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## Annex B to the minutes

DATE: 29 June 2022  
DEPARTMENT: Markets Department, Monetary Policy Department and Financial Stability  
Department

# The Riksbank's purchases of bonds during the second half of 2022

## Decision by the Executive Board

The Executive Board decides

1. that the Riksbank, with an amendment to point 1. a–d of the Executive Board's decision of 27 April 2022, between 1 July and 31 December 2022, shall
  - a. purchase Swedish government bonds for a nominal amount of SEK 6 billion, which may also include the purchase of the Swedish State's green bonds,
  - b. purchase bonds issued by Swedish municipalities and regions and by Kommuninvest i Sverige AB for a nominal amount of SEK 6 billion, which may also include purchases of green municipal bonds,
  - c. purchase covered bonds issued in Swedish kronor by Swedish credit institutions for a nominal amount of SEK 6 billion, and
  - d. purchase bonds issued in Swedish kronor by Swedish non-financial corporations for a nominal amount of SEK 500 million, which may also include the purchase of green bonds,
2. that, as of 1 September 2022, the Riksbank will only purchase corporate bonds issued by companies that report their annual direct and indirect emissions of greenhouse gases (scope 1 and scope 2) in accordance with the recommendations of the Task Force for Climate-related Financial Disclosures,
3. 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,

4. that 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
5. to publish the decision on Thursday 30 June 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 credit 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.

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. On 31 December 2021, the Riksbank no longer had any holdings of commercial paper. The Riksbank's purchases of treasury bills had resulted in holdings amounting to SEK 20.0 billion. 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 holdings approximately unchanged, the Riksbank has during the period 1 January to 28 June 2022 purchased government bonds for SEK 24.0 billion, municipal bonds for SEK 23.0 billion, covered bonds for SEK 24.0 billion and corporate bonds for SEK 2.0 billion. The Riksbank's purchases of treasury bills from 1 January to 27 April 2022 resulted in a holding that was equivalent to SEK 11.1 billion on 28 June 2022. In total, the Riksbank's asset holdings amounted in nominal terms to SEK 874.3 billion on 28 June 2022.

The Riksbank has an obligation to manage financial risks following on from the measures taken for monetary policy purposes. This is why the Riksbank only purchases corporate bonds issued by companies with credit ratings equivalent to Baa3/ BBB– or higher. As of January 2021, the Riksbank also applies so-called norms-based negative screening in its purchases, which means that the Riksbank only buys bonds issued by companies that are deemed to comply with international standards and norms for sustainability. One

purpose of this screening is to limit the Riksbank's sustainability-related risks, which are a source of financial risk.

Since 2021, the Riksbank has reported the carbon footprint<sup>1</sup> of its holdings of corporate bonds. In this way the Riksbank contributes to promoting transparency with regard to climate-related information, and the reporting can also be regarded as a first step towards the Riksbank reporting climate-related financial risks on its balance sheet.

## Considerations

The rapid recovery in the global economy, combined with disruptions to freight and production have meant that inflation has risen rapidly in many countries. The disruptions arising from imbalances in supply and demand during the pandemic have been exacerbated by Russia's invasion of Ukraine and new pandemic-related restrictions in China. This has pushed up prices for energy, various input goods and food. Companies have to a large degree passed on their increased costs to consumer prices, but there are also signs that the upturn in inflation has been affected by a change in pricing behaviour among companies.

The high inflation rate in Sweden and abroad is being felt by households and undermines their purchasing power. Central banks around the world are now tightening monetary policy to cool down economic activity and contribute to bringing down inflation. The uncertainty over future inflation and how economic developments will be affected by the central banks' tighter monetary policy are among the most important factors currently affecting the financial markets.

Growth in the global economy is expected to be modest in the coming years, which will also dampen economic activity in the Swedish economy. The main factors restraining growth in Sweden are that the rate of increase in household consumption is declining and that housing investment is falling as a result of the higher interest rates. The labour market, both in Sweden and abroad, is also entering a phase of calmer demand for labour, and unemployment is expected to rise over the next few years. However, even though the employment rate in Sweden is expected to decrease, it will nevertheless remain historically high.

In Sweden, inflation has continued to rise rapidly and signs that price increases are spreading in the economy have become even clearer. Prices for food and other goods have risen rapidly and the rate of increase is unusually high in relation to historical averages. In recent months, service prices have also risen faster and more clearly than in the Riksbank's assessment in April.

The Riksbank's inflation forecast has been revised upwards and CPIF inflation is now expected to remain above 7 per cent for the remainder of the year. The Riksbank needs to use monetary policy to ensure that inflation returns to the target and to counteract the high inflation becoming entrenched in the price setting and wage formation.

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<sup>1</sup> The carbon footprint is a calculation of the total emissions by, for instance, a company, product, country, or in this case a portfolio. The carbon footprint is usually expressed in carbon dioxide equivalents, which take into account not only carbon emissions but also other greenhouse gas emissions, such as methane and nitric oxide.

## **Asset purchases during the second half of 2022**

The asset purchase programme initiated in March 2020 expired on 31 December 2021 (ref.no. 2020-00861). To keep the holdings approximately unchanged, the Executive Board has previously decided on purchases of securities for the first and second quarters of 2022 (ref.nos. 2021-01212 and 2022-00151). The Executive Board is now deciding, with a change in point 1. a–d in the Executive Board decision from 27 April 2022 (ref.no. 2022-00499), on the purchases of securities during the second half of 2022, which means that the purchases will amount in total to SEK 18.5 billion, instead of SEK 37 billion. The decision to end the purchases of Swedish treasury bills remains (ref.no. 2022-00499). The assessment is that the Riksbank's holdings of securities should decrease during 2022 and that this support to the economy will thereby decline. The forecast is that the holdings will continue to decline after 2022. This reduces the expansiveness of monetary policy and contributes to inflation returning to the inflation target.

The Riksbank does not consider it appropriate to reduce the holdings of bonds by SEK 46.6 billion during the second half of the year, that is, by the same amount that matures during the period. It is uncertain to what extent the financial conditions will be affected by the Riksbank's ceasing to purchase bonds. There is thus reason to change the holdings gradually to avoid the risk of contributing to further uncertainty in the financial markets.

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 July and 31 December 2022, the Riksbank purchases Swedish government bonds for a total nominal amount of SEK 6 billion, municipal bonds for a nominal amount of SEK 6 billion and covered bonds issued in Swedish krona by Swedish credit institutions for a nominal amount of SEK 6 billion. Within the amount allocated for purchases of government and municipal bonds, the Riksbank may continue to purchase green government and municipal bonds. In addition to these purchases, the Riksbank shall during the second half of 2022 purchase bonds issued in Swedish kronor by Swedish non-financial corporations for a nominal amount of SEK 500 million.

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).

## **New criterion for the Riksbank's purchases of corporate bonds**

When evaluating financial risks linked to sustainability, there is reason to emphasise climate-related risks. Companies may need to adapt their operations according to, for instance, tighter regulatory frameworks and changes in energy prices, which may require substantial investment. These transition risks may be difficult to quantify, but

they are probably higher for companies conducting operations that entail large emissions of greenhouse gases (hereinafter referred to as emissions). There could therefore be a link between a company's emissions and its transition risk, and ultimately there is thus also a link between the carbon footprint in the Riksbank's portfolio of corporate bonds and the financial risks to which the Riksbank is exposed. The Riksbank's obligation to manage financial risks in connection with the purchases of corporate bonds follows on from Chapter 9, Article 1 a of the Sveriges Riksbank Act (1988:1385).

The Riksbank measures and reports its carbon footprint in accordance with the recommendations produced by the Task Force for Climate-related Financial Disclosures (TCFD). The Network of Central Banks and Supervisors for Greening the Financial System (NGFS), of which the Riksbank is a member, recommends that central banks measure the carbon footprint of their portfolios to obtain an indication of the portfolio's exposure to climate-related financial risks.

The carbon footprint for the Riksbank's holdings of corporate bonds is calculated partly on the basis of data reported by companies, and partly on estimates of the emissions when data is lacking. As some companies do not report their emissions, the overall carbon footprint for the Riksbank's corporate bond portfolio is not entirely reliable, which makes it more difficult for the Riksbank to assess and manage the climate-related financial risks. It is therefore important that more companies begin to report their emissions, and that this is done according to joint standards.<sup>2</sup>

To promote opportunities to measure climate-related financial risks in connection with purchases of corporate bonds, the Riksbank is introducing a new criterion with effect from 1 September 2022. The Riksbank will only purchase bonds issued by companies that report their annual direct emissions (scope 1) and indirect emissions (scope 2) in accordance with TCFD's recommendations. These recommendations are based on the so-called Greenhouse Gas protocol that is a global reporting standard and is used by companies to quantify, evaluate and manage greenhouse gas emissions. Emissions are divided into different categories, where scope 1 refers to direct emissions, i.e. emissions from sources owned or controlled by the company, and scope 2 refers to indirect emissions such as emissions from the company's purchased electricity.

Work is under way within the EU to produce the new Corporate Sustainability Reporting Directive (CSRD). Requirements regarding the reporting of direct emissions (scope 1) and indirect emissions (scope 2) will most probably be included in the CSRD, which means that most of the companies whose bonds the Riksbank may buy will be obliged to report their emissions with effect from the financial year 2023, assuming that the implementation of the CSRD goes according to plan. By implementing this new criterion for purchases of corporate bonds, the Riksbank promotes reporting and creates incentives for companies to measure and report their emissions.

In addition, the new criterion fits in well with the Riksbank's sustainability strategy, which states that the Riksbank shall promote an orderly transition to a sustainable

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<sup>2</sup> The Riksbank has been pointing out for a long time that an improved and more uniform reporting system is needed to make progress in the work on climate-related financial risks and has advocated that Swedish companies report in line with the TCFD, see the article "Climate-related risks are a source of financial risk" in Financial Stability Report 2019:2, Sveriges Riksbank and "Sustainability reporting - need for greater standardisation and transparency", Economic Commentary, March 2021, Sveriges Riksbank.

economy. The Riksbank's Climate Report also clarifies that the Riksbank shall act to promote a sustainable development on condition that this does not entail neglecting the Riksbank's primary objective of price stability or the Riksbank's other policy tasks.

To attain a better measure of climate-related financial risks, the carbon footprint needs to be supplemented with other measures that are forward-looking. But despite the deficiencies, the carbon footprint is nevertheless a first step in gaining an understanding of these risks. Backward-looking measures, such as the carbon footprint, can also be part of the methodology for forward-looking analyses.

The Riksbank assesses that the new criterion fulfils the appropriate civil law principles, such as the principle of equal treatment and the principle of objectivity. The Riksbank also judges that the criterion takes into account the principle of proportionality. This means that the decision not to purchase bonds issued by a company that does not report its direct and indirect emissions both has a risk-reducing effect in that it helps the Riksbank to measure and evaluate its financial risks, and is in reasonable proportion to the negative consequences the decision might have.

The fact that the purchase criterion is introduced with effect from 1 September 2022 means that the Riksbank needs to base its assessment on the companies' reports for the year 2021. The reason for this is that data is only available on an annual basis, which can be regarded as a weakness. All in all, however, the Riksbank assesses that the advantages of introducing the criterion, such as helping the Riksbank to measure and evaluate financial risks, and the positive signalling value such a purchasing criterion has, outweigh the disadvantages.

## **Instructions for purchases during the second half of the year 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, in accordance with the instructions conferred by the Executive Board decision of 31 August 2020 (ref.no. 2020-00861) and 6 November 2020 (ref.no. 2020-01133).

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's 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.

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

The purchases of corporate bonds shall comply with the instructions in the Executive Board's decision on sustainability dated 25 November 2020 (ref.no. 2020-00861). The purchases shall with effect from 1 September 2022 also fulfil the new criterion following on from today's decision which entails the Riksbank only purchasing corporate bonds issued by companies that report their annual direct emissions (scope 1) and indirect emissions (scope 2) in accordance with the recommendations of the Task Force for Climate-related Financial Disclosures.

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 decision means that the total purchase volume during the second half of 2022 will be less than what was indicated in the Executive Board's earlier decision on 27 April 2022. The Riksbank considers that the benefits of the various asset purchases outweigh their possible drawbacks. The current risks are still deemed to 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 the 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 the 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. There are a number of factors that could lead to higher inflation



than in the Riksbank's forecast. If the development of inflation is more persistently higher than the forecast, the Riksbank will react with an even tighter monetary policy to ensure that inflation returns to the target level. Inflation may also be lower than in the forecast, and the Riksbank might then need to postpone further policy rate increases.