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Annex to the minutes

DATE: 20 March 2020
Monetary Policy Department, Markets Department
DEPARTMENT and Financial Stability Department

Purchase of covered bonds for monetary policy purposes

Decision by the Executive Board

The Executive Board decides that

1. on Wednesday 25 March 2020, the Riksbank will purchase covered bonds issued in Swedish kronor by Swedish institutions to a nominal amount of SEK 10 billion, in accordance with what is stated in the annex, and
2. the Head of the Markets Department, with the right to delegate this to another person, and 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 person, shall be instructed to determine the more detailed terms and conditions for, and information about, the Riksbank's purchases of covered bonds, and
3. the decision shall be published on Friday 20 March 2020 no later than 17.00.

Background

The corona pandemic is having widespread humanitarian consequences and is affecting the global and Swedish 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 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 developments 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 corona pandemic 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 both in Sweden and abroad indicate that there are signs of liquidity problems on 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

To keep monetary policy expansionary, provide support to the economy and bolster credit supply broadly in the Swedish economy, the Executive Board decided on 16 March 2020 to implement bond purchases between March and December 2020 to a total nominal amount of up to SEK 300 billion. The decision covers both extended purchases of government bonds (over and above the government bond purchases decided on by the Executive Board in April 2019), purchases of bonds issued by Swedish municipalities and Kommuninvest i Sverige AB and purchases of covered bonds issued by Swedish institutions. In accordance with the decision by the Executive Board on 16 March 2020, the extended purchases of government bonds were initiated on 18 March 2020. On 19 March 2020, the Executive Board decided to supplement the purchases of government bonds, municipal bonds and covered bonds with purchases of bonds and commercial paper issued by Swedish non-financial corporations.

In light of the continued development in connection with the corona pandemic, it is appropriate for the Riksbank, on 25 March 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 10 billion.

So that the Riksbank's purchases of covered bonds provide support to the economy and bolster credit supply, it is important 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 on 25 March. Covered bonds from other institutions could be included in future purchases.

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.

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 Riksbank's measures normally have several different, and partly uncertain, consequences for the economy and the Riksbank's own finances. Envisaged benefits of the measures therefore have to be weighed against potential drawbacks and risks that arise. The currently applicable measure is expected to lead to a significant increase in market risk on the Riksbank's balance sheet as the interest-rate risk rises when the Riksbank increases its bond purchases. As the purchases include a new asset type, with a somewhat higher credit risk than government bonds, the credit risk is also expected to rise slightly. However, this increased credit risk is expected to be offset by the interest rate being higher than for government bonds. Liquidity and operational risks are also expected to increase as a result of the measure. Given the Riksbank's remit and the very rapidly deteriorating economic developments, the Riksbank considers the increased risks to be acceptable and manageable, weighed against the expected benefits of the measure in the form of support to credit supply in the economy.

Economic developments and the situation on financial markets, both in Sweden and other countries, are now deteriorating very rapidly. Given this, the Riksbank is prepared to take further measures and supply the necessary liquidity even between the 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 covered bonds issued in Swedish kronor by Swedish institutions to be made on 25 March 2020 in accordance the provisions of the applicable terms and conditions.

Total nominal amount:	SEK 10 billion.
Type of security:	Covered bonds with maturities of more than one year issued in Swedish kronor by Swedish institutions with contracted dealers.
Auction:	Wednesday 25 March 2020.
Announcement of more detailed terms for purchases:	Special terms and conditions will be published no later than Monday 23 March 2020.
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 on rate and volume are submitted via Bloomberg Bond Auction System between 09.00 and 10.00 on the day of the Auction in question.
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 making 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).