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Annex C to the minutes

DATE: 27 April 2020
Monetary Policy Department, Markets Department
DEPARTMENT: and Financial Stability Department

Covered bond purchases for monetary policy purposes

Decision by the Executive Board

The Executive Board decides

1. that between 1 May and 30 September 2020, the Riksbank will purchase covered bonds issued in Swedish krona by Swedish institutions for a nominal amount of SEK 85 billion, in accordance with what is stated in the annex,
2. to instruct the Head of the Markets Department, with the right to delegate this task to another person, and 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 person, to determine the exact times for the auctions within the framework of this purchasing programme and offered amounts at each auction, and determine the more precise details regarding the terms for, and information on, the Riksbank's bond purchases, and
3. to publish the decision on Tuesday 28 April 2020, at 09.30.

Background

The corona pandemic has caused great human suffering and is affecting the global and the Swedish economy to a considerable extent. Governments the world over have introduced comprehensive measures to limit the spread of the infection. These measures have led to many companies in Sweden, not least in the service sector, suffering significant falls in turnover. The number of bankruptcies among companies has increased, many companies have furloughed their staff and the number of redundancy notices has risen dramatically since mid-March.

Uncertainty over how the economy will cope with the crisis has been reflected in heavy fluctuations on the financial markets. Equity prices have fallen rapidly and the yield spread between risky and safe bonds has increased sharply on several markets. There are clear signs that liquidity and market functionality have deteriorated both in Sweden

and abroad, that credit supply in the economy has worsened, and that credit has become more expensive. This risks further aggravating the already serious downturn in the economy, and leading to more prolonged negative consequences for production and employment in Sweden. It would also make it more difficult for the Riksbank to achieve its price stability objective.

Considerations

To keep monetary policy expansionary, provide support to the economy and broadly support credit supply in the Swedish economy, the Executive Board decided on 16 March to purchase bonds in the period March–December 2020 for a total nominal amount of up to SEK 300 billion. The decision covers purchases of government bonds, bonds issued by Swedish municipalities and by Kommuninvest i Sverige AB, and covered bonds issued by Swedish institutions. On 19 March, the Executive Board decided that during the same period, within the bond-purchasing programme, the Riksbank shall also purchase bonds and commercial paper issued by Swedish non-financial corporations. The extended government bond purchases were initiated on 18 March, the purchases of covered bonds began on 25 March, and the purchases of commercial paper started on 2 April. On 21 April, the Executive Board also decided to initiate purchases of bonds issued by Swedish municipalities and regions and by Kommuninvest i Sverige AB. The purchases of government bonds made within the scope of this bond-purchasing programme are over and above the purchases of government bonds during the period July 2019–December 2020, which the Executive Board decided on in April 2019.

In light of the serious downturn in the economy and the continued major uncertainty regarding economic developments, it is appropriate for the Riksbank, between 1 May and 30 September 2020, within the framework of the bond-purchasing programme, to purchase covered bonds issued in Swedish kronor by Swedish institutions to a nominal amount of SEK 85 billion.

So that the Riksbank's purchases of covered bonds provide support to the economy and bolster credit supply, it is important that they have a broad impact on interest-rate setting in the market for covered bonds. For this reason, the currently applicable purchases include covered bonds with maturities of more than one year. These purchases include covered bonds issued in Swedish kronor by Swedish institutions with contracted dealers. Covered bonds issued by these institutions comprise the vast majority of the outstanding covered bonds. Later purchases may also include covered bonds from other institutions.

The purchases of covered bonds shall be made on the secondary market. They shall also be done in the form of a bidding procedure via an electronic platform in which the Riksbank's monetary policy counterparties can participate. In this way, the pricing and allocation of the Riksbank's transactions will be transparent to the market. Moreover, the bidding procedure is an appropriate way of effectively implementing the current monetary policy measure, taking into account the prevailing market conditions.

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 auctions and the offered amounts, determine the choice of bidding procedure on these occasions, and determine the more precise details regarding the terms for, and information on, the bond



purchases. 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. The Head of the Markets Department shall also inform the Executive Board if developments on financial markets can justify a change in the Riksbank's bond-purchasing programme.

The Riksbank's measures normally have several different, and partly uncertain, consequences for the economy and the Riksbank's own finances. The benefits of the respective measures therefore have to be weighed against their potential drawbacks and risks. All purchases of securities involve some operational risks and greater financial risk for the Riksbank. The covered bond purchases are considered to increase financial risk only to a limited extent. The Riksbank considers there to be a high level of risk awareness and an effective approach to risk management in operations. The increased risk level is therefore manageable for the Riksbank.

These purchases are part of the programme for bond purchases decided on 16 March 2020. They are justified in terms of monetary policy as described above, pursuant to Chapter 6, Article 5 of the Sveriges Riksbank Act (1988:1385).

Economic developments and the situation on the financial markets, in both Sweden and other countries, remain very uncertain. Given this, the Riksbank is prepared to take further measures and to supply the necessary liquidity, even between ordinary monetary policy meetings. All the Riksbank's tools can be put to use. How the tools will be used depends on future developments.

Annex

Facts about the Riksbank's purchases of covered bonds issued in Swedish kronor by Swedish institutions made during the period 1 May–30 September 2020 in accordance with the provisions of the applicable terms and conditions.

Total nominal amount:	SEK 85 billion.
Type of security:	Covered bonds with maturities of more than one year issued in Swedish kronor by Swedish institutions.
Announcement of more detailed terms for purchases:	Special terms and conditions will be published at least 2 days prior to the respective Bid procedure.
Form of purchase:	Bid procedure, multiple price method, differentiated pricing on allocation.
Eligible bidders:	Riksbank monetary policy counterparties authorised to participate as bidders in accordance with applicable general terms and conditions.
Form of bid:	Bids on rate and volume are submitted via Bloomberg Bond Auction System between 09.00 and 10.00 on the day of the Auction in question.
Lowest bid:	Bids shall be no lower than SEK 1 million. Each bidder can make several bids.
Highest bid:	No individual bid may exceed the total volume requested by the Riksbank at each Bid procedure.
Allocation:	Normally 10 minutes after the final time for making a bid.
Payment and delivery:	Shall be made the second banking day after the auction concerned in Euroclear Sweden's securities settlement system.
General terms and conditions:	General Terms and Conditions for the Riksbank's purchases of covered bonds via bid procedure 2020:1, dated 20 March 2020 (see the Riksbank's website).