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Deputy Governor Per Jansson comments on the monetary policy decision of 12 February

Per Jansson supports the decision of the Executive Board of the Riksbank on 12 February and the conclusions in the Monetary Policy Report.

At the Monetary Policy Meeting on 12 February 2019, the Executive Board of the Riksbank decided to hold the repo rate unchanged at −0.25 per cent. As in December, the forecast for the repo rate indicates that the next increase will be during the second half of 2019, provided that the economic outlook and inflation prospects are as expected. Mr Jansson was not able to attend the meeting and did not take part in making the decision. Here he provides his comments on the Executive Board’s decision and on the conclusions in the Monetary Policy Report, based on the information available when the monetary policy meeting was held on 12 February. This means that Mr Jansson does not take into account, for instance, the January outcome for inflation (which was published on 19 February).

“I support the monetary policy decision made on 12 February and the Monetary Policy Report published on 13 February. I saw no need to raise the repo rate at the monetary policy meeting in December. And I see no need to do so now. Inflationary pressures have continued to be unexpectedly low in relation to what we were assuming when we communicated in October 2018 that we intended to raise the repo rate in either December or February. This plan was conditional on inflation prospects remaining unchanged, which I would say they have not, given that we can now note that underlying inflation since October has been much lower than expected and has even moved in the wrong direction.

But cutting the repo rate once again to −0.5 per cent was of course not a realistic alternative at the February meeting. And the negative consequences of raising the repo rate from −0.5 per cent to −0.25 per cent should not be exaggerated. Monetary policy remains highly expansionary, even after the rate rise. Moreover, the fact that the forecast for the repo rate was lowered somewhat in December alleviates the effects of the increase.

As in December, I feel some concern regarding the development of inflation beyond the coming six-month period. In the near term, inflation excluding energy prices is expected to be higher as a result of larger rent increases, delayed effects of the weak krona exchange rate and a faster rise in food prices following on from the dry and hot summer. The contribution to inflation from energy prices will also remain significant during the early part of the year, which will help keeping up CPIF inflation.

From summer this year, however, the positive contribution from energy prices to CPIF inflation is expected to disappear. It will then become especially important for inflation excluding energy prices not to show any new signs of weakness, as it did during most of last year. If this were to happen, the chances of continuing to hold CPIF inflation close to 2 per cent would be small. The fact that this is a difficult task and a major challenge is underlined by the risky and complex world around us, where there are dark scenarios that could lead to both much lower growth and inflation and a long delay in the normalisation of monetary policy.

And it is not so easy to express an opinion on whether it will be possible in light of this to raise the repo rate in the way forecast in the Monetary Policy Report. Strong economic activity in Sweden, rising cost pressures, inflation expectations established around 2 per cent and a gradual rise in inflation abroad are all arguments in favour of it being possible. But my reasoning shows that I am also open to considering another, more cautious plan for the repo rate. This refers to both when the next repo-rate increase may be made and to how quickly the rate can then continue rising. But we have plenty of time to return to these questions at our coming monetary policy meetings, before the situation becomes acute. This means that I can support the monetary policy decision and the Monetary Policy Report.”