



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

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Annex to the minutes B

DATE: 9 February 2021
DEPARTMENT: Markets Department, Monetary Policy Department and Financial Stability Department

The Riksbank's asset purchases during the second quarter of 2021

Decision by the Executive Board

The Executive Board decides

1. that the Riksbank within the scope of the programme for purchasing assets for monetary policy purposes to a nominal amount of up to SEK 700 billion, in addition to offering to purchase from monetary policy counterparties bonds issued in Swedish krona by Swedish non-financial corporations pursuant to the decisions on 30 June 2020 and 25 November 2020, between 1 April and 30 June 2021 shall
 - a. purchase Swedish nominal and real government bonds and the Swedish state's green bonds to a total nominal amount of SEK 12 billion,
 - b. purchase Swedish treasury bills to such a total nominal amount that the Riksbank's holdings of treasury bills acquired within the scope of the purchase programme on 30 June 2021 amount to SEK 20 billion,
 - c. purchase bonds issued by Swedish municipalities and regions and by Kommuninvest i Sverige AB for a nominal amount of SEK 15 billion, which may also include purchases of green municipal bonds,
 - d. purchase covered bonds issued by Swedish institutions to a nominal amount of SEK 60 billion, and
 - e. offer to purchase from monetary policy counterparties commercial paper issued in Swedish krona by Swedish non-financial corporations to such a nominal amount that the Riksbank's holdings in commercial paper acquired within the scope of the asset purchase programme at each time of purchase do not exceed SEK 32 billion,
2. to give the Head of the Markets Department the task of determining, with the right to delegate this task 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, the exact dates and offered amounts at each auction and purchase offer, and on the details regarding the terms and conditions for, and information on, the Riksbank's purchases of the respective type of asset included in the purchase programme,

3. that the Head of the Markets Department, with the right to delegate this task to another, shall at least once every second month consult with the Executive Board regarding guidelines for the Riksbank's purchases of the respective type of asset to be made in the period up to the next consultation, and
4. to publish the decision on Wednesday, 10 February 2021, at 09.30 am.

Background

As part of the measures to counteract the effects of the coronavirus pandemic on the Swedish economy, the Riksbank has been implementing, since March 2020, an extensive programme for purchasing assets for monetary policy purposes. The programme, which has been adjusted a number of times since March 2020, includes, with effect from 1 January 2021, purchases of Swedish treasury bills and government bonds, bonds issued by Swedish municipalities and regions and Kommuninvest i Sverige AB, covered bonds issued by Swedish institutions and bonds and commercial paper issued by Swedish non-financial corporations. Within the scope of this programme, the Riksbank is purchasing the Swedish state's green bonds and green municipal bonds. Moreover, the purchases of corporate bonds are limited to bonds issued by companies deemed to comply with international standards and norms for sustainability.

The Riksbank's measures have contributed to developments on the financial markets gradually stabilising, resulting in lower interest rates and better functionality. This has enabled robust companies to ensure their financing during the crisis. However, the increased spread of virus in autumn 2020, and the setback to the recovery expected to result from this at the end of November justified, according to the Executive Board's assessment, the Riksbank using asset purchases to support the economy over a longer period of time and to a greater extent, as well as at a faster pace than the purchase programme established by the Executive Board at the end of June 2020. Therefore, the Executive Board decided on 25 November 2020 that the Riksbank should continue to purchase assets until 31 December 2021, and that these purchases should amount to a nominal total of up to SEK 700 billion (ref.no. 2020-00861).

Up to, and including, 5 February 2021, the Riksbank has purchased within the scope of this programme treasury bills for SEK 3.0 billion, government bonds for SEK 50.7 billion, municipal bonds for SEK 49.2 billion, covered bonds for SEK 238.0 billion, commercial paper for SEK 11.9 billion and corporate bonds for SEK 4.4 billion.

By the decision of 25 November 2020, the Executive Board also determined a plan for the Riksbank's purchases of assets during the first quarter of 2021. In this decision, the Executive Board returns with its considerations regarding continued purchases during the second quarter of 2021.

Considerations

The coronavirus pandemic is continuing to dominate economic developments both in Sweden and abroad. A second wave of infection has hit many countries since autumn 2020, leading to restrictions to reduce the spread of virus being tightened once again. The economic recovery that began in summer 2020 has therefore been slowed down, although the Swedish economy has not been affected as severely as during the first wave. While the labour market overall has continued to improve, and production in the manufacturing industry is back at pre-crisis levels, consumer service companies and parts of the retail trade still find themselves in a worrying position. However, the fact that vaccination has begun around the world, together with the economic policy support measures, is expected to create the conditions for a recovery. There is, nevertheless, still considerable uncertainty over future developments. This applies both to the speed at which vaccinations can be administered around the world, and to the effect new mutations of the virus may have on the development of the pandemic.

The various measures implemented by the Riksbank over the past year to counteract the negative effects of the pandemic on the economy are helping to ensure that the interest rates charged to households and companies are kept low and that the credit supply functions. The Riksbank's measures have thus also contributed to the Swedish economy being relatively resilient to the second wave of the pandemic. However, the risk of renewed unease on the financial markets still remains, if the pandemic were to worsen and become more protracted than is assumed in the current assessment. The situation on the financial markets is characterised by expectations that governments and central banks will continue supporting the economy with extensive economic policy measures for some time to come. To facilitate the economic recovery and create the conditions for inflation to rise towards the target, monetary policy needs to remain expansionary so that the low interest rates are maintained and the credit supply is not negatively affected.

Purchases of assets during the second quarter of 2021

In that the Riksbank continues to purchase assets within the scope of the extended and expanded purchase programme in accordance with the decision by the Executive Board on 25 November 2020, the Swedish economy is assessed to be able to get necessary support from monetary policy even after 31 March 2021. This means that the purchases during the second quarter of 2021 shall be implemented to an extent that is in line with the Executive Board's earlier assessment. The Riksbank will thus maintain its expansionary monetary policy with a focus on low interest rates and good access to liquidity and credit, and thereby contribute to a continued recovery in the economy.

The purchases included in this decision shall furthermore be implemented with such an allocation and according to such terms and conditions that they can be assessed as compatible with the appropriate provisions regarding prohibition of monetary financing. The prohibition of monetary financing means that the Riksbank's purchases of securities issued by the state or other public body shall be subject to certain terms and conditions which mean that these actors must mainly rely on the markets in the part of their funding that is conducted by issuing securities (cf. the European Court of Justice's decisions on 11 December 2018 in the case C-493 C/17 Weiss and Others, point 141). This means that the purchase programme will continue to be designed based on the



principle that the Riksbank should not hold a predominant share of the total outstanding stock of securities issued by the Swedish central government, Swedish municipalities and regions, as well as Kommuninvest i Sverige AB and publicly-owned companies.

It is therefore appropriate that, between 1 April and 30 June 2021, the Riksbank shall purchase nominal and real Swedish government bonds and the Swedish state's green bonds for a total nominal value of SEK 12 billion, bonds issued by Swedish municipalities and regions as well as Kommuninvest i Sverige AB for a nominal amount of SEK 15 billion, and covered bonds issued in Swedish krona by Swedish institutions for a nominal amount of SEK 60 billion. Within the amount allocated for purchase of municipal bonds, the Riksbank may also purchase green bonds issued by Swedish municipalities and regions and Kommuninvest i Sverige AB.

In a corresponding way, it is appropriate that the Riksbank continues to purchase Swedish treasury bills during the same period. The treasury bills the Riksbank buys during the first quarter of 2021, in accordance with the Executive Board's decision of 25 November 2020, will begin to mature already during the second quarter of the year. The Riksbank therefore needs to ensure that the purchases of treasury bills continue to contribute to keeping interest rates low in a way that is compatible with the purpose of the purchase programme by aiming the coming purchases at attaining an appropriate holding of treasury bills at the end of the quarter. It is also appropriate that the Riksbank when implementing the purchase programme takes into account the short-term character of treasury bills and their regular maturity structure in such a way that the holdings of these securities shall be accommodated within the scope of the programme of up to SEK 700 billion. Consequently, during the period 1 April to 30 June 2021, the Riksbank shall purchase these securities to such a nominal total amount that the total holdings of treasury bills in the Riksbank's asset portfolio amount to SEK 20 billion on 30 June 2021.

In addition to the purchases of bonds and treasury bills as described above, during the second quarter of 2021 the Riksbank shall also offer to buy commercial paper issued in Swedish krona by Swedish non-financial corporations to such an extent that the Riksbank's total holdings of these securities at each time of purchase do not exceed SEK 32 billion.

The Riksbank's asset purchases are justified in terms of monetary policy and are made with the support of Chapter 6, Article 5 of the Sveriges Riksbank Act (1988:1385). For the Riksbank to ensure that these purchases have a broad impact on interest rate formation, they should continue to be made in a market-neutral way and through a bid procedure on the secondary market in accordance with the instructions in the Executive Board's decision on purchases of government bonds dated 27 April 2020 (ref.no. 2020-00380), covered bonds dated 27 April 2020 (ref.no. 2020-00401), municipal bonds dated 15 May 2020 (ref.no. 2020-00511) and commercial paper dated 8 May 2020 (ref.no. 2020-00418). When purchasing assets, the Riksbank strives for a relatively even distribution among different bonds. As the Riksbank's holdings of government bonds at the time of this decision largely consist of nominal government bonds with a maturity of under 10 years, the purchases of nominal government bonds shall until further notice be allocated at longer maturities.

The management of green government bonds and green municipal bonds shall follow the instructions in the Executive Board's decision dated 25 November 2020 (ref. 2020-00861), which means that they shall be managed according to the same terms as apply to the other government bonds and the municipal bonds within the scope of this purchase programme.

Correspondingly, the purchases of treasury bills shall be made in accordance with the instructions in the part of the Executive Board's decision dated 25 November 2020 that refers to these securities. To achieve the purpose of the purchase programme given the purchase amount decided and the prevailing market conditions, it is also appropriate that these purchases are made every second week during the second quarter of 2021.

The purchases of corporate bonds are not affected by this decision. Consequently, the purchases will be made during the second quarter of 2021, to an amount conforming with the decision made by the Executive Board on 30 June 2020, which means that the Riksbank up to, and including, 30 June 2021 shall offer to purchase from monetary policy counterparties bonds issued in Swedish krona by Swedish non-financial corporations to a nominal amount of SEK 10 billion (ref.no. 2020-00744). When making these purchases the Riksbank shall take into account the instructions in the same decision and in the Executive Board's decision of 31 August 2020, as well as the additional instructions provided for in the Executive Board's decision on sustainability dated 25 November 2020.

As in the corresponding assessment at the time of the decisions of 30 June, 31 August and 25 November 2020, the purchases to be made in accordance with this decision are deemed to entail somewhat increased financial and operational risks for the Riksbank. The increase in the financial risks is counteracted to some extent by norm-based negative screening when purchasing corporate bonds. The risks in question are assessed to remain manageable.

Detailed design of the purchase programme

It is the responsibility of the Head of the Markets Department, with the right to delegate to another person, to determine the exact date and offered amounts at each auction and offer to purchase, and on the details regarding terms and conditions for, and information on the Riksbank's purchases of assets included in this programme. 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 each of them to delegate to another person.

The Head of the Markets Department, or the person to whom the Head of the Markets Department has delegated this task, shall also consult with the Executive Board. The consultations with the Executive Board shall be held at least once every second month and concern the guidelines for the purchases of the respective type of asset in the period up to the next consultation, provided that market conditions at any particular time do not give rise to a need for more frequent consultation.

The Head of the Markets Department, or the person to whom the Head of the Markets Department has delegated this task, shall also inform the Executive Board if developments on the financial markets motivate an amendment to the Riksbank's asset purchase programme.

At the time of this decision, there is still considerable uncertainty regarding economic developments, both in 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 being evaluated and will be adjusted to economic developments. The Executive Board is therefore prepared to take further measures and to provide the necessary liquidity, even between ordinary monetary policy meetings. The Executive Board can also always adjust the plan for asset purchases that applies at any given time by deciding to raise or lower the purchase amount for the respective type of asset in accordance with an updated policy assessment. It is also fully possible that the Executive Board decides to cut the repo rate should it consider this measure appropriate with respect to monetary policy requirements.