SVERIGES RIKSBANK

Monetary policy minutes

April 2022

SVERIGES RIKSBANK

Summary

The Riksbank needs to conduct monetary policy to counteract the high inflation becoming entrenched in price- and wage-setting, and ensure that inflation returns to the target after a time. At its monetary policy meeting on 27 April, the Executive Board of the Riksbank therefore decided to raise the repo rate from zero to 0.25 per cent and to reduce the pace of the Riksbank's asset purchases during the second half of this year so that the holdings decline.

The global economy is still affected by the major shock caused by the pandemic and on top of this come the consequences of Russia's invasion of Ukraine. The members noted that inflation has risen rapidly, both abroad and in Sweden. They pointed out that the upturn in the rate of price increase in Sweden is now broad-based, and not merely driven by rapidly rising energy prices. Even excluding energy prices, inflation is at the highest level since the early 1990s. Several members pointed to the large upward revision in the forecast for inflation and that inflation is assessed to remain high for some time further. They also emphasised the risks arising from the high inflation. The Board members were unanimous that monetary policy needs to act to prevent the high inflation being perceived as persistent and thereby having an impact on inflation expectations and price- and wage-setting. All of the members supported the decision to raise the repo rate from zero to 0.25 per cent and to reduce the pace of the Riksbank's asset purchases.

The forecast for the repo rate implies that it will be raised a further two to three times this year and will be slightly below 2 per cent at the end of the three-year forecast period. The members pointed out that the uncertainty regarding inflation and growth prospects both in Sweden and abroad is now unusually large. However, at the same time, all of the members emphasised that they would be prepared to raise the policy rate quickly if it were necessary to ensure inflation is returned to the target within a reasonable time perspective.

MONETARY POLICY MINUTES
Executive Board, No.2

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DATE: 27 April 2022

MEETING TIME: 09:00

PRESENT: Stefan Ingves, Chair
Cecilia Skingsley
Anna Breman
Martin Flodén
Per Jansson
Henry Ohlsson

Susanne Eberstein, Chair, General Council of the Riksbank---

Johan Almenberg
Joel Birging (§ 1-3a)
Vesna Corbo
Hans Dellmo, remotely
Charlotta Edler
Heidi Elmér
Dag Edvardsson, remotely
Mattias Erlandsson
Jesper Hansson
Christina Håkanson
Maria Johansson (§ 1-3a)
Peter Kaplan
Pernilla Meyersson
Ann-Leena Mikiver
Marianne Nessén
Bengt Petersson
Åsa Olli Segendorf
Olof Sandstedt, remotely
Maria Sjödin
Anders Vredin

It was noted that Christina Håkanson and Bengt Petersson would prepare the draft monetary policy minutes.

§3a. Economic developments

Market developments since the last monetary policy meeting

Joel Birging from the Markets Department began by presenting the latest developments on the financial markets. Commodity prices have risen, for instance with regard to oil, agricultural products, fertiliser and industrial metals, and these upturns have been reinforced following the Russian invasion of Ukraine. Inflation has in general increased faster than expected and inflation expectations have risen in the longer term, not least in the euro area. Following Russia's invasion of Ukraine, government bond yields have on the whole risen rapidly. The communication of several central banks has caused expectations of monetary policy abroad to move towards a faster reduction in monetary policy stimulus than was expected prior to the invasion. The Federal Reserve raised its policy rate by 0.25 percentage points back in March and, according to market pricing, is expected to raise it further by a total equivalent to a good 2.5 percentage points during this year, which is significantly more than was expected at the time of the Riksbank's Monetary Policy Report in February. The expectations of the European Central Bank (ECB) are now, according to market pricing, three policy-rate hikes of 25 basis points during the current year. The spreads between corporate and government bonds have risen, particularly in the euro area.

The equity market has shown a weak development this year. There is uncertainty over whether companies can retain their margins, how the problems with supply chains will affect companies, and how much the pandemic-related shut-downs in China may hamper global economic activity.

The dollar has strengthened significantly this year. The Swedish krona has recovered following the depreciation at the start of Russia's invasion of Ukraine. The reason for the appreciation is probably high inflation outcomes and comments from several Executive Board members that monetary policy may need to be tightened.

Most analysts believe that the Riksbank will leave the repo rate unchanged at today's meeting, but market expectations in terms of pricing of the repo rate level further ahead have shifted up. Recently, the probability of a policy-rate hike in April of 0.25 percentage points has been around 70-80 per cent according to market pricing, with further increases of one percentage point in total during the current year. The Riksbank is also expected to reduce its asset purchases.

The current monetary policy drafting process – new data and forecasts

Olof Sandstedt, Head of the Financial Stability Department, presented the most recent statistics on housing prices, the situation in the corporate sector and banks' funding.

Housing prices continue to rise, albeit at a slower pace. In March, they increased by just over 7.5 per cent, compared with the same month in the previous year.[1] Prices of single-family houses increased slightly less and prices of tenant-owned apartments slightly more. Household debt is continuing to grow and the percentage of new mortgage borrowers with high debt-to-income ratios is increasing.

Companies on the whole have a good situation in terms of earnings and the number of bankruptcies is at a low level, but the uncertainty has increased as a result of Russia's invasion of Ukraine. Higher prices for commodities and energy have had a negative effect on many companies. On the whole, however, credit growth remains high. Property companies have experienced increased earnings and property values at the start of the year. However, they have been negatively affected by rising financing costs via the capital market. Property companies are still responsible for a large part of corporate debt growth. The Swedish banks have small direct exposures to Russia and Ukraine, but larger exposures to the Baltic countries.

The rising monetary policy expectations have pushed up market rates. Yields on Swedish covered bonds have continued to follow the general upturn in longer rates. There has also been some increase in risk premiums, but the level has remained relatively unchanged in March and April. Mortgage rates have risen, especially for longer fixation periods. STIBOR (3M) has increased somewhat to around 14 basis points and SWESTR is around -10 basis points. USD LIBOR (3M) has risen to 120 basis points.

Mattias Erlandsson, Deputy Head of the Monetary Policy Department, presented the current assessment of macroeconomic developments since the monetary policy meeting on 9 February, and the proposal for a monetary policy decision that the Monetary Policy Department judged would gain majority support in the Executive Board at today's meeting. The monetary policy drafting process has included discussions with the Executive Board on the forecasts and the monetary policy assumptions at meetings on 28 March and 7, 8, 12 and 14 April. The draft Monetary Policy Report was discussed and tabled at a meeting of the Executive Board on 20 April.

Mr Erlandsson began by noting that a lot has happened since the monetary policy meeting in February, events that have clearly impacted the questions that have been key in the drafting

[1] This refers to HOX Sweden which is published by Valueguard.

process prior to today's meeting. On 24 February, Russia began an invasion of Ukraine, which has caused a humanitarian disaster in one of Europe's largest and most populated countries. The war and the sanctions against Russia also affect economic developments, first and foremost in Ukraine, but also in other countries. The channels through which the world economy is affected are discussed in an article in the draft Monetary Policy Report, which also reasons on possible scenarios for future developments. It is assumed in the Riksbank's main scenario that the sanctions against Russia will remain at roughly the current level over the coming three years.

Another central issue in the drafting process has been the rise in inflation in Sweden since the turn of the year. Detailed analyses of the inflation outcomes and the reasons for the higher inflation have been important to the assessment of both the short-term inflation outlook and the persistence of the higher inflation. There have been unusually large fluctuations in inflation in recent years, and there is thus considerable uncertainty over developments going forward. During the drafting process, the members of the Executive Board have discussed the risks of a different outcome for inflation than in the main scenario, and how monetary policy can be adapted if such a situation arises. In connection with the higher inflation, interest-rate developments abroad have also been a central issue, and how gradually tighter monetary policy and higher bond yields abroad affect the Swedish economy through various channels.

Mr Erlandsson then described economic developments abroad as they are presented in the draft Monetary Policy Report. The war in Ukraine contributes to international growth slowing down this year, and KIX-weighted GDP growth has been revised down by just over one percentage point to almost 3 per cent. For the coming years, the adjustments to the forecasts for growth abroad are small. The world economy is entering a phase with lower growth, but no severe slowdown is forecast for the coming years. However, the risks are on the downside, for instance, linked to the development of the war.

Last year's rapid upturn in inflation has continued at the beginning of 2022. The pandemic has created disruptions in the global production and supply chains and have led to higher prices on important input goods and transports. This development remains and risks worsening again as a result of the new covid-19 outbreak in China. The impact on consumer prices will thus become increasingly clear and the forecasts for inflation abroad this year have been adjusted upwards. Prices of electricity and fuel, for instance, are not expected to continue increasing from the current high level. This, combined with more moderate growth, contributes to inflation abroad falling during the second half of this year and in 2023.

One condition for the downturn in inflation abroad is that monetary policy is tightened and the forecast for the weighted policy rate abroad has been clearly adjusted upwards. Market

participants are now expecting a more rapid tightening of monetary policy than had previously been assumed and bond yields have risen. Swedish yields have also been affected and companies and households are now facing much higher interest rates on loans with longer fixation periods.

After that, Mr Erlandsson went on to describe economic developments in Sweden. Following the high growth last year, the Swedish economy is now entering a period of more moderate growth. The forecast for GDP growth abroad has been revised down in relation to the assessment in February. High inflation and rising interest rates are judged to contribute to household consumption and business sector investment being weaker. Fiscal policy measures, partly as a consequence of increased immigration from Ukraine, will contribute to growth this year being just under 3 per cent, but in coming years growth is expected to fall to around 1.5 per cent per year.

Labour demand indicators point to continued stable development in employment in the period ahead. This was confirmed by the results of the Labour Force Surveys this morning. When GDP growth slows down going forward, employment will also increase more slowly. Unemployment has been adjusted upwards in the forecast, in relation to February and is expected to be almost 7.5 per cent in the coming years. Despite the more moderate growth going forward, resource utilisation in the Swedish economy is assessed on the whole to be approximately normal.

Since the February Monetary Policy Report, Statistics Sweden has reported three monthly outcomes for inflation. Price developments were unusually strong in all of these months and in March CPIF inflation was 6.1 per cent. Developments show that the upturn in inflation is now broad-based, which is also confirmed by the Riksbank's various measures of underlying inflation. Inflation expectations have also risen, particularly in the shorter term. The rise in more long-term inflation expectations is relatively modest, however, and wage growth has not increased. There are thus no clear signs yet of so-called secondary effects, where higher inflation expectations affect price- and wage-setting. However, the risks of this happening have increased.

The forecast for CPIF inflation excluding energy is that further price increases can be expected, to a good 5 per cent at the end of the year. It is primarily prices for food and other goods that are continuing to increase rapidly this year, partly as a consequence of the war in Ukraine. At the same time, energy prices are not expected to continue to increase and the contribution to inflation will therefore gradually decline. Next year, inflation excluding energy will also fall and from 2024 inflation is expected to be close to 2 per cent. The new information since February has on the whole meant that the forecast for inflation has been revised up for this year and next year.

The forecasts are based on the monetary policy that is expected to gain majority support from the Executive Board at today's meeting. In brief, this means that the repo rate is raised to 0.25 per cent, that the forecast for the repo rate entails two to three further increases this year and that it is slightly below 2 per cent at the end of the forecast period, and that a decision is made on asset purchases for SEK 37 billion during the second half of 2022. This is a halving of the rate of purchase compared with the first half of the year, and implies the holdings will decline somewhat. Annex B to the minutes presents the proposal for a decision on asset purchases in the second half of 2022 in greater detail. The purchases of treasury bills will cease on 28 April, which means that no further purchases will be made and the holdings will decline rapidly. As early as July, two thirds of the current holdings will have matured.

§3b. The economic situation and monetary policy

Deputy Governor Per Jansson:

I would like to begin by saying that I support the economic assessments and the monetary policy assumptions in the draft Monetary Policy Report. A new aspect in my contribution this time is that I will discuss the inflation picture and inflation outlook a little more generally and in less detail than I normally do. "About time!" perhaps someone now exclaims, but let me then say that my rather detailed review of the inflation situation, including that, for a while in my discussions, I used figures rounded to two decimal places, has actually had an important purpose. It has made it very clear, perhaps even a touch overly clear, that, when it comes to monetary policy, fulfilment of the inflation target is for me the main focus entirely. I considered this necessary after a lack of clarity in our communication arose when we, for a number of years after the global financial crisis, spoke of the possibility of leaning against the wind in monetary policy, inflation was unexpectedly low for a long time and even credibility problems in terms of too low, longer-term inflation expectations began to emerge.

But today, I do not think anyone still doubts that it is the inflation target that is at the centre of monetary policy. On the contrary, in the monetary policy debate it is often claimed that we constantly strive at all costs to precisely hit "our" inflation target of 2 per cent. This is of course a misleading description, which is easy to see from both the development of inflation and how we discuss and implement monetary policy. Over the last decade or so, it has instead been largely a question of managing to maintain confidence in the target at least in the slightly longer term. But this has also required significant monetary policy effort, despite, as I say, it never having been about keeping inflation at exactly 2 per cent the whole time. In addition, when the inflation

figures change by several percentage points from one month to another, it is quite simply no longer meaningful to review details in the way I have been doing up to now.

But I will nevertheless as usual, albeit in less detail then, start by commenting on the current inflation picture and inflation outlook. I will then give my views on monetary policy.

The latest inflation outcome, for March, was just over 6 per cent, clearly above both the inflation target and the forecast in the Monetary Policy Report in February, which was a bit below 4 per cent. Our measures of underlying inflation now clearly emphasise that the price increases are broad-based and not just driven by a temporary effect that will disappear very soon. Updated with data up until the end of March, the median of the measures was 4.3 per cent. This is to be compared to just over 2 per cent in the last calculation in February, which was based on data up to and including December. The perhaps most important measure of underlying inflation, CPIF inflation excluding energy prices, was recorded at slightly above 4 per cent. At our February meeting, several measures were still below or on target. Now, the lowest amounts to 3 per cent while all other measures exceed 4 per cent.

That the price increase has become broad-based and more general means that the first line of defence against more persistently high inflation has been breached. The next safeguard is to prevent the currently broad upturn in prices from persisting for a long time to come, that is, to ensure that longer-term inflation expectations do not rise. If these were to start to rise, the risk of compensatory wage increases would go up, which in turn could create a further need for price hikes, followed by even higher demands for wage increases, more price hikes, and so on. In all, we would then have price- and wage-setting that is not compatible with the inflation target.

That such price-wage spirals do not go hand in hand with healthy economic development is obvious from the 1970s and 1980s and was actually an important reason, perhaps even the most important reason, for introducing the inflation target in the first half of the 1990s. But to prevent these from happening, one must then, when it becomes necessary, also be prepared to conduct a monetary policy that clearly and decisively combats them. In the context, I cannot help commenting on Mats Persson's debate article entitled "Increasing the interest rate paves the way for growing inequality", in Svenska Dagbladet the other week.[2] Experience in Sweden, and for that matter in many other countries that have had problems with persistent price-wage spirals, shows that combating this type of nominal disorder is about much more than a short-term inequality issue in a choice between "spreading poverty" across the whole of society in the form of higher inflation or "concentrating it on 5-10 per cent of the population" by increasing the interest rate. Neither is it the case that countries with a particularly just society and good social

[2] See https://www.svd.se/a/Or9aV3/nationalekonom-det-har-blir-priset-for-hojd-styrranta (in Swedish).

cohesion are typically characterised by allowing inflation to develop uncontrollably without anchor. I wish quite categorically to claim the opposite.

It is worth pointing out that of course not every tendency towards higher wage growth must be problematic and part of a price-wage spiral. If wages in the years to come were to rise slightly more rapidly than previously, it is not a problem as long as one is still confident that inflation will return to the target. Fortunately, Prospera's new measurements of longer-term inflation expectations indicate that this is still the case. Compared with the situation in February, the increase in five-year inflation expectations is small, one to two tenths of a percentage point, and all groups included in Prospera's surveys still expect inflation to be close to the inflation target five years ahead.[3]

Particularly important and pleasing is the stability and consensus in the labour market organisations' long-term expectations, which have only risen by a tenth of a percentage point for the employer organisations and now stand at 2.2 per cent for both employee and employer organisations. In this context, I would like to reiterate what I said in connection with our February meeting, namely that, after many years of inflation below 2 per cent and signs that the inflation target is not fully appreciated as the long-term nominal anchor, it is only positive that these expectations are now slightly above the inflation target.

The longer-term inflation expectations estimated from the market pricing of financial contracts have increased slightly more than the survey-based expectations. But as these measures of inflation expectations vary considerably over time and are difficult to interpret as pure measures of expected price changes, I continue to attach less importance to them. My conclusion regarding the longer-term inflation expectations is therefore that the second line of defence against more persistently high inflation has not been breached. My thoughts on suitable monetary policy going forward are focused to a very high degree on designing it to ensure that this line of defence remains intact.

The significantly deteriorated inflation picture, including clear signs that the price upturn is broad-based and not merely temporary, means that very considerable changes to the inflation forecast are being proposed in the draft Monetary Policy Report. The largest of these is the revision around the end of this year, when CPIF inflation excluding energy prices is expected to be just over 3 percentage points higher than in the assessment in February. For headline CPIF inflation, the upward adjustment at the same point in time is even greater, slightly more than 3.5 percentage points. In all months up until summer next year, inflation is at least 1 percentage

[3] I am focusing as usual on the expectations for CPI inflation rather than for CPIF inflation, as the response rate for CPIF inflation is often lower.

point higher than it was in the February forecast, irrespective of whether it includes energy prices or not. Without checking retrospectively, I dare to claim that this is the largest revision to an inflation forecast ever made by the Riksbank, and by some margin.

At the monetary policy meeting in February, I did indeed say that inflation, even excluding energy prices, could well surprise on the upside compared with the forecast we had drawn up at the time. But I was also critical of the upward revisions to the forecast for inflation excluding energy prices made then and thought that there was only rather weak support for them in data. I nevertheless supported the forecast but pointed out that downside risks dominated my risk picture for inflation. Although these downside risks primarily concerned developments in the medium term, once the contribution to price increases from energy prices decreases and the pandemic-related effects on demand and supply conditions fade, it is difficult today to conclude that these views and assessments were accurate.

Even though our forecasting error is now extremely large – and I myself was particularly off the mark – it can nevertheless be noted that there were no analysts who, at the beginning of the year, expected inflation to rise as much as it actually has. The fact that all other forecasters have made more or less as poor forecasts as the Riksbank is no excuse but illustrates that the development of inflation has been very difficult to predict. In one way or another, forecasts are based on available data and, at the time these assessments were made, there was quite simply no information in the data that could have produced such a steeply rising inflation forecast. For sure, inflation in a number of other countries had increased considerably and broadly. But in many countries, this had occurred quite early in 2021 and up until at least the inflation outcome in December, this information would not have been a solid basis at all for assessing the development of the more underlying inflation rate in Sweden. In addition, it is not particularly realistic in hindsight to demand that we at the time should have relied on forecasting models that are only based on information from a few foreign variables, and completely ignore the normally much more useful Swedish data that indicated a different development.

In conclusion, my assessment is that, with the data we had access to at our February meeting, it was not possible to make an inflation forecast indicating something other than that the repo rate should be kept unchanged and remain at zero per cent for some time to come. However, it is worth pointing out that several other analysts at that time had a higher repo-rate path than the Riksbank, so it was of course not obvious how long the interest rate should remain unchanged at zero per cent. We can very well be criticised for this and perhaps this criticism shall be levelled at me to a particularly high degree, as I had far too optimistic a view of the inflation situation. But it is then a question of a policy mistake which meant that our forecast for the interest rate was

wrong for just over two months. A mistake that we are now correcting as quickly as possible. I would like to believe that the repercussions of this mistake are very limited.

With this, I will move on to my comments on monetary policy. In our new, considerably upwardly revised inflation forecast, inflation is high and clearly above the inflation target until around the turn of the year 2023–24. That it nevertheless falls back in 2023, and from 2024 is in line with the target, is a consequence of our gradual yet consistent policy-rate hikes being expected to prevent the high inflation rate from becoming entrenched in price- and wage-setting. This is an absolutely central assumption that we will need to monitor very carefully going forward. To be sure, the upward adjustment to the repo-rate forecast now being made is not insignificant but still relatively cautious, bearing in mind the magnitude of the rate hikes during previous rate-hike cycles and, above all, the inflation situation we have to cope with this time. The hope is that these rate hikes will be sufficient and that it will be possible to bring down inflation again without needing to depress aggregate demand too much. This is very important in a situation where the real economy is already burdened by a number of negative supply shocks and where significantly worse economic developments than in our main scenario cannot be ruled out. But for this to work, Swedish price- and wage-setting must have confidence in the inflation target and give it its support. Greater monetary policy tightening can thereby be avoided, which is of course to everyone's benefit.

First Deputy Governor Cecilia Skingsley:

I support the proposal to raise the repo rate and the draft for a new Monetary Policy Report, including the repo rate forecast. I also support the proposal for a decision on asset purchases in the second half of 2022, according to Annex B to the minutes.

The rate of inflation noted in March 2022, 6.1 per cent measured as the CPIF, has not been seen since December 1991. This was when the Soviet Union still existed and George Bush was US President. In Sweden, the Riksbank had the task of maintaining a fixed exchange rate against the predecessor of the euro, the ECU. This says a great deal about the size of the change taking place in the Swedish economy since the last monetary policy meeting. In my comments today, I will first briefly comment on the amended inflation forecast and then on my reasoning as regards the proposed monetary policy decision.

Since the February meeting, the effects of the global pandemic crisis have unfortunately been joined by the effect of Russia's invasion of Ukraine. In March, inflation was over 7 per cent in the United Kingdom and euro area and no less than 8.6 per cent in the United States. Recent months' rise in inflation has already triggered revised monetary policies in many places, together with expectations of further tightening. As I mentioned in my contribution in February, market rates

therefore rose in general and Swedish companies and households needed to expect rising interest rates in Sweden too. On the other hand, Swedish inflation long stayed relatively low. Excluding energy prices, inflation was below 2 per cent over the whole of last year. Inflation then rose rapidly over the months January to March, while the real economy has developed more in line with expectations.

One important forecasting issue for me this time round has been whether the Riksbank could have made a better inflation forecast than the one published in February. It is too early to say for certain as there are many lessons to be learned, but my preliminary assessment is that this would have been difficult. As an article in the draft Monetary Policy Report explains, none of the Riksbank's own forecasting models came close to predicting the unusually rapid rise in consumer prices realised in February and March. Neither did any other forecasters predict such a large upswing. There was a discussion in the Monetary Policy Report in February on whether rising prices internationally could also spread to Sweden, but the argument was not particularly convincing at that point. One clear indication that large and broad price rises were on the way could be found in the Riksbank's recurring business surveys. However, the latest report was not compiled and published until after the monetary policy meeting in February. Even if I had had a different view of the risk of inflation, that it could surprise on the upside, I did not see sufficient reason to start rate hikes, which, in my opinion are the best tool to use when monetary policy needs to change course.[4] The situation did not turn out as expected and various measures of underlying inflation and companies' price plans indicate that inflation is forecast to remain close to 6 per cent for the next few months.

I will now move on to my monetary policy assessment. I will first present a few general considerations on why I support the changeover in monetary policy. After this, I will comment on some of the elements of the changeover. My main reason for supporting the changeover is that inflation has not just risen to a historically high level but has also become surprisingly broad. Earlier rises in inflation over the autumn and winter almost only concerned energy price rises and these generally have a low pass-through on other prices.[5] However, since the February meeting, we have noted that price rises are broader, that inflation under the new forecast has not yet peaked, and that inflation expectations are rising.

When identifying an appropriate monetary policy, I would like to point out that the price rises are being underpinned both by pandemic effects in the form of generally high demand after previous

[4] See speech by C. Skingsley (2020), 7 October 2020, Sveriges Riksbank, Post-pandemic monetary policy and the future of the interest rate as a policy tool.
[5] See the article *High energy prices – how will other consumer prices be affected?* in Monetary Policy Report, February 2022.

restrictions and disruptions in the flow of goods, and by price effects due to the war in Ukraine. Even if the upturn in inflation can largely be attributed to supply shocks, which monetary policy can normally choose to disregard if inflation expectations are sufficiently well-anchored, the force of the upturn in inflation is now so strong that the role of the inflation target as anchor in price- and wage-setting may start to weaken. This is why I see reason to act today. Rapid action will reduce the risk of having to take stronger measures later on. Another reason for acting today and not waiting is that the growing debts of the household sector have become more sensitive to interest rate developments than in previous rate-hike cycles. So working gradually with monetary policy and evaluating the effects will not just restrain the development of prices for goods and services, which is a long-term benefit for all economic agents, it will also reduce the risk that the Riksbank will have to take stronger action at a later date, if inflation expectations become too high and trigger a price and wage spiral.

When assessing how expansionary monetary policy is, one must also consider what inflation and expectations do to real interest rates. If inflation and expectations rise without monetary policy changing, the result will be that the economy becomes stimulated more as the real interest rate is falling. Raising the policy rate counters this effect. With the monetary policy proposed today, the real interest rate will remain negative, albeit gradually less negative, as illustrated in Figure 11 of the draft Monetary Policy Report. Consequently, even if nominal interest rates become higher, no real interest rate shock is expected.

The repo rate path indicates slow increases over the forecast period. By the end of the forecast horizon, the repo rate is expected to be 1.8 per cent. The current path indicates a pace of interest-rate hikes similar to the ones in November 1999 and September 2001. It is considerably more cautious than the phase of rate hikes lasting from 2006 until September 2008 and slightly more cautious than the hikes lasting from July 2010 until July 2011. My conclusion is that today's turnaround, although unexpected by many, is quite moderate in comparison.

Today is also the first time that the Executive Board decides to start reducing the asset portfolio acquired for monetary policy reasons. As this is the first time this occurs, it seems reasonable to start with a reduced rate of reinvestment instead of allowing it to fall due as the assets mature. The financial markets are functioning well and consequently I expect no disruptions. With the current macro forecast, it is reasonable to expect the portfolio to continue to shrink from 2023 on. As the Riksbank's portfolio has a shorter duration than the equivalents of many other central banks, it would shrink quickly over the next few years if the Executive Board were to decide to cease reinvestments entirely.

All assessments are contingent on the forecasts turning out approximately as now published. If the economy moves in a different direction, adjustments will be necessary in the composition of monetary policy. A number of uncertainty factors are described in Chapter 1 of the draft Monetary Policy Report. To these uncertainties, which I support, I would like to add one more: The economy's ability to impede tendencies towards a general price and wage spiral.

The current rate of inflation is the highest since inflation targeting was introduced in 1993. Keeping inflation low and stable to facilitate price- and wage-setting is by no means of interest only to those of us working at the Riksbank. The inflation target is a concern for everybody active in Sweden. The Riksbank should not decide how the ongoing price rises shall have an effect throughout the economy. But the Riksbank can hinder price rises from turning into a general price and wage spiral from which everybody will lose. By gradual rate hikes, we are now strengthening the possibilities for better economic development in the longer perspective.

Deputy Governor Henry Ohlsson:

To begin with, I would like to say that I support raising the repo rate to 0.25 per cent. Furthermore, I support the proposed repo rate path. I support the proposals in annex B to the minutes concerning the Riksbank's asset purchases over the rest of 2022. Finally, I support the economic outlook and forecasts in the draft Monetary Policy Report.

The impact of the pandemic on economies around the world has been succeeded by the economic consequences of Russia's invasion of Ukraine. The Riksbank's forecasts in the Monetary Policy Report from February have become entirely irrelevant. This applies to the inflation forecast in particular. Forecasting errors had already arisen in the months before Russia's invasion of Ukraine. What we had deemed temporary effects on inflation turned out to be more persistent. They also gave rise to indirect effects on inflation.

According to the draft Monetary Policy Report, Swedish GDP is expected to rise by 2.8 per cent in 2022 compared with 2021. For 2023 and 2024 the forecasts for growth in both cases are 1.4 per cent. There is nothing strange in growth figures becoming lower when the rapid recovery after the pandemic has passed. The economic problems caused by Russia's invasion of Ukraine also reduce economic activity.

Sweden is a small, open economy. We are dependent on economic activity and policies abroad. The forecast for KIX-weighted (trade-weighted) growth abroad in 2022 is 2.9 per cent in the draft

Monetary Policy Report. The same draft contains a forecast for 2023 of 2.5 per cent. The forecasts are nevertheless relatively high figures.

According to the most recent monthly statistics from the Swedish Public Employment Service, the average number of persons registered as unemployed in relation to the register-based labour force was 7.0 per cent in March 2022. This was a decrease of no less than 1.4 percentage points compared with the same month one year earlier, when the corresponding figure was 8.4 per cent. Unemployment insurance fund members can be considered to have a relatively strong position on the labour market. In March 2022, the percentage of openly unemployed fund members was 2.4 per cent. The same month one year earlier, the share was 3.4 per cent. In other words, unemployment measured in this way has also declined, but has begun to level off in recent months. The conclusion from this is that the improvements we have seen on the labour market over the past year have primarily concerned the groups on the labour market that are not among the strongest.

A fundamental starting point for monetary policy is that the CPIF has been the target variable for monetary policy since 2017. In other words, the rate of increase in the CPIF is the measure of how quickly the cost of living is rising, which is the starting point for the price stability target. The most recent inflation measurement in March 2022 showed an annual rate of increase in the CPIF of 6.1 per cent. The moving average over twelve months for CPIF inflation was at 3.2 per cent in March. This is a far above the inflation target of 2 per cent. It is a very long time since the cost of living in Sweden increased this much.

For many years, monetary policy around the world has been struggling with inflation that is too low. The situation is now the reverse. The task for monetary policy has changed 180 degrees. The KIX-weighted inflation rate abroad in 2022 is expected to be 5.9 per cent in 2022, according to the draft Monetary Policy Report. The forecasts for 2023 and 2024 are 2.9 per cent and 2.2 per cent respectively. The forecasts mean that the high inflation figures we see today would be temporary and inflation around the world would return to levels closer to the set inflation targets.

Here it is natural to move on to my monetary policy considerations. Inflation expectations are an important element in judging the credibility of monetary policy when it comes to attaining the inflation target. It is an important observation that inflation expectations five years ahead among money market participants have remained at just over 2 per cent in recent months. The most

recent five-year measurement for money market participants from April 2022 is at 2.2 per cent on average.

It is important to point out that money market participants' inflation expectations are not formed in a vacuum. These actors at the same time form expectations of a number of macroeconomic key variables. These include, in addition to inflation, expectations of the coming monetary policy. In April 2022, money market participants expected a repo rate rounded up to 0.8 per cent twelve months ahead, and a repo rate of 1.1 per cent 24 months ahead from April 2022. In other words, money market participants' expectations of inflation five years ahead of 2.2 per cent were based on the expectation of a less expansionary monetary policy.

I consider that an important conclusion can be drawn from this: Merely because inflation expectations are now close to the target, the Riksbank cannot refrain from conducting an active monetary policy to attain the inflation target in the long run.

The price increases we have seen in recent months are not something that monetary policy can affect. But the high inflation we have had in recent months risks setting off a spiral of price increases, wage drift, price increases, wage drift, etc. in the near term. It is essential to manage these tendencies in time. Therefore, it is time to adjust the direction for monetary policy. It must become less expansionary, the repo rate should be raised in my opinion. It is important to act in good time. This also makes it possible to take action in small steps.

As I see it now, the repo rate needs to be a couple of percentage points higher in a few years' time. At the same time, I think that if we begin to act in time, there is also a possibility to adapt monetary policy gradually.

One of the points of a less expansionary monetary policy is to slow down economic activity and in this way reduce inflationary pressures in the economy. This can at the same time mean lower activity on the labour market. Here it is important to bear in mind that monetary policy can only affect the labour market imprecisely, while labour market policy has a significantly greater capacity to focus on the specific problems in the labour market.

To summarise, I support raising the repo rate to 0.25 per cent. Furthermore, I support the proposal for a forecast path for the repo rate. I support the proposals in annex B to the minutes

concerning the Riksbank's asset purchases over the rest of 2022. Finally, I support the economic outlook and forecasts in the draft Monetary Policy Report.

Dixi!

Deputy Governor Martin Flodén:

I support the proposal to raise the policy rate to 0.25 per cent, the proposal for a forecast for the policy rate, the draft Monetary Policy Report and Annex B to the minutes regarding asset purchases.

Soon after our monetary policy meeting in February it became clear that we needed to rework the forecasts and monetary policy plans we presented then. Inflation has risen rapidly over the past year, but we judged for a long time that inflation would fall back to low levels this year. According to our forecast, the high energy prices would only have limited pass-through to other prices, and when the energy prices ceased rising, inflation would rapidly fall to low levels.

The most recent inflation outcomes, combined with Russia's invasion of Ukraine, have shown that this assessment was incorrect. Even prior to Russia's invasion, it was clear that the pass-through to other prices would be much greater than we had forecast. The war has since further increased the pressure on price increases in that the upturn in energy prices has been even larger and more protracted, at the same time as prices of commodities and food have risen, and by causing new disruptions to global value chains.

The changed prospects for inflation can be illustrated by our forecast for the inflation rate at the end of this year. In February, our forecast was that CPIF inflation would fall to 1.2 per cent at the end of the year. Now our forecast is instead that inflation will be 4.8 per cent at the end of the year.

The fact that we expected a rapid downturn in inflation was an important factor for me when we planned monetary policy in February. Monetary policy is formulated to affect inflation in the slightly longer term. Although we did point out that there was considerable uncertainty, there were many indications in February that the long-term inflationary pressures were moderate and that inflation in a year or so could need substantial support from expansionary monetary policy to reach up to two per cent.

Today, however, this picture has changed. Inflation is expected to be far above the target for the whole year. Moreover, it is no longer the direct effects of higher energy prices that are keeping up inflation. Inflation has broadened and we have raised our forecast for underlying inflation

(according to the CPIF excluding energy prices) at the end of the year from 2.1 to 5.3 per cent. This is an exceptionally large revision to the inflation forecast!

The proposal to raise the policy rate today and moreover to plan for two or three further increases later this year is a major change compared with our monetary policy plan in February. But in the light of our revised forecast for underlying inflation, one might think that the change in the monetary policy plan is modest. I see at least two reasons for the change in monetary policy that we are now planning, or perhaps an even smaller change, being sufficient for inflation to return to the target.

Firstly, inflation according to the CPIF excluding energy does not necessarily reflect the underlying inflationary pressures. For instance, according to our forecast, rising food prices will contribute significantly to the high inflation this year, and in most countries food prices are normally excluded from measures of underlying inflation. Many other consumer prices that are now rising have clear links to the high energy and commodity prices and to various disruptions in production. To some extent, these are necessary adjustments in relative prices, rather than a changed, long-term inflation pattern.

Secondly, wages are still increasing at a moderate pace. The rising consumer prices therefore contribute to households' real incomes becoming lower and thereby to economic activity slowing down. If wage increases remain moderate, consumer prices will not be able to continue to rise rapidly.

But this does not mean that we should keep to the monetary policy plan from February. That plan was designed to manage a development where inflationary pressures were judged possible to become problematically low some years ahead. Now it is instead very clear that the upside risks to inflation are dominant, and there are indications that inflationary pressures have already begun to become entrenched at a higher level than during the past decade. For instance, long-term inflation expectations have risen somewhat and many companies report that it has become easier and more acceptable to raise the prices charged to consumers. The Riksbank needs to react and adapt monetary policy so that price- and wage-setting continue to be based on inflation at the target level.

The large price increases we have now seen create problems for economic agents. For instance, many households and companies are affected by their costs increasing faster than their incomes. It is therefore important that inflation should fall from the current levels, but I would like to point out that slightly higher inflationary pressures than we have had in the past decade are not a problem. Previously, inflation has often fallen short of the inflation target, and our policy rate is low and close to the effective lower bound. With slightly higher inflationary pressures, the

interest rate will move away from the lower bound. It will then be easier to conduct a monetary policy that reacts to economic activity and inflation and that ultimately keeps inflation close to the target.

As a result of the higher inflationary pressures, clearer monetary policy trade-offs arise. Expansionary monetary policy and high economic activity in relation to the economy's production capacity risk contributing to continued high inflation and to price- and wage-setting then beginning to be based on inflation remaining above the target. As the Swedish economy is in good health, despite the rising prices and the uncertainty and disruptions caused by the war in Ukraine, this trade-off means that monetary policy now needs to be made a little less expansionary.

A higher policy rate will both weaken households' and companies' cash-flows and contribute to dampening their willingness to consume and invest. In this way, economic activity will be slightly lower and inflationary pressures will be dampened further ahead. But I do not see before me today any need for a major tightening to return inflation to the target. Our forecast is that growth will be high this year, that employment will remain high for the entire forecast period and that resource utilisation will be at a normal level going forward.

We often say that there is unusually large uncertainty in some dimension, and this may not always be the case. But I would nevertheless claim that the uncertainty now is much greater than normal with regard to both economic activity and inflation as well as the appropriate path for the policy rate going forward.

The uncertainty factors include the war in Ukraine, pandemic restrictions in China, the development of energy prices, the pass-through from producer prices on consumer prices and how households react to higher prices. Other uncertainty factors are more closely linked to monetary policy. How will economic agents, and thereby economic activity, be affected by a new interest rate situation with higher policy rates? And will inflation really slow down even if resource utilisation remains at a normal level?

Despite the answer to these questions being uncertain, I am convinced that monetary policy now needs to be made a little less expansionary and that it is right to raise the policy rate today. It is also probable that a further rate hike will be justified at our next meeting in June. What is appropriate after that, on the other hand, is very hard to judge.

Both households and companies have large debts and often variable interest rates. A higher policy rate will therefore have a rapid and significant impact on households' and companies' cash-flows. I suspect that interest-rate hikes according to our plan, combined with the high

consumer prices, will lead to a slightly faster slowdown in economic activity than is included in our forecast and that it will then be appropriate to raise the interest rate at a slower pace than is indicated by the proposed repo-rate path.

I could therefore have proposed a somewhat flatter path that indicated, for instance, greater probability for a further two, rather than three, increases this year. But the uncertainty over which monetary policy will be justified going forward is considerable, and I do not rule out the possibility that even faster interest rate rises than in the forecast might be needed. The forecast for the policy rate is thus not unreasonable and I support the forecast for the economy and the policy rate presented in the draft Monetary Policy Report. The important message today is that the interest rate needs to be raised in the near term and that we will need to adapt monetary policy to new information about economic activity and inflation.

Finally, I would like to say a few words about the asset purchases. I have at a number of previous monetary policy meetings wanted to see a faster tapering of the purchases. The reasons for tapering the purchases are reinforced by inflation now having risen rapidly. It is therefore good that we are now deciding on purchases at a slower pace than the earlier plan and that our holdings will thereby begin to decline. Although I believe that it would have been possible to cease the purchases of corporate bonds entirely and to reduce the other bond purchases at a faster pace than in the proposed decision, but as the proposal entails a clear tapering, I can nevertheless support it.

Deputy Governor Anna Breman:

I support the proposal to increase the policy rate from 0 to 0.25 per cent, the forecast and the rate path in the draft Monetary Policy Report. I also support the proposal to stop purchasing Treasury bills and to halve reinvestments of bonds during the second half of 2022 in accordance with Annex B to the minutes.

The coronavirus pandemic is still affecting both the global and the Swedish economy. And now, in addition, there is also Russia’s invasion of Ukraine. The war has caused great human suffering and led millions of people to flee. The humanitarian and economic consequences for Ukraine are enormous. The Swedish economy has only small direct links to Ukraine and Russia via trade and financial flows. But, the war is causing energy and food prices to rise, which is pushing up inflation further in a situation where it is already high also in Sweden.

Let me begin by explaining why I think we should act by increasing the policy rate at today's meeting. I will then discuss the repo-rate path and monetary policy trade-offs, given high inflation but highly uncertain growth prospects.

Since the monetary policy meeting in February, CPIF inflation has risen from 4.1 per cent (outcome for December) to 6.1 per cent in the outcome for March. We cannot prevent inflation rising further in the near term, but we can act so that inflation is on target in the medium term. Allow me to highlight three main reasons for taking action now with an increased policy rate and not waiting.

First, the inflation upturn is broad and risks becoming persistent if we do not act. In autumn 2021, it was essentially only energy prices pushing up inflation, but this is no longer the case. Strong demand, following the easing of restrictions, in combination with continuing supply shocks is contributing to high inflation. CPIF inflation excluding energy has risen from under 2 per cent at the time of our last meeting to over 4 per cent in the latest outcome. In addition to energy prices, the prices of services, goods and food are also rising more rapidly. And, when inflationary pressures broaden and Russia's invasion of Ukraine fuels these trends, inflation will increase more and over a longer time period compared with our assessment in February.

Second, inflation expectations are rising. Although Prospera's survey shows that inflation expectations five years ahead are still well anchored close to 2 per cent, other data indicate that the inflation expectations of households and companies have risen. I discussed in depth households' perception of inflation and how it can affect inflation expectations in a speech in March and I will not reiterate what I said then.[6] Instead, I would like to highlight the Riksbank's Business Survey, where it is clear that a shift has occurred in the price-setting behaviour of companies. They say that price increases are now more accepted and easier to implement than before.[7]

Third, it takes time for monetary policy to have an effect. If we delay rate hikes, both inflation and inflation expectations risk becoming entrenched on a high level. This may lead to more rate hikes being required to stabilise inflation resulting in major negative effects on the real economy and the labour market. It is better to slow down now than risk having to slam on the brakes later.

These three factors: high and broad inflation, rising inflation expectations and the fact that it takes time for monetary policy to take effect make me support rate hikes in the near term. However, an important question is what is required in the years to come in order for inflation to return to the target and how we should weigh high inflation against uncertain growth prospects.

This leads me into the second part of my contribution, the forward-looking monetary policy considerations and the repo-rate path. Let me first take a brief look back to make a point that also is important at today's meeting. At the meeting in February, I entered a reservation and

[6] See speech by A. Breman (2022), 23 March 2022, Sveriges Riksbank, Inflation and monetary policy in the shadow of war.
[7] See The Riksbank's Business Survey, February (2022).

wanted to see an earlier tapering of reinvestments and the termination of Treasury bill purchases. I emphasised that inflation abroad had risen very rapidly and that our monetary policy strategy should consider that the inflation risks were on the upside. But I did not enter a reservation against our forecast or against the rate path, even though I said that I would have preferred a path indicating earlier increases.

In my view, entering a reservation against a forecast or against a rate path (which is also a forecast) is *very* seldom justified. Forecasts are always uncertain. Things can happen between meetings that require monetary policy to change direction. This was the case between the meetings in February and April 2020, when we decided to introduce several crisis measures to combat the economic effects of the outbreak of the pandemic. And, this is also the case this year, when Russia's invasion of Ukraine is amplifying the inflation upturn that had already begun. This justifies a clear change in monetary policy at today's meeting.

Despite my reluctance to entering a reservation against a rate path, I thought carefully about doing so prior to today's meeting. In my opinion, the rate path indicates too many increases over the forecast horizon given the information we currently have. I still think that the risk picture for near-term inflation is on the upside. However, importantly, the prospects for growth are now on the downside. Let me discuss three reasons why I think fewer increases than the path indicates may be a more well-balanced monetary policy.

First, high inflation in the near term needs to be weighed against increasingly uncertain growth prospects in the medium term. In addition to the war, we have an increased spread of infection in China that may reduce global growth. Furthermore, we do not know how the war will develop or whether further sanctions will be introduced. For example, if growth in Europe slows, it may lead to lower inflation in the medium term. However, the risk of stagflation, low growth and high inflation, cannot be ruled out.

Second, we do not know how much and how rapidly sensitive companies and households adjust their behaviour to interest-rate hikes. I wish to stress here that rate hikes affect the whole economy. The focus in the public debate is often on households and mortgage rates, but the policy rate also affects companies' funding costs, consumer credits, student loans and the borrowing costs of municipalities, etc. Rate hikes will dampen economic activity in the entire economy, which is reflected in the forecast, in which growth for the Swedish economy has been consequently adjusted downwards compared to February.

Third, rate hikes are now being combined with a tapering of our asset holdings. Reducing the balance sheet is probably less contractionary than a rate hike, but it pulls in the same direction. And when it happens simultaneously, they reinforce each other. This effect should not be

underestimated. We are already seeing rising market rates in the medium and long term, which implies a tightening of the financial conditions. Companies and households are encountering significantly higher market rates today compared with just a few months ago. The comparison with earlier rate-hike cycles is difficult as most central banks, including the Riksbank, did not have the same extensive asset holdings then. As rate hikes are combined with a tapering of assets, it is possible that relatively fewer increases will be necessary to achieve the same effect.

All in all, this leads me to conclude that I would have preferred a rate path with a total of two to three increases this year and then gradual rises going forward to a lower level than the one indicated by the rate path. But, as I do fully support a rate hike today and expect at least one more this year. I am therefore not entering a reservation against the rate path.

That said, I wish to stress that it is extremely important that my assessment that fewer increases may be appropriate is not interpreted and/or misunderstood as tolerance for higher inflation in the medium term. If inflation goes even higher and becomes even more persistent than in our forecast, I will support doing what is necessary to attain the inflation target, including more rate hikes than are in the current path and/or a faster tapering of asset holdings. The important thing is that households and companies understand that monetary policy will respond to changed prospects for inflation and are prepared for such adjustments.

With the dramatic events we have experienced over the last two years, a global pandemic and war in Europe, I wish to stress we can use all our tools going forward in order to maintain price stability. During the pandemic, bond purchases were a more effective tool than a rate hike despite falling GDP and weak inflation. With a rapid and broad upturn in inflation, rate hikes in combination with a tapering of the balance sheet are a more effective measure than just reducing reinvestments or just increasing the interest rate. The objective is the same – low and stable inflation – but measures can in the future be adapted to a changing world.

Allow me to summarise. High inflation is harmful to the Swedish economy. Low and stable inflation is a prerequisite for a competitive economy with strong growth and increased prosperity. To safeguard the inflation target, I support a rate hike at today's meeting. I also support the termination of Treasury bill purchases and halving bond reinvestments during the second half of the year.

Thank you!

Governor Stefan Ingves:

I intend to begin with some overall comments and standpoints: I support the new forecasts and assessments made in the draft Monetary Policy Report. Compared with the assessments made at

the monetary policy meeting in February, the changes are considerable, with a substantially revised outlook for inflation in 2022 and 2023, and as a consequence also for monetary policy. During the first three months of the year, we have been surprised by rapidly rising inflation, and according to the new forecasts, inflation will remain high during the year. The fact that inflation this year will be much higher than our target, is nothing we can remedy now with reasonable monetary policy measures. However, to ensure that inflation does not become entrenched at high levels, and that it instead falls back in 2023 and 2024, we need to have a new, clear path for monetary policy. I therefore support the proposal to raise the repo rate to 0.25 per cent at today's meeting. I also assess that the repo-rate path – which states that the Riksbank's policy rate will probably be raised a further two to three times this year and at a slightly slower pace after that – is a reasonable forecast. I also support the proposals described in Annex B to the minutes, and which entail a slower pace in the asset purchases during the second half of 2022, meaning that the Riksbank's holdings will begin to decline. All in all, the measures entail a necessary changeover in monetary policy to a less expansionary direction. The new path is needed for inflation to fall during 2023 to ensure it is close to our target of 2 per cent during the first half of 2024.

The coronavirus pandemic is continuing to cast a shadow over economic developments. In the western world, economic activity is not affected to any great extent by the pandemic at present. But in other parts of the world, especially China, various types of restrictions are having a negative impact on growth. However, compared with the large loss in growth that took place in 2020, the effects on growth are now small and manageable.

The worrying factor now is that since the previous monetary policy meeting in February, a war has broken out in Europe. Russia's invasion of Ukraine entails major costs in terms of human suffering, which appears to be catastrophic. In economic terms, the effects even outside of the war zone are obvious. Our forecast for growth in the euro area this year has been revised down by one percentage point as a result of the war, and the western world's sanctions against Russia and Belarus. Our forecast for growth abroad as a whole, KIX-weighted, has also been revised down as a result of the war in Ukraine, increased spread of infection in China and lower purchasing power among households in the wake of higher inflation. Despite all of these concerns, economic growth in the world as a whole remains good, 3 per cent this year, and somewhat lower in the coming years.

International inflation has continued to rise. Last year, the upturn in inflation could initially be attributed to rising energy prices, although the upturn in inflation in the United States, for example, was on a broader front. However, recently price upturns in, for instance Europe, have occurred more broadly, which is an effect of high demand and supply shocks following the

pandemic. These shocks have now been aggravated by the war in Ukraine. Our forecast for KIX-weighted inflation this year has been revised up from just under 4 to almost 6 per cent. As the world's central banks reduce monetary policy stimulus, however, inflation is expected to fall back to just over 2 per cent in 2024.

Economic developments in Sweden are also affected by the war in Ukraine. Following last year's rapid increase in GDP, growth slowed down during the first quarter of this year. Our forecasts are based on the current sanctions against Russia remaining in place during the entire forecast period. Increased demand from the public sector, in the form of investments in defence and reception of refugees, will counteract the negative effects of the war on Swedish growth. This year we are expecting GDP to grow by just under 3 per cent, and then to slow down to around 1.5 per cent in 2023 and 2024.

Since the previous monetary policy meeting in February, we have received three new inflation outcomes, and they have all been higher than our forecasts from February. The most recent outcome, CPIF inflation in March, was 6.1 per cent, which was more than two percentage points higher than our old forecast. In a few years, inflation has gone from around zero per cent to more than six per cent, and it has not peaked yet. Steering it back towards two per cent is a very uncertain process. In this respect, I think one can say that our forecast is an optimistic one. Behind the upturn in inflation there are rapidly rising prices for fuels and electricity. But even excluding these components, inflation has risen on a broad front. The rate of price increase on goods and services has increased in recent months, and is now above the historical averages. Going forward, continued price increases are expected on energy and food. But as the earlier price increases fall out of the twelve-month figures and monetary policy is tightened, inflation will fall back. The annual average for the CPIF is expected to be 5.5 per cent this year, 3.3 per cent in 2023 and 2 per cent in 2024.

At today's monetary policy meeting we are now setting a new course for monetary policy. In recent years, the focus for monetary policy, in Sweden and abroad, has been on alleviating the economic effects of the pandemic. And thanks to extensive economic policy measures, large parts of the world have some time ago recovered the large falls in economic activity that arose due to the lock-downs. However, the recovery from the pandemic means that different types of bottleneck arose, and supply and demand fell out of step on many markets. The result was rising prices on several important markets, which then spilled over into broad upturns in inflation. This new inflation environment means that monetary policy needs to be redirected.

The focus is now on ensuring that the high inflation rates we are currently observing do not persist. We cannot wait to change our monetary policy and take a chance on inflation rising

temporarily this year and then falling back next year. We need to act to prevent the high inflation figures in recent months being perceived as persistent and thereby becoming entrenched in inflation expectations and price- and wage-setting.

At the same time, I feel that the rate hikes included in the repo-rate path do not mean that monetary policy changes over to being contractionary. The real interest rate will still be negative during the forecast period. At the end of the forecast period, with inflation at 2 per cent and the policy rate at around 2 per cent, the real policy rate will be around zero. These days it is common to compare the actual real interest rates with a so-called neutral real rate to determine how expansionary monetary policy is. But it is difficult to make such comparisons in that the estimates of the neutral level are very uncertain. It is simpler to note that in a longer historical perspective, a real interest rate of zero per cent is low.

Let me add that the recent rapid and unexpected upturn in the rate of inflation entails a new form of uncertainty that monetary policy needs to learn to manage. It appears as though the low and stable rate of inflation experienced by the advanced economies for many years may now have changed into a hopefully transitory period with high and even more varied inflation. A new inflation dynamic like this makes considerable demands of forecasting methods, decision-making and monetary policy communication. The important thing in this new environment is that monetary policy is conducted so that inflation expectations remain anchored to the target, that is, confidence in the inflation target is maintained.

In conclusion, the way inflation has developed has been rather different than we were expecting as recently as February. A new direction is needed for monetary policy. With gradual increases in the repo rate, inflation will return to the target of two per cent. At the same time, if inflation continues to surprise on the upside, monetary policy may need to be tightened further. And the reverse, if inflation falls too quickly, then interest rate rises may be postponed or the rate may be cut. This will put our inflation-targeting policy to the test. It is one thing to cut the interest rate to zero or even lower and to purchase lots of securities to increase the volume of money in the economy. It is a completely different thing to systematically and persistently slow down inflation by raising the interest rate and gradually reducing the liquidity surplus we have created. The inflation target is now being put to the test.

§4. Monetary policy decision

The Executive Board decided

- to increase the repo rate to 0.25 per cent and that this decision will apply from Wednesday 4 May 2022.
- to adopt the Monetary Policy Report according to the proposal, Annex A to the minutes,
- on monetary policy measures and that these measures be applied in accordance with what is stated in Annex B 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 28 April 2022,
- to publish the minutes from today's meeting at 09.30 on Friday 6 May 2022.

This paragraph was verified immediately.

Minutes taken by:

Christina Håkanson　　　　　　　　　　　　　　　Bengt Petersson

Verified:

Stefan Ingves　　　　　　Cecilia Skingsley　　　　　　Anna Breman

Martin Flodén Per Jansson Henry Ohlsson

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