Monetary policy minutes

February 2019

SVERIGES RIKSBANK

Summary

At the Monetary Policy Meeting on 12 February 2019, the Executive Board of the Riksbank decided to hold the repo rate unchanged at –0.25 per cent. As in December, the forecast for the repo rate indicates that the next increase will be during the second half of 2019, provided that the economic outlook and inflation prospects are as expected.

The Executive Board supported the picture of the economic outlook and inflation prospects described in the draft Monetary Policy Report. Economic developments have, as expected, entered a calmer phase both in Sweden and abroad. But although growth is slowing down, economic activity is still expected to be good in the coming years.

All of the board members stated that the data received since the Monetary Policy Report in December has not led to any major revisions of the Swedish economic outlook and inflation prospects. Although there are a number of mixed signals, the picture of strong Swedish economic activity remains and the conditions for inflation remaining close to 2 per cent in the coming years have not changed to any great extent. Therefore, the Executive Board considered it appropriate to hold the repo rate unchanged at –0.25 per cent. As in December, the forecast for the repo rate indicates that the next increase will be during the second half of 2019.

At the same time, several board members pointed out that there is great uncertainty over future growth conditions. Risks that cannot be captured in a simple manner in the forecast include the trade conflict between the United States and China, the uncertainty regarding economic activity in Europe and the United Kingdom's withdrawal from the EU. With regard to the uncertainty over demand in the Swedish economy, there was particular emphasis on developments in the housing market and some board members also discussed the recent depreciation of the krona. Given these uncertainty factors, the importance of monetary policy proceeding cautiously and of future rate increases being adapted to the outlook for the economy and inflation was underlined.

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MINUTES OF MONETARY POLICY MEETING
Executive Board, No. 1

DATE: 12/02/2019

TIME: 09.00

PRESENT: Stefan Ingves, Chairman
Kerstin af Jochnick
Martin Flodén
Henry Ohlsson
Cecilia Skingsley

Susanne Eberstein, Chairperson, General Council of the Riksbank

Meredith Beechey Österholm
Vesna Corbo
Hans Dellmo
Charlotta Edler
Mattias Erlandsson
Eric Frieberg
Jesper Hansson
Jens Iversen
Kristian Jönsson
Maria Kindborg
Ann-Leena Mikiver
Marianne Nessén
Jessica Penzo
Carl-Fredrik Pettersson (§ 1-3A)
Henrik Siverbo
Maria Sjödin
Albina Soultanaeva
Ulf Söderström
Ingrid Wallin Johansson (§ 1-3A)
Anders Vredin

It was noted that Marika Hegg and Henrik Siverbo would prepare the draft minutes of the monetary policy meeting. It was also noted that Per Jansson was absent for family reasons.

§1. Economic developments

Market developments since the last monetary policy meeting

Ingrid Wallin Johansson of the Markets Department began by presenting the latest developments on the financial markets. The period since the monetary policy meeting in December can be divided into two phases in order to describe market developments.

Initially, unease regarding economic prospects and political risks contributed to continued negative sentiment on the markets. This caused equity prices in many countries to fall, as investors went in search of safer assets. Risk premiums in the form of yield differentials between risky and safe bonds increased, as did volatility on the options market. In January, there was a turnaround in market sentiment, partly due to the Federal Reserve signalling a softer monetary policy stance than before. This, together with generally good earnings reports, led to a recovery in the equity market and to increased risk appetite on the financial markets.

Government bond yields fell in many countries during the late autumn, in the wake of generally poorer risk sentiment among investors. Since the monetary policy meeting in December, they have shown a more stable development, although they have fallen somewhat further over the past week. Swedish bond rates have developed in line with German ones, while US bonds have varied more. The difference between nominal and real government bond yields, which is an indication of the inflation compensation that investors are expecting, has risen again in the United States, after falling substantially earlier in the autumn. In Germany and Sweden, this inflation compensation has recently declined somewhat. The foreign exchange market has been unexpectedly stable during the recent market fluctuations, although the krona has weakened over the past two weeks.

In contrast with developments abroad, fixed-income market participants' expectations of the future repo rate have been relatively unchanged since December. At the same time, the fact remains that market pricing implies a considerably more protracted cycle of rate increases than both the repo-rate path from the December monetary policy meeting and the forecasts by analysts in general. The most common perception among market participants is that the Executive Board will announce, in connection with the monetary policy meeting in April, that at least parts of the principal payments in 2020 will be reinvested, starting from July this year. Prior to today's monetary policy decision, most analysts believe that both the repo rate and the monetary policy communication will be left unchanged.

The current monetary policy drafting process – new data and forecasts

Jesper Hansson, Head of the Monetary Policy Department, began by presenting the forecast that the Monetary Policy Department judged would gain the support of a majority of the Executive Board. The monetary policy drafting process has included discussions with the Executive Board regarding the forecasts and the monetary policy assumptions at meetings on 30 and 31 January and on 4 February. The draft monetary policy report was tabled at a meeting of the Executive Board on 6 February.

There is still considerable uncertainty regarding economic developments. The economic outlook abroad is largely the same as at the monetary policy meeting in December, and GDP growth is slowing down more or less in line with the forecast. Growth in the United States is still high, while the euro area is showing a clear slowdown, although this is affected by temporary factors. Most confidence indicators published recently confirm the picture of more subdued development in the near term, but are still at levels close to historical averages. The forecasts for KIX-weighted GDP growth have been lowered by 0.2 percentage points for 2019 and 0.1 percentage points for 2020. Despite resource utilisation having risen for quite a few years now and being normal or higher than normal in many areas, inflationary pressures are relatively low. Various measure of underlying inflation are in most cases below the respective central bank's inflation target. Total CPI inflation is higher, but the lower oil price means that inflation will fall this year. The forecast for the KIX-weighted policy rate has been revised down in the longer term, roughly in line with forward rates.

Following a period of high growth in Sweden, GDP fell in the third quarter of last year, but this is assessed to be largely due to temporary factors. One partial explanation was a weak development in car purchases as a result of changes in tax regulations. The development of household consumption was fairly weak for most of 2018, at the same time as housing investment declined. Housing investment is expected to stabilise during the course of 2019, bolstered in part by a slight increase in housing prices in virtually every month in 2018. Monthly statistics on demand and production imply a rebound in GDP growth in the fourth quarter to around 2.5 per cent, compared with the previous quarter and calculated at an annual rate. Confidence indicators for the business sector have continued to fall, but still imply a roughly normal rate of growth in the coming quarters. The forecast for GDP growth for the whole year 2019 has been revised down somewhat to 1.3 per cent. Unemployment was just over 6 per cent at the end of 2018, which is the lowest level in ten years. Most indicators point to continued high demand for labour. But as an increasing number of people who normally experience difficulty obtaining work are entering the labour force, unemployment is expected to rise slightly going forward.

CPIF inflation in December was 2.2 per cent, which was almost exactly in line with the forecast in the Monetary Policy Report in December. The conditions for inflation to remain close to the target during the forecast period have not changed. Cost pressures are fairly high, with weak productivity growth and some rise in wage growth. The inflation forecast remains largely unchanged.

The draft forecast is based on the monetary policy that is expected to gain a majority at today's monetary policy meeting. This implies the repo rate being left unchanged at –0.25 per cent. As in December, the forecast for the repo rate indicates that the next rate rise will occur during the second half of 2019. After that, the repo rate will be raised by around 0.5 percentage points a year. At the end of January, the Riksbank's government bond holdings amounted to almost SEK 355 billion, expressed as a nominal amount. The forecast is based on principal payments and coupons being reinvested until further notice. This will be carried out at an even rate until the end of June 2019, in accordance with the decision from December 2017.

§2. The economic situation and monetary policy

Deputy Governor Martin Flodén:

I support the proposal to leave the repo rate unchanged at –0.25 per cent. I also support the draft Monetary Policy Report, the forecasts described in the draft and the assessment of what constitutes an appropriate level for the repo rate going forward.

Economic developments both in Sweden and abroad have been in line with our assessments at the monetary policy meeting in December. It is clear that growth has slowed in Sweden and the euro area but uncertainty over Swedish and international growth conditions remains high.

As before, it is unclear how the trade conflict between the United States and China will develop and what the ground rules for international trade will look like going forward. It is also still unclear how the terms of the United Kingdom's withdrawal from the EU will be formulated, despite only just over a month remaining before the planned withdrawal.

In the euro area, the German economy grew surprisingly weakly in the second half of 2018. Some of the slowdown can be explained by temporary factors within the motor vehicle industry, but several forward-looking indicators have weakened and suggest that growth will also be lower for some time to come.

At the same time, other important countries in the euro area are poorly equipped for weaker economic developments. For a long time, several countries have been struggling with weak public finances, low underlying growth and unprofitable and weakly capitalised banks. The future prospects are also weakened by demographic developments with ageing populations. Necessary reforms to strengthen the economies of these countries have either not materialised or been met by substantial popular resistance when politicians have tried to implement them. Strong global demand is therefore almost a precondition for these countries to be able to outgrow their problems to a certain extent. The prospects for this have deteriorated now that the European economic upturn seems to have been cut short earlier than expected. The downside risks are thus becoming clearer.

However, not everything looks gloomy. Growth is still relatively high in the United States, and the labour market is growing strongly and resource utilisation is high in both the United States and Germany. There are still signs that wages in these countries are rising more rapidly than in recent years and the international prospects for inflation have not changed much after our last monetary policy meeting.

In Sweden, the economic signals are also mixed. The household confidence indicator has fallen to low levels and both household consumption and retail sales have developed surprisingly weakly in recent month. But there are also positive indicators. Growth seems to have been relatively high during the last quarter of 2018 after a weak third quarter. The confidence indicator in the manufacturing industry is still at high levels and several large export companies have reported good results recently. The labour market, and in particular employment, has continued to develop strongly. The most recent wage outcomes suggest that wages rose slightly more rapidly last year than we previously judged, and the conditions for a further increase in wage growth remain.

The housing market is the greatest source of uncertainty for Swedish economic developments this year. The upturn in housing construction made quite a substantial contribution to the high GDP growth in 2014–2017. As construction has now slowed, the contribution is instead negative. More precisely, construction is expected to weigh down GDP growth by 0.9 percentage points this year after having contributing positively with 0.6 percentage points in 2017. Construction thus has a direct and clear impact on growth. Furthermore, both construction and housing prices contribute indirectly to economic developments via their spillover effects on other industries and perhaps most importantly via household confidence and consumption.

Despite construction slowing considerably in our forecast, it is expected to be on a high level in relation to the average over the past 25 years. In the forecast, housing prices are expected to rise slowly over the coming years. As I said, I see developments on this market as particularly uncertain. The uncertainty concerns the interaction between construction, demand and price expectations. Can construction remain high if prices fall? Can prices remain on high levels if many newly built homes continue to come out onto the market? Are households prepared to commit to buying a home several years in the future when price developments are uncertain? Can construction be funded in some other way and continue even if households do not wish to commit to buying a home a long time in advance? The answers to these questions will affect the strength of the Swedish economy and hence the design of monetary policy going forward.

Based on the new information after the monetary policy meeting in December, I see no reason to change the assessment of inflationary pressures. We have only received one new inflation outcome, for December, and that was exactly as forecast. Other new data has also roughly been in line with the previous assessment, although it points in different directions. Factors indicating lower inflationary pressures are the uncertainty over economic developments and the slight fall in inflation expectations, measured in different ways. Factors indicating higher inflationary pressures are the unexpected weakness of the krona and the expectation of slower productivity growth. But the adjustments are minor, and overall the prospects for inflation look the same as before. This means that inflationary pressures are still weak but that the conditions for inflation to remain close to target in the coming years are nevertheless good. However, such a development in inflation presupposes that monetary policy remains expansionary and that the repo rate is not raised too rapidly.

I would like to discuss two further questions of significance for monetary policy, namely the impact of the repo rate rise in December and the krona depreciation after the December meeting. Our assessment was that the rate hike would have a normal impact on various market rates and that it was more or less in line with market expectations. But as this was the first rate increase in over seven years and furthermore the first one from a negative level, there was perhaps a little more uncertainty than usual about how the rate rise would work. The reactions were entirely normal, however, and in line with our assessment. This strengthens my confidence in the monetary policy plan we formulated in December.

The exchange rate is a relatively important component in the monetary policy transmission in a small economy like Sweden. The krona would probably have appreciated sharply if the rate rise in December had been incorrectly interpreted as the start of a series of rapid increases. This was not the case, however, with the krona strengthening marginally directly after the December announcement. Thereafter, the krona has instead weakened quite considerably. This is surprising as expectations of international monetary policy have shifted in a more expansionary direction during this period, while expectations of Swedish monetary policy have been more stable.

According to the monetary policy plan we formulated in December, it is likely that the repo rate will also be left unchanged at –0.25 per cent at our next monetary policy meeting in April. Developments after the December meeting have not increased the likelihood of an increase being appropriate in April. The prospects for inflation and the economic outlook have held up quite well since the monetary policy meeting in December. The new information has been slightly negative but the picture is not clear-cut. An increase in April could possibly be justified if the krona continues to be weak, if the three forthcoming inflation outcomes indicate higher inflationary pressures and if, at the same time, the economy develops well. But, so far, everything indicates that it is wise to wait until the second half of this year before raising the repo rate again. My view on future monetary policy is therefore fully consistent with the forecast for the repo rate presented in the draft Monetary Policy Report.

Deputy Governor Cecilia Skingsley:

The draft decision at today's meeting is to leave the repo rate unchanged at –0.25 per cent and also to leave the repo rate path unchanged. I support this.

I would like to make a few comments on the forecast adjustments that have been made, on the risk picture and on appropriate monetary policy going forward.

As noted in the Monetary Policy Report in December, the global economy has entered a phase of lower growth after a period of high activity. The difficult question is to what extent events since December indicate that there is reason to make extensive forecast revisions. In the main, the forecasts in the autumn had already identified a calmer period of growth, so there is no great need for major adjustments.

Compared with the monetary policy meeting in December, I have nevertheless become more pessimistic about global developments and I therefore support the moderate, but nonetheless downward, revisions made for the global economy.

For one thing, global financial conditions have been characterised by greater volatility than for a very long time, making them difficult to assess. In the draft Monetary Policy Report, the assessment is made that the financial conditions have become slightly tighter since December, both abroad and in Sweden. With regard to international policy rates, the Riksbank's forecast is already low. Similarly, recent adjustments in market pricing imply expectations of slightly less contractionary monetary policy in large countries going forward, and this gives some support to growth.

For another thing, the slight downward adjustment in the global forecast is justified by the fact that macrodata in Europe indicates weaker development than expected.

There has not been too much Swedish macrodata since December, but the data published confirms a continued good labour market and inflation in line with the Riksbank's forecast. It is positive that the earlier uncertainty regarding the formation of the Swedish government has decreased and that government policy during the mandate period has been clarified.

The Riksbank's forecast for household consumption has been revised down somewhat, particularly in light of assumptions of lower price expectations on the housing market. As regards consumption, I see some upside risks bearing in mind that households are still benefiting from a strong labour market and good income growth, and have a high level of savings to draw on in order to smooth out their consumption.

To sum up, I think the conditions for inflation remaining close to the 2-percent target are good. The trend in Swedish demand is certainly not quite as strong as previously assumed. But even from the supply side, a certain slowdown is expected, with regard to lower expected potential growth in the years ahead.

Just as at previous monetary policy meetings, there are a number of risks that are not easy to capture in the forecasts but that may become significant for monetary policy decisions. How the Riksbank handles risks in the forecast is described in more detail at the end of Chapter 1 in the draft Monetary Policy Report. I think that our meeting today is a good example of the current situation, in which more information is required before any adjustments may become relevant.

Internationally, there is uncertainty regarding both the terms of the United Kingdom's withdrawal from the EU and its future relationship with the EU. Trade relations between the United States and China remain unclear. Data for Italy point to a recession. Besides the risk factors mentioned in the draft Monetary Policy Report and which could in the main lead to poorer outcomes, I would like to add that US data has remained strong and there are no obvious threats to inflation in the dominant economies that require monetary tightening.

One risk factor that is difficult to assess is how the business sector is trying to navigate through a global environment characterised by continued uncertainty over future trading terms. Anecdotal information suggests that many companies are gradually trying to adjust their operations and order flows in a way that will mitigate the risks of suffering problems due to different types of trade restrictions. Declining orders in some countries in recent months may be an indicator of these adjustments. Reluctance to becoming a weapon in political debates and jeopardising their reputation is, however, causing companies to exercise considerable caution when it comes to making such adjustments and making them difficult to observe.

I therefore support the monetary policy assessment to leave the repo rate and the repo rate path unchanged at this meeting. If the repo rate path materialises, there will be a new rate increase in the second half of this year, and according to the rate path, this increase will happen when inflation measured in terms of the CPIF is a few tenths below target. I wish to be clear that I see it as possible to increase the policy rate even in situations when actual inflation is not on or above the two-percent target. It is the forward-looking inflationary forecast that determines the need for interest rate adjustments rather than the actual level of inflation when monetary policy meetings take place. On the other hand, it is not an end in itself to move away from negative interest rates. The principle that I have expressed at previous monetary policy meetings is still valid; namely to gradually increase the policy rate bearing in mind the economic outlook and inflation prospects but without jeopardising attainment of the inflation target which has been met for the last two years or so.

First Deputy Governor Kerstin af Jochnick:

I support the assessments and forecasts made in the draft Monetary Policy Report, and I support the proposal to hold the repo rate at –0.25 per cent with an unchanged repo rate path.

The assessment of real economic developments abroad and in Sweden are not significantly different to the one that formed the basis of the monetary policy meeting in December. But there are some signs that may indicate poorer developments and that constitute uncertainty factors in our assessment.

The global economy is still strong, but growth is now decreasing in several countries. Economic activity in the United States still looks good, but the shutdown of federal authorities in the United States and negotiations on the debt ceiling may be an explanation for why we have seen a slightly dampening of confidence among households and companies.

In the euro area, developments have been weaker than in the United States, but we judge the decline in growth registered towards the end of 2018 to be largely of a temporary nature.

At the same time, several of the international risks that might lead to poorer developments still remain. One such risk concerns the introduction of various types of trade barrier. The barriers established so far have not had any clear impact on global growth, although we are seeing some changes in the trading patterns of China and the United States.

Another risk concerns the forms of the United Kingdom's withdrawal from the EU. Unless the withdrawal occurs in an orderly fashion, uncertainty will increase not just for the United Kingdom but also for the entire EU – this applies to both real economic developments and developments on the financial markets.

In conjunction with recent monetary policy meetings, we have also discussed the risks associated with economic developments in Italy. In the short term, uncertainty over fiscal policy has decreased slightly as a result of the European Commission approving the Italian budget in December. But several difficult challenges still need to be tackled, including the country's weak growth and the problems in its banking sector.

Political uncertainty and uncertainty over the strength of the global economy have also been affecting the financial markets in both the United States and the euro area for several months. Among other developments, government bond yields have fallen. Market expectations of forthcoming policy rate rises have also softened. Overall, I think that there is reason to be vigilant against poorer global developments than in our forecast.

As far as Sweden is concerned, our forecast for growth has been revised down slightly, but my assessment is still that the Swedish economy is continuing to develop well. This can be seen not least on the labour market, where the demand for labour remains high. Even though resource utilisation is expected to fall slightly in the coming years, it is still expected to be higher than normal.

However, there are also a number of risks regarding Swedish developments. Uncertainty over developments on the housing market is still considerable, despite prices having recovered slightly over the past year. Compared with the sharp housing price increases in the preceding years, this is a major change, which has caused housing investment to fall.

In our forecast, growth in household consumption has been revised down by a few tenths for this year. Household confidence in the future has fallen recently, which probably has to do with developments on the housing market, as well as with falling equity prices. At the same time, I think that households' subdued view of the future should not be exaggerated and that the prospects for household consumption should be assessed in a broader perspective. The labour market is strong, while disposable household income is growing at a good pace. The rate rises predicted in the coming years are not expected to have a decisive impact on disposable household income. This is expected to continue to grow at a healthy pace, due to the major positive contributions from rising wages, among other factors.[1] Moreover, households have a high level of savings to begin with. My overall assessment is therefore that the conditions are in place for household consumption to continue to grow at a rate close to 2 per cent per year over the next few years, as our forecast indicates.

Since December, inflation has developed in line with our forecast, although we have only had one additional monthly outcome for CPIF inflation. Rising energy prices have recently made quite a substantial contribution to inflation. For some time, different measures of core inflation have generally been lower than CPIF inflation and below the target of 2 per cent. In the near term, however, core inflation is also expected to rise towards the target as a result of higher rents, rising food prices and the effects of the weak krona.

But as at previous monetary policy meetings, one decisive piece of the puzzle is, in my opinion, what the prospects for inflation look like in a slightly longer perspective. The strong situation on the labour market is expected to contribute to rising cost pressures in the years to come. The forecast for the growth rate in unit labour costs has even been revised upwards slightly for this year compared with the Monetary Policy Report in December. Rising domestic cost pressures

[1] See the article "How are household cashflows and consumption affected by rising interest rates?" article in Monetary Policy Report, December 2018.

compensate for the effects in our forecast of slightly more slowly rising energy prices and a gradual strengthening of the krona. Overall, I think that the assessment of the prospects for inflation in Sweden has remained essentially the same since December.

As I have argued for today, I also think that it is reasonable to hold the repo rate unchanged and also keep to our repo rate forecast from December. But I have also highlighted a number of factors that may change our forecasts and that we must follow closely in the period ahead.

Governor Stefan Ingves:

I support the forecasts for and assessments of economic developments in Sweden and abroad as described in the draft Monetary Policy Report. I also support the proposal to hold the repo rate unchanged at –0.25 per cent. The repo rate path is unchanged and indicates that an increase in the repo rate may occur during the second half of 2019. The Riksbank's reinvestments of principal payments and coupons in the government bond portfolio will continue according to plan. These reinvestments have so far worked well and will continue until further notice and at an even rate until June 2019, in accordance with the Executive Board's earlier decision. We will have to return to the issue of the bond portfolio later on.

The assessments of economic developments abroad and in Sweden, made in the draft Monetary Policy Report, largely coincide with the assessment made in December. The meetings are quite close together and not much has happened as regards hard data. The global economy has grown rapidly for several years in a row, and is now entering a phase of slightly softer growth. In the United States and China, GDP growth is expected to slow from high levels, while the euro area is expected to continue to grow at approximately the same, slower pace. For the world as a whole, GDP growth is expected to be a good 3.5 per cent over the forecast period. This is a weaker, but by no means a poor, growth rate. Looking at the economies that are most important for the Swedish economy, and weighing them together with the so-called KIX weights, GDP growth of just over 2 per cent is expected over the coming years, that is to say in line with the assessments made in the Monetary Policy Report in December.

Regarding this expected development, there are a number of risks, which, if they materialise, may lead to a significantly different development, both in the short and the longer-term perspective. These are risks that we have been talking about for a long time. Closest to us, and perhaps most significant from an economic perspective, are the risks associated with developments in the euro area. Question-marks over the long-term stability in Italy's public finances and economic development largely remain. Developments in the other large economies in the euro area, especially Germany, are hence of considerable importance, as a kind of insurance against poorer developments in countries like Italy. Today, Germany has low unemployment, a budget surplus and a current account surplus, broadly speaking a strong economy with plenty of economic freedom, which also benefits Sweden. The course of events with regard to the United Kingdom's imminent withdrawal from the EU has continued to be a source of unease. On the global economic arena, the trade conflict between the United States and China is still a risk factor. So far, the effects on global growth are deemed minor, although trading patterns between the countries have started to be affected. There are therefore major and unusual uncertainty factors, where the risks are mostly on the downside. Were they to materialise, monetary policy may need to be adjusted, but we are not there yet. On the other hand, global growth is still reasonable and inflation is at or close to two per cent in many countries.

Sweden has had several years of good growth and the growth rate is now expected to slow. The forecast for GDP growth in 2019 is 1.3 per cent, somewhat lower than the assessment in December. For 2020–2022, growth of just below 2 per cent is expected, which is about the same assessment as in December. The high growth, both in Sweden and abroad, has led to very strong developments on the labour market, and unemployment has fallen to its lowest level in 10 years. However, there are still structural problems on the labour market, with large groups that are finding it difficult to obtain work.

Inflation continues to develop in line with our two-percent target. Since the last monetary policy meeting, one new outcome has been published. It concerns inflation for December, when the annual percentage change in the CPIF was measured at 2.2 per cent, completely in line with our forecast. Inflation for the whole of 2018 was 2.1 per cent. Target fulfilment remains good. And inflation expectations continue to indicate confidence in the inflation target.

The inflation forecast in the draft Monetary Policy Report is largely the same as in the Monetary Policy Report in December, and implies that inflation in the period 2019–2021 is expected to be around 2.0 per cent or slightly below. The krona is expected to appreciate slowly during the forecast period, which in itself will have a dampening effect on the development of inflation. On the other hand, the good GDP growth of recent years is expected to continue to have an impact on cost pressures, partly in the form of rising wages. During the entire forecast period, resource utilisation will also be higher than normal, which indicates that inflation will be reasonably close to our inflation target of two per cent.

At the last monetary policy meeting in December, the repo rate was increased by 0.25 percentage points, and we anticipate increasing the repo rate slowly in the coming years. The repo rate path, which provides the basis for the forecasts in the draft Monetary Policy Report, predicts continued rate hikes during the forecast period, but at a pace that is very slow in relation to previous rate-rise cycles. Three recurring questions in the context are what happens with the level of interest rates and economic developments in Europe in combination with our own exchange rate. The difficulties inherent in exchange rate forecasts are well captured by recent developments when we, as we almost always do, forecast an exchange rate appreciation at the same time as developments are going in the opposite direction.

In conclusion, I would like to say a few words about developments on the housing market and the risks associated with the high level of household indebtedness. A week ago, I took part in the Committee on Finance's open hearing on financial stability together with heads of other central authorities, among others. In my opinion, a consensus was expressed at the hearing that household indebtedness constitutes a major risk to the Swedish economy. Gradually rising interest rates in the coming years may marginally help to hold back debt growth. But solving the structural problems on the Swedish housing market will require more forceful measures within housing and tax policy. From a financial sector and debt perspective, household indebtedness will unfortunately continue to be a headache for many years to come.

Deputy Governor Henry Ohlsson:

To begin with, I would like to say that I support the proposal to leave the repo rate unchanged at –0.25 per cent and to leave the repo rate path unchanged. I also support both the view of the current situation and the forecasts in the draft Monetary Policy Report.

Annual growth abroad, KIX-weighted, is expected to amount to 2.1 per cent in 2019 according to the draft Monetary Policy Report. For 2020 and 2021, the forecast for both years is 2.1 per cent. KIX-weighted inflation is expected to be 1.9 per cent in 2019 and then to rise to 2.1 per cent in 2020 and 2.2 per cent in 2021. Over the past 12 months, the annual rate of increase in global trade in goods has been around 4 per cent. Admittedly, most of the figures I have mentioned have been revised downwards since the monetary policy meeting in December. But my assessment is still that the economic situation abroad must be considered good.

Despite the somewhat worse global macroeconomic conditions, there are expectations in other countries of less expansionary monetary policy. The Federal Reserve has increased its policy rate several times. According to the draft Monetary Policy Report, the weighted average of international policy rates is expected to rise, albeit at a slow pace.

Let me now move on to Sweden: The CPIF has been the target variable for monetary policy since 2017. The most recent inflation figure in December showed an annual rate of increase in the CPIF of 2.2 per cent. CPIF inflation has been around the inflation target for a long time. Over the last 21 months, it has been in the interval 1.7 – 2.5 per cent. The average rate of inflation over these 21 months has been 2.1 per cent. According to the forecast in the draft Monetary Policy Report, the annual rate of inflation will be 2.0 per cent in 2019. In 2020, the CPIF is expected to increase by 1.8 per cent as an annual rate and in 2021 by 2.0 per cent. Target achievement is good!

The January reading of five-year inflation expectations among money market participants was 2.0 per cent. Over the last 37 months, the mean value of five-year expectations has been 1.9 per cent or higher. If one-year expectations are examined, the picture of inflation expectations being at the two per cent target is reinforced. In January, these expectations were at 2.0 per cent. One-year expectations have been 1.9 per cent or higher for the last 17 months. Inflation expectations are well anchored!

I will now move on to a discussion of the situation on the labour market. According to the most recent labour force survey (LFS), unemployment was 6.0 per cent (not seasonally adjusted) in December. This is the same level as the corresponding month one year earlier, when LFS unemployment was also 6.0 per cent. The conclusion is that LFS unemployment is on the way to bottoming out.

At the same time, I think it is important to also look at other measures of unemployment when interpreting the LFS. Unemployment insurance fund members can be considered to have a relatively strong position on the labour market. In December 2018, the percentage of openly unemployed members of unemployment insurance funds was 2.8 per cent. This is slightly higher than in the same month one year previously, when the proportion was 2.6 per cent. Some tenths of one per cent here or there make no great difference, but qualitatively, it is interesting that the downward trend that we have seen for several years has now been broken. The break in the trend emphasises that unemployment has now bottomed out.

In my opinion, however, unemployment is still too high. But today it is primarily a matter of bringing down unemployment among foreign-born persons. And this is not primarily a question of managing aggregate demand but rather of labour market policy measures to strengthen the human capital of unemployed persons and cut the cost of employing them.

If we look at recruitment plans, shortages and job openings, it is obvious that the Swedish labour market is very strong. But they also show that there is much to be done to improve matching on the labour market. Here, it is also becoming increasingly clear that the matching problems on the labour market are closely associated with the matching problems on the housing market. In many cases, it is not a question of a lack of competent applicants – it is a question of it not being possible to quickly find housing for suitable applicants.

Against the backdrop of this reasoning, I would like to move on to my monetary policy considerations: My starting point is that monetary policy cannot be governed by inflation varying a few tenths of a percentage point around 2 per cent in individual months. Inflation has now been close to the target of 2 per cent for a longer period of time, both with regard to outcomes and expectations. This was the decisive argument for me in December that it was time to start raising the repo rate. The rate path adopted in December implies about two rate hikes per year in the coming years. At today's monetary policy meeting, I consider it appropriate to leave the repo rate and the repo rate path unchanged. The forecast for inflation in the draft Monetary Policy

Report – which is based on exactly this choice of policy – also indicates continuing good target attainment.

In conclusion, I support the draft decision to leave the repo rate unchanged at –0.25 per cent and to leave the repo rate path unchanged. I also support both the view of the current situation and the forecasts in the draft Monetary Policy Report.

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

The Executive Board decided

- to adopt the Monetary Policy Report according to the proposal, Annex A to the minutes.
- to hold the repo rate unchanged at –0.25 per cent and that this decision shall apply with effect from Wednesday 20 February 2019.

§4. Other decisions

The Executive Board decided

- to publish the Monetary Policy Report and decisions under Section 3 with the motivation and wording contained in a press release at 09.30 on Wednesday 13 February 2019, and
- to publish the minutes from today's meeting at 09.30 on Friday 22 February 2019.

This paragraph was verified immediately.

Minutes taken by

Maria Kindborg

Verified:

Stefan Ingves Kerstin af Jochnick Martin Flodén

Henry Ohlsson Cecilia Skingsley

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