# Minutes of monetary policy meeting

SEPTEMBER 2013

# Summary

*At the monetary policy meeting on 4 September, the Executive Board of the Riksbank decided to hold the repo rate unchanged at 1.0 per cent and to leave the repo-rate path unchanged.*

It was noted at the meeting that economic developments both in Sweden and abroad have been largely in line with the forecast made by the Riksbank in July. It is good for the Swedish economy that there are now signs that an improvement has begun in the euro area, at the same time as the recovery in the United States is continuing. At the same time, the Executive Board noted that developments abroad are uneven. GDP growth in Sweden was low in the second quarter of this year, but indicators suggest that an improvement is in sight. Confidence indicators have risen and the situation on the labour market has become slightly better than expected. Next year, economic activity is expected to accelerate more and then the labour market will also show a more marked improvement. Inflation has been low over a long period of time, but when economic activity strengthens, costs and prices are expected to rise faster. This means that CPIF inflation will increase to 2 per cent during 2015. Interest rate increases mean that CPI inflation will be higher than CPIF inflation from the end of next year and will reach 2.8 per cent at the end of the forecast period. Swedish households are highly indebted, both in an historical and an international perspective, which makes the economy vulnerable to shocks. It is therefore good that the Government has proposed a framework for macroprudential policy.

Given the low inflation, the Executive Board agreed that monetary policy needs to continue to be expansionary. A majority of four members assessed that it was appropriate to hold the repo rate unchanged at 1 per cent until the end of 2014. Economic activity is expected to accelerate more clearly then and inflation to have risen for some time. The majority also considered an unchanged repo-rate path in relation to the July Monetary Policy Report to be reasonable, as new information received since then had been largely as expected. They noted that although a lower repo-rate path could lead to inflation attaining the target slightly sooner, it could also increase indebtedness and thus the risks to economic development in the longer run. The majority considered that the current repo-rate path will stimulate economic developments and contribute to inflation rising towards 2 per cent, at the same time as taking into account the risks linked to high household indebtedness.

Two members considered that there was scope to cut the repo rate to 0.75 per cent and to keep it at this level until the end of the second quarter of 2014. After that the two members advocated slightly different rates of increase. They assessed that this monetary policy would bring inflation back on target sooner, while resource utilisation would be more balanced.

Another topic discussed was the Government's proposal on how macroprudential policy should be conducted and how this may affect monetary policy. The Executive Board noted that the

Riksbank will need to take account of macroprudential policy in the formulation of monetary policy but that it will need to return to this once concrete measures have been more precisely defined.

# MINUTES OF MONETARY POLICY MEETING
# Executive Board, No. 4

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DATE: 4 September 2013

TIME: 09.00

PRESENT: Stefan Ingves, Chairman
Karolina Ekholm
Martin Flodén
Per Jansson
Kerstin af Jochnick
Cecilia Skingsley

Meredith Beechey Österholm
Claes Berg
Hans Dellmo
Charlotta Edler
Eric Frieberg
Kerstin Hallsten
Mia Holmfeldt (§ 1)
Ann-Christine Högberg
Jesper Johansson
Martin W Johansson (§ 1)
Violeta Juks
Jenny Mannent (§ 1)
Lisa Marklund (§ 1)
Ann-Leena Mikiver
Marianne Nessén
Christina Nyman
Maria Sandström (§ 1)
Ulf Söderström
David Vestin
Anders Vredin

It was noted that Hans Dellmo and Violeta Juks would prepare draft minutes of § 1, 2 and 3 of the Executive Board's monetary policy meeting.

# §1. Economic developments

Meredith Beechey Österholm of the Monetary Policy Department began by presenting the latest developments on the financial markets. Government bond yields with longer maturities, particularly those in the United States, but also in the United Kingdom, Germany and Sweden, have increased significantly since the Monetary Policy Report was published at the beginning of July. In Sweden, developments have largely followed those abroad and have been affected by positive signals for the Swedish economy. This has also led to higher interest rates on Swedish mortgage bonds.

Over the past week the increase in government bond yields in developed economies has come to a halt because of the escalation of the conflict in Syria, but when the indicators for the manufacturing industry were published and were better than expected, government bond yields continued to rise. Many emerging markets' currencies have weakened substantially in the recent period, particularly in countries with large current account deficits and/or large short-term liabilities in foreign currencies. The weakening in emerging markets' currencies has also come to a halt in the past week, which can be partly explained by the fact that several central banks in these countries have taken measures to stop the currency outflows. There has been no further communication from the Federal Reserve on when it intends to begin to phase out its asset purchases. There is increased volatility on the bond markets, but stock markets are relatively stable, despite the troubles in Syria. The Swedish krona, measured in terms of KIX, has strengthened somewhat since the monetary policy meeting in July, primarily due to a strengthening against the US dollar. According to market prices and survey responses, as well as market analyses, the repo rate is expected to be held unchanged at today's meeting. The first increase from the current level is not expected to come until July next year.

Lisa Marklund from the Financial Stability Department gave an account of recent developments in Sweden and the euro area with regard to government bond yields, the price of credit risk for banks, costs for secured funding and the Swedish banks' funding situation.

Christina Nyman of the Monetary Policy Department presented the draft Monetary Policy Update which, in the assessment of the Monetary Policy Department, should gain the support of the majority of the Executive Board members. She began by noting that the forecasts in the draft were discussed by the Executive Board at meetings held on 22, 28 and 30 August. The text of the draft Monetary Policy Update was tabled at a meeting of the Executive Board on 2 September.

Economic developments both in Sweden and abroad have been largely in line with the forecast made by the Riksbank in July. There are signs that an improvement has begun in the euro area, although the recovery is expected to take several years. In the United States, too, the prospects for a continuing recovery are good, while emerging markets are slowing down after several years of very high growth. The recovery abroad will contribute to brighter prospects for the Swedish economy. Confidence in both the household and corporate sectors has risen and developments on the labour market have been somewhat better than expected. As international economic activity strengthens, the demand for Swedish exports will rise at the same time as household consumption increases faster. Growth in Sweden is thus expected to be gradually stronger in the coming period, which will in turn mean that employment rises faster and unemployment declines next year.

Inflation is currently low and CPIF inflation is expected to remain at just over 1 per cent in the near term. When economic activity improves, import prices and wages will rise at a faster rate, at the same time as companies are able to raise their prices more. This means that CPIF inflation is expected to attain 2 per cent during 2015. CPI inflation will increase faster than CPIF inflation from the end of next year and will reach 2.8 per cent at the end of the forecast period.

The repo-rate path is unchanged in relation to the assessment made in July. The repo rate is expected to remain unchanged at 1 per cent up to the second half of 2014. When economic activity has accelerated more markedly and inflation has risen for a time, the repo rate will be raised. The monetary policy being conducted now is expected to stimulate economic developments and contribute to inflation rising towards 2 per cent, at the same time as taking into account the risks linked to households' high indebtedness.

Ms Nyman noted that the Government's proposal that Finansinspektionen (the Swedish Financial Supervisory Authority) should have the main responsibility for all macroprudential tools had not been taken into account in the forecasts.

## §2. The economic situation and monetary policy

Deputy Governor **Karolina Ekholm** began by saying that she supports the assessment in the draft Monetary Policy Update and that recent developments did not justify any substantial revisions to the forecast for the Swedish economy. During the summer developments have on the whole looked slightly better for the economies that are important to Sweden, that is, the euro area, the United States and the United Kingdom. But this is also what the Riksbank expected at the monetary policy meeting in July. Ms Ekholm said that from this point of view, today's decision might appear relatively simple and would not need to be justified by any long discussion. Without revising the underlying forecast, there was no reason to have any other views regarding what is a well-balanced monetary policy than last time. Ms Ekholm pointed out that in July she considered that cutting the repo rate to 0.75 per cent and a slower upturn in the rate than that shown in the repo-rate path was justified as inflation is clearly below the target of 2 per cent and unemployment is clearly higher than can be explained by structural factors alone. This is still the situation and there is thus no reason to advocate any different policy than advocated in July.

Ms Ekholm went on to say that a few things have nevertheless happened since the monetary policy meeting in July which potentially have a bearing on today's monetary policy decision and therefore need to be discussed. The most obvious, according to Ms Ekholm, is the Government's proposal for reforms to strengthen financial stability, which entails Finansinspektionen being given the main responsibility for all macroprudential policy tools. Ms Ekholm pointed out that the clearest counter argument to cutting the repo rate recently had been the assessment that such a cut would increase risks linked to household indebtedness. Her interpretation of what the Government had communicated and what the Director General of Finansinspektionen Martin Andersson had announced in a debate article published in Dagens Industri on 3 September is that Finansinspektionen's responsibility in this area entails taking measures to dampen the development of indebtedness if this is considered necessary to reduce the risks of major costs to the real economy in the future. Ms Ekholm asked the question of how the Executive Board should react to this.

One alternative could be to claim that the repo rate must nevertheless be set higher than is justified by inflation and the outlook for the real economy in the medium term because the Executive Board assesses that household indebtedness comprises a greater risk at present than Finansinspektionen does. However, Ms Ekholm considered that taking this stance would be wrong. She pointed out that the Government's communication makes it clear that the main reason why Finansinspektionen, and not the Riksbank, is being given the main responsibility for macroprudential policy is the ability to hold the decision-maker accountable for the policy conducted. It is also clear that the Government considers this to be an important democratic issue, and Ms Ekholm agreed with this.

She considered it to be a problem that the Executive Board can in principle choose to interpret the inflation target as flexibly as they like. She felt that if one goes a long way towards accepting deviations from the inflation target to influence household debt, the whole point of putting the monetary policy decisions in the hands of independent decision-makers is lost. The point of delegating the monetary policy decisions to independent decision-makers with a clear mandate to attain an inflation target is to achieve a more stable development of the price level and, with firmly-anchored inflation expectations, to allow them to use monetary policy to actively stabilise the business cycle. If this mandate is stretched too far, one would have to ask why the Executive Board of the Riksbank should enjoy an independence that other decision-makers do not have.

Ms Ekholm pointed out that her own view lately has been that the effects of the repo rate on household indebtedness are too marginal to justify giving consideration to possible risks linked to this debt in the monetary policy decisions. She therefore did not see any reason to revise her assessment of what is a well-balanced monetary policy in the light of the new information on how future macroprudential policy will be conducted.

Another thing that has happened since the previous monetary policy meeting is that an additional central bank, namely the Bank of England, has taken a step towards making monetary policy tightening conditional on developments in the labour market. The Bank of England has communicated that it will not consider raising its policy rate until unemployment is down to 7 per cent, unless price stability or financial stability are threatened. Ms Ekholm said that both the Federal Reserve and the Bank of England appear to have a more ambitious view of what monetary policy can contribute with regard to supporting an improvement in the labour market than the proposed repo-rate path would imply. The forecast for unemployment in Sweden is more than 7.5 per cent when the increases in the repo rate are expected to begin, and this is in a situation where according to the forecast there is no evident threat of inflation. Ms Ekholm found it difficult to see any clear reason as to why the Riksbank should have a less ambitious view of this than the Bank of England.

She emphasised that this does not mean that she advocates holding the repo rate unchanged at its present level for a longer period than indicated by the proposed path. She advocated cutting the repo rate now, to speed up the recovery with more monetary policy stimulus in the near term. More near-term monetary policy stimulus would improve the conditions for being able to raise the policy rate relatively quickly. Without this stimulus, there is a greater risk that inflation will remain at a low level and it will then be difficult to raise the repo rate. As at the monetary policy meeting in July, Ms Ekholm considered that there was in principle justification for making a larger cut than 0.25 percentage points to rapidly bring up inflation to the target of 2 per cent, but she then as now considers it important not to make large and thus surprising changes in the repo rate.

With regard to the actual repo-rate path, Ms Ekholm advocated the same path as at the previous meeting, where the repo rate remained at 0.75 per cent until the end of the second quarter of 2014, after which it rises to 2.25 per cent at the end of the forecast period. As before, her assessment is that the repo rate cannot be raised as much as to 2.75 per cent at the end of the forecast period in the light of policy rates abroad being expected to remain very low throughout the entire period. The difference between the repo rate and a KIX-weighted policy rate is expected to increase by more than 0.75 percentage points during the forecast period, according to the forecast in the draft Monetary Policy Update. Ms Ekholm believed that such an increase in interest rate differentials would risk an appreciation of the krona that made it difficult to reach a CPI inflation rate of 2 per cent. As neither the domestic cost pressures nor inflation abroad are expected to rise very much during the forecast period, it is necessary that the exchange rate does not strengthen too much for the inflation forecast to be realised. This assumes, according to Ms Ekholm, a repo-rate path that remains closer to the forecast for policy rates abroad throughout the entire forecast period.

Deputy Governor **Per Jansson** began by noting that at the monetary policy meeting in July he had argued that economic developments could somewhat exceed the Riksbank's forecasts. He felt that developments since then had emphasised this possibility. In his contribution to the discussion, Mr Jansson intended to explain why he thought that this was the case and to clarify the monetary policy conclusions he had drawn from this.

Mr Jansson considered it particularly pleasing that economic prospects for the euro area had improved. During the second quarter, growth in the euro area countries was positive for the first time in around a year and a half. There are still fairly large differences between individual countries, but the growth profile now points upwards for all countries for which there is data. There are also a number of indicators - such as economic tendency surveys, the purchasing managers' index, consumer confidence and the retail trade - that are pointing to a continuing upturn in economic activity. However, it is important to emphasise that the structural problems in the euro area still remain. Public finances in many countries need to be improved, competitiveness needs to be strengthened and, not least, the banking sector needs capital injections or to be slimmed down. To ensure a robust recovery and avoid major setbacks, these structural problems need to be dealt with properly without merely "kicking the can down the road", which has unfortunately been the case too often so far.

Mr Jansson observed that the GDP outcome for Sweden in the second quarter was a disappointment. But growth so far in 2013 has nevertheless been fairly good, with an average seasonally-adjusted growth rate of around 0.3 per cent per quarter. There are good conditions going forward for a substantial improvement in growth. Some indicators of this are the relatively large upswings in the National Institute of Economic Research's Economic Tendency Survey, strong consumer confidence and an improved purchasing managers' index for both manufacturing and services. The demand component that can be expected to contribute most to growth in the near term is household consumption. This is explained by a number of factors, including large initial savings, interest rates that are expected to remain low for a fairly long time and income tax relief in the Government's budget Bill. The fact that there is a recovery abroad and that the euro area, in particular, is on firmer ground should mean that both exports and investment gradually become additional driving forces behind growth.

Mr Jansson noted that developments on the labour market in Sweden were another pleasing factor. The labour market has long shown considerable resilience and recent figures have been a positive surprise, which he had also pointed out at the meeting in July. The focus in the public debate and on the market has largely concerned developments in unemployment. This has meant that developments in employment, which so far this year have been on the whole surprisingly positive, have been somewhat overshadowed. However, during the period May-July unemployment figures have also been a pleasant surprise. In July, the seasonally-adjusted unemployment rate was 7.8 per cent, which was 0.3 percentage points lower than the market had expected.[1] Over the past three months, the market has thus overestimated unemployment by around 0.8 percentage points. Of course, the monthly outcomes for unemployment fluctuate substantially and should therefore be interpreted with caution. But developments so far give cause for optimism, not least because the underlying positive trend in the labour force indicates a potential for downswings in unemployment over and above those that relate to the improved business cycle.

CPIF inflation was 1.2 per cent in July, which was 0.2 percentage points higher than the assessment in the July Monetary Policy Report. The forecasting error was mostly due to energy prices increasing slightly more than expected, but in the present situation, in case the forecast is not accurate, it is nevertheless better to underestimate rather than overestimate the inflation outcome. Mr Jansson said that he still believes, as he did in July, that the krona exchange rate ahead may push up inflation slightly faster than assumed in the forecast. Since the start of the year, the krona has been fairly stable against both the euro and the US dollar. In the coming period, when the economic recovery in the euro area and the United States accelerates, at the same time as the very expansionary economic policy begins to normalise, it is not unreasonable to believe that there may be a tendency towards a weaker krona. Although it is possible that in this scenario the krona would continue to strengthen for some time against the currencies of certain emerging markets, the link between Sweden and many of these countries is as yet not very strong. Mr Jansson pointed out that there are of course also a number of downside risks for inflation in Sweden. But the possibility of some unexpected upward pressure on inflation through a weaker exchange rate nevertheless deserved to be mentioned, said Mr Jansson.

Just as at the monetary policy meeting in July, Mr Jansson thus saw reason to be a little more optimistic than the forecasts in the draft Update. However, he emphasised that it did not prevent him even now from supporting the assessments in the draft Monetary Policy Update. This is partly because the forecast differences are still fairly minor and partly because a somewhat brighter forecast for economic developments does not need to have consequences for the decision on the repo rate now or on the repo-rate path in the future. In a situation where inflation is still some way below target and the risks of overheating are small, the forecast for economic developments can tolerate some upward revision without needing to affect monetary policy.

The reasoning that monetary policy need not be affected by a brighter forecast for economic developments assumes that the risks linked to households' high indebtedness,

[1] SME Direkt's forecast survey.

which can ultimately comprise a serious threat to macroeconomic stability, do not increase and can be managed.[2] But this is not self-evident. Both housing prices, in particular prices of tenant-owned apartments, and lending are continuing to show tendencies towards more rapid rates of increase. The low interest rate, the expected tax relief and the generally stronger economic activity are factors that can be expected to contribute to continued upturns in prices and lending.

The conditions for being able to manage the risks linked to households' high indebtedness have at the same time improved, said Mr Jansson, in that the Government has launched its proposal for a stronger framework for financial stability. This makes it clear that Finansinspektionen will have the main responsibility for the relevant instruments. At the same time, the Government notes that there is a need for an interplay "between measures for financial stability and economic policy in general" and that this need "is obvious in the crisis management phase, but also needed in the preventive work".[3] Mr Jansson considered this to be an important observation, as different financial imbalances cannot be managed using tools within only one policy area, and it is necessary to synchronise different policy areas so that overall economic policy becomes appropriately focused and effective. Given this, the Riksbank needs, as noted in the draft Monetary Policy Update, to provide an analysis of the consequences for monetary policy when concrete measures in the new policy area have been established.

First Deputy Governor **Kerstin af Jochnick** pointed out that she largely agrees with the assessments made in the draft Monetary Policy Update, both with regard to developments abroad and in Sweden. Ms af Jochnick's assessment was that the new information received since the monetary policy meeting in July had largely been in line with the Riksbank's forecast. She therefore considered that it was a rather simple decision for her to support the proposal to hold the repo rate unchanged at 1 per cent, in line with the assessment made in July, so that CPIF inflation would attain the target of 2 per cent during 2015.

Ms af Jochnick noted that since the monetary policy meeting in July, government bond yields in the United States and Europe have risen. This is partly due to expectations that the Federal Reserve's asset purchases may be phased out, which was announced back in May, and partly due to incoming statistics pointing to a continued recovery in the United States. Signs of better developments in Europe have also contributed to higher bond yields in, for instance, Germany and the United Kingdom. At the same time, signs of a

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[2] See the article "Financial imbalances in the monetary policy assessment", page 42 of the Monetary Policy Report published in July 2013, and Per Jansson (2013), "Perspectives on the Riksbank's monetary policy", speech at the Centre for Business and Policy Studies, Stockholm, for a discussion of how and why the risks linked to households' high indebtedness are taken into account in monetary policy.

[3] See "Ett förstärkt ramverk för finansiell stabilitet" (A stronger framework for financial stability), Ministry of Finance (NB. Only available in Swedish).

recovery have contributed to a rise in share prices since July in the United States and Europe. The rise in bond yields in the United States and Europe's core countries has also led to outflows of capital and weaker exchange rates in emerging markets, resulting in financial imbalances. Recent developments in emerging markets are an uncertainty factor that needs to be monitored closely to assess the potential effects on the Swedish economy.

The uneasy developments in the Middle East have recently also created uncertainty and contributed to increased volatility on the financial markets. Ms af Jochnick noted that the effects on the Swedish financial market were limited so far, but that there were reasons to continue following this closely.

Ms af Jochnick noted that new US statistics indicated continued strength in the US economy. The housing market is continuing to improve. Household consumption is growing at a good rate, employment is continuing to rise and unemployment is falling. However, there is uncertainty over future developments, not least with regard to the management of the debt ceiling.

Ms af Jochnick said that perhaps the most important thing with regard to the euro area is that new statistics show that GDP has begun to grow again. After being negative for six quarters in a row, GDP growth in the euro area was 1.1 per cent during the second quarter of this year, when calculated as an annual rate and according to preliminary figures. In Germany, which is very important to Swedish exports, GDP growth was clearly above the average for the euro area as a whole. New labour market statistics also show that unemployment in the euro area has stabilised, albeit at a very high level. Of course, the problems are not over and it is therefore important that the reform work progresses. Debt problems in both the private and public sectors are being managed, but it will probably take time before a stronger recovery in growth is visible in Europe. During the summer both Italy and France had their credit ratings downgraded due to poor growth prospects, which reflects problems in both the private and public sectors.

All in all, Ms af Jochnick considered that the new information from abroad shows signs of some strength in the recovery in advanced economies and that a recovery had begun in several euro area countries. On the other hand, developments in the emerging economies are slightly more subdued.

Ms af Jochnick noted that the Swedish financial markets had followed international developments and that market rates and the stock market have risen in Sweden during the summer. The Swedish krona has fluctuated somewhat, but all in all the change is slight in relation to the level at the beginning of July. It has strengthened somewhat in trade-weighted terms, which is mainly due to an appreciation against the US dollar.

Ms af Jochnick said that at the monetary policy meeting in July the assessment was that developments in the Swedish economy were divided. During 2013, households have become more positive with regard to both their personal finances and the Swedish economy and are increasing their consumption. However, the manufacturing industry has had a difficult time, with weak exports and a low level of investment. This picture has persisted over the summer, but the assessment is now that a turnaround is on the way for the manufacturing industry, too.

Ms af Jochnick noted that when other countries, and particularly the euro area, show a recovery there should be positive effects on Swedish exports and thus GDP growth should increase. This outlook is supported by, for instance, the National Institute of Economic Research's Economic Tendency Surveys, which have now reached levels for both households and companies that point to increased growth towards the end of this year. Her assessment was that when growth abroad gradually rises, demand for Swedish exports will increase. This will lead to increased investment and reduced unemployment, which in turn will lead to higher consumption.

Household consumption plays a central role for the forecast for GDP growth in Sweden. Households have had a good growth in income, interest rates are low and employment is developing fairly well. All in all, this gives a positive outlook that could result in slightly stronger growth than is forecast in the draft Monetary Policy Update. However, there is still reason to follow developments in household indebtedness. Prices of tenant-owned apartments in metropolitan regions appear to be rising relatively sharply, which could entail an even higher level of indebtedness than is being registered now.

Deputy Governor **Cecilia Skingsley** began by saying that she supported the picture of economic developments, the forecasts and the proposal for an unchanged repo rate presented in the draft Monetary Policy Update.

Ms Skingsley noted that since the monetary policy meeting in July, international macroeconomic developments had been roughly as forecast by the Riksbank in July. If one looks at the euro area in particular, the Riksbank's forecast of a gradual economic recovery is confirmed. Despite uncertainty factors such as the Federal Reserve's exit policy, escalating geopolitical risks in the Middle East and market unease in several emerging markets, market pricing in the euro area has been fairly stable, even in the countries with sovereign debt problems. The Riksbank has for some time been forecasting that international government bond yields will begin to rise when economic activity improves, and this picture is gradually materialising.

Ms Skingsley felt that although there are still major challenges in several euro area countries, when it comes to improving growth and lowering debt levels, there is currently greater predictability with regard to their management. The downside risks will be somewhat smaller when the ECB clearly promises continued support in the form of its monetary policy and the individual countries work on their adjustment. This division of labour will contribute to reducing the uncertainty with regard to managing the crisis that was evident in 2010 and 2011. Political decision-making and its effects on economic agents is an interesting field of research, said Ms Skingsley, and the IMF, for instance, had recently signalled that uncertainty over future policy could delay the recovery.[4]

Ms Skingsley noted that the preliminary outcome for GDP growth in Sweden during the second quarter was somewhat weaker than expected, but that on the other hand leading indicators confirm a recovery in line with the forecasts in the July Monetary Policy Report. The improved developments on the labour market are particularly interesting, which has given rise to a lower path for unemployment in the draft Monetary Policy Update. She feels it is likely that the published statistics could justify an even stronger forecast for employment in the coming period.

Ms Skingsley also observed that since the previous repo-rate announcement the Government has presented important information on the policy area known as financial stability policy, which are specific measures aimed at preventing financial crises. She repeated what she said in July, that it is good that an allocation of labour has been established for this field. Her impression was that there was considerable external interest in how the Riksbank would incorporate the financial stability measures taken into its monetary policy strategy.

According to the draft Monetary Policy Update, the Riksbank will return to this question at a later date. However, Ms Skingsley wished to say now that she sees this is a natural development in the Riksbank's work. When the Riksbank conducts monetary policy, it must take into account what is happening in other policy areas, both cyclical and structural changes. This will also be the case with regard to financial stability policy.

Ms Skingsley noted that in the draft Monetary Policy Update the proposal is for an unchanged repo rate at the low level of 1 per cent. She reasoned in the same way as at the July meeting, that one alternative would be to support an even lower repo rate, which according to the Riksbank's own forecasts could lead to a faster target attainment within the forecast horizon. But, as before, Ms Skingsley felt that one must weigh the expected benefits of a cut now against the benefits of an unchanged repo rate. There are several reasons for holding the repo rate unchanged. First and foremost, according to Ms Skingsley, the economic recovery is now a fact. If the Riksbank were to deliver what would be an unexpected policy rate cut now, it would probably cause more uncertainty over the Riksbank's method of working, so the disadvantages would be greater than the advantages. In addition, it is clear that private debt will remain a risk factor that could worsen a future economic downturn, particularly as it is combined with a high degree of wholesale funding from abroad in the Swedish banking sector.

[4] IMF (2012), World Economic Outlook and also Baker, Bloom and Davis (2013), "Measuring economic policy uncertainty".

Ms Skingsley suggested in conclusion a small conceptual experiment: let us assume that the Riksbank still had its tolerance interval, that inflation is normally held between 1 and 3 per cent.[5] If the tolerance interval had still existed, inflation adjusted for interest rate changes would have already been within the interval. Ms Skingsley felt that target attainment of 2 per cent is and should remain the Riksbank's main endeavour and that inflation heading for 2 per cent in 2015 is a sufficiently well-balanced monetary policy, as one need not have exaggerated expectations of the precision of the forecasts further out towards the forecast horizon.

Deputy Governor **Martin Flodén** said that he supported the picture of economic developments in Sweden and abroad presented in the draft Monetary Policy Update, but that he advocated cutting the repo rate by 25 basis points at today's meeting and that the repo rate should be kept at this lower level during the first half of 2014 and then follow the repo-rate path proposed in the draft Monetary Policy Update.

Mr Flodén noted that he had also advocated that the repo rate be cut and held at a lower level during the first half of 2014 at the monetary policy meeting in July. As the repo rate was not cut in July, one could argue that it needs to be held at a lower level into the third quarter of 2014. The reason he said that the repo rate can begin to follow the path in the main scenario from the third quarter of 2014 is that the economic developments of recent months have been relatively favourable. Developments have been roughly in line with the Riksbank's forecasts in the July Monetary Policy Report. This is a good thing, as one reason for a lower repo rate is that monetary policy in the current situation must be robust with regard to developments that follow other analysts' more pessimistic forecasts.

Mr Flodén noted that since the summer it was mainly the sentiment in the economy that had improved. Several confidence indicators now show more optimistic results in Sweden, the euro area and the United States. This is also positive in itself, as sentiment can affect actual economic outcomes.

However, Mr Flodén wanted to emphasise that large downside risks remain. In the euro area, there are still problems with weak public finances and considerable uncertainty over the state of the banks' balance sheets. In the United States, the full effects of the sequester have not yet been realised, and there is also uncertainty over the debt ceiling, which needs to be raised during the autumn. In addition, several emerging economies must now manage falling growth rates and outflows of capital.

Mr Flodén said that even if one disregarded these downside risks, there would be good reason for cutting the repo rate today. This is because the forecast based on the repo-rate path in the draft Monetary Policy Update shows CPIF inflation under two per cent in the coming years, while the economic outlook is weak, or at least not stronger than normal. A

[5] The tolerance interval was abolished in June 2010.

more expansionary monetary policy could mean that CPIF inflation attained the target of 2 per cent sooner and that resource utilisation was better balanced.

When the downside risks are also taken into account, there could be justification for cutting the repo rate by more than 25 basis points today. However, the reasons for cutting the repo rate substantially are not sufficient to advocate a major deviation from the monetary policy that has been signalled earlier.

As at the monetary policy meeting in July, Mr Flodén thought that monetary policy should in principle take into account the rapid build-up of household debt. But firstly, the repo rate probably has little effect on the household debt ratio, that is their debt in relation to their incomes. And secondly, cutting the repo rate today means that inflation will rise towards the target at a faster rate and the repo rate will therefore not need to be held at a low level for such a long time as if it is held unchanged now. If low interest rates entail unjustifiably high growth in household debt, there are thus short-term problems linked to cutting the repo rate today, but these problems are counteracted at least to some extent by the possibility of raising the repo rate faster in the medium term.

Mr Flodén observed that the timing of the Riksbank's first increase in the repo rate has come under much discussion outside of the bank in recent months. He therefore wished to emphasise that the repo-rate path he prefers is closely-linked to the forecast for economic developments presented in the draft Monetary Policy Update. Of course, there is considerable uncertainty linked to the forecast, and the outcomes for important variables on which the repo-rate decisions are based can be both better and worse than expected. If CPIF inflation is still low at the end of 2014, while inflation expectations are low and economic activity is weak, Mr Flodén would probably continue advocating a low repo rate. If the repo rate is held unchanged today, such a scenario is more likely than if the repo rate is cut.

Mr Flodén noted that since the monetary policy meeting in July, the Government has presented plans for the future framework for financial stability and also indicated plans to raise capital requirements for banks and risk weights on mortgages. However, the forecast in the draft Monetary Policy Update is based on an assumption that no new measures will be taken to reinforce financial stability. He would therefore like to discuss in conclusion his views on how monetary policy should be affected by measures that reinforce financial stability.

The measures can have direct effects on financial stability by limiting the possibilities of particularly vulnerable households, companies or banks to take certain decisions. However, the measures may also have indirect effects on financial stability or side effects on the economy by affecting the cost of capital or the general demand.

Mr Flodén said that as he in practice had not let concern for households' rapid build-up of debt affect his view of how the repo rate should be set today, measures of the first type, that is, measures that directly limit vulnerable households' opportunities to become or remain heavily indebted, would probably also have little effect on his choice of repo rate and repo-rate path. On the other hand, measures that entail an increase in the average lending rates or a weakening of general demand would justify cutting the repo rate. This type of interest rate response would have the aim of counteracting the business-cycle effects of the supervision measures. The supervision measures could nevertheless affect financial stability, for instance, by changing the level of household mortgages in relation to companies' lending rates.

Governor **Stefan Ingves** began by saying that he shared the view of international developments and the Swedish economy presented in the draft Monetary Policy Update. He also supported the proposal to hold the repo rate unchanged, and the repo-rate path that forms the basis for the forecast in the draft Monetary Policy Update.

He noted that there are only limited changes in relation to the forecast in the Monetary Policy Report published in July. If anything, the situation looks a little brighter now. The Economic Tendency Survey is approaching normal levels, the households are increasingly positive about the future and the number of redundancy notices is low, but the recovery will nevertheless take time.

The recovery is continuing abroad more or less as the Riksbank forecast in July, if we look at the picture as a whole. However, if we look at different parts of the global economy we can see that the recovery has been somewhat stronger than expected in some areas and somewhat weaker than expected in others. The balance is changing in the global economy. There are now positive signs in the euro area, with stronger indications that the situation is becoming more stable. GDP data and various confidence indicators suggest that economic activity is beginning to improve. Several countries have also made good progress in adjusting their cost levels and credit conditions have eased somewhat. However, several risks remain in Europe. The high level of debt in both the private and public sectors means that several countries are still vulnerable. Mr Ingves pointed out that it was therefore important to continue the adjustment and reform processes. He noted that many banks are being traded on the stock exchange at values well below their book value, a sign that there is a long way to go before the transmission mechanism and interest-rate setting in the EMU return to normal.

In the United States, the recovery is continuing approximately in line with the forecast in the July Monetary Policy Report. The housing market is recovering. This, together with a reduction in unemployment and less stringent credit conditions, is contributing to a recovery in household consumption. The adjustment of balance sheets has also been underway for some time now.

GDP growth has slowed down in several of the emerging economies. Exchange rates have weakened, particularly in countries with large current account deficits and/or large short-term liabilities in foreign currencies. The weakening of exchange rates in emerging economies appears to be highly related to interest rate increases in the United States and the core countries of the EU. Asset markets in countries with large capital inflows appear to be more sensitive to the development of interest rates in major currency areas and to global financial cycles, according to new research.[6]

All in all, however, the development of GDP in the KIX-weighted countries, that is those with most importance to the Swedish economy, is assessed to be in line with the Riksbank's forecast in the Monetary Policy Report published in July. In the main scenario, a continued recovery abroad will contribute to a gradually improved outlook for the Swedish economy. GDP growth is expected to pick up in 2014. The labour market is also expected to improve in 2014: the employment rate will increase and unemployment decrease. Mr Ingves said that it was gratifying that unemployment is lower than expected and that the forecast has been adjusted downwards. It is also worth noting that the level of redundancy notices is now low. Inflation is still low. CPIF inflation is expected to remain at 1 per cent this year but rising import prices and labour costs and the improvement in economic activity will subsequently contribute to it reaching 2 per cent in 2015.

Mr Ingves said that this calls for a continuation of an expansionary monetary policy. In the forecast, the repo rate will remain at 1 per cent for approximately one year. However, it is difficult to determine exactly when we will need to raise the repo rate. However, as economic activity improves in Sweden and abroad the need for monetary policy stimulus will gradually decline. It is reasonable to assume that the Riksbank will begin to gradually raise the repo rate during the second half of 2014. The Riksbank expects the repo rate to reach approximately 2.8 per cent towards the end of 2016. There is no basis for having a different repo-rate path than at the previous meeting. There are, at the same time, reasons for returning to the question of the future equilibrium interest rate at a later date. It is not certain that everything will return to the old patterns.

Mr Ingves pointed that risks remain in the international economy and that it will take some time before the situation returns to normal. This concerns not only the risks relating to the euro area described in the Monetary Policy Report in July, although the risk of setbacks may have declined somewhat there. Continued problems in the emerging economies with imbalances may also have an impact on the Swedish economy, even though it is difficult to say how likely this risk is or to quantify its potential effects. Another risk is that the geopolitical turbulence in and around the Middle East will lead to higher oil prices than assumed in the forecast. This would probably push up inflation for a while, but such episodes do not usually last very long.

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[6] Hélene Rey, "Dilemma not Trilemma: The Global Financial Cycle and Monetary Policy Independence", paper presented at the conference in Jackson Hole, 24 August 2013, Federal Reserve Bank of Kansas City.

# §3. Discussion

First Deputy Governor **Kerstin af Jochnick** began the discussion by pointing out that at several meetings over the last 12 months she has taken up the risks associated with household indebtedness and the lack of measures to counteract an increase in the build-up of household debt. She therefore wished to comment on the government's decision to give the macroprudential-policy instruments to Finansinspektionen and to set up a stability council. Ms af Jochnick welcomed the decision to provide a clear mandate for macroprudential policy in Sweden and to appoint an authority to manage the instruments. In January 2012, the European Systemic Risk Board recommended all of the EU countries to formulate macroprudential policy at the national level. During the summer of 2013, the Board published recommendations on the instruments that an authority for macroprudential policy can use to limit the build-up of risks. Many countries have made good progress on this, and it is important that Sweden, which has a large banking sector and a high level of household debt, can quickly put instruments and decision-making procedures in place.

A central question is of course whether the Riksbank can ignore household indebtedness in its monetary-policy deliberations once Finansinspektionen has the monetary-policy instruments in place. In her view, this was not possible at present. The Riksbank cannot ignore the fact that the high level of household indebtedness entails risks. The reasons for this have been presented in a range of contexts, but most recently in the Monetary Policy Report published in July.

But what will happen in the future? Ms af Jochnick saw a clear link between macroprudential policy, micro supervision and monetary policy. Macroprudential policy should identify potential systemic risks at an early stage and take measures that aim to counteract the build-up of financial imbalances. This is of course a complex matter where different components have an impact on each other. Studies show that the macroprudential-policy instruments can have an impact on credit growth and house prices as well as on the development of the real economy in the form of GDP growth.

Financial imbalances often develop over a long period of time and experience shows that companies and authorities are often far too late in identifying major imbalances. This has meant that it has not been possible to prevent a financial crisis with major disruptions for households, companies and banks that have ultimately led to weak GDP growth and high unemployment over a long period.

The Riksbank has a responsibility for the payment system and for financial stability. This responsibility means that the Riksbank should continue to develop its analysis of the link between risks in the financial system and developments in the real sector, that is in companies and households. The Riksbank can only conduct monetary policy and attain the inflation target of two per cent if it actively contributes to the analysis of risks in the financial system and discusses how these risks can be limited.

Deputy Governor **Karolina Ekholm** commented on Ms Skingsley's point that the level of CPIF inflation is currently within the tolerance interval that applied before it was removed in June 2010, a decision that Ms Ekholm was party too. The tolerance interval had not been of any importance to the monetary policy decisions for quite some time. The starting point for the decisions was as now to attain an average rate of inflation of two per cent in the long term. If inflation was temporarily within or outside the interval did not affect the decisions. As the Riksbank began to publish comprehensive forecasts in conjunction with the monetary policy decisions, it became apparent how the decisions were intended to contribute to stabilising inflation around the inflation target.

At the time the decision was made, the perception of the members of the Executive Board was that removing the tolerance interval was entirely uncontroversial. However, they probably underestimated the significance that those outside the Riksbank attached to this measure and were perhaps not as clear as they should have been in the communication of this decision.

When it comes to the issue of how great a problem it is that CPIF inflation is well below two per cent but still above one per cent, which was the lower limit in the earlier tolerance interval, Ms Ekholm said that this is a problem we should not take lightly in the situation we are in today. If it were the case that average inflation had been two per cent in the long term this would be less of a problem. But as average inflation is currently well below the target Ms Ekholm thought that it was problematic to present a forecast in which CPIF inflation is expected to be below two per cent over the next couple of years. Given this background, Ms Ekholm advocated a more expansionary monetary policy that would more rapidly bring CPIF inflation towards two per cent. For her, this was a question of safeguarding the credibility of the inflation target.

Deputy Governor **Cecilia Skingsley** commented on what Karolina Ekholm had said about the removal of the tolerance interval. Ms Skingsley could understand the argument that from the Riksbank's point of view the tolerance interval had not had any practical significance for the monetary policy stance. Nor did she wish to argue for the reintroduction of a tolerance interval. However, the advantage of the tolerance interval was that it was an instructive reminder that it is difficult to control inflation with any great degree of accuracy. In this context Ms Skingsley quoted Stefan Ingves' comments when the tolerance interval was removed: "Today there is considerable understanding of the fact that monetary policy is conducted under uncertainty and that inflation can from time to time undershoot or overshoot the target."[7] The material on which the decision was

[7] Press release from Sveriges Riksbank, 3 June 2010. http://www.riksbank.se/en/Press & published /Press Releases/2010/Monetary policy in Sweden/

based also says: "Unforeseen events occur from time to time, which can cause inflation to overshoot or undershoot the target to a relatively large degree; sometimes by more than one percentage point. Deviations from the inflation target can also be part of a deliberate strategy by the Riksbank." [8]

Ms Skingsley said that the accuracy of monetary policy should not be exaggerated and her comments on the tolerance interval were designed to call to mind that the Riksbank had also expressed this view in the past. Given the uncertainties that always lie in forecasts, especially in the longer term, she found it difficult to understand the argument that a repo rate of 1.0 per cent would be too high at present, while a repo rate of 0.5 or 0.75 per cent would be optimal.

Ms Skingsley noted that inflation has been below the target for some time and she understood those who argued for a lower repo-rate path for this reason. However, she also believed that as long as inflation expectations are well anchored it is possible to deviate from the target for a while, if there are good reasons for this. One such reason for not cutting the repo rate further is the risks associated household indebtedness.

Ms Skingsley then commented on Karolina Ekholm's remark that the Bank of England appears to give greater consideration to unemployment when formulating monetary policy than the Riksbank does. She pointed out that the Bank of England had made monetary policy conditional not only on the development of unemployment but also on the development of its inflation forecasts, inflation expectations and the outlook for financial stability. There are thus several factors that can affect the stance adopted by the Bank of England. The Bank of England's new communication has advantages but the action they will take in the future is not written in stone.

Ms Skingsley concluded by commenting on financial stability policy. The new tools will be able to have an impact on financially stability in general, but also on supply and demand in the real economy.  This can relate to both structural changes and cyclical changes.

Monetary policy may need to take this into account depending on what the measures are and how and when they are implemented. If, for example, demand was weakened as a result of measures that aim to strengthen financial stability, the Riksbank should, in her view, take this into account in the formulation of monetary policy in the same way that the Riksbank already takes the measures implemented in other policy areas into account today.

Ms Skingsley said that it would be ideal if household indebtedness could be handled in such a way that it would not be the major factor for monetary policy in the future that it has been for a number of years now.

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[8] Memorandum, Basis for Decision, 31 May 2010.

Deputy Governor **Per Jansson** wished to comment on two matters that were discussed earlier. First, the question of the interdependence between different policy areas. Mr Jansson said that the government has stated rather clearly that several policy areas have a responsibility for managing risks relating to financial imbalances. In Sweden's case of course, such risks at the moment mainly concern the high level of household debt. Mr Jansson's view was that the question of the need for democratic insight and control is more about who has the right to make decisions about the use of certain instruments than about what the various policy areas are really trying to achieve. He did not agree with those who believed that the risks associated with household indebtedness should not in principle be a matter that is taken into account in monetary policy. The Riksbank should of course not only strive to promote macro stability in the short term but also endeavour to ensure sustainability in the longer term. Mr Jansson said that one must distinguish between whether monetary policy should in principle try to take risks of this type into account and how serious the risks actually are. It is of course entirely possible to conclude that the risks are not so serious and that one therefore sees no reason to try to counteract them. But the point is that these are two different issues and we must distinguish between them.

The second matter was the question of the tolerance interval, which both Ms Skingsley and Ms Ekholm had spoken about. Mr Jansson said that Ms Ekholm had provided a good summary of the arguments presented in connection with the formal removal of the tolerance interval. However, with the benefit of hindsight we can see that the removal of the tolerance interval has had certain unfortunate consequences. These should not be exaggerated, but it nevertheless seems to be the case that this has unfortunately reinforced the impression that the Riksbank can use monetary policy to fine tune the development of the economy and inflation. In response to Ms Ekholm's comments about average inflation, Mr Jansson wished to say that the Riksbank's target attainment has in fact been rather good in a longer-term perspective – CPIF inflation has on average been only a couple of tenths lower than the target. In Mr Jansson's view this is an acceptable result, as he has also explained in a number of speeches. This discussion thus relates to the more recent inflation outcomes, for which the deviation from the target has of course been greater, and to whether or not the Riksbank could have achieved better outcomes by cutting the repo rate by 0.25 or 0.5 percentage points and perhaps communicating a somewhat lower repo-rate path in the future.

The Governor of the Riksbank, **Stefan Ingves**, pointed out that the Riksbank has conducted monetary policy using what today might be called a form of forward guidance since 2007, when it introduced a forecast for the repo-rate path in the Monetary Policy Report. The Riksbank has long published forecasts for unemployment and other variables relating to the labour market and resource utilisation. In addition to stabilising inflation, the Riksbank strives to stabilise production and employment around sustainable paths of development at the same times as preserving financial stability. He said that we should not have blind faith in the ability of monetary policy to fine tune all economic variables. The Riksbank cannot, for example, solve the structural problems on the labour market. The number of redundancy notices is now as low as during an economic boom, yet the unemployment rate is relatively high. The average recruitment period in the private sector is still at a high level, although it fell somewhat in the second quarter.[9] It is reasonable to use the broad interval for long-term unemployment that the Riksbank announced last year.[10]

The Riksbank needs to continue to analyse how equilibrium assumptions may have changed after the long period of macroeconomic development and low inflation that is often referred to as "The Great Moderation", which was ended by the global financial crisis. Since the crisis, the real economy has been volatile. It is now much more difficult to use conceptual frameworks, models and data from before the crisis to predict developments in the period ahead. Given this background, renewing the analysis is important work.

Another related question is what role the government's decision on macroprudential policy may play for monetary policy in the future. It is important that responsibility for macroprudential policy has been made clear, but the Riksbank needs to continue to monitor the development of various risk indicators, for example the households' mortgages. The high level of household indebtedness still entails risks and will probably continue to do so for some time to come. Monthly data indicates that lending is increasing. The Riksbank cannot ignore this. What the combination of interest-rate and macroprudential-policy measures can achieve is a question for the future when more information is available on what combinations of measures have been implemented and how they have affected indebtedness.

Mr Ingves concluded by commenting on the Swedish exchange rate. This has been somewhat stronger than expected, measured in terms of KIX, since the Monetary Policy Report in July. It is a strong point for Sweden that the exchange rate has been fairly stable during a period in which exchanges rates have fluctuated widely around the world. Developments in several emerging economies are in stark contrast to this stability. This is probably because the fundamentals are stronger in the Swedish economy, for example in terms of the current account and the net position in relation to other countries. This in itself could indicate a stronger krona in the period ahead. On the other hand, it is not unreasonable to assume that if the recovery continues as expected in the major currency areas then the flight to quality that has favoured the Swedish krona will recede somewhat. This indicates that the krona may weaken instead. The forces are thus acting in

[9] See the report of the National Institute of Economic Research, "The Swedish Economy", August 2013.

[10] In the Monetary Policy Report published in July 2012, the Riksbank's assessment was that the long-run sustainable unemployment rate is in the interval 5-7.5 per cent.

opposite directions. Mr Ingves considered that viewing the situation as a whole the forecast for the exchange rate is reasonable. The Riksbank expects the krona to strengthen marginally going forward.

Deputy Governor **Martin Flodén** returned to the issue of macroprudential policy and the new framework presented by the government. He pointed out that in his previous comments he suggested that further measures to strengthen financial stability would have had little effect on his view of how the repo rate should be set today. But he wished to emphasise that these issues are important and that he welcomed both the new framework and measures to strengthen financial stability.

It is good that one single authority has been given clear responsibility for deciding on policy measures, at the same time as several authorities will play a role in the work with macroprudential policy through the new council. Identifying and analysing factors that can give rise to macrofinancial risks is and will remain an important part of the Riksbank's work. The Riksbank needs this analysis, partly because monetary policy can be one of the factors that lead to imbalances and partly because the development of inflation and the appropriate monetary policy are affected by economic developments that prove to be unsustainable.

Further measures to strengthen financial stability would thus not change Mr Flodén's view of what is an appropriate monetary policy today. However, such measures are nevertheless important to monetary policy as they can reduce risks and uncertainties. It is easier to conduct monetary policy if financial stability is good.

Deputy Governor **Karolina Ekholm** commented on what Ms Skingsley had said earlier about it not being a problem if inflation deviates from the target, even over a long period, as long as confidence in the inflation target is high, which it appears to be as long-term inflation expectations are still close to two per cent. Mr Jansson and Mr Ingves seem to be following the same line of reasoning when they argue against the fine tuning of monetary policy. Ms Ekholm pointed out that as at the previous monetary policy meeting she believes that considerable costs may be associated with deviating downwards from the inflation target for a significant period of time, irrespective of whether inflation expectations slip or remain anchored. If inflation expectations slip downwards, it will be difficult to bring inflation back up to the target. If they remain anchored at two per cent, the cost of not attaining an inflation rate of two per cent could be high in terms of unemployment, as was pointed out by Lars E.O. Svensson in his analyses of the long-run inflation rate.

Ms Ekholm agreed that the difference between advocating a repo rate of 0.75 per cent and a repo rate of one per cent may seem small. However, she believed that it was important to use the repo rate more actively to bring inflation up to the target more rapidly. The inflation target of two per cent is the target the Riksbank has and the repo rate is the tool it has for conducting monetary policy. The repo rate should therefore be used as far as possible to attain the target.

In conclusion, Ms Ekholm commented on how the proposed framework for strengthening financial stability may affect the basis for the monetary policy decisions and how she views possible measures in the field of macroprudential policy. She agreed with Ms Skingsley that it will be natural in the future for the Riksbank to take account of what is expected to happen in the field of macroprudential policy in the same way that it currently takes account of what is expected to happen in other policy areas in its forecasts. Like Mr Flodén, she welcomed the fact that further measures will be taken to strengthen financial stability, including measures that will dampen the development of household debt. Ms Ekholm's reasons for not taking household indebtedness into account in the monetary policy decisions are based on her view that monetary policy cannot do very much to affect this, not on any belief that household indebtedness is risk free. She said that she would welcome the implementation of measures that have a more direct dampening effect on household indebtedness as this would reduce the risks.

Governor **Stefan Ingves** summarised the discussion. It was noted at the meeting that economic developments both in Sweden and abroad have been largely in line with the forecast made by the Riksbank in July. It is good for the Swedish economy that there are now signs that an improvement has begun in the euro area, at the same time as the recovery in the United States is continuing. At the same time, the Executive Board noted that developments abroad are uneven. GDP growth in Sweden was low in the second quarter of this year, but indicators suggest that an improvement is in sight. Confidence indicators have risen and the situation on the labour market has become slightly better than expected. Next year, economic activity is expected to accelerate more and then the labour market will also show a more marked improvement. Inflation has been low over a long period of time, but when economic activity strengthens, costs and prices are expected to rise faster. This means that CPIF inflation will increase to 2 per cent during 2015. Interest rate increases mean that CPI inflation will be higher than CPIF inflation from the end of next year and will reach 2.8 per cent at the end of the forecast period. Swedish households are highly indebted, both in an historical and an international perspective, which makes the economy vulnerable to shocks. It is therefore good that the Government has presented a framework for macroprudential policy.

Given the low inflation, the Executive Board were agreed that monetary policy needs to continue to be expansionary. A majority of four members assessed that it was appropriate to hold the repo rate unchanged at 1 per cent until the end of 2014. Economic activity is expected to accelerate more clearly then and inflation to have risen for some time. The majority also considered an unchanged repo-rate path in relation to the July Monetary Policy Report to be reasonable, as new information received since then had been largely as expected. They noted that although a lower repo-rate path could lead to inflation attaining the target slightly sooner, it could also increase indebtedness and thus the risks to economic development in the longer run. The majority considered that the current repo-rate path will stimulate economic developments and contribute to inflation rising towards 2 per cent, at the same time as taking into account the risks linked to high household indebtedness.

Two members considered that there was scope to cut the repo rate to 0.75 per cent and to keep it at this level until the second quarter of 2014. After that the two members advocated slightly different rates of increase. They assessed that this monetary policy would bring inflation back on target sooner, while resource utilisation would be more balanced.

Another topic discussed was the Government's proposal on macroprudential policy and how this may affect monetary policy. The Executive Board noted that the Riksbank will need to take account of macroprudential policy in the formulation of monetary policy but that it will need to return to this once concrete measures have been more precisely defined.

## §4. Monetary policy decision

The Executive Board decided after voting

- to adopt the Monetary Policy Report according to the proposal, Annex A to the minutes,
- to publish the Monetary Policy Report on 05 September 2013, at 9.30 a.m.,
- to hold the repo rate unchanged at 1.00 per cent and that this decision would apply with effect from 11 September 2013,
- to publish the decision above at 9.30 a.m. on Thursday 05 September 2013 with the motivation and wording contained in a press release, and
- to publish the minutes of today's meeting on Wednesday, 18 September at 9.30 a.m.

Deputy Governor Karolina Ekholm entered a reservation against the decision to maintain the repo rate at its current level and against the repo-rate path in the Monetary Policy Update. She advocated a lowering of the repo rate to 0.75 per cent and a repo-rate path that stays at 0.75 per cent through the second quarter of 2014, and then rises to about 2.25 per cent by the end of the forecast period. This was justified by her assessment that a repo-rate path that is associated with a higher forecast of CPIF inflation and a lower forecast of unemployment constitutes a better-balanced monetary policy.

Deputy Governor Martin Flodén entered a reservation against the decision to hold the repo rate unchanged and against the repo-rate path in the Monetary Policy Report. He advocated cutting the repo rate to 0.75 per cent and a path where the repo rate remains at this level until the end of the second quarter of 2014, after which it follows the repo-rate path in the Monetary Policy Update. This is justified by his assessment that this repo-rate path would entail a forecast where CPIF inflation returns to 2 per cent sooner and resource utilisation is better balanced. Moreover, this would reduce the risk that the repo rate needs to be revised down in the future and that it would take a long time before the repo rate can be raised from the current low levels.

This paragraph was verified immediately.

Minutes by

Ann-Christine Högberg

Verified by:

| | | |
|---|---|---|
| Karolina Ekholm | Stefan Ingves | Per Jansson |
| Kerstin af Jochnick | Martin Flodén | Cecilia Skingsley |

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