



# Annex B to the minutes

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DEPARTMENT: Markets Department and Monetary Policy Department

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## Additional monetary policy measures – reinvestments in government bonds

### Decision by the Executive Board

The Executive Board decides that

1. reinvestments of the sum totalling around SEK 65 billion that pertains to repayments on maturity of the Riksbank's holdings of Swedish government bonds in March and June 2019 respectively and the coupon payments received throughout 2018 and during the first half of 2019 shall begin in January 2018 and continue until the end of June 2019, in accordance with what is stated in the annex,
2. the Head of the Markets Department, with the right to delegate to another person, and after consultation with the Head of the Monetary Policy Department, with the right to delegate to another person, is given the task of determining the precise details regarding the terms for, and information on, the reinvestments, and that
3. these decisions will be published on Wednesday 20 December 2017 at 9.30 a.m.

### Background

To safeguard the role of the inflation target as nominal anchor for price-setting and wage formation, monetary policy in Sweden, as in many other countries, has become gradually more expansionary. The Riksbank has cut the repo rate to -0.50 per cent, adjusted the repo-rate path downwards and carried out extensive purchases of government bonds.

The aim of the expansionary monetary policy is to stabilise inflation around the target of 2 per cent and to keep inflation expectations in line 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.

Monetary policy has had a significant impact on short and long-term interest rates and on the krona exchange rate. Since 2014, inflation has risen and over the past year, it has been close to the target. Both short and long-term inflation expectations have risen and are again close to 2 per cent. Economic activity is strong and unemployment has declined. Monetary policy has played a significant role in this development.

## Considerations

The economic outlook for Sweden remains largely unchanged since October. Although there has been a downswing in housing prices in recent months, which is expected to lead to housing investment being slowed down more in the coming years than was previously forecast, the negative effects on GDP will be partly counteracted by stronger demand from abroad. Growth is expected to be somewhat lower than in the previous forecast, but nevertheless the forecast is for economic activity to remain strong and resource utilisation to be higher than normal during the entire forecast period.

The strong economic activity has contributed to CPIF inflation being close to 2 per cent over the past year, and inflation measured in terms of the CPIF excluding energy is expected to stabilise close to 2 per cent at the end of 2018. For inflation to remain close to the target, it is important that economic activity continues to be strong and has an impact on price development. Monetary policy therefore still needs to be expansionary.

As part of the expansionary monetary policy, the Riksbank is reinvesting the repayments upon maturity of the nominal and real Swedish government bonds included in the Riksbank's holdings at any point in time. Moreover, the Riksbank reinvests income from its holdings of government bonds in the form of coupon payments. If no reinvestments are made, both the Riksbank's holdings of nominal and real Swedish government bonds and the banking system's liquidity surplus in relation to the Riksbank will decrease. It is therefore appropriate that the Riksbank continues to reinvest the repayments received upon maturity and coupon payments.

The coupons and repayments received upon the maturity of the Riksbank's holdings of Swedish government bonds are normally reinvested in close proximity to the occasions when the Riksbank receives these funds. From the beginning of January 2018 and until the end of June 2019, the Riksbank will receive a total of around SEK 65 billion, of which around SEK 45 billion concerns the repayments on maturity of nominal government bonds taking place in March 2019 and around SEK 5 billion concerns repayments on maturity of real government bonds taking place in June 2019. The remaining amount of around SEK 15 billion consists of coupon payments that will be received on various occasions during the same period. To retain the Riksbank's presence on the market and attain a relatively even rate of purchase going forward, it is appropriate that reinvestment of these funds begins in January 2018 and continues until the end of June 2019. The final sum reinvested by the Riksbank will depend on the current market situation at the time of the respective reinvestment.

Pursuant to the Executive Board's decisions on 10 February and 20 April 2016, which apply until further notice, the reinvestments shall be made by means of the Riksbank purchasing Swedish government bonds over and above the bond purchases the Board may decide on in future. In a manner corresponding to the implemented purchases of government bonds, the reinvestments should continue to comprise nominal and real Swedish government bonds with maturities up to 25 years. They shall also be recorded at their market value in the Riksbank's balance sheet. Reinvestments in nominal and real Swedish government bonds should appropriately occur on different dates.

The reinvestments shall be made weekly, on the secondary market and by means of a bid procedure via an electronic platform to maintain a transparent and efficient implementation of the current monetary policy measures, taking into account the prevailing market conditions. The Riksbank's monetary policy counterparties and the Swedish National Debt Office's current primary dealers in government bonds shall be given the opportunity to participate in the bid procedure in the same way as during the reinvestments made so far.



The purchases of nominal and real Swedish government bonds made by the Riksbank within the scope of the reinvestments should not be directly connected to the Swedish National Debt Office's issues on the primary market. The Riksbank's counterparties in the bid procedure should, according to the terms and conditions for these, ensure that the purchases do not cover bonds that the counterparties have acquired directly from the Swedish National Debt Office for the purpose of selling them to the Riksbank.

The current reinvestments are justified in terms of monetary policy as stated above. They are assessed as being compatible with the appropriate provisions regarding monetary financing, cf. the European Court of Justice's decision on 16 June 2015 in the case C-62/14 Gauweiler and others. More exact details regarding the terms for, and information on, the reinvestments should be determined by the Head of the Markets Department after consultation with the Head of the Monetary Policy Department.

## Appendix

Facts regarding the Riksbank's reinvestments in nominal and real Swedish government bonds made during the period January 2018–June 2019 in accordance with the provisions of the applicable general terms and conditions.

Total nominal amount:	The Riksbank's reinvestments are not limited to a predetermined nominal amount on each respective Bid procedure. Instead, the size of the reinvestments is determined by the amounts received by the Riksbank, or which the Riksbank expects to receive, in the form of repayments upon maturity and coupons attributable to the Riksbank's holdings of nominal and real Swedish government bonds.
Type of security:	Real and nominal bonds issued in SEK by the State of Sweden through the Swedish National Debt Office.
Bid procedures:	For nominal Swedish government bonds, normally Thursdays, and for real Swedish government bonds, normally Fridays.
Announcement of more detailed terms and conditions for the respective purchases:	Special terms and conditions will normally be published at least four banking days before the respective Bid procedure.
Form of purchase:	Bid procedure, multiple price method, differentiated pricing on allocation.
Eligible bidders:	Those of the Riksbank's monetary policy counterparties and the Swedish National Debt Office's current primary dealers in nominal and real Swedish government bonds that are eligible to participate as bidder under the applicable general terms and conditions.  If a Counterparty is not one of the Riksbank's Monetary Policy Counterparties, but meets the requirements for being a dealer in Bonds covered by the Bid procedure, the Counterparty may submit Bids in the current Bid procedure only in the part of the procedure that concerns such Bonds.
Bid procedure:	Bids regarding rate and volume are to be made via Bloomberg Bond Auction System between 09.00 and 10.00 on the day of the auction.
Lowest bid	Bids shall be no lower than SEK 50 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.  Counterparties are obliged to ensure that the Bonds supplied to the Riksbank have not been obtained from the Swedish National Debt Office to fulfil delivery.
General terms and conditions:	General terms and conditions for the Riksbank's purchases of government bonds via bid procedure 2016:1, dated 21 April 2016, subject to the provisions of point 8 in the general terms and conditions (see the Riksbank's website).