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Annex B to the minutes

DATE: 9 February 2022
DEPARTMENT: Markets Department, Monetary Policy Department and Financial Stability Department

The Riksbank's purchases of securities during the second quarter of 2022

Decision by the Executive Board

The Executive Board decides

1. That between 1 April and 30 June 2022, the Riksbank shall
 - a. purchase Swedish nominal and real government bonds and the Swedish state's green bonds to a total nominal amount of SEK 12 billion,
 - b. purchase Swedish treasury bills to such a nominal total amount that the Riksbank's holdings of treasury bills is maintained at a level around SEK 20 billion,
 - c. purchase bonds issued by Swedish municipalities and regions and by Kommuninvest i Sverige AB for a nominal amount of SEK 12 billion, which also included purchases of green municipal bonds,
 - d. purchase covered bonds issued in Swedish kronor by Swedish credit institutions for a nominal amount of SEK 12 billion, and
 - e. purchase bonds issued in Swedish kronor by Swedish non-financial corporations for a nominal amount of SEK 1 billion, which may also include the purchase of green bonds.
2. to give the Head of the Markets Department the task of determining, with the right to delegate this to another, 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 department heads to delegate this to another, to decide on the exact dates and offered amounts at each auction and purchase offer, and on the details regarding the terms and conditions for, and information on, the Riksbank's purchases of the respective type of asset,
3. the Head of the Markets Department, with the right to delegate this to another, shall at least once every second month also consult with the Executive Board

regarding guidelines for the Riksbank's purchases of the respective type of asset to be made in the period up to the next consultation, and

4. to publish the decision on Thursday 10 February 2022, at 09.30.

Background

As part of the measures to counter the effects of the coronavirus pandemic on the Swedish economy, the Riksbank implemented a comprehensive programme for the purchase of assets for monetary policy purposes, starting in March 2020. The programme included purchases of Swedish treasury bills and government bonds, bonds issued by Swedish municipalities and regions and Kommuninvest i Sverige AB (below also referred to as municipal bonds), covered bonds issued by Swedish institutions and bonds and commercial paper issued by Swedish non-financial corporations. Within the scope of this programme, the Riksbank bought the Swedish state's green bonds and green municipal bonds. Moreover, the purchases of corporate bonds were limited to bonds issued by companies deemed to comply with international standards and norms for sustainability. The programme expired on 31 December 2021.

This asset purchase programme and the Riksbank's other measures during the pandemic have contributed to a gradual stabilisation of the financial markets, resulting in lower interest rates and better functionality. The programme has therefore contributed to the recovery in the Swedish economy. The scope and focus of the measures have continually been adapted to changes in the economic outlook.

From the start of the asset purchase programme in March 2020 until it expired on 31 December 2021, the Riksbank purchased government bonds for SEK 91.0 billion, municipal bonds for SEK 109.0 billion, covered bonds for SEK 435.0 billion and corporate bonds for SEK 13.0 billion. The Riksbank no longer has any holdings of commercial paper. The Riksbank's purchases of treasury bills had resulted in holdings amounting to SEK 20.0 billion on 31 December 2021. Together with the government bonds purchased by the Riksbank in accordance with decisions taken before the pandemic, this means that the Riksbank's total asset holdings amounted to SEK 926.5 billion as of 31 December 2021.

To keep the holding approximately unchanged, the Riksbank has during the period 1 January to 8 February 2022 purchased government bonds for SEK 5.8 billion, municipal bonds for SEK 6.0 billion, covered bonds for SEK 5.0 billion and corporate bonds for SEK 0.4 billion. The Riksbank's purchases of treasury bills during the same period have resulted in a holding equivalent to SEK 23.0 billion. In total, the Riksbank's asset holdings amounted to SEK 946.7 billion on 8 February 2022.

Considerations

Over the past two years, the pandemic has led to dramatic fluctuations, but the world economy has largely recovered following the sharp decline in the outbreak of the pandemic. Although the rapid spread of infection will dampen developments somewhat at the beginning of the year, the pandemic is expected to have small effects on overall demand going forward and growth prospects are good. However, the rapid changes in demand during the pandemic have led to supply restrictions both in terms of goods and

services, problems that are expected to slow down this year as demand grows more slowly and production capacity is adapted. In the Swedish economy, activity is continuing to increase. Although the highest growth rates are considered to be behind us, and the increased spread of infection is expected to dampen GDP in the short term, economic activity is nevertheless expected to strengthen going forward and the situation in the labour market will continue to improve.

As in the rest of the world, inflation in Sweden rose rapidly in 2021, albeit considerably less than in many other countries. The increase is largely explained by rapidly rising energy prices, but in many countries measures of underlying inflation have also risen. This is particularly evident in countries such as the United States and the United Kingdom. The Riksbank does not expect energy prices to continue to rise in 2022, which is also reflected in forward pricing. This is an important reason why CPIF inflation will fall back to around 1 per cent at the end of the year and then rise and be close to the target from mid-2023.

Underlying inflation increased during the second half of last year as a result of high demand and supply restrictions. At the same time, it is moderate in relation to other countries, and inflation expectations are close to two per cent. Companies' costs have increased as a result of energy prices, but also as a result of strong increases in commodity prices, higher transport costs and a shortage of components. The Riksbank assesses that companies will transfer some of their increased costs to consumers. Together with a weaker krona, this contributes to inflation excluding energy being expected to continue to rise slightly further until mid-2022, and then to decline somewhat when pandemic-related supply restrictions decrease.

Monetary policy needs to give continued support for inflation to be close to the target in the slightly longer term. A continued high demand and a somewhat higher rate of wage increase mean that CPIF inflation excluding energy is estimated to be close to 2 per cent during the entire forecast period.

The risk of inflationary pressures becoming significantly and lastingly higher than in the forecast has increased, as a result of the recent surprisingly high inflation figures. However, inflation has on average undershot the target of 2 per cent in recent decades and the Executive Board has emphasised that if inflation overshoots the target for a time, this does not necessarily mean that monetary policy will be tightened. The development of inflation is uncertain, and large fluctuations are expected in the near term. The Riksbank will therefore continue to regularly assess how lasting the higher inflation is, in the light of new information. If necessary, the Executive Board will adapt its monetary policy.

Purchases of securities during the second quarter of 2022

The asset purchase programme initiated in March 2020 expired on 31 December 2021 (ref.no. 2020-00861). The scope of the future purchases will be adjusted so that the total holdings develop in a way that contributes to well-balanced monetary policy. Purchasing decisions are taken for one quarter at a time. As with the purchases in the first quarter of 2022, the asset purchases made by the Riksbank during the second quarter will be focused on compensating for maturing assets.

Monetary policy needs to give continued support to the economy for inflation to be close to the inflation target in the slightly longer term. The Executive Board is now deciding on the purchase of assets during the second quarter of 2022, which will compensate for future maturities and thereby approximately maintain the Riksbank's holdings. The scope of the purchases carried out in the second quarter of 2022 is largely in line with the expectations of market participants. The Executive Board also forecasts that the asset holdings will remain approximately unchanged in 2022 and that the total holdings will gradually decrease thereafter.

The purchases included in this decision shall be implemented with such an allocation and according to such terms and conditions that they can be assessed as compatible with the appropriate provisions regarding the prohibition of monetary financing, in accordance with the instructions in the Executive Board decision dated 9 February 2021 (ref.no. 2021-00257). This means that purchases will continue to be designed based on the principle that the Riksbank should not hold a predominant share of the total outstanding stock of assets issued by the Swedish state, Swedish municipalities and regions, as well as Kommuninvest i Sverige AB and publicly-owned companies.

It is therefore appropriate that between 1 April and 30 June 2022, the Riksbank purchases nominal and real Swedish government bonds and Swedish sovereign green bonds for a total nominal value of SEK 12 billion, municipal bonds for a nominal amount of SEK 12 billion, and covered bonds issued in Swedish kronor by Swedish credit institutions for a nominal amount of SEK 12 billion. Within the amount allocated for purchases of municipal bonds, the Riksbank may continue to purchase green municipal bonds.

Correspondingly, it is appropriate that the Riksbank continues to purchase Swedish treasury bills during the same period. The treasury bills purchased so far by the Riksbank in 2021 and 2022 have, to some extent, matured and will continue to mature in the second quarter of 2022. It is therefore appropriate that between 1 April and 30 June 2022, the Riksbank purchases these assets for such a nominal total amount that the total holdings of treasury bills in the Riksbank's asset portfolio is maintained at a level around SEK 20 billion, in accordance with the instructions in the Executive Board decision dated 9 February 2021 (ref.no. 2021-00257).

In addition to the purchases of bonds and treasury bills stated above, the Riksbank shall during the second quarter of 2022 purchase bonds issued in Swedish kronor by Swedish non-financial corporations for a nominal amount of SEK 1 billion.

The Riksbank's asset purchases are justified for monetary policy reasons and are made pursuant to Chapter 6, Article 5 of the Sveriges Riksbank Act (1988:1385). Continued offers to purchase bonds and treasury bills are contributing to a broad pass-through of monetary policy into interest-rate setting.

Instructions for purchases in the second quarter and risk assessment

For the Riksbank to ensure that the asset purchases have a broad pass-through into rate-setting, they should continue to be made in a market-neutral way and through bid procedures on the secondary market. Purchases of corporate bonds can also be made on the secondary market in the form of bilateral purchases; see the instructions conferred by the Executive Board decision of 31 August 2020 (ref.no. 2020-00861) and 6

November 2020 (ref.no. 2020-01133). Purchases of corporate bonds shall also comply with the instructions in the Executive Board decision on sustainability dated 25 November 2020 (ref.no. 2020-00861).

The Riksbank's purchases of government bonds shall be in accordance with the instructions in the Executive Board decision on government bond purchases dated 27 April 2020 (ref.no. 2020-00380). The government bond with the original maturity of 50 years, issued by the Swedish National Debt Office in June 2021, will not be included in the Riksbank's purchase of nominal government bonds.

The Riksbank's offer to purchase municipal bonds shall be in accordance with the instructions in the Executive Board decision dated 15 May 2020 (ref.no. 2020-00511). This means that the Riksbank shall offer to buy municipal bonds so that the holdings over time as far as possible reflect the outstanding stock of bonds with regard to, for example, issuer, maturity and credit-rating.

The purchases of green government bonds and green municipal bonds shall follow the instructions in the Executive Board's decision dated 25 November 2020 (ref.no. 2020-00861), which means that they shall be managed according to the same terms and conditions as apply to the other government bonds and municipal bonds respectively.

Purchases of covered bonds shall be made in accordance with the instructions in the Executive Board decision on purchases dated 27 April 2020 (ref.no. 2020-00401) and shall include bonds with maturities of over one year.

Purchases of treasury bills shall be made in accordance with the instructions in the part of the Executive Board's decision dated 25 November 2020 that refers to these securities (ref.no. 2020-00861).

The Riksbank's measures normally have several different, partly uncertain and sometimes unpredictable, consequences for the social economy and the Riksbank's own finances. The benefits of each measure from a monetary policy perspective need to be weighed against its potentially negative impact on the financial system, such as changed expectations from various agents and other long-term risks. The purchases to be made in accordance with this decision entail some increased financial risks for the Riksbank, in relation to not making the purchases. At the same time, the increase in the financial risks is counteracted to some extent by norm-based negative screening when purchasing corporate bonds. The Riksbank considers that the benefits of the various asset purchases outweigh their possible drawbacks. The current risks are still deemed to still be manageable.

Detailed design of the asset purchases

It is the responsibility of the Head of the Markets Department, with the right to delegate to another person, to decide on the exact date and offered amounts at each reverse auction and offer to purchase, and on the closer details regarding terms and conditions for, and information on, the Riksbank's purchases of assets. 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 each of them to delegate to another person.

The Head of the Markets Department, or person to whom the Head of the Markets Department has delegated, shall also consult with the Executive Board. The consultations with the Executive Board shall be held at least once every second month and refer to guidelines for the purchases of the respective type of asset in the period up to the next consultation, on condition that market conditions at any particular time do not give rise to a need for more frequent consultation.

The Head of the Markets Department, or person to whom the Head of the Markets Department has delegated the task, shall also inform the Executive Board if developments on the financial markets may motivate an adjustment of the Riksbank's asset purchases.

Monetary policy needs to be constantly adapted to changes in the economic outlook and inflation prospects. The Riksbank stands prepared to adjust expansiveness in either direction. The Executive Board may cut the repo rate or, in some other way, make monetary policy more expansionary if inflation prospects weaken. This applies in particular if confidence in the inflation target were to be under threat. On the other hand, if inflation were expected to exceed the target in a substantial and lasting manner, a less expansionary monetary policy would be justified. One adjustment to reduce expansiveness could take place via repo rate rises and/or the reduction of asset holdings.