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## **Consultation response on the Evaluation of the Riksbank's Monetary Policy 2015-2020 (2021-/22:RFR4)**

The Executive Board of the Riksbank notes that the overall assessment of the evaluators is that the Riksbank's inflation targeting policy during 2015–2020 has been well-judged and the measures taken are in line with what is internationally regarded as good central banking practice.

The Executive Board welcomes the evaluators' work and analysis and agrees with most of the recommendations presented in the evaluation. This consultation response presents and justifies the Executive Board's stance on the recommendations, but does not aim to cover all of the conclusions and analyses presented in the evaluation.

### **Overall views on the conduct of monetary policy**

The Board agrees with the evaluation's conclusion that 2015–2020 was in many ways a remarkable period and that new monetary policy tools were needed to tackle first too low inflation and then the economic effects of the coronavirus pandemic.

However, a majority of the Executive Board does not agree with the evaluation's conclusion that the policy rate increases decided at the end of 2018 and 2019 were premature. Picking the right moment to tighten monetary policy is a difficult question of judgement. During autumn 2018 and during 2019, the economy and inflation had developed broadly in line with the Riksbank's assessments. Unemployment had increased slightly, but the employment rate and labour force participation were at very high levels. Resource utilisation was judged to be higher than normal, and long-term inflation expectations were judged to be close to 2 per cent. The Riksbank's forecasts showed that the Swedish economy was entering a more normal economic situation and balanced resource utilisation, after several years of strong economic activity. But there was no recession in the forecasts. The conditions for close-to-target inflation were judged to be good going forward.

The Riksbank therefore raised the policy rate by a total of 0.50 percentage points in 2018 and 2019. However, as a result of inflation being somewhat lower, and economic activity somewhat weaker than expected, the policy rate was raised a little later and a little more slowly than the Riksbank had previously planned, and the Riksbank's forecast indicated that continued policy rate increases would be implemented in cautious steps. There were differing views among the Board members with regard to the inflation outlook and the risks

to inflation prospects, and thus also on whether the repo rate increases should be implemented or postponed. Some members of the Executive Board had wanted to raise the policy rate even earlier, and some wanted to wait. However, the majority of the Executive Board considered it appropriate to raise the policy rate at these points in time. The Board judged that the negative repo rate had functioned well, and had a good pass-through to the economy, but that there were risks if negative nominal interest rates were perceived as a more permanent state.

The evaluation is critical of the purchases of corporate bonds that began in autumn 2020, and considers that it is not evident why the Riksbank chose to support this market segment when the risk premiums for corporate bonds had fallen below the level prevailing prior to the coronavirus pandemic. The Board considers that there were good reasons for making the purchases, even though interest rates and concerns on the corporate bond market had decreased. It is likely that the Riksbank's announcement of coming purchases of corporate bonds had contributed to a decline in yields on corporate bonds. The Board considers that it was important, for reasons of credibility, both in the short and long term, to complete the purchases. In addition, there was considerable uncertainty over future developments, as the pandemic was not over and it was important to keep the level of interest rates down. Establishing a presence in the market also ensured a good capacity to rapidly scale up purchases should the situation deteriorate.

## Comments on recommendations on monetary policy

### R.1 The Mandate of the Riksbank for Monetary Policy

The evaluation welcomes the expansion of the Riksbank's mandate in the new Sveriges Riksbank Act to include a secondary target for employment and production. Although the Riksbank already takes the real economy into account when formulating monetary policy decisions, the assessment is that this clarification is positive, since it helps to remove any doubts as to the importance of these considerations.

**The Executive Board's assessment:** The Executive Board has no objection to the proposed clarification of the Riksbank's mandate. The Riksbank already takes real economic considerations into account as it pursues a so-called flexible inflation targeting policy. The Executive Board therefore agrees with the evaluation that it is in principle a codification of the current practice, whereby the Riksbank, with the support of the legislative history of the current act, stabilises output and employment around long-term sustainable development paths.

### R.2 The Target

The evaluation assesses that the transition from CPI to CPIF as the inflation target has been successful. The evaluation considers that the Riksbank should continuously evaluate the inflation target's design in the broader sense, taking into account shifts in the strategy of other leading central banks, especially with regard to whether some overshooting of the target should be tolerated as compensation for earlier undershooting due to the policy rate having reached the lower bound. However, the evaluation does not see any urgent need for the Riksbank to review its strategy at present. The new Sveriges Riksbank Act's requirement that the Riksbank's specification of the price stability target be approved by the Riksdag entails, according to the evaluation, a risk of 'inaction bias' if the Riksbank wishes to change the target, but cannot formulate this in a way that would be supported by the Riksdag. To avoid this, the evaluation recommends that the Riksdag continues its practice to defer to the Riksbank on technical aspects of the inflation target's design.

**The Executive Board's assessment:** The Board agrees with the evaluation's conclusion that the change to CPIF as measure of inflation has worked well. The Riksbank continuously monitors the changes in the strategy made by other central banks, such as those launched by the Federal Reserve in August 2020 and those published by the ECB in July 2021. The Riksbank also monitors other relevant policy changes and research results. The Board shares the evaluators' conclusion that there is no urgent need for the Riksbank to review its monetary policy strategy at present.

The recommendation that the Riksdag should in practice continue to defer the technical aspects of the inflation target's design to the Riksbank is addressed to the Riksdag and nothing on which the Executive Board takes a stance. However, the Board wishes to emphasize that if the Riksbank considers that a change in the target is required, the Riksbank will propose such a change and provide motivation as clearly as possible, without being guided by assumptions as to whether or not it would receive sufficient support in the Riksdag.

### **R.3 The Toolkit – Interest Rates**

The evaluators recommend that negative policy rates should remain part of the toolkit. They also discuss the Riksbank's 'funding for lending' programme in March 2020. They argue that this programme contained an element of subsidy, but that its scope was limited because the secured loans were priced at the repo rate. Although the evaluators do not rule out the possibility that the Riksbank may have to take similar measures in the future, they see little advantages for the Riksbank to go further in introducing such distortions. They believe that subsidies for preferred economic sectors are better channelled through the central government budget.

**The Executive Board's assessment:** The Board agrees that the experience of negative interest rates has been generally positive, with an almost full pass-through from the repo rate to lending rates and other important interest rates. The Executive Board therefore also agrees with the assessment that negative policy rates should continue to be used if necessary.

The Board considers the 'funding for lending' programme as a necessary crisis measure in the situation that had arisen. The aim was to facilitate banks' lending to non-financial corporations, including sole proprietors. The Riksbank offered loans to banks against collateral at an interest rate set at the repo rate. If the banks did not increase their lending to these companies, they were required to pay additional interest to the Riksbank. Companies could apply to banks for loans, which could alleviate the financial challenges caused by the coronavirus pandemic. The loans thus supported lending by banks, although it was then up to the banks themselves to conduct credit assessments and determine the interest rates to be paid by the companies. According to the Board, the programme did not involve any subsidy to any particular sector. As the evaluators note, similar measures may also be considered in future crisis situations. The exact nature of these measures would depend on the specific circumstances at the time and the specific problems that had arisen.

### **R.4 The Toolkit - Asset Purchase**

According to the evaluators, the asset purchases have proved to be a valuable tool that should remain part of the toolkit. Further, the evaluators consider it less desirable to allow the asset purchases to include other assets than Swedish government bonds. In addition to credit risks, the evaluators point to the possible political and economic disadvantages of

being involved in the redistribution of funding to larger companies that this may entail. The purchase of corporate bonds and commercial paper should only be considered during periods of acute market disruption. With regard to purchases of covered bonds, it is recommended that the Riksbank should carefully evaluate whether further purchases favour residential properties in an acceptable or desirable way.

**The Executive Board's assessment:** The Board agrees that the experience of purchasing assets has been positive and that they constitute a valuable tool which should continue to be included in the toolkit. The recommendation is directly linked to the new Sveriges Riksbank Act and is therefore not aimed at the Riksbank. The new act states that the Riksbank shall be allowed to buy and sell financial instruments other than government securities if there are exceptional reasons. However, the evaluators seem to consider that the requirement of exceptional reasons should relate only to the purchase of corporate bonds and commercial paper. The Board generally considers that a more natural recommendation would have been to proceed from the principle that the Riksbank may only take measures that are considered proportionate.

#### **R.5 Exiting from Expansionary Measures**

The evaluation recommends that the Riksbank should pay greater attention to scenarios where asset purchases and other extraordinary measures during the pandemic can be withdrawn and further clarify the plans for this. In particular, the Riksbank should clarify the order in which it will cease purchasing the various asset classes. According to the evaluation, the first step should be to limit and then conclude the purchases of corporate bonds. The evaluation also underlines the importance of planning and publicly communicating the sequence of the phasing out of extraordinary measures. The evaluators also wonder whether the Riksbank intends to raise interest rates before it ceases reinvestment.

**The Executive Board's assessment:** The Executive Board recognizes the importance of communicating plans for the purchase and holding of securities as clearly as possible. At the same time, the Board would like to emphasize that it may be difficult to specify a very detailed timetable for reducing asset holdings, including the order in which this will take place. The ambition is that the measures can be phased out without this giving rise to any noticeable effects on the financial markets. This always includes a measure of judgement and giving consideration to the conditions that prevail at the time. One complicating factor in this context, which also illustrates that it is essentially a question of judgement, is that there may be different views within the Executive Board regarding the most appropriate time for tapering. However, the Board would like to emphasize that it agrees that the increase in the Riksbank's balance sheet during the pandemic as a result of asset purchases is mainly to be regarded as temporary, and that other extraordinary measures during the pandemic have already been withdrawn.

The Board also notes that the recommendation to communicate a detailed timetable appears to be in some contrast to recommendation 7, where the report suggests that communication on possible future asset *purchases* could be more vague.

In addition, the Board considers that the choice between interest rate increases and changes in the asset holdings (for example, cessation of reinvestment) depends on the circumstances and the expected effects of the respective instrument. It is therefore difficult to specify in advance a rule of action which can always be expected to apply. The Board notes, however, that one aspect that may need to be taken into account in situations where monetary policy

needs to be made less expansionary relatively quickly is that interest rate increases are likely to have a greater effect.

### R.6 The Exchange Rate

The evaluation notes that some critics have pointed out that it would be desirable to instead focus monetary policy on securing a more stable exchange rate for the Swedish krona. However, the evaluators consider that the Riksbank is already sufficiently aware of the exchange rate in the context of its efforts to maintain price stability and that this has been sufficient to avoid substantial changes in the external value of the currency that could have serious consequences for competitiveness or financial stability.

**The Executive Board's assessment:** The Executive Board agrees with the evaluators' assessment.

### R.7 Communications and Forward Guidance

The evaluators argue that the Riksbank should clarify what is a forecast, what is a conditional commitment and what is an unconditional commitment in the forward guidance on monetary policy. The evaluators argue that, although the Riksbank has repeatedly pointed out that the repo rate path is a forecast and not a commitment, the general public does not seem to regard it as merely a forecast. The evaluators further argue that the Riksbank felt obliged to proceed with activating the purchases of corporate bonds, despite the fact that the interest spread had already decreased when the programme for purchases in the corporate sector was ready for implementation in September 2020. This shows, according to the evaluators, that the announcement of this programme in March 2020, both inside and outside the Riksbank, was regarded as a commitment, and not just a forecast that was dependent on market conditions. This might not have been necessary if the Riksbank had communicated from the outset what conditions would be needed to justify the activation of the programme when it was ready. The evaluators discuss a couple of different ways of dealing with the problem of the time inconsistency of monetary policy forecasts/commitments: (A) according to the evaluators, there is a lot to suggest being a little less specific in forward guidance on QE (e.g. asset classes, quantities), particularly in terms of longer time horizons. (B) in communication, alternative scenarios should be used to a greater extent.

**The Executive Board's assessment:** The Board underlines the importance of communication on monetary policy being open, transparent and clear. This makes it easier for economic agents to make good economic decisions. It also makes it easier to evaluate monetary policy.

The Board is doubtful about the evaluators' conclusion that the general public does not perceive the repo rate path as a forecast, but will of course continue to communicate as clearly as possible that it should be regarded as such. In addition, the Board considers that the repo rate forecast can be regarded as a conditional commitment, in that it is the repo rate path that the Riksbank intends to follow if circumstances remain essentially the same as at the time of the forecast. However, this is rarely the case. If circumstances change, the repo rate forecast must also be revised.

However, the Executive Board is positive to the proposal that alternative scenarios can be used to a greater extent in communication. This can be a way of clarifying the conditions for the repo rate forecast and providing guidance on the conditions under which it might change.

The Executive Board does not share the evaluators' view that the Riksbank only carried out purchases of corporate bonds because it felt obliged to, and that the programme was actually no longer needed. The assessment made by the Executive Board was that the decision on the purchases itself had a dampening effect on the market and that, for reasons of credibility – in both the short and long terms – it was important to go through with them. Moreover, the pandemic was not over, so there was considerable uncertainty about future developments. The Board therefore considers that it was important to carry out the purchases to keep interest rates low and that market presence ensured a good ability to rapidly scale up purchases should the situation deteriorate.

### **R.8 Transparency of the Deliberations of the Executive Board**

The published minutes contain detailed statements by each Member of the Executive Board on the economic outlook and the arguments in favour of the desired repo rate path. In this sense, the Executive Board is very transparent and provides the public with information on how each Member of the Executive Board has reached his or her stance on the desired monetary policy measure. However, since the minutes are not structured around issues, they do not, according to the evaluation, give a clear picture of the debate or the internal discussions. The evaluators therefore consider that it would be desirable to include in the minutes a more detailed analytical section focusing more closely on the main issues discussed (in particular those where divergent views were expressed) and summarising the different views expressed on these issues.

**The Executive Board's assessment:** The Board underlines that the purpose of the minutes is to report as literally as possible on the discussion during the monetary policy meeting and the arguments put forward. In recent years, the minutes have increasingly taken the form of a transcription, as the members of the Executive Board prepare their initial contributions in advance. In these contributions, and in the discussion that follows them, Members make their views known, including whether they disagree with the majority and, if so, why. The latter can also be seen in any reservations entered.

It is not clear what an additional section, inserted after the event, would add. This section, which would then need to be written by employees of the Monetary Policy Department, would also have to be checked with the Executive Board. This would run the risk of prolonging the process for the minutes and making it more difficult to publish them with the short time lag that we have now.

The minutes of the monetary policy meetings begin with a summary that aims to provide a general picture of the issues discussed and the Board members' views on these issues. In addition, each monetary policy meeting starts with a review by a representative from the Monetary Policy Department regarding economic developments since the previous meeting, and the issues discussed during the monetary policy process. This review is also included in the minutes. Chapter 1 of the Monetary Policy Report furthermore contains an account of the current considerations the Executive Board has to deal with. However, it is possible that these compilations could be further developed.

### **R.9 Secondary Mandate on Financial Stability**

The evaluation discusses the draft for a new Sveriges Riksbank Act and its intention to distinguish between the statutory powers of authority for measures regarding financial stability and for measures regarding monetary policy. The evaluators argue that there is an artificial division between the two areas which will be impossible to maintain in practice.

They also point out that the most important operational tool of liquidity support by necessity has monetary policy consequences.

The evaluators specifically address Chapter 3, Section 11 of the draft law on cooperation with other public authorities. They state that although cooperation is natural in many cases when structural policy changes are planned, it should not become a routine for the Riksbank to be expected to consult on how it uses its liquidity tools. The evaluation raises concerns about the final paragraph of Chapter 3, Section 11 (the possibility of an exemption from the requirement for cooperation if the decision is urgent) not being adequately formulated to protect the Riksbank's monetary policy room for manoeuvre against procedural obstacles and delays in which urgent measures need to be taken. It is feared that the requirement for other authorities to be given the opportunity to express their views may lead to 'inaction bias' on the part of the Riksbank. This could be the case when it is difficult to determine whether the underlying reasons for action relate to the objective of price stability or financial stability and it is difficult to determine whether circumstances are such that action should be taken in accordance with a 'crisis situation'.

The evaluation also deals with the division of labour between the Riksbank and Finansinspektionen, which is taken as given, as regards the work to promote financial stability. They note that with this division of labour the Riksbank can still provide advice on macroprudential policy that is beyond its control. According to the assessment, the Riksbank is well equipped to give such advice, partly because it has an independent position, and therefore Finansinspektionen and other authorities, if they are not willing to act in accordance with such advice, should be expected to explain why.

**The Executive Board's assessment:** The Board shares the view that it is very difficult to make a meaningful division into measures relating to monetary policy and financial stability respectively. This division makes the new Sveriges Riksbank Act more complex and may give rise to problems of interpretation in the formulation of practical policies. At worst, it could lead to unwanted delays in action. The section contains no concrete recommendations addressed to the Riksbank, but summarises the evaluators' reflections on the division between monetary policy and financial stability and the uncertainties in the forms of cooperation regarding the maintenance of financial stability in the proposal for a new Sveriges Riksbank Act.

With regard to the recommendation that other authorities should be expected to explain why, if it is the case, they are not willing to act in accordance with the Riksbank's advice on macroprudential policy, the Executive Board notes that such an arrangement is very similar to a procedure in line with 'comply or explain'. The Executive Board has doubts as to whether a formalised arrangement of this kind would be compatible with the new Sveriges Riksbank Act. However, since responsibility for financial stability is shared between authorities, it is natural that the Riksbank should give its opinion on such matters and it is reasonable that this should also result in a constructive discussion. This is also clearly reflected in the new Sveriges Riksbank Act. It is stated there that the Riksbank shall assess whether the financial system is stable and efficient, identify risks of severe disruptions or significant efficiency losses and report its assessments. If the risks are judged to affect other authorities, the Riksbank shall inform them.

#### **R.10. Side-Effects of Monetary Policy on Environmental, Social and Governance Aspects**

The evaluation highlights that the broader set of monetary policy tools and the low interest rates that have dominated recently have led to attention being paid to the side effects of

monetary policy. The evaluation highlights two issues in particular: climate change and economic inequality. In practice, the extent to which monetary policy measures can influence climate change is small, but according to the evaluation the Riksbank should do its part. This will be expressed primarily through the Riksbank's asset purchase policy. The Riksbank's new sustainability strategy, which began to apply with effect from 2021, is considered to be well designed. The evaluators' recommendation is that the Riksbank's reports to the Riksdag on the implementation of its strategy should be detailed and transparent.

The evaluators also consider it desirable to study the effects of monetary policy on the distribution of income and wealth. In cases where a range of different monetary policy tools are available to ensure price stability, such studies could help make the Riksbank aware of which choices can have unnecessarily negative effects on inequality. More generally, the evaluators consider that there is much to be gained from using microeconomic data to a greater extent in the Riksbank's research programme.

**The Executive Board's assessment:** Climate change has consequences for actors throughout society. Responsibility for taking policy measures against climate change lies primarily with politicians. However, climate change, and the measures taken to manage it, may affect the conditions for the Riksbank's ability to fulfil its mandate. Moreover, in its policy work, the Riksbank shall promote sustainable development in line with the ambitions of the Riksdag and Government, on condition that this does not entail neglecting its own tasks. It is therefore important for the Riksbank to follow, understand and take climate change into account in its work. The Riksbank considers climate change in its monetary policy and asset management, and in its work with financial stability and the payment market, as well as in other operations. The Riksbank is also actively involved in several international partnerships to help reduce the risks of climate change. The Riksbank published its sustainability strategy in December 2020. In December 2021, the Riksbank published a Climate Report, which explains why and how the Riksbank works with climate-related risks.

The Executive Board agrees with the assessment's conclusion that the most important tools for influencing the distribution of income and wealth lie within the framework of fiscal policy. Over a longer period, which covers both economic downturns and upturns, the effects of monetary policy on incomes and wealth will largely offset one another. The long-term development of interest rates and asset prices is determined by factors other than monetary policy. But even if one merely takes into account what happens in an economic downturn, when the central bank conducts expansionary monetary policy, the overall distributional effects are not evident. Expansionary monetary policy contributes to both rising asset prices and higher employment, which have counteracting distributional effects. Higher asset prices tend to increase differences in income and wealth, while higher employment decreases differences. It is not evident in practice which of these effects will be predominant.

As monetary policy affects the economy broadly and has distributional effects that partly counteract each other, it is poorly suited to use for distribution policy purposes. However, low and stable inflation is an important precondition for economic equality, since high and volatile inflation causes arbitrary redistribution of income and wealth. Monetary policy can contribute to economic equality by stabilising inflation and macroeconomic developments.

It is important to follow how the distribution of income and wealth changes over time. The Executive Board considers it important that the ongoing inquiry on individual-based statistics





on household debts and assets should result as quickly as possible in making such statistics available, to be able to study the effects of monetary policy on the distribution of wealth.

The Board agrees that it would be desirable for the Riksbank to have better access to microeconomic data to analyse various important structural and cyclical issues that affect the conditions for monetary policy. A number of such issues are also raised by the evaluation, such as the extent to which 'shifting to a higher gear' in the economy would help low-skilled workers and how negative policy rates impact corporate investment and household behaviour. For the Riksbank to be able to use microeconomic data to a greater extent, as recommended by the evaluators, the legal conditions for the Riksbank to process personal data need to be improved.

On behalf of the Executive Board

Stefan Ingves

Jessica Penzo

Taking part in the decision: Stefan Ingves (Chairman), Cecilia Skingsley, Anna Breman, Martin Flodén, Per Jansson and Henry Ohlsson.

The rapporteurs were Senior Adviser Mikael Apel, Adviser Iida Häkkinen Skans and Senior Adviser Stefan Laséen.