



Annex D to the minutes

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DEPARTMENT: Monetary Policy Department, Markets Department and Financial Stability Department

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Amendment of terms for corporate loans via monetary policy counterparties

Decision by the Executive Board

The Executive Board decides

1. to extend the maturity for loans to monetary policy counterparties, including temporary monetary policy counterparties, within the scope of the programme for onward lending to non-financial corporations (funding for lending programme) to up to four years,
2. to reduce the interest supplement applied to loans within the scope of the lending programme if the requirement for onward lending is not met from 0.20 percentage points to 0.10 percentage points,
3. to establish that these adjustments will also apply to credits already granted within the scope of the funding for lending programme.
4. to give the Head of the Markets Department the task of determining, 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 them to delegate this task to another, the details regarding the terms and conditions for, and information about, the loan programme, and
5. to publish the decision on Wednesday 1 July 2020 at 09.30.

Background

Despite robust economic policy stimulus, the negative consequences of the pandemic are substantial all around the world. Several countries have recently begun to withdraw their restrictive measures and this paves the way for beginning an economic recovery. However, developments are very uncertain and the Riksbank assesses that it will not be

until early 2022 that the global economy is back at the same level of activity as prior to the crisis. The demand for many non-financial corporations' services and products has fallen substantially and now the crisis is having clear consequences for the Swedish economy too, not least in the form of rapidly rising unemployment.

At an early point, the uncertainty surrounding how companies and households will cope with the crisis was reflected in substantial movements on financial markets, which threatened to exacerbate the negative economic developments. A large number of central banks, including the Riksbank, quickly implemented comprehensive measures to provide the financial systems with liquidity, stimulate the supply of credit to households and companies, and hold borrowing costs down. The governments in most countries have also taken a number of fiscal policy measures.

All in all, the measures have contributed to an improvement in developments on the markets. But the situation is assessed as fragile, and conditional on the central banks continuing to support and secure the liquidity supply in the economy. There are still some signs that the credit supply has weakened and that credit has become more expensive. Although lending from banks to non-financial corporations has increased somewhat since the crisis began, many companies are still struggling with low demand, low income and yet the same high costs. 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

On 12 March 2020, the Riksbank decided to launch a programme for corporate loans via monetary policy counterparties of up to SEK 500 billion. The Riksbank assessed then that it was necessary to take targeted measures to secure an efficient credit supply for Swedish non-financial companies. The programme was established for monetary policy purposes, with the support of Chapter 6, Article 5 of the Sveriges Riksbank Act (1988:1385). The loans are given against collateral and the first loan was offered on 20 March. The Riksbank decided as early as 23 March to offer new loans within the programme. To make it easier for the Riksbank's loans to reach the entire economy and to increase the monetary policy impact of the programme, the Riksbank also decided on 26 March to allow temporary monetary policy counterparties to participate in the programme. On 6 April, the Riksbank further decided to extend the programme to include onward lending to Swedish sole proprietors. To date, the counterparties have borrowed SEK 161.5 billion from the Riksbank within the scope of the programme.

So far, the loans within the programme have been offered with a maturity of up to two years. The purpose has been to offer the monetary policy counterparties stable and long-term financing. The idea is thus that they can contribute to bridging over a temporary credit shortage and to securing a safe and long-term funding of these companies. To have a broader reach and attain sufficient monetary policy impact, the price of the loans allocated is at a variable rate corresponding to the Riksbank's repo rate. When lending money, the Riksbank accepts the same collateral as applies for the Riksbank's loans in RIX, pursuant to the current *Terms and Conditions for RIX and monetary policy instruments*. To ensure that the loans the counterparties take with the Riksbank are actually used to benefit the companies, the Riksbank will annually assess

the loans. After one year, the onward lending to Swedish non-financial corporations should have increased by 10 per cent of the amount the counterparty has borrowed from the Riksbank. After two years, the onward lending should have increased by 20 per cent of the corresponding amount. If the counterparty's lending at the time of evaluation has not increased in line with the requirements, an interest supplement is applied to the loan of 0.20 percentage points on the part of the loan that does not meet the onward lending requirement.

The coronavirus pandemic is continuing to restrain economic activity in Sweden. The situation on the financial markets has stabilised, but is assessed as fragile. To avoid the downturn in the economy from being unnecessarily prolonged and profound, the Riksbank needs to continue supporting and ensuring the supply of liquidity, facilitating monetary policy counterparties' onward lending to non-financial corporations, strengthening the monetary policy transmission mechanism and helping to hold down market rates. As part of this, the Riksbank should therefore for monetary policy purposes, with the support of Chapter 6, Article 5 of the Sveriges Riksbank Act (1988:1385), make it more beneficial for the counterparties to borrow within the scope of the programme. Firstly, therefore, the maturity is being extended from up to two years, to up to four years. Formally this will be done by giving the counterparty an option to annually renew a one-year loan, up to a maximum maturity of four years. Secondly the interest supplement should be reduced from 0.20 percentage points to 0.10 percentage points in the cases where the counterparty's lending to Swedish non-financial corporations has not increased sufficiently at the time of the evaluation. Otherwise, the terms and conditions should remain the same. As the changes are aimed at stimulating lending by the counterparties to non-financial corporations and both changes are to the benefit of the counterparties, the new conditions should also apply to the credits already granted within the scope of the funding for lending programme.

By extending the maturity of the loans, the monetary policy counterparties can ensure longer-term financing for their loans to non-financial corporations. All else being equal, this should reduce the counterparties' costs, as the programme's basic interest rate will still be the repo rate, while market financing is normally more expensive at longer maturities. The lower interest supplement can also reduce counterparties' costs. These reliefs and lower costs will give counterparties the conditions to reduce their costs for onward lending to the non-financial corporations, on both new and existing loans.

All in all, the purpose of the programme is to contribute to a healthy and good supply of credit, where robust companies have the opportunity to borrow from the banks. In the current situation, the Riksbank assesses that the lending programme fulfils an important function so that counterparties can maintain the credit supply to companies on good terms. Moreover, the programme offers a form of insurance in case developments were to deteriorate, as the banks are guaranteed access to long-term financing at low costs.

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. Extending the programme for funding for lending in accordance with this decision is only judged to marginally increase the financial risks. Because of the high level of awareness about the risks and the efficient approach to risk management



employed in the Riksbank's operations, the risks associated with the programme, after the addition of these supplementary rules, are deemed manageable for the Riksbank.

It is the responsibility of the Head of the Markets Department, with the right to delegate to another person, to determine the precise details regarding the terms for, and information on, the loan programme. The decision will 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.