Monetary policy minutes

October 2019

S V E R I G E S R I K S B A N K

Summary

At the Monetary Policy Meeting on 23 October 2019, the Executive Board of the Riksbank decided to leave the repo rate unchanged at –0.25 per cent. As in September, the forecast for the repo rate indicates that the rate will most probably be raised in December to zero per cent. However, low interest rates abroad and continued uncertainty over global and Swedish economic activity mean that the forecast for the repo rate has thereafter been revised downwards and indicates that the repo rate will be unchanged for a prolonged period after the expected rise in December.

The board members supported the picture of the economic outlook and inflation prospects described in the draft Monetary Policy Report. In Sweden and abroad, the economy has entered a phase of lower growth, something which has been in the Riksbank's forecasts for some time. Overall, new information since September points to economic activity slowing more rapidly than expected. However, several members emphasised that the slowdown implies a normalisation of an economic situation that has been strong for many years with high growth and favourable development on the labour market. Even though the forecasts have been revised downwards, they are not giving a picture of recession, either abroad or in Sweden.

Inflation has been close to the inflation target of 2 per cent for some time. In recent months, inflation has fallen in line with the Riksbank's forecast, but is expected to rise in the period ahead. The members noted that resource utilisation is expected to be close to normal levels going forward while inflation prospects overall are unchanged for the year ahead. This suggests maintaining the previously communicated monetary policy in the near term. It means that the repo rate is now being left unchanged at –0.25 per cent and that it will most probably be raised to zero per cent at the monetary policy meeting in December.

The members emphasised that there is still uncertainty over the economic outlook and inflation prospects, both in Sweden and abroad. In combination with a weaker economic picture and continued low interest rates globally, it is therefore the Executive Board's view that it is difficult to say when it will be appropriate to raise the interest rate again after the expected increase in December. The overall picture suggests proceeding more cautiously with monetary policy. The members thought that it was therefore reasonable to lower the forecast for the repo rate going forward. The repo rate is now expected to be unchanged at zero per cent for a prolonged period.

All the members supported both the decision to hold the repo rate unchanged at –0.25 per cent and the forecast for the repo rate. However, one member expressed hesitation about increasing the rate at the turn of the year and argued for the increase to take place some way into the forecast period.

MINUTES OF MONETARY POLICY MEETING
Executive Board, No. 5

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DATE: 23/10/2019

TIME: 09.00

PRESENT:

Stefan Ingves, Chairman
Martin Flodén
Per Jansson
Henry Ohlsson
Cecilia Skingsley

Susanne Eberstein, Chairperson, General Council of the Riksbank
Michael Lundholm, Deputy Chairperson, General Council of the Riksbank

Vesna Corbo
Hans Dellmo
Charlotta Edler
Mattias Erlandsson
Eric Frieberg
Pia Fromlet
Jesper Hansson
Jens Iversen
Kristian Jönsson
Maria Kindborg
Pernilla Meyersson
Ann-Leena Mikiver
Bengt Petersson
Carl-Fredrik Pettersson (§ 1-3a)
Maria Sjödin
Albina Soultanaeva
Ulf Söderström
Anders Vredin
Fredrik Wallin (§ 1-3a)
Ingrid Wallin Johansson (§ 1-3a)

It was noted that Pia Fromlet and Bengt Petersson would prepare the draft minutes of the monetary policy meeting.

§3a. Economic developments

Market developments since the last monetary policy meeting

Carl-Fredrik Pettersson from the Markets Department began by presenting the latest developments on the financial markets. Overall, equity prices and interest rates have risen since the monetary policy meeting in September. This is mostly due to developments in the latter part of October when sentiment brightened. The improved sentiment can be explained by a significantly reduced risk of the United Kingdom's leaving the EU without an agreement, some progress in trade relations between the United States and China, and companies' interim reports that have so far met expectations regarding profits in the third quarter.

Since the September meeting, both the US Federal Reserve and the European Central Bank (ECB) have cut their policy rates. Bank of Japan and Bank of England have also signalled that further monetary policy easing is possible. Norges Bank is going against the flow and raised the policy rate in September. Market participants' expectations of future policy rates have risen since September. As regards the ECB, market pricing now indicates a significantly lower probability of a further policy rate cut next year compared with in September. Although surveys among bank economists show that a policy rate cut is expected in 2020, respondents have shifted their expectations forward as regards when it will happen. In the Federal Reserve's latest minutes from the monetary policy meeting in September, no substantial reasons were given for further adjusting monetary policy, despite the assessment that the downside risks have increased. According to the members who preferred an unchanged policy rate, the rate should only be cut if the data justifies it. Coupled with weaker outcomes for both the manufacturing industry and the service sector, this has resulted in the market pricing in a policy rate cut in October. Overall, however, expectations of the US policy rate have increased compared with in September.

The oil price continues to be subdued as a result of the prevailing economic slowdown. Similar to the equity market, the oil price varies depending on successes and setbacks in the trade negotiations between the United States and China. Currently, the price seems to be affected more by demand than supply, despite the worsened security policy situation in the Middle East. At the same time, US production and stocks of oil continue to be at high levels, which is having a dampening effect on the oil price.

Fairly major changes in market participants' monetary policy expectations have also occurred in Sweden since September. Developments have been characterised not only by weak statistics and events abroad, but also by the September inflation outcome being in line with the forecast in the Monetary Policy Report in September. Overall, these events have resulted in an increase in forward rates, and market pricing indicates some probability of a rate rise next year. However, according to the majority of analysts at commercial banks, the repo-rate path may be lowered at today's monetary policy meeting, while the current repo rate is expected to be left unchanged. The majority of bank economists also expect the repo rate to be held unchanged next year.

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 the meetings on 7, 8 and 10 October. The draft Monetary Policy Report was discussed and tabled at a meeting with the Executive Board on 14 October, and it was discussed at an extra drafting meeting on 21 October how to manage the problems that have been discovered in conjunction with the statistics from the Labour Force Surveys (LFS). The outcomes from the LFS have been difficult to interpret since the summer as they have not been consistent with other statistics. Statistics Sweden has now announced that it has detected flaws in the collection methods which mean that the statistics are misleading. The Riksbank always considers many different statistical sources and is now primarily using sources other than the LFS to assess developments on the labour market. To clarify this, LFS outcomes since June last year are not published in the draft Monetary Policy Report figures.

Three issues in particular have been discussed in detail during the drafting process. The first concerns a faster slowdown in economic activity, mainly linked to uncertainty surrounding the trade conflict between the United States and China and the United Kingdom’s withdrawal from the EU. The uncertainty has led to a decline in confidence, while monthly statistics linked to recent demand and output do not indicate the same decrease. The retail trade continues to show stable development globally. The second issue is about how persistent this year’s decline in long-term global interest rates will be and what the driving forces behind it are. The third concerns the unclear developments on the Swedish labour market, which also took a new turn in conjunction with the publication of the outcome for September when Statistics Sweden announced that there are inaccuracies in the statistics for unemployment and employment.

A slowdown has occurred in global economic activity, but this does not mean that there is a recession. Unemployment is very low in a historical perspective in Germany, the euro area overall and the United States. The tight labour market in these parts of the global economy has led to higher wage growth, but this has not yet in turn led to a similarly large increase in inflation. This is particularly apparent in the euro area, where underlying inflation is still very low. Interest rates are expected to be low for a long time to come, providing support to economic activity.

Confidence in terms of the Purchasing Managers' Index in the manufacturing industry has fallen significantly on a global level and particularly in the euro area, while consumer confidence remains at a higher-than-normal level. In light of the reduced confidence, the forecast for euro area GDP growth has been revised down and the prediction is now that GDP growth next year will be 1 per cent in the euro area and just under 2 per cent in the United States. These are important prerequisites for the Swedish economy. Uncertainty over trade policy is still considerable, however, and the same is true of the United Kingdom's withdrawal from the EU.

Confidence in Sweden is clearly below normal among both companies and households. The decline in consumer confidence may be linked to rapidly rising unemployment according to the statistics that Statistics Sweden itself has now called into question. Monthly data for both household consumption and business sector output increased considerably in July and August, and indicates a significantly stronger development than the confidence indicators. Together with an upwardly revised outcome for GDP growth for the second quarter, this indicates continued stable economic activity. In light of the falling confidence, however, the GDP forecast has been revised down for 2020–2021. Even though there is substantial uncertainty regarding the statistics, unemployment is considered to have turned upwards. According to Swedish Public Employment Service statistics, unemployment has risen by 0.3 percentage points in the current year.

Inflation was 1.3 per cent in September, entirely in line with the forecast in the Monetary Policy Report in September. Different measures of underlying inflation are higher and quite close to 2 per cent. The median of the seven measures published by the Riksbank was 1.8 per cent in September. Inflation, pushed down by falling energy prices, is predicted to rise towards 2 per cent at the end of the year, an assessment that is largely shared by other forecasters. The earlier depreciation of the Swedish krona, coupled with a continued strong labour market, is contributing to the increase.

In conclusion, Jesper Hansson emphasised that the proposed forecast is based on the monetary policy that is expected to gain the support of a majority of the Executive Board at today's monetary policy meeting. The assumption is that the repo rate is today left unchanged at –0.25 per cent and that the repo-rate path indicates a rise most probably at the end of the year. According to the proposal for the repo-rate path, the repo rate is thereafter expected to remain unchanged for a prolonged period. The proposal means that the repo rate will be lower for the entire forecast period than the assessment made in the Monetary Policy Report in September. The reason for this downward revision is that economic activity both in Sweden and abroad looks to have slowed at a slightly faster rate and that there is considerable uncertainty over the economic outlook and inflation prospects. Furthermore, the proposed forecast for the economic outlook and inflation prospects is based on the decision taken by the Executive Board in April, according to which the Riksbank shall purchase government bonds for a total nominal amount of SEK 45 billion from July 2019 until December 2020.

§3b. The economic situation and monetary policy

Deputy Governor Martin Flodén:

I support today's proposal to hold the repo rate unchanged at –0.25 per cent. I also support the monetary policy plan presented in the draft Monetary Policy Report and the other forecasts presented there.

For some time, the Riksbank's forecasts have suggested that international economic activity would weaken. Ahead of our monetary policy meeting at the start of September, we assessed that the downturn in international economic activity was in line with our earlier forecasts. At the same time, however, we noted that sentiment had deteriorated sharply. In addition, pricing on the fixed-income markets indicated expectations of a significantly more expansionary monetary policy than central banks had communicated.

Following the September meeting, international confidence indicators have continued to weaken. On the other hand, pricing on the fixed-income market has become slightly less aggressive despite both the ECB and the Federal Reserve having cut their policy rates after our September meeting. Both these interest rate adjustments were expected and market pricing suggests that expectations of international monetary policy have shifted in a less expansionary direction since the start of September. Tensions between market pricing and central bank communication have thereby decreased. Yields for government bonds with long maturities have risen but are still very low.

It remains unclear how the trade conflict between the United States and China will develop and what the United Kingdom's future relationship with the European Union will look like. Uncertainty over these questions, combined with the trade barriers introduced so far, is making an increasingly clear impression on trade flows and global value chains, which are being disturbed.

The view of international economic activity has not changed particularly much in recent months, but, taken together, developments in the euro area appear to be weaker than we assessed earlier. This claim is based on the very weak development of German confidence indicators, among other factors. Our forecast for growth and inflation in the euro area has therefore been revised downwards.

In Sweden, the development of both growth and inflation had already been a little weaker than expected ahead of our monetary policy meeting in September. Subsequent developments have been mixed and difficult to interpret but have strengthened the impression of economic activity slowing faster and slightly further than in our previous forecasts. This slowdown can be seen most clearly in confidence indicators, where indicators from both purchasing managers and the Tendency Survey of the National Institute of Economic Research have continued to weaken.

Following Statistics Sweden's review of the National Accounts, the picture of the development of the real economy in recent years has changed somewhat. The overall assessment, that the level of economic activity has been strong but is now more normal, still stands. The view of developments on the labour market changed even more when Statistics Sweden announced that data from the Labour Force Surveys for the last year or so was incorrect. The rapid increase in unemployment reported in their statistics thus seems to be due to an error in their statistics and not to actual, and therefore worrying, cyclical development. Other statistics confirm that the situation on the labour market is weakening but indicate that the weakening is compatible with a normal economic development.

It is, of course, a little worrying that inflation expectations have moved downwards recently. However, considering that inflation has been clearly below target in recent months, it is not particularly surprising that expectations have fallen. In addition, for many years, we have struggled with weak inflationary pressures and, on occasion, too low inflation. Consequently, we cannot expect inflation expectations to be firmly anchored around the target. In light of this, it is now important that the period with inflation clearly below target does not again become prolonged. And, in this environment, even temporary negative inflationary surprises can cause some problems. For example, I consider that the surprisingly low inflation in August was worrying, even though inflation then rose back to our forecast path in September.

I now move on to my monetary policy considerations. I support the proposed monetary policy decision. The proposal means that the repo rate is left unchanged at –0.25 per cent today, that it is probable that the rate will be raised at the next monetary policy meeting but that it then will likely be held unchanged for a prolonged period.

At the monetary policy meeting in September, I expressed some sympathy for an interest rate path that would indicate holding the repo rate at –0.25 per cent until we see clear signs that economic activity and/or inflationary pressures have again strengthened. However, I assessed that conditions would soon allow us to take one further step away from the very lowest interest rate levels before holding the rate unchanged until we can see clear signs that economic activity and/or inflationary pressures have again strengthened.

This is thus an assessment with which I still agree. However, developments after the September meeting have, to an extent, worsened the conditions for a rate rise in the near term. Two factors will be particularly important for me ahead of the monetary policy meeting in December.

The first of these concerns inflation and confidence in the inflation target. We will receive inflation outcomes for October and November ahead of the meeting in December. Our forecast is that CPIF inflation will rise from 1.3 per cent in September to 1.7 per cent in November and that CPIF inflation excluding energy will rise from 1.6 to 1.9 per cent. It is important that inflation really rises during these months so that confidence in the inflation target is maintained, even after a rate rise. It is also important that the development of inflation up until the meeting provides support for our forecast that inflation will stay close to the target over the coming years.

The other factor concerns economic developments in Sweden. After several years of unusually high growth, the economy is now in a state of transition. It is always difficult to assess such a transition. In addition, the analysis is now being complicated by insufficient information on the development of the labour market. We do not see a recession ahead of us in our forecast but instead a level of resource utilisation that is fairly normal in the years ahead. If this view changes in the next few months and economic developments then appear weaker, a rate rise will be less appropriate.

Allow me also to say a few words on the plan to raise the policy rate to zero. Many are wondering why we are planning to raise the policy rate when economic activity is weakening, at the same time as inflationary pressures continue to be worryingly weak.

I would like to emphasise that I do not see any large intrinsic value in moving away from the negative policy rate. I do, however, see a certain value in avoiding the very lowest policy rate levels. This is because nominal rigidities can cause some tensions when the policy rate is low. In addition, we can then not count on a normal transmission to the economy.

We saw a number of signs of this when we cut the policy rate to –0.50 per cent. My assessment is that monetary policy then primarily had an impact via the exchange rate channel, while the interest rate and credit channels were weakened. In light of this, combined with improved confidence in the inflation target, higher inflation and an exchange rate that has become unjustifiably weak, I consider it positive that we were able to raise the policy rate to –0.25 per cent last year.

Using a similar argument, I see some intrinsic value in being able to raise the policy rate from –0.25 per cent to 0, instead of planning for a policy rate of –0.25 per cent over the entire forecast period. But the arguments then are significantly weaker. When we cut the policy rate to –0.25

per cent, the transmission to deposit rates was good and we have not seen any significant negative side effects. If a need for a more expansionary monetary policy than the one we are now planning should arise in the period ahead, I will accordingly support holding the policy rate unchanged or bringing it back down to –0.25 per cent. On the other hand, I would consider cutting the policy rate from today's level only if the exchange rate were to start to become overvalued.

Deputy Governor Cecilia Skingsley:

I support the draft Monetary Policy Report, holding the repo rate unchanged at –0.25 per cent and the proposed new repo-rate path.

Since the September meeting, global growth has continued to slow down. For the years ahead, global growth is expected to be around historically normal levels, while prospects in the near term are obscured primarily by unclear future trade relations. A certain stabilisation can be discerned on global fixed-income markets in comparison with the declines seen earlier this year.

The Swedish economy has had several years of good growth and high resource utilisation. The slowdown that the Riksbank has long forecast is in the process of materialising. And, if we compare current forecasts with the forecasts from one year ago, the slowdown is proceeding faster than expected.

Both internationally and in Sweden, it is the industrial sector that has most clearly cut back on its production and future plans. However, large parts of the economy are moving towards a slowdown in a more controlled and gradual manner. The service sector has not reported the same decline globally as the industrial sector. The lowest unemployment in many years still prevails for households in the United States and euro area. Consequently, domestic demand has, so far, acted as a shock absorber as the industrial sector is forced to relate to uncertain trade conditions between the United States and China, among other things, and the chain reactions this uncertainty brings.

In Sweden, unemployment has started to rise, as the Riksbank also forecast, in line with the start of the slowdown period. Following Statistics Sweden's announcement of quality flaws in parts of the Labour Force Surveys back to 2018, it has been difficult to know whether the rise in unemployment is following previous forecasts or if it is rising faster. A certain upward revision of unemployment seems reasonable to me, considering that the slowdown has arrived earlier than expected.

Since the September meeting, two inflation outcomes, for the months of August and September, have been published. The August outcome, with a CPIF of 1.3 per cent, was certainly weaker than expected, but the deviation was not so large as to prevent it from being on the same level as the Riksbank had forecast at its July meeting. In September, the CPIF remained at 1.3 per cent, which was in line with the Riksbank's forecast in the Monetary Policy Report in September. The median of underlying inflation fell to 1.7 per cent for August but then turned upwards to 1.8 per cent in September.

Taken together, I deem the prospects for keeping CPIF inflation close to the two per cent target to be good for the forecast period over the next three years.

Given my overall view of the economic situation, which is in line with the Monetary Policy Report, I will now move on to my monetary policy assessment. To describe this, I will now compare the prospects the Riksbank envisaged one year ago, at the October meeting in 2018, and the prospects now before us. At the October meeting in 2018, the Riksbank forecast that the coming three years would be characterised by a cyclically normal slowdown and that the various measures of the gap, that is actual output level against potential output level, would remain positive over the forecast period. Furthermore, the assessment one year ago was that there is further scope to undertake gradual rate rises and simultaneously have inflation more or less on target. At the October meeting in 2018, the Executive Board forecast an initial rate rise either in December or February, to –0.25 per cent, and in total nearly seven rises up to 1.23 per cent by the fourth quarter of 2021. That is to say, we saw a very slow interest rate rise ahead of us, to a level that would still be very low from a historical perspective.

And as we know, there was a raise, in December 2018, to –0.25 per cent.

After that, global prospects have deteriorated and also spread to Swedish prospects. The period with a continued positive gap will not stretch over the entire forecast period; instead, the gap looks like closing as soon as next year. Consequently, the monetary policy plan has needed to be revised, as the Executive Board has done over the course of this year. The likelihood of further rate rises during the forecast period has decreased and the assessment now is that only one more rate rise will take place over the forecast period and that this will most likely happen in December. The fact that the policy rate is then forecast to lie still means we will enter a wait-and-see situation. As uncertainties are gradually resolved, interest rate adjustments may become relevant, but, just now, cuts and rises seem more or less equally likely.

It is justifiable to ask whether it is appropriate to raise the rate at all, considering the clear signals of a slowdown and the continued great uncertainty over the global economy. These are actually the same considerations that arise every time monetary policy decision-makers approach the end of a phase of rate rises and need to await developments. The difference this time, however, is that the phase of rate rises was particularly short and the policy rate will be held at a historically low level for several years.

I see no intrinsic value in moving away from the fact that there is a negative interest rate in the Riksbank's policy rate system. This is because, even if the policy rate rises to zero per cent as forecast, a long array of market rates for bonds will remain negative and the same applies for a number of other interest-bearing products. However, as most indications are that the policy rate will have to remain at the same level for a long period, and as low interest rates for extended periods create financial vulnerabilities, I would rather see a slightly higher policy rate than a lower one, on condition that fulfilment of the inflation target is not jeopardised.

There are also other interest rate paths that could be compatible with continued target fulfilment. One alternative would have been to postpone the next rise until a later date. However, I see the current proposed path as the most attractive option.

This is because, with the repo-rate path in the draft Monetary Policy Report, the Executive Board is giving clear information to participants in the economy that, with the current prospects, only one further rate rise is planned in order to safeguard continued satisfactory fulfilment of the inflation target, instead of suggesting several rises are likely in the more distant future.

The forecast notes that the Swedish economy is slowing down (which is to say that actual GDP is higher than its potential level but is growing more slowly) but is not in recession. Therefore there is no need for monetary policy easing from the current situation where monetary policy is already highly expansionary. The Swedish economy is not facing the same difficulties that motivated the ECB to introduce easing for the euro area. Over time, the euro area has shown weaker growth than Sweden and its banking system is demonstrating weaknesses that have motivated the ECB to take a number of liquidity support measures. Neither does the recent monetary policy easing in the United States provide a reason for any readjustment in Sweden. The United States has had a historically long expansion phase and reached more normal levels for its policy rate before the first cut was made earlier this year, while Swedish monetary policy remains highly expansionary.

I do not consider that the fact that the forecast shows an unchanged policy rate for a large part of the coming three years should be interpreted as this level, zero per cent, being a floor or ceiling for the policy rate. At each monetary policy meeting, the policy rate forecast is tested against the current inflation and economic outlooks, and is adjusted so that the policy rate forecast reflects a well-balanced monetary policy. If the prospects were to deteriorate so that further monetary policy easing becomes appropriate to safeguard confidence in the inflation target, I deem that the set of instruments presented by the Executive Board in previous Monetary Policy Reports is still effective.

In conclusion, I would like to say that it is the overall economic policy that exerts influence over the supply and demand conditions in the economy. The risk of worsened economic activity internationally also brings the risk of worsened development in Sweden too. The fact that a new potential phase of monetary policy expansion would be capable of having an effect does not mean that it would be the best medicine. The problems the world economy is facing today are largely structural and cannot be remedied with monetary policy alone, but only possibly temporarily alleviated. If protectionism in foreign trade becomes a more permanent state, there are other tools alongside monetary policy that need to be used to improve growth and inflation prospects.

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. I also support the repo-rate path showing a high probability of a repo-rate rise towards the end of this year, but then remaining horizontal for a couple of years ahead.

Annual growth abroad, KIX-weighted, is expected to be 1.9 per cent in 2019 according to the draft Monetary Policy Report. The forecast has been revised down slightly compared to the Monetary Policy Report in September. The forecast for 2020 is 1.8 per cent and for 2021 is 2.0 per cent.

The KIX-weighted inflation rate is assessed according to the draft Monetary Policy Report to be 1.8 per cent in 2019. This forecast is unchanged since the previous Monetary Policy Report. The forecast for 2020 is 1.8 per cent, which is a minor downward revision, while the forecast for 2021 is unchanged at 2.0 per cent.

According to the draft Monetary Policy Report, the weighted average of international policy rates is expected to be 0.1 per cent in 2019. For 2020 and 2021, the forecast in the draft Monetary Policy Report is that the weighted average of international policy rates will be 0.0 per cent. For all of the three years, the forecasts are unchanged compared with the Monetary Policy Report in September.

The CPIF has been the target variable for monetary policy since 2017. The most recent inflation figure in September showed an annual rate of increase in the CPIF of 1.3 per cent. It was expected that the inflation rate would fall temporarily over the past months. At the same time, CPIF inflation has been around the inflation target for a long time. The two measures of underlying inflation that have demonstrated the best characteristics in a Riksbank Study were in

September 1.8 per cent and 2.0 per cent respectively.[1] I also note that the moving average over twelve months for CPIF inflation is close to 2 per cent. Target achievement remains good! Even if inflation expectations have fallen somewhat in the latest measurements, I consider that they are still well anchored.

Recently, Statistics Sweden's Labour Force Surveys (LFS) announced in a press release that the data reported in the LFS is incorrect as from the beginning of June 2018. This is very serious! In many cases there is no alternative to the statistics produced by Statistics Sweden. There are, however, other reliable statistics available with regard to unemployment, namely from the Swedish Public Employment Service. Until the LFS errors have been corrected, I do not intend to use LFS figures from June 2018 onwards in my assessments. Instead I shall base them on the Swedish Public Employment Service's statistics.

According to the most recent statistics from the Employment Service, unemployment in terms of persons registered as unemployed was 7.0 per cent (not seasonally adjusted) in September. This is slightly higher than in the same month one year previously, when unemployment was 6.9 per cent. The Monetary Policy Reports have long forecast that unemployment was about to bottom out. This has now happened. But this should come as no surprise, indeed it has been expected. For those born in Sweden, unemployment was 3.8 per cent in September, compared with 3.6 per cent one year earlier. The corresponding figures for those born abroad were 19.3 per cent in September this year, down from 20.2 per cent one year earlier.

Unemployment insurance fund members can be considered to have a relatively strong position on the labour market. In September 2019, the percentage of openly unemployed members of unemployment insurance funds was 2.9 per cent. This is higher than in the same month one year previously, when the proportion was 2.6 per cent. Measured in this way, too, unemployment has bottomed out.

However, in my view, unemployment is too high and the increase we are now seeing is not desirable. It is pleasing that unemployment among those born abroad has fallen over the past year. However, unemployment among those born abroad is still high and the economic policy challenge is to bring it down. And this is primarily a question of labour market policy measures to strengthen the human capital of unemployed persons and cut the cost of hiring them. General demand side policies can provide support but cannot take primary responsibility.

[1] Jesper Johansson, Mårten Löf, Oliver Sigrist and Oskar Tysklind, 2018, "Measures of core inflation in Sweden", Economic Commentaries No. 11 2018, Sveriges Riksbank.

Even before the financial crisis broke out in full force at the end of 2008, the percentage of durable goods in household consumption in Sweden began to decline. A low and falling percentage of durable goods in consumption can be interpreted as households having negative expectations of the future. During the fourth quarter of 2008, the percentage of durable goods had fallen by two percentage points, compared with the same quarter one year earlier. We do not see anything corresponding to this today. While the percentage of durable goods in household consumption is somewhat lower in 2019 than previous years, the decline is marginal.

Against the backdrop of this reasoning, I would now 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 around the target of 2 per cent for quite a long period of time, both with regard to outcomes and expectations. This was the decisive argument for me in December 2018 that it was time to start raising the repo rate.

In December 2018, the Executive Board of the Riksbank also said that the next increase would come at the end of 2019, something that was repeated at the February meeting this year. At the monetary policy meeting in April it was said that the next increase would come at the end of 2019 or the beginning of 2020. This was repeated at the July and September meetings.

The question I ask myself is whether there is reason enough to change the plan that has been in place for almost a year now. The draft Monetary Policy Report forecasts a slowdown both in Sweden and abroad. But this has been incorporated into the forecasts for some time now. The turnaround in unemployment was also expected. And uncertainty factors such as trade wars, the United Kingdom's withdrawal from the EU, etc. are not new. At every monetary policy meeting, there will always be phenomena that give rise to uncertainty. I cannot imagine a situation where the future is certain in all respects. Uncertainty is something economic policy always needs to live with.

My conclusion is that I therefore consider it to be appropriate at this monetary policy meeting to leave the repo rate unchanged. Furthermore, I consider that it will be appropriate to stick to the forecast, over the short term, that the next rate rise will most probably come at the end of this year. The Swedish economy is continuing to demonstrate a high level of activity, higher than in the euro area, for example. Inflation is on target. In Sweden, we can conduct our own monetary policy and there are good reasons at present to take advantage of this possibility.

At the same time, there is no avoiding that, in the slightly longer term, there is reason not to push on as rapidly with the approaching rate rises. I therefore support the proposal to raise the repo rate and then hold the path horizontal for a couple of years. All in all, this means that the expected real repo rate will in a year or so be lower than our assessment in the September report, this is shown in Figure 1:8 in the draft Monetary Policy Report.

When the Executive Board of the Riksbank decided in February 2015 to cut the repo rate to 0.10 per cent, it was a small quantitative change, but at the same time a large qualitative one. Monetary policy entered a minus world, a world it had never been in before. Here and now, almost five years later, one must nevertheless say that monetary policy has been successful to the extent that inflation has been back on target in outcomes and expectations for a couple of years now.

There was concern over negative side effects when entering the minus world. As far as I can see, there have not been any serious consequences yet. But we know nothing about what might happen if we more permanently find ourselves in the minus world.

One thing we know is that the minus world has not had a full impact on households, as the borrowing rates they face have not passed zero. This has, on the one hand, meant that the impact of monetary policy has been less than in the plus world. But on the other hand, it has probably also meant that households have not been as upset over the monetary policy conducted as they would otherwise have been.

There may be economists who think that only relative variables such as real interest rates are relevant, but during my many meetings with people around the country in recent years it has become very clear that those who are not economists believe it is strange that interest rates can be negative. My conclusion is that it is a good idea not to have negative interest rates unless it is quite necessary to do so.

To summarise, I support the proposal to hold the repo rate unchanged at –0.25 per cent. I also support the repo-rate path showing a high probability of a repo-rate rise towards the end of this year, but then remaining horizontal for a couple of years ahead. I also support the economic picture and the forecasts in the draft Monetary Policy Report.

Deputy Governor Per Jansson:

Since the monetary policy meeting in September, two new outcomes have been published for inflation and inflation expectations. The inflation outcomes are for August and September. In August, inflation was lower than expected but fortunately, virtually all the overestimation was recuperated in September. For that month, CPIF inflation excluding energy prices, which can be seen as a measure of the longer-term trend, or underlying, inflation rate, was just over 1.6 per cent, which was more or less unchanged compared with August. Including energy prices, inflation was slightly above 1.3 per cent in both August and September. Since June this year, the difference between CPIF inflation with and without energy prices has been negative, which has to do both with energy prices contributing less to price development and with more underlying inflation being higher than before.

That the longer-term trend inflation rate has increased can be seen not only in CPIF inflation excluding energy prices but also in the Riksbank's other measures of underlying inflation. So far this year, the average for the median value of the Riksbank's various measures of underlying inflation has been just over 1.8 per cent, compared to 1.6 per cent last year. In September, the median was a bit below 1.8 per cent, which is roughly the same level as at the monetary policy meeting in September when the estimate was based on data up until the end of July. The two measures that have been shown in an empirical evaluation to be best at predicting future CPIF inflation, UND24 and CPIFPC, amounted in September to 1.8 and 2 per cent respectively.[2] These figures too are largely unchanged compared with the September meeting.

The new outcomes for inflation expectations, as measured in Prospera's monthly and quarterly surveys, consist of the monthly survey for October, which only applies to money market participants, and the larger quarterly survey for September, which also includes the inflation expectations of labour market organisations, among others. The overall picture is of a continuing decline in expectations. So far, the development is not dramatic, but is mostly a question of a fall in shorter-term inflation expectations. And this is perhaps not so surprising bearing in mind that these tend to closely follow the current development of inflation, which has now weakened. However, there is also still a certain downward trend in long-term, five-year inflation expectations, which is more worrying. Looking at the levels, the five-year expectations still do not deviate in any alarming way from the inflation target – the lowest figure, which is for money market participants in the October survey, is still above 1.8 per cent – but, as I said, the development tendency is not good.[3] Just as in September, I draw the conclusion that it is a matter of keeping a close eye on the continued evolution of inflation expectations. In this context, the most important thing, as I see it, is for the longer-term inflation expectations of the labour market organisations to remain close to 2 per cent.

The development of inflation and inflation expectations since our meeting in September provides an up-to-date inflation picture that has not changed so much and, in my view, can still therefore be said to be reasonably encouraging overall. CPIF inflation is now some way below the inflation target but this is due to energy prices, as expected, contributing less to price pressures. Inflation expectations have continued to decline gradually but it is so far largely a question of a fall in

[2] See the article "Why measures of core inflation?" in Monetary Policy Report, October 2018.
[3] I am focusing here on the expectations for CPI inflation rather than for CPIF inflation, as the response rate for CPIF inflation is very low.

expectations in the short term. The decline in the longer-term inflation expectations has up until now not been particularly substantial. That the more underlying inflation rate is higher than CPIF inflation should, hopefully, indicate that long-term expectations will not fall that much further but may remain quite close to 2 per cent.

With this, I now move on to discuss the forecast for inflation. All in all, compared with the Monetary Policy Report in September, the forecast revisions proposed in the draft Monetary Policy Report are quite small. This is true for both CPIF inflation and CPIF inflation excluding energy prices. In the draft report, the forecast has been marginally increased in the short term but instead lowered somewhat in the slightly longer term. The slightly more pessimistic inflation assessment during the latter part of the forecast period relates to the somewhat poorer economic prospects both internationally and for Sweden, which, in Sweden's case, are also expected to lead to a certain softening of the labour market and of wage development in the coming years. Towards the end of 2022, CPIF inflation is expected to be stable around the target, which is a little later than in the assessment in September.

As in the Monetary Policy Report in September, it is important to note that an assumption of a more expansionary monetary policy is now required in order to be able to avoid a clearer deterioration in the outlook for inflation. This time, the proposal in the draft report is to adjust down the repo-rate path by 0.1 percentage points at the end of 2020, by 0.25 percentage points at the end of 2021 and by 0.3 percentage points at the end of the forecast period.[4] Just as in September, however, the rate path in the short term, up until the summer of next year, is more or less unchanged and continues to indicate a rate rise to zero per cent, most probably at the monetary policy meeting in December.

I support the macro forecast in the draft Monetary Policy Report. I also support the proposal in the draft report to lower the repo-rate path this time as well. The new assessment of the repo rate at the end of the forecast period means that about one and a half rate rises in total are predicted over the next three years or so. Overall, this implies a very cautious monetary policy stance which I believe is a wise choice in the current situation. That the interest rate rises slightly towards the end of the forecast period to make it clear that we believe the repo rate at least in the longer term will be positive, is something I consider to be entirely reasonable. At the same time, I note and share the view in the draft Monetary Policy Report that, once the interest rate has been increased to zero per cent, it is "difficult to say, at present, when it will be appropriate to raise the repo rate next time".

[4] This refers to the third quarter of 2022, which was the forecast period's last quarter in the Monetary Policy Report in September.

This said, I continue to have considerable difficulty with the idea that the next repo-rate rise should occur as early as around the turn of the year, most probably at our next meeting in December. The reasons for this are largely the same as those I put forward in September. In the near term, inflation is predicted to remain below the inflation target – the average for CPIF inflation for the rest of the current year is just over 1.7 per cent and for 2020 a bit under 1.8 per cent. The fact is that I would be sceptical to a rate rise around the turn of the year even if inflation in the near term were to become slightly higher than our forecast and perhaps for a time were even to overshoot the target. This has to do with that it would in that case presumably be a question of a very temporary effect. Circumstances that would lead inflation to more persistently overshoot the target are quite simply impossible to identify at present, at least for me.

Another factor to consider is that a rate rise in the near future in this situation can hardly be expected to increase the probability of the downward trend in inflation expectations reversing. I find this quite concerning as we are so dependent on the labour market organisations making their forthcoming wage negotiations contingent on the Riksbank meeting its inflation target. I am also still worried about the consequences of both the Fed and the ECB increasing their monetary policy stimuli while we in Sweden, if the announced rate rise is implemented, proceed in the opposite direction. We know that markets can shift their expectations substantially and rapidly, and this can have a major impact on forward-looking financial prices, such as exchange rates.

Against this backdrop and just as in September, I prefer a repo-rate path that does not presuppose a rate rise around the turn of the year but instead assumes that the next rise will occur some way into the forecast period, when hopefully at least some of the risks and fears I have mentioned are no longer so acute. However, I also choose this time not to formally enter a reservation against the monetary policy in the draft Monetary Policy Report. As I hope I have made clear, the fact that I am not doing so has to do with my view that the fundamental design of the rate path, including its endpoint, is reasonable, and that the whole thing therefore comes down to a timing issue. As I emphasised at our previous meeting, another factor is that it is still not a question of an actual decision but of a forecast.

Governor Stefan Ingves:

I support the assessments and forecasts made in the draft Monetary Policy Report, and I support the proposal to leave the repo rate unchanged at –0.25 per cent. I also support the proposed forecast for the repo rate. The forecast means that the monetary policy plan remains the same in the near term, with one rate rise most probably in December. However, the forecast implies that the repo rate will thereafter remain at the same level for a significant period, which is a clear downward revision compared with our discussion of monetary policy in September. At the same time, the bond purchases continue according to plan.

Allow me to reflect on this monetary policy. As Sweden is a small, open economy, it is natural to start with developments in the world at large. GDP growth, measured by KIX, showed a peak of around 3 per cent in 2017 and has since slowed. Our assessment is that growth will remain around 2 per cent both this year and the following three years. This does not imply a recession, but a slowdown in the growth rate to just below the historical average. The differences between the United States and the euro area apply to both growth and inflation. As far as Sweden is concerned, developments in the euro area are particularly significant, as so much of our foreign trade is with countries in this region. Despite the major improvements on the labour market in recent years – for example, unemployment in Germany is at a record-low level and around 3 per cent – it has been strikingly difficult for inflation in the euro area to start to rise. Our assessment is that inflation will gradually rise to a level just below 2 per cent at the end of the forecast period. The increase in inflation is being supported by the ECB's expansionary monetary policy. In the United States, the labour market is also strong and unemployment is on its lowest level for 50 years. There, the development in inflation is stronger than in the euro area and is expected to remain so in the years ahead. In KIX-weighted terms, inflation is expected to rise from a level just under to a level just over 2 per cent up until 2022. This is an important prerequisite for Swedish monetary policy.

But we have had to get used to a number of causes for concern regarding global economic activity in recent years; including the trade conflict between the United States and China, uncertainty about the United Kingdom's withdrawal from the EU and, to a certain extent, the political situation in Italy. The trade conflict between the United States and China is already throwing a spanner in the works in many areas, not least within the manufacturing industry, where we see wavering confidence, subdued output and discussions about shifting geographical manufacturing flows. The United Kingdom's protracted withdrawal process from the EU is creating uncertainty that has a negative impact on economic activity, and question-marks remain regarding the situation in Italy. To sum up, despite political uncertainty that creates downside risks, the global prospects look reasonable. Inflation is also expected to be around 2 per cent, supported by a strong labour market and an expansionary monetary policy.

Similar to other countries, we see here at home a slowdown rather than a recession before us. It is easy to forget that our assessment is that we are going from a number of years with higher-than-normal resource utilisation to a normal situation. Compared with the September assessment, we believe that this adjustment will happen slightly more quickly because economic activity is slowing. Our forecast implies that GDP growth this year and next year will be lower than the historical norm – just over 1 per cent. In 2022, GDP growth will be just below 2 per cent. On the Swedish labour market, we have a number of strong years behind us. An upturn in unemployment has been on the cards in the wake of the slowdown in GDP growth, at the same time as unemployment bottomed out at a lower level than previously predicted, and we see before us that unemployment will continue to rise slightly going forward. It is not possible to say how high unemployment is at present as Statistics Sweden have announced that there are quality flaws in LFS. Regardless of the concerns over statistics, our assessment for some time now has been that unemployment will slowly rise after a period of particularly good economic development.

In the short-term perspective, inflation prospects in Sweden are more or less unchanged compared with September. The latest monthly outcome was in line with our previous forecast and we have anticipated that CPIF inflation would fall once the previously large energy price increases fall out of the comparative figures. Measured in terms of the CPIF excluding energy, inflation is 1.6 per cent and other measures of underlying inflation indicate overall a level of just below 2 per cent. The development of the krona has been unexpectedly weak. We now see clear traces of the weak krona in the import prices of consumer goods in the producer channel. Domestic cost pressures are also relatively high. Despite low wage growth, unit labour costs have increased rapidly last year, which is explained by strikingly weak development in productivity.

So what does the inflation assessment look like in the slightly longer perspective? As regards domestic cost pressures, our assessment is that unit labour costs will rise at a rate just below the historical average in the years ahead. This forecast signifies a cautious assessment that both wages and productivity will rise slightly faster in the period ahead. Despite the expected appreciation of the krona, it will still be on a weak level over the coming years, seen in a historical perspective. In relation to the Monetary Policy Report in September, the inflation forecast has been revised down slightly for the latter part of the forecast period. Slightly weaker domestic cost pressures will be balanced somewhat by the expected depreciation of the krona. A number of uncertainty factors can be added to this as regards the inflation forecast. As usual, the krona is difficult to predict. It may be both weaker and stronger than our forecast, but overall it has, as we know, been significantly weaker than our forecasts in recent years. The correlation between the exchange rate and inflation is also complicated and increases the uncertainty. Domestic cost pressures are also difficult to forecast; the uncertainty coming from both wages and productivity. All in all, the forecast changes are minor.

In light of what I have outlined, I think it is reasonable to keep to the monetary policy plan in the short term, and most probably raise the interest rate at the next meeting in December. On the one hand, we have always expected the period of negative interest rates and large-scale government bond purchases to be a temporary measure to bring inflation back to target and we have succeed in doing this at the same time as general economic development has been very positive. On the other hand, we can expect low global interest rates for some time to come and I find it difficult to see a reason for now indicating that the interest rate will be raised further in the near term. In a slightly longer time perspective, I think that two factors provide an argument for conducting a more expansionary monetary policy than we adopted last time. Firstly, I think there are now stronger arguments that a continued expansionary monetary policy will be required in order for inflation to remain around 2 per cent over the entire forecast period. This is true both internationally and in Sweden. Secondly, I think that the overall risk picture suggests more clearly than before that we should proceed cautiously with monetary policy. Overall, I think that the repo-rate forecast presented in the draft Monetary Policy Report is a reasonable trade-off, in which the repo rate is expected to stay the same for a prolonged period after the expected increase.

To put things into perspective: Even though a repo-rate rise is expected to occur in the near term, monetary policy is significantly expansionary. The real repo rate will remain around –2 per cent in the coming years and it is difficult to say when the global real interest rate will begin to rise. In my speech at the Swedish Economics Association, I discussed the long-term real interest rate, that is the real rate level that is expected to prevail when inflation is on target and resource utilisation is normal. And it has fallen substantially in recent decades.[5] Estimates I show in the speech suggest that the long-term real interest rate in Sweden is negative, perhaps around –1 per cent. The forecast in Figure 1:7 is thus the result of a combination of a low long-term real interest rate, which is largely determined outside Sweden, and a need for an expansionary monetary policy to keep inflation close to our target. Keeping the interest rate at zero for the foreseeable future while in principle rolling over our holdings of government bonds provides us with plenty of scope to cope with future fluctuations in inflation and economic activity once the global prospects for interest rates, economic activity and inflation have become clear. In this context, it is important to emphasise that we must be prepared to reconsider the monetary policy in the future if the economic outlook changes. This applies to both the level of the interest rate and how we choose to utilise our balance sheet. Our decision today gives us such scope for manoeuvre.

[5] See "Long-term trends - important pieces of the monetary policy analysis", speech at the Swedish Economics Association, published on 7 May 2019.

Finally, allow me once again to note that the problems on the Swedish housing market pose a risk as regards both financial stability and general economic development. I have elaborated on that view many times before and will not go into further detail here today.[6]

[6] See, for instance, the speech "Housing market challenges – weighing today against tomorrow", Business Arena, September 2019.

§4. Monetary policy decision

The Executive Board decided

- to hold the repo rate unchanged at –0.25 per cent and that this decision shall apply with effect from Wednesday 30 October 2019.
- to adopt the Monetary Policy Report according to the proposal, Annex A to the minutes.
- to publish the monetary policy decision and the Monetary Policy Report with the motivation and wording contained in a press release at 09.30 on Thursday 24 October 2019.
- to publish the minutes from today's meeting at 09.30 on Tuesday 5 November 2019.

This paragraph was verified immediately.

Minutes taken by

Maria Kindborg

Verified:

Stefan Ingves Martin Flodén Per Jansson

Henry Ohlsson Cecilia Skingsley

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