Monetary policy minutes

April 2017

S V E R I G E S   R I K S B A N K

Summary

At the monetary policy meeting on 26 April, the Executive Board of the Riksbank decided to continue purchasing government bonds during the second half of 2017, both nominal and real bonds, each corresponding to SEK 7.5 billion. Maturities and coupon payments on the government bond portfolio will also be reinvested. The repo rate will be held at –0.50 per cent and is not expected to be raised until mid-2018.

At the meeting, it was noted that the Executive Board was in agreement on the picture of economic developments and the outlook for inflation described in the draft Monetary Policy Report. Economic activity continues to strengthen, but the political situation abroad is creating risks to economic development going forward. Several Executive Board members pointed out the contradictory nature of international developments, with strong confidence indicators and better economic activity on the one hand and relatively large risks for a worse scenario on the other. It was noted that developments in the euro area have been positive but that inflationary pressures there are still low and that the ECB will continue to pursue a very expansionary monetary policy in the foreseeable future.

Inflation in Sweden has shown a rising trend for a few years, but is now expected to take slightly longer before stabilising around 2 per cent. In a situation where the inflation upswing is expected to be slower and there is still considerable economic uncertainty abroad, the Executive Board was in agreement that an expansionary monetary policy is still needed to provide support to inflation. The monetary policy stance abroad is also very important in this context. The members also discussed the outcome of the wage agreements that have recently been concluded on the Swedish labour market. These indicate slightly lower wage increases than previously expected by the Riksbank and thus lower cost pressures. A key issue for the Riksbank going forward will be to analyse what level of resource utilisation is required for inflation to come up to 2 per cent and remain there more permanently.

All the board members considered that it was appropriate to hold the repo rate unchanged at –0.50 per cent and that the repo rate needed to be kept at its current low level one quarter longer than in the forecast in February. Not until mid-2018 is a rate increase expected. Deputy Governor Henry Ohlsson had preferred an initial rate rise at the beginning of 2018 but did not enter a reservation on this point.

A majority also considered that purchases of government bonds should be extended, with nominal bonds for SEK 7.5 billion andreal bonds for SEK 7.5 billion. The justification for this was slightly lower cost pressures in Sweden, considerable uncertainty over political and economic developments abroad and the risk of the krona appreciating too rapidly if Swedish monetary policy were to deviate too much from policy abroad.

Three members entered reservations against the decision to extend purchases. They did not rule out the possibility of continuing them later on. Their reason for entering reservations was that current monetary

policy is sufficiently expansionary and further stimulation would probably not provide any stronger support to the upturn in inflation.

MINUTES OF MONETARY POLICY MEETING
Executive Board, No. 2

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DATE: 26/04/2017
TIME: 09.00

PRESENT: Stefan Ingves, Chairman
Martin Flodén
Per Jansson
Kerstin af Jochnick
Henry Ohlsson
Cecilia Skingsley

Susanne Eberstein, Chairperson of the General Council
Michael Lundholm, Vice Chairperson of the General Council

Jan Alsterlind
Mattias Ankarhem
Claes Berg
Meredith Beechey Österholm
Sophie Brauner
Charlotta Edler
Bo Enegren
Mattias Erlandsson
Kerstin Hallsten
Pernilla Meyersson
Ann-Leena Mikiver
Christina Nyman
Carl-Fredrik Pettersson (§ 1)
Maria Sjödin
Lena Strömberg (§ 1)
Ulf Söderström
Anders Vredin

It was noted that Mattias Ankarhem and Bo Enegren would prepare draft minutes of the monetary policy meeting.

§1. Economic developments

Carl-Fredrik Pettersson of the Markets Department began by presenting the latest developments on the financial markets. The period since the February monetary policy meeting has been characterised by political uncertainty abroad. However, positive statistics and indicators have continued to provide support to the stock exchanges. In particular, developments on the European stock exchanges have been positive, strengthened by the slight easing of uncertainty linked to the French presidential election after the results of the first round. Government bond yields in Sweden are slightly lower than at the time of the monetary policy meeting in February. After the conclusion of the first round of the French election, German bond yields rose, at the same time as bond yields fell in countries in which uncertainty over economic and political developments is greater. For example, the yield differential between France and Germany is now back on the same level as prevailed at the end of 2016. The krona exchange rate weakened in the weeks following the previous monetary policy meeting, but has strengthened again in recent days and is now at about the same level as at the last meeting. Prior to today's meeting, a majority of analysts expected an unchanged repo rate. A few analysts predict that the Riksbank may postpone rate rises until a later date.

Christina Nyman, Deputy Head of the Monetary Policy Department, presented new information obtained since the Monetary Policy Report had been tabled. The outcome for the labour market according to the Labour Force Survey (LFS) in March had been unexpectedly strong and employment had increased, at the same time as unemployment had fallen more than expected. However, the outcome is surrounded by great uncertainty, as described in the Monetary Policy Report. In addition, Ms Nyman briefly commented on the outcome of the National Institute of Economic Research's Economic Tendency Survey, published that morning.

Anders Vredin, Head of the Monetary Policy Department, began by presenting the draft Monetary Policy Report which, in the assessment of the Monetary Policy Department, would gain the support of the majority of the Executive Board members. He noted that the international forecast was largely unchanged compared with the previous forecast in February. GDP growth in the KIX countries is forecast to amount to just over 2 per cent, which is higher than trend growth and thereby implies higher resource utilisation and that, against this backdrop, inflation can be expected to rise gradually. Furthermore, Mr Vredin noted that world trade has developed strongly in recent months and that confidence indicators suggest continued good growth, but that hard data so far has not developed as strongly as the indicators. He also noted that great uncertainty still prevails over international politics.

Mr Vredin went on to note that GDP growth in Sweden slowed down at the start of 2016 but that growth increased clearly in the fourth quarter so that the average for 2016 thereby amounted to about 3 per cent. Growth of about 3 per cent is also expected this year. As in the rest of the world, the indicators so far are stronger than the hard data. The Riksbank's assessment is that growth will dampen gradually, towards the long-term growth rate, which is deemed to be about 2 per cent. One reason that GDP growth will dampen in the period ahead is that it is becoming increasingly difficult for companies to find the staff they want. Unemployment is expected to stop falling as a result of mainly consisting of people with a weak position on the labour market.

Mr Vredin noted that the most recent inflation outcome for the month of March was about 0.2 percentage points lower than expected. However, this was mainly due to temporary factors and has therefore not affected the inflation forecast in the short term. In contrast, outcomes from the wage bargaining rounds so far indicate that cost pressures are slightly weaker than the Riksbank had previously expected. At the same time, the krona has been slightly weaker than the assessment in February and is expected to remain so in the period ahead, which is contributing to slightly higher inflation. All in all, inflation is expected to rise in line with resource utilisation, but there will be a fairly erratic development around the rising trend and the inflation forecast has been revised downwards slightly.

Mr Vredin concluded by noting that the forecasts in the Monetary Policy Report are based on the assumption that monetary policy will continue to be expansionary, even slightly more expansionary than in the forecasts from February. Purchases of government bonds will be extended in the second half of 2017 by SEK 15 billion, of which SEK 7.5 billion will be nominal and SEK 7.5 billion will be real government bonds. The repo rate will be held unchanged at –0.50 per cent and the first rate rise is not expected to take place until mid-2018, which is to say one quarter later than in the previous forecast.

Following this, Mr Vredin summarised the main features of the monetary policy drafting process. He noted that the forecasts and monetary policy assumptions were discussed with the Executive Board at meetings held on 6, 10 and 12 April. The draft Monetary Policy Report was discussed and tabled at a meeting with the Executive Board on 19 April. Above all, Mr Vredin identified three important themes that were discussed during the process. The first of these was international developments, where the economic upswing in the global economy will continue and include more countries. In the past six months, outcomes and indicators have provided grounds for optimism and it is possible that the power of the economic upturn is being underestimated. At the same time, several members have pointed out the significance of risks of setbacks linked to developments in economic policy. As yet, these risks, such as an increased degree of protectionism, have not had an impact on indicators such as confidence among consumers or in the corporate sector, and it is difficult to quantify the possible consequences should any of these risks materialise, but such uncertainty itself may contribute towards weaker growth and lower inflation than expected. This discussion has also taken up the significance of the differences between monetary policy in Sweden and abroad.

Another discussion has been held on the ongoing wage bargaining round. The social partners in the industrial sector recently signed a three-year agreement giving approximately 2.2 per cent in labour cost increases per year. The new agreement has been concluded in a stronger economic situation than the previous one-year agreement. Despite this, the level is the same. The level of the agreement justifies a downward adjustment of the forecast total wage increases by a couple of tenths. However, a discussion is underway on the labour market on how the agreement should be interpreted and it is possible that wage drift will rise above expectation due to labour shortages within certain areas.

One more discussion has taken place of whether even stronger resource utilisation than in the Riksbank's forecasts is needed if inflation is to rise and reach 2 per cent more lastingly. This is in light of the fact that CPIF inflation has only averaged 1.5 per cent since 2000. The assessment in the main scenario is that the rising resource utilisation will make it easier for companies to raise their prices, as the Riksbank's business survey also gives reason to expect. But this assessment is uncertain, as inflationary pressures are low in many countries, despite the generally highly expansionary monetary policy.

§2. The economic situation and monetary policy

Deputy Governor **Cecilia Skingsley** began by saying that she supports the draft Monetary Policy Report, its deliberations and forecasts including the repo-rate path, and also the proposal to hold the repo rate unchanged. However, she said that she does not see any convincing arguments for supporting the proposal for further bond purchases of SEK 15 billion for reasons she would discuss later.

Ms Skingsley noted that global economic activity is continuing to improve, that inflationary pressures abroad are generally still weak, but that they are rising gradually in line with higher resource utilisation. Confidence indicators are rising in many countries and have been at historically-high levels in Sweden for some time now. She further noted that Swedish data on economic activity is still strong in line with the Riksbank's forecasts, particularly with regard to the labour market, and that CPIF inflation has shown a rising trend since 2014. Ms Skingsley pointed out that the outcome for inflation in Sweden in March was disappointing, but that it was due to especially volatile components that can be expected to rise again. The more sluggish prices rose, on the other hand, which is welcome and inflation expectations are also rising according to most measures.

Ms Skingsley also noted that despite the labour market developing somewhat more strongly than expected, the outcomes of the wage negotiations indicate that cost pressures in Sweden can be expected to be somewhat weaker than previously forecast. According to the new forecast, CPIF inflation is expected to stabilise around 2 per cent at the beginning of 2019 instead of the end of 2018, as was forecast earlier. In Ms Skingsley's view, there may be several reasons for cost pressures becoming lower despite the higher resource utilisation. For instance, it may be due to remaining effects of the financial crisis that are holding back demand. Monetary policy can manage these effects. However, if more long-term and structural changes are involved and the lower cost pressures prove more protracted, the monetary policy response is not so simple. It will also be affected by the way the overall economic policy responds to the structural changes.

Ms Skingsley pointed out that both the manufacturing industry and the retail trade manage rapid technological changes and stiff competition and that these are important questions for the Riksbank to continue investigating. This is done, for instance, with the aid of the Riksbank's regular Business Surveys. The Monetary Policy Report contains a good article on the risks of increased protectionism. According to Ms Skingsley, it is important that we do not limit ourselves to the analysis of protectionism, but that we also examine questions relating to companies' and entire sectors' adjustment to, for instance, digitisation, robotics and artificial intelligence. Technological advances, like changes in trade terms, have a major impact on individual countries' economic conditions. Companies' investment plans and owners' required rate of return are areas that need to be illuminated when production conditions change. Ms Skingsley sees these as long-term issues to which the Riksbank needs to return.

Ms Skingsley claimed that, in the shorter term, international uncertainty factors also needed to be considered when determining monetary policy. There appears to be a contradictory combination of surprisingly strong economic activity and companies and households that are both optimistic and uncertain at the same time among Sweden's most important trading partners in the EU and the United States. Ms Skingsley also noted that the Monetary Policy Report describes an international policy that is very uncertain, for instance, with an increased risk of protectionism. As a trained economist, she is inclined to think that deteriorating conditions for global trade will hamper growth. But given the high confidence indicators that can be seen at present, this concern does not seem to be very widespread. According to Ms Skingsley, it may even be the case that a large share of economic agents believe that a change in political direction going forward might be a good thing. However, she does not consider that these contrasts will hold in the long run. Either we will see that economic agents have been too optimistic about cyclical developments and/or the direction of the policy, and there will be a setback, or the uncertainty will be proved to have been exaggerated and the recovery will continue. Regardless of which scenario one believes in, Ms Skingsley believes that monetary policy must be prepared for what comes. As she has said earlier, it is still important that a small economy like Sweden's is managed in a way that maintains its ability to be flexible and resilient.

The reason why Ms Skingsley does not support further bond purchases at present is that she does not see any convincing argument in favour of making these purchases. However, the fact that she does not support this stimulation today should not be perceived as excluding the need for stimulation at a later stage. According to Ms Skingsley, the possible tools for stimulation are the same ones the Riksbank has described in earlier reports. The reasons she sees for needing further stimulation are precisely the considerable uncertainty regarding economic structural changes and the contradictory international situation she described earlier.

In conclusion, Ms Skingsley pointed out that she shares the views of her colleagues on the Executive Board who see the risk of an overly rapid appreciation of the krona if the Riksbank's monetary policy differs too much from the ECB's policy. At the same time, she assesses that, given the strong current situation in the Swedish economy, there is scope to wait and see and take possible decisions on stimulation at later meetings.

Deputy Governor **Per Jansson** began by noting that the inflation picture has deteriorated somewhat since the monetary policy meeting in February. The most recent inflation outcome, which referred to March, showed CPIF inflation at 1.47 per cent, compared with a forecast of 1.65 per cent. With regard to CPIF inflation excluding energy prices, the outcome and forecast were 1.01 and 1.17 per cent respectively. It is important and positive that more long-term inflation expectations have been back close to the inflation target of 2 per cent for some time now. But if the outcomes for inflation continue to be lower than expected, there is a risk that expectations will begin to fall again.

Mr Jansson went on to say that the draft Monetary Policy Report now also pencils in a downward revision of inflationary pressures in coming years. This is linked to the normative wage agreements concluded between the social partners in the industrial sector for wages in the coming three years, which indicate that cost pressures in the economy will be weaker in relation to the earlier assessment. The new proposed forecast is for lower price increases in both 2018 and 2019, and means that inflation will not stabilise around 2 per cent until the beginning of 2019. He recalled that in the February Monetary Policy Report it was assumed that both CPIF inflation and CPIF inflation excluding energy would approach 2 per cent in a more sustainable manner towards the middle of 2018.

Mr Jansson noted that activity abroad continued to strengthen, but said that there is considerable uncertainty over economic and political developments. The results of the first round of presidential elections in France created some positive market reactions, but it is too early to sound the all-clear. And there are, as pointed out in the draft Monetary Policy Report, several setback risks at international level. Many of them are difficult to quantify in a forecast but if they occur, they may give rise to dramatic consequences and create an entirely new situation, he emphasised.

Downside risks related to global factors and low inflation also contribute to the ECB's monetary policy remaining expansionary, Mr Jansson continued. The recent speculations that the ECB is about to tighten its monetary policy sooner than expected appear to have been over-hasty and the ECB repeated at its monetary policy meeting on 9 March its message that the interest rate will remain at an unchanged or lower level for a long period of time and way beyond the conclusion of the asset purchase programme. This programme will continue at least until the end of December 2017. As Mr Jansson sees it, there is a strong probability that it will also continue during 2018.

Against this background, Mr Jansson shared the assessment in the draft Monetary Policy Report that there is now a need for the Riksbank to conduct a somewhat more expansionary monetary policy. The proposal is to extend the purchases of government bonds by SEK 15 billion during the second half of 2017 and to postpone the first increase in the repo rate by one quarter, to the middle of 2018. The extended bond purchases are suggested to occur with nominal government bonds for SEK 7.5 billion and real government bonds for SEK 7.5 billion. He observed that if this decision is taken, the purchases of government bonds will thus amount to a total of SEK 290 billion, excluding reinvestments, at the end of 2017.

Mr Jansson wondered whether, with a lower inflation outcome than expected and a proposed forecast entailing poorer inflation prospects in coming years, it was enough to ease monetary policy merely by extending the government bond purchases and postponing the first policy rate increase next year. Even with these monetary policy changes, the inflation forecast in the draft Monetary Policy Report is still lower than before. He therefore asked himself whether this negative inflation news should not lead to the conclusion that the repo rate now needs to be cut, particularly as the repo-rate path is already slightly below the current level of the repo rate.

It is of course fully possible to make a further cut to the repo rate in this situation, and the inflation picture would then of course look better, said Mr Jansson. But the surprisingly low inflation outcome is largely due to a weak development in prices of some particularly volatile components of the CPI, primarily foreign travel and vegetables. Other more sluggish services prices instead increased at a somewhat faster pace than expected. The inflation forecast for the near term is therefore only marginally changed. Next year and for 2019, the forecast revisions are slightly greater, but not very dramatic either. At the same time, economic activity is progressing at a good pace. In addition, there are both upside and downside risks for wage increases and cost pressures during the forecast period. Thus, it cannot be ruled out that the strong economic activity will ultimately mean that the Riksbank needs to revise its forecasts for wages and costs upwards again. As pointed out in the draft Monetary Policy Report, these are important issues, which the Riksbank needs to continue monitoring and analysing, he reasoned.

The conclusion drawn by Mr Jansson was that it may at present be wise to wait and see with regard to further repo-rate cuts. The remaining scope for cutting the repo rate is not endless and it may be important to save this for now. If the Riksbank does not choose to cut the repo rate on this occasion, but uses other methods to attain a more expansionary monetary policy, it is also natural to somewhat reduce the probability of a lower repo rate, as proposed in the draft report. Given this background, Mr Jansson thus supported the monetary policy presented in the draft Monetary Policy Report. And he also supported the forecast in the draft.

Mr Jansson pointed out that if the government bond purchases are extended, it will of course be important to ensure that different types of negative side-effect can be avoided, for instance, a substantial deterioration in the functioning of the government bond market. So far there have been no such effects, despite the Riksbank having bought much larger volumes than most people considered possible at the start. Both the Riksbank and the Swedish National Debt Office have assessed that the market is functioning in a satisfactory manner so far. He underlined that it is of course very important not to get into a situation where market functioning is severely impaired.

Given that the krona exchange rate continues to be periodically volatile, Mr Jansson wished to conclude by repeating a message that he expressed at the monetary policy meeting in February. Economic developments in Sweden are strong and up to the middle of next year, the Riksbank is also expecting that energy prices will continue contributing to pushing up inflation. But it is important to point out, he said, that only when it really can be verified that economic activity is having an impact on inflation will a gradual appreciation in the krona be justified. It is therefore very important that the krona does not continue to appreciate now in the way it has been doing recently, before the more underlying inflation rate begins to rise again. If the krona appreciates substantially in a short time, there is a considerable risk that the Riksbank will be forced to reduce its remaining scope to cut the repo rate more quickly than is desirable, Mr Jansson feared.

First Deputy Governor **Kerstin af Jochnick** began by saying that she agrees with the assessments in the draft Monetary Policy Report and that she supports the proposal to hold the repo rate unchanged at –0.50 per cent and to extend the purchases of government securities by SEK 15 billion during the second half of 2017. She also agrees with the assessment that the first rate rise is not now expected to occur until mid-2018. The assessment made by the Riksbank in the Monetary Policy Report is very much in line with the assessments made by the Bank in February of economic developments in Sweden and abroad. Global growth even looks slightly better than before, she noted. On the other hand, inflation is rising slowly, not least in Sweden and in the euro area. The Riksbank's assessment is that it will take even longer before inflation in Sweden stabilises around the target of two per cent, mainly as a result of the fact that the wage agreements signed between the parties in the industrial sector are expected to lead to somewhat lower cost pressures in the years ahead than was assumed in the previous forecast.

At the same time as the economic outlook is improving, the international risks of a more negative scenario are more complex, Ms af Jochnick added. The palette of risks is extensive, everything from political risks that can affect the depth of euro cooperation, to risks of trade policy barriers that could restrict global trade. In the short-term perspective, however, the effects on growth and inflation will probably be limited, in her view, regardless of the outcomes of forthcoming elections and political decisions. The financial markets seem to be relatively resilient to negative information. But the uncertainty surrounding the economic consequences of political risks is very high, making them more difficult to quantify. Economic agents dislike uncertainty regarding the conditions for economic decisions, which in itself can put a dampener on international trade relations, said Ms af Jochnick while also noting that greater protectionism would subdue global growth and probably reduce the demand for Swedish exports.

Ms af Jochnick's assessment is therefore that even if growth abroad and in Sweden develops positively, the Riksbank still has a relatively complex risk outlook to consider. The ECB will continue to conduct a very expansionary monetary policy, which is a factor to consider when the Riksbank assesses the development of the Swedish krona. The ECB has also communicated that, according to its assessment, the economic outlook in Europe is improving although downside risks continue to dominate.

The risks of excessively low inflation remain. On several occasions, the Riksbank has presented reasons why inflation is rising so slowly towards the target of two per cent. Structural changes as a result of digitisation, eCommerce and the sharing economy can be factors that are subduing the development of inflation. It may also be the case that, as is pointed out in the draft Monetary Policy Report, the economy is still suffering from the consequences of the financial crisis. Low demand for a long time and low inflation risk gaining a foothold in price and wage formation. The latter risk further underlines the importance of monetary policy being sufficiently expansionary and of the Riksbank continuing to clearly communicate the importance of the inflation target and our scope for stabilising inflation around two per cent.

Since underlying inflation is too low, the global risks are not insignificant and ECB monetary policy continues to be very expansionary, Ms af Jochnick's assessment is that it is too early to stop purchasing government bonds.

The risks associated with ceasing purchases are that the krona will appreciate rapidly, the upturn in inflation will be further subdued and inflation expectations will start to slide. In a situation where we have had low inflation for a long time and the Riksbank continues to struggle with slow inflation growth, it is important to follow through on the policy that has so far been successful. By continuing bond purchases, the Riksbank is demonstrating continued persistence in its monetary policy. This should also help to ensure that the krona does not appreciate too quickly, which in itself could have a negative impact on the upturn in inflation.

At the same time as Ms af Jochnick feels that it is important for the Riksbank to continue to conduct a very expansionary monetary policy, she also wishes to stress that there are many good arguments suggesting rising inflation.

Firstly, the Swedish economy is doing well and growth will continue to be healthy in the years ahead. Resource utilisation has increased and is expected to continue to be higher than normal during the forecast period. There are labour shortages in both the private and the public sector. According to Arbetsförmedlingen statistics, 70 per cent of companies say that they can increase output by a maximum of 10 per cent without new recruitment. As late as in its October 2016

Monetary Policy Report, the Riksbank noted that, although it is uncertain how quickly a change in resource utilisation will have an impact on inflation and how great the effect will ultimately be, historical correlations suggest that inflation will rise, she observed.

Secondly, a change could be registered in how private companies view wage and price increases in the Riksbank's latest business survey. Export companies in particular had become increasingly positive as their orders increased. Even though centrally-agreed wages were not expected to accelerate, there was an expectation of greater wage drift in several sectors. Provided that the historical correlations continued to hold true, wages and prices should gradually rise, according to Ms af Jochnick. The difference compared with previous years is that Sweden has had low inflation for a long period and experience shows that it often takes a long time to bring inflation up again. In other words, there is an underlying caution among companies to not lose competitiveness, she thought. It is therefore important for the Riksbank to continue to analyse the risks of more protracted lower cost pressures among companies.

Finally, Ms af Jochnick wished to once again point out the risks of low interest rates over a long period of time. In particular, the Riksbank has highlighted the problems associated with household indebtedness as a factor that can also threaten economic development in Sweden when interest rates gradually start to rise. The fundamental problems in the housing market must be rectified and the incentives from households to take loans need to be checked to create better long-term conditions.

Overall, Ms af Jochnick noted, it is important for her that monetary policy continues to support the Swedish economy so that inflation can reach the target within the forecast horizon. The inflation target is a cornerstone of economic policy while the risks associated with low interest rate for a long time must be offset by measures within the framework of other policy areas.

Governor **Stefan Ingves** began by noting that the international recovery is continuing more or less as the Riksbank had expected. Strong outcomes and positive indicators suggest global growth in line with the Riksbank's assessment in February, according to Mr Ingves. World trade is continuing to increase. The cyclical recovery in industrial output and foreign trade is expected to contribute to the recovery broadening and investment activity strengthening. Mr Ingves observed that this, naturally, is good for the Swedish economy, but that the political uncertainty that the Executive Board also considered at the previous monetary policy meeting still remains, entailing the risk of setbacks. However, these risks are difficult to forecast.

Mr Ingves noted that the economic policy of the United States is unclear. Nevertheless, the overall assessment is that economic activity is strengthening further, even if it is difficult to assess both the design and implementation of the economic policy. He went on to observe that economic activity in the euro area has improved since 2014 and that unemployment has fallen to an extent but that relatively plentiful spare capacity still remains. Corporate confidence according to the Purchasing Managers' Index has risen clearly over the last six months and household confidence is at a relatively high level. Mr Ingves also pointed out that banks in several countries in the euro area have low revenues, high costs and weak profitability. Furthermore, he pointed out that the proportion of non-performing loans is high as the problem has been neglected. Consequently, according to Mr Ingves, there remain large risks in the euro area's financial system. To this can be added considerable political risks that could impede the recovery, but the Riksbank nevertheless expects a small improvement in GDP growth this year. All in all, GDP growth in the countries that are most important for the Swedish economy (KIX-weighted) is expected to rise from about 2 per cent in 2016 to about 2.3 per year in 2017 to 2019.

Mr Ingves noted that international inflation has risen in the last six months, primarily due to rising energy prices. Underlying inflationary pressures are still low in many areas, particularly in the euro area. However, Mr Ingves considers that gradually higher resource utilisation will result in CPI inflation (KIX weighted) abroad will increase, amounting to about 2 per cent on average over the forecast period.

Mr Ingves noted that the Federal Reserve raised its policy rate in March, while the ECB's monetary policy was continuing to be highly expansionary. Monetary policy will therefore continue to pull in different directions, at the same time as interest rates in general are low or very low. Apart from economic activity in Sweden, Mr Ingves considers it to be important to take account of international developments when forming Sweden's monetary policy.

He went on to note that things are continuing to go well for Sweden. Mr Ingves pointed out that resource utilisation is higher than normal and is expected to rise further. Confidence indicators show that households and companies are optimistic, demand for exports is still strong and unemployment is falling. Stronger outcomes than expected and positive indicators mean that the growth forecast is revised up somewhat for the near term, in relation to the previous forecast, observed Mr Ingves.

He pointed out that CPIF inflation has been close to 2 per cent recently, partly due to rising energy prices. In March, CPIF inflation amounted to 1.5 per cent, which was slightly lower than expected. Mr Ingves pointed out that this was partially due to the temporarily weak development of a few volatile components such as fruit and vegetables and foreign travel. However, the prices for a number of services had continued upwards in a clear way and the inflation forecast for the immediate future had only been marginally changed.

Mr Ingves noted that the agreements concluded between the social partners in the industrial sector for wage increases in the next three years indicate weaker cost pressures in the economy than the Riksbank had previously expected. He observed that it appears that wage increases will be relatively modest despite the increasingly strong economic activity. Whether this will be a more lasting change is a central issue that there will be reason to return to in the period ahead, according to Mr Ingves. In general, it can be said that almost all recovery from the major global financial crisis has taken longer than expected. If this is a lasting change remains to be seen, according to Mr Ingves. Should this be the case, he sees it as likely that the Riksbank's view of monetary policy from a business cycle perspective will also be changed later on.

Inflation has been low for a long time and Mr Ingves said that it has been difficult to assess since the financial crisis. He noted that, now that the Riksbank is adjusting the inflation forecast, there is a risk that inflation expectations will be affected negatively. Bringing inflation back on target will require continued high resource utilisation in the economy, says Mr Ingves. The exchange rate forecast is slightly weaker than previously, but he emphasised that the Riksbank will continue to monitor the krona. A rapid krona appreciation that threatens rising inflation must not take place. He also pointed out that it is uncertain how long it will take for the ECB to start to normalise its monetary policy and at which rate this will take place.

Mr Ingves' conclusion is that all of this argues against changing the direction of Sweden's monetary policy. Instead, the overall view and the inflation forecast suggest that monetary policy needs to become slightly more expansionary if inflation is to reach 2 per cent more lastingly. In light of this, he gave his support to the proposals to keep the repo rate unchanged at -0.50 per cent, extend purchases of government bonds by SEK 15 billion over the second six months of 2017 and postpone any repo rate rises a little longer. According to Mr Ingves, it is quite simply too early to change the direction of monetary policy at present.

He went on to observe that the forecast now predicts slow repo rate rises from mid-2018. This means that, in the years ahead, the repo rate will be much lower than the long-term normal level. Mr Ingves considered that, in an uncertain world, it would also be easier to extend any necessary purchases of government bonds in the present situation than it would be if the purchases had been cancelled. Given the risk outlook that Mr Ingves sees ahead of us, he considers that it is too early to end bond purchases at present. Mr Ingves considers that it would be best to stick to the overall strategy and be prepared to employ the entire monetary policy toolkit until inflation and inflation expectations have landed more permanently around 2 per cent.

Mr Ingves pointed out that it is worth noting that, so far, monetary policy has worked better than many people could have imagined a few years ago. With a repo rate below zero and comprehensive purchases of government bonds, monetary policy has influenced overall financial conditions in an expansionary direction with a clear impact on short and long-term interest rates and the krona exchange rate. Given the structure of the financial market, Mr Ingves does not consider that all interest rates can be expected to follow the repo rate precisely, point by point. However, he considers that monetary policy as a whole has had the desired effect.

Finally, Mr Ingves noted, as on many previous occasions, that the Riksbank is well aware of the difficult choices that must be made to reach the inflation target against the background of the lack of measures from other policy areas to manage the problems on the Swedish housing market. Swedish housing continues to be highly valued from a historical perspective. The annual rate of price increases for housing slowed down slightly in 2016 compared with 2015. Even so, prices on an annual basis increased by about 10 per cent, significantly faster than household incomes. Mr Ingves pointed out that high housing prices and households' increasing indebtedness continued to entail very high risks for economic and financial stability, as the Riksbank and international organisations have warned on several occasions. He emphasised that measures are needed within macroprudential policy, housing policy and tax policy to limit the build-up of debt in the household sector and to improve the functioning of the Swedish housing market. Without such measures, there is a risk to long-term economic stability, according to Mr Ingves. He considers that the current mix of policies is poor, with too weak measures within macroprudential policy and the housing market in general.

Deputy Governor **Henry Ohlsson** began by saying that he supports the proposal to hold the repo rate unchanged at –0.5 per cent. However, he does not consider that the asset purchases should be extended by SEK 15 billion during the second half of 2017.

Mr Ohlsson then noted that the expansionary monetary policy conducted by the Riksbank in recent years has contributed to a positive development in the Swedish economy. GDP growth is fast, he pointed out. According to the Monetary Policy Report, calendar-adjusted GDP is calculated to grow by 3.1 per cent in 2017. This is on a level with growth in 2016 and high in a historical perspective.

The latest labour force surveys (LFS), published the day before the meeting, still indicate declining unemployment. In March 2017, unemployment stood at 6.8 per cent, not seasonally adjusted. This is nearly one percentage point lower than the same month last year. Unemployment insurance fund members can be considered to have a relatively strong position on the labour market, according to Mr Ohlsson. In March, the percentage of openly unemployed fund members was 2.4 per cent. This is 0.2 percentage points lower than the same month one year earlier. The conclusion to be drawn from the two unemployment figures, in his view, is that the improvements are not just benefiting the strongest. In Mr Ohlsson's opinion, however, unemployment is still on too high a level.

The number of vacant positions is increasing according to statistics from both Arbetsförmedlingen (the Swedish Public Employment Service) and Statistics Sweden. The National Institute of Economic Research's Economic Tendency Survey points to an increasing shortage of labour. Mr Ohlsson pointed out that a vacant position does not necessarily mean that the working task is not being performed. Only about 40 per cent of vacant positions are actual job vacancies. In other cases, the working tasks are performed by substitutes, staffing agencies and the like.

The conclusion from the real indicators is, according to Mr Ohlsson, that overall resource utilisation in the Swedish economy has now passed normal levels and can be expected to rise even higher in the coming years. He considered that this in itself is not necessarily a restriction for current monetary policy. In the prevailing economic situation, when inflation is below target, there is no conflict of interests between real economic activity and inflation, in Mr Ohlsson's opinion.

The most recent inflation figures for March showed an annual rate of increase for the CPIF of 1.5 per cent. Inflation is therefore relatively close to target, he noted. The April reading of five-year inflation expectations among money market participants was 2.0 per cent. In both cases, it is a question of measurements for single months and of readings that, for different reasons, are associated with uncertainty. Before it is possible to say that the target has been reached, inflation both in terms of outcomes and expectations must be more stable around the target, in his view.

Inflation is hence still below target. This calls for continued expansionary monetary policy. But are further monetary policy measures needed? Regarding today's monetary policy decision, it is firstly a question of what can be done. Here, according to Mr Ohlsson, although it is possible to make monetary policy more expansionary, the more important question is what it is desirable to do with monetary policy. Here, one has to weigh up the advantages and disadvantages of different monetary policy options. Mr Ohlsson's monetary policy conclusions are that the repo rate should be held unchanged and that the bond purchases should not be extended.

Mr Ohlsson continued to wonder whether more expansionary monetary policy is the solution to the problem of inflation being half a percentage point below target. Even without a lower repo rate and extended asset purchases, he feels that monetary policy will contribute to a rising inflation rate. It is not possible to disregard the fact that the repo rate is already at –0.50 per cent and that the bond purchases already adopted amount to SEK 275 billion. In this context, Mr Ohlsson also notes that the market is, if anything, expecting monetary policy to remain unchanged.

With regard to the repo-rate path, he feels that it should continue to be formulated so that increases in the repo rate will begin in early 2018. He is not entering a reservation on this point, however. The difference between the current repo-rate and the minimum of the repo-rate path is interpreted by many to be a measure of the probability of a future cut in the repo rate. In this respect, Mr Ohlsson welcomes the fact that the repo rate path is now formulated to reflect that this probability is now on the same level as the rate path published at the time of the September meeting.

Mr Ohlsson is entering a reservation against the decision to extend government bond purchases by SEK 15 billion. He feels that the purchases should not be extended as monetary policy does not need to be made more expansionary in the current economic situation.

Deputy Governor **Martin Flodén** began by supporting the proposal to hold the repo rate unchanged at -0.50 per cent, the proposed repo rate path and the other forecasts in the draft Monetary Policy Report. However, he did not support the proposal to decide on extended purchases of government bonds at the meeting.

Mr Flodén observed that economic developments in Sweden and abroad have been roughly in line with the view of the Riksbank at the last monetary policy meeting in February, but, in both the euro area and Sweden, real development has been slightly stronger than expected, while inflation has been slightly lower.

He noted that, in Sweden, the outcome for inflation in March in particular has been lower than the Riksbank's forecast. But the forecast error can be explained by temporary price effects and there is nothing in that month's outcome that gives us any reason to revise our view of underlying inflationary pressures. Mr Flodén pointed out that the reason that the forecast for underlying inflation has nevertheless been revised downwards a touch in the medium term is instead that the wage agreements concluded in the spring indicate that it will take even longer for the strong economic activity in Sweden to have an impact through faster price and wage increases.

One possible explanation put forward by Mr Flodén for why prices and wages are not increasing more rapidly even though resource utilisation has now been strong for some time is that price setting and wage formation have adjusted to the long period of low inflation. Inflation is determined by expectations and the way in which these influence the economy. Mr Flodén noted that inflation expectations have risen back to levels in line with the inflation target, but that it is, of course, possible that answers given in surveys do not have a direct link to how households and companies actually behave when wages and prices are set. According to Mr Flodén, it is conceivable that households and companies must experience a slightly longer period of inflation on levels around the target before price setting and wage formation again adjust to the inflation target. He considers that this reasoning suggests that the Riksbank cannot rely on inflation eventually stabilising around the inflation target under its own steam, but that it will require the continued support of an expansionary monetary policy and high resource utilisation.

Mr Flodén went on to point out that Swedish monetary policy, as previously, is also dependent on international developments. The euro area is of particular significance and resource utilisation remains weak there. Mr Flodén said that it is therefore encouraging to see clear indications that economic activity there is in the process of strengthening.. But underlying inflation continues to be low in the euro area and, according to Mr Flodén, we must count on monetary policy remaining highly expansionary in Europe over the years ahead, even in a benign scenario in which none of the international risks listed in the draft Monetary Policy Report materialise. This also suggests that Sweden's monetary policy will have to remain expansionary. The risk, according to Mr Flodén, is otherwise that the krona will appreciate too strongly in a situation where the rise in inflation is fragile.

As cost pressures are now expected to be slightly lower in the coming years, the repo rate will probably need to be held at the current level a little longer than the Riksbank assessed in February. He argued that it is therefore justifiable to change the repo rate forecast so that the first rise is expected one quarter later than in February.

Mr Flodén, however saw no need for the meeting to take a decision on extended purchases of government bonds. His view is that monetary policy has already had a strong impact on the economy and that, in this situation, it can hardly provide even stronger support to rising inflation in any meaningful way. Mr Flodén pointed out that resource utilisation is high and rising. Interest rates are low, access to credit is good and financial conditions are also good in general. He also noted that the krona is not appreciating in a way that prevents a continued rise in inflation. Inflation expectations have risen and confidence that monetary policy is focusing on the inflation target is strong. Furthermore, Mr Flodén pointed out that market pricing does not seem to be based on expectations that the Riksbank will extend bond purchases or otherwise make monetary policy more expansionary. Mr Flodén's assessment was therefore that the previously decided bond purchase programme, combined with the current repo rate level and the forecast that the repo rate will remain at this low level for about one year to come, would be enough to maintain this development.

According to Mr Flodén, it would certainly be desirable to have a faster and clearer rise in inflation than that in the Riksbank's forecast, but he finds it difficult to see in which way another monetary policy would improve the conditions for such a rise in inflation. In this situation, he consequently could see no reason to take a decision for further purchases of government bonds. On the other hand, neither did he wish to rule out further bond purchases. Conditions may change and Mr Flodén pointed out that, at the monetary policy meeting in July, he would have been prepared to reevaluate the need and expected effects of further bond purchases over the autumn.

§3. Discussion

Deputy Governor **Henry Ohlsson** began the discussion by noting that all his colleagues on the Executive Board had touched on the outcomes of the wage negotiations so far concluded. At this juncture, he thought that it is important to point out that cost pressures are one – but not the only – determinant of inflation. Demand pressure is also important. Profit margins are not a foregone conclusion and there is a limit to how low they can be. We are now seeing strong demand pressure, he noted, and his assessment is that this, sooner or later, will result in higher inflation.

There is an important division of responsibility in the Swedish economy, in Mr Ohlsson's view. It is the Riksbank's task to use monetary policy to affect aggregated demand so that the inflation target can be reached and become credible. The labour market parties are not responsible for achieving the inflation target. Their responsibility is to agree on wages and employment conditions based on their respective standpoints, he concluded.

Deputy Governor **Cecilia Skingsley** stated that she wished to subscribe to Stefan Ingves's analysis regarding the Swedish housing market and household indebtedness and the risks associated with the policy being pursued. She also addressed Martin Flodén's point that inflation expectations have risen to levels that are compatible with the Riksbank's inflation target, but that the survey responses might not have a direct link to how households and companies actually behave when prices and wages are set. Ms Skingsley stressed that a discrepancy in this area leads to real earnings developing differently to social partners' expectations, which can in turn lead to knock-on effects in future wage bargaining rounds. In such a case, price and wage formation are not anchored to the 2-percent target despite the survey responses and this is something the Riksbank needs to revisit.

Governor **Stefan Ingves** then summarised the discussion during the meeting. He noted that the Executive Board was in agreement on the picture of economic developments and the outlook for inflation described in the draft Monetary Policy Report. Economic activity continues to strengthen, but the political situation abroad is creating risks to economic development going forward. Several Executive Board members pointed out the contradictory nature of international developments, with strong confidence indicators and better economic activity on the one hand and relatively large risks for a worse scenario on the other. It was noted that developments in the euro area have been positive but that inflationary pressures there are still low and that the ECB will continue to pursue a very expansionary monetary policy in the foreseeable future.

Inflation in Sweden has shown a rising trend for a few years, but is now expected to take slightly longer before stabilising around 2 per cent. In a situation where the inflation upswing is expected to be slower and there is still considerable economic uncertainty abroad, the Executive Board was in agreement that an expansionary monetary policy is still needed to provide support to inflation. The monetary policy stance abroad is also very important in this context. The members also discussed the outcome of the wage agreements that have recently been concluded on the Swedish labour market. These indicate slightly lower wage increases than previously expected by the Riksbank and thus lower cost pressures. A key issue for the Riksbank going forward will be to analyse what level of resource utilisation is required for inflation to come up to 2 per cent and remain there more permanently.

All the board members considered that it was appropriate to hold the repo rate unchanged at –0.50 per cent and that the repo rate needed to be kept at its current low level three months longer than in the forecast in February. Not until mid-2018 is a rate increase expected. Deputy Governor Henry Ohlsson had preferred an initial rate rise at the beginning of 2018 but did not enter a reservation on this point.

A majority also considered that purchases of government bonds should be extended, with nominal bonds for SEK 7.5 billion and real bonds for SEK 7.5 billion. The justification for this was slightly lower cost pressures in Sweden, considerable uncertainty over political and economic developments abroad and the risk of the krona appreciating too rapidly if Swedish monetary policy were to deviate too much from policy abroad.

Three members entered reservations against the decision to extend purchases. They did not rule out the possibility of continuing them later on. Their reason for entering reservations was that current monetary policy is sufficiently expansionary and further stimulation would probably not provide any stronger support to the upturn in inflation.

§4. Decision on the Monetary Policy Report and the repo rate

The Executive Board decided

• to adopt the Monetary Policy Report according to the proposal, Annex A to the minutes, and

• to hold the repo rate at –0.50 per cent,

§5. Decision to purchase government bonds

The Executive Board decided in accordance with the proposal, Annex B to the minutes.

Deputy Governors Martin Flodén, Henry Ohlsson and Cecilia Skingsley entered reservations against the decision to extend the purchases of government bonds by SEK 15 billion. They argued that the purchases should not be extended as monetary policy did not need to be made more expansionary in the current economic situation.

§6. Other decisions

The Executive Board decided

• to publish the Monetary Policy Report and interest rate decision under Sections 4 and 5 with the motivation and wording contained in a press release at 9.30 a.m. on Thursday 27 April 2017, and

• to publish the minutes of today's meeting on Wednesday 10 May 2017 at 09.30.

This paragraph was verified immediately.

Minutes taken by

Sophie Brauner

Verified by:

Stefan Ingves	Martin Flodén	Per Jansson
Kerstin af Jochnick	Henry Ohlsson	Cecilia Skingsley

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