Monetary policy minutes

November 2021

SVERIGES RIKSBANK

Summary

Monetary policy needs to give continued support to the economy for inflation to be close to the inflation target in the slightly longer term. At its monetary policy meeting on 24 November, the Executive Board of the Riksbank therefore decided to hold the repo rate unchanged at zero per cent, and to purchase bonds during the first quarter of 2022 to compensate for forthcoming principal payments in the Riksbank's asset holdings.

The board members noted that economic activity is strong, and that the substantial fluctuations in global demand have resulted in bottlenecks in production. They have also led to large price rises regarding commodities and transport, and to rapidly rising producer prices. Consumer prices have risen in most countries, but the Executive Board members noted that there are clear differences between developments in different countries. The United States, for example, has, seen a broader upturn in prices, while in the euro area and Sweden, the inflation upturn has been primarily driven by rapidly rising energy prices.

The members discussed the driving forces behind higher inflation, and whether the higher rate of inflation could be assumed to be temporary or more lasting. They noted that the forecast is for CPIF inflation to fall back to a fairly low level next year, when the contribution from energy prices declines, and the balance between demand and supply conditions improves. For inflation to be persistently close to the target, a more sustained upturn in cost pressures is required. Financial conditions therefore need to remain expansionary.

All of the members supported the decision to retain the repo rate unchanged at zero per cent and to purchase bonds during the first quarter to compensate for principal payments. The forecast for the repo rate indicates that it will be raised in the latter part of 2024, and the forecast for the asset holdings is that they will remain more or less unchanged in 2022, after which they will gradually decline. Some members expressed different nuances regarding the asset holdings and considered that it might become appropriate for the purchases to be tapered further next year.

MONETARY POLICY MINUTES
Executive Board, No.5

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DATE: 24 November 2021

MEETING TIME: 09:00

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

Susanne Eberstein, Chair, General Council of the Riksbank
Michael Lundholm, Deputy Chair, General Council, remotely

Johan Almenberg, remotely/(§ 1-3a)
Joel Birging (§ 1-3a)
Vesna Corbo, remotely (§ 1-3a)
Hans Dellmo, remotely (§ 1-3a)
Charlotta Edler
Dag Edvardsson, remotely (§ 1-3a)
Paul Elger
Mattias Erlandsson
Anders Gånge
Jesper Hansson
Jens Iversen, remotely (§ 1-3a)
Maria Johansson (§ 1-3a)
Peter Kaplan, remotely (§ 1-3a)
Henrik Lundvall
Pernilla Meyersson
Ann-Leena Mikiver
Marianne Nessén, remotely (§ 1-3a)
Åsa Olli Segendorf, remotely (§ 1-3a)
Olof Sandstedt, remotely (§ 1-3a)
Maria Sjödin

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

§3a. Economic developments

Market developments since the last monetary policy meeting

Joel Birging from the Markets Department began by presenting the latest developments on the fixed income market, which had been in focus on the financial markets recently. A higher rate of inflation than expected around the world has led market analysts to begin describing the high inflation as more persistent, after having previously described it as temporary. The US central bank, the Federal Reserve, has decided to reduce its asset purchases and an increasing number of analysts point to this tapering probably being speeded up going forward. At its monetary policy meeting in October, the European Central Bank (ECB) continued to communicate that the rate of purchase in the pandemic programme (PEPP) would be reduced somewhat in the fourth quarter. At the same time, the ECB has communicated that important decisions are expected at the December meeting. Going forward, the PEPP is not expected to be extended further than to March 2022, while the asset purchase programme that began prior to the pandemic (APP) may be extended or a new asset purchase programme may be introduced.

There have been major fluctuations in government bond yields with short maturities, when central banks like those in Canada, Australia and Norway have tightened their monetary policy. The Bank of England in particular has attracted attention on the financial markets. After the market had previously expected monetary policy to be tightened, the Bank of England held its monetary policy unchanged at its November meeting.

Mr Birging then noted that long-term inflation expectations based on market measures for the euro area and the United States had increased.

Stock markets have risen in general, perhaps mainly due to strong company reports for the third quarter, where concerns regarding falling profit margins as a result of higher input prices and problems in supplier chains had not been realised. Nevertheless, market analysts are still pointing out that this risk may be realised in the fourth quarter. Over the past few days, developments have been marked by growing unease regarding the development of the pandemic. Implied volatility has continued to fall and the VIX measure is now at the lowest levels it has been during the pandemic.

The Swedish krona appreciated markedly in October in relation to an aggregate currency basket (KIX-weighted). Market analysts pointed to an increased demand for the krona linked to initial public offerings on the stock exchange, strong stock markets and a weaker euro. After that, the krona weakened again, and is now trading at around the same levels as at the monetary policy meeting in September. On the international currency market, the dollar in particular has appreciated in the wake of the Federal Reserve being expected to conduct a tighter policy in relation to the ECB, for instance, and because of concerns over the development of the pandemic.

Market analysts believe that the Riksbank will hold the repo rate unchanged at today's meeting, and at the same time the repo rate path is expected to be raised at the end of the forecast horizon. Forward pricing on the fixed-income market has risen since the September meeting and now indicates that the repo rate will be 0.25 per cent at the end of 2022. The Riksbank is expected to present asset purchases to compensate for principal payments in 2022. Several analysts believe that the balance sheet will decline during the second half of 2022, but that such a decision will not be taken at today's meeting. Further, opinions are divided as to how the asset purchases will be allocated across different asset classes.

The current monetary policy drafting process – new data and forecasts

Olof Sandstedt, Head of the Financial Stability Department, presented the most recent statistics on housing prices, the situation in the corporate sector and banks' funding. Housing prices are continuing to rise rapidly, although there has been a decline in the rate of increase over the past six months. Between October 2020 and October 2021, nationwide prices rose by 10.8 per cent.[1]

Bankruptcies among Swedish companies have declined during the autumn, which is partly due to the continued economic recovery. However, it is fully conceivable that after a period with few bankruptcies there will be an increase and thereby a normalisation of the number of bankruptcies, as a consequence of the renewal that usually takes place in the business sector.

There has been a recovery in the property sector in recent months. The situation in general has improved for property companies with exposure to the sectors that were hit particularly hard during the pandemic.

The banks' funding costs remain low. Yields on Swedish covered bonds have risen during the autumn, in line with the general upturn in yields on bonds with longer maturities. However, the upturn has been limited, and more recently yields have fallen back somewhat. The difference remains slight between yields on covered bonds and risk-free yields with the same maturity.[2]

With regard to the statistics on corporate bankruptcies, First Deputy Governor **Cecilia Skingsley** requested further information on the situation for Swedish companies with little profitability and on the number of corporate closures. Deputy Governor **Per Jansson** went on to ask about developments in the corporate sector in Europe and about the reliability of the statistics

[1] This refers to HOX Sweden which is published by Valueguard.
[2] Risk-free refers here to yields on swaps.

regarding the number of bankruptcies in the EU. Mr Jansson also commented on the fact that housing prices in Sweden are now rising at a slower pace. He felt that this development supports the conclusion that the earlier high rate of price increase was not primarily due to expansionary monetary policy and he said that there is a need for further analysis of developments in housing prices.

Mattias Erlandsson, Deputy Head of the Monetary Policy Department, presented economic developments since the monetary policy meeting on 20 September, 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 27 October and on 11, 12 and 16 November. The draft monetary policy report was discussed and tabled at a meeting of the Executive Board on 18 November.

Mr Erlandsson began by noting that the upturn in inflation in Sweden and abroad had been an important question when preparing for today’s meeting. The Riksbank’s analysis of the reasons behind the higher inflation, which is described in an article in the draft Monetary Policy Report, has been central to the assessment of how lasting the upturn will be in different countries. The fact that the rate of price increase has risen in many countries does not mean that developments look the same everywhere. For instance, the price upturn has been faster and broader in the United States than in the euro area and Sweden. Even if it is possible to explain the reasons behind the upturn in inflation, there is nevertheless considerable uncertainty over how inflation will develop in the coming years.

A related issue, that has also been discussed in great detail during the preparations, is the shaping of monetary policy abroad, and how this will impact the Swedish economy.

GDP in many of the countries important to Sweden’s foreign trade has largely recovered the fall in economic activity that took place in spring 2020. Economic prospects abroad are also good, although growth is expected to be lower than it has been in recent quarters. It is assumed in the forecast presented in the draft Monetary Policy Report that the pandemic will not affect GDP growth very much in the current and coming quarters. However, in Europe the spread of infection has increased again, and if this development worsen, so that more restrictions are introduced, economic activity may slow down more significantly for a period of time.

The sudden fluctuations in demand and its composition during the pandemic have created imbalances between supply and demand. Following the initial and most turbulent phase of the economic crisis, demand for goods rose substantially, at the same time as a number of production plants and harbours were still closed. This led to bottlenecks in the production of certain types of goods, for instance, commodities and other input goods, and to rapid price rises. Freight prices also rose substantially. When economies then opened up again, the demand for many services rose unusually quickly. The upturn was particularly evident in service sectors that were hit hard by the pandemic and it led to a shortage of labour. The Riksbank's assessment is that the imbalances are at present slowing down GDP and that they will continue to do so next year, even if the effects then gradually decline.

Inflation has risen rapidly in recent months, in the United States in particular, but also in Europe. In the euro area, the high inflation is mainly due to higher energy prices. The underlying rate of price increase, which has also risen, is now close to the ECB's inflation target of 2 per cent. Energy prices have also risen in the United States, and there the upturn in inflation is also broader. The underlying rate of price increase in the United States is now around 4.5 per cent. Contributing factors here are rapid prices increases, particularly on goods and to some extent also food and rents. In the United States there are signs that higher prices in the producer channel are affecting prices in fairly broad categories of goods and services in the consumer channel. Moreover, the rate of wage increase has risen in the United States.

Over the coming years, energy prices are not expected to increase further, from the current high levels, and this means that inflation in the euro area will fall back below 2 per cent towards the end of 2022. As the price increases are broader in the United States, it is expected to take longer before US inflation is once again close to 2 per cent. Developments in the United Kingdom are to some extent similar to those in the United States, with a clear upturn in underlying inflation.

The rapid upturns in inflation in the United States and the United Kingdom, and the signs there of a somewhat longer period with high inflation, have affected expectations of how monetary policy will be going forward. Market participants are now expecting that the central banks in the United Kingdom and the United States will make monetary policy less expansionary over the coming year. Market expectations of the ECB's policy rate for the coming three years have also risen somewhat, but to a lesser degree than in the United States and the United Kingdom.

The forecast for the Swedish economy presented in the draft Monetary Policy Report is largely the same as in the September Monetary Policy Report. Swedish GDP has risen rapidly and is now in line with the trend that was forecast prior to the outbreak of the pandemic. Resource utilisation is now deemed on the whole to be approximately normal.

The strong economic development in Sweden is also reflected in indicators of the demand for labour. Companies’ recruitment plans, shortages and the number of job vacancies are all at high levels, and this indicates that employment will continue to rise rapidly in the coming period. In Sweden, the supply of labour has increased during the crisis, unlike developments in several other countries, and this contributes to unemployment remaining high. In the forecast, unemployment falls gradually in the coming years and is expected to be around 7 per cent in 2024.

Since the Monetary Policy Report in September, Statistics Sweden has reported outcomes for inflation in September and October. In October, CPIF inflation was 3.1 per cent, which was a tenth of a percentage point higher than the forecast in the September Monetary Policy Report. Rising energy prices contribute clearly to inflation rising; measured as the CPIF excluding energy, inflation was 1.8 per cent in October. Sweden's consumer prices are developing in a manner that is more like developments in the euro area than in the United States.

The new information available since the monetary policy meeting in September has not caused any substantial revisions to the inflation forecast. The imbalances between demand and supply are expected to become a little more comprehensive and protracted now, compared with the assessment in September, and this has contributed to the forecast for CPIF inflation excluding energy being revised up somewhat for 2022 and 2023. However, the contribution to inflation from energy prices has at the same time been revised down and the change in the forecast for CPIF inflation is therefore minor.

The forecasts in the draft Monetary Policy Report are based on the monetary policy that is expected to gain a majority at today's meeting. In brief, this entails a decision to hold the repo rate unchanged at zero per cent and a forecast for the repo rate that indicates a rise during the latter part of 2024, and a forecast for unchanged asset holdings in 2022, which will then decline. Moreover, the Executive Board is expected to decide at today's meeting that the Riksbank will purchase assets for a nominal amount of SEK 37 billion during the first quarter of 2022. The purpose of these purchases, which are described in detail in Annex B to the minutes, is to compensate for principal payments.

§3b. The economic situation and monetary policy

Deputy Governor Per Jansson:

I will begin by commenting on the current inflation picture and inflation outlook. In this context, I will also say a few words about how I see the risk of inflation in Sweden becoming entrenched at a level well above our inflation target for a prolonged period. I will then round off my contribution with some comments on the monetary policy situation.

Since our last monetary policy meeting in September, we have received two new inflation outcomes, for September and October. The latest outcome for October recorded CPIF inflation at

3.1 percent and CPIF inflation excluding energy prices at 1.8 percent. Both measures of inflation rose about 0.1 percentage points faster than expected. For CPIF inflation, the reading was the highest so far since the outbreak of the pandemic. CPIF inflation adjusted for energy prices has also risen in recent months, but the increase is so far not at all dramatic and its average level so far in 2021 is still about the same as in 2020 and significantly lower than in 2019.

That inflationary pressures are now rising somewhat can also be seen in the Riksbank's various measures of underlying inflation. All seven measures that we regularly monitor are presently higher than at our meeting in September, and their median currently stands at 2.1 per cent, compared to 1.7 per cent at the September meeting. The two measures that have been shown in an empirical evaluation to be best at predicting future CPIF inflation, UND24 and CPIFPC, are at 2.4 and 1.5 per cent respectively.[3] Just as before, our measures of underlying inflation continue to be unusually volatile and have difficulty providing a clear picture of the more general trend in price developments. However, an overall conclusion is nonetheless that inflationary pressures more generally can hardly be said to have risen in a worrying way so far.

Also regarding inflation expectations, two new outcomes have been published since our last meeting, the October and November Prospera monthly surveys of money market participants. Encouragingly, the low-frequency upward trend in longer-term, five-year inflation expectations among money market participants so far this year continues. In both October and November, five-year expectations among these participants amounted to 2 per cent, which is about a tenth of a percentage point higher than at our last decision meeting.[4]

The credibility of the inflation target and the expectation that the current unusually high inflation rate will fall back are also confirmed by longer-term inflation expectations derived from the market pricing of financial contracts. While these are slightly above both the survey-based expectations and the inflation target, I do not think this is a cause for concern, given that the difference is not large and the rapid upward trend from the beginning of the year in these expectations has slowed down quite markedly recently. In addition, they vary quite considerably over time.

Turning to the updated forecast in the draft Monetary Policy Report, some upward revisions to the inflation outlook are proposed until around mid-2023. These are very much related to the fact that the imbalance between demand and supply conditions that has arisen during the pandemic is now expected to become slightly larger and to persist for a longer period of time. Although, as I have just mentioned, it is so far difficult to see any clear signs that persistently high

[3] See the article "Why measures of core inflation?" in Monetary Policy Report, October 2018.
[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 is about to establish itself in Sweden, I think that the experience of developments in several other countries suggests that such a forecast adjustment is now justified. It is also important to note that the upward revision of the forecast is no greater than CPIF inflation excluding energy prices peaking at slightly above 2.2 per cent just before the summer of next year.

In the second half of next year, inflation is expected to fall back gradually as the energy price contribution to price increases diminishes and the balance between demand and supply conditions improves. Inflation will be at its lowest some way into the autumn, with CPIF inflation at just below 1.3 per cent and CPIF inflation excluding energy prices at slightly under 1.7 per cent. Compared with the September assessment, inflation at that time is now estimated to be one to two tenths of a percentage point higher.

From the second half of 2023 onwards, the forecast adjustments are small. Thus, as in the previous forecast, it will continue to take until the latter part of the forecast period for inflation to be more steadily close to the inflation target. Domestic demand and cost conditions and rising inflation abroad continue to be the driving forces behind the trend increase in inflation. The assumption that the krona exchange rate will remain relatively unchanged going forward is also of some importance. I support the forecasts for inflation and economic developments otherwise in the draft Monetary Policy Report.

Before I continue with my views on the monetary policy situation, let me elaborate a little on why I currently feel so convinced that the rise in inflation in Sweden will indeed be temporary and not as large as it has been in some other countries. On 15 November, an article by Larry Summers, US Treasury Secretary from 1999 to 2001, was published in The Washington Post in which he cited five changes in the US economy that, in his view, now significantly increase the risk of more sustained high inflation.[5] It is interesting to consider these arguments in a Swedish context.

The first argument is that price increases in the US economy can no longer be seen as limited to a few sectors. In Sweden, however, this picture is still very much intact. As shown in an excellent article in the draft Monetary Policy Report, it is really only the development of service prices that here in Sweden has accelerated in a more pronounced way.[6] And even for this price group, the rise is not particularly dramatic, from 2 per cent on average in 2019 to 3 per cent just now. The rate of increase in food prices and especially goods prices, which together make up almost half the basket of the consumer price index, remains clearly subdued.

[5] https://www.washingtonpost.com/opinions/2021/11/15/inflation-its-past-time-team-transitory-stand-down/
[6] See the article "Higher inflation - temporary or persistent?" in the draft Monetary Policy Report.

The second argument is that price rises in some specific sectors, notably used cars and durable goods more generally in the United States, have not fallen back as previously expected. In Sweden, however, it is difficult to find any such specific sectors at all. As shown in a table in the article, there are certainly some goods and services that are characterised by relatively rapid price increases, but these are few and, even when aggregated, they have little impact on overall consumer price developments.

The third argument focuses on the labour market, noting that US wage growth has been much higher than expected. This is of course an important factor to follow in Sweden as well, but in our country it can be ascertained that wage developments will continue to be characterised by wage agreements that imply annual increases of around 2 per cent on average up to and including the first quarter of 2023. In addition, wage drift has been very moderate for a long time. It is certainly the case that labour shortages are also increasing in some parts of Sweden and that, against this background, it is likely that wage drift will increase slightly going forward. But of course, we are still far from a situation with “double-digit pay increases”, which, according to Larry Summers, are now increasingly common in the United States.

The fourth argument points out that inflation expectations in the United States continue to rise rapidly and are now significantly above the Federal Reserve’s inflation target. I have already touched on the fact that the situation in Sweden is quite different in this respect in my review of the current inflation picture.

The fifth argument, finally, notes that inflation in many other countries has also risen sharply, to higher levels than we have seen for a very long time. Unlike the other four arguments, this is of course an argument that is also valid for us in Sweden. Since Sweden is a very open economy with considerable trade with other countries, it is most probably even more important for us than for the US economy. Having said that, I still find it difficult to see that more serious inflation problems could arise without our domestic economy also starting to contribute more in that direction. Also, at the end of the day, it is still far from certain that international inflation will continue to be high for a long time. It may be worth pointing out in this context that there is no consensus yet on US inflation either, well illustrated by the following remark made by Olivier Blanchard, Chief Economist at the International Monetary Fund 2008-2015, a couple of weeks ago: “The worriers are ahead, but there is a second half, and nobody has won yet.”[7]

This brings me on to my comments about the monetary policy situation. Regarding our asset purchases, our plan remains that the purchase programme launched in March 2020 will end on

[7] https://www.piie.com/blogs/realtime-economic-issues-watch/us-inflation-running-high-what-should-we-worry-about-now

31 December this year. In the first quarter of 2022, the proposal is that we should buy SEK 37 billion of assets to compensate for forthcoming principal payments. I support this proposal for a decision and the details of the purchases set out in Annex B to the minutes. I also endorse the forecast that the holdings will remain roughly unchanged during 2022 and will be gradually reduced thereafter. It can be noted that the decision for purchases in the first quarter of 2022 means that the rate of purchases is almost halved compared to the fourth quarter of this year. In relative terms, purchases of government and municipal bonds in particular are increasing, which I think is a good thing because the need to support the functioning of private markets has diminished and it is now more about ensuring that financial conditions remain expansionary.

Turning to the interest rate, the proposal is to keep the repo rate at zero per cent. I support this proposed decision. However, I have doubts about the proposed upward revision of the repo-rate forecast in 2024. The reason for my hesitation, as I have already mentioned in both June and September, is that I do not see that the inflation dynamics in a slightly longer time perspective justify such a revision. Inflation is expected to increase by only a few hundredths of a percentage point between the third and fourth quarters of 2024, levelling off marginally above 2 per cent. The condition that we set out in the draft Monetary Policy Report, that a less expansionary monetary policy only becomes justified if inflation is expected to substantially and lastingly exceed the inflation target, is thus not fulfilled in my view.

The forecast for inflation would probably be the same even if the interest-rate path did not start to lean upwards at the end of the forecast period. Possibly, then, one may argue that this is a good time to start normalising the repo rate. How high the repo rate should be in the longer term is difficult to say, but if one thinks it should be positive, perhaps a rise is a welcome step in itself. The only problem here is that this reasoning does not take into account the risk picture regarding the development of inflation conveyed by our own forecast: CPIF inflation in the second half of next year is expected to be low and quite severely undershoot the inflation target. In view of this assessment, I do not think that now is a good time to make an upward adjustment to the forecast for the repo rate. It will be difficult enough to bring inflation up to target in the longer run, even without a higher repo-rate path.

Having said that, I am nonetheless not going to enter a reservation against the repo-rate forecast. A cautious increase in the interest-rate forecast at the end of the forecast period is unlikely to have a major impact on financial conditions in Sweden in the current situation or to be perceived as strange in view of the ongoing discussion on inflation risks. There will also be plenty of time to revisit this issue before it really matters.

Deputy Governor Anna Breman:

I support the proposal to keep the repo rate unchanged, the repo rate path and the forecast in the draft Monetary Policy Report. The asset purchase programme expires at the end of the year. I therefore also support the proposal to purchase bonds for an amount of SEK 37 billion in the first quarter of 2022 to compensate for forthcoming principal payments.

Since the last monetary policy meeting, the recovery in the Swedish and the global economy has continued, but growth is expected to slow down going forward. In the near term, the recovery is dampened by high energy prices, bottlenecks, and a resurgence in the spread of covid, among other factors. Inflation has also increased in Sweden and abroad.

In Sweden, inflation outcomes have been in line with the Riksbank's forecast, but in both the euro area and the United States, inflation has been higher than expected. The draft Monetary Policy Report contains a detailed and thorough analysis of what is driving inflation in Sweden and abroad. I will therefore not go through the numbers. Instead, I want to give my view on how the forecast and the risk picture for inflation affect the monetary policy considerations going forward.

Inflation is now close to the Riksbank's target throughout the forecast period and inflation expectations are well anchored in line with the target. Although inflation is clearly above target for individual months, CPIF inflation for the whole of 2021 is expected to be 2.3 per cent. Inflation is then forecast to fall back in 2022 before rising and is expected to be close to the target in a few years' time.

The forecast is supported by the fact that it is mainly high volatility in energy prices that has caused the increase in inflation. The rate of increase in goods prices has been low and stable, despite disruptions in global value chains and higher input costs. On the other hand, the rate of increase in service prices has risen in recent months. Service prices reflect domestic resource utilisation to a greater extent than energy and goods prices. Going forward, we should pay attention to whether underlying inflationary pressures rise more than expected.

To understand what is driving inflation over the forecast period, we need to continue to develop the inflation forecasts. Let me mention three areas that I think will be particularly important in the coming years that were not as much in the spotlight a few years ago: the long-term effects of the pandemic, climate change and fiscal policy.

First, the short-term effects of the pandemic on measuring inflation, restrictions and supply disruptions are well analysed. These will fade over time. However, my assessment is that the pandemic will also lead to changed behaviour of households and firms in the longer term, which may affect inflation. This may occur, for example, via changed global value chains, increasing globalisation of the services sector and changed household consumption patterns.

Second, climate change is already affecting inflation in several countries; research shows, for example, that more frequent extreme weather leads to higher food and energy prices.[8] In the coming years, it is possible that policy measures needed to address climate change may also have an impact on inflation, for example by more countries introducing carbon taxes and/or emissions trading. Inflation may also become more volatile and difficult to forecast as more countries and sectors are affected by both extreme weather and policies to mitigate climate change.[9]

Third, in a world of low global real interest rates (see article in the Monetary Policy Report), more analysis is needed on the interaction between fiscal and monetary policy and how it affects inflation. Many countries have moved towards more expansionary fiscal policies during the pandemic. For the inflation outlook, it matters whether fiscal policy is tightened quickly or whether it remains more expansionary. The content of fiscal policy also plays a role, for example whether countries focus on short-term economic stimulus or instead on structural reforms that strengthen the economy's long-term growth potential. Fiscal policy abroad and its impact on inflation can affect Sweden through imported inflation.

For the Riksbank, this means that we will need to continue to develop our analysis in these areas in order to forecast inflation. Related to this are developments in global real interest rates, which affect central banks' policy space and monetary policy tools. I highly recommend both articles in the draft Monetary Policy Report, which provides excellent examples of this type of analysis.

This leads me in to the monetary policy considerations at today's meeting. I think it is a well-balanced monetary policy to gradually move towards a less expansionary monetary policy over the forecast period. The decisions and the forecast for monetary policy we have at today's meeting are consistent with inflation being on target also in the medium to longer term. I therefore support leaving the policy rate unchanged at today's meeting and for the repo rate path to signal an increase only after bond purchases have been tapered further.

At the last monetary policy meeting, several of the crisis measures introduced in March 2020 were terminated. Today's decision takes a few more steps in this direction as the bond purchase programme will end at the end of the year and we will no longer offer to purchase commercial paper. However, more than SEK 150 billion of the Riksbank's total bond holdings will mature in

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[8] See, for example, A. Heinen, J. Khadan, and E. Strobl (2019), "The Inflationary Costs of Extreme Weather in Developing Countries", The Economic Journal, 129 (1619), pp. 1327-1342. H.S. Kim, C. Matthes, and T. Phan. (2021), "Extreme Weather and the Macroeconomy", Working Paper No 21-14, Federal Reserve Bank of Richmond. M. Parker, (2018), "The impact of disasters on inflation", Economics of Disasters and Climate Change, 2(1), pp. 21-48. G. Peersman (2018), "International food commodity prices and missing (dis)inflation in the euro area", CESifo Working Paper, No 7338, CESifo.
[9] For more information and references to research on this, see my speech to the ECB Forum in Sintra on 29 September.

2022. To compensate for forthcoming principal payments, SEK 37 billion will be reinvested in the first quarter, which is close to the level of SEK 38.5 billion per quarter that would be required to fully compensate for principal payments in 2022.

The SEK 37 billion is divided between purchases of government and municipal bonds for a total of SEK 24 billion, compared to purchases of private securities (covered and corporate bonds) for a total of SEK 13 billion. As the economy has strengthened, the need to support the functioning of markets has diminished. It is therefore reasonable for the Riksbank's purchases to be more focused on securities issued by governments and municipalities. If this distribution of reinvestments is maintained, it means that holdings of private securities will be tapered faster than holdings of bonds issued by governments and municipalities.

Our forecast for securities holdings is that they will remain roughly unchanged through 2022 and gradually decline thereafter. My assessment is that it may be appropriate to taper reinvestments further in 2022, but that it is reasonable to take decisions one quarter at a time.

Let me sum up by repeating something I have highlighted in recent meetings: both the repo rate path and the reinvestment plan are a forecast and not a promise. We will adjust monetary policy to changes in the economic and inflation outlook if necessary. It is reasonable that the focus at the moment is on the risk of higher inflation. But the sudden fluctuations in both growth and inflation in recent years mean that it is important for me to send out a reminder that we are always ready to adjust expansiveness in either direction.

First Deputy Governor Cecilia Skingsley:

I support the proposal to leave the repo rate unchanged and the draft for a new Monetary Policy Report, including the new repo-rate forecast. I also support the proposal for a decision on asset purchases in the first quarter of 2022, according to Annex B to the minutes.

Over the past two years, the pandemic has led to dramatic fluctuations in the global economy. Demand for both goods and services has varied rapidly. Production and trade in goods have been constrained by shortages of input goods and by the difficulties for freight companies to match supply to demand.

As demand for services has grown rapidly, bottlenecks have also arisen in service production in many areas, as staff have moved to other sectors or left the workforce. Supply disruptions are creating headwinds for growth in the second half of this year, but over the next year these problems are expected to ease gradually, as consumption patterns become more normal, demand grows more slowly and production capacity is adjusted.

The conditions for continued good economic activity in the coming years are generally considered to be favourable - both in Sweden and abroad.

The dramatic fluctuations in economic activity have also had a knock-on effect on prices. The difficulties in meeting the rapidly rising demand for goods has led to sharp rises in commodity and transport prices, which has also led to rising producer prices after a certain time lag. Weak price developments earlier in the pandemic have also been reversed as sectors have opened up. In the United States, goods prices have risen rapidly, as have prices in some service industries that were closed during the pandemic. This has led to a significant increase in core inflation.

In Sweden and the euro area, the impact on consumer prices has so far been mainly limited to rapidly rising energy prices. Price rises have reduced household purchasing power, but higher savings during previous lockdowns are still providing reasonable conditions for continued high consumption.

Swedish inflation has risen and reached 3.1 per cent in October. The high energy prices are forecast to keep CPIF inflation high in the months ahead. CPIF inflation excluding energy amounted to 1.8 per cent, and the median of the seven measures of underlying inflation regularly monitored by the Riksbank was 2.1 per cent.

Past experience suggests that tightening monetary policy in the near term will not rectify the current high inflation. Monetary policy takes effect with a time lag. Instead, monetary policy makes the best contribution to economic developments by stabilising inflation further ahead.

Therefore, the key question for assessing whether monetary policy needs to be changed is: what indications are there that the current inflation rate will be persistent?

To explain my view on this, I consider two key factors: energy prices and general cost pressures.

To begin with, actual inflation is being driven up by energy prices. To assess the future development of energy prices, forward prices in energy markets provide an important clue. These indicate that prices are not expected to continue rising in the future. The contribution of energy prices to inflation will thus decline over the course of 2022, which is a key reason why inflation in Sweden is expected to fall back below the 2-percent target again.

But CPIF inflation excluding energy has also risen to levels close to the target. These include indirect effects from higher energy prices. For inflation to be close to 2 per cent on a more sustained basis, however, a more permanent increase in cost pressures is needed. In the United States, the pace of wage growth has picked up, but in other countries important for Swedish trade there is little evidence of higher wage inflation. In general, wage expectations do not deviate from the norm. For Sweden, wage demands at higher levels than those currently in the

Riksbank's forecasts are required for the risk of sustained high cost pressures to materialise. At present, it cannot be argued that this fundamental driver of cost pressures has actually changed.

The Riksbank's main scenario is based on the assessment that the price increases observed recently are linked to the pandemic and will therefore not be followed by new price increases once supply and demand have stabilised.

Inflation expectations have also risen, but these are mainly expectations of short-term inflation and I believe that longer-term inflation expectations in Sweden remain satisfactory.

Looking out into the longer term, 12 to 24 months from today, I note that average inflation is expected to be 1.69 per cent for the CPIF and 1.85 per cent for the CPIF adjusted for energy prices.

On the basis of the overall inflation picture, I would now like to describe my monetary policy assessment, which forms the basis for today's stance.

First of all, I wish to say that I am humble. Although the pandemic is expected to have marginal effects on Swedish demand going forward, it remains a major risk factor. Inflation developments in many countries have given rise to the most difficult monetary policy trade-offs we have seen in a long time. International financial conditions remain expansionary and credit supply is working smoothly. But inflation trends differ across countries, leaving room for many different monetary policy stances. Thus, even if the macroeconomic forecast described in the draft Monetary Policy Report is deemed the most likely, international developments may still surprise and lead to volatility that also affects Swedish conditions and ultimately Swedish monetary policy.

The Riksbank has purchased different types of assets during the coronavirus crisis. The aim has been to keep interest rates generally low, but also to ensure that the functioning of all markets is maintained and that the pass-through of monetary policy has effect. This was not the case in the corporate bond market for some time in 2020. In any case, the current economic outlook and inflation prospects provide convincing arguments to end the purchase programme initiated in March 2020 at the end of the year.

After that, I advocate a cautious approach. Given the inflation forecast for the next three years, asset holdings need to remain unchanged in 2022. Once a portfolio wind-down is initiated, it needs to be gradual and predictable.

Given the gradual increase in cost pressures over the forecast period, a higher repo rate after 2023 is perfectly reasonable.

If the economic outlook changes in such a way that a different monetary policy forecast is justified than the one decided today, I see the repo rate as the primary tool, rather than making specific changes to the asset portfolio, in addition to the projected unwinding. The reason for this is that we have more knowledge about the impact of changes in the policy rate on the economy as a whole compared to the purchase, management and maturity of interest-bearing securities.

Finally, I would like to highlight the article on global real interest rates in the draft Monetary Policy Report. It provides a good overview of the drivers of real interest rates. The analysis reinforces my view that it is important not to be too hasty with monetary tightening.

The reason, in short, is that in the long run the level of the repo rate is determined by the real international interest rate plus the level of the inflation target. With a persistently low real interest rate, the Riksbank will find it difficult to stimulate the economy sufficiently in a future recession with the repo rate alone. With the limited room for manoeuvre, it is therefore important not to be in too much of a hurry to tighten. Put simply, the scope for correcting this, should it turn out to be wrong, is very limited.

Governor Stefan Ingves:

I agree with the assessments made in the draft Monetary Policy Report, that is, to leave the repo rate at zero per cent and to purchase Swedish bonds issued by the state, municipalities, regions, Kommuninvest, non-financial corporations and covered bonds in the first quarter of 2022 for a nominal amount of SEK 37 billion, and to purchase treasury bills so that the Riksbank's holdings are maintained at around SEK 20 billion. The asset purchases will be carried out to compensate for maturing assets, and mean that the Riksbank will continue to have a presence in the market even after the asset purchase programme initiated in March 2020 expires at the end of the year. I also support the proposed repo rate path, which remains at zero for most of the forecast period, and rises somewhat in the latter part of 2024. All in all, this means that monetary policy, in its various components, continues to support economic developments and that inflation will develop in line with our inflation target further ahead.

The coronavirus pandemic continues to be a key external factor for global economic developments. Compared to a year ago, the situation in many parts of the world is now much better thanks to vaccination programmes. But we should expect that the pandemic may continue to affect economic developments in different parts of the world - sometimes more, sometimes less - for several years to come. The reason for this is that the spread of infection is still not under control, either in Europe or in other parts of the world. But for advanced economies, the impact on economic developments is much less now than at the beginning of the pandemic. In our forecast, the pandemic is assumed to have little impact on demand going forward.

Economic developments are still marked by the major economic shock the pandemic implied. The high growth figures seen in 2021 are largely an adjustment back to previous growth trajectories, and not a sign that sustained higher growth rates are to be expected in the future. And supply in several markets has struggled to respond to rapidly rising demand. The result has been higher prices for energy, for example, which in turn has led to increases in global inflation. But in broad terms, economic developments in the world around us look favourable.

Growth in the countries that are Sweden's most important trading partners (KIX countries) is expected to be over 5 per cent this year and over 4 per cent in 2022. Supply constraints and bottlenecks in some countries are giving an extra boost to the inflation rate this year and in 2022. As supply disruptions gradually fade, we expect KIX-weighted inflation to fall back to around 2 per cent over the forecast period.

In Sweden, economic developments look strong. Demand has risen rapidly during the year. But there are supply problems in different places, with shortages of input goods and labour. It is difficult to know how long the restrictions will last, but our assessment is that the situation will gradually normalise in 2022. For the full year 2021, we now expect growth of just over 4.5 per cent, 3.8 per cent next year and more normal growth of around 2 per cent in 2023.

Developments in the labour market also look strong. Employment rose rapidly in the third quarter and is now above its pre-pandemic level. Recruitment plans continue to point to a high demand for labour. However, unemployment remains high, although different statistical sources continue to give a different picture of developments. According to LFS, unemployment is still higher than before the pandemic, while statistics from the Swedish Public Employment Service suggest that unemployment is back to pre-crisis levels. Whatever the source of the statistics, it is particularly important that long-term unemployment does not become entrenched at high levels.

The latest CPIF inflation outcome was 3.1 per cent, which was in line with our forecast in the Monetary Policy Report in September. Much of the rise in inflation over the past year can be explained by rapidly rising energy prices. In our forecast, we assume that energy prices remain at high levels, which means that CPIF inflation is expected to remain around 3 per cent for the rest of this year and the first half of 2022, before falling below our target of two per cent. Thereafter, in 2023 and 2024, inflation will rise again to 2 per cent as we anticipate continued favourable economic developments. In other words, our forecast for CPIF inflation implies a rather winding road ahead, due to the very uneven development of energy prices.

Let me briefly mention something about the uncertainty in the forecast. The economic impact of the pandemic is now mild in Sweden and other advanced economies, due to higher vaccination rates and that people are now more used to working with the restrictions that remain. And the pandemic is therefore no longer as dominant as a source of uncertainty. The uncertainty in our economic forecasts has shifted focus and now includes inflation in the major economies, among others. In our forecast, we assume that the pick-up in inflation this year is not permanent. But should, for example, long-term inflation expectations rise, actual inflation could become entrenched at high levels. This is perhaps most notable for the United States, where the rise in inflation is broader than in the euro area, for example, and where extensive fiscal measures have had a major impact on demand.

Let me now say a few words about Swedish monetary policy. One could say that it is now more clearly entering a new phase. Behind us lies a period characterised by the pandemic, first with emergency crisis measures to stabilise financial markets and credit supply at a critical juncture, then with increasingly forward-looking measures to maintain expansionary financial conditions in order to contribute to the economic recovery. We are now returning to a more direct focus on the development of inflation, even though all the measures taken by the Riksbank during the pandemic also helped to safeguard confidence in the inflation target. The expansionary monetary policy outlined in the draft Monetary Policy Report is needed to ensure that inflation develops in line with our inflation target of two per cent more persistently. And monetary policy consists of several elements: maintaining the size of our bond holdings through 2022, and keeping the repo rate at zero per cent for most of the forecast period.

The interest rate path in the draft Monetary Policy Report indicates that the repo rate will slowly start to rise towards the end of the forecast period. Of course, it is extremely difficult to make accurate forecasts so far into the future. But it reflects a kind of expectation of normality, and that a repo rate of zero per cent is not normal in the longer term. It may be worth noting that if the repo rate is raised in the fourth quarter of 2024, the repo rate will be above zero for the first time in 10 years. As you know, the interest rate was cut to zero in October 2014, was negative from February 2015 to December 2019, and has been zero since then.

Let me conclude by briefly discussing some important conditions for Swedish monetary policy. One of these is external developments, and here I have already mentioned that we assume that international inflation is only temporarily high. But should monetary policy in the rest of the world become less expansionary than is now assumed in the draft Monetary Policy Report, there is, in my opinion, no reason to quickly change Swedish monetary policy. With our history of low Swedish inflation, monetary policy needs to remain focused on ensuring that inflation develops persistently in line with the inflation target. This will be done through a combination of a zero interest rate and a gradual and cautious reduction of our balance sheet measures.

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 keep the repo rate path horizontal in the coming years, allowing it to rise during the latter part of 2024. I also support the proposals regarding asset purchases contained in Annex B to the minutes.

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

According to the draft Monetary Policy Report, Swedish GDP is expected to rise by 4.7 per cent in 2021 compared with 2020. For 2022, the growth forecast is 3.8 per cent. This is an upward revision in relation to the forecast in the September Monetary Policy Report, when GDP growth for 2022 was forecast at 3.6 per cent.

A fundamental starting point for monetary policy is that the CPIF has been the target variable for monetary policy since 2017. The most recent inflation figure in October showed an annual rate of increase in the CPIF of 3.1 per cent. The moving average over twelve months for CPIF inflation was at 1.8 per cent in October. 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 projected 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 will be clearly above 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 7.3 per cent in October 2021. This was a decrease of no less than 1.5 percentage points compared with the same month one year earlier, when the corresponding figure was 8.8 per cent. After peaking in the second half of 2020, unemployment is clearly lower than it was one year ago. From a historical perspective, the downturn is faster than in earlier improvements of the situation on the labour market.

Unemployment insurance fund members can be considered to have a relatively strong position on the labour market. In October 2021, the percentage of openly unemployed members of unemployment insurance funds was 2.8 per cent. The same month one year earlier, the share was 4.1 per cent. After peaking in the second half of 2020, unemployment measured this way is now also clearly lower than it was one year ago.

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 5.2 per cent in the draft Monetary Policy Report. The same draft contains a forecast for 2022 of 4.1 per cent. 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; 2.6 per cent and 2.7 per cent respectively. These are considerable upward revisions in relation to the September 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 over the past year, despite the economic difficulties. The most recent monthly surveys show that inflation expectations are clearly rising. The most recent measurement for five years ahead for money market participants in November is at 2.0 per cent on average.

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 around the inflation target and are, if anything, rising.

The decisive question is whether the upturn in inflation that we are seeing abroad and in Sweden and abroad is temporary or more lasting. I consider the best forecast at present to be that the upturn in inflation is temporary. However, as described in the draft Monetary Policy Report, if the supply problems become more prolonged, the conclusion may well change. If inflation expectations and wage demands are affected by the rising inflation, what we are now regarding as temporary may well become more lasting. Inflation in Sweden is not isolated from that in other countries. If inflation abroad were to become more lasting, inflation in Sweden would be influenced upwards.

The securities purchases decided at the monetary policy meeting in November 2020 will be concluded in the fourth quarter of 2021. Today we are deciding on asset purchases during the first quarter of 2022 for a sum of SEK 37 billion, to compensate for principal payments over the coming year. I would not have objected if the purchases of covered bonds and corporate bonds had been somewhat lower. Given the uncertainty we are now seeing, I consider that a well-balanced monetary policy is to limit the concrete purchase plans to the first quarter.

It is proposed that the repo rate path should now rise from zero towards the end of the forecast period. Given the developments we have seen and the forecasts presented in the draft Monetary Policy Report, I consider this change in the repo rate path to be desirable.

To summarise, I therefore support holding the repo rate unchanged at zero and keeping the repo rate path horizontal until the end of the first quarter of 2024, and then allowing it it rise. I also support the proposals regarding asset purchases as described in Annex B to the minutes. Additionally, I support the economic outlook and the forecasts in the draft Monetary Policy Report.

Deputy Governor Martin Flodén:

This has been an unusually interesting and eventful monetary policy round with many issues to analyse and consider. The development of the pandemic is still uncertain. Vaccinations continue at a good pace in many countries, and in Sweden restrictions have continued to be relaxed, more or less as previously planned. At the same time, we see the spread of infection gaining fresh momentum and new restrictions being introduced in some countries.

In the real economy, we still see many areas where demand is strong while supply is constrained by various disruptions and bottlenecks. This also applies to the labour market, where we are seeing labour shortages in several sectors, for example service sectors that are now opening up after previous lockdowns.

For central banks, of course, the development of inflation is of particular interest. Inflation has risen rapidly in most countries. The rise in inflation in Sweden has been fully in line with both our own September forecast and the forecasts of others. But in several other countries, inflation has risen much more, and more than expected.

Much of the rise in inflation has been driven by rapid increases in energy prices, but in some countries there are also clear effects from higher prices for goods and services, and some evidence of faster wage growth.

All this has led to considerable attention in financial markets and in the media. The discussion has quickly shifted from low inflationary pressures and low interest rates to focusing on the risks of inflation becoming entrenched at high levels and the emergence of problematic price and wage spirals.

As a result, market pricing now indicates that central banks will raise their policy rates much faster than pricing indicated at our last monetary policy meeting, and in many cases also compared to what central banks themselves are communicating.

We have seen this shift in pricing in Sweden as well, even though the development of inflation here has been fully in line with previous expectations and despite underlying inflation still being low.

My assessment of the inflation situation in Sweden coincides entirely with the description and analyses in the draft Monetary Policy Report. Thus, most evidence suggests that inflation in Sweden is being temporarily held up by energy prices, which have risen but are not expected to continue rising at the same pace; more likely, energy prices will remain around their current high levels in the coming years. As the contribution of energy prices declines, inflationary pressures need to be higher than in the past decade to bring inflation up to target. It is therefore helpful if temporarily high inflation has some spillover effects, for example via inflation expectations and wage demands. However, our assessment is that the spillover effects in Sweden will be limited and not very persistent. Interest rates are therefore likely to need to remain around current levels for several years in order to lift inflationary pressures more persistently to a level consistent with the inflation target.

The forecast for the repo rate in the draft Monetary Policy Report now indicates that it will most likely be appropriate to raise the repo rate in the second half of 2024. This is an assessment that I fully support, but it is based on inflation and economic activity developing in line with our forecast. In this case, inflation will be just above the inflation target in 2024, while economic activity is strong. Without a rate hike, inflation would then risk being too high in the years beyond our forecast horizon.

This is obviously an assessment that is associated with considerable uncertainty. If high inflation leads to substantial spillover effects, manifested in compensation claims, significantly faster wage increases and worryingly high inflation expectations, the interest rate will need to be raised earlier. On the other hand, if developments in 2024 do not suggest that inflationary pressures will continue upwards, there may well be a case for keeping the interest rate at zero for an even longer period than our forecast now indicates.

Despite this uncertainty, my assessment, as at the last monetary policy meeting, is that the likelihood of an interest rate adjustment being justified in the first half of the forecast period is low; it would take quite large changes in the assessment of inflationary pressures to justify a lower or higher repo rate.

I will also comment on our asset purchases. The background to today's decision is that the asset purchase programme decided by the Executive Board in November 2020 will expire at the end of the year. We now decide to buy SEK 37 billion of bonds in the first quarter of 2022, a purchasing rate that roughly corresponds to the average quarterly principal payments from bonds in our portfolio over the next year.

I entered a reservation in November 2020 when we took the decision on the purchase programme that is now expiring. I still think that we have had an unnecessarily large purchase programme in 2021. I think we could have maintained roughly the same expansionary financial conditions with a smaller purchase programme, and I see several problems with the large portfolio we have now built up. But despite this, I support the proposal to buy SEK 37 billion of bonds next quarter.

The proposal means that purchases next quarter will be significantly less than in the current quarter, in which bond purchases amount to SEK 68.5 billion. An even larger tapering could create unnecessary uncertainty. Moreover, with a gradual tapering, we can see how the markets react to the change, and then adjust future purchases to these experiences.

My assessment today is that financial conditions will not be significantly affected by this large change in the pace of purchases. If this is true, I will probably advocate some further tapering in the coming quarters.

I would like to conclude by discussing how I view the purchases of the various assets in our portfolio. This has relevance both to the tapering we are now planning for the first quarter of next year - where the distribution of purchases will change somewhat compared to recent quarters - and to my hope that we will be able to continue the tapering for the rest of 2022.

Let me start with the purchases of corporate and mortgage bonds. Today's decision means that purchases of corporate bonds will remain modest and that purchases of mortgage bonds will decrease significantly, from SEK 45 billion this quarter to SEK 12 billion next quarter. Compared to our other asset purchases, it is easier to understand how purchases of these assets affect economic developments. These bonds are closely linked to the financing of both companies and households and have a duration that is relevant when it comes to influencing the interest rate. In addition, buying these bonds removes private risk from the market.

But at the same time, it is desirable that the pricing of risk, and in particular private asset risk, is left primarily to the market. As far as possible, the Riksbank should therefore avoid buying private assets. That is why I think it is good that we are rapidly scaling back our purchases of mortgage bonds now that the economy in general, and the housing market in particular, has recovered well from the pandemic. In 2022, I believe and hope that we will also be able to reduce, or completely terminate, our corporate bond purchases.

Let me move on to purchases of government bonds. In principle, these purchases should be less problematic than purchases of private assets. But Swedish government debt is small, and therefore the government bond market is also small. In addition, the supply of government bonds is expected to decline further next year, while the Riksbank already owns a large share of the outstanding stock, especially at short and medium-term maturities.

Continued purchases of government bonds must be weighed against several factors. What positive effects can we achieve if we buy bonds with long maturities, given that both households and companies in Sweden mainly borrow with short interest-rate fixation periods? How will the functioning of the market be affected if the Riksbank's ownership share increases further? Can the Riksbank's balance sheet withstand the interest rate risk of further purchases, especially given that the bonds are expensive and that the interest rate risk becomes even more pronounced if we buy bonds with long maturities?

Weighing these aspects, I see many problems and risks, while the benefits of continued purchases, especially of long-term government bonds, appear to be limited. I therefore believe that it will be appropriate to taper these purchases during the year, and that such a tapering need not result in a significant rise in the interest rates we care about.

In November 2020, I entered a reservation against the proposal to include treasury bills in the purchase programme. Somewhat simplified, we are buying government securities with a three-month maturity and replacing them with other government securities, Riksbank certificates, with a one-week maturity. It is difficult to see any positive economic impact of this measure. At the same time, it can be argued that the measure is relatively harmless, but in any case it should be borne in mind that the yield on treasury bills is considerably lower than on Riksbank certificates. We are therefore buying securities that are expensive relative to our funding cost.

Finally, I will mention municipal bonds. Here, I do not see any obvious problems with our purchases. It is good that we are now putting a larger proportion of our purchases here, but as the market is limited, it is not obvious that we could increase purchases even further.

As I said earlier, I support the proposal for asset purchases in the first quarter of 2022 despite the problems and objections I have now raised. The proposal implies a significant tapering compared to the current quarter. An even greater tapering in a short period of time would create risks and could lead to unnecessary uncertainty. It is better that we evaluate how the financial conditions are affected by the lower purchasing rate before we decide on further purchases.

In the draft Monetary Policy Report, we write that the forecast is for the securities holdings to remain roughly unchanged in 2022. This is a forecast that I can only support with hesitation. As I have already indicated, I believe that the experience of the tapered purchases in the early part of 2022 will show that it is appropriate for the continued purchases in 2022 to be somewhat less than what is required to maintain the securities holdings during the year.

But it is important for financial conditions to remain expansionary. We will achieve this primarily by keeping the repo rate low and strengthening the credibility of our repo rate forecast, which implies that the repo rate is likely to remain at zero for almost the entire forecast period.

So, in conclusion, I support the decision to leave the repo rate at zero, the proposed forecast for the repo rate and the proposed decision on asset purchases in the first quarter of next year. I also support the other forecasts and assessments in the draft Monetary Policy Report and in the annex to the minutes.

§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 1 December 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,
- 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 Thursday 25 November 2021,
- to publish the minutes from today's meeting at 09.30 on Monday 6 December 2021.

This paragraph was verified immediately.

Minutes taken by:

Paul Elger	Henrik Lundvall

Verified:

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

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