Monetary policy minutes

July 2021

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

Summary

At the monetary policy meeting on 30 June, the Executive Board of the Riksbank decided to hold the repo rate unchanged at zero per cent and it is expected to remain at this level over the coming three-year period. The Executive Board also decided that during the fourth quarter the Riksbank will buy bonds for an aggregate nominal amount of SEK 68.5 billion. This means that the pace of purchasing will continue to be tapered but that the envelope for asset purchases of SEK 700 billion will be fully utilised up until the end of 2021.

The pandemic's grip on the global economy has eased during the spring and early summer, and the recovery is well under way. More and more people have been vaccinated against COVID-19, the spread of infection has decreased and restrictions have begun to be phased out. But the members stressed that the pandemic is not over yet. The recovery is proceeding at a different pace in different parts of the world and there are new variants of the virus that are causing uncertainty with the risk of setbacks.

The members noted that the economic outlook and inflation prospects look brighter. At the same time, they pointed out that inflation is being affected by large variations in energy prices as well as measurement problems and other effects that are deemed to be temporary. It is expected to take some time before inflation is close to 2 per cent more persistently. Several members noted that inflation is expected to be somewhat above the inflation target at the end of the forecast period, but considered that this is not an argument for making monetary policy less expansionary at present. They stressed the importance of anchored inflation expectations in line with the inflation target and bearing in mind that inflation on average has undershot the target for quite some time, inflation temporarily above 2 per cent could contribute to this.

Several members pointed out that weaker inflation prospects than those currently in the forecast may lead to monetary policy becoming more expansionary, for example in the form of a rate cut. This applies in particular if confidence in the inflation target were to be under threat. But, if inflation were to risk overshooting the target substantially and persistently, a less expansionary monetary policy could be justified during the forecast period. A few members discussed a rate path that could indicate a rate rise at the end of the forecast period.

All members agreed that monetary policy needs to be sustained in order for inflation to be persistently close to 2 per cent, and supported the decision to keep the repo rate unchanged and the forecast implying an unchanged repo rate until the third quarter of 2024.

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MONETARY POLICY MINUTES
Executive Board, No.3

DATE: 30 June 2021

TIME: 09:00

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

Michael Lundholm, Deputy Chairperson, General Council of the Riksbank, remotely
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Robin Ahlén (§ 1-3a), remotely
Björn Andersson
Jeffrey Cheng
Vesna Corbo (§ 1-3a), remotely
Charlotta Edler
Mattias Erlandsson
Pia Fromlet
Anders Gånge (§ 1-3a), remotely
Jesper Hansson
Mia Holmfeldt (§ 1-3a), remotely
Iida Häkkinen Skans (§ 1-3a), remotely
Jens Iversen (§ 1-3a), remotely
Peter Kaplan (§ 1-3a), remotely
Pernilla Meyersson
Ann-Leena Mikiver (§ 1-3a), remotely
Marianne Nessén (§ 1-3a), remotely
Åsa Olli Segendorf (§ 1-3a), remotely
Jessica Penzo
Carl Fredrik Pettersson (§ 1-3a), remotely
Maria Sjödin
Anne-Therése Zetterström

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

§3a. Economic developments

Market developments since the last monetary policy meeting

Carl Fredrik Pettersson from the Markets Department began by presenting the latest developments on the financial markets. Developments since the monetary policy meeting in April have been positive overall. Yields on ten-year government bonds have moved relatively sideways, while equity prices have continued to rise somewhat. Developments on financial markets reflect an expectation that the US central bank, the Federal Reserve, and the European Central Bank, the ECB, will taper asset purchases and other monetary policy stimulation very slowly, which has also been communicated by the central banks. There is also relatively broad consensus between market participants and central banks that the recent upturn in inflation will be temporary. The markets are more focused on developments in the US labour market, which also increases expectations of more cautious action by the Federal Reserve.

Risk appetite is also being maintained by expectations of expansionary fiscal policy in the United States, and going forward also in Europe. Recently, however, expectations regarding the magnitude of the US infrastructure package have been adjusted down somewhat. Over the past few days, risk appetite and stock markets have been affected somewhat negatively by concern over the delta variant of COVID-19, for instance, in Australia, some Asian countries, South Africa and the United Kingdom.

On a global level, central banks have thus continued to support developments in the financial markets since the April meeting. However, it has been possible to discern small steps towards somewhat less expansionary monetary policy globally. The most marked shift has been in the United States, following the Federal Reserve's most recent monetary policy announcement, which the markets found difficult to interpret. The market has focused on the upwardly revised forecasts for the policy rate and the discussion on the upside risks for inflation. The yield curve has become somewhat flatter, which can be interpreted as inflation risks nevertheless being manageable. The market is pricing a first policy rate increase by the Federal Reserve in 2022. Three increases are expected to occur by the end of 2023. Market analysts are expecting the notification and decision on the tapering of asset purchases to be made at the end of the summer and the end of the year respectively.

In its most recent monetary policy announcement, the ECB stood firm on its intention to maintain the high purchasing rate within the pandemic programme. The ECB is expected to purchase assets within the envelope for the pandemic programme until the end of March 2022, and the policy rate is not expected to be raised until mid-2023 at the earliest, according to market pricing.

The US dollar has strengthened against virtually all currencies since the Federal Reserve's most recent monetary policy announcement. The fact that the ECB is expected to maintain an expansionary monetary policy longer than the Federal Reserve will probably be important for the development of the dollar.

Commodity prices – and not least the oil price – have developed very strongly since the monetary policy meeting in April. The development has been affected by the same factors that have characterised developments on equity markets, that is, expectations of a strong global recovery. The sharp upturn has meant that Chinese authorities have taken measures to slow down the development.

During April and May, a gradually stronger krona was noted as the dollar weakened. However, the krona weakened substantially against the dollar following the Federal Reserve's most recent announcement. General sentiment and developments abroad appear to play a major role in the development of the krona at present, with domestic factors taking a back seat. The Swedish krona has remained relatively unchanged in trade-weighted terms since the monetary policy meeting in April.

As in the United States, shorter bond yields in Sweden have risen and longer rates have fallen back somewhat. Five-year yields on government bonds, covered bonds and corporate and municipal bonds have been relatively unchanged since the last monetary policy meeting.

Market pricing indicates that the Riksbank will hold the repo rate unchanged until the third quarter of 2023. Expectations according to surveys indicate a somewhat later increase of the repo rate. Overall, expectations according to both market pricing and surveys indicate that the Riksbank will raise the repo rate earlier than is indicated by the Riksbank's own repo-rate path. Bank analysts expect the repo-rate path to remain at zero until the third quarter of 2024, but that there is a possibility it may be revised up at the monetary policy meeting today.

The current monetary policy drafting process – new data and forecasts

Mia Holmfeldt, Deputy Head of the Financial Stability Department, presented price developments on the housing market and the situation in the corporate sector and banking system. Prices in the housing market have continued to rise. Compared with May 2020, housing prices have increased by a good 18 per cent, with prices of single-family dwellings continuing to rise the fastest. Prices of single-family dwellings have increased by 21.4 per cent in relation to May 2020. Prices have increased in all metropolitan areas, and particular sharply in Malmö.

Prices of tenant-owned apartments are also increasing, but at a slower pace. In May, the rate of price increase for tenant-owned apartments was 12.1 per cent, compared with a year ago.

The price upturn in general, but also the divergent developments with regard to single-family dwellings and tenant-owned apartments, deviate from historical correlations and it is difficult to explain this development using factors that normally affect prices, such as disposable income, the interest rate and new construction. Instead, the most important explanations probably have to do with the unusual economic effects of the pandemic. Nor is the rise in housing prices during the crisis unique to Sweden. Developments are similar to those in other countries, such as Denmark, Norway, the United Kingdom and the United States, which indicates that the strong price increase has been driven by factors that are relatively common among countries rather than country-specific.

The number of bankruptcies among Swedish companies remains at a low level, and in April and May has been slightly lower than in the corresponding period in the years prior to the pandemic. An important explanation for bankruptcies not having increased more, despite the crisis, is the extensive support measures implemented in several policy areas. However, one cannot rule out the possibility that bankruptcies may increase going forward, if the crisis becomes more prolonged, or if the recovery takes a long time or the support measures are withdrawn too soon.

In the property sector, developments have overall remained stable during the spring. However, there is some difference depending on the type of activities conducted in the properties owned. Companies with properties in industries that have been hit hard by the pandemic have experienced relatively more problems. Some hotel and retail trade properties have been negatively affected, at the same time as housing and logistics properties are doing well. With regard to office properties, developments look stable so far. This may change, however, depending on how the needs for office space look after the pandemic.

The funding costs of the major Swedish banks remain low overall. Yields on Swedish covered bonds remain at low levels, with the difference between a five-year bond yield and the corresponding swap rate being around 4 basis points. The same also applies to short-term interbank rates, which reflect loans between banks without collateral, which remain low. The Swedish interbank rate STIBOR with a three-month maturity has been relatively unchanged recently and is just below 0 per cent, which is lower than prior to the pandemic. The US equivalent, USD LIBOR at the same maturity, has declined somewhat recently and is now around 0.15 per cent. The banks' deposits from households and companies remain at a high level, which reduces the banks' need for market financing.

To summarise, the major banks in Sweden have good access to low-cost funding, and also have a margin down to the regulated capital requirements. The banks continue to be profitable and their loan losses have so far been small. This means that they are currently deemed to have ample capacity to lend money to households and companies.

Mattias Erlandsson, Deputy Head of the Monetary Policy Department, presented economic developments since the monetary policy meeting on 26 April, 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 10 and 11 June and on 16 June. The draft Monetary Policy Report was discussed and tabled at a meeting with the Executive Board on 21 June.

Mattias Erlandsson began by observing that the spread of the coronavirus has fallen to low levels in most developed countries, and restrictions have been gradually eased, against the backdrop of increased vaccinations. However, in parts of Africa, Latin America and Asia, where access to vaccines is still low, the spread of infection is increasing, and there remains a risk that more new variants of the virus will arise, against which vaccines will have less effect. In Sweden, the Government has presented a plan for how restrictions will be eased in different stages, and the assessment is that most restrictions can be removed over the second half of the year, assuming that the spread of infection does not increase again.

The global economy is now in a recovery phase, although as with the vaccination process, this looks different in different parts of the world. Since the forecast in April, outcomes have been published showing that GDP has grown more strongly than expected in the euro area, and a high level of optimism among companies points to a rapid upturn in GDP in the coming period in countries that are important for Swedish exports. In Europe and North America, household confidence has increased, and overall the rising vaccination rate and reduced restrictions are the most important driving forces behind high growth abroad this year. The manufacturing industry has already recovered the fall of last year, and production there is now being hampered more by a shortage of input goods and freight capacity than by low demand. The supply disruptions have contributed to rapid prices increases in early stages of the production chain. An article in the draft Monetary Policy Report discusses why these upturns are probably temporary and will have a limited impact on consumer prices.

At the same time, however, CPI inflation has increased rapidly in the United States in particular, where inflation was 5.0 per cent in May. The fact that inflation was so high is partly due to many prices being dampened to a relatively large extent by the pandemic in the comparison period one year ago. Now that economies are opening up, this will contribute to substantial fluctuations in the rate of inflation. The upturn is assessed to be largely temporary, which is also in line with different measures of inflation expectations.

The ongoing recovery in many countries indicates that this crisis will be more short-lived than several previous crises in terms of the level of economic activity. This is partly due to the causes of the crisis, and partly to very active stabilisation policy. Although the effect of the crisis on production will be temporary, the crisis will live on in higher debt levels, not least with regard to public debt in many countries. More information on the important role played by fiscal policy during the crisis and in the recovery phase is provided in an article in the draft Monetary Policy Report.

The economic statistics and indicators reported since the April Monetary Policy Report confirm the picture of a strong recovery in the Swedish economy, too. Although growth during the first six months of this year is expected to be somewhat lower than was forecast in April, at the same time Statistics Sweden has revised the growth figures for 2020 in a way that means that annual growth in 2021 will be higher than in the previous forecast, 4.2 per cent compared to 3.7 per cent.

The proposed forecasts in the draft Monetary Policy Report mean that GDP will return to its pre-pandemic level during the third quarter and after a further quarter or two, GDP will be in line with the trend development expected prior to the crisis. The fact that economic policy is still expansionary and GDP abroad is growing rapidly means that growth will remain high in 2022, 3.7 per cent, and then slow down to 1.9 per cent in 2023.

The recovery in production is also strengthening the labour market. Statistics since the April forecast show that growth in employment picked up during the second quarter and unusually high recruitment plans in the Tendency Survey of the National Institute of Economic Research point to a continued rapid increase in employment. However, unemployment is high to begin with, and will not reach its pre-crisis level until the end of next year. The overall picture of resource utilisation in the Swedish economy is that it will rise quickly and according to some measures reported in the draft Monetary Policy Report it will be higher than normal during the forecast period.

Since the Monetary Policy Report was published in April, outcomes for CPIF inflation in April and May have been presented. As expected, inflation rose significantly in April, to 2.5 per cent, and then decreased somewhat to 2.1 per cent in May. The May reading was around two tenths higher than expected. Rapid changes in energy prices and updated weights in the consumption basket mean that the development of inflation will be volatile this year, as it was last year. In the short term, CPIF inflation is expected to fall to a low of 1.2 per cent in July. With effect from some way into 2022, inflation is expected to rise more steadily, and towards the end of the forecast period, to be close to 2 per cent. Important factors behind the rise in inflation are a high level of resource utilisation, gradually higher cost pressures and the exchange rate ceasing to appreciate. Compared with April, the forecast has been adjusted upwards somewhat, not least this year, because of higher energy prices.

The forecast is based on the monetary policy that the Monetary Policy Department judges will gain majority support in the Executive Board at today's meeting. Purchases of securities are continuing in 2021, within the envelope decided by the Executive Board in November 2020. Purchases of almost SEK 70 billion during the fourth quarter will increase the Riksbank's holdings of securities to just over SEK 925 billion at the end of the year. The holdings are then expected to be unchanged at least until the end of 2022. The repo rate is held unchanged at zero per cent, and the Riksbank will continue to offer liquidity within all of the programmes launched in 2020. At today's meeting, the Executive Board is expected to decide on the allocation of the asset purchases during the fourth quarter of 2021. Details of the proposal can be found in Annex B to the minutes.

§3b. The economic situation and monetary policy

Deputy Governor Per Jansson:

I would like to begin by saying that I support the economic assessments and the monetary policy assumptions in the draft Monetary Policy Report. A new factor in monetary policy is the size of security purchases during the fourth quarter, and how these purchases will be distributed among various asset types. My comments are structured as usual. I start by giving my view on the current inflation picture and inflation prospects. Then I comment on the monetary policy situation.

Since our last monetary policy meeting in April, we have received two new inflation outcomes, for April and May. In April, inflation rose quite substantially and was, both with and without energy prices, about two tenths of a percentage point above our forecast, at 2.5 and 1.7 per cent respectively. The May outcome then brought an expected decrease, to 2.1 per cent for inflation including energy prices and 1.2 per cent for inflation excluding energy prices. The development means that price increases continue to be around 0.2 percentage points faster than estimated when energy prices are included. If energy prices are excluded, our forecast for May was spot on. Although inflation without energy prices was right in line with the assessment in the Monetary

Policy Report in April, it must be acknowledged that the May outcome, bearing in mind the strong figure for April, was somewhat disappointing.

That inflation has been quite volatile in April and May is also reflected in the Riksbank's various measures of underlying inflation. All seven measures that we regularly calculate rose in April and their median was 2 per cent, compared with 1.5 per cent in March. With the May data, however, all measures fell and the median was once again 1.5 per cent. The two measures that have been shown in an empirical evaluation to be best at predicting future CPIF inflation, UND24 and CPIFPC, amounted to 1.7 and 1.1 per cent respectively.[1] Of course, these large increases and decreases in the measures of underlying inflation make it extra difficult to judge the strength of more genuine inflationary pressures just now, a strength that will be of major significance if it is to be possible to push price increases up towards the inflation target during the latter part of the forecast period.

The volatile development of the measures of underlying inflation underlines the importance of more long-term inflation expectations not deviating too much from the target in this situation. If these expectations remain quite close to 2 per cent, increases and decreases in various measures of the currently prevailing inflation rate are significantly less alarming, because this means that, despite everything, economic agents believe that price increases going forward will be around the inflation target and that the fluctuations we are now seeing are temporary. But naturally, a substantial decline in underlying inflation increases the likelihood of more long-term inflation expectations also starting to show signs of weakness, which is obviously not good.

Fortunately, the new outcomes from Prospera's measurements of inflation expectations show that the positive development for inflation expected by agents over the slightly longer term is continuing. The outcomes published since our last monetary policy meeting are the monthly survey for May, which is only for money market participants, and the quarterly survey for June, which also measures the expectations of labour market organisations, among others.

The remarkable stability in the more long-term, five-year inflation expectations for money market participants persists. The outcome for both the May and the June survey amounts to 1.8 per cent, which means that the money market has now had unchanged long-term expectations at this level for six months in a row.[2] That five-year inflation expectations among money market participants are very consistently close to 2 per cent is naturally very good news.

[1] See the article "Why measures of core inflation?" in Monetary Policy Report, October 2018.
[2] 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.

The results for other groups included in the larger quarterly survey are also encouraging throughout. Regarding five-year inflation expectations, all these groups now say they believe that inflation five years ahead will be 2 per cent or higher. As usual, the longer-term expectations of labour market organisations are of particularly major importance in the context. Fortunately, these have continued to rise and are currently just above 2 per cent for both employee and employer organisations. This is of course important for the role of the inflation target as the anchor for wage development.

Measures of longer-term inflation expectations derived from market pricing of financial contracts have generally increased this year. The increase has been particularly evident in the United States, where measured expectations have periodically exceeded 2 per cent quite substantially. In Sweden, too, expectations measured in this way have risen, but not to the same high levels as in the United States. The trends on these markets have so far not been particularly dramatic and are probably, in the countries concerned, rather seen as something positive, associated with expectations of a sound economic recovery and closer-to-target inflation. But in this area, it is important to continue to carefully follow developments, and the driving-forces behind them, as problems may arise if the trends are reinforced or continue for a longer period of time.

As regards the prospects for inflation during the forecast period we are now reviewing, that is, up to the end of the third quarter of 2024, the draft Monetary Policy Report mainly proposes certain upward revisions of the contribution from energy prices over the next year. In light of somewhat greater optimism about the economic recovery, inflation excluding energy prices is also estimated to be slightly higher than previously, despite the noted signs of weakness in the picture for underlying inflationary pressures. But here it is important to point out that the revision is small, generally less than a tenth of a percentage point for the monthly forecasts in annual percentage change. Just as in the April forecast, therefore, it will still take until the latter part of the forecast period, from about 2023 onwards, before inflation is expected to rise fairly evenly and consistently, so as to be in line with the inflation target towards 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 of the economy are also contributing to the growing inflationary pressures.

I will now go on to my comments on the monetary policy situation. In the draft Monetary Policy Report, it is proposed that we shall keep to the plans for the repo rate and asset purchases that we have formulated and communicated previously, that is, that we shall not make any changes in the formulation of monetary policy. As I said, I share this assessment but would here like to expand a little on why I reach this conclusion in the current situation.

The reasons for not choosing a more expansionary monetary policy, which for me in this situation would require us to cut the repo rate, are, as I see it, basically the same as in April. Fortunately, the problems we have in reaching the inflation target are at this moment quite simply not sufficiently serious for it to be worth using our remaining scope for cutting the repo rate. The decisive factor here is that there are no signs of the confidence in the inflation target starting to waver; on the contrary, it has strengthened somewhat during the first half of the year. I have previously identified the scope that I envisage we have for cutting the repo rate to be a couple, three, maybe a maximum of four cuts of 25 basis points. I continue to perceive this estimate as reasonable. If a situation were to arise where the confidence in the inflation target is in jeopardy, I would not hesitate in the slightest to use this scope for cutting the repo rate, even if it would mean that we are hitting the lower bound for the interest rate. In this context, a very important aspect to monitor going forward is that the signs of weakness in the development of underlying inflation do not start to find their way into longer-term inflation expectations.

I perceive the reasons for not choosing to make monetary policy less expansionary to be, if anything, even stronger. Despite the recovery being clear and appearing to be strong, the risk of the economy overheating is very small. An expression of this is that price and wage developments are still moderate and will also continue to be so for quite some time to come, according to both our own assessments and those of other forecasters. That inflation is now overshooting the target slightly at the end of the forecast period does not change my view on monetary policy in the coming years. This is not an argument for tightening policy but, if anything, is just positive and desirable, in order to strengthen the role of the inflation target as the reasonable starting-point for the inflation rate on average.

Developments going forward must be continually assessed when forecasts are updated and new forecast quarters are added. But at present, the dynamics of inflation do not look as though they will motivate less expansionary monetary policy any time soon beyond the current forecast horizon either. Personally, I would on the contrary welcome further upward revisions of the longer-term forecast, for the same reason as I now think it is positive that we are slightly overshooting the target at the end of the current forecast period.

Against this background, and in summary, I see the design of monetary policy, as it is described in the draft report, as well balanced. Allow me here also to add a few more general aspects with regard to the issue of changing a monetary policy plan that has already been formulated and communicated. The whole idea of communicating a plan is to make economic agents believe in it and adjust their actions and behaviour in accordance with it. If successful, it means, among other things, that current financial pricing, for example regarding different interest rates and the exchange rate, is based on the plan being implemented. To then change it, even if it only relates to the formulation of monetary policy quite far in the future, runs the risk of having an immediate impact on prevailing interest-rate levels and the exchange rate.

This impact need not be large and broad but if a great deal of hard work and energy has been put into explaining that the intention is actually to implement the plan, then there is definitely a danger of the tightening effect being quite significant. In addition, credibility in communication can suffer more generally – if we do not do what we say this time, why should people believe that we will keep to what we say next time? Obviously, it has to be possible to change a plan if it is clearly no longer reasonable. But the point is that one should be very cautious when doing so and aware that it may have negative consequences, in both the short and the long run.

That our reasoning is not entirely wrong regarding the design of monetary policy is in my view underlined by the thoughts expressed by other central banks around the world. Of greatest significance in this context are of course the thoughts of the US central bank, the Federal Reserve, and the European Central Bank, ECB. I perceive both of these central banks to be very clear about it still being too early to say when monetary policy will need to be made less expansionary. Although the Federal Reserve did make a well-publicised upward revision of its so-called dot plot for the future development of the policy rate at its latest meeting on 15-16 June, it was simultaneously communicated that the dot plot is not the bank's forecast for the policy rate and that a suitable time for starting to hike the rate had not been discussed at all. In Jerome Powell's own words, "lift-off is well into the future".[3] Revising our rate path, which in contrast to the dot plot is an explicit forecast for the repo rate that is connected to our other forecasts for inflation, output, employment, etc., is thus another thing entirely.

Deputy Governor Martin Flodén:

Developments after the monetary policy meeting in April have mainly been in line with the assessments we made at the time. However, the optimism we noted then both among households and companies and in financial markets has strengthened. The economic recovery appears to be continuing and seems to be somewhat faster than we anticipated in April. In parallel with this growing optimism, the pandemic has nevertheless continued to cause concern. In Europe and the United States, vaccine rollout is proceeding rapidly, but the spread of new variants of the virus is creating uncertainty. In many other countries, the vaccination rate is still low. So the pandemic is not over, and it appears unlikely that all restrictions and recommendations can be removed quickly. The risk of setbacks remains.

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[3] See https://www.cnbc.com/video/2021/06/16/fed-reserves-powell-on-projections-dot-plots-are-not-a-great-forecaster.html.

The development of inflation has been in focus in financial markets during the year. After a long period of clearly weak inflationary pressures both in Sweden and abroad, there are now a few signs that can be interpreted as inflationary pressures being on the way up. Energy and commodity prices have risen very rapidly during the year and inflation outcomes and inflation expectations have also increased. After our monetary policy meeting in April, particular focus has been on certain high inflation outcomes. In Sweden, CPIF inflation was 2.5 per cent in April, which was higher than the Riksbank's forecast. And in the United States, CPI inflation was a full 5.0 per cent in May.

In light of this, I would like to elaborate on how I interpret Swedish inflationary pressures and how I think our monetary policy should be formulated going forward.

To begin with, I look only positively on recent developments in inflation expectations and inflation outcomes in Sweden. It is good that inflation expectations have risen to levels that are in line with our inflation target. And there is no harm in inflation periodically overshooting 2 per cent after a decade dominated by below-target inflation outcomes; inflation has been lower than 2 per cent 100 of the last 120 months. My assessment is that inflationary pressures are still weak. In May, CPIF inflation was 2.1 per cent but adjusted for energy prices, it was only 1.2 per cent. Other measures of underlying inflation also indicate continued weak inflationary pressures. Most indications are that inflation is now being held up by both rising energy prices and temporary effects related to the pandemic.

Our forecast for inflation in Sweden has been revised up somewhat in the latest forecasting rounds. But the forecast is nevertheless that inflation will mainly be below 2 per cent in the coming years despite the expansionary monetary policy. Although the risk that inflation and inflation expectations fall to problematically low levels has decreased during the year, the risk of such a scenario is nevertheless greater than the risk that inflation rises in a problematic way. I therefore do not rule out a situation in which more expansionary monetary policy may be justified. In that case, a rate cut is close at hand.

It is thus not appropriate to tighten monetary policy now, and hardly in the coming years either. However, I am not convinced that it will be appropriate to hold the repo rate at zero per cent for the whole three-year period in our forecast. Compared with the forecast from the monetary policy meeting in April, we are now adding a new quarter, the third quarter of 2024. Which monetary policy will be appropriate in three years' time is of course almost impossible to judge today. But based on the development in our forecast, I think that a rate rise during the second half of 2024 may be justified.

Our forecast is that underlying inflation will increase steadily in 2023 and 2024 with no clear sign of stopping around 2 per cent and that resource utilisation will simultaneously be clearly above neutral levels (see Figure 3 and 50 in the draft Monetary Policy Report). Under these, rather hypothetical, conditions, a rate increase towards the end of the forecast horizon may be needed for inflation not to overshoot the inflation target too much and too long in the years beyond the forecast horizon.

The forecast in the draft Monetary Policy Report is that the repo rate will remain at zero per cent for the entire forecast period. I support the forecast despite the reasoning I just gave. My reasoning is about a marginal difference in the repo rate three years from now, and I do not see it as unreasonable that it will be appropriate to keep the repo rate at zero for the entire three-year period. Moreover, the aim of a different rate path would not be to achieve tighter financial conditions today. Even the rate path I implied is below what is priced and expected in financial markets. I therefore entirely concur on the need to maintain expansionary monetary policy now.

In conclusion, I would like to say a few words about 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. It is still my view that we could have maintained the same expansionary conditions with a less extensive purchasing programme, but I nevertheless support today's decision. The decision today is mostly about how the purchases shall be allocated among the various asset-types during the fourth quarter of this year, given the earlier communication that we plan to utilise the entire envelope.

Our pace of purchasing has been tapered during the year and the plan is to purchase for just less than SEK 70 billion in the fourth quarter compared with just over SEK 120 billion during the first quarter and SEK 100 billion in the second quarter. In line with my previous reasoning, my assessment is that this tapering does not entail a tightening of the financial conditions. This is also supported by the financial conditions having remained expansionary in recent months despite a slightly slower pace of purchasing than during the first quarter.

According to the draft Monetary Policy Report, we are planning security purchases in 2022 in 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 want to emphasise that I see this as a forecast that can be changed, particularly for the latter part of 2022. I will follow with interest how financial markets and the financial conditions develop when our pace of purchasing is being tapered in the autumn and at the beginning of next year. This information will be useful in order to understand the need for asset purchases going forward.

In summary, I support the proposed decisions in the draft Monetary Policy Report and Annex B to the minutes. I also support the forecasts and assessments presented in the draft report.

First Deputy Governor Cecilia Skingsley:

I support the economic assessments in the draft Monetary Policy Report, including the proposals to leave the repo rate and the repo-rate path unchanged. I also support the proposal for a decision in Annex B to the minutes, which describes the direction of our asset purchases during the fourth quarter of 2021.

The grip of the pandemic on the global economy is easing. Vaccination is successful in countries that are important trading partners for Sweden and the spread of infection has declined significantly. As a result, restrictions are being eased, which will lead to a strong recovery in demand. For both Sweden and our most important trading partners, one can say in general terms that 2021 and 2022 will provide strong growth and then growth will swing back towards its respective trends.

The strong recovery indicates that more long-term damage to the economy, here I am thinking in particular of an upturn in structural unemployment, need not be so extensive. Although labour market data in Sweden is pointing in slightly different directions, the impression is that the situation in the labour market has improved without leading to any general upward pressure on wages in Sweden as yet.

Most of the incoming data on economic activity is positive, but interpreting it is complicated, and this has been the case throughout the pandemic.

I therefore would like to comment further on the inflation situation and our forecast.

Energy prices have fluctuated considerably. There have been problems in measuring inflation due to various restrictions on how people live their lives. Different sectors are recovering at a different pace. The observed upturn in inflation is being driven both from the supply side, partly in the form of delivery disruptions forcing price increases, and from the demand side, as companies take the opportunity to raise prices when a population tired by the pandemic starts to demand travel and other experiences once again. This results in volatile inflation, which appears to be a pattern that will continue.

Although the inflation forecast for the CPIF has been significantly revised upwards compared with the forecast in April the upward revision for inflation excluding energy is very modest. We are talking about a tenth of a percentage point or so. Cost pressures are not yet sufficiently strong and it is expected to take until next year before inflation, against a backdrop of higher resource utilisation, rises more persistently.

This forecast is based on the assumption that rising global market prices for commodities and transport will not have more tangible effects on Swedish inflation than would normally have been the case. The assumption is also based on the fairly high rates of price increase for commodities and transport subsiding. If this were to be wrong or if inflation expectations rise rapidly, there is a risk that inflation will rise faster than was forecast.

That circumstance is the starting point for my monetary policy assessment.

In the Riksbank's monetary policy strategy, which precedes each report, the Executive Board has established that it takes time before monetary policy has a full impact on inflation and the real economy. Monetary policy is therefore guided by forecasts for economic developments. That is all concerning the strategy.

A useful rule of thumb is to assess appropriate monetary policy based on what inflation is forecast to be 12-24 months from today. CPIF inflation is expected to be on average 1.7 per cent between summer 2022 and summer 2023. Excluding energy prices, the CPIF if expected on average to be 1.6 per cent during the same period. There is thus, in my opinion, good reason to maintain the degree of expansionary monetary policy described in the draft Monetary Policy Report. Even if prices rise more than expected and / or inflation expectations continue to rise, there is scope to wait and see before changing monetary policy.

The clear recovery in economic activity, combined with a strong development on the financial market and housing market arouses a number of questions and criticism of the Riksbank forecasting a zero interest rate in the coming three years, and proposing to buy assets for the remainder of the year according to the envelope decided on earlier. So now I would like to summarise in three points my reasons for believing that monetary policy needs to remain expansionary in accordance with the current decision.

Firstly, the Riksbank's statutory task is to use monetary policy to maintain price stability and the target has been specified as an inflation rate of 2 per cent. Based on a medium-term perspective, inflationary pressures are still too low to justify a change towards less expansionary monetary policy.

Secondly, experience from earlier years in the 2010s shows that inflationary pressures in Sweden tend to be on the low side, even in periods when resource utilisation is high. For a long period, inflation expectations were so far from the target of 2 per cent that there was a risk of the inflation target no longer functioning as anchor for economic agents in Sweden. If this type of situation arises, inflation expectations can become entrenched at a level that is too low, which hampers important relative price changes, which in turn has a negative effect on resource allocation in the economy.

Thirdly, given that the policy rate is at zero per cent, there is limited scope for further monetary policy stimulation if inflation prospects seriously deteriorate. The pandemic is only the most recent example that no one has perfect insight into what the future has to offer. If monetary policy is to function as a powerful tool that can be used quickly to counteract economic downturns and rising unemployment, inflation needs to be stabilised around the target. Only then can the repo rate be raised again, which creates scope for future monetary policy efforts when justified.

In conclusion, I would like to say a few words about the pandemic. There are many indications that the spread of COVID-19 will continue to decline in Sweden, and in countries that are important trading partners. But in large areas of the world, the situation is still very serious. Many countries do not have any major scope with regard to public finances or monetary policy to support their households and companies, and the economic recovery generally goes more slowly in low and middle-income countries. Vaccine rollout is progressing slowly in relation to richer countries, and the risk of mutations increasing the need for medical care even in high-income countries should not be underestimated. Although I currently consider this a risk scenario for Swedish monetary policy, one cannot escape the fact that the international community has a long way to go to combat the pandemic.

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. In addition, I support the proposals regarding asset purchases during the fourth quarter of 2021.

Let me start by discussing the pandemic. With regard to the number of deaths, the second wave of the pandemic in Sweden culminated in mid-January 2021, when the number of deaths from COVID-19 amounted to around 95 persons per day.[4] Since then, the number of deaths has shown a constant decline. Over the past week, on average fewer than 5 deaths have occurred every day. The large decline is of course good news.

[4] I have calculated the average number of deaths from COVID-19 over the past 30 days for each day based on data from the Public Health Agency of Sweden.

The number of people in intensive care as a result of COVID-19 during the second wave peaked at the beginning of May 2021 with around 395 people in intensive care due to COVID-19 per day.[5] Over the past two months, the number of people in intensive care has fallen rapidly. At present, the 30-day average is around 100 people in intensive care, but this average is constantly falling.

The number of people infected has also fallen substantially since the beginning of May. As more people are vaccinated against COVID-19 and more have become immune after having had the infection, it is natural to see a decline in the number of people who need intensive care and the number of deaths. The most recent figure for the number of people vaccinated is that more than 4.5 million Swedes have received at least one dose. This corresponds to almost 60 per cent of the adult population. Just over one third of the adult population has received two doses. In recent weeks, on average 1.5 per cent of the adult population has been vaccinated every weekday, either given their first or second dose.

Moving on to the economy. According to the draft Monetary Policy Report, Swedish GDP is expected to rise by 4.2 per cent in 2021 compared with 2020. This is a significant upward revision in relation to the April Monetary Policy Report, when GDP growth for 2021 was forecast at 3.7 per cent.

The CPIF has been the target variable for monetary policy since 2017. The most recent inflation figure in May showed an annual rate of increase in the CPIF of 2.1 per cent. However, there are many indications that the inflation rate will not remain constant at this level for the remainder of the year. The moving average over twelve months for CPIF inflation was at 1.1 per cent in May. This is some way from the target of 2 per cent, but the moving average has shown a rising trend and risen quickly so far this year.

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 7.9 per cent in May 2021. This was a decrease of 0.6 percentage points compared with the same month one year earlier, when the corresponding figure was 8.5 per cent. Following a peak during the second half of 2020, unemployment is back at the same level as one year earlier and more than so. Unemployment insurance fund members can be considered to have a relatively strong position on the labour market. In May 2021, the percentage of openly unemployed fund members was 3.0 per cent. The same month one year earlier, the share was 4.3 per cent. Following a peak during the second half of 2020, unemployment is back at the same level as one year earlier and more than so.

[5] I have calculated the average number of people in intensive care as a result of COVID-19 over the past 30 days for each day based on data from the Swedish Intensive Care Registry.

The hotel and restaurant employee unemployment insurance fund differs substantially from other unemployment funds. In May 2021, the percentage of openly unemployed in the unemployment insurance fund was 11.5 per cent, which can be compared with the same month one year earlier when the figure was 17.6 per cent. Unemployment is usually high in this industry. As a comparison, the monthly percentages for openly unemployed members in the hotel and restaurant employee unemployment fund were just over 10 per cent at the start of 2020. But we are nevertheless talking about an open unemployment today that is a good 1 percentage point higher than prior to the pandemic. A very important contributory factor in this is of course the restrictions imposed by the Government and public authorities on these sectors, restrictions that are now being eased.

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 5.0 per cent in the draft Monetary Policy Report. The same draft contains a forecast for 2022 of 4.2 per cent. In both cases, these are upward revisions in relation to the April 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, 2.1 per cent and 1.8 per cent respectively.

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 in the most recent monthly surveys, despite the economic difficulties in 2020.

Over a relatively long period, 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. The inflation rate is showing a rising trend, although with large variations month by month. Inflation expectations are stable, just below the target.

As a result of a decision at this meeting, the asset purchase programme decided at the monetary policy meeting in November 2020 will be completed. Figure 10 in the draft Monetary Policy Report shows the development of the Riksbank’s holdings of securities in the coming years, under different assumptions. The lower limit shows what will happen if no further purchases are made after 2021, the upper limit shows the development if the same purchasing rate as in 2021 were to be maintained. If the good economic development in Sweden and abroad continues, I consider that sooner or later it will be appropriate to make monetary policy less expansionary.

To summarise, I support the proposal to leave the repo rate unchanged at zero, and to hold the repo-rate path horizontal during the forecast period. In addition, I support the proposals regarding asset purchases during the fourth quarter of 2021. Additionally, I support the economic outlook and the forecasts in the draft Monetary Policy Report.

Dixi!

Deputy Governor Anna Breman:

I support the proposal to keep the repo rate unchanged, the size and allocation of security purchases during the fourth quarter, the repo-rate path and the forecast in the draft Monetary Policy Report.

The recovery of the Swedish economy has picked up. It has also broadened. Even the sectors hardest-hit by the pandemic can now look forward to better times. The continued rollout of vaccinations in Sweden and many of the countries that are important for the Swedish economy has increased the prerequisites for a more persistent upturn in inflation. At the same time, there is cause not to take the recovery for granted. The pandemic has been fraught with setbacks. Mutations are now leading to increased infections in several countries despite vaccinations. In addition, many low- and middle-income countries have neither access to vaccines on a large scale nor the fiscal and monetary policy latitude needed to dampen the economic effects of the pandemic. There is a risk of new mutations contributing to new infections and the need for continued restrictions.

For today’s decision, there are three areas I have focused on in particular; the outlook for inflation, the repo-rate path and the tapering of asset purchases.

I will start with the outlook for Swedish inflation. Underlying inflation and inflation expectations are still more relevant than individual monthly outcomes as the pandemic has caused measurement problems and volatility in inflation that will persist for some time to come. However, it is important to be alert to the possibility of the pandemic or other factors leading to permanently higher or lower inflationary pressures than those predicted in the forecast today.

In the coming years, resource utilisation in the entire economy will be important for an upturn in inflation. Resource utilisation is more difficult to interpret than normal, as the recovery is uneven among sectors. Those parts of the service sector hardest-hit by the pandemic, such as hotels and restaurants and other contact-intensive segments, are important for employment and inflation.

We need to see the recovery that is now under way become permanent and not just temporary like during the summer months last year. During the forecast period, inflation can also be affected by changed consumption patterns and supply shocks. One example in an article in the draft Monetary Policy Report about rising commodity prices and higher freight costs is the increase in metal prices. This increase is partly driven by the expectation of a high future demand for metals, linked to the gradual shift away from fossil fuels. Most likely, the upturn in commodity prices and freight costs is temporary and will lead to moderate effects on inflation over the next few years.

However, brushing aside the risk of higher persistent inflation completely would be premature. There is a limit to how long companies can refrain from increasing prices if supply shocks continue or if the pandemic leads to structural changes in behaviour that more permanently lead to higher inflation. Furthermore, there are limits to how long it takes before higher inflation also contributes to higher inflation expectations. In the near run, inflation that is temporarily above the target is unproblematic. Neither is it a problem if inflation expectations were to go slightly higher. On the contrary, this could instead help to anchor inflation and inflation expectations close to the target in the long run.

This leads me in to the monetary policy considerations at today's meeting. I would like to start by highlighting what the Riksbank usually emphasises – that the repo-rate path is a forecast and not a promise. In the minutes of our last meeting, I stressed that my hope is for the next step to be a rate rise rather than a rate cut. Thanks to the recovery beginning to get a foothold, this hope has been strengthened. Already at today’s meeting, I could have envisaged a repo-rate path that indicates a rate rise at the end of the forecast period. The reason why I am refraining from entering a reservation is that the repo-rate path is a forecast and that inflation on average has been below target for a long period.

Another aspect is that the repo rate is at zero and there is limited scope for cutting it if inflation is lower than expected. I think that it would have been the wrong measure to cut the repo rate during the pandemic, but it can be the right measure sometime in the future. Bond purchases, in combination with other measures, have been an effective tool to mitigate the negative effects of the pandemic on the Swedish economy. When the decision to expand the envelope was taken in November 2020, we were in the midst of a second wave of increased infections and tightened restrictions that were dampening economic development. Front-loaded purchases at the beginning of 2021 created stability in the market, which has contributed to a strong recovery in the Swedish economy and will help inflation to rise towards the target in the longer term.

In 2021, as the economy has strengthened, bond purchases have gradually been tapered from just over SEK 120 billion in the first quarter to just under SEK 70 billion in the fourth quarter.[6] Reinvestments of principle payments are included in the bond purchases which means that net purchases have an even more tapered profile. This is even clearer for covered bonds. Large reinvestments of principal payments in the fourth quarter mean that net purchases of covered bonds will decrease from SEK 70 billion in the first quarter of 2021 to just under SEK 20 billion in the fourth quarter.

A gradual tapering creates predictability and stability in monetary policy. This can contribute to a smooth transition into 2022 as the plan is for the bond holdings to be maintained through reinvestments. I think this is a well-balanced monetary policy in a situation when some uncertainty about the pandemic remains and different parts of the economy are recovering at a different pace.

If the current forecast holds, it means that the Swedish economy will recover from the pandemic within about two years (and here I am not referring to the same GDP level as before the pandemic but the GDP level that would have been had it increased according to its trend). This is fast given the very deep economic crisis triggered by the pandemic in Sweden and abroad. The time aspect also serves as reminder of how much can change across the Riksbank's normal forecast horizon that extends about three years into the future. This is why I would like to conclude by emphasising that the repo-rate path and the plan for asset purchases are a forecast and not a promise. If the outlook for inflation weakens, especially if confidence in the inflation target was under threat, we can cut the repo rate or make monetary policy more expansionary in some other way. But, if inflation were to risk overshooting the target substantially and persistently, less expansionary monetary policy, for example a rate rise, could be justified during the forecast period.

To summarise: A somewhat stronger economic outlook and a marginal upward revision in the inflation forecast do not change the need for monetary policy to give support to the economy until we see that inflation approaches the target more persistently. I therefore support the unchanged monetary policy stance at today's meeting.

Governor Stefan Ingves:

I would like to begin by saying that I support the draft Monetary Policy Report, that is the forecasts described in the draft and the proposals for monetary policy measures. I also support the proposal in Annex B to the minutes, which describes the design of the Riksbank's asset

[6] In addition to purchases of bonds for just under SEK 70 billion, the Riksbank will buy treasury bills so that the holdings during the fourth quarter will be maintained at SEK 20 billion.

purchases during the fourth quarter of this year, and the proposal to hold the repo rate at zero per cent. The assessment in the draft report is that both in Sweden and abroad, the recovery is now proceeding slightly faster than expected and our forecasts have been revised up somewhat. But in my opinion, it is at the same time too early to change the direction of monetary policy, as inflationary pressures are still moderate. The proposed measures mean that we retain the expansiveness of monetary policy, which will support the continued economic recovery and help inflation rise towards the target of 2 per cent in the longer term.

Since the previous monetary policy meeting at the end of April, the spread of COVID-19 has entered a calmer phase, at least in our part of the world. This applies both in Sweden and in many other developed economies. Several countries have begun to ease their restrictions, and both households and companies express strong optimism in various confidence surveys. Global trade has recovered and is now at a higher level than prior to the pandemic. Our forecasts for international development, for instance, have been revised upwards. Weighted according to KIX, growth abroad is expected to be 5 per cent this year, and then fall to around 2.5 per cent in 2023. The high growth rate will lead to rising resource utilisation and a gradual rise in inflationary pressures. However, developments differ between countries and regions, both with regard to the pandemic and the economic recovery, something to which I will return shortly.

With regard to Sweden, the economic recovery look slightly stronger than expected. During the second half of the year, we are expecting unusually rapid growth, when vaccination and a lower infection rate mean that the sectors hit particularly hard by the pandemic can also pick up. With this strong growth, GDP is expected to be back at the same level as prior to the pandemic as early as this autumn, and towards the end of the year, it should be close to the growth path expected prior to the pandemic. The forecast for GDP growth this year has been revised up and is expected to be just over 4 per cent. Growth will then slow down in 2022 and 2023.

The economic recovery means that the labour market situation will improve. Recruitment plans in various sectors indicate a good demand for labour. However, unemployment is high and it will take time to recover the large loss during the pandemic. In our forecast, unemployment falls back to around 7 per cent, that is around the same level as prior to the pandemic, but at the same time, unemployment is fairly unevenly distributed between different categories on the labour market, and monetary policy has no influence over this.

Since the previous monetary policy meeting, we have received two new outcomes for inflation, both of which have been somewhat higher than expected. Statistics Sweden’s most recent CPI measurement concerns the month of May, and puts CPIF inflation at 2.1 per cent. The inflation rate has risen over the year from low levels and is now at the target level. However, inflation has been volatile as a result of the pandemic and is expected to be so for some time to come. We expect inflation to be lower again just a few months from now. But from 2022, inflation will rise again apace with the good economic development, rising wages and higher international inflation, and will be close to the target of 2 per cent at the end of the forecast period.

The economic outlook is somewhat brighter, both in Sweden and abroad. However, uncertainty over the continued course of the pandemic and how it will affect economic developments at a global level remains. A Swedish perspective alone is not sufficient to understand the economic consequences. Many industrial nations have come a long way in their handling of the pandemic, with successful vaccination programmes and restrictions that are gradually being lifted. But in large parts of the world, the vaccination process has hardly begun. It probably requires substantial, coordinated international measures to ensure vaccination at the global level with sufficient cover. It is in the interests of all countries that this goal is achieved as soon as possible, because as long as a large share of the world population is receptive to infection, COVID-19 will remain a risk factor for global public health and for the development of the world economy. Stable economic development abroad is a necessary condition to ensure that the recovery in Sweden, which is a small open economy, does not suffer new setbacks.

The forecasts in the draft Monetary Policy Report altogether show a picture of a return to how things looked prior to the pandemic. In other words: GDP growth will return to the growth path expected prior to the pandemic, unemployment will fall back to its pre-pandemic level, and inflation will rise towards 2 per cent. This is our best assessment in the current situation. But there is considerable uncertainty. The pandemic can become more prolonged, with new outbreaks of infection or problems with vaccination, which would delay the economic recovery. In this situation, monetary policy needs to remain expansionary for a longer period than would otherwise be necessary. Alternatively, the recovery in the Swedish economy may be more rapid than we have forecast. Pent-up demand and potential bottlenecks could in this situation lead to higher inflation than in our forecast. In such a scenario, I would envisage there is scope to wait before tightening monetary policy, given that inflation has been low for a long period, and that it has been difficult to bring it up to the target level. The big question is actually what will happen with regard to economic developments and inflation after 2022 when the pandemic has subsided?

Let me discuss in a little more detail the long-term development of inflation, and the interplay with wage development in the economy and inflation expectations. Inflation has undershot the target over a long period. The average for CPIF inflation since the start of the millennium is 1.5 per cent. Looking at the period as a whole, nominal wages have on average increased by 3 per cent a year, so there have been positive real wage increased in recent decades, an important difference compared to the period prior to the introduction of the inflation target. However, there is downward trend in nominal wage growth. Just over twenty years ago, wages increased by around 4 per cent a year, while in recent years they have increased by around 2.5 per cent a year. Despite nominal wages being an important component of the development of inflation, inflation expectations have been relatively stable around 2 per cent. According to our forecasts, inflation will rise over the coming years to around 2 per cent. But for this to be a more lasting development, higher wage growth and higher inflation expectations are needed than those we have seen in recent years. In any case, it will be no easy task to persistently maintain inflation at around 2 per cent.

To sum up, my view of monetary policy over the past year or so – the measures taken by the Riksbank and other central banks to counteract the economic effects of the pandemic have been successful. Together with powerful fiscal policy measures, the effects on growth and unemployment were mitigated, and the development of inflation has been relatively stable. The recovery is well under way. With regard to Sweden, it is too early to withdraw the monetary policy stimulation. We need to hold on for a little longer to ensure that inflation develops more persistently in line with the target. If we look at the battery of measures taken last year, when monetary policy was made very expansionary, our measures are being reduced gradually and with great caution.

Let me once again conclude with a few words on the housing market and household indebtedness. The high level of indebtedness among households makes the Swedish economy vulnerable. In a negative scenario, a slump in the housing market could be transformed into problems on the mortgage bond market, and become a threat to financial and economic stability, and then also quickly become a question for monetary policy. It is essential to have measures in housing policy, taxation policy and macroprudential policy to manage household indebtedness. If we avoid dealing with the imbalances on the housing market, with increasing indebtedness, we could find ourselves in a scenario that is difficult to manage, where many people suffer and monetary policy is drawn into the sequence of events.

§3c. Discussion

Deputy Governor Martin Flodén:

I would like to comment on what Per Jansson said about the value of not changing a previously communicated plan. I agree that there is a value in our monetary policy being easy to comprehend and preferably predictable. And of course, it is important that we live up to the promises we have made. But our communication is rarely about promising a particular future monetary policy. We usually try to communicate, at least indirectly, policy rules that describe how we will react to new information on how the economy is developing. Moreover, it is important that we are prepared to adapt monetary policy to new information on how our tools work. As Anna Breman pointed out, our forecast for the repo rate is exactly that, a forecast and not a promise, and this applies in particular to the most remote part of the repo-rate path.

§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 7 July 2021,
- to establish 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 1 July 2021,
- to publish the minutes from today's meeting at 09.30 on Monday 12 July 2021.

This paragraph was verified immediately.

Minutes taken by

Björn Andersson

Pia Fromlet

Verified:

Stefan Ingves

Cecilia Skingsley

Anna Breman

Martin Flodén

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