



Economic Commentary

The path to a monetary policy decision

Maria Sjödin

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Economic Commentaries

Economic Commentaries are brief analyses of issues with relevance for the Riksbank. They may be written by individual members of the Executive Board or by employees of the Riksbank. Employees' commentaries are approved by their head of department, while Executive Board members are themselves responsible for the content of the commentaries they write.

Summary

Normally, the Executive Board of the Riksbank makes five monetary policy decisions per year and the monetary policy preparation process lasts about five weeks. The preparations can be roughly divided into four stages. The phase before the Monetary Policy Department (APP) presents materials to the Executive Board, the actual meetings with the Executive Board in the Monetary Policy Group (PBG), the phase after these meetings, and finally the monetary policy decision-making meeting and communication in connection with it. This economic commentary gives an overview of how the process for producing the monetary policy decision-making works.

The drafting process is structured, but at the same time needs to be flexible. The commentary also describes how the coronavirus crisis tested flexibility - the Riksbank's readiness and ability to act quickly and in several different ways. It has been necessary to think in new ways, not only in terms of working methods and decision-making processes but also in terms of actions. The focus has been on understanding developments in real time and responding with appropriate, but in some cases untried, tools to address acute problems in the economy. All in all, the crisis management during the pandemic meant that the Riksbank's decision-making processes required even closer cooperation between the Monetary Policy Department, the Financial Stability Department, the Markets Department and also the Payments Department.

Following the very turbulent 2020, managing the consequences of the pandemic is now more a part of the normal, ongoing work at the Riksbank. The structure of the preparation process is largely the same now as it was before the crisis, but the content of the preparation has changed in several ways, partly as a result of the Riksbank's extensive holdings of securities. Monetary policy constantly faces new challenges, and it will continue to be important that that process is flexible and contributes to the Riksbank's capacity to act quickly and in different ways.

Author: Maria Sjödin¹, works in the Riksbank's Monetary Policy Department.

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1 An independent central bank aiming for a high level of transparency

1.1 Statutory target of stable prices

Like most other central banks around the world, Sveriges Riksbank focuses on keeping inflation low and stable, because this creates good conditions for a favourable economic development. The Sveriges Riksbank Act defines the task of monetary policy, but the Riksdag has delegated to the Riksbank and its Executive Board to decide independently how exactly the target should be formulated and how it should be attained.² The Riksbank conducts a policy of flexible inflation targeting. This means that while monetary policy's overriding task is to attain the inflation target, it shall also support the objectives of general economic policy for the purpose of attaining sustainable growth and a high level of employment. There is no general answer to the question of how quickly inflation should be brought back to 2 per cent if it deviates from the target.³ In general, monetary policy has been adjusted so that inflation is close to the target two to three years ahead. The Riksbank therefore also publishes its forecasts on this horizon.

1.2 Independence, which requires accountability

Since 1999, the Riksbank has been governed by an Executive Board consisting of six full-time members, appointed by the General Council of the Riksbank for a period of five or six years. The monetary policy decisions are taken by the Executive Board through majority voting in which the Governor of the Riksbank has the casting vote, but each member has an individual responsibility.⁴ The Riksbank's independent role in relation to the Swedish Parliament makes it particularly important that there is opportunity to evaluate and follow up monetary policy.⁵ If the communication of monetary policy is transparent, objective, understandable and up-to-date, it will be easier for economic agents to make good economic decisions and it will also be easier to evaluate monetary policy.⁶ The monetary policy decision is normally published the day after the formal decision-making meeting. At the same time, a Monetary Policy Report

² The new Sveriges Riksbank Act, which is expected to come into force at the end of 2022/beginning of 2023, entails a change in this respect, since the Riksdag will in future formally approve the proposed target level. When the inflation target was introduced in 1993, the target was defined as an annual price change in inflation of 2 per cent, and since September 2017 the Riksbank uses the fixed-rate consumer price index, the CPIF, as the target variable.

³ Monetary policy affects the the real economy and inflation through different channels, which means that different mechanisms operate simultaneously. Some have a fairly direct impact on inflation, while others take longer to have an effect. The speed at which inflation can be brought back to the target depends, among other factors, on how far from the target it is to begin with.

⁴ In the new Sveriges Riksbank Act, the number of members is changed to 5. This means that all members have the same weight and that the Governor of the Riksbank does not need to use his casting vote.

⁵ The Riksbank's strong independence and freedom of action are discussed, for example, in a speech by Skingsley (2021).

⁶ See also the Riksbank's communication policy.

is published, which summarises the materials on which the decision is based. If necessary, the annexes to the minutes are published, with further details of the measures decided upon.⁷ When the monetary policy decision is published, a press release is also published which briefly explains and gives the motives for the decision. The press release also includes any reservations from members of the Executive Board and the reasons behind them. The Riksbank holds a press conference, where journalists can ask the Governor questions and during the day there are normally also on-line 'chats' where member of the public can ask the Governor questions. Around ten days after a monetary policy meeting, the minutes of the meeting are published, and these show how each board member reasoned when the decision was taken. The minutes clarify whether and in what way the opinions of the members of the Executive Board differ. Once the minutes have been published, members can also publicly express their own views on the decision. This highlights the members' individual responsibility, which also makes it easier to evaluate monetary policy.

Monetary policy is continuously evaluated.⁸ Every year, the Riksdag Committee on Finance examines and assesses the monetary policy conducted by the Riksbank during the preceding years. Three times a year, the Committee holds open hearings on the monetary policy conducted and in connection with one of these, the Riksbank publishes a special report.⁹ The Committee on Finance also appoints external evaluators approximately every five years.

1.3 The Riksbank's monetary policy tools

At the monetary policy meetings, the Executive Board decides which monetary policy it deems appropriate to stabilise inflation at the target of 2 per cent. When it comes to steering market rates with a short term, the repo rate is the main monetary policy tool. These short-term market rates in turn affect other market rates, such as interest rates with a longer maturity. The Riksbank can also use other tools, including the purchase of various types of financial assets. The low global interest rate situation in recent decades, with policy rates judged by the central banks to be close to their effective lower limits, has made it more of a challenge to meet monetary policy objectives. This is an important reason why the Riksbank and several other central banks have taken other monetary policy measures, such as purchasing various types of financial asset. Such purchases of securities normally push down market rates on longer-maturity bonds. However, the Riksbank's bond purchases have led to interest rates falling even for shorter investment horizons.¹⁰

⁷ In the case of extraordinary meetings, or per capsulam decisions, it is usually only the appendices to the minutes that are published.

⁸ The forecasts are evaluated regularly by the Riksbank to see how well they have captured economic developments. The Riksbank's administration as a whole is examined by the Swedish National Audit Office every year, on the basis of the annual report.

⁹ See the Riksbank's annual publication Account of Monetary Policy.

¹⁰ See Erikson (2021).

When households and companies make their decisions on consumption and investments, an important factor, in addition to current interest rates, is expectations of future interest rates. By communicating how the repo rate and other monetary policy measures are likely to develop, central banks can influence expectations and contribute to predictability in monetary policy. The Riksbank therefore publishes forecasts of the repo rate and asset purchases.¹¹

¹¹ Another important reason why the Riksbank started working with forecasts for the repo rate in 2007 was to improve internal work - the effects of various monetary policy options could be more easily analysed and illustrated. The forecasts and the monetary policy balance were more clearly linked than before. See Sveriges Riksbank (2017).

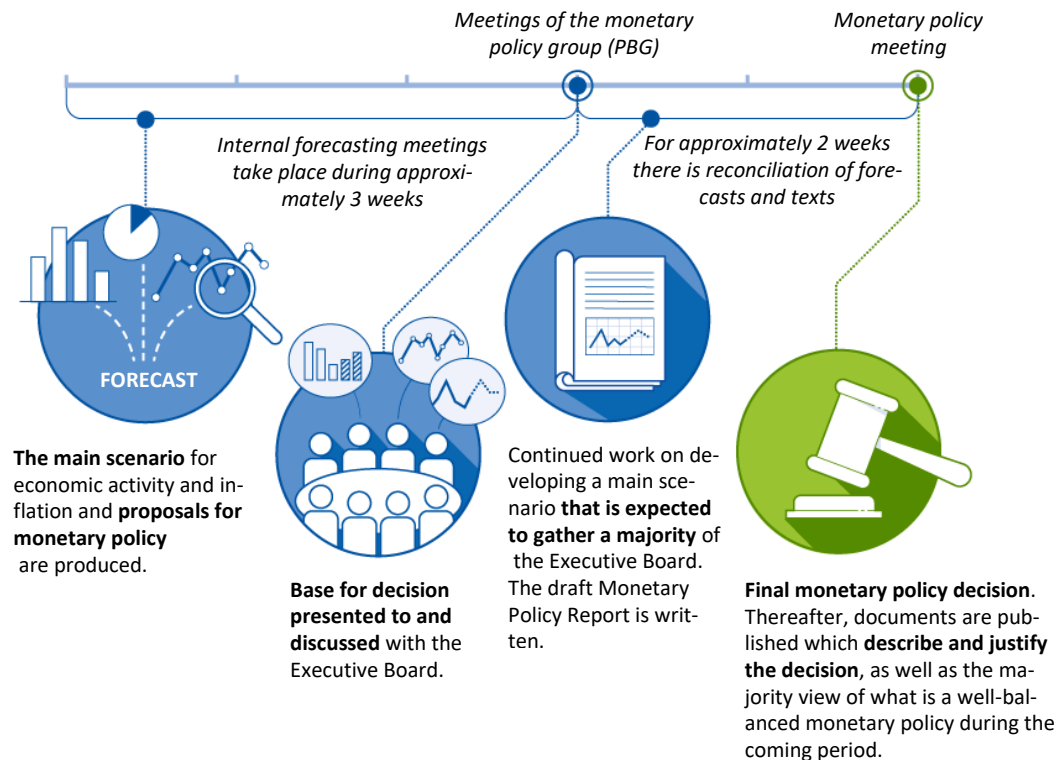
2 A structured but flexible process

2.1 Producing materials for a monetary policy decision

As it takes a long time before monetary policy has a full impact on inflation and the economy in general, forecasts of economic development play an important role in decision making. For the Executive Board to be able to make monetary policy decisions, it needs an assessment of the current economic situation, but also materials on the economic outlook and inflation prospects going forward, and how these are affected by monetary policy.¹² Materials for the Executive Board to be able to discuss risks and uncertainty and various monetary policy options is also of central importance. In the main, the Monetary Policy Department (APP) is responsible for preparing and producing the materials on which the monetary policy decision is based, but with important participation also from the Markets Department (AFM) and the Financial Stability Department (AFS). Normally, the entire process lasts about five weeks and can be roughly divided into four phases (see Figure 1). The phase before the Monetary Policy Department (APP) presents materials to the Executive Board, the actual meetings with the Executive Board in the Monetary Policy Group (PBG), the phase after these meetings, and finally the monetary policy decision-making meeting and communication in connection with it.

¹² Hallsten and Tägström (2009) describe how the decision-making process functioned 13 years ago. The task of monetary policy, and therefore several elements in the drafting process, remain essentially the same.

Figure 1. Schematic diagram of the monetary policy process



2.2 Preparation for the monetary policy drafting meeting (PBG) – proposal for the main scenario and monetary policy

Models for short-term and long-term forecasts in conjunction with assessments

Forecasts for the real economy and inflation and analyses of the effects of monetary policy on financial markets, the real economy and inflation are central to the monetary policy decision-making materials.¹³ The work on forecasts is mainly carried out in the Monetary Policy Department. The methods for making forecasts are continuously evolving, and the Riksbank has a set of models that are used to make as good an analysis as possible of the current economic situation, economic developments in the short to medium term and the effects of monetary policy measures. These models are based on economic theory and empirical studies of various correlations in the economy. In addition to a number of different time series models, the Riksbank also uses general equilibrium models in its forecasting work.¹⁴ They can help explain economic

¹³ Nyman and Söderström (2016) discuss what the Riksbank's inflation-targeting regime means for the forecasting work at the Riksbank, and how the forecasts can therefore differ from those of other forecasters.

¹⁴ The Riksbank has, for instance, developed the model MAJA, which belongs to the group DSGE models of the Neo-Keynesian type, see Corbo and Strid (2020), and Ringqvist, Stockhammar and Strid (2020).

events and assume that market mechanisms and economic policies will bring the economy back to normal (long-term equilibrium) after a disturbance. General equilibrium models are an important tool for studying alternative economic scenarios and how monetary policy responds over time to disturbances.

To form an idea of where the economy is to start with, different types of indicators are used in addition to outcome data, for example, for production, the state of the labour market, pricing plans and confidence among households and companies. When making short-term forecasts (one to two quarters ahead), greater emphasis is placed on time series models and indicator models that have good short-term forecasting characteristics. Long-term forecasts are made more widely with the aid of macroeconomic models and assumptions on long-term equilibrium, which together with the monetary policy assumptions provide a coherent assessment of the driving forces of economic development. In addition, smaller models are used that focus solely on selected economic relationships.

Since models are simplifications of reality, model forecasts are a good starting point that helps structure the discussions and focus on the most central issues for monetary policy. To varying degrees, models assume that history repeats itself or that economic relationships are stable over time, and therefore they also need to be supplemented by analyses and judgements by experts who have an insight into mechanisms and economic developments that the models do not always capture. The overall information from the models is finally weighed together with other information to produce forecasts for economic activity and inflation.¹⁵ The experts' assessments become particularly important when unusual events and/or structural changes that alter the function of the economy take place. The coronavirus crisis has been such a period in which analytical methods based on historical relationships, observed outside times of crisis, have had difficulty in providing relevant support in the decision-making. So-called real-time indicators, which show progress without a time lag, have therefore been an important tool. Examples include indicators of mobility in society measured from mobile phone data, the booking situation in hotels and restaurants, and data for card transactions.¹⁶

Process for producing decision-making data

At the beginning of the monetary policy process, APP employees discuss with the Executive Board the issues on which the preparation will focus. The purpose of this first meeting is for the department to receive guidance from the Executive Board: Is the proposal for prioritisation presented by the department appropriate and does it respond to the needs of the Executive Board? This may involve in-depth analysis work, which also leads to publication in the Monetary Policy Report or in the Riksbank's other publications. The main focus of the discussions is on the work ahead of the next monetary policy decision, but longer-term planning is also discussed. In this context, the main uncertainties and risks surrounding the economy and monetary policy are

¹⁵ An analysis by Lindé and Reslow (2017) points to the models not explaining the Riksbank's forecasts to the extent sometimes claimed by external critics and reviewers.

¹⁶ See Ewertzh, Falk, Hesselman, Hull, Löf, Stigland and Tibblin (2020).

also discussed. APP provides suggestions for alternative scenarios that can help illustrate how the forecasts would be different if specific events occur in the economy.¹⁷ There is also sometimes another introductory meeting with the Executive Board, where APP briefly presents the new information that has been received since the previous monetary policy meeting.

For about three weeks, APP works internally on producing a main scenario for economic activity and inflation in Sweden. In the first phase of this process, it is a question of clarifying the *conditions* for the forecast, that is, what happens independent of how one chooses to formulate monetary policy in Sweden at the next monetary policy meeting. This includes events abroad, the current financial conditions and the current economic situation in the Swedish economy, the 'current situation' (nowcasting). APP's discussions on the outlook for international economic events and inflation have then focused particularly on Europe and the United States, which are Sweden's main trading partners. The discussions about financial markets relate, among other things, to the exchange rate and interest rates, to assess the transmission of monetary policy. At a meeting on the current assessment of the Swedish economy, new information since the previous monetary policy meeting is discussed in depth, and how this relates to the Riksbank's forecasts for the various components of GDP, the labour market, wages and inflation. Since new information is published continuously, APP continuously updates the current assessment and forecasts for the Swedish and international economy until the date of the monetary policy decision.

In the next phase, APP uses macroeconomic models to produce *a proposal for the main scenario* for the entire forecast period. APP first forms an idea of overall macroeconomic developments by focusing on some key variables such as inflation, GDP, unemployment, the repo rate and the exchange rate. Based on the forecast for the macroeconomic outlook, more detailed forecasts are then formulated, for example for the labour market and inflation.¹⁸

At the same time as the proposal for the main scenario is being prepared, APP also works on producing, with the aid of material from AFS and AFM departments, *a proposal for monetary policy*. The proposed monetary policy is not a recommendation from the department, but the aim is that the proposal that is produced and presented to the Executive Board should reflect how the Board has normally chosen to act on the basis of economic and inflation prospects. When there are unusual disturbances to the economy and many new complementary tools are used alongside the policy rate, this work becomes more complex. Cooperation with other policy departments at the Riksbank is therefore of great importance. In this context, monetary policy alternatives are also produced to illustrate the effects on economic activity and inflation prospects.

¹⁷ For example, the effects on Swedish inflation and monetary policy that changes in the price of oil, productivity, the rate of wage increases or international demand may result in. The scenarios are sometimes published in the Monetary Policy Report.

¹⁸ Documents that clarify and document how the final assessment forecast relates to different model results are shared with the Executive Board in connection with the meeting of the monetary policy group.

2.3 Meetings of the monetary policy group (PBG)

About two weeks before the decision is to be taken, a monetary policy decision-making base is presented to the Executive Board. Normally, these preparation meetings are held for one or two days. The first part of the preparation involves most economists from APP and some people from AFS, AFM and the Communications Secretariat. The aim of this meeting is to provide the Executive Board with the information and data they need to be able to begin to form a view of the future of the economy and monetary policy. Staff from mainly APP present results of analyses on questions identified early in the process. The forecasts and the motivations for them are presented and there is a discussion between the members of the Executive Board and economists at the department on the main scenario and alternative scenarios. Important assumptions and factors that affect economic prospects, such as developments abroad, in financial conditions or specific domestic factors that have an effect on the real economy and/or inflation, are addressed. This is also an opportunity for the Executive Board to ask detailed questions directly to experts at APP and to order further analyses they may need for the decision.

During the second part of the preparation, the focus is on the monetary policy discussion and a more limited group of staff attend this meeting. APP presents various monetary policy options with regard to the repo rate and other measures to enable a structured discussion of monetary policy considerations. On the basis of this information, individual members express their views of the forecasts and monetary policy. The Executive Board can also make additional requests for information and the results of these are presented at a follow-up meeting a day or so later. The monitoring of data and how these affect assessments in the main scenario or the risks surrounding the forecasts will continue until the monetary policy meeting.

2.4 Continued work after the monetary policy group meeting – a monetary policy report is produced

Majority view reflected in the Monetary Policy Report

Economists from APP continue their work after the meeting of the monetary policy group by following up any requests from the Executive Board and producing a proposal for forecasts and monetary policy which it is judged will gain majority support from the Executive Board. At the same time, texts are prepared which are compiled into a first draft of the Monetary Policy Report. Scarcely one week after the monetary policy group meetings, the draft report is presented at a Board meeting where the Executive Board discusses how the forecasts and monetary policy are to be reported. The draft Monetary Policy Report is tabled and the editorial work continues after the meeting. The text is only finally adjusted in connection with the monetary policy meeting, since it is only then and there that the forecasts and monetary policy are determined.

The Monetary Policy Report describes the Executive Board's view of economic and inflation prospects and the considerations on which the monetary policy decision is

based. The Executive Board of the Riksbank consists of members with different backgrounds, experiences and knowledge so that decisions on monetary policy are based on several different perspectives on economic developments. This also means that there may be different views on what is the most appropriate monetary policy decision at the time.¹⁹ Even if there is agreement on the economic outlook and forecasts, there may still be different views on what is a well-balanced monetary policy. In cases where opinions of Executive Board members differ, it is the majority view that is expressed in the decision and in the Monetary Policy Report.

The purpose of the report is to summarise the background material for the monetary policy decisions, and to spread knowledge about the Riksbank's assessments. By publishing the reports, the Riksbank aims to make it easier for external parties to follow, understand and assess its monetary policy. Since 2007, the Riksbank has published a forecast for the repo rate to communicate what it considers to be a well-balanced monetary policy during the forecast period. As other measures in addition to the repo rate have become important, these have also been communicated to a greater extent in the report. When the Executive Board has decided to use monetary policy tools other than the policy rate, such as asset purchases and various types of credit facilities, special annexes to the minutes are published, describing the details and considerations regarding these decisions.

2.5 The monetary policy meeting

Since 2020 the Executive Board has held five scheduled monetary policy meetings a year.²⁰ However, if more monetary policy decisions are needed, the Executive Board may meet more frequently. The initial acute phase of the coronavirus crisis is a clear example of this. Between 12 March and 21 April 2020, five extraordinary monetary policy meetings were held to decide on various measures.²¹ In addition to the Executive Board, the monetary policy meetings normally involve a total of around 20 people from APP, AFS, AFM, the Communications Secretariat (COM), the Head of the General Secretariat and the Chief Legal Counsellor. The Chair and Deputy Chair of the General Council also participate regularly in the Board meetings and thus gain insight into the work of the Executive Board. They both have the right to express opinions, but not to put forward proposals or take part in any decisions.

The meeting starts with a brief update of market developments since the previous monetary policy meeting. The Head of APP then reports the forecast that the department judges will be supported by a majority of the Executive Board, and the proposal for monetary policy on which it is based. APP also describes the issues that have been

¹⁹ Sometimes it is only a matter of nuances, but other times there is greater variation within the Executive Board in its view of, for example, how inflation and the real economy will develop or on the risk outlook for monetary policy.

²⁰ The number of monetary policy meetings per year has varied over time. Between 2008 and 2020, six monetary policy meetings were normally held per year. In June 2019, the Executive Board decided to change over to five meetings. See Sveriges Riksbank (2019).

²¹ The Executive Board also made six per capsulam decisions during this period. During 2020, decisions were taken on more than 20 occasions.

discussed in particular detail during the drafting process. Each member of the Executive Board now presents his or her view of the current status of the economy and of how monetary policy should best be formulated, sometimes followed by a discussion between the members. During the course of the drafting process, the members have formed their own opinion, but it is at this meeting that the final decision on the repo rate and other monetary policy measures is taken and a majority view is formulated regarding future monetary policy and economic developments. An assessment is made of the path for the repo rate over the current forecast period, and there is discussion of other aspects regarding which monetary policy is appropriate during the forecast period. The Executive Board decides on the monetary policy report at the meeting, but the process is designed so that the forecasts and the wording of the report can be adjusted after the meeting if necessary to accurately reflect the reasoning at the meeting. After the formal meeting, the press release on the decision is adopted.

3 Monetary policy in the coronavirus crisis

3.1 Quickly shifting focus to the present – economic freefall and need for previously untried measures

In an environment that is constantly changing, the Riksbank, like other central banks, has in recent decades needed to develop its contingency preparedness, ability and flexibility to act quickly and in several different ways. When it was found in March 2020 that the highly contagious coronavirus had resulted in a pandemic and a major global economic downturn was to be expected, the ability and flexibility of central banks, governments and authorities were tested worldwide. A unique situation arose, when restrictions were introduced to limit the spread of infection and people also voluntarily restricted their social lives to avoid becoming ill. The consequence was that economic activity in the world suddenly and sharply weakened. Swedish GDP plummeted and the conditions for the Riksbank to attain the inflation target were radically altered. However, unlike monetary policy in normal times, which looks a couple of years ahead, the measures in the crisis were mainly focused on supporting the economy in the near term, and reducing the risks of significantly worse events in the short term.²²

It quickly became clear that the Riksbank needed to think in new ways, not only in terms of working methods and decision-making processes but also in terms of what measures needed to be implemented. The focus was on understanding developments in real time and responding with appropriate, but in some cases untried, tools to address acute problems as they arose. There was a risk, during the most turbulent stage of the crisis, that it would develop into a financial crisis. Without a stable financial system, it is not possible to conduct an effective monetary policy, as the transmission mechanism will not function. A financial crisis also has a direct negative impact on growth and employment. Thus, the measures implemented by the Riksbank had the dual purpose of maintaining financial stability and supporting the real economy, to attain the inflation target.²³ Close cooperation was required between different policy departments at the Riksbank and in a short time the Executive Board had to take several decisions that posed major and new challenges, both in terms of formulation and implementation.

²² The assessments of the economy both in the near term and in the longer run, depended on a number of domestic and global factors that were genuinely uncertain, and whose effects on the economy were very difficult to assess. In the report published in April 2020, the Riksbank chose not to publish a main forecast but instead two alternative scenarios. Thereafter, the Riksbank continued to report alternative scenarios around a main scenario, as a way of reflecting the great uncertainty about future developments.

²³ For a description of the measures taken by the Riksbank to counteract the effects of the pandemic on the economy, the sequence of events on the financial markets during spring and summer 2020 and how lending to households and companies developed, see for instance Gustafsson and von Brömsen (2021).

3.2 Increased real-time data collection and new methods

Statistics and various indicators that the Riksbank normally relies upon to assess economic developments are published once a month or once a quarter, and are subject to a certain time lag. The Swedish National Accounts are one example of statistics that are published with a relatively long time lag. Publication is usually around 60 days after the end of the quarter, which means that the first ordinary GDP outcome for the first quarter is published at the end of May. The Riksbank therefore uses more up-to-date indicator information, when available, in its forecasting models to gain an idea of how, for instance, GDP growth looks at present.²⁴ When the economy ended up in a free fall in March 2020, much of this data was too backward-looking and failed to provide sufficient support for making economic policy decisions. There was a substantial need for real-time data, to be able to assess the current situation and developments in the near future. To gain an oversight of how the pandemic affected the Swedish economy, the Riksbank quickly expanded its collection and compilation of high-frequency data, known real-time indicators.²⁵ Data was collected from other authorities, from various Internet websites and in collaboration with various commercial data suppliers that have previously collected and compiled real-time indicators. It was also crucial, when making decisions, to be able to analyse developments in the financial markets, and new types of detailed financial data became important sources of information, such as securities borrowing data and lending.²⁶

The Riksbank normally carries out company interviews three times per year to obtain in-depth information on how the companies view the current economic situation and how they intend to act on the basis of the present conditions.²⁷ At the beginning of the crisis, the Riksbank intensified its contacts with both companies and actors in financial markets to be able to better understand and follow developments. The Riksbank had ongoing discussions with banks and other market participants and switched to conducting telephone interviews every two weeks with a large number of bigger Swedish companies to capture their specific experiences of the pandemic. This information became an important complement to other real-time data collection. International cooperation and exchanges of experience with other central banks also took place more often in 2020.

The crisis resulting from the pandemic is a clear example of the fact that analytical methods that are largely based on historical relationships are not so relevant when dealing with a new type of economic shock. It has been very important to have access to high-frequency and industry-specific data when economic activity has been characterised by sharp shifts and required frequent monetary policy decisions. The Riksbank has been able to follow developments in the spread of infection, patterns of movements in the population, credit provision to companies, sector-breakdown data for consumption, notice of redundancies, bankruptcies and much more on a weekly or daily basis. This has enabled the Riksbank to have early information on trends and at

²⁴ See Andersson and den Reijer (2015) for a description of how so-called nowcasting models use information from indicators that are available prior to the outcome of the forecast variable.

²⁵ See Ewertzh, Falk, Hesselman, Hull, Löf, Stigland and Tibblin (2020).

²⁶ An example of analysis using more detailed data is Frohm, Grip, Hansson and Wollert (2020).

²⁷ See The Riksbank's Business Survey.

the same time to analyse the covariation between different sectors, which has been important for assessing the current economic situation and the near future. High-frequency data also poses challenges. The underlying data is often less processed and more flawed, and because data is often missing for long periods of time, there are no proven practices to filter out seasonal patterns and other white noise. Moreover, in a small economy such as Sweden, economic activity fluctuates particularly much on a high frequency. The Riksbank's ability to collect and interpret data and to make an assessment of the situation and draw reasonable conclusions in a short time has therefore been important during the crisis.

3.3 New measures and closer cooperation between different departments at the Riksbank

Short preparations and quick decisions

The extensive financial unrest and the rapidly deteriorating prospects for Swedish companies that arose in connection with the start of the pandemic prompted the Riksbank to quickly activate its crisis management. In February 2020, inter-departmental groups were created and the overall synchronisation took place through the crisis management group. APP coordinated the intensive work of most groups of staff from different departments with regard to formulating and dimensioning various proposals for action. The groups' proposals were presented and discussed in close cooperation with the Executive Board – during one period, two consultation meetings were held on a daily basis. Extraordinary monetary policy meetings were held, during one period as often as every week, at which decisions were taken which in some cases posed major challenges in terms of both formulation and implementation.²⁸ All in all, the crisis management meant that the Riksbank's decision-making processes developed even closer cooperation between the Monetary Policy Department, the Financial Stability Department, the Markets Department and also the Payments Department.

During the coronavirus crisis, the Riksbank decided on a number of different measures, some of which were previously untried, to help companies and households to cope with the period of lower demand and great uncertainty over economic prospects. For example, the Riksbank implemented various measures to ensure that banks, companies and households could obtain funding, but also to ensure that the Riksbank's zero interest rate would have full impact on the interest rates paid by companies and households on their loans. In view of the nature of the crisis and the great uncertainty surrounding the development of the pandemic, several of the measures were designed to provide insurance against a worse scenario with a deeper and more prolonged recession.

The measures included various forms of liquidity support for the banking sector, but like many other central banks, the Riksbank also purchased financial assets to a

²⁸ During the first most acute phase of the crisis, several monetary policy decisions were made per week, either at extraordinary meetings or per capsulam.

greater extent than before, to meet the challenges of the crisis. The Riksbank began to conduct operations in more markets than before. Prior to the pandemic, the Riksbank's asset purchases consisted of nominal and real government bonds. Now they were also extended to include municipal bonds, commercial paper, corporate bonds, covered bonds and treasury bills. To quickly build up the necessary knowledge of the corporate bond market, which was a new arena for the Riksbank, an external company was also engaged. The Riksbank decided and introduced many of the measures in a very short period of time, and both the financial framework and the conditions for the measures in several cases needed to be adjusted after they were first announced.

3.4 Important to continue to have a flexible process

Following the very turbulent 2020, the consequences of the pandemic are now more a part of the normal, ongoing work at the Riksbank. As the situation stabilised, the forecast work also became more normal in 2021 and the perspective more forward-looking. The structure of the preparation process has in many respects returned to what it was like before the crisis, for example as regards the frequency of both formal and internal meetings. However, the contents of the preparation remain unchanged in many ways.

Some of the crisis measures that the Riksbank implemented during the pandemic have been phased out, but the extensive acquisition of assets means that the Riksbank's holdings of securities are large. The monetary policy preparation at APP has thus gained several new elements compared to before the crisis, with closer cooperation with other policy departments. The analysis of how monetary policy affects the real economy and inflation via the financial markets was deepened during the crisis. These analyses have now become a permanent part of the decision-making base for monetary policy decisions. The analysis methods that were developed during the crisis, such as using several real-time indicators in the analysis of the Swedish economy, are now a part of the preparation. The use of the Riksbank's credit database (KRITA) and statistics on securities holdings (VINN) are examples of how the financial analysis has been broadened.

In several ways, therefore, crisis preparedness has now become part of the ordinary decision-making process. Monetary policy constantly faces new challenges, and it will remain important that the preparations for the monetary policy decisions are flexible and contribute to the Riksbank's capacity to act quickly and in different ways.

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SVERIGES RIKSBANK

Tel +46 8 - 787 00 00

registratorn@riksbank.se

www.riksbank.se

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