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REG. NO.

Annex to the minutes

DATE: 18 March 2015
DEPARTMENT: Monetary Policy Department and Markets Department
REFERENCE:

■ Further monetary policy measures

Decision by the Executive Board

The Executive Board decides

- to cut the repo rate to –0.25 per cent,
- that this new level will apply from Wednesday, 25 March 2015,
- that the Riksbank will purchase nominal government bonds issued by the state of Sweden for a nominal amount of SEK 30 billion in accordance with the description in the annex,
- to give the Head of the Markets Department, with the right to delegate to another person, after consultation with the Head of the Monetary Policy Department, the task of determining the precise details regarding the terms for, and information on, the Riksbank's bond purchases, and to
- publish these decisions on Wednesday 18 March 2015 at 13.45 hours.

Background

The Executive Board of the Riksbank noted at its monetary policy meeting on 11 February 2015 that inflation was still low and that inflation expectations had continued to fall. In addition, the risk outlook had changed. Uncertainty over international developments had increased. The oil price had fallen substantially and differences in the monetary policy conducted in, for instance, the United States and the euro area had led to large fluctuations on the foreign exchange markets. Given this, the Executive Board of the Riksbank decided that a more expansionary monetary policy was needed to support inflation rising towards the target.

The Executive Board of the Riksbank therefore decided to cut the repo rate by 0.10 percentage points, to –0.10 per cent, and to make a slight downward adjustment to the repo-rate path. At the same time, the interest rates on the fine-tuning transactions in the Riksbank's operational framework for the implementation of monetary policy were restored to the repo rate +/- 0.10 percentage points.

■ Moreover, the Executive Board decided to buy government bonds for SEK 10 billion. With these measures and a preparedness to quickly do more, even between the ordinary monetary policy meetings, the Riksbank wished to emphasise that it will safeguard the role of the inflation target as nominal anchor for price-setting and wage formation.

At the same time, the Executive Board of the Riksbank emphasised that if monetary policy needed to become more expansionary, this would first and foremost entail cutting the repo rate further, postponing increases in the repo rate and extending the purchases of government bonds. In addition, there was also the possibility of a programme of loans to companies via the banks.

Considerations

The expansionary monetary policy is considered to have had a positive effect on the Swedish economy. Growth is relatively good, the labour market is strengthening gradually and there are signs that inflation has bottomed out and is beginning to rise, although it is still low. At the same time as the Swedish economy has developed in a positive way, there has been considerable volatility on the foreign exchange and fixed-income markets, with relatively large fluctuations in the krona exchange rate. The krona has strengthened a lot recently, mainly against the euro, and long-term interest rates have risen in Sweden, while they have fallen in, for instance, Germany. The euro has weakened against several currencies, and this, like the fall in interest rates in Europe, has been partly due to the European Central Bank (ECB) making its monetary policy more expansionary through large purchases of assets. At the same time, the Federal Reserve is moving towards its first policy rate increase, which has meant that the dollar has strengthened. It is difficult to assess the continued path for the krona in this environment. If the krona continues to strengthen in the near term, this could break off the upturn in inflation that has begun, and mean inflation does not rise towards the target sufficiently quickly. In addition, other uncertainty factors described in connection with the February decision still remain. Low inflation over an even longer period of time increases the risk that inflation expectations will fall and that the role of inflation as nominal anchor in price-setting and wage formation will weaken.

An even more expansionary monetary policy is needed to support the upturn in inflation and make sure that long-term inflation expectations are in line with the inflation target. The repo rate should therefore be cut by 0.15 percentage points to -0.25 per cent.

In addition to the rate cut, the Riksbank should as a complementary monetary policy measure buy Swedish government bonds to a nominal value of SEK 30 billion, in addition to the purchases of government bonds corresponding to a nominal amount of SEK 10 billion that were decided on 11 February 2015. The Riksbank's total purchases will thus amount to around 7 per cent of the outstanding volume of nominal government bonds on the Swedish market.

The purchases now decided 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. Purchases will normally be made every Thursday, starting on 26 March 2015 and are expected to

■ be completed at the beginning of May 2015. 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 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 after consultation with the Head of the Monetary Policy Department.

The repo rate is expected to remain at the level now decided at least until the second half of 2016. After that, it is expected to rise gradually and at a slower pace than was forecast in the Monetary Policy Report published in February. The Riksbank's purchases of government bonds, like a repo-rate cut, will affect interest rates in general and thus contribute to an increase in demand in the economy and thereby in inflationary pressures.

The Riksbank continues to be ready to make monetary policy even more expansionary, even between the ordinary monetary policy meetings, if this is necessary to ensure that inflation rises towards the target. The repo rate could possibly be cut somewhat further and the Riksbank could buy even more government bonds. In addition, the Riksbank is prepared to launch a programme of loans to companies via the banks. In addition to these measures, there are a number of other measures that the Riksbank could take. These include the possibility of interventions on the foreign exchange or buying other types of assets.

■ Annex

Facts regarding the Riksbank's purchases of nominal Swedish government bonds beginning on 26 March 2015

Total nominal amount:	SEK 30 billion
Type of security:	Nominal bonds issued by the state of Sweden through the Swedish National Debt Office
Auctions:	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 Swedish National Debt Office's current primary dealers in government bonds that have registered their interest in participating no later than three 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 from 19 March 2015.</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 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 19 March 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 will be published on the Riksbank's website on 19 March 2015.