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# Annex A

## to the separate minutes No. 3

DATE: 14 February 2017  
DEPARTMENT: Markets Department and Monetary Policy Department

### **Foreign exchange intervention – as a complementary monetary policy measure**

#### **Decision by the Executive Board**

The Executive Board decides

- 1 that the Riksbank shall be able to intervene on the foreign exchange market as a complementary monetary policy measure in accordance with the decision stated in Annex B to the minutes “Foreign exchange intervention – renewed mandate”, which applies up to and including 25 October 2017, if interventions are considered necessary to ensure that developments in the krona exchange rate do not constitute a serious risk to the upturn in inflation,
- 2 to task the Governor and the First Deputy Governor, or their respective alternate in accordance with the decision in Annex B to the minutes “Foreign exchange intervention – renewed mandate”, with monitoring developments on the foreign exchange market more closely and, if at least one of them considers it necessary to start the interventions, immediately calling the other Executive Board members to an Executive Board meeting,
- 3 to task the Governor in association with the First Deputy Governor, or their respective alternate, to take decisions on foreign exchange intervention in accordance with the decision in Annex B to the minutes “Foreign exchange intervention – renewed mandate” if, in their opinion, there is no time to wait for a decision by the Executive Board, whereupon the other Executive Board members shall be informed as soon as possible, and
- 4 that this decision will be published on Wednesday 15 February 2017 at 9.30 a.m.

#### **Background**

Interventions on the foreign exchange market are a means at the disposal of a central bank that can be used as a complementary monetary policy measure. In a situation where the development of the exchange rate constitutes a serious risk that inflation will not approach the target in a satisfactory manner, the central bank may be justified in using interventions

on the foreign exchange market as a complementary measure in its work to safeguard price stability.

## **Deliberations**

### *A high level of confidence in the inflation target is important*

In recent years, the Riksbank has made monetary policy more expansionary by cutting the repo rate to negative levels, adjusting the repo rate path down and purchasing large amounts of government bonds. In December 2016, a decision was taken on further purchases during the first half of 2017. The aim of this monetary policy is to push up inflation and stabilise it around the target of 2 per cent and to keep inflation expectations in line with the inflation target. High confidence in the inflation target is creating the conditions for efficient price-setting and wage formation, thereby contributing to good economic development in Sweden.

The Riksbank's expansionary monetary policy has contributed to high growth, falling unemployment and rising inflation. But in several countries in the world, considerable political uncertainty prevails, creating risks for the recovery in the international economy. In recent years, inflation in Sweden has shown a rising trend and the increasingly strong economic activity means that the conditions are good for a continued rise. However, in recent months the upturn has largely been driven by higher energy prices. Once these do not contribute as much, CPIF inflation is expected to fall back slightly during the first six months of 2017. CPIF inflation excluding energy is still low, and has recently shown only a marginal increase. At the same time, the krona exchange rate continues to create uncertainty about the development in inflation.

The Riksbank's forecast implies that the exchange rate is expected to appreciate slowly in the period ahead as economic activity improves. If the krona strengthens too rapidly, it could lead to prices of imported goods and services increasing more slowly and to a decline in the demand for Swedish exports. Such a development would make it more difficult for the Riksbank to bring up inflation and stabilise it around 2 per cent. As described in the February 2016 Monetary Policy Report, too early and too rapid an appreciation of the exchange rate risks dampening inflation more than normal when inflation has been low over a longer period of time, for instance, because inflation expectations become lower. Weakened confidence in the inflation target is a source of unease as it creates instability and uncertainty in the economy.

### *Need for further monetary policy measures*

The Riksbank does not have a target for the exchange rate. However, the value of the Swedish krona in relation to the most important currencies abroad is an important factor in assessing inflation. A rapid strengthening of the krona may therefore need to be counteracted by even more expansionary monetary policy. As a complementary monetary policy measure, the Riksbank may therefore need to intervene on the foreign exchange market.

The aim of any foreign exchange interventions would not be to influence the long-term krona exchange rate, but to counteract an overly rapid strengthening before inflation has stabilised around 2 per cent. The foreign exchange transactions made within the framework of these interventions are a means of upholding the inflation target and continuously safeguarding price stability. Interventions shall therefore only be possible as long as they are

considered necessary to ensure that developments in the krona exchange rate do not constitute a serious risk to the upturn in inflation.

The Riksbank is still prepared to make monetary policy more expansionary if the upward trend in inflation were to be threatened and confidence in the inflation target weakened. In addition to foreign exchange interventions, the Riksbank can if necessary use all other tools described earlier, most recently in the September 2016 Monetary Policy Report.