Monetary policy minutes

February 2022

SVERIGES RIKSBANK

Summary

Monetary policy needs to give continued support for inflation to be close to the inflation target in the medium term. At its monetary policy meeting on 9 February, the Executive Board of the Riksbank therefore decided to keep the repo rate unchanged at zero per cent, and to purchase bonds for SEK 37 billion during the second quarter of 2022 to compensate for maturing assets in the Riksbank's holdings.

The global economy has largely recovered the substantial fall in GDP that took place at the beginning of the coronavirus pandemic, and growth prospects are good, both in Sweden and abroad. Globally, inflation has risen rapidly over the past year, and the Executive Board members pointed out that this was largely due to a surprisingly rapid increase in energy prices. They also emphasised that there is considerable disparity among different countries in measures of inflation that exclude energy prices. Compared with the United States, for example, where inflation excluding energy has also risen substantially, Swedish inflationary pressures are still moderate, it was noted. Several members pointed out that different measures of underlying inflation in Sweden are unusually volatile at the moment, and therefore give no clear picture of the trend in price growth. However, it was also noted that there does not appear to have been any broad upturn in inflationary pressures so far. In this context, the Board members pointed out that long-term inflation expectations are close to 2 per cent.

The inflation forecast has been revised up, but CPIF inflation is projected to fall back over the year, as energy prices are not expected to continue to increase. The members discussed the uncertainty regarding the development of inflation and several said that it has increased, not least as a result of the unusually large fluctuations in inflation. The views of Board members differed regarding the risks related to the inflation forecast and whether it is the risk of higher or lower inflation than in the Riksbank's main scenario that is most prominent.

All members supported the decision to keep the repo rate unchanged at zero per cent and the forecast for the repo rate, which indicates that the rate will be raised during the second half of 2024. The new forecast implies that the timing of a first rate increase has been brought forward slightly, in relation to the assessment in November. Some differing opinions were also expressed as regards an appropriate time for a first rate rise. Three Board members entered reservations against the decision on, and forecast for, asset purchases. They instead advocated smaller asset purchases during the second quarter and that purchases will then be gradually tapered during the second half of the year.

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MONETARY POLICY MINUTES
Executive Board, No.1

DATE: 09/02/2022
MEETING TIME: 09:00

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

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

Robin Ahlén, remotely (§ 1-3a)
Johan Almenberg, remotely
Vesna Corbo, remotely
Hans Dellmo, remotely
Charlotta Edler
Mattias Erlandsson
Eric Frieberg, remotely
Anders Gånge, remotely
Jesper Hansson
Jens Iversen, remotely
Peter Kaplan, remotely
Henrik Lundvall
Ann-Leena Mikiver
Marianne Nessén, remotely
Bengt Petersson
Åsa Olli Segendorf, remotely
Olof Sandstedt, remotely
Maria Sjödin, remotely
Anders Vredin

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

§3a. Economic developments

Market developments since the last monetary policy meeting

Robin Ahlén from the Markets Department began by presenting the latest developments on financial markets. A higher rate of inflation than expected, strong labour markets and communication from several central banks have caused monetary policy expectations abroad to shift in the direction of greater tightening and have contributed to a rise in government bond yields. There has been a rapid turnaround in monetary policy expectations following the monetary policy meetings of the European Central Bank (ECB), the Bank of England and the US Federal Reserve. The ECB decided at its monetary policy meeting on 3 February to leave monetary policy unchanged, but the market seized on the fact that President Lagarde did not rule out a policy-rate increase this year, which contributed to raised interest rate expectations. According to market pricing, just under two policy rate increases are now expected from the ECB this year, of 0.25 percentage points each, which could also signify an end to net purchases of securities this year, as this is the sequence previously announced by the ECB. The yield spreads between German and, for instance, Italian bonds have widened.

The Bank of England decided at its monetary policy meeting on 3 February to raise its policy rate by 0.25 percentage points to 0.50 per cent, and to begin reducing its balance sheet. Although this was in line with market expectations, market rates nevertheless rose as a result of almost half of the voting members on the Monetary Policy Committee wanting to see a policy-rate increase of 0.5 percentage points. The market's interpretation of this was that there is greater concern about inflation in the Committee and that monetary policy will be tightened more rapidly in the near term than was previously expected. The market anticipates a further five policy-rate increases in the policy rate this year.

The Federal Reserve has communicated that an increase in the policy rate will probably occur in the relatively near future, and at the press conference held in connection with the January monetary policy meeting, Chairman Powell did not rule out either an increase of 0.5 percentage points or several rate rises in a row, at the same time as he said that the economy is now stronger than prior to the previous rate-rise cycle. Analysts expect the balance sheet to decrease this year and market pricing indicates five policy rate increases.

Overall, market pricing indicates that the market anticipates relatively rapid policy-rate increases in most developed economies in 2022-2023, but not much more after that.

Robin Ahlén then noted that market sentiment has deteriorated in recent weeks, as a result of expectations of less expansionary monetary policy. Stock exchanges have fallen from high levels.

Yields and spreads on corporate bonds have increased, primarily in Europe due to expectations that the ECB will begin to withdraw its support.

In Sweden, yields have risen on municipal bonds, covered bonds and corporate bonds in line with the general upturn, but overall, yield spreads for swap rates have been relatively stable.

The geopolitical uncertainty that has arisen in Europe has mostly affected the energy markets, as a result of an increased risk of energy deliveries not being made and of disruptions. The oil price has risen, as supply has not increased as rapidly as demand as economies have opened up after the pandemic.

The Swedish krona has strengthened somewhat over the past week, but the KIX is still weaker than at the monetary policy meeting in November. Important factors for the development of the Swedish krona have included relative monetary policy expectations, market sentiment and geopolitical unease.

Analysts believe that the Riksbank will leave the repo rate unchanged at today's meeting, but market expectations in terms of pricing of the repo rate level further ahead have shifted up, following the ECB's monetary policy meeting. According to market pricing, almost two repo-rate increases are expected this year, by 0.25 percentage points each time, and a further three are expected in 2023. Analysts are divided as to what the Riksbank's repo-rate forecast will look like. Most analysts expect that asset purchases will be unchanged in terms of size and composition in the second quarter in relation to the first quarter, but that they will decrease during the second half of 2022 and that this will be communicated later. Most analysts anticipate a first policy rate increase by the Riksbank in 2023. In other words, analysts and the market think that monetary policy will be tightened faster than the Riksbank indicated at the monetary policy meeting in November.

The current monetary policy drafting process – new data and forecasts

Olof Sandstedt, Head of the Financial Stability Department, described the increased geopolitical uncertainty from a financial stability perspective and presented the most recent statistics on housing prices, the situation in the corporate sector and banks' funding.

The security situation in Europe, especially with regard to the situation between Russia and Ukraine, includes various aspects that can be problematic. In terms of financial stability, it can be noted that Swedish banks' exposures to these countries are low and although the closest geographical region, for instance the Baltics, is being affected economically, the negative direct effects for Swedish banks are assessed to be minor.

Housing prices continue to rise, but at a slower pace. In December, they increased by a just over 10 per cent, compared with the same month last year.[1]

Companies generally have a good situation that reflects favourable earnings growth, profitability and funding conditions, although this differs between sectors. Earnings among companies in the property sector have increased, and property values have risen. Corporate borrowing has increased in recent months, primarily in the property sector and the services sector.

Overall, banks' funding costs remain low and they have ample access to funding. At the beginning of the year, yields on Swedish covered bonds continued to follow the general upturn in long-term rates, although the upturn was from low levels. Risk premiums have been relatively unchanged in the same period. Mortgage rates have risen somewhat, primarily for longer maturities.

Mattias Erlandsson, Deputy Head of the Monetary Policy Department, presented economic developments since the monetary policy meeting on 24 November, 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 on the forecasts and the monetary policy assumptions at meetings on 18, 26, 27 and 31 January. The draft Monetary Policy Report was discussed and tabled at a meeting of the Executive Board on 3 February.

Mattias Erlandsson began by noting that the upturn in inflation abroad and in Sweden has been discussed in particular detail when preparing for today's meeting. The causes of the higher rate of price increase have been analysed thoroughly, as part of the assessment of how persistent higher inflation might be in different countries. In Sweden, it is so far mainly energy prices that have caused the upturn in inflation and it is therefore important to determine the extent to which higher energy prices can spill over to broader price developments. This question is analysed in an article in the draft Monetary Policy Report.

It has also been noted in the drafting process that while it is possible to explain fairly well the causes of the higher inflation, uncertainty over forthcoming developments has nevertheless increased. The economic risk picture is also affected by the geopolitical situation in Sweden's neighbouring area, which has deteriorated over time.

In connection with the higher inflation, there has also been detailed discussion of interest-rate developments abroad, as well as the question of how a gradually tighter monetary policy in the

[1] This refers to HOX Sweden which is published by Valueguard.

United States and the United Kingdom, for instance, might affect the Swedish economy through various channels.

Much of the fall in economic activity that took place in spring 2020 has been recovered abroad. The rapid spread of the omicron variant around the turn of the year is subduing GDP temporarily, but the impact is limited compared with earlier periods in which the virus spread rapidly. High saving among households is one of several factors that support a favourable economic outlook abroad, although growth figures are expected to fall back to more normal levels going forward.

The sudden fluctuations in demand and its composition during the pandemic have led to imbalances between supply and demand. Bottlenecks are expected to dampen GDP in the current situation and continue to do so during 2022, albeit to a gradually declining extent. These factors have also had an effect on price formation and in many places there have been unusually rapid increases in goods prices paid by consumers.

Signs of a longer period of high inflation abroad, together with communication from various central banks, have meant that market participants now expect a more rapid tightening of monetary policy than they previously anticipated. This development is evident in the United Kingdom and the United States, where the central banks have raised or signalled that they plan to raise policy rates in the near term. Market expectations of the ECB's policy rate in the coming three years have also risen recently, and pricing now indicates expectations that the policy rate will be raised by around 0.5 percentage points this year.

Mattias Erlandsson went on to describe economic developments in Sweden, where GDP has risen rapidly. By the middle of last year, production had recovered the fall that took place in the initial phase of the pandemic, and growth continued to be strong also during the second half of 2021. Preliminary calculations from Statistics Sweden show that growth during the fourth quarter of last year was 1.4 per cent and in the forecast proposal, GDP has been adjusted up in relation to the forecast in November.

The strong economic developments are also reflected in labour demand indicators. The share of the working-age population that is employed is currently assessed to be somewhat higher than before the start of the pandemic and the forecast in the draft report is for the employment rate to continue to rise. In contrast to several other countries, labour supply in Sweden has increased during the crisis, which is contributing to continued high unemployment. However, unemployment is expected to fall gradually in the coming years, to close to 7 per cent in 2024. Resource utilisation in the Swedish economy is now expected to be higher than normal in the coming years.

Since the previous monetary policy meeting, Statistics Sweden has reported outcomes for inflation in November and December. In December, CPIF inflation was 4.1 per cent, which was a whole 1.2 percentage points higher than the Riksbank's forecast in November. Rapidly rising prices, particularly for electricity, but also fuel, contributed to the substantial upturn in inflation and explain almost all of the forecast deviation. If energy prices are excluded, inflation in December was 1.7 per cent.

Energy prices are not expected to increase more this year and thus the contribution to inflation will gradually decrease, even if energy prices remain high. The development of energy prices is creating considerable volatility in CPIF inflation and at the end of the year, inflation is expected to fall all the way down to 1.2 per cent. The rate of price increase measured as the CPIF excluding energy is more stable and expected to be close to 2 per cent in the coming years. From the middle of next year, CPIF inflation will also be close to 2 per cent, according to the draft forecast.

Based on the information received since the November meeting, the inflation forecast has been revised up. This year, inflation is expected to average 2.9 per cent, which is 0.7 percentage points higher than in the Riksbank's forecast in November. The most important reason for the revision is unexpectedly high electricity and fuel prices. Higher energy prices also mean that companies' production costs are increasing and the upturn is thus also expected to have some effect on consumer prices of goods, food and services. The fact that the krona has weakened since the meeting in November is a further factor that has contributed to the upward revision of the inflation forecast in the draft report.

The draft forecast is based on the monetary policy that is expected to gain a majority among the Executive Board at today's meeting. In brief, this entails a decision on a) an unchanged repo rate; b) a forecast indicating that the repo rate will be raised during the second half of 2024; c) asset purchases for a total nominal amount of SEK 37 billion during the second quarter of 2022, in order to compensate for maturing assets; and d) a forecast of unchanged asset holdings in 2022 and a gradual decrease in holdings thereafter. Annex B to the minutes describes in greater detail the purchases that will be made according to the proposal during the second quarter of this year.

§3b. The economic situation and monetary policy

Deputy Governor Per Jansson:

As always, I will begin by commenting on the current inflation picture and inflation outlook. As at our last monetary policy meeting in November, I will in this context give my view on the risk of inflation in Sweden becoming entrenched for a long time at a significantly higher level than our inflation target. I will then say a few words about how I view the monetary policy situation.

Since our previous meeting, two new inflation outcomes have been published, for November and December. In both months, CPIF inflation rose rapidly and in December reached a high of 4.1 percent. The forecast in November was that price increases would be 2.9 per cent, so the forecast error was a very substantial 1.2 percentage points. Many have pointed out that this is the highest figure for CPIF inflation since 1995, when the inflation target came into force, but it is then also worth emphasising that the same applies to the energy-price contribution, which amounted to 2.5 percentage points. This is nearly 40 per cent higher than the next-highest energy-price contribution since 1995 and more than 700 per cent above the average contribution during the period.

The very volatile and exceptional developments in energy prices mean, at least in my view, that it is now both more reasonable and more interesting to focus on inflation excluding rather than including these prices. For inflation adjusted for energy prices, our forecast for December is almost spot on the outcome, 1.66 per cent compared to 1.73 per cent. It is also important to note that the outcome is a little lower than in November, just over a tenth of a percentage point. The decrease is not substantial, of course, but it nevertheless clarifies that there are at present no particularly powerful, more genuine inflationary pressures in Sweden, in contrast to several other countries.

That genuine, trend inflationary pressures are currently quite stable and not excessively high is also evident in the Riksbank's various measures of underlying inflation. Compared with the situation at our November meeting, the median for the seven measures that we regularly monitor has only increased by a few hundredths of a percentage point, from 2.14 to 2.17 per cent. The two measures that have been shown in an empirical evaluation to be best at predicting future CPIF inflation, UND24 and CPIFPC, are at 2.6 and 1.6 per cent respectively.[2]

The relatively substantial difference between UND24 and CPIFPC illustrates that our measures of underlying inflation continue to be unusually volatile and have difficulty providing a clear picture of the more general trend in price developments. This conclusion is also highlighted by the fact that the difference between the highest and lowest measure since the start of the pandemic has reached a new all-time high for December, 2.6 percentage points. It is interesting to note that the difference is to a high degree due to a very sharp increase in the CPIFPV measure[3], which has recently been significantly higher than all other measures and with the data from December

[2] See the article "Why measures of core inflation?" in Monetary Policy Report, October 2018.
[3] See https://www.riksbank.se/globalassets/media/rapporter/ekonomiska-kommentarer/engelska/2018/measures-of-core-inflation-in-sweden.pdf for a detailed description of the Riksbank's various measures of underlying inflation.

amounted to as much as 4.2 per cent. According to the empirical evaluation, CPIFPV is the measure that does worst in terms of forecasting CPIF inflation one year ahead. And according to my own calculations, this measure has also been the worst at predicting CPIF inflation in 2021.[4] In light of the apparently poor empirical performance of CPIFPV, I urge our Monetary Policy Department to examine whether it is possible to improve this measure in some way. If we summarise the picture for our various measures of underlying inflation, we can note that it is a little fragmented but so far does not convey any particularly broad-based, worrying increase in inflationary pressures.

Increases and decreases in longer-term inflation expectations can also provide an indication that inflationary pressures more generally are about to change. Since our last meeting, Prospera has published two new outcomes, the monthly survey for January, which only covers money market participants, and the larger quarterly survey for December, which also measures the expectations of the labour market organisations, among others.

After bottoming out during the second half of 2020, longer-term, five-year inflation expectations have gradually risen and are now just above 2 per cent.[5] That they are currently slightly above our inflation target is, in my view, absolutely nothing we need to worry about. On the contrary, after many years of inflation below 2 per cent and signs that the inflation target is not fully appreciated as the long-term nominal anchor, this is only positive. The fact is that I would have nothing against it if longer-term expectations were to increase slightly further. This could help companies in their price setting and the social partners in their wage negotiations to emanate more unconditionally from the inflation target of 2 per cent as the reasonable and natural benchmark. This must not of course become too much of a good thing; expectations cannot be allowed to rise indefinitely. But this situation is still some way off and it would then not be a matter of expectations being a few tenths of a percentage point above the target for a period.

Longer-term inflation expectations derived from the market pricing of financial contracts basically provide the same picture as survey-based expectations. This is true even though they vary more over time and often are a little difficult to interpret as pure measures of expected price changes.

With this I move on to my comments on the updated inflation prospects in the draft Monetary Policy Report. The proposed forecast adjustments are characterised to a large extent by an upward revision of the assessment for CPIF inflation in 2022 as a result of a new assumption for

[4] The calculations refer to how well the measures' outcomes coincide with CPIF inflation 12 months ahead. The best measure in 2021 has been CPIFPC by some distance.
[5] 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.

energy prices, which implies stronger price developments compared with the Monetary Policy Report in November. The revision is considerable, with a CPIF inflation rate that is now almost 1 percentage point higher for most of this year.

For inflation adjusted for energy prices, the proposed upward revisions to the forecast are much smaller but still significant. They primarily affect the assessment this year and next year, where the revisions are in the order of 0.2-0.4 percentage points per month for the annual percentage change in the CPIF excluding energy prices. In the draft Monetary Policy Report, the forecast adjustment is said to be due to several factors that in combination provide quite a significant aggregate effect: an outcome adjustment associated with the marginal underestimation of price increases in December, a weaker krona exchange rate, somewhat larger indirect effects of higher energy prices on other consumer prices and slightly higher inflation expectations and wage increases.

I support the forecasts for inflation and economic developments otherwise in the draft Monetary Policy Report. But this time, I am doing so with some hesitation. There are a number of fairly abstract assumptions that together lead to a relatively substantial adjustment of the forecast for inflation excluding energy prices. Although the assumptions are not unreasonable, several of them, at least so far, have rather weak support in data. This is also noted in a few places in the draft report but the arguments for letting them substantially affect the forecast have apparently still been deemed to carry greater weight.

Regarding indirect effects of higher energy prices on other consumer prices, it is for example still very difficult to find any sign of these in Swedish data. Although the rate of increase in service prices, which constitute almost 45 per cent of the consumer price basket, has risen recently, it is currently only just over half a percentage point above the average increase since 2000. In addition, the growth in these prices fell back quite substantially in December compared to November, from 3 per cent to 2.5 per cent. If we look at prices for goods, whose weight in the basket is just below 30 per cent, these more or less stood still in December, which is also a rate of increase that is only a little faster than the historical average since the turn of the millennium. If anything, growth rates in the prices for goods have demonstrated a falling trend since mid-2020. For the food category, which has a weight of just under 20 per cent, the rate of increase is currently still below the historical average and, in the same way as for the rate of growth in other prices for goods, the trend in the increase in these prices has, if anything, been on a downward trajectory. In all of this, it is important to remember that several of these price groups will in the period ahead need to grow more rapidly than their historical mean if inflation is to average 2 per cent.

Neither regarding so-called secondary effects, that occur via higher inflation expectations and wage increases, do I think that the empirical support is particularly convincing. In an article in the draft Monetary Policy Report, possible secondary effects are highlighted using scenarios in which such effects have been assumed to exist.[6] Although the article is very good, it gives very little data or facts leading to the conclusion that it is now reasonable to believe that they actually will occur. My own impression when I listen to the debate on wage growth in Sweden is rather that there are few signs of compensation demands and that most people's assumption is that inflation will soon fall and be in line with the inflation target.

According to the forecast proposal in the draft report, inflation adjusted for energy prices will exceed 2 per cent in 38 out of 39 months going forward. Historically speaking, this is an unusual development and it is therefore particularly important to have good arguments when making such an assessment. It is difficult to make concrete, detailed comments on the analysis and the proposals for forecasts that have now been drawn up by all our experts. In light of this, I shall confine myself to pointing out that I, in any case, take a different view of the risk picture for inflation than the one described in the draft report. In my risk picture for inflation, downside risks dominate, especially once the contribution from energy prices to price increases declines and the pandemic-related effects on demand and supply conditions wear off. I note that even if the proposed forecasts turn out to be accurate, there is no need to now revise our plans for monetary policy in a tighter direction – the forecasts are of course contingent on these plans.

Everything I have said now does not mean that I rule out the possibility of inflation, even excluding energy prices, being higher than what is now proposed in the draft Monetary Policy Report. That may very well happen. However, I consider it very improbable that inflation will be significantly and persistently higher unless longer-term inflation expectations and wage increases rise substantially and in a sustained manner. I find it difficult to see such fundamental changes happening rapidly. It seems more likely that they will occur gradually, step by step. Once the changes have found their way into the system and gained a foothold, we will have strong forces at work that may need to be tackled with significantly tighter policy. Developments must therefore be monitored carefully and, if necessary, measures taken before things have got to that

[6]See the article "High energy prices – how will other consumer prices be affected?" in the draft Monetary Policy Report.

stage. But, as I said, I currently see very low risks of such a more serious high-inflation scenario occurring.

With that, let me round off my contribution with a few brief comments on monetary policy. As it happens, I have actually already said quite a lot about this in my inflation discussion.

Bearing in mind what I have said here about the inflation picture and inflation prospects, it should not come as much of a surprise that I think it is appropriate to now make very minor adjustments to our plans for monetary policy. In light of the development that has occurred since our last monetary policy meeting in November, I think that it is reasonable to revise up the repo-rate path a little further. But I think it is good that we act in small steps, as long as this is possible, which I think it is. So far, inflation in Sweden is significantly lower than in several other countries and the risks of it becoming entrenched at a level that is clearly higher than the target are also much lower in our country. Against this background, we can remain quite calm a while longer. I therefore support all the assumptions for monetary policy in the draft Monetary Policy Report and the details about asset purchases presented in Annex B to the minutes.

Deputy Governor Henry Ohlsson:

I would like to start by saying that I support leaving the repo rate unchanged at zero and, in the forecast, to bring forward the timing of the first increase of the repo rate according to the repo-rate path. Further, I think that the Riksbank's securities portfolio should be reduced during the second quarter of 2022.

The economic situation in Sweden has improved continuously over 2021 and at the beginning of 2022. The sectors that have had their operations limited by the restrictions imposed by the government and authorities have now been able to develop in the same positive manner as other sectors. Restrictions and recommendations are currently being removed.

According to the draft Monetary Policy Report, Swedish GDP is expected to have risen by 5.2 per cent in 2021 compared with 2020. As always, it will take time before we have the more final figure. For 2022, the forecast for growth is 3.6 per cent. This is a small downward revision in relation to the November Monetary Policy Report, when GDP growth for 2022 was forecast at 3.8 per cent, but is nevertheless much higher than the historical average.

A fundamental starting point for monetary policy is that the CPIF has been the target variable for monetary policy since 2017. In other words, the rate of increase in the CPIF is the measure of how quickly the cost of living is rising, which is the starting point for the price stability target. The most recent inflation measurement in December 2021 showed an annual rate of increase in the CPIF of 4.1 per cent. The moving average over twelve months for CPIF inflation was at 2.4 per cent in December. This is clearly above the inflation target of 2 per cent. If the moving twelve-month average is adjusted using the monthly forecasts for CPIF inflation in the draft Monetary Policy Report, the moving average rises to over 3 per cent in April 2022. Given the forecast for CPIF inflation, the moving average will be around 3 per cent over the whole of 2022. It is a very long time since the cost of living has increased this much.

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 7.2 per cent in December 2021. This was a decrease of no less than 1.6 percentage points compared with the same month one year earlier, when the corresponding figure was 8.8 per cent. Following a peak during the second half of 2020, unemployment has rapidly declined.

Unemployment insurance fund members can be considered to have a relatively strong position on the labour market. In December 2021, the percentage of openly unemployed members of unemployment insurance funds was 2.8 per cent. In the same month one year earlier, the share was 4.0 per cent. After peaking in the second half of 2020, unemployment measured this way is now also clearly lower than it was one year ago.

Sweden is a small, open economy. We are dependent on economic activity and policies abroad. During spring 2020, draconian measures were taken around the world, measures that significantly reduced economic activity. The situation is not the same now.

The forecast for KIX-weighted (trade-weighted) growth abroad in 2021 is 5.2 per cent in the draft Monetary Policy Report. The same draft contains a forecast for 2022 of 4.0 per cent. The forecasts are high figures, which bear witness to a strong rebound, following a difficult 2020.

The KIX-weighted rate of inflation abroad was 1.1 per cent in 2020. The forecasts for 2021 and 2022 in the draft Monetary Policy Report are much higher; 2.7 per cent and 3.8 per cent respectively. These are considerable upward revisions in relation to the November Monetary Policy Report. For many years, monetary policy around the world has been struggling with inflation rates below the set targets. The situation is now the reverse. The task for monetary policy has changed 180 degrees.

Here it is natural to 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 2 per cent in recent months. The most recent five-year measurement for money market participants from January 2022 is at 2.0 per cent on average.

Over a relatively long period of time, we have seen a rapid economic rebound in Sweden and abroad, following the severe decline in economic activity in spring 2020. Forecasts are being revised up all the time. GDP growth is rapid. Unemployment is declining, but it is of course desirable that it declines further. Inflation expectations are stable around the inflation target and are, if anything, rising. But the most important thing is that CPIF inflation has shown a rising trend and is expected to clearly overshoot the inflation target for the majority of 2022.

The fundamental question is whether the upturn in inflation that we are seeing in Sweden and abroad is temporary or more lasting. For each inflation outcome published for the countries important to Swedish trade, it becomes increasingly clear that the higher inflation figures are not a transitory phenomenon.

It is therefore time to slightly adjust the direction for monetary policy. At the previous monetary policy meeting in November 2021, a decision was taken regarding asset purchases during the first quarter of 2022 for SEK 37 billion to compensate for maturing assets during 2022. I said then that I would not have objected if the purchases of covered bonds and corporate bonds had been somewhat lower. Now I am advocating that the purchases of government, municipal and covered bonds should be made at a slower pace during the second quarter of 2022, more precisely for SEK 9 billion per asset type. I also consider it desirable for the Riksbank's asset holdings to continue to be gradually tapered during the second half of 2022. I also consider that the Riksbank’s purchases of treasury bills should cease after the first quarter of 2022. In addition, I think that the purchases of corporate bonds should be reduced to SEK 500 million during the second quarter of 2022, to then either be tapered further or discontinued entirely.

It is my assessment that such an adjustment to monetary policy is compatible with continued expansionary financial conditions, strong development of the real economy and attaining our inflation target. Further, I consider that reduced asset purchases will not lead to any deterioration in the functioning of financial markets.

The proposal is now to bring forward the forecast for a first increase in the repo rate in relation to the repo-rate path decided on at the November meeting. Given the developments we have seen and the forecasts presented in the draft Monetary Policy Report, I consider this change in the repo-rate path to be strongly desirable.

To summarise, I thus support the proposal to leave the repo rate unchanged at zero and, in the forecast, to bring forward the timing of the first increase in the repo rate according to the repo-rate path. I support the view of the economy and the forecasts in the draft Monetary Policy Report. This means that I consider that the Riksbank's securities portfolio should be reduced during the second quarter of 2022.

Dixi!

First Deputy Governor Cecilia Skingsley:

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

Since the previous monetary policy meeting, developments have been unusually eventful, both abroad and in the Swedish economy. I would like to comment on the macroeconomic situation and Swedish inflation prospects, before I move on to my assessment of monetary policy. In addition, I would also like to say a few words about the Riksbank's securities holdings from a more strategic perspective.

After the monetary policy meeting in November, the COVID-19 mutation omicron spread at record speed and triggered new restrictions in a large number of countries. There was considerable uncertainty for a time. However, at the time of this meeting, Swedish restrictions have just been withdrawn and the same is happening in other countries. The economy demonstrated greater resilience during the omicron turmoil compared with earlier phases of high infection. When we now look ahead, the prospects for Sweden's most important trading partners look bright in general.

The increased geopolitical tensions in Europe pose risks, but these risks are very difficult to quantify and affect the main scenario only to the extent that they are now being reflected in the outcome data on which the forecast is based.

Since the previous meeting, in November, it is also clear that inflation has risen rapidly abroad. In the United States, the upturn is largely due to high prices for energy and food, but there has also been a rapid upturn in underlying inflation. The United Kingdom has a similar situation, while underlying inflation in the euro area is lower. Rising prices of goods and services significantly affected by the pandemic have also contributed to the higher inflation. Inflation outcomes are clearly pushing up market rates abroad as expectations change towards several influential central banks soon changing their monetary policy stance and reducing their stimulus. At the same time, the monetary policy picture is not clear-cut among the larger economies. The People's Bank of China, for example, has recently added further stimulation.

Rising interest rates abroad are pushing up market rates also in Sweden. Swedish companies and household should plan for higher interest rates in the coming years.

As in other countries, activity in the Swedish economy is continuing to increase. Although the highest growth figures are judged to be behind us, the economy is expected to grow at a strong pace going forward, after a slowdown at the start of the year, and the labour market is expected to continue to improve.

Inflation has surprised on the upside since the November meeting. It is primarily energy prices that have risen more than expected. Service prices have also risen after pandemic-related shocks have subsided. The fact that even the Riksbank's various measures of underlying inflation (Figure 51 in the draft Monetary Policy Report) differ substantially indicates that the inflation situation can be interpreted in several different ways.

This time, an important question regarding the forecast has been how much energy prices may spill over to other prices in the economy, through both indirect and secondary effects. However, as noted in the article in the draft Monetary Policy Report, it is often difficult to find any clear historical correlation between energy prices and other prices.

The inflation outcomes have in any case led to the proposal that the inflation forecast should be revised upwards. As regards the forecast proposal in the draft Monetary Policy Report, I would like to highlight two things:

The sharp upturn in energy prices is not expected to persist, when looking at forward pricing in these markets, which the Riksbank normally uses as an input value for energy-price forecasts. CPIF inflation is therefore expected to fall back towards 1 per cent by the next turn of the year and then to remain below the target of 2 per cent for almost the whole of 2023.

If I look beyond the fluctuations in coming months and consider inflation 12-24 months ahead, I note that the Riksbank's forecast for CPIF inflation is on average 1.9 per cent and that CPIF inflation excluding energy averages 2.1 per cent. This is an upturn compared with the corresponding forecast in November with one tenth and two tenths respectively. Given this, I think it is appropriate to bring forward the forecast for a first increase in the repo rate, in accordance with the proposed repo-rate path on the table today.

As always, future monetary policy decisions will need to be adapted to changes in the economic outlook. During a number of years in the 2010s, it was difficult to keep inflation close to the target, despite both a negative policy rate and asset purchases. At that time, the Executive Board noted in several Monetary Policy Reports that an inflation rate that overshot the target of 2 per cent would not automatically entail tighter monetary policy. I consider that we now are in such a situation we alluded to then, and that we can wait and see what happens. As I stated at the monetary policy meeting in November, a winding-up of the securities portfolio, when it occurs, must be done gradually and in a predictable manner. I cannot see that Swedish inflation prospects have changed to such an extent that there is now reason to abandon the forecast that the portfolio will begin to be gradually wound up after 2022.

In conclusion, I would like to say a few words about my stance regarding the various securities portfolios the Riksbank has acquired, from a more strategic perspective. With an inflation target, monetary policy is, put simply, about influencing financial conditions in such a direction so that the various economic agents have inflation expectations that are anchored around the target and that inflation moves towards 2 per cent.

If we take a brief retrospective, we can observe that monetary policy could be managed satisfactorily for many years with a single tool. By changing the interest rate that banks paid or received in the Riksbank's operational framework, the Riksbank had done its job. The global financial crisis at the end of the 2000s showed, however, that central banks must sometimes take more powerful action. Bond purchases became the solution both to the need to keep interest rates low to support the economy, and to the need to support the transmission mechanism for monetary policy. The years with low inflation also emphasised that there was sometimes a need to use bond purchases to stimulate demand via generally low interest rates. The pandemic then triggered the largest and fastest economic shock we have experienced in our time and caused central banks to launch a large number of purchase programmes. The aim of the programmes was to alleviate the macroeconomic shock caused by the health crisis and to avoid a financial crisis.

Now that we appear to be able to put the economic effects of the pandemic behind us, there is reason to discuss these asset portfolios emanating from the purchase programmes. My view is that the Riksbank must be able to act decisively and in a timely manner if new economic crises suddenly arise. It will be possible to let the assets now held in the portfolios mature at the pace the Executive Board finds appropriate for monetary policy reasons. However, I do not consider that the holdings of government securities, municipal securities, covered bonds or corporate bonds should be allowed to mature completely.

An important lesson from the crisis months in 2020 is that it was particularly complicated to initiate purchases of corporate bonds. A long list of questions needed to be answered, and new information needed to be gathered before the Riksbank could make the purchases in September

2020, 6 months after taking the decision to do so. We were not sufficiently prepared for the problems that arose in the corporate bond market in March 2020, and the responsibility for this falls on the Executive Board. We should avoid such a situation arising again. The most effective means of maintaining the Riksbank's operational capacity in the long run is therefore to continue to manage the above-mentioned asset types in portfolios of an adequate size.

Deputy Governor Anna Breman:

I support the proposal to keep the repo rate unchanged, the repo-rate path and the forecast in the draft Monetary Policy Report. However, I do not support the draft decision on and forecast for asset purchases. I advocate reinvestments of government, municipal and covered bonds for SEK 9 billion per bond-type and reinvestments of corporate bonds for SEK 500 million during the second quarter of 2022, and that bond purchases are then gradually tapered further during the second half of 2022. I also advocate that the Riksbank's purchases of treasury bills should cease after the first quarter of 2022.

Let me begin by presenting my view on economic developments and the prospects for inflation before discussing the monetary policy considerations and my reservation.

Since the last monetary policy meeting in November, the government has both reintroduced and removed pandemic-related restrictions. The economic recovery continues, but developments are increasingly divergent between different countries. This is particularly true for inflation. Allow me to highlight some statistics that illustrate this and explain why it is important at today's meeting.

First, the rise in inflation in 2021 was unusually high. In the United Kingdom, for example, core inflation[7] rose from 0.9 per cent in February 2021 to 4.2 per cent in December of the same year. The corresponding figure for the United States is from 1.3 per cent to 5.5 per cent. Core inflation has also risen in the euro area and in Sweden, but not at all as much. In the euro area, core inflation bottomed out at 0.7 per cent in April 2021 and rose to 2.6 per cent in December before falling back somewhat in January to 2.3 per cent. In Sweden, CPIF inflation excluding energy bottomed out at 0.5 per cent in July 2021 and has since then risen to 1.9 per cent in November and 1.7 per cent in the latest outcome for December.

Second, in Sweden the different measures of inflation are diverging considerably. This applies to the difference not only between the CPIF and the CPIF excluding energy, but also between different measures of underlying inflation (see Figure 51 in the draft Monetary Policy Report). As a result of volatile energy prices and pandemic-related measurement problems, CPIF inflation has

[7] Core inflation here refers to the CPI excluding energy, food, alcohol and tobacco for the United Kingdom, the HICP excluding energy, food, alcohol and tobacco for the euro area and the CPI excluding energy and food for the United States.

also varied considerably during the pandemic. CPIF inflation bottomed out at -0.4 per cent in April 2020 and has since risen to 4.1 per cent in December 2021. We have thus had both higher and lower outcomes in the CPIF, and greater divergence between the CPIF and the CPIF excluding energy during the pandemic, than we had during the entire period since the introduction of the inflation target in 1995.

In light of this, I would like to comment on the forecast for inflation. Our monetary policy strategy should take into consideration inflation diverging significantly from our forecast – even in the near term. In addition, risks are asymmetrical. My assessment is that the risks of inflation being higher than in our forecast are greater than of it being lower. The substantial rise in prices for energy and input goods means that many companies may need to increase prices in order to survive. Companies' plans for price increases tend to be a good indicator of future inflation and these measures are now at historically high levels. In addition, the lifting of restrictions may now lead to strong demand in the service sector and contribute to a further increase in service prices. The rapid rise in inflation abroad may also spill over via import prices. This can be reinforced by the recent krona depreciation.

However, inflation expectations are still well anchored at the inflation target and wage growth is modest, which lends support to the forecast in the Monetary Policy Report. The forecast has also taken indirect effects and secondary effects from the high energy prices into account to some degree. This is well described in the article in the draft Monetary Policy Report. A number of factors, including falling electricity prices, could cause CPIF inflation to fall back more than in the forecast. Geopolitical turmoil creates uncertainty. Pandemic-related measurement problems persist and it is uncertain how the electricity-price compensation is to be measured. In other words - the forecast is as always uncertain - and this should be factored into the monetary policy strategy.

This leads me on to the monetary policy considerations at today's meeting. Let me begin with the asset purchases and then comment on the repo-rate path. I advocate a lower level of reinvestments during the second quarter and a continued tapering of reinvestments thereafter. This would entail significantly smaller purchases during the year than are required to compensate for maturing bonds.

In my view, such a tapering of purchases is consistent with strong development of the real economy and inflation at the target. Bond purchases were a proportionate and effective measure when initiated in March 2020. It contributed to well-functioning credit supply to households and companies and supported a strong recovery of the Swedish economy. In this way, the bond purchases helped to uphold the inflation target in the medium term. In November 2020, I supported an extension of bond purchases to the second half of 2021, but I entered a reservation against the size of the purchases. Financial markets were already well-functioning at that time, and less extensive asset purchases had been enough to give support to the recovery. As net asset purchases have ended the issue is now whether and how to taper the asset holdings.

A gradual winding-down of reinvestments has several advantages. First and foremost, it reduces the risk of monetary policy having to be abruptly tightened if inflationary pressures rise more rapidly than expected. If purchases continue at the current pace, we risk having to cease reinvestments completely at short notice or even to actively sell assets. I would not hesitate to do this if it were necessary in order to maintain price stability. But I consider it to be a more long-term, credible monetary policy strategy to gradually reduce the balance sheet by not fully reinvesting maturing bonds.

Furthermore, this strategy takes into account the fact that the characteristics of the Swedish bond market are different to those of the US or European market. The stock of covered and corporate bonds is large in Sweden compared with the stock of government- and municipality bonds. We cannot rule out a future need to resume net asset purchases for monetary policy purposes. It would then be an advantage to start with a smaller asset portfolio.

Finally, I would like to comment on the repo-rate path. I would have preferred a repo-rate path indicating a rate hike one or two quarters earlier than in the draft Monetary Policy Report, but as the repo-rate path is a forecast and not a promise, I am not entering a reservation against the proposed repo-rate path. (This is different to asset purchases, where I do not support the forecast in the near term). My assessment is that market pricing is too aggressive. A repo-rate hike is only on the cards if we see a higher and more persistent increase in inflation. My assessment is that a repo-rate hike in the current environment would be significantly more contractionary than a gradual and controlled tapering of the balance sheet. I therefore prefer to first reduce the balance sheet for a period of time before a repo rate hike.

Allow me to summarise: I support the proposal to leave the repo rate unchanged, but I do not support the draft decision on and forecast for asset purchases. It takes time for monetary policy to have the desired effect. Being prepared to act is insufficient in the current situation. In my view, a gradual and predictable tapering of reinvestments is a proportionate, effective and long-term credible strategy for monetary policy. It takes into account the risk of higher inflation without slowing the economic recovery too early and too severely. In this way, it promotes price stability in both the short and the long term.

Deputy Governor Martin Flodén:

I support the proposal to leave the repo rate at zero per cent and the forecast for the repo rate. But I do not support the draft decision on asset purchases in the second quarter of this year or the forecast for appropriate purchases after that. I do, however, support the other assessments and forecasts presented in the draft Monetary Policy Report.

Inflation developments were in focus at the monetary policy meeting in November. Inflation in Sweden had increased in line with the Riksbank's earlier forecast but in other important countries, inflation had risen significantly more and also more than expected. The increase in inflation was dominated by rapidly rising energy prices, but in some countries, clear signs could also be seen that underlying inflation was starting to rise quickly.

Inflation has continued to be in focus in recent months. This is due in part to energy prices continuing to be surprisingly high. But underlying inflation has also been surprisingly high in many countries. Sweden is an exception in this regard, however. As in other countries, energy prices are pushing up inflation, but underlying inflation is still modest and has developed entirely in line with the Riksbank's forecast.

At the time of our monetary policy meeting in November, the infection rate was increasing in several countries, and the development deteriorated in the weeks that followed when the omicron variant of the coronavirus spread rapidly across the world and restrictions were reintroduced. Concern about the pandemic has decreased significantly since then and restrictions are now being lifted. In Sweden, we are seeing strong growth in the real economy. GDP rose unexpectedly quickly towards the end of last year and we see signs of strained resource utilisation in many places.

In light of this, let me present my view on the inflation prospects and monetary policy.

In the Swedish inflation figures, there is still no sign of underlying inflation starting to accelerate. Food prices increased by 1.5 per cent last year, prices for goods by 0.1 per cent and service prices by 2.5 per cent. The rate of increase for food prices was somewhat lower than the average rate over the last two decades, while the rates of increase for goods and service prices were somewhat higher than the historical averages, and, as we know, the historical averages have led to headline inflation being lower than the inflation target.

The inflation figures are not therefore worryingly high but instead indicate that inflationary pressures may remain problematically weak. However, the rather prolonged period of high energy prices, supply disruptions and high freight costs and commodity prices that we are now experiencing will probably soon be visible also in Swedish consumer prices. This assessment is supported, among other things, by a very high proportion of companies that are planning to increase their sales prices according to the National Institute of Economic Research's Economic Tendency Survey and the fact that several companies have announced price rises in the Swedish market. In addition, the exchange rate has depreciated significantly in recent months, contributing further via higher import prices.

It is therefore reasonable for us to revise upwards the forecast for inflationary pressures, which is indicated by our projection for underlying inflation for the entire forecast period now being a little higher than in November, despite the forecast for the repo rate being a little higher.

In recent decades, inflation has been below the target of 2 per cent on average. We have previously communicated that monetary policy does not need to counteract inflation being somewhat above 2 per cent for a period of time; this could on the contrary lead to inflation expectations being more firmly anchored close to the target and thereby reduce the risk of us again having to set the repo rate close to its effective lower bound.

This reasoning becomes less relevant the longer inflation is above target, and especially when it is well above target. Risks regarding the medium-term outlook for inflation have changed over the past year. The risk of inflation pressures remaining weak still persists. We may therefore end up struggling with too low inflation again a few years ahead, which will be particularly problematic if underlying real interest rates also remain low. But there is now also a clearer risk that inflation is starting to become entrenched at too high a level, at which a problematic price and wage dynamic arises.

Monetary policy needs to be forward-looking and react in time. The later we react to inflation that starts to deviate from a long-term sustainable level, the more powerfully we will have to raise or lower the interest rate when we do act. The consequence will then be unnecessarily large fluctuations both in the real economy and on financial markets.

According to our new assessment of inflationary pressures, underlying inflation is somewhat above 2 per cent for the entire forecast period, and CPIF inflation is 2.3 per cent at the end of the forecast period. On the one hand, I see no problem with such a development; it means that inflation is close to target. On the other hand, as I have just explained, I no longer see a reason to plan for a monetary policy that leads to above-target inflation. I therefore think that our upward revision of the inflation forecast could in principle have led to us adjusting the forecast for the repo rate upwards a little more than is proposed in the draft Monetary Policy Report.

But the proposed repo-rate path is still not unreasonable. In the draft Monetary Policy Report, we write that the inflation forecast is unusually uncertain at the moment. This is an assessment that I share. Everything currently indicates that inflation will fall rapidly in the latter part of the year. I do not rule out inflation pressures then beginning to be seen as problematically weak yet again.

At the monetary policy meeting in November, my assessment was that the likelihood of an interest-rate adjustment being justified before the middle of next year was low; it would require rather substantial changes in the assessment of inflationary pressures to motivate a modified rate. As our assessment of inflation pressures has increased since then, the likelihood of us having to raise the interest rate earlier has also increased. Despite this, I still consider it rather improbable that a rate rise will be justified during this time period.

In conclusion, allow me to comment on the asset purchases. I do not support the proposal in the annex to the minutes. I advocate instead that purchases of government, municipal and covered bonds in the second quarter of this year be reduced to SEK 9 billion per asset type, that purchases of corporate bonds be reduced to SEK 500 million and that purchases of treasury bills be discontinued completely. I also advocate that we announce the discontinuation of purchases of corporate bonds after the end of June and that purchases of other bonds shall continue to be tapered during the second half of the year. The proposal I advocate would therefore mean that the purchasing rate this year will be significantly lower than would have been needed to keep our asset holdings on the same level at the end of the year as at the start of the year.

With regard to Cecilia's comment on what our portfolios should look like in the longer term, I would also like to add that I do not think the Riksbank should hold corporate and covered bonds to be able to take action in those markets in times of crisis.

I do not intend to go into detail regarding my reasons for advocating reduced asset purchases today. Instead, I refer to my previous comments, especially at the monetary policy meeting in November 2020, when I entered a reservation against the purchasing plan that was decided at the time, and in November 2021, when I indicated that I would advocate reduced purchases at today's meeting.

I would nevertheless like to make a few comments on this. After our last monetary policy meeting, inflation has been surprisingly high while the economic outlook remains strong. The arguments for winding down asset purchases slightly faster have thereby been strengthened. In addition, we have seen that the major reduction of the purchasing rate after the turn of year has worked well. It has neither affected interest-rate levels to any great extent nor disrupted market functionality. It is true that many market rates have increased recently, but this seems to be mostly an international phenomenon and caused by a rise in expectations on central bank policy rates.

I therefore assess that the continued tapering I am advocating would not have any significant impact on Swedish interest-rate levels. Financial conditions would remain expansionary, the functionality of financial markets would not be disrupted, and the strong growth in the real economy would not be put at risk. And in particular considering the changed risk picture surrounding the development of inflation, I see no risk of a slower purchasing rate making it more difficult to fulfil the inflation target.

Governor Stefan Ingves:

I would like to begin by saying that I support the assessments in the draft Monetary Policy Report. The report accurately describes the economic situation, our discussions during the report drafting process and the trade-offs we have to make. This means that I support the proposals at today’s meeting to leave the repo rate unchanged at zero per cent and to purchase Swedish securities during the second quarter of 2022 as stated in the report and the annex to the minutes. These asset purchases, which are the same size as the purchases during the first quarter of this year, will maintain the size of the Riksbank's balance sheet at approximately the level it was at the end of 2021 when our asset purchase programmes decided during the pandemic expired. At the same time, it may be worth pointing out that all other expansionary measures had been phased out earlier. With the current combination of different measures, monetary policy continues to provide support to the economy to ensure that inflation develops in line with our target, while monetary policy cautiously and very gradually becomes less expansionary. The gradual factor is important here, as over the past few decades, deviations from the inflation target in the form of too low inflation have been a much larger issue than too high inflation.

Since the previous Monetary Policy Report in November, the coronavirus pandemic has taken new, unexpected paths. Thanks to the vaccines, the economic effect has nevertheless been relatively minor. But we must not forget that in other parts of the world, the coronavirus is still a major problem for public health and the economy. Our main scenario assumes that the effects of the pandemic on economies will diminish. And the supply shocks and bottlenecks that arose in 2021 are expected to decline. Growth among Sweden's most important trading partners (KIX countries) is expected to be strong this year, around 4 per cent, followed by a few years with lower but more normal growth.

Inflation has continued to rise in several countries, which is primarily linked to rising energy prices. However, in some areas, such as the United States, the upturn in inflation has been broader, with price increases on goods that have been more in demand during the pandemic.

The same increases in energy prices are not expected during the remainder of 2022, at the same time as several major central banks have communicated that their monetary policy stimulus will be reduced or phased out in various ways. Overall, this means that we expect KIX-weighted inflation to fall back, from almost 4 per cent this year to just over 2 per cent during the rest of the forecast period.

In Sweden, economic developments still look strong. Last year, GDP growth was just over 5 per cent, a reflection of the fact that the recovery from the first phase of the pandemic began quickly. During 2022, strong growth of around 3.5 per cent is expected, although there will be some slowdown at the beginning of the year as a result of the restrictions introduced after the outbreak of the omicron variant. The labour market also appears relatively strong. Employment is expected to continue to rise and unemployment to fall back.

Since the previous Monetary Policy Report in November 2021, we have received two new inflation outcomes, for November and December. The most recent outcome for CPIF inflation was 4.1 per cent, one percentage point above our November forecast. The forecast error is explained by energy prices having continued to rise unexpectedly after the November report. At the same time, the outcome for the CPIF excluding energy was in line with our earlier forecast, 1.7 per cent.

In our new forecast we do not expect energy prices to continue rising. This means that CPIF inflation will fall back later this year. The annual average for the CPIF is expected to be 2.9 per cent this year, and then around 2 per cent during 2023 and 2024. Given the substantial economic consequences of the pandemic, both in Sweden and globally, and the major fluctuations we have seen, and will continue to see in the inflation rate, our forecast for inflation indicates good target fulfilment in the coming years. At the same time, economic developments in a broad sense look strong during the forecast period. If our forecast is correct, we can bide our time and wait before adjusting monetary policy, there is no reason to be in the forefront compared with other countries, and if we are wrong, we have very powerful tools at our disposal to make monetary policy less expansionary at some point in the future.

The recent rapid fluctuations in the inflation rate, primarily abroad but also in Sweden, create an uncertainty about the more long-term development of inflation. In our forecast, we assume that the pick-up in international inflation over the past year is not permanent. But should, for example, long-term inflation expectations rise, inflation can become entrenched at high levels. This risk perhaps applies primarily to the United States, where the rise in inflation is broad, and where extensive fiscal measures have had a major impact on demand.

It is now two years since the outbreak of the pandemic. The economic effects of the spread of infection and various types of restrictions to contain it were considerable, and economic policies around the world became very much focused on alleviating them. Large parts of the global economy have now recovered the considerable falls in GDP caused by the pandemic, although there are differences between regions and between sectors.

The monetary policy measures taken around the world at the start of the pandemic were to a large extent synchronised. By this, I mean that the measures were taken at around the same time to stabilise financial markets, secure credit supply and soften the fall in GDP. The situation is different now and the way out of the pandemic does not appear to be synchronised. Some central banks have begun to phase out their monetary policy support, while others are continuing to maintain or even increase it. The reason why the picture is so divergent now is that economic recovery is progressing at a different pace and inflation varies between countries and regions. In the United States, for instance, inflation has caused the Federal Reserve to rethink its monetary policy communication and market expectations are focused on policy rate rises. The situation looks different in the euro area. The upturn in inflation there has been slower than in the United States, and there has not yet been any change in the ECB's monetary policy.

What do these international developments mean for Sweden? What position should Swedish monetary policy adopt when other countries are moving at different speeds? In my view, there are at present no reasons to be in a hurry to phase out the monetary policy measures taken in recent years, a gradual tapering has already occurred. As is well known, our target is CPIF inflation of two per cent. At present, inflation is above target, but inflation in our forecast is set to fall over the coming year. To avoid the fall being too severe, that is, to prevent inflation becoming too low in 2023 and 2024, continued support is required from monetary policy.

In conclusion, the expansionary monetary policy outlined in the draft Monetary Policy Report is needed to ensure that inflation develops in line with our inflation target of two per cent more persistently. And monetary policy consists of several elements: maintaining the size of our bond holdings through 2022, and keeping the repo rate at zero per cent for most of the forecast period. At the same time, and as noted in the report, the Swedish economy appears to be approaching a period with slowly rising interest rates. This makes it important that various agents prepare themselves and cope with such a development. If interest rates rise abroad, they are also likely to rise in Sweden, and this is partly independent of what happens in Swedish monetary policy in the short term. Given this, we do not need to change our asset purchases now, and, so to speak, perhaps in addition indirectly raise the interest rate without raising the interest rate.

Allow me finally to mention a monetary policy issue that requires neither measures nor discussion today, but which I believe will return later on. We are not far off the point at which we have had a policy rate of zero or lower for almost ten years. This interest rate situation has made considerable demands of monetary policy in ways that were not previously part of our monetary policy reasoning. Given this, it is probably more important, when the time is right, to focus on an interest rate with a respectful distance from zero rather than on a shrinking balance sheet. Previously, quite a long time ago now, we used to use the expression "normal interest rate", referring to an interest rate in the region of four per cent. A future normal interest rate will probably and for the foreseeable future be much lower than this. Looking at the different market estimates, this would seem to be more in the region of two per cent. To be continued!

§3c. Monetary policy discussion

Deputy Governor Anna Breman:

I would like to emphasise that the CPIF is our target variable. Per highlighted the CPIF excluding energy and said "it is reasonable and more interesting to focus on the CPIF excluding energy". I share Per's opinion that we need to see beyond temporary fluctuations in energy prices, and I myself mentioned core inflation on several occasions. But, as Henry pointed out, the CPIF is our target variable. The CPIF reflects households' cost of living better than the CPIF excluding energy. There is a risk that the CPIF excluding energy will look like the new target variable if we keep emphasising it, and this could be mistakenly perceived as an indication that we do not care about the real inflation experienced by households. The CPIF is and should be our target variable. If the CPIF and the CPIF excluding energy continue to diverge over a long period of time, it is the CPIF that should guide us.

Another related question is how we communicate about inflation when there is a substantial difference between the CPIF and the CPIF excluding energy. There is no expression in Swedish that corresponds to headline and core inflation. Core inflation can either be translated directly into Swedish as "kärninflation" or translated as "underliggande inflation" (underlying inflation), but there are many different ways of measuring it. I wish that we could attempt to provide suggestions for a Swedish equivalent of the term headline inflation.

A third point I would like to make is that the measurement problems from the pandemic can affect individual months going forward. In addition, new difficulties arise concerning, for example, how to measure the electricity-price compensation, revaluation of quality adjustments, etc. If we constantly highlight the most recent monthly outcomes, there is a risk that monetary policy will be too backward-looking and may give the impression that we can target individual months, when the focus should be on inflation a couple of years ahead. If inflation is also very volatile in 2022, too, it will be important not to overreact to individual monthly outcomes going forward.

Governor Stefan Ingves:

Inflation is fluctuating substantially. In a small, open economy it is difficult to know where the world is heading. We can see this from inflation in other countries. However, our monetary policy target is crystal clear. But this is how the world looks at the moment, and we need to deal with it.

Deputy Governor Per Jansson:

With regard to Anna's comment that CPIF inflation is the target variable, I would just like to emphasise that I am very well aware of this – and I believe, of course, that so are all of the other Executive Board members. The decisive question, when CPIF inflation deviates from the target, is how persistent the deviations are judged to be, illustrated by how CPIF inflation in the forecast, based on the assumption made for monetary policy, will develop in relation to the target. Focusing on CPIF inflation excluding energy is merely an instructive way of illustrating and discussing how to consider different variations in CPIF inflation. It does not mean, of course, that we have changed our target variable.

§4. Monetary policy decision

The Executive Board decided

- to keep the repo rate unchanged at zero per cent and that this decision shall apply with effect from Wednesday 16 February 2022,
- to adopt the Monetary Policy Report according to the proposal, Annex A to the minutes,
- on monetary policy measures and that these measures be applied in accordance with what is stated in Annex B to the minutes,
- to publish the monetary policy decision and the Monetary Policy Report with the motivation and wording contained in a press release at 09.30 on Thursday 10 February 2022,
- to publish the minutes from today's meeting at 09.30 on Monday 21 February 2022.

Deputy Governors Anna Breman, Martin Flodén and Henry Ohlsson entered reservations against the decision on and forecast for asset purchases. They advocated purchases of government, municipal and covered bonds in the second quarter of 2022 for SEK 9 billion per bond type and a gradual tapering of purchases during the second half of the year. They also advocated that the Riksbank's purchases of treasury bills should cease after the first quarter of 2022 and that purchases of corporate bonds should decrease to SEK 500 million in the second quarter and then be either further tapered or discontinued completely. In their view, such a tapering of purchases is consistent with continued expansionary financial conditions, strong development of the real economy and realisation of the inflation target.

This paragraph was verified immediately.

Minutes taken by:

Henrik Lundvall   Bengt Petersson

Verified:

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

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