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Annex B to the minutes

DATE: 26 April 2021
DEPARTMENT: Markets Department, Monetary Policy Department and Financial Stability
Department

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

Decision by the Executive Board

The Executive Board decides

1. that the Riksbank within the scope of the asset purchase programme for monetary policy purposes to a nominal amount of up to SEK 700 billion shall, between 1 July and 30 September 2021,
 - a. purchase Swedish nominal and real government bonds and the Swedish state's green bonds to a total nominal amount of SEK 10 billion,
 - b. purchase Swedish treasury bills to such a nominal total amount that the Riksbank's holdings of treasury bills 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 13 billion, which may also include purchases of green municipal bonds,
 - d. purchase covered bonds issued in Swedish krona by Swedish credit institutions to a nominal amount of SEK 50 billion,
 - e. offer to purchase from monetary policy counterparties corporate bonds issued in Swedish krona by Swedish non-financial corporations to a nominal amount of SEK 2 billion, and
 - f. 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 of 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 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 to another, the exact dates and offered amounts at each auction and purchase offer, and 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 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 Tuesday 27 April 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 asset purchase programme 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 (below also called municipal bonds), covered bonds issued by Swedish credit 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. The scope and focus of the measures have continually been adapted to changes in the economic outlook. On 25 November 2020, the Executive Board decided that the Riksbank's programme for purchasing assets for monetary policy purposes would be extended to 31 December 2021, and would include purchases of securities issued in Swedish krona to a total nominal amount of up to SEK 700 billion (ref.no. 2020-00861). On 9 February 2021, the Executive Board adopted a plan for the Riksbank's purchases of securities during the second quarter of 2021 (ref.no. 2021-00257).

From the start of the asset purchase programme in March 2020 until 23 April 2021, the Riksbank has, within the scope of this programme, purchased government bonds for SEK 62.8 billion, municipal bonds for SEK 71.2 billion, covered bonds for SEK 298.0 billion and corporate bonds for SEK 7.7 billion. By 23 April 2021, the Riksbank's purchases of treasury bills and commercial paper had resulted in holdings of treasury bills that amounted to SEK 13.5 billion and in holdings of commercial paper that amounted to SEK 0.3 billion. Through the asset purchase programme, the Riksbank's holdings of securities had until 23 April 2021 increased by SEK 453.5 billion.

In this decision, the Executive Board returns with its considerations regarding continued purchases during the third quarter of 2021.

Considerations

The economic recovery is continuing abroad and in Sweden, even if the recovery has proceeded slowly over the last six months due to the faster spread of infection and stricter restrictions. Vaccinations are continuing and, in many countries, extensive fiscal and monetary policy stimulus has been implemented. The conditions are therefore good for demand to return quickly when the restrictions are eased, even if the speed of the recovery so far has varied considerably between different sectors and countries. In Sweden, economic activity has developed relatively well and, during the second half of 2021, Sweden's GDP is expected to return to pre-crisis levels. However, at that point in time the pandemic will have entailed a year and a half of lost growth and some sectors have been impacted particularly severely. According to the Riksbank's assessment, the pandemic will have some long-term effects and the unemployment rate will remain at an elevated level for several years. In addition, there is still considerable uncertainty over future developments. There is a risk that vaccinations will not proceed as quickly or be as effective against new mutations of the virus, which could affect the development of the pandemic. There is also significant uncertainty over the economic damage of the pandemic in the longer term.

Over the last year, the Riksbank has taken several different measures to counteract the negative effects of the pandemic on the economy. These measures are helping to keep the interest rates faced by households and companies low and to support the supply of credit. Monetary policy has thus also contributed to the Swedish economy being relatively resilient as the spread of infection has increased. It is positive that the recovery is now expected to proceed slightly more rapidly than in previous assessments. Nevertheless, there is still considerable uncertainty over the recovery. Even if increased resource utilisation is contributing to cost pressures rising and inflation thus gradually approaching the target of 2 per cent, a continued expansionary monetary policy will be needed over the next few years to support the economy and for inflation to become close to the inflation target more permanently.

Purchases of assets during the third quarter of 2021

In that the Riksbank continues to purchase securities 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 have the necessary support from monetary policy also after 30 June 2021. The scope of the purchases carried out in the third quarter of 2021 is in line with the Riksbank's previous communication and with expectations among market participants. The Executive Board's decision on continued asset purchases means that the Riksbank is maintaining the expansionary monetary policy with a focus on low interest rates and good access to liquidity and credit for companies and households. Monetary policy is thereby supporting the continued recovery of the economy.

The purchases included in this decision shall 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, in accordance with the instructions in the Executive Board decision dated 9 February 2021 (ref.no. 2021-00257). 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 state, Swedish municipalities and regions, as well as Kommuninvest i Sverige AB and publicly-owned companies.

It is therefore appropriate that between 1 July and 30 September 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 10 billion, municipal bonds for a nominal amount of SEK 13 billion, and covered bonds issued in Swedish krona by Swedish credit institutions for a nominal amount of SEK 50 billion. Within the amount allocated for purchases of municipal bonds, the Riksbank may continue to purchase green municipal bonds.

Correspondingly, it is appropriate that the Riksbank should continue to purchase Swedish treasury bills during the same period. The treasury bills the Riksbank has purchased so far in 2021 have, to some extent, fallen due and will continue to fall due in the third quarter of 2021. It is therefore appropriate that between 1 July and 30 September 2021, the Riksbank shall purchase these securities to such a nominal total amount that the total holdings of treasury bills in the Riksbank's securities portfolio amounts to SEK 20 billion, in accordance with the instructions in the Executive Board decision dated 9 February 2021 (ref.no. 2021-00257).

In addition to the purchases of bonds and treasury bills as described above, during the third quarter of 2021, the Riksbank shall offer to buy bonds issued in Swedish krona by Swedish non-financial corporations to a nominal amount of SEK 2 billion. 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 on each occasion 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). Continued offers to purchase bonds, treasury bills and commercial paper are contributing to a broad pass-through of monetary policy on interest rate formation. Through its presence on the markets for these securities, the Riksbank is also making sure it has capacity to rapidly extend the scope of purchases. Such an extension of the purchase programme may become appropriate if monetary policy needs to be made more expansionary in the future or if disruptions impeding the pass-through of monetary policy occur in the financial markets.

Instructions for purchases in the third quarter and risk assessment

For the Riksbank to ensure that the asset purchases have a broad pass-through on rate setting, they should continue to be made in a market-neutral way and through a bid procedure on the secondary market. Purchases of corporate bonds can also be made on the secondary market in the form of bilateral purchases; see the instructions conferred by the Executive Board decision of 31 August 2020 (ref.no. 2020-00861) and 6 November 2020 (ref.no. 2020-01133). Purchases of corporate bonds shall also comply with the instructions in the Executive Board decision on sustainability dated 25 November 2020 (ref.no. 2020-00861).

The Riksbank's purchases of government bonds shall be in accordance with the instructions in the Executive Board decision on government bond purchases dated

27 April 2020 (ref.no. 2020-00380). At the time of this decision, the Riksbank's holdings largely consist of nominal government bonds with a maturity of under 10 years. Consequently, until further notice, purchases of nominal government bonds should mainly be allocated at longer maturities.

The Riksbank's offer to purchase municipal bonds shall be made in accordance with the instructions in the Executive Board decision dated 15 May 2020 (ref.no. 2020-00511) so that the Riksbank's holdings of municipal bonds over time reflect the outstanding stock of bonds, for example as regards issuer, maturity and credit rating.

The purchase of green government bonds and green municipal bonds shall follow the instructions in the Executive Board's decision dated 25 November 2020 (ref.no. 2020-00861), which means that they shall be managed according to the same conditions as apply to the other government bonds and the municipal bonds within the scope of this purchase programme.

Purchases of covered bonds shall be made in accordance with the instructions in the Executive Board decision on purchases dated 27 April 2020 (ref.no. 2020-00401) and shall include bonds with maturities of over one year.

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 (ref.no. 2020-00861). To achieve the purpose of the purchase programme given the purchase amount decided and the prevailing market conditions, it is, at the same time, appropriate that these purchases mainly be made every second week during the third quarter of 2021.

Purchases of commercial paper shall comply with the instructions in the Executive Board decisions dated 8 May 2020 (ref.no. 2020-00418) and 6 November 2020 (ref.no. 2020-01133).

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 have to be weighed against their potential drawbacks and risks. In the same way as for the corresponding assessment in the decisions dated 30 June, 31 August and 25 November 2020, as well as 9 February 2021, the purchases to be made in accordance with this decision are deemed to entail slightly increased financial and operational risks for the Riksbank. At the same time, the increase in the financial risks is counteracted to some extent by norm-based negative screening when purchasing corporate bonds. The Riksbank deems that the advantages following from the various asset purchases will outweigh any possible disadvantages. The current risks are still deemed 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 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 person to whom the Head of the Markets Department has delegated, shall also consult with the Executive Board. The consultations with the Executive Board shall be held at least once every second month and refer to guidelines for the purchases of the respective type of asset in the period up to the next consultation, on condition 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 person to whom the Head of the Markets Department has delegated, 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 supply 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 will decide to cut the repo rate should it consider this measure appropriate with respect to monetary policy requirements.