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Annex A to the minutes

DATE: 17 March 2020
Monetary Policy Department, Markets Department and Financial Stability
DEPARTMENT: Department

Government bond purchases for monetary policy purposes

Decision by the Executive Board

The Executive Board decides

1. that the Riksbank will on Wednesday, 18 March 2020, purchase nominal Swedish government bonds for a nominal amount of SEK 2.5 billion over and above the previously-decided purchases of government bonds during the period July 2019–December 2020, in accordance with the description in the annex,
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 them to delegate this task to another, the details regarding the terms and conditions for, and information about, the Riksbank's purchases of government bonds, and
3. to publish this decision on Tuesday, 17 March 2020, at 17:00.

Background

The spread of the coronavirus is having widespread humanitarian consequences and is affecting the global and Swedish economies to an increasing extent. This has led to large fluctuations on the financial markets. Several countries' economies have been significantly affected by the restrictions on, among other things, travel, transport and public gatherings as a result of government decisions. Operations in many companies have been limited temporarily or closed down, which is expected to have consequences for future economic developments.

To support economic developments and ensure inflation stays close to the Riksbank's target of 2 per cent, the Riksbank is currently holding the repo rate at zero per cent. As a complementary monetary policy measure, the Riksbank has also purchased a significant volume of Swedish government bonds since February 2015.

The aim of the expansionary monetary policy is to support demand, output and employment in Sweden, to stabilise inflation around the target of 2 per cent and to keep inflation expectations compatible 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.

The Riksbank's monetary policy has had a broad impact on financial conditions in the Swedish economy in recent years, and has contributed to good economic growth and an inflation rate close to the target in recent years. CPIF inflation has fallen back in recent months as a result of falling energy prices, but excluding energy prices, the inflation rate is close to 2 per cent.

However, the spread of the coronavirus will inevitably have clearly negative effects on economic activity in Sweden, although it is too early to say how serious the effects will be and how long they will last. It is nevertheless already clear that companies in the tourism sector have been hard hit by the restrictions introduced and the precautionary measures taken. Hotels, travel agencies and restaurants are reporting small numbers of visitors and extensive cancellations. As a consequence of this, several companies have reduced their operations and large numbers of employees have been given notice of redundancy in recent days.

The Riksbank's contacts with the financial sector in Sweden and abroad indicate that there are incipient signs of liquidity problems on the financial markets. The continued turbulence on these markets means that credit supply in the Swedish economy could rapidly deteriorate. This could aggravate the downturn in the economy and lead to prolonged negative consequences for output and employment in Sweden. Weaker demand in the economy will probably lead to a fall in inflation.

Considerations

As part of its expansionary monetary policy, the Riksbank has been purchasing nominal and real Swedish government bonds since February 2015. The Executive Board decided in April 2019 to purchase, during the period July 2019–December 2020, nominal Swedish government bonds for a nominal amount of SEK 40 billion and real Swedish bonds for a nominal amount of SEK 5 billion. These purchases are spread evenly throughout the period.

At the end of February 2020, the Riksbank's government bond holdings amounted to almost SEK 340 billion, expressed as a nominal amount. The purchases have meant that the liquidity surplus of the banks in relation to the Riksbank has increased, and at the end of February amounted to around SEK 440 billion.

To keep monetary policy expansionary, provide support to the economy and support credit supply broadly in the Swedish economy, the Executive Board decided on 16 March 2020 to extend the purchases of government bonds in the period March–December 2020 and also to purchase bonds issued by Swedish municipalities and Kommuninvest i Sverige AB, as well as covered bonds issued by Swedish institutions. The total nominal amount for these purchases will amount to up to SEK 300 billion.

In connection with the decision on these bond purchases, the Executive Board stressed that the purchases of government bonds should be initiated immediately. Consequently,



it is appropriate that on Wednesday, 18 March 2020, the Riksbank should purchase nominal Swedish government bonds to a nominal amount of SEK 2.5 billion, in addition to the purchases of government bonds decided by the Executive Board in April 2019.

These purchases are a first step in the programme for bond purchases decided on 16 March 2020. The current purposes are justified in terms of monetary policy as described above, pursuant to Chapter 6, Article 5 of the Sveriges Riksbank Act (1988:1385). The government bond purchases are judged to be compatible with the appropriate provisions regarding monetary financing, cf. the European Court of Justice's decisions on 16 June 2015 in the case C-62/14 Gauweiler and others and on 11 December 2018 in the case C-493/17 Weiss and others.

Economic developments and the situation on the financial markets, both in Sweden and other countries, are now deteriorating very rapidly. Given this, the Riksbank is prepared to take further measures and to supply liquidity as needed, even between ordinary monetary policy meetings. All of the Riksbank's tools can be put to use. How the tools will be used depends on future developments.

Annex

Facts regarding the Riksbank's purchases of nominal Swedish government bonds on Wednesday, 18 March 2020, in accordance with the provisions of the applicable general terms and conditions.

Total nominal amount:	SEK 2.5 billion.
Type of security:	Nominal bonds issued in Swedish krona by the State of Sweden through the Swedish National Debt Office.
Auction:	Wednesday, 18 March 2020.
Announcement of more detailed terms for purchases:	Special terms and conditions will be published one bank day before the Bid procedure.
Form of purchase:	Bid procedure, multiple price method, differentiated pricing on allocation.
Eligible bidders:	<p>Those of the Riksbank's monetary policy counterparties and the Swedish National Debt Office's current primary dealers in nominal Swedish government bonds that are eligible to participate as bidder under the applicable general terms and conditions.</p> <p>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.</p>
Bid procedure:	Bids regarding rate and volume are to be made via Bloomberg Bond Auction System between 12:00 and 13:00 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:	<p>Shall be made the second banking day after the auction concerned in Euroclear Sweden's securities settlement system.</p> <p>Counterparties are obliged to ensure that the Bonds supplied to the Riksbank have not been obtained</p>



	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 (see the Riksbank's website).