Monetary policy minutes

September 2021

SVERIGES RIKSBANK

Summary

At the monetary policy meeting on 20 September, the Executive Board of the Riksbank decided to hold the repo rate unchanged at zero per cent and the assessment was that the repo rate will remain at this level over the coming three-year period. The Riksbank will continue to purchase securities during the remainder of 2021 in line with earlier decisions and the Executive Board's forecast is that the holdings will be more or less unchanged in 2022. The Executive Board also decided to now close certain lending facilities that were launched during the pandemic and to restore at the turn of the year the requirements for the collateral the banks have to provide when borrowing from the Riksbank.

The global recovery has continued at a rapid pace. Although the risk of new setbacks as a result of the pandemic remains, GDP growth is high both in Sweden and abroad.

The members noted that inflation had been unexpectedly high in recent months but that this was largely due to rapidly rising energy prices. The inflation forecast for the coming year has been revised upwards significantly and CPIF inflation will exceed 2 per cent in the coming year. However, temporary effects are continuing to affect inflation, and the members pointed out that monetary policy needs to look through them. CPIF inflation is expected to fall back next year, and a continued expansionary monetary policy is a necessary condition for inflation to be more lastingly close to the inflation target. The picture of inflationary pressures in the slightly longer run remains unchanged, and several members pointed to the risk of withdrawing monetary policy stimulation too early. They pointed out that inflation has in recent decades on average been too low, and that an inflation temporarily higher than 2 per cent could contribute to further anchoring expectations of prices and wages in line with the target.

All of the board members supported the decision to hold the repo rate unchanged and the forecast implying an unchanged repo rate until the third quarter of 2024. A few members discussed a rate path that could indicate a rate rise at the end of the forecast period. The Executive Board decided to close some lending facilities that were launched during the pandemic and to reintroduce the previously applicable collateral requirements the banks have to meet when borrowing from the Riksbank. These measures were implemented during an acute phase of the crisis to guarantee access to liquidity in the financial system, but for some time the demand for them has been low.

MONETARY POLICY MINUTES
Executive Board, No.4

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DATE: 20 September 2021

TIME: 09.00

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

Michael Lundholm, Deputy Chairperson, General Council, remotely
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Robin Ahlén, remotely/(§ 1-3a)
Mattias Ankarhem
Jeffrey Cheng
Vesna Corbo/(§ 1-3a)
Hans Dellmo/(§ 1-3a)
Charlotta Edler
Dag Edvardsson
Paul Elger
Mattias Erlandsson
Anders Gånge, remotely/(§ 1-3a)
Jesper Hansson
Jens Iversen, remotely/(§ 1-3a)
Peter Kaplan, remotely/(§ 1-3a)
Ann-Leena Mikiver
Marianne Nessén, remotely/(§ 1-3a)
Åsa Olli Segendorf, remotely/(§ 1-3a)
Mikael Perneman, remotely/(§ 1-3a)
Olof Sandstedt, remotely/(§ 1-3a)
Maria Sjödin
Anders Vredin

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

§3a. Economic developments

Market developments since the last monetary policy meeting

Robin Ahlén from the Markets Department began by presenting the latest developments on the financial markets. Since the previous monetary policy meeting, developments have been marked by continued optimism looking ahead, but also by concern over the spread of the delta variant of the coronavirus, and the risk of lower growth. This concern contributed to long-term bond yields falling during the summer. However, recently yields have shown an upturn and 10-year government bond yields in Germany, Sweden and the United States are now at somewhat lower listings than at the previous monetary policy meeting. The recent upturn in Europe is partly driven by inflation having become higher than expected, and by increased expectations that the European Central Bank (ECB) would somewhat reduce the monthly purchases in its pandemic programme, which it decided to do in September. Earlier in the summer, the ECB also changed to a symmetrical inflation target of 2 per cent.

Market-based measures of long-term inflation expectations have been stable in the United States, but have risen in the euro area. Some banks point to an increased interest from investors in buying protection against higher inflation. The consensus between central banks and the market that the current high rate of inflation is temporary is still largely intact, however.

The financial markets have had a lot of focus on when the Federal Reserve (Fed) will reduce the pace of its asset purchases, and the Fed has indicated that it may be appropriate to do so this year, if the labour market develops as expected. Market analysts are expecting the asset purchases to begin to be reduced around the turn of the year, although it is assessed that a further weakening of employment could cause the plans to be postponed somewhat. Market pricing indicates a first rate increase in the United States during the first half of 2023. In the United Kingdom, the labour market has recovered faster than the Bank of England (BoE) had been expecting and market pricing with regard to the policy rate has risen. The BoE sees a need for some tightening during the forecast period, and has announced a strategy for the sequence in which the different instruments will be used when monetary policy is to be tightened.

Yield spreads on the credit markets in the United States and Europe for corporate bonds with good credit ratings in relation to government bonds have remained stable, and company reports for the second quarter indicated that the companies' ability to repay had in general strengthened.

Stock markets have risen in general since the previous monetary policy meeting, although they have recently fallen slightly. Chinese companies and stock markets have, however, been under pressure as a result of increased regulation, at the same time as the domestic economy has slowed down. The negative market sentiment has also been marked by the crisis in the debt-burdened property developer Evergrande, which may be heading for bankruptcy or reconstruction. However, it is uncertain what the consequences will be, and whether this will lead to any major contagion effects.

On the commodities market, the upturn in energy prices is pronounced and not least the price of natural gas has risen substantially. If the shortage of natural gas remains until the winter in Europe, it risks dampening industrial production. On the foreign exchange market, movements have on the whole been small and the Swedish krona is somewhat weaker than it was at the previous monetary policy meeting. It is still primarily international factors, such as risk sentiment and expectations of the US central bank that are affecting the development of the krona. The yield spreads for corporate, mortgage and municipal bonds in relation to government bonds are still low and stable in Sweden.

Market analysts believe that the Riksbank will hold the repo rate, the repo-rate path and the asset purchases unchanged at today’s meeting. Many assess that it will soon be time to raise the repo-rate path towards the end of the forecast period, as economic activity has continued to strengthen and inflation expectations have risen. Raising the repo-rate path is assessed to be most probable at the meeting in November, but is not ruled out for today’s meeting. Market pricing of the repo rate rose somewhat after the most recent Swedish inflation outcome, but all in all forward pricing is relatively similar to the previous monetary policy meeting and indicates a preliminary repo rate increase of 25 basis points during the second half of 2023. Prospera's most recent survey indicates an unchanged repo rate in the near term.

The current monetary policy drafting process – new data and forecasts

Olof Sandstedt, Head of the Financial Stability Department, presented price developments on the housing market, and the situation in the corporate sector and banking system. The housing market remains strong, but slowed down somewhat over the summer. In July, housing prices (HOX) increased by 13.6 per cent compared to one year ago. Single-family dwelling prices have increased by 16.6 per cent, but prices of tenant-owned apartments have increased by 8.7 per cent. The number of bankruptcies among Swedish companies so far this year has been in line with the way things looked during the corresponding period in the years prior to the pandemic. This can be partly explained by the easing of restrictions and continued support measures. Developments in companies in the property sector have been good on the whole with regard to their rental incomes. Companies with property stock aimed at industries hit by the crisis have recovered somewhat in recent months. Banks’ funding costs remain low on the whole. The yields on Swedish covered bonds also continue to be very low. Interbank rates have been relatively unchanged recently. The Swedish interbank rate STIBOR with a three-week maturity is just below zero and the reference rate SWESTR, which the Riksbank calculates based on transactions in the money market from one banking day to the next, is now at −10 basis points. The US interbank rate USD LIBOR with a three-week maturity is just over 10 basis points. Deposits in the banks remain high, which means that the banks' need of market funding has declined.

Jesper Hansson, Head of the Monetary Policy Department, presented economic developments since the monetary policy meeting on 30 June, and the monetary policy measures that the Monetary Policy Department judged would gain majority support in the Executive Board at today's meeting. The monetary policy drafting process has included discussions with the Executive Board regarding the forecasts and the monetary policy assumptions at meetings on 6 and 7 September and on 9 September. The draft Monetary Policy Report was discussed and tabled at a meeting with the Executive Board on 14 September.

Mr Hansson began by noting that as before, over the past 18 months or more, the course of the pandemic has had a major impact on economic developments. The vaccination rate is continuing to increase, but at a slower pace. However, there are large variations from country to country and the percentage of vaccinated people remains low in parts of the world. The spread of infection is thus continuing, and there is still a risk of further new variants of the virus arising, against which the vaccines are less effective. Since the previous monetary policy meeting, the spread of infection has increased in many parts of the world. However, the vaccine works well and in countries with a high vaccination rate, the burden on the medical services has not increased especially, apart from in the United States. Thus, the situation looks brighter in developed economies where more restrictions have been withdrawn. In Sweden, the Government has decided to lift most of the remaining restrictions on 29 September. There will then be no remaining national restrictions to hold back demand in the economy.

With the support of expansionary economic policy, GDP abroad is now increasing quickly. Optimistic companies and households and eased restrictions all indicate continued higher growth. Many of the countries that are most important for Swedish exports have already largely recovered the fall in economic activity and towards the end of the year, KIX-weighted GDP is expected to be just over 1.5 per cent higher than prior to the pandemic. The manufacturing industry has already recovered the fall of last year, and production there is now being hampered mainly by a shortage of input goods and freight capacity rather than low demand. Going forward, a rapid upturn in consumption of services is expected to be the main driver behind the recovery.

At the same time, inflation has also increased rapidly. In the United States, inflation has been 5 per cent or just above since May. The fact that inflation is so high now is partly due to many prices being subdued to a relatively large extent by the pandemic in the comparison period one year ago. Now that economies are opening up and demand is quickly returning, various bottlenecks in production will contribute to fluctuations in prices. The assessment is that supply will soon catch up with demand and that price increases will therefore be largely temporary. Another important explanation for the upturn in inflation is rising energy prices. Various measures of core inflation have risen less and in the euro area core inflation is still lower than prior to the outbreak of the pandemic.

GDP in Sweden increased by 0.9 per cent in the second quarter, and is assessed to increase by 2.4 per cent in the third quarter, seasonally adjusted in relation to the previous quarter. This means that the fall during the pandemic has been recovered and at the end of the year, GDP is expected to reach the production path that was predicted prior to the pandemic. During the second half of 2021, it will be largely a recovery in household consumption of services that drives growth. GDP for the whole year 2021 is expected to increase by 4.7 per cent. Growth will then slow down to a more normal 3.6 per cent in 2022 and 2.0 per cent in 2023.

The recovery in production means that demand for labour rises. Method changes in LFS have, however, made labour market statistics more difficult to interpret and unemployment according to LFS was still over 9 per cent in the second quarter. Nevertheless, other information points to a strong development on the labour market. Growth in employment picked up during the second quarter and unusually high recruitment plans indicate a continued rapid increase in employment in the coming quarters. A number of negative effects of the pandemic are therefore expected to persist in the labour market over the longer term. This means that, even if the strong economic situation causes unemployment to fall back, it is expected to take until 2023 before it approaches the pre-pandemic level.

Since the Monetary Policy Report was published in July, outcomes for CPIF inflation in June, July and August have been presented. In August, inflation was 2.4 per cent, which was 1 percentage point higher than expected. Half of the forecasting error is explained by unusually high electricity prices that are due to a combination of low water levels in the Nordic reservoirs and rapidly rising electricity prices in Europe. CPIF excluding energy increased by 1.4 per cent, which was 0.4 percentage points higher than expected. However, excluding energy prices, inflation is still lower than before the pandemic.

Inflation is expected to rise further during the autumn and to be over 2 per cent in the coming year. In the same way as in other countries, inflation in Sweden is affected by bottlenecks in production chains when demand in many particularly hard-hit areas now returns. A calmer increase in demand is assessed to mean that these supply problems, in line with historical patterns, will wane going forward as the electricity price upturn slows down. The monthly, seasonally adjusted price changes are thus expected to decline in the coming months. The 12-month change in CPIF will fall back below 2 per cent in the middle of 2022. With an increasingly strong economic situation, CPIF inflation is expected to rise more rapidly from 2023 and be close to 2 per cent towards the end of the forecast period.

The forecast is based on the monetary policy that the Monetary Policy Department judges will gain majority support from the Executive Board at today’s meeting. The asset purchases will continue this year in accordance with the decisions made in June. This means that the Riksbank's holding of securities will increase to just over SEK 925 billion at the turn of the year. The holdings are then expected to remain roughly unchanged during 2022. The repo rate will be held unchanged at zero per cent for the entire forecast period, which stretches until the end of the third quarter of 2024. At today’s meeting, the Executive Board is also expected to take a decision on concluding the extraordinary loan facilities introduced last spring. Demand for these programmes has been low for a long period of time, and the measures are not expected to affect financial conditions. Details of the proposals can be found in Annex B and Annex C to the minutes.

Martin Flodén raised the question of the fluctuations in exchange rates and long-term rates in recent days and how these are depicted in the report. The members then agreed on minor changes to the draft Monetary Policy Report.

§3b. The economic situation and monetary policy

Deputy Governor Per Jansson:

I support the economic assessments and the monetary policy assumptions in the draft Monetary Policy Report. As usual, I will begin by commenting on the current inflation picture and inflation outlook. I will then say a few words about how I view the monetary policy situation.

Since our last monetary policy meeting in June, we have received three new inflation outcomes, for June, July and August. Inflation, both including and excluding energy prices, has risen more rapidly than expected over these months. However, about half the forecast errors are due to unusually large energy price increases, especially increases in electricity prices. The forecast errors have also become increasingly large over time. The August outcome for CPIF inflation was 2.4 per cent, which was almost one percentage point above our forecast in the last Monetary

Policy Report. Excluding energy prices, the outcome amounted to 1.4 per cent. This was just over 0.4 percentage points higher than expected. In comparison with the figures from May, which was the latest outcome available to us prior to the June meeting, inflation, with and without energy prices, is now around three and two tenths of a percentage point higher respectively.

The relatively rapid increase in inflation has also had an impact on the Riksbank's various measures of underlying inflation. All seven measures that we regularly calculate are higher in August than in May and the median of the measures currently is at 1.7 per cent, compared to 1.5 per cent in May. The two measures that have been shown in an empirical evaluation to be best at predicting future CPIF inflation, UND24 and CPIFPC, amounted to 2 and 1.3 per cent respectively.[1]

As I already mentioned at our last meeting, however, it is worth emphasising that our measures of underlying inflation have recently been very volatile and have had difficulty in giving a clear picture of the more general trend in price developments. This in itself is not so surprising as the pandemic has led to complicated price effects on both the demand and supply side of the economy, and also has made it difficult to measure certain prices. As there is reason to believe that these problems will persist for some time to come, it would be good if the existing measures could be complemented with a few alternative ones that are more specifically tailored to deal with temporary effects related to the pandemic. Goldman Sachs has performed an interesting analysis along these lines and I have no doubt that our Monetary Policy Department can refine and improve this analysis further.[2] That said, it is, of course, still positive that our measures of underlying inflation have increased. This should, among other things, reduce the risk I have previously seen of longer-term inflation expectations also starting to show signs of weakness.

This brings me nicely onto commenting on the developments in inflation expectations since our last meeting in June. The new outcomes we have received since our last meeting are the monthly surveys for July and August, which only cover money market participants, and the quarterly survey for September, which also measures the expectations of the labour market organisations, among others. It is of some interest to note that the latest survey of inflation expectations was conducted before the relatively strong inflation outcome for August had been published. During the survey period, the most recent inflation reading was the one for July, with CPIF inflation at 1.7 per cent and CPIF inflation excluding energy prices at 0.5 per cent; that is, inflation figures that were clearly lower than in both May and August.[3]

[1] See the article "Why measures of core inflation?" in Monetary Policy Report, October 2018.
[2] https://marquee.gs.com/content/research/en/reports/2021/02/28/638f1ac6-4a68-46fe-8c29-9bdb5bc98ad9.html (available only to subscribers).
[3] Prospera's September measurement of inflation expectations was performed during the period 30 August–13 September. The August outcome for inflation was published by Statistics Sweden on 14 September.

Regarding money market participants, there is fortunately no visible link between their longer-term, five-year expectations and the temporary downturn in inflation during the summer. On the contrary, the inflation expectations of these agents have marginally increased in the last two surveys, after having been stable at 1.8 per cent seven months in a row.[4] In both August and September, inflation expectations five years ahead among money market participants amounted to 1.9 per cent.

Looking at other groups in the larger quarterly survey, a small decrease in five-year expectations can be noted. However, it is important here to keep in mind that the comparison is being made with the survey in June, which was performed just after Statistics Sweden had published the very strong inflation outcome for April at 2.5 per cent. In addition, the decrease, as I said, is small and no group has expectations below 1.9 per cent. As usual, the longer-term inflation expectations of labour market organisations are of particular significance in the context. Both for employee and employer organisations, these have only gone down by a few hundredths of a percentage point and remain just above 2 per cent. This is of course important for the role of the inflation target as the anchor for wage development.

Regarding measures of longer-term inflation expectations derived from market pricing of financial contracts, developments have been undramatic during the summer months. In Sweden and the United States, they have gone sideways, while expectations in the euro area, which are at a lower level, have increased somewhat and are a little closer to the ECB's inflation target of 2 per cent.

The overall brighter inflation picture, in combination with energy prices that are significantly higher than expected and slightly greater effects of pandemic-related changes on the supply side of the economy, means that major upward revisions to the forecast for CPIF inflation up until summer next year are now being proposed in the draft Monetary Policy Report. CPIF inflation is predicted to reach a peak of 3.2 per cent in November this year. It is then projected to remain above 2.5 per cent for a number of months before returning to the previous forecast path at some point during late summer 2022. The large energy price increases this year imply that inflation is expected to slow more than before during a number of months in the autumn next year, when the price level of energy falls back. It is estimated to be at its lowest in September 2022 when it will bottom out at just over 1 per cent.

Excluding energy prices, inflation is also predicted to be higher. Here, however, the upward revision is smaller but instead slightly longer-lasting. Somewhat simplified, it is assumed that CPIF

[4] I am focusing as usual on the expectations for CPI inflation rather than for CPIF inflation, as the response rate for CPIF inflation is often lower.

inflation excluding energy prices over the next 12 months will be 0.4–0.5 percentage points higher, in line with the forecast error that arose in August this year.

From the end of 2022 and beyond, the forecast adjustments are small. Therefore, just as in the forecasts in April and June, it will still not be until 2023 before inflation is expected to rise fairly evenly and consistently, and then be close to the inflation target at the end of the period. The driving-forces behind the trend increase in inflation are, as before, stronger demand, faster wage increases and rising international inflation. Certain changes on the supply side also continue to contribute to the growing inflationary pressures.

This brings me to my reflections on monetary policy. As the inflation forecast has been revised up significantly, an initial question to answer is whether or not this should lead to an adjustment in our monetary policy assumptions in a more contractionary direction.

My answer is a clear no. Although inflation is predicted to be quite high, above 3 per cent for a period, it is affected to a large extent by temporary factors, which monetary policy in this situation should see through. Much of the inflation increase is a consequence of rapidly rising energy prices, especially electricity prices, which have a lot to do with weather-related effects. This is virtually the textbook definition of a temporary effect. Excluding energy prices, the development is much less dramatic, with a peak for inflation at 2.2 per cent in July next year.

Temporary effects, not connected to energy prices, are naturally more difficult to identify and quantify. But we can be fairly sure that they are there and are quite significant. It is a question of temporarily rapidly rising consumption of certain goods and services, that have either been impossible or only partly possible to consume due to the restrictions imposed during the pandemic. It is also a question of temporarily high freight and commodity prices, and price-driving supply limitations. All this may well lead to some permanent price rises but it is unlikely that such fundamental changes in pricing have taken place during this period as to make price trends different and steeper, which is what is required if the inflation rate is to be higher on a more permanent basis. We highlight this in an excellent fact box in the draft Monetary Policy Report.[5]

For price trends in the economy to change more fundamentally, a shift in the really deep determinants of inflation is required. These include long-term inflation expectations, trend wage and cost developments and how fiscal policy is designed on average. Here, it can be noted that longer-term inflation expectations have indeed held up well during the crisis – and have even risen slightly, that wage increases look like they might creep up towards 3 per cent and that

[5] See the box "FACT BOX – The relationship between price level and inflation rate" in the draft Monetary Policy Report.

general government net lending is allowed to be negative for a few years. However, it is hardly a question of a fundamental shift in these determinants, in any case it is difficult to draw this conclusion based on developments up to now. The general global level of real interest rates is also of major significance in the context. And it looks like it will remain low for some time to come.

On several occasions in our Monetary Policy Reports, we have said that a less expansionary monetary policy will only become justified if inflation is expected to overshoot the inflation target significantly and persistently. We also repeat this message in the current draft Monetary Policy Report. The background to our communication is that inflation in recent decades has on average been below 2 per cent and that we therefore fear that price and wage expectations are not fully anchored at the target. This communication now looks as though it will be tested in reality and it is then obviously important that our actions show that we are serious about what we have said.

At our monetary policy meeting in June, I discussed inflation dynamics in a slightly longer time perspective, beyond the normal three-year horizon, and drew the conclusion that the minor upward deviation from the target which looks likely in the longer term does not appear to justify a less expansionary monetary policy in the near term – not, of course, via immediate measures but neither via changes to the monetary policy plan further ahead. With our updated inflation outlook, which is unchanged in 2023 and 2024, I see no reason in this situation to draw any other conclusion on this point. This assessment, which I currently perceive to be entirely in line with our communication that only an inflation rate significantly and persistently above target would motivate a tightening of monetary policy, can obviously change if future forecast updates based on longer time horizons were to suggest that more troublesome, sustained inflationary pressures are building up.

Deputy Governor Martin Flodén:

I support the draft Monetary Policy Report and the forecasts and monetary policy presented in it. I also support the proposal to terminate certain crisis facilities introduced in connection with the outbreak of the pandemic, in accordance with the annexes to the minutes.

The economic recovery has continued at a rapid rate both in Sweden and abroad, and growth is expected to remain high for the rest of the year. But the spread of infection is still high in many countries. In some regions, there is a risk that restrictions will have to be reimposed or that it will not be possible to relax them as quickly as previously planned. The pandemic can therefore still lead to setbacks in the economic recovery.

It is also clear that a rapid economic recovery will not be frictionless. We are seeing major shocks in global value chains, linked to shortages in certain components and to disruptions in transport systems. And in several regions, we are also seeing labour shortages as previously suspended activities restart.

The clearest deviation from our assessment at the monetary policy meeting in June concerns inflation, especially in Sweden. CPIF inflation in August was almost one percentage point higher than our forecast in June. And we have now revised up the forecast for the next three quarters by approximately one percentage point.

It may seem strange that such a major change in inflation does not lead to an adjustment in monetary policy. The explanation is of course that we assess the factors that are now driving up inflation to be temporary and transitory. It is primarily a question of energy prices, but also of bottlenecks in production and prices that have been increased on goods and services whose prices were low or fell during the pandemic. Our forecast for inflation in 2023 and 2024 is basically identical to the forecast in June, and this is based on the monetary policy plan being the same as in the June forecast.

We normally design monetary policy so that inflation will be close to the target of two per cent a few years ahead. This is what our forecast looked like in June, and what it also looks like today. The difference between the forecasts is what inflation looks like along the way. And here, I see it only as positive that inflation has now gone higher and that it looks like it will remain higher in the year ahead.

In the old forecast, inflation was dominated by rapid energy price rises. Excluding energy prices, the inflation forecast was at worryingly low levels over the coming year. The latest inflation outcomes, as well as some other indicators, point to a somewhat broader upturn in inflation. As a result, our forecast for CPIF inflation excluding energy is now at better levels.

Another reason why I see positively on the latest inflation outcomes is that inflation has been too low for many years. Inflation that sometimes also overshoots the target a bit helps to ensure that inflation expectations do not fall too low and probably strengthens confidence in the inflation target.

But higher inflation in the near term undoubtedly changes the risk picture with regard to our forecast. Previously the risks on the downside of inflation have been the most evident. I now think that the risk picture is beginning to look balanced.

The basis of our forecast is thus that temporary factors are currently driving up inflation and that the effects are transitory. But this assessment is uncertain. Higher freight, commodity and production prices have so far had a rather weak impact on consumer prices and long-term inflation expectations. This impact may increase. And the currently high inflation may lead to greater spillover effects than in our forecast. If so, the inflation upturn may be more persistent.

At the same time, risks of inflation once again becoming problematically low still remain. CPIF inflation adjusted for energy prices was only 1.4 per cent in August. And this was despite the measure including temporary factors that are currently holding up inflation.

In light of these factors, I now move on to my monetary policy considerations.

At the June meeting, I emphasised the option of reducing the repo rate if the development of inflation is weaker than in our forecast. A rate cut may still become relevant, although I think that it has now become easier to also see scenarios in which surprisingly high and persistent inflation means that the repo rate needs to be raised during the forecast period.

I would like to stress that I consider the likelihood of a rate adjustment becoming justified in the first half of the forecast period to be low; it would require fairly major changes in the assessment of inflationary pressures to justify a lower or higher repo rate.

The reasoning I just gave concerns how monetary policy may need to react if inflation develops differently to our forecast. At the June meeting, I discussed how monetary policy is best designed if inflation and the economy otherwise develop in line with our forecast. My view was that the repo rate may need to be raised in the second half of 2024 to ensure that inflation is not too high in the years beyond our forecast horizon. I nevertheless supported the assessment that an unchanged repo rate up until the end of the third quarter of 2024 seems to be appropriate monetary policy in combination with the rest of the economic forecast.

My thoughts on this issue are approximately the same today as they were at the last meeting. The fact that inflation is higher in the near term has not affected our assessment of inflationary pressures in the longer term, and therefore has no direct impact on the assessment of which monetary policy will be appropriate in the main scenario towards the end of our forecast period. With the same hesitation as at the last meeting, I therefore support the assessment that the repo rate should be held unchanged at zero per cent until the end of the third quarter of 2024 if the economy develops in line with our forecast.

In conclusion, I would like to reiterate my view on our asset purchases. At the monetary policy meeting in November 2020, I entered a reservation against the decision to expand the envelope for asset purchases by SEK 200 billion and to extend the programme until the end of 2021. I still think that we could have maintained more or less equally expansionary financial conditions with a less extensive purchasing programme. This assessment is supported, for example, by the fact that the financial conditions have remained very expansionary despite that the rate of purchases is now significantly lower than at the beginning of the year.

According to the draft Monetary Policy Report, we are planning bond purchases in 2022 in approximately the same magnitude as the principal payments that will occur during the same period. This implies bond purchases of just less than SEK 40 billion per quarter for the whole year. I would like to stress that I still see this as a forecast that can be changed. If the reduced purchasing rate between the fourth quarter of this year and the first quarter of next year does not lead to major reactions on the financial markets, there may be scope to continue to reduce purchases without it leading to any significant tightening of the financial conditions.

Deputy Governor Henry Ohlsson:

I would like to begin by saying that I support the proposal to hold the repo rate unchanged at zero, and to hold the repo-rate path horizontal during the forecast period. Furthermore, I support concluding programmes and relaxations of collateral requirements in accordance with the proposals made in Annexes B and C to the minutes.

The economic situation in Sweden has improved continuously in 2021. The sectors that have had their operations limited by the restrictions imposed by government and authorities can now start developing in the same positive manner as the other sectors.

The Swedish vaccination programme is an important precondition for this. The most recent figure for the number of people vaccinated is that about 7.1 million Swedes have received at least one dose. This corresponds to 83 per cent of the population aged 16 and over. Just over 6.3 million Swedes have received two doses, which corresponds to 74 per cent of the population aged 16 and over. In other words, three-quarters of the population of Sweden is fully vaccinated.

According to the draft Monetary Policy Report, Swedish GDP is expected to rise by 4.7 per cent in 2021 compared with 2020. This is a significant upward revision in relation to the July Monetary Policy Report, when GDP growth for 2021 was forecast at 4.2 per cent.

The CPIF has been the target variable for monetary policy since 2017. The most recent inflation figure in August showed an annual rate of increase in the CPIF of 2.4 per cent. The forecast for CPIF inflation in the draft Monetary Policy Report has been revised upwards compared to the Monetary Policy Report from July.

The moving average over twelve months for CPIF inflation was at 1.4 per cent in August. This is below the inflation target of 2 per cent, but the moving average has shown a rising trend and risen quickly so far this year. If the moving twelve-month average is adjusted using the monthly forecasts for CPIF inflation in the draft Monetary Policy Report, the moving average already rises over 2 per cent in November. Given the forecast for CPIF inflation, the moving average should be well over 2 per cent over the whole of 2022.

According to the most recent monthly statistics from the Swedish Public Employment Service, the average number of persons registered as unemployed in relation to the register-based labour force was 7.7 per cent in August 2021. This was a decrease of no less than 1.4 percentage points compared with the same month one year earlier, when the corresponding figure was 9.1 per cent. After peaking in the second half of 2020, unemployment is now clearly lower than it was one year ago.

Unemployment insurance fund members can be considered to have a relatively strong position on the labour market. In August 2021, the percentage of openly unemployed members of unemployment insurance funds was 3.1 per cent. The same month one year earlier, the share was 4.6 per cent. After peaking in the second half of 2020, unemployment measured also in this way is clearly lower than it was one year ago.

The hotel and restaurant employees unemployment fund differs substantially from other unemployment funds. In August 2021, the percentage of openly unemployed in the unemployment insurance fund was 10.7 per cent, which can be compared with the same month one year earlier when the figure was 16.5 per cent. This shows the improved conditions for this sector.

Sweden is a small open economy. We are dependent on economic activity and policies abroad. During spring 2020, draconian measures were taken around the world, measures that significantly reduced economic activity. The situation is not the same now. The forecast for KIX-weighted (trade-weighted) growth abroad in 2021 is 5.4 per cent in the draft Monetary Policy Report. The same draft contains a forecast for 2022 of 4.3 per cent. In both cases, these are upward revisions in relation to the July Monetary Policy Report. The forecasts are high figures, which bear witness to a strong rebound, following a difficult 2020.

The KIX-weighted rate of inflation abroad was 1.1 per cent in 2020. The forecasts for 2021 and 2022 in the draft Monetary Policy Report are much higher, 2.3 per cent and 2.1 per cent respectively. Here too, these are upward revisions in relation to the July Monetary Policy Report.

I will now move on to my monetary policy considerations. Inflation expectations are an important element in judging the credibility of monetary policy when it comes to attaining the inflation target. It is an important observation that inflation expectations five years ahead among money market participants have remained at around 1.8 per cent, despite the economic difficulties in

2020. If anything, the most recent monthly measurements show that inflation expectations are on the rise.

Over a relatively long period of time, we have seen a rapid economic rebound in Sweden and abroad, following the severe decline in economic activity in spring 2020. Forecasts are being revised up all the time. GDP growth is rapid. Unemployment is declining, but it is of course desirable that it should decline further. CPIF inflation is showing a rising trend and, measured as a moving average, is expected to be clearly above the inflation target throughout 2022. Inflation expectations are stable, just below the target, but seem to be rising.

The securities purchases decided at the monetary policy meeting in November 2020 will be concluded in the fourth quarter of 2021. If the good economic development in Sweden and abroad continues, I consider that it will be appropriate to make monetary policy less expansionary. One possibility would be to allow the securities holdings to decrease through principal payments. Another possibility would be to raise the repo rate. In the latter case, one first step could be to adjust the repo rate path upwards.

In the spring of 2020, the Executive Board of the Riksbank decided on programmes and relaxations of collateral requirements to safeguard the functioning of the credit supply. Today, demand for these programmes is low to non-existent. I therefore consider it reasonable to conclude the programmes and relaxations.

To summarise, I thus support the proposal to leave the repo rate unchanged at zero, and to hold the repo rate path horizontal during the forecast period. Furthermore, I support concluding programmes and relaxations of collateral requirements in accordance with the proposals made in Annexes B and C to the minutes. Additionally, I support the economic picture and the forecasts in the draft Monetary Policy Report.

First Deputy Governor Cecilia Skingsley:

I support the draft Monetary Policy Report, including the forecast repo rate path. Furthermore, I support the proposal to hold the repo rate unchanged and the decisions proposed in Annexes B and C to the minutes.

Taking a global perspective, the economic recovery is continuing as it has become possible to ease anti-contagion restrictions due to COVID-19 in many areas. Despite the rapid spread of the so-called delta variant, vaccination seems able to provide good protection against illness severe enough to require hospitalisation. Of course, there will be no shortage of downside risks in the future course of the global pandemic, but the development of the economy seems to be on firmer ground in the countries that are most vital for Swedish exports, compared with a few quarters ago.

The Swedish economy is performing well. Swedish exports and industrial production recovered rapidly and are now at higher levels than prior to the crisis. Since the last monetary policy decision in July, inflation outcomes for July and August have been surprisingly high, leading to upward revisions of the Riksbank's inflation forecast.

With these observations as a starting point, I would now like to present my monetary policy deliberations. In Sweden, we will soon transition from a very rapid recovery phase to more of a normal economic upswing. The rapid recovery justifies the termination of several of the loan facilities implemented by the Riksbank in the acute phase of the crisis to safeguard the pass-through of monetary policy and to guarantee access to liquidity. As these loan facilities have not been utilised by the Riksbank's counterparties for a long time, they can be shut down.

During the more acute part of the crisis, it was also good for the supply of liquidity in the Swedish economy for banks to be able to pledge covered bonds, including their own equivalents, and thereafter borrow from the Riksbank interest-free. A review of the pledged assets in the Riksbank shows that covered bonds have been used to a large extent. However, now that the recovery is a fact, it is reasonable for the Riksbank to restore the regulatory framework that applies when counterparties want to use the Riksbank's loan facilities.

The rapid global recovery and the various bottlenecks that have arisen are central factors for assessing inflation in the period ahead. To start with, I am aware that the course of inflation has been uneven ever since the pandemic started. Despite price falls for a number of goods and services, there were no spillover effects leading to a broader fall in prices. This suggests that price rises following from the current bottlenecks need not necessarily entail lastingly higher inflation and thus are not something monetary policy should react to at present either. When many economies restart simultaneously, it takes some time for various types of production to adjust to demand.

Recent months' outcomes will certainly lead to forecast revisions in the near term, and we expect inflation of over 2 per cent for a number of months to come. However, monetary policy affects the economy with a time lag, and therefore needs to disregard temporary price fluctuations.

Looking at a longer perspective, 12–24 months from today, I notice that average inflation is expected to be at 1.65 per cent in terms of the CPIF and 1.69 per cent using the same measure of inflation excluding energy prices.

On the basis of this forecast, it is therefore reasonable to support the proposed monetary policy decision, which is to hold the repo rate unchanged at zero per cent and the forecast for the repo rate unchanged at zero per cent, as well as to fulfil the fourth quarter bond purchases agreed earlier this year.

As new data and observations arrive, the inflation forecast will be revised continually. It cannot be ruled out that the rate of inflation will rise more permanently than the assumption that forms the basis of today's monetary policy decision.

Wage development on the labour market will then be a central factor. Following and understanding the labour markets, both in Sweden and among our most important trading partners, will be important for determining monetary policy in the period ahead.

The pandemic had the hardest impact on what are known as contact-intensive sectors, such as restaurants, hotels, travel and experiences of various kinds. Now that economies are restarting, recruiting problems can be observed, which appear to be driving wages. If enough people who have been employed within contact-intensive sectors leave them, wage growth will have to become more significant, which, in turn, may awaken demands for compensation in other wage groups.

Other pandemic-related effects on the labour market are also conceivable. Relative changes in pay can be expected a few years ahead, for example if demand for staff with IT skills remains high for a long time after the pandemic, before education systems have managed to close the gap.

Worsened matching and increased reservation wage levels are also conditions that could affect the labour markets in both Sweden and among our important trading partners. An extended period of travel restrictions and generally tight immigration policies in the rich economies could also lead to larger spillover effects of wage growth among different sectors.

On the other hand, the fact that wage growth has been moderate this century, even when cyclical unemployment has been low, argues against wage-driven inflation in Sweden. The labour market has been reorganised previously, if this is what awaits in the wake of the pandemic, without a general wage spiral arising. Overall, it is too early to draw any conclusions about what the post-pandemic labour market could mean for wage formation.

Concerning the monetary policy stance, I therefore support the proposed monetary policy decision. In recent decades, inflation has undershot the target on average. Should inflation overshoot the target for a time, this would not be a problem to which monetary policy would rapidly have to react but it could instead contribute to price and wage expectations clearly becoming anchored in a way that is compatible with a rate of inflation close to the target. I still judge the risks of reducing stimulation measures too early to be greater than the risks of retaining them too long.

Deputy Governor Anna Breman:

I support the proposal to terminate certain lending facilities launched during the pandemic and to reintroduce the previously applicable collateral requirements that the banks must meet when lending from the Riksbank in line with Annexes B and C to the minutes. I also support keeping the repo rate unchanged, the repo-rate path and the forecast in the draft Monetary Policy Report.

The recovery in the Swedish economy has picked up since the last monetary policy decision. It has also broadened and now also includes those sectors hit hardest by the pandemic. The most important reason is that an increasing number of people are now vaccinated and restrictions can therefore be relaxed. The strong growth is also due to the comprehensive monetary and fiscal policy measures implemented to overcome the crisis. These created the right conditions for the rapid recovery we are now seeing. Both small and large companies and households benefited from low interest rates and well-functioning credit supply. Fiscal policy measures such as the short-time work scheme helped laid-off workers to return to work quickly.

The pandemic is not over, however. In addition, new risks that can affect the global economy going forward are constantly arising. These currently include concern over the property sector in China and geopolitical tensions. My overall assessment is, however, that the recovery has strengthened and that the risk outlook is more balanced than it was earlier in 2021. This is also true of inflation. Before I move onto the monetary policy considerations, I would like to comment on the prospects for Swedish inflation.

The latest inflation outcomes have been higher than expected. CPIF inflation was at an annual rate of 2.4 per cent in the August outcome. It is primarily energy prices that are contributing to the upturn. At the same time, the CPIF excluding energy has also risen to 1.4 per cent in the outcome for August. Various measures of underlying inflation have also increased while inflation expectations remain largely unchanged. It is still important to look at trends rather than at individual monthly outcomes as the pandemic is still causing measurement problems.

It is most likely that the current upturn in inflation is temporary and that inflation will fall back somewhat before approaching the target more sustainably. As we have emphasised in the Monetary Policy Reports, inflation that temporarily overshoots the target need not imply that monetary policy should be made less expansionary in the near term. Neither is it a problem if inflation expectations were to go slightly higher. On the contrary, this can help to anchor inflation expectations and inflation close to the target in the long run.

However, the increase we are now seeing highlights the importance of not dismissing the risk of persistently higher inflation earlier than in the current forecast. At the same time, there is considerable focus at the moment on high inflation and risks on the upside. I would therefore like to highlight the Riksbank's assessment in the draft Monetary Policy Report, which is that the risk outlook for inflation is balanced and that there are also risks on the downside.

In addition, CPIF inflation has been very volatile since the beginning of the pandemic. This is not just a result of measurement problems related to the pandemic but also due to sharp fluctuations in energy prices. A warm, windy and wet winter drove down energy prices to low levels just over a year ago. The oil price, which is included in energy prices, was substantially affected at the start of the pandemic. Low demand for fuel and large stocks during the peak of the pandemic meant that the oil price was even negative for a very short period. Weather-related fluctuations in energy prices, along with the oil price that is set on international markets, are factors that can change rapidly and lead to a downturn in CPIF inflation. Monetary policy should not react to this type of temporary fluctuations in inflation.

What is important if we are to see a permanent upturn in inflation is overall resource utilisation in the entire economy. As we are now seeing a broader recovery, also in those sectors hardest hit by the pandemic, it is likely that we will now continue to see an increase in employment and strong resource utilisation. The probability has increased that the current recovery will be sustained and not just temporary like during the summer of last year. This creates good conditions for a more sustainable upturn in inflation also in the medium term.

This leads me on to the monetary policy considerations at today's meeting. Today's decision means that the Riksbank will no longer offer several of the lending facilities that were introduced in March 2020; lending to companies via banks and lending in Swedish kronor at three and six months maturity (the offer of lending in US dollars is not being extended either). In connection with the introduction of these measures, the requirements imposed on the collateral that the Riksbank requires for loans from the Riksbank were relaxed in order to improve the impact of the new lending facilities. The demand for these measures is very low and the risk of setbacks in the recovery has diminished. Now is therefore an appropriate time to end these measures and at the same time reintroduce the previously applicable requirements for the collateral that the banks must meet when lending from the Riksbank. But it is important to stress that we have the preparedness to quickly be able to introduce these or similar measures if conditions become much worse than expected.

Asset purchases are gradually being tapered in 2021, which is particularly clear for covered bonds. Principal payments of covered bonds in the fourth quarter mean that the Riksbank's net purchases of these bonds will decrease from SEK 70 billion in the first quarter of 2021 to just under SEK 20 billion in the fourth quarter. Prior to 2022, our plan is to maintain bond holdings at approximately the same volume as at the end of 2021. We have major principal payments from maturing bonds due on a limited number of dates in 2022. This means that the size of the portfolio will vary somewhat over time.

Regarding the repo-rate path and asset purchases, I would like to highlight two things that I also mentioned at our last meeting. First of all, both the repo-rate path and the plan for asset purchases in 2022 are a forecast and not a promise. Secondly, I could have envisaged a repo-rate path that indicates a rate rise at the end of the forecast period. The reason I am refraining from entering a reservation is the same as at the last meeting.

To summarise: a near-term upwardly revised inflation forecast does not change the need for monetary policy to give support to the economy until we see that inflation approaches the target more persistently. The risk of serious setbacks in the recovery has decreased, however. I therefore support the termination of some of the lending programmes introduced in 2020 and the reintroduction of the previously applicable collateral requirements for lending from the Riksbank. I also support the decision to maintain the overall monetary policy stance at today's meeting.

Governor Stefan Ingves:

I would like to start by saying that I support the assessments made in the draft Monetary Policy Report, including the proposals to leave the repo rate at zero per cent and hold the repo rate path unchanged. I also support the proposals described in Annexes B and C to the minutes, meaning that, at today's meeting, we are taking the decision to terminate the loan facilities introduced during the pandemic and restoring requirements for the collateral that banks need to provide when borrowing from the Riksbank. The low, or non-existent, demand for the crisis-related loan facilities indicates that we can now withdraw these without significantly affecting the financial conditions. The low interest rate, the continuing securities purchases and the size of the Riksbank's balance sheet together mean that monetary policy continues to be expansionary, which is a precondition for inflation to develop in line with our goal more permanently. At the same time, given the international discussion, it is worth noting that our measures have worked. Interest rates have been kept low and liquidity has been maintained, something we could not take entirely for granted when we entered the pandemic.

The coronavirus pandemic has been the most important international factor for global economic development for a year and a half. In the developed economies, where vaccination got started early, there are many indications that the worst may be over in terms of effects on economic activity. Many of these countries are now reporting strong growth figures. In other parts of the world, the pandemic is still a serious public health problem and a burden on economic activity. However, for Sweden's most important trading partners (the KIX countries), developments look strong, with an expected growth this year of almost 5.5 per cent, followed by more than 4 per cent in 2022. This high growth will lead to rising resource utilisation and inflationary pressures. Supply limits and bottlenecks will in some countries give an extra boost to the inflation rate for some time, but as these supply shocks are resolved, the KIX-weighted inflation rate will fall back to around 2 per cent during the forecast period.

With regard to Sweden, the economic recovery is continuing and growth is high. Outcomes and indicators have been a little stronger than expected and our forecast for GDP growth in the near term has been revised upwards. For the whole year 2021, we are now expecting a growth rate of just over 4.5 per cent, next year around 3.5 per cent and in 2023 just over 2 per cent. If we are correct in our forecasts, we will soon be back on our earlier growth path (see Figure 31 in the draft Monetary Policy Report).

As the economic recovery continues, the labour market will improve. Employment increased strongly during the second quarter and a large part of the fall during the panic appears to have been recovered. Recruitment plans indicate good demand for labour, and employment is expected to continue to increase quickly during the remainder of the year. However, unemployment remains high, although various sources of statistics provide different pictures of developments. It is particularly worrying that long-term unemployment has risen to historically high levels. The economic recovery this year and next year is of central importance for long-term unemployment to fall.

Since our previous monetary policy meeting, we have had three new inflation outcomes − for June, July and August. According to the August figure, CPIF inflation was 2.4 per cent, which was much higher than our earlier forecast. As a result of high outcomes, the inflation forecast has been revised upwards for the coming year. In our new forecast, CPIF inflation continues to rise in the coming months and is around 3 per cent at the end of the year, after which it falls back. A large part of the upturn in inflation this year is due to higher energy prices. If one excludes them, inflation was significantly lower, 1.4 per cent in August, and various measures of underlying inflation are roughly in the interval 1–2 per cent. As the economic situation becomes stronger and resource utilisation increases, the CPIF excluding energy will slowly rise towards 2 per cent. It may also be worth noting that this is, as far as I know, the first time that the price of emission allowances is mentioned in the discussions on rapidly rising energy prices and the impact on the inflation rate.

The economic effects of the pandemic look as though they will fade among the developed economies, which is partly due to a higher vaccination rate, and partly to fewer restrictions, but also to the fact that we have learnt to work with the remaining restrictions. However, for the greater part of the world population, the pandemic is still a major humanitarian and economic problem. And as long as the greater part of the world's population is receptive to COVID-19, there is a risk of new setbacks to global developments.

The draft Monetary Policy Report paints a picture of a strong global recovery, which is admittedly unevenly distributed. With regard to Sweden, the GDP level is back at the pre-pandemic levels and growth in coming years is expected to be good. The measures taken by Governments and central banks to dampen the economic effects of the pandemic appear in other words to have been successful. Developments in inflation have been unexpectedly stable, bearing in mind the large fall in economic activity at the beginning of the pandemic. One sign that monetary policy has been successful is that the long-term inflation expectations are once again close to the inflation target. The fact that the krona has been relatively stable over the past year is also positive, in my opinion. If we are correct in our forecast, inflation this year and in the coming two years will be 2.3, 2.1 and 1.8 per cent respectively. I think it is difficult to get closer to the inflation target than this in a world filled with all kinds of uncertainty and volatility.

Let me now very briefly reason on some important questions going forward. Our forecast for inflation is based on good growth in Sweden in the coming years. But there are structural challenges that can dampen growth. The functioning of the labour market and the high level of long-term unemployment are examples of this. Another example is the Swedish housing market, and I have mentioned the deficiencies here many times before. It is absolutely essential to take measures to increase the supply and turnover of housing to dampen the long-term development in prices and counteract the build-up of household debt. A third example is the ageing population, and a fourth is the climate issue.

At the same time, interest rates are at historically low levels and the conditions for structural investments that benefit long-term growth are good. This is not a monetary policy question, but concerns other policy areas. Investments in the build-up of capital – both human capital and physical capital – will probably pay a high return, given today's low interest rates. Also on the list of essential investments, we need investments to manage and counteract climate change.

I shall conclude by summarising my views on the direction for monetary policy. The average rate for CPIF inflation in the past 20 years has been around 1.5 per cent. With this background: the fact that inflation is now according to our forecasts going to slightly overshoot our target of 2 per cent is not a major problem, in my view. As long as we do not see any signs of a lasting increase in the rate of inflation, or inflation expectations that rise in a worrying manner, we should proceed with caution when it comes to making monetary policy less expansionary. I see a risk in withdrawing the monetary policy stimulation too soon, only to then see inflation fall back and fasten below the target. We know from experience that it takes time to bring the inflation rate up to the target when it has become entrenched at a too low level, and this is a situation we need to avoid. The repo rate needs to remain at zero per cent for a longer period of time, and our holdings of securities need to remain more or less unchanged through next year for inflation to more lastingly develop in line with the inflation target.

If we were to be proved wrong, and inflation does not fall back, we have effective tools for managing this situation further ahead. In other words, it is too early yet to change course.

§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 22 September 2021,
- to adopt the Monetary Policy Report according to the proposal, Annex A to the minutes,
- on monetary policy measures and that these measures be applied in accordance with what is stated in Annex B to the minutes and Annex C 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 Tuesday 21 September 2021,
- to publish the minutes from today's meeting at 09.30 on Thursday 30 September 2021.

This paragraph was verified immediately.

Record by:

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Verified:

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