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## Annex C to the minutes

DATE: 10 March 2021  
Monetary Policy Department, Markets Department and Financial Stability  
DEPARTMENT: Department

### The Riksbank is starting a new programme for funding to banks to support corporate lending

#### Decision by the Executive Board

The Executive Board decides

- to stop offering further loans in the current programme of credit for onward lending to non-financial corporations (funding for lending) and to start a new programme, funding to banks to support corporate lending (UBF), in accordance with the considerations in this decision,
- that the Riksbank, within the framework of this new programme, funding to banks to support corporate lending, shall offer monetary policy counterparties and temporary monetary policy counterparties credit in SEK against collateral from the week beginning 22 March 2021 as long as total funding within the new and the current programmes does not exceed SEK 500 billion or until the Riksbank no longer considers there to be a need for further offers,
- the last bidding round within the current programme of credit for onward lending to non-financial corporations will be on 12 March 2021,
- that the Riksbank's decision from 19 March 2020 on amended limit rules for covered bonds as collateral for credit with the Riksbank applies until 31 December 2024, or until the Riksbank revokes this decision,
- to instruct the Head of the Markets Department, with the right to delegate this to another, to, after consultation with the Head of the Monetary Policy Department and the Head of the Financial Stability Department, with the right for each of these to delegate this task to another, decide on the exact dates for and offered amounts, offered maturities and maturity dates, in each bidding round and on the more precise details regarding the conditions for, and information on, the lending programme, and
- to publish the decision no later than 17.00 on Wednesday 10 March.

## Background

On 12 March 2020, the Riksbank decided to launch a programme for credit to monetary policy counterparties for onward lending to non-financial corporations (funding for lending) of up to SEK 500 billion. The Riksbank assessed then that it was necessary to take targeted measures to secure efficient credit supply for Swedish non-financial corporations. The programme was established for monetary policy purposes, pursuant to Chapter 6, Article 5 of the Sveriges Riksbank Act (1988:1385). The loans are given against collateral and the first loan was offered on 20 March 2020.

On 19 March 2020, the Riksbank decided to increase the scope for using covered bonds as collateral for credit at the Riksbank. The aim was to amplify the impact of the adopted loan programme for corporate lending, although the relaxation applies to all loans in the Riksbank. The relaxation means that the special limit rules that have applied to covered bonds (mortgage bonds) were discontinued and the temporary, more generous regulations apply up to 30 December 2024, which was communicated to all RIX participants on 1 July 2020. As a result, covered bonds issued by the counterparty or closely linked party can also be used as collateral at the Riksbank during this period.

To make it easier for the Riksbank's loans to be accessible to the entire economy and to increase the monetary policy impact of the programme, the Riksbank also decided on 26 March to allow temporary monetary policy counterparties to participate in the programme. On 6 April, the Riksbank also decided to expand the programme to include lending to Swedish sole proprietors and to continue with weekly offers of SEK 50 billion per week until the total envelope of SEK 500 billion has been reached or until the Riksbank no longer considers there to be a need for further offers.

On 30 June 2020, the Riksbank decided to extend the maturity on loans to up to four years and lower the interest supplement if the requirement for onward lending is not fulfilled to 0.10 percentage points. To date, the counterparties have borrowed SEK 164.5 billion from the Riksbank within the envelope of the programme.

## Considerations

The coronavirus pandemic continues to dominate economic developments both in Sweden and abroad. A second, and in some parts of the world even a third, wave of infection has hit many countries since autumn 2020, leading to restrictions being tightened once again. The economic recovery that began in summer 2020 has therefore stalled, although the Swedish economy has not been as badly affected as during the first wave. While the labour market has in total continued to improve, and output in the manufacturing industry is back at pre-crisis levels, consumer service companies and parts of the retail trade still find themselves in a worrying position.

However, the fact that vaccinations have begun around the world, together with the economic policy support measures, is expected to create the conditions for a recovery. However, there is still considerable uncertainty over future developments. This applies both to the speed at which vaccinations can be administered around the world, and to the effect of new mutations of the virus on the development of the pandemic. The various measures implemented by the Riksbank over the past year to counteract the negative effects of the pandemic on the economy are helping to ensure continued low interest rates to households and companies and adequate credit supply. The Riksbank's

measures have thus also contributed to the Swedish economy being relatively resilient to the second wave of the pandemic.

However, the risk of renewed turmoil on financial markets still remains, if the pandemic were to worsen and become more prolonged than is assumed in the current assessment. The need of companies to borrow money to survive this turbulent period may then increase again and growing turmoil on financial markets risks leading to a reduction in banks' credit supply to companies, not least to small and medium-sized companies. A significant credit crunch for companies could increase the risk of long-lasting negative consequences for output and employment in Sweden and would probably cause inflation to fall.

To be able to combat a situation where a shortage of credit risks stalling the economic recovery and hampering the conditions for inflation to rise towards the target, it is appropriate that the Riksbank continues to offer funding to banks to stimulate lending to non-financial corporations and to help maintain ample liquidity in the banking system. It is also important to provide clarity for the monetary policy counterparties that the funding facility will be available for a long period of time if a need should arise later on.

However, the current programme for credit to monetary policy counterparties for onward lending to non-financial corporations has certain time-bound conditions that make it unsuitable to continue to offer loans within this programme for a long time.

It is therefore appropriate for the Riksbank to stop offering credit within the framework of the current programme and instead replace it with a new programme: funding to banks to support corporate lending (UBF). The new programme has the same aim and purpose but the conditions attached to it are simpler, more generic and less time-dependent. Some additional adjustments have been made to facilitate monitoring of banks' lending to non-financial corporations and sole proprietors.

In the current programme, both monetary policy counterparties and temporary monetary policy counterparties can borrow from the Riksbank. In a situation where a programme to facilitate banks' corporate lending is needed, it is important to reach as much of the economy as possible. This is why temporary monetary policy counterparties can also participate in the new programme.

In the current programme, the interest rate on the loans is a variable rate equal to the Riksbank's repo rate with no supplement. If the counterparties' lending to Swedish non-financial corporations and sole proprietors has not increased sufficiently at the time of evaluation, an interest supplement of up to 0.10 percentage points is added. These interest terms also apply in the new programme.

However, the requirements imposed on the counterparties' lending to non-financial corporations should be revised and simplified. Both lending to non-financial corporations and lending to entrepreneurial households is included. In the old programme, two different groups of company are evaluated, one group with just non-financial corporations and one group with both non-financial corporations and entrepreneurial households. In the new UBF programme, evaluation of only the latter group is considered sufficient.

Instead of basing the evaluation on the counterparties' lending on two specific dates, the evaluation in the new UBF programme is based on an average of the counterparty's lending to non-financial corporations during a twelve-month period. As a result of this, the evaluation and addition of any interest supplement will be less dependent on the outcomes on certain specific reporting days. Furthermore, the assessment attaches no significance to the volume of the loans taken by a counterparty in the Riksbank.

Banks that borrow from the Riksbank in this programme should continue to increase their lending to non-financial corporations. The requirement for lending growth should not be set too high, however. The assessment is therefore that an annual lending growth of 1 per cent is a well-balanced requirement. If the bank does not achieve this lending growth, an interest supplement will be added.

Under the current terms, one-year loans with the option of extending one year at a time up to four years are offered in each bidding round. In the new programme, funding is instead offered with an initial maturity date at the end of April 2022, 2023 and 2024 respectively. The counterparties themselves may choose which of the offered maturity dates they wish to have in conjunction with the bidding round and this is then fixed, i.e. the loans cannot be paid off ahead of time. The number of offered maturities and maturity dates can be adjusted during the programme.

During the current programme, the Riksbank has offered loans of SEK 50 billion per week. In light of the prevailing market conditions, the Riksbank considers that it is currently sufficient to offer funding in the new programme of SEK 50 billion once a month. As from the week beginning 22 March 2021, the Riksbank will therefore offer funding of SEK 50 billion monthly to monetary policy counterparties and temporary monetary policy counterparties against collateral in order to facilitate their lending in Swedish kronor to Swedish non-financial corporations. The frequency of the bidding rounds and offered amount in each round can be adjusted if the conditions change.

The exact time of the bidding rounds and offered amount in each round and offered maturities and maturity dates will from now on be determined by the Head of the Markets Department, with the right to delegate this task to another, after consultation with the Head of the Monetary Policy Department and Head of the Financial Stability Department, with the right for them to delegate to another. However, the Executive Board shall be informed in the case of any event that might warrant a change in the main principles (that is, frequency, offered amount, maturities and maturity dates) in future bidding rounds.

When the programme for corporate lending via monetary policy counterparties was launched on 12 March 2020, it was decided that the envelope for the programme would be SEK 500 billion. This envelope amount shall include loans taken both in the current and in the new programmes. This means that the Riksbank shall offer funding as long as the total outstanding amount within the new and the current programmes does not exceed SEK 500 billion or until the Riksbank no longer considers there to be a need for further offers. Counterparties that have borrowed within the current programme and that wish to utilise their option to extend the loans shall, in conjunction with the maturity of the outstanding individual loan, be offered the option of transferring the loan to the new programme even though the maturity date of the current loan occurs

on a different day to the bidding rounds in the new programme. Such a transfer of loans is not included in the offered amount of SEK 50 billion per bidding round.

On 19 March 2020, the Riksbank decided to increase the scope for using covered bonds as collateral for credit at the Riksbank. The aim was to amplify the impact of the adopted programme for credit to monetary policy counterparties for onward lending to non-financial corporations, although the relaxation applies to all loans in the Riksbank. The relaxation means that the special limit rules that have applied to covered bonds (mortgage bonds) are abolished and this applies, according to separate communication, until 30 December 2024. In addition, it will also be possible during the period to use own covered bonds, i.e. covered bonds issued by the counterparty or a closely linked party, as collateral. This relaxation therefore also applies to loans in the new programme until 31 December 2024, or until the Riksbank takes a new decision on the terms for collateral. If the Riksbank revokes the temporary, more generous collateral terms before 31 December 2024, counterparties that have outstanding loans during the programme will be offered the option of paying these loans off ahead of time.

It is the responsibility of the Head of the Markets Department, with the right to this delegate to another person, to determine from now on the more precise details regarding the terms for, and information on, the lending programme. The decision will 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.

The lending in the new programme is – just as in the current programme – justified for monetary policy purposes as described above, pursuant to 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. The change caused in new programme compared with the previous one is not expected to alter the operational risks or the Riksbank's financial risks. Furthermore, the Riksbank considers there to be a high level of risk awareness and an effective approach to risk management in the organisation. The risk level is therefore manageable for the Riksbank.

At the time of this decision, there is still considerable uncertainty regarding economic developments, both in 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 being evaluated and will be adjusted to economic developments.