



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

- during the period July-December 2016, the Riksbank will purchase nominal Swedish government bonds for a nominal amount of SEK 30 billion over and above purchases of nominal Swedish government bonds decided earlier, and in accordance with the description in the annex,
- during the period June-December 2016, the Riksbank will purchase real Swedish government bonds for a nominal amount of SEK 15 billion, in accordance with the description in the annex,
- the Riksbank shall reinvest received coupons from and repayments upon the maturity of the Riksbank's holdings of real Swedish government bonds by purchasing real Swedish government bonds, in accordance with what is stated 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 purchases of bonds and its reinvestments, and that
- this decision will be announced on Thursday, 21 April 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. In 2015, the Riksbank cut the repo rate from 0.0 per cent to -0.35 per cent, adjusted the repo-rate path downwards, made extensive purchases of government bonds and announced additional bond purchases during the first half of 2016. In February 2016, the repo rate was cut further to -0.5 per cent. These measures have led to lower interest rates and to the krona being weaker than it would otherwise have been.

The aim of this monetary policy is to push up inflation and stabilise it around the target of 2 per cent and help bring inflation expectations in line with the inflation target. Continued 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 highly expansionary monetary policy has helped to strengthen the economy and reduce unemployment, and has contributed to the upturn of inflation expectations. Inflation has shown a rising trend since the start of 2014.

Considerations

There is still considerable uncertainty about the global economic outlook and several central banks are conducting highly expansionary monetary policies to support economic developments and to get inflation to rise. However, in Sweden the strengthening of the economy is continuing and resource utilisation is now considered to be roughly normal. GDP growth was faster than anticipated during the fourth quarter of 2015 and inflation was also a positive surprise at the start of the year. In the forecast, CPIF inflation stabilises around 2 per cent in 2017.

The Riksbank's expansionary monetary policy, with repo-rate cuts and purchases of nominal government bonds, has contributed to the positive development in the Swedish economy, with high growth and rising inflation. However, inflation has been low for a long time and, although it is rising, the upturn is unstable. Continued expansionary monetary policy is needed to safeguard the rising trend in inflation. The Executive Board has decided to continue to buy securities, for a further SEK 45 billion, so that the purchases will amount to SEK 245 billion in total by the end of 2016. This will reduce the risk of the krona appreciating faster than in the forecast and of a break in the upturn in inflation. To have a broad impact on different interest rates, the purchases will include both nominal and real government bonds. The strong development of the Swedish economy justifies these purchases taking place at a somewhat slower pace than previously.

The Riksbank should thus as complementary monetary policy measure buy further nominal Swedish government bonds to a nominal value of SEK 30 billion. These purchases should be made during the period July-December 2016 and should begin after the purchases of nominal Swedish government bonds decided on 27 October 2015 have attained the limit decided on for bond purchases so far of SEK 200 billion, which is judged to be in June 2016.

Moreover, there is clear scope to provide further support to the upturn in inflation and the real economy by pushing down yields on real government bonds. It is therefore considered appropriate for the Riksbank, as a further complementary monetary policy measure, to also buy real Swedish government bonds to a nominal value of SEK 15 billion. To avoid the first purchases of real Swedish government bonds being during the summer, when market activity is normally lower than the rest of the year, the purchases of real government bonds will begin in June.

The Riksbank's total purchases of nominal and real Swedish government bonds in accordance with this decision and earlier decisions will thus amount to SEK 245 billion at the end of the year. This corresponds to around 37 per cent of the outstanding volume of nominal Swedish government bonds and around 9 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.

The Riksbank's holdings of real Swedish government bonds will over time mature. The holdings also generate revenue in the form of coupon payments. If no reinvestments are

made, both the Riksbank's holdings of real 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 regularly reinvest both the repayments it receives upon maturity and the coupons as a further complementary monetary policy measure. This should be done by the Riksbank, until further notice, reinvesting the received funds by purchasing real Swedish government bonds in addition to the bond purchases which have already been decided by the Executive Board or may be decided in the future.

Reinvestments in real Swedish government bonds will thus be made in a way that corresponds to reinvestment in nominal Swedish government bonds of received coupons from and payments upon the maturity of the Riksbank's holdings of nominal Swedish bonds according to the Executive Board's decision on 10 February 2016. As a result of these reinvestments, the Riksbank's holdings of Swedish government bonds may increase slightly over time.

The purchases now proposed and the reinvestments could 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 and reinvestments 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 purchase of and reinvestment in 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 and reinvestments should not be made in direct connection with the Swedish National Debt Office's issues on the primary market, it may also be appropriate to make the purchases of nominal government bonds as well as purchases and reinvestments of real Swedish bonds on different dates. Moreover, it may be appropriate to have fewer bid procedures with regard to both nominal and real government bonds during the summer months.

The current purchases and reinvestments are justified in terms of monetary policy as stated above. They are assessed as being compatible with the applicable 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 mean that interest rates in general are being pushed down. The Executive Board's assessment is on the whole that even if the Swedish economy is doing increasingly well, the purchases of securities are still needed. This is to avoid jeopardising the recovery in economic activity and to reduce the risk of inflation becoming too low.

The Executive Board is still highly prepared to make monetary policy even more expansionary if necessary. This also applies between the ordinary monetary policy meetings.



There is still scope to cut the repo rate further, which is reflected in the repo-rate path. If necessary, the Riksbank could also adopt measures in the framework for the implementation of monetary policy to support the monetary policy conducted. In addition, security purchases can be extended, for example by further purchases of nominal and real government bonds. The Riksbank is also prepared to intervene on the foreign exchange market if the krona appreciates so quickly as to threaten the upturn in inflation. Furthermore, there is scope to launch a lending programme to companies via the banks, even if the good funding opportunities of companies indicate that this is currently unnecessary.

Annex

Facts on the Riksbank's purchases of nominal and real Swedish government bonds made during July-December 2016 and during June-December 2016 respectively and reinvestments in Swedish government bonds according to the applicable general terms and conditions.

Total nominal amount:	<p>SEK 30 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. Instead, the size of the reinvestments is determined by the amounts received by the Riksbank in the form of repayments upon maturity and coupons attributable to the Riksbank's holdings of real Swedish government bonds.</p>
Type of security:	<p>Real and nominal bonds issued in SEK by the State of Sweden through the Swedish National Debt Office.</p> <p>Received coupons from and payments upon the maturity of the Riksbank's holdings of real Swedish government bonds will be reinvested in real Swedish government bonds.</p>
Bid procedures:	<p>For nominal Swedish government bonds, normally Thursdays, and for real Swedish government bonds, normally Fridays.</p>
Announcement of more detailed terms and conditions for the respective purchases:	<p>Special terms and conditions will normally be published at least four banking days before the respective Bid procedure.</p>
Form of purchase:	<p>Bid procedure, multiple price method, differentiated pricing on allocation.</p>
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 primary 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:	<p>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.</p>
Lowest bid	<p>Bids shall be no lower than SEK 50 million. Each bidder can make several bids.</p>

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).