



# Basis for decision

DATE: 1 July 2015  
DEPARTMENT: Markets Department, Monetary Policy 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

---

REF. NO. 2015-00517

## ■ Extended purchases of government bonds

### Proposed Executive Board decision

The Executive Board decides that

- the Riksbank will during the period September until the end of December 2015 purchase nominal government bonds issued by the state of Sweden for a nominal amount of SEK 45 billion over and above purchases decided earlier and in accordance with the description in the annex,
- the Head of the Markets Department will have, with the right to delegate to another person, and after consultation with the Head of the Monetary Policy Department, with the right to delegate to another person, the task of determining the precise details regarding the terms for, and information on, the Riksbank's bond purchases, and
- that these decisions will be published on Wednesday 2 July 2015 at 9.30 a.m.

### Background

Since January 2015, the Riksbank has cut the repo rate from 0.0 per cent to -0.25 per cent, adjusted the repo-rate path downwards and made purchases of government bonds, for the purpose of safeguarding the role of the inflation target as nominal anchor in price-setting and wage-formation.

The Executive Board noted at its most recent monetary policy meeting on 28 April that CPIF inflation had begun to rise and that the outcomes in recent months had been somewhat higher than expected. To support this positive development and ensure that inflation rises sufficiently quickly, the Executive Board of the Riksbank therefore decided to buy further Swedish nominal government bonds to a nominal amount of SEK 40-50 billion during the period May to the end of September 2015. The decision on 28 April meant that the Riksbank's purchases of Swedish government bonds from January until the end of September 2015 would total SEK 80-90 billion. At the same time, the repo-rate path was lowered significantly compared with the monetary policy decision in February. The repo rate was expected to be raised slowly from -0.25 per cent during the second half of 2016.

## ■ Considerations

Inflation is continuing to rise and economic activity in Sweden is gradually improving. Growth is also rising abroad, but the uncertainty has increased and the consequences of the events in Greece over the past few days are difficult to judge. In this environment, the development of the krona exchange rate still represents a risk to the upturn in inflation. The krona has also become stronger than was forecast by the Riksbank in April. To ensure that inflation continues to rise towards 2 per cent, it is assessed that a more expansionary monetary policy is required.

The Riksbank should therefore, in addition to cutting the repo rate to  $-0.35$  per cent, as a complementary monetary policy measure expand the purchases of nominal government bonds by purchasing further nominal Swedish government bonds to a nominal amount of SEK 45 billion – over and above the bond purchases decided earlier by the Executive Board – from September to the end of December 2015. The total purchases made by the Riksbank could then amount to SEK 135 billion at the end of the year. This corresponds to around 20 per cent of the outstanding stock of nominal government bonds denominated in SEK on the Swedish market.

The purchases now proposed could cover government bonds with maturities of up to 25 years, to have a broad impact on interest rate-setting. The purchases should be made by means of 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 considered appropriate that the Riksbank's purchase of government bonds continue to be implemented weekly on Thursdays. It is appropriate that the new asset purchase programme should begin after the purchases decided on 28 April have reached the predetermined limit of SEK 50 billion. This is expected to be in September. The holdings of government bonds will be recorded at their market value in the Riksbank's balance sheet.

The Riksbank's purchases of Swedish government bonds will be made on the secondary market. Moreover, the purchases should not be made directly in connection with the Swedish National Debt Office's issues on the primary market. The purchases are justified for monetary policy reasons as described above. They are assessed as being compatible with the appropriate provisions regarding monetary financing, cf. the European Court of Justice's decision on 16 June 2015 in the case C-62/14 Gauweiler and others. 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 after consultation with the Head of the Monetary Policy Department.

In the same way as with a repo-rate cut, the Riksbank's purchases of government bonds means that interest rates in general are being pushed down. The purchases thus contribute to demand in the economy and thus inflationary pressures rising.

Monetary policy is still characterised by limited tolerance for low inflation. If inflation becomes lower than expected, the Riksbank is prepared to make monetary policy even more expansionary, even between ordinary monetary policy meetings. The repo rate can be cut further. Purchases of government bonds can also be extended. The Riksbank is also prepared to intervene on the foreign exchange market if the upturn in inflation is threatened as the result of, for instance, a very problematic development in the markets. Purchases of other types of security are also a possibility, as is launching a programme for lending to companies via the banks.

## ■ Appendix

**Facts regarding the Riksbank's purchases of nominal Swedish government bonds according to the decision on 1 July 2015. These purchases will be made during the period September to the end of December 2015.**

Total nominal amount:	SEK 45 billion
Type of security:	Nominal bonds issued by the state of Sweden through the Swedish National Debt Office
Bid procedures:	Normally Thursdays.
Announcement of more detailed terms and conditions for the respective purchases:	Special terms and conditions will normally be published on the Friday before the respective Bid procedure, however at least four banking days prior to the respective Bid procedure.
Purchase procedure:	Bid procedure, multiple price method, differentiated pricing on allocation.
Eligible bidders:	<p>Those of the Riksbank's monetary policy counterparties and the Swedish National Debt Office's current primary dealers in government bonds that have registered their interest in participating no later than three banking days prior to the Bid procedure.</p> <p>The registration form comprises part of the terms and conditions of the bidding and will be available on the Riksbank's website.</p> <p>A counterparty who has registered for the Riksbank's earlier purchases of Swedish government bonds in accordance with the General terms and conditions dated 17 February 2015 and 13 May 2015 can instead of making a new registration confirm that the earlier registration still applies. A form for this will be available on the Riksbank's website from 3 July 2015. The confirmation shall reach the Riksbank no later than two banking days prior to the Bid procedure.</p>
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 auction.
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 auction concerned in Euroclear Sweden's securities settlement system.
General terms and conditions:	General terms and conditions 2015:3, dated 13 May, apply (see the Riksbank's website).