

ARTICLE - Development of the Riksbank's securities holdings

To facilitate the economic recovery from the corona crisis, and thus help inflation to rise towards the target of 2 per cent, the Riksbank has taken extensive support measures. Since the spring of 2020, the Executive Board has taken a number of decisions on the purchase of interest-bearing securities in Swedish kronor, leading to a sharp increase in the Riksbank's holdings of securities. These holdings are expected to continue to increase until the end of 2021, at which point they will amount to just over SEK 900 billion in total. The current assessment is that this level will then be maintained for a time by means of purchases that compensate for principal payments. However, the principal payments are very unevenly distributed over time while it is at the same time desirable to maintain a reasonably even purchase rate. This will lead to some variations in the Riksbank's securities holdings even during periods when the aim is to keep them unchanged.

Substantial and broad asset purchases for low interest rates and ample credit supply

Since 2015, the Riksbank has purchased interest-bearing securities as a complement to a low repo rate to keep monetary policy expansionary and help inflation rise towards the target of 2 per cent. Prior to 2020, the Riksbank only purchased government bonds, but to ensure low lending rates to companies and households and well-functioning credit supply during the pandemic, asset purchases have been expanded to include covered bonds, municipal bonds, treasury bills and corporate debt securities. This article describes what the Riksbank's purchases and holdings of securities can be expected to look like in the future.

The Riksbank's asset purchases can affect the interest rates paid by companies and households through several channels, as well as their capacity to borrow.²² The more of a bond the Riksbank owns, the less there is available for other participants who want to have it. This pushes up the price (and thereby lowers the yield) of the bond in question. Other bonds may then at the same time become more sought-after and

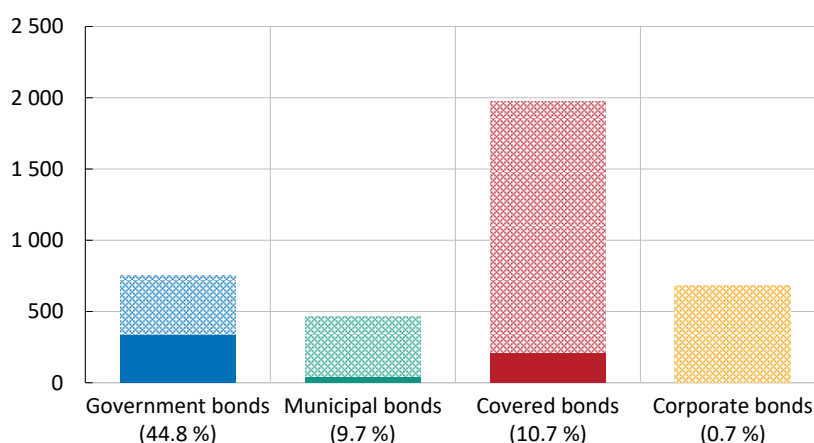
²² See the article "How the Riksbank's measures have worked during the corona crisis" in Monetary Policy Report, September 2020. See also J. Alsterlind, H. Erikson, M. Sandström and D. Vestin, "How can government bond purchases make monetary policy more expansive?" Economic Commentaries No. 12, 2015 for a review of channels through which asset purchases affect market rates. For details of how asset purchases might affect credit supply and interest rates via increased liquidity in the banking system, see also J.H.E. Christensen and S. Krogstrup, "Transmission of Quantitative Easing: The Role of Central Bank Reserves", *The Economic Journal* 129 (617), pp. 249–272, 2019 and B. S. Bernanke and V. R. Reinhart, "Conducting Monetary Policy at Very Low Short-Term Interest Rates", *American Economic Review* 94 (2), pp. 85-90, 2004.

fetch higher prices (and thereby lower yields). Larger securities holdings also mean banks have more liquid funds (as the Riksbank pays with new central bank money) which may increase their interest in lending money. In all, therefore, the Riksbank's holdings of securities are important for both the level of interest rates and credit supply. For less liquid assets, the ongoing purchases may also help to increase liquidity, which is also reflected in lower interest rates. By announcing its intention to purchase in advance, the Riksbank can also create confidence among those who may need to sell assets that it will be possible to do so, which reduces turmoil on stressed markets and ultimately makes it easier to issue new securities. In other words, the size of both the holdings and current purchases can have a bearing on interest rates and credit supply.

The Riksbank's securities holdings have increased rapidly

The Riksbank's measures to mitigate the economic repercussions of the coronavirus pandemic in 2020 led to an increase in the Riksbank's securities holdings in Swedish krona from just over SEK 300 billion to almost SEK 600 billion.²³ At the end of 2020, the Riksbank's holdings constituted a large share of the outstanding government bonds and smaller shares of other bond types, see Figure 52.

Figure 52. The Riksbank's bond holdings in relation to outstanding stock
Nominal amounts, SEK billion, as of 31 December 2020



Note. The solid part of each bar denotes the Riksbank's holdings and the shaded part denotes the remaining outstanding stock. Percentages in brackets show the Riksbank's share of total outstanding stock.

Sources: Swedish National Debt Office, Statistics Sweden and the Riksbank.

²³ In this article, as in most of the Riksbank's communication on purchases and holdings of securities, the nominal amount of assets is given. A bond's nominal value is the amount paid out when the bond matures. In addition, predetermined interest payments, or coupons, are normally made to the bond holder. The bond's market value is determined by what market participants are prepared to pay to gain access to the forthcoming payments of coupons and nominal amounts. The market value differs from the nominal amount in that remaining coupon payments carry an interest rate that deviates from the current market rate. As market rates vary from day to day, the bond's market value also varies and often it is therefore more practical to express bond holdings in terms of nominal amounts.

In 2021, a further increase in holdings of just over SEK 300 billion is expected, so that they amount to just over SEK 900 billion at the end of the year. The current assessment is that holdings will thereafter be maintained at the same level for at least another year.

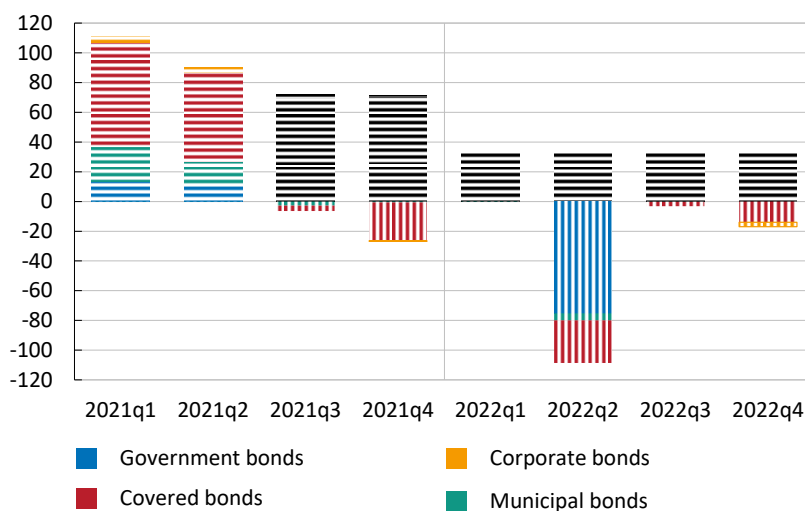
Unevenly distributed principal payments but an even purchasing rate

However, the Riksbank's securities holdings will not be maintained entirely constant as this would require too uneven a purchasing rate. The reason is that the bonds in the Riksbank's portfolio mature according to an uneven pattern, see the negative bars in Figure 53. This applies in particular to government bonds. Adjusting purchasing times and amounts entirely to principal payments would lead to the Riksbank switching between being completely inactive on the market in some periods to making very large purchases in other periods. This could result in the purchases affecting prices and liquidity in an undesirable way.

So instead, the Riksbank aims to distribute its purchases fairly evenly over the quarters. The positive bars in Figure 53 show the size of purchases on the assumption that they are distributed completely evenly among the quarters in 2022 and compensate exactly for principal payments during the year.

Figure 53. Unevenly distributed principal payments but even purchasing rates

Nominal amounts, SEK billion



Note. Positive bars show decided purchases of bonds (but not treasury bills) during the first and second quarters of 2021, a forecast for the third and fourth quarters of 2021 based on an even purchasing rate, which means that the entire purchase envelope will be utilised, and then a technical projection assuming an even purchasing rate that will maintain holdings on the same level at the end of 2022 as at the end of 2021. Black bars show total bond purchases per quarter with an as-yet undecided distribution among categories. Negative bars show a forecast for forthcoming principal payments which partly depends on technical assumptions regarding the maturity distribution of upcoming purchases.

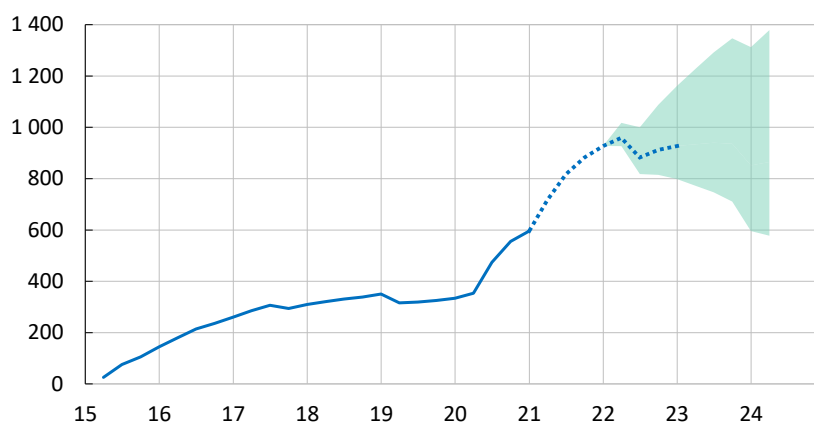
Source: The Riksbank.

The even purchasing rate and the uneven principal payments mean that holdings will rise in the first, third and fourth quarters of 2022, but will fall in the second quarter when the largest principal payments occur. This variation in the Riksbank's securities holdings so that they will be on the same level at the end of 2022 as at the end of 2021 is also shown by the forecast for holdings in Figure 54.

The uneven principal payments mean that the Riksbank's communication on asset purchases and holdings differs somewhat from that of the major central banks despite similar future plans for asset-purchase programmes (see further Chapter 2). With purchases that sometimes need to be less than and sometimes more than the principal payments, and holdings that, as a result, sometimes increase and sometimes decrease, the Riksbank cannot announce its intention to continue to increase its holdings as the Federal Reserve does, at least not without more detailed clarification. It is also difficult to do as the ECB does when describing its plans in terms of net purchases during a period (i.e. purchases that exceed principal payments) followed by a period of reinvestments of principal payments (i.e. purchases of new bonds for the principal payment amounts when the principal payments occur). The Riksbank must instead, as in this article, express decisions and forecasts in terms of purchases and the effect they are expected to have on the development of the securities holdings.

Figure 54. The Riksbank's holdings of assets in Swedish kronor

Nominal amounts, SEK billion



Note. Holdings of assets, excluding commercial paper, issued in Swedish kronor. Broken line shows a forecast for holdings up until the end of 2021 and thereafter a technical projection assuming an even purchase rate that will maintain the holdings at the same level at the end of 2022 as at the end of 2021. The interval's upper limit reflects a development in which the Riksbank's asset purchases continue at more or less the same pace as during 2021. Its lower limit is a projection of holdings assuming that no more asset purchases are made after 2021.

Source: The Riksbank.

Securities holdings can go in different directions in the period ahead

The major central banks make it clear that the development of their holdings depends on economic developments and obviously, the Riksbank's securities holdings can also

go in different directions depending on how the Swedish economy develops.²⁴ One possibility is that the ongoing crisis deepens, becomes more permanent or is soon followed by new, related or independent crises, which require the support from asset purchases to be increased. The upper limit of the interval in Figure 54 reflects a development in which the Riksbank does not consider it appropriate to reduce the purchasing rate after 2021.²⁵ Another possibility is that a situation arises in due course where good credit supply, balanced economic activity and inflation close to target no longer require such extensive support from the Riksbank and it is therefore considered appropriate to let holdings decrease. A natural starting-point for this is that the holdings are gradually phased out as a result of principal payments rather than some assets being sold off. The lower limit of the interval illustrates how quickly holdings could decrease in the event of the fastest possible phase-out as a result of principal payments, i.e. if no new purchases are made after 2021.

²⁴ See also the article "Alternative scenarios for the economic recovery".

²⁵ More specifically, the upper limit corresponds to a development in which asset purchases continue at approximately the same pace as in 2021.