



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

Reg.no. 2020-00511

Annex to the minutes

DATE: 15 May 2020
DEPARTMENT: Monetary Policy Department, Markets Department and Financial Stability
Department

Continued municipal bond purchases for monetary policy purposes

Decision by the Executive Board

The Executive Board decides

1. that the Riksbank, between 1 July and 30 September 2020, shall purchase bonds issued by Swedish municipalities and regions and by Kommuninvest i Sverige AB to a total nominal amount of SEK 15 billion, in accordance with what is stated in the annex,
2. to instruct the Head of the Markets Department, 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 each of these department heads to delegate this task to another, to decide on the exact date and offered amount at each auction, and on the details regarding terms and conditions for, and information on, the Riksbank's purchases of municipal bonds, and
3. to publish this decision on Friday 15 May 2020, no later than 17.00.

Background

The corona pandemic has caused great human suffering and is affecting the global and the Swedish economy to a considerable extent. Governments the world over have introduced comprehensive measures to limit the spread of the infection. These measures have led to many companies, not least in the services industry, suffering significant falls in turnover. The number of bankruptcies among companies has increased, many companies have furloughed their staff and many employees have been given notice of redundancy.

Uncertainty over how the economy will cope with the crisis has been reflected in heavy fluctuations on the financial markets. Equity prices fell rapidly up until mid-March while the yield spread between risky and safe bonds increased sharply on several markets. A

large number of central banks, including the Riksbank, quickly implemented robust measures to provide the financial system with liquidity, stimulate the supply of credit to households and companies, and hold borrowing costs down. Since then, developments on the markets have improved but there are still signs that liquidity and market functionality have deteriorated both in Sweden and abroad, that credit supply in the economy has weakened and that credit has become more expensive. This risks further aggravating the already serious downturn in the economy, and having more prolonged negative consequences for output and employment. It would also make it more difficult for the Riksbank to achieve its price stability target.

Considerations

To keep monetary policy expansionary and provide support to the 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 the purchases of commercial paper started on 2 April. The first purchases of municipal bonds were made on 28 April. Until 15 May, the Riksbank has purchased municipal bonds issued by Kommuninvest i Sverige AB for a total nominal amount of SEK 10 billion.

By purchasing municipal bonds, the Riksbank is helping to support the credit supply in the Swedish economy as a whole, and holding interest rates at a low level, which ultimately safeguards the impact of monetary policy on the economy. In this way, the Riksbank can retain its expansionary monetary policy and thereby continue to support the economy and safeguard price stability. In light of the serious decline in the economy and continued major uncertainty over economic developments in the future, it is therefore appropriate for the Riksbank to purchase further bonds issued by Swedish municipalities and regions and by Kommuninvest i Sverige AB between 1 July and 30 September 2020 to a total nominal amount of SEK 15 billion. These purchases are part of the Riksbank's programme for purchasing bonds in an amount of up to SEK 300 billion and shall be made in addition to the purchases of municipal bonds to a nominal amount of SEK 15 billion that, as decided earlier, are being made in the period up to 30 June 2020.

The Riksbank's purchases are implemented in a way that has a broad impact on interest-rate setting in the market for municipal bonds. The purchases of municipal bonds referred to in this decision shall therefore be implemented in a market-neutral manner, based on objective criteria and taking into account the principle of equal treatment of issuers. They shall include both bonds with fixed coupons and bonds with variable coupons. The Riksbank's holdings of municipal bonds can thus over time reflect the outstanding stock of bonds with regard to, for example, issuer, maturity and credit-rating.

The purchases of municipal bonds shall be made on the secondary market. They shall also take place in the form of a bidding procedure 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 bidding procedure is an appropriate way of effectively implementing the current monetary policy measures, 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 exact times for the auctions and the offered amounts, determine the choice of bidding procedure on these occasions, and determine the more precise details regarding the terms for, and information on, the bond purchases. The decisions shall 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 Head of the Markets Department shall also inform the Executive Board if developments on the financial markets can motivate an amendment to the Riksbank's asset purchase programme.

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 municipal bond purchases are considered to increase financial risk only to a limited extent. The Riksbank deems that its operations are performed with a high level of risk awareness and an effective approach to risk management. The increased risk level is therefore manageable for the Riksbank.

These purchases are part of the bond-purchasing programme adopted on 16 March 2020 and that runs until the end of December 2020. They are justified in terms of monetary policy as described above, pursuant to Chapter 6, Article 5 of the Sveriges Riksbank Act (1988:1385). The municipal bond purchases 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.

At the time of this decision, there is still considerable uncertainty regarding economic developments and the situation on the financial markets in both Sweden and in other countries. There is every indication that monetary policy stimulus will be needed in the form of low interest rates and a large amount of liquidity for the foreseeable future. The combination of appropriate measures is constantly evaluated and will be adjusted to economic developments. The Riksbank is therefore prepared to take further measures and to provide the necessary liquidity, even between ordinary monetary policy meetings.

Appendix

Facts about the Riksbank's extended purchases of bonds issued by Swedish municipalities and regions and by Kommuninvest i Sverige AB to be made during the period 1 July – 30 September 2020 in accordance with the applicable general terms and conditions.

Total nominal amount:	SEK 15 billion.
Type of security:	Bonds issued by Swedish municipalities and regions and by Kommuninvest i Sweden AB.
Announcement of more detailed terms for purchases:	Special terms and conditions are normally published at least 2 days prior to the relevant bid procedure.
Form of purchase:	Bidding procedure.
Eligible bidders:	Riksbank monetary policy counterparties authorised to participate as bidders in accordance with applicable general terms and conditions.
Bid procedure:	Bids on interest rate and volume.
Allocation:	Normally no later than 30 minutes after the final time for submitting bids.
Payment and delivery:	<p>Shall be made the second banking day after the auction concerned in Euroclear Sweden's or Euroclear Bank's securities settlement system.</p> <p>The counterparty is obliged to ensure that the bonds supplied to the Riksbank by the counterparty have not been obtained from the issuer to fulfil delivery.</p>
General terms and conditions:	General terms and conditions for the Riksbank's bond purchases via bid procedure 2020:2, dated 24 April 2020 (see the Riksbank's website).