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Annex to the minutes

DATE: 23 March 2020
Monetary Policy Department, Markets Department
DEPARTMENT: and Financial Stability Department

New loan opportunities within corporate loan programme

Decision by the Executive Board

The Executive Board decides

- that the Riksbank will, within the corporate loan programme via monetary policy counterparties, on four occasions between 27 March and 17 April 2020, offer a total of SEK 400 billion to monetary policy counterparties against collateral for the purpose of increasing their lending in Swedish krona to Swedish non-financial companies, in accordance with the description in the Annex to this decision,
- 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
- to publish the decision on Monday 23 March no later than 17.00.

Background

The corona pandemic is having widespread humanitarian consequences and is affecting the global and Swedish economies to an increasing extent. It is 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. Many companies are also expressing concern that the situation will worsen. For instance, several of the larger manufacturing industries see a risk that smaller sub-contractors will experience funding problems.

The Riksbank's contacts with the financial sector in Sweden and abroad indicate that there are signs of liquidity problems on the financial markets. The continued turbulence on these markets means that the 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. In this situation, it is important that the banks continue to provide Swedish non-financial companies with funding so that the credit supply to essential robust companies is not threatened.

Considerations

To keep monetary policy expansionary, provide support to the economy and bolster credit supply broadly in the Swedish economy, the Executive Board decided on 16 March 2020 to purchase bonds in the period March–December 2020 to a total nominal amount of up to SEK 300 billion. This decision covers purchases of government bonds, bonds issued by Swedish municipalities and Kommuninvest i Sverige AB and covered bonds issued by Swedish institutions. On 19 March 2020, the Executive Board decided that during the same period the Riksbank shall also purchase bonds and commercial paper issued by Swedish non-financial corporations. The extended purchases of government bonds were initiated on 18 March 2020, and the purchases of covered bonds will be initiated on 25 March 2020.

Moreover, the Riksbank is implementing a programme for corporate loans in Swedish krona, where banks that are monetary policy counterparties to the Riksbank in accordance with the Executive Board's decision on 12 March 2020 can borrow in total up to SEK 500 billion from the Riksbank for onward lending to Swedish non-financial companies. This programme, which aims to secure a functioning supply of credit to Swedish non-financial companies, was initiated on 20 March 2020, with a first auction of SEK 100 billion.

The Riksbank's measures normally have several different, and partly uncertain, consequences for the economy and the Riksbank's own finances. The benefits of the respective measures therefore have to be weighed against their potential drawbacks and risks. The programme for corporate loans via monetary policy counterparties is assessed to lead to some increase in the Riksbank's credit risk as a result of the scope of the programme and the longer maturity for the loans allocated within the programme compared with the maturity of the Riksbank's monetary policy lending via the standing facilities. However, this credit risk is limited in that the Riksbank only accepts adequate collateral in the corporate loan programme. The increased credit risk may also be reduced, if needed, by increasing the haircut in line with established internal practice and regulations. The financial risk that arises on the balance sheet as a result of the loans is expected to be low, as the lending is at an interest rate corresponding to the repo rate at the time, with an interest rate supplement if the counterparty does not meet the return service requirement in the credit facility. At the same time, the operational risks are expected to increase slightly, at least initially, as the measure entails new operational elements and increased workload. Given the Riksbank's remit and the fact that economic developments are deteriorating very rapidly, the overall assessment is that the marginal increase in risks is acceptable and manageable,



particularly if they are weighed against the expected benefits of the measure in the form of support to credit supply in the economy.

Given the continued developments with regard to the corona pandemic, and bearing in mind the current risk assessment of the measure, it is appropriate that the Riksbank takes the next step in the loan programme and offers in the period 27 March to 17 April 2020, at four different auctions, a total of SEK 400 billion to monetary policy counterparties against collateral for the purpose of increasing their lending in Swedish krona to Swedish non-financial companies.

To create incentives for the banks to pass on the loans to non-financial companies, the lending at these auctions needs to continue to be designed in an attractive manner with regard to both pricing and maturity. The price of the allocated loans will thus amount to a variable rate equivalent to the Riksbank's repo rate, at present 0 per cent, and the loans will have a maturity of 2 years. All monetary policy counterparties will be offered the opportunity to take part in the continuation of the programme. When providing the loans, which will be done through an auction in which the monetary policy counterparties are invited to participate, the Riksbank will continue to accept the same collateral as applies to the Riksbank's credits in RIX in accordance with the current *Terms and Conditions for RIX and monetary policy instruments*.

As in the first auction, it is important to ensure that the loans the Riksbank allocates to its counterparties actually benefit the companies they are aimed at. The Riksbank will therefore follow up and evaluate the counterparties' lending to non-financial companies with the aid of Financial market statistics and the information the counterparties are requested to send in to the Riksbank. If the counterparty's lending to Swedish non-financial companies has not increased at the time of the valuation by at least one fifth of the amount the counterparty has borrowed from the Riksbank, the cost of the loan will be increased by up to 0.20 percentage points.

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.

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).

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 on the Riksbank's programme for corporate loans in Swedish krona via monetary policy counterparties offered during the period 27 March to 17 April 2020.

Total volume:	SEK 400 billion.
Auction dates:	On 27 March, 3 April, 9 April and 17 April 2020.
Amount offered at each auction:	SEK 100 billion.
Maturity:	2 years.
Interest rate:	Floating interest rate equal to the Riksbank's repo rate at that point in time. If the requirement for onward lending is not met, there will be an additional interest rate corresponding to a maximum of 0.20 percentage points.
Eligible bidders:	Those of the Riksbank's monetary policy counterparties that have registered their interest in participating no later than two bank days prior to the Bid procedure.
Bid procedure:	Bids for volumes are made by telephone and confirmed by e-mail on the bid date.
Allocation:	Pro rata. The highest allocation for an individual counterparty is 25 per cent of the total amount offered.
Terms and conditions	Detailed terms and conditions will be published on 23 March 2020 on the Riksbank's website

The programme is aimed at monetary policy counterparties (a total of 22) which at the time of this decision are:

- Avanza Bank AB
- BlueStep Bank AB
- BNP Paribas S.A.
- Citibank Europe plc.
- Danske Bank A/S
- DnB Bank ASA
- Klarna Bank AB
- Kommuninvest i Sverige AB
- Landshypotek Bank AB
- Länsförsäkringar Bank AB (publ)
- Marginalen Bank Bank AB
- Nordea Bank Abp



- Nordnet Bank AB
- Northern Trust Global Services SE
- Santander Consumer Bank AS
- SBAB Bank AB (publ)
- Skandiabanken AB (publ)
- Skandinaviska Enskilda Banken AB
- Sparbanken Syd
- Svenska Handelsbanken AB
- Swedbank AB
- Ålandsbanken Abp