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Purchases of corporate bonds and commercial paper for monetary policy purposes

Sveriges Riksbank

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DNR 2020-00397

Annex D to the minutes

DATE: 19 March 2020
Monetary Policy Department, Markets Department
DEPARTMENT and Financial Stability Department

Purchases of corporate bonds and commercial paper for monetary policy purposes

Decision by the Executive Board

The Executive Board decides

1. that during the period March–December 2020, the Riksbank intends to purchase bonds and commercial paper issued in Swedish kronor (SEK) by Swedish non-financial corporations within the framework of the bond purchase programme, in accordance with what is stated in the considerations with regard to this decision, and
2. to publish the decision on Thursday 19 March 2020 no later than 20.00.

Background

The spread of the coronavirus has widespread humanitarian consequences and is affecting the Swedish and global economies to an increasing extent. This has led to considerable fluctuations on the financial markets. Several countries' economies have been significantly affected by the restrictions on, among other things, travel, transport and public gatherings as a result of government decisions. Operations in many companies have been limited temporarily or closed down, which is expected to have consequences for future economic developments.

To support economic developments and ensure inflation stays close to the Riksbank's target of 2 per cent, the Riksbank is currently holding the repo rate at zero per cent. As a complementary monetary policy measure, the Riksbank has also purchased a significant volume of Swedish government bonds since February 2015.

The aim of the expansionary monetary policy is to support demand, output and employment in Sweden, to stabilise inflation around the target of 2 per cent and to keep inflation expectations compatible with the target. High confidence in the inflation target creates the conditions for efficient price-setting and wage formation, thereby contributing to good economic developments in Sweden.

The Riksbank's monetary policy has had a broad impact on financial conditions in the Swedish economy in recent years, and has contributed to good economic growth and an inflation rate close to the target in recent years. CPIF inflation has fallen back in recent months as a result of falling energy prices, but excluding energy prices, the inflation rate is closer to 2 per cent.

However, the spread of the coronavirus will inevitably have clearly negative effects on economic activity in Sweden, although it is too early to say how serious the effects will be and how long they will last. It is nevertheless already clear that companies in the tourism sector have been hard hit by the restrictions introduced and the precautionary measures taken. Hotels, travel agencies and restaurants are reporting small numbers of visitors and extensive cancellations. As a consequence of this, several companies have reduced their operations and large numbers of employees have been given notice of redundancy in recent days.

The Riksbank's contacts with the financial sector both in Sweden and abroad indicate that there are signs of liquidity problems on financial markets. The continued turbulence on these markets means that the credit supply in the Swedish economy could rapidly deteriorate. This could aggravate the downturn in the economy and lead to prolonged negative consequences for output and employment in Sweden. Weaker demand in the economy will likely lead to a fall in inflation.

Considerations

To keep monetary policy expansionary, provide support to the economy and bolster credit supply broadly in the Swedish economy, the Executive Board decided on 16 March 2020 to implement bond purchases between March and December 2020 to a total nominal amount of up to SEK 300 billion. The decision covers both extended purchases of government bonds (over and above the government bond purchases decided on by the Executive Board in April 2019), purchases of bonds issued by Swedish municipalities and Kommuninvest i Sverige AB and purchases of covered bonds issued by Swedish institutions. In accordance with the decision by the Executive Board on 16 March 2020, the extended purchases of government bonds were initiated on 18 March 2020.

In light of continued developments in connection with the spread of the coronavirus, it is important to give further support to credit supply for Swedish companies. It is therefore appropriate that the Riksbank also purchases bonds and commercial paper issued in Swedish kronor (SEK) by Swedish non-financial corporations. These purchases shall be included in the adopted bond-purchasing programme of up to SEK 300 billion and supplement the purchases of government bonds, municipal bonds and covered bonds.

Further details regarding the purchases will be decided by the Executive Board shortly.

The current purchases are justified in terms of monetary policy as described above, pursuant to Chapter 6, Article 5 of the Sveriges Riksbank Act (1988:1385).

Economic developments and the situation on financial markets, both in Sweden and other countries, are now deteriorating very rapidly. Given this, the Riksbank is prepared to take further measures and supply the necessary liquidity even between the ordinary



monetary policy meetings. All the Riksbank's tools can be put to use. How the tools will be used depends on future developments.