Minutes of Monetary Policy Meeting

February 2016

Summary

At its monetary policy meeting on 10 February, the Executive Board of the Riksbank decided to lower the repo rate by 0.15 percentage points to −0.50 per cent. A first increase in the repo rate is expected in the middle of 2017. The Board also decided until further notice to reinvest maturities and coupon payments from the government bond portfolio to maintain the expansiveness of the monetary policy. The delegation decision to enable immediate intervention on the foreign exchange market was extended to the ordinary monetary policy meeting in July. There is still a high level of preparedness to make monetary policy even more expansionary if this is needed to safeguard the inflation target.

It was noted at the meeting that the Executive Board agreed on the picture of economic prospects and the inflation outlook described in the draft Monetary Policy Report.

Several members mentioned downside risks linked to uncertainty on the financial market and economic prospects abroad. The members also noted that global inflation is low and that several central banks are expected to conduct very expansionary monetary policy.

In Sweden, economic activity is expected to continue to strengthen. But unexpectedly low inflation outcomes, together with lower energy prices and rent increases than expected, mean that inflation is expected to be weaker in 2016 compared to the assessment in December.

In different ways, the members weighed the pros and cons linked to which monetary policy decision should be made, given the changes in the view of the situation since December. Several members noted that economic activity in Sweden is now strengthening considerably and that the forecast for inflation has been revised down, partly due to factors that have very little to do with the demand side, which could indicate holding the repo rate unchanged. But although inflation is expected to stabilise around the inflation target during 2017, the downward revision in 2016 means that the period of low inflation will be even longer. Several members stressed that this increases the risk of weakening confidence in the inflation target and hence of inflation not rising towards the target as expected. They also noted that monetary policy in Sweden is affected by what other central banks do. If global monetary policy becomes even more expansionary, the krona exchange rate risks strengthening at a faster pace than in the forecast, which would make it harder to push up inflation and stabilise it around 2 per cent. It could also worsen the conditions for a good development in the real economy.

A majority of the board considered, given the above, that it is appropriate to cut the repo rate to −0.50 per cent to support inflation.

Two members instead advocated an unchanged repo rate. However, they shared the majority's concern regarding low inflation, even though they reached a different conclusion with regard to the interest rate on this occasion.

The Executive Board was unanimous that the purchases of government bonds should continue in accordance with the plan decided in October and that maturities and coupons from the government bond portfolio should be reinvested until further notice.

Furthermore, a majority advocated an extended mandate for foreign exchange interventions. One member entered a reservation against this, with the motivation that such interventions would not be appropriate for the time being.

The Executive Board was also unanimous that it is important to have a high level of preparedness to make monetary policy even more expansionary, even between ordinary monetary policy meetings, if this is needed to safeguard confidence in the inflation target.

MINUTES OF MONETARY POLICY MEETING
Executive Board, No. 3

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DATE: 10/02/2016

TIME: 09:00

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

Susanne Eberstein, Chair of the General Council
Michael Lundholm, Vice Chair of the General Council

Claes Berg
Sophie Brauner
Charlotta Edler
Paul Elger
Heidi Elmér
Mattias Erlandsson
Eric Frieberg
Jens Iversen
Martin W Johansson
Ola Melander
Pernilla Meyersson
Ann-Leena Mikiver
Marianne Nessén
Christina Nyman
Maria Sjödin
Lena Strömberg (§1-3)
Ulf Söderström
Sara Tägtström
Jens Vahlquist (§1-3)
Anders Vredin

It was noted that Paul Elger and Sara Tägtström would prepare draft minutes of the monetary policy meeting under Sections 2 and 3.

§1. Economic developments

Jens Vahlquist from the Markets Department began by presenting the latest developments on the financial markets. Since the monetary policy meeting in December, volatility has increased, global stock exchanges have fallen and long-term government bond yields have fallen as the demand for safer assets has increased. The falls have mainly been a result of concern over global economic developments, with the earlier uncertainty over the Chinese economy spilling over to other countries and regions such as the United States and the euro area. This environment has put many European banks under pressure, with falling equity prices and rising costs to insure against loan losses. At the same time, the oil price has fallen since December.

The market is expecting further monetary policy easing from the ECB at the bank's next monetary policy meeting in March. The Bank of Japan recently cut its deposit rate to a negative level. Expectations of policy rate increases by the Federal Reserve and the Bank of England have shifted forward in time.

After the monetary policy meeting in December, the Swedish krona appreciated unexpectedly fast. The krona appreciation led to the Executive Board of the Riksbank announcing on 4 January a delegation decision regarding potential foreign exchange interventions to enable rapid intervention on the foreign exchange market, if necessary. Following the decision, the krona has weakened against the euro, although it remains more or less unchanged against the dollar. In competitiveness-weighted terms, the krona has developed largely in line with the forecast made in December. Prior to today's meeting, a majority of analysts expects the repo rate to be cut.

Marianne Nessén, Head of the Monetary Policy Department, presented the draft Monetary Policy Report which, in the assessment of the Monetary Policy Department, would gain the support of the majority of the members of the Executive Board. She began by noting that the forecasts in the draft Report were discussed by the Executive Board at meetings held on 18, 26 and 28 January and on 1 February. The draft Monetary Policy Report was tabled at a meeting of the Executive Board on 3 February. A further follow-up meeting with the Executive Board was held on 8 February.

She observed that the period since the monetary policy meeting in December had been marked by an increase in uncertainty on the financial markets and by a continued fall in the oil price. Global stock market falls reflect increased uncertainty over developments in emerging market economies. Although the Riksbank has only marginally adjusted down the forecasts for GDP in emerging markets, these were already low to start with, in relation to many other forecasters. The oil price has fallen since the meeting in December, which is considered to be mostly driven by supply factors. The lower oil price is assessed to provide a positive contribution on the margin to global growth. At the same time, other factors, such as weaker investments in the euro area, contribute to a somewhat lower forecast for competitiveness-weighted GDP growth abroad, compared with December. The oil price has also entailed a large downward revision to the forecast for global inflation.

Weaker growth and inflation prospects have prompted market participants to expect more expansionary monetary policy from the ECB in March, at the same time as expectations of additional policy rate increases in the United States have been shifted forward in time. Looking at other central banks, the Bank of Japan has now introduced a negative interest rate.

The outcome for Swedish inflation in December, like that for November, was lower than the Riksbank's forecast. Part of the difference between the outcome and forecast, such as the part relating to lower food prices, is expected to remain. At the same time, the rent negotiations resulted in lower rent increases than expected and oil prices have fallen further than expected, as described earlier. All in all, the forecast for CPIF inflation in 2016 has therefore been revised down by 0.4 percentage points.

At the same time, growth in Sweden is very good and resource utilisation is now assessed to be close to normal. GDP growth is expected to be 3.5 per cent in 2016 and then to decline somewhat. Unemployment is expected to continue to fall and to level out at 6.7 per cent in 2017 and then to rise weakly in 2018, when the labour supply increases due to the new arrivals.

Even if inflation has been revised down in the coming year, the conditions for a continued rise in inflation remain. As the effects of a weaker krona wane, the effects of the rise in resource utilisation will take over. Also contributing to an upturn in inflation is that the negative contribution from energy prices will disappear and then provide a positive contribution to inflation. CPIF inflation is expected to stabilise around 2 per cent during 2017.

The forecasts in the draft Monetary Policy Report are based on the assumption that the repo rate will be cut by 0.15 percentage points to –0.50 per cent. The repo-rate path is also revised down and reflects the fact that there is still a possibility of cutting the rate further. In addition, it is assumed that the purchases of government bonds will continue according to the plan decided at the monetary policy meeting in October. It is also assumed that the Executive Board will decide that maturities and coupon payments from the government bond portfolio shall be reinvested until further notice, in order to keep monetary policy expansionary, and that the mandate for foreign exchange interventions shall be extended.

§2. The economic situation and monetary policy

Deputy Governor **Per Jansson** began by saying that at first sight one might think it would be fairly easy to make a decision at today's meeting. Inflation outcomes have been lower than the Riksbank's forecasts two months in a row. The forecasts have been too high, regardless of whether or not one takes into account developments in energy prices. In December, CPIF inflation was 0.91 per cent, while CPIF inflation excluding energy prices was 1.28 per cent. In both cases, the outcome was almost 0.2 percentage points lower than was forecast in the December Monetary Policy Report.

If we look ahead, there are many indications that inflation will continue to remain markedly lower than the Riksbank was anticipating in December, said Mr Jansson. It is proposed in the draft Monetary Policy Report that the forecast for CPIF inflation should be adjusted downwards for the whole of 2016 and also the beginning of next year. The downward revision peaks in the second half of this year, when CPIF inflation is expected to be around half a percentage point below the earlier assessment for a number of months. With regard to CPIF inflation excluding energy prices, the forecast adjustment is not quite as dramatic, but still sizeable. Here, the downward revision amounts at most to about 0.3 percentage points during the same period. Mr Jansson stated that it is worth pointing out that these downward adjustments of the inflation forecasts in the draft Monetary Policy Report are conditional on the repo rate being cut at today’s meeting by 0.15 percentage points, from −0.35 to −0.50 per cent. So if the repo rate were not to be cut at today’s meeting, or monetary policy made more expansionary in some other way, the outlook for inflation would even be slightly worse.

Mr Jansson went on to state that a number of significant downside risks that are not easy to quantify in a forecast must be added to the worsened inflation outlook. Perhaps the most important one is the potentially unfavourable effect of monetary policy abroad on the krona’s exchange rate. Both the Federal Reserve and the ECB may pursue a more expansionary monetary policy than previously expected. Regarding the Federal Reserve, most indications are that the next rate increase will be delayed. The market is not expecting any further increase in the interest rate this year. For its part, the ECB has said that it intends to “review and possibly reconsider” monetary policy at its next meeting in March. Mr Jansson noted that this has created clear expectations in the market of further monetary policy easing from the ECB. Although the Swedish economy eventually also benefits from other central banks trying to push up inflation and growth, unexpectedly loose monetary policy from both the Federal Reserve and the ECB does not make it easier for the Riksbank to avoid a rapid strengthening of the krona’s exchange rate. This would in turn make it more difficult to bring up and stabilise inflation around 2 per cent, and could, in addition, in a negative scenario, create serious real economic problems in terms of poorer growth and higher unemployment.

He also pointed out that another downside risk, not independent of the risk of softer monetary policy abroad, concerns international economic developments. Several analysts have for some time been discussing signs of weakness in the development of the Chinese economy, but in recent months an increasing number have begun questioning the strength of the economy in Europe and perhaps especially in the United States. The recent rising degree of risk aversion and falling demand for risky assets are part of the picture. Concern regarding the European recovery has at least partly to do with the fear that both trade and investment can be negatively affected by the restrictions in free movement that could be a consequence of the large refugee influx. Mr Jansson asserted that the development of investment also plays a major role in the downside risks in the US economy, where a number of analysts have noted that investment activity in the energy sector may be significantly hampered by the uncertainty in China and the falling oil price.

The falling oil price, and the risk of it dropping further, is also of particular significance in a situation where inflation has been low for a long time and where there are question-marks about the credibility of the inflation target, said Mr Jansson. Normally, central banks can "see through" fluctuations in the oil price and simply wait until the effects are no longer visible in the recorded inflation rate. But when inflation has been low for a long time and confidence in the inflation target is shaky, falls in the oil price can have unusually large and persistent effects on inflation as a result of lower longer-term inflation expectations.[1] This problem exists both in Sweden and a number of other countries that have inflation targets. This downside risk is not independent of the risk of a softer monetary policy abroad either, he reasoned.

Summing up, Mr Jansson noted that there are several factors indicating that one should vote for a more expansionary monetary policy at today's meeting. Despite this, however, the decision for him was by no means straightforward. On several occasions previously, the Executive Board has been clear that it is not possible to expect the upturn in inflation to be dead straight and without setbacks. The fact that inflation is now a couple of tenths of a percentage point lower than expected is therefore a "known unknown" which unfortunately occurs every now and then. And even if the forecast error persists for a time, it is not possible to automatically draw the conclusion that it should lead to a more expansionary monetary policy, he added.

Mr Jansson went on to say that the downward adjustments to the inflation forecasts in the draft Monetary Policy Report are relatively significant, but largely due to new assumptions regarding energy prices and rents.

[1] For a discussion of this mechanism in the case when the exchange rate appreciates, see "Scenario: Risks inherent in a rapid appreciation of the krona in a low inflation environment", Monetary Policy Report, February 2016, p. 14.

Although there is still a risk that lower energy prices will affect inflation more than usual via effects on inflation expectations, it is worth pointing out that inflation expectations in Sweden have recently risen somewhat. This also applies to expectations of inflation 5 years ahead, which in the most recent Prospera survey of money market participants were at 1.86 per cent.[2] There is thus in any case somewhat greater scope now for the Riksbank to "see through" this type of price disturbance, he argued.

With regard to rents, Mr Jansson pointed out that these in Sweden are not set on a market where supply and demand conditions are allowed to play out, at least not fully. Much of the downward revision of the inflation forecast is thus due to factors that have little to do with the underlying demand-driven inflation rate in the Swedish economy. This is a further argument, particularly in a situation where growth is high and the labour market is improving rapidly, for not taking a decision now on further monetary policy easing.

Finally, Mr Jansson said that although there are downside risks to international economic developments, these are largely "tail events", that is, risks with little probability of actually being realised. More or less all analysts continue to believe in a gradual strengthening of global economic activity and that China will manage to avoid a hard landing.

Given all this, Mr Jansson emphasised that the decision at today's meeting is far from self-evident. There are good arguments both for and against making monetary policy more expansionary. After weighing all the arguments against one another, he had decided to vote for the alternative with the more expansionary monetary policy. What finally decided the matter for Mr Jansson was that the Riksbank is making a large and prolonged downward revision to the inflation forecast, at the same time as he believes that both the Federal Reserve and the ECB will chose a soft line in their monetary policy stance going forward. If one then does not take action at today's meeting there is a considerable risk that the krona will strengthen rapidly and that new measures will need to be taken soon, probably at an extraordinary meeting before the next ordinary monetary policy meeting in April, he believed.

In the draft Monetary Policy Report, the proposal is to cut the repo rate by 0.15 percentage points, from −0.35 per cent to −0.50 per cent. In addition, it is also proposed that the Riksbank reinvests maturities and coupons from the government bond portfolio until further notice. As the krona exchange rate has developed roughly as expected since the previous forecast was made in December, Mr Jansson did not feel that foreign exchange interventions would be appropriate in the current situation. Given this background, he thus supported both the forecast and the monetary policy presented in the draft Monetary Policy Report.

[2] According to TNS Sifo Prospera, see http://www.prospera.se/inflation-expectations/.

With regard to the Riksbank's preparedness to take further monetary policy measures, Mr Jansson considered, as is also stated in the draft Monetary Policy Report, that this preparedness is needed to ensure that the upward trend in inflation continues and to safeguard confidence in the inflation target. In this way, the Riksbank also avoids wasting its monetary policy ammunition, but can hold onto it and launch it if an actual need arises. Somewhat greater patience in monetary policy should at the same time slightly reduce the risks of negative side-effects from the stimulus. If the Riksbank sees signs that the inflation trend is about to break or that confidence in the inflation target is shaken, then it should act powerfully and determinedly, however.

Mr Jansson wished to conclude with a few more specific comments on the preparedness to do more. The Riksbank is now pointing out in the Monetary Policy Report that analyses are being made of whether it is possible to support the repo-rate cuts with other measures within the operational monetary policy framework. Mr Jansson felt that this was good, as it is important to look into the advantages and disadvantages of all available ways of making monetary policy more expansionary. Although the Riksbank has not previously used its operational monetary policy framework for this purpose, nor are a negative repo rate, extensive purchases of government bonds and interventions in the foreign exchange market normal parts of the Riksbank's work. He also felt that it was good that the Riksbank is now a bit more concrete about which assets can be objects for further purchases. This creates conditions for the market to prepare itself in good time, which in turn reduces the risk of undesired side-effects.

Mr Jansson said it was reassuring that the Executive Board had at the beginning of the year taken all the decisions and made all of the preparations necessary to be able to intervene very quickly in the foreign exchange market for monetary policy purposes. It is made clear in this context that the Executive Board endeavours to ensure it is the entire Executive Board that makes a potential decision, but that the Governor and First Deputy Governor, or those to whom they have delegated the decision, have a mandate to deal with the issue if the situation is so urgent that one cannot await a decision by the board.

Mr Jansson said that he assumes that everyone hopes it will not be necessary to take any further monetary policy easing measures. But it is still good that there is a preparedness to take action not merely on paper, but through measures that are ready to be quickly implemented in practice if the need should nevertheless arise. The experiences of recent years show that this is a wise approach.

Deputy Governor **Martin Flodén** began by saying that he largely supports the picture of economic developments and the monetary policy deliberations presented in the draft Monetary Policy Report. He also shares the reasoning and deliberations put forward by Mr Jansson regarding the repo-rate decision. Nevertheless, he advocated that the Executive Board should hold the repo rate at −0.35 per cent.

Over the past more than one year, one has seen clear signs that the increasingly expansionary monetary policy has had the intended effect. Underlying inflation and inflation expectations have stopped falling and instead begun to rise towards levels compatible with the inflation target, and economic activity has strengthened. At the monetary policy meeting in December, Mr Flodén had therefore become more confident that inflation would continue to rise towards the target, despite continued signs that it might take time and that temporary setbacks would occur before inflation established itself on a level close to the target.

Mr Flodén noted, however, that events after the December meeting had damaged his confidence in such a benign development. The inflation outcome for December was a disappointment. This outcome, in combination with low rental agreements, indicates that domestic inflationary pressures continue to be weak. In addition, there have also been stock prices have fallen and volatility and rising risk premiums have increased on global financial markets, and oil prices have plummeted. These developments are not in themselves a great source of concern, but coupled with the pessimism on the financial markets, there is growing concern that the economic recovery in the euro area is stagnating and that the US economy is slowing down. Such an economic slowdown in developed countries would have consequences for the Swedish economy and, among other things, make it difficult for Swedish inflation to rise in the years ahead.

But there is still not much concrete evidence of this weak development actually starting to materialise, he said. Outcome data and other economic indicators still suggest that growth in the euro area is improving while the US economy remains strong, and that growth will be strong and resource utilisation strained in the Swedish economy in the years ahead. The strength of the Swedish economy is illustrated, for example, by good GDP and employment figures and by high and growing confidence in the Tendency Survey of the National Institute of Economic Research. A continued expansionary monetary policy, along with rising public consumption in the wake of the refugee influx, is helping to maintain the strength of the Swedish economy. Despite this, it is impossible to ignore the market turbulence of recent months and the risk of a setback for the global economy. Mr Flodén therefore felt that it was a bit difficult for him to see the forecasts in the draft Monetary Policy Report as unbiased. He saw it rather as a main scenario dominated by downside risks.

The question is then how Swedish monetary policy should relate to this development, and to the envisaged risks. Inflation has been low for a long time, which risks damaging confidence in the inflation target, Mr Flodén noted. It will then be more difficult and require increasingly forceful monetary policy to bring inflation up to the target. After the December meeting, the Riksbank's forecast for inflationary pressures in the years ahead has also been revised down quite markedly. In addition, there is concern over a weaker global economy. All this suggests that the Riksbank needs to pursue a more expansionary monetary policy than the plan presented in December.

But the Riksbank is now in a position where monetary policy tools are becoming increasingly difficult to use, Mr Flodén continued. Cuts to the repo rate down to –0.35 per cent last year have often been described as "unconventional", but Mr Flodén thought that they have actually been quite conventional and unproblematic; the Riksbank expected the cuts to have a normal impact via both the interest rate channel and the exchange rate channel, and the assessment was that a negative interest rate on this level would not otherwise lead to any significant disturbances to the economy. These expectations have also been realised.

There is, however, a limit to how far the interest rate can be cut without weakening the impact or without problems arising and Mr Flodén believed that the Riksbank has now started to approach such levels. A cut in the repo rate down to –0.50 per cent will probably work from a purely technical point of view, that is without giving rise to major disturbances or other undesirable reactions. He also believed that the impact via the exchange rate channel would work as normal. It is likely, however, that the interest rate channel has now been weakened, that is, the interest rate cut will not have a full impact on lending rates to households and companies.

Based on this reasoning, Mr Flodén preferred to wait with a repo rate cut. He stressed that the main scenario was still that the Swedish economy will strengthen in the period ahead and that resource utilisation is now becoming strained. In this scenario, an upturn in inflation will be increasingly likely going forward even if confidence in the inflation target wavers. Mr Flodén did not believe that the probability of this scenario being realised depends crucially on the Executive Board's repo rate decision at today's meeting, but that the decisive factor is how the global economy develops in the period ahead.

He then said that there are indeed palpable risks that developments might be worse than in this main scenario. It is therefore very possible that the Executive Board might soon have been in a position where a rate cut had nevertheless become necessary if the rate were not cut at the present meeting. He then referred to a development with a weaker global economy, which pushes down growth prospects and inflationary pressures in Sweden via a weak export market, increasingly expansionary monetary policy abroad and greater appreciation pressure on the krona. In such a situation, a rate cut would probably be an effective measure to curb the spillover effects to the Swedish economy. But Mr Flodén thus felt that it would be better to wait with an interest rate cut until it was clear that the cut was entirely necessary.

In conclusion, he wished to say a few words about the other decisions taken at the meeting. Mr Flodén continued to object to the delegation decision regarding foreign exchange interventions. His reservation was based on the comments he made at the monetary policy meeting on 4 January, even though after today's rate cut it is not as clear that the repo rate can be cut further. Mr Flodén nevertheless thought that a situation where foreign exchange interventions may be justified is remote, and he therefore did not want to delegate decision-making in this issue.

Finally, he commented on the Riksbank's decision to reinvest coupons and maturities from the government bond portfolio until further notice. He supports the decision, which he does not think should be seen as a way of making monetary policy more expansionary. It is instead more of a question of maintaining the level of expansiveness previously decided on by the Executive Board, until further notice. He also wished to point out that this does not prevent the Riksbank from increasing its assets purchases or ceasing to reinvest coupons and maturities at some point in the future.

First Deputy Governor **Kerstin af Jochnick** began by saying that she supported the assessment of developments abroad and in Sweden as described in the Monetary Policy Report and that she supported the proposal to cut the repo rate by 0.15 percentage points to –0.50 per cent.

She continued by saying that, as the Riksbank describes in the Monetary Policy Report, it is possible to argue in the current situation for both an unchanged monetary policy and a more expansionary one. Her deliberations led her to believe that the best decision is to make monetary policy more expansionary and she would therefore argue in favour of such a decision.

As Mr Jansson and Mr Flodén had already mentioned, a number of downside risks have arisen since the December meeting, and the Executive Board needs to assess their significance for monetary policy in Sweden, according to Ms af Jochnick.

If one looks only at the Swedish economy and the assessments made for the coming year, things look fairly good, she said. The economy is continuing to strengthen and resource utilisation is now considered to be close to normal. Swedish GDP is growing faster than that of many other developed countries.

She observed that the forecast for global GDP growth had been revised down somewhat. Uncertainty still remains regarding the strength of the Chinese economy and several commodity-producing emerging markets are showing clear growth problems. There have also been major stock market falls around the world and there are question marks regarding the resilience of European banks. In the United States, however, GDP growth and employment have developed fairly well. It is mainly the manufacturing industry that is affected by subdued demand from emerging markets, while service industries remain the motor behind growth. In the euro area, the upturn in investment has been delayed, and industrial production has slowed down considerably. However, the financing terms are favourable for a more lasting upturn in investment. The recovery in the euro area is nevertheless assessed to be somewhat weaker than the Riksbank was assuming in the previous Monetary Policy Report.

All in all, the Riksbank has made a minor downward revision to the forecast for GDP growth in the countries that are most important to Sweden's trade (KIX-weighted).

But Ms af Jochnick's assessment was that there is a risk of poorer global growth than the Riksbank is forecasting, which could hamper Swedish growth. One reason she gave for this was the difficulty in knowing what lay behind the large falls in equity prices in Sweden and abroad. The downturn in shares in companies exposed to the commodity industries or China is understandable. But some of the fall in equity prices could also be interpreted as investors seeing a risk of a global economic slowdown.

If important emerging markets slow down substantially, there is a possibility that even developed countries will be negatively affected, even if several of them benefit from lower energy prices.

Ms af Jochnick noted that the forecast for inflation abroad had been revised down. The fall in the oil price accounts for a rather large downward revision to the inflation forecast for 2016. A lower forecast for underlying inflation in the euro area also plays some role.

Several central banks are conducting an expansionary monetary policy to stimulate the economy and get inflation to rise. With regard to monetary policy in the euro area, there are statements from the ECB that have led to market expectations that monetary policy could become even more expansionary going forward to combat the low inflation and bring it back on target. From the perspective of Swedish growth, such further stimulation could be positive. But at the same time, there is a risk that the krona could appreciate against the euro in a way that is not beneficial to inflation rising.

Ms af Jochnick saw it as troublesome that the Riksbank was once again forced to revise down its forecast for inflation in the coming years. The Riksbank has in recent years revised down its inflation forecasts on several occasions.

An overall analysis shows that over the past five years, the weak economic developments abroad and thereby also a suppressed demand in Sweden have played an important role for the low inflation rate.

The exchange rate also contributed to holding back inflation during a period. Commodity prices, particularly electricity and oil, have dampened inflationary pressures, both through direct effects in the consumer channel and indirect effects via lower costs for companies. In recent years companies have also cut their margins more than expected.

She went on to say that the downward revision the Riksbank is now making to its inflation forecast for 2016 is largely explained by lower inflation outcomes, lower energy prices and by rent increases being lower than the Riksbank had foreseen. However, inflation is expected to begin rising again from the end of 2016. Energy prices and interest expenditure are no longer expected to hold back inflation at this time. Increased resource utilisation and rising wages are also expected to contribute to inflation rising.

At the same time, she saw that there was a risk of further negative surprises. One problem is that Sweden has been affected for several years by repeated events that are assessed to have a temporary effect on inflation, but have also, taken together, contributed to inflation being below the target for a long period of time. This increases the risk that confidence in the inflation target will be weakened and that it will be difficult to bring inflation back on target quickly.

It is not easy to measure inflation expectations. But the measurements made in 2015 have shown an upward trend in long-run inflation expectations. However, with very low energy prices over a long period of time, there is a risk that long-term inflation expectations will be negatively affected.

Ms af Jochnick assessed that it would be dangerous to rest on one's laurels in this situation. She considered it important that the Riksbank continues to clearly act and make monetary policy even more expansionary. It is important that the Riksbank clearly signals that it is safeguarding the inflation target in line with our mandate.

As she has also mentioned in a speech earlier this year, safeguarding the inflation target also concerns avoiding inflation expectations falling too low and thus creating scope for a lower real interest rate.[3]

She continued that if the Riksbank finds itself in a situation where inflation is below the target for a long period of time, this may reduce the Riksbank's capacity to use monetary policy to stimulate the economy in a desirable manner when Sweden enters a new economic downturn in the future.

Her assessment was that the Riksbank's repo-rate cuts so far had had an effect and that a further cut to −0.50 per cent would contribute to stimulating the Swedish economy further and ultimately to higher inflation.

Ms af Jochnick also wished to conclude with a few words on the preparations the Riksbank had taken to be able to buy foreign currency and thus influence the krona exchange rate. The reason behind the delegation decision in early January was that the krona had appreciated relatively rapidly in December 2015 and if this had continued it would have risked jeopardising the inflation upturn the Riksbank was counting on. Following the announcement of this decision, the krona has weakened somewhat and developed in line with the Riksbank's forecast in December.

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[3] Kerstin af Jochnick, "Unusual measures in unusual times – experiences of the Riksbank's unconventional monetary policy", speech at SACO on 29 January 2016.

With regard to the Riksbank's toolbox for stimulating the Swedish economy, she considered that the repo rate, combined with the purchases of government bonds, were the most appropriate tools for further reducing interest rates in the Swedish economy.

Her assessment with regard to foreign exchange interventions was that the Riksbank should be well prepared to intervene if the krona appreciates rapidly, but that this is a short-term measure and does not affect the long-term krona rate.

In conclusion, Ms af Jochnick said that the Riksbank otherwise has scope to use all of the measures announced earlier if monetary policy needs to be made more expansionary.

Deputy Governor **Cecilia Skingsley** began by referring to her monetary policy stance at the meeting in December. Prior to the meeting she had considered proposing further stimulation. But she then chose to support the unchanged monetary policy given the strong economic activity in Sweden, an already expansionary monetary policy and the assessment that the disappointing inflation results that came then were temporary.

Ms Skingsley went on to observe that the draft Monetary Policy Report presented today contained several important revisions to the forecasts. In summary, these involve a weaker recovery abroad, which contributes to a somewhat less strong growth in Sweden, and low inflation over a longer period of time due to lower inflation outcomes, low oil prices and lower expected rent increases.

Given these downward revisions, Ms Skingsley said it could be a simple decision to support the proposal for a repo-rate cut. But she considered that her stance at this meeting was the most difficult she had faced since her appointment to the Executive Board. She gave two reasons for her hesitation in supporting a further repo-rate cut.

The first was the strong Swedish economy. Since the repo rate became negative a year ago and the bond purchases began, Sweden has seen a very clear improvement in economic activity. This has surprised forecasters around the world. Of a total of 30 of the largest economies in the world, only a couple individual countries previously affected by crises have had growth expectations for 2016 revised upwards as much as Sweden. She also wanted to emphasise that the Riksbank's forecasts for wages, which are a central factor in assessing inflation, have been supported by more and more analysts. Just a few months ago, many of them considered that the Riksbank's wage forecasts were too high. With regard to resource utilisation, the Riksbank in principle has the same assessment as at the monetary policy meeting in December. All in all, the conditions for inflation to rise thus remain good.

Ms Skingsley's second reason for hesitation with regard to further monetary policy easing was linked to the inflation outlook. She considered that the challenge of the low inflation in Sweden had changed in nature in recent years. Previously, inflation in Sweden was lower than in many comparable countries. But after a long line of monetary policy stimulus decisions from the Riksbank in 2014 and 2015, the conditions have been reversed, with higher inflation in Sweden than in, for instance, the euro area.

The low inflation in Sweden can be explained less and less by weak domestic demand. Ms Skingsley therefore sees greater difficulties for monetary policy in Sweden to parry the low inflation.

Inflation outcomes for the past two months have been disappointing. This contributes to a downward revision to the Executive Board's inflation forecast going forward, said Ms Skingsley. Further oil price falls push down the forecasts for CPI and CPIF inflation. However, the forecast for CPIF inflation excluding energy is also being revised down, partly due to unexpectedly low rent increases. Rent-setting has a strong correlation to inflation on the whole, and with its more than 11 per cent in the CPI basket has a considerable impact. As a member of the Executive Board, she therefore asked whether one perhaps ought to disregard rents in the analysis of the monetary policy stance.

However, even if rents are excluded from the forecast for CPIF inflation excluding energy, the period with low inflation appears equally long.

If one turns the inflation sequence the other way, and looks at goods and services, it is clear that service prices are not showing any clear upturn, said Ms Skingsley. She was not sure what this was due to. Possible explanations could be that service prices were not measured correctly, or that there was more spare capacity than in the Riksbank's assessments. She also wondered whether this might be due to increased competition or whether economic agents were already expecting much lower inflation in the coming period. She decided that all of these explanations probably contributed to the weak development in services prices,

She therefore concluded that inflationary pressures were not rising yet in a way she considered reassuring. She felt that Swedish inflation instead arose from earlier krona depreciations. The period with low inflation would be prolonged and she therefore considered that the Executive Board should today reach a decision that ensures that the krona does not become a threat to economic activity and inflation in Sweden.

Ms Skingsley emphasised that this was not a question of weakening the krona or maintaining a particular exchange rate, but of parrying so that the krona did not appreciate too far above the forecast the Riksbank has already made for a stronger krona in the coming years.

She considered that the draft Monetary Policy Report describes the risks of low inflation over a long period of time in a good way. But she also sees growing risks in further cutting the policy rate.

It is not possible to define in advance at what level the impact of monetary policy would weaken. The theories on the lower bound for the policy rate imply that a central bank can continue cutting its policy rate and still have an impact until the economic agents begin to prefer holding cash to paying for depositing cash, as cash is interest-free. As deposit rates have not yet become negative, with the exception of some larger deposit clients, she felt that the repo rate still has some way to go before it reaches this theoretical bound. But as the banking system has a liquidity surplus in relation to the Riksbank for which the banking system pays, there is a risk that the banks in general will try to compensate for these costs through their customers. The lower the policy rate is, the higher the banks costs are when they deposit the liquidity surplus with the Riksbank. If the banks try to compensate for these increased costs, the stimulation effect of the interest-rate cuts in the economy as a whole may decline. She did not rule out the possibility that a long period of time with negative interest rates could contribute to creativity in the financial sector that reduced the impact of the policy-rate cuts even at the current levels.

She concluded by summarising her stance. As described in the draft Monetary Policy Report, which she supports, international developments are still uncertain.

Following the Executive Board's decisions over the past year, which resulted in extensive monetary policy stimulus that contributed substantially to a strong economic development, it is now time to take a longer view. After today's decision, she said, the Executive Board needs to wait and see and carefully balance benefits against costs. She is assuming that the course of inflation will continue swinging back and forth, but given what she has just said, she will have greater acceptance for forecasting errors in the coming months.

She is also prepared to accept that it may take a little longer time than is predicted in the current inflation forecast before the 2 per cent target is attained.

If it were necessary to take a stance on further monetary policy easing, she says the benefits must outweigh the cost. On the benefit side are the potential stimulus effect, target attainment and the general public's confidence in monetary policy. On the cost side, on the other hand, are potential problems with interest rate-setting, but also here she factors in the general public's confidence in monetary policy.

Deputy Governor **Henry Ohlsson** began by saying that he does not support the proposal to cut the repo rate by 0.15 percentage points to −0.50 per cent and to lower the repo-rate path. He instead considers that the repo rate should be held unchanged at −0.35 per cent and that the repo-rate path should also be held unchanged. On the other hand, he does support the proposal to reinvest maturities and coupons from the government bond portfolio until further notice.

At present, GDP growth in Sweden is rapid. According to the forecast in the draft Monetary Policy Report, growth will be clearly above the historical average in coming years. Another important observation is that global trade in goods is increasing again, after a decline that has proved to be temporary. This is very important for a small, open, export-dependent economy like Sweden's. Resource utilisation in the Swedish economy is also close to normal and is expected to become even higher. Mr Ohlsson felt that this suggests that inflation should rise as resource utilisation increases. Another important observation is that consumption of durable goods is increasing. He interprets this to mean that households have confidence in the future and are expecting a good economic development in the coming years.

The inflation rate is still showing a rising trend. However, the monthly measurements are varying in an irregular manner and many view the recent monthly outcomes as a disappointment. This is something he can understand. However, the monthly measurements are substantially affected by temporary factors. His firm opinion is that the rising trend is nevertheless clear. It is important to attain the inflation target, but it is also important to realise that this can take time.

Mr Ohlsson observed that the most recent measurement in January showed the expected annual rate of inflation five years ahead to be 1.9 per cent, according to money market participants. This is close to, but below, the inflation target. At the same time, we can see that inflation expectations one and two years ahead are below the inflation target, but also showing a rising trend, he said.

The labour force surveys (AKU) for December 2015 report an unemployment rate of 6.7 per cent (not seasonally adjusted). This is a welcome decline of 0.3 percentage points compared to the corresponding month a year earlier. Unemployment has thus declined over the past year, but is still too high, in his opinion.

When Mr Ohlsson weighs the need for a more expansionary monetary policy against the risks linked to an even more expansionary policy, and when he looks at the advantages and disadvantages of the monetary policy measures at the Riksbank's disposal, he can only come to the conclusion that the repo rate and the repo-rate path should be held unchanged. On the other hand, he does not consider that monetary policy should become less expansionary. He therefore supported the proposal to reinvest maturities and coupons from the government bond portfolio until further notice.

His reasons for these stances are that he is convinced that the monetary policy decided so far is sufficiently expansionary. It is important to have patience and to await the effects of the expansionary monetary policy on the inflation rate.

At the same time, too-rapid an appreciation of the krona could threaten the chances of attaining the inflation target. Mr Ohlsson emphasised that although monetary policy does not have a target for the exchange rate, its development affects the development of inflation. He assessed that there are situations where interventions on the foreign exchange market are the best alternative in counteracting a development where the krona appreciates too rapidly. However, he noted in this context that the krona has recently appreciated above all against currencies whose value is largely governed by commodity prices and then mainly the oil price.

An important starting point for Mr Ohlsson is that rising inflation should not only come from a weaker krona. As he sees things, it is more a question of attaining the inflation target through price increases that result from increased domestic activity, or in other words, increased domestic resource utilisation.

He thus considered it to be a well-balanced expansionary monetary policy, taking into account the need for and risks with a more expansionary monetary policy, and in the current situation for the Swedish economy, to hold the repo rate and the repo-rate path unchanged at a low level and to complete the programme decided earlier with regard to purchasing government bonds.

Governor **Stefan Ingves** began by noting that at the most recent monetary policy meeting in December, the situation for inflation appeared reasonably stable. The most probable outcome was a low interest rate combined with very good growth until a time when good demand in Sweden and abroad increased demand so that inflation would attain the target of 2 per cent. This picture changed fairly quickly thereafter, when the krona began to appreciate too quickly, which required special measures, and the inflation outlook began to deteriorate with an even more prolonged period of low inflation at the same time as there were discussions of an even more expansionary monetary policy abroad. The latter was a consequence of the picture that had emerged. It is in the light of this that he presents his views today.

Despite a fairly similar assessment of the development of the real economy, with stable global growth, growing trade and good growth in Sweden, the Riksbank is now making a substantial downward revision to the inflation forecast at the same time as monetary policy in other countries appears to be becoming even more expansionary. Given this, the Executive Board can choose on the one hand to be proactive, as before, or on the other hand to wait and see, regardless of what is happening abroad. Both strategies can work and this is no simple choice, said Mr Ingves. The conclusions reached are not self-evident but a decision nevertheless needs to be made. He personally thinks that the Riksbank's proactive strategy has worked so far and he is not prepared to abandon this path now, as it could lead to an even more troublesome situation further ahead with regard to bringing up inflation and turning around a worrying development. Mr Ingves therefore supports the proposal to cut the repo rate now to −0.50 per cent, to revise the repo-rate path downwards, to continue the purchases of government bonds in line with the plan decided in October last year and to create clarity with regard to reinvesting maturities and coupon payments on the government bond portfolio until further notice. He shares the view of international developments and the Swedish economy presented in the draft Monetary Policy Report. It is worth noting in particular the downward revision to the inflation forecast and the section in Chapter 1 that describes the situation in which the decision is made.

Since the previous Monetary Policy Report in December, the financial markets have been marked by global stock exchange falls and lower yields on government bonds. Increased uncertainty over the development of the Chinese economy and large downswings in the oil price have contributed to this. With regard to economic prospects, these have also weakened in many emerging markets that export commodities. He noted that commodity-exporting emerging markets where both companies and the government have weak balance sheets are particularly vulnerable and that they face substantial need to adapt. When the credit flows to rapidly-growing countries have been favourable, this usually turns around when monetary policy changes course. Then one or more of these countries usually suffers the classical problems with regard to short-term borrowing in foreign currencies, budget deficit and current account deficit.

However, in developed countries, which have greater significance for Swedish trade, the recovery is expected to continue. One reason is that terms-of-trade are improving in countries with large oil imports. Moreover, the confidence indicators for households and companies are at fairly good levels.

In the United States, the industrial sector has slowed down, partly as a consequence of a downturn in the oil sector and a stronger dollar. However, lower oil prices also benefit consumption. And good growth in the services sector, which plays an important role in the economy, has contributed to a good development in the labour market and the housing market. A future question will be how long the good economic development can continue and what will then happen with regard to monetary policy further ahead.

In the euro area, too, the industrial sector has slowed down and investment is weak. However, household confidence surveys indicate optimism. Lending to companies is increasing. Financing terms are favourable. Mr Ingves feels that this indicates a recovery, although it may be somewhat weaker than the Riksbank was assuming in the previous Monetary Policy Report. The major question, and the one that is important to us, is what will happen to the inflation rate, where we have made a substantial downward revision to the forecast in our report, he said.

All in all, KIX-weighted inflation abroad is expected to increase marginally from 1.1 per cent in 2015 to 1.2 per cent in 2016 and then rise to just over 2 per cent in 2017 and 2018. This is a forecast similar to that for Sweden, which raises the question of how much, or how little, Sweden's inflation rate can deviate from those of our largest trading partners? This may not be a question for discussion today, but it is worth consideration in the longer run, said Mr Ingves.

He observed that the Swedish economy remains strong. On the whole, there is still a broad demand for Swedish goods and services, he said. Domestic demand benefits from the low interest rates, higher employment and a rapidly-growing population. In addition, there is good demand from abroad. Swedish exports have benefited from a rapid growth in exports of services.

CPIF inflation, which has shown a rising trend, has turned out lower than expected in recent months. This has contributed to a significant downward revision to the forecast for inflation in 2016. The recent fall in oil prices contributes to lower prices for fuel and electricity, but there are also indirect effects on inflation, such as lower transport costs. In addition, inflation will be held back by lower rent increases than expected.

Mr Ingves said that an important factor when he considered what the Riksbank should do at this meeting is that monetary policy abroad is expected to be somewhat more expansionary than was anticipated in the previous Monetary Policy Report. The Federal Reserve raised its policy rate in December 2015 for the first time since the financial crisis, but signalled that future increases were expected to be made slowly. The ECB increased its bond purchases and cut its deposit rate at the beginning of December 2015, but held the interest rates unchanged in January. Moreover, the ECB has now announced that it may decide on more expansionary measures at its monetary policy meeting in March, which many market participants appear to be expecting. Representatives of the ECB have also said that the forecast for inflation may be revised down. The Japanese central bank cut its deposit rate to a negative level for the first time in January. The number of central banks with a negative interest rate has thus increased, which Mr Ingves said underlines the fact that the lower bound for the interest rate is not zero.

With regard to monetary policy abroad, it is still important that we are not afterwards forced to react to the fact that it becomes more expansionary, according to Mr Ingves. We must now make a risk assessment of two different alternatives, to act now or to await further information.

He considered that the Executive Board should be proactive, in the same way as over the past year when the Board has taken into account the ECB's bond purchases in its own monetary policy. It is much more difficult to manage increased monetary policy stimulus abroad after the event. He felt that this also called for a more expansionary monetary policy now.

At present, the real economy in Sweden is strong, despite inflation being low. This is a very unusual situation. Growth is high and unemployment is falling. Inflation is nevertheless now expected to be lower than previously expected in the coming year before rising towards the target. It is important that we do everything we can to make this happen, said Mr Ingves.

He went on to observe that the Executive Board had expected that inflation would begin rising on many previous occasions. As early as the Monetary Policy Report published in February 2012, the Board was expecting low inflation during that year followed by inflation rising towards the target. Now it has exhibited a rising trend for some time, but it is clear that it will take a while before we can see a more normal correlation between the interest rate and other economic variables, he said.

In addition, monetary policy today is rather more than a short-term policy rate. It is an entire spectrum of interest rates at different maturities, the shaping of the framework for the implementation of monetary policy, purchases of government bonds and other assets and potential interventions on the foreign exchange market. Mr Ingves said that it may therefore be important in the coming period to analyse measures of how monetary policy as a whole affects inflation and resource utilisation. At present we are experimenting with the price of money, the negative interest rate, and the quantity of money, the liquidity surplus and possibly the price of money in relation to other currencies. In other words, the Riksbank's balance sheet is being used actively and we are increasingly moving away from the world of models and the minimalistic framework for the implementation of monetary policy that worked during "the Great Moderation" in the early 2000s.

We also know from experience that at some point ahead, economic activity will slow down, he said. It is important that inflation attains the target before that. If the economy begins to slow down when the policy rate is zero or even negative, this could entail a very difficult situation for monetary policy further ahead.

Mr Ingves then expressed his concern regarding developments on the Swedish housing market. Households are continuing to borrow more and housing prices are continuing to rise. He said that one sign that the housing market is dysfunctional is that the expected rent increases have been revised down, at the same time as the housing market is accelerating. This also holds back the forecast for inflation, as rents are included in the CPI. In this respect the signalling system is absurd! He considered that fundamental reforms in the housing market are needed urgently. Reforms are also needed to reduce the incentives for households to take on debt. He warned that if nothing more is done then there are clear risks for very poor economic development. If the current development continues, household debt in relation to disposable income will have roughly doubled from 100 per cent to 200 per cent over a twenty-year period. This risks becoming a burden over a long period of time to come and also a risky one as many households are borrowing at a variable interest rate.

Mr Ingves thought that at present it was not evident ex ante which decision should be taken. Further, he said that he could understand those who reach a different conclusion, but in his opinion prevention is better than cure and it is therefore appropriate to make monetary policy more expansionary now. In addition, he said, we need to have continued preparedness to take further measures, even between the ordinary monetary policy meetings. It is possible to cut the repo rate further, perhaps take other measures than in the framework for the implementation of monetary policy that support the negative repo rate, and to buy more nominal government bonds and/or begin to buy real government bonds. He is also prepared to intervene on the foreign exchange market at very short notice if the development of the krona threatens the upturn in inflation. He concluded by saying that the decision menu on today's agenda captured his views well in this respect.

§3. Discussion

Deputy Governor **Martin Flodén** began by saying that the Riksbank and others often highlighted the risks associated with low interest rates. He emphasised that his objection to the rate cut at the Monetary Policy Meeting was not motivated by such risks. In his opinion, these risks would have hardly been reduced even if the Executive Board had followed his course and refrained from a rate cut at the meeting. Without a rate cut, there would of course be a risk that it might take even longer before inflation rises and before the repo rate can be increased to more normal levels. Linked to his proposal to hold the repo rate unchanged at the meeting, he therefore saw a repo rate path that remains at a low level at least as long as the rate path presented in the draft Monetary Policy Report.

How the repo rate and global interest rates will develop a few years ahead is of course very uncertain, Mr Flodén continued. But recent developments in the global economy definitely point to the period of very expansionary monetary policy abroad being even longer than previously thought. Furthermore, real interest rates in the global economy have been showing a falling trend for several decades, even before the financial crisis. Several studies suggest that this downturn is being driven by factors that are very persistent.[4] If this is true, we can hardly expect any major increases in Swedish or international interest rates in the coming years, regardless of the monetary policy strategy chosen by the Riksbank. The risks associated with the low interest rate environment cannot therefore be managed by monetary policy, but must be dealt with by other means. This is a question of, for example, banks, companies, and investors adjusting their yield requirements to the low interest rates. And it is also a question of bolstering the mortgage market so that it can also cope with a rate increase that may be more rapid and reach higher levels than what the markets are currently pricing as most likely.

First Deputy Governor **Kerstin af Jochnick** said that she shared Mr Ingves's view that the housing market and household indebtedness still require a high degree of attention. When the Executive Board is now cutting the repo rate further, there is a risk that housing prices will rise even more and household indebtedness will increase. The need for measures to ensure a well-functioning housing market in Sweden is very great as is the need to review the components of the tax system that influence the incentives of households to take on debt. In addition, there is the need to give Finansinspektionen a clear macroprudential policy mandate. She welcomed the fact that the amortisation

[4] See, for example, Lukasz Rachel and Thomas Smith, Secular drivers of the global real interest rate, Staff Working Paper No. 571, Bank of England, December 2015.

requirement would seemingly soon be in place. It needs, however, to be complemented with a broader mandate for Finansinspektionen to act. If no measures are taken, these risks, in combination with the low interest rates, could lead to major costs for the Swedish economy later on.

Deputy Governor **Cecilia Skingsley** wished to come back to her previous contribution about there being reason to disregard rent increases when the Riksbank pursues monetary policy. As has already been established, part of the adjustment in inflation is this time down to the fact that the rental agreements concluded so far (about 60 per cent) point to lower than expected increases in the period ahead. These lower rent increases confirm for her the total lack of market influence on Swedish rents, since rent increases can be so low at the same time as the open part of the housing market continues to be characterised by a housing shortage and continued large price rises. The reasons given for the low rent increases include the low interest rates and low inflation.

This causes those of us responsible for conducting monetary policy to wonder about the future, she said. Closer scrutiny of rents over the past ten years indicates a clear correlation between the repo rate and rent growth. Rents therefore display the same behaviour as mortgage costs in the CPI, that is, they drag down the CPI when the Riksbank cuts the policy rate and push up the CPI when the Riksbank raises the policy rate. Since rents constitute about more than 11 per cent in the CPI basket, she thought that it is time to ask the question if a service that is not influenced by the market forces, and also has a considerable weight, really should be included in the inflation assessment when the Riksbank conducts monetary policy.

The CPIF inflation measure is calculated by excluding the effects of changes in mortgage costs. In this way, monetary policy is assessed more broadly, which she thinks is essential. But she also feels that the Riksbank needs to make a deeper analysis and ask itself the question whether the inflation measure excluding rents can be relevant when taking a stance on monetary policy. It should at least by a relevant question for us as long as rent-setting works the way it does, she said.

Deputy Governor **Henry Ohlsson** agreed with Ms Skingsley that it is important to analyse how rents are affected by the various measures of inflation used by the Riksbank. In this context, it may be interesting to study how sub-lease rents differ from master lease rents, he said.

Governor **Stefan Ingves** wished to comment on the repo rate path. Given the Riksbank’s forecast, the interest rate will remain in negative territory for some time to come, which is particularly unusual, he said. At the same time, it is even more important to stress that uncertainty is particularly great given the monetary policy abroad. He wished therefore to emphasise once again, as he has done many times before, that the repo rate path three years ahead is a forecast and not a promise. When many other central banks also have negative policy rates, there is extreme uncertainty.

Deputy Governor **Per Jansson** stressed that he was in complete agreement with Mr Ingves and Ms af Jochnick as regards their view of the Swedish housing market and household debt. The problems are considerable and measures are urgently needed, including enabling Finansinspektionen to take macroprudential policy decisions independently.

Mr Jansson also wished to take the opportunity to express his support for what Ms Skingsley said about rent-setting in Sweden. Including housing prices in a good way in a consumer price index is a general problem affecting not only Sweden. Currently employed methods have a tendency to indicate that the consumer price index is increasing very modestly even when housing prices are rising relatively quickly. But as far as Sweden is concerned, the problems are particularly serious as we have chosen to include both mortgage interest expenditure and rents in consumer prices while rents are not set in relation to the supply and demand conditions in the housing market. This gives the counterintuitive result that rapidly rising housing prices hardly makes any positive contribution at all to the development of consumer prices. And if interest rates, as is currently the case, simultaneously fall, the contribution may even be negative. So he therefore concurred completely with Ms Skingsley view that the Riksbank should further consider how this should be handled in the inflation analysis and ultimately in monetary policy.

Governor **Stefan Ingves** then summarised the discussion. He noted that the Executive Board agreed on the picture of economic prospects and the inflation outlook described in the draft Monetary Policy Report. He noted that several members mentioned downside risks linked to uncertainty on the financial market and economic prospects abroad. The members also noted that global inflation is low and that several central banks are expected to conduct very expansionary monetary policy.

In Sweden, economic activity is expected to continue to strengthen. But unexpectedly low inflation outcomes, together with lower energy prices and rent increases than expected, mean that inflation is expected to be weaker in 2016 compared to the assessment in December.

In different ways, the members weighed the pros and cons linked to which monetary policy decision should be made, given the changes in the view of the situation since December. Several members noted that economic activity in Sweden is now strengthening considerably and that the forecast for inflation has been revised down, partly due to factors that have very little to do with the demand side, which could indicate holding the repo rate unchanged. But although inflation is expected to stabilise around the inflation target during 2017, the downward revision in 2016 means that the period of low inflation will be even longer. Several members stressed that this increases the risk of weakening confidence in the inflation target and hence of inflation not rising towards the target as expected. They also noted that monetary policy in Sweden is affected by what other central banks do. If international monetary policy becomes even more expansionary, the krona exchange rate risks strengthening at a faster pace than in the forecast, which would make it harder to push up inflation and stabilise it around 2 per cent. It could also worsen the conditions for good development in the real economy.

A majority of the board considered, given the above, that it is appropriate to cut the repo rate to −0.50 per cent to support inflation.

Two members instead advocated an unchanged repo rate. Mr Ingves noted that they shared the majority's concern regarding low inflation, even though they reached a different conclusion with regard to the interest rate on this occasion.

The Executive Board was unanimous that the purchases of government bonds should continue in accordance with the plan decided in October and that maturities and coupons from the government bond portfolio should be reinvested until further notice.

Furthermore, a majority advocated an extended mandate for foreign exchange interventions. One member entered a reservation against this, with the motivation that such interventions would not be appropriate for the time being.

Mr Ingves noted that the Executive Board was also unanimous that it is important to have a high level of preparedness to make monetary policy even more expansionary, even between ordinary monetary policy meetings, if this is needed to safeguard confidence in the inflation target.

§4. Decision on the Monetary Policy Report and the repo rate

The Executive Board decided after voting

• to adopt the Monetary Policy Report according to the proposal, Annex A to the minutes, and

• to cut the repo rate to −0.50 per cent and make the decision applicable from Wednesday, 17 February 2016.

• to publish the Monetary Policy Report on Thursday, 11 February 2016.

Deputy Governor Henry Ohlsson entered a reservation against the decision to cut the repo rate. He considered that the repo rate and the repo-rate path should be held unchanged.

Deputy Governor Martin Flodén entered a reservation against the decision to cut the repo rate. He advocated holding the repo rate unchanged.

§5. Mandate for foreign exchange interventions

Special minutes were taken.

§6. Decision to reinvest maturities and coupon payments in from the government bond portfolio

The Executive Board decided in accordance with the proposal, Annex B to the minutes.

§7. Other decisions

The Executive Board decided

• to publish the decisions under Sections 4 and 5 at 9.30 a.m. on Thursday, 11 February 2016 with the exception of Annex B to the special minutes, and Section 6 with the motivation contained in a press release, and

• to publish the minutes from today's meeting at 9.30 a.m. on Monday 22 February 2016.

Sections 4 - 7 were verified immediately.

Minutes by

Sophie Brauner

Verified by:

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

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