Monetary policy minutes

February 2020

SVERIGES RIKSBANK

Summary

At the Monetary Policy Meeting on 11 February 2020, the Executive Board of the Riksbank decided to hold the repo rate unchanged at zero per cent.

Economic developments both globally and in Sweden have been largely in line with the Riksbank's forecast in December. Economic activity has shown signs of stabilising, but at the same time, the new coronavirus has contributed to uncertainty. As a result of the epidemic, growth abroad, especially in China, has been revised down in the short term, but it is so far difficult to predict the extent of the economic consequences.

The Swedish economy has slowed from a level of activity that has been higher than normal to a more normal level and inflation has been close to the inflation target of 2 per cent for some time. The unusually mild winter and lower oil prices are contributing to falling energy prices, which will keep inflation down in 2020. Several members felt there is good reason to consider the decline in energy prices as temporary. Different measures of underlying inflation indicate that more persistent inflation is still just below 2 per cent. This suggests inflation will be close to 2 per cent once the effects of low energy prices subside.

The Executive Board noted that the economic outlook and inflation prospects are approximately the same as in December and were unanimous in the decision to, in line with the forecast from December, hold the repo rate unchanged at zero per cent. Given low interest rates globally and uncertainty surrounding the economic outlook and inflation prospects, the Executive Board considers it appropriate to have a continued low policy rate in Sweden as well. With a repo rate of zero per cent in the coming years and the Riksbank's extensive purchases of government bonds, monetary policy will continue to provide support to economic activity and help keep inflation close to the target going forward.

The Executive Board emphasised that monetary policy will continue to be adjusted if conditions change. However, several members said that positive inflation surprises would not necessarily involve the interest rate being raised earlier than in the Riksbank's forecast.

The Executive Board also discussed the options available to the Riksbank to act in the event of an economic crisis. The members noted that the Riksbank still has a good level of preparedness and room to act. Given low interest rates abroad, the possibility of the repo rate re-entering negative territory in the future cannot be ruled out, but several members also pointed out the option of using the Riksbank's balance sheet in different ways in this context. It was also pointed out that the appropriateness of different monetary policy tools also depends on the cause of a decline and on how other policy areas act.

MINUTES OF MONETARY POLICY MEETING

Executive Board, No. 1

SVERIGES RIKSBANK
SE-103 37 Stockholm
(Brunkebergstorg 11)

Tel +46 8 787 00 00
Fax +46 8 21 05 31
registratorn@riksbank.se
www.riksbank.se

DATE: 11 February 2020

TIME: 09.00

PRESENT:
Stefan Ingves, Chairman
Cecilia Skingsley
Anna Breman
Martin Flodén
Per Jansson
Henry Ohlsson

Susanne Eberstein, Chairperson, General Council of the Riksbank
Michael Lundholm, Deputy Chairperson, General Council of the Riksbank
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Mattias Ankarhem
Vesna Corbo
Hans Dellmo
Charlotta Edler
Mattias Erlandsson
Eva Forsell
Pia Fromlet
Anders Gånge
Jesper Hansson
Marie Hesselman
Maria Kindborg
Petra Lennartsdotter
Pernilla Meyersson
Ann-Leena Mikiver
Marianne Nessén
Åsa Olli Segendorf
Maria Sjödin
Anders Vredin
Fredrik Wallin (§ 1-3a)
Carl-Fredrik Pettersson (§ 1-3a)

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

§3a. Economic developments

Market developments since the last monetary policy meeting

Carl-Fredrik Pettersson from the Markets Department began by presenting the latest developments on the financial markets. Since the last monetary policy meeting, the markets have been characterised by unease over the spread of the new coronavirus. This has put downward pressure on markets, but at the same time, outcomes for economic data have been stronger than expected. Among other things, the US labour market remains strong and corporate profit expectations are relatively stable. Improved trade relations between the United States and China, due to the "Phase-one" agreement, and fiscal policy measures in China to combat poorer development as a result of corona-related production stoppages, have made a positive contribution to developments on equity markets. Overall, equity market indices are somewhat higher now than at the time of the monetary policy meeting in December, especially in developed countries. In light of greater uncertainty over growth and more unease in general however, the demand for safer assets has risen, pushing down government bond yields in, for example, the United States and Germany.

Since the monetary policy meeting in December, several central banks have announced interest rate decisions that have been approximately in line with market expectations. The decision from the US Federal Reserve was perceived as somewhat dovish. For example, the market saw the central bank as less comfortable than before with below-target inflation. The spread of the new coronavirus was noted as a risk factor which forecasts had not yet taken into account. The European Central Bank's (ECB) most recent meeting did not give rise to any major reactions on financial markets. However, the communication from the ECB regarding the economic outlook was perceived as slightly more positive than before and after the meeting, ECB President Lagarde has indicated that the scope for further rate cuts is limited.

Communication from central banks with regard to the spread of the coronavirus has so far been cautious. A clear shift has occurred, however, in the market's monetary policy expectations regarding the major central banks with growing expectations of rate cuts in the period ahead as a result of the spread of the virus and its economic repercussions.

Expectations of lower growth in the first quarter this year and especially in China, but also globally, have also led to lower prices for commodities such as metals and oil. Expectations of a sharply reduced demand for oil has led OPEC to propose cutbacks in production and an extension to current production limits from March to December this year.

As regards Swedish monetary policy, a very high share of market participants expect the Executive Board to hold the repo rate unchanged at zero per cent at today's meeting. The market has perceived the monetary policy communication to be clear in this direction. In addition, forward pricing, analyst forecasts and survey responses also indicate that the repo rate will remain at zero per cent for a prolonged period after today's decision, in line with the Riksbank's forecast from the Monetary Policy Report in December.

The somewhat higher global uncertainty has probably contributed to the slight weakening of the krona since the monetary policy meeting in December.

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 29 January and 3 February. The draft Monetary Policy Report was discussed and tabled at a meeting with the Executive Board on 5 February.

Jesper Hansson began by presenting the issues that have been discussed in particular detail during the drafting process. One issue has been whether the global economy is now on firmer ground. Confidence indicators have been stable with some upswing in recent months. Sentiment on financial markets also looks somewhat brighter, which may depend on the progress made in the trade negotiations between the United States and China.

Another issue has been the effects of the new coronavirus which are difficult to estimate at present. GDP growth for China has been revised significantly downwards for the first half of 2020, but Europe and the United States are also being affected by production stoppages and delivery problems within industry. Towards the end of the year, the effect is assumed to have subsided, but global GDP growth is expected to be about a tenth lower in 2020. However, there is a considerable amount of uncertainty.

A third issue has been two articles included in the draft Monetary Policy Report. The first article concerns the differences among various European countries in the methods used to calculate inflation. These differences seem to be significant, which illustrates the importance of further international coordination of calculation methods among different countries. The article's findings do not mean that the Riksbank's inflation target should be changed or that the Riksbank should have conducted a different monetary policy. The other article concerns how financial conditions in Sweden can be measured. An index for financial conditions indicates that these have become more expansionary since the autumn of 2018, despite two repo rate hikes. Two important reasons for this are more expansionary conditions abroad and the Riksbank's downward adjustment of the forecast for the repo rate.

In the euro area, the purchasing managers' index for the manufacturing sector has stabilised somewhat over the past six months, although the level of the index still suggests negative growth in the manufacturing industry. In the United States, the corresponding index increased significantly in January to levels indicating growth. In the service sector, too, purchasing managers' indices for the euro area and the United States have stabilised and picked up somewhat and are at levels that continue to indicate growth in the sector. Provisional outcomes for GDP growth in the fourth quarter in the euro area came in slightly weaker than expected and industrial production was also weak. However, growth indicators suggest slightly stronger development going forward. Growth in the United States was in line with expectations. Similar to several other forecasters, the Riksbank expects growth abroad to be reasonable in the coming years.

There are, of course, risks to economic development. One such risk is the ongoing trade conflict between the United States and China, which has admittedly decreased somewhat as a result of recent progress in trade negotiations, as well as the risk of new or increased tariffs on US imports from the EU. Uncertainty also remains as regards the future relationship between the United Kingdom and the EU, which may affect global economic activity. And not least the consequences of the new coronavirus are very difficult to estimate at present.

The economic outlook in Sweden continues to be characterised by subdued sentiment among companies and households. The past months, confidence has nevertheless risen slightly, as it has abroad. In Sweden, confidence among households is notably low. Monthly outcomes for household consumption up to and including December, however, show strong development over the fourth quarter of 2019 compared with the same period the year before. Output in the business sector has risen only slightly in 2019.

The forecasts for both GDP growth and employment are largely unchanged compared with the assessment in December. Employment showed strong growth up to 2018 when the employment rate reached high levels. Since then, the employment rate has levelled off and is expected to stay on a high level during the forecast period The Swedish economy entered a calmer phase in the second half of 2018 and growth is expected to continue to be modest also in the period immediately ahead. Towards the end of the year, stronger public consumption and a stabilisation in housing investment are expected to contribute to a gradual increase in growth.

In December, CPIF inflation came in at 1.7 per cent, which was marginally lower than the assessment in December. However, electricity prices have fallen sharply at the beginning of the year. This is mainly due to the weather being much warmer than normal while winds have been unusually strong. Well-filled water reservoirs are also pushing down forward prices and electricity prices are expected to remain low for the entire year. Oil prices have also fallen somewhat and the low electricity prices are expected to dampen inflation in 2020. The forecast for CPIF inflation has been revised down to 1.3 per cent on average in 2020, significantly lower than 1.7 per cent, which was the assessment in December. The forecast is unchanged up to the end of 2021 when inflation will gradually rise towards 2 per cent. Different measures of underlying inflation are close to but somewhat below 2 per cent.

In conclusion, Jesper Hansson emphasised that the draft forecast presented is based on the monetary policy that is expected to gain a majority in the Executive Board at today's monetary policy meeting. Inflation and Swedish economic activity are developing more or less as expected. The assumption is, therefore, that the repo rate will be left unchanged at zero per cent and that the repo rate path will remain at zero per cent for almost the entire forecast period, as in the December forecast. The forecast is also contingent on the Riksbank continuing to purchase government bonds for SEK 15 billion per half-year in 2020 according to the decision in April 2019.

§3b. The economic situation and monetary policy

Deputy Governor Martin Flodén:

At the monetary policy meeting in December last year, we decided to raise the repo rate to zero. Our forecast then was that the repo rate would most probably be held at that level for quite some time to come. Developments since the December meeting do not give cause to change the assessment of the appropriate direction of monetary policy. I therefore support the proposal to leave the repo rate unchanged at zero per cent at today's meeting. I also support the other monetary policy plans and forecasts presented in the draft Monetary Policy Report.

To begin with, I would like to note that the rate rise in December has worked well so far. As the rate rise was expected, market reactions were minor. Lending rates have risen marginally but the krona has depreciated. Most agents have approximately the same forecast as the Riksbank for monetary policy in the years ahead. The policy rate is thus expected to remain low. Monetary policy is still expansionary. I stand by my assessment from December that the absence of a rate rise at that meeting would have risked leading to undesirable volatility and uncertainty. Monetary policy would then have become expansionary in a way that would not have benefited inflation or general economic developments in Sweden.

Let me now comment on international and Swedish economic developments after our last monetary policy meeting. International economic indicators have mainly confirmed the picture we had in December. Signals from the manufacturing industry, especially in Europe, are still rather weak but have stabilised or risen somewhat. Service sectors have shown better resistance and labour markets, especially in the United States, have continued to develop strongly. Inflationary pressures remain weak. Overall, this indicates as before that international economic activity will slow to a rather normal level in the years ahead, and that monetary policy needs to remain expansionary to hold up inflation.

The improved trade relations between the United States and China are a bright spot that is nonetheless overshadowed by the new coronavirus. It is of course difficult to form an opinion on how large and long-lasting the economic effects of the virus will be in China. And it is even more difficult to form an opinion on what the consequences will be for the Swedish economy, and what monetary policy reactions, if any, might be appropriate. I see no reason to adjust Swedish monetary policy to these developments at today's meeting.

In Sweden too, economic indicators have been in line with our assessments from December. Confidence indicators have strengthened, especially in the manufacturing industry. This confirms the picture that we are not moving towards a recession but rather that the economy is slowing to a more normal level of resource utilisation. Of course, confidence going forward may be weakened by concerns over the consequences of the coronavirus, but the high-frequency movements on financial markets still do not clearly support such apprehension.

Continued weak inflationary pressures are another source of concern. Underlying inflation in December, measured in terms of the CPIF excluding energy, was marginally lower than our forecast. The krona depreciation in recent years has contributed to higher inflation but the pass-through seems nevertheless to have been limited. Bearing in mind that the krona appears to remain weak, there should be a pent-up need to raise prices in the retail sector.

The greater surprise in inflation concerns energy prices and particularly electricity prices. Due to the warm weather, electricity prices are much lower than normal, and this is expected to hold down CPIF inflation quite significantly in the coming months.

Usually, monetary policy can easily disregard temporary fluctuations in energy prices. But it is not entirely easy to disregard low energy prices when inflationary pressures are already weak and when we have a history of too low inflation. I am not convinced that confidence in the inflation target has been completely restored. The risk is that low energy prices will put additional downward pressure on inflation expectations and thereby also on underlying inflation. To mitigate this risk, it would be desirable to have inflation that is expected to develop slightly more strongly than in our forecast. But monetary policy and the financial conditions are already expansionary, and the policy rate is close to its effective lower bound. I do not see any easy way to ensure, in an orderly fashion, that inflation rises a little higher so that this risk is reduced.

The main scenario is after all that CPIF inflation will be held down temporarily this year but will move distinctly towards the target next year. I think that we should therefore stick to the monetary policy plan from December. The plan means that the policy rate will be very low for the entire forecast period. Major changes in inflationary pressures will be required before a need arises to increase the interest rate from today's level. If inflation should prove to be weaker than in our forecast, it may be necessary to make monetary policy more expansionary, for instance, by cutting the repo rate back to –0.25 per cent. If economic activity instead becomes weaker than in our forecast, there are good prerequisites for conducting a more expansionary fiscal policy.

First Deputy Governor Cecilia Skingsley:

I support the proposal for a new Monetary Policy Report, leaving the repo rate and the repo-rate path unchanged and continuing the bond purchases planned during 2020 in accordance with the previous decision.

Since the December meeting, the global economy has continued to show more signs of stabilising, in terms of both confidence indicators and economic activity statistics. In other words, last year's slowdown has not continued towards a recession, and some statistics indicate recovery. A new risk factor that is difficult to evaluate when assessing the international economy, however, is the outbreak and spread of the coronavirus. It is probable that various types of production stoppages, transport disruptions and hence product shortages will spread through different global product chains in this and the next quarter.

Interpreting macroeconomic statistics and company reports may therefore be particularly tricky in the period ahead. Short-term stoppages are more to be regarded as supply disruptions that cause temporary effects and will probably be resolved later on. But statistics and company reports can also be perceived as more permanent signs of an economic slowdown with unease on financial markets as a result. The forecasts in the Riksbank's Monetary Policy Report include, as a consequence of the virus, a certain slowdown in growth in China and that this will lead to economic spillover effects on other countries. Further forecast adjustments may, however, be needed later on as the picture becomes clearer.

The Riksbank's rate rise in December was expected and, in terms of market reactions and development of economic activity, was a relatively undramatic event. In light of the rate rise in December, I would like to take the opportunity to highlight the new index for financial conditions that has been developed at the Riksbank and is both described in the draft Monetary Policy Report and presented in detail in a Staff Memo.

Changes in the Riksbank's repo rate often attract considerable attention in Swedish society and many different opinions are expressed. However, the financial conditions facing Swedish households and companies are determined by many more factors than just monetary policy. An example of this is that, despite two rate rises, in December 2018 and December 2019, the financial conditions in Sweden are deemed to be more expansionary now compared with the autumn of 2018. The reasons for this may include more expansionary conditions abroad that affect Sweden, and the Executive Board's downward adjustments to the forecasts for the future repo rate. The fact that the financial conditions as a whole can strengthen or weaken the economic outlook is an important factor to consider when discussing what is appropriate monetary policy going forward.

Not many new economic statistics have been published in Sweden since the December meeting. The stabilisation within the manufacturing industry abroad has spread to Swedish confidence indicators, and the sentiment of Swedish agents is as usual strongly influenced by developments abroad. One inflation outcome has been published since the last meeting, more specifically for the month of December. It showed inflation measured in terms of the CPIF at 1.66 per cent, which was 5 hundredths lower than expected. However, the various measured used by the Riksbank to assess underlying inflation indicated unchanged median of 1.8 per cent.

I will now move on to my monetary policy assessment. Growth in Sweden is expected to be slightly higher compared with the previous assessment. At the same time, the inflation outlook has been revised down for the coming months. In 2020, lower energy prices, especially electricity prices, are expected to hold back inflation, which is illustrated, for example, in Figure 1:4 in the draft Monetary Policy Report. These lower energy prices will drive down inflation measured as the CPIF to 1.2 per cent at the end of this year. At the same time, inflation excluding energy prices is expected to remain close to 2 per cent, more precisely no lower than 1.7 per cent. Provided that the macroeconomy develops largely as expected, I see overall that the conditions are in place for the development of inflation I just described to occur without the need for changes to monetary policy.

The forecast for the future repo rate indicates that it will be unchanged for almost the entire forecast period, and then start to be raised cautiously. Were the prospects to improve more than forecast, including inflation reaching 2 per cent more rapidly than expected, the Executive Board will need to consider whether there is justification for a higher repo rate earlier than is implied in the current rate path.

For my part, it needs to be clear that inflation is overshooting 2 per cent before I will support an earlier increase than the one now forecast. My more exact preference as regards monetary policy will of course depend on why inflation is rising more quickly than expected. So I would like to develop my reasoning here with an example.

Just as the expected energy price decline in the months ahead is not a reason for me to argue in favour of a different monetary policy to the one proposed, neither would an energy price upturn that pushes inflation higher than 2 per cent be reason enough to change the policy. Only when measures of underlying inflationary pressures clearly overshoot 2 per cent do I see reason to support an earlier rate rise than what is indicated in the current rate path.

Should the opposite arise, that is that the economy develops less favourably than is indicated in the forecasts, the Executive Board can both cut the policy rate as well as take other measures to support demand and safeguard the inflation target.

Finally, I would like to say that it is the overall economic policy that exerts influence over the supply and demand conditions in the economy. If the international outlook worsens, there is a risk of poorer growth in Sweden too. The fact that a new potential phase of monetary policy expansion would be capable of having an effect does not mean that it would be the best medicine. The problems the world economy is facing today are largely structural and cannot be remedied with monetary policy alone, but only possibly temporarily alleviated.

Deputy Governor Henry Ohlsson:

To begin with, I would like to say that I support the proposal to leave the repo rate unchanged at zero. I also support the proposal for a repo-rate path that is horizontal for a couple of years to come.

I shall begin by discussing international conditions. Annual growth abroad, KIX-weighted, is expected to amount to 1.9 per cent in 2020 according to the draft Monetary Policy Report. For 2021 the forecast is revised up marginally to 2.1 per cent. For 2022, the forecast is unchanged at 2.0 per cent.

The KIX-weighted inflation rate is assessed according to the draft Monetary Policy Report to be 1.9 per cent in 2020. The forecast has been revised upwards somewhat compared to the previous Monetary Policy Report. The forecast for 2021 is unchanged at 1.9 per cent, while the forecast for 2022 is also unchanged at 2.1 per cent. According to the draft Monetary Policy Report, the weighted average of international policy rates is expected to be zero in 2020, 2021, and 2022.

My overall assessment of international developments is that growth will be at reasonable levels in the coming years. Inflation will in most cases be close to the respective inflation targets and policy rates will be very low going forward. Compared with the assessment in December 2019, the forecast changes are relatively minor. It is also worth pointing out that the indexes on important stock exchanges have risen since December.

And now on to Sweden. The CPIF has been the target variable for monetary policy since 2017. The most recent inflation figure in December showed an annual rate of increase in the CPIF of 1.7 per cent. The two measures of underlying inflation that have demonstrated the best characteristics in a Riksbank Study were in November at 1.8 per cent and 2.0 per cent respectively.[1] I also note that the moving average over twelve months for CPIF inflation is at 1.7 per cent. Target achievement remains good! Even if inflation expectations have fallen somewhat in the latest measurements, I consider that they are still well anchored.

Statistics Sweden reported in autumn 2019 that data in the Labour Force Surveys had been incorrect with effect from July 2018. Of course, Statistics Sweden has since provided revised data, but these are very uncertain. However, there are other reliable statistics available with regard to unemployment, namely from the Swedish Public Employment Service.

According to the most recent statistics from the Swedish Public Employment Service, the number of persons registered as unemployed in relation to the register-based labour force was 7.4 per cent in December 2019. This is slightly higher than in the same month one year previously, when the figure was 7.0 per cent. For those born in Sweden, unemployment was 4.1 per cent in December, compared with 3.7 per cent one year earlier. The corresponding figures for those born abroad were 19.9 per cent in December, down from 20.0 per cent one year earlier. In other words, higher unemployment for those born in Sweden, and lower for those born abroad.

Unemployment insurance fund members can be considered to have a relatively strong position on the labour market. In December 2019, the percentage of openly unemployed members of unemployment insurance funds was 3.3 per cent. This is higher than in the same month one year previously, when the share was 2.8 per cent.

In my view, unemployment is too high and the increase we are now seeing is not desirable. It is good that unemployment among those born abroad has fallen over the past year. But unemployment among those born abroad is still too high and the economic policy challenge is to bring it down. And this is in my opinion primarily a question of labour market policy measures to

[1] Jesper Johansson, Mårten Löf, Oliver Sigrist and Oscar Tysklind, 2018, "Measures of core inflation in Sweden", Economic Commentaries No. 11 2018, Sveriges Riksbank.

strengthen the human capital of unemployed persons and reduce the cost of employing them. General demand-side policies can provide support but cannot take primary responsibility.

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 around the target of 2 per cent for quite a long period of time, both with regard to outcomes and expectations.

At the previous monetary policy meeting in December 2019, the repo rate was raised by 0.25 percentage points to zero. I will not hide the fact that I was very pleased with this decision. The experiences of having a negative policy rate and the concern over what economic agents might do if the negative policy rate is perceived as permanent lead me to the conclusion that it is a good idea not to have a negative policy rate unless one really needs to have it.

My conclusion is that I therefore consider it to be appropriate at this monetary policy meeting to leave the repo rate unchanged at zero per cent. Even after the slowdown, the Swedish economy shows a level of activity close to the historical average. And inflation is close to the target, both in terms of outcomes and expectations. I also support the proposal to hold the repo-rate path horizontal for a couple of years. The proposed repo-rate path indicates just one repo-rate increase at the very end of the forecast period.

To summarise, I support the proposal to hold the repo rate unchanged at zero. I also support the proposal for a repo-rate path that is horizontal for a couple of years to come. Additionally, I support the economic picture and the forecasts in the draft Monetary Policy Report.

Deputy Governor Anna Breman:

I would like to begin by saying that I support the proposal to leave the repo rate unchanged at zero per cent. I also support the repo rate path and forecasts presented in the draft Monetary Policy Report.

In December, I entered a reservation against raising the repo rate, as economic statistics indicated that the Swedish economy was still in a downturn. At the same time, I made it clear that I wished to see an increase in spring 2020, given that we had by then seen a stabilisation in economic activity. I also said that I could consider approximately one additional rate increase during the forecast period than was reflected in the repo-rate path, but that this depended on waiting for economic activity to strengthen before making the first increase. The global economy is still very uncertain with a risk of setbacks, and both domestic and global inflationary pressures are still muted. Given this, the proposed repo rate path is a well-balanced assessment.

Since the monetary policy meeting in December, the financial markets have been marked by severe fluctuations, with both geopolitical unease and the new coronavirus triggering stock market falls and a decline in market rates one day to be followed by a rapid increase the next day. For us, it is important to take into account new risks, at the same time as we are closely following underlying developments in the real economy. However, we have received relatively few new statistics since the previous meeting. The inflation outcome was in line with expectations, just below 2 per cent. The Swedish labour market has not presented us with any major surprises, either. Trade barriers and global unease have left their mark on the manufacturing industry, while there is still resilience in the service sector. At the same time, several forward-looking indicators, both in Sweden and abroad, are developing positively. This means that I feel slightly more confident that economic activity will stabilise over the year.

However, I would like to point out that I see a risk that we are underestimating how much could happen in Sweden and abroad that would affect the Swedish economy and inflationary pressures in coming years. As always, economic developments may be either better or worse than forecast and cause us to choose another direction for monetary policy.

Let me begin by commenting the need for a high level of preparedness if the Swedish economy faces a worse outcome. There is widespread unease in Sweden and in many other countries that central banks will have difficulty in counteracting a new crisis. Policy rates are already low in many countries, and several central banks have already made substantial bond purchases to support economic activity. I believe it is important to take these concerns seriously. I would therefore like to illustrate what I consider the possibilities to be for the Riksbank to stimulate the Swedish economy in an economic downturn. Before I go on, I would like to emphasise that the type of measures taken will depend on the type of shock that triggers a downturn in the economy. What I mention as potential tools should therefore not be regarded as a promise to implement as measures in the event of a crisis.

The deepest recessions often originate in financial crises. In a crisis situation, it is in practice difficult to distinguish between what is support for financial stability and what is monetary policy, as financial crises tend to have severe effects on the real economy, with a fall in growth, a rise in unemployment, and lower inflation. A new study from the Riksbank shows that the combination of different types of liquidity support and policy rate cuts implemented in connection with the financial crisis in 2008 contributed to the Swedish economy making a faster recovery than many other countries.[2] The Riksbank still has a very good level of preparedness and the possibility to

[2] See the Riksbank Study "The Riksbank's measures during the global financial crisis 2007 – 2010", February 2020.

take strong action in the event of financial instability, for instance, through liquidity support to financial institutions.

In addition to liquidity support to counteract financial instability, the Riksbank has four main monetary policy tools at its disposal in the event of a substantial decline in the Swedish economy: a lower policy rate, bond purchases, TLTROs and currency interventions. In addition, verbal communication, in the form of forward guidance, can be used, potentially in combination with other measures. Please note that I am talking about measures to be taken in a serious crisis, and not a mild downturn in economic activity.

If developments in Sweden were to be much worse than in our main scenario, I would prefer a clear expansion of our balance sheet rather than once again introducing an even more negative policy rate than we have had in recent years. To cut the repo rate below zero again is possible – it is important that zero is not regarded as a lower bound. However, there is a functional lower limit as to how negative the repo rate can be before the transmission mechanism deteriorates. I therefore consider that we should exercise caution with regard to reintroducing a negative policy rate, and that the effects of this should be considered against the advantages and disadvantages of extended bond purchases and other monetary policy tools.

Today I would like to highlight the statistics illustrating the possibility to use bond purchases as a monetary policy tool. There are a number of difficult deliberations that need to be made in good time before this type of measure is applied. The most important is to emphasise that what has triggered a recession might affect the scope and type of bonds that is appropriate to buy. How other policy areas act, for instance the size and direction of potential fiscal policy stimulation measures, would also be an important factor in determining how much and exactly what the Riksbank would do in this type of situation.

At the end of January, the Riksbank's holdings of nominal and index-linked bonds amounted to just under SEK 340 billion. This corresponds to around 45 per cent of the outstanding stock issued in SEK and around 7 per cent of GDP. It can be compared with the ECB's purchases of around 30 per cent of the outstanding stock of government bonds. However, ECB government bond purchases correspond to around 18 per cent of GDP in the euro area. In addition to government bonds, the ECB has also purchased bonds issued by the public sector, covered bonds, corporate bonds and asset-backed securities.[3] In total, the ECB's bond purchases correspond to more than

20 per cent of the euro area GDP.[4] In the United States, the Fed's bond purchases following the financial crisis totalled at most 24 per cent of GDP.

An important difference between Sweden, the euro area and the United States is that the Swedish national debt is small in relation to GDP. This sets a limit as to what is an appropriate amount for government bond purchases made for monetary policy purposes. However, the Riksbank, like the ECB, has the opportunity to broaden its asset purchases to include other types of bonds. The stock of Swedish covered bonds (mortgage bonds) issued in SEK is almost SEK 2,000 billion, which is more than twice as large as the outstanding volume of government bonds in the same currency. The stock of corporate bonds issued in SEK corresponds to almost 700 billion, while the stock of municipal bonds issued in SEK by municipalities and Kommuninvest is just over 400 billion. All in all, this means that the Riksbank has the possibility to substantially increase its bond purchases.

However, the fact that there is scope to broaden the bond purchases for monetary policy purposes does not necessarily mean this is an appropriate measure. Several aspects need to be taken into account: how effective this would be in stimulating demand in a severe economic downturn, what type of bonds would be most appropriate to purchase in different scenarios, and potentially negative side-effects. The Riksbank regularly analyses the effects of the government bond purchases and has the preparedness and analysis to be able to broaden the purchases.

In this context, I would like to highlight in particular the complexity linked to the purchase of corporate bonds, without disregarding the difficulties surrounding other types of bond purchase. In the event that corporate bonds were purchased, it would be necessary to choose the level of credit risk accepted and how the allocation should be made between different sectors of the economy. There is also a global discussion on whether purchases of corporate bonds should take into account sustainability aspects, such as carbon emission levels from individual companies. At present, I have no answer to this question, but would like to emphasise that it is a complex issue that requires further analysis.

Before I sum up, I would like to point out that the risk outlook is not just on the downside. Inflation could become higher than in our forecast. The Riksbank's actions will depend on what is driving up inflation. Imagine a scenario where inflation rises above two per cent as the result of a temporary supply shock, for instance, a cold winter in 2021 with rising electricity prices in combination with geopolitical unease that leads to a higher oil price. Such a scenario would not

[4] Approximate figures are given, as they may differ depending on whether the holdings are reported in nominal amounts or as a market valuation.

justify bringing forward an increase in the repo rate in relation to the proposed repo rate path, in my opinion.

On the other hand, if inflation were to rise as a result of strong domestic demand in the wake of higher economic activity, there could be justification for raising the repo rate even before inflation reaches 2 per cent. One example of this type of scenario could be if domestic structural reforms strengthen the Swedish labour market and contribute to increased employment, higher disposable incomes and increased inflationary pressures, at the same time as global growth increases faster than expected.

A third scenario that could affect the economy in a positive way is the European Commission's European Green Deal. It is still uncertain whether and how this proposal will be implemented, but it could lead to higher investment-driven growth within the forecast horizon and higher demand-driven inflation. The proposed border taxes could also entail increased inflation within the EU. How the Riksbank should react to higher inflation that partly arises from import duties is a question that also requires further analysis. I will closely follow the effects of the EU's European Green Deal on the Swedish economy and inflation in the coming years.

Let me summarise. I support the proposal to leave the repo rate unchanged and the proposed repo rate path. As always, developments in the coming years could be either better or worse than in the forecast. I feel secure in the knowledge that the Riksbank has a good level of preparedness and can act both to promote price stability and financial stability in the event of a financial crisis. At the same time, I consider that we should also be prepared to raise the repo rate earlier than is now indicated in the repo rate path in the event of much stronger economic activity than in the forecast in the draft Monetary Policy Report.

Deputy Governor Per Jansson:

In the current monetary policy discussion, it is natural for me to start by empirically reviewing the reasons why, in December, I thought it would be better to wait before raising the repo rate from –0.25 to zero per cent. The three factors I discussed then have in common that they all play a key role for our prerequisites for attaining the inflation target in the years ahead. My assessment is that these factors continue to be a good starting-point when it comes to drawing conclusions as to whether there is a need or not of making changes to the design of monetary policy.

The first and most important factor concerns the forecast for inflation and the risk picture associated with it. We have had one new outcome for inflation since the monetary policy meeting in December. The outcome, which refers to December, was marginally lower than expected, both including and excluding energy prices. The observations for both inflation measures amounted to just below and just above 1.7 per cent respectively. Compared with November, this is a more or less unchanged level of inflation. Similarly, the median for the Riksbank's various measures of longer-term trend, or underlying, inflation is showing stable development and remains at 1.8 per cent, that is to say largely on the same level as at our meeting in December. The two measures that have been shown in an empirical evaluation to be best at predicting future CPIF inflation, UND24 and CPIFPC, amounted in December to 1.8 and 2.0 per cent respectively.[5] These figures, too, are basically unchanged since our last meeting.

Despite inflation outcomes being stable and close to where we had expected them to be, rather substantial forecast adjustments to CPIF inflation are being proposed in the near term in the draft Monetary Policy Report. In 2020, the assessment for CPIF inflation is revised down by an average of just under four tenths of a percentage point and the largest adjustment, which is for inflation in February, amounts to a bit more than –0.5 percentage points. CPIF inflation is expected to be at its lowest in November, when it bottoms out at 1.2 per cent, compared with slightly below 1.5 per cent in the December forecast. From 2021, the assessment for CPIF inflation is more or less the same as before. The prospects for CPIF inflation excluding energy prices are better and more stable, however, with downward forecast revisions of around a tenth of a percentage point up to the autumn of this year. Thereafter, the assessment is largely unchanged compared with December. I support the inflation and macro forecasts in the draft Monetary Policy Report.

That the forecast adjustments are almost exclusively a result of temporarily falling energy prices means that monetary policy should be able to, as it is often put, "look through" the period of low inflation. It takes a while before CPIF inflation is predicted to be in line with the inflation target but target attainment has not fundamentally worsened compared with what we expected at our last meeting. The forecast is still that price increases will gradually stabilise around 2 per cent in 2022. There may, however, be reason to be slightly more concerned that the lower inflation could have an unjustifiably large effect on inflation expectations, which have already fallen quite substantially over the last year or so. I will return to this shortly.

Neither when it comes to the risk picture for the inflation forecast do I see that any major, more fundamental shifts have occurred since December. It is still clearly dominated by downside risks, at least regarding more serious, persistent shocks to inflation. Internationally, it is perhaps the case that indicators and sentiment have improved somewhat in recent months. However, the coronavirus, which is a new component in the risk picture, adds to the uncertainty, and it is important to continue to follow developments closely and be prepared to adjust the forecasts if

[5] See the article "Why measures of core inflation?" in Monetary Policy Report, October 2018.

necessary. In Sweden, just as in other countries, some improvement can be seen above all in data related to the manufacturing industry, but fundamental demand and cost conditions continue, as before, rather to indicate negative than positive inflation surprises going forward. Summing up the changes in the forecasts and the risk picture, my conclusion is that the situation is largely the same as at our last monetary policy meeting.

With this I move on to discuss the second factor I considered in December, the development of inflation expectations. Here, too, one new outcome has been published since our last meeting, Prospera's January survey of money market participants. Fortunately, the recent stabilisation of long-term, five-year expectations among money market participants has continued. These have now risen slightly three months in a row and the outcome for January, which came in at just under 1.9 per cent, was the highest since September last year.[6]

As I have already touched on, however, it is now a question of the temporary slowdown in inflation that is expected over the rest of this year not reinvigorating the previous downward trend in inflation expectations. It deserves to be mentioned in this context that, when it comes to long-term expectations, it has really been the decline among labour market organisations that has caused the greatest concern. For these, it will be another month before the next outcome is published and therefore it is in any event currently difficult to draw any more decisive conclusions from the figures that have emerged since December. To sum up, the news about inflation expectations is on the margin positive but it is important to stress that developments going forward must be closely monitored.

The third factor I highlighted in December concerns the monetary policy being conducted by many other central banks, especially, of course, the world's leading central banks, the Federal Reserve and the ECB. Last year, both these central banks implemented relatively substantial monetary easing measures and in light of this, I saw a risk that the Swedish krona might appreciate considerably and rapidly, against both the US dollar and the euro, if the Riksbank went in the opposite direction. Bearing in mind the already rather low inflation forecast even in the absence of such a strengthening, there is every indication that this would have been a problem from an inflation point of view. Fortunately, I can now determine that this apprehension, at least so far, looks to have been unjustified. The krona exchange rate is today weaker against both the US dollar and the euro than it was prior to the monetary policy decision in December. The same is true of the Norwegian krona.[7] This suggests that the general unease in the global economy is continuing to play a major role for the currencies of small, open economies.

[6] I am focusing as usual on the expectations for CPI inflation rather than for CPIF inflation.
[7] Exchange rates on 10 February at 1445 hours compared with exchange rates at on 17 December at 1500 hours.

Let me summarise my empirical review of the reasons why, in December, I thought it would be better to wait a while before raising the repo rate. As regards the forecast for inflation and the associated risk picture, the changes are generally small. CPIF inflation is admittedly expected to be lower for the rest of 2020 but that is almost entirely due to temporarily depressed energy prices. Provided that this effect does not spill over to long-term inflation expectations, there is no reason to worry too much about it. Downside risks continue to dominate the risk picture, but some improvement may be forthcoming especially for the manufacturing industry. The coronavirus is a new source of concern, but more information is needed before it is possible to make more reliable quantifications of its economic consequences. Regarding long-term, five-year inflation expectations, one new outcome has been published. It increased marginally, which of course is good news. But it is important now to wait and see how expectations among labour market organisations develop going forward. Finally, the krona exchange rate, at least so far, has not strengthened in a way that creates new downside risks for inflation, which certainly is good news too.

Bearing in mind nothing much new has happened as regards these factors, one might think that the natural conclusion should be that I would like to have the same repo-rate level as before the increase in December, that is a cut to the repo rate back to –0.25 per cent. But at this stage such a proposal would hardly be realistic, or particularly constructive. In addition, it is possible to argue that one or two factors have actually developed for the better since December. This means that I can now support an unchanged repo rate of zero per cent. After the repo-rate rise in December, the rate rise I advocated "some way into the forecast period" is of course no longer valid, since it was contingent on the rate being left unchanged at –0.25 per cent. I therefore also support the repo-rate path in the draft Monetary Policy Report.

Let me conclude with a few thoughts about how I see our preparedness if there were to be a need to adjust the monetary policy plan. As my assessment is that it is currently highly improbable that a tighter monetary policy will become appropriate, I will limit my discussion to the case where new needs for monetary easing measures arise. In the draft Monetary Policy Report, it is noted that, in the light of poorer economic and inflation prospects, we might "both cut the repo rate and take other measures to make monetary policy more expansionary". As the repo rate is still very low, I think that it is both reasonable and appropriate for us to underline that, in a worse economic scenario, it will probably become necessary to implement a package of measures. Our experience from recent years of designing monetary policy in this way is positive.

It is naturally difficult to specify in advance which measures might be included in an appropriate package but one can gain an idea of this by working out various scenarios, where inflation problems of varying severity are combined with alternative sequences of events for the real economy, everything from a relatively mild slowdown to a sharp and severe recession. The scenarios should not just be conditional on monetary policy interventions but also on assumptions for fiscal policy. The starting-point here should, of course, not be that fiscal policy should "take over" the targeting of inflation but in scenarios where the consequences for the real economy become sufficiently serious, it is quite simply unreasonable to assume that fiscal policy-makers would not take action. In addition to being useful in order to shed light on an adequate design of monetary policy, such scenarios would hopefully also provide a basis for the analysis of how and when monetary and fiscal policy can complement one another.

Governor Stefan Ingves:

I support the proposal to leave the repo rate unchanged at zero per cent. The same applies to the forecasts and assessments described in the draft Monetary Policy Report. Our forecast for the repo rate – the repo-rate path – indicates that the next adjustment to the rate may not come until the end of our three-year forecast horizon. This is the same view as at the previous monetary policy meeting in December, and as I noted then, monetary policy is in a kind of wait-and-see situation, which also applies to several other countries around the world.

The Riksbank's government bond purchases are also part of monetary policy. The purchases are proceeding according to plan and this involves maintaining approximately the level of our government bond portfolio. We are retaining our presence on the bond market, which makes things easier if there is a need to change monetary policy. A very important strategy at current interest rates, where the interchangeability of prices, that is interest rates, and quantities, that is to say using the Riksbank's balance sheet, need not be symmetrical.

The assessments of economic developments abroad and in Sweden largely coincide with the outlook in December. The global economy has entered a phase with slower growth rates than a couple of years ago. In the coming years, the global economy is expected to grow by around 2 per cent, KIX-weighted. Inflationary pressures abroad have been moderate in recent years, particularly in the euro area. But as a result of the continued expansionary monetary policy, among other things, inflation abroad is expected to be around 2 per cent during the forecast period.

There are as usual a number of uncertainty factors surrounding our main scenario for global economic developments, and in some areas things look slightly less uncertain right now. I am thinking here, for example, of trade relations between the United States and China, and the fact that the United Kingdom has left the EU without any major disruptions being apparent. But there still remain important discussions to be had in both the trade relations between the United States and China, and the long-term relationship between the EU and the United Kingdom, which may increase uncertainty further ahead. The spread of a new coronavirus in China has caused unease on the financial markets, and our GDP forecast for China has been revised down. However, there is considerable uncertainty over how extensive the spread of the virus may be and at present it is difficult to quantify the economic effects both in China and globally.

To return to developments in Sweden, we are, as expected, in the midst of an economic slowdown. But we have seen several signs of stabilisation, and we are expecting growth to rise gradually this year and next year. According to the GDP forecast, growth will be 1.3 per cent this year and then rise to 2 per cent in 2022, somewhat higher than our forecast in December. According to some indicators, resource utilisation has gone from a higher-than-normal to a more normal level. Other measures of resource utilisation, such as the GDP, employment and hours worked gaps, are still positive and expected to remain so, more or less, throughout the forecast period. This reflects the fact that we have a period of very good economic development behind us.

Since the previous monetary policy meeting, there has only been one new outcome for inflation, for the month of December. According to this, the annual rate of change in the CPIF was 1.7 per cent, in line with our earlier forecast. The forecast for CPIF inflation during 2020 has been revised down by 0.4 percentage points, primarily as a result of falling electricity prices. Various measures of core inflation indicate underlying inflationary pressures in line with the target of 2 per cent. Further ahead, when the effects of falling electricity prices have faded, CPIF inflation will once again be in line with the inflation target.

Economic developments so far have been more or less as expected, and the revisions to the economic outlook and inflation forecasts are minor in the longer run. It is therefore natural to allow the monetary policy plan to remain the same as in December. This means that the repo rate will remain at zero per cent, and at the same time as the repo rate path indicates that it may take until the end of the forecast period before an increase is made.

This is an unusual situation, both in Sweden and abroad. Monetary policy in the large currency areas has entered a kind of wait-and-see situation, which is reflected in both the communication from the larger central banks and the expectations regarding their policy decisions in the coming years. For a small open economy like Sweden’s, with free capital movement and considerable dependence on foreign trade, it is natural that our monetary policy reflects this situation.

But waiting and seeing is not the same thing as monetary policy being neutral or passive. On the contrary, the real repo rate is still negative, which stimulates economic developments and holds inflation around 2 per cent. As shown in Figure 1:8 in the draft Monetary Policy Report, the real repo rate has been negative since 2012. And according to our current forecasts, it will remain so during the entire forecast horizon, and perhaps even longer. All in all, this could be a time period of 10 years or more with a negative real monetary policy interest rate. It is a situation that few, if anyone, could have predicted just over ten years ago.

The fact that the real repo rate is negative for such a long period of time raises important questions regarding the functioning of the economy. How come the normalisation of monetary policy was not as expected, that is, a return to positive real interest rates? This type of question now occupies many economists, both researchers and those in the central bank world. The view of how the economy works, and perhaps also monetary policy, is being under evaluation and this may also contribute to the wait-and-see situation in which we find ourselves.

But the future could be different from our main scenario, and monetary policy measures could be needed sooner than our forecasts indicate. Economic activity could turn out to be better and Swedish inflation could increase faster than in our forecasts. In such a scenario, as I said before, I see no hurry to raise the repo rate. The inflation rate can overshoot the target for a period of time, especially given that inflation has historically more often been under than over the target.

Conversely, if the economic outlook and inflation prospects were to be more negative than described in the draft Monetary Policy Report, there is some scope for monetary policy stimulus. If this were to be necessary, however, I wonder whether interest-rate policy would be as effective at negative levels as at positive levels. To put it another way, are the effects on inflation and growth of raising the repo rate from zero per cent to, say, 2 per cent as great – but with the reverse sign – as of cutting from zero per cent to –2 per cent? I am not sure about this, and this emphasises the importance of being prepared to use our balance sheet to achieve monetary policy stimulus if this is needed.

As long as economic developments do not deviate too far from what is described in the draft Monetary Policy Report, monetary policy can be used to contribute to defending our inflation target. However, the scope for repo rate cuts is limited, and we do not have the conditions for extensive government bond purchases. If economic developments were to be much poorer than in our main scenario, we would probably need extensive alternative balance sheet measures, combined with other policy areas, to attain an effective policy mix, in order to maintain demand in Sweden.

Let me conclude by once again warning about the long-term development of the Swedish housing market, which still entails a risk to the Swedish economy in both the short and long term. There are still a number of structural problems in the Swedish housing market. This creates both imbalances and risks, in the form of high indebtedness among households, and economic inefficiency, in that it will be more difficult for people to move in connection with finding a new job. Addressing these risks and the structural problems on the Swedish housing market requires comprehensive reforms in housing policy and tax policy.

§3c. Discussion

Deputy Governor Martin Flodén:

Several of my colleagues have discussed how monetary policy should, or should not, react if inflation rises faster than in our forecast. I feel that our views on this differed somewhat and I would like to clarify how I think.

I see two asymmetries behind our forecast for the repo rate. One concerns the risk outlook for inflation, and the other the monetary policy toolbox.

As I implied in my earlier contribution to the debate, and as Per stated even more clearly, the downside risks dominate for inflation. It would be good if inflation becomes slightly higher than in our forecast. Large upward revisions to inflationary pressures are required for me to see the need for an interest rate increase.

With regard to the toolbox, I would like to repeat that the repo rate is already low and close to its effective lower bound. Moreover, the exchange rate is already weak. Financial conditions are expansionary. In this situation, it is easier to tighten monetary policy than to make it more expansionary. This could of course change in the event of a deep recession or stress on financial markets. In this case, we still have powerful tools that we can use. But more likely scenarios are that economic activity will be a little weaker and inflation will be lower than in our forecast, at the same time as the expansionary financial conditions prevail. It will then be difficult to effectively stimulate the economy even further.

These two asymmetries to some extent cancel out one another and mean that our forecast for the repo rate is nevertheless fairly symmetrical. It is unlikely that I will see a need to raise the repo rate during the coming two years. As I said earlier, I do not rule out the possibility of a rate cut back to –0.25 per cent, but it will most likely be appropriate to hold the repo rate at the current level for quite a long time to come.

First Deputy Governor Cecilia Skingsley:

I would like to comment here on the line of reasoning pursued by my colleague Anna regarding the Riksbank's possibilities to carry out its tasks. The system of inflation targeting and independent central banks has become increasingly dominant over the past 20-30 years. When this was first developed there were several factors that most people were unaware of: One unknown factor was that financial vulnerabilities could grow despite inflation being in line with the target, and lead to the global financial crisis, which cast a shadow over the entire 2010s. Another unknown factor was that production and trade would globalise to the extent that has happened. A third unknown factor was that technological advances, and not least digitalisation, would occur that changed conditions for production and competition, in more or less every single sector.

Despite several surprising changes, the inflation regimes have nevertheless contributed to on average good economic development. In Sweden, average GDP growth accelerated after the mid-1990s, compared with the previous 25-year period. Growth in real wages also accelerated, while the national debt fell when one compares the period prior to the mid-1990s with the period that followed.[8]

In my opinion, it would therefore require a lot to change the Riksbank's task of maintaining price stability within the framework of an inflation-targeting regime. It is important and interesting that several central banks are reviewing their systems, which is mentioned in Chapter 2 in the draft Monetary Policy Report. Based on an unchanged task, several central banks are working on updating their analysis capacity and reviewing the tools to carry out their tasks.

An evident lesson from the experiences of recent years with financial crisis and low inflation is that it is not enough to merely raise and lower the policy rate to maintain an inflation target. The central bank governors also need to have a legal mandate to use their balance sheet to carry out their task.

Deputy Governor Henry Ohlsson:

I would like to say something about how I view the monetary policy toolbox. What monetary policy means should be used if monetary policy needs to be made more expansionary? As I mentioned earlier, I am very doubtful about negative policy rates. I do not rule out the possibility of the Riksbank being forced to cut the repo rate below zero in special situations. But in this type of situation it would also be important to consider if other monetary policy means would be more desirable. As one of my colleagues has already mentioned, I consider the balance sheet to be just as useful a monetary policy tool as the policy rate.

Deputy Governor Anna Breman:

I would like to begin by saying that I welcome this discussion and the views put forward.

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[8] https://www.riksbank.se/en-gb/press-and-published/speeches-and-presentations/2020/skingsley-the-way-from-the-financial-crisis-and-forward--the-development-of-monetary-policy/

I have a comment on how we should view inflation in the near term, given falling energy prices, which has been discussed by several colleagues at today's meeting. I mentioned in my remarks earlier that a temporary supply shock that increased inflation above 2 per cent – for instance, from rising electricity prices resulting from cold weather and rising oil prices due to geopolitical unease – should not lead to a repo rate increase. Similarly, I think it is important that we weigh in the fact that falling energy prices at present can be attributed to temporary factors. Energy prices have been falling for a long time because of warm weather and high winds during the winter and lots of rain during the autumn, which have pushed down energy prices at the same time as the new coronavirus has led to a fall in the price of oil. This type of temporary factor is not a reason to talk about making monetary policy more expansionary.

What Martin and Per have mentioned, and what I also see as problematic, is whether falling energy prices will affect inflation expectations. However, inflation expectations sometimes have a tendency to overreact to temporary fluctuations in energy prices in particular. I think this makes it particularly important to see through this type of temporary supply shock.

Instead, I think we should focus carefully on underlying inflation. The economic outlook in the medium term is also important, as it says more about the conditions for inflation in a couple of years' time than the temporary effects of energy prices. At present, we see cautiously positive signs that economic activity may strengthen in the long run. All in all, this means that we should have tolerance for lower inflation resulting from this type of temporary factor.

§4. Monetary policy decision

The Executive Board decided

- to hold the repo rate unchanged at zero per cent and that this decision shall apply with effect from Wednesday 19 February 2020.
- to adopt the Monetary Policy Report according to the proposal, Annex A to the minutes.
- to publish the Monetary Policy decision and the Monetary Policy Report with the motivation and wording contained in a press release at 09.30 on Wednesday 12 February 2020, and
- to publish the minutes from today's meeting at 09.30 on Friday 21 February 2020.

This paragraph was verified immediately.

Minutes taken by

Maria Kindborg

Verified:

Stefan Ingves	Cecilia Skingsley	Anna Breman
Martin Flodén	Per Jansson	Henry Ohlsson

SVERIGES RIKSBANK
SE-103 37 Stockholm
(Brunkebergstorg 11)

Tel +46 8 - 787 00 00
Fax +46 8 - 21 05 31
registratorn@riksbank.se
www.riksbank.se