



Basis for decision

DATE: 11 February 2015
DEPARTMENT: Markets Department

SVERIGES RIKSBANK
SE-103 37 Stockholm
(Brunkebergstorg 11)

Tel +46 8 787 00 00
Fax +46 8 21 05 31
registratorn@riksbank.se
www.riksbank.se

REG. NO. xxxx 2105,
Markets Department

■ Purchases of government bonds

Proposed Executive Board decision

- The Executive Board decides that the Riksbank will purchase nominal government bonds issued by the state of Sweden for the sum of SEK 10 billion in accordance with the description in the annex.
- The Executive Board tasks the Head of the Markets Department, with the right to delegate to another person, to determine the precise details regarding the terms for, and information on, the Riksbank's bond purchases.

Background

A central bank can make its monetary policy more expansionary by purchasing government bonds on the secondary market. The purpose of such purchases is to reduce general interest rates in the economy, partly through the so-called portfolio channel. This means that when the rate on safe assets falls as a result of the central bank's purchases of government bonds, it becomes more attractive for investors to seek other assets. In this way, the lower government bond interest rates spread to other parts of the financial markets. The low interest rates in turn contribute to allowing banks to cut their lending and deposit rates, which increases companies' propensity to invest, at the same time as households have increased incentive to consume. Both households' and companies' wealth increase as a result of asset prices rising via the portfolio channel. All in all, general demand in the economy increases and gradually so will inflation.

Considerations

To make its monetary policy more expansionary for the purpose of safeguarding the role of the inflation target as nominal anchor for price-setting and wage-formation, the Riksbank can consider purchasing government bonds for monetary policy purposes as one of several possible measures. Such a measure would need to be designed in a way that ensures good preparedness for rapidly increasing the size of the programme if monetary policy needs to become even more expansionary.

All in all, it is assessed as appropriate that the Riksbank purchases nominal Swedish government bonds for the sum of SEK 10 billion as a complementary monetary policy

■ measure. This amount comprises around 2 per cent of the outstanding volume of nominal government bonds on the Swedish market. The Swedish National Debt Office's issues of nominal bonds are expected to amount to SEK 77 billion in 2015. The Riksbank's purchases of government bonds will therefore be a relatively small part of the outstanding stock, but are assessed to attain the overall purpose. The purchases should cover bonds with maturities from 1 year up to around 5 years and be made by means of a bid procedure via an electronic platform in which the Riksbank's monetary policy counterparties and the Swedish National Debt Office's current primary dealers have the opportunity to participate. In this way, the pricing and allocation of the Riksbank's transactions will be transparent to the market.

It is suggested that the proposed purchases of Swedish government bonds are made on the secondary market and not in direct connection with the Swedish National Debt Office's issuing on the primary market. The purchases are justified for monetary policy reasons as described above. They are therefore compatible with the applicable provisions regarding the ban on monetary financing. More exact details regarding the terms for, and information on, the Riksbank's bond purchases should be determined by the Head of the Markets Department.

■ Annex

Summary of the Riksbank's purchases of government bonds for monetary policy purposes

The Riksbank is to purchase nominal government bonds issued by the state of Sweden with maturities from 1 year and up to around 5 years for a nominal sum of SEK 10 billion. The purchases shall be made on the secondary market via a bid procedure on three occasions, starting on Thursday, 26 February 2015.

The Riksbank's monetary policy counterparties and the Swedish National Debt Office's current primary dealers in government bonds have the opportunity to take part in the bid procedures after registering interest in participation. Information for counterparties on the registration procedure will be published on 17 February 2015.

The purchases of government bonds will not be made in direct connection with the Swedish National Debt Office's issuance of nominal government bonds on the primary market. The Swedish National Debt Office issues nominal government bonds every second week, on Wednesdays.

The Riksbank's purchases of government bonds are expected to follow the timetable below:

| | |
|--------|--|
| 17 Feb | Terms and conditions for the bid procedure and information to counterparties on the registration procedure is published. |
| 20 Feb | Announcement of volume and which issues of government bonds will be bought at bid procedure no. 1. |
| 26 Feb | Bid procedure no. 1 held during 09:00-10:00 hours. |
| 27 Feb | Announcement of bid procedure no. 2. |
| 5 Mar | Bid procedure no. 2 held during 09:00-10:00 hours. |
| 6 Mar | Announcement of bid procedure no. 3. |
| 12 Mar | Bid procedure no. 3 held during 09:00-10:00 hours. |

The holdings of government bonds will be valued at their market value in the Riksbank's accounts.

■ **Facts regarding the Riksbank's purchases of nominal Swedish government bonds in February and March 2015**

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|--|--|
| Total nominal amount: | SEK 10 billion |
| Type of security: | Nominal bonds issued by the state of Sweden through the Swedish National Debt Office |
| Bonds that may be purchased: | Maturities 1 to around 5 years, i.e. SGB 1050, SGB 1051, SGB 1052 and SGB 1047. |
| Bid procedure days | Thursdays 26 February 2015, 5 March 2015 and 12 March 2015. |
| Announcement of more detailed [terms and conditions] for the respective purchases: | Friday prior to the respective bid procedure |
| Purchase procedure: | Bid procedures, multiple price method, differentiated pricing on allocation |
| Eligible bidders: | Riksbank monetary policy counterparties and Swedish National Debt Office current primary dealers in government bonds that have registered their interest in participating no later than three days prior to the bid procedure. The registration form comprises part of the terms and conditions of the bidding and will be available on the Riksbank's website from 17 February 2015. |
| Bid procedure: | Bids regarding rate and volume are to be made via Bloomberg Bond Auction System between 0900 and 1000 hours on the day of the bid procedure. |
| Lowest bid | Bids shall be no lower than SEK 50 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 Bid procedure day concerned in Euroclear Sweden's securities settlement system. |
| Complete terms and conditions: | Shall be published on the Riksbank's website on 17 February 2015. |

■ Circle of participants

The circle of participants consists of *Monetary policy counterparties*, and the *Swedish National Debt Office's primary dealers*. *Monetary policy counterparties* consist of credit institutions with access to the Riksbank's deposit and lending facilities or which are counterparties in the Riksbank's monetary policy repos and in issues of Riksbank Certificates or which are accepted as Restricted Monetary Policy Counterparties in accordance with the Riksbank's Terms and conditions for RIX and monetary policy instruments. *The Swedish National Debt Office's primary dealers* consist of institutions that are the SNDO's primary dealers with regard to government bonds.