



SVERIGES RIKSBANK
SE-103 37 Stockholm
(Brunkebergstorg 11)

Tel +46 8 787 00 00
Fax +46 8 21 05 31
registratorn@riksbank.se
www.riksbank.se

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Appendix B to the minutes

DATE: 16 March 2020
Monetary Policy Department, Markets Department and Financial Stability
DEPARTMENT: Department

Bond purchases for monetary policy purposes

Decision by the Executive Board

The Executive Board decides that

1. the Riksbank intends to purchase during the period March–December 2020 bonds issued in Swedish krona to a total nominal amount of up to SEK 300 billion, which as necessary may include
 - a. Swedish nominal and real government bonds in addition to the previously decided purchases of government bonds during this period,
 - b. bonds issued by Swedish municipalities and Kommuninvest i Sverige AB, and
 - c. covered bonds issued by Swedish institutions,pursuant to what is stated in the considerations for this decision, and to
2. publish the decision on Monday, 16 March 2020, no later than 20.00 hrs.

Background

The spread of the coronavirus is having widespread humanitarian consequences and affecting the global and Swedish economies to an increasing extent. This has led to large fluctuations on the financial markets. Several countries' economies have been significantly affected by the restrictions on, among other things, travel, transport and public gatherings as a result of government decisions. Operations in many companies have been limited temporarily or closed down, which is expected to have consequences for future economic developments.

To support economic developments and ensure inflation stays close to the Riksbank's target of 2 per cent, the Riksbank is currently holding the repo rate at zero per cent. As a complementary monetary policy measure, the Riksbank has also purchased a significant volume of Swedish government bonds since February 2015.

The aim of the expansionary monetary policy is to support demand, output and employment in Sweden, to stabilise inflation around the target of 2 per cent and to keep inflation expectations compatible with the target. High confidence in the inflation target creates the conditions for efficient price-setting and wage formation, thereby contributing to good economic development in Sweden.

The Riksbank's monetary policy has had a broad impact on financial conditions in the Swedish economy in recent years, and has contributed to good economic growth and an inflation rate close to the target in recent years. CPIF inflation has fallen back in recent months as a result of falling energy prices, but excluding energy prices, the inflation rate is closer to 2 per cent.

However, the spread of the coronavirus will inevitably have clearly negative effects on economic activity in Sweden, although it is too early to say how serious the effects will be and how long they will last. It is nevertheless already clear that companies in the tourism sector have been hard hit by the restrictions introduced and the precautionary measures taken. Hotels, travel agencies and restaurants are reporting small numbers of visitors and extensive cancellations. As a consequence of this, several companies have reduced their operations and large numbers of employees have been given notice of redundancy in recent days.

The Riksbank's contacts with the financial sector 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 credit supply in the Swedish economy could rapidly deteriorate. This could aggravate the downturn in the economy and lead to prolonged negative consequences for output and employment in Sweden. Weaker demand in the economy will probably lead to a fall in inflation.

Considerations

As part of its expansionary monetary policy, the Riksbank has been purchasing nominal and real Swedish government bonds since February 2015. The Executive Board decided in April 2019 to purchase, during the period July 2019–December 2020, nominal Swedish government bonds for a nominal amount of SEK 40 billion and real Swedish bonds for a nominal amount of SEK 5 billion. These purchases are spread evenly throughout the period.

At the end of February 2020, the Riksbank's government bond holdings amounted to almost SEK 340 billion, expressed as a nominal amount. The purchases have meant that the liquidity surplus of the banks in relation to the Riksbank has increased, and at the end of February amounted to around SEK 440 billion.

Given the situation that has arisen, the Riksbank needs to increase its purchases of government bonds in order to keep monetary policy expansionary and provide support to the economy. To support credit supply broadly in the Swedish economy, it is also appropriate for the Riksbank to purchase bonds issued by Swedish municipalities and Kommuninvest i Sverige AB during the period March–December 2020, and covered bonds issued by Swedish institutions.

Further details regarding the purchases will be decided by the Executive Board shortly. The purchases of government bonds will be initiated immediately.



The current purchases are justified in terms of monetary policy as described above, pursuant to Chapter 6, Article 5 of the Sveriges Riksbank Act (1988:1385). The purchases of government and municipal bonds are judged to be compatible with the appropriate provisions regarding monetary financing, cf. the European Court of Justice's decisions on 16 June 2015 in the case C-62/14 Gauweiler and others and on 11 December 2018 in the case C-493/17 Weiss and others.

Economic developments and the situation on the financial markets, both in 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 of the Riksbank's tools can be put to use. Purchases of bonds issued by non-financial corporations may also be considered. How the tools will be used depends on future developments.