
# Monetary policy minutes

April 2019

S V E R I G E S   R I K S B A N K

# Summary

*At the Monetary Policy Meeting on 24 April 2019, the Executive Board of the Riksbank decided to hold the repo rate unchanged at –0.25 per cent. The Executive Board assesses that the repo rate will remain at this level for a somewhat longer period of time than was forecast in February. The Executive Board has also decided that the Riksbank will purchase government bonds for a nominal value of SEK 45 billion from July 2019 to December 2020.*

The members supported the picture of the economic outlook and inflation prospects described in the draft Monetary Policy Report. The good global economic activity is continuing but as expected has entered a phase of softer growth. Activity in the Swedish economy is high and inflation is close to the target of 2 per cent.

However, several members noted that the global economy is still fraught with uncertainty and risks that can lead to poorer development going forward. They also noted that several major central banks are now communicating a somewhat more expansionary monetary policy than previously. As for Sweden, economic activity has developed according to forecast. But, at the same time, the members emphasised that inflation has been lower than expected for several months in a row. This raises questions about the strength of inflationary pressures and the inflation forecast has been revised downwards compared with the assessment published in February.

The Executive Board agreed to hold the repo rate unchanged at –0.25 per cent. Even if the development of inflation, according to the members, does not require a completely different monetary policy, it is their assessment that the weaker inflation prospects provide reason to wait slightly longer before the repo rate is raised again. Minor differences in opinion were expressed regarding when it might be appropriate to increase the rate next time but the forecast for the repo rate path indicates that it will raised at the end of the year or at the beginning of next year. In light of the unexpectedly low inflation both in Sweden and abroad, low interest rates abroad and uncertainty over the strength of global developments, several members pointed out the importance of monetary policy proceeding cautiously. The forecast therefore indicates that rate hikes in the period ahead will occur at a somewhat slower pace than in the previous forecast. The majority of the members also considered it appropriate to maintain the level of the Riksbank's holdings of government bonds and therefore to buy government bonds at a nominal amount of SEK 45 billion from July 2019 to December 2020.

Deputy Governors Martin Flodén and Henry Ohlsson entered reservations against the decision to purchase government bonds from July 2019 to December 2020. They consider that further purchases will not contribute to attaining monetary policy targets in a clear way, but that there are risks associated with additional purchases.

# MINUTES OF MONETARY POLICY MEETING
## Executive Board, No. 2

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DATE: 24 April 2019

TIME: 09.00

PRESENT:
Stefan Ingves, Chairman
Kerstin af Jochnick
Martin Flodén
Per Jansson
Henry Ohlsson
Cecilia Skingsley

Susanne Eberstein, Chairperson, General Council of the Riksbank
Michael Lundholm, Deputy Chairperson, General Council of the Riksbank

Mattias Ankarhem
Meredith Beechey Österholm
Vesna Corbo
Charlotta Edler
Mattias Erlandsson
Anders Gånge
Jesper Hansson
Marika Hegg
Jens Iversen
Kristian Jönsson
Maria Kindborg
Pernilla Meyersson
Ann-Leena Mikiver
Marianne Nessén
Åsa Olli Segendorf
Jessica Penzo
Maria Sjödin
Åsa Sydén
Ulf Söderström
Fredrik Wallin (§ 1-3A)
Ingrid Wallin Johansson (§ 1-3A)
Anders Vredin

It was noted that Marika Hegg and Mattias Ankarhem would prepare the draft minutes of the monetary policy meeting.

# §1. Economic developments

## Market developments since the last monetary policy meeting

**Ingrid Wallin Johansson** of the Markets Department began by presenting the latest developments on the financial markets. The assessment of market participants of political risks and the risks of a global economic slowdown and of various forms of policy stimuli from central banks in particular has continued to affect developments on financial markets since the monetary policy meeting in February.

Equity prices and the prices of other high-risk assets have in general continued to rise, both abroad and in Sweden. However, in the wake of the money laundering scandals Swedish bank shares have developed more weakly than the stock exchange as a whole. Government bond yields fell in the weeks following the monetary policy meeting in February. They have since recovered most of the fall but overall are still currently somewhat lower than at the time of the meeting in February. It has also been noted that German ten-year government bonds have been periodically traded at negative rates and that the US yield curve for government bonds of between 3 months and 10 years was inverted for a short while.

The development of the major currencies has been fairly stable at the beginning of the year and volatility on foreign exchange markets has remained low since the monetary policy meeting in February. The exception is the British pound (GBP), which has reacted to news on Brexit. However, market unease about a no-deal withdrawal has been most noticeable in the pricing of options on the British pound. The Swedish krona has been largely unchanged since the February meeting but is still weak in a historical comparison.

Monetary policy expectations abroad had already shifted down prior to the February meeting. Since then, expectations of future policy rates have been scaled down slightly further, primarily regarding the European Central Bank (ECB). The ECB has communicated that its initial rate hike will take place at the earliest in 2020 and has pledged new support loans to European banks. The forward market, in turn, is currently pricing that the ECB will hold the deposit rate at current levels until mid-2021.

In March, the demand for Riksbank certificates was greater than the volume on offer at four consecutive auctions. This may have contributed to the rise in short-term money market rates. In April, demand for Riksbank certificates has once again decreased, leading to more liquidity remaining in the banking system. As a result of this, short-term market rates have once again fallen back to around the levels that prevailed at the time of the meeting in February.

Prior to this monetary policy meeting, market participants' expectations are that the repo rate will be left unchanged. There is agreement that the inflation forecast will be revised downwards, but disagreement on whether the same applies to the repo rate path. There are also differences of opinion on the Riksbank's continued bond purchases. Both analyst forecasts and surveys among market participants indicate that most of them expect that the Riksbank will announce that some of the principal payments due in 2020 will be reinvested in advance starting from July this year.

## The current monetary policy drafting process – new data and forecasts

**Jesper Hansson**, Head of the Monetary Policy Department, began by presenting the forecast that the Monetary Policy Department judged would gain the support of a majority of the Executive Board. The monetary policy drafting process has included discussions with the Executive Board regarding the forecasts and the monetary policy assumptions at meetings on 3 and 4 April and on 8 April. The draft monetary policy report was tabled at a meeting with the Executive Board on 16 April.

GDP growth abroad is slowing more or less in line with the forecast at the monetary policy meeting in February, but inflationary pressures are somewhat lower. Growth abroad has recovered after a weak third quarter last year, which was affected by temporary factors. The first quarter of this year looks to be somewhat weaker than expected but is also affected by temporary factors such as the partial shutdown of the federal government in the United States. Most confidence indicators are at levels close to historical averages and therefore suggest somewhat higher growth in the rest of 2019. The forecast for KIX-weighted GDP growth is largely unchanged, around 2 per cent per year in 2019–2021.

Underlying inflation has remained weak in the euro area even though resource utilisation has risen and is on an approximately normal level. The transmission between rising resource utilisation and inflation seems to be weaker than expected, which has motivated many forecasters, including the Riksbank, to adjust their longer-term inflation forecasts downwards. The forecast for total KIX-weighted consumer price inflation this year has been adjusted upwards, however, mostly as a result of higher energy prices. Lower inflationary pressures have prompted central banks to change their monetary policy communication in a more expansionary direction and contributed to a downward shift in forward rates. The forecast for the KIX-weighted policy rate has therefore been revised down somewhat.

Economic activity in Sweden is still strong and inflation is close to target. However, inflationary pressures are deemed to be somewhat lower than in the previous assessment. The recovery in Swedish GDP in the fourth quarter of last year was stronger than expected. Confidence indicators for the business sector have stabilised in 2019 and indicate roughly normal growth in the coming quarters. The forecast for quarterly growth is virtually unchanged, but due to the strong end to 2018, the full-year GDP forecast for 2019 has nevertheless been revised up from 1.3 percent to 1.7 per cent. Growth will then remain at approximately this level in 2020–2021.

Since the beginning of 2018, unemployment has fluctuated around 6.2–6.5 per cent. The latest outcome for March was quite high but monthly figures are volatile. In the first quarter of this year, unemployment was 6.4 per cent and is expected to rise weakly in line with the previous forecast. Most indicators point to continued high demand for labour, but with slower GDP growth, unemployment is nevertheless expected to rise weakly going forward.

CPIF inflation in March was 1.8 per cent, which was 0.5 percentage points lower than the forecast at the monetary policy meeting in February. The conditions for inflation to remain close to target during the forecast period have not changed fundamentally, but the surprisingly weak outcomes in recent months indicate that inflationary pressures are lower than expected. The forecast has therefore been revised down slightly.

The exchange rate has not strengthened as expected but remains at approximately the same level as in the weeks leading up to the meeting in February. For quite some time, the krona has developed more weakly than anticipated and is also expected to be somewhat weaker in the longer term. The forecast nevertheless implies some appreciation in both real and nominal terms.

The draft forecast is based on the monetary policy that is expected to gain a majority at today's monetary policy meeting. This means that the repo rate is left unchanged at –0.25 per cent at today's meeting. The forecast for the repo rate has been revised down as a result of weaker inflationary pressures in Sweden and somewhat lower interest rates abroad. The forecast indicates that the interest rate will remain at –0.25 per cent until the end of the year or the beginning of 2020. After this, the repo rate will be raised at a somewhat slower pace, compared with the assessment in February.

The direction of monetary policy, and hence the forecasts for economic activity and inflation, is also influenced by the size of the Riksbank's balance sheet. At the end of March, the Riksbank's government bond holdings amounted to SEK 316 billion, expressed as a nominal amount. The forecast proposal is based on the Executive Board deciding to buy government bonds for SEK 45 billion expressed as a nominal amount during the period July 2019 – December 2020. Previous decisions on reinvestments are revoked. The decisions mean that bond holdings and the surplus in the banking system will be maintained close to the average level since the beginning of 2018, after net purchases were concluded. It can be noted that these purchases of SEK 45 billion correspond to about half of principal payments and coupon payments that the Riksbank will receive over this period. Government bond purchases are being carried out at an even rate in order to maintain the Riksbank's presence in the market.

## §2. The economic situation and monetary policy

### Governor Stefan Ingves:

Let me start by noting that I support the forecasts for and assessments of economic developments in Sweden and the rest of the world as described in the draft Monetary Policy Report. It is appropriate to now let the repo rate remain at –0.25 per cent while adjusting the repo rate path down somewhat compared with the Monetary Policy Report in February. If our assessment is correct, a repo rate rise can occur towards the end of 2019 or in early 2020. I also support the proposal to purchase government bonds to a value of SEK 45 billion during the period July 2019 to December 2020. By doing this, the Riksbank will maintain approximately the same level of government bond holdings and prevent the banking system's liquidity surplus in relation to the Riksbank from falling sharply towards the end of 2020. In this regard, the expansiveness of monetary policy is not markedly affected. Via the purchases, we simultaneously maintain a continual presence in the market, which gives us continued monetary policy flexibility. This is important, not least in an uncertain world.

The assessments of economic developments abroad and in Sweden, made in the draft Monetary Policy Report, largely coincide with the assessments made in February. The assessments regarding the view on underlying inflationary pressures, both in the euro area and in Sweden, have changed somewhat, which I will come back to later on.

The global economy has shown good growth for several years in a row, and is now entering a calmer phase. The slowdown in growth abroad is occurring in line with our previous forecasts. For the world as a whole, GDP growth is expected to be around 3.5 per cent over the forecast period. If we look only at the countries that play the largest role in Sweden's economic development, growth of around 2 per cent is expected, which is on a par with the historical average. The forecast for growth in the euro area has been revised down, but is otherwise largely in line with the assessments made in the Monetary Policy Report in February, and growth is by no means poor.

But regarding this expected development, there are a number of risks that may lead to significantly different developments, both in the short and the longer-term perspective. This is partly a question of the strength of the economy in the euro area, and the risk of growth there developing more weakly than in our forecast. This also applies to inflationary pressures in the euro area. Underlying inflation in the euro area has developed weakly in recent years despite better growth and very expansionary monetary policy. If the inflation rate in the euro area does not rise in the way described in the draft Monetary Policy Report, this may have decisive effects on Swedish inflation and hence Swedish monetary policy.

Other risks that have been discussed for a long time still remain. The turbulence in connection with the discussion on the forms of the United Kingdom's forthcoming withdrawal from the EU has decreased as a result of the withdrawal being postponed. But the fundamental problems remain, and may cause new outbreaks of uncertainty in the period ahead. The concerns regarding the Italian banking system and public finances remain. In the global economic arena, the trade conflict between the United States and China continues, even though the tone of the discussions has improved. There are therefore major elements of uncertainty, where the risks, as I see them, are mostly on the downside. Were they to materialise, monetary policy may need to be adjusted, but I am not prepared to, so to speak, pre-empt these downside risks.

Turning to developments in Sweden, it can be noted that economic growth in the fourth quarter of last year was unexpectedly strong. Growth for the whole of 2018 was 2.3 per cent, somewhat higher than our forecast in the Monetary Policy Report in February. Our new forecast for GDP growth in 2019 is 1.7 per cent, a few tenths higher than the assessment in February. For 2020–2021, growth of just under 2 per cent is expected, which is about the same assessment as in February. These are relatively healthy figures, especially bearing in mind the recent modest growth in the euro area. The high growth has contributed to strong developments on the labour market. However, there are structural problems on the labour market, with large groups finding it difficult to obtain work despite strong economic activity.

Inflation continues to develop in line with our target of 2 per cent. Since the last monetary policy meeting, three new outcomes have been published. The most recent observation concerns inflation for March when the annual percentage change in the CPIF was measured at 1.8 per cent. This is lower than in the forecast in the Monetary Policy Report in February, and the forecast error has to do with, among other factors, unexpectedly low outcomes in January for volatile components such as foreign travel and clothes. Target attainment continues nevertheless to be good, and inflation expectations continue to indicate high confidence in the inflation target.

The inflation forecast in the draft Monetary Policy Report has been revised down in the near term, due in part to the recent lower-than-expected outcomes. But economic activity is strong and resource utilisation is expected to continue to be high. Together with rising inflation abroad, this points to CPIF inflation of close to 2 per cent even in the coming years.

At the monetary policy meeting in December of last year, the repo rate was raised by 0.25 percentage points to –0.25 per cent. The repo rate was then left unchanged in February, at the same time our assessment was that the next rise would come during the second half of 2019. The repo rate path that provides the basis for the forecasts in the draft Monetary Policy Report assumes continued rate rises during the forecast period, but at a slower pace compared to February. A slight postponement of the next rise feels natural in light of the somewhat lower inflation forecast, especially this year. But as inflation once again rises towards 2 per cent, the repo rate can be cautiously raised. It can be added that despite these rises, the real repo rate is significantly negative across the entire forecast period. Monetary policy is therefore still expansionary, which our continued bond purchases will also contribute to.

Just as many, many times before, we now assume that the exchange rate will gradually strengthen, and the argument in summary is basically the same – the Swedish economy is healthy, we have had a current account surplus for a long time, and this should therefore be the case. For my part, I wonder whether it is not time for a rethink when it comes to the analysis of the exchange rate – can it perhaps be the case that the real exchange rate has weakened for reasons that lie outside the cyclical context on which we focus?

To conclude, allow me once again to point out the risks associated with high household indebtedness. Household debt as a share of disposable income is expected to continue to rise in the coming years, and this makes households even more sensitive to different kinds of unexpected change. The rising indebtedness is linked to developments on the housing market. To come to grips with these risks and the structural problems on the Swedish housing market, measures are needed within housing and tax policy, and to a considerably greater extent than has so far been the case.

## Deputy Governor Cecilia Skingsley:

The global economy is continuing into a phase of lower growth rates, approximately in line with what the Riksbank has been forecasting for a while now. However, inflation abroad has developed somewhat more weakly than anticipated and this has contributed towards dominant central banks revising their forecasts and adjusting their monetary policy messages.

The management of the US central bank, the Federal Reserve, has adjusted its forecast for interest rate rises in the coming years downwards and has announced that the scaling back of its balance sheet will be terminated in its current form in the autumn. The financial market has interpreted the decisions as more expansionary than expected, in addition to which pricing on the fixed-income market indicates that the next interest rate adjustment in the United States will be a cut.

The European Central Bank (ECB) has also reacted to the weaker statistical outcomes and has revised its growth and inflation forecasts for the euro countries downwards. The ECB's communication makes clear that monetary policy stimulation will remain on the current level as long as this is considered necessary to meet the inflation target. Furthermore, the ECB will start a new loan programme for the banks in September 2019, with the aim of maintaining favourable credit terms in the euro countries.

The financial markets finished 2018 with clearly worsened sentiment and lower equity prices as well as lower market rates for government securities. Following this, equity prices more than recovered, while market rates still remain on low levels. The softer tone from the influential central banks has probably given support to high-risk assets, which is slightly strange considering that the central banks are reacting to weaker growth prospects which should actually subdue share prices.

In the Swedish economy, resource utilisation continues to be higher than normal. Growth is slowing down, however, partly due to the weaker international demand I just mentioned and partly to lower housing investment in the period ahead.

The open Swedish economy is strongly exposed to a world in which great uncertainty continues to prevail. The tone of the discussion between China and the United States concerning future trade relations is, however, described by the Monetary Policy Report as slightly milder and the risk of a British no-deal withdrawal from the EU has decreased in the short term. Nonetheless, the risks remain high for a deteriorated global trade climate in the period ahead. This is also something that the business sector has latched onto, as it has revised its assessments for export growth downwards.

Since the monetary policy meeting in February, we have also received three new inflation outcomes, for the months of January, February and March. The January outcome was a forecasting disappointment that has since come to persist in later outcomes. At the same time, this forecasting disappointment should not be exaggerated. Actual inflation is still compatible with the 2 per cent goal, in my opinion. Measures of underlying inflation, which are needed to analyse the durability of price development, have risen and the median of the underlying measures published by the Riksbank rose to 2 per cent in the latest measurement. In addition, resource utilisation abroad is expected to remain on high levels, which suggests a gradual rise in price pressures internationally. I continue to regard the conditions for holding Swedish inflation close to the target as good.

On the basis of these comments on the macro development, I would now like to say a few words on the continued monetary policy.

The Riksbank needs to continue to move ahead gradually with its monetary policy so as not to jeopardise the important confidence held by the Riksbank in terms of anchored inflation expectations among economic agents. The fact that inflation has been lower than expected since the monetary policy meeting in February demonstrates, yet again, the importance of the Executive Board maintaining a cautious approach towards both rate rises and the management of the bond portfolio that supports the expansiveness of monetary policy.

In the Monetary Policy Report published in December 2017, the Executive Board presented an overall strategy for how the repo rate and the bond portfolio are intended to be used in the normalisation of monetary policy. In brief, this presented an arrangement whereby the bond portfolio is kept intact while rate rises are initiated, and the portfolio can start to be phased out some way into the rate-hiking phase. Considering the small size and international dependence of the Swedish economy, I do not consider that this strategy needs to be followed slavishly, but I do see two things as important:

The first is that we know more about how the repo rate and its fluctuations affect the macro economy than we do about the bond portfolio's effects on interest rate setting and the macro economy.

The second is that a higher policy rate creates clearer scope in policy for cuts later on if the inflation prospects justify this, as compared with making changes to a bond portfolio.

Put another way, I see the repo rate as the primary monetary policy tool and I prefer the bond portfolio to be handled in a predictable and passive manner.

Given the Riksbank's macro forecast as presented in the draft Monetary Policy Report, I do not consider the time to be right to allow the bond portfolio to decrease in size. I therefore support the strategy of maintaining the level of the bond holding for a further period, and support the decision to purchase government bonds to a nominal value of SEK 45 billion over the period July 2019 to December 2020. I have asked myself if it instead would have been possible to put this decision on hold and then activate the purchase of government bonds on a later occasion, if necessary. But I have reached the assessment that this would clash with the ambition of managing the portfolio in a predictable manner and would create uncertainty over whether it is the repo rate or the bond portfolio that is our primary tool for the implementation of monetary policy.

As regards the repo rate path, the Riksbank forecast, in the Monetary Policy Report published in February, that inflation would remain at 2 per cent, while a rate increase was planned for the second half of this year. Following this, the repo rate was expected to be raised by about 50 points per year over the rest of the forecast period.

Given that inflation prospects have weakened slightly since then, it seems reasonable both to wait slightly with policy rate rises and to reduce the pace of rate increases to keep inflation close to target. I therefore support the proposal for a new repo-rate path. It follows from this that I also support the proposal to hold the repo rate unchanged today.

## First Deputy Governor Kerstin af Jochnick:

I support the assessments made in the draft Monetary Policy Report, and I also support the proposal to revise down the repo rate path so that the next increase occurs at the end of the year or at the beginning of next year. I also consider the proposal to purchase government bonds for a nominal amount of SEK 45 billion between July this year and December next year to be a reasonable measure.

The Riksbank's forecasts for international developments pointed at the previous meeting to a certain slowdown in 2019, which is in line with developments so far. Growth among our most important trading partners, KIX weighted, is assessed to be around 2 per cent, which is close to the historical average, and resource utilisation is expected to be at a normal level. The forecast for KIX-weighted inflation is in principle unchanged in relation to February, which means that it remains around 2 per cent for the coming years.

Developments in the euro area are of particular significance for Sweden, as these have a weight of around 50 per cent in KIX. There are some causes for concern here, both with regard to real economic developments and inflation prospects. It appears that the temporarily negative growth effects forecast earlier in the euro area have now become more lasting, which has led to a downward revision to the growth forecast for this year. Inflation has to a large extent been explained by rising energy prices, and underlying inflation in the euro area has been around one per cent in recent years. The forecast for inflation in the long run has now been revised down.

As a consequence of growth prospects being dampened further and inflation proving to be somewhat weaker, the ECB has revised down its forecasts for growth and inflation in connection with its meeting in March and communicated a somewhat softer monetary policy and a longer time until a potential rate increase. The Federal Reserve has also communicated in softer tones regarding its future monetary policy. However, in the United States conditions are different, as they have come further with their increases in the policy rate, which is now in the interval 2.25–2.50 per cent.

It is probable that the risk factors that have dominated abroad in recent years – Brexit, the trade conflict between the United States and China and developments in Italy – have contributed to the weaker developments we have seen in the euro area. In the short-term perspective, I think that the risk outlook may appear somewhat better looking forward. The European Council's decision to give the United Kingdom longer to decide on a withdrawal agreement and the improved tones in relations between the United States and China do give some hope. Nevertheless, there are still downside risks with regard to our forecast for growth abroad. For instance, there remain major challenges in the Italian economy in the longer run, with regard to both public finances and the banking sector.

As for Sweden, real economic data has been in line with and in some cases stronger than the assessment made in February. GDP growth in the fourth quarter of 2018 was stronger than we had predicted. And when we look at surveys, particularly among companies, the assessment of developments is still positive. On the other hand, households are a little more pessimistic with regard to developments in the Swedish economy. However, the situation on the labour market is still strong and disposable income is developing at a good pace. This creates good conditions for continued good growth in consumption.

What could affect household consumption negatively is if the housing market develops more weakly than in our forecast. Despite housing prices recovering somewhat after the price fall in autumn 2017, the level is still lower than prior to the price fall. Larger falls in housing prices than those we have already seen could lead to households being more cautious and have a negative effect on household consumption and growth in Sweden. With regard to housing investment, we have already seen negative effects from the weaker development in housing prices in recent years compared to earlier years. And even weaker price growth would of course risk dampening these investments further.

In addition to real economic data, we have also received three inflation outcomes since the previous monetary policy meeting, and all of them were lower than our forecast in February. An analysis of the figures shows that, although it is goods and services groups whose prices usually vary substantially, that have surprised on the downside, the overall assessment is that inflationary pressures in Sweden are somewhat lower than we had previously expected.

It is of course worrying that inflation is lower than we had forecast, but we must remember that we have had an inflation rate around 2 per cent for the past two years, and the slightly weak outcomes we have seen in spring 2019 are just below 2 per cent. I therefore do not think the overestimation of inflation since February should be overstated. There are several reasons for this. For some time now we have expected CPIF inflation to fall during the course of 2019, when the high energy price increases that affected the figures in 2018 subside. The major effects of energy prices are very clear in Figure 1:4 of the draft Monetary Policy Report.

As I mentioned earlier, several components that usually vary a lot have contributed to the forecast error for CPIF inflation. The Riksbank's various measures of underlying inflation point to inflationary pressures being set to rise and the median of the measures amounted to 2 per cent in March. The responses from companies to both the Economic Tendency Survey and the Riksbank's business survey provide further support for the assessment that inflationary pressures are set to rise.

Having said this, in a slightly longer perspective, since the financial crisis, the development of inflation has on the whole been unexpectedly weak, not only in Sweden but also in many other countries. Digitalisation is one example of a structural factor that we have identified earlier as having a dampening effect on the development of inflation. Cecilia Skingsley recently gave an interesting speech on the effects of digitalisation on the economy.[1] We still need to develop our research and analysis to fully understand how various mega trends affect the development of inflation. Another important example from Sweden's point of view concerns changes in

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[1] See Cecilia Skingsley, "The effects of digitalisation on the economy", speech at the Swedish Entrepreneurship Forum, published on 26 March 2019.

demography and labour supply, not least in light of major migration flows into Sweden in recent years.

Given the lower inflation outcomes and the assessment that inflation is showing somewhat weaker development than we were expecting earlier, it is reasonable to adjust the inflation forecast and adapt monetary policy. But I think the adjustment must be regarded in a larger context. In connection with the monetary policy decisions in December and February, we emphasised that monetary policy does not run on autopilot. If new information emerges that means we need to revise our forecasts, current monetary policy must also be reviewed.

My assessment is on the whole that the somewhat weaker development in inflation does not in itself require an entirely different monetary policy, but that it is reasonable in this situation to hold the repo rate at −0.25 per cent for a slightly longer period of time. In addition, it is reasonable that we do not make major changes in our government bond portfolio. I therefore share the assessment regarding the proposal to purchase government bonds. I also see a value in retaining our presence on the market to ensure that we have the capacity to take action and use the portfolio if necessary.

## Deputy Governor Martin Flodén:

I support the proposal to leave the repo rate unchanged and also the proposed forecast in the draft Monetary Policy Report. However, I do not support the proposal to purchase government bonds after June 2019.

Economic developments abroad have been in line with our assessment at the monetary policy meeting in February. Inflation is being held up by the surprisingly high oil price, but the development of underlying inflation in the euro area has been weaker than expected. Expectations of international monetary policies have shifted in an expansionary direction and pricing on the financial markets now indicates that no rate rises are expected from the ECB or Federal Reserve over the coming year. Interest rates for long-term government bonds have also fallen. The picture of a continuing global low interest-rate environment for a long time to come has thus been strengthened.

Developments in Sweden have been similar. Although growth seems to have slowed down, in line with our February forecast, economic activity remains relatively strong and resource utilisation higher than normal. Inflation, in contrast, has been significantly lower than in our February forecast.

Much of the forecast error can be explained by unexpectedly low prices for clothing, electricity and foreign travel, where surprisingly low prices can partly be explained by a new method of measurement. Everything indicates that this will restrain the measured rate of inflation over the rest of 2019. On the other hand, as these are inflation components that are usually volatile, and as several of the Riksbank's measures of underlying inflation have continued to rise recently, it is not evident that inflationary pressures over the longer term need to be revised downwards. However, the forecast errors, combined with the fact that inflation has been surprisingly low several times previously, raise questions over the strength of inflationary pressures. I therefore consider it reasonable to expect inflationary pressures also to be lower than in our February forecast over the coming years.

Considering both lower international interest rates and the questions over economic developments and Swedish inflationary pressures, it is also reasonable to await further information before raising the repo rate next time. Relevant information primarily concerns the development of inflationary pressures and confidence in the inflation target, but foreign inflationary pressures, the strength of economic activity in Sweden and abroad, and the direction of international monetary policy are also important.

So raising the repo rate today is not an option. And neither is there anything to suggest that a rate rise will be appropriate at our next monetary policy meeting. The forecast for the repo rate in the draft Monetary Policy Report indicates that the next rate rise will take place towards the end of 2019 or at the start of 2020. This is not an unreasonable forecast, but I see some likelihood that signs of rising underlying inflation will strengthen and that, in this event, it may be appropriate for the next repo rate rise to come somewhat earlier than the forecast in the draft report indicates.

In addition, considering that the view of a long-lasting global low interest rate environment has been strengthened and that Swedish inflationary pressures have continued to develop weakly, it is likely that the appropriate pace of our repo rate rises in the slightly longer run will be even slower than in our previous assessment. This is reflected by the new forecast for the repo rate.

I therefore support the proposal for a new repo rate path, albeit with some hesitation. I am concerned that the monetary policy decision will be perceived as more expansionary than it is, particularly on the foreign exchange market. As the krona is already weak, I would not welcome a further krona depreciation. I consider it important to note that the proposed repo rate path is higher than pricing and expectations on the fixed-income market. Furthermore, in combination with the market's expectations of the ECB, our repo rate path indicates that the Swedish policy rate, which has already been raised and is higher than the ECB policy rate, will continue to be raised faster than the ECB rate in the years ahead.

Let me now turn to the proposal to purchase government bonds after June 2019. As I said initially, I do not support this proposal. Instead, I advocate terminating the bond purchases when the current purchasing programme expires.

I entered a reservation against the decision in April 2017 to extend the Riksbank's purchases of government bonds, and I also entered a reservation against the decision in December 2017 on reinvestments of principle payments and coupons. The reasons for continued bond purchases have not subsequently grown stronger, and the arguments behind my reservation today are largely the same as they were the last time a decision was taken.

As previously, I deem that continued asset purchases no longer make Swedish monetary policy noticeably more expansionary. Our asset purchases have probably mostly had an effect in three different ways. First, a shortage of government bonds has arisen, which has pushed short-term rates on government securities below our policy rate. These rates have been at approximately the same level in relation to our repo rate since mid-2016, when our bond holdings were significantly smaller. This interest rate effect would thus probably persist for a while to come even if we were to stop buying bonds now.

Second, the Riksbank's bond purchases have probably helped to demonstrate that we are doing everything we can to hold inflation close to the two per cent target. This was important in 2015 and 2016 when confidence in the inflation target and the Riksbank's monetary policy was weak. Today, nobody doubts that the Riksbank allocates high priority to the inflation target. I thereby consider that this signalling effect is no longer important.

Third, the combination of a shortage of government bonds and the Riksbank's signalling may have led to both difficulties and unwillingness among foreign portfolio investors to hold Swedish low-risk assets. The bond purchases may thus have contributed to the depreciation of the krona. In 2015 and 2016, when inflation was low and confidence in the inflation target was weak, it was desirable to avoid a rapid krona appreciation that could have led to further downward pressure on inflation. The situation is different today when inflation is close to target and confidence in the target is stronger. There is much to indicate that the krona is now weaker than it will be in the longer run and neither the Swedish economy nor the Riksbank's monetary policy will benefit in the longer term from the exchange rate moving away from its long-term equilibrium level.

I would also like to point out that I do not believe that our bond purchases have had an effect via the mechanisms usually discussed in the literature and that have probably been important in other countries.[2]

The Riksbank's asset purchases have not taken place in a crisis situation with poorly functioning financial markets and depressed asset prices. The purchases have therefore not been a matter of maintaining market functioning.

Neither have the asset purchases probably had any significant effect via maturity transformation and downward pressure on long-term interest rates. To start with, it is unclear to me whether the asset purchases have pushed down rates on long maturities, apart from the consequences of downward pressure from short-term rates and the expectation hypothesis. And, even if long-

[2] See my contribution to the monetary policy meeting in February 2015.

term interest rates have been pushed down, I do not deem that this necessarily means that monetary policy has become more expansionary. Most lending in Sweden, to both households and companies, takes place at variable interest rates. This means it is short-term rates and expectations of future short-term rates that play the greatest role for how expansionary monetary policy is.

Neither, apparently, have the Riksbank's asset purchases had an effect via risk transformation. The Riksbank has only purchased Swedish government bonds. Somewhat simplified, our bond purchases are funded by us issuing Riksbank Certificates to the same value as the government bonds we purchase, and the government bonds are not traded with any clear credit risk relative to the Riksbank Certificates.

Finally, the asset purchases have probably not had a typical signalling effect either. Such an effect would arise if asset purchases were to strengthen confidence in the policy rate continuing to be held at a low level for a long time. But both market pricing and surveys indicate that the market already expects the rate to be lower in the period ahead than is suggested by the Riksbank's forecast. It also looked like this before we initiated the asset purchases and it has looked like this over most of the period of asset purchases.

I therefore deem that continued asset purchases will no longer noticeably contribute to monetary policy's target attainment. In contrast, I deem that bond purchases entail certain risks. Here, I am primarily thinking about risks to the Riksbank's finances and risks linked to the functioning of the government bond market.

To sum up, I support the proposal to leave the repo rate unchanged and the proposed repo rate path in the draft Monetary Policy Report. I do not support the proposal to purchase government bonds after June 2019.

## Deputy Governor Per Jansson:

I support both the macro forecast and the monetary policy in the draft Monetary Policy Report. I would like to discuss two factors that, for some time, have played – and continue to play – a particularly large role in my monetary policy considerations. These two factors are, firstly, inflationary pressures in the Swedish economy, and, secondly, developments abroad. Let me start with Swedish inflationary pressures.

Since the monetary policy meeting in February, three new outcomes for inflation have been published. These refer to January, February and March. All outcomes were clearly lower than expected for both CPIF inflation and CPIF inflation excluding energy prices. For CPIF inflation, the forecast errors have been in the magnitude of 0.4–0.5 percentage points. For March, our forecast was that CPIF inflation would be 2.3 per cent, but the outcome was 1.8 per cent. Excluding energy prices, the forecast errors have been a touch smaller, in the interval of 0.3–0.4 percentage points. The March outcome for inflation excluding energy prices amounted to 1.5 per cent, compared with a forecast of 1.8 per cent.

A certain bright spot in the inflation picture is that most of the Riksbank's measures of underlying inflation have risen since our February meeting. At that meeting, the median value of the measures, which referred to December, amounted to 1.6 per cent. With the new outcomes up until the end of March, the median value is now instead at 2 per cent. The two measures that have been shown in an empirical evaluation to be best at predicting future CPIF inflation, UND24 and CPIFPC, have also risen in recent months and amounted to 2 and 1.8 per cent, respectively, in March.

This is, naturally, a positive and welcome development. However, the recent large and sustained contributions to inflation from energy prices mean that there is a risk that at least some measures of underlying inflation are painting slightly too bright a picture of inflationary pressures at present. That this may well be the case is underlined by the fact that the rise in energy prices last year was largely due to temporary supply changes – an unusually dry and hot summer which drove up Swedish electricity prices and various supply restrictions on the international oil market that pushed up the price of oil. When energy prices are affected by temporary supply changes, it is, at least as I see it, particularly important to be cautious about including them in the more permanent inflation rate.

Another circumstance that raises questions about the strength of inflationary pressures concerns the systematic pattern in our forecast errors. It is certainly clear that the forecast error in March can largely be explained by subgroups in the consumer price index that often vary greatly from month to month – energy, foreign travel and clothing. This could suggest that inflation in the period ahead may recover part of the unexpected decline that now has happened. But from an investigation of our short-term forecasts since January 2018, it is apparent that there is a clear systematic pattern in our forecast deviations which cannot reasonably be ascribed to bad luck with temporary effects. For CPIF inflation, it turns out that we have overestimated the outcome in 11 of a total 15 cases. For CPIF inflation excluding energy prices, it is even worse, as it is here a question of 12 out of 15 cases.

The signs of weakness in inflationary pressures have also started to affect inflation expectations, at least as they are measured in Prospera's surveys. So far, the decline is not so large and mostly related to expectations over the short term, one and two years ahead, respectively. But it is important to keep an eye on inflation expectations, particularly considering the approaching wage negotiations. It is of very great significance that the labour market organisations perceive the inflation target as a stable anchor for price-setting and wage formation when the negotiations eventually get started in earnest.

Having said this, I will now turn to the other factor that plays a particularly significant role in my monetary policy considerations: developments abroad. As has been pointed out on several previous occasions, international developments are characterised by a number of major risks that are difficult to quantify in a forecast and thus to take into account in the current formulation of monetary policy. Among the more serious risks are still the effects of the United Kingdom's withdrawal from the EU, the trade conflict between the United States and China, and developments in certain countries in the euro area, primarily Italy.

As I said, it is difficult to adjust monetary policy to these risks in advance. The best thing one can do is to be aware of them and proceed cautiously with monetary policy in general. One principle that in this case can be followed is to prefer to err on the expansionary side rather than to run the risk of the opposite. I consider that both the Federal Reserve and the ECB have followed this principle in recent years and are continuing to do so.

The Federal Reserve has now taken a time-out with its rate rises and has communicated its intention to stop the tapering of its government bond holdings at the end of September this year. Market participants see it as more probable that the next change in the policy rate will be a cut rather than an increase. In turn, the ECB has launched new expansionary measures in the form of an expectation that policy rates will be held unchanged for a longer period than previously, at least until the end of the year instead of at least over the summer, as well as a further round of attractively priced long-term loans to the banks, starting in September and known as TLTRO-III. There are also discussions on introducing a tiered system for interest rates on excess liquidity. The idea is that such a system will make it possible to hold interest rates low over a longer period of time as the negative effects of low interest rates on the banks' profitability will then be smaller. Market participants have responded by revising their policy rate expectations downwards and are now not expecting an initial increase until some way into 2021.

My statements here on Swedish inflationary pressures and developments abroad only underline that it is both good and reasonable to now revise the inflation and interest-rate forecasts down, and to continue to purchase government bonds for some time yet, as proposed in the draft Monetary Policy Report. In this context it is worth pointing out that the inflation forecast, with the exception of a number of months around the turn of the year 2019/20, is lower than previously, even though monetary policy is being made more expansionary. Just as the draft report notes, this raises the question of whether we should not make an even greater revision of monetary policy in an expansionary direction.

However, I share the opinion that improvements in the inflation picture taking place in 2017 and 2018 mean that we can now conduct monetary policy with a little more patience than previously. At the same time, it is important to point out that inflation will not stabilise around the inflation target until towards the end of the forecast period. This shows that the situation is fragile and that the forecast cannot tolerate any greater new downward revisions, without this also leading to further adjustments of monetary policy. Ensuring that we continue to conduct monetary policy in such a way that it is always clear to economic agents, not least the labour market organisations, that the nominal anchor holds is something that I see as our most fundamental and most important task.

To finish, I would like to say that I support Stefan in his opinion that it is now time to have a rethink as regards our exchange-rate analyses. It is naturally not at all certain that this will improve our ability to make forecasts for the exchange rate but, with the experiences we have had, it is worth a try.

## Deputy Governor Henry Ohlsson:

To begin with, I would like to say that I support the proposal to hold the repo rate unchanged at −0.25 per cent. I also support the proposal not to reinvest coupons and principal payments from the Riksbank's government bond holdings with effect from July 2019. However, I do not support the proposal to purchase government bonds during the period July 2019–December 2020.

Annual growth abroad, KIX-weighted, is expected to amount to 2.0 per cent in 2019 according to the draft Monetary Policy Report. For 2020 and 2021 the forecast for each of the years is unchanged at 2.1 per cent since the February Monetary Policy Report. The KIX-weighted inflation rate is assessed according to the draft Monetary Policy Report to be 1.9 per cent in 2019. The forecast is unchanged in relation to that in the February Monetary Policy Report. The forecasts for 2020 and 2021 are 2.0 per cent for each year. According to the draft Monetary Policy Report, the aggregate international policy rate is expected to rise, albeit at a slow pace. The international policy rate forecast for 2019 and 2020 in the draft Monetary Policy Report remains unchanged compared to in February.

Since 2017, the CPIF is the target variable for monetary policy. The most recent inflation figure in March showed an annual rate of increase in the CPIF of 1.8 per cent. CPIF inflation has been around the inflation target for a long time. Over the last two years, it has been in the interval 1.7–2.5 per cent. The average rate of inflation over these two years has been 2.1 per cent. According to the forecast in the draft Monetary Policy Report, inflation will be 1.8 per cent as an annual rate in 2019. In 2020, the CPIF is expected to increase by 1.8 per cent as an annual rate and in 2021 by 1.9 per cent. Although these are downward revisions in relation to February, I consider this to be within the margin of error and that target attainment is still good!

The April reading of five-year inflation expectations among money market participants was 1.9 per cent. Over the last 40 months, the mean value of five-year expectations has been 1.9 per cent or higher. If one-year expectations are examined, the picture of inflation expectations being at the two per cent target is reinforced. In April, these expectations were at 1.9 per cent. One-year expectations have been 1.9 per cent or higher for the last 20 months. Inflation expectations are well anchored!

Since February, we have had a further example of uncertainty linked to individual observations of key macroeconomic variables. The first reported GDP outcome for the third quarter of 2018 was weak, indeed very weak. But since the most recent monetary policy meeting, GDP data has been published for the fourth quarter of 2018. That outcome was strong, indeed very strong. In the draft Monetary Policy Report, the forecast for GDP growth in 2019 is now being revised up to 1.7 per cent, from 1.3 per cent in February. For 2020 and 2021 the forecasts are unchanged.

According to the most recent labour force survey (LFS), unemployment was 7.1 per cent (not seasonally adjusted) in March. This is higher than the corresponding month one year earlier, when LFS unemployment was 6.5 per cent. Although individual monthly figures should be interpreted with caution, the conclusion is that LFS unemployment has bottomed out.

At the same time, I think it is important to also look at other measures of unemployment when interpreting the LFS. Unemployment insurance fund members can be considered to have a relatively strong position on the labour market. In March 2019, the percentage of openly unemployed fund members was 2.8 per cent. This is slightly higher than in the same month one year previously, when the proportion was 2.6 per cent. Some tenths of one per cent here or there make no great difference, but qualitatively, it is interesting that the downward trend that we have seen for several years has now been broken. The break in the trend emphasises that unemployment has now bottomed out.

In my opinion, however, unemployment is still too high. But today it is primarily a matter of bringing down unemployment among foreign-born persons. And this is not firstly a question of general demand policy but rather of labour market policy measures to strengthen the human capital of unemployed persons and cut the cost of employing them.

If we look at recruitment plans, shortages and job openings, it is obvious that the Swedish labour market is very strong. However, high shortages and many remaining job openings also show that there is a great deal to do to improve matching on the labour market. Here, it is also becoming increasingly clear that the matching problems on the labour market are closely associated with the matching problems on the housing market. In many cases, it is not a question of a lack of competent applicants – it is a question of not being able to quickly find suitable housing for suitable applicants.

Against the backdrop of this reasoning, I would now like to move on to my monetary policy considerations: My starting point is that monetary policy cannot be governed by inflation varying a few tenths of a percentage point around 2 per cent in individual months. Inflation has now been close to the target of 2 per cent for a longer period of time, both with regard to outcomes and expectations. These were the decisive arguments for me in December 2018 that it was time to start raising the repo rate. However, at this monetary policy meeting, I think it is appropriate to hold the repo rate unchanged.

Today there is a proposal to continue purchasing government bonds. I consider the effects of such purchases to be unclear in the present situation. Moreover, I consider it appropriate to conclude the purchases now that we have begun to raise the repo rate. I therefore enter a reservation against this proposal.

The repo-rate path that was decided on in December 2018 entailed around two rate increases per year during the coming years, with an initial increase during the second half of 2019. I see no crucial reasons for departing from this; there is no argument against the programme we established in December. I would therefore have preferred to hold the repo-rate path unchanged. However, I am not entering a reservation on this point. The reason is that the repo-rate path is a forecast, not a direct monetary policy decision.

I can support, in parts, the economic picture and the forecasts in the draft Monetary Policy Report. But, on the basis of my monetary policy considerations, I cannot support the monetary policy conclusions in the draft Monetary Policy Report. I assess that the monetary policy I would have preferred would give minor differences in the forecast in relation to the forecasts in the draft Monetary Policy Report. Possibly, the krona exchange rate would be stronger.

To summarise, I support the proposal to hold the repo rate unchanged at –0.25 per cent. I also support the proposal not to reinvest coupons and principal payments from the Riksbank's government bond holdings with effect from July 2019. However, I do not support the proposal to purchase government bonds during the period July 2019–December 2020.

## §3. Discussion

### Deputy Governor Henry Ohlsson:

I would like to say a few words about the fact that unemployment has bottomed out and started to increase. This is in accordance with the forecasts that the Riksbank has made in a large number of Monetary Policy Reports. But it is worth pointing out that this does not just apply in general but also for those with a strong position on the labour market. At the same time, we are seeing a growing labour force and rising employment. And a number of other measures show a strong labour market.

One possible explanation is that time spent by those with a strong position searching on the labour market has increased. According to this explanation, job-seekers are not accepting the first reasonable job offer. Instead, they wait until they have found a better job offer. If this is the case, that matching is improving, it will be socioeconomically desirable. It would give higher potential GDP in the slightly longer run. It would be interesting to investigate whether longer search times could be part of the explanation for the higher level of unemployment.

## §4. Decision on the Monetary Policy Report and the repo rate

The Executive Board decided

- to adopt the Monetary Policy Report according to the proposal, Annex A to the minutes.
- to hold the repo rate unchanged at –0.25 per cent and that this decision shall apply with effect from Wednesday 8 May 2019.

## §5. Decision to purchase government bonds

The Executive Board decided in accordance with the proposal, Annex B to the minutes.

Deputy Governors Martin Flodén and Henry Ohlsson entered reservations against the decision to purchase government bonds from July 2019 to December 2020. They consider that further purchases will not contribute to attaining monetary policy targets in a clear way, but that there are risks associated with additional purchases. They also referred to their previous reservations in connection with the Riksbank’s decisions on bond purchases, most recently in December 2017.

## §6. Other decisions

The Executive Board decided

- to publish the Monetary Policy Report and decisions under Section 4 with the motivation and wording contained in a press release at 09.30 on Thursday 25 April 2019, and
- to publish the minutes from today's meeting at 09.30 on Tuesday 7 May 2019.

This paragraph was verified immediately.

Minutes taken by

Maria Kindborg

Verified:

| | | |
|---|---|---|
| Stefan Ingves | Kerstin af Jochnick | Martin Flodén |
| Per Jansson | Henry Ohlsson | Cecilia Skingsley |

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