appropriate for the Riksbank, on Thursday 2 April 2020, to purchase commercial paper issued in Swedish kronor by Swedish non-financial corporations in a nominal amount of up to SEK 4 billion. By buying commercial paper, the Riksbank is helping to improve market functionality and thus improve credit supply to companies and the impact of monetary policy on the economy.

In accordance with the decision of the Executive Board of 19 March 2020, the purchases will be included in the previously decided programme for bond purchases in an amount of up to SEK 300 billion.

So that this measure will be able to provide rapid support to the economy and alleviate the most acute problems for Swedish companies needing to refinance loans maturing over the coming months, the purchases of commercial paper will be focused on short maturities. The purchases will therefore cover securities issued as commercial paper

with remaining maturities of up to three months at date of auction. Only commercial paper issued by companies with credit ratings of BBB– or higher will be included in the purchases of 2 April 2020. At the dates of auction, the Riksbank determines price and volume.

The purchases of commercial paper shall be made on the secondary market. Furthermore, they will be made through a bid procedure in which the Riksbank's monetary policy counterparties will be given the possibility to participate with bids in which each respective counterparty specifies the issuer's credit rating for the commercial paper the counterparty wishes to sell and in which volume. In this way, the distribution of the Riksbank's transactions will be transparent to the market. Moreover, the bid procedure is an appropriate way of achieving an efficient implementation of the current monetary policy measure, taking into account the prevailing market conditions. Considering the requirements imposed by the Riksbank's remit, the purchases may consider sustainability when selecting commercial papers.

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 purchases of commercial paper. 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.

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. The Riksbank deems that there exists high awareness of the risks and an effective approach to risk management in operations. The increased risk level is therefore manageable for the Riksbank.

The purchases are justified in terms of monetary policy as described above, pursuant to Chapter 6, Article 5 of the Sveriges Riksbank Act (1988:1385).

Economic developments and the situation on financial markets, in both Sweden and other countries, are now deteriorating very rapidly. Given this, the Riksbank is prepared to take further measures and to supply liquidity as needed, 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.

Appendix

Facts about the Riksbank's purchases of commercial paper issued in Swedish kronor by Swedish non-financial corporations to be made on Thursday 2 April 2020 in accordance the provisions of the applicable terms and conditions.

Nominal amount:	SEK 4 billion.
Type of security:	Commercial paper with remaining maturity of up to three months at the time of the auction, issued in Swedish kronor by Swedish non-financial corporations.
Auction:	Thursday 2 April 2020.
Announcement of more detailed terms for purchases:	Special terms and conditions will be published no later than Tuesday 31 March 2020.
Form of purchase:	Bidding process in which counterparties place bids for total volume per credit rating class.
Eligible bidders:	Riksbank monetary policy counterparties authorised to participate as bidders in accordance with applicable general terms and conditions.
Bid procedure:	Bids for volume and interest rate are made by telephone between 9.00 and 9.30 on the auction date in question.
Lowest bid:	Bids shall be no lower than SEK 100 million.
Highest bid:	No individual bid may exceed the total volume requested by the Riksbank at each Bid procedure.
Allocation:	Normally 30 minutes after the final time for submitting bids. After allocation, it is the duty of the participant to supply commercial paper up to the allocated volume. Allocation takes place pro rata.
Payment and delivery:	Shall be made the second banking day after the auction concerned in Euroclear Sweden's securities settlement system.
General terms and conditions:	General terms and conditions for the Riksbank's purchases of commercial paper via bidding procedure 2020, dated 30 March 2020 (see the Riksbank's website).