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DNR 2020-00401

Annex B to the minutes

DATE: 27 March 2020
Monetary Policy Department, Markets Department
DEPARTMENT: and Financial Stability Department

Covered bond purchases for monetary policy purposes

Decision by the Executive Board

The Executive Board decides

1. that between 30 March and 30 April 2020, the Riksbank will purchase covered bonds issued in Swedish krona by Swedish institutions for a nominal amount of SEK 50 billion, in accordance with the description in the annex,
2. that on Wednesday, 1 April 2020, the Riksbank will purchase covered bonds issued in Swedish krona by Swedish institutions for a nominal amount of SEK 20 billion, in accordance with the description in the annex,
3. to instruct the Head of the Markets Department, with the right to delegate this to another, after consultation with the Executive Board and the Head of the Monetary Policy Department and the Head of the Financial Stability Department, with the right for these department heads to delegate this task to another, to decide on the exact bid procedure dates within the framework of this purchase programme and on the offered amounts at each of these bid procedures respectively,
4. to instruct 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 Riksbank's purchases of covered bonds, and
5. to publish this decision on Friday 27 March 2020 no later than 17.00.

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, several 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. 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 input goods. 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 have had 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 aggravating the 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 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. 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 government bond purchases were initiated on 18 March, the purchases of covered bonds began on 25 March, and purchases of commercial paper will begin on 2 April 2020.

Given the continued high level of uncertainty over economic developments, it is appropriate for the Riksbank, between 30 March and 30 April 2020, and as a next step in the adopted bond-purchasing programme, to purchase covered bonds issued in Swedish kronor by Swedish institutions to a nominal amount of SEK 50 billion.

So that the Riksbank's purchases of covered bonds provide support to the economy and bolster credit supply, it is important they they have a broad impact on interest-rate setting in the market for covered bonds. For this reason, the currently applicable purchases include covered bonds with maturities of more than one year. Only covered bonds issued in Swedish kronor by Swedish institutions with contracted dealers may be



included in the purchases. Covered bonds issued by these institutions account for the absolute majority of outstanding covered bonds. Covered bonds from other institutions may be included in future purchases.

An initial bid procedure of SEK 20 billion will take place on Wednesday, 1 April 2020. The exact dates for subsequent auctions and the offered amounts at these auctions are determined by the Head of the Markets Department after consultation with the Executive Board and the Head of the Monetary Policy Department and Head of the Financial Stability Department. Consultation with the Executive Board is best done in the form of the Executive Board at regular meetings prior to each bid procedure being kept informed of the current assessment of market functioning at that time.

The purchases of covered bonds shall be made on the secondary market. They shall also be done in the form of a bidding procedure via an electronic platform 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 bid procedure is an appropriate way of achieving an efficient implementation of the current monetary policy measure, 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 precise details regarding the terms for, and information on, the purchases of covered bonds. 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.

These purchases are part of the programme for bond purchases decided on 16 March 2020. The current purposes 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 the financial markets, both in Sweden and other countries, remain very uncertain. Given this, the Riksbank is prepared to take further measures and supply the necessary liquidity even between the ordinary monetary policy meetings. All of 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 covered bonds issued in Swedish kronor by Swedish institutions to be made during the period 30 March–30 April 2020 in accordance with the provisions of the applicable terms and conditions.

Total nominal amount:	SEK 50 billion.
Offered amount at first bid procedure:	SEK 20 billion.
Type of security:	Covered bonds with maturities of more than one year issued in Swedish kronor by Swedish institutions with contracted dealers.
First bid procedure:	Wednesday, 1 April 2020.
Announcement of more detailed terms for purchases:	Special terms and conditions will be published at least 2 days prior to the respective Bid procedure.
Form of purchase:	Bid procedure, multiple price method, differentiated pricing on allocation.
Eligible bidders:	Riksbank monetary policy counterparties authorised to participate as bidders in accordance with applicable general terms and conditions.
Bid procedure:	Bids regarding rate and volume are to be made via Bloomberg Bond Auction System between 9.00 and 10.00 on the day of the respective Bid procedure.
Lowest bid:	Bids shall be no lower than SEK 1 million. Each bidder can make several bids.
Highest bid:	No individual bid may exceed the total volume requested by the Riksbank at each Bid procedure.
Allocation:	Normally 10 minutes after the final time for submitting a bid.
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 covered bonds via bid procedure 2020:1, dated 20 March 2020 (see the Riksbank's website).