



# Annex B to the minutes

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DEPARTMENT: Markets Department and Monetary Policy Department

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## Further monetary policy measures

### Decision by the Executive Board

The Executive Board decides that

1. during the period January–June 2017, the Riksbank will purchase nominal Swedish government bonds for a nominal amount of SEK 15 billion and real Swedish government bonds for a nominal amount of SEK 15 billion over and above purchases of nominal and real Swedish government bonds decided earlier and in accordance with the description in the annex,
2. reinvestment of the sum of around SEK 30 billion that mainly pertains to repayments on maturity of the Riksbank's holdings of Swedish government bonds in August 2017 shall begin after the turn of the year 2016/2017 and continue throughout the year, in accordance with the description in the annex,
3. 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 purchases of bonds and its reinvestments, and
4. these decisions will be published on Wednesday 21 December 2016 at 9.30 a.m.

### Background

To safeguard the role of the inflation target as nominal anchor for price-setting and wage formation, monetary policy in Sweden, as in other countries, has become gradually more expansionary. The Riksbank has cut the repo rate to -0.50 per cent, adjusted the repo-rate path downwards and carried out extensive purchases of government bonds.

The aim of this monetary policy is to push up inflation and stabilise it around the target of 2 per cent and to keep inflation expectations in line with the inflation target. High confidence in the inflation target is creating the conditions for efficient price-setting and wage formation, as well as good economic growth in Sweden.

The Riksbank's expansionary monetary policy has had a broad impact and pushed down interest rates in the Swedish economy. Monetary policy has thus contributed to the positive development in recent years, with good growth, falling unemployment and rising inflation. Long-term inflation expectations have risen and are now close to 2 per cent.

## Considerations

Since the October Monetary Policy Report was published, the real economic prospects for Sweden and abroad have on the whole improved somewhat. The international recovery is expected to continue in the coming years, and global inflation is expected to rise from its currently low level. The expansionary monetary policy in Sweden has contributed to stronger economic activity, a weaker krona, higher inflation and rising inflation expectations. There are good conditions for inflation to continue rising. It is expected to reach 2 per cent in the middle of 2018.

However, inflation has been somewhat weaker than expected in recent months, and it is still uncertain how quickly it will rise going forward. The upturn in inflation therefore needs continued support from monetary policy and the Executive Board has decided to extend the purchases of government bonds. The Riksbank should thus, as a complementary monetary policy measure, buy further nominal Swedish government bonds to a nominal value of SEK 15 billion, as well as real Swedish government bonds to a nominal value of SEK 15 billion. These purchases should be made during January–June 2017.

The Riksbank's overall purchases of nominal and real Swedish government bonds in accordance with this decision and earlier decisions will thus at the end of June 2017 amount to SEK 275 billion, of which SEK 245 billion concerns nominal government bonds and SEK 30 billion concerns real government bonds. The total purchase volume corresponds to around 39 per cent of the outstanding volume of nominal Swedish government bonds and around 17 per cent of the outstanding volume of real Swedish government bonds denominated in SEK on the Swedish market. The holdings of government bonds shall be recorded at their market value in the Riksbank's balance sheet.

These purchases should cover nominal and real Swedish 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 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 in government bonds have the opportunity to participate. In this way, the pricing and allocation of the Riksbank's transactions will be transparent to the market. Moreover, the bid procedure is a useful way of achieving an efficient implementation of the current monetary policy measures, taking into account the prevailing market conditions for nominal and real Swedish government bonds.

It is considered appropriate that the Riksbank's purchases of government bonds continue to be implemented weekly and on the secondary market. The Riksbank's counterparties in the bid procedure should, according to the terms and conditions for these, ensure that the purchases do not cover bonds that the counterparties have acquired directly from the Swedish National Debt Office for the purpose of selling them to the Riksbank. Given that the purchases should not be made in direct connection with the Swedish National Debt Office's issues on the primary market, it may still be appropriate to make the purchases of nominal government bonds and real Swedish bonds on different dates.

The nominal and real Swedish government bonds that are included in the Riksbank's holdings at any point in time will fall due for repayment. The Riksbank will in addition receive income from its holdings of government bonds in the form of coupon payments. If no reinvestments are made, both the Riksbank's holdings of real and nominal Swedish government bonds and the banking system's liquidity surplus in relation to the Riksbank will decrease. To maintain an expansionary monetary policy, the Riksbank should continue to reinvest both the repayments it receives upon maturity and the coupons. Pursuant to the Executive Board's decisions on 10 February and 20 April 2016, which apply until further

notice, the reinvestments shall be made by means of the Riksbank purchasing Swedish government bonds over and above the bond purchases the Board has decided on earlier and may decide on in future.

In a manner corresponding to the purchases implemented so far and the coming purchases of government bonds, the reinvestments should continue to comprise nominal and real Swedish government bonds with maturities up to 25 years. The reinvestments should also 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 in government bonds have the opportunity to participate, to attain a transparent and efficient implementation of the current monetary policy measures, taking into account the prevailing market conditions.

As with the purchases of government bonds, the reinvestments shall be made on the secondary market. The coupons and repayments received upon the maturity of the Riksbank's holdings of Swedish government bonds shall normally be reinvested in close proximity to the occasions when the Riksbank receives these funds. During 2017, however, the Riksbank will receive around SEK 30 billion which mainly pertains to repayments upon the maturity of bond holdings in August. To achieve a well-considered purchase volume for every bid procedure it is therefore appropriate that the reinvestment of these funds is begun after the turn of the year 2016/2017. The reinvestments are intended to continue throughout the year.

Even if the reinvestment period is extended, reinvestments in nominal and real Swedish government bonds respectively should continue to be made on different dates. They should likewise continue to be made in connection with the Riksbank's purchases of Swedish government bonds within the scope of the Executive Board's decision on new bond purchases. This means that the purchase amount on individual occasions may vary over time and be larger than is indicated by the current decision on new purchases of government bonds.

The current purchases and reinvestments are justified in terms of monetary policy as stated 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 purchases of, and reinvestments in, bonds 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 both nominal and real Swedish government bonds means that interest rates in general are being pushed down. The Executive Board's overall assessment is that the strong development in the real economy will support the upturn in inflation. The Swedish economy has developed positively in recent years and the outlook is bright for the near future. But although the Swedish economy is currently well-equipped, negative surprises can occur in the future that make it necessary to adapt monetary policy. The Riksbank therefore still has a high level of preparedness to make monetary policy even more expansionary if the upward trend in inflation were to be threatened and confidence in the inflation target weakened. All of the tools that the Riksbank has described earlier, for instance in the September Monetary Policy Report, can still be used.

## Appendix

Facts on the Riksbank's purchases of nominal and real Swedish government bonds made during January–June 2017 and reinvestments in nominal and real Swedish government bonds according to the applicable general terms and conditions.

Total nominal amount:	<p>SEK 15 billion in nominal Swedish government bonds</p> <p>SEK 15 billion in real Swedish government bonds</p> <p>The Riksbank's reinvestments are not limited to a predetermined nominal amount on each respective Bid procedure. Instead, the size of the reinvestments is determined by the amounts received by the Riksbank, or which the Riksbank expects to receive, in the form of repayments upon maturity and coupons attributable to the Riksbank's holdings of nominal and real Swedish government bonds.</p>
Type of security:	Real and nominal bonds issued in SEK by the State of Sweden through the Swedish National Debt Office.
Bid procedures:	For nominal Swedish government bonds, normally Thursdays, and for real Swedish government bonds, normally Fridays.
Announcement of more detailed terms and conditions for the respective purchases:	Special terms and conditions will normally be published at least four banking days before the respective Bid procedure.
Form of purchase:	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 nominal and real Swedish government bonds that are eligible to participate as bidder under the applicable general terms and conditions.</p> <p>If a Counterparty is not one of the Riksbank's Monetary Policy Counterparties, but meets the requirements for being a dealer in Bonds covered by the Bid procedure, the Counterparty may submit Bids in the current Bid procedure only in the part of the procedure that concerns such Bonds.</p>
Bid procedure:	Bids regarding rate and volume are to be made via Bloomberg Bond Auction System between 09.00 and 10.00 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:	<p>Shall be made the second banking day after the auction concerned in Euroclear Sweden's securities settlement system.</p> <p>Counterparties are obliged to ensure that the Bonds supplied to the Riksbank have not been obtained from the Swedish National Debt Office to fulfil delivery.</p>
General terms and conditions:	General terms and conditions for the Riksbank's purchases of government bonds via bid procedure 2016:1, dated 21 April 2016, subject to the provisions of point 8 in the general terms and conditions (see the Riksbank's website).