



Annex A to the minutes to the separate minutes No. 5

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DEPARTMENT: Markets Department and Monetary Policy Department

SVERIGES RIKSBANK
SE-103 37 Stockholm
(Brunkebergstorg 11)

Tel +46 8 787 00 00
Fax +46 8 21 05 31
registratorn@riksbank.se
www.riksbank.se

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Foreign exchange intervention – as a complementary monetary policy measure

Decision by the Executive Board

The Executive Board decides

- 1 that the Riksbank shall be able to intervene on the foreign exchange market as a complementary monetary policy measure in accordance with the decision stated in Annex B to the minutes “Foreign exchange intervention – renewed mandate”, which applies up to and including 12 February 2019, if interventions are considered necessary to ensure that developments in the krona exchange rate do not constitute a serious risk to the inflation rate stabilising around 2 per cent,
- 2 to task the Governor and the First Deputy Governor, or their respective alternate, in accordance with the decision in Annex B to the minutes “Foreign exchange intervention – renewed mandate”, with monitoring developments on the foreign exchange market more closely and, if at least one of them considers it necessary to start the interventions, immediately calling the other Executive Board members to an Executive Board meeting,
- 3 to task the Governor in association with the First Deputy Governor, or their respective alternate, to take decisions on foreign exchange intervention in accordance with the decision in Annex B to the minutes “Foreign exchange intervention – renewed mandate” if, in their opinion, there is no time to wait for a decision by the Executive Board, whereupon the other Executive Board members shall be informed as soon as possible, and
- 4 that this decision will be published on Tuesday 3 July 2018 at 9.30 a.m.

Background

Interventions on the foreign exchange market are a means at the disposal of a central bank that can be used as a complementary monetary policy measure. In a situation where the development of the exchange rate constitutes a serious risk that inflation will not stabilise around the target in a satisfactory manner, the central bank may be justified in using

interventions on the foreign exchange market as a complementary measure in its work to safeguard price stability.

Deliberations

A high level of confidence in the inflation target is important

In recent years, the Riksbank has made monetary policy more expansionary by cutting the repo rate to negative levels, adjusting the repo rate path down and purchasing large amounts of government bonds. At the end of June, the Riksbank's government bond holdings amounted to about SEK 330 billion, expressed as a nominal amount. Until further notice, redemptions and coupon payments will be reinvested in the government bond portfolio. In December 2017, the Executive Board decided to bring forward reinvestments of the large redemptions that are due during the first half of 2019. The Riksbank already started reinvestments in January and these will continue until the middle of 2019. The aim of this monetary policy is to keep inflation close to the target of 2 per cent and inflation expectations in line with the inflation target. High confidence in the inflation target is creating the conditions for efficient price-setting and wage formation, thereby contributing to good economic development.

The Riksbank's expansionary monetary policy has helped strengthen economic activity, reduce unemployment and boost inflation. Over the past year, inflation has been close to the target. Both short- and long-term inflation expectations have also risen and they are also close to 2 per cent. But in several parts of the world, there is considerable economic policy uncertainty, creating risks to global growth.

The krona exchange rate has weakened over the last year. But in the years ahead, it is expected to strengthen and the exchange rate is still a source of uncertainty as regards the development of inflation. If the krona strengthens too rapidly, it could lead to prices of imported goods and services increasing more slowly and to a decline in the demand for Swedish exports. Such a development would make it more difficult for the Riksbank to stabilise inflation around the target of 2 per cent. The problems could be particularly serious if confidence in the inflation target were to once again weaken through falling inflation expectations. Weakened confidence in the inflation target is a source of unease as it creates instability and uncertainty in the economy. The risks of excessively low inflation merit particular attention, as at the prevailing interest rate levels excessively low inflation is more difficult to manage than excessively high inflation.

Need for further monetary policy measures

The Riksbank does not have a target for the exchange rate. However, the value of the Swedish krona in relation to the most important currencies abroad is an important factor in assessing inflation. The exchange rate is expected to strengthen gradually in the coming years but the forecast is associated with uncertainty. A rapid strengthening of the krona may therefore need to be counteracted by even more expansionary monetary policy. As a complementary monetary policy measure, the Riksbank may therefore need to intervene on the foreign exchange market.

The aim of any foreign exchange interventions would not be to influence the long-term krona exchange rate, but to prevent the krona from appreciating too rapidly which would risk pushing inflation well below target. The foreign exchange transactions made within the framework of these interventions are thus a means of upholding the inflation target and



continuously safeguarding price stability. Interventions shall therefore only be possible as long as they are considered necessary to ensure that developments in the krona exchange rate do not constitute a serious risk to the development of inflation.