Monetary policy minutes

April 2021

Summary

The recovery is well underway, but it will take time before inflation is more permanently close to the target of 2 per cent. Continued expansionary monetary policy is therefore needed to support the economy and inflation. At the monetary policy meeting on 26 April, the Executive Board of the Riksbank decided to hold the repo rate unchanged at zero percent and it is expected to remain at this level in the years to come. The Riksbank is also continuing to purchase assets within the envelope of SEK 700 billion and to offer liquidity within all the programmes launched in 2020.

The recovery is continuing in the global economy despite an increase in the spread of infection. Rapid and powerful fiscal and monetary policy measures abroad and in Sweden have mitigated the economic downturn and prevented a financial crisis. The economic outlook is somewhat brighter now that at the monetary policy meeting in February. But at the same time, the board members noted that the crisis has resulted in a divergence across countries, sectors and various groups in the labour market. Parts of the service sectors are still weighed down by the restrictions. The ongoing vaccinations are an important condition for slowing down the spread of infection, easing the restrictions and enabling production in contact-intensive service sectors to pick up again.

The board members pointed out that there will be substantial volatility in inflation during the coming year, as a result of the pandemic and volatile energy prices. In this context, the importance of longer-term inflation expectations remaining stable at 2 per cent was also pointed out.

The recovery in the Swedish economy is well underway, but cost pressures are expected to rise relatively slowly and, as in the February forecast, it will take time before inflation is more permanently close to the target of 2 per cent. It is the assessment of the Executive Board that continued expansionary monetary policy will be needed over the coming years to support the economy and bring inflation close to the target more permanently. The members were therefore in agreement on leaving the repo rate unchanged at zero per cent and on the distribution of asset purchases during the third quarter of 2021. Several stressed the importance of, as announced, utilising the entire envelope for asset purchases of SEK 700 billion in 2021 and after that keeping the holdings more or less unchanged over next year. This is to avoid the risk of an unwanted tightening of financial conditions.

The members also discussed how monetary policy may be adapted if economic developments turn out differently to the main scenario. Several noted that if the recovery is stronger than expected and inflation overshoots the target, this does not need to be a reason to make monetary policy less expansionary. If monetary policy needs to be made more expansionary, a few members pointed out that a rate cut is fully possible.

At the meeting, some members highlighted the risks associated with developments in the housing market and underlined how important it is that Sweden gets to grips with existing structural problems in the housing market.

MINUTES OF MONETARY POLICY MEETING
Executive Board, No. 2

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DATE: 26 April 2021

TIME: 09:00

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

Susanne Eberstein, Chairperson, General Council of the Riksbank
Michael Lundholm, Deputy Chairperson, General Council of the Riksbank, remotely
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Joel Birging (§ 1-3a), remotely
Vesna Corbo, remotely
Hans Dellmo, remotely
Charlotta Edler, remotely
Dag Edvardsson, remotely
Mattias Erlandsson, remotely
Anders Gånge, remotely
Jesper Hansson
Jens Iversen, remotely
Henrik Jönsson
Peter Kaplan, remotely
Pernilla Meyersson, remotely
Ann-Leena Mikiver, remotely
Christian Nilsson, remotely
Åsa Olli Segendorf, remotely
Bengt Petersson, remotely
Olof Sandstedt, remotely
Per Selldén, remotely
Henrik Siverbo
Maria Sjödin, remotely
Åsa Söder Nilsson, remotely

It was noted that Bengt Petersson and Henrik Siverbo 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 financial markets. Developments since the February monetary policy meeting have been positive on the whole. The spread of infection has remained at a high level, especially in Europe, but this has not affected sentiment on the market other than in the short term. During the spring, rising yields on US ten-year government bonds have been in focus, but the upturn has now come to a halt. Developments so far are assessed as having been driven by decisions and expectations of a very expansionary fiscal policy, better prospects for the economic recovery and rising inflation expectations. Swedish and German ten-year government bond yields initially followed the upturn in the United States, but have remained largely unchanged since the end of February.

The Federal Reserve has been clear that it is awaiting a recovery in the labour market before changing its monetary policy. Inflation may then be allowed to overshoot the target temporarily. The European Central Bank (ECB) has announced that it is too early to have a discussion on withdrawing its support. It has expressed concern that rising market rates may slow down the economic recovery. At its meeting last Thursday, it confirmed that the purchases in the PEPP asset purchase programme would continue at a faster pace during the current quarter.

The implied volatility on the US stock market (VIX) has reached its lowest level during the pandemic. The volatility in US government bonds has risen with the increase in rates, but from low levels, while the foreign exchange market has been relatively stable.

Equity prices have risen to new record levels in the United States and Sweden. Developments have also been positive in the rest of Europe. This is due to the progress in vaccination, expansionary monetary and fiscal policy, revised profit estimations and strong economic data. The higher long-term yields on government bonds have not yet challenged the high equity valuations. Factors that may have an impact on the development of equity prices going forward include plans for tax increases in the United States, geopolitical unease and disruptions to supply chains.

The spread between corporate bonds with high credit ratings and government bonds is now at the levels that prevailed before the pandemic in the United States, the euro area and Sweden. Risk appetite is good, and it is easy to issue, although there is some concern as to how yields on corporate bonds will be affected by the higher yields on government bonds. Yields on Swedish covered bonds and municipal bonds have also shown a stable development, with spreads remaining at low levels. The Riksbank's asset purchases have been a contributing factor here.

Following the appreciation on the krona in recent weeks, it is now almost unchanged in relation to the level at the February monetary policy meeting. The trend with a stronger US dollar was broken in connection with the yield upturn coming to a halt, which has paved the way for a krona appreciation.

Market analysts are expecting the Riksbank to hold its monetary policy unchanged at today's meeting and that the repo rate will remain at zero per cent during the entire forecast period. The picture painted is that the Riksbank is leaning towards the softer side and would rather do too much than too little. A rate cut could be appropriate if the krona appreciates too much or if inflation is weak going forward. Prospera's most recent survey also indicates continued expectations of an unchanged repo rate. However, market pricing has shifted slightly upwards, which is probably linked to the generous upturn in yields that has taken place.

The current monetary policy drafting process – new data and forecasts

Olof Sandstedt, Head of the Financial Stability Department, presented price developments on the housing market and the situation in the corporate sector and banking system. Housing prices are continuing to rise. In March 2021, housing prices rose by 15.5 per cent in relation to March 2020. It is primarily prices for single-family dwellings that are rising. Compared with March last year, house prices have risen by just over 20 per cent, while the corresponding upturn for tenant-owned apartments was 8 per cent. There are several conceivable explanations for the price increase. One of the most important explanations probably has to do with the unusual economic effects of the pandemic. A partly enforced saving among households has provided scope for consumption of housing, at the same time as remote working has probably meant that many households wish to have a larger home. A rise in housing prices during the pandemic is not unique to Sweden.

The number of bankruptcies during the first months of the year has been in line with the way things looked during the corresponding period in the years prior to the pandemic. The support measures and low interest rates probably contribute to this. Compared with earlier crises, such as the financial crisis 2008-2009 and the 1990s crisis, we are seeing a lot fewer bankruptcies. However, one cannot rule out the possibility that bankruptcies may increase, for instance if the crisis becomes more prolonged, or if the recovery takes a long time or the support measures are withdrawn too soon.

During the start of the year, the development of the property sector has on the whole been stable. But there are still major differences between different types of property, where hotels and some retail trade properties are facing more problems, while things are going better for housing and logistics properties.

The banks' funding costs are generally low. Yields on Swedish covered bonds are still very low, where the spread in relation to the corresponding swap rate for five-year bonds is around 0 basis points. STIBOR rates, which reflect interest rates on short-term interbank loans in Sweden and are set at different maturities, have remained relatively unchanged recently, with the three-month rate at just below 0 per cent. The US equivalent to STIBOR, USD LIBOR, has also levelled off, with the three-month rate being just under 0.2 per cent.

Deposits in the banks remain high, which means that the banks' need of market funding has declined. The banks' loan losses have been relatively low, they have good access to funding at low costs and they are above the regulatory requirements. All in all, they are therefore judged to have good capacity to supply the economy with credit.

Mattias Erlandsson, Deputy Head of the Monetary Policy Department, presented economic developments since the monetary policy meeting on 9 February 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 13 and 14 April and on 16 April. The draft Monetary Policy Report was discussed and tabled at a meeting with the Executive Board on 20 April.

Mr Erlandsson began by noting that the spread of infection has increased again during the spring, in Europe and a number of emerging market economies, not least India. The degree of restrictions to reduce the spread of infection thus remains at a high level in Sweden and among our most important trading partners. At the same time, vaccinations have accelerated, mainly in richer countries. In the countries that have made most progress in vaccinating their populations, such as Israel and the United Kingdom, it is possible to see a clear slowdown in the spread of infection and the restrictions are beginning to be eased.

The Riksbank's forecast in the draft Monetary Policy Report assumes, in line with the assessment by the responsible authorities, that the major part of the adult population in Sweden will have been vaccinated towards the end of the summer. This is somewhat later than we assumed when we made our forecast in February. It is now expected that the restrictions in society will be more tangibly eased some way into the second half of the year. A certain level of restrictions will probably remain for a longer time to come. However, as immunity increases, mobility in society is expected to rise during the second half of the year. It should nevertheless be emphasised that there is still considerable uncertainty regarding the development of the pandemic, which is discussed in an article in the draft Monetary Policy Report.

The global economy is in a recovery phase, falling the heavy fall a year ago. The recovery began in the third quarter of last year, but during the winter months, new waves of pandemic and increased restrictions have slowed down the recovery, not least in the euro area. In general, however, the economic effects of the pandemic are now more isolated to certain sectors and are much milder for the economy as a whole than they were a year ago.

The recovery is particularly evident in the manufacturing industry and world trade in goods is now at higher levels than at the beginning of 2020. Indicators of business confidence point to a continued upturn, particularly in the manufacturing industry.

The expansionary economic policy has been of central importance to the very heavy fall in GDP last year not being deeper and more prolonged, and it also plays an important role in the recovery going forward. A very expansionary fiscal policy in the United States will contribute to raising demand, not least in the United States but also in other countries. As immunity increases and the restrictions are eased, international growth is expected to accelerate further during the second half of the year. There are, however, major differences between countries. In emerging and developing economies the vaccination process is much slower and the economic recovery is in several areas less tangible.

In Sweden, the economic statistics reported since the February Monetary Policy Report have indicated that growth during the first quarter was slightly higher than was expected in the February forecast. This picture is reproduced by monthly statistics for production and demand, as well as questionnaire responses, including the Riksbank’s Business Survey, where companies are now more optimistic.

At the same time, the situation remains worrying for the part of the service sector where production requires that people can meet.

The proposed forecasts in the draft Monetary Policy Report nevertheless entail a somewhat brighter picture of the recovery than in the February forecast. While extended restrictions mean that the rapid upturn in consumption of certain services that is expected when the pandemic wanes will be somewhat delayed, GDP growth this year is nevertheless expected to be 3.7 per cent, compared with 3.0 per cent in the February forecast.

Fiscal policy remains very expansionary and the Government has extended several of the targeted support measures to companies and employees that have been particularly hard hit by the pandemic. That companies in these sectors have not been wiped out is an important factor for the recovery to be relatively rapid once vaccination begins to dampen the effects of the pandemic.

The recovery in the economy will also mean that the labour market strengthens. Method changes in the LFS statistics will make it more difficult to assess developments over time and mean that the figures for employment growth this year have been revised down substantially, but the Riksbank's assessment is still that employment will fall going forward as growth in GDP increases. As for production in various sectors, there are major differences between different groups in the labour market, and those who were employed in, for instance, the hotel and restaurant industry prior to the pandemic are still in a precarious position.

The outcomes for CPIF inflation reported since the February Monetary Policy Report show that inflation, as expected, rose clearly in January and has since remained at much higher levels than last year. The most recent outcome concerns March and was 1.9 per cent – in line with the forecast in February.

As was the case last year, inflation is expected to show a volatile development this year. In the short term, CPIF inflation will continue to rise and is expected to be 2.3 per cent in April. After that, method changes and minor contributions from energy prices will lead to a rapid decline towards the summer, when inflation will be around 1 per cent. With effect from 2022, inflation is projected to rise more steadily, and towards the end of the forecast period, to be close to 2 per cent. Important factors behind the upturn in inflation are that resource utilisation is rising, gradually higher cost pressures and that the exchange rate, which strengthened last year, will remain at around the current level. The outlook for inflation going forward is assessed to be largely unchanged compared with the forecast from February.

The forecasts are based on the monetary policy that the Monetary Policy Department judges will gain a majority in the Executive Board at today's meeting. The asset purchases will continue this year. The current plan is that the asset purchases during the second half of this year will amount to around SEK 140 billion, which given the maturities that occur, will mean that the asset holdings during the second half of the year increase by just over SEK 100 billion. The holdings are then expected to remain unchanged during at least 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 allocating the asset purchases during the third quarter of 2021. Details of the proposal can be found in Annex B to the minutes.

At today's meeting, the Executive Board is also expected to decide on reducing the frequency of the offer of the three-month and six-month loans from weekly to monthly. This will be done on the basis of the situation on the financial markets having stabilised and demand for the programmes having been low for a longer period of time. If the conditions change again, the frequency of the loans can be quickly adjusted. This proposal is described in Annex C to the minutes.

Anders Gånge, Deputy Head of the Markets Department, informed the meeting that the Head of the Markets Department has decided on a new principle for establishing the issue volume offered when issuing Riksbank Certificates. The Executive Board has been informed of this earlier. The decision will apply from Tuesday, 4 May when the conditions for the auction are published.

§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. I also support other proposals for decisions that are not explicitly discussed in the draft report but are presented in annexes to the minutes. As I normally do, I will comment on the current inflation picture and inflation prospects, and give my view on the monetary policy situation.

Since our last monetary policy meeting in February, we have had three new inflation outcomes, for January, February and March. The March outcome for CPIF inflation was 1.9 per cent, which means that the inflation rate has almost quadrupled compared with December. That the rate of price increase has gone up so much, however, depends to a high degree on rapidly rising energy prices, which have made a positive contribution to inflation since February after having dampened it for over a year. The outcome was very close to our forecast. Excluding the volatile energy prices, the inflation rate amounted to 1.4 per cent in March, compared with 1.2 per cent in December. So here, the upturn was clearly more modest, but it is nevertheless positive that the rate of increase in other consumer prices has also grown and the outcome was only marginally lower than expected.

The generally somewhat brighter picture for price development is also visible in the Riksbank's various measures of underlying inflation. In relation to the Monetary Policy Report in February, increases can be noted for five of the seven measures of underlying inflation regularly calculated by the Riksbank, while only two have fallen somewhat. The median is 1.5 per cent in March, compared with 1.2 per cent in the calculation made in conjunction with the February report. 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 1.4 per cent respectively.[1]

As I see it, inflation expectations perhaps continue to be the most important component in the inflation picture just now. That the currently measured inflation rate varies quite a lot and periodically undershoots the inflation target by quite a margin does not actually matter so much, as long as it rises going forward and economic agents also expect it to do so. As it will take some time before the economy has recovered after the pandemic, it is above all a case of checking that longer-term inflation expectations do not deviate too much from the target.

Regarding inflation expectations as well, three new outcomes have been published since our last meeting, Prospera's monthly surveys for February and April, which only cover money market participants, and the larger quarterly survey for March, which also measures the expectations of the labour market organisations, among others. The new surveys of longer-term, five-year inflation expectations of money market participants are characterised by a significant degree of stability. This is remarkable considering the volatility in actual inflation outcomes over the period in which the surveys have been undertaken. In all three new surveys, these expectations, rounded off to one decimal place, amount to 1.8 per cent and if more decimals are included, the difference between the highest and lowest figure is no bigger than around one hundredth of a percentage point.[2] In addition, the outcome for January was also 1.8 per cent and within this narrow interval when measured with several decimals. That five-year inflation expectations among money market participants are very consistently close to 2 per cent is naturally very good news.

The results in the larger quarterly survey for March also give cause for optimism. Compared with the previous survey in December, the five-year expectations for all groups are rising and are now at 1.8 per cent or higher. The expectations of purchasing managers in the manufacturing sector are increasing particularly sharply, from 1.7 to 2 per cent. This is welcome as these inflation expectations were previously on a relatively low level and interesting as purchasing managers in the manufacturing sector should be among the first to become aware of several of the supply limitations that might drive up inflation, for example a shortage of semi-conductors and containers. Longer-term inflation expectations among labour market organisations, that are of very substantial importance in this context, have also increased significantly and are now very

[1] See the article "Why measures of core inflation?" in the 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.

close to 2 per cent. This is of course important for the role of the inflation target as the anchor for wage development.

Long-term inflation expectations can also be calculated from pricing on various financial markets. Recently, focus has primarily been on the upturn in so-called break-even inflation, calculated from the yield spread between 10-year nominal and real government bonds. Here, the increase has been particularly evident in the United States, where break-even inflation is now just below 2.5 per cent, but upturns can also be noted in Sweden and other European countries. The trends on these markets, that have continued since our last meeting in February, are so far not at all 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 to analyse the driving-forces behind them, as problems may arise if the trends are reinforced or continue for a longer period of time.

The stable inflation picture, in combination with assessments of the determinants of future inflation that have not been adjusted in any decisive way, means that relatively minor revisions of the forecast for CPIF inflation, both including and excluding energy prices, are now being proposed in the draft Monetary Policy Report. During the pandemic, inflation has varied considerably from one month to the next and this is likely to continue for a while longer. The variations are large but it is very important to note that they are temporary, an aspect that I will return to shortly in my discussion of monetary policy. In the latter stages of the forecast period, from about 2023 onwards, 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. Just as in the February forecast, stronger demand, more rapid wage growth and rising international inflation lie behind the trend increase in inflation in the coming years. Certain changes on the supply side of the economy will also contribute to the growing inflationary pressures.

I will now go on to make a few comments on the monetary policy situation. The present inflation picture and inflation prospects, as I have just described, are such that I currently consider it appropriate not to make any changes in the formulation of monetary policy, in line with the assumptions in the draft Monetary Policy Report. However, a decision must be taken on how to allocate the asset purchases during the third quarter among the various asset types, and there is a proposal as to how to do this in the draft report. The purchase amount during the quarter is proposed to amount to SEK 75 billion, which is somewhat less than during the second quarter when assets for SEK 100 billion are to be acquired. I support the proposal for asset purchases, both regarding the amount and the allocation among different asset types.

Just as at our last meeting in February, we expect it to take two to three years before inflation is more persistently close to the inflation target. So this time, too, it can be argued that a more expansionary monetary policy had been desirable. And if monetary policy is now to be made more expansionary, it is for me a question of us having to use our interest-rate weapon, as I have emphasised several times before. Just buying more assets will, as I see it, not be sufficient. But on this point, I am sticking by my previous conclusion: Fortunately, the problems we have in reaching the inflation target are not sufficiently serious just now for it to be worth using our remaining scope for cutting the repo rate. Of considerable significance in this context is that the scope for cutting the repo rate that I see is available to us is limited to two, three, perhaps at most four cuts of 25 basis points and that there are currently no signs of confidence in the inflation target starting to waver, on the contrary, it has recently strengthened slightly.

That confidence in the inflation target is intact, which is underscored by stable, long-term inflation expectations close to 2 per cent, will be very important in the coming months when inflation varies sharply up and down. According to our forecast, CPIF inflation will rise to 2.3 per cent in April and thereafter fall back quickly to a low of 0.8 per cent in July. Inflation adjusted for energy prices is then expected to be even lower, a mere 0.3 per cent. But as long as we are clear about the fact that we are dealing with temporary variations in inflation here, the Riksbank has all the prerequisites to, as it is often put, “look through” these inflation fluctuations without having to adjust monetary policy. In a favourable scenario, in which economic agents realise that we are dealing with nothing other than temporary inflation variations, neither financial conditions nor inflation expectations in the slightly longer term should be affected very much.

First Deputy Governor Cecilia Skingsley:

I support the economic assessments and forecasts in the draft Monetary Policy Report, including the proposals to leave the repo rate and the repo-rate path unchanged. I also support the proposals for decisions in annex B to the minutes about the direction of further asset purchases, and annex C to the minutes on changed frequency for loans issued for three and six months respectively.

In addition, I wish to make a few comments on the economic outlook, the risk picture, the current monetary policy plan and the outlook for the repo rate as a policy tool going forward.

Just over a year into the pandemic, vaccinations and continued expansionary economic policy are providing good conditions for a global economic recovery. But developments are difficult to assess and there are considerable risks on both the upside and the downside, which I will come back to.

In Sweden, parts of consumption and production have been significantly affected during the first quarter and as this meeting is being held, the spread of infection has been high for a long time, seen in an international comparison. Compared to February, however, the economic outlook has brightened.

Published inflation statistics continue to be fitful with both disappointments and progress. It is also notable how fitful they are expected to continue to be. According to the forecast, CPIF inflation will come in at above 2 per cent this month, and then be lower than 1 per cent in July. Behind these large fluctuations, which are described in more detail in the draft Monetary Policy Report, there are measurement problems arising in the wake of the pandemic.

Inflation is also affected by various bottlenecks that emerge when industry rapidly ups the pace. Price changes triggered by temporary supply disruptions, for example those attributed to the recent transport problems in the Suez Canal, are not normally managed by monetary policy. Possible longer-term supply changes caused by the pandemic, to the extent they occur, are more difficult to manage, however. What this can mean for future monetary policy standpoints is too early to say.

There is also reason to be watchful about the medium-term strength of inflationary pressures. The upward revision of growth prospects in the draft Monetary Policy Report without inflation prospects having improved is an observation we need to return to.

A positive factor is that inflation expectations continue to develop in the right direction, despite the troublesome inflow of statistics on actual inflation. Inflation expectations fell significantly last year but are recovering now in a similarly clear way. I take this as justification for the fast and forceful actions taken at the beginning of the crisis to rapidly mitigate the effects of the economic downturn. It is also probable that the recovery in Swedish inflation expectations is being influenced by rising expectations about inflation in the United States.

Regarding the draft monetary policy assessment, I would like to say the following: Just over 13 months after the WHO declared the new coronavirus to be a pandemic, it is now clear that recovery is underway in many sectors in the economy, not least the export-oriented industry. Instead it is more contact-intensive service sectors that are suffering most from the pandemic-related restrictions. Although the service sectors I am thinking of are not the most capital-intensive part of the business sector, economic activity has been depressed for a long time and companies in this part of the economy are still under stress. The risk of bankruptcies on a large scale cannot be ruled out, if reduced monetary policy stimulus now impairs credit terms for this vulnerable part of the economy.

It is quite simply too early to make any substantial changes to the existing monetary policy plan for an unchanged policy rate according to the forecast for the next three years, and to use the whole envelope for asset purchases and then keep the portfolio intact at least until the end of next year. On the other hand, taking a smaller step by reducing the frequency of three- and six-month loans within the framework of market operations is a welcome development. These facilities were added to work as a brake on banks' funding costs. With fixed interest and unlimited volume, banks can rely on this alternative, borrowing from the Riksbank against collateral, being available if market funding were to be expensive in comparison. As the price of market funding has been sufficiently attractive, the interest in borrowing in the Riksbank's facilities has been low for a long time. This step, reducing the frequency of offers of three- and six-month loans, will need to be carefully evaluated before further adjustments can come into question.

The risks regarding the economic assessment are considerable on both the upside and the downside and are also very different in nature. This is described in the draft Monetary Policy Report, in both Chapter 1 and in a special article on alternative scenarios for recovery. For me, it is clear on which side it will be most difficult to end up: In the choice between monetary policy proving to be expansionary for a too long time or for a too short time, I prefer the risk of the expansion continuing too long. A situation where inflation overshoots the 2-percent target can be managed with the current policy tools. The reverse situation where monetary policy is shown to have been tightened too early will be significantly more difficult to manage. It will be like chasing a falling stone, or in more concrete terms, falling inflation. Experience from the mid-2010s, when inflation was low for a long time, shows that significant monetary policy efforts may be required for a long time in order to reverse the trend. The Riksbank should not end up in that situation again.

In conclusion, I would like to say a few words about the Riksbank's most important policy rate, the repo rate.

Given the current outlook, zero per cent is the highest the repo rate will have been for a decade, counting from when the repo rate was cut to zero per cent in October 2014.

The fact that central banks have tools that both are powerful and can be implemented rapidly to combat recessions is a useful element in the overall economic policy toolbox. Being able to quickly combat recessions is good as recessions hit the hardest those groups in society that have the worst prerequisites for managing them: typically persons without permanent employment, the low-educated, the low-paid and new arrivals from other countries.

Even if in my view, and as is also highlighted in the draft Monetary Policy Report, there is scope to take the repo rate back into negative territory, it is a fact that the repo rate itself has been overshadowed in its role as the primary monetary policy tool.

For the repo rate to be able to return to being a more powerful policy tool, nominal average interest rates in the economy need to rise to a higher level and for that to happen, higher average inflation is required. In a speech last year, I elaborated my thoughts on how higher average inflation would be desirable and on how this can be brought about to give the repo rate back some of its former glory as the primary tool for monetary policy.[3] By achieving this development, scope is built up for using the repo rate when future recessions arise. I would welcome this. It does not rule out the possibility of having to manage future recessions using the type of tools, that is asset purchases and extraordinary liquidity facilities, which the Riksbank has used during the current crisis.

Applied to the current situation, it is not in my view a concern if inflation recovers more rapidly than forecast. Neither is it a concern if inflation overshoots the target of 2 per cent for a period as this can help anchor inflation expectations more firmly around the target. With stronger anchoring of inflation expectations, price setting and wage formation will function more efficiently.

Deputy Governor Anna Breman:

I support the proposal for the size and distribution of asset purchases during the third quarter, the proposal to change the frequency of three-month and six-month loans, to hold the repo rate unchanged, as well as the proposed repo-rate path and the forecast in the draft Monetary Policy Report.

Let me begin by commenting on economic developments before moving on to the monetary policy considerations. Today, I wish to particularly emphasise developments on the housing market and my view of how these affect the Swedish economy and monetary policy.

The recovery that is now underway is uneven across different sectors and different countries. A broad recovery in the Swedish economy is contingent on vaccinations continuing and large parts of the rest of the world also being vaccinated. Only then can we also expect a lasting upturn in those sectors hit hardest by the pandemic. This divergent recovery, in which parts of the Swedish

[3] https://www.riksbank.se/en-gb/press-and-published/speeches-and-presentations/2020/skingsley-policy-rate-will-continue-to-be-a-desirable-monetary-policy-tool/

economy are at full throttle while others continue to fight an uphill battle, is making it even more difficult to assess resource utilisation in the years to come. And total resource utilisation in the entire economy is important for an upturn in inflation in the longer term.

Inflation has risen at the beginning of the year in line with expectations. Underlying measures of inflation have also risen somewhat and inflation expectations have been stable, but volatility is high and is expected to remain so. I will therefore continue to focus on underlying inflation and inflation expectations rather than on individual monthly outcomes. A stronger-than-expected recovery and above-target inflation need not be a reason to make monetary policy less expansionary as it can help to stabilise long-term inflation expectations.

I still think that the envelope for asset purchases could have been somewhat smaller in the second half of 2021, but I support the overall direction of monetary policy. Current interest-rate levels reflect expectations that the Riksbank's measures will be maintained. An unexpectedly early tapering risks leading to financial tightening and allowing negative effects of the crisis to persist. I also support the assessment that net purchases continue until the end of 2021 and that holdings are maintained via reinvestments in 2022.

However, there are risks abroad and in Sweden that are important to keep track of and that can lead to both stronger and weaker development for the global and the Swedish economy. A global shortage of vaccines and weak economic development in many emerging market economies is an important risk. Today, I would particularly like to highlight developments on the housing market.

After a brief downturn in housing prices at the beginning of the pandemic, prices have risen in both Sweden and many other countries. A distinguishing feature of this trend is that house prices have risen significantly more than apartment prices. I warmly recommend the article in the draft Monetary Policy Report that analyses in detail different factors that can explain this development. I agree with the conclusions in the analysis.

In my comments today, I would like to highlight the effects of a poorly functioning housing market with rapidly rising prices. It impairs the functioning of the labour market, creates cyclical and uneven production in housing construction and increases vulnerabilities linked to household indebtedness. Ultimately, it is a risk to both financial stability and price stability. It is therefore desirable to have a broad discussion on which policy tools can best mitigate these risks.

Let me start by noting that increased indebtedness can create vulnerabilities despite wealth rising even more than debt. This follows from the fact that it is probably younger households that are increasing their borrowing while wealth accumulates among relatively older households. However, there is no data in Sweden after 2007 showing assets and liabilities on the individual level. This means that we are unable to make a proper analysis of how vulnerable households are to a decline in housing prices or rising interest rates. Better data is needed and the appointment of a parliamentary inquiry to make this possible is a welcome development.

Moving on to monetary policy; since the outbreak of the pandemic, the Riksbank has chosen to initiate purchases of covered bonds. These purchases have helped to combat the upturn in the interest rate on covered bonds that we saw at the beginning of the crisis. In combination with an unchanged repo rate, the purchases have helped to stabilise mortgage rates offered to households during the pandemic. An unexpected tapering-off of the purchases, or bringing forward a rate rise, would lead to rising interest expenses for households and hamper the ongoing recovery. Unemployment then risks rising with negative consequences for inflation. The drawbacks of such contractionary monetary policy outweigh the benefits. My assessment is that continued bond purchases and the repo-rate path, which indicates an unchanged repo rate during the forecast period, represent well-balanced monetary policy in the current situation.

Having said that, I would like to say that I am hopeful that the next step will be a rate rise rather than a rate cut. But a wish is not the same as a forecast. A rate cut is still fully possible. My assessment is that the probability of the next step being a rate cut or a rate rise is approximately the same.

To manage the risks associated with a rapid upturn in prices on the housing market, macroprudential policy measures are more suitable than monetary policy, although macroprudential policy can also have negative side-effects. And neither reintroduced amortisation requirements nor a rate rise can replace the need for reforms to improve the functionality of the housing market. Only reforms in housing policy and tax policy can lastingly prevent imbalances in supply and demand from leading to the sharply rising prices we are now seeing.

Finally, I would like to emphasise how important the housing market is for the labour market. It is primarily younger households and those with the lowest incomes that are adversely affected when a poorly functioning housing market restricts their possibilities of moving for work or education. These are the same households that have been hit hardest by unemployment during the pandemic. There was a tendency even before the pandemic towards net outward migration from metropolitan areas, both in Sweden[4] and abroad[5], a migration primarily driven by young

[4] https://www.svt.se/nyheter/ekonomi/trenden-haller-i-sig-fler-flyttar-fran-stockholm-an-till
[5] https://voxeu.org/article/doughnut-effect-covid-19-cities och https://www.nytimes.com/2020/04/19/us/coronavirus-moving-city-future.html

households. This trend may now be reinforced when the pandemic has created better possibilities for remote working.

This is an example of how the pandemic has accelerated trends that were already underway before the crisis. Other examples are digitalisation of the services sector, increased e-Commerce and a greater focus on climate risks and green transition. How these structural changes affect growth, the labour market and inflation will be important to analyse in order to make an accurate forecast for the Swedish economy and inflation in the years to come.

Allow me to summarise. There are reasons to be optimistic that the recovery in the Swedish economy can be strong and that inflation will gradually rise towards the target. But there is no new positive or negative information that is sufficient to support a change in the direction of monetary policy at today’s meeting. Withdrawing the Riksbank’s current measures too early risks hampering the recovery that is now underway. And, it is still important to have a high level of preparedness to use all our tools if developments were to be worse than expected.

Deputy Governor Martin Flodén:

I support the proposals for decisions in the draft Monetary Policy Report and the annexes to the minutes. I also support the forecasts and analyses presented in the Report.

Between our monetary policy meetings in November 2020 and February this year, the economic outlook improved despite the pandemic surprising negatively. In the United States, long-term interest rates and break-even inflation expectations rose rapidly in the wake of improved economic prospects and decisions and expectations of very expansionary fiscal policy. The higher interest rates and inflation expectations also spread to Sweden to some extent.

All this has strengthened since our meeting in February, albeit at a slower pace. In Sweden, there has been continued strong development in many parts of the business sector despite the rapid spread of infection causing the Government to repeatedly extend the coronavirus-related restrictions. Long-term interest rates continued to rise in the United States and Europe during February but have since stabilised. Break-even inflation expectations in Sweden fell significantly after the surprisingly low inflation outcome in February but they rose again after the higher inflation outcome in March and are now slightly higher than at the February meeting.

Despite the slightly stronger economic developments and somewhat higher long-term inflation expectations, my assessment is that the need for expansionary monetary policy is unchanged. Inflationary pressures are weak and average inflation will probably be below target in the coming years despite the expansionary monetary policy. The picture for resource utilisation is a little more complicated as there is a big difference among sectors, but unemployment is expected to remain high for the entire forecast period. Stronger economic developments and higher inflation expectations will therefore contribute to better target attainment and do not justify tighter monetary policy.

At the last monetary policy meeting, I argued that stabilisation policy both in Sweden and abroad has so far been remarkably successful in managing the consequences of the pandemic. I will reiterate some of my arguments as this has implications for how I think monetary policy shall be conducted going forward. The pandemic has had widespread economic consequences. We find ourselves in a very special economic crisis, in which certain sectors have been severely affected while others have developed quite well. My view that stabilisation policy has been successful is based on the relatively minor spillover effects to the wider economy from those sectors directly affected by the crisis. There is an optimism in the economy, partly indicated by parts of household consumption remaining buoyant, companies in many sectors continuing to produce and invest and strong development in equity and housing markets. All this is well described in the draft Monetary Policy Report, see, for example, Figure 36, Figure 38 and the article on housing prices.

By reacting quickly and forcefully when the pandemic hit, stabilisation policy helped financial markets to continue to function and prevented a financial crisis from leading to a deeper economic crisis. Stabilisation policy has also helped in various ways to maintain optimism about the future and thus the willingness to consume and invest.

This interpretation of recent economic developments has consequences for my view of monetary policy. It is inevitable that the pandemic and restrictions lead to sharply reduced activity in certain sectors. Agents in the affected sectors can and are receiving targeted support from fiscal policy. Monetary policy can, on the other hand, only provide broad and general support to the economy. Monetary policy can be made slightly more expansionary but both the policy rate and asset purchases are close to their effective limits and a further expansion risks causing negative side-effects. In light of this and in combination with relatively strong development in large parts of the economy, I take the view that the economic outlook needs to deteriorate quite significantly for me to advocate an expansion of monetary policy. A rate cut may become relevant if, for example, demand weakens broadly in the economy at the same time as confidence in the inflation target deteriorates. In the management of such a scenario, however, fiscal policy would also play an important role. Further asset purchases in addition to those we have communicated could become relevant primarily if turmoil arises on financial markets so that risk and term premiums rise without justification.

If developments instead turn out better than in our main scenario, my assessment is that a monetary policy reaction is even more remote. In one of the articles in the draft report, we show a scenario in which the economic recovery is faster and stronger than in the main scenario but in which monetary policy is nevertheless the same. Inflation will then be higher and unemployment lower during the entire forecast period. But as inflation in the main scenario is below target and unemployment is high, target attainment is better in the alternative scenario with a fast recovery and unchanged monetary policy. I would look positively on inflation that is even higher than in this alternative scenario. A rate rise will hardly be justified before inflationary pressures and inflation expectations indicate that inflation would otherwise persistently overshoot the target by a clear margin.

In conclusion, I would like to reiterate another point from the last meeting. 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 distributed among the various asset-types given the previous decision on the size of the envelope and given the earlier communication that we plan to utilise the entire envelope. Changing the earlier decision and the previously communicated plan would lead to confusion and uncertainty.

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. Further, I support the proposals regarding asset purchases during the third quarter of 2021 and regarding reducing the frequency of the offers of three-month and six-month loans.

Let me start by discussing the pandemic. With regard to the number of fatalities, the second wave of the pandemic culminated in the middle of January 2021, when the number of fatalities in COVID-19 amounted to around 95 persons per day.[6] Since then, the number of fatalities has shown a constant decline. Recently, on average fewer than 20 fatalities have occurred every day. The large decline is of course good news. Only a handful of countries in Europe currently have a lower number of fatalities in relation to their population than Sweden.

But the picture is divided. The number of people in intensive care as a result of COVID-19 during the second wave peaked in the middle of January 2021 with around 350 people in intensive care due to COVID-19 per day.[7] The number of sick people who needed intensive care then declined up to the beginning of March, after which there was an upward turn. The number of people

[6] I have calculated the average number of fatalities from COVID-19 over the past 30 days for each day based on data from the Public Health Agency of Sweden.
[7] 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.

infected has also increased. In the last week, the number of people in intensive care due to COVID-19 has begun to fall. If this were to prove to be a break in trend, it is of course welcome.

As more people are vaccinated against COVID-19 and more have become immune after having had the infection, it is reasonable to expect that the number of people infected and the number who need intensive care will decline. The most recent figure for the number of people vaccinated is that more than 2 million have received at least one dose. This corresponds to 25 per cent of the adult population. In recent weeks, on average almost 1 per cent of the adult population has been vaccinated every weekday.

But regardless of this, I believe the most interesting thing from an economic point of view is that the correlation between the scope of the pandemic and economic activity is clearly not stable. Economic developments in spring 2021 have not covaried with the pandemic to the same extent as in spring 2020.

According to the draft Monetary Policy Report, Swedish GDP is expected to rise by 3.7 per cent in 2021 compared with 2020. This is a significant upward revision in relation to the February Monetary Policy Report, when GDP growth for 2021 was forecast at 3.0 per cent.

The CPIF has been the target variable for monetary policy since 2017. The most recent inflation figure in March showed an annual rate of increase in the CPIF of 1.9 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 0.7 per cent in March. This is an upturn, but we are some way from the target of 2 per cent.

At the same time, inflation statistics are difficult to interpret during the current economic crisis. Quite simply, there are no prices for some groups of services. Instead, the missing prices need to be estimated. Household consumption patterns altered significantly during 2020. Statistics Sweden has tried to take this into account by adjusting the weights used when calculating the consumer price index this year. It remains to be seen how well these weights agree with the actual consumption patterns over the year. Research also shows that imputations and changes in consumption patterns tend to cause inflation statistics to underestimate the actual development of the cost of living.

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 8.4 per cent in March 2021. This was an increase of 0.8 percentage points compared with the same month one year earlier, when the corresponding figure was 7.6 per cent. At the same time, it is a decrease in relation to the end of 2020 and beginning of 2021.

Unemployment insurance fund members can be considered to have a relatively strong position on the labour market. In March 2021, the percentage of openly unemployed fund members was 4.7 per cent. The same month one year earlier, the share was 3.4 per cent. The increase over the past year has been a good 1.3 percentage points.

The hotel and restaurant employees unemployment fund differs substantially from other unemployment funds. In March 2021, the percentage of openly unemployed fund members was 13.1 per cent. Unemployment is usually high in this industry. As a comparison, the monthly percentages for openly unemployed members in the hotel and restaurant employees unemployment fund was just over 10 per cent at the start of 2020. But this is nevertheless an increase of 3 percentage points. An important contributory factor here is, of course, the restrictions imposed by the Government and public authorities on these sectors.

The increased unemployment caused by the economic crisis is of course undesirable. Many of the unemployed are well-equipped and will have good opportunities to obtain work when economic activity increases again. Others will need labour market policy measures to reinforce their human capital so they can find work.

Sweden is a small, open economy. We are dependent on economic activity and politics abroad. During spring 2020, draconian measures were taken around the world, measures that strongly reduced economic activity. The situation is not the same now. The forecast for KIX-weighted (trade-weighted) growth abroad in 2021 is 4.6 per cent in the draft Monetary Policy Report. The same draft contains a forecast for 2022 of 4.1 per cent. These are high figures, which bear witness to a strong return, following a difficult 2020.

The world trade in goods decreased by up to just over 15 per cent at an annual rate in some months of spring 2020. Pleasingly, the most recent available monthly measurement for February 2021 shows an increase of 5.3 per cent at an annual rate. This is of course very positive for a country dependent on foreign trade like Sweden.

The KIX-weighted rate of inflation abroad was 1.1 per cent in 2020. The forecast for 2021 in the draft Monetary Policy Report is much higher, 2.0 per cent. This is an upward revision in relation to the February Monetary Policy Report, when the weighted inflation forecast for abroad was 1.7 per cent.

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.

The Riksbank decided on a number of monetary policy measures in 2020. When financial markets do not function as normal, credit supply in the economy is threatened. The measures have had two effects. Credit supply has been facilitated as the Riksbank has injected more money into the financial system in this way. When the volume of money has increased, market rates have in this way been kept at low levels. In other words, the result is both secure credit supply and expansionary monetary policy.

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. Further, I support the proposals regarding asset purchases during the third quarter of 2021 and regarding reducing the frequency of the offers of three-month and six-month loans. Additionally, I support the economic picture and the forecasts in the draft Monetary Policy Report.

Dixi!

Governor Stefan Ingves:

I support the draft Monetary Policy Report, the forecasts described in the draft, and the proposal to leave the repo rate at zero per cent. I also support the proposals as to how the Riksbank's bond purchases will be implemented during the third quarter to a nominal total of SEK 75 billion and the proposal to change the frequency of the three-month and six-month loans. Together, these measures mean that we retain the expansiveness of monetary policy, which is needed to support the continued economic recovery and that inflation in the medium run rises towards the target of 2 per cent. Given the downside risks, combined with our inflation forecast, it is important that we continue to implement our current strategy.

Since the previous monetary policy meeting in the middle of February, the spread of COVID-19 has increased again, both in Sweden and globally, which has meant that several of the short-term forecasts needed to be revised down. However, in the medium run, prospects look somewhat brighter than they did when we made our assessment in February. This is partly because the vaccination programmes in most developed economies have started, which has had a visible effect on the number of fatalities, in particular. Vaccination, together with extensive economic policy support from governments and central banks has led to increasing optimism in the world economy. KIX-weighted GDP growth among our most important trading partners is somewhat lower this year than was assessed in February (which is connected to the poorer development during the first half of this year), but higher in both 2022 and 2023. When GDP growth rises, resource utilisation also increases at a global level and KIX-weighted inflation is expected to rise from just over 1 per cent last year to around 2 per cent during the coming years.

However, the recovery is proceeding at different speeds in different countries, and the regional differences are expected to be relatively substantial. This year, the US economy is expected to grow by 6.5 per cent, which is one of the highest growth figures in the past fifty years. China is expected to have its highest growth in 10 years, of 8.5 per cent. Lower growth figures are expected for the euro area has a whole, around 4 per cent this year, and behind this figures are large differences in how the recovery looks in different countries in the euro area and the base effect that follows on from the euro area's rapidly shrinking GDP last year.

In Sweden, the economic recovery has been slightly stronger than expected, despite the increased spread of infection. We had already noted in our previous report that the negative effects on the economy of the various restrictions have become weaker than they were in spring 2020, a sign that many companies and households have found ways of producing and consuming, despite the pandemic. This year and next year, growth figures of more than 3.5 per cent are expected, but behind these aggregates there are major differences between sectors and business areas. While industrial production recovered rapidly after large falls in spring 2020, parts of services production still have a long way to go to reach their precrisis levels. Production in the hotel and restaurant sectors, which are examples of contact-intensive sectors, is still 30 per cent lower than prior to the pandemic.

Unemployment rose last year and is now at around 8.5 per cent according to statistics from the Swedish Public Employment Service. There are also major differences behind this figure. The increase in unemployment has mainly affected young people and those born abroad, probably an effect of these groups accounting for a large share of employment in the contact-intensive sectors. The draft Monetary Policy Report contains several figures showing how the crisis has affected different groups in society in different ways, both in Sweden and abroad.

The CPIF inflation rate fell in 2020, partly as a result of falling energy prices. This year, we are expecting higher inflation as the recovery progresses and resource utilisation increases. However, inflation will be volatile and individual months may deviate quite substantially, both upwards and downwards, from the upward trend. Our forecast is that inflation will rise from an average of 1.5

per cent this year, to 2 percent towards the end of the forecast period. At the same time, it is reassuring that inflation expectations appear to be anchored.

As I have already mentioned, the economic outlook is somewhat brighter. But there is still considerable uncertainty over the economic recovery in Sweden and globally, and there is a risk of setbacks.

One important assumption behind our forecast for a brighter outlook for global economic activity is that the vaccination programmes will proceed without any new complications. But as we have seen during the spring, unexpected problems may arise, and it is not possible to exclude the possibility of further delays arising. The worrying factor in the long term, both with regard to economy and humanity, is that it is primarily developed economies that have begun their vaccination programmes. In large parts of the world, it looks as though it may take a long time before a sufficiently large share of the population has been vaccinated. And as long as this is the case, COVID-19 will remain a prolonged problem for the international community and a risk factor in the world economy.

Another type of risk is if we see a poorer development in the euro area than we have forecast, even if the vaccinations proceed as planned. Several of the euro area countries are struggling with structural imbalances in their economies and financial sectors, which can hamper the economic recovery, and at the same time, in trade-weighted terms, developments in the euro area are very important for us in Sweden.

It is now more than one year since the WHO established that the rapid spread of the new virus had developed into a pandemic. The extensive restrictions that were introduced to slow down the spread of infection led to a severe slowdown in economic activity in the world economy. Over the past year, governments and central banks in various parts of the world have taken historically extensive measures to alleviate the negative effects on the economy and prevent a financial crisis. As of today, these measures seem to have worked. The fact that the development of the Swedish economy has not been as serious as we feared a year ago is connected to developments abroad being better than expected. And the Swedish government has used various types of support measures to dampen the effects on employment and maintain economic activity in Sweden.

Over the past year, the Riksbank has contributed to the recovery through several different types of measures to secure the supply of credit and keep interest rates to firms and households at a low level. Our measures are similar to those taken by other central banks, that is, various types of asset purchases and facilities to supply the economy with liquidity. Going forward, our task is to ensure that interest rates are kept low so that the recovery can continue and inflation can rise towards our target. Monetary policy has worked, we have very actively supported the macroeconomic development at the same time as the pandemic has not been transformed into a financial crisis. If economic developments were to deteriorate again, there are several ways of making monetary policy more expansionary. The repo rate can be cut, even if the scope for cuts may not be so large. We can scale up our asset purchases and take new measures to promote credit granting. From an international perspective, the balance sheet measures taken by the Riksbank so far have not been unusually large or strangely composed. The size of our balance sheet as a percentage of GDP is less than was the case for the ECB, the Federal Reserve and the Bank of England (see Figure 11 in the draft Monetary Policy Report). So there is still considerable scope for more monetary policy stimulus, if this should be required.

Now a few words on the policy mix in Sweden. The economic crisis has had varying impact on different sectors of the Swedish economy. Several sectors and industries still have a long way to go before they are back at more normal levels. To support individual sectors or special groups of unemployed, targeted measures are required and here fiscal policy is a better alternative to monetary policy easing, which has a broader impact. The Riksbank contributes to the economic recovery by holding interest rates low. Low interest rates, together with strong public finances, make it possible for extensive economic policy support over a long period of time so that the Swedish economy will return to a more normal level. If our forecast is correct, the Swedish economy will return to the growth path we envisioned prior to the pandemic. And if this is the case, it is a unique event in which the damage to the Swedish economy is relatively temporary. Unlike major financial crises, which tend to be much more difficult to recover from. Please note, however, that we are only expecting a return to the old growth path, which means that the pandemic, in addition to the suffering it has caused, will remain an eternal cost to the national economy.

Finally, I would like to say a few words about the housing market and household debt, which has increased further over the past year. Households are now more sensitive to price falls in the housing market and to rising interest rates. To slow down the rate of growth in indebtedness and thereby manage this increased risk, I support Finansinspektionen's proposal not to extend the possibility for exemption from the amortisation requirement. As we do not yet have the final answers, it is difficult to know why housing prices have risen so much (see the article in the draft Monetary Policy Report). The closures and restrictions have created a type of rationing of certain types of consumption, such as travel, at the same time as unemployment has remained low and purchasing power has been good for groups with good spending power. Demand needs to go somewhere, it is cheap to borrow and this pushes up housing prices. The consequence is that household loans grow further and the tensions between ins and outs on the housing market are reinforced. This makes it even more important to solve the structural problems we have in the Swedish housing market. Large debts and structural problems will remain a growing risk in the Swedish economy, even after the pandemic has subsided.

§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 28 April 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 and Annex C to the minutes,
- to publish the monetary policy decision and the Monetary Policy Report with the motivation and wording contained in a press release at 09.30 on Tuesday 27 April 2021,
- to publish the minutes from today's meeting at 09.30 on Monday 10 May 2021.

This paragraph was verified immediately.

Minutes taken by

Bengt Petersson	Henrik Siverbo

Verified:

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

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