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# Annex to the minutes B

DATE: 30 June 2020  
DEPARTMENT: Monetary Policy Department, Markets Department and Financial Stability  
Department

## Extended programme for the Riksbank's purchases of bonds for monetary policy purposes

### Decision by the Executive Board

The Executive Board decides

1. that the Riksbank's programme for purchasing bonds for monetary policy purposes will be extended to 30 June 2021, and shall include purchases of securities issued in Swedish kronor to a total nominal amount of up to SEK 500 billion, including the programme amount decided on earlier,
2. within the scope of this asset purchase programme, between 1 October and 31 December 2020, the Riksbank shall
  - a. purchase Swedish nominal and real government bonds to a total nominal amount of SEK 20 billion in addition to the previously decided purchases of government bonds over the period July 2019–December 2020,
  - b. purchase bonds issued by Swedish municipalities and regions and by Kommuninvest i Sverige AB to a nominal amount of SEK 15 billion,
  - c. purchase covered bonds issued by Swedish institutions to a nominal amount of SEK 65 billion,
  - d. offer to purchase from monetary policy counterparties commercial paper issued in Swedish kronor by Swedish non-financial corporations to such a nominal amount that the Riksbank's holdings in commercial paper acquired within the scope of the asset purchase programme during the purchase period considered in this decision do not exceed SEK 32 billion,
3. regarding the purchase of commercial paper issued in Swedish kronor by Swedish non-financial corporations as from 1 July 2020, the Riksbank shall apply an issuer limit according to which the Riksbank shall not, at each time of

- purchase, own more than 70 per cent of an individual issuer's total outstanding volume of commercial paper in Swedish kronor,
4. that the Riksbank shall offer, within the scope of this asset purchase programme between 1 September 2020 and 30 June 2021, to also offer to purchase from monetary policy counterparties bonds issued in Swedish kronor by Swedish non-financial corporations to a nominal amount of SEK 10 billion,
  5. 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,
    - a. the exact date and offered amounts at each auction, and on the details regarding terms and conditions for, and information on, the Riksbank's purchases of government bonds, municipal bonds, covered bonds and commercial paper, including the application of the issuer limit for purchases of commercial paper, and to
    - b. return to the Executive Board with a proposal for a suitable method for purchasing corporate bonds,
  6. prior to deciding the exact date and offered amounts at each auction, and on the details regarding terms and conditions for, and information on, the Riksbank's purchases of commercial paper, the Head of the Markets Department shall also consult with the Executive Board, and
  7. to publish the decision on Wednesday 1 July 2020 at 09.30.

## Background

Despite robust economic policy stimulus, the negative consequences of the pandemic are substantial all around the world. Several countries have recently begun to withdraw their restrictive measures and this paves the way for beginning an economic recovery. However, developments are very uncertain and the Riksbank assesses that it will not be until early 2022 that the global economy is back at the same level of activity as prior to the crisis. The crisis has clear effects on the Swedish economy, too, not least in the form of rapidly rising unemployment.

At an early point, the uncertainty surrounding how companies and households will cope with the crisis was reflected in substantial movements on financial markets, which threatened to exacerbate the negative economic developments. A large number of central banks, including the Riksbank, quickly implemented comprehensive measures to provide the financial systems with liquidity, stimulate the supply of credit to households and companies, and hold borrowing costs down. The governments in most countries have also taken a number of fiscal policy measures.

As part of the Riksbank's package of measures, the Executive Board decided in March 2020 that the Riksbank would during the period March–December 2020 purchase bonds to a total nominal amount of up to SEK 300 billion (ref.no. 2020-00373 and 2020-00397).

This asset purchasing programme includes purchases of government bonds, bonds issued by Swedish municipalities and Kommuninvest i Sverige AB, covered bonds issued by Swedish institutions and bonds and commercial paper issued by Swedish non-financial corporations. Within the scope of the programme the Riksbank has purchased up to 30 June 2020 government bonds for SEK 14.5 billion, municipal bonds for SEK 15 billion, covered bonds for SEK 95 billion and commercial paper for SEK 11 billion.

## Considerations

The central banks' measures have contributed to market developments gradually stabilising, resulting in lower interest rates and better functionality. This has enabled robust companies to ensure their financing during the crisis. But the situation is assessed as fragile, and conditional on the central banks continuing to support and secure the liquidity supply in the economy. There are some signs that the credit supply is still weak 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 this situation, it would be more difficult to attain the price stability target.

### Extended programme for bond purchases

The Riksbank's programme for bond purchases helps hold interest rates at low levels and fosters market functionality. This gives participants in society better financing possibilities, which is important to the recovery of the economy. The rapid and severe economic downturn means that the Riksbank will need to continue to support the recovery in the Swedish economy. An updated assessment points to a clear need to maintain an expansionary monetary policy that gives support to the economy and enables the Riksbank to attain the inflation target. Consequently, it is important that the Riksbank continues to act to hold interest rates in general down and to contribute to an efficient supply of credit by buying securities within the scope of the programme during the coming twelve months, too. The programme will therefore be extended until 30 June 2021, and expanded by SEK 200 billion to a total nominal amount of up to SEK 500 billion.

By extending and expanding the programme in this way, without establishing the exact purchase amounts at the respective auction in advance, the Riksbank can maintain the flexibility required to adapt monetary policy to the future needs. This makes it possible to distribute the individual purchases between types of asset as effectively as possible with consideration for the assessment of monetary policy stimulus made at each given time.

### Further purchases up to the end of 2020

Based on the current assessment of the need to maintain an expansionary monetary policy during the remainder of the year, the Riksbank should thus continue to purchase securities between 1 October and 31 December 2020.

It is therefore appropriate that during this period the Riksbank should purchase nominal and real Swedish government bonds to a total nominal amount of SEK 20 billion, in addition to the purchases of government bonds during the period July 2019–December 2020 that were decided in April 2019 (ref.no. 2019-00479), by Swedish municipalities

and regions and by Kommuninvest i Sverige AB to a nominal amount of SEK 15 billion, and covered bonds issued in Swedish kronor by Swedish institutions to a nominal amount of SEK 65 billion. In addition, the Riksbank shall offer to buy commercial paper issued in Swedish kronor by Swedish non-financial corporations to such an extent that the Riksbank's total holdings of these securities during the period do not exceed SEK 32 billion.

These purchases shall continue to be made in a market-neutral way and through a bid procedure on the secondary market in accordance with the instructions in the decision on purchases of government bonds dated 27 April (ref.no. 2020-00380), covered bonds dated 27 April (ref.no. 2020-00401), municipal bonds dated 15 May (ref.no. 2020-00511) and commercial paper dated 8 May (ref.no. 2020-00418). The Riksbank can thereby ensure that the purchases have a broad impact on interest rate-setting.

### **Limit for purchases of commercial paper**

Given the design of the Riksbank's bidding procedure when purchasing commercial paper, these purchases need to continue to be implemented in a way that is favourable to the functionality of the markets and thereby guarantee a broad impact for the current monetary policy. This can be achieved by distributing the purchases among many different issuers, while at the same time limiting the holdings of each type of security issued by an individual issuer.

In light of this, it is appropriate that the Riksbank when purchasing commercial paper issued in Swedish kronor by Swedish non-financial corporations with effect from 1 July 2020 applies an issuer limit, according to which the Riksbank shall not, at each time of purchase, own more than 70 per cent of an individual issuer's total outstanding volume of commercial paper in Swedish kronor. Through employing such a limit, the Riksbank is considered to be able to continue to contribute to a stable development of the market for commercial paper taking into account its current structure and the need to improve credit supply to companies. The Riksbank's holdings of this type of paper are thus allocated in a proportionate manner, which, in the current situation, benefits the impact of monetary policy without reducing its room for manoeuvre going forward. Moreover, there is less of a risk of the bond-purchasing programme affecting the fundamental functionality of the relevant markets

### **Purchases of corporate bonds**

In mid-March 2020, there were clear signs that the market for commercial paper was not functioning as it should. The extensive measures the Riksbank quickly implemented to provide the financial systems with liquidity, to maintain the credit supply to households and companies and to hold borrowing costs down have contributed to an improvement in the markets. The clear signs of poorer functionality on the commercial paper market have now also waned. However, the economic situation can quickly deteriorate further. The Riksbank therefore needs to make necessary preparations for attaining a high preparedness and being able to effectively deal with such a development by quickly providing further support to the credit supply for Swedish companies and thereby counteracting disruptions to the impact of monetary policy.

The Riksbank shall thus offer, within the scope of this asset purchase programme of up to SEK 500 billion between 1 September 2020 and 30 June 2021, to also purchase from

monetary policy counterparties corporate bonds issued in Swedish kronor by Swedish non-financial corporations to a nominal amount of SEK 10 billion. By initiating purchases of corporate bonds in this way, the Riksbank can establish a presence on the market for these securities and thereby ensure a good capacity to rapidly extend the scope of the purchases if monetary policy needed to be made more expansionary going forward. This gives the Riksbank the possibility to establish an upscalable infrastructure that provides good preparedness and flexibility, even in a situation where it may be necessary to adjust the purchases of corporate bonds when a new assessment is made of their impact.

It is expected that these purchases will be initiated at the beginning of the purchase period concerned, in September 2020. They shall be designed in a way that ensures a broad and market-neutral impact on the Swedish corporate bond market and thereby on companies' credit supply. When selecting corporate bonds, the Riksbank shall therefore apply objective criteria that take into account the principle of equal treatment of issuers, and at the same to a reasonable extent take into account the risks the purchases entail for the Riksbank's balance sheet. The purchases shall entail corporate bonds issued by companies with a credit rating equivalent to Baa3/BBB- or higher, with a remaining time to maturity of up to 5 years. They are expected to be made on the secondary market and from the Riksbank's monetary policy counterparties. Considering the requirements imposed by the Riksbank's remit, the purchases may take sustainability into account when selecting corporate bonds.

The Riksbank's purchases of corporate bonds can take the form of bid procedures or bilateral purchases, or be a combination of these. The forms for the purchases will be decided in greater detail by the Executive Board before the purchases are initiated in September 2020. The Head of the Markets Department is therefore given the task of reporting back to the Executive Board with a proposal for a suitable method of purchase.

### **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 on the details regarding terms and conditions for, and information on the Riksbank's purchases of government bonds, municipal bonds, covered bonds and commercial paper, including the application of the issuer limit for purchasing commercial paper. 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 them to delegate to other persons. Prior to deciding the exact date and offered amounts at each auction, and on the details regarding terms and conditions for, and information on, the Riksbank's purchases of commercial paper, the Head of the Markets Department shall also consult with the Executive Board.

The Head of the Markets Department shall also inform the Executive Board if developments on the financial markets motivate an amendment to the Riksbank's asset purchase programme.

### **Other considerations**

The purchases considered in this decision are justified in terms of monetary policy as described above, with the support of Chapter 6, Article 5 of the Sveriges Riksbank Act (1988:1385).

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 therefore have to be weighed against their potential drawbacks and risks. Extending the programme for the purchase of government bonds, municipal bonds, covered bonds and commercial paper in accordance with this decision is judged to only marginally increase the financial risks. The fact that the purchases of commercial paper will be made in a way that limits the concentration of the Riksbank's holdings of these securities also reduces the financial risks and the risk of negative impact on the Riksbank's reputation. As the Riksbank is now about to initiate purchases of corporate bonds, however, the financial and operational risks will increase to some extent. However, the high level of awareness of the risks and the efficient approach to risk management employed in the Riksbank's operations, mean that the risks associated with the measures pursuant to these decisions are deemed manageable for the Riksbank.

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.