



Minutes of Monetary Policy Meeting

October 2015

Summary

At the Monetary Policy Meeting on 27 October, the Executive Board of the Riksbank decided to purchase more government bonds during the first half of 2016 to a value of SEK 65 billion. The repo rate was left unchanged at –0.35 per cent but an initial raise in the rate was deferred by approximately six months and is now not expected to take place until the first six months of 2017. The expansionary monetary policy underlines the Riksbank's aim to safeguard the role of the inflation target as nominal anchor for price-setting and wage-formation.

It was noted at the meeting that the Executive Board agreed on the picture of economic prospects and the inflation outlook described in the draft Monetary Policy Report.

The expansionary monetary policy conducted by the Riksbank is contributing towards economic activity strengthening and a clear upward trend in inflation since last year. At the same time, however, there remains considerable uncertainty regarding the strength of the global economy and international monetary policy. But most indications are that the expansionary monetary policy will continue for a longer period. The Riksbank must take this into account.

Compared with the forecast in September, inflation is expected to be slightly lower in 2016 and 2017. But CPIF inflation is nevertheless expected to be close to 2 per cent in 2016. Without additional measures from the Riksbank, the rise in inflation could slow down, partly as a result of the Swedish krona appreciating earlier and more rapidly than forecast. In order to underpin the positive development in the Swedish economy and to safeguard the robustness of the upturn in inflation, monetary policy needs to be slightly more expansionary.

The Executive Board agrees unanimously to extend the purchases of government bonds by SEK 65 billion over the first six months of 2016. The Executive Board also agrees unanimously to leave the repo rate unchanged at –0.35 per cent and to defer an initial repo rate increase for about six months as compared with the assessment from September.

There remains a continued high level of preparedness to make monetary policy even more expansionary if inflation prospects should deteriorate, for example if the exchange rate strengthens faster than expected by the Riksbank. Several members here discussed various conceivable measures, such as purchases of other securities and currency interventions. The monetary policy pursued aims to limit the risks of continued low inflation and thus to safeguard the role of the inflation target as nominal anchor for price-setting and wage-formation.

Several members also commented on the current discussion of the inflation target. Finally, several members of the Executive Board again emphasised that there is a great need to promptly clarify mandates and tools within the area of macroprudential policy and to adopt measures to manage risks on the housing market and risks linked to household debt.



MINUTES OF MONETARY POLICY MEETING

Executive Board, No. 5

DATE: 27 October 2015
TIME: 09.00

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

Susanne Eberstein, Chair of the
General Council
Michael Lundholm, Vice Chair of the
General Council

Mattias Ankarhem
Sophie Brauner
Charlotta Edler
Heidi Elmér
Mattias Erlandsson
Eric Frieberg
Kerstin Hallsten
Jens Iversen
Ola Melander
Pernilla Meyersson
Ann-Leena Mikiver
Marianne Nessén
Christoffer Nordenlöw (§ 1-3A)
Christina Nyman
Maria Sjödin
Lena Strömberg (§ 1-3A)
Ulf Söderström
Sara Tägtström

It was noted that Mattias Ankarhem and Sara Tägtström would prepare draft minutes of the monetary policy meeting under Sections 2 and 3.

§1. Economic developments

Christoffer Nordenlöw from the Markets Department began by presenting the latest developments on the financial markets. Since the September Monetary Policy Meeting, volatility has decreased but is still at a relatively high level. Stock markets have largely recovered after the substantial falls in August.

After the Federal Reserve refrained from raising its policy rate in September, the expectations of low interest rates remaining for a longer time have increased. The markets have also interpreted the latest communication from the ECB as a clear signal that further stimulus measures are to be expected in December. Long-term government bond yields abroad have therefore fallen. Movements on the fixed-income market in Sweden have been less dramatic. Swedish yields have risen slightly following expectations that the Swedish National Debt Office will increase its borrowing.

Expectations of a more expansionary monetary policy from the ECB have, together with an appreciation of the Swedish krona in September, contributed to the majority of analysts expecting further easing measures from the Riksbank before the end of the year, some of them being decided at today's meeting. This has led to a recent weakening in the krona. In competitiveness-weighted terms, the krona is now back to the level forecast in September after previously having grown slightly more strongly.

Marianne Nessén, Head of the Monetary Policy Department, presented the draft Monetary Policy Report which, in the assessment of the Monetary Policy Department, would gain the support of the majority of the members of the Executive Board. She began by noting that the forecasts in the draft report were discussed by the Executive Board at meetings held on 14, 15 and 19 October. The draft Monetary Policy Report was tabled at a meeting of the Executive Board on 21 October. The Executive Board then had a follow-up meeting on 26 October.

The global economy is continuing to recover, which is an important prerequisite for the Swedish economy. There is still considerable uncertainty, however, and growth is expected to be somewhat weaker in the period ahead compared with the forecast in September. This uncertainty combined with slightly worse inflation prospects means that monetary policy abroad is expected to become somewhat more expansionary during the forecast period.

The Swedish economy is expected to continue to grow at a solid pace over the next few years and GDP growth is slightly stronger than its historical average. It is too early to assess the future macroeconomic effects of the most recent sharp rise in asylum immigration. The Riksbank is monitoring developments closely and the forecasts will be revised accordingly as more information becomes available.

The situation on the Swedish labour market has continued to improve and unemployment fell to 7.2 per cent in the third quarter, which is lower than the forecast in September. This is driven by strong employment growth, while the labour force has basically remained unchanged. The decline in unemployment is expected to slow down slightly in the fourth quarter of this year and then fall slowly towards a level of just under 7 per cent towards the end of the forecast period.

Inflation is expected to be slightly lower in 2016 and 2017 compared with the forecast in September. This is partly due to more subdued inflation prospects abroad, linked to the uncertainty surrounding the global recovery, but also to a new assessment indicating that somewhat stronger demand will be required in order to stabilise inflation around 2 per cent once the positive contributions to inflation from the exchange rate diminish.

Inflation has continued to grow, although somewhat sporadically. CPI inflation was just above 0 per cent in September, but excluding the decline in mortgage interest expenses, i.e. CPIF, inflation was 1.0 per cent. Excluding energy prices, inflation was 1.8 per cent. Inflation is expected to rise as the recovery continues in Sweden and abroad. An important prerequisite is, however, that the krona does not appreciate too quickly and too much. In the forecasts, the krona is expected to remain at current levels for a time before strengthening at a slow rate.

The forecasts in the draft Monetary Policy Report are conditional on the government bond purchasing programme being extended by an additional SEK 65 billion so that purchases will amount to SEK 200 billion in total by the end of June 2016. The repo rate is left unchanged at -0.35 per cent but an initial raise in the rate will be deferred by approximately six months compared with the previous assessment.

§2. The economic situation and monetary policy

Deputy Governor **Martin Flodén** began by saying that he supported the draft monetary policy decision, the draft Monetary Policy Report and the forecast in the draft report.

First of all, he wished to remind everyone of an important starting-point for today's monetary policy decision, namely that inflation had been low for a long time. Over the last five years, CPI inflation has on average been 0.8 per cent, 1.0 per cent excluding the effects of lower mortgage rates and 1.0 per cent excluding mortgage rates and energy prices. The fact that inflation has been lower than the inflation target for a long time generates problems and risks. One risk is that economic agents have assumed an inflation rate of two per cent when setting prices, concluding wage agreements or taking out fixed-interest loans. A lower-than-expected inflation rate can then give rise to unbalanced economic development.

A second related risk is that economic agents have established other routines based on a certain average rate of inflation. As an example, Mr Flodén mentioned pension funds and

insurance companies, who guarantee a certain average nominal return, or banks and other companies, whose owners expect a certain nominal return on equity. If inflation is lower than planned, it will be more difficult to continue to generate a high nominal return without simultaneously taking on more risk. This is particularly true if the fall in inflation expectations pushes down long-term rates, said Mr Flodén.

A third risk mentioned by Mr Flodén is that persistent low inflation undermines the credibility of the inflation target. This can lead to less efficient price-setting and wage-formation, which ultimately can result in lower employment and weaker economic activity. Furthermore, price-setting and wage-formation that are not in line with the inflation target will make it more difficult for monetary policy to steer inflation towards the target. Monetary policy then needs to be more forceful and more focused on the development of inflation. The scope for pursuing a flexible monetary policy, that does not just consider inflation, will be more limited if confidence in the target is weak and inflation expectations are not in line with the target, according to Mr Flodén.

The long-term low inflation rate is hence an important starting-point for today's monetary policy meeting. Mr Flodén therefore thinks that the recent upward trend in inflation is a positive sign. This is particularly true of the core inflation rate, which is now close to two per cent. Once the effects of falling energy prices fade in the coming months, a clear upturn in other inflation measures is also expected. The fact that inflation is rising in line with the Riksbank's forecast reinforces the picture of the recent expansionary monetary policy having the intended effect.

But this can hardly be described as a robust upturn in inflation, according to Mr Flodén. A significant factor in the upturn is the depreciation of the exchange rate in recent years, and additional price increases are on their way at the beginning of next year as a result of higher taxes. This can to a certain degree contribute to a general increase in inflation if spillovers arise due to relative price adjustments or if inflation expectations rise as a result of higher observed inflation. Nonetheless, the exchange rate depreciation and the tax increases will probably lead to a temporary increase in inflation that is mostly temporary. For the inflation upturn to be sustained, monetary policy needs to remain very expansionary, according to Mr Flodén.

Developments in the Swedish economy have, apart from the sharp rise in asylum immigration, been in line with the forecast made at the last monetary policy meeting. The continued uncertainty surrounding developments in the global economy has, on the other hand, led to changes in market expectations of monetary policy abroad. The ECB has indicated that it may make its monetary policy even more expansionary. The Federal Reserve did not raise its policy rate in September and the market is no longer pricing an increase in 2015 as particularly likely. And certain other central banks, for example in Norway and China, have recently cut their policy rates.

The increasingly expansionary global monetary policy and market expectations that it will take even longer before foreign interest rates start to rise towards more normal levels naturally have implications for the Swedish exchange rate and hence for Swedish inflationary pressures and Swedish monetary policy. Since inflation expectations are relatively low and confidence in the inflation target has weakened after several years of low inflation, Mr Flodén is of the opinion that it is not possible to expect inflation to continue to rise towards the target on its own steam. If the krona strengthens too much in the short term, there is a palpable risk that the inflation rate will slow down or take a downward turn.

To counteract such a development, monetary policy in Sweden will also need to remain very expansionary for a longer time than we considered necessary at the last monetary policy meeting. Mr Flodén therefore supports the proposal to extend the government bond purchasing programme and to defer the forecast of the first increase of the repo rate.

Mr Flodén pointed out that it is not certain that these measures will be sufficient to maintain the upward trend in inflation. He therefore thinks it is justified to ask whether the repo rate should also be cut today. He does not think so, but instead supports the decision to leave the rate unchanged at -0.35 per cent. One reason for not advocating a rate cut is that the rate is at a historically low level and the effects of further cuts are uncertain. His assessment is still that the repo rate can be cut at least one more step and have a purposefully positive impact on inflation. But the fact that we are close to the interest rate's lower bound still means that fairly strong reasons are required to cut it further, according to Mr Flodén. And in the current situation, he does not think the reasons for cutting the rate are strong. He pointed out that the developments he has discussed today are mostly a question of continued uncertainty over international developments and expectations of global monetary policy remaining expansionary for a longer time. The appropriate response, he believes, is then to plan for a longer period of expansionary Swedish monetary policy and to also be prepared in the short term to make it even more expansionary if the conditions for rising inflation deteriorate.

If monetary policy needs to be more expansionary in the short term, Mr Flodén believes that a rate cut would most likely be an appropriate response. This does not mean that he excludes the option of taking other measures. The Riksbank is of course evaluating what effects the monetary policy instruments have had, and is analysing the potential effects of further rate cuts and asset purchases as well as other feasible tools. Such evaluations and analyses are constantly updated and the appropriateness of each tool can furthermore depend on market developments that lead to the need for a more expansionary monetary policy. There is therefore no reason to commit to any one particular tool in advance, according to Mr Flodén.

It is clear from his arguments today that he sees downside risks for the Riksbank's inflation forecast. It has been this way for a long time. But he believes that it is now possible to point to certain developments that can push up inflation more rapidly than in our forecast. One possibility is that the upturn in underlying inflation will be stronger than expected and, as a result of rising inflation expectations, will make it easier for companies who need to raise their prices more than in our forecast to do so. The rapid increase in asylum immigration could also lead to this. It is as yet difficult to quantify the macroeconomic effects of the increased number of asylum seekers, and the forecast in the draft Monetary Policy Report does not therefore take this into account. But in the short term, it is likely that activities linked to the reception of applicants for asylum are contributing to an increased demand and higher resource utilisation in the economy, and this may push up inflation. Mr Flodén stressed that a more rapid upturn in inflation would be welcome and need not lead to a less expansionary monetary policy.

Household indebtedness and rapidly rising housing prices are a recurring theme in the Executive Board's discussions. These are risks that must be managed, but targeted macroprudential policy or fiscal policy measures are required to subdue developments on the mortgage market along with more fundamental reforms of the housing market to create a better balance between supply and demand. As Mr Flodén has already pointed out, the low interest rates are exacerbating the risks, but this does not mean that a less expansionary monetary policy would alleviate them. Higher real interest rates in the global economy and higher inflation and inflation expectations in the Swedish economy are needed in order to push up interest rates to more normal levels. We cannot do much about global economic developments here in Sweden but we can push up inflation and inflation expectations with the help of an expansionary monetary policy, concluded Mr Flodén.

First Deputy Governor **Kerstin af Jochnick** began by saying that she shared the assessment of developments in Sweden and abroad presented in the draft Monetary Policy Report.

She supports the proposal to purchase additional government bonds to a value of SEK 65 billion during the first half of 2016 and of deferring the initial increase of the repo rate so that increases will not be made until the first six months of 2017.

She also supports today's proposal to keep the repo rate unchanged.

Ms af Jochnick notes that the global economy is continuing to improve while there is uncertainty in a number of areas regarding how strong the growth will be and how fast inflation will rise.

The Riksbank's forecasts for growth abroad have been revised downwards slightly and are in line with the forecasts of international analysts. The overall picture of the international economy is approximately the same as it was at the monetary policy meeting in

September but the fact that there is uncertainty regarding the strength of the growth in several large economies seems to have a restraining effect on growth and inflation.

As at the monetary policy meeting in September, she wishes to underline the importance of developments in the United States when it comes to assessing future economic development. As long as there is uncertainty regarding the development of US economy and the strength of the upturn in inflation, the US central bank will need to carefully consider the appropriate timing of a first policy rate hike. Economic development in China is also a major uncertainty factor in the global economy. It is difficult to assess how the ongoing rebalancing process affects the underlying strength of the Chinese economy. But the stimulus being implemented suggest a gradually slowdown in line with the Riksbank's forecast.

Developments in Europe continue to be weak even though many indicators point to stronger growth. This weak development means that Europe is vulnerable to unforeseen events. As is made clear in the draft Monetary Policy Report, it is still not possible to take stock of the macroeconomic effects of the large-scale refugee immigration currently taking place into Europe. It is still too early to quantify the effects on European and Swedish growth. In the short term, Europe faces major challenges to be able to take care of the refugees in a good way. The large-scale immigration can probably contribute to growth and welfare in the long term, but in the short term, Sweden and the rest of Europe have many challenges to deal with. Integrating new arrivals into Sweden successfully so that they in time can contribute to good growth is a matter of pressing importance.

As regards the Swedish economy, it is Ms af Jochnick's assessment that the expansionary monetary policy has contributed towards increasingly strong growth and towards the underlying trend in inflation now rising. The inflation forecast for this year, measured as CPIF excluding energy, has remained basically unchanged at 1.4 per cent since the Monetary Policy Report in July and the Riksbank's forecasts have been accurate in recent months.

The Riksbank has however revised its inflation forecast down slightly for 2016 and 2017. Slightly more subdued inflation prospects abroad have contributed to this. Furthermore, slightly stronger domestic growth is now deemed necessary to stabilise inflation around 2 per cent once the positive inflation impulses from the exchange rate abate. A central issue is therefore how strong the underlying inflation is, according to Ms af Jochnick.

Statistics from different components of the CPI clearly indicate, however, that inflation is on the rise. The assessment is that this upturn is not solely attributable to the weak value of the krona in recent years. Domestic demand also contributes to the upturn in prices, which can be seen in rising prices of services and many domestically produced foodstuffs.

The view that inflation is on the way up is also supported by the Economic Tendency Surveys of the National Institute of Economic Research from September and October that

report that expectations from the retail industry suggest that a slightly higher share than normal expect to raise sales prices in the next few months. Ms af Jochnick notes that this assessment is confirmed, to a certain extent, by the results of the Riksbank's own Business Survey, in which the industrial sector is still worried about developments abroad and companies that are particularly exposed to the commodity sector see a subdued price trend going forward. Retailers, on the other hand, predict price increases even though they do so with caution. The retail sector is facing higher costs, partly as a result of the strengthening of the US dollar but also due to increased staff costs.

In conclusion, it is Ms af Jochnick's assessment that the Swedish economy is developing increasingly well and that inflation is rising towards the target. Uncertainty remains regarding the strength of the upturn and how fast inflation is rising and as the Riksbank has said previously, low inflation over a long period of time is itself a risk that can have a negative impact on long-term inflation expectations.

In Ms af Jochnick's assessment of how expansionary monetary policy needs to be, she has this time taken into consideration the slightly weaker international development since September. Global inflation is still low, while monetary policy in both Sweden and the rest of the world continues to be very expansionary, and the ECB recently signalled the possibility of taking additional measures.

As long as the ECB pursues a very expansionary monetary policy with large-scale asset purchases every month, there will be major uncertainty surrounding the development of the krona, according to Ms af Jochnick. Her assessment is that the Riksbank's government bond purchasing programme has contributed to a stable development of the krona so far and she deems it reasonable that purchases continue in the first half of 2016. Too rapid an appreciation of the krona would make it difficult to stabilise inflation around 2 per cent in the coming years.

Ms af Jochnick stressed that if the inflation prospects were to deteriorate further, the Riksbank must continue to be prepared to make monetary policy more expansionary.

Finally, Ms af Jochnick wished once again to express her concern over the development of the housing market and households' rising debts. It is clear that the housing market is suffering from major structural problems that will take a long time to repair, while household debts continue to rise increasingly rapidly. She also pointed out that the IMF highlighted these areas in September after the latest Article IV Consultation and points to the need for reform.¹

Ms af Jochnick then referred to the latest issue of the Riksbank's Economic Review journal, in which the problems on the housing market and the interaction between monetary

¹ See <http://www.imf.org/external/np/ms/2015/092915.htm>

policy and macroprudential policy are further analysed.² The results of these analyses and the IMF's Article IV consultation reinforce the conclusions previously drawn by the Riksbank that the supply problems on the housing market are multidimensional and should be rectified by both utilising the present stock more effectively and building more homes. Furthermore, the analysis in Economic Review indicates that several research findings confirm that tools targeted at specific sectors of the economy are more effective than monetary policy at counteracting financial imbalances. Targeted measures are also more effective than [general capital add-ons at the banks](#).

The current development of prices on the housing market in certain parts of Sweden is alarming and it is therefore extremely important for the housing market to be reformed to function better, says Ms af Jochnick. In addition, there is a need to strengthen Finansinspektionen's mandate for macroprudential policy and to give the authority enough options to counteract financial imbalances.

To sum up, from a monetary policy point of view, things are going quite well for Sweden and inflation is on the way up, said Ms af Jochnick. However, she emphasised that the problems on the housing market and the risks of household indebtedness risk impeding the Swedish economy later on. In addition, refugee immigration is posing a major challenge for the Government, the Riksdag and a number of authorities, she said.

Deputy Governor **Per Jansson** began by stating that the Riksbank's expansionary monetary policy is continuing to have an effect. At the monetary policy meeting in September, we could note that the trend increase in inflation that had been underway since the start of 2014 had continued, he said. We could then feel pleased that inflation in July, measured in terms of the CPIF and the CPIF excluding energy prices, amounted to 0.94 and 1.54 per cent respectively. The most recent inflation outcome for September shows that this development is continuing. For CPIF inflation, the outcome was 1.00 per cent. Excluding the volatile energy prices, the outcome was 1.81 per cent. We have to go back to June 2010 to find such a high inflation figure.

Mr Jansson continued by pointing out that the Riksbank's short-term inflation forecasts have demonstrated a high level of accuracy in recent months and have been better than the market's forecasts. This is particularly noteworthy, he thinks, as the market constantly updates its short-term inflation forecasts, giving them a heavy informational advantage over the Riksbank's assessments. Even if this does not, of course, mean that the Riksbank from now on will always make better forecasts than the market, it is highly satisfactory to know that our work on improving our forecasting performance seems to be achieving results, he said.

² Guibourg, G, Jonsson, M, Lagerwall, B and C Nilsson, "Macroprudential policy – effects on the economy and interaction with monetary policy" and Emanuelsson, R, "Housing supply in Sweden" in Economic Review 2015:2, The Riksbank.

The development of inflation expectations is also emphasising that monetary policy is having an effect, Mr Jansson pointed out. Expectations of inflation one and two years ahead have successively increased over the year for most groups included in the surveys.³ As regards more long-term inflation expectations, there is now a stronger impression that the downward trend has been stopped. Expectations are still a few tenths of a percentage point below 2 per cent, but there is no longer any downward trend in confidence that the Riksbank will eventually meet its inflation target. He emphasised that this is very important and makes it slightly easier for the Riksbank to "see through" variations in energy prices and other more temporary effects on inflation in its monetary policy.

Mr Jansson observed that, all in all, the inflation outlook is thus continuing to improve. Nevertheless, he shares the assessment in the draft Monetary Policy Report that the Riksbank should take a decision at today's meeting to make monetary policy even more expansionary. He pointed out that the reasons for this are explained clearly in the draft report but that he would still like to emphasise a few aspects that he found particularly important.

One of these aspects is that the krona exchange rate has recently been characterised by fairly large fluctuations. About two weeks ago, the krona exchange rate against the US dollar was a little below 8.10, at the same time as the exchange rate against the euro was well below 9.30. Compared with the forecast in the September Monetary Policy Report, the krona exchange rate in KIX terms was then slightly less than 3 per cent stronger than expected. Today, KIX is close to the forecast from September and the exchange rates against the dollar and euro are at about 8.50 and 9.40 respectively.

It is probably not a wild guess that the development of the krona for some time has largely been due to the monetary policy decisions and communication of the Riksbank, Federal Reserve and ECB. The Federal Reserve's decision in September to postpone raising the policy rate and the ECB's recent signals that further easing may be considered cannot, of course, be ignored by the Riksbank. As we have said many times by now, a rapid appreciation of the krona would create serious risks for the inflation upturn, Mr Jansson reasoned.

Swedish inflation has been low for a long time and more long-term inflation expectations have shown a falling trend for several years. This means that there is now a great need to achieve rising inflation, with the use of the exchange rate over a transitional period, while awaiting domestic developments of costs and economic activity to be reflected in a more normal way in the inflation rate and make the upturn sustainable. If inflation continues to be too low, there is a risk that confidence in the inflation target will again begin to fall, illustrated by new declines in more long-term inflation expectations. This would seriously

³ According to TNS Sifo Prospera, see <http://www.prospera.se/inflation-expectations/>.

impede the upcoming wage negotiations and, taken together, thereby greatly impair conditions for the Riksbank to meet the inflation target over a reasonable time frame.

In light of this, one important purpose, according to Mr Jansson, for making monetary policy more expansionary at present is to counter an excessively rapid appreciation of the krona and to clearly demonstrate that the Riksbank has not thrown in the towel by any means as regards defending the inflation target, as some have speculated. In this context, he pointed out that, until a couple of weeks ago, he was completely certain that the Riksbank would also have to cut the repo rate by a further step at today's meeting. The weakening of the krona since then means, however, that he now shares the assessment that further purchases of government bonds in combination with a postponement of the initial interest rate increase form a balanced way of achieving a more expansionary monetary policy on this occasion.

Having said this, the development of the krona since the last monetary policy meeting at the start of September provides a clear example of how conditions can change very rapidly, said Mr Jansson. It is therefore important and positive that, in the Monetary Policy Report, we continue to be very clear that we are highly prepared to cut the repo rate further, even between ordinary monetary policy meetings.

He then recalled that, at the previous monetary policy meeting, he had described a couple of scenarios that could create a need for further monetary policy easing in Sweden.⁴ One fundamental element in these scenarios was that unease abroad would start to dampen economic activity to a greater degree than had been expected, ultimately triggering changes in monetary policy from both the Federal Reserve and the ECB. Even if economic activity does not yet seem to have slowed down to any great extent, enough uncertainty has been present to contribute towards both the Federal Reserve and the ECB changing their communication, which has been interpreted by many as meaning that they have started to revise their plans for monetary policy. Together with the Riksbank's new assessment that slightly stronger Swedish demand is needed to stabilise inflation around 2 per cent once the positive contributions to inflation from the exchange rate are dampened, this provides sufficient reason to support the more expansionary monetary policy proposed in the draft Monetary Policy Report, considers Mr Jansson.

What about future developments then? It is obvious that there are plenty of risks that could change the conditions for monetary policy quite dramatically. The risks of greatest relevance are, of course, those that can be expected to clearly influence inflation and inflation expectations, Mr Jansson said. An excessively rapid appreciation of the krona is one such risk that he had already addressed. On a more general level, the scenarios he discussed at the monetary policy meeting in September continue to be relevant. It is still conceivable that the Chinese economy will slow down fairly significantly, leading to major

⁴ See Minutes of monetary policy meeting September 2015, pp. 11–12.

spillover effects, although it may not be an immediate threat. The greatest risk in the short term is probably that the Federal Reserve and ECB will further revise their monetary policy plans in an expansionary direction, which could lead to strong appreciation pressures on the krona.

Mr Jansson concluded by commenting on the recent heavily increased asylum immigration to Sweden. This is creating significant challenges and a need to adopt various measures to help the new arrivals gain a foothold in Swedish society. However, if these people manage to become established on the Swedish labour market, they will bring great growth potential in the slightly longer term. In this context, the importance of a well-functioning housing market can hardly be overstated. When it comes to more short-term effects on the macroeconomy, the Riksbank and other analysts need to work further on their analyses and quantifications, considers Mr Jansson. However, it is obvious that this is not primarily a monetary policy issue. He is definitely not worried at present that this would lead to inflation getting out of control. And, if inflation should now become a little higher than expected, this will only be a good thing in principle, he thinks, considering the difficulties there have been in getting inflation to rise.

Deputy Governor **Cecilia Skingsley** began by explaining that she supports the analysis, the forecasts and the proposed monetary policy decision presented in the draft Monetary Policy Report. She notes that the Swedish economy is continuing to develop in line with the Riksbank's forecasts. Since the September meeting, two inflation outcomes have been published that have been completely in line with the forecasts. This could justify an unchanged repo rate at the day's meeting, according to her.

According to her, her desire to expand the monetary policy stimulation is instead a matter mainly of international factors. Uncertainty over global economic activity and inflation prospects continues to be high. At the previous meeting in September, she was cautious about the rapid stock market fall seen in the summer due to uncertainties and setbacks in China's economic development and a number of emerging market or commodity-producing economies. Ms Skingsley's assessment is that the cyclical risks surrounding many of these countries continue to be high, even if the Riksbank's forecast for China is already slightly lower than those of other analysts.

The forecast revision of KIX-weighted inflation and monetary policy is, in itself, minor this time, noted Ms Skingsley, but she still sees a risk that global inflation will remain low and that the monetary policy response abroad will therefore continue to be highly expansionary. Concrete examples of this can be seen in the hesitancy of the US central bank, the Federal Reserve, to start policy rate increases, as well as in the ECB's signals surrounding extending its stimulation programme. This global situation is contributing towards a revised inflation forecast from the Riksbank for Sweden, in which it is also assessed to require higher resource utilisation over a longer time for inflation to become

stabilised around the target. This, in turn, means that the repo rate needs to remain low somewhat longer.

Despite the trend development of Swedish inflation towards the 2 per cent target, Ms Skingsley supports safeguarding this trend by implementing further government bond purchases in the first six months of 2016 to a value of SEK 65 billion. This will be the fifth programme since purchases started in February of this year, and with the longest time frame yet. The previous programmes had shorter and smaller scopes to retain flexibility in relation to ECB purchases, but the ECB's clear signals on continued purchases allow the Riksbank to decide on a longer programme today, thereby creating longer predictability on the market concerning the Riksbank's actions. Should further stimulation be required, Ms Skingsley is open to taking a stance over new purchases of nominal government bonds or other securities.

After a closer analysis of the inflationary upturn in Sweden, it is clear that prices of goods and services with import content are rising, partly due to the last year's depreciation of the krona. However, prices of services are not developing quite as strongly and inflation expectations are still low, even if they are gradually rising. In an uncertain world, the Riksbank needs to remain prepared to act if the development of exchange rates risks becoming unfavourable from an inflation point of view. It is not difficult to imagine a scenario in which there arises a rapid trend on the foreign exchange market or in which the krona exchange rate reaches levels impairing the so-far beneficial inflation trend. The forecast already includes a gradual appreciation of the krona over the entire time period. But if the appreciation should continue due to circumstances abroad, Ms Skingsley sees not only the stimulation tools employed so far as viable but is also open to interventions on the foreign exchange market.

Under the present forecast repo rate path, the repo rate will continue to be negative for over 2.5 years. A low policy rate for an extended period is something that Sweden shares with many other countries. This creates a series of effects in the economy and experiences of this are limited, to put it mildly. There is no absence of risks or warnings concerning this policy. One of the conceivable effects of the monetary policy is increased risk-taking due to money being cheap and credit more easily available. Greater risk-taking within both companies and the financial markets is one of the effects desired to support the economic recovery, but when will increased risk-taking become excessive, she wondered. Neither economic nor financial theory has any sure answers to this.

Valuation measures of various types can provide indications of challenging values. But there is a lack of satisfactory analytical tools able to say anything certain in advance on whether or when corrections will arise. Neither is it possible to say anything certain about how serious price corrections will be for the economy in general. What is certain, on the other hand, is that, if banks and/or sufficiently many households are impacted by price corrections, the social effects will be painful and expensive and will probably endure for

many years. This is why, according to Ms Skingsley, it is vital to improve the resilience of the household sector by braking the ongoing rapid rise in lending. Macroprudential policy has the task of limiting financial imbalances and, for this to work in a confidence-inspiring manner, Finansinspektionen needs to have a clear mandate and tools to be able to restrict the risks for setbacks among households.

Governor **Stefan Ingves** opened by saying that he also agreed with the description of international developments and the Swedish economy in the draft Monetary Policy Report and that he supports the proposal for making monetary policy more expansionary by extending the purchases of government bonds by a further 65 billion kronor over the first six months of 2016. The day's meeting is leaving the repo rate unchanged at -0.35 per cent and it is only expected to begin to be raised once inflation has stabilised around the target of 2 per cent in the first six months of 2017. The repo rate increase has thus been deferred by six months, compared with the previous forecast. He sees the day's decision as well-balanced and considers that monetary policy can be made more expansionary in several ways, if necessary.

Furthermore, Mr Ingves notes that the international recovery is continuing but that uncertainty remains high and that growth is expected to be marginally weaker than in the previous forecast. Inflation is, however, rising slightly more slowly and monetary policy seems to be becoming somewhat more expansionary. However, there are also large regional differences. The improvement is clearest in advanced economies in which GDP growth is expected to become stronger due to continued expansionary monetary policies, low oil prices and a less tight fiscal policy.

In the United States, the economic upswing has been underway for a longer period. In the euro area, the recovery has been relatively stable despite significant concerns and the Riksbank expects economic activity to strengthen during the forecast period, among other reasons due to the ECB's highly expansionary monetary policy, which is expected to continue for a good while yet.

The slowdown in China has contributed towards dampening growth in other countries in Asia and in several commodity-producing emerging market economies. However, the authorities in China have adopted several stimulation measures, which should contribute towards the continuing gradual slowdown of GDP growth, as the Riksbank has been expecting. Several emerging market economies have noted capital outflows and weakened exchange rates. Uncertainty over domestic growth prospects due, among other causes, to lower commodity prices, as well as the future monetary policy in the United States, has played a part.

Mr Ingves noted that, all in all, GDP growth among Sweden's most important trading partners, measured in terms of the KIX, is expected to increase from 2 per cent this year to about 2.5 per cent in the years ahead.

Global inflation is still low and is close to zero in many advanced economies, but is expected to rise slightly as the price-dampening effects of last year's fall in oil prices recede. The international rate of wage increases is also expected to rise gradually as unemployment decreases. The KIX-weighted inflation rate is expected to rise gradually from 1.2 per cent this year to average 2.0 per cent in 2016 and 2017.

A KIX-weighted rate of inflation of around 2 per cent is of great importance to Sweden as the Swedish economy and inflation are affected by both import and export prices. The continued recovery abroad is expected to strengthen demand for Swedish exports, which will also benefit investment. In addition, the Riksbank expects continued strong growth in consumption. The improvement of the labour market as economic activity grows stronger is contributing to this. GDP growth is expected to be close to 3 per cent per year, on average, over the forecast period, which is slightly stronger than the historical average. Despite everything, in a world filled with all kinds of problems, relatively good times will prevail in Sweden if the Riksbank's forecast is correct.

Inflation in Sweden has been low for some time. Weak international economic activity and low commodity prices, particularly for energy, have played a large part in this. The krona strengthened after the financial crisis, which also contributed towards inflation being low. Over the two last years, companies' profit margins have also been lower than normal, particularly as a result of increased competition and uncertainty over the future global economy. The interplay of all of these factors has resulted in low inflation despite the highly expansionary monetary policies in Sweden and elsewhere.

But now the inflation trend is pointing upwards, Mr Ingves notes. Different measures of underlying inflation have increased since the end of last year and continued upward in September. The increase in underlying inflation is very broad and includes food, goods and services. In September, the outcome for the CPIF excluding energy was 1.8 per cent on an annual rate, the highest for just over 5 years.

The Riksbank expects the stronger international economic activity to contribute towards higher international prices in the period ahead and increased demand for Swedish goods and services. Increased domestic demand is also improving companies' possibilities for raising prices. The trend is the same as previously but, in the Riksbank's forecast, it is expected to take slightly longer until inflation stabilises around 2 per cent.

Mr Ingves also emphasised that there is still a large degree of uncertainty in the monetary policy considerations. The uncertainty that started to be noted a little over a year ago when the ECB first started to signal its plans for large-scale securities purchases has persisted longer than expected and will continue for some time yet. The global monetary policy outlook changed with the ECB's announcement of asset purchases at the start of the year and the Federal Reserve's plan to raise its policy rate. Uncertainty over international monetary policy still remains, and this indicates that the Riksbank should

stick to the strategy chosen then, be proactive and, if necessary, adopt unconventional monetary policy measures. The Riksbank needs to maintain this preparedness in its monetary policy at least until next summer, when we will know more about how the rest of the world is developing, not least as regards monetary policy, considered Mr Ingves. In light of this, Mr Ingves considered it reasonable to continue with purchases of government bonds in the first six months of 2016.

Mr Ingves noted that when the government bond purchases were introduced, the banks' deposits with the Riksbank were about SEK 60 billion. Once the Riksbank has completed the newly-announced bond purchases at the end of the first six months of 2016, deposits will have risen to about SEK 300 billion. This means that liquidity in the banking system, measured in this way, has increased fivefold over 18 months. If the increase in the money supply, M0, is instead examined, it amounts to SEK 235 billion, which is more than a doubling of the money supply.⁵ Combined with a negative repo rate, all in all, this creates a highly expansionary monetary policy.

At present, Sweden is in an extremely unusual situation, with a negative repo rate, strong GDP growth, which is expected to continue at a solid rate, and decreasing unemployment over the forecast period. But we are strongly dependent on events abroad, said Mr Ingves. One international factor of importance for domestic monetary policy remains the ECB's monetary policy. If the krona exchange rate should strengthen over the short term, this would present problems for Sweden. An earlier and faster krona appreciation than forecast by the Riksbank would risk contributing towards weaker inflationary pressures. Similar questions have been raised in a few other smaller European countries with their own currencies: Denmark, Switzerland and the Czech Republic. For these three countries and Sweden, this is very much a matter of trying to avoid domestic effects of the ECB's monetary policy. Interest rate levels are extremely low and are expected to remain so for a long time. It therefore becomes a matter of avoiding excessive appreciation in the short term and of reaching the domestic targets for monetary policy.

There is still a high level of preparedness to quickly make monetary policy even more expansionary if the inflation prospects deteriorate, even between the ordinary monetary policy meetings. The repo rate can be cut further and the Riksbank can buy more securities. Moreover, the Riksbank is prepared to lend to companies via the banks. The Riksbank is also prepared to intervene on the currency market. Mr Ingves noted that, so

⁵ The money supply, measured partly as the total of the banks' reserves in the Riksbank and partly as the general public's demand for banknotes and coins (i.e. M0), amounted to SEK 135 billion on 23 February 2015, just before the Riksbank started to purchase government bonds for monetary policy purposes. By the end of the first six months of 2016, the money supply measured in this way is expected to amount to about SEK 370 billion, which is SEK 235 billion more than it was before the Riksbank started government bond purchases. This corresponds to the Riksbank's acquisition cost for the Swedish government bonds purchased for monetary policy purposes (SEK 200 billion corresponds to the nominal amount, which is below the acquisition cost).

far, we have not needed to do this, but it is a measure that he would not hesitate to use if the krona should appreciate too rapidly for some reason.

Mr Ingves repeated what he had said on many previous occasions, that Sweden should actually have two policy rates, one for companies and one for households. Households are borrowing too much at present and the housing market does not function. Interest rates for households would have to be higher than interest rates for companies. With one interest rate level, it is not possible for monetary policy to affect the composition of GDP or an individual part of the financial market. The Riksbank manages the general level of interest rates and thereby also the exchange rate and inflation. Monetary policy must therefore be complemented by other measures making it more expensive or difficult for households to borrow. The mortgage market needs to be tightened up. If this does not happen, there are obvious risks for a very unfavourable development in which stability issues risk coming to dominate Swedish economic policy later on. In light of this, it is reasonable that the Riksbank tightens collateral requirements for mortgage bonds at the same time as purchases of securities do not include mortgage bonds.

Mr Ingves also noted that the number of asylum seekers arriving in Sweden has recently increased heavily. The Swedish Migration Agency's latest forecast, presented last week, expects more than double the number this year and continued very high refugee immigration next year. Over the next few years, this may involve strains for fiscal policy, labour market policy and integration policy, but, over the longer term, it should be positive for our situation with an ageing population.

For the Riksbank, it is important to make the best assessments possible of how conditions for monetary policy may be affected. The Riksbank will have to monitor events closely and our forecasts will be adjusted accordingly. Among other things, scenarios under different assumptions will have to be quantified to assess how resource utilisation and inflation may develop.

Deputy Governor **Henry Ohlsson** opened by saying that he also supports the proposals of extending the purchase of government bonds by SEK 65 billion over the first six months of 2016, of leaving the repo rate unchanged at the day's meeting, and of deferring the initial increase so that increases of the repo rate will not be made until the first six months of 2017.

Mr Ohlsson also noted that we live in unusual times and that his address this time would therefore not be a standard one. People are currently fleeing for their lives from wars and conflicts in the Middle East and North Africa. A large number of people are seeking sanctuary in Europe. We are seeing many of these people making their way to our country. The large number of asylum seekers is a challenge for Sweden. At the same time, these people mean great future opportunities with all the resources they are bringing

with them. Most of them are young and a not inconsiderable number are well-educated, said Mr Ohlsson.

Sweden is a small, open economy. The prosperity and welfare we can enjoy are the result of our historical opportunities to trade and otherwise interact with the rest of the world. During hard times in Sweden, many Swedes looked for better opportunities elsewhere and contributed to those societies. In other periods, people from other countries have made a living in Sweden and thereby contributed to our country.

It is primarily other policy areas that will be affected in the short term by the challenge brought by the large number of people seeking asylum in Sweden. But the conditions for monetary policy will not be unaffected.

In light of the misery and suffering taking place in front of our eyes, it may seem petty to worry about other economic policy tasks and objectives. But, at the same time, a well-designed economic policy is decisive for providing the economic preparedness and strength required to meet the challenges we see today. Against this background, Mr Ohlsson went on to discuss the conditions for monetary policy.

He noted that the rate of inflation is continuing to rise. Of course, monthly measures vary to some extent, but the trend remains clear. However, the rise towards the inflation target is encountering threats. He mentions international unease and decreasing world trade as two of these. Another challenge is that the ECB's monetary policy risks leading the Swedish krona to appreciate too much and too quickly. The expected annual rate of inflation five years ahead among money market participants was 1.8 per cent in October. Mr Ohlsson noted that this is close to but below the inflation target. For the credibility of monetary policy, it is important that expectations rise towards the inflation target, he said.

Mr Ohlsson noted that GDP growth is rapid at present. For the years ahead, the forecast in the draft Monetary Policy Report is that growth will remain close to the same level. Are we starting to approach full resource utilisation in the Swedish economy? At the same time, the population is increasing significantly faster than previously. This means that per capita growth is more modest now and in the forecast for the years ahead.

There are also other signs of spare capacity, says Mr Ohlsson. Even if unemployment has fallen in 2015, it remains too high. According to the Labour Force Surveys (LFS), non-seasonally adjusted unemployment was 6.7 per cent in September 2015. The corresponding figure for the same month one year previously was 7.2 per cent.

At the same time, there are several signs that spare capacity may not be so substantial. According to Statistics Sweden's economic statistics, the number of job vacancies as a percentage of the labour force today is at the same level as prior to the financial crisis. The number of unfilled vacancies is currently higher than before the financial crisis according to statistics from Arbetsförmedlingen (the Swedish Public Employment

Service). The Business Tendency Survey of the National Institute of Economic Research also shows an increasing shortage of labour. Furthermore, Mr Ohlsson opined that the conclusion is obvious - the Swedish labour market is characterised by major matching problems. We have high unemployment and yet also a labour shortage, he said.

When Mr Ohlsson weighs up all the factors existing today, he cannot reach any other conclusion than the need for a continued expansionary monetary policy. Mr Ohlsson's assessment is that the best way of doing this is to extend the purchase of government bonds. This will contribute towards bringing inflation towards the target and will also contribute towards raising inflation expectations.

In conclusion, Mr Ohlsson thus considered that extended purchases of government bonds by SEK 65 billion over the first six months of 2016 and a deferred initial repo rate increase so that the repo rate does not start to be raised until the first six months of 2017 form a well-balanced, expansionary monetary policy in the situation that the Swedish economy now finds itself in. Mr Ohlsson also said that he supports the Monetary Policy Report.

§3. Discussion

Deputy Governor **Per Jansson** explained that he wished to take up an issue related to the Riksbank's preparedness to do more. This is an issue that both Mr Ingves and Ms Skingsley took up in their contributions. He observed that, even though the Executive Board had long maintained that currency interventions are a completely viable measure, not particularly many market participants believe that the Riksbank will employ this tool, judging from the questionnaire surveys conducted. As the Riksbank increasingly lowers the repo rate and extends its purchases of government bonds even further, the likelihood that it will also become necessary to intervene on the foreign exchange market will obviously increase if there continues to be a need to make monetary policy more expansionary.

But, instead, the opposite seems to have happened on the market, said Mr Jansson. If anything, a decision by the Riksbank to intervene on the foreign exchange market is now considered to be less likely than earlier in the year. Is this because the market now sees a greater probability in the period ahead for inflation in line with the inflation target? Or is it because it sees greater scope than previously for the Riksbank to cut the repo rate and purchase more government bonds?

One further possibility is, of course, that the market is not really taking the Riksbank seriously, but believes that we would rather give up the defence of the inflation target than resort to interventions on the foreign exchange market, he continued. If the latter is the case, we obviously have some lessons to learn as regards communication - because the point of writing in a Monetary Policy Report, for the fifth time in a row, that we are prepared to intervene on the foreign exchange market can hardly be that foreign

exchange interventions should not be taken seriously as a conceivable monetary policy measure.

In conclusion, Mr Jansson wished to point out that he completely shares the view expressed by several of his colleagues regarding the need to manage the problems on the Swedish housing market and with household debt. This is also taken up in the draft Monetary Policy Report, in which the Riksbank emphasises that a number of measures need to be adopted, not least fundamental reforms of the housing market itself, aimed at finding a better balance between supply and demand. The facts that Finansinspektionen's mandate for macroprudential policy has still not been clarified and that the Administrative Court of Appeal in Jönköping again has objections to the introduction of an amortisation requirement, of course, do nothing towards reducing unease in this area.

Deputy Governor **Cecilia Skingsley** commented that many opinions had been expressed concerning the Riksbank's policy, the negative repo rate in particular.

The expression of opinions is nothing new, and forms part of an open social climate. Considered over the perspective of the 20 years we have had inflation targeting, opinions usually begin to multiply as soon as inflation is not in line with target, noted Ms Skingsley.

She considered that, on the whole, opinions on the current expansionary policy can be divided into two groups. The first group wishes to retain the monetary policy framework but change policy, while the second group wishes to change the framework. The latter group, who wish to change the framework, often propose a lower inflation target, and/or a restored tolerance interval around 2 per cent.

Even if Ms Skingsley has previously expressed regret over the removal of the tolerance interval, she feels certain that the policy pursued today would not be significantly different if the tolerance interval had been kept. The aim of the tolerance interval was to remind the rest of the world that there is occasionally reason for inflation to deviate from 2 per cent.

Ms Skingsley considers that the Riksbank is still living up to this intention by continually describing, in the Report and elsewhere, the reasons why it is taking time to fulfil this target. Reintroducing a tolerance interval today would still not change the Riksbank's efforts to return and stabilise inflation around the target through monetary policy.

Changing the target level because it is difficult to reach would not increase confidence. It is unclear to Ms Skingsley what advocates of this proposal hope to achieve through a lower inflation target. Sweden would never have achieved anchored price-setting and wage formation after the crisis of the 1990s if the Riksbank had changed the target as soon as target achievement became unsatisfactory.

The other type of criticism of the Riksbank is based on retaining the framework of the inflation target but argues that the policy needs to be changed. The implication is that

the Executive Board should accept a longer time to achieve target fulfilment. Skingsley observed that it is unclear what would be achieved in this case. What is missing here is an impact analysis from those desiring a less expansionary monetary policy in this situation. There will then be an impending risk that inflation expectations among companies and households will fall again, meaning that this is not the way to achieve higher, more normal interest rates.

Ms Skingsley pointed out that her own conclusion is that the negative interest rate applied by the Riksbank and the generally low interest rates in the economy are not unproblematic, but that she finds it difficult to see functioning alternatives to the policy being conducted. There could also potentially be major negative consequences if Swedish monetary policy were to deviate too much from that of the rest of the world, particularly through the risk of a stronger krona.

In conclusion, she also wished to remind the meeting that there are a number of other challenges that must be addressed by policy areas other than monetary policy. To start with, she wished to agree with her colleagues' statements at the meeting regarding the large number of people fleeing catastrophes, particularly in the Middle East. In addition, she considered it clear that structural problems are extensive in many countries in the wake of the global financial crisis, and that this is impeding growth. Furthermore, it seems to be difficult for technological innovations to be converted into higher productivity in the economy, even if this issue is extremely difficult to assess.

Deputy Governor **Martin Flodén** agreed with what Ms Skingsley had just said regarding the criticism of the inflation targeting regime and the Riksbank's monetary policy and reminded the meeting that he had developed his thoughts on the matter in a published speech a few weeks ago.⁶ A few things deserve particular clarification today, he said. First, the expansionary monetary policy is not a matter of the Riksbank trying to ensure that inflation is at two per cent all the time. It is natural and unavoidable that inflation will fluctuate around the target and the Riksbank has patience with such deviations. The Riksbank's challenge is thus not that inflation is low at the moment, but that inflation has been low for a long time and that we assess that a highly expansionary monetary policy is needed to get inflation to rise toward the target, he said.

Second, the formulation of monetary policy today is not dependent on the Riksbank focusing on any specific inflation measure. As he mentioned earlier, average inflation over the last five years has been 1.0 per cent measured in terms of the CPIF including and excluding energy prices, and only slightly lower measured in terms of the CPI. Just now, CPI and CPIF inflation are lower than CPIF inflation excluding energy prices, but this is a

⁶ Flodén, Martin, "Sweden needs its inflation target", speech at Fores, 13 October 2015.

temporary effect that hardly affects the Riksbank's monetary policy planning for the period ahead.

Finally, Mr Flodén agrees that the low interest rate environment is problematic and associated with risks. But it does not follow from that observation that there are any easy solutions. Cutting the inflation target would definitely not solve any problems.

Governor **Ingves** then summarised the discussion. He noted that the Executive Board agreed on the picture of economic prospects and the inflation outlook described in the draft Monetary Policy Report.

The expansionary monetary policy conducted by the Riksbank is contributing towards economic activity strengthening and a clear upward trend in inflation since last year. At the same time, however, there remains considerable uncertainty regarding the strength of the global economy and international monetary policy. But most indications are that the expansionary monetary policy will continue for a longer period. The Riksbank must take this into account.

Compared with the forecast in September, inflation is expected to be slightly lower in 2016 and 2017. But CPIF inflation is nevertheless expected to be close to 2 per cent in 2016. Without additional measures from the Riksbank, the rise in inflation could slow down, partly as a result of the Swedish krona appreciating earlier and more rapidly than forecast. In order to underpin the positive development in the Swedish economy and to safeguard the robustness of the upturn in inflation, monetary policy needs to be slightly more expansionary.

The Executive Board agrees unanimously to extend the purchases of government bonds by SEK 65 billion over the first six months of 2016. The Executive Board also agrees unanimously to leave the repo rate unchanged at -0.35 per cent and to defer an initial repo rate increase for about six months as compared with the assessment from September.

There remains a continued high level of preparedness to make monetary policy even more expansionary if inflation prospects should deteriorate, for example if the exchange rate strengthens faster than expected by the Riksbank. Several members here discussed various conceivable measures, such as purchases of other securities and currency interventions. The monetary policy pursued aims to limit the risks of continued low inflation and thus to safeguard the role of the inflation target as nominal anchor for price-setting and wage formation.

Several members also commented on the current discussion of the inflation target. Finally, several members of the Executive Board again emphasised that there is a great need to promptly clarify mandates and tools within the area of macroprudential policy

and to adopt measures to manage risks on the housing market and risks linked to household debt.

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

The Executive Board decided after voting

- to adopt the Monetary Policy Report according to the proposal, Annex A to the minutes, and
- to hold the repo rate at –0.35 per cent and that this decision would apply from Wednesday 4 November 2015
- to publish the Monetary Policy Report on Thursday 28 October.

§5. Decision to purchase government bonds

The Executive Board decided in accordance with the proposal, Annex B to the minutes.

§6. Other decisions

The Executive Board decided

- to publish the decisions under §4 and §5 at 9.30 a.m. on Wednesday 28 October 2015 with the motivation and wording contained in a press release, and
- to publish the minutes of today's meeting on 10 November 2015, at 9.30 a.m.

§4 - 6 were verified immediately.

Minutes by:

Sophie Brauner

Verified by:

Stefan Ingves

Martin Flodén

Per Jansson

Kerstin af Jochnick

Henry Ohlsson

Cecilia Skingsley



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