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Annex B to the minutes

DATE: 27 April 2022
DEPARTMENT: Markets Department, Monetary Policy Department and Financial Stability
Department

The Riksbank's purchases of treasury bills and purchases of bonds during the second half of 2022

Decision by the Executive Board

The Executive Board decides

1. that between 1 July and 31 December 2022, the Riksbank shall
 - a. purchase Swedish government bonds for a nominal amount of SEK 12 billion, which may also include the purchase of the Swedish State's green bonds,
 - b. purchase bonds issued by Swedish municipalities and regions and by Kommuninvest i Sverige AB for a nominal amount of SEK 12 billion, which may also include purchases of green municipal bonds,
 - c. purchase covered bonds issued in Swedish kronor by Swedish credit institutions for a nominal amount of SEK 12 billion, and
 - d. purchase bonds issued in Swedish kronor by Swedish non-financial corporations for a nominal amount of SEK 1 billion, which may also include the purchase of green bonds,
2. that the Riksbank shall cease buying Swedish treasury bills with effect from 28 April 2022,
3. 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, to decide on 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,

4. that the Head of the Markets Department, with the right to delegate this to another, shall at least once every second month also 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
5. to publish the decision on Thursday 28 April 2022, at 09.30.

Background

As part of the measures to counter the effects of the coronavirus pandemic on the Swedish economy, the Riksbank implemented a comprehensive programme for the purchase of assets for monetary policy purposes, starting in March 2020. The programme included purchases of Swedish treasury bills and government bonds, bonds issued by Swedish municipalities and regions and Kommuninvest i Sverige AB (below also referred to as municipal bonds), 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 bought the Swedish state's green bonds and green municipal bonds. Moreover, the purchases of corporate bonds were limited to bonds issued by companies deemed to comply with international standards and norms for sustainability. The programme expired on 31 December 2021.

This asset purchase programme and the Riksbank's other measures during the pandemic have contributed to a gradual stabilisation of the financial markets, resulting in lower interest rates and better functionality. The programme has therefore contributed to the recovery in the Swedish economy. The scope and focus of the measures have continually been adapted to changes in the economic outlook.

From the start of the asset purchase programme in March 2020 until it expired on 31 December 2021, the Riksbank purchased government bonds for SEK 91.0 billion, municipal bonds for SEK 109.0 billion, covered bonds for SEK 435.0 billion and corporate bonds for SEK 13.0 billion. At that time, the Riksbank no longer had any holdings of commercial paper. The Riksbank's purchases of treasury bills had resulted in holdings amounting to SEK 20.0 billion on 31 December 2021. Together with the government bonds purchased by the Riksbank in accordance with decisions taken before the pandemic, this means that the Riksbank's total asset holdings amounted to SEK 926.5 billion as of 31 December 2021.

To keep the holdings approximately unchanged, the Riksbank has during the period 1 January to 26 April 2022 purchased government bonds for SEK 15.7 billion, municipal bonds for SEK 15.2 billion, covered bonds for SEK 14.0 billion and corporate bonds for SEK 1.2 billion. The Riksbank's purchases of treasury bills during the same period have resulted in a holding equivalent to SEK 22.1 billion. In total, the Riksbank's asset holdings amounted in nominal terms to SEK 960.9 billion on 26 April 2022.

Considerations

The fluctuations in demand during the pandemic created disruptions in global value chains. The rapid recovery in the global economy, combined with disruptions to freight and production meant that inflation rose rapidly in many countries last year. The upturn continued at the beginning of 2022, with the highest listings for several decades in the

United States, the United Kingdom and the euro area. Energy prices are one important explanation for this, but the price increases have spread further and reflect not only the direct effects of high oil and gas prices. As inflation has risen, many central banks have raised or signalled raises in their policy rates and have adjusted purchases and holdings of securities in a more restrictive direction. As market participants are now expecting faster monetary policy tightening, bond yields have risen rapidly.

At the same time, the geopolitical situation in Europe has deteriorated significantly, with Russia's invasion of Ukraine. The war has caused great human suffering and led millions of people to flee. The economic consequences are difficult to predict. However, there is much to suggest that the war and the western world's sanctions against Russia will hold back growth this year. At present, the most apparent effect of the war is that uncertainty has increased regarding access to, for instance, oil, natural gas and grains. World market prices for fossil fuels have risen and higher prices for energy and food are expected to push inflation up further in a situation where it is already high.

In Sweden, GDP increased rapidly last year. A slowdown in growth is expected this year, partly as a result of demand from abroad dampening in the short term, and partly as a result of the increased uncertainty for households and companies caused by the war in Ukraine. Despite this uncertainty, household consumption will probably develop strongly in the near future as consumption patterns are becoming more and more in line with what they were before the pandemic. However, high inflation and rising interest rates will contribute to household consumption and business sector investment being weaker than the Riksbank assessed in February. All in all, GDP growth is still expected to be fairly good, but the assessment has been revised downwards. Unemployment is expected to fall, but not to the same low level as in the previous assessment.

Inflation was 6.1 per cent in March, which is the highest level measured in Sweden since the beginning of the 1990s. Inflation has risen since the middle of last year, which is largely explained by rapid price increases on energy. Energy prices have risen further since the Russian invasion of Ukraine and this pushes up CPIF inflation. When adjusted for energy prices, inflation was relatively moderate in 2021, but then rose rapidly at the start of 2022. CPIF inflation excluding energy was 4.1 per cent in March.

Outcomes point to the upturn now being broad. In addition to energy prices, a clear upturn in the rate of price increase is visible for both food and other goods and services. Monetary policy cannot affect the high internationally determined commodity and freight prices and the price increases for energy, food and certain goods, for example, will remain high for some time to come. The Riksbank's forecast for underlying inflation has therefore been clearly revised upwards. Underlying inflation is expected to continue rising in the coming period, and to be over 5 per cent up to the end of the year. However, the Riksbank can counteract the higher inflation becoming established in price-setting and wage-formation, and make sure that inflation returns to the target after a period of time. Monetary policy must therefore be adapted so that inflation falls back and price-setting and wage-formation in the economy can continue to use the inflation target as a benchmark.

Asset purchases during the second half of 2022 and no purchases of treasury bills during the remainder of the second quarter of 2022

The asset purchase programme initiated in March 2020 expired on 31 December 2021 (ref.no. 2020-00861). The Executive Board now decides on the purchase of securities during the second half of 2022, which means that purchases are halved during the second half of the year compared with the first half of 2022. The assessment is that the Riksbank's holdings of securities should decrease slightly during 2022 and that this support to the economy will thereby decline. The forecast is that the holding will continue to decline after 2022. This contributes to inflation returning to the target slightly further ahead.

The Riksbank does not consider it appropriate to reduce the holding of bonds by SEK 46.6 billion during the second half of the year, that is, the same amount that matures during the period. It is uncertain to what extent the financial conditions will be affected by the Riksbank's ceasing to purchase bonds. There is therefore reason to change the holding gradually so as not to risk contributing to a degree of uncertainty which has moreover increased recently as a result of geopolitical developments. However, the Riksbank does consider that there is little risk that the market for Swedish treasury bills would be affected in this way. The Riksbank can therefore, with an amendment to item 1b of the decision of 9 February (ref.no. 2022-00151), terminate these purchases immediately.

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 the 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 purchases will continue to be designed based on the principle that the Riksbank should not hold a predominant share of the total outstanding stock of assets 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 31 December 2022, the Riksbank shall purchase Swedish government bonds for a total nominal amount of SEK 12 billion, municipal bonds for a nominal amount of SEK 12 billion and covered bonds issued in Swedish krona by Swedish credit institutions for a nominal amount of SEK 12 billion. Within the amount allocated for purchases of government and municipal bonds, the Riksbank may continue to purchase green government and municipal bonds. In addition to these purchases, the Riksbank shall during the second quarter of 2022 purchase bonds issued in Swedish kronor by Swedish non-financial corporations for a nominal amount of SEK 1 billion.

The Riksbank's asset purchases are justified for monetary policy reasons and are made pursuant to Chapter 6, Article 5 of the Sveriges Riksbank Act (1988:1385).

Instructions for purchases during the second half of the year and risk assessment

For the Riksbank to ensure that the asset purchases have a broad pass-through into rate-setting, they should continue to be made in a market-neutral way and through bid procedures 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). The government bond with the original maturity of 50 years, issued by the Swedish National Debt Office in June 2021, will not be included in the Riksbank's purchase of nominal government bonds.

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

The purchases 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 terms and conditions as apply to the other government bonds and municipal bonds respectively.

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.

The Riksbank's measures normally have several different, partly uncertain and sometimes unpredictable, consequences for the social economy and the Riksbank's own finances. The benefits of each measure from a monetary policy perspective need to be weighed against its potentially negative impact on the financial system, such as changed expectations from various agents and other long-term risks. The purchases to be made in accordance with this decision entail some increased financial risks for the Riksbank, in relation to not making the purchases. 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 considers that the benefits of the various asset purchases outweigh their possible drawbacks. The current risks are still deemed to be manageable.

Detailed design of the asset purchases

It is the responsibility of the Head of the Markets Department, with the right to delegate to another person, to decide on the exact date and offered amounts at each respective auction and offer to purchase, and on the closer details regarding terms and conditions for, and information on, the Riksbank's purchases of assets. 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 the task, shall also inform the Executive Board if developments on the financial markets may motivate an adjustment of the Riksbank's asset purchases.

Monetary policy needs to be constantly adapted to changes in the economic outlook and inflation prospects. The Riksbank stands prepared to adjust expansiveness in either direction. The Executive Board may cut the repo rate or, in some other way, make monetary policy more expansionary if inflation prospects weaken. This applies in particular if confidence in the inflation target were to be under threat. On the other hand, if inflation were expected to exceed the target in a substantial and lasting manner, a less expansionary monetary policy would be justified. One adjustment to reduce expansiveness could take place via repo rate rises and/or the reduction of asset holdings.