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Annex to the minutes

DATE: 8 May 2020
DEPARTMENT: Monetary Policy Department, Markets Department and Financial Stability Department

Continuing purchases of commercial paper

Decision by the Executive Board

The Executive Board decides

1. that the Riksbank's programme for purchases of commercial paper issued in Swedish kronor by Swedish non-financial corporations as from 11 May 2020 shall also include commercial paper with a remaining maturity of up to six months at the time of each auction, in accordance with the description in the annex,
2. that between 1 June and 30 September 2020 the Riksbank shall continue to offer to purchase from monetary policy counterparties commercial paper issued in Swedish kronor by Swedish non-financial corporations, in accordance with the description in the annex,
3. that the Riksbank's holdings of commercial paper acquired within the framework of the current purchasing programme until 30 September 2020 shall not exceed SEK 32 billion,
4. to instruct the Head of the Markets Department, with the right to delegate this to another, after consultation with the Executive Board, the Head of the Monetary Policy Department and the Head of the Financial Stability Department, with the right for these department heads to delegate this task to another, to decide on the exact date of and offered amount at each auction, and on the details regarding terms and conditions for, and information on, the Riksbank's purchases of the commercial paper, and
5. to publish the decision on Friday 8 May, no later than 17.00.

Background

The corona pandemic has caused great human suffering and is affecting the global and the Swedish economy to a considerable extent. Governments the world over have introduced comprehensive measures to limit the spread of the infection. These

measures have led to many companies in Sweden, not least in the services industry, suffering significant falls in turnover. The number of bankruptcies among companies has increased, many companies have furloughed their staff and the number of redundancy notices has risen dramatically since mid-March 2020.

Uncertainty over how the economy will cope with the crisis has been reflected in heavy fluctuations on the financial markets. Equity prices fell rapidly up until mid-March while the yield spread between risky and safe bonds increased sharply on several markets. Since then, developments on the markets have improved but there are still signs that liquidity and market functionality have deteriorated both in Sweden and abroad, that credit supply in the economy has weakened and that credit has become more expensive. This risks further aggravating the already serious downturn in the economy, and having more prolonged negative consequences for output and employment in Sweden. It would also make it more difficult for the Riksbank to achieve its price stability target.

Considerations

To keep monetary policy expansionary and provide support to the economy, the Executive Board decided on 16 March to purchase bonds in the period March–December 2020 for 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, the Executive Board decided that, within the framework for the same bond-purchasing programme, the Riksbank should also purchase bonds and commercial paper issued by Swedish non-financial corporations. The extended government bond purchases were initiated on 18 March 2020, the purchases of covered bonds began on 25 March, and the purchases of commercial paper started on 2 April. As a result of its decision on 3 April, the Executive Board also determined that the purchases of commercial paper should continue between 8 April and 31 May 2020.

Since the first auction on 2 April, the Riksbank has so far purchased commercial paper issued in Swedish kronor by non-financial corporations for a total nominal amount of SEK 6.3 billion. During the same period, the difference between purchase and sale prices of commercial paper has decreased from elevated levels and more companies have again been able to issue new commercial paper and corporate bonds. The situation on the market for commercial paper has thus gradually stabilised, with lower interest rates and better functionality as a result. However, the market situation is still uncertain. It is therefore important that the Riksbank continues to purchase commercial paper.

The purchases of commercial paper have so far been focused on short maturities as a substantial majority of outstanding commercial paper is issued with a maturity of up to three months. The purchases have thereby been judged to be able to contribute support to the economy and alleviate the most acute problems for Swedish companies that need to refinance loans that fall due during the period for the purchasing programme. However, to continue to reduce the refinancing risks of companies, particularly over the summer, it is appropriate that the Riksbank's purchasing offers as from 11 May 2020 include commercial paper with a longer remaining maturity than to date. Therefore, the purchases should also include commercial paper with a remaining time to maturity of up

to six months at the time of auction. In this way, these purchases can also help to increase the flexibility of companies in the choice of maturity for their borrowing.

Although the recent clear signs of impaired functionality on the market for commercial paper have now abated, the market situation is still uncertain. By buying commercial paper, the Riksbank is helping to improve market functionality and thus improve credit supply to companies and the impact of monetary policy on the economy. It is therefore important that the Riksbank continues in the current situation to contribute to the stable development of the market. Consequently, the Riksbank shall offer to buy from monetary policy counterparties commercial paper issued in Swedish kronor by Swedish non-financial corporations between 1 June and 30 September 2020 as well. These purchases are part of the Riksbank's programme for purchasing bonds in an amount of up to SEK 300 billion. However, the Riksbank's total holdings of this commercial paper shall not exceed SEK 32 billion until 30 September 2020.

It shall continue to apply that the purchases must include only commercial paper issued by companies with credit ratings of equivalent to Baa3/BBB– or higher. At the dates of auction, the Riksbank determines price and volume.

The purchases of commercial paper shall be made on the secondary market. Furthermore, they will be made through a bid procedure in which the Riksbank's monetary policy counterparties specify the issuer's credit rating for the commercial paper the counterparty wishes to sell and in which volume. In this way, the distribution of the Riksbank's transactions will be transparent to the market. Moreover, the bid procedure is an appropriate way of achieving an efficient implementation of the current measure, taking into account the prevailing market conditions. Considering the requirements imposed by the Riksbank's remit, the purchases may take sustainability into account when selecting commercial paper.

The exact date of and offered amount at each auction are determined by the Head of the Markets Department after consultation with the Executive Board, and with the Head of the Monetary Policy Department and the Head of the Financial Stability Department, with the right for each of these heads of department to delegate this task to another person. It is also the responsibility of the Head of the Markets Department, after the equivalent consultation, to determine the details regarding the terms and conditions for, and information on, the purchases of commercial paper.

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 expansion of the programme to include commercial paper with longer maturities increases the financial risks somewhat. However, the Riksbank deems that its operations are performed with a high level of risk awareness and an effective approach to risk management. The increased risk level is therefore manageable for the Riksbank.

The purchases are justified in terms of monetary policy as described above, pursuant to Chapter 6, Article 5 of the Sveriges Riksbank Act (1988:1385).

At the time of this decision, there is still considerable uncertainty regarding economic developments and the situation on the financial markets in both 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 evaluated and will be adjusted to economic developments. The Riksbank is therefore prepared to take further measures and to provide the necessary liquidity, even between ordinary monetary policy meetings.

This decision replaces the relevant parts of the Executive Board's decision regarding continued purchases of commercial paper dated 3 April 2020.

Annex

Facts about the Riksbank's purchases of commercial paper issued in Swedish kronor by Swedish non-financial corporations to be made during the period 11 May–30 September 2020 in accordance with the provisions of the applicable terms and conditions.

Type of security:	Commercial paper with remaining maturity of up to six months at the time of the auction, issued in Swedish kronor by Swedish non-financial corporations.
Announcement of more detailed terms for purchases:	Special terms and conditions are normally published at least two banking days prior to each auction.
Form of purchase:	Bid procedure in which counterparties place bids for total volume per credit rating class.
Eligible bidders:	Riksbank monetary policy counterparties authorised to participate as bidders in accordance with applicable general terms and conditions.
Bid procedure:	Bids for volume and credit rating are submitted by telephone at the time of auction.
Allocation:	<p>Normally 30 minutes after the final time for submitting bids.</p> <p>After allocation, it is the duty of the participant to supply commercial paper up to the allocated volume.</p> <p>Allocation takes place pro rata.</p>
Payment and delivery:	Shall be made the second banking day after the auction concerned in Euroclear Sweden's securities settlement system.
General terms and conditions:	General terms and conditions for the Riksbank's purchases of commercial paper via bid procedures 2020, dated 30 March 2020 (see the Riksbank's website).