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Governor Ingves supports the repo-rate decision

"It was appropriate to leave the repo rate unchanged at 0.25 per cent at the latest monetary policy meeting in April. I also believe that the forecast for the repo rate was reasonable," says the Governor of the Riksbank, Stefan Ingves in his comments on the decision that the Executive Board of the Riksbank made at the monetary policy meeting held on 19 April, which he was unable to attend.

Due to the ash cloud and travel problems in connection with the informal ECOFIN meeting in Madrid, I was unable to attend the monetary policy meeting on 19 April. On the other hand I participated in all of the preparatory meetings ahead of the latest monetary policy decision. I support the analysis in the Monetary Policy Update and the conclusions drawn concerning economic developments, the repo-rate decision and the repo-rate path. Against this general background, I will add a few comments here, but these do not change the conclusions in the Update.

Recovery of world trade

All the indications are that global growth will return to a good level. This should also mean that world trade will recover, although it is not a balanced global growth that Swedish economic policy will face; the world is divided. Growth in Asia and South America is rapid, while the recovery is moving more slowly in the USA and Europe. This will entail a prolonged recovery in Sweden as Swedish exports to the EU are substantial.

We are now in a situation in which the financial crisis is coming to an end and the focus is shifting to problems relating to central government finances in a number of countries. To date, these problems have not affected monetary policy to any great extent, but they form a background against which the monetary policy discussion will be conducted in the period ahead. In the short term the focus will be on southern Europe, particularly Greece. The situation in Greece is reminiscent of that in Latvia, but the problems relating to central government finances in Greece are much more serious in the long term and the outcome of Greece's national debt crisis is at present uncertain. Nevertheless, this should not have any significant impact on Swedish monetary policy. Swedish banks have a very limited exposure to the Greek market and any market effects will probably be indirect. How a number of countries will manage their central government finances in the long term is another matter, but not an issue that monetary policy will need to consider in the immediate future.

Development of the Swedish economy divided

The development of the Swedish economy is also divided to a certain extent. The service sector has developed strongly while the industrial sector has suffered a substantial fall in the demand for exports. This division is also reflected in the fact that resource utilisation is low and difficult to assess at the same time as the labour market has developed much better than we forecast. The recent development of the economy has not been in line with historical patterns and the crisis of the 1990s has not been able to provide any real guidance when it comes to assessing the development of the current downturn. This makes it more difficult to analyse the situation, but I share the assessment, which we have also made earlier, that we are moving towards a sustainable economic recovery at the same time as inflation is moderate with well-anchored inflation expectations.

Towards a more normal monetary policy

This also means that monetary policy, according to the forecast, will normalise, although this normalisation process will take time and was not a reason for increasing the repo-rate at this meeting. In this context, it may also be worth recalling that we have now had a very low repo rate for rather a long time. The financial markets are now more stable and the recovery of the Swedish economy is recovering. I therefore think that the time is right to gradually phase out the special loans that the Riksbank has offered. It is appropriate to shorten the maturity of the loans offered at a variable rate and the fixed-rate loans will soon fall due. As far as I can judge, this means that the Riksbank's monetary policy exit will be both undramatic and rather simple compared to the situation in a number of other countries. As the Swedish economy and the Swedish financial market were both in a healthy state when the crisis began we were not drawn into the financial storm until a rather late stage, and then mainly due to the Swedish banks' exposures in the Baltic countries. The need for crisis measures has not been as great in Sweden as in many other countries. This also indicates that we should be able to complete our exit before many others. A return to normal also means that monetary policy will become somewhat less expansionary as we are leaving a period in which monetary policy has really been a combination of a low repo rate for a considerable period of time and a rather extensive programme of extra loans at both fixed and variable interest rates. If Finansinspektionen introduces restrictions regarding leverage levels for mortgages, this will also de facto have a tightening effect. This is a reasonable measure from the consumer protection point of view, but also given the division we can now see on the credit market with a limited demand for loans in the corporate sector and a high demand for loans in the household sector.

The forecast for the repo rate was appropriate

This does not mean that monetary policy can ignore events and developments on the housing market. As the Executive Board has noted earlier, when conducting monetary policy there is sometimes a need to bring repo-rate increases forward in order to avoid greater problems further ahead. In my view we are now approaching such a situation and this is a factor that may weigh in favour of a repo-rate increase in July. Given the time left until the next repo-rate decision and the additional data that will be available by then, this is something that we will have to decide on when we have a complete Monetary Policy Report at the end of June. The repo-rate path that has now been presented represents a satisfactory balance between the risks on the upside and those on the downside, and I see no reason to argue in favour of an alternative repo-rate path. The nuances are fairly minor at the same time as we will attain our inflation target in the long term.