



Annex to the minutes

DATE: 27 October 2015
DEPARTMENT: Markets Department and 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 2015-00705

■ Extended purchases of government bonds

Decision by the Executive Board

The Executive Board decides that

- during the first half of 2016, the Riksbank will purchase nominal government bonds issued by the state of Sweden for a nominal amount of SEK 65 billion in addition to the purchases decided earlier and in accordance with the description in the annex,
- the Head of the Markets Department, with the right to delegate to another person, will have, 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
- these decisions will be published on Wednesday 28th, October 2015 at 9.30 a.m.

Background

Since January 2015, the Riksbank has cut the repo rate from 0.0 per cent to -0.35 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.

Sweden is a small, open economy and therefore dependent on what happens in the rest of the world. Globally speaking, inflation is low and central banks in many countries around Sweden are also pursuing a very expansionary monetary policy aimed at pushing up inflation towards their respective targets. International interest rates are therefore very low and Swedish monetary policy must relate to this. If this does not happen, the krona exchange rate risks appreciating earlier and at a faster rate than forecast. This would make it more difficult for the Riksbank to push up inflation and stabilise it around the target.

The monetary policy being pursued aims to limit the risks of continued low inflation and is helping to ensure that inflation expectations continue to be anchored to the

target in the years ahead. Continued high confidence in the inflation target creates conditions for good economic growth. Taken together, the monetary policy measures have helped to reduce the general level of interest rates in the Swedish economy. They have also increased the scope of households and companies to consume and invest. They have also led to the krona exchange rate being weaker than would otherwise have been the case, lending support to Swedish exports. The expansionary monetary policy has hence contributed to a stronger economy. Indicators of underlying inflation, such as the CPIF excluding energy, have also risen noticeably in recent years. CPIF inflation is also expected to rise rapidly in the next few months.

Considerations

The Riksbank's expansionary monetary policy is contributing to stable growth, falling unemployment and a clear upward trend in inflation in Sweden. But there is still considerable uncertainty regarding the strength of the global economy and central banks abroad are expected to pursue an expansionary monetary policy for even a longer time still. Compared with the forecast in September, inflation in Sweden is expected to be a little lower during 2016 and 2017. But CPIF-inflation is nevertheless expected to be close to two per cent during 2016. Without further measures from the Riksbank, the rise in inflation could slow down, partly as a result of the Swedish krona appreciating earlier and more rapidly than forecast.

In order to underpin the positive development in the Swedish economy and to safeguard the robustness of the upturn in inflation, monetary policy needs to be more expansionary.

The repo rate is left unchanged at -0.35 per cent but an initial raise in the rate will be deferred by approximately six months. The Riksbank should, in addition to adjusting the repo rate path, 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 65 billion — in the first six months of 2016, in addition to the bond purchases decided earlier by the Executive Board. The total purchases made by the Riksbank are then expected to amount to SEK 200 billion at the end of the first six months of 2016. This corresponds to just over 30 per cent of the outstanding stock of nominal government bonds denominated in SEK on the Swedish market.

The subject purchases 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 1 July 2015 have been completed, which is expected to occur in December 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 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, with the right to delegate to another person, after consultation with the Head of the Monetary Policy Department, also with the right to delegate to another person.

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

There is still a high level of preparedness to quickly make monetary policy even more expansionary if inflation prospects deteriorate, even between the ordinary monetary policy meetings. The repo rate can be cut further, which is reflected in the repo rate path, and the Riksbank can purchase more securities. The Riksbank also stands ready to intervene on the foreign exchange market if the upturn in inflation were to be threatened by, for example, a problematic development in the markets. In addition, there is scope to launch a lending programme to companies via the banks should this be necessary.

■ Annex

Facts regarding the Riksbank's purchases of nominal Swedish government bonds made during the first six months of 2016, pursuant to the applicable general terms and conditions.

Total nominal amount:	SEK 65 billion
Type of security:	Nominal bonds issued in Swedish kronor 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:	Those of the Riksbank's monetary policy counterparties and the Swedish National Debt Office's current primary dealers in government bonds that are eligible to participate as bidder under the applicable general terms and conditions (see below).
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 for the Riksbank's purchases of government bonds via bid procedure 2015:3, dated 13 May, subject to the provisions of point 8 in the general terms and conditions (see the Riksbank's website).