Monetary policy minutes

December 2019

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

Correction to the monetary policy meeting minutes

On page 25 a sentence has been corrected to better correspond to the original text in Swedish.

The earlier version of the sentence read: In this scenario, a large expansion of our balance sheet is closer to hand than a negative policy rate below what we have seen in the past five years.

In the new version, the sentence reads: In this scenario, a large expansion of our balance sheet is closer to hand than a negative policy rate much below what we have seen in the past five years.

Summary

At the monetary policy meeting on 18 December 2019, the Executive Board of the Riksbank decided to raise the repo rate from –0.25 per cent to zero per cent.

Since the monetary policy decision in October, economic developments both globally and in Sweden have been in line with the Riksbank's forecasts. As in the rest of the world, the Swedish economy has entered a phase with a lower growth rate. Uncertainty over international developments is still considerable, but according to several members the risks seem to have recently decreased somewhat. Several members emphasised that the slowdown now taking place in the Swedish economy means that we are going from a higher-than-normal level of activity to a more normal economic situation.

Inflation – which has been close to the inflation target of 2 per cent for a prolonged period – has also developed in line with the Riksbank's forecast over recent months. Resource utilisation is expected to remain fairly normal while inflation prospects overall are unchanged, which means that the conditions for close-to-target inflation continue to be good. A majority of members therefore considered it appropriate to now raise the repo rate from –0.25 per cent to zero per cent, in line with the forecast from October.

This year, in response to weaker economic activity, the Riksbank has successively lowered the forecast for how much the repo rate will be increased in the years to come, something which several members noted. In the longer term, the repo rate is likely to be higher than zero. But given the low level of global interest rates and the uncertainty surrounding economic and inflation developments, it is, in the Executive Board's view, difficult to determine when it will be appropriate to raise the repo rate next time. With a repo rate of zero per cent in the coming years and the Riksbank's extensive purchases of government bonds, monetary policy remains very expansionary.

Several members discussed the period with a negative policy rate. It was noted that this was an important reason behind the strong economic activity of recent years and the return of inflation to the target. However, it was also pointed out that more analysis is needed of the potential effects if negative interest rates are perceived as more permanent. Given the low level of interest rates abroad, the view was that a periodically negative repo rate in the future cannot be ruled out. As always, monetary policy will be adjusted if conditions change.

Two members entered reservations against the decision to raise the repo rate now and argued instead for a raise some time into the forecast period.

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MINUTES OF MONETARY POLICY MEETING
Executive Board, No. 6

DATE: 18/12/2019

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

Vesna Corbo
Hans Dellmo
Charlotta Edler
Mattias Erlandsson
Eric Frieberg
Anders Gånge
Jesper Hansson
Maria Hesselman
Jens Iversen
Kristian Jönsson
Maria Kindborg
Henrik Lundvall
Pernilla Meyersson
Ann-Leena Mikiver
Marianne Nessén
Åsa Olli Segendorf
Bengt Petersson
Maria Sjödin
Anders Vredin
Fredrik Wallin (§ 1-3a)
Ingrid Wallin Johansson (§ 1-3a)

It was noted that Henrik Lundvall and Bengt Petersson would prepare draft minutes of the monetary policy meeting.

§3a. 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. A number of issues have characterised the markets during the autumn and these have continued to have a substantial impact since the October meeting. They concern trade conflicts, primarily between the United States and China, the United Kingdom election and the conditions for the UK's withdrawal from the EU, the economic outlook and the monetary policy response, and developments on money markets. With regard to two of these issues, market participants deem that uncertainty has decreased somewhat as there are signs of a trade agreement between the United States and China now being more likely and the clear outcome of the UK election indicates a reduced risk of the United Kingdom leaving the EU without an agreement.

In light of this, government bond yields have risen slightly in, for example, Germany and the United States, in step with greater risk appetite, and equity prices have generally risen. Both the European Central Bank (ECB) and the US Federal Reserve have announced monetary policy decisions in recent weeks and the market now expects slightly less expansionary monetary policies in the future than it did earlier in the autumn.

The Federal Reserve has announced that it will buy treasury bills to increase outstanding central bank reserves in the system. Since mid-October, it has bought treasury bills for USD 60 billion a month. In addition, the Federal Reserve has supplied liquidity by offering repos to monetary policy counterparties. The repos offered by the Federal Reserve over the new-year period have been in high demand. The Fed will have almost USD 500 billion outstanding in repos over the turn of the year to avoid a repeat of the turbulence that occurred in US money markets in September.

Money markets have also been in focus in the euro area. At the end of October, the ECB's tiered deposit rates came into force. This means that the banking sector may deposit a certain amount of its aggregate surplus in the ECB at a more favourable interest rate. Data suggests that excess liquidity has been redistributed among different banks in the euro area in the wake of this. Most of this redistribution seems to have occurred via the repo markets, which is reflected in, among other things, an increase in repo rates where the underlying collateral is Italian government securities.

As regards Swedish monetary policy, a high share of market participants expect the Executive Board to increase the repo rate to zero per cent at today's meeting. The market has perceived the monetary policy communication to be clearly in this direction. Expectations among market participants are also unusually consistent. The forward market has in principle fully priced in a rate-rise and analysts are unanimous. Surveys of market participants also indicate the same thing. In addition, forward pricing, analyst forecasts and survey responses all 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 October.

The Swedish krona has appreciated during the fourth quarter. The appreciation is just under 6 per cent against the US dollar and just over 4 per cent against the euro since the krona's weakest level in the first half of October. In trade weighted KIX terms, the krona is about 4 per cent stronger. More bullish market sentiment and growing expectations of a rate-rise have probably helped to strengthen the krona.

In light of Ingrid Wallin Johansson's presentation, Governor Stefan Ingves noted that the Riksbank has also implemented measures to increase the amount of liquidity in the banking system over the turn of the 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 4 and 9 December. The draft Monetary Policy Report was discussed and tabled at a meeting of the Executive Board on 12 December.

Mr Hansson began by presenting the issues that have been discussed in particular detail during the drafting process. One issue has been the uncertainty surrounding economic developments abroad. Mr Hansson noted that the risks of weaker developments abroad in the near term are deemed to have decreased slightly after the clear UK election result and after some progress in the negotiations between the United States and China regarding the countries' future trade relations. But substantial work remains to negotiate a future trade relationship between the UK and the EU and there is still uncertainty about several key issues regarding the future economic exchange between the United States and China. The overall risk picture for economic development abroad has therefore not changed in any decisive way since the monetary policy meeting in October.

Another issue has been possible side-effects of the expansionary monetary policy and Mr Hansson mentioned, among other things, the results of the Riksbank's most recent Financial Markets Survey, published in early December. Compared with the results from the spring survey, the autumn survey shows both that a lower share of respondents now think that the fixed-income market is working well, and that a lower share think it is working poorly. The share of respondents who think that the market is working neither well nor poorly has increased substantially. Mr Hansson also highlighted the fact that there seems to be an increasing number of banks and financial institutions abroad that intend to set a negative interest rate on deposits from households. As things stand, there are no signs of similar measures being prepared in Sweden, but such a development can obviously not be ruled out if the Riksbank's policy rate continues to be negative.

In the United States and the euro area, Purchasing Managers' Indices for the manufacturing sector and the service industry show a stabilisation in confidence in economic development, even though the measured level for the manufacturing sector still indicates negative growth. During the third quarter, GDP growth abroad was somewhat higher than expected and the forecast for growth in the United States and the euro area has been revised up slightly. Economic activity abroad slowed, but similar to several other forecasters, the Riksbank's assessment is that growth in the coming years will be reasonable. In several countries abroad, unemployment is relatively low and stable developments on labour markets are probably helping to maintain consumer confidence. Mr Hansson pointed out that the revisions in the international forecast are minor, compared with the assessment from October.

As regards the economic outlook in Sweden, overall confidence has continued to fall slightly, in contrast with developments abroad. But covariation with foreign confidence indicators is high and confidence is not likely to fall much more in Sweden if it stabilises abroad. Monthly outcomes for output and consumption up to the end of October show that output has been largely unchanged during the year. However, the latest outcomes for consumption indicate an upturn, after the weak development since the middle of last year.

In response to a question from the Executive Board, Mattias Erlandsson, acting Deputy Head of the Monetary Policy Department, gave a very brief account of today's outcome from the Economic Tendency Survey. Mr Erlandsson noted that the National Institute of Economic Research's Economic Tendency Indicator fell somewhat compared with the outcome from November.

Jesper Hansson continued by commenting on the revised statistics from the Labour Force Survey (LFS) published in mid-November, which indicate a certain slowdown in employment growth in recent years. The revised statistics have not led to any change in the overall assessment of the situation on the labour market. The most recent survey indicates an increase in unemployment in November, but this is explained by strong growth in labour force participation and not by a falling employment rate. The fact that the LFS statistics are now based on a comparatively small sample has led to an increase in uncertainty regarding the estimates, not least in the monthly outcomes.

GDP growth in Sweden has been weak during recent quarters. Going forward, however, an improvement in household confidence and a stabilisation of housing investment are expected, and the forecast is therefore that growth will rise gradually from the middle of next year. In the longer term, growth is expected to increase from levels just above 1 per cent this year and next year to a level just below 2 per cent towards the end of the forecast period. The assessment is based in part on an assumption that uncertainty about growth prospects abroad will decrease going forward.

In November, CPIF inflation rose to 1.7 per cent, which was in line with the assessment from October, and inflation is expected to continue to increase over the coming months. Recent development in the krona exchange rate has been stronger than expected, probably as a result of many participants in the foreign exchange market perceiving uncertainty about economic developments abroad to have decreased. According to the forecast, the krona's trade-weighted exchange rate will now be slightly stronger, compared with the assessment from October, and this is also the reason for the slight downward revision in the inflation forecast for 2020 and 2021. In the longer term, rising wage growth and unit labour costs increasing by 2 per cent a year are expected to help CPIF inflation to stabilise close to the inflation target. The forecast is supported by comparatively high pricing plans among companies in the retail sector.

In conclusion, Jesper Hansson emphasised that the draft forecast presented is based on the monetary policy that is expected to gain majority support in the Executive Board at today's monetary policy meeting. The assumption is that the repo rate will be increased by 0.25 percentage points to zero per cent and that the repo rate path indicates an unchanged repo rate for a prolonged period after that. The forecast for the repo rate for the coming years is unchanged compared with the assessment from October. Furthermore, the proposed forecast for the economic outlook and inflation prospects is based on the decision taken by the Executive Board in April, according to which the Riksbank will purchase government bonds for a total nominal amount of SEK 45 billion from July 2019 until December 2020.

§3b. The economic situation and monetary policy

First Deputy Governor Cecilia Skingsley:

I support the draft Monetary Policy Report, the proposal to raise the repo rate to zero per cent and the proposed new repo-rate path.

After several years of good growth, global economic activity is continuing to dampen in a way that has been in line with the Riksbank's forecasts over the past year. The slowdown is most visible in the manufacturing sector, while continuing stable labour markets and low interest rates contribute to maintaining household demand abroad. I note that indicators reflecting companies' confidence in the future appear to have stabilised since the October meeting. There is still considerable uncertainty over the economic outlook and inflation prospects abroad, but I assess that this has lessened somewhat with regard to developments in the coming months. The clear result in the UK election indicates a more controlled withdrawal from the EU and conditions have improved for clear trade terms between the United States and China.

In Sweden, the growth rate has slowed down after several years of high resource utilisation. The fact that the Swedish economy is growing at a slower pace means that the economy is moving from an activity level that has been higher than normal to a more normal level.

CPIF inflation has once again begun to rise after the earlier projected decline during the year. The different measures of underlying inflation used by the Riksbank are on the whole close to 2 per cent. On the whole, the assessments of the economic outlook and inflation prospects are unchanged from the October Report.

I will now go on to discuss my monetary policy assessment, and I will start from the situation prevailing in December 2018, when the Executive Board raised the repo rate by 0.25 percentage points. This was the first increase in seven years. One year ago, the Executive Board forecast that the next increase would take place during the second half of 2019, and that the repo rate would then be raised approximately twice a year after that. With this rate of increase, which entailed a total of five increases in three years, the repo rate would have been close to 1 per cent at the end of the three-year period.

That is to say, we saw a slow interest rate rise ahead of us, to a level that would still be very low from a historical perspective. The monetary policy forecast was based on resource utilisation remaining higher than normal during the entire forecast period. Now that we will soon be leaving 2019 behind us, we can note that the slowdown has come earlier than we had forecast last year. Four of the five increases forecast for the coming years have therefore been removed from the repo-rate path, and my assessment is that only one increase is possible, given the current economic outlook and inflation prospects. The fact that the policy rate is forecast to lie still after today's meeting means we will enter a wait-and-see situation. As uncertainties are resolved, new changes may become relevant. It is equally probable that the repo rate will rise over the coming years as that it will fall, but it is most likely that the repo rate will remain at zero per cent.

With today's decision, the Riksbank's most important policy rate is no longer in minus territory. When the negative interest rate was introduced in 2015, the forecast was that the period with a negative interest rate would last for just over a year. With hindsight, it has required almost five years of a negative repo rate to support demand to such an extent that inflation could return to the 2 per cent target. In addition, the Executive Board has also decided to purchase government bonds, and in November this year the total nominal value of these purchases amounted to approximately SEK 330 billion, which corresponds to around 45 per cent of the outstanding debt. Similar monetary policy is being conducted in a number of other countries; there is a negative policy rate in for instance, the euro countries, Denmark, Switzerland and Japan.

My assessment is that the policy conducted has been necessary to manage the task of maintaining price stability, defined as an inflation target of 2 per cent.

I agree with those who say that the impact of the policy rate on the economy during the years with a negative policy rate has largely been the same as when the policy rate is cut when it is above zero.

But one assumption has been that negative interest rates are perceived as a temporary phenomenon by economic agents. If negative interest rates were to be regarded as more permanent, or at least a recurring state of affairs, then it would be reasonable to ask the question of whether the effects on the economy would be the same as those we have noted in recent years. More analysis is needed in this field. A natural question is whether bank customers would begin to act differently if deposit rates were negative.

Until further notice, however, my assessment is that the effects of negative interest rates are linear, at least to the level of –0.5 per cent as noted by the repo rate during the period 2016 to 2018.

Prior to today's meeting there is an external discussion among central bank analysts of whether an exit from the negative interest situation is an important reason for raising the repo rate. In my opinion, this is an incorrect assumption and the reason is as follows:

Sweden is a small, open economy that has to live under global conditions. With falling global real interest rates we have to accept that nominal rates have in general also become lower. There are no clear signs that global real interest rates are on their way up. I therefore regard it as probable that the repo rate could become negative once again, if the economic outlook and inflation prospects clearly deteriorate.

In conclusion, I would like to say that it is the overall economic policy that exerts influence over the supply and demand conditions in the economy. The risk of worsened economic activity internationally also brings the risk of worsened developments in Sweden. 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 perhaps temporarily alleviated.

Deputy Governor Henry Ohlsson:

To begin with, I would like to say that I support the proposal to raise the repo rate by 0.25 percentage points to zero per cent. I also support the 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. The forecast has been revised up slightly since the Monetary Policy Report in October. The forecast for 2021 is 2.0 per cent and for 2022 it is also 2.0 per cent.

According to the draft Monetary Policy Report, KIX-weighted inflation is expected to be 1.8 per cent in 2020. This forecast is unchanged since the previous Monetary Policy Report. The forecast for 2021 is 1.9 per cent, which is a minor downward revision, while the forecast for 2022 is unchanged at 2.1 per cent.

According to the draft Monetary Policy Report, the weighted average of international policy rates is expected to be 0.0 per cent in 2020. For 2021 and 2022, the forecasts in the draft Monetary Policy Report are also that the weighted average of international policy rates will be 0.0 per cent. For the first two years, the forecasts are unchanged compared with the Monetary Policy Report in October.

My overall assessment 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.

And now on to Sweden. The CPIF has been the target variable for monetary policy since 2017. The most recent inflation figure in November showed an annual rate of increase in the CPIF of 1.7 per cent. It was expected that the inflation rate would fall temporarily during the summer months. During the autumn we have seen, as expected, a rise in CPIF inflation. This underlines the picture of CPIF inflation being close to the inflation target for a longer period of time. The two measures of core inflation that have demonstrated the best characteristics in a Riksbank Study were in November close to 1.7 per cent and 2.0 per cent respectively.[1] I also note that the moving average over twelve months for CPIF inflation is at 1.8 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 recently announced that the data reported in the Labour Force Surveys was incorrect with effect from July 2018. Of course, Statistics Sweden has since provided revised data, but these are very uncertain. This is very serious! In many cases there is no alternative to the statistics produced by Statistics Sweden. However, there are other reliable statistics available with regard to unemployment, namely from the Swedish Public Employment Service. Until the LFS have found new, reliable methods, I will base my assumptions on the Swedish Public Employment Service's statistics.

According to the most recent statistics from the Public Employment Service, unemployment in terms of persons registered as unemployed was 7.2 per cent in November. This is slightly higher than in the same month one year previously, when unemployment was 6.9 per cent. For those born in Sweden, unemployment was 3.9 per cent in November, compared with 3.6 per cent one year earlier. The corresponding figures for those born abroad were 19.7 per cent in November this year, down from 19.9 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 November 2019, the percentage of openly unemployed members of unemployment insurance funds was 3.1 per cent. This is higher than in the same month one year previously, when the share was 2.6 per cent.

The Monetary Policy Reports have long forecast that unemployment was about to bottom out and begin rising. This has now happened. But it should come as no surprise, indeed it has been expected. However, 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. However, unemployment among those born abroad is still high and the economic policy challenge is to bring it down. And this is primarily a question of labour market policy measures to strengthen the human capital of unemployed persons and cut 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

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

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. This was the decisive argument for me in December 2018 that it was time to start raising the repo rate.

In December 2018, the Executive Board of the Riksbank also said that the next increase would come in the second half of 2019, which was repeated at the meeting in February this year. At the monetary policy meeting in April it was said that the next increase would come at the end of 2019 or the beginning of 2020. And this was repeated at the July, September and October meetings.

The question I ask myself is whether there is reason enough to change the plan that has been in place for almost a year now. The draft Monetary Policy Report forecasts a slowdown both in Sweden and abroad. But this has been incorporated into the forecasts for some time now. The turnaround for unemployment was also expected, as was the temporary fall in inflation over the summer. Uncertainties such as trade wars, Brexit, etcetera are not new. At every monetary policy meeting, there will always be phenomena that give rise to uncertainty. I cannot imagine a situation where the future is certain in all respects. Uncertainty is something economic policy always needs to live with.

My conclusion is that I consider it to be appropriate at this monetary policy meeting to raise the repo rate by 0.25 percentage points. Even after the slowdown, the Swedish economy shows a level of activity close to the historical average. Inflation is on target. In Sweden, we can conduct our own monetary policy and there are good reasons at present to take advantage of this possibility.

At the same time, there is no avoiding that, in the slightly longer term, there is reason not to push on as rapidly with the approaching rate rises. The plan from December 2018 was a further five rate increases in the coming years. In the currently proposed repo-rate path this has been reduced to a single increase at this meeting, if one disregards an increase right at the end of the forecast period. In other words, I support the proposal to hold the repo-rate path horizontal for a couple of years. All in all, this means that the expected real repo rate will be lower than now in a year or so. This shown in Figure 1:8 in the draft Monetary Policy Report.

When the Executive Board of the Riksbank decided in February 2015 to cut the repo rate to –0.10 per cent, it was a small quantitative change, but at the same time a large qualitative one. Monetary policy entered a minus world, a world it had never been in before. Here and now, almost five years later, one must nevertheless say that monetary policy has been successful to the extent that inflation has been back on target in outcomes and expectations for a couple of years now.

There was concern over negative side effects when entering the minus world. As far as I can see, there have not been any serious consequences yet. But we know nothing about what might happen if we more permanently find ourselves in the minus world.

One thing we know is that the minus world has not had a full impact on households, as the deposit rates they meet have not passed zero. This has, on the one hand, meant that the impact of monetary policy has been less than in the plus world. But on the other hand, it has probably also meant that households have not been as upset over the monetary policy conducted as they would otherwise have been. If the negative repo rate had an impact on households' deposit rates, I assess that this would have most likely led to behaviour in line with behavioural economics' predictions on loss aversion. Loss aversion leads to riskier choices. Empirical research has shown that loss aversion is a reality, also for Swedes.[2]

There may be economists who think that only relative variables such as real interest rates are significant, but during my many meetings with people around the country in recent years it has become very clear that those who are not economists believe it is strange that interest rates can be negative. My conclusion is that it is a good idea not to have negative interest rates unless it is quite necessary to have them.

To summarise, I support the proposal to raise the repo rate by 0.25 percentage points to zero per cent. I also support the 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 Per Jansson:

I support the macro forecast in the draft Monetary Policy Report. However, I do not support the draft report's assumption for monetary policy, which implies that the repo rate is increased from –0.25 to zero per cent at today's meeting. I prefer a repo rate that is unchanged at –0.25 per cent and a path for the repo rate where the next increase occurs some way into the forecast period, in a situation where it can be assumed that at least some of the risks and fears I

[2] Engström, P. et al, 2015, "Tax compliance and loss aversion", American Economic Journal: Economic Policy, 7 (4), pp. 132-164.

will address in a minute are no longer as acute. As I see it, there are three main reasons for waiting now before increasing the repo rate.

The first and most important reason has to do with the forecast for inflation and the risk picture associated with it. Two new outcomes for inflation have been published since the Monetary Policy Report in October. They are for October and November. Certainly, the outcome for CPIF inflation in November was entirely in line with our forecast and inflation excluding energy prices was also close to what we had expected. The observations for both inflation measures amounted to 1.7 and 1.8 per cent respectively. In addition, the median for the Riksbank's various measures of the longer-term trend, or core, inflation rate, displays a stable development and remains at 1.8 per cent, that is to say largely on the same level as at our previous meeting in October. The two measures that have been shown in an empirical evaluation to be best at predicting future CPIF inflation, UND24 and CPIFPC, amounted in November to 1.7 and 2 per cent respectively.[3] These figures too are more or less unchanged compared with the October meeting.

That inflation has developed largely as expected is a contributory factor to the very minor forecast revisions proposed in the draft Monetary Policy Report. For the 37 months up until December 2022 that are now forecast, the average revision for CPIF inflation both with and without energy prices is in the order of half a tenth of a percentage point.[4] But the fact that the revisions are very small also means that the forecast for inflation, as in October, continues to be below 2 per cent for most of the forecast period and is not stable at the target until towards the end of 2022. On average, CPIF inflation is now expected to amount to 1.7 per cent in both 2020 and 2021. With this forecast, I have difficulty seeing an urgent need for a higher repo rate.

As a matter of fact, I would be against increasing the repo rate at today's meeting even if we had revised up our inflation forecast, perhaps so that it had even overshot the inflation target for a while. This has to do with that it would in that case presumably be a question of a very temporary effect. Circumstances that would lead inflation to more persistently overshoot the target are quite simply impossible to identify at present, at least for me. Energy prices and the exchange rate can certainly surprise on both the upside and the downside, but in order for some more serious persistent effects to arise, changes need to occur in the fundamental demand and cost conditions. But this is not on the cards at the moment. Therefore, neither does the risk picture, as I see it, suggest that it is now necessary to increase the interest rate.

The second reason for me preferring a repo rate that is unchanged at –0.25 per cent is the development of inflation expectations. The new outcomes for inflation expectations, as

[3] See the article "Why measures of core inflation?" in Monetary Policy Report, October 2018.
[4] The calculation refers to the average of the absolute value of the revisions.

measured in Prospera's monthly and quarterly surveys, consist of the monthly survey for November, which only applies to money market participants, and the larger quarterly survey for December, which also includes the inflation expectations of labour market organisations, among others. For money market participants, long-term, five-year expectations are more or less unchanged at just over 1.8 per cent.[5] But the long-term inflation expectations of labour market organisations continue to fall, by just under a tenth of a percentage point compared with the survey in September. Looking at the levels, five-year expectations still do not deviate in any alarming way from the inflation target – the lowest figure, which is for purchasing managers in the trade sector, is still above 1.8 per cent – but the development tendency in the wrong direction thus continues.

One reason why I am rather concerned about the development of long-term inflation expectations is that we know from previous experience how difficult it is to reverse a negative trend, once it has begun. When expectations started to fall at the start of 2011, it took almost four years to stop the decline and it was really not until the Riksbank resorted to negative rates and purchases of government bonds that the development started more clearly to go in the right direction. A particular problem in the current situation, as I have mentioned a number of times previously, is that it is very important for the labour market organisations to feel that they can make their forthcoming wage negotiations contingent on the inflation target. Of course, raising the repo rate at today's meeting increases neither the probability of the downward trend in inflation expectations reversing nor the likelihood of the social partners having confidence in the Riksbank achieving its inflation target going forward.

The third reason for waiting before increasing the repo rate has to do with the monetary policy that many other central banks are currently choosing to conduct, especially, of course, the world's leading central banks, the Federal Reserve and the ECB. During the year, the Fed has cut its policy rate on three occasions, most recently at the end of October. For its part, the ECB launched in mid-September a comprehensive package including a lower rate on its deposit facility, a new "forward guidance" clearly tied to the price stability target rather than a specific date in the future, and new net purchases of financial assets that will continue until just before the first rate rise. The question is then what the consequences will be of the Riksbank going in the opposite direction, if the rate is now increased as proposed in the draft Monetary Policy

[5] I am focusing here on the expectations for CPI inflation rather than for CPIF inflation, as the response rate for CPIF inflation is very low.

Report. We know that the market can shift its expectations substantially and rapidly, and this can have a major impact on forward-looking financial prices, such as exchange rates.

On a number of occasions this year, I have made the point that the Riksbank's monetary policy is not the main cause of the weak development of the krona exchange rate over the last five years. The analysis here is not particularly complicated and merely based on the observation that, for example, the Norwegian krone and the New Zealand dollar have also depreciated considerably during the same period, and this has occurred despite monetary policy in these countries constantly being less expansionary than in Sweden. The conclusion I draw from this is that currencies in small open economies generally tend to lose value when there is turbulence in the world.

But after the publication of the Monetary Policy Report in October, the Swedish krona has appreciated more rapidly than the Norwegian krone, against both the euro and the US dollar. Against the euro, the Swedish krona has strengthened by just under 2.5 per cent, compared to slightly less than 1 per cent for the Norwegian krone. The corresponding figures against the US dollar are just under 3 per cent and slightly less than 1.5 per cent.[6] A fairly safe guess is that the more substantial appreciation of the Swedish currency is to quite a large extent due to increasing confidence in the market that the Riksbank will adopt an increased repo rate at today's meeting. I do not see the development so far as dramatic in any way, but should the appreciation continue, it will sooner or later become a problem from an inflation point of view. In this context, it must be remembered that the inflation forecast, even without such an appreciation, is not stable at the inflation target until towards the end of 2022.

The common element of the reasons I have given for abstaining from increasing the repo rate today is that they all concern our prerequisites for achieving the inflation target going forward. Clarifying that it is the inflation target that has the guiding role in the design of monetary policy I consider as particularly important in this situation when quite a number of analysts have interpreted the signals from the monetary policy meeting in October as the Riksbank seeing the abolition of negative rates as an end in itself. Therefore, it is also very good that, in the draft Monetary Policy Report, we now establish that the Executive Board could "both cut the repo rate and take other measures to make monetary policy more expansionary" in the light of poorer

[6] Exchange rates on 17 December at 1500 hours.

economic and inflation prospects. This should hopefully also clarify that we do not see a zero rate as the new lower bound for the repo rate.

Deputy Governor Martin Flodén:

I support today's proposal to raise the repo rate to zero per cent. I also support the monetary policy plan presented in the draft Monetary Policy Report and the other forecasts presented there.

At the monetary policy meeting in October, I deemed that conditions would probably be appropriate to raise the repo rate to zero per cent at today's meeting. But I also highlighted two factors that would be important for the decision. The first of these concerned inflation and confidence in the inflation target. CPIF inflation had fallen over the summer and was 1.3 per cent in September. The fall was expected, and primarily caused by falling energy prices, and it was assessed to be temporary. Inflation has since risen in line with our forecast. CPIF inflation was 1.7 per cent in November and 1.8 per cent adjusted for the contribution from energy prices. Inflation is thus close to the target and our assessment is that inflation will remain close to the target if monetary policy is formulated according to the proposal in the draft Monetary Policy Report.

According to Prospera's survey, inflation expectations have fallen since the dip in inflation during the summer. Long-term expectations are now just below 2 per cent. I would like to see expectations at a somewhat higher level. But the level is nevertheless not alarmingly low, especially given that the most recent survey was conducted before the inflation figures for November had been reported.

The second factor concerned economic activity. There the picture holds up fairly well in relation to the information we had at the meeting in October. Internationally, we have seen a number of signs that sentiment has stabilised or improved. Confidence indicators are still weak in the European manufacturing sector, but they have at least not continued to fall. Confidence is stronger in the service sector, and the overall indicators are at levels indicating a normal level of economic activity going forward. The labour market is strong both in the United States and the euro area, and households are optimistic. Developments in recent days indicate a decline in the risk of disruptions in the near term from the Brexit process and the trade conflict between the United States and China. Optimism and risk appetite have increased on the financial markets, and many share indices are now at or close to historical peak levels.

In Sweden, the overall real economic developments have instead been marginally weaker than expected. GDP growth in the third quarter was a little lower than our forecast and some confidence indicators have weakened. But the changes are small and the overall picture is still that the economic situation will be balanced in the coming years. The conditions for the Swedish economy will moreover improve if the international outlook now begins to brighten.

One area in the Swedish economy where I think we can nevertheless see clear stabilisation is the housing market. Both construction and housing prices fell back after the peak year 2017. But now prices have been moving slowly upwards for a long period of time, and various agents' expectations of future prices are moderately optimistic. The forecast that construction will be above 40,000 homes per year now feels more robust. An increase in the repo rate to zero per cent, combined with clear signals that the repo rate is expected to remain low for a long time to come will not entail any problems on this market.

I would now like to describe my monetary policy considerations. An important basis for my view of today's monetary policy decision is that the policy rate is close to its effective lower bound. When the policy rate is close to its lower bound, one cannot expect that policy rate decisions can be described with the aid of a simple policy rule, particularly not a rule based on the policy rate´s historical correlation with inflation and economic activity.

We have during the whole of my time on the Executive Board of the Riksbank struggled with weak inflationary pressures. During the years up to and including 2016, inflation was below the target. Confidence in the inflation target began to weaken. We cut the repo rate to a lowest point of −0.50 per cent, but if we had had access to a more effective monetary policy toolbox there would have been justification for conducting an even more expansionary monetary policy during those years. Then we could have more quickly strengthened the underlying inflationary pressures in the economy and brought up inflation to, and perhaps over, 2 per cent and in this way restored confidence in the inflation target. We would also have been able to more easily raise the policy rate when economic activity strengthened.

But instead of reacting even more strongly in 2014-2016, the policy rate has been held at a low level for a longer period of time. Despite stronger economic activity, a weaker exchange rate and higher inflation, the policy rate was held unchanged in 2017 and up to the increase in December 2018. This monetary policy was necessary for CPIF inflation, supported by the rise in energy prices, to reach around 2 per cent on average during 2017-2019.

The inflation history is thus better today than it was three years ago and confidence in the inflation target has strengthened. The monetary policy conditions have thus improved, even if confidence may not have yet been entirely restored. As confidence becomes stronger and we move further away from the effective lower bound of the policy rate, the monetary policy rule will probably be perceived as more "normal".

This is the base for my reasoning with regard to today's decision. But it does not fully explain why I advocate raising the repo rate today. It is clear that inflationary pressures are still weak. A somewhat higher inflation than that in our forecast would give better target attainment, especially given that inflation expectations have fallen during the autumn. A slightly more expansionary monetary policy than we are planning could also give a little more support to the uncertain economic situation.

The problem I see is once again linked to the policy rate being close to its effective lower bound. I see no simple means of making monetary policy "a little more expansionary" in a way that benefits the Swedish economy. I would like to remind you of developments earlier this year.

We have gradually revised the monetary policy plans in an increasingly expansionary direction, partly through postponing the repo rate increase we are planning to decide on today, and partly by no longer planning for further increases in the coming two years. Our communication, combined with developments abroad and in the Swedish economy meant that market expectations of our monetary policy shifted rapidly and strongly in an expansionary direction during the autumn. Market rates fell and the krona rapidly weakened, partly as a result of that the rate increase we are discussing today no longer was expected to be implemented. Our monetary policy became more expansionary than we intended. Moreover, I assess that monetary policy became expansionary in a way that in the long run would neither benefit inflation developments nor the Swedish economy. What I mean here is the krona depreciation from already low levels. Such a depreciation could possibly provide support to inflation in the short run, but in the longer run there is a risk that a sharp appreciation would instead push down inflation. At the same time, unnecessary uncertainty is created over where the krona is heading, which does not benefit the economy as a whole.

The alternative to a policy rate increase today that I considered advocating is to leave the repo rate at –0.25 per cent and forecast that the rate would most likely be held at this level for the entire forecast period. But I consider an increase in the repo rate to be the most appropriate alternative today. Developments on the financial markets in recent weeks are based on expectations that the repo rate will be raised today. Holding the repo rate unchanged is therefore probably the alternative that would entail the largest changes from the current situation. Of course, the essential difference between these monetary policy alternatives is minor – the difference is one single rate increase during a three-year period. But I believe that this decision nevertheless has considerable significance for expectations of future monetary policy.

Failing to raise the repo rate today would risk a return to the undesirable volatility and uncertainty we experienced during the autumn.

The monetary policy we are now planning entails the policy rate being very low for the entire forecast period. Monetary policy thus remains expansionary and will provide support for economic activity and inflation. The most likely outcome is that the repo rate will be held at zero per cent for the entire forecast period. In any case, fairly major changes in inflationary pressures will be required before there is a need to raise the repo rate further. 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. Moreover, Sweden's public finances are in good shape. This, combined with the low interest rates, gives good conditions for conducting an expansionary fiscal policy if economic activity weakens.

Deputy Governor Anna Breman:

I assess that economic activity in Sweden is still in a downward phase. I therefore do not support the proposal to raise the repo rate from –0.25 per cent to zero per cent. Neither do I support the proposed repo-rate path in the draft Monetary Policy Report. I consider that waiting before raising the repo rate would increase the probability of maintaining inflation close to the target in the longer run and that waiting to make a raise would also increase our possibilities for continuing to make slow increases over the coming years. I would prefer a repo-rate path that indicates an increase during the first half of 2020, on condition that economic activity has stabilised then, and that the repo-rate path then indicates around one rise per year in 2021 and 2022. Allow me to motivate the monetary policy considerations lying behind my reservation.

I take into account several factors when determining the timing of a rate rise. At present, we need to weigh backward-looking statistics, such as inflation outcomes and growth showing that development in the Swedish economy is fairly good, against forward-looking indicators showing that growth in the Swedish economy is still slowing down. In this situation, we also need to weigh the advantages and risks of a rate rise in December against the advantages and disadvantages of waiting somewhat longer before a rate rise. Before I go into the details of these considerations, allow me to explain my view of the development of the Swedish economy and the global economy and what these mean for Sweden's growth, labour market and inflation a couple of years ahead.

Growth in Sweden has slowed down over the last two years. What started as a downturn in the Swedish housing market in the second half of 2017 has subsequently been strengthened by a downturn in economic activity abroad, driven, among other factors, by uncertainty over Brexit and by the trade conflict between the United States and China. The housing market in Sweden has stabilised but the development of investment, consumption and the labour market is negatively impacting near-term prospects for the Swedish economy. Resource utilisation has been falling for about one year, according to the Riksbank's RU indicator, and is still not showing any clear signs of stabilising.

Forecasts several years ahead are always linked with great uncertainty. At present, forecasts over the short term are also less certain than normally. Forward-looking indicators that can give guidance over developments in the near term point in different directions, as regards developments both abroad and in Sweden. Global trade has stagnated, which is weighing down the manufacturing sector, above all, in many countries. The Purchasing Managers' Index for the manufacturing sector is on levels that indicate continued decreased industrial production in a large number of countries that are important to Sweden. At the same time, service sectors and labour markets in many countries have continued to develop relatively well and indicators suggest that spill-over effects from the manufacturing sector to the service sectors remain limited. The same pattern can be seen in Swedish statistics, but, in Sweden, the labour market and Purchasing Managers' Index for the service sector also show signs of weakness.

In Sweden's case, the uncertainty is unfortunately being worsened by the incorrect reporting of labour market data. Even if these errors have been discovered, we know that the LFS statistics remain uncertain as a result of the selection now being smaller and the non-response rate large.

To assess future development and the conditions for attaining the inflation target more permanently, I presently place extra importance on the indicators for household confidence, industrial production and the labour market. These are important, as the forecast in the Monetary Policy Report is based on the positive development of household consumption, the continued positive development of exports and the stabilisation of investment.

Over 2019, household consumption has slowed down, developing more weakly than the historical average. Household confidence, expectations of the Swedish economy in particular, remains at a very low level. Combined with a slowdown on the labour market, this could contribute to caution among households in the period ahead, despite the relatively positive development of disposable household income.

Swedish exports have developed well despite stagnation in global trade. It is unusual for Swedish exports to grow more rapidly than world market growth rates and there therefore exists a risk that we will see a downturn in exports going forward. Both the Economic Tendency Survey for the manufacturing sector and the Purchasing Managers' Index suggest that Swedish exports, and thus industrial production, will slow down in 2020.

Even if I see clear downside risks in the forecasts, I would like to mention that, at the same time, I can see signs that economic activity may be on the way to stabilising. This is what makes me see a rate rise in 2020 as appropriate. Most forward-looking indicators have not continued to deteriorate. Some stabilisation can also be discerned in economic activity in the euro area. The probability of a no-deal Brexit has decreased, and the United States and China have made progress in trade negotiations. The risks to the global outlook have improved slightly in recent months. The risk outlook is particularly important as far as I am concerned, as signals regarding the direction of economic activity are contradictory. I would therefore like to highlight a number of risks (not a complete list), both positive and negative, that will be important for monetary policy decisions, both today and in the future. I will start with downside risks.

The foremost near-term risk on the downside is the political uncertainty that has characterised the financial markets and impacted economic development to a great degree in recent years. Despite positive signs that some uncertainty may be dispersing, my assessment is that uncertainty will persist for a long time to come, above all as regards trade policy. We need to have a high level of preparedness for the possibility that developments may rapidly deteriorate again.

At the same time, I would like to emphasise that development may also be better than the forecast suggests. Less political uncertainty abroad could contribute towards higher willingness to invest and a recovery of global trade could benefit Sweden. A more expansionary fiscal policy, aimed at productive investments and higher employment could also lead to increased growth. This could contribute towards inflation stabilising close to the inflation target.

My overall assessment of the economic situation, however, is that we are still in a downturn phase. There are positive signs that stabilisation may be on the way, but the risks are still dominant on the downside. In this situation with global unease and mixed signals about the development of the Swedish economy, the timing of a rate rise is important. Let me therefore highlight what I see as important monetary policy considerations for the timing of a rate rise.

The factors in favour of a rate rise are that recent months' outcomes for inflation have been in line with forecasts and there is much to indicate that inflation may rise further over the months to come. In addition, a long period of negative interest rates may have negative side effects on the economy, as the draft Monetary Policy Report commendably describes. This is a parameter that we should take into account. One further factor that I have weighed in is market pricing and expectations of a rise in December. The firm anchoring of a rise in December among households and money market participants argues in favour of a rise.

The factors arguing against a rise at present are uncertainty in the economic situation, the ongoing fall in resource utilisation and the downside risk outlook for growth and inflation in the medium term. There is a risk that a rate rise at present would halt an economic upswing before it had managed to take hold. This would lead to the repo rate remaining at zero for a longer period than would otherwise have been necessary. In the worst case, the Riksbank may be forced to retreat and again reduce the repo rate to below zero and/or introduce other monetary policy stimuli. Even when a rate rise takes place in a strong economic situation, that risk still prevails as unpredictable events may occur and rapidly impact economic development negatively. But, as the repo rate is already low and the Riksbank has already made large bond purchases, it is particularly important to ensure that an increase in the repo rate is sustainable.

The advantage of waiting until economic activity shows signs of having stabilised before raising the repo rate is that this increases the chances of more permanently holding inflation close to the target. This increases the chances of holding the repo rate at zero and then continuing with gradual rises over subsequent years. Low interest rates support households' purchasing power and facilitate the funding of investment for companies. This supports demand for labour and counteracts further slowdowns on the labour market.

The disadvantage of waiting to raise the repo rate is that we may become stuck in negative rates if economic stabilisation is delayed. This would mean that negative interest rates may be perceived as permanent with the accompanying risks that I have already mentioned. I would also like to take the opportunity to emphasise that I do not see the level of the repo rate as a target variable in itself. Serious and unexpected events can always arise, making it necessary to implement new rate cuts and/or other monetary policy measures to counteract a strong negative development in the Swedish economy.

Finally, I would like to emphasise that, in addition to fluctuations in economic activity, economic development and inflationary pressures are affected by a number of structural changes in the global and Swedish economies. Today, I have chosen to focus on short-term economic developments because these affect my view of the most appropriate timing for a rate rise. For a well-balanced monetary policy, it is important that we also analyse and include structural changes. Allow me, very briefly, to provide examples of three such changes: Demographics, digitalisation and climate change.

Firstly, demographics: Ageing populations in many countries in the western world, including Sweden, are negatively affecting the labour supply and potential growth and could contribute towards restrained inflationary pressures in the future. The second factor, digitalisation, involves comprehensive structural change in the retail trade and elsewhere, which is affecting companies' ability to adjust prices to increased costs. It is highly probable that this is already contributing to restraining inflationary pressures.

Climate change is my third example of a change affecting economic development. Gradual warming and more frequent extreme weather have already contributed to unexpected fluctuations in production and inflation in many countries. Including climate-related risks in credit assessments to a greater extent could lead to changed pricing for financial assets with effects for financial stability, which could ultimately have effects on economic growth and inflationary pressures. Unlike demographics and digitalisation, which can primarily be expected to have a restraining effect on inflationary pressures, the effects of climate change are more uncertain. Here, we need more data and more analysis to understand these mechanisms better over the coming years.

Structural shifts like these are difficult to capture in macroeconomic forecast models. However, they are changing the conditions for monetary policy. Consequently, for me, it will be important to analyse both economic fluctuations and structural changes to make an assessment of what can be considered a well-balanced monetary policy as we move forward.

Let me summarise. My overall assessment is that the risks associated with raising the repo rate at present are greater than the disadvantages following from waiting a few more months until stabilisation becomes visible in economic activity. I consider that waiting before raising the repo rate in the near term would increase the probability of maintaining inflation close to the target in the longer run, and also increase the possibility for making slow increases over the coming years. I would therefore prefer a repo-rate path that indicates an increase during the first half of 2020, on condition that economic activity has stabilised then, and that the repo rate is then raised around once a year in 2021 and 2022.

Governor Stefan Ingves:

I support the proposal to raise the repo rate by 0.25 percentage points to zero per cent. I also 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. Our forecast for the repo rate – the repo-rate path – indicates that after the proposed increase of the repo rate at today's meeting it will take time before the next adjustment is made. This is entirely in line with our views at the previous monetary policy meeting in October. The repo-rate path is our best forecast at present, illustrating that monetary policy is in a kind of "wait-and-see" situation, and I will come back to this later. Then, a zero policy rate is a better vantage point than a negative policy rate.

Our government bond purchases are also part of our monetary policy. We are more or less maintaining the same level on our government bond portfolio. And our presence on the bond market gives us an opportunity to quickly raise or lower the rate of purchase if there is need to change our monetary policy. In other words, we have a good starting point if we should need to adjust the composition and direction of our monetary policy.

Our assessments of economic developments abroad and in Sweden largely coincide with the assessments made in October. The global economy has now entered a phase with a calmer growth rate. In the coming years, global growth is assessed to be around 2 per cent a year, KIX-weighted. Inflationary pressures abroad have been moderate in recent years, particularly in the euro area. There, inflation is expected to rise slowly in the coming years. International inflation as a whole is expected to be around 2 per cent during the forecast period.

As usual, there are several uncertainty factors regarding global economic developments and the list is roughly the same as before, although there has been progress on some fronts. The United States and China have recently announced that they are close to an agreement on trade. With the information we have today, it looks as though several short-term issues regarding trade between these countries are on the verge of being resolved. The forms for the United Kingdom's withdrawal from the EU have become clearer following the UK election on 12 December. But now the focus is turning to how the long-term relationship between the EU and United Kingdom will look. In Italy, the uncertainty regarding the direction of fiscal policy has diminished in the short term as a result of the new government's expressed ambition to comply with EU budgetary rules But in a longer perspective, significant challenges remain regarding both public indebtedness and the country's banking sector. In a small open economy like Sweden's, it is probably the case that one type of uncertainty almost always takes over from another in the surrounding world. This is a kind of background condition in our work that never disappears.

Turning to developments in Sweden, it can be noted that economic growth in the third quarter of this year was somewhat lower than expected. The forecast for GDP growth in the coming years, however, is largely the same as our assessment in October. Following several years of good growth, GDP growth will now be more moderate going forward, which is linked to weaker demand on Sweden's export markets and the ongoing decline in housing construction. Resource utilisation is going from a higher-than-normal to a more normal level.

If I ignore the exact percentage points, I can note that inflation is continuing to develop in line with the target and that our target attainment is good. Long-term inflation expectations continue to remain around 2 per cent. At the same time, the inflation forecast points to a rate of inflation close to the target in the coming years.

When the Executive Board cut the repo rate below zero for the first time in February 2015, no one expected that it would take five years to bring it back to zero per cent. But despite the very good economic developments in Sweden during these years, with high growth and falling unemployment, it took longer to bring up inflation to the target more permanently, and we have several times had to adjust both the repo-rate path and repo-rate increases. During this five-year period we have also on several occasions had to extend our government bond purchases to further push down interest rates and inject liquidity into the economy. Following the bond purchases in 2015-2017, the Riksbank had bought government bonds to a nominal total of just over SEK 300 billion, which was then equivalent to almost 40 per cent of the national debt. And at the same time as we held the repo rate at a historically low level and made extensive purchases of government bonds, we maintained a special preparedness with regard to the development of the krona to prevent an overly rapid appreciation of the krona from jeopardising the rise in inflation.

When inflation had then risen to levels around 2 per cent, the Executive Board chose to proceed cautiously with the repo rate and waited before increasing the repo rate to ensure that inflation and inflation expectations were developing more permanently in line with the target of 2 per cent. The first increase was made at the end of last year. And now, as the conditions for an inflation rate close to the target remain good, the repo rate is being increased one step further.

But if the direction of monetary policy has been clear in recent years, that is to say we have seen gradual increases in the repo rate ahead of us, the direction from now on is less clear. Monetary policy in the United States and euro area can be said to have entered a wait-and-see phase, and this also applies to monetary policy here in Sweden. This is because we are expecting more subdued economic activity in the coming years, an increasingly normal level of resource utilisation and inflation in line with the target. If these forecasts prove correct, the next increase in the repo rate will probably not be before the end of the forecast period. That is what our repo-rate forecast shows. At the same time, things are far from “normal” as the real interest rate is still significantly negative and the possibilities and effectiveness of monetary policy are being debated more and more.

The future is, as always, uncertain. Economic activity could turn out to be better and Swedish inflation could increase faster than is assumed in our forecasts. In such a scenario I am in no hurry to raise the repo rate. The inflation rate can overshoot the target for a period of time, especially given that inflation has in historical terms more often been under than over the target. It is more important that we do not overestimate our capacity for “fine tuning”; “close enough” is adequate.

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. The experiences of recent years with a negative repo rate and government bond purchases are that these have had the intended effect. But the situation is not uncomplicated. There is reason to believe that the impact of more expansionary monetary policy could be more sluggish than before. One important channel for monetary policy stimulus is to stimulate higher indebtedness. But households already have high loan stocks and the growth rate in bank lending to households has fallen in recent years, despite very low interest rates. One can detect a form of very welcome saturation, which in itself is good.

My conclusion is that as long as economic developments do not deviate too far from what is described in the draft Monetary Policy Report, monetary policy can contribute to stabilising developments. However, the scope for repo-rate cuts and government bond purchases is not as great as before, and should developments prove to be much more negative than in our main scenario, we would probably need a different policy mix in Sweden. In this type of scenario, which we do not at all regard as the most likely, we would need more innovative methods to provide purchasing power for households and companies. In this scenario, a large expansion of our balance sheet is closer to hand than a negative policy rate much below what we have seen in the past five years.

Let me add, as I often do, that the long-term development of the Swedish housing market entails a risk to the Swedish economy in both the short and long term. There are 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 and tax policy.

Let me finish with a few personal words about Marvin Goodfriend, who passed away at the beginning of December. Marvin Goodfriend was for many years the head of research at the Federal Reserve Bank of Richmond, and later Professor at Carnegie-Mellon University in Pennsylvania. Together with Mervyn King, Goodfriend carried out an evaluation of the Riksbank in 2016, commissioned by the Riksdag (Swedish Parliament) Committee on Finance. But he had already evaluated the Riksbank’s research activities, back in 2008. Goodfriend is perhaps the only person to have read all of the minutes of the Riksbank’s monetary policy meetings. Over the years we have had the privilege of discussing important central bank issues with him, and we are grateful for this, and for the advice he has given us.

§4. Monetary policy decision

The Executive Board decided

- to raise the repo rate to zero per cent and that this decision will apply from Wednesday 8 January 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 9.30 on Thursday 19 December 2019.
- to publish the minutes from today's meeting at 9.30 a.m. on Wednesday 8 January 2020.

Deputy Governors Anna Breman and Per Jansson entered reservations against the decision to raise the repo rate now.

Ms Breman considers that waiting before raising the repo rate would increase the probability of maintaining inflation close to the target in the longer run and also increase the possibility for making slower increases over the coming years. Ms Breman would prefer a repo-rate path that indicate an increase during the first half of 2020, on condition that economic activity has stabilised then, and that the repo rate is then raised around once per year in 2021 and 2022.

Mr Jansson advocated a repo-rate path that indicates the repo rate will be raised some way into the forecast period, in a situation where it can be assumed that the conditions for attaining the inflation target look a little better than they do now.

This paragraph was verified immediately.

Minutes taken by

Maria Kindborg

Verified:

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

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