

Riksbank takes sustainability into account when purchasing corporate bonds

○ ECONOMIC COMMENTARIES, NEWS With effect from January 2021, the Riksbank will only offer to purchase bonds issued by companies deemed to comply with international standards and norms for sustainability, The authors of an Economic Commentary describe the background to the decision to take sustainability into account by means of so-called norm-based negative screening.

Over the past year, the Riksbank has implemented several measures to alleviate the effects of the pandemic on the Swedish economy. For instance, the Riksbank has, for monetary policy purposes, purchased bonds issued by Swedish non-financial corporations.

One question that has been discussed in recent years is whether central banks should give consideration to sustainability when they purchase corporate bonds for monetary policy purposes. How far central banks can go in their consideration of sustainability depends on, among other things, the links between climate risks and monetary policy and financial stability, and on what circumstances there are within the respective central bank's field of responsibility to contribute to a transition to a less fossil-based economy.

Something that has become increasingly relevant more recently are the physical risks and transition risks linked to sustainability and climate change. These are considered sources of financial risk for those who own securities issued by companies exposed to sustainability risks.

Just like other central banks, the Riksbank has an obligation to manage financial risks following on from the measures taken for monetary policy purposes. The Riksbank has therefore decided, with effect from January 2021, to apply so-called norm-based negative screening when purchasing corporate bonds, which means that the Riksbank only purchases bonds issued by companies assessed to comply with international standards and norms for sustainability.

In the Economic Commentary “Sustainability considerations when purchasing corporate bonds”, the authors describe the background to the Riksbank’s decision. They also describe the legislation and principles that are relevant in this context. Finally, they describe which international norms the negative screening is based on and how the screening is implemented in practice.

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