



Decision guidance

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MANAGEMENT CLASS OPEN

SVERIGES RIKSBANK
SE-103 37 Stockholm
(Brunkebergstorg 11)

Tel +46 8 787 00 00
Fax +46 8 21 05 31
registratorn@riksbank.se
www.riksbank.se

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Submission to the Riksdag on consent for the Riksbank to enter into loan agreements with the International Monetary Fund (IMF)

Proposed Executive Board decision

The Executive Board decides to

- adopt the proposal for a submission to the Riksdag, authorising the Riksbank to enter into loan agreements with the International Monetary Fund (IMF), as set out in the annex to the petition to the Riksdag 2021/22:RB3,
- submit the petition to the Riksdag, and
- instruct the Governor to sign the loan agreements on behalf of the Riksbank, provided that budget funds are allocated to the Resilience and Sustainability Trust (RST) and that Sweden contributes to the RST as a whole.

The case

In the context of the allocation of Special Drawing Rights (SDRs) in the summer of 2021, the IMF presented various options for how economically strong countries can lend SDRs to economically vulnerable countries. Lenders were invited, among other things, to provide loans in SDRs to the IMF's existing Poverty Reduction and Growth Trust (PRGT) fund for low-income countries and the planned RST fund. The Executive Board of the Riksbank has discussed the possibilities for the Riksbank to participate by lending SDRs, and this is considered to be an advantageous option, compared to lending USD as was previously the case. The proposal is that the loans described below will be given in SDRs and that the Riksbank will submit a proposal to the Riksdag.

The Executive Board has been given the opportunity to share its views at the consultation meetings on 1 July and 23 August 2022.

Loan to the IMF's Poverty Reduction and Growth Trust

Stefan Ingves, in his capacity as Governor of Sveriges Riksbank, has received a request from IMF Managing Director Kristalina Georgieva to lend an additional SDR 150 million (equivalent to SEK 2 billion) to the IMF's Poverty Reduction and Growth Trust (PRGT) for lending to low-income countries. The Executive Board has previously decided that the Riksbank should give a positive indication regarding the loan to the PRGT, but that the Riksbank needs to obtain the consent of the Riksdag (decision of 6 October 2021, record no 28) and now needs to take a decision on the submission to the Riksdag.

The IMF forecasts that PRGT lending over the period 2022-2024 will amount to SDR 3 billion (SEK 42 billion) per year, which is about 2.5 times the historical average. The IMF is seeking a total of SDR 12.6 billion (SEK 175 billion) in additional loan resources, as well as SDR 2.8 billion (SEK 39 billion) in subsidy resources. A number of countries have pledged to contribute either subsidy or loan resources during the recent mobilisation campaign, including Germany, the United Kingdom, Canada, France, Spain, Italy, and Lithuania (see annex for countries' pledged loan contributions during the current resource mobilisation round). An additional loan of SDR 150 million (SEK 2 billion) from the Riksbank to the PRGT seems reasonable in this context, also as an expression of willingness that Sweden still wants to contribute to the fund, especially as the amount proposed represents a reasonable burden sharing in the PRGT.

Loan to the IMF's Resilience and Sustainability Trust, RST

Stefan Ingves has also received a letter from IMF Managing Director Kristalina Georgieva requesting a contribution to the Resilience and Sustainability Trust (RST). The background is that the IMF Board decided on 13 April 2022 to establish the RST Fund, which will finance long-term structural reforms with a focus on climate transition and pandemic preparedness. The IMF intends to operationalise the fund in October 2022 and is asking for a total contribution of SDR 33 billion (SEK 460 billion), divided among 35 countries. In the letter, the IMF has proposed that each country contribute 15-20% of the 2021 SDR allocation, which would represent a reasonable burden sharing in relation to the respective country's ownership share in the IMF.

The Executive Board was given the opportunity at a consultation meeting (on 27 September 2021) to provide views on possible participation in the RST and co-submission to the IMF Board discussion. During spring 2022, Sweden, together with the Nordic-Baltic constituency, has been involved in ensuring that these views are addressed: that the new Fund is designed in a way that provides added value for IMF member countries and safeguards borrowers' resources through a robust credit risk management framework and conditionality. During the discussions, Sweden has underlined the importance of conditionality and that the loan should have a catalytic effect by creating conditions for private investment.

Lending under the RST aims to address structural challenges that may pose risks to macroeconomic stability over time. The Fund aims to provide financially sustainable and long-term lending to low-income countries and economically weak middle-income countries. Through RST loans, IMF borrowers will finance long-term structural reforms with a focus on climate transition and pandemic preparedness, for example through fiscal policy measures and capacity development.

Funding to the RST is based on three different elements¹, in the form of subsidy, reserves and loan resources. Sweden's participation in the RST requires both loans and reserves from the Riksbank as well as a subsidy from the government. The Riksbank's participation in the financing of the RST is therefore dependent on the allocation of budgetary resources to the RST, corresponding to two per cent of the Riksbank's loan to the RST. Officials at the Riksbank and in the Government Offices tentatively agree that an RST loan from the Riksbank in the amount of SDR 637 million (SEK 9 billion) would be appropriate, given Sweden's share in the IMF and the total amount requested by the IMF to launch the RST-fund.

Considerations

According to Chapter 7, Section 4 of the Sveriges Riksbank Act (1988:1385), the Riksbank may, with the consent of the Riksdag, participate in financing within the framework of the IMF's activities.

In view of the IMF's central role in the global financial safety net and the strained situation of low-income countries, the Riksbank considers it justified to contribute an additional SDR 150 million in loans to the PRGT. The recent resource mobilisation has broad international support, and the Swedish government has also decided to contribute with subsidy funds to the PRGT. The Riksbank has also previously decided to contribute to the PRGT at the request of the IMF, and the amount now proposed represents a reasonable burden sharing among the countries that have also contributed to the PRGT in the past. The Riksbank should therefore seek the Riksdag's consent to the PRGT financing.

The RST provides a new type of financing for structural reforms that are needed to maintain global financial stability, and Sweden has supported the establishment of the RST through the IMF Board. There is also broad international support for this and in conjunction with the IMF Annual Meeting in October 2022, member countries will need to provide information on financial contributions for the fund to be operationalised as planned. The staff assesses that it is appropriate for the Riksbank to participate in the financing of the RST and to contribute with a loan of SDR 637 million as requested by the IMF. This is to ensure that the fund contributes added value within the IMF's mandate to support international financial stability. However, Swedish participation in the RST Fund requires both a loan from the Riksbank and a subsidy from the Government. The Riksbank should seek the consent of the Riksdag also regarding the RST financing, but any consent of the Riksdag to the Riksbank to provide loans to the RST needs to be conditional on the allocation of budgetary resources.

The Riksbank's participation in the financing of the IMF's operations by concluding agreements on the PRGT and RST loans in question is not contrary to the prohibition on monetary financing in Chapter 8, Section 1 of the Sveriges Riksbank Act and Article 123

¹ The first part consists of a loan from the central bank (Loan Account, LA). The second part consists of a Deposit Account (DA), which is also funded by the central bank and amounts to 20% of the LA. The third part of the RST consists of a contribution from the government budget (Reserve Account, RA). This component amounts to at least 2 per cent of the LA.

of the Treaty on the Functioning of the European Union (TFEU) and Article 21 of the Statute of the European System of Central Banks and of the European Central Bank (Statute of the ESCB). Article 7 of Council Regulation (EC) 3603/93² states that the financing by NCBs of public sector liabilities to the IMF - such as PRGT and RST lending - is exempted from the prohibition. The underlying rationale for this is that they result in foreign claims which have all the characteristics of reserve assets. The Riksbank considers that lending to the PRGT and RST is sufficiently safe and liquid.

According to the Sveriges Riksbank Act, Chapter 9, Section 1a, first paragraph, the Riksbank must be economical with public finances. The staff considers that the low credit risk and the broad international support for the PRGT and RST, as well as the positive effects expected from supporting low- and middle-income countries in, among other things, climate transition, make participation in these programmes advantageous.

In conclusion, the staff considers that the proposal for a submission to Parliament for consent to enter into the IMF credit agreements in question should be adopted and that the petition should be submitted to Parliament. Furthermore, the staff considers that the Governor should be instructed to sign the agreements in question on behalf of the Riksbank.

It may also be mentioned that in the report on the approval of the PRGT 2020 (reg. 2019/20:FiU57), the Riksdag Committee on Finance stated that it had already questioned whether lending to low-income countries was part of the Riksbank's activities when the PRGT was approved in 2016, but the committee considered that the Riksdag should give the Riksbank permission, pending possible new rules of procedure. The proposal for a new Riksbank Act (Bill 2021/22:41) proposes that the Riksbank should petition the Government to provide credit or participate in other financing for low-income countries, instead of the Riksdag as under the current Riksbank Act. This new arrangement is proposed to enter into force on 1 January 2023, but since the IMF needs to be notified of the contribution to the RST as soon as autumn 2022, the staff considers that the consent cannot wait until the new law enters into force. A petition should therefore be submitted to Parliament for a decision before the end of the year.

In accordance with Chapter 4, Section 1, second paragraph of the Sveriges Riksbank Act, the Executive Board has consulted the General Council on the request during September 2022.

² Council Regulation (EC) No 3603/93 of 13 December 1993 specifying definitions for the application of the prohibitions referred to in Articles 104 and 104b(1) of the Treaty.

Annex 1

Countries' pledged loan contribution to PRGT

Country	Pledged	Status of Loan Agreement	Currency
Australia	250		
Belgium	250		
Canada	500		
China	1 000		
France	1 000		
Italy	1 000	Effective	SDR
Japan	1 000	Effective	SDR
Korea	450		
Netherlands	300		
Spain	350	Effective	SDR
Sweden	150		
United Kingdom	1 000		
Total	7,250		
Target Amount	12,600		