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Annex A to the minutes

DATE: 6 April 2020
Monetary Policy Department, Markets Department and Financial Stability
DEPARTMENT: Department

New loan opportunities and adjusted terms for Programme for onward lending to companies

Decision by the Executive Board

The Executive Board decides

- to offer further loan opportunities within the Riksbank's Programme for loans in Swedish krona against collateral to monetary policy counterparties, including temporary monetary policy counterparties, for onward lending to Swedish non-financial corporations with continued weekly offers of SEK 50 billion per week from the week beginning 20 April until the total framework amount of SEK 500 billion has been lent or until the Riksbank assesses that there is no longer a need for further offers,
- to extend the programme to also include onward lending to Swedish sole proprietors,
- to instruct the Head of the Markets Department to determine, 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 on Monday, 6 April, no later than 5 pm.

Background

The widespread humanitarian consequences of the coronavirus pandemic are becoming increasingly clear. This also applies to the challenges to the global and Swedish economies. Many non-financial corporations are now being subjected to considerable strains. In this situation, it is important that the banks provide Swedish companies with funding so that the credit supply to essentially robust companies is not threatened.

On 12 March 2020, the Executive Board of the Riksbank therefore decided to launch a programme for corporate loans via monetary policy counterparties of up to SEK 500 billion. At the first auction on 20 March, counterparties were given the opportunity to borrow SEK 100 billion. The Executive Board decided on 23 March that the monetary policy counterparties would be offered on four occasions between 27 March and 17 April loans to a total of SEK 400 billion. The decisions were taken in the light of the expected economic consequences of the spread of the coronavirus pandemic to secure an efficient supply of credit to Swedish non-financial companies.

To make it easier for the Riksbank's loans to be accessible to the entire economy and to increase the monetary policy impact of the programme, the Executive Board decided on 26 March to allow temporary monetary policy counterparties to participate in the programme.

Considerations

When the programme for corporate loans via monetary policy counterparties was launched on 12 March, the Executive Board decided that the scope for the programme would be SEK 500 billion. So far, the Executive Board has decided on five auction dates. During the first three auctions that were held, the demand from monetary policy counterparties totalled SEK 126 billion of the SEK 300 billion offered. Two auctions remain of the five originally decided, on 9 and 17 April respectively. There is now reason to consider continuing the loans and adding auctions.

It is becoming increasingly clear that the economic effects of the coronavirus pandemic risk being long-lasting. When production and demand continue to fall, company income also falls. Companies will have a greater need to borrow money to bridge over the turbulent period. The turbulence on the financial markets also 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. The Government has recently established a guarantee programme for companies, which entails that the central government takes on most of the risk when banks and credit institutions lend to companies that are financially impacted by the coronavirus. This reduces the banks' credit risk for such lending, but for companies and banks to be able to benefit from these guarantees, the banks must also have the opportunity to finance increased lending. The loan requirement will remain for a long time and may need further reinforcement.

It is important that there is sufficient liquidity in the banking system to give support to the economy as far as possible and to reduce the negative economic consequences of the coronavirus pandemic. It is also important to be clear with the monetary policy counterparties in the continued programme, so that the banks can count on liquidity being available for a long period of time if a need should arise later on. The actual knowledge that liquidity will be available going forward should increase their willingness to lend to companies now, even if an individual bank does not need to borrow from the Riksbank at present. The bank then does not need to be restrictive with the liquidity at its disposal now.

It is therefore appropriate to offer more auctions in the programme and for the Riksbank, with effect from the week beginning 20 April, to offer loans of SEK 50 billion per week to monetary policy counterparties against collateral for the purpose of increasing their lending in Swedish krona to Swedish non-financial corporations, until the total amount of SEK 500 billion has been lent. If the amount remaining to lend within the scope of SEK 500 billion is less than SEK 50 billion, the entire remaining amount will be offered as loans at coming auctions. This does not rule out the possibility of the Riksbank, if necessary, increasing the scope of the programme to an amount greater than SEK 500 billion.

The aim of the existing programme is to facilitate the banks' financing of essentially robust non-financial corporations. However, there are a number of companies run within the scope of sole traders and which are not categorised as non-financial corporations in the statistics and are therefore not included in the existing programme.

Sole proprietorship is a company form where the company and its owner are the same legal entity. The company's corporate registration number is the same as the owner's personal identity number. The owner is personally responsible for all of the company's liabilities. In the statistics, these are known as entrepreneurial households, which is a sub-group of the household category. The banks' lending to entrepreneurial households is not insignificant, namely SEK 800 billion.

In this situation, it is important that the entire economic system functions so well that the negative effects of the corona pandemic on the economy are alleviated to the greatest possible extent. There is thus reason for the Riksbank to extend the programme so that lending to sole proprietors is equated with lending to other non-financial corporations. The motive here is to facilitate for the banks to finance some of their lending to different forms of non-financial corporation via loans from the Riksbank. These banks can then contribute to the credit supply to robust companies throughout the economy, regardless of their corporate form.

One consequence of this expansion is that the stimulation could be used for loans going to entrepreneurial households' consumption rather than their business operations. The banks' reports on lending to entrepreneurial households do not show how the loan sums are actually used. This means that if the loan sum is used for the entrepreneurial household's consumption rather than their business activities, the loan will be included when the banks' lending to companies is assessed against the evaluation criteria. However, it is important to reach out as broadly as possible and facilitate the financing of as many companies as possible, even if a part of the loans could be used for other purposes than those that are the essential aim of the programme.

To avoid making it more difficult for the counterparties that have already borrowed money in the Riksbank's programme to meet the evaluation criteria, these are changed so that the bank meets the requirements for onward lending if either a) the loans to non-financial corporations have increased by at least one fifth of the amount the counterparty has borrowed from the Riksbank (that is, the same as before) or b) the total lending to non-financial corporations and to entrepreneurial households has increased by at least one fifth of the amount the counterparty has borrowed from the Riksbank. This does not change the banks' reporting, as the banks already supply the same type of lending statistics for both entrepreneurial households as for non-financial

corporations. The change in the evaluation means that it will be easier for the banks to meet the requirements and avoid the extra interest that is charged to banks who do not increase their lending to companies not increasing their loans to companies sufficiently. As the change does not make it more difficult for any individual counterparty to meet the criteria, the new terms will be applied retroactively to the banks that have already taken loans within the programme. More precise details will be described in the amended terms and conditions. Otherwise the same terms and conditions will be retained. See the Annex for further details.

Given this, it is appropriate both to offer further auctions within the programme until the total scope of SEK 500 billion has been lent, and to extend the circle of companies the programme aims to reach, to ensure that the monetary policy impact of the programme is more efficient. 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).

The Riksbank's measures normally have several different, and partly uncertain, consequences for the national 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 increased number of auctions and the extension of the programme are assessed to only marginally increase the risks. The Riksbank deems that there exists high awareness of the risks and an effective approach to risk management in operations. The impact on the risk level is therefore manageable for the Riksbank.

Through the programme for corporate loans via monetary policy counterparties, the Riksbank is contributing to improving the credit supply to companies and the impact of monetary policy on the economy. However, there is still considerable uncertainty regarding economic developments and the situation on the financial markets both in Sweden and other countries. Given this, the Riksbank is prepared to take further measures and to supply liquidity as needed, even between 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 on the Riksbank's programme for corporate loans in Swedish krona via monetary policy counterparties

Total volume:	SEK 500 billion.
Auctions:	Auctions will be offered every week.
Amount offered at each auction:	SEK 50 billion (in the auctions from 20 April).
Maturity:	2 years.
Interest rate:	Floating interest rate equal to the Riksbank's repo rate at each 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 and temporary 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	Revised detailed terms will be published on the Riksbank's website no later than 7 April 2020.