Monetary policy minutes

September 2020

SVERIGES RIKSBANK

Summary

At the Monetary Policy Meeting on 21 September, the Executive Board of the Riksbank decided to hold the repo rate unchanged at zero per cent. The Riksbank's zero policy rate and extensive programme of measures are providing continued support to economic developments and helping inflation rise towards the target.

The coronavirus pandemic has dominated developments in the global economy over the past six months. In the first acute phase in the spring, many countries were hit by sharp falls in GDP, rising unemployment and turmoil on financial markets. The members noted that the measures taken by governments and central banks around the world have helped to calm the markets, mitigate the economic decline and start the recovery. But they also emphasised that the pandemic is not yet over. The way back is long and fraught with uncertainty, not least as regards the long-term effects of the crisis, and the economic recovery is dependent on extensive economic policy support.

The members pointed out that the Riksbank's measures during the pandemic have had the intended effects. Credit supply has been maintained and interest rates for households and companies have been kept low, despite the widespread crisis. By safeguarding this, monetary policy is helping to mitigate the effects of the crisis and provide the conditions for economic recovery. This will ultimately lead to inflation rising towards the target. The members therefore considered it appropriate to continue to purchase assets, offer liquidity in all the programmes launched so far this year and hold the repo rate unchanged at zero per cent.

If there is a need for more monetary policy stimulus, further expansion of the balance sheet remains an important tool. Several members pointed out that the scope for cutting the policy rate is limited but that such a measure cannot be ruled out. Which measures would be most effective depends on the situation and what happens in other policy areas, not least fiscal policy.

Recent inflation outcomes have been higher than expected, but the statistics are currently difficult to interpret and developments going forward are uncertain. The assessment is that it will take time before inflation returns more permanently to the target. Several members stated that if inflation were to overshoot the target for a while, this need not be a reason to make monetary policy less expansionary.

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MINUTES OF MONETARY POLICY MEETING

Executive Board, No. 9

DATE: 21 September 2020

TIME: 09.00

PRESENT: Stefan Ingves, Chairman
Cecilia Skingsley
Anna Breman, remotely
Martin Flodén, remotely
Per Jansson, remotely
Henry Olsson, remotely

Susanne Eberstein, Chairperson, General Council of the Riksbank
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Vesna Corbo, remotely
Charlotta Edler
Dag Edvardsson
Mattias Erlandsson
Frida Fallan
Anders Gånge, remotely
Jesper Hansson
Jens Iversen, remotely
Petra Lennartsdotter, remotely
Henrik Lundvall
Pernilla Meyersson
Ann-Leena Mikiver
Marianne Nessén, remotely
Jessica Penzo
Bengt Petersson, remotely
Olof Sandstedt, remotely
Åsa Olli Segendorf, remotely
Maria Sjödin, remotely
Jens Vahlquist (§ 1-3a)
Ingrid Wallin Johansson (§ 1-3a)

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

§3a. Economic developments

Market developments since the last monetary policy meeting

Ingrid Wallin Johansson of the Markets Department began by presenting the latest developments on financial markets. Since the monetary policy meeting in June, conditions on fixed-income markets have been comparatively calm. Yields on government bonds in Germany, the United States and Sweden have been traded in a relatively narrow interval, while market rates on short-maturity loans have been pushed down by large liquidity surpluses. On FX markets, the US dollar has continued to depreciate. The lion's share of the depreciation happened in July and the dollar lost value against a large number of other currencies, including the euro and the Chinese yuan.

In late spring and early summer, risk appetite returned among investors on financial markets. This development continued over the summer and equity indices have risen on the whole, although some downturns have occurred in recent weeks. The trend of rising equity prices has been strongest among US technology companies. Developments on stock exchanges in Europe have been more modest, although the Stockholm Stock Exchange has recorded increases comparable to those on Wall Street. Risk appetite has also continued on corporate bond markets and the cost of insuring against issuer default has fallen on the whole.

No new, extensive packages of measures have been announced by the world's leading central banks over the summer, although central bank communication has been followed very carefully on financial markets. The market expects the European Central Bank (ECB), as a result of the bank's pandemic emergency purchase programme, to absorb the lion's share of the increased supply of government bonds caused by the fiscal policy expansion in the euro area. Analysts have also attached substantial importance to the statements concerning the euro exchange rate made by various ECB representatives. There has also been considerable focus on the communication from the US Federal Reserve regarding its changed monetary policy strategy.

On FX markets, the Swedish krona appreciated during the summer, primarily against the US dollar. Regarding expectations prior to today's monetary policy meeting, virtually all market participants are anticipating an unchanged repo rate. Neither are they expecting any decisions on new or extended programmes of measures.

The current monetary policy drafting process – new data and forecasts

Olof Sandstedt, Head of the Financial Stability Department, presented data on the funding of the banking system, the situation for companies and price developments on the housing market. Yields on Swedish covered bonds have decreased further since the monetary policy meeting in June. The yield for bonds with a maturity of 5 years is now around 0.15 per cent. Recently, interest rates on shorter interbank loans have also fallen slightly and the interest rate on three-month contracts is now just below zero. Swedish fixed-income markets are judged to be functioning well overall. Liquidity on the dollar market is also considered to be satisfactory.

In Sweden, bankruptcies increased at the start of the coronavirus pandemic, but have returned to more normal levels during the summer. Total provisions made by the major Swedish banks for loan losses increased in the second quarter. If the crisis drags on and the recovery takes time, the risk of more bankruptcies among previously robust firms will increase. As regards housing prices, a downturn was recorded in the early stages of the crisis, in March and April. But from May onwards, prices on the housing market have picked up and in August, they rose by 8.1 per cent, compared with the level one year ago.[1] However, the development of housing prices going forward is obviously still uncertain.

Mattias Erlandsson, Deputy Head of the Monetary Policy Department, began by describing developments in the economy since the monetary policy meeting on 30 June and the monetary policy measures that the Monetary Policy Department judged would gain majority support in the Executive Board at today's meeting. The monetary policy drafting process has included discussions with the Executive Board regarding the forecasts and monetary policy assumptions at meetings on 4, 7 and 10 September. The draft Monetary Policy Report was discussed and tabled at a meeting with the Executive Board on 15 September.

Mattias Erlandsson addressed some of the aspects discussed in particular depth during the drafting process, several of which are described in articles in the draft Monetary Policy Report. This concerned the assessment of the strength of the recovery and the risk of setbacks in light of how the pandemic has developed. Other aspects that have been significant during the drafting process are the effects of monetary policy, credit supply to small and large companies and developments in short-term and long-term interest rates, both on safe and on riskier assets. Another important factor under discussion has been fiscal policy in Sweden and abroad, including the effects of the EU's "Next Generation EU" package.

[1] This refers to HOX Sweden which is published by Valueguard. The monthly change in the price index was negative in March and in April but has been positive since May.

It is now over six months since the pandemic began to spread across the world and it is still very much ongoing: The infection continues to spread globally and has picked up again in several countries in Europe, after having been subdued over the summer. Part of the reason for the increase in reported new cases is the greater number of tests being done, although there are nevertheless signs of the disease spreading more prolifically in several countries. This rise in Europe means that the assumption in the Monetary Policy Report in July of a reduced infection rate and gradually lifting of restrictions in the autumn now seems less likely. Instead, the forecast in the draft Monetary Policy Report is now based on an assumption of generally unchanged measures in the autumn. Not until next year is it assumed in the draft report that restrictions will be gradually phased out.

The fact that the pandemic is clearly continuing will have repercussions for economic developments. The global economy has indeed improved significantly compared with March and April, when many economies were in total lockdown. But, compared with the Monetary Policy Report in July, the forecast for GDP growth in the second half of the year in Europe has been revised down. The recovery is expected to continue in the period ahead, albeit at a slower pace.

The assessment is that it will take several years for the global economy to heal after the pandemic. In addition, the effects will probably persist to a certain extent even when the pandemic is over. For example, GDP in the forecast is not back at the level predicted in the February Monetary Policy Report, that is to say before the outbreak of the pandemic. Furthermore, the risks to developments are assessed to be on the downside.

Developments in the Swedish economy during the summer have been slightly stronger than was expected in the Monetary Policy Report in July. Statistics published at a monthly or higher frequency indicate a substantial recovery in GDP, not least as a result of an increase in household consumption. The activity indicator, for example, rose significantly in July. However, the GDP level is still low after the unprecedented fall of over eight per cent in the second quarter.

Forward-looking indicators point to a continued increase in the autumn and GDP growth this year is now expected to be –3.6 per cent, compared with –4.5 per cent in the forecast in the July Monetary Policy Report. Even though the forecast implies a virtually unprecedented fall, developments are expected to be significantly stronger than in the euro area, for example, where the fall in GDP this year is projected to be around eight per cent. Substantial fiscal and monetary policy measures have helped to soften the blow to the economy both in Sweden and abroad.

Developments in the Swedish economy depend to a high degree on what happens in other countries. This weak development means that it will also take time for the Swedish economy to recover the fall and, as has been the case in connection with previous major crises, conditions will also be negatively affected in the longer term.

The weak demand has had a clear impact on the Swedish labour market. Despite considerable targeted support from the Government to help companies retain their staff, unemployment has risen sharply. Although information from the labour market over the summer indicates some stabilisation, unemployment is expected to rise further from the turn of the year in light of the continued low demand.

In the 2021 Budget Bill, which was presented today, the Government proposes measures that will weaken public finances by over SEK 100 billion next year. This is in line with the fiscal policy assumed in the forecasts in the draft Monetary Policy Report. Fiscal policy will thereby make a significant contribution to the recovery of the Swedish economy.

The Riksbank's various indicators show that underlying inflation has been relatively unchanged during the year. For example, CPIF inflation excluding energy was 1.4 per cent in August, which is only the odd tenth lower than just before the pandemic. However, falling energy prices are exerting substantial downward pressure on inflation this year and CPIF inflation was 0.7 per cent in August. During the summer, inflation has been slightly higher than the Riksbank expected it to be in the July forecast. The crisis is making it difficult to measure some prices, however. Furthermore, household consumption is different to what it usually is and this is making inflation outcomes for individual months particularly difficult to interpret.

Next year, energy prices are expected to rise along with demand in Sweden and abroad, which will lead to slightly higher CPIF inflation than this year, even though the appreciation of the Swedish krona over the summer will dampen the increase. In light of the substantial decline, it is reasonable to expect a delay before inflation is back around 2 per cent more persistently. Uncertainty surrounding the outlook for inflation is considerable, something which was described in an article in the July Monetary Policy Report. The forecasts are based on the monetary policy that the Monetary Policy Department judges will gain a majority in the Executive Board at today's monetary policy meeting. The various measures decided during the spring and summer are left unchanged, including the asset-buying programme, which will run until mid-2021 according to the Executive Board's decision in June. The repo rate is held unchanged at zero per cent and the repo rate path indicates an unchanged repo rate in the years ahead.

§3b. The economic situation and monetary policy

Deputy Governor Martin Flodén:

I support the proposals for decision in the draft Monetary Policy Report. I also support the forecasts and analyses presented in the draft Report.

Developments since the monetary policy meeting at the end of June have been in line with the forecasts we presented then, and the outlook regarding future developments holds up well. The corona pandemic means that GDP will fall heavily this year, unemployment will rise and inflation will be low. Some sectors are hit particularly hard, but the overall economic downturn does not appear to be as deep as we feared in the spring.

Authorities in several European countries have again tightened measures to limit the spread of infection. This illustrates that the pandemic is not yet over. There is still considerable uncertainty over how the pandemic will develop in the near term and how our behaviour will change in the longer run as a result of the pandemic. Uncertainty surrounding economic developments is therefore also greater than usual.

Although economic developments have been a little better than we feared in the spring, I assess that there is still considerable need for economic policy support measures. One factor behind my assessment is that the relatively favourable development probably is the result of the stimulus already implemented and still in effect.

An article in the Monetary Policy Report describes how the Riksbank's support measures have functioned during the pandemic. This is a description I agree with, but would like to comment on further.

If there were increased turbulence on the financial markets, there is a risk that banks would tighten their lending and raise lending rates to households and companies, and also a risk that companies would experience greater difficulty borrowing on the bond markets. This would mean that households would have problems financing their housing and that robust companies would face problems financing both regular operations and investment. All of this leads to a vicious circle, where a downturn in one sector entails increased problems for the rest of the economy. Increased problems in the real economy can then lead to a financial crisis, which in turn can entail even greater problems in the real economy, for instance that unemployment rises rapidly and that many companies go bankrupt.

In March and April, there were tendencies for certain rates, primarily on risky assets, to start rising. However, rates on these assets have since fallen and are now at low levels. Since banks’ funding costs have been kept low, the rates offered to households and companies have also remained at low levels during the crisis.

At our meeting in June, I noted that there are no clear signs of a credit crunch in the economy. Risk premiums and lending rates are low as are the government's borrowing costs. Rates are expected to remain low going forward and the yield curve is basically completely flat. Banks have not tightened their lending to households and companies. And this is despite a historically sharp and deep slowdown in economic activity, with increased bankruptcy risks and rapidly increasing public indebtedness.

The Riksbank's measures during the pandemic, including the asset purchases and lending facilities we decided on at the June meeting, thus appear to have worked well and had the intended effect. I see no reason to change or extend any of these measures now. My assessment is that the earlier measures we decided on are necessary and well-calibrated to ensure that interest rates remain low and credit supply continues to function despite the economy being held back by the consequences of the pandemic. By ensuring this, monetary policy is helping to alleviate the effects of the crisis and provide the conditions for a more rapid economic recovery. Moreover, this will ultimately lead to inflation rising faster towards the target.

I said initially that developments since the meeting in June have been in line with the forecasts we presented then. But the development of two variables has deviated somewhat from our June forecast and deserves comment. The first of these is the exchange rate, which has strengthened. Our new assessment is that the krona will be around three per cent stronger in trade-weighted terms in the third quarter, compared to the forecast from June. I do not see the krona appreciation as a threat to our ability to hold inflation close to the target. The krona appreciation was mainly caused by the US dollar depreciation, partly as turbulence on the financial markets has declined. The krona is now at roughly the same exchange rate against the euro as it was in June, and also roughly the same as at the start of the year. There is nothing to indicate that the krona is overvalued. My assessment is that the Swedish economy, and thereby inflation developments in the long run, would not have benefited from a krona exchange rate at the weak levels we saw in March and April.

The second variable is inflation, which during the summer became higher than we had forecast. The higher inflation than expected is a welcome element, as inflation is low. The risk that inflation expectations will fall too low is now slightly lower than it was in June. At the same time, it is of course important to point out that some prices are now changing rapidly and temporarily and that it has also been unusually difficult to measure inflation during the pandemic. Our assessment of inflationary pressures in the medium to long run has not changed substantially in recent months. There is still considerable uncertainty over inflation, particularly over how the pandemic will affect inflationary pressures in the longer run. There are factors indicating both higher and lower inflationary pressures.

But inflation is, as I said, already low and the policy rate is close to its effective lower bound. Inflation expectations are also a little lower than desirable, and inflation has been below the two per cent target for a large part of the last ten years. All of this means that it is more worrying and more problematic if inflation falls lower than expected than if it goes higher than expected. This is illustrated by the alternative scenarios described in an article in the draft Monetary Policy Report.

In one scenario, the spread of infection declines rapidly and the economic upturn is much faster than in the main scenario. Despite the assumption that monetary policy is the same as in the main scenario, both the real economy and inflation develop more favourably. There is thus no reason to tighten monetary policy in such a scenario, despite the economy showing a much stronger development than in the main scenario. To raise inflation expectations and boost confidence in the inflation target, holding the policy rate unchanged at zero could be justified even in a scenario where inflation was rising even more and overshooting two per cent.

In the other scenario, the economic downturn is instead deeper and more prolonged, which means that inflation remains below the target for a longer period of time. In this scenario, there is justification for implementing even more expansionary stabilisation policy. The measures that would be most effective would depend on how the crisis then develops, but fiscal policy would probably play an important role. There is plenty of scope to use fiscal policy measures if needed, both to continue alleviating the direct economic effects of the crisis, and to stimulate demand in the economy. In such a scenario, it may also be appropriate to cut the policy rate, and this applies in particular if the krona continues to strengthen rapidly at the same time as inflation expectations fall.

Deputy Governor Anna Breman:

Since the crisis began, the Riksbank has taken extensive measures to create favourable conditions for a good recovery in the Swedish economy and to safeguard the inflation target. I support the continued strategy of the Riksbank to make extensive asset purchases and offer liquidity in all the programmes launched so far this year, and to hold the repo rate unchanged at zero per cent. I also support the proposed repo rate path and the forecast and alternative scenarios in the draft Monetary Policy Report.

The coronavirus pandemic is an unusual economic crisis. With around 30 million confirmed cases of the disease and over 900,000 deaths, no countries have been left unscathed. In Sweden, we have seen positive developments since the summer, with a lower death rate and less pressure on the healthcare service, but we must remember that the situation can change rapidly and that we are also affected by developments in the world around us.

I would like to emphasise three things today. First, an expansionary monetary policy will be necessary for a long time. A crisis of this magnitude leaves deep scars – the recovery will take time. Second, balance sheet measures are a standard tool for central banks today. If we need to make monetary policy more expansionary, an expansion of the balance sheet is probably more effective than a negative policy rate, but circumstances will dictate the most appropriate policy mix. Third, the coronavirus pandemic is leading to considerable changes in society. Not only do we need to analyse how these changes affect economic developments and price stability, but we also need to be open to innovation as regards monetary policy to ensure that it remains effective and relevant.

Let me begin with the need for an expansionary monetary policy. Since the last monetary policy meeting, economic statistics have been in line with the Riksbank's forecast and the forecast revisions are minor. Inflation has been slightly higher than expected while various measures of underlying inflation and inflation expectations are stable. The problems in measuring inflation persist and inflation figures must continue to be interpreted with caution – it is important to consider economic developments as a whole. Overall, the economic data justifies keeping the current measures unchanged at today's meeting. An important aspect for me is that financial markets have priced in these measures. Current interest-rate levels reflect expectations that the measures will be maintained. Signals indicating any tapering of them would probably lead to rising interest rates for households and companies. This would mainly hit households and companies with small margins; the same households that are most at risk of unemployment and companies that are most likely to go bankrupt. Too rapid a withdrawal of expansionary monetary policy would therefore jeopardise the economic recovery and allow the lasting negative effects of the crisis to take hold.

Rising asset prices and greater inequality in society are often highlighted, both in Sweden and abroad, as an effect of expansionary monetary policy. Serious analysis and nuanced debate of the issue are important and welcome. Research into the effects of monetary policy on income and wealth distribution shows that there are no easy answers to the question of who benefits and who is disadvantaged by an expansionary monetary policy.[2] Expansionary monetary policy tends

[2] See, for instance, Andrea Colciago, Anna Samarina and Jakob de Haan (2019), Central Bank Policies and Income and Wealth Inequality: A Survey, Journal of Economic Surveys, 33(4), 1199-1231, Makoto Nakajima (2015), The Redistributive

to increase employment and reduce the risks of vulnerable groups suffering permanent exclusion. In addition, the development of income and wealth distribution depends to a large extent on what happens in other policy areas, such as fiscal policy and macroprudential policy.

Let me now move on to my second point about balance sheet measures. The coronavirus pandemic increases the likelihood of policy rates staying close to zero for many years to come. This makes it less attractive to reintroduce a negative policy rate as potentially negative side-effects (which I have discussed in previous minutes) will be greater the longer the policy rate is negative. Instead, the central bank toolbox is moving more in the direction of balance sheet measures, such as bond purchases. But an increased use of balance sheet measures is not just an effect of close-to-zero interest rates. It is also a consequence of a changing financial sector. To fund investments, Swedish companies, regions and municipalities are increasingly choosing to issue bonds rather than use traditional bank loans. When society changes, it is important for the Riksbank to adapt its tools to ensure that monetary policy is effective and relevant.

Another effect of policy rates close to zero is that focus shifts to fiscal policy. It is welcome that many countries, including Sweden, are choosing an expansionary fiscal policy to cope with the crisis. The draft Monetary Policy Report outlines how fiscal and monetary policy can combat various problems related to the pandemic and complement other measures implemented in this type of crisis. Fiscal policy can also be particularly effective with policy rates close to their lower bound, but this is contingent on interest rates continuing to be low. This is another argument against tightening monetary policy too early.

Now to my last point – openness to innovation in monetary policy. At the last meeting, I said that an important task for the rest of the year will be to analyse the changes in the economy caused by the pandemic, both in the behaviour of households and companies as well as in the economic policy response. Since the last monetary policy meeting, we have seen changes to, for example, the EU's fiscal policy framework, Next Generation EU, and to the Federal Reserve's monetary policy strategy. The ECB is also reviewing its framework.[3] In addition to economic policy reforms abroad, we also need to consider structural changes, such as digitalisation, climate change and globalisation, which may occur either more rapidly or more slowly as a result of the corona crisis. Such changes can have positive or negative effects on the labour market and output. It may affect our capacity to maintain price stability.

Consequences of Monetary Policy, Business Review, second quarter, 9-16, Federal Reserve Bank of Philadelphia, Henry Ohlsson (2017), The distributional effects of monetary policy, speech on 7 April, Sveriges Riksbank and European Parliament "ECB Quantitative Easing (QE): What are the Side Effects?", 2016.

[3] Both the Fed and the ECB had already started their reviews before the pandemic.

The Riksbank has been innovative in connection with the crisis. Many of the measures it has implemented during the crisis are standard measures around the world, but they are new for the Riksbank, such as purchases of municipal bonds and covered bonds. Throughout the crisis, we have evaluated and adapted the implementation of our tools to reach all corners of the economy. As an example, I would like to highlight our decision to expand the group of monetary policy counterparties in order to reach smaller banks and, through them, more small and medium-sized enterprises. We have also chosen to include unincorporated businesses within the framework for our funding for lending scheme. Another aspect related to innovation is reviewing how we can consider sustainability in our purchases of corporate bonds and measure and report greenhouse gas emissions linked to these purchases.

As the article in the draft Monetary Policy Report describes, the funding for lending programme and bond purchases have so far had the desired effect. The corona crisis has not developed into a financial crisis; credit supply to households and companies has been maintained. The result of this is that an economic recovery has begun, which will help inflation rise towards the monetary policy target in the longer run. As society is now changing as a result of the pandemic, the next innovative step to take in monetary policy is to analyse new tools or modifications to existing tools that the Riksbank could utilise in the coming years.

Let me summarise. An expansionary monetary policy will be necessary for a long time to come. We need to continue to be ready to act in the event of conditions becoming worse than in our main scenario. However, the opposite scenario, that is a stronger recovery and higher inflation, need not be a reason to make monetary policy less expansionary. Finally, in a rapidly changing world, innovation in monetary policy will be crucial in order to meet the challenges faced by the Swedish economy in the years to come.

Deputy Governor Per Jansson:

I support the economic assessments and the monetary policy assumptions in the draft Monetary Policy Report. As usual, I would like to begin by commenting on the current inflation picture. I will then move on to my view of the monetary policy situation.

Since our previous monetary policy meeting, we have had three new inflation outcomes, for June, July and August. The outcome for CPIF inflation in August was 0.7 per cent. Since June last year energy prices have throughout made a negative contribution to inflation. This is also the case with regard to the August outcome that had the inflation rate excluding energy prices at 1.4 per cent. Regardless of whether inflation is measured with or without energy prices, all of the new outcomes are higher than we were assuming in the July Monetary Policy Report. In this situation, with an inflation rate lower than the target level of 2 per cent, these forecast errors are welcome and can happily continue for a prolonged period.

Although the inflation target is worded in terms of the entire CPIF, I personally would like to emphasise that at present, when energy prices are having such a sizeable negative effect on price developments as a result of the corona crisis, I am giving some extra weight to CPIF inflation excluding energy prices. However, the pandemic is not only having temporary effects on inflation via considerable downward pressure on energy prices but also due to a substantial impact on, in particular, certain service prices.[4] This means that different measures of core inflation in general carry greater weight right now.

If we look at the seven measures of core inflation regularly calculated by the Riksbank, increases can be noted for five of these measures, while two are unchanged, in relation to the July Monetary Policy Report. The median is at 1.6 per cent in August, which can be compared with 1.2 per cent in the calculation made in connection with the July Report. The two measures that have been shown in an empirical evaluation to be best at predicting future CPIF inflation, UND24 and CPIFPC, amounted in August to 1.7 and 1.9 per cent respectively.[5] As at our previous monetary policy meeting, I draw the conclusion that the development of the trend, or core, inflation rate is fairly good, even slightly better than before.

Another important part of the inflation picture is inflation expectations. Here also, three new outcomes have been published since our last meeting; Prospera's monthly surveys for July and August, which only cover money market participants, and the larger quarterly survey for September, which also measures the expectations of the labour market organisations, among others. As I have stressed several times previously, just now it is primarily the longer-term inflation expectations that should be monitored closely.

When it comes to money market participants, the expectations five years ahead fell by almost one tenth of a percentage point in July, but were higher again in the surveys for August and September, largely back at the same level as in June, namely just over 1.7 per cent.[6] The figures for the other groups in the new larger quarterly survey are relatively stable as well. Although we can note a decline of just over one tenth of a percentage point in the expectations five years ahead for the employees' organisations, the changes are otherwise very small. With the exception of the employees' organisations, all outcomes are above 1.7 per cent. And for the

[4] See the box "Temporary effects holding inflation down in 2020" in the draft Monetary Policy Report.
[5] See the article "Why measures of core inflation?" in the Monetary Policy Report, October 2018.
[6] I am focusing as usual on the expectations for CPI inflation rather than for CPIF inflation, as the response rate for CPIF inflation is in some parts very low.

employees' organisations, the outcome is only just over one hundredth of a percentage point below 1.7 per cent.

With regard to long-term inflation expectations calculated from bond yields, which are usually lower than the survey-based measures, the picture is somewhat fragmented, with some measures rising and others falling. However, the extensive interventions by central banks make it difficult to interpret market-based measures of expected inflation and I therefore believe that is wise not to give them too much significance at present. In sum and in light of this, as at our previous monetary policy meeting, I feel that developments in the more long-term inflation expectations too, can so far be considered acceptable.

The relatively stable inflation picture means that, in the draft Monetary Policy Report, fairly minor forecast revisions are now being proposed. The largest revisions are being made with regard to developments during the summer and autumn next year, when the forecast for inflation is being revised down by a good half a percentage point. The forecast revisions are the result of the Swedish krona appreciating quite substantially recently, which is expected to affect inflation with a time lag, and of the unexpectedly high inflation outcomes in the summer giving rise to some base effects at the same point in time next year.

However, these forecast revisions do not have significance for the Riksbank's more fundamental ability to attain the 2 per cent target in the coming years. Just as in the July forecast, inflation will rise gradually and towards the end of the forecast period, from around summer 2023, the inflation rate will be only a couple of tenths of a percentage point below the target. With this kind of development in inflation there is no reason to believe that it would not also in the future be possible to maintain the role of the inflation target as anchor in the setting of prices and wages in Sweden.

With this, I will go on to comment on the monetary policy situation. The current inflation picture, which I have just reviewed, is such that I assess now that the assumptions regarding monetary policy in the draft Report are well-balanced. While a somewhat more expansionary monetary policy would increase certainty that we would actually manage to bring up inflation where we want it to be, I feel that as long as the fairly decent inflation picture persists, and above all, there are few signs of any serious confidence problems, it is best to leave policy unchanged to avoid unnecessarily wasting the ammunition we have left. The scope we now have to make monetary policy more expansionary – regardless of whether this entails cutting the repo rate or undertaking other measures – is after all not unlimited.

When there is considerable uncertainty, it is a good idea to draw up contingency plans, should developments not turn out as expected. I have stressed, during the whole period of the pandemic, that there are both downside and upside risks with regard to inflation. While the downside risks have been highlighted by many analysts, considerably fewer have, at least so far, focused on the upside risks. These include several so-called negative supply shocks – rising energy prices, reduced competition, a decline in global value chains and more protectionism – and, in many countries, sharply rising public indebtedness, which can ultimately lead to inflation picking up, if this is perceived as the only way to manage the burden of debt. In addition, the very large fall in GDP is being followed by a rapid change in production in the reverse direction, which can prove to be inflationary even in a situation where resource utilisation is below a normal level.

An important circumstance to clarify in this context is that I would hardly see a need to make monetary policy less expansionary, even if inflation were to overshoot the target for a while. As I have pointed out on a number of earlier occasions, such a development might even be desirable, if it means that the uncertainty on both the upside and downside of the target were to become more symmetrical. For me to think that monetary policy needed to be made less expansionary in the event of unexpectedly high inflation, it would probably require that inflation had to overshoot the target both substantially and for a fairly long period of time – perhaps being close to 3 per cent for, say, at least a year.

If, on the other hand, inflation were to be lower than expected, it is much more likely that I would be in favour of changing our policy, but in this case of course by making it more expansionary. The situation could of course become very serious here if it were to result in fundamental confidence problems for the inflation target. What then remains, as I see it, is to do what is necessary to counteract such a development, and it would hardly be possible to do this without once again implementing a negative repo rate.

Deputy Governor Henry Ohlsson

Initially, I would like to say that I support continuing according to the plan for measures adopted at the July meeting. These measures are aimed at keeping interest rates in Sweden low and ensuring that the credit supply in Sweden functions. And I also support the proposal to hold the repo rate unchanged at zero, and to hold the repo-rate path horizontal.

The COVID-19 pandemic has completely overshadowed all other social issues in Sweden and abroad in 2020. In terms of the number of fatalities, the pandemic culminated in Sweden at the end of April/beginning of May 2020, when an average of 86 people died of COVID-19 every day.[7] The corresponding figure in mid-September was 2 fatalities per day, on average. The number of people in intensive care due to COVID-19 peaked in the second half of April with just over

[7] Based on data from the Public Health Agency of Sweden, I have calculated the average number of fatalities over the last 30 days on a day-to-day basis.

500 people. This can be compared with the corresponding figure recently, which is just over 10 people in intensive care.[8] Presently, only 10 out of 21 regions have anybody at all in intensive care due to COVID-19. Many regions have lowered their levels of preparedness.

The Public Health Agency of Sweden conducts regular investigations of the spread of the pandemic. The most recent reported investigation revealed that none of the over 2,500 participants had an ongoing COVID-19 infection. An investigation of the occurrence of COVID-19 among students and staff at Umeå University was also presented recently. Only 6 of the 9,900 people investigated had an active COVID-19 infection. It is, of course, highly encouraging that the situation is so much better today compared with the spring.

According to the draft Monetary Policy Report, Swedish GDP is expected to fall by 3.6 per cent this year compared with 2019. This is an upward revision in relation to the forecast in the July Monetary Policy Report, when the fall in GDP for 2020 was forecast at 4.5 per cent. But it is still a considerable decrease. The last time we saw a decline of this order was during the financial crisis in 2009, when the decline was 4.3 per cent. During the 1990s crisis, Swedish GDP declined for three years in a row. The total decline was then 3.8 per cent (1991–1993). These comparisons show the seriousness of the current decline.

The most recent inflation figure in August showed an annual rate of increase in the CPIF of 0.7 per cent. However, inflation statistics are difficult to interpret during the prevailing economic crisis.[9] For some groups of goods and services, there are, quite simply, no prices. Instead, the missing prices need to be estimated (imputed). Furthermore, household consumption patterns have changed considerably. This means that the actual consumption pattern of today deviates heavily from the consumption pattern assumed via the weights used when the consumer price index is calculated. Current research shows that imputations and changes in consumption patterns entail inflation statistics tending to underestimate the actual development of the cost of living.[10]

According to the most recent monthly statistics from the Swedish Public Employment Service, the average number of persons registered as unemployed in relation to the register-based labour force was 9.1 per cent in August 2020. This was a substantial increase of 2.1 percentage points in relation to the same month one year earlier, when the corresponding figure was 7.0 per cent. Unemployment insurance fund members can be considered to have a relatively strong position on the labour market. In August 2020, the percentage of openly unemployed members of

[8] I have collected this data from the Swedish Intensive Care Registry.
[9] I discuss this in greater detail in my speech “Monetary policy during the economic crisis”, which was held in June.
[10] See Diewert, W.E and Fox, K.J. (2020), “Measuring real consumption and CPI bias under lockdown conditions”, NBER Working Paper Series, No. 27144 and Cavallo, A. (2020), “Inflation with Covid consumption baskets”, NBER Working Paper Series No. 27352.

unemployment insurance funds was 4.6 per cent. The same month one year earlier, the share was 2.9 per cent. The increase over the past year has been a good 1.7 percentage points. Moreover, the upturn in unemployment is broad. All groups are being affected, strong as well as weak.

The increased unemployment caused by the economic crisis is of course undesirable. Many of the unemployed are well-equipped and will have good opportunities to obtain work when economic activity increases again. Others will need labour market policy measures to reinforce their human capital in order to get work.

Sweden is a small, open economy. We are dependent on economic activity and politics abroad. During the spring, draconian measures have been taken around the world, measures that have strongly reduced economic activity. These measures have declined in force recently. We also see signs of recovery in many parts of the world.

The world trade in goods decreased by up to just over 15 per cent at an annual rate in some months in spring. The most recent monthly measurements certainly show decreases, but these are now at about 10 per cent at an annual rate.

For me, the key question in judging the economic conditions for the remainder of 2020 and 2021 is: What policy will be conducted abroad? I consider it is an open question whether the political reactions we have seen during the spring will be repeated if the public health situation deteriorates once again.

I will now move on to my monetary policy considerations. Inflation expectations are an important element in judging the credibility of monetary policy when it comes to attaining the inflation target. It is an important observation that inflation expectations five years ahead among money market participants have remained at around 1.7 per cent despite the ongoing economic crisis.

During the spring and summer, the Riksbank decided on a number of monetary policy measures. When financial markets do not function as normal, the credit supply in the economy is threatened. The measures have two effects. The credit supply has been facilitated, as the Riksbank has in this way supplied more money to the financial system. Once the amount of money has increased, market rates have been kept low. In other words, the result is both a secured credit supply and expansionary monetary policy.

To sum up, I support continuing according to the plan for measures adopted at the monetary policy meeting in June. These measures are aimed at keeping interest rates in Sweden low and ensuring that the credit supply in Sweden functions. And I also support the proposal to hold the repo rate unchanged at zero, and to hold the repo-rate path horizontal. Additionally, I support the economic picture and the forecasts in the draft Monetary Policy Report.

Dixi!

First Deputy Governor Cecilia Skingsley:

I support the draft Monetary Policy Report, including holding the repo rate unchanged and the proposed new repo rate forecast.

The coronavirus pandemic is continuing to dominate events worldwide. Internationally, an economic recovery has started with the support of economic policy measures from governments and central banks.

But visibility ahead is still very poor. The sequence of events for the economy for a long time to come will be determined partly by how the restrictions are changed in different countries and regions, and partly by how individuals, companies, the public sector and the financial markets react to the pandemic.

In Sweden, the economic statistics received have mainly confirmed the Riksbank's forecast of the course of events as published in the last Monetary Policy Report on 1 July.

I would like to focus attention on the fact that, even if the latest inflation outcomes have been at higher levels than expected, the level is still very low and also hard to assess, among other reasons due to coronavirus-related measurement problems. However, when inflation prospects are assessed going forward, one positive factor is that inflation expectations of more long-term character have remained relatively stable. The great resolve shown by the Riksbank in 2015 and subsequent years to return inflation to the 2-per cent target via the negative repo rate and bond purchases has made confidence in the inflation target stronger. This provides stability to get us through the economic difficulties following on from the pandemic.

Even if the recovery continues in line with the forecasts in the new draft Monetary Policy Report, it is clear that the serious economic consequences of the pandemic will persist for several years to come.

Partly, this is a matter of weakened economic activity due to anti-contagion restrictions, but it also concerns difficulties of a more structural type that risk becoming particularly clear in terms of possibilities for pushing unemployment back down. The best contribution that can be made by central banks to assist economies through the pandemic is to support the functioning of the financial systems and thereby help to keep interest rates low and credit granting to function despite the great macroeconomic uncertainty.

Measures in the form of lending facilities and programmes for purchases of interest-bearing securities need to remain in their present forms in accordance with the decisions already taken by the Riksbank. Thanks to these being launched rapidly in March, market rates, which rose strongly when the pandemic was identified as a global crisis, came down again.

Since the previous monetary policy meeting, the Riksbank's programme for corporate bond purchases has been initiated. The decision to initiate purchases of certificates and bonds issued in kronor by non-financial corporations was taken by the Executive Board on 19 March. This was in a situation in which increases in yields had been significant, turbulence had been great and several funds specialised in the securities mentioned had closed for withdrawals. In other words, the situation was serious and, as the markets for corporate bonds and commercial paper have emerged as important sources of funding for Swedish companies in recent years, the Executive Board chose to include these instruments in the programme for securities purchases. After the turbulence in March, the different markets for interest-bearing instruments generally calmed down, supported by the central banks' initiatives.

However, the stabilisation of market conditions is no reason for the Riksbank to retreat from previous decisions. The purchase of SEK 10 billion in corporate bonds decided upon by the Executive Board at the end of June established a presence on the market for corporate bonds. This secures the Riksbank's ability to make rapid adjustments to the scope of purchases in light of their monetary policy impact and monetary policy assessments in the period ahead.

According to the draft Monetary Policy Report, inflation will rise gradually but still not reach 2 per cent over the forecast period. But this should not be taken as a sign that we have abandoned the inflation target or that it would be appropriate to do so. On the contrary, the effects of the pandemic on the economy show how important it is for monetary policy to continue to be focused on the inflation target of 2 per cent.

Monetary policy plays an important role in alleviating recessions as it can be deployed rapidly and forcefully. But for it to work, there has to be room for the policy rate to fall, which, in turn, requires a certain amount of inflation. Excessively low average inflation means a low average nominal interest rate. Under such circumstances, the policy rate will more frequently reach the so-called lower bound during recessions, where further cuts do not affect the financial conditions in the economy particularly strongly. In other words, it is vital to uphold the inflation target of 2 per cent to maintain monetary policy's ability to alleviate recessions.

The limitations on using the policy rate to the extent that is necessary are not a new problem, but the pandemic has led many more central banks into a similar situation where policy rates are close to zero or close to their lower bound. Developing the monetary policy framework so that central banks can continue to alleviate recessions is therefore important. The adjustments recently presented by the US central bank, the Federal Reserve, are therefore interesting to analyse and discuss here in Sweden.

Governor Stefan Ingves:

Since the last monetary policy meeting at the end of June, the economic recovery has continued, both in Sweden and abroad. After the acute crisis in the spring, we now seem to be in a phase of gradual recovery in economic activity. But we are far from solid ground, and the recovery may be both prolonged and volatile. In my view, therefore, the monetary policy that has emerged since the outbreak of the pandemic in March should be maintained. Over the past six months, the Riksbank has taken a large number of decisions, all of them aimed at helping to maintain credit supply to companies and households and keeping interest rates at a low level. In this way, monetary policy is providing support to the economic recovery, which will also help inflation to develop in line with the inflation target in the longer term. The measures taken by the Riksbank are aptly described in the draft Monetary Policy Report. I support the forecasts and other assessments in the draft report.

At the last monetary policy meeting in late June, we had started to see the outlines of a recovery after the dramatic fall in economic activity in the spring. The various restrictions introduced around the world at that time caused historic falls in GDP. The GDP figure for Sweden in the second quarter, −8.3 per cent compared with the previous quarter, was the weakest outcome registered since Statistics Sweden started calculating GDP on a quarterly basis 40 years ago. But the collapse came to an end after some time, largely due to extensive measures from governments and central banks. And more recent developments confirm that the recovery that began in early summer, at least as far as Sweden is concerned, is continuing.

Our forecasts for 2020 and the coming years are roughly similar to those in the last Monetary Policy Report. KIX-weighted GDP growth abroad is expected to be about −6 per cent this year, with substantial regional differences. China is expected to achieve positive growth figures this year, while the euro area is expected to shrink by more than 8 per cent. Healthy growth figures on a global level are expected in the rest of the forecast period, as the effects of the pandemic and the restrictions wear off. Swedish GDP is expected to shrink by 3.6 per cent this year, that is a slightly better outcome than in our previous assessment, and then return to relatively high growth figures. However, unemployment is expected to remain high throughout the forecast period. Inflation, which is expected to be 0.5 per cent this year when measured in terms of the CPIF, will rise towards 2 per cent in the coming years. But it will take time, which is not so strange given the substantial shock to the economy caused by the pandemic. But it is important to point out that we are of course aiming to get inflation up to 2 per cent. All our measures are aimed at maintaining credit supply, in order to promote economic activity, which in turn will contribute to rising inflation.

But as I mentioned earlier, there are considerable risks, as the long-term effects of the pandemic and the introduced restrictions on economic developments are very difficult to assess. There are of course upside risks. Compared to the assessments we made in April, the recovery has started earlier than expected, and it is possible that we are also underestimating the power of the recovery going forward and its effects on the inflation rate.

But, as I see it, there are major risks on the downside. In several parts of the world, infection rates are rising again and new restrictions may well be introduced, which would hit both international and Swedish growth. But in addition to this, that is to say, even if restrictions are phased out as expected, there is a risk that the pandemic may affect the confidence of companies and consumers in a negative and more permanent way. This was the second time in 15 years that the world economy has been exposed to an entirely unexpected shock. The economic recovery after the financial crisis of 2008 was much more prolonged than expected, partly because it uncovered weaknesses and gave rise to confidence problems. What the effects of the COVID-19 pandemic will be on the willingness of companies to invest, the risk assessments of investors and the saving and consumption patterns of consumers will have a crucial impact on how prolonged and orderly the recovery is. At the same time, the pandemic has brought about and in some cases accelerated structural changes in our way of producing, consuming and communicating. This can of course be positive for growth in the longer term. But the adjustment process may be prolonged and fraught with problems.

The measures taken by the Riksbank for monetary policy purposes since March are summarised in Table 1:1 in the draft Monetary Policy Report. It is a question of many different measures, including asset purchases, lending to banks on very generous terms, offers of liquidity at a very low interest rate, and expansion of the group of counterparties. Another tool was added to our arsenal of monetary policy tools only last week, when purchases of corporate bonds were initiated. With this wide menu of measures, we have put a monetary policy safety-net in place, in order to keep interest rates down, support credit supply and boost the economic recovery. Some of our lending programmes have not been utilised, or have been utilised to a very small degree, but have nevertheless had a positive effect as they have functioned as a kind of insurance. And we now have better preparedness – we can scale up existing measures if needed.

In most cases, the measures taken by the Riksbank to combat the effects of the pandemic are similar to those taken by other central banks. The details can indeed vary between countries and currency areas, depending for example on the characteristics of the financial markets in different countries. But basically, it is a matter of traditional central bank measures, which have now, so to speak, been rediscovered and become part of the regular monetary policy toolbox. The reason is that the world economy looks different now compared to 20-30 years ago. And in some ways, current monetary policy measures resemble those that were common 60-70 years ago. There are of course major differences between today's central banks and those of that time – for example, today's central banks are much more transparent – and the world economy and financial markets are more advanced and complex. But classic central bank tools function also in advanced economies as they basically combat problems that unfortunately have not disappeared, such as episodes of lacking confidence among various participants on financial markets.

So the Riksbank has several tools at its disposal, and experience shows that which tool is the most appropriate to use depends on the situation. We have now set up a programme that stretches until the middle of next year. If circumstances change, we can adjust the design. The repo rate, which is proposed to be held at zero per cent, can be cut if that is deemed effective. But there is not much scope for rate cuts, and the interest rate weapon alone cannot be expected to suffice to achieve the inflation target.

The corona pandemic has been a very serious shock for the international and the Swedish economy. It more or less goes without saying that in order to manage such a serious shock, it is important that the power of the whole of economic policy is utilised. Both monetary policy and fiscal policy needs to be utilised to the full. The low public debt in Sweden provides the right conditions for using fiscal policy to continue to take forceful measures.

§4. Monetary policy decision

The Executive Board decided

- to hold the repo rate unchanged at zero per cent and that this decision shall apply with effect from Wednesday 23 September 2020,
- to adopt the Monetary Policy Report according to the proposal, Annex A to the minutes,
- to publish the monetary policy decision and the Monetary Policy Report with the motivation and wording contained in a press release at 09.30 on Tuesday 22 September 2020,
- to publish the minutes from today's meeting at 09.30 on Thursday 1 October 2020.

This paragraph was verified immediately.

Minutes taken by

Jessica Penzo

Verified:

Stefan Ingves	Cecilia Skingsley	Anna Breman
Martin Flodén	Per Jansson	Henry Ohlsson

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