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Annex B to the minutes

DATE: 24 November 2021
DEPARTMENT: Markets Department, Monetary Policy Department and Financial Stability Department

The Riksbank's asset purchases during the first quarter of 2022

Decision by the Executive Board

The Executive Board decides

1. that between 1 January and 31 March 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 may also include 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. 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

4. to publish the decision on Thursday 25 November 2021, at 09.30.

Background

As part of the measures to counteract the effects of the coronavirus pandemic on the Swedish economy, the Riksbank has implemented, since March 2020, an extensive asset purchase programme for monetary policy purposes. The programme, which expires on 31 December 2021, has 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 has purchased the Swedish state's green bonds and green municipal bonds. Moreover, the purchases of corporate bonds have been limited to bonds issued by companies deemed to comply with international standards and norms for sustainability.

This purchase programme and the Riksbank's other measures during the pandemic have contributed to a gradual stabilisation of the financial markets, with lower interest rates and better functionality as a result. 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 23 November 2021, the Riksbank has purchased government bonds for SEK 88.0 billion, municipal bonds for SEK 105.5 billion, covered bonds for SEK 423.0 billion and corporate bonds for SEK 12.6 billion. The Riksbank no longer has any holdings of commercial paper. As of 23 November 2021, the Riksbank's purchases of treasury bills had resulted in holdings amounting to SEK 24.5 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 938.5 billion as of 23 November 2021.

Considerations

Over the last two years, the pandemic has led to dramatic fluctuations in the global economy and in many parts of the world, the spread of infection is still a cause for concern. But in the countries most important for Swedish trade, demand has risen rapidly at pace with the easing of restrictions on most countries. Economic activity in Sweden has continued to strengthen due to strong domestic and global demand. The rapid change in demand when economies reopened have strained global supply chains and several bottlenecks have arisen in production and in the trade sector. Among other problems, this has led to companies in different parts of the economy finding it difficult to produce enough to meet demand. The supply shocks are creating headwinds for growth in the second half of this year but next year, these problems are expected to subside gradually when consumption patterns normalise, demand grows more slowly and production capacity is adjusted. The conditions for continued strong economic activity over the next few years are deemed favourable – both in Sweden and abroad.

As in other countries, inflation in Sweden has also risen rapidly in 2021. The upturn has largely been driven by rapidly rising energy prices. The assessment, supported by forward prices, is that energy prices will not continue to increase at the same pace going forward. The contribution from energy prices will therefore decrease next year, which is an important reason for why inflation is expected to fall back. Inflation adjusted for energy prices is expected to continue to rise somewhat and be just over 2 per cent until the end of next summer, after which CPIF excluding energy will fall back somewhat. For inflation to be persistently close to 2 per cent, a more sustained upturn in cost pressures is required. According to the Riksbank's forecast, it will take until 2024 before inflation is more lastingly close to the inflation target. A pre-condition for this is that monetary policy continues to provide support to the economy.

In recent decades, inflation has undershot the target on average. The fact that it has now risen and will be above target for a time may help to more clearly anchor price and wage expectations in a way that is compatible with close-to-target inflation. If monetary policy were to be tightened too soon, the risk is high that inflation will not be persistently close to target in the period ahead.

Purchases of assets during the first quarter of 2022

The asset purchase programme initiated in March 2020 will expire on 31 December 2021 (ref.no. 2020-00861). As from the first quarter of 2022, the asset purchases made by the Riksbank will be focused on compensating for maturing assets. The scope of 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.

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 Riksbank's asset holdings will then need to develop in a way that is compatible with continued expansionary financial conditions. The asset purchases in the first quarter of 2022 that are now being decided on by the Executive Board will contribute to this by compensating for forthcoming principal payments. The scope of the purchases carried out in the first quarter of 2022 is in line with the Riksbank's previous communication and more or less in line with expectations among market participants. The Executive Board's forecast is that asset holdings will be more or less unchanged during 2022.

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 January and 31 March 2022, the Riksbank purchases nominal and real Swedish government bonds and the Swedish state's 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 have, to some extent, matured and will continue to mature in the first quarter of 2022. It is therefore appropriate that between 1 January and 31 March 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 first 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 in terms of monetary policy and are made with the support of 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 on interest-rate formation.

Instructions for purchases in the first 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 Riksbank's holdings of nominal government bonds consist mostly of bonds with a maturity period of less than 10 years. Consequently, until further notice, purchases of nominal government bonds should mainly be allocated at longer maturities. The Swedish National Debt Office began issuing a government bond with a 50-year maturity in June this year. The Riksbank has not purchased this bond so far but this does not rule out the bond being included in the Riksbank's purchases of nominal government bonds at a later occasion.

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 national 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 slightly increased financial risks to the Riksbank. 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 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 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.