Monetary policy minutes

November 2022

SVERIGES RIKSBANK

Summary

To bring down inflation and safeguard the inflation target, the Executive Board decided to raise the policy rate by 0.75 percentage points to 2.50 per cent at the monetary policy meeting on 23 November. Inflation is still far too high and compared with September the Executive Board assesses that monetary policy needs to be tightened further to bring it back to the target within a reasonable time.

The members noted that global inflation remains high and that central banks around the world are therefore raising their policy rates. In Sweden, inflation has been lower than the Riksbank’s forecast from the monetary policy meeting in September. But excluding energy prices, inflation has instead been unexpectedly high, which indicates that inflationary pressures are higher and the Riksbank's forecast for underlying inflation has been revised upwards.

The members agreed unanimously that the policy rate needs to be raised more than they assessed in September to bring inflation back to the target and they all supported the decision to raise the policy rate by 0.75 percentage points to 2.5 per cent. It was pointed out that although long-term inflation expectations have been relatively stable so far, there is still a considerable risk that the high inflation will become embedded in expectations and lead to a weakening of confidence in the inflation target. A high rate of inflation over a long time can create serious problems for the real economy and the members emphasised that by raising the policy rate more now, the risk of high inflation over a long time is reduced and thus the risk of even more monetary policy tightening further ahead.

All of the members supported the forecast that entails the policy rate probably being raised further at the beginning of next year to just under 3 per cent. However, the members emphasised that there was considerable uncertainty regarding the development of inflation. This makes it difficult to assess how much the policy rate needs to be raised to bring inflation back to the target. The members were careful to emphasise that monetary policy will be adapted in the way necessary to ensure that inflation reaches 2 per cent within a reasonable time.

MONETARY POLICY MINUTES
Executive Board, No.5

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DATE: 23 November 2022

TIME: 09:00

PRESENT:
Stefan Ingves, Chair
Anna Breman
Martin Flodén
Per Jansson
Henry Ohlsson

Bo Broman, Chair, General Council
Tomas Eneroth, Vice Chair, General Council

Mattias Ankarhem
Joel Birging (§ 1-3a)
Vesna Corbo
Charlotta Edler
Paul Elger
Mattias Erlandsson, remotely
Anders Gånge, remotely
Jesper Hansson
Iida Häkkinen Skans
Jens Iversen
Pernilla Meyersson, remotely
Ann-Leena Mikiver
Marianne Nessén
Olof Sandstedt
Åsa Olli Segendorf
Maria Sjödin
Ulrika Söderberg
Anders Vredin

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

§3a. Economic developments

Market developments since the last monetary policy meeting

Joel Birging from the Markets Department presented the latest developments on the financial markets. The period since September has been marked by continuing high inflation outcomes and interest-rate hikes by central banks. This has contributed to government bond yields rising on the whole, particularly for shorter maturities. Developments for long-term yields have been more volatile, with slightly larger declines recently. A factor contributing to the decline in long-term yields is that American CPI inflation had a lower outcome than expected, which fuelled hopes that inflation has already peaked. Sentiment on stock markets has improved since September, and the broad share indices have risen. The volatility on the energy markets remains and the outlook is uncertain. On the oil market, a number of sanctions against Russia will soon enter into force, and market participants are weighing a limited oil supply against risks to global growth. Natural gas prices in Europe have fallen aided by well-filled stocks and warm weather. The broad dollar strength has declined and the dollar index has fallen back from this year’s peak levels. This in turn has strengthened the krona against the dollar. However, the krona has weakened against the euro. Prior to the Riksbank's interest-rate decision in November, analysts are expected the policy rate to be raised by 75 basis points. Swedish bank analysts envisage the policy rate reaching 2.75–3 per cent in 2023, which is somewhat lower than forward rates indicate.

The situation in the banking sector and financial stability

Olof Sandstedt, Head of the Financial Stability Department, described the situation in the housing market and the funding situation for companies and banks. The risks to financial stability in Sweden have increased over the year. After many years of low inflation and very low interest rates, increasing asset prices and rising indebtedness, it is uncertain how economic agents can cope with a rapid rise in inflation and interest rates. This applies not least in light of the vulnerabilities that have been building up in the Swedish financial system for a long time. This primarily concerns the banks' exposure to the highly indebted commercial property companies, but also the high level of indebtedness among households.

Households are being pressured from different sides and housing prices are continuing to fall. Moreover, households are interest-rate sensitive and highly indebted. The vast majority of mortgagors are expected to be able to keep up with their debt payments, but some households may have problems servicing their debts. If costs remain high for a prolonged period, household resilience and debt-servicing capacity will deteriorate.

Higher costs and lower demand are expected to lead to more corporate bankruptcies going forward. At the same time, companies are continuing to take larger loans and lending is still growing rapidly. Real estate companies are particularly vulnerable in the current environment as they have large loans and are interest-rate sensitive. Rising interest rates mean that their cash flows decline and that the value of their properties decreases. The banks' credit losses remain low, but risk rising.

With regard to financial stability, Deputy Governor **Per Jansson** commented that it could be interesting to take a closer look at the Financial Stability Report recently released in Norway, as they also have a lot of variable interest-rate mortgages, and thus high interest-rate sensitivity in the household sector, but they possibly have better data there than we have in Sweden.

The current monetary policy drafting process – new data and forecasts

Åsa Olli Segendorf, Deputy Head of the Monetary Policy Department, described the current assessment of macroeconomic developments and the proposal for a monetary policy decision in the draft Monetary Policy Report. The background material for today's decision has been discussed on four occasions: at the introductory drafting meeting on 11 October, the monetary policy group meetings on 10 and 11 November, the reconciliation meeting on 15 September and the Executive Board meeting on 17 November, where the draft Monetary Policy Report was also discussed and tabled.

The high inflation in Sweden and abroad has led to tighter monetary policy with higher policy rates. The central issue in the drafting process prior to today's meeting has been the development of inflation in Sweden and abroad, and in-depth analyses of its development, causes and driving forces going forward. During the drafting process, the Executive Board members have pointed out the uncertainty regarding the development of inflation in both the short and long term.

Inflation in Sweden is high and the upturn is on a broad front. Since the meeting in September, underlying inflation has continued to rise and is higher than our forecast in September. An important aspect has been to analyse incoming statistics and other information for signs of the high inflation having become more persistent via higher inflation expectations, wage increases and price increases on products and services whose production costs are not so much affected by energy prices. The monetary policy transmission via financial markets appears to be functioning well.

Disruptions on the European energy market as a result of reduced gas deliveries from Russia have led to periodically very high electricity prices, which have in turn affected inflation. Going forward, however, they do not appear to be as high as previously feared. To protect consumers and firms from sharply rising energy prices, many countries have introduced various forms of government subsidy. It is important to follow these and how they affect inflation.

Wage formation in Sweden is functioning well. Even in the current situation, the social partners have signalled a long-term perspective and that they are assuming that inflation will return to target. The central wage bargaining rounds and their outcome play an important role in the development of inflation going forward and will continue to be analysed during the winter and spring.

The exchange rate also affects the development of inflation in Sweden. In times of increased uncertainty, the krona tends to weaken. Compared with the forecast in the Monetary Policy Report in September, the krona is now weaker.

Inflation is still far too high and the upturn has been on a broad front, both in Sweden and abroad. In the euro area, the upturn in inflation has continued, while the rate of price increase has slowed down somewhat in the United States. The main focus in the drafting process has been on the high Swedish inflation. Detailed analyses of the inflation outcomes and the reasons for the high inflation have been important to the assessment of the development of inflation in both the short and long term. Inflation is expected to fall back next year. The supply shocks that became tangible after the pandemic are expected to gradually fade. At the same time, tighter monetary policy is expected to reduce demand, which will contribute to a better balance between supply and demand and therefore lower inflationary pressures. In 2024 and 2025, inflation abroad and in Sweden is expected to be roughly in line with central bank inflation targets. However, there have been unusually large fluctuations in inflation in recent years, and there is thus considerable uncertainty over developments going forward.

Assessments of economic developments are given in the draft Monetary Policy Report. Global growth will slow down fairly quickly in the coming year as a result of higher inflation and tighter financial conditions. However, growth will recover in 2024, when the uncertainty is expected to be lower and inflation has fallen back.

The forecasts are based on the policy rate being raised by 0.75 percentage points to 2.50 per cent. The forecast shows that the policy rate will probably be raised further at the beginning of next year and that it will then be just below 3 per cent. In line with previous forecasts, it is assumed that asset purchases will cease at the end of the year and that asset holdings will therefore decrease as they mature.

The staff at the Monetary Policy Department would like to take this opportunity to thank you, Stefan. Over the years, there have been many interesting monetary policy questions and we have had rewarding discussions. Thank you for all you have done for the Riksbank and for Sweden, and we wish you the best of luck in the future.

§3b. The economic situation and monetary policy

Deputy Governor Per Jansson:

I support the economic assessments and the monetary policy assumptions in the draft Monetary Policy Report.

Since our last monetary policy meeting in September, inflation has continued to develop unfavourably. Although CPIF inflation fell in October compared to September, from 9.7 to 9.3 per cent, and the outcome was also about 0.5 percentage points lower than expected, inflation adjusted for energy prices continued to rise and furthermore by much more than expected. The October outcome for CPIF inflation excluding energy prices was 7.9 per cent, compared to 7.4 per cent both in September and according to the forecast for October.

Our measures of underlying inflation also continue to paint a gloomy picture. The median of the measures, which has now increased sixteen months in a row and since October 2021 has consistently been above the inflation target, is at 8.0 per cent, compared to 7.1 per cent based on data up to and including August in connection with the meeting in September. In September, I noted that none of the measures was below 6.5 per cent. Now, the lowest measure is at 7.1 per cent. The development of underlying inflation indicates that we are still facing a broad price increase and this is unfortunately also confirmed by the outcomes for the various sub-components of inflation. The three sub-indices for food, goods and services, which together make up a little over 90 per cent of the consumption basket in consumer prices, are now each contributing significantly more than 2 percentage points to the overall inflation level. In the October outcome, it was primarily the price increases in food and goods that continued to rise at a worryingly fast pace.

An absolutely crucial purpose of the conducted monetary policy is to prevent the currently large and broad increase in prices from being expected to persist for a long time to come, or, to put it differently, that longer-term inflation expectations start to overshoot the inflation target too much. If that were to happen, a price-wage spiral may occur that could be very costly to break. Against this background, a very pleasing circumstance in the otherwise gloomy inflation picture is that Prospera's new measurements of long-term inflation expectations indicate that these remain close to the inflation target and are not showing any tendency to increase. In the latest survey for November, which is a monthly survey of money market participants only, five-year inflation expectations were at 2.3 per cent, an increase of a few hundredths of a percentage point compared with the survey in October but roughly an equally large decline compared to the measurement in September.[1] No new quarterly survey, which also measures the expectations of labour-market organisations, has been undertaken since our last monetary policy meeting. In the latest measurement, performed in September, however, both the employer and employee organisations expressed continued strong confidence in the inflation target.[2]

As I said, the fact that long-term inflation expectations have been, and continue to be, close to 2 per cent is very pleasing but cannot be used as an argument for refraining from taking monetary policy measures. On the contrary, I interpret the development of expectations as proof that we are conducting monetary policy in approximately the way required. The tightening of monetary policy that we have done so far, in the form of a higher interest rate and interest-rate path as well as reduced asset holdings, has been just about right in order to keep longer-term inflation expectations stable and close to target – the expectations have deviated significantly from the target neither upwards nor downwards, as they would have done if monetary policy had been tightened far too little or too much. This, I think, is a rather key insight when it comes to interpreting and relating to the development of longer-term inflation expectations.

The most important forecast revision in the draft Monetary Policy Report is that inflation excluding energy prices is now expected to be higher, especially next year. This is very much a consequence of the unexpectedly high outcome, with few signs of the breadth of the price increases starting to recede. But there are also other factors, such as higher wage increases, rents and tenant-owner housing association fees, that are playing their part in keeping up inflation a little longer than previously calculated. The higher-than-expected inflationary pressures in our neighbouring countries are of importance here as well. The revisions to the forecast for CPIF inflation are complicated by them being considerably affected by the large fluctuations in energy

[1] I am focusing as usual on the expectations for CPI inflation rather than for CPIF inflation, as the response rate for CPIF inflation is often lower. As we are now in a rate-hike cycle, it may become more important going forward to follow and emphasise the expectations for CPIF inflation. For five-year inflation expectations, however, the differences between the two measures are currently small.

[2] The longer-term inflation expectations estimated from the market pricing of financial contracts have fallen in general since our September meeting. However, for various reasons that I have elaborated on earlier, I attach less importance to these.

prices. For the next few months, the forecast is lower, but for the latter part of next year and early 2024, it is higher.

That it will now take a little longer for inflationary pressures to recede justifies a somewhat bigger tightening of monetary policy than we anticipated in September. I therefore support increasing the policy rate from 1.75 to 2.5 per cent and revising up the forecast for the policy rate so that it levels off at just below 3 per cent from the middle of next year. With this monetary policy, inflation is expected to be close to the inflation target in approximately the same time perspective as before, that is, around the turn of the year 2023–24. This continues to provide Swedish wage formation with stable prerequisites, including good prospects for real wage growth as early as in 2024 and beyond.

In this situation, assessing how much monetary policy needs to be tightened to achieve the desired effect on inflation but not create too large a decline in the real economy, with major downturns in output and employment, is not easy. In the debate, there are claims that we are being too aggressive and risk breaking the economy. The critics are clear that they think we are tightening too much, but they seldom say in what way they think monetary policy should actually be conducted to prevent higher inflation from persisting for a long time. If one, as we in the Executive Board are doing, instead considers that the greatest danger to the Swedish real economy is inflation remaining high for a long time and that this ultimately leads to longer-term inflation expectations clearly exceeding the inflation target, then the perspective on our current monetary tightening of course becomes different. In a situation where economic agents have lost confidence in the inflation target, it would namely require significantly larger interest-rate hikes than those we have already implemented and plan to implement going forward, in order to regain this confidence. It is thus a question of avoiding something like this.

Neither do I think that the actual starting point that our monetary tightening is unreasonably severe is self-evident. Of course, hiking the interest rate by 2.5 percentage points since April and intending to increase it to a little below 3 per cent may sound a lot but, bearing in mind the major inflation problem we have to deal with, the tightening can actually be considered not to be that severe. We now expect to succeed to bring down inflation from a level we have not seen since the high-inflation years of the 1970s and 1980s with a policy rate that is only just under a percentage point higher than during the interest-rate peak in the autumn of 2011 and almost two percentage points lower than during the interest-rate peak in the autumn of 2008.

Nor do the Riksbank's rate hikes seem particularly aggressive in an international comparison. So far in 2022, we have raised the rate by 0.5 percentage points more than the ECB and Norges Bank, but there are good reason to believe that this difference will disappear when these central banks publish their next interest-rate decisions in December. As regards many other central banks, such as the Federal Reserve, Bank of England and Bank of Canada, the Riksbank's rate hikes have been smaller this year – and this is not taking into account that these central banks will probably raise their policy rates further before the end of the year.

In my view, a more suitable description of the Riksbank's implemented and planned monetary tightening is that it is relatively cautious in both a historical and an international perspective. In fact, for the tightening to be sufficient, a number of rather favourable forecast assumptions also need to hold. These include companies' pricing behaviour returning to a more normal pattern once demand weakens going forward, wage negotiators continuing to adopt a long-term perspective and not aiming for large compensatory wage increases, and fiscal policy limiting itself to measures targeting especially hard-hit groups. These assumptions are certainly not unrealistic but it is worth emphasising that they must hold if our monetary tightening is to be sufficient.

Hopefully, we now have the largest policy-rate hikes behind us. According to the forecast, it will be enough to raise the policy rate by just under another 0.5 percentage points at the beginning of next year. Thereafter, the higher policy-rate level shall be allowed to take effect and help to ensure that inflation is close to 2 per cent in 2024. This can be seen as a new phase in the monetary policy strategy, where the focus is on the level of the policy rate rather than, as has been the case so far, on its change. Assessing what monetary policy is required to return inflation to target within a reasonable time frame continues to be very uncertain and difficult. Our preparedness to revise the monetary policy plan must therefore continue to be high. But the new phase in the monetary policy strategy reflects our belief and hope that we are close to a level for the policy rate that will not need to be that much higher.

Deputy Governor Martin Flodén:

I support the proposal to raise the policy rate by 0.75 percentage points to 2.5 per cent, the proposed policy-rate forecast and the draft Monetary Policy Report.

At the three most recent monetary policy meetings, in April, June and September, we have raised the policy rate more than we had indicated at the previous meeting. The rapid policy rate hikes were necessary, as inflation had risen rapidly – much faster than we had estimated in our forecasts – and to levels far exceeding our inflation target.

Developments since the September monetary policy meeting have not been quite as worrying as prior to the previous meetings this year. We are seeing increasing signs that the monetary policy tightening abroad and in Sweden is having the intended effect. Freight costs and prices of several commodities have fallen significantly in recent months, partly because the rate hikes have dampened international demand. In Sweden, we can see signs that household consumption has begun to decline. We also see that housing prices are falling and that lending to households is increasing relatively slowly in relation to how it has increased in recent decades.

Another important observation is that electricity prices have decreased. As a result of the surprisingly low electricity prices, CPIF inflation was 9.3 per cent in October, half a percentage point lower than in our forecast at the September monetary policy meeting. And although electricity prices are expected to be very high this winter according to pricing on the financial markets, they are now expected to be much lower than pricing indicated prior to our previous meeting.

When we attempt to analyse how inflation will develop going forward, the focus is usually on measures that exclude the direct effects of energy prices on inflation. But now that energy prices have for a long time been much higher than usual, we cannot disregard their development. The inflation upturn this year can be largely explained by spillover effects from high energy prices onto consumer prices of goods, services and food. The risk of inflation becoming entrenched at a high level is of course reduced if electricity prices are lower than we feared earlier.

It is even more important that long-term inflation expectations are at a good level and that confidence in the inflation target is strong, despite inflation now exceeding the target by such a considerable margin. Long-term inflation expectations are now, according to Prospera's survey, just over 2 per cent, while the expectations indicated by pricing in financial markets have fallen rapidly in recent months and now indicate a long-term inflation rate slightly below target. This measure is connected with a number of problems and should therefore be interpreted with caution. I would set greater store by the comments from social partners, and that they have said that the inflation target will be used as a basis for wage formation.

All of this indicates that we could keep to the monetary policy plan from out meeting in September, where we indicated that the policy rate would most likely be raised by 0.5 percentage points today. However, there are also factors that have gone in the wrong direction and which mean that a larger rate increase will nevertheless be necessary.

Foreign central banks have continued to raise their policy rates rapidly and market pricing of future rate increases in these countries has shifted upwards. The rate hikes abroad risk spilling over onto the krona and causing higher import prices, and then ultimately slightly higher inflation, unless our interest rates also rise at a similar same pace.

However, this has not carried much weight in my deliberations today. Although the krona has at times been very weak since the meeting in September, the inflationary impulse from the exchange rate is relatively small compared with all of the other price movements we have seen over the year, and the krona has been so weak that I am convinced that in the slightly longer term it will strengthen even if we raise the policy rate a little less than other central banks. My reasoning on this is thus in line with the analysis in the article on the exchange rate in the draft Monetary Policy Report.

On the other hand, one factor that has weighed heavily in my assessment is that underlying inflation was substantially higher in October than we had forecast. Measured with the CPIF excluding energy, inflation was 7.9 per cent, which was 0.5 percentage points higher than the forecast at our monetary policy meeting in September. The outcome was thus much higher than our forecast, and is not explained by any specific temporary component. This indicates that inflationary pressures are still high, and our forecast for underlying inflation next year is now being revised up by almost one percentage point. For inflation to approach 2 per cent towards the end of next year, monetary policy needs to be tightened slightly faster than we had previously assessed.

The fact that underlying inflation became so high has weighed heavily in my assessment of the situation regarding today's monetary policy decision. If inflation had been in line with our forecast from September, I would have advocated an increase in the policy rate of 0.5 percentage points today.

The forecast proposal in the draft report now indicates that the policy rate also needs to be raised at our next monetary policy meeting, in February next year, most probably by 0.25 percentage points. This is a forecast that I support, but I have pointed to a number of factors that indicate that monetary policy is beginning to have an effect and that therefore indicate that inflation may fall back towards the target without us having to raise the rate much more after today's increase. There is still a lot of uncertainty, but if this picture has been reinforced by our meeting in February, it may be appropriate to hold the policy rate unchanged at the next meeting.

Finally, I note that we are not planning to make any new decision regarding asset purchases today. This means that all purchases cease at the turn of the year and that our holdings will decline as the bonds mature. Risk premiums on mortgage, municipal and corporate bonds have risen this year, and are now at a higher level than prior to the pandemic. Part of the upturn can be due to our purchases this year having been relatively small and that the market is also expecting our purchases to cease at the turn of the year. But I believe that our purchases can at most explain a small part of the movements in risk premiums over the last year. Given the uncertain economic situation, it is natural that risk premiums have risen. I assess that ceasing purchases in the current market situation will not cause monetary policy to be tightened in any decisive way.

Deputy Governor Henry Ohlsson:

To begin with, I would like to say that I support the proposal to raise the policy rate by 0.75 percentage point to 2.5 per cent, and proposed policy-rate trajectory. In addition, I support the economic outlook in the draft Monetary Policy Report. When it comes to the forecasts, I have a comment to make.

Inflation has risen rapidly abroad. During 2021, the rate of inflation in the United States rose to 4.7 per cent. This year, inflation there has continued to rise. The draft Monetary Policy Report contains a forecast that inflation in the United States will reach 8.1 per cent this year. In the euro area, the rate of inflation began to rise somewhat later. For the year 2021 as a whole, inflation rose to 2.6 per cent. The forecast for the euro area in the draft Monetary Policy Report is 8.5 per cent in 2022. The trade-weighted (KIX-weighted) rate of inflation abroad was 3.1 per cent in 2021. It is expected to be 8.1 per cent in 2022, according to the draft Monetary Policy Report.

The rapidly rising inflation has led to powerful monetary policy reactions in many parts of the world. The annual average in 2022 for the KIX-weighted policy rate is assessed to reach 0.5 per cent. When the policy rate increases take effect over the whole of the coming year, the forecast in the draft Monetary Policy Report is that the annual average will rise to 2.9 per cent for 2023.

CPIF inflation in Sweden was 2.4 per cent during 2021. It is expected to be 7.6 per cent in 2022, according to the draft Monetary Policy Report. Developments in Sweden have been fairly similar to those in the euro area. The policy rate in Sweden will reach an annual average of 0.7 with the monetary policy decisions I am assuming we will take today. These decisions will mean that the forecast for 2023 become an annual average of 2.8 per cent. My conclusion from this review is that inflation and the policy rate in Sweden will not be very different from inflation and policy rates abroad.

A fundamental starting point for monetary policy is that the CPIF has been the target variable for monetary policy since 2017. In other words, the rate of increase in the CPIF is the measure of how quickly the cost of living is rising, which is the starting point for the price stability target. The most recent inflation survey in August 2022 showed that the annual rate of increase in the CPIF was 9.3 per cent compared with the same month one year earlier. This is significantly above the inflation target of 2 per cent. It is a very long time since the cost of living in Sweden increased as quickly as it has done during 2022.

Here it is natural to 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 2.3 per cent in recent months. The most recent five-year measurement for money market participants from September 2022 is also at 2.3 per cent on average.

I would like to emphasise that money market participants' inflation expectations are not formed in a vacuum. These actors at the same time form expectations of a number of macroeconomic key variables. These include, in addition to inflation, expectations of the coming monetary policy. In November 2022, money market participants expected a policy rate rounded up to 2.7 per cent twelve months ahead, and a policy rate of 2.3 per cent 24 months ahead from November 2022. In other words, money market participants' five-year expectations of inflation of 2.3 per cent were based on an expectation of less expansionary monetary policy during the coming years than prevails now.

The price increases we have seen over the year are not something that monetary policy can affect. But the high inflation risks setting off a spiral of price increases, wage drift, price increases, wage drift and so on in the near term. It is essential to ward off these tendencies in time. It is very clear to me that monetary policy needs to become much less expansionary. As I see it, it is therefore necessary to raise the policy rate substantially. It is also my assessment that today's relatively large increase can prove to be not quite enough. If there had been a majority in favour of raising the rate by 1 percentage point, I would have supported such an increase. However, the policy-rate path entails a forecast of further hikes going forward, which is why I support today's decision.

The draft Monetary Policy Report contains a whole-year forecast for CPIF inflation in 2024 of 1.5 per cent. I do not agree with this assessment. As I see it, we will in the best case be close to the inflation target of 2 per cent in 2024, having approached the target from above.

It is important to emphasise that the earlier increases in the policy rate, together with today's large increase do not mean that monetary policy in Sweden differs to any great degree from that conducted in other countries. This is one of the factors behind the Swedish krona not having appreciated so far this year.

To summarise, I support the proposal to raise the policy rate by 0.75 percentage points to 2.5 per cent, and the proposed path for the policy rate. In addition, I support the economic outlook in the draft Monetary Policy Report. When it comes to the forecasts, I have a comment with regard to the forecast for CPIF inflation in 2024.

Deputy Governor **Martin Flodén** followed up with a comment. I understand from your comments that you do not support the forecast for CPIF inflation in 2024. Can you describe which of the factors underpinning the forecast you do not support? Do you think, for instance, that the forecasts for underlying inflation and wage increases are too low? Or is it the forecast for energy prices that is too low?

Deputy Governor **Henry Ohlsson** responded. I support the draft Monetary Policy Report and the policy rate, but have a comment. I make an overall assessment and do not believe that CPIF inflation will come down to 2 per cent in 2024. However, I have not dissected the individual contributions in detail.

First Deputy Governor Anna Breman:

I support the proposal to raise the policy rate, the interest-rate path and the forecast in the draft Monetary Policy Report.[3]

My assessment is that monetary policy is now firmly contractionary. The Swedish economy is slowing down, but it is mainly next year that this will have a significant impact on inflation. That inflation is not falling back more rapidly, despite rate increases, does not mean that monetary policy is not effective but reflects the fact that it takes some time for households and companies to adapt to new interest rate levels. Weaker short-term growth when interest rates rise must be weighed against the long-term economic gains of low and stable inflation; that the inflation target acts as an anchor for price- and wage-setting.

Today I would like to start by commenting on the inflation outcomes and prospects for inflation and then discuss the monetary policy considerations.

At the last meeting, I stressed that the risk picture for inflation was starting to look more balanced, in contrast to the beginning of 2022, when the risks were clearly on the upside. Since then, the inflation outcomes have been close to forecast, but different measures have deviated in different directions. In the last outcome for October, inflation measured as the CPIF was

[3] I also support the total cessation of bond reinvestments from the turn of the year. This is not a formal decision, but part of the overall monetary policy.

somewhat lower while underlying inflation measured as the CPIF excluding energy was somewhat higher than in our most recent forecast. The continued rise of underlying inflation justifies our policy-rate hike of 0.75 percentage points and the upward revision of the rate path at today's meeting.

However, the prospects for inflation point to lower inflation going forward. Firstly, the pandemic-related supply shocks are starting to abate. Freight costs and commodity prices have fallen back sharply. This should have an effect on inflation, but it tends to take time before it passes through to consumer prices. Secondly, we see that global energy prices and food prices, which rose as a result of Russia's invasion of Ukraine, have fallen back. Thirdly, we see that demand in the Swedish economy is weakening as a result of contractionary monetary policy in Sweden and abroad. These factors will contribute to inflation falling back next year.

Other factors that may affect inflation are the exchange rate, wage negotiations and companies' price-setting behaviour. Exchange rate effects and wage negotiations are discussed well and in detail in the draft Monetary Policy Report and I will therefore not make any further comment here.[4] However, I would like to comment briefly on companies' price-setting behaviour, which shows signs of having changed. Some companies are being hit hard by rising costs and cannot pass these on to consumers. Others seem to be more than capable of compensating themselves for increasing costs. Companies' profit shares have risen in the Swedish economy as a whole.[5] In addition, companies are expected to receive a substantial share of the new electricity price compensation of SEK 55 billion, which should reduce their need for price increases in the near term.[6] Competitive and profitable companies are good. At the same time, it is important to examine whether, for example, a lack of competition in some sectors has caused companies price-setting behaviour to change. This could make it more difficult than previously to bring down inflation to target. Additional analysis is needed to obtain better information on this.

The risk of continued large fluctuations in energy prices makes the analysis of companies' price-setting behaviour and forecasting, in general, more difficult. As long as Russia's illegal invasion of Ukraine continues, it can amplify the already high volatility in both energy and food prices. Historically, the correlation between energy prices and underlying inflation has been weak. But

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[4] For discussion of wage negotiations and wage-setting, see, for example, Chapter 1 and Chapter 3 in the draft Monetary Policy Report. For exchange rate effects, see, for example, the article "Why has the krona weakened this year?" in the draft Monetary Policy Report.

[5] See page 43 and Figure 38 in the draft Monetary Policy Report.

[6] See the fact box "Large variations in how market prices of energy affect inflation in different countries" on pages 34–35 in the draft Monetary Policy Report.

the very high electricity prices over the past year may now have a greater impact in the form of widespread indirect effects on other prices, and thus on underlying inflation.[7]

Inflation in Sweden is broad-based, but the highest price increases are for energy and food. This risks contributing to high inflation expectations among households, as frequently consumed goods and services affect households' inflation expectations the most.[8] It is therefore very positive that various measures of long-term inflation expectations continue to be well-anchored. We also see that short-term inflation expectations have fallen back somewhat.[9]

To summarise the prospects for inflation, I would like to highlight that the prerequisites for inflation to fall back have strengthened since the last meeting, but that volatile energy prices are still a substantial uncertainty factor and that the danger of inflation becoming entrenched at a high level is not over.

In light of this, let me turn to the monetary policy considerations at today's meeting.

I already said at the beginning that I assess monetary policy to be firmly contractionary. I base this assessment on monetary policy now being a combination of a higher policy rate, an upwardly revised rate path and a reduction of asset holdings. This means that overall monetary policy is now, most probably, more contractionary than the policy-rate level implies. There are studies that take account of the combined measures by calculating a "proxy policy rate".[10] It would be interesting to do the same thing for Sweden.

In addition to this, we need to consider that our economy is more sensitive to interest rates than it has been in the past and more than in other countries.[11] Since the inflation target was introduced, we have not had such a rapidly increasing policy rate in Sweden. The last time the policy rate was raised by 2.5 percentage points was in 2006–2007. The equivalent increases back then took more than 600 days, which is three times longer than this time round.[12] The speed of the increases is currently justified by a rapid rise in inflation and a need to bring down inflation to target.

In this context, it is important that we be clear about the continued risks involved in acting either too little or too much. This is beginning to become an increasingly difficult trade-off, the higher the policy rate goes. Too small rate rises can still lead to a price-wage spiral and even higher rate

[7] See the article "High energy prices – how will other consumer prices be affected?" in *Monetary Policy Report*, February 2022.
[8] See speech by A. Breman (2022), 23 March 2022, Sveriges Riksbank, Inflation and monetary policy in the shadow of war.
[9] See Figure 1 and Figure 16 in the draft Monetary Policy Report.
[10] See, for instance, J. Choi, T. Doh, A. Foerster and Z. Martinez (2022) "Monetary Policy Stance Is Tighter than Federal Funds Rate" FRBSF Economic Letters No 2022–30, Federal Reserve Bank of San Francisco and J. Choi and T. Doh (2016) "Measuring the Stance of Monetary Policy on and off the Zero Lower Bound" FRB Kansas City Economic Review 101(3), Federal Reserve Bank of Kansas City.
[11] See the article "Higher sensitivity to interest rates in the Swedish economy" in *Monetary Policy Report*, September 2022.
[12] See Figure 22 in the draft Monetary Policy Report.

rises being required.[13] Too much tightening would risk leading to a deep and prolonged recession, making it more difficult to maintain the inflation target in the longer run. For example, a decline in the Swedish housing market and in the commercial real estate sector could amplify the economic downturn, which in turn can lead to instability in both the real economy and inflation. To attain long-term low and stable inflation, monetary policy must dampen, not amplify, cyclical fluctuations.

If underlying inflation had not continued to rise, I would have advocated a smaller increase of the policy rate. With today's increase, I assess that we are approaching a level at which the policy rate can then be held unchanged for a time. In this context, I wish to emphasise that I support the revised profile of the rate path at today's meeting, that is, a rate path that levels off rather than indicates some probability of a rate cut. There are several reasons for this which I discussed in the minutes of the last meeting. However, let me highlight one aspect.

As I often reiterate – it takes time for monetary policy to take effect fully. This means that if we cut too early, we risk inflation starting to rise again. When there are also upside risks to medium-term underlying inflation, I prefer a rate path where the policy rate remains constant for a period. I consider this to be a well-balanced monetary policy in the current situation in order to bring inflation back to target on a permanent basis. That said, new information may emerge that changes the prospects for inflation. In a globally volatile environment, we need to be ready to adapt monetary policy; a larger increase, cut or keeping the policy rate and/or asset holdings unchanged may also become relevant in the near term.

Allow me to summarise. I support a rate increase, the rate path and the cessation of asset reinvestments at the turn of the year. With this, the Riksbank's monetary policy is now firmly contractionary, which will contribute to a slowdown in economic activity and the return of inflation to target. The adjustment will be painful for many households and companies. However, lower growth in the short term must be weighed against the long-term socio-economic gains of a return to low and stable inflation.

Governor Stefan Ingves:

This is my final regular monetary policy meeting. I would therefore like to devote a little time at the end of my remarks to some general reflections based on my experiences from 17 years as a monetary policy maker. But I will start by describing my position on the current decision, which will be a little more concise than normal.

I support the forecasts and assessments made in the draft Monetary Policy Report. It provides a good reflection of the prevailing economic and monetary policy situation. Since the last monetary

[13] See the article "Alternative scenarios for inflation and monetary policy" in the draft Monetary Policy Report.

policy meeting in September, the development of inflation has been surprisingly negative and the underlying inflationary pressures are higher than we have seen previously. There is reason to expect the current high inflation to subside next year, for example when direct and indirect effects of past energy price rises and bottlenecks are no longer included in the inflation figures. However, to ensure that inflation does not lastingly become entrenched at, say, 5–6 per cent, monetary policy will have to continue to be tightened. I therefore support the proposal to raise the policy rate by 0.75 percentage points to 2.5 per cent. The forecast for the policy rate has also been raised and now indicates that the rate will be close to 3 per cent at the start of next year. In my opinion, this is a reasonable forecast, not least because 3 per cent can hardly be seen as a high policy rate when inflation is close to 10 per cent. At the same time, perhaps more than normally, the monetary policy rate is a forecast and not a promise. I would not be particularly surprised at all if the rate needed to be raised more later on, in addition to which we know nothing about when it will be time to cut the rate. In addition to today's discussion of the policy rate, it is also worth pointing out that our bond portfolio will mature at quite a rapid pace. This, in itself, is also a tightening of monetary policy over and above today's policy rate rise. At the same time, my opinion is that it is important to continue to have a significant holding of bonds in Swedish kronor over the long term. Otherwise, the Riksbank will rapidly lose its operational capacity to complement monetary policy in this way. And I consider it absolutely necessary to have this capacity in the future too. I would also like to note here that the termination of bond purchases at the end of the year does not require any formal decision.

Monetary policy is now acting in a well-balanced way and with force to defend confidence in the inflation target. It is important to act in the near term to ensure than underlying inflationary pressures and long-term inflation expectations develop in a way that is compatible with the inflation target. Such action will guarantee a better and more stable economic development in the long run.

International economic developments are vital for the shaping of Swedish monetary policy, a point that I think is often underestimated in the domestic discussion. International developments have been particularly hard to assess in recent years. The ongoing war in Ukraine entails, above all, continuing large-scale human suffering. But it is also a source of great macroeconomic uncertainty, perhaps primarily in Europe. The war and the continued measures to manage the covid-19 pandemic in various parts of the world are the main reasons that the global economy is now in a phase of slowing growth and high inflation. Our forecast for KIX-weighted growth amounts to 2.9 per cent this year, followed by almost 1 per cent next year and about 2 per cent in the following years. Our forecast for KIX-weighted inflation has been adjusted up slightly, to just over 8 per cent this year, 5 per cent in 2023 and about 2.5 per cent for the following years.

The falling inflation over the coming years reflects both the supply shocks that lay behind the acceleration of inflation being expected to ease off in the period ahead and the tightening of monetary policy by central banks.

The development of inflation in Sweden over the last year has been dramatic but it should be added that it resembles the development of inflation abroad. In one year, CPIF inflation has risen from around 3 per cent to 9.3 per cent in October. CPIFxe has also risen over the same period, from a little below 2 per cent to 7.9 per cent in October. In our forecasts, the rate of price increases is expected to slow down considerably next year, once the effects of supply shocks like the earlier rise in energy prices have worn off. However, monetary policy is also making a decisive contribution, both through tighter financial conditions that are having a restraining effect on demand and through clear communication that the Riksbank will continue to act to bring inflation back to 2 per cent within a reasonable time horizon.

It could be said that there is a lot at stake now, not just in Sweden but elsewhere too. Those countries managing to conduct a long-term responsible overall economic policy in the current difficult situation will probably have paved the way for very good economic development in the following 5–10 years, with the reverse being true where economic policy fails.

As I said, this is my final monetary policy meeting. I would therefore like to take the opportunity to reflect a little over my 17 years as responsible – together with other members of the Executive Board – for the shaping of monetary policy in Sweden.

Firstly – the framework on which Swedish monetary policy has been based for the last 30 years, the inflation targeting policy, has largely functioned well. By this, I mean that inflation has been kept at low and stable levels. Of course, one exception is the episode we currently find ourselves in, but this is due to exceptional factors – war and a pandemic – and, with an appropriate monetary policy, inflation will be back on target within a few years.

It is possible that the main reasons for the stable price development in Sweden over the 30 years of inflation targeting are connected to international trends: globalisation, digitalisation and the large global surplus of savings, which together caused inflation and international real interest rates to show a trend decline. But there are also domestic reasons for the strong development. After the crises at the start of the 1990s – the banking crisis, the currency crisis, the high sovereign debt and the deep recession that followed – a number of reformed were launched with the aim of breaking the negative developments of the 1970s and 1980s, above all the high inflation. An independent central bank with an inflation target was one of several important elements.

The significance of these reforms can probably not be overstated. In the 1970s and 1980s, inflation in Sweden was chronically higher than among its neighbours, which led, in turn, to disorder in economic policy and a less well-functioning economy. Breaking this pattern was a great success.

Secondly – although the target for Swedish monetary policy has stayed unchanged over all these years, the means of reaching this target have developed over time. This has been a natural consequence of structural changes in the global economy and the financial sector, both abroad and at home. One of the structural changes is the falling trend in global real interest rates, as I mentioned above. The fall in long-term real interest rates, which monetary policy cannot affect, dragged nominal policy rates around the world down with it. Central banks, including the Riksbank, had to start to use new versions of old monetary policy tools in the form of asset purchases to keep inflation stable. The changes to the structure and size of the financial sector have also affected how the Riksbank, for example, has acted to attain its inflation target. One recent example comes from spring 2020 when it became necessary to act directly in the market for corporate bonds when the Riksbank's various loan arrangements with the banks failed to spread onwards to the rest of the economy sufficiently. Do not believe that there is one and only one form of monetary policy. Reality is significantly more complicated than that. The same applies to the link between monetary policy and financial stability.

In other words – the terrain through which we navigate when conducting Swedish monetary policy changes constantly and can also differ from how it looks in other countries. For this reason, monetary policy also needs to be shaped according to local conditions. There is no 'one size fits all' model for how monetary policy can best be conducted. And the monetary policy analysis needs to be updated constantly to include the new international factors that affect the development of inflation and pass-through of monetary policy. At the same time, allow me to warn of overconfidence in 'fine-tuning in monetary policy', which is to say the notion that central banks can steer the economy and inflation in detail. This applies particularly to central banks in small, open economies such as Sweden, where impulses from abroad steer so much of the economic development. A well-balanced monetary policy needs to be long-term, resolute and focused on reaching the inflation target within a reasonable time horizon.

Finally, I would like to thank my present and former colleagues in the Executive Board for your excellent partnership. Functioning collective decision-making means that there is rarely one exclusive and absolutely correct approach. Close enough is good enough!

I would also like to thank all the members of staff at the various departments of the Riksbank who participate in various ways in the long series of events leading to a monetary policy decision: the analysis of the economic and financial development and of the forces driving inflation; the practical implementation of monetary policy that is essentially a matter of changing the conditions – meaning both prices and quantities – on the financial markets using the Riksbank's balance sheet; and all the preparations for communicating the background to the Executive Board's decisions in a way that can be understood by all, from participants in the financial markets to our principals and the broader public.

It has been a privilege and an honour to be part of this enduring teamwork. I would like to thank you all for your efforts over the years and wish you all the best for the future. From afar, in silence and without comment, I shall follow your work with keen interest.

After this, the other members of the Executive Board expressed their thanks to Stefan. Deputy Governor **Henry Ohlsson** started by saying: I have worked with you for eight years, Stefan. That's quite a long part of our lives. During some weeks of this period, I have spent more time with the Executive Board than with my wife.

Many people see you as a civil servant and I would like to emphasise how you have always acted very skilfully in the interests of taxpayers. It is not easy to be Governor of the Riksbank with Executive Board members who occasionally pull in different directions. You are exceptionally skilful when it comes to finding solutions. You are also very clear about how best to show loyalty to one's colleagues. This is partly why I always enjoy going to go to work.

Recently, you've taken a new perspective and have mentioned concepts such as "feeding the pigeons". My forecast is that you will not be feeding any pigeons for a long time, at least not within the forecast horizon, and the 'fan' around that forecast is very narrow.

Finally, I would like to thank you for good leadership and good cooperation. Good luck!

First Deputy Governor **Anna Breman** then continued: I would like to thank you for your excellent collegiality in the three years that I have been a member of the Executive Board. We have not always had the same view of monetary policy and discussions have occasionally been tough, but this has never made it difficult to cooperate at the next meeting or in any other matter.

It has been a privilege to work together on international issues, not least concerning the IMF. In these contexts, it is obvious what a great benefit Sweden, as a country, has had from your international experience.

Many people are aware of your great experience of crisis management, your deep commitment to international issues and your strong global network. One thing that is less well known and that I would like to emphasise is your commitment to a safe and efficient payment system. Thank you for using your international network to help Sweden and the Riksbank to the forefront as part of the international cooperation taking place in the world of central banking. The Riksbank's statutory tasks, "to maintain price stability and promote a safe and efficient payment system", are connected and few people understand this as well as you do.

I do not wish to say goodbye but merely see you soon again. And when you say ”until next time" to Stefan, it feels about as likely that we will meet up in some exotic foreign place as in a café in Upplands Väsby. It has been a lot of fun to work together and I have learnt a lot from you. Thank you!

Deputy Governor **Per Jansson** continued with the following words: You and I have been colleagues in the Executive Board for 10 years. And, of course, we worked together at the Riksbank for several years before the period in the Executive Board. It is quite clearly another Riksbank you will be leaving behind you, compared to the Riksbank you joined once upon a time. You have been very quick to realise that the Riksbank needs new initiatives. These have included preparedness, long before the recent geopolitical changes; the payment market, with the understanding that the Riksbank needs to strengthen its position, including the work on the e-krona; the whole IT side, not least all the improvements to our meeting rooms and the infrastructure more generally that were made during the pandemic; and cyber defence, including both our own work in the area and stimulating developments in the financial sector as a whole. I could go on like this for some time but there are two more major initiatives you made that I also have to make sure I mention.

One of these concerns the Riksbank's work on financial stability. A number of years ago, this was something that only interested a few people in the Executive Board and our analyses of the subject were generally pretty thin. This has now changed completely. Today, we have long and intensive discussions in the Executive Board about these issues and our analyses are of high quality. Your creation of an institutional memory in this way will naturally be extremely valuable for the Riksbank in the future. The other concerns how you have consistently worked resolutely to strengthen the position of Sweden and the Riksbank at the international level. And you have succeeded very well in this. Now, we others have to take over the baton and make sure this continues.

Stefan, I would like to thank you warmly for all these contributions and efforts. We will remember them for a long time to come. And it will really be a challenge for us staying behind to be without you in the future. My guess is that there will be a number of phone calls in the future as we ask for your perspective on the state of affairs. Once again, thank you so very much!

Deputy Governor **Martin Flodén** concluded as follows: I would like to join in my colleagues' thanks to you, Stefan, and the fine words that have been expressed. After these 17 years, the Riksbank has become closely associated with you personally. It will be a challenge for us remaining in the Executive Board to carry on your legacy.

§4. Monetary policy decision

The Executive Board decided

- to increase the policy rate to 2.5 per cent and that this decision shall apply with effect from Wednesday 30 November 2022,
- to adopt the Monetary Policy Report according to the proposal, Annex A to the minutes Monetary Policy Report,
- to publish the monetary policy decision with the motivation for it in a press release on Thursday 24 November 2022 at 09.30,
- to publish the minutes from today's meeting at 09.30 on Monday 5 December 2022.

This paragraph was verified immediately.

Minutes taken by:

Mattias Ankarhem Paul Elger

Verified by:

Stefan Ingves Anna Breman Martin Flodén

Per Jansson Henry Ohlsson

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