



Annex A to the separate minutes No. 7

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DEPARTMENT: Markets Department and Monetary Policy Department

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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 14 February 2017, if interventions are considered necessary to ensure that developments in the krona exchange rate do not constitute a serious risk to the upturn in inflation,
- 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 Wednesday 6 July 2016 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 approach 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. In addition, further purchases during the second half of 2016 were decided in April 2016. The aim of this monetary policy is to push up inflation and stabilise it around the target of 2 per cent and help keep 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, as well as good economic growth in Sweden.

The Riksbank's very expansionary monetary policy has contributed to good growth, falling unemployment and rising inflation. But there is still considerable global uncertainty and the upturn in inflation still depends to a large extent on the krona having been weak, which has contributed to a rise in the prices of imported goods and services. The Riksbank's forecast entails a slow strengthening of the krona in the coming years. The positive contribution of the exchange rate to inflation will then gradually subside. At the same time, high growth and lower unemployment are deemed to support an upturn in more domestically generated inflation. If the krona were to strengthen faster than in the forecast, before more domestically generated inflation picks up, this could make it more difficult for the Riksbank to bring up inflation and stabilise it around 2 per cent. As described in the February 2016 Monetary Policy Report, too early and too rapid an appreciation of the exchange rate risks dampening inflation more than normal when inflation has been low over a longer period of time, for instance, because inflation expectations become lower. Weakened confidence in the inflation target is a source of unease as it creates instability and uncertainty in the economy.

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. 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 counteract an overly rapid strengthening before inflation has stabilised around 2 per cent. The foreign exchange transactions made within the framework of these interventions are 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 upturn in inflation.

The Riksbank still has a high level of preparedness to make monetary policy even more expansionary, even between the ordinary monetary policy meetings. In addition to foreign exchange interventions, there is still scope for further cuts in the repo rate and the Riksbank can purchase more securities. Moreover, there is scope to launch a lending programme to companies via the banks should this be necessary.