



# Annex A to the minutes

DATE: 8 February 2023  
DEPARTMENT: Monetary Policy Department, Markets Department and Financial Stability Department

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## Decision on policy rate, sales of government bonds and increased volume of Riksbank Certificates

### The Riksbank's decision

1. The Riksbank is raising the policy rate by 0.5 percentage points to 3 per cent. The new level of the policy rate shall apply as from 15 February 2023.
2. The Riksbank shall as from April 2023, until it decides otherwise, in every calendar month except July and August, via bidding processes on the secondary market, offer sales to financial companies that are either monetary policy counterparties or the Swedish National Debt Office's primary dealers of nominal or inflation-linked government bonds,
  - a) of Swedish nominal government bonds to a nominal amount of SEK 3 billion per calendar month, and
  - b) of Swedish inflation-linked government bonds to a nominal amount of SEK 500 million per calendar month.
  - c) The Head of the Markets Department, after consultation with the Head of the Monetary Policy Department and the Head of the Financial Stability Department, each of these three with the right to delegate the task to another person, shall decide the more precise terms for the sale of government bonds in accordance with the instructions detailed in this decision.
  - d) The Head of the Markets Department, the Head of the Monetary Policy Department and the Head of the Financial Stability Department, each of these three with the right to delegate the task to another person, shall together or individually, immediately inform the Executive Board if developments on financial markets may justify a change in the Riksbank's sales of government bonds.

3. As from 14 February 2023 and in weekly issues of Riksbank Certificates, the Riksbank shall apply the principle of offering an issue volume that, at each issue, is equal to the banking system's entire liquidity surplus in relation to the Riksbank. Accordingly, as from this date, the Riksbank's decision of 23 April 2021 (ref.no. 2021-00564) ceases to apply.
4. The Riksbank adopts the Monetary Policy Report, annex Monetary Policy Report.
5. This decision will be published at 09.30 on 9 February 2023.
6. The minutes of the monetary policy meeting on 8 February 2023 will be published at 09.30 on 20 February 2023.

## Background

According to Chapter 2, Section 1 of the Sveriges Riksbank Act (2022:1568) (the Riksbank Act), the overriding objective of the Riksbank is to maintain permanently low and stable inflation (the price stability target). Without neglecting the price stability objective, the Riksbank shall contribute to a balanced development of production and employment (consideration for the real economy). The Riksbank has defined the price stability objective as a target of 2 per cent for the annual increase in the consumer price index with a fixed interest rate (the CPIF).

The target should function as a benchmark for price- and wage-setting in the economy. It is important that households and companies have confidence in that deviations from the target, especially when they are substantial, will not be too prolonged and affect their expectations of what will be a normal level of inflation in the economy. When economic agents have a collective picture of how prices will develop in the future, uncertainty is reduced and it becomes easier to plan for the long term.

Inflation has exceeded the price stability target since the autumn of 2021 and in December 2022, CPIF inflation was 10.2 per cent. The high inflation is eroding purchasing power and making it more difficult for households and companies to plan their finances. Since April 2022, the Riksbank has gradually raised the policy rate from 0 to 2.5 per cent to reduce inflation and thereby prevent it from being persistently too high.

The Riksbank's main monetary policy tool for achieving the price stability target is the policy rate. According to Chapter 2, Section 4, second paragraph of the Riksbank Act, the Riksbank shall determine the policy rate for its deposits, credits and repurchase agreements in financial instruments.

In addition and as part of its monetary policy powers, the Riksbank may, in relation to financial companies<sup>1</sup>, purchase and sell Swedish government securities in the secondary market (see Chapter 2, Section 4, first paragraph, point 5 of the Riksbank Act and Government Bill 2021/22:41, p. 214).

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<sup>1</sup> Financial companies are defined in Chapter 1, Section 2 of the Riksbank Act.

Since February 2015, the Riksbank has purchased government bonds with the aim of making monetary policy more expansionary. To mitigate the effects of the coronavirus pandemic on the Swedish economy, the Riksbank increased its purchases of government bonds from March 2020 until 31 December 2021. The purchases during the pandemic aimed to keep general interest rates down and contribute to a functioning credit supply. Purchases in 2022 aimed to compensate for maturing government bonds. However, the Riksbank did not compensate fully for these, so its holdings of government bonds already started to decrease during 2022.

The Riksbank's total holdings of government bonds amounted to SEK 338 billion on 31 January 2023. Of these, SEK 293 billion were nominal government bonds and SEK 45 billion were inflation-linked government bonds.

Moreover, according to Chapter 2, Section 5, point 2 of the Riksbank Act, the Riksbank may issue and renew debt instruments in Swedish krona. In October 2008, the Riksbank decided (ref.no. 2008-793-AFS) to start issuing Riksbank Certificates in weekly market operations to reduce liquidity in the banking system.

The issued volume was equal to most of the banking system's liquidity surplus. On specific occasions, such as the turn of the year or quarter, the Riksbank limited the offered issue volume by between SEK 15 and SEK 30 billion to prevent interest-rate volatility in the overnight market. Since October 2019, the Riksbank has limited the issue volume by a larger amount to prevent interest-rate volatility in the overnight market in SEK while the Riksbank initiated the reform of the operational framework for monetary policy and during the turbulent economic conditions of the coronavirus pandemic.

Since 4 May 2021, the Riksbank has limited the issue volume by the equivalent of half of the banking system's liquidity surplus.

## Grounds for the decision

### The Riksbank is raising the policy rate, selling government bonds and increasing offered issue volume of Riksbank Certificates

Swedish inflation is very high and the Riksbank now needs to take further measures to stabilise inflation around the target. Rapidly rising energy prices have driven up CPIF inflation, but even disregarding this development in energy prices, inflation is still on an upward trajectory and far too high (see Section 1.1 and 1.2 in the *Monetary Policy Report*). High inflation creates problems in the economy and there is a risk of inflation becoming entrenched. The Riksbank's analysis of the economic situation in Sweden and abroad (see Section 1.1 and Chapter 3 in the *Monetary Policy Report*) indicates that monetary policy needs to be tightened further to return inflation to the target within a reasonable time.

The Riksbank therefore assesses that the policy rate needs to be raised to 3 per cent. For monetary policy to have a more appropriate impact, the policy rate increase shall be supplemented by offering sales of government bonds and increasing the offered issue volume of Riksbank Certificates so that it is equal to the banking system's entire liquidity surplus in relation to the Riksbank. Both the sales of government bonds and the increased volume of Riksbank Certificates are primarily expected to contribute to a slight

increase in risk-free market rates. However, the Riksbank expects the impact on interest rates to households and companies to be marginal at most. By combining the policy rate rise with sales of government bonds and an increased offered issue volume of Riksbank Certificates, a more favourable overall effect on inflation and resource utilisation will be achieved. The measures and the planned monetary policy described in the Riksbank's forecast (See Section 1.2 of the *Monetary Policy Report*) are expected to help inflation to fall back this year and stabilise close to 2 per cent from 2024. The more detailed motives for each measure are described below.

## Policy rate increase

The policy rate affects inflation via several channels, such as demand, exchange rate and expectations. The higher policy rate is expected to lead to lower economic activity and higher unemployment compared to an unchanged or lower policy rate. However, achieving low and stable inflation within a reasonable time is a prerequisite for good development in the Swedish economy going forward. If inflation is persistently high, the negative consequences for Swedish growth and the labour market will be much greater. By raising the policy rate slightly more now, the risk of persistently high inflation is reduced and thus also the need for even greater monetary policy tightening further ahead.

The Riksbank is therefore raising the policy rate by 0.5 percentage points to 3 per cent. This policy rate shall apply as from 15 February 2023.

## Sales of government bonds

Swedish government bond yields are unusually low in relation to the expected policy rate. The Riksbank's assessment is that a faster reduction in its government bond holdings through sales will contribute to rising government bond yields. However, the impact on interest rates to households and companies is expected to be smaller. This is mostly because many loans have short fixation periods and these lending rates are closely linked to the policy rate. The measure will also increase the amount of safe and easily assets in the Swedish market. This may make it easier for foreign agents to invest in Swedish assets and also improve the functionality of the financial markets. On the whole, this can help strengthen the krona and improve the Riksbank's possibilities to reduce inflation. As part of the monetary policy tightening, the Riksbank therefore assesses that its holdings of government bonds should decrease at a faster pace through sales.

Until further notice, the Riksbank considers it appropriate to offer sales every calendar month, except July and August, of the Riksbank's holdings of Swedish nominal government bonds to a nominal value of SEK 3 billion and Swedish inflation-linked government bonds to a nominal value of SEK 500 million via bidding processes in the secondary market. To achieve impact from this monetary policy measure most effectively, the Riksbank deems it appropriate to invite financial companies that are either the Riksbank's monetary policy counterparties (as these are defined in the Riksbank's Terms and Conditions for RIX and Monetary Policy Instruments) or the Swedish National Debt Office's primary dealers of nominal or inflation-linked government bonds to participate in the bidding processes.

The measure increases access to safe assets in the Swedish financial system and can thereby improve the functionality of the market for Swedish government bonds. The sales are not expected to contribute to uncertainty in the financial markets. As always, the Riksbank is carefully monitoring developments and will evaluate the effects of the sales regularly and adjust them if necessary.

### Instructions for sales

It is the responsibility of the Head of the Markets Department, with the right to delegate to another person, to determine the exact times for the bidding processes and the offered amounts on these occasions, and determine further details regarding the terms for, and information on, the government bond sales. Sales of government bonds shall mainly concern government bonds that mature in 2027 or later. Bids can be rejected if the offered price deviates significantly from what can be considered a market price. All in all, the sales of government bonds will be carried out in a way that does not risk contributing to uncertainty in the financial markets.

The Head of the Markets Department, or the person to whom the Head of the Markets Department has delegated the task, shall consult the Executive Board on forthcoming plans and guidelines for sales.

### Increase in offered issue volume of Riksbank Certificates

The special circumstances that have motivated the Riksbank to limit the offered issue volume of Riksbank Certificates are no longer considered to apply. The Riksbank completed the reform of the operational framework for monetary policy in June 2022 and the turbulent economic conditions caused by the coronavirus pandemic have subsided.

It is therefore appropriate for the Riksbank to go back to offering an issue volume that is compatible with how weekly market operations are intended to function within the operational framework for monetary policy. This entails the Riksbank using weekly market operations to balance the banking system's liquidity position in relation to the Riksbank at close to zero, at an interest rate equal to the policy rate.

Until further notice, the Riksbank should apply the principle of offering an issue volume of Riksbank Certificates equal to the banking system's entire liquidity surplus in relation to the Riksbank. This will balance the system close to zero on a daily basis. The new principle strengthens the incentive to balance liquidity among the banks on the overnight market. The average interest on monetary policy liabilities and the interest rate on the overnight market in SEK are expected to rise and come closer to the policy rate. On the margin, this will contribute to tighter monetary policy.

When the Riksbank offers an issue volume of Riksbank Certificates equal to the banking system's entire liquidity surplus, it places higher demands on the liquidity forecasts of monetary policy counterparties and may affect the dynamics of the bidding when Riksbank Certificates are issued.

According to the Regulation for the Riksbank's monetary policy liquidity management (dnr 2022-01405), the Head of the Markets Department, with the right to delegate the task to another person, shall decide the more detailed terms for Riksbank Certificates. It

is also the responsibility of the Head of the Markets Department to decide the exact issue volume of Riksbank Certificates, which sets an upper limit on how much of the liquidity surplus in the banking system can be invested in Riksbank Certificates. The Executive Board shall be kept informed of the issue volumes decided for Riksbank Certificates.

## The principle of proportionality

The Riksbank assesses that the policy rate rise, sales of government bonds and increase in the share of Riksbank Certificates offered in weekly monetary policy operations can be assumed to lead to the intended result, i.e., tightening monetary policy and helping to bring inflation back to target. The sales of government bonds and increase in the volume of Riksbank Certificates can be seen as steps towards normalisation of the Riksbank's balance sheet and operational framework now that support measures during the coronavirus pandemic have been phased out and monetary policy is being tightened by means of a higher policy rate.

Neither are the measures deemed to be more far-reaching than necessary to achieve the price stability target nor do they pose greater risks to the Riksbank's finances and financial stability than other possible measures. Sales of government bonds reduce the interest rate risk on the balance sheet somewhat faster than if the entire government bond holdings were to be held until maturity. However, the measure is not expected to change to any great extent the effects on profit/loss associated with the holdings of government bonds compared to if the Riksbank were instead to hold the bonds to maturity. Finally, the intended result is considered to be in reasonable proportion to the costs and risks that the measure entails for the finances of the Riksbank and the State. The Riksbank therefore considers the sales of Swedish government bonds, taken together with the Riksbank's adopted change to the policy rate and increase in the issue volume of Riksbank Certificates, to be compatible with the principle of proportionality in Chapter 1, Section 8 of the Riksbank Act.

The Riksbank's measures normally have several different, and partly uncertain, consequences for the Swedish economy and the Riksbank's own finances. The Riksbank considers that the benefits of the various measures outweigh their possible drawbacks. The current risks are deemed to remain manageable.

The decision has been taken by the Executive Board (Governor Erik Thedéen, First Deputy Governor Anna Breman and Deputy Governors Per Jansson, Martin Flodén, Henry Ohlsson and Aino Bunge) following a presentation by Jesper Hansson and Åsa Olli Segendorf, Head and Deputy Head of the Monetary Policy Department respectively.