Monetary policy minutes

February 2023

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

Summary

Inflation is far too high and has continued to rise. For inflation to fall and stabilise around the target within a reasonable time, the Executive Board has decided to raise the Riksbank's policy rate by 0.5 percentage points to 3.0 per cent. The Executive Board has also decided that the Riksbank shall sell government bonds as from April to reduce the asset holdings at a faster rate and to offer larger volumes of Riksbank Certificates in the weekly monetary policy operations.

Globally, inflation remains high and central banks have increased their policy rates to bring it down. Swedish inflation was far above target in December and the board members emphasised in particular that underlying inflation continues to rise and that there is still no clear turning point in sight. There are many indications that inflation will fall back this year but there is considerable uncertainty and the members discussed whether it will fall sufficiently quickly and far enough. They also highlighted the krona’s trend depreciation and that the weak krona is making it more difficult for the Riksbank to bring inflation back towards the target. The members emphasised the Riksbank’s mandate of maintaining permanently low and stable inflation. Tightening monetary policy more now reduces the risk of inflation becoming entrenched and creating more serious problems for the real economy.

High confidence in the inflation target among economic agents is therefore essential for strong economic development. The members noted that long-term inflation expectations remain stable close to 2 per cent and that the signals from the ongoing wage bargaining round are that the inflation target is the starting point of the present wage negotiations.

In light of the high and rising inflation, the members agreed that monetary policy needs to be tightened further for inflation to fall back to target within a reasonable time. All members supported the decision to increase the policy rate by 0.5 percentage points to 3.0 per cent, to reduce the asset holdings more rapidly by selling government bonds and to offer larger volumes of Riksbank Certificates. All members also supported the forecast indicating that the policy rate will probably be increased further during the spring.

MONETARY POLICY MINUTES
Executive Board, No.1

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DATE: 8 February 2023

TIME: 09.00

PRESENT: Erik Thedéen, Chair
Anna Breman
Per Jansson
Martin Flodén
Henry Ohlsson
Aino Bunge

Bo Broman, Chair, General Council of the Riksbank (§ 1-3b)
Tomas Eneroth, Vice Chair, General Council of the Riksbank

Mattias Ankarhem
Lena Arfalk
Carolina Backert
Vesna Corbo
Hans Dellmo
Charlotta Edler
Mattias Erlandsson
Anders Gånge
Jesper Hansson
Christina Håkanson
Iida Häkkinen Skans
Jens Iversen
Kajsa Larsberger Holting
Tomas Lundberg
Pernilla Meyersson
Ann-Leena Mikiver
Marianne Nessén
Amanda Nordström
Olof Sandstedt
Åsa Olli Segendorf
Maria Sjödin
Ulrika Söderberg
Tommy von Brömsen

Carl-Fredrik Pettersson (§ 1-3a)

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

§3a. Economic developments

Market developments since the last monetary policy meeting

Carl-Fredrik Pettersson from the Markets Department began by presenting the latest developments in the financial markets. The period since the monetary policy meeting in November has been characterised by global inflation probably having peaked, which central bank policy-rate rises are therefore also expected to do soon. However, developments on the fixed-income markets show that different central banks are in different phases. While the Federal Reserve is considered to be very close to the end of its rate-hike cycle, the ECB is expected to raise the policy rate further.

Smaller rate rises and stronger-than-expected economic statistics have caused the price of risky assets to increase sharply in value in early 2023. Stock market indices have risen and so-called credit spreads have fallen back significantly.

The oil market is characterised by sanctions and the introduction of price caps on oil, which has redirected global oil flows and probably contributed to a somewhat lower oil price. The end of pandemic restrictions in China in early December is expected in the longer term to increase demand from China and thereby lead to a higher oil price. Since the end of November, the price of Brent oil has varied as the view of economic developments in the United States and the euro area has shifted. Natural gas prices have fallen to levels that prevailed before Russia's invasion of Ukraine, as stocks are still well-filled for the season and the winter on the whole has been warmer than usual. In addition, other energy types are being used as substitutes.

As a result of the Federal Reserve being expected to conduct a less restrictive monetary policy in relation to the rest of the world than many people had previously expected, the dollar has continued to depreciate in general. The Swedish krona is relatively unchanged against the dollar, compared to the monetary policy meeting in November. Against most other currencies, however, the krona has depreciated very significantly. According to some market participants, this is partly due to a significantly tighter realised and expected monetary policy from the ECB since the Riksbank's monetary policy meeting in November. The concerns of international investors over the Swedish property and housing market may be another factor, as is investors' rebalancing of portfolios. Market participants also say that Swedish data points to poorer development of the real economy than, for example, in the euro area, leading investors to perhaps prefer other currencies to the krona.

Prior to the Riksbank's monetary policy announcement in February, analysts and investors expect the Riksbank to raise the rate by 0.50 percentage points, which is also evident to a high degree from pricing in the money market. Thereafter, a further increase in the policy rate of at least 0.25 percentage points is expected. In 2024, the Riksbank is expected to gradually cut the policy rate. Only one or two banks expect the Riksbank to sell bonds in 2023.

Deputy Governor **Per Jansson** highlighted the strong statistics for the US labour market and wondered what the underlying causes were of the increase in employment in January of over 500,000 people, far above the expectations of most analysts.

Jesper Hansson, Head of the Monetary Policy Department, commented that the strong employment figures were at least in part due to coincidental factors, such as certain strikes being brought to an end, and employers retaining seasonally employed workers to an unusually large extent. The Monetary Policy Department will continue to analyse this issue.

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. The financial system still faces major challenges and the risks to financial stability in Sweden have increased over the past year. After many years of low inflation and very low interest rates, increasing asset prices and increasingly high 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 banks' exposure to highly indebted commercial property companies, but also the high level of indebtedness among households. When conditions change rapidly, problems may easily emerge that can be difficult to predict. Given the prevailing economic developments and the situation internationally, the risk of unexpected problems is elevated.

Households are under pressure from different directions and housing prices continue to fall, declining to date (December) by about 16 per cent from their peak in March 2022. In addition, 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 paying their mortgages. If costs remain high for a prolonged period, households' resilience will deteriorate, with significant effects on consumption as a result.

Higher costs and lower demand have led to a rise in company bankruptcies during the autumn. The Riksbank expects this trend to continue. At the same time, bank lending to companies continues to grow rapidly although it has decreased somewhat over the last two months.

Property companies are particularly vulnerable in the current environment as they have large loans, are interest-rate sensitive and some may have difficulties refinancing themselves in the bond market. Rising interest rates mean that their cash flows decline and the value of their properties decreases. Banks' loan losses remain low, but risk rising. The prevailing market situation, with rising interest rates and uncertain growth prospects, can also affect attitudes to risky assets, such as corporate bonds, in the period ahead. Swedish corporate bond funds therefore remain vulnerable to large outflows if risk appetite suddenly changes.

The current monetary policy drafting process – new statistics and forecasts

Åsa Olli Segendorf, Deputy Head of the Monetary Policy Department, described the current assessment of macroeconomic developments since the monetary policy meeting on 23 November and the proposal for a monetary policy decision. The background material for today's decision has been discussed on six occasions, at an introductory meeting on 17 January, the monetary policy drafting group meetings on 25 and 26 January, the reconciliation meeting on 30 January and the Executive Board meeting on 1 February, where the draft Monetary Policy Report was also discussed and tabled, and the reconciliation meeting on 2 February.

Inflation in Sweden is high and the upturn in price growth is on a broad front. Since the November meeting, inflation has continued to rise and underlying inflation is somewhat higher than in our forecast from November. The development of inflation both in Sweden and abroad has been a key factor in the drafting process prior to today's meeting. The Monetary Policy Department has performed in-depth analyses of the development, causes and driving forces going forward. Incoming statistics and other information have been analysed for signs of how the high inflation via higher inflation expectations, wage growth and product price increases will be affected in the period ahead. Considerable importance has also been attached to the analysis of indicators that suggest inflation will slow down further ahead. In the drafting process, the Executive Board members have pointed out the uncertainty regarding the development of inflation in both the short and the long term.

The rapid global upturn in inflation has led to tighter monetary policy the world over, including in Sweden. Financial conditions have become much tighter both in Sweden and abroad since the beginning of 2022. Both market rates and lending rates to households and companies have risen, at the same time as housing and equity prices have fallen. Most indications are that the monetary policy transmission in Sweden, via financial markets, is working well.

Prior to the February decision, the Monetary Policy Department has studies the pass-through of monetary policy to lending rates in different countries. In Sweden, over 80 per cent of the mortgage volume has a remaining interest-rate fixation period of 2 years or less. This percentage increased significantly in 2022, which can probably be explained by short-term interest rates being clearly lower than long-term interest rates. The short interest-rate fixation periods among households and companies in Sweden mean that increases in the policy rate have a relatively rapid impact on the economy.

The exchange rate also affects the development of inflation. Compared with the forecast in the Monetary Policy Report in November, the krona has weakened. One reason is that market rates in several countries have risen more than in Sweden. However, it is difficult to understand why the krona has weakened as much as it has lately.

Another focus issue analysed has been the effects of government bonds sales.

Inflation is still far too high and the upturn we have seen has been on a broad front, both in Sweden and abroad. In the euro area, underlying inflation has continued to rise, while there are signs in the United States that both headline and underlying inflation have begun to fall.

The Monetary Policy Department's assessment of economic developments is described in the draft Monetary Policy Report. Global growth will slow down in the coming year as a result of high inflation and tighter financial conditions. There are several signs that the economic slowdown already began last year; the purchasing managers' index, for example, has been below the expansion zone for the last six months. Towards 2024, however, growth is expected to recover as uncertainty is assumed to be lower and inflation to have fallen back.

Swedish inflation is very high. Measured as the CPIF, inflation rose to just over 10 per cent in December. Even disregarding the rapidly increasing energy prices, inflation was high and rising. Other measures of underlying inflation have also continued to rise.

Looking forward, however, we see a clear turning point and inflation is expected to fall rapidly this year. The substantial supply shocks as a result of the pandemic are abating. 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 both 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.

The forecasts are based on the proposal for monetary policy described in detail in Annex A to the minutes and which the Monetary Policy Department judges will gain a majority in the Executive Board at today's meeting. In brief, according to the proposal, the policy rate will be raised by 0.5 percentage points to 3.0 per cent now in February, the Riksbank's asset holdings will decrease at a faster rate via sales of government bonds and the Riksbank will offer larger volumes of Riksbank

Certificates in the weekly monetary policy operations. The forecast for the policy rate indicates that it will probably be raised further during the spring.

Vesna Corbo, Head of Section in the Monetary Policy Department, commented on today's outcomes for Swedish industrial production and household consumption. The outcomes were judged to be in line with the forecasts in the draft Monetary Policy Report.

Deputy Governor **Per Jansson** felt that the Monetary Policy Department should analyse in more detail the reasons why growth in Sweden going forward is expected to be considerably lower than in, for example, the euro area.

§3b. The economic situation and monetary policy

First Deputy Governor Anna Breman:

I support the proposal to raise the policy rate, the interest-rate path and the forecasts in the draft Monetary Policy Report. I also support the proposal to sell nominal and inflation-linked government bonds and to increase volumes of Riksbank Certificates in line with Annex A to the minutes.

Today I would like to start by commenting on the outlook for the Swedish economy and inflation and then discuss the monetary policy considerations.

Since the previous monetary policy meeting, we see that inflation is still at a very high level, and this is true of both the CPIF and different measures of underlying inflation. No broad price category (services, goods, food) has clearly started to decline. However, we have received data indicating that the Riksbank's rate hikes last year have started to impact the Swedish economy, which will be visible in Swedish inflation figures during the year. Last year's rate hikes have also helped inflation expectations to remain well-anchored, creating favourable conditions for inflation to fall during the year.

The Swedish economy is now slowing down. Growth in the retail trade and domestic service sector, among others, has been weak. These sectors are affected when interest-rate sensitive households reduce their consumption. The slowdown in domestic demand will make it more difficult to increase prices, which contributes to inflation falling during 2023. But it is not enough for inflation to start to decline. The inflation rate needs to fall from its currently high level back to the target of 2 per cent. Furthermore, inflation shall then remain at a low and stable level.

This leads me on to the monetary policy considerations at today's meeting. I have repeatedly emphasized the fact that it takes time for monetary policy to affect inflation. Today, I would like to add to this by stressing that monetary policy needs to be significantly contractionary for a considerable period going forward for us to achieve low and stable inflation.

Temporary policy rate hikes would only have minor effects on inflation.[1] A policy rate path indicating that interest rates will soon be cut is associated with major risks. It could lead to the expected decline in inflation slowing down before we reach the target, or to inflation starting to rise again. High and volatile inflation has historically led to weak growth and high unemployment.[2] Low and stable inflation is a prerequisite for healthy economic growth, a strong labour market and a better standard of living. This is why I support the further tightening of monetary policy and the rate path indicating that monetary policy will remain contractionary for a significant period to come. For more information regarding the trade-offs between the real economy and inflation, I would like to highlight the article in the draft Monetary Policy Report, where this relationship is discussed in more detail.[3]

Let me discuss in a little more detail another three aspects of today's decision: the risk outlook, the krona's depreciation and sales of government bonds.

First, I consider the risk outlook to be balanced in the near term, but the risk outlook for inflation in the medium term is on the upside. The conditions for inflation to fall in the coming months are favourable, but there is greater uncertainty in the medium term. Let me explain. The forecast in the draft Monetary Policy Report is based on electricity prices developing in line with forward prices, global inflation falling, pandemic-related supply shocks continuing to abate and no new supply shocks emerging, and the krona appreciating.

Developments in the real economy lend support to such a scenario. We have received some positive signals regarding growth, the labour market and inflation globally. However, geopolitical tensions have not decreased but rather increased. A year on from Russia's invasion of Ukraine, the war rages on with extraordinary human suffering as a result. From an economic perspective, it can contribute to uncertainty regarding the European electricity market and food supply going forward. Geopolitical tensions between the United States and China can also contribute to renewed problems in global value chains that negate any decline in commodity, energy and goods prices. In other words, inflation will fall, but our monetary policy strategy needs to take into account that the road back to low and stable inflation may be beset with setbacks.

Second, the krona tends to depreciate in times of geopolitical unease and financial market turmoil. Despite better risk appetite on financial markets at the end of last year, the krona has continued to weaken. And, the Riksbank's rate hikes, and expectations of rate hikes, have also been largely in parity with other central banks around us. A temporary krona depreciation

[1] See, for example, S. Laséen, J. Lindé and U. Söderström, "How much is inflation affected by monetary policy?", *Economic Commentary* no. 13, 2022, Sveriges Riksbank.
[2] See, for example, speech by A. Breman, "From 500 to -0.5 per cent - and then?", 31 August 2022, Sveriges Riksbank.
[3] See the article "The new Riksbank Act and the monetary policy framework" In *Monetary Policy Report*, February 2023, Sveriges Riksbank.

normally has no significant effect on inflation.[4] The krona exchange rate has not been a decisive factor in the upturn in inflation in Sweden. The pandemic and Russia's invasion are the main causes of high inflation and of high energy prices and food prices having indirect effects on other prices.

That said, a continued trend depreciation of the krona can make monetary policy more difficult going forward. The combination of measures at today's meeting aims to bring down inflation within a reasonable time. It may also help to avoid the krona depreciating even further compared to if we had just raised the policy rate. The krona is not in itself a target for monetary policy, but it is one of several variables that affect inflation.

Third, I wish to comment on the decision to sell government bonds. At our last meeting, I mentioned that a tapering of our asset holdings can lead to monetary policy being more contractionary than the policy rate implies. In contrast with the assessment I made then, the tapering of our holdings has not yet had a noticeably contractionary effect on financial conditions (see Figure 21 in the draft Monetary Policy Report). Starting to sell government securities is therefore a complement to increasing the policy rate.

We have extensive asset holdings and we have progressively taken decisions to wind these down since net purchases ceased over a year ago.[5] But the focus last year was on the rapid rate hikes, both in our own communication and among analysts and media. Unfortunately, this seems to have led to some misunderstanding regarding the tapering of our asset holdings. Our asset holdings already started to decrease last year. And reinvestments ended completely at the turn of the year 2022/23. To now start sales of government bonds is going in the same direction as earlier decisions, that is, the holdings are decreasing at an increasingly rapid rate.

In this context, I would like to comment on the size of the proposed sales of government bonds. The time to maturity on government bonds is longer than on our other asset holdings. Sales of SEK 3.5 billion per month would reduce the government bond holdings at approximately the same pace as the holdings of other assets. This amount is not expected to cause turmoil on financial market but can instead help strengthen market functionality. Another aspect is that the combination of rate hike and sales of government securities is appropriate in a Swedish context. Sales of private assets would be associated with a greater risk of negative side-effects (for more details, see p. 13–14 of the draft Monetary Policy Report). I therefore consider the proposed decision to be well-balanced. It fulfils the requirements for both efficiency and proportionality.

[4] See the article "The significance of the krona for inflation" in *Account of monetary policy*, 2018, Sveriges Riksbank.
[5] Here is a short summary of our decisions. At the turn of the year 2021/22, the Riksbank's net asset purchases ceased completely. This was earlier than both the ECB and the Federal Reserve, but we specified that maturities would be fully compensated, which meant that the size of the asset holdings would remain unchanged. In February 2022, I entered a reservation, along with two other Executive Board members, against the decision to continue with full reinvestments as I saw upside inflationary risks. Then, at the meeting in April, the Executive Board voted unanimously to reduce reinvestments.

Allow me to summarise. I support a rate rise, the rate path and the proposal to start selling government bonds and to increase the volume of Riksbank Certificates. Monetary policy needs to be significantly contractionary for a considerable period going forward in order for us to return to low and stable inflation. Weaker short-term growth should be weighed against the long-term economic gains of a sustainable return to low and stable inflation.

Deputy Governor Aino Bunge:

I support the assessments and forecasts made in the draft Monetary Policy Report, and I support the proposal to raise the policy rate by 0.5 percentage points to 3 per cent, as well as the interest-rate path. In addition, I support the proposal to reduce the holdings of government bonds through sales and to increase the amount of Riksbank Certificates issued.

This is my first monetary policy meeting as member of the Executive Board of the Riksbank. Today's meeting also means we are gathering to take the first monetary policy decision under the new Sveriges Riksbank Act. Before joining the Executive Board, I worked with a combination of economic and legal matters. I therefore thought I would take the opportunity to explain, with a little extra clarity, my support for today's decision with the new legislation as a basis.

The previous Act was drafted at the end of the 1980s and was last renewed in 1999, when the Riksbank was among other things given a more independent status and an Executive Board with six members. As we know, a great deal has happened in the economy since then, not least in recent years. Consequently, there was a need for a new Act, together with a need for great flexibility in the legislation. The draft Monetary Policy Report contains a good summary of the new Act's content and its bearing on monetary policy. My assessment is that the Act will enable the Riksbank to use the monetary policy toolbox quickly and decisively also in the future. It is entirely reasonable that the Act places additional demands, among other things, on the justification of decisions and on evaluation of decisions taken, particularly in light of how many economic agents are affected by our monetary policy decisions and the strong independence of the Riksbank.

Just like before, the primary objective for the Riksbank under the new Act is to maintain sustainably low and stable inflation. This also follows from EU legislation. Inflation is currently at 10.2 per cent, measured as the CPIF, according to the latest outcome for December. We need to go back to the period before the introduction of inflation targeting to find similarly high figures. In addition, the outcome was slightly higher than that predicted in the November forecast. As the draft Monetary Policy Report explains, this was largely linked to very high energy prices at the end of last year and these prices will probably also vary significantly in the period ahead. However, underlying inflation is also very high. Figure 2 in the draft Monetary Policy Report illustrates this clearly. This is a situation that we must continue to take very seriously. Confidence in the inflation target must be earned and cannot be taken for granted. So far, we have not seen large movements away from target in the long-term inflation expectations and it is vital it stays this way. In 2022, the Riksbank raised the policy rate considerably and rapidly, in addition to which we discontinued asset purchases. According to our forecast, inflation will now start to fall. But this is taking into account expected monetary policy tightening in the global economy and the measures now proposed to be taken by the Riksbank. I share the opinion that the policy rate should be raised by 0.5 percentage points as of this meeting.

According to the new Act, the Riksbank shall contribute to a balanced development of production and employment (consideration for the real economy) without neglecting the price stability target. As the summary in the draft report makes clear, this should not be regarded as a change in how monetary policy is conducted in practice, but rather as the confirmation by law of the so-called flexible inflation targeting policy. I believe that consideration for the real economy is one of the most important trade-offs we have to make at each policy rate decision. At present, there is great uncertainty over how much monetary policy needs to be tightened to achieve the desired effect on inflation and secure the development of the economy in the longer term, without creating too much of a decline in the real economy in the short term, with major downturns in production and employment. We know that it takes time before monetary policy has its full effect. The Riksbank's communication over the last year has emphasised the importance of bringing inflation down to the target "within a reasonable time perspective". If we are to maintain confidence in the inflation target under these challenging circumstances, I believe that this period should be relatively short. The interest rate path indicates that the policy rate will need to be raised again at our next monetary policy meeting in April. Inflation is then be expected to be close to target by the end of the year.

As I mentioned initially, the economy has changed since the inflation target was introduced and the last time the Riksbank had to manage such high inflation was before the target had even been introduced. We now have a situation in which household indebtedness and housing prices have shown a rising trend for several decades. This means that we must carefully consider the effects of our monetary policy decisions. Swedish households are considerably more sensitive to movements in interest-rates than they were during previous episodes when the Riksbank raised the policy rate, not just in light of their debt burden, but also due to the short interest-rate fixation periods on their loans. At the same time, we know that the household sector as a whole entered this rate-hike cycle with high savings. However, there is a lack of statistics on the allocation of these savings among different households, which contributes to the uncertainty. One of the risks that has been emphasised in the report is that the fall in housing prices may yet turn out to be larger than expected, which, in turn, could affect consumption and housing investment negatively. This implies a downside risk for Sweden's economic outlook, although we need to bear in mind that housing prices rose sharply during the pandemic.

So far, I have mostly discussed monetary policy in the form of the policy rate and the interest-rate path. Let me now move on to the Riksbank's asset holdings. The new Act requires exceptional circumstances for purchases of non-government securities, such as covered bonds and corporate bonds. This means that, in a future crisis situation like during the pandemic, the Riksbank will continue to be able to purchase non-government securities to safeguard its monetary policy objectives or financial stability. But it is also a signal that the Riksbank acting in these markets is not a normal situation. In my opinion, it is desirable that the holdings be reduced when the reasons for accumulating them are no longer present. When it comes to the current holdings of non-government securities, however, maturities are relatively short and the holdings will therefore be wound down relatively quickly. As the draft Monetary Policy Report makes clear, sales of these securities are therefore not planned.

In contrast, the holdings of government securities have a significantly longer maturity. The aim of these purchases was to conduct an expansionary monetary policy. Now, when the situation is the opposite, there should be a clear ambition to reduce holdings within the forecast period. I therefore consider it reasonable that, in addition to raising the policy rate, we reduce our asset portfolio by selling government bonds. In addition, we are expanding the amount of Riksbank Certificates issued.

These measures act in the same direction as raising the policy rate. A gradual sale of government securities, as well as additional issuance of Certificates, also increases the amount of available Swedish safe assets and, all else being equal, could improve the functionality of the market and strengthen the krona. I agree with the description in the draft Monetary Policy Report that a stronger krona would be positive in this situation to facilitate our efforts to reduce inflation. Sweden is a small, open economy that is affected by developments abroad, among other channels through the exchange rate. That said: We have our inflation target, in combination with a variable exchange rate, and should take advantage of the possibilities granted by our own monetary policy to get the most appropriate policy for Sweden and the Swedish economy. A stronger krona is a means to an end, not an end in itself.

Finally, under the new Act, the Riksbank must comply with a principle of proportionality. This means that we shall take a measure only if (1) it can be assumed to lead to the intended result, (2) it is not more far-reaching than necessary and (3) the intended result stands in reasonable proportion to the costs and risks that the measure entails for public finances and the finances of the Riksbank. This is an entirely reasonable starting point for all measures and also something that I consider characterises the analyses made here at the Riksbank. At the same time, however, I consider it important to continuously learn from the past to improve future decisions. This applies not least to monetary policy measures linked to the balance sheet.

Let me conclude with a look ahead to the next monetary policy meeting in April. The Riksbank's revisions of the interest-rate forecasts at recent meetings show that we are living in extremely uncertain times. However, when we reconvene on 25 April, we will have access to a great deal of important new information, which will hopefully disperse some of the uncertainty we are currently facing. Among other things, we will have three new inflation outcomes and the results of a new business survey, which the Riksbank conducts three times a year. Hopefully, we will also have a clearer view of the wage bargaining round, which will be a key factor for the development of inflation over the next few years.

Deputy Governor Per Jansson:

Since our last monetary policy meeting in November, two new inflation outcomes have been published, for November and December. Irrespective of whether price increases are measured including or excluding energy prices, inflation continues to be very high and is increasing. Including energy prices, inflation in December was a full 10.2 per cent, over a percentage point higher than expected. However, the forecast error can be largely explained by the unexpectedly rapid increase in electricity prices in December. This development has now been reversed and electricity prices will therefore, at least in the short run, not continue to affect inflation as much. Excluding energy prices, the outcome was 8.4 per cent, compared to a forecast of 8.3 per cent.

Despite inflation excluding energy prices only having developed marginally worse than expected, there are a number of factors that have somewhat deepened my concern for the development of underlying inflation compared with at our meeting in November. Even if we had not expected price increases excluding energy prices to start to fall, the very high and still rising price growth in both goods and services is of course considerably alarming. The development of our measures of underlying inflation is another factor going in the same direction. The median of the measures, which has now increased eighteen months in a row and since September 2021 has consistently been above the inflation target, was 8.4 per cent based on data up to the end of December. This is just under half a percentage point higher than in the calculation using data up to the end of October in connection with our last meeting. In November, I noted that none of the measures was below 7.1 per cent. Now, the lowest measure is 7.3 per cent.

Another factor here is that companies' price plans according to the National Institute of Economic Research's Economic Tendency Survey, with the exception of the construction industry, remain on a high level and indicate that an unusually large number of companies intend to continue to increase their prices going forward. Now when goods and service prices have risen much more rapidly than normal for almost an entire year, this highlights the risk of companies changing their pricing behaviour. Were this to happen, it is only a question of time before wage growth would also need to increase and a price-wage spiral would have begun. It is of course a matter of avoiding this situation.[6]

So far, there is fortunately no sign of wage increases and longer-term inflation expectations having started to rise in a problematic way. Since the middle of last year, wage growth has been around 3 per cent without any tendency to increase. This is naturally very positive from an inflation perspective. Regarding inflation expectations, two new measurements have been undertaken since the November meeting; a monthly survey for January, which only covers money market participants, and a larger quarterly survey for December, which also measures the expectations of the labour market organisations. For money market participants, five-year expectations remained at 2.3 per cent in both December and January.[7] Compared with the previous quarterly survey in September, the corresponding expectations for the labour market organisations were also stable, at 2.3 per cent for the employee organisations and 2.0 per cent for the employer organisations. This indicates continued high confidence in the inflation target and that the Riksbank's monetary policy tightening so far has been well-balanced.[8]

The largest forecast revision proposed in the draft Monetary Policy Report is for CPIF inflation over the coming months and a number of months at the start of next year. The downward adjustment in the forecast proposal in the near term depends on the sharp fall in the electricity price around the turn of the year and the expectation that it will remain on a lower level than previously. In the new assessment, the peak in inflation has already passed and was reached in December, compared to February in the Monetary Policy Report from November. The upward revision of the forecast at the start of next year is due to base effects from the large fall in the electricity price that has now occurred and is expected to persist.

The proposed forecast revisions for inflation excluding energy prices are considerably smaller but more significant. Here, an upward adjustment to the development during almost all of 2023 is proposed, by three to four tenths of a percentage point. Important factors for the revision are

[6] However, price plans for the manufacturing industry in the purchasing managers' index have gradually fallen during the year and are now below their historical average since 2000. This is positive of course but does not change the more problematic picture painted by the plans in various industries according to the Economic Tendency Survey.
[7] 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.
[8] The expectations for CPIF inflation among the labour market organisations in total are even slightly closer to the target than the expectations for CPI inflation, 1.9 per cent for the employer organisations and 2.1 per cent for the employee organisations.

that the outcome has been a little higher than expected and that the krona exchange rate has continued to surprise on the weaker side. Both these factors together with the otherwise, in several respects, unfavourable picture of underlying inflation explain why it takes some time before the updated forecast returns to the previously lower assessment. I support the forecast for inflation and other economic variables in the draft Monetary Policy Report.

In the draft report, a slightly larger monetary tightening is assumed than in our last Monetary Policy Report. This tightening consists primarily of a policy rate that, according to a decision assumed to be made at today's meeting, will be raised by 0.5 percentage points to 3 per cent and then continue to rise so that, as from the third quarter, it will be at just over 3.3 per cent as a quarterly average. The development of the policy rate leads to somewhat tighter financial conditions both because it is being raised slightly more rapidly than expected and because it levels off on a higher level than in the report from November.

The slightly larger tightening is also due to the Riksbank's asset holdings decreasing at a faster rate through sales of government bonds and to larger volumes of Riksbank Certificates being offered in the weekly monetary policy operations. Both these measures are expected to have a limited effect on the deposit and lending rates faced by households and companies but should be able to have a slightly larger effect on other more risk-free market rates. At the same time, the measures will increase the amount of safe and easily marketable assets in the Swedish market, which may make it easier for foreign agents, among others, to invest in Swedish assets. The measures have the potential to contribute to a stronger krona exchange rate and thus lead to a more favourable overall effect on financial conditions compared with if all the tightening had been achieved with a higher policy rate. This is important both because it makes it easier for the Riksbank to dampen inflation and because a more permanently undervalued krona is generally not good for the Swedish economy.

How large the effect will be on the krona of these supplementary monetary policy measures is of course difficult to say. In the forecast in the draft Monetary Policy Report, it is assumed that the krona will now appreciate slightly faster in the coming years than previously. But of course, a weaker-than-expected development of the krona cannot be ruled out. However, the new measures should in any case reduce the risk of the krona continuing to depreciate systematically and in trend terms, as has been the case over the past couple of years. If this were to continue, it would take longer to bring inflation back to target and require significantly larger policy-rate hikes.

As the assessment of inflation excluding energy prices has been revised upwards even considering that monetary policy is being tightened more than previously, I support the monetary policy assumptions in the draft report. That the forecast continues to be higher could in principle justify even greater monetary tightening. If the strategy to try to influence the krona succeeds, the effects on price developments could occur relatively quickly, so that inflation may perhaps already be affected during 2023 and we thereby come closer to the previous assessment for inflation excluding energy prices from November. More restrained pricing behaviour among companies in light of an even more decisive and determined monetary policy direction in order to bring inflation down could also produce inflation effects without much delay.

The fact that I am nevertheless content with the tightening now proposed in the draft Monetary Policy Report is because the forecast revisions do not affect the time perspective within which inflation is back on target. This still occurs around the turn of the year 2023-24, which I consider very important for wage formation, so that it continues to be clear that real wages will again increase relatively soon if trust in the inflation target is maintained. On the contrary, with greater monetary tightening, there is a risk of inflation eventually undershooting the target. Overall, I therefore think that the proposal for monetary policy in the draft report is well-balanced.

At our last monetary policy meeting, I discussed the possibility that the largest policy-rate increases could be behind us and focus is therefore moving from the change in the rate to its level. Raising the policy rate in the way proposed in the draft Monetary Policy Report will now delay this shift in focus somewhat. But it can nevertheless be noted that since September of last year, we have raised the rate in successively smaller steps and that, as the policy rate increases, we are by necessity coming ever close to this change in focus. Of course, the earlier we can get there, the better.

That interest rates are now rising rapidly and rather substantially is a heavy financial burden for many people. Unfortunately, there is no painless way out of the inflation problem now affecting many countries around the world, including Sweden. In the context, however, it is important not to forget the experiences from the 1970s and 1980s, namely that the problems will be much worse if inflation is allowed to remain high for a long time and this eventually leads to the inflation anchor coming loose. Regaining confidence in the inflation target then requires significantly larger rate hikes than those we have implemented so far and plan to implement. And despite these more aggressive rate hikes, it is likely in such a development that the inflation problem will become even more serious and persist for a, perhaps significantly, longer time. It is this situation we need to avoid.

Deputy Governor Martin Flodén:

Since last April, the Riksbank has raised the policy rate by 2.5 percentage points. Other central banks have also raised their policy rates rapidly over the last year. For example, the European

Central Bank has raised its policy rate by 3 percentage points since last July and the US Federal Reserve has raised its rate by 4.5 percentage points since last March.

It is remarkable how strongly these economies have continued to develop despite the rapid contraction of monetary policy and, in particular, in light of energy prices simultaneously having been very high. Of course, the continued strong development of economies is mainly good news but it also means that central banks need to continue to raise their policy rates.

This development is a little harder to handle in economies such as Sweden, where interest-rate sensitivity is high. We have already seen that the interest rates faced by households and companies have increased significantly more in Sweden than in most other European countries. In addition, indebtedness is high among both households and companies in Sweden.

This means that the Swedish economy will slow down more and earlier than other countries when monetary policy is tightened. This is now also visible in the data. Performance in the retail sector was weak in the second half of 2022 and there are clear signs of a reduction in household consumption. Furthermore, housing prices have fallen more significantly in Sweden than abroad. For 2023, most analysts expect Swedish growth to be lower than in other countries.

But the slowdown in the real economy has yet to have an impact on the development of inflation. The inflation rate continued to increase in December and is slightly higher in Sweden than the average for the euro area, both including and excluding energy.

In this context, I would like to elaborate a little on the development of the Swedish krona. At our previous monetary policy meeting, in November of last year, I toned down the significance of the krona for inflation. It is not the weak krona that has caused inflation to rise. Neither will it be the krona that ensures inflation falls back to the target. But the krona makes our work more difficult and it is problematic that it continues to be so unjustifiably weak; the krona has depreciated by almost 5 per cent against the euro after our last monetary policy meeting and by a little more than 10 per cent since the beginning of 2022.

Normally, the pass-through from the exchange rate to consumer prices is quite modest but I suspect that the correlation may have changed when many companies raised their prices last year. There are many indications that companies then passed on their increased production costs, often in the form of higher import prices, fully to consumers. In that case, the krona depreciation also had a major impact on pricing.

Regardless of this reasoning, the krona depreciation is obviously not welcome. Fundamental factors such as strong public finances and the current account surplus indicate that the krona will be valued higher in the longer term. But it would be welcome if the krona were also to strengthen in the near term, or if it at least stops falling in value. In addition to facilitating monetary policy, I believe the Swedish business sector would benefit from an exchange rate that does not deviate significantly from its long-term equilibrium level.

A contributory cause of the krona having depreciated over the past year can of course be that the Riksbank has raised the interest rate slightly less than other central banks, and that there seems to be expectations that, going forward, the Riksbank will have to take greater consideration of interest-rate sensitivity in the economy. It is true that interest-rate sensitivity and international dependence will be challenging when inflation pressures rise both in Sweden and abroad, but the Riksbank's focus needs to be on ensuring that inflation falls sufficiently rapidly and far enough to maintain confidence in the inflation target. This will probably lead to the economy slowing down more than in other countries. The long-term costs of low growth and weak and uncertain development in real wages would be even higher if Swedish monetary policy is too passive and inflation therefore becomes entrenched at a high level. On the other hand, the Swedish economy would be more robust if households and companies were less interest-rate sensitivity.

I would also like to point out that the difference between the Riksbank's policy rate and policy rates in other countries is hardly the whole explanation for the weak krona. The krona has depreciated against the euro despite the ECB's policy rate having been lower than the Riksbank's for long periods.

Another explanation for the weak krona that is sometimes highlighted is that we have a poorly functioning market for safe and liquid government securities. As the Swedish public debt is low, the government bond market is small. The bonds available in the market have decreased further as a result of the Riksbank having built up a large bond portfolio since 2015. The Riksbank's purchases of government bonds do not actually need to reduce the amount of safe and liquid government securities in the market as we normally fund the purchases by selling Riksbank Certificates. In recent years, however, we have only issued Certificates corresponding to half of the banking system's liquidity surplus, which currently implies a limit of the Certificate volume of almost SEK 600 billion.

On the table at today's meeting are proposals that both reduce the Riksbank's holdings of government bonds via sales, and go back to offering Riksbank Certificates equal to the entire liquidity surplus. I think both of these proposals are good. Although I'm not expecting the measures to have any major effects, they should in any case move monetary policy in the right direction. To a certain extent, the measures may contribute to a better balanced monetary policy by having an effect more through the exchange-rate channel than the domestic interest rate channel.

With this long reasoning about the krona and the interest-rate sensitive Swedish economy, I have perhaps painted a gloomy picture of the economic outlook. But I also see several positive signs that I would like to highlight.

The first concerns energy prices. After our monetary policy meeting in November, the electricity price rose rapidly, which resulted in CPIF inflation in December being much higher than our forecast. But since the end of December, the electricity price has fallen back and market pricing now suggests that electricity prices this year will be significantly lower than our previous forecast. This development is similar across Europe, where the price of natural gas has fallen. If energy prices do fall as low as pricing indicates, this will reduce the risk of inflation being entrenched at a high level, and also reduce the tension between low inflation and strong economic development.

The other sign relates to inflation expectations and wage formation. Long-term inflation expectations continue to indicate that confidence in the inflation target is high. In addition, communication from the labour market parties suggests that the inflation target remains the starting-point for the ongoing wage negotiations. Stable confidence in the inflation target and well-functioning wage formation facilitate the Riksbank's work and imply that the interest rate does not need to be increased as much as otherwise.

The third sign relates to consumption and employment. The aim of the Riksbank's rate rises is to dampen economic activity so that inflation falls. Despite the employment rate having been high or even very high for several years, nominal wages have increased at a rather modest pace. In this environment, it is therefore primarily consumer demand that needs to be reduced so that it becomes more difficult for companies to increase their prices. In a good scenario, the adjustment occurs primarily by consumption being reduced at the same time as employment is maintained. The signs of an economic slowdown that we have seen so far have indeed primarily concerned the housing market and household consumption. The labour market appears to still be resilient, even when one considers that the labour market often weakens late on in a recession.

The most important point at today's meeting is of course the decision on the policy rate. I support both the proposal to raise the policy rate by 0.5 percentage points to 3 per cent, and the proposed forecast for the policy rate going forward.

Today's increase of 0.5 percentage points is necessary in light of the outlook for inflation and the economy that I have discussed above and that is described in the draft Monetary Policy Report. We have still not seen a turning point for inflation in actual data. Instead, inflation, according to different measures, continued to rise in the latest outcomes. Economies, particularly in the countries around us, continue to be resilient leading to the expectation that central banks will continue to raise their policy rates. And in Sweden we note that the financial conditions have become less contractionary and that the pass-through from our policy rate to lending rates seems to be a little less than we previously expected (see Figures 21 and 34 in the draft Monetary Policy Report). Interest-rate sensitivity in the economy therefore seems to be somewhat less than we previously assessed.

The forecast for the policy rate indicates that it will probably need to be raised in April as well, by either 0.25 or 0.5 percentage points. This is an assessment I share, but the major fluctuations over the past year have proven that such assessments are associated with major uncertainty. By the next monetary policy meeting in April, we will have three new inflation outcomes to analyse and clearer indications of how our initial rate rises have influenced economic developments.

The important signal from the rate forecast is that inflation is still in focus for monetary policy. It is not enough for inflation to start moving downwards this year. We need to see that inflationary pressures, in the form of underlying inflation and price- and wage-setting, are compatible with inflation that is permanently close to two per cent. Monetary policy will be adjusted going forward in order to achieve this.

I therefore support all the proposed decisions presented in Annex A to the minutes.

Deputy Governor Henry Ohlsson:

To begin with, I would like to say that I support the proposal to raise the policy rate by 0.5 percentage point to 3.0 per cent, and the proposed policy-rate trajectory. Further, I support the proposals regarding sales of government bonds and larger volumes of Riksbank Certificates. Finally, I support the economic outlook and forecasts in the draft Monetary Policy Report.

Inflation around the world rose rapidly during 2022. The rate of inflation in the United States was 8.0 per cent on average that year. The draft Monetary Policy Report contains a forecast that inflation in the United States will decline to 3.8 per cent this year. Within the euro area, inflation was on average 8.4 per cent during 2022. The forecast for 2023 in the draft Monetary Policy Report is a fall to 4.4 per cent on average.

The rapidly rising inflation has led to strong monetary policy reactions in many parts of the world. The annual average for the trade-weighted (KIX-weighted) policy rate during 2022 was 0.5 per cent. When the policy-rate hikes have an impact in 2023, the forecast in the draft Monetary Policy Report is that the annual average will rise to 3.3 per cent for 2023.

CPIF inflation in Sweden was 7.7 per cent on average during 2022. It is expected to be 5.5 per cent on average in 2023, according to the draft Monetary Policy Report. This is higher than the forecasts for both the United States and the euro area. Or, in other words, the decline in inflation is not expected to be as large in Sweden as in other countries. The forecast for the policy rate in Sweden is that it will reach an annual average of 3.2 per cent with the monetary policy decision I am expecting us to take today. The policy rate in Sweden is not expected to deviate to any great extent from 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 measurement in December 2022 showed an annual rate of increase in the CPIF of 10.2 per cent. 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.

CPIF inflation rose throughout 2022. If one compares December 2022 and November 2022, the CPIF rose by a full 1.9 per cent. Close to 2 per cent in one month, not in a year which is the target for inflation. We have not yet seen any turning point in the development of inflation.

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 on average in recent months, while the mean has been 2.0 per cent. The most recent five-year measurement for money market participants from January 2023 is also at 2.3 per cent on average and 2.0 per cent median.

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 again. It is also my assessment that today's increase can prove to be the least we can do. And this is also taking into account the decisions to sell government bonds and increase the volume of Riksbank Certificates that I expect to be taken today. The policy-rate path entails further increases ahead. My assessment is that further increases are very desirable.

It is important to emphasise that the earlier increases in the policy rate, together with today's increase and other monetary policy measures does not mean that monetary policy in Sweden differs to any great extent from monetary policy abroad. This is one of the factors behind the Swedish krona not having appreciated since the increases in the policy rate began. A stronger krona would facilitate bringing inflation back to target.

To summarise, I support the proposal to raise the policy rate by 0.5 percentage points to 3.0 per cent, and the proposed path for the policy rate. Further, I support the proposals regarding sales of government bonds and larger volumes of Riksbank Certificates. Finally, I support the economic outlook and forecasts in the draft Monetary Policy Report.

Governor Erik Thedéen:

I support the forecasts and assessments described in the draft Monetary Policy Report. This means that I support the package of monetary policy proposals on which the forecasts are based. In more concrete terms, I support three proposals: (i) to raise the policy rate from 2.5 to 3 per cent; (ii) to begin selling nominal and inflation-linked government bonds later in the spring to an amount of SEK 3.5 billion per month, and (iii) to increase the volume of Riksbank Certificates offered in the Riksbank's weekly market operations. Together, these measures mean that monetary policy will become tighter, which is necessary to ensure that inflation returns to the target of 2 per cent within a reasonable time.

The year 2022 was in many ways a dramatic one, with Russia's illegal invasion of Ukraine as the overshadowing event. On the economic front, the return of high inflation in advanced economies, which was partly due to the war, was an unexpected and unwelcome development. Since then, combating inflation has been a priority for various central banks, including the Riksbank. We can observe that most central banks, perhaps all of them, have misjudged the underlying inflationary pressures that arose after the soaring energy prices. The result was very large policy-rate increases over the year, in Sweden and in many other countries and regions that are important for the Swedish economy.

In February 2022, the Riksbank assessed that the rising energy prices would not lead to a more general rise in inflation. This assessment was shared by most analysts, but proved to be incorrect. However, let me add here that I don't think I would have made a significantly different assessment. There and then it seemed a reasonable analysis. The old relationships and pricing behaviours that were used as a basis for the Riksbank's low inflation forecast proved to have changed somewhat. Energy prices, which were still rising sharply, contributed to the outcomes during the year being much higher than predicted.

The lesson I have learnt from the experiences of 2022 is that the forecasts, which are now pointing to a relatively rapid decline in inflation, are very uncertain. We cannot undo the forecasts made last year, but we can - and I think should - draw conclusions from our experiences last year prior to the decisions we are to make today, and at coming meetings. The experiences from last year thus affect my view of future monetary policy, which I will say more about later.

Monetary policy in Sweden was for much of last year completely focused on ensuring that inflation returned to 2 per cent within a reasonable time. My aim is of course the same. In the current situation, with inflation that is far too high, our task is crystal clear - to act to ensure that inflation stabilises around 2 per cent within a reasonable time. This is our task, and when we have succeeded in it we will have better conditions for a stable development of the economy. In more concrete terms, a return to an inflation rate of 2 per cent is also a necessary condition for rising real incomes. Sweden's wage earners thus have every reason to support a policy to attain low inflation. My assessment is that the social partners realise this prior to the upcoming wage bargaining rounds. Wage increases in line with the inflation target will reduce the risk of inflation becoming entrenched at too high a level, which enables real wages to rise. Future wage increases can thus contribute to reducing the risk of interest rates being too high over a prolonged period. It will therefore be very important to follow wage developments going forward.

So, how has inflation developed recently, and what do economic developments look like in general? Inflation remains very high, and has become higher than expected. The most recent outcome for the CPIF, regarding the month of December, was 10.2 per cent, a whole percentage point higher than the forecast in the previous Monetary Policy Report. However, almost the entire forecasting error can be explained by electricity prices rising more than expected. CPIF excluding energy amounted to 8.4 per cent, only marginally higher than the previous forecast. However, the outcome confirms that underlying inflation, which we monitor by means of many different measures in addition to the CPIF excluding energy in the Monetary Policy Report, is still at very high levels.

According to the new forecasts in the Monetary Policy Report, the rate of inflation is expected to fall from January this year onwards. But the measured fall in CPI inflation and underlying inflation that can be discerned in the United States, for instance, has not yet become a reality in Sweden. This means that we cannot rest easy yet, which I will return to later in my monetary policy considerations.

The Swedish economy is now, as expected, entering a weaker phase. At the beginning of 2022, growth was relatively strong, but slowed during the second half of the year. Statistics Sweden recently published its first calculation of GDP growth during the first quarter of 2022, and this confirms that growth has slowed down. Employment, which was very strong in 2022, is now showing a tendency to slow down. And unemployment has risen slightly. But on the whole, we do not see any dramatic changes ahead, but rather a relatively normal slowing down of economic activity. In addition, international economic developments have been stronger than expected, which also provides support for the Swedish economy.

However, the Swedish economy is interest-rate sensitive. This applies in particular to the household sector, where many households have large debts at variable interest rates. We are also now seeing that confidence among households regarding their own finances and the country's economy has fallen considerably and rapidly, and that retail trade sales have also been weak. This is probably due to a combination of households being affected by higher interest costs and rising inflation; uncertainty over their future purchasing power has increased. The weaker economic developments at the end of 2022 will probably continue in 2023, which is indicated in the draft Monetary Policy Report. All else being equal, this will contribute to lower inflationary pressures.

Moving on to my monetary policy considerations. As I mentioned earlier, our task is now crystal clear - to ensure that inflation returns to the target within a reasonable time. This may sound simple, but of course involves difficult trade-offs. Higher interest rates contribute to many households experiencing a deterioration in their finances and to companies potentially delaying investments and new recruitments, and we will of course closely monitor the effects of the higher interest rates. However, refraining from continued rate increases and then risking that inflation becomes entrenched at a too high level would be even more costly, in my opinion. We know from historical experiences in Sweden and abroad that high inflation has clearly negative effects for households and the rest of the economy.

There are many indications that inflation will fall back during 2023. The decisive factor is that supply-related energy price increases, for instance, do not continue to contribute to the spillover effects we have already seen on underlying inflation. The task for us in the Executive Board is to ensure that inflation really falls to 2 per cent, and that it does not become entrenched at a higher level.

The development of the krona has been in focus recently. During 2022, the krona depreciated, both bilaterally against the US dollar and the euro, and aggregated against a KIX-weighted currency basket. The depreciation was not expected by the Riksbank. On the contrary, in the Monetary Policy Reports, including the most recent one in November, a stronger exchange rate was expected given the strong fundamentals, such as a permanent savings surplus towards other countries.

Unlike developments a few years ago, when inflation in Sweden was too low, a weak krona is now problematic from a monetary policy point of view. A weaker krona puts upward pressure on prices of imported goods. During 2022, however, it was primarily price increases in foreign currencies on markets outside of Sweden that spilled over into rising prices in Sweden. The weaker krona probably played a minor role. However, a weak krona, and possible continued depreciation are not welcome. This would increase the risk that inflation will not fall in the way shown in the forecasts in the Monetary Policy Report. It is also reasonable to believe that the longer the krona remains weak, the greater the impact of earlier krona movements will be on prices in Swedish kronor. Perhaps it is also the case that it is now easier to pass on rising costs from a weak krona to consumers. Today's decision to raise the policy rate and to sell government securities should in my opinion have a strengthening effect on the krona and this would only be a welcome development; it makes our task of bringing inflation down to 2 per cent easier.

The packet of measures we are deciding on today includes beginning to sell government bonds in April. The Riksbank's asset holdings amount at present to almost SEK 340 billion. There is now reason to wind down this portfolio at a slightly faster pace than would occur solely through maturities. The volume has now been set to SEK 3.5 billion, but that may be changed if market conditions are unfavourable. In the same way as the asset purchases contributed to making monetary policy more expansionary, the sales will make monetary policy tighter and thus put downward pressure on inflation. This effect should not be exaggerated, of course. The sales of assets will reinforce the effect of policy rate increases and it should be mainly government bond yields that are affected, and only to a lesser extent the interest rates charged to households and companies. In addition, the sales will provide a larger supply of government bonds, which can alleviate some of the shortage of safe securities. A better functioning bond market is important for a well-functioning and stable financial market, and this should contribute to strengthening the krona. The decision to substantially increase the volume of outstanding Riksbank Certificates should also contribute to a better functioning market and to somewhat tighter monetary policy.

It is also reasonable that the non-government part of the Riksbank's bond portfolio, which has a relatively short maturity, will continue to be sold off in step with the maturity structure. A somewhat faster winding-down of the government bond portfolio, which has a longer remaining time to maturity, should be primarily regarded as a normalisation of the holdings, following the rapid build-up during the low-inflation environment of recent years, with extremely low policy rates.

Allow me to summarise: The Riksbank's objective according to the new Sveriges Riksbank Act is to maintain permanently low and stable inflation, which has been converted into an inflation target of 2 per cent. Inflation is currently very much higher, and although the forecasts point to falling inflation down towards our target, the uncertainty surrounding how the inflation process will look going forward is greater than it has been for a very long time. My conclusion is therefore to closely follow reported data, and right now in any case attach a little less weight to forecasts, especially those across a longer time horizon. Lately, incoming data indicates a need for tighter monetary policy. We are now increasing the policy rate by 0.5 percentage points and my assessment is that we will continue with another increase during the spring of 25 or 50 basis points in accordance with the rate path. But incoming data is important for that decision as well.

The overriding principle to establish the direction of monetary policy going forward in my opinion should therefore be to evaluate incoming data, including the development of the krona, and how this information affects our inflation assessment. It is essential that inflation starts to fall from its currently far too high levels. We should also carefully evaluate the actions of neighbouring central banks to assess how they affect the development of inflation in Sweden.

§3c. Discussion

Deputy Governor **Martin Flodén**: It was mentioned during the meeting that the Riksbank's forecast for the annual average for CPIF inflation in 2023 is 5.5 per cent. Here, I think it is important to note that this number is an average of twelve twelve-monthly changes, and that it thus to a large extent is a result of last year's price increases. As prices rose rapidly in the latter stages of last year, the annual average for 2023 will be above 5 per cent even if all prices are completely unchanged in 2023!

However, this is not to say that the development of inflation is unproblematic. The forecast for low forward-looking CPIF inflation in 2023 is explained by the expectation of falling energy prices. Underlying inflation is expected to remain high this year.

Deputy Governor **Henry Ohlsson**: I have retrieved all my figures from the tables annex in the draft Monetary Policy Report. Objections to the interpretation of the Swedish figures therefore also apply to the United States and the euro area. I consider the data to be comparable and the forecasts to imply that the decline in inflation is expected to be slower in Sweden than in the United States and the euro area.

First Deputy Governor **Anna Breman**: I agree with Aino Bunge's comment that "confidence in the inflation target must be earned and not taken for granted". That is the key to today's decision.

I would also like to comment on Martin's reasoning on households' interest-rate sensitivity. I share the view that it is causing the Swedish economy to slow down more rapidly and more than in many other countries around us. Together with well-anchored inflation expectations and well-functioning wage formation, it is creating favourable conditions for inflation to fall. I did not comment on the housing market in my address as incoming data has been in line with expectations and, if anything, we see cautious signs of stabilisation in some parts of the country. The risks of a sharp decline in the housing market still remain. This is part of the risk outlook, but incoming data suggests that the decline we have seen is manageable for the Swedish economy and primarily affects households via reduced consumption.

Finally, I would like to pick up on Erik's comment about forecasts. I share the view that it is important to learn from last year's forecasting errors. Historical correlations, including the impact of energy prices on inflation, did not work well last year, and these correlations may also be different in the future. The forecasts are still very uncertain and I highlighted the global risks and how it may affect Swedish inflation for this reason. At the same time, it is important not to interpret extra focus on incoming data as monetary policy becoming backward-looking. I think it is important moving forward that, in addition to incoming data and assessment of the business cycle, we also consider the fact that structural changes in the economy can affect both inflationary pressures and what is a normal level for the policy rate going forward. This requires more analysis, but we need to consider that the policy rate required to maintain low and stable inflation may have to be higher in the future than it has been over the past 20 years.

Governor **Erik Thedéen**: I think that when analysing inflationary pressures in the economy, it is important to look at not only the annual percentage change but also monthly or quarterly changes. I also want to point out that incoming statistics should be interpreted from a forward-looking perspective.

I also wish to support Aino's description of the new Sveriges Riksbank Act. We must now be even clearer regarding the reasons for our decisions, which could also increase understanding of our overall policy.

§4. Monetary policy decision

The Executive Board decided

- to implement monetary policy measures in accordance with Annex A to the minutes. (i) The policy rate is increased by 0.5 percentage points to 3.0 per cent and this decision applies as from Wednesday 15 February 2023, (ii) monthly sales of government bonds to a nominal amount of SEK 3 billion shall begin in April 2023, (iii) sales of inflation-linked government bonds to a nominal amount of SEK 500 million shall begin in April 2023, and (iv) as from 14 February 2023 to offer an issue volume of Riksbank Certificates that, at each issue, is equal to the banking system's entire liquidity surplus towards the Riksbank.
- to establish the Monetary Policy Report according to the proposal, Annex B to the minutes Monetary Policy Report,

- to publish the monetary policy decision with the reasons for it in a press release at 09.30 on Thursday 9 February 2023,
- to publish the minutes from today's meeting at 09.30 on Monday 20 February 2023.

This paragraph was verified immediately.

Minutes taken by:

Mattias Ankarhem	Hans Dellmo

Verified by:

Erik Thedéen	Anna Breman	Aino Bunge
Martin Flodén	Per Jansson	Henry Ohlsson

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