Monetary policy minutes

April 2018

SVERIGES RIKSBANK

Summary

At the Monetary Policy Meeting on 25 April 2018, the Executive Board of the Riksbank decided to hold the repo rate unchanged at −0.50 per cent. The forecast for the repo rate has been revised down since the monetary policy meeting in February and indicates that slow increases in the repo rate will not be initiated until towards the end of the year.

A majority of the Executive Board supported the picture of the economic outlook and inflation prospects described in the draft Monetary Policy Report. This picture has remained largely unchanged since February. Economic activity abroad continues to strengthen, but inflation is rising moderately. In Sweden, the economic situation is strong and inflation has been close to the target over the past year.

One of the reasons why CPIF inflation is close to 2 per cent is a rapid increase in energy prices. Underlying inflation has been unexpectedly weak so far this year and, as at the February meeting, the forecast for inflation measured in terms of the CPIF excluding energy has been adjusted downwards. Several members expressed concern about the development of inflation going forward and it was noted that a prerequisite for CPIF inflation to stabilise close to 2 per cent is that monetary policy remains expansionary. It has taken a long time to bring inflation and inflation expectations back to 2 per cent and several members stressed the importance of vigilance and caution in monetary policy. In light of the uncertainty surrounding the strength of inflationary pressures, the majority concluded that it is reasonable to now wait slightly longer before it is time to start raising the repo rate than according to the assessment made at the monetary policy meeting in February. The forecast for the repo rate indicates that rate rises will be initiated towards the end of the year.

Slight differences of opinion were expressed as regards when it might be appropriate to raise the repo rate. One member did not wish to rule out the possibility of it happening in September while another thought that it may be necessary to further postpone the first increase, compared with the forecast for the repo rate.

The members discussed the development of the exchange rate; what might be behind the large movements that have occurred since the last meeting and in what way this is expected to affect inflation. Several members pointed out that it is important that the krona exchange rate develops in a manner compatible with inflation stabilising close to the target.

Several members also underlined the importance of inflation expectations continuing to be in line with the inflation target.

There was also a discussion about distributional effects and whether monetary policy can and should take redistribution policy into consideration.

One member entered a reservation against the decision to hold the repo rate unchanged and against the repo rate path in the draft Monetary Policy Report. He advocated raising the repo rate to −0.25 per cent with reference to the strong economic growth in Sweden and abroad.

MINUTES OF MONETARY POLICY MEETING
Executive Board, No. 2

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DATE: 25/04/2018

TIME: 09:00

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

Michael Lundholm, Vice Chairperson of the General Council

Jan Alsterlind
Mattias Ankarhem
Meredith Beechey Österholm
Charlotta Edler
Heidi Elmér
Mattias Erlandsson
Kerstin Hallsten
Jesper Hansson
Jens Iversen
Maria Kindborg
Pernilla Meyersson
Ann-Leena Mikiver
Bengt Petersson
Maria Sjödin
Ulf Söderström
Jens Vahlquist (§1-3A)
Anders Vredin
Fredrik Wallin (§ 1-3A)
Ann-Margret Westin

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

§1. Economic developments

Market developments since the last monetary policy meeting

Jens Vahlquist from the Markets Department began by presenting the latest developments on the financial markets. Since the monetary policy meeting in February, monetary policy expectations and bond yields have shifted upwards in the United States, where further policy rate rises are expected both this year and next year and where long-term bond yields are now at their highest level since 2014. However, monetary policy expectations and bond yields have shifted downwards in the euro area and the United Kingdom, partly against the backdrop of monetary policy communication having been interpreted as rate rises possibly being postponed slightly longer than previously expected. Equity markets have largely been stable. The oil price has risen to around USD 75 a barrel as a result of OPEC's successful production restrictions that have helped reduce oil stocks, and as a result of some geopolitical unease.

Prior to today's monetary policy decision, it is expected that the repo rate will be left unchanged. Market expectations regarding the timing of an initial policy rate increase from the Riksbank have been postponed slightly. The average of market assessments is that this will happen in December but a first rate rise of 0.25 percentage points is not fully priced in until February. Both in competition-weighted terms and against the euro, the Swedish krona has depreciated significantly since the monetary policy meeting in February, but has stabilised over the past week.

The current monetary policy drafting process – new data and forecasts

Jesper Hansson, Head of the Monetary Policy Department, began by presenting the forecast that the Monetary Policy Department judged would gain the support of a majority of Executive Board members. The monetary policy drafting process has included discussions with the Executive Board regarding the forecasts and the monetary policy assumptions at meetings on 9, 10 and 11 April. The draft Monetary Policy Report was discussed and tabled at a meeting with the Executive Board on 16 April.

Mr Hansson then highlighted two important issues that have been the subject of particular discussion in the monetary policy drafting process in April. The first concerns underlying inflation in Sweden, which was lower than expected during the first three months of the year. It therefore seems as if some of the increase last year was temporary and this raises questions about how much of an impact the strong economic activity has had on inflationary pressures. The other issue concerns the depreciation of the krona and the effect on inflation. Since the Monetary Policy Report in February, the krona exchange rate has depreciated by about 5 per cent and there are probably many different factors that have contributed to the depreciation. What lies behind a change in the exchange rate and how long this change is expected to last play a role in how economic activity and inflation are affected. For a more in-depth analysis of the correlation between the exchange rate and inflation, Mr Hansson referred to an article in the draft Monetary Policy Report.

Mr Hansson then summarised new information received since the monetary policy meeting in February. He noted that GDP growth abroad continues to increase at a good pace even though monthly statistics indicate temporarily weaker growth in the first quarter, mainly in the euro area. However, the forecast for the rest of 2018 and 2019 has been revised up slightly, due primarily to more expansionary fiscal policy in the United States, which is also affected other countries. Despite a good economic outlook, inflationary pressures are relatively low and underlying inflation is only rising slowly. CPI inflation is higher, due in part to rising energy prices. Since February, market expectations about future policy rates have risen in the United States but fallen in Europe. The shift has to do with changes in the conditions for inflation in both regions.

The Swedish economy is also strong and inflation is close to target, Mr Hansson noted. Confidence indicators suggest continued high growth in Sweden in the first half of 2018. Growth will then slow slightly as housing construction declines and growth on the export market is subdued. The outcome for the fourth quarter of 2017 was slightly weaker than expected, as a result of lower consumption and investment. This, in combination with a slightly weaker development at the start of the year, means that the forecast for GDP growth in 2018 has been marginally revised down to 2.6 per cent. Unemployment has fallen unexpectedly sharply during the first quarter, but this is deemed to be partly due to temporary factors in the statistics. Most indicators point to continued good demand for labour, but a large percentage of the non-employed group consists of persons who have historically found it relatively difficult to obtain work. Unemployment is therefore not expected to fall further and the forecast is flat at just under 6.5 per cent.

Mr Hansson also noted that the most recent outcome for inflation is in line with the February forecast. CPIF inflation was 2.0 per cent in March. This is partly due to a rapid rise in energy prices that is not expected to last long. Excluding energy, CPIF rose by 1.5 per cent in March which is 0.3 percentage points lower than in the forecast from February. This indicates that inflationary pressures are lower than expected. At the same time, the krona has depreciated by about 5 per cent since February, making a positive contribution to inflation, mostly during 2018 and 2019. The fact that the forecast for CPIF inflation is almost unchanged is thus due to lower underlying inflation initially being offset by higher energy prices and a weaker exchange rate. The depreciation of the krona is deemed in turn to be mainly due to changes in expected monetary policy and greater unease on financial markets, although other factors may also have contributed. Mr Hansson stressed that the forecast for the krona exchange rate is based on these factors subsiding in the period ahead and that more fundamental determinants play a role in the krona exchange rate.

Mr Hansson also emphasised that the draft forecasts presented are based on the monetary policy that is expected to gain a majority at today's monetary policy meeting. This involves the repo rate being left unchanged at −0.50 per cent. The forecast for the repo rate has been revised down slightly to give more support to underlying inflation. Slow increases in the repo rate will not begin until towards the end of the year. At the end of March, the Riksbank's government bond holdings amounted to just over SEK 320 billion, expressed as a nominal amount. The macro forecast presupposes the reinvestment of redemptions and coupon payments at an even rate going forward in accordance with the decision in December.

§2. The economic situation and monetary policy

First Deputy Governor Kerstin af Jochnick:

I support the assessments in the draft Monetary Policy Report, and I also support the proposal to hold the repo rate at –0.50 per cent and to adjust the forecast for the repo rate so that the first repo rate rise is postponed slightly.

Economic activity abroad continues to develop well and global growth in 2017 was on its highest level since 2011. Growth in the United States is on a relatively high level. The decisions on steel and aluminium tariffs and the discussions about additional trade barriers do not seem to have had an impact on the development of the real economy to any great extent. They do, however, seem to have had some effect on confidence among households and companies and on developments on the financial markets, which sooner or later risk impacting the outlook for the real economy.

As Sweden is particularly dependent on developments in the euro area, it is of considerable interest to track developments there – not least in Germany. Here, growth is still good but there are some signs of a slowdown. Industrial production and retail trade figures for Germany in the first quarter were lower than the market expected.

The "ZEW indicator", which reflects expectations about future economic developments, has shown major shifts downwards in the past two months after a reasonably stable development in 2017. It is not possible to draw very far-reaching conclusions from these indicators, but there is possibly a risk of growth in Germany, and hence in the euro area as a whole, not being as high as we have expected.

The signs of a downward turn in confidence in Germany are probably linked to the discussions on trade barriers and geopolitical unease related to the war in Syria. In addition, uncertainty remains as regards the effects of Brexit. All in all, therefore, there are several factors that can contribute to increased uncertainty regarding international developments going forward.

Events abroad have also led to some increase in unease on the financial markets in recent months. Much of the increased concern at the beginning of the year was driven by the risk of rising wages in the United States, but since our last Monetary Policy Report in February, developments have also been influenced by other factors, including the discussions on trade barriers.

Despite good growth abroad last year, wage development in many countries is still weak – something which we also see has affected Sweden and which I discussed at our last meeting. However, there are signs of rising wage growth in the United States, the euro area and other countries. As I also touched on at the last meeting, the new wage agreements in the German manufacturing industry indicate higher wage growth going forward. Even if we have seen some signs of a slowdown in the German economy most recently, the new agreements have been concluded in a stronger economic situation than previously. This is perhaps particularly interesting from a Swedish perspective, as the parties in the Swedish manufacturing sector attach considerable significance to wage development in our most important competitor countries, not least in Germany, in their collective bargaining. Furthermore, the agreements in the industrial sector function as a benchmark for other sectors in Sweden during wage negotiations. Higher domestic resource utilisation also increases the likelihood of increasingly high wage growth in Sweden.

Compared with the Monetary Policy Report in February, the development of the real economy in Sweden has been largely in line with our forecasts. However, the krona has been weaker than our assessment in February. This has partly to do with increased market unease, although expectations about a more expansionary monetary policy in Sweden have also played a role. This in turn is linked to outcomes for inflation in Sweden since February – something to which I will return shortly.

The weaker krona should contribute to slightly higher inflation across the next few quarters, but our current assessment is that this is perhaps still not sufficient to allow inflation to stabilise around 2 per cent already in 2018.[1]

Already at the Monetary Policy Meeting in February, we saw a risk that inflation in the spring of 2018 would be lower than we anticipated, and neither did we rule out at that time the possibility that this might lead to a lower inflation forecast and hence a downward effect on the repo rate path.

Inflation outcomes since the February meeting have been slightly lower than we forecast, even though the deviation has not been particularly significant in my opinion. But part of the

[1] See the article "The exchange rate and inflation" on pages 31-32 in the draft Monetary Policy Report for a detailed discussion.

explanation for why CPIF inflation has still remained close to 2 per cent is rising energy prices. It is therefore of interest to follow underlying inflation excluding energy prices.

CPIF inflation excluding energy is currently 1.5 per cent, and we estimate that it will remain at approximately this level for the rest of 2018. One reason why underlying inflation has been lower is that prices for services have not increased as rapidly as before, and it is uncertain whether they will return to the rates of increase we saw in 2017. This is what we can expect to a certain extent as the rate of increase last year was affected by a new calculation method for foreign travel, although the rate of increase in prices for services has slowed even if we disregard this methodological change.

In light of weaker development in underlying inflation, I think there is good reason to slightly postpone the first repo rate rise. So far, the expansionary monetary policy has been successful and contributed to good economic development in Sweden.

Even though resource utilisation is on a high level and unemployment is low, we are still not seeing any signs of any significant wage drift. There seems to be several reasons for this, including greater flexibility in the labour market.

My assessment is that we should be cautious in this situation.

If we start to raise the repo rate too early, the risk increases of inflation not stabilising around 2 per cent. Neither can we be certain, in such a scenario, that inflation expectations will remain anchored around the target. There is therefore a significant risk that inflation expectations also start to slide and confidence in the inflation target will be damaged.

The concern I previously expressed for developments on the Swedish housing market remains. As we have discussed in many different contexts, there is a major need to implement reforms in order to achieve a long-term balance between supply and demand and hence mitigate the risk of negative effects on the Swedish economy.

Since the autumn, housing prices have fallen in Sweden, and our assessment is that they are now stabilising and will rise at a moderate pace later on. But there is obviously considerable uncertainty as regards price developments.

In addition to the risks we highlight in the report, there are also signs that competition for mortgage customers is increasing as a result of new players entering the mortgage market. If this leads to lower mortgage rates across the board, there will be a greater risk of the housing market overheating and housing prices picking up again. This will in turn risk driving up indebtedness even further. This is something we will have reason to revisit in our Financial Stability Report later in the spring.

Deputy Governor Martin Flodén:

I support the proposal to leave the repo rate unchanged at −0.50 per cent and the draft Monetary Policy Report. I also support the forecast for the repo rate as it roughly corresponds to my assessment of how monetary policy needs to develop, but I will come back shortly with a few comments about the interest rate forecast and the monetary policy plan.

After our monetary policy meeting in February, developments abroad have been largely in line with our forecast. Economic activity thus continues to improve in the euro area. But there are some signs of developments starting to slow as confidence indicators have fallen back slightly from their recent high levels.

In Sweden, too, developments in the real economy have been in line with our forecast. An important question prior to recent monetary policy meetings has been the price fall on the housing market. The price fall in the autumn of 2017 led to uncertainty about the development of housing prices and construction has been at an unusually high level. In light of the unusually high degree of uncertainty in the forecast, it is particularly worth noting that developments in recent months are entirely compatible with our previous forecast. This continues to suggest that prices are now starting to stabilise and that construction is not falling too sharply.

The most significant surprises after the monetary policy meeting in February concern Swedish inflation and the krona exchange rate. CPIF inflation has developed in line with our forecast and is close to 2 per cent. But behind that figure, energy prices have been surprisingly high while underlying inflation has been clearly lower than expected. Our forecast in February was that the krona would strengthen slowly during the year, but after the monetary policy meeting, the krona has instead weakened by about 5 per cent.

My monetary policy considerations prior to today's decision mainly centred on interpretations of the low underlying inflation and the weak krona, and the impact these developments will have on inflationary pressures.

An initial question is how to look at the relationship between CPIF inflation and measures of underlying inflation, for example inflation in terms of the CPIF excluding energy. Here, my view is that inflation in terms of the CPIF excluding energy is often a good indicator of inflationary pressures and of where inflation is heading in the long term. But CPIF inflation is our target variable and probably the inflation measure whose outcome is most important for maintaining confidence in the inflation target. The fact that CPIF inflation is currently being sustained by rising energy prices therefore facilitates for monetary policy as the risk of falling inflation expectations is reduced.

Another question is how the low underlying inflation will affect inflationary pressures going forward. This question is much more difficult to answer. Inflation measured in terms of the CPIF excluding energy was 0.25 percentage points lower in March than our forecast in February. But looking at the three inflation outcomes after the February meeting, it is primarily the outcome for January which surprised on the downside while the monthly change in terms of the CPIF excluding energy in February and March was close to our forecast. Some of the surprise in January seems to have been caused by temporary factors which will not necessarily have an impact on inflationary pressures going forward. This is also indicated by our updated inflation forecast, in which the monthly changes in the CPIF excluding energy in the year ahead remain on approximately the same level as in the February forecast.

The fact that the forecast for underlying inflation has not been lowered when we look at price changes month by month is also due to the weakened krona, of course. The third question concerns the development of the exchange rate and how it affects inflation. The weakening of the krona will contribute to higher inflation in the period ahead. But the weakening is probably temporary and just how great the impact of such a temporary weakening will be on inflation is uncertain.

An additional factor contributing to this uncertainty is that the reasons for the krona depreciation are not entirely clear. It seems as though expectations of postponed rate rises are just one of the explanations for the krona depreciation. It is therefore difficult to assess how the krona, and hence inflation, would be affected by different monetary policy decisions today. But, the krona would probably remain slightly weaker than our February forecast for a while longer even if we keep to the same monetary policy plans as we had then.

Monetary policy planning, both at the monetary policy meeting in February and today, has focused on the timing of the first repo rate rise from its current level of −0.50 per cent. My opinion in February was that the forecast for the repo rate, which we published at that time should be interpreted as it probably would be appropriate to raise the repo rate by 0.25 percentage points at one of the monetary policy meetings in July, September or October. I do not think that the outlook for the development of inflation in the period ahead has changed dramatically since then. But the low outcome for underlying inflation in January raises some question marks and increases the uncertainty surrounding the inflation forecast. My assessment today is therefore that it will hardly be appropriate to raise the repo rate in July. Before the rate is raised, I want to see clearer signs of underlying inflation not having taken a weaker course after the outcome in January and that our inflation forecast is not too optimistic.

This need to wait for slightly more information before the rate is raised is captured by the new rate forecast proposed in the draft Monetary Policy Report. As I said in my introduction, I support the new forecast as it roughly describes my own assessment of suitable monetary policy going forward. But the new forecast indicates that the repo rate will not be raised until October or December. I would have preferred to see an even smaller revision of the forecast so that it is clearly indicated that there is still a possibility of the repo rate being raised in September. A development that would indicate that an early rate rise is appropriate is if the krona does not strengthen as quickly as in our forecast, especially if the weak exchange rate also starts to have a clearer impact on the inflation figures.

Deputy Governor Per Jansson:

Since the monetary policy meeting in February, three new outcomes have been published for inflation and inflation expectations. The most recent inflation outcome, for March, reported a CPIF inflation rate of just above 2 per cent. When adjusted for energy prices, the outcome was slightly over 1.5 per cent. The outcome for CPIF inflation was in line with the forecast in the Monetary Policy Report in February, while the outcome for CPIF inflation excluding energy prices was almost 0.3 percentage points lower than expected. The surprisingly weak development in inflation excluding energy prices confirms that there are still question marks surrounding the strength of the underlying inflation rate.

Inflation expectations, primarily in the slightly longer term, remain reasonably close to the inflation target although there are a few worrying elements in recent measurements. The tendency of expectations to fall slightly in the short term is perhaps not so strange bearing in mind the signs of weakness in underlying inflation. But the relatively large fluctuations in the expectations of the labour market organisations is something that worries me somewhat.

In Prospera's most recent quarterly survey, for March, the CPI inflation expectations of the employer organisations fell by around 0.2 percentage points at both the one and two years horizons. As regards the employee organisations, it was instead their expectations of CPIF inflation that fell quite significantly, by just under 0.2 percentage points two years ahead and just over 0.3 percentage points five years ahead. This development may partly be due to difficulties in reporting expectations of inflation measured in terms of both the CPI and the CPIF. But the relatively substantial fluctuations are still a little worrying bearing in mind how important it is that the labour market organisations in particular perceive the inflation target as a stable anchor for price-setting and wage formation. I think this is an issue which we should return to, unless the inflation expectations of the labour market organisations stabilise in the near future.

The conclusion I draw from the developments in inflation and inflation expectations is that the current inflation picture has deteriorated slightly since February. The fact that CPIF inflation remains close to our forecast and the target depends to a high degree on unexpectedly rapid energy price increases. Adjusted for energy prices, inflation is unexpectedly low, around 1.5 per cent, despite a certain downward adjustment in the forecast as recently as in February. Of importance in this context is that the development of prices for services has weakened, with continuously declining price increases since August of last year up until February of this year. In March, the rate of increase picked up slightly, to just over 2.2 per cent, but the initial position prior to today's monetary policy meeting is still poor and slightly worse than before the meeting in February. With reasonable assumptions for other prices in the CPI basket, the current rate of increase for prices for services is most probably not sufficient for the Riksbank to be able to stabilise inflation close to the inflation target going forward.

Turning attention to the proposed forecast in the draft Monetary Policy Report, the weak outcome has also created a need to once again revise down the assessment of CPIF inflation excluding energy prices, by 0.1-0.2 percentage points for the rest of this year. That the assessment of CPIF inflation for the same time period is not revised down, but instead up slightly, depends on the contribution of energy prices continuing to be greater than expected. This is in turn a consequence of both higher electricity prices, caused by the cold weather at the beginning of the year, and higher fuel prices. The recent depreciation in the krona affects energy prices relatively quickly, but is expected to contribute to higher underlying inflation with a certain time lag, from the end of 2018 and next year. Overall, the forecast adjustments for both CPIF inflation and CPIF inflation excluding energy prices are minor from mid-2019 and beyond. In approximately the same time perspective, both inflation measures are also close to 2 per cent.

I support the forecasts in the draft Monetary Policy Report. And I also support the monetary policy proposed therein. With the question marks over underlying inflation that have existed for some time and now have also been amplified, it is reasonable to revise down the forecast for the repo rate somewhat and begin slow rate rises only towards the end of the year, precisely as proposed in the draft report. As regards the more precise meaning of the wording “begin slow rate rises only towards the end of the year”, I note that we have plenty of time at forthcoming meetings to polish it further.

The possibility of raising the rate earlier or later than “towards the end of the year” cannot of course be ruled out in the current situation. But, as I mentioned already at the monetary policy meeting in February, I share the assessment that it is now very unlikely that the repo rate will be raised at the monetary policy meetings in July and September. In contrast, a scenario where it may be necessary to postpone the first rate rise until some way into next year, which I also noted in February, is one that I personally believe to be more likely. A major advantage in waiting to raise the rate until some way into 2019 is that it will by then hopefully be possible to verify that our forecasts of an inflation rate close to 2 per cent, in terms of both the CPIF and the CPIF excluding energy prices, were correct.

I will end with some thoughts about the krona exchange rate, which has depreciated quite considerably since the monetary policy meeting in February. Two questions that, formulated in various ways, have often been asked in the recent debate about monetary policy are whether the depreciation of the krona is to be viewed as only a good thing and whether the currency has now not started to become too weak. In the draft Monetary Policy Report it is estimated that the recent krona depreciation will contribute to an inflation rate that is a number of tenths of a percentage point higher than otherwise. At the same time, the overall picture of the economic outlook remains largely unchanged since February. And neither have the risks to financial stability changed to any appreciable degree. If the Riksbank's forecasts and analyses are compared with assessments from other forecasters after the monetary policy meeting in February, no crucial differences are apparent. All this makes it difficult to say that the recent krona depreciation has created or is starting to create, serious problems for the Swedish economy.

I think there are good reasons why neither the Riksbank's nor other forecasters' assessments predict any major problems with the recent development of the krona exchange rate. To a large extent, the depreciation seems to be linked to factors that mainly affect the exchange rate for a shorter period of time, such as changes in the view on the outlook for inflation and monetary policy in Sweden in relation to other countries.[2] Things would be quite different if the exchange rate weakens as a result of confidence problems that may be caused by, for example, weak long-term growth, disorderly public finances or wage formation that creates problems for competitiveness. Under such circumstances, an exchange rate can very well "become too weak" and contribute to exacerbating various economic problems rather than mitigating them and acting as a shock absorber.

Even if the Swedish economy is, of course, not working perfectly in all respects, it is at present fortunately not characterised by this type of confidence problem. The best thing to do to ensure that such problems do not emerge in the future either is to continue to do one's homework when it comes to implementing necessary structural reforms, conducting fiscal policy in a long-term sustainable manner and making sure wage formation delivers nominal wage increases with regard to the scope provided by the inflation target and trend growth in productivity.

Governor Stefan Ingves:

Let me start by noting that I share the view of economic developments internationally and in Sweden as described in the draft Monetary Policy Report. The development sketched this time is approximately the same as it was at the monetary policy meeting in February. Therefore it is also natural for me to support the proposal to hold the repo rate at its current level of -0.50 per cent. I also support the proposal to shift the repo rate path slightly further into the future so that slow repo rate rises are not initiated until towards the end of the year. This is in light of the assessment that inflationary pressures are now slightly lower than we had forecast earlier. Monetary policy also includes the reinvestments of redemptions and coupon payments in the government bond portfolio that are proceeding in accordance with the plan adopted in December. Purchases amount to just under SEK 1 billion per week and have worked well so far. These purchases allow us continued freedom of choice and continued preparedness in monetary policy as they are easily scalable in either direction.

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[2] See the article "The exchange rate and inflation" on pages 31-32 in the draft Monetary Policy Report for a detailed discussion.

The global economy is currently in a relatively strong phase. Last year, international growth was almost 3 per cent (measured in KIX-weighted terms), the highest figure since 2011. This positive development is expected to continue over the coming years, even if there are risks in the form of negative effects from trade barriers, geopolitical unease and volatility on the foreign exchange markets when interest rates rise in the United States. Not least, this latter usually affects countries with large short-term borrowing in US dollars. But inflation in our part of the world has, so far, been moderate and lower than historical correlations would suggest. The draft Monetary Policy Report forecasts international inflation of around 2 per cent.

For Sweden, it can be noted that economic development is good. Growth has been high for several years, even if it has slowed down recently. GDP growth of 2.6 per cent is expected in 2018, slightly above the historical average. The situation on the labour market is the strongest for many years, with good figures for employment growth, a high labour force participation rate and falling unemployment. Different measures of resource utilisation, even if they are uncertain, indicate that resource utilisation is higher than normal but, nevertheless, just as in many other countries, inflationary pressures have been lower than we are used to.

Despite the strong economic development, inflation needs the continued support of monetary policy. The rate of inflation has certainly developed well in line with our target of two per cent since a year or so ago. And inflation expectations, which, a few years ago, were too low, are now on levels indicating restored confidence in the inflation target. But recent months' inflation statistics have been on the weak side. The outcomes for CPIF inflation excluding energy have been lower than were expected in the Monetary Policy Report in February and the latest outcome in March was 1.5 per cent, three tenths below the forecast. Behind this development lies the fact that prices for services, among other things, are not rising as rapidly as they did in 2017. The forecast for the CPIF excluding energy has been revised downwards for 2018. To support inflation and ensure that the CPIF stabilises more or less symmetrically around 2 per cent, I consider it appropriate to move the repo rate path slightly further into the future.

The Riksbank has been conducting a highly expansionary monetary policy for the last few years. The negative interest rate and bond purchases have had the intended effect, i.e. via favourable financial circumstances, domestic demand has been stimulated, among other things. This policy has given Sweden higher growth and inflation rates than the euro area, our most important trading partner, for several years.

If inflation is to continue to develop in line with the target, continued support from an expansionary monetary policy will be needed, as I have already discussed. But it is also important that international inflation rises in the period ahead, in line with our forecasts, and does not fall back. Another significant factor is the development of the krona. It continues to be the case that excessively rapid appreciation could impede the stabilisation of inflation close to the target. At the same time, it is difficult to forecast the development of the krona. Our forecast of an exchange rate appreciation in the years ahead is based on classic arguments such as relative growth differentials and the current account balances. Theoretical and historical correlations indicate that countries with high growth in comparison with the rest of the world and current account surpluses tend to have currencies that appreciate. At the same time, we see that the Swedish krona often depreciates in times of financial unease, as exemplified by developments since the previous monetary policy meeting. It seems as though small currencies, like the Swedish krona, are now affected more by financial volatility regardless of the strength of the underlying economy, particularly over short time perspectives.

The shape of monetary policy in Sweden is heavily affected by international factors, something I have addressed in several monetary policy meetings. The very low level of interest rates in Sweden partly reflects an international phenomenon, with falling global real interest rates in recent decades. The fact that the repo rate is not merely very low but actually negative is very much due to the highly expansionary monetary policy conducted in the euro area in recent years. In this respect, the Riksbank is in approximately the same situation as the central banks in Denmark and Switzerland, for example. Another important factor is wage development in Sweden, which has been weak in relation to the economic situation in recent years. Perhaps the labour supply today, potentially cross-border, is more elastic than previously. Regardless of why wage development looks like it does, it provides another reason for the highly expansionary monetary policy.

However, the low level of interest rates entails the continued build-up of debt and risk in the private sector. Finansinspektionen's decision to tighten amortisation requirements is contributing to the slight improvement of household resilience. But measures are needed to address the long-term structural problems of the Swedish housing market. I have discussed this many times in various contexts and the draft Monetary Policy Report contains a short discussion.

Let me say, in conclusion, that I consider it important to have continued vigilance and caution in monetary policy. The powerful measures of recent years allowed us to bring inflation and inflation expectations back in line with the target. But recent inflationary outcomes show that it is too early to change the course of monetary policy to a less expansionary direction. The development of inflation needs the continued support of monetary policy. My impression is that inflation is still not moving lastingly and more or less symmetrically around the target. We are still not completely on a firm footing.

Deputy Governor Henry Ohlsson:

To begin with, I would like to say that I do not support the proposal to hold the repo rate unchanged at –0.50 per cent. It is my opinion that the repo rate should be increased by 0.25 percentage points to –0.25 per cent. As a consequence of this, I also am of the opinion that the interest rate path should be brought forward so that it is consistent with my proposed repo rate increase.

The economic situation abroad is good. One expression of this is that global trade in goods is increasing. Over the last year, this has also taken place at an increasing pace. The latest measurements indicate annual rates of increase of around 4.5 per cent. Increased trade is of crucial importance for a small, open, export-dependent economy like Sweden's.

Annual growth abroad, KIX-weighted, is expected to amount to 2.7 per cent in 2018 according to the draft Monetary Policy Report. For 2019, an upwards revision to 2.5 per cent has been made. It is true that inflationary pressures are low and have been revised downwards, but aggregate KIX inflation is nevertheless expected to be 2.0 per cent in 2018 and 2019.

The good global macroeconomic conditions mean that there are expectations abroad of a less expansionary monetary policy. The US central bank has increased its policy rate several times. According to the draft Monetary Policy Report, the KIX interest rate is expected to rise, albeit at a slow pace. It is worth noting, however, that no revisions have been made here compared with the previous Monetary Policy Report. In this case, it concerns the forecast years 2018 and 2019. To this can be added that the yield on ten-year US government bonds has recently reached 3 per cent for the first time since 2014.

Let me now move on to Sweden. Since the autumn, the target variable for monetary policy has been the CPIF. At the same time, the Riksbank decided to introduce a variation band around the inflation target. The annual rate of increase of the CPIF was 2.0 per cent in the most recent inflation reading in March. CPIF inflation has been around the inflation target for a long time. In the last twelve months, CPIF inflation has been in the interval 1.7–2.4 per cent. The average rate of inflation over these twelve months has been 2.0 per cent. According to the forecast in the draft Monetary Policy Report, inflation will be 1.9–2.0 per cent as an annual average for each of the next three years. This is basically the same forecast as in February. My assessment is that target attainment is good!

The April reading of five-year inflation expectations among money market participants had a mean value of 2.0 per cent. Over the last 28 months, the mean value of five-year expectations has been 1.9 per cent or higher. Looking at the median value among respondents, five-year expectations have been 1.9 per cent or higher for 30 months.

The impression that inflation expectations are now back at the two-percent target is strengthened if we look at expectations two years ahead. In April, these were also at 2.0 per cent. Looking back, two-year expectations have been 1.9 per cent or higher for the last 16 months.

Finally, one-year expectations in April were at 1.9 per cent or higher for the eighth month running. This is the first time this has happened for eight months, since April-November 2011. It is difficult to argue that inflation expectations are not now well anchored.

I will now move on to a discussion of the situation on the labour market. Unemployment insurance fund members can be considered to have a relatively strong position on the labour market. In March 2018, the percentage of openly unemployed fund members was 2.6 per cent. It is actually higher than in the same month one year ago, when the proportion of unemployed fund members was 2.4 per cent. Nine-tenths of one per cent here or there makes no great difference, but qualitatively, it is interesting that the downward trend that we have seen for several years has now been broken. The break in the trend emphasises that unemployment has now bottomed out.

This is also suggested by the outcomes for unemployment as measured by Arbetsförmedlingen (Af), the Swedish Public Employment Service. The sum of registered, openly unemployed and those on labour market programmes as a proportion of the register-based labour force was 7.2 per cent in March 2018. This can be compared to 7.7 per cent in the same month last year. But what is really interesting about Af's statistics is the comparison that can be made between the development for those born in Sweden and those born abroad. For those born in Sweden, unemployment was 3.8 per cent, according to Af's statistics. The same month one year ago, the figure was 4.1 per cent. This is certainly a decrease, but not a large one. For those born abroad, the corresponding unemployment figure was 20.7 per cent in March 2018 and 22.2 per cent in March 2017. My interpretation is that the decrease in unemployment according to Af above all reflects a decrease for those born abroad. For those born in Sweden, on the other hand, this reinforces the image of unemployment having bottomed out.

But the official measure of unemployment in Sweden is given by the labour force surveys (LFS). At the same time, I think it is important to have the other two measures as a background when interpreting the LFS. According to the most recent labour force survey (LFS), unemployment was 6.5 per cent (not seasonally adjusted) in March. This is slightly lower than the corresponding month one year earlier, when LFS unemployment was 6.8 per cent.

In my opinion, however, unemployment is still too high. But today this is rather a matter of bringing down unemployment among those born abroad. And here it is, above all, a matter of labour market programmes that strengthen the human capital of the unemployed and cut the costs of employing them, rather than general demand policy.

My assessment of the current situation is that the increasing demand for labour is causing labour supply to rise rather than unemployment to fall. This is also what the LFS flow statistics show, most recently yesterday, when the figures for the first quarter of 2018 were published. The crucial point here is that there are important differences between reduced unemployment and an increased labour supply.

Against the backdrop of this reasoning, I would now like to move on to my monetary policy considerations. The global picture is therefore good and continuing to improve, with increasingly high growth and thriving global trade. In Sweden, resource utilisation is clearly above normal and growth is high. Households and companies are more optimistic than normal. The labour market is very strong. At the same time, however, unemployment seems to have bottomed out. This has important consequences for my view of monetary policy. The possibility that unemployment cannot be reduced any further using general demand side policies negates one of the arguments for the degree of expansiveness of current monetary policy.

The fact that unemployment has bottomed out also has implications for the distribution effects of monetary policy. The expansionary monetary policy has contributed to increased asset values, assets that we know are unevenly distributed. But this has been offset by the fact that monetary policy has simultaneously helped to reduce unemployment. This offsetting effect has now been neutralised, thereby negating another of the arguments for the degree of expansiveness of current monetary policy. The substantial weakening of the krona exchange rate has similar effects on distribution. The draft Monetary Policy Report also forecasts that the profit share in the business sector will increase over the coming years.

Inflation has now been around the target of 2 per cent in outcomes and expectations for a long time. This is a further argument, indeed a decisive one, indicating that it is now time to start normalising monetary policy. Occasional monthly variations of the odd tenth of a percentage point around the 2-percent mark cannot determine monetary policy.

In conclusion, it is my opinion that the repo rate should be increased by 0.25 percentage points to −0.25 per cent. As a consequence of this, I also am of the opinion that the interest rate path should be brought forward (but with the same slope as in the draft Monetary Policy Report) so that it is consistent with my proposed repo rate increase.

Deputy Governor Cecilia Skingsley:

International economic activity is continuing to strengthen and international inflation is rising moderately.

In Sweden, the economic situation remains strong and inflation is close to the 2-percent target. The same macroeconomic situation thus largely applies as at the previous monetary policy meeting.

However, two things deserve slightly more detailed comment, firstly the weakening of the exchange rate and secondly the development of underlying inflationary pressures, which have been weaker than expected. Both of these circumstances are driving the most important forecast revisions this time.

Starting with the exchange rate, I note that movements on the financial markets have periodically been large. This has primarily been a matter both of increasingly divergent monetary policy expectations between the economic blocks and of how the markets are to price increasing concern for trade wars. In this environment, the krona has seen volatile trading and has periodically weakened.

As described in the draft Monetary Policy Report, the krona has depreciated in the wake of unexpectedly weak inflation data. This is reasonable, as changed expectations of future interest rate differentials between different countries is a central explanation of exchange rate fluctuations. The weakening of the krona after weak inflationary outcomes is thereby understandable as the market expects the Riksbank to revise its forecast for the repo rate path to show slightly delayed rate rises. But the krona seems to have depreciated by more than could be expected considering the development of interest rates. Higher volatility on global markets can impact smaller open economies such as Sweden's, particularly when market fluctuations are fuelled by various proposals for increased protectionism, which would be negative for Sweden.

The krona is not the only Swedish asset class to have weakened in value. Stock market movements, particularly Swedish bank equity prices, have been weaker than their international equivalents. More importantly, however, the development of interest rate margins on the markets for corporate bonds and covered mortgage bonds has not been remarkable. I therefore do not see that the depreciation of the krona can be explained by increased distrust of Sweden's overall macroeconomic development.

The best forecast going forward is therefore that a significant part of the depreciation of the krona since the February meeting is temporary and that the krona will appreciate again. As the krona is expected to strengthen again over the forecast period, the inflation effects can therefore be assumed to be moderate.

The inflationary outcomes received since the last meeting confirmed that inflationary pressures are still fairly weak in relation to the strong economic growth. Excluding energy, CPIF inflation is expected to be around 1.5 per cent for the rest of the year.

Other measures of underlying inflation, as described in chapter 3 of the report, have also turned down again.

When it comes to the monetary policy deliberations, I would like to link back to my contribution to the last meeting in February. The Executive Board had just made downwards revisions to the inflation forecast of such an extent that I had considered advocating an amended repo rate path in the direction of postponed rate rises. My decision to support an unchanged repo rate path in February was based on my opinion that forecast inflation at that point was sufficiently close to the 2-percent target. The circumstance that inflation outcomes have again been on the low side in relation to the forecast strengthens my view that we do not need to be altogether too hasty to initiate rate rises. Making a certain postponement of the date, such as it is expressed in the revised repo rate path, thus appears reasonable.

I also support the forecasts and proposals for monetary policy as described in the draft Monetary Policy Report. Assuming that the present assessments of economic development hold true, I therefore consider it likely that I will support a rate rise at one of the meetings in October or December.

§3. Discussion

Deputy Governor Cecilia Skingsley:

I would like to discuss Henry Ohlsson’s contribution, in which distribution policy arguments are used to justify a higher repo rate.

The distributional effects of monetary policy, both as regards policy rate changes and bond purchase programmes, have been the subject of some discussion. This discussion has centred on the effects themselves and whether monetary policy should consider distributional effects when making decisions.

My starting point is that low and stable inflation contributes towards evening out cyclical fluctuations, which is particularly good for those with low wages, as these jobs also tend to be more cyclically sensitive than jobs with higher wages.

Low-income earners also tend to have less scope than other income groups for protecting themselves against volatile inflation as they often have fewer assets, which can otherwise even out consumption opportunities over time.

As regards asset prices, the starting point is that these vary with the economic cycle. Put simply, they benefit from more expansionary monetary policy and are disadvantaged by tighter monetary policy. Seen over an economic cycle, the value fluctuations should thus cancel each other out. One problem, however, is that globally falling real interest rates have meant that central banks’ policies have been expansionary for many years, but this is a circumstance that monetary policy cannot resolve.

All in all, the international research carried out so far in this area indicates that the distribution effects of expansionary policies are not, in total, negative. Rising asset prices have benefited some groups, while increasing numbers of people in work have been important for evening out incomes.

So are distribution arguments appropriate for supporting a certain monetary policy? As far as I know, distribution policy effects are not included either in the mandates or in the material used to make decisions of any of the other central banks whose monetary policy regimes resemble Sweden's. Neither are these aspects taken up in the Sveriges Riksbank Act.

So far, my assessment is that considering distribution is less appropriate for monetary policy. There are better policy areas, namely taxation and transfer payments, which have greater precision if the political majority wishes to change distribution. My scepticism towards using distribution arguments in monetary policy should not, however, be interpreted as a statement on distribution policy as such.

Deputy Governor Henry Ohlsson:

For monetary policy, the price stability target takes precedence and my assessment is that we have now reached that target. It is thus now relevant to consider other target variables such as the distributional effects of the monetary policy being conducted. I gave a speech on this in 2017.[3] The expansionary monetary policy is stimulating the development of asset prices, leading to more uneven income and wealth distribution, but this is offset by the distributional effect of lower unemployment. This is also something that the Deutsche Bundesbank points out in an analysis from 2016.[4] This offsetting effect is now wearing off, as unemployment, in my opinion, cannot be cut any more with the help of monetary policy. Consequently, there no longer exists any distribution policy argument for maintaining the low policy rate.

In the draft Monetary Policy Report, there is a figure showing that the profit share in the economy is forecast to increase over the next few years.[5] The distribution between profit share and wage share in the economy is normally referred to as functional income distribution. As I see it, the forecast that the profit share is expected to increase in the coming years is very likely to be highlighted in the economic policy debate.

§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,

• to hold the repo rate at −0.50 per cent.

Deputy Governor Henry Ohlsson 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 Report. He advocated raising the repo rate to −0.25 per cent with reference to the strong economic growth in Sweden and abroad.

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[3] "The distributional effects of monetary policy", Sveriges Riksbank (2017).

[4] "Distributional Effects of Monetary Policy", Deutsche Bundesbank, Monthly Report, September 2016.

[5] See Figure 4:16 on page 29.

§5. Other decisions

The Executive Board decided

• to publish the Monetary Policy Report and decisions under Section 4 with the motivation and wording contained in a press release at 09.30 on Thursday 26 April 2018, and

• to publish the minutes from today's meeting at 09.30 on Tuesday 8 May 2018.

This paragraph was verified immediately.

Minutes taken by

Maria Kindborg

Verified:

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

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