

ARTICLE – The Riksbank’s measures during the coronavirus pandemic

The coronavirus pandemic has led to a serious downturn in the global economy and created significant turmoil in financial markets. Even if the economic crisis in the wake of the pandemic has parallels with the global financial crisis of 2008-09, there are important differences. The current crisis is having more direct effects on non-financial corporations and households. This means that the Riksbank’s measures this time are focused to a higher degree on facilitating access to credit in the real part of the economy, alongside ensuring that banks have access to liquidity. One effect of the measures is that they subdue any increase in banks’ funding costs, which, in turn, is helping to hold down their lending rates to companies and households. In this way, the Riksbank’s measures are helping to further strengthen the impact of monetary policy.

Major differences compared to the global financial crisis

The economic crisis the world is now experiencing in the wake of the coronavirus pandemic is sometimes compared with the global financial crisis of 2008-09. There are, however, important differences between the two crises.

The crisis of 2008-09 had its origin in the financial sector. That time, the main causes included imprudent lending on the US mortgage market and an overconfidence in the advanced securitisation⁶ of credit risk among many banks around the world. This contributed to imbalances being able to grow over a longer period in the financial sector in a way essentially resembling the imbalances that have been the origin of most financial crises through history.⁷ The problems that arose in the real part of the economy, that is to say non-financial corporations and households, were mainly indirect effects of the problems that arose among banks and other parts of the financial sector. Furthermore, the situation in a few European countries was exacerbated by various domestic imbalances and vulnerabilities that in part led to the problems in the banking sector becoming serious public financial crises.

This time the main causes of the crisis clearly lie outside the financial sector.⁸ The threat of bankruptcies and increased unemployment has, instead, had a brutal and direct effect on companies and households. Large

parts of the world are in a state of shock, where the authorities have had to face the precarious dilemma of being forced, under substantial time pressure, to combine drastic measures to reduce the spread of infection and save lives with measures to counteract the economic effects of these same measures.

The measures now being launched to mitigate the effects of the coronavirus pandemic on economies around the world are comprehensive. In Sweden, the Government has decided on several support packages to ease the economic situation for companies and households. In parallel, the Riksbank has taken several powerful measures in a short time to help secure the supply of credit in the economy. This is necessary to counteract the decline in the Swedish economy and safeguard price stability.

The financial turbulence has affected the funding of banks and other companies

Even if the current crisis did not originate in the financial sector, the large degree of uncertainty surrounding the further economic consequences of the coronavirus pandemic has led to substantial fluctuations in financial markets. The financial turbulence also means that the monetary policy being conducted by central banks risks having less of an impact. The fact that the functionality of financial markets started to deteriorate was apparent, for a period, from the sharp increase in risk premia for

⁶ *Securitisation* is a method for converting illiquid loans into bonds.

⁷ In a well-known study by Carmen Reinhart and Kenneth Rogoff, in which the authors, with a tad of irony, highlight the fact that while some form of careless risk-taking have characterised the origin of the majority of financial crises throughout history, such risk-taking often tends to be explained away by its contemporaries with the words “this time is different” and is therefore allowed to continue until the crisis becomes a reality. See Reinhart, C.M. and Rogoff, K.S. (2009), *This Time is Different: Eight Centuries of Financial Folly*, Princeton University Press.

⁸ It can be debated whether the coronavirus pandemic can be regarded as a ‘black swan’, that is to say a highly improbable event with a potentially major effect on society, or a phenomenon that could nevertheless have been expected, with a significant probability, to have impacted the world sooner or later. The concept of the ‘black swan’ was popularised by the mathematician Nassim Taleb. See Taleb, N. N. (2007), *The Black Swan: The Impact of the Highly Improbable*, Random House. The fact that a crisis like this one was not totally unexpected is illustrated, for example, by Microsoft founder and philanthropist Bill Gates, who, in a celebrated TED talk in 2015 warned about the lack of preparedness in the fact of a future pandemic.

financial assets while at the same time the issuance of securities decreased. And, even if the banks are not in the eye of the storm this time, they, like other companies, are being affected indirectly by harder-to-find and more expensive funding as the functioning of financial markets deteriorates.

Banks are also important lenders to non-financial corporations and they are playing an even more important role as the functioning of bond markets deteriorates. But as the banks now risk greater credit losses when an increasing number of their borrowers encounter economic difficulties, there is a risk of them becoming increasingly cautious in their lending. This may lead to it becoming even more difficult for many companies to obtain funding, which may ultimately further exacerbate the real economic problems.

The Riksbank's measures are supporting credit supply

The key aspect now is that households and companies manage to survive the deep recession caused by the coronavirus pandemic, while the stability of the financial system can be maintained. In a short time, the Riksbank has implemented a number of measures focused on avoiding a credit crunch and securing access to liquidity for robust companies (see also table 1).

For example, the Riksbank has launched a programme in which banks are offered loans against collateral totalling SEK 500 billion on particularly favourable terms if they increase lending to non-financial corporations operating in Sweden. Although the Riksbank cannot decide who banks lend money to, it will carefully follow developments in the banks' lending to companies. So far, up until 30 April, banks have borrowed a total of SEK 158 billion from the Riksbank via this facility. As many small companies around the country are customers of smaller, local banks rather than the major banks, the Riksbank has also temporarily made it possible for more counterparties than usual to have access to the programme.

Furthermore, the Riksbank has decided to extend its purchases of securities by up to SEK 300 billion up until December this year. These purchases supplement the Riksbank's previous purchases of government bonds. In order to keep monetary policy expansionary and ensure that rate-setting continues to function, the Riksbank has also started to purchase mortgage bonds and municipal bonds. For some time, commercial paper issued by Swedish non-financial corporations have been included in the asset-buying programme, which makes it easier for companies that have so far found it difficult to borrow by issuing such securities. So far, up until 6 May, the Riksbank has purchased commercial paper for SEK 6.3 billion. Since the peak was reached immediately prior to purchases being initiated at the beginning of April, the risk premia for

corporate bonds, measured as the difference in yield against the yield for a five-year government bond, have fallen from about 2 percentage points to about 1.6 percentage points on 11 May. This gives at least an indirect indication that the purchases have had an effect and that the market for commercial paper is functioning more smoothly. The Riksbank has also bought mortgage bonds for SEK 65 billion (up until 27 April). In total, within the asset-buying programme, the Riksbank (up until 7 May) has purchased assets for a nominal amount of SEK 87 billion.

To strengthen access to one of the most important currencies for Swedish companies, the Riksbank has decided to lend up to USD 60 billion, made possible by a swap agreement with the US Federal Reserve. The fact that the Federal Reserve has offered many central banks generous swap agreements is motivated by a desire to reduce the global shortage of dollars. So far, the banks have borrowed USD 2 billion from the Riksbank.

The Riksbank has also cut the lending rate for overnight loans to the banks from 75 to 20 basis points. In addition, the Riksbank is offering banks weekly loans of unlimited amounts in SEK against collateral with a maturity of three months at 20 basis points above the repo rate.

In addition, the Riksbank has eased the requirements for collateral when banks borrow from the Riksbank. Banks can now use a larger proportion of covered bonds, including self-issued ones, as collateral. The banks can thereby borrow more at the Riksbank in order to increase their own onward lending in the economy.

Insurance for the national economy

The Riksbank's measures in the form of securities purchases, corporate lending and dollar loans so far totals about SEK 1,400 billion, which – if fully utilised – can be supplied to the economy to mitigate the effects on production and unemployment. Even if the banks were not to borrow everything on offer, the Riksbank's programme provides important insurance for the national economy. The measures are aimed at supporting credit supply to robust companies and preventing problems arising in financial markets that, in turn, create further problems for companies and households in need of credit. One important effect of the Riksbank's programmes in both SEK and USD is that they subdue any increase in banks' funding costs, which, in turn, helps to hold down their lending rates. In this way, the measures help to further strengthen the impact of monetary policy.

Going forward, it will be very important to monitor developments in the economy, both to evaluate the effects of the measures and to see whether more needs to be done. The Riksbank is closely following

developments in both the real economy and the financial sector and will also, naturally, follow up how the programme for corporate lending is being used. To support the financial system and the Swedish economy, the Riksbank still has plenty of scope to use its balance sheet to take further measures if necessary.

Table 1. The Riksbank's measures during the coronavirus pandemic

Date of decision	Measure	Scope	Purpose of measure	Details
12 March	Programme for corporate loans via monetary policy counterparties.	Up to SEK 500 bn. Lending so far: SEK 158 bn	Support credit supply to non-financial corporations.	Maturity 1 year with the option to extend 1 year. Lending takes place at the repo rate if lending to companies increases by 20 per cent of the borrowed amount, otherwise 20 basis points above the repo rate. Lending initiated on 20 March.
16 March	Purchases of bonds: government, municipal and covered.	Up to SEK 300 bn Purchases so far: SEK 80.5 bn	Keep monetary policy expansionary, provide help to the economy and support credit supply broadly in the Swedish economy.	The purchases are intended to be made up until December 2020. Purchases of government bonds were initiated on 18 March, purchases of covered bonds were initiated on 25 March, purchases of municipal bonds were initiated on 28 April.
16 March	Lowered interest rate in standing loan facility.	Unlimited	Ensure that the overnight rate on the market for Swedish kronor is close to the repo rate.	Interest rate on overnight loans in the Riksbank's standing facility reduced from 75 to 20 basis points above the repo rate.
16 March	Weekly extraordinary market operations.	Unlimited	Strengthen the banks' access to liquidity in Swedish kronor to facilitate their funding and their role as suppliers of credit to Swedish companies.	The loans are granted against collateral and at 3-month maturity with an interest rate of 20 basis points above the repo rate.
16 March + 19 March	Amended limit regulations for covered bonds as collateral.		Promote the impact of the lending programme to non-financial corporations and help improve functionality on the market for covered bonds.	16 March: maximum permitted share of covered bonds in a counterparty's total collateral volume raised from 60 per cent to 80 per cent. 19 March: This share raised to 100 per cent; maximum permitted collateral value issued by an individual issuer raised from 50 to 100 per cent; covered bonds issued by counterparty accepted as collateral.
19 March	Loans in US dollars.	Up to USD 60 bn. Lending so far: USD 2 bn.	Strengthen access to liquidity in USD in the Swedish financial system to facilitate the banks' funding in USD and increase access to USD for their end customers.	3-month maturity. Interest rate corresponding to a minimum of 25 basis points above overnight indexed swap (OIS). The programme runs until 18 September 2020. First auction was on 23 March.
19 March + 8 May	Purchases of bonds and commercial paper issued by Swedish non-financial corporations.	Included in the bond-purchasing programme (up to SEK 300 bn). Purchases so far: SEK 6.3 bn	Provide further support to credit supply for Swedish companies.	The purchases are intended to be made up until December 2020. Purchases of commercial paper with 3-month maturity were initiated on 2 April. 8 May: Purchases extended to include commercial paper with 6-month maturity.
26 March	Temporary extension of the counterparty circle.		Promote the impact of the lending programme to non-financial corporations.	The decision provides scope for institutions under the supervision of FI, other than monetary policy counterparties, to participate in the corporate lending programme.
6 April	Onward lending to companies extended to sole proprietors.		To maintain credit supply to companies operating in Sweden and thereby support demand, production and employment in the economy	The corporate lending programme extended to include onward lending to sole proprietorships.