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Reservation at Executive Board meeting, 4 January 2016

I wish to enter a reservation against the decision to delegate to the Governor and First Deputy Governor the right to make a decision where necessary that the Riksbank shall intervene on the foreign exchange market to weaken the krona exchange rate.

The krona has now appreciated more than we had forecast at our meeting in December, at the same time as developments in general have been in line with the assessments we made then. This means that there is a risk that inflation will be lower than we forecast in December, which in turn is problematic as inflation has been low for a long time and confidence in the inflation target has weakened.

Defending the role of the inflation target as a benchmark for price-setting and wage formation is of course important to us at the Riksbank, and I share my colleagues' concern that a stronger krona will mean the upturn in inflation is weaker and slower than our forecast at the monetary policy meeting in December. This development would appear to justify further monetary policy stimulus.

However, I assess that it is nevertheless appropriate to wait before applying further monetary policy stimulus in the current situation. Moreover, I do not consider currency interventions to be an appropriate tool for making monetary policy more expansionary now.

I base my opinion that we can wait on the rapid improvement in economic activity. That resource utilisation is becoming strained is in itself an argument against further monetary policy stimulus. The stronger economic activity also means that an upturn in inflation is more likely in the long run, even if confidence in the inflation target wavers. In addition, we are in a situation where it is increasingly difficult to use our monetary policy tools.

I do not mean that further monetary policy stimulus should be ruled out completely when economic activity strengthens, or that the monetary policy toolbox is now empty. My assessment is that a repo-rate cut would still have an impact through the usual channels, that is, via both the interest-rate channel and the exchange-rate channel, but that we may have reached levels where the impact through the interest-rate channel will begin to weaken if the rate is cut further. The repo rate is thus still a useful tool, but slightly stronger reasons are needed than those prevailing now before I would advocate cutting the repo rate even further.

So, are currency interventions more appropriate in this situation? My assessment is no. Firstly, I think it is dubious to use tools that only have an impact via the exchange rate. This applies in particular in a situation where the Swedish krona is relatively weak and where monetary policy abroad is also limited by the policy rate's lower bound. One can then assume that the positive effects of currency interventions on inflation in Sweden will be totally counteracted by negative effects on inflation abroad.

Secondly, I doubt the effectiveness of currency interventions. My assessment is that it would require extensive interventions over a long period of time to have a clear impact on the exchange rate. But this would entail considerable risks for the Riksbank's balance sheet and equity, particularly given our assessment that the krona will strengthen over the coming years.

To summarise, I consider that in the current situation we can wait before applying further monetary policy stimulus. However, if the prospects for the upturn in inflation deteriorate further, for instance, through an even clearer appreciation of the krona, the Riksbank may need to act to safeguard the credibility of the inflation target. In such a situation, I feel that a repo-rate cut would be the most appropriate tool to use.