



# Monetary policy minutes

November 2020



## Summary

*At the monetary policy meeting on 25 November, the Executive Board of the Riksbank decided to expand and extend the asset purchase programme from SEK 500 billion up to SEK 700 billion up until 31 December 2021 and to hold the repo rate unchanged at zero per cent.*

During the autumn, a second wave of coronavirus infection has swept over many countries and restrictions and recommendations have been tightened once again. It is clear that the economy is now slowing and the economic outlook and inflation prospects for both Sweden and other countries have been revised down. The board members noted that the pandemic is unpredictable and that there is still considerable uncertainty surrounding economic developments.

The crisis has also had noticeable effects on inflation, which is now very low. Several members also pointed out that the development of inflation is difficult to interpret. They alluded to significant measurement problems due to substantial changes in consumption during the crisis and it not being possible to measure some prices. The forecast is that it will take time before inflation returns more permanently to the target. In this context, the members noted that it is nevertheless positive that long-term inflation expectations continue to be close to 2 per cent and emphasised that it is important for economic agents to have confidence in inflation eventually returning to the target.

Several members expressed concern for the potential long-term effects of the crisis, not least as regards the labour market with the risk of permanently high unemployment. The nature of the crisis, with some sectors being particularly hard-hit, means that fiscal policy has an important role to play in mitigating the effects.

The Riksbank's measures have been important for keeping interest rate levels low and enabling lending to continue to function. The members agreed that monetary policy will need to be expansionary for a long time to facilitate the recovery and enable inflation to rise towards the target. All members wanted to leave the repo rate unchanged at zero per cent and increase the pace of asset purchases in the near term. A majority of the board members considered it appropriate to expand the asset-buying envelope by SEK 200 billion to an overall nominal amount of up to SEK 700 billion, to extend purchases until 31 December 2021 and to include treasury bills in the programme. One member was of the view that, although expanding asset purchases is a good course of action, an expansion of SEK 100 billion would have sufficed. Another member did not think that purchases needed to be expanded in the current situation and considered monetary policy to already be sufficiently expansionary. Neither did these two members think it was justified to include treasury bills in the purchasing programme.

It was emphasised that there is still preparedness to adjust monetary policy in an appropriate manner in order to support economic developments. Several members also pointed out that the repo rate can be lowered if it is considered an effective measure.



# MINUTES OF MONETARY POLICY MEETING

## Executive Board, No. 10

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DATE: 25 November 2020  
TIME: 09:00

PRESENT: Stefan Ingves, Chairman, remotely  
Cecilia Skingsley, remotely  
Anna Breman  
Martin Flodén, Deputy Chairman  
Per Jansson, remotely  
Henry Olsson, remotely

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

Louise Bergström (§ 1-3a), remotely  
Joel Birging (§ 1-3a)  
Elsa Boyer de la Giroday, remotely  
Vesna Corbo, remotely  
Hans Dellmo, remotely  
Charlotta Edler, remotely  
Dag Edvardsson, remotely  
Mattias Erlandsson, remotely  
Pia Fromlet  
Johan Grip, remotely  
Anders Gånge, remotely  
Jesper Hansson  
Marie Hesselman, remotely  
Jens Iversen, remotely  
Peter Kaplan, remotely  
Maria Kindborg  
Pernilla Meyersson  
Ann-Leena Mikiver, remotely  
Marianne Nessén, remotely  
Mikael Perneman (§ 1-3a), remotely  
Olof Sandstedt, remotely  
Per Selldén, remotely  
Åsa Olli Segendorf, remotely  
Maria Sjödin, remotely  
Fredrik Wallin (§ 1-3a), remotely

It was noted that Elsa Boyer de la Giroday and Pia Fromlet were assigned to prepare the minutes of the monetary policy meeting.

## §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. Since the monetary policy meeting in September, developments have been eventful. Equity indices both in Sweden and the euro area and in the United States have risen and sentiment can generally be described as positive. However, the increased spread of infection and reintroduced restrictions in combination with the presidential election in the United States created some turmoil up until early November. After election day in the United States and positive news about vaccines, equity markets have been strong. In general, developments have been characterised for the last few weeks by a tug-of-war between concern about the pandemic in the near term and brighter growth prospects slightly further ahead. Just now, optimism on equity markets seems to be dominating. The stock market is also benefiting from the better-than-expected reporting season for many companies and from continued stimuli from the world's central banks.

Developments on fixed-income markets have generally been stable during the autumn. News on increased infections, the US presidential election and announcements about vaccines have been in focus at the same time as several central banks have signalled that more monetary policy stimulus is to be expected. After the presidential election and positive announcements about vaccines, yields on US government bonds have risen somewhat, but have been held back by expectations that the Federal Reserve will need to make monetary policy even more expansionary. Yields on German government bonds are still low as a result of new lockdowns in Europe increasing the demand for safe assets in combination with the European Central Bank (ECB) signalling increased stimuli in December. Trade in Swedish government bonds has been stable and yields are following developments abroad to a certain extent. Demand for Swedish bonds is high and the Riksbank's purchases are contributing to the stable level of interest rates on the market.

Even for other asset types, such as covered bonds, corporate bonds and municipal bonds, the interest rate development has been stable since the monetary policy meeting in September. The Riksbank's measures are continuing and are having an effect. Interest rates on these asset types are low. Interbank rates are also at low levels for the year and there is ample liquidity in the system.

On the foreign exchange market, the Swedish krona has appreciated during the autumn, and since the meeting in September, the strongest level of the trade-weighted krona index (KIX) has

been noted. This is largely due to a widespread depreciation of the US dollar as a result of positive sentiment among investors. Several analysts think that the krona may appreciate further in 2021 if a vaccine becomes available and the global recovery picks up. So far, there have been no clear effects on the krona of an increased spread of infection in Sweden.

The majority of the major banks expect the Riksbank to leave the repo rate unchanged and expand asset purchases at today's monetary policy meeting. Forward pricing continues to indicate a probability of a repo rate cut.

### **The current monetary policy drafting process – new data and forecasts**

**Olof Sandstedt**, Head of the Financial Stability Department, presented price developments on the housing market and the situation in the banking system.

According to data from October, housing prices in Sweden have increased by just over 10 per cent compared to the same month last year. The price increase is particularly evident on the market for detached houses, where prices have risen by about 13 per cent, although prices of tenant-owned apartments have also increased noticeably.<sup>1</sup> Risk premiums on covered bonds have continued to decrease and are now at lower levels than before the coronavirus pandemic. This is also true of the interest rate on interbank loans in US dollars without collateral, USD LIBOR, and STIBOR, which reflects the interest rates on short-term interbank loans in Sweden. In combination with the generally low level of interest rates and a bank deposit rate of around zero per cent, this means that banks' funding costs are low on the whole. The fact that banks have capital in excess of the capital requirements means that they are also well-able to maintain credit supply to households and companies. During the autumn, bankruptcies in Sweden have been on historically normal levels, probably due to the extensive support measures. Were the crisis to become deeper and more prolonged, however, bankruptcies may increase and affect banks' credit losses, which are important to keep track of going forward.

**Mattias Erlandsson**, Deputy Head of the Monetary Policy Department, presented economic developments since the monetary policy meeting on 21 September and the monetary policy measures 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 regarding the forecasts and the monetary policy assumptions at meetings on 5, 12, 13, 16 and 20 November. The draft Monetary Policy Report was discussed and tabled at a meeting with the Executive Board on 18 November.

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<sup>1</sup> This refers to prices according to the HOX, which is published by Valueguard.

Mattias Erlandsson presented some issues that were discussed in particular during the drafting process. These centred above all on the economic effects of the pandemic in the short and the long term, considering a new wave of infections and positive news about vaccines, and a rapid economic recovery during the summer. There is an article in the draft Monetary Policy Report that discusses the possible long-term economic effects of the pandemic. The draft report also contains articles about the effect of climate change on the Riksbank's work and about the distributional effects of the Riksbank's measures.

After a calmer summer, the spread of infection began to increase again in September and October. Data that is relatively comparable over time, such as the percentage of positive tests and the number of hospital admissions, indicates that the extent of the pandemic in Europe has been virtually as large as it was during the spring. The worsened situation has caused many countries to reintroduce tighter restrictions and, to a varying degree, to close down their economies. The draft Monetary Policy Report assumes that the spread of infection in Sweden and abroad will gradually subside during the first quarter of 2021 and that the tighter restrictions will start to be eased during the second quarter. The pandemic has thereby worsened more than was assumed in the forecasts in September, which has consequences for the assessment of economic developments in the near term. It also illustrates the major uncertainty surrounding the recovery in the global economy.

Economic statistics covering recent developments are limited and the statistics reported during the autumn generally indicate slightly stronger developments than expected. But Swedish data published at a daily or weekly frequency, such as card payments, indicate a more dramatic slowdown over recent weeks in sectors most affected by tighter restrictions.

Translated into GDP, the new restrictions imply a new downturn in GDP over the next few quarters. It is primarily households' consumption of services that is falling while industry, for example, is not expected to be affected as severely as during the spring. The exact size of the downturn and how it will be distributed over the quarters is difficult to assess, but the forecast implies negative growth in both the last quarter of this year and the first quarter of next year. However, the assessment of the recovery in the Swedish economy is unchanged a few years ahead compared with the monetary policy meeting in September. Although the economy is just now being clearly affected by the second wave, there has also been positive news about the development of a vaccine against COVID-19 and experience from the first wave of the pandemic shows that the economy in both Sweden and other countries can recover relatively quickly after the easing of restrictions.

Expansionary economic policy has been important to soften the effects of the crisis and will also play a central role for the recovery going forward. Monetary policy has helped to keep down the interest rates for households and companies, despite the increased uncertainty, and to ensure good access to credit. Fiscal policy is well-suited to providing support to companies and employees in particularly exposed sectors and, as the spread of infection has once again accelerated, the Swedish Government has presented further temporary support measures.

Weak demand in the near term is also expected to affect the labour market and, after having been relatively unchanged since the summer, unemployment is predicted to rise somewhat in the months ahead. The forecast for unemployment a few years ahead has not been adjusted compared with September.

The prospects for inflation a few years ahead are also expected to hold up compared with the September forecast. The agreements so far concluded during the ongoing wage bargaining round have resulted in the agreed labour costs in the coming years increasing at approximately the same rate as in the period 2017-19. The Riksbank has not revised the forecast for future wage growth to any great degree compared with the previous assessment. The outcomes for CPIF inflation have so far been low this year. The latest outcome, for October, was 0.3 per cent. The low inflation is partly due to lower energy prices this year than last year. The more underlying inflation rate has also softened. However, it has been difficult to measure inflation this year and the shifting consumption pattern and difficulty in measuring the prices of certain products are expected to have some effect on the measured rate of inflation for several years to come. The decline in the economy has been severe and it will therefore take time before inflation is persistently close to the target again. The assessment is that CPIF inflation will continue to be low next year, when the stronger krona will also help to dampen price growth, and thereafter gradually rise and be close to 2 per cent towards the end of the forecast period.

The forecasts are based on the monetary policy that the Monetary Policy Department judges will gain a majority in the Executive Board at today's monetary policy meeting. The draft monetary policy involves expanding the envelope for asset purchases by SEK 200 billion, to a total nominal amount of up to SEK 700 billion and extending the programme until 31 December 2021. In addition, it is proposed to increase the pace of purchases in the first quarter of 2021 compared with the last quarter. The repo rate is held unchanged at zero per cent, and the Riksbank will continue to offer liquidity within all of the programmes launched so far this year. Details of the proposal for expanded asset purchases can be found in Annex B to the minutes. It is worth noting that the proposal for the first quarter of 2021 means that the Riksbank will also purchase treasury bills and can buy sovereign and municipal green bonds. It is proposed that the Executive Board also considers sustainability when deciding on purchases of corporate bonds.

**Per Sellén**, Senior Risk Analyst at the General Secretariat, gave an account of the Risk Division's assessment of the proposed monetary policy measures described in Annex B to the minutes. Today's decision refers to the same type of assets that have been included in earlier purchasing programmes but with the addition of treasury bills and some green bonds. The programme is expanded from SEK 500 billion up to SEK 700 billion and extended by six months until 31 December 2021. Another new aspect is that the Riksbank, when purchasing corporate bonds from January 2021 onwards, will only purchase bonds issued by companies deemed to comply with international standards and norms for sustainability, so-called norms-based negative screening.

It is the Risk Division's assessment that the decision to expand and extend the asset-buying programme implies increased operational and financial risks but that these are manageable overall. Some additional attention should be attached to the purchases of treasury bills, especially to begin with. This is because the purchase of treasury bills is a new element in the Riksbank's asset-buying programme. Norms-based negative screening is expected over time to help mitigate risks associated with the expanded asset-purchasing envelope.

### **§3b. The economic situation and monetary policy**

#### **Governor Stefan Ingves:**

I support the proposals for new monetary policy measures as proposed in the draft Monetary Policy Report and I support the forecasts described. Unfortunately, the spread of infection has recently gained new impetus in Sweden and many other countries, to a large extent in the northern hemisphere, and restrictions have been introduced and revised to restrict the spread of infection. Growth prospects look less favourable and uncertainty has increased. To strengthen support from monetary policy further in a time of great uncertainty and contribute to the eventual start of an economic recovery, new measures are needed from the Riksbank. I therefore support the proposal to expand the envelope for asset purchases to SEK 700 billion and to extend the purchase programme so that it covers the whole of 2021. With these measures, the Riksbank is demonstrating that there will be comprehensive monetary policy for a long time to come. The increased uncertainty also serves as a justification for us to increase the rate of our asset purchases in the first quarter of 2021 as compared to quarter four of this year. Taken together, our policy aims to improve the conditions for an economic recovery and to ensure that inflation, after a while, stabilises around our target of 2 per cent. The greatest economic risks are on the downside, which is also a good argument for doing more now. If it should turn out that economic

developments become more favourable than we expect, they will be significantly easier to manage in that situation than in the opposite one.

At the last monetary policy meeting in September, our assessment was that we had entered what could possibly be regarded as a recovery phase after the large fall in economic activity seen in the spring. In fact, international growth in the third quarter became higher than we had expected in the September report. However, the increased spread of COVID-19 seen in recent weeks means that this recovery looks like being interrupted. The forecasts for growth over the coming six months have therefore been revised downwards. The KIX-weighted level of GDP is actually expected to fall in the final quarter of this year, followed by weak growth in the first quarter of next year. After this, as the spread of infection is expected to slow down and restrictions gradually to be lifted, the recovery is expected to pick up again, which is itself an optimistic forecast.

We do not have the final results for 2020 yet, but the coronavirus pandemic seems to be leading to the greatest downturn in global GDP for several decades, greater than in the global financial crisis. KIX-weighted GDP is expected to fall by almost 6 per cent in 2020, a little more in the euro area, a little less in the United States. Among the economies for which we make forecasts, it is only China that does not seem to have been affected by a second wave of infection and that is expected to have positive growth for the full-year 2020. Despite the comprehensive measures adopted by governments and central banks, it will take time before the effects of the pandemic have worn off and a clear view of how the global economy is developing emerges.

In Sweden, GDP fell heavily in the second quarter, but growth got started again in the summer. According to an early compilation of quarterly accounts, GDP grew by over 4 per cent in the third quarter. The recovery also continued some way into the autumn but, when the spread of infection accelerated in Sweden too, various kinds of restrictions were tightened, which affected economic activity. Figure 2 in the Monetary Policy Report gives an example in the form of an indicator of restaurant visits, which have fallen heavily in recent weeks. Our forecasts for growth have been revised down. For both the fourth quarter of this year and the first quarter of next year, falling GDP is expected. For the whole year 2020, Swedish GDP is expected to fall by 4 per cent, a slightly larger fall than the one we had expected in September. However, in 2021-2023, GDP growth averaging about 3 per cent per year is expected, once the spread of infection has slowed down and the recovery has started. This is an optimistic forecast, at the same time as there is genuine uncertainty about what will happen next. This is no normal economic slowdown we are currently going through.

Unemployment increased heavily in the first half of 2020, by over 2 percentage points according to the LFS. In recent months, we have seen a stabilisation and unemployment fell somewhat in October to 8.6 per cent (seasonally adjusted). But despite this stabilisation, the situation is worrying. Firstly, the new restrictions mean that unemployment will probably rise again in the near term, to a peak of 9.6 per cent in the first quarter of next year. Secondly, in the longer term, it is likely that the pandemic will have long-lasting negative effects on the labour market, and unemployment is expected to be higher at the end of 2023 than it was before the pandemic broke out.

Inflation for the full-year of 2020 is expected to be low. Partly, this is connected to falling electricity and fuel prices, and partly to lower demand in the wake of the restrictions. Inflationary outcomes are difficult to interpret in that consumption patterns have changed dramatically over the year. Some prices in the CPI cannot be measured in the same way as previously, as hardly any transactions are taking place, so instead they have been replaced by technical assumptions that may affect the inflation statistics in unexpected ways. We will be dealing with these measurement problems for a longer period and there is reason to bear this in mind when interpreting individual inflationary outcomes. Our focus is still that inflation should be 2 per cent, even if this may take time. If our forecast is correct, inflation will be close to zero in the period ahead. This will certainly lead to a number of discussions and there is not much we can do about it. At the same time, all the monetary policy measures adopted this year, which have contributed to holding the credit supply up and have benefited economic activity, are aimed at bringing inflation up towards the inflation target.

The draft Monetary Policy Report paints the picture of an economic recovery that has come to a halt, but which will get started again in the spring of 2021. However, the situation is difficult to assess and there are risks, primarily on the downside, as I see it. It is difficult to know how long the restrictions will remain in place, which of course depends on how the spread of infection develops. In this context, we have recently received good news in the form of progress concerning a vaccine. But many things will have to happen before a vaccine will be available on such a scale that the spread of infection can decisively be halted. It is also difficult to know whether the pandemic will more permanently affect corporate and household confidence. At the same time, the pandemic may have effects that can benefit growth in the longer term, as new ways of communicating, consuming and producing have emerged in a short time.

Page 20 of the draft Monetary Policy Report summarises the monetary policy measures that the Riksbank has decided on since the pandemic broke out in March. The Riksbank offers liquidity with three and six-month maturities to the monetary policy counterparties at very low interest rates, stands ready to provide low-interest loans to the banks for onward lending to companies,

and purchases securities issued by the government, municipalities and companies. With these measures, we have contributed to the credit supply continuing to function throughout the pandemic and to interest rates being held low. The programmes that have not been fully utilised have also been important, in that they act as a kind of insurance and contribute to counteracting possible uncertainty over the liquidity supply in the Swedish economy. They also provide us with improved contingency to act if need be. Everything can quickly be scaled up if necessary.

Many of our measures are new, but they closely resemble the measures adopted by other central banks, now and previously. These are basically a matter of measures to carry out a classic task for central banks – ensuring that there is no lack of clarity concerning access to liquidity, money, in the economy. To ensure that this is the case, a series of different measures may be needed, from asset purchases to various changes to the terms upon which central banks lend to the banks. In 2020, the Riksbank has developed new tools to secure a strong supply of liquidity in various ways, which keeps interest rates low.

In addition to human suffering, the pandemic also entails a major economic shock. To manage this disruption, it is important to make full use of the strength of total economic policy, in which both monetary policy and fiscal policy need to be utilised to the full. The low public debt in Sweden entails good conditions for using fiscal policy to continue to take forceful measures.

At the same time, it is important that the measures now being adopted are compatible with the structural changes that will be necessary in the long term. In Sweden, our experience tells us that, as a small, open economy, our prosperity depends on our ability to adapt to changes abroad and to maintain our competitiveness. In the face of this crisis, it is important not to lose focus on the structural transformations that we know benefit competitiveness – all forms of education and investment in a long-term productive capital stock. With its measures, the Riksbank is now ensuring that there is plenty of liquidity in the economy, but it is up to others to ensure that the low interest rates and good supply of credit are used effectively, with an eye on the future.

To sum up, I support the draft Monetary Policy Report. Unfortunately, the spread of infection has not slowed down and the recovery we saw at the start of the autumn seems to have been broken. To provide further support in a time of renewed uncertainty, monetary policy needs to do more. I support the proposal to expand the envelope for asset purchases to SEK 700 billion and to extend the purchase programme so that it covers the whole of next year. I also support the proposal to leave the repo rate unchanged at its low level of zero per cent. Our measures will remain in place as long as they are needed and there is no reason to pull out too quickly. Altogether, these measures entail a monetary policy that is aimed in full at attempting to

alleviate the negative effects of the coronavirus pandemic on the Swedish economy, to support the recovery and to ensure that inflation is moving towards 2 per cent.

Finally, allow me to touch on two outstanding issues that have not been main points in my contribution.

Our forecast includes a limited appreciation of the Swedish krona and this appreciation forms a baseline in our overall forecasting methodology. From earlier experience, we know all too well that making exchange rate forecasts is difficult and, should the krona appreciate substantially in relation to our forecast, the route to our inflation target will become harder, meaning we will have to think carefully about whether such a development would require an even more expansionary monetary policy.

Under the present conditions, monetary policy is tied to the development of the housing market. Partly because interest rates are low, it is advantageous to borrow and households' stock of debt is growing. In addition, the market for mortgage bonds forms one of the cornerstones of the financial sector. At the same time, various imbalances persist on the housing market, which is contributing to rising risks for individual households and the financial system as a whole. For a number of different reasons, a poorly functioning housing market is a risk factor in the Swedish economy and, if these risks are realised, both monetary policy and the general development of the economy will probably be affected. It is unfortunate that deficiencies on the housing market have not been addressed for a long time and, if this continues, further macroprudential policy measures will be needed once the economic situation has normalised, even more so insofar as the structural deficiencies have not been remedied.

### **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. True to habit, I will comment on the current inflation picture and inflation prospects, and give my view on the monetary policy situation.

Since the monetary policy meeting in September, we have received two new inflation outcomes, for September and October. The October outcome for CPIF inflation was 0.3 per cent. For a little over a year, energy prices have constantly made a negative contribution to the development of inflation and this is also the case for the two new outcomes. Excluding energy prices, the inflation rate in October amounted to 1.1 per cent. Both with and without energy prices, inflation was slightly overestimated in October, by about two tenths of a percentage point.

In my opinion, and as I have emphasised previously, there are good reasons to largely disregard energy prices when assessing the longer-term trend, or underlying, inflation rate. These prices

are now being substantially influenced by pandemic- and weather-related effects, which can eventually be expected to diminish in strength. However, the pandemic is not only having temporary effects on inflation as a result of considerable downward pressure on energy prices, it is also strongly dragging down some services prices in particular. Such effects can be softened to a certain extent by measures of underlying inflation. The ability of the measures to soften this type of effects will deteriorate, however, the longer the pandemic goes on. And this is despite the fact that a pandemic is fundamentally always a temporary phenomenon.<sup>2</sup>

Against this backdrop, it is perhaps not so surprising that most of the Riksbank's measures of underlying inflation are now starting to fall somewhat, seven to eight months into the pandemic. With the new outcomes, the median of the measures is at 1.1 per cent, compared to 1.6 per cent in conjunction with the calculation in the September report. The two measures that have been shown in an empirical evaluation to be best at predicting future CPIF inflation, UND24 and CPIFPC, both remain relatively stable at 1.6 per cent.<sup>3</sup>

Perhaps the most important part of the inflation picture at the moment is inflation expectations. That inflation is currently below target does not actually matter so much, as long as it rises going forward and economic agents also expect it to do so. As it will take a number of years before the economy has recovered after the pandemic, it is above all a case of watching over longer-term inflation expectations so that they do not deviate too much from the target.

Since our last meeting, Prospera has published two new outcomes of inflation expectations, the monthly surveys of money market participants for October and November. No new larger quarterly survey, that also measures expectations among labour market organisations, has been published. The next one is not until 9 December. The longer-term, five-year inflation expectations of money market participants were slightly less than a tenth of a percentage point higher in both October and November than in September, and at the highest level since March, just below 1.8 per cent.<sup>4</sup> Although this is not much of an upturn since the spring, it is important and pleasing that the trend is going in the right direction – that a pandemic cannot jeopardise a central bank's basic ability to deliver on its inflation target seems fortunately to be an established insight among money market participants.

Long-term inflation expectations can also be estimated from bond yields. It can be noted that expectations measured in this way have risen too since the spring. But my opinion is still that

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<sup>2</sup> There are also other more fundamental measurement problems caused by the pandemic, including significantly changed consumption patterns or a lack of prices for certain goods and services. Such fundamental problems can obviously not be resolved by measures of underlying inflation.

<sup>3</sup> See the article "Why measures of core inflation?" in the Monetary Policy Report, October 2018.

<sup>4</sup> I am focusing as usual on the expectations for CPI inflation rather than for CPIF inflation, as the response rate for CPIF inflation is partly very low.

these should be interpreted cautiously in light of the extensive central-bank interventions in fixed-income markets. If new turmoil were to emerge on financial markets, the reliability of such estimates would also decrease further. As this means that Prospera's measurements of inflation expectations will be of great significance in the assessment of whether the Riksbank is succeeding to uphold the role of the inflation target as an anchor for Swedish price-setting and wage formation, it would be desirable to supplement these measurements with other indicators of long-term confidence in the inflation target. Such indicators can be both quantitative and qualitative. As it is basically a matter of establishing whether individual price- and wage-setters use the 2-per cent target as a basis or not, I believe that micro data here is more promising than macro data. One option could be to do more comprehensive surveys aimed at various relevant agents. I encourage our skilled economists at the Monetary Policy Department to address this very important issue and report back to us in the Executive Board as soon as possible.

My summary of the inflation picture is that it has deteriorated slightly compared with in September. But it is worth highlighting that the emphasis here is on "slightly". The outcomes have been lower than expected and there are now also signs that the pandemic is having some more noticeable effects on underlying price development. It is pleasing, however, that there have so far been no indications of a lack of confidence among economic agents in the Riksbank's ability to eventually bring up inflation to the inflation target – on the contrary, there is a weak upward trend in long-term confidence in the target. Another factor is that the measures of underlying inflation that are best at predicting CPIF inflation going forward are still at reasonable levels of over 1.5 per cent.

That the changes in the inflation picture are not unduly large is also reflected in the proposed forecast revisions in the draft Monetary Policy Report. The largest revisions refer to the development of CPIF inflation in the coming year, where the forecast has generally been revised down by three to four tenths of a percentage point. For inflation excluding energy prices, the forecast adjustment in the same time perspective is about half as large, which shows that lower energy prices are an important explanation for the weaker prospects for CPIF inflation in the near term. Another explanation, which also affects the assessment of inflation excluding energy prices, is the unexpectedly low outcomes in September and October. After the summer of 2021, the forecasts revisions are very small as a rule. This means that inflation, just as in the reports in July and September, will gradually rise and towards the end of the forecast period, from about the summer of 2023, be close to the inflation target. The Riksbank's expansion of the envelope of its asset purchases and extension of the buying programme, as well as the increased purchasing rate in the near term, will facilitate the economic recovery and ultimately also improve the conditions for meeting the inflation target.

The latter provides me with a natural transition into my comments on the monetary policy situation. The most important aim of the Riksbank's measures during the pandemic has been to prevent an already serious crisis being exacerbated by poorly functioning credit supply and rising interest rates for households and companies. This has succeeded well so far and as the second wave of the pandemic is now upon us, I see it as both reasonable and appropriate to somewhat increase the degree of insurance that our support measures constitute for the economy. The fact that we are doing this highlights our very active monetary policy efforts and illustrates our preparedness to swiftly make changes, with the perspective that it is better to do too much than too little in this difficult situation. My guess is that we will see similar reasoning and measures from the ECB in a few weeks' time.

But why are we not cutting the policy rate? Wouldn't that also be an effective measure, as part of the package, in the current situation? As I have already touched upon, the inflation picture and inflation prospects have indeed worsened somewhat. This could be an argument for including a rate cut in today's package of measures. But, at the same time, the pandemic has picked up pace again. I consider this to be an argument against traditional demand stimuli, including repo-rate cuts. If people stay at home because they are ill or worried about the spread of infection, such measures will quite simply not be particularly effective. In addition, if implemented too early, these measures may be perceived as contradictory and confusing. Even more importantly perhaps, the inflation picture and inflation prospects have not deteriorated very much. The decisive factor for me here is that there are so far no signs of any more serious confidence problems for the inflation target. Taking all this together, I stand by my previous view that the best course of action at this juncture is to leave the repo rate unchanged, so as not to unnecessarily waste the ammunition we have left.

Having said this, I would like to emphasise that a repo-rate cut is for me absolutely not a measure that cannot become relevant going forward. If there is a need to make monetary policy significantly more expansionary, it is on the contrary the measure I believe in the most – trying to combat long-term confidence problems for the inflation target using only asset purchases is not something I believe can be done. And, personally, I find it difficult to understand why we would not wish to activate the interest-rate weapon if the credibility of the inflation target were in jeopardy. Indeed, we have all made it clear that zero per cent is not the lower bound for the policy rate. But what then do we mean by this, one may ask, if we do not even choose to lower the rate when the anchor in price-setting and wage formation is starting to slip – that is, when the very engine of inflation targeting is about to break down.

In the context, it is also important to point out that we are not talking here about a “deeply” negative repo rate, that is, going down to a negative rate of several per cent.<sup>5</sup> The latitude I envisage we have is close to the –0.5 per cent we have had before, possibly somewhat lower, perhaps –0.75 or –1 per cent. For such negative rate levels, all our previously conducted analyses, which basically say that the various negative side-effects can be expected to be relatively minor, should apply. It may also be worth emphasising that, for anyone worried about the effects of a long-lasting negative interest rate, it is best to advocate as rapid a cut as possible – for this should imply the most favourable conditions for being able to increase the rate again soon.

### **First Deputy Governor Cecilia Skingsley:**

I support the draft Monetary Policy Report, including holding the repo rate unchanged and the proposed new repo rate forecast. I also support the decision in Annex B to the minutes to expand the asset-buying programme up to SEK 700 billion and to extend the programme until the end of 2021.

Unfortunately, the pandemic is developing in the wrong direction at the moment. Tighter restrictions have been reintroduced both in Sweden and abroad and this will have consequences for the economic recovery. There is great uncertainty over global economic developments and the recovery can be expected to take time. The forecasts in the draft Monetary Policy Report suggest some deterioration compared with the report from September and these could have been even more extensive without the assumption of even more expansionary fiscal and monetary policies over the next few years.

But there also exist possibilities for a faster recovery than in the Monetary Policy Report’s main scenario. I am thinking of the recent positive news concerning a vaccine, which I will return to later.

Inflationary outcomes since the September meeting have been unexpectedly low in Sweden and the forecast for inflation in the near term has been revised downwards. However, just as in the preceding months, the outcomes must be interpreted with great caution, as measurement problems become significant when household consumption behaviour changes strongly in the wake of the pandemic. Looking abroad, it also becomes clear that many countries are reporting large fluctuations in their inflation figures.

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<sup>5</sup> Kenneth Rogoff exemplifies “deeply negative interest rates” with a rate level of –3 per cent or lower (<https://think.ing.com/opinions/the-case-for-deeply-negative-interest-rates/>).

Considering the large fluctuations in all forms of macro data since the pandemic became a fact, it is positive that movements in various indicators of inflation expectations in Sweden have been relatively limited.

But there is strong reason to be vigilant. In December, CPIF inflation is expected to be reported at a level close to zero per cent, and it will take until the end of 2021 before CPIF inflation more permanently rises above 1 per cent again. Having CPIF inflation return to over 1 per cent is an important step as inflation will then again be within the variation band. The variation band exists as a reminder that inflation fluctuates for various reasons and, this year and next year, its primary driver will be the shock from the pandemic. But this does not subtract from the need to have a monetary policy that continues to provide support to the economy with the aim of stabilising inflation around 2 per cent.

The various measures implemented by the Riksbank are contributing to the functioning of the credit supply and to keeping the interest rates faced by households and companies low. One example of these measures is the Riksbank's programme for purchases of corporate debt securities, which I would now like to examine in more detail.

In recent years, the importance of the corporate debt market in Sweden has grown and it now stands for over one-third of the loans raised by non-financial corporations. The corporate debt market is thereby the next largest source of loans after bank loans.

When the market for both commercial paper and bonds encountered serious problems in March and the funding costs rapidly increased, it became vital to act. The issuers on these markets are mainly larger companies with good possibilities for exchanging issues of securities for bank loans. It would therefore have been an unwelcome course of events if larger companies pushed out smaller companies that also had a need to borrow from the banks. In addition, smaller companies generally have less or no access to alternative forms of funding. A corporate bond market that continues to function was, and still is, vital if the banks' lending to small and medium-sized enterprises is not to become impaired. Despite the Riksbank's promises in March for a purchase programme for both commercial paper and corporate bonds, issuance fell for several months, while the banks' lending to larger companies increased (see Figure 6 in the draft Monetary Policy Report). Had the Riksbank refrained from acting in the corporate debt market, this development would have been even worse. It could be asked whether another response from the public sector would have been better than the one chosen by the Riksbank, such as offering the funds that closed during the most turbulent period some kind of support, for example. However, funds are just one of several types of investor and such a choice would probably not have been enough to stabilise the corporate debt market sufficiently.

Looking forward, I see, as I mentioned in the introduction, great uncertainty over economic developments. One positive circumstance was that the data on economic activity became better than expected in the third quarter, both in Sweden but also in other countries, where the restrictions were eased. This suggests that the recovery may be rapid when the restrictions are eventually eased. However, the longer the pandemic lasts, the greater the risk will be for more lasting damage to the economy, not least the risk that unemployment will become entrenched on a high level.

Various economic policy measures are acting to limit the damage from the pandemic in the manner described in the draft Monetary Policy Report. As the prospects for a recovery have deteriorated since the September report, I support the proposal for an expanded asset purchase programme. Of course, we could have considered waiting or only increasing the programme by a smaller amount. But I see advantages in having a clear plan for the whole of 2021.

Should developments take another course, we stand prepared to adapt monetary policy using our various tools. It is also entirely possible that the policy rate may need to be lowered. Scope for policy rate cuts is, however, limited and needs to be used when it can be expected to have the greatest effect.

The economic policy being implemented is necessary but risks building up vulnerabilities. For example, many countries are heavily increasing their indebtedness. In comparison, public indebtedness in Sweden is a smaller cause for concern, but we have our own vulnerabilities, which I will not describe here although I will remind you that they are described in our Financial Stability Reports. However, I would like to emphasise that these vulnerabilities are currently subordinate to the need to counteract the immediate economic consequences of the pandemic.

One important factor for the recovery is how soon vaccination can get started. For both individual people and the economy as a whole, there are large advantages in a rapid and complete vaccination.

Should logistical problems, economic reasons or other causes lead to vaccination taking too long, the general public will not look well on a situation in which these obstacles are perceived as bureaucratic and basically surmountable. Apart from human suffering, a delay will also make households more cautious than they already are and impede the economic recovery.

The single most important measure in the near term is thus organising so that vaccination can be carried out swiftly and the regions can be provided with the medical resources they may need.

## **Deputy Governor Henry Ohlsson:**

To begin with, I would like to say that I support expanding asset purchases by up to SEK 200 billion until the end of 2021. These monetary policy measures are aimed at keeping interest rates in Sweden low and ensuring that the credit supply in Sweden functions. And I also support the proposal to hold the repo rate unchanged at zero, and to hold the repo-rate path horizontal during the forecast period.

The COVID pandemic has completely overshadowed all other social issues in Sweden and abroad in 2020. In terms of the number of fatalities, the pandemic culminated in Sweden at the end of April/beginning of May 2020, when an average of 86 people have lost their lives to COVID-19 every day.<sup>6</sup> The corresponding figure from mid-August to the start of October was 2 fatalities per day, on average. The number of COVID-19 fatalities has subsequently started to rise. At present, the number has reached about 16 COVID-19 fatalities per day but is rising. The number of people in intensive care due to COVID-19 peaked in the second half of April with just over 500 people. The number fell towards the end of September and reached about 16 people in intensive care at its lowest point. The number of people in intensive care then started to increase. At present, the number has reached about 120 people in intensive care due to COVID-19 but is rising.<sup>7</sup> It is, of course, worrying that COVID-19 has started to rise again. At the same time, we are far from the figures we saw in the spring of 2020.

According to the draft Monetary Policy Report, Swedish GDP is expected to fall by 4.0 per cent this year compared with 2019. This is a downward revision in relation to the forecast in the September Monetary Policy Report, when the fall in GDP for 2020 was forecast at 3.6 per cent. The last time we saw a decline of this order was during the financial crisis in 2009, when the decline was 4.3 per cent. During the 1990s crisis, Swedish GDP declined for three years in a row. The total decline was then 3.8 per cent (1991-1993). These comparisons show the seriousness of the current decline.

The CPIF has been the target variable for monetary policy since 2017. The most recent inflation figure in October showed an annual rate of increase in the CPIF of 0.3 per cent. The moving average over twelve months for CPIF inflation is at 0.7 per cent. We are a good way from the target of 2 per cent.

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<sup>6</sup> Based on data from the Public Health Agency of Sweden, I have calculated the average number of fatalities over the last 30 days on a day-to-day basis.

<sup>7</sup> Based on data from the Intensive Care Register, I have calculated the average number of intensive care cases over the last 30 days on a day-to-day basis.

At the same time, inflation statistics are difficult to interpret under the prevailing economic crisis.<sup>8</sup> For some groups of services, there are, quite simply, no prices. Instead, the missing prices need to be estimated. Furthermore, household consumption patterns have changed considerably. This means that the actual consumption pattern of today deviates heavily from the consumption pattern assumed via the weights used when the consumer price index is calculated. Current research shows that imputations and changes in consumption patterns entail inflation statistics tending to underestimate the actual development of the cost of living.<sup>9</sup>

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 8.8 per cent in October 2020. This was a substantial increase of 1.7 percentage points in relation to the same month one year earlier, when the corresponding figure was 7.1 per cent. Unemployment insurance fund members can be considered to have a relatively strong position on the labour market. In October 2020, the percentage of openly unemployed members of unemployment insurance funds was 4.1 per cent. The same month one year earlier, the share was 2.9 per cent. The increase over the past year has been a good 1.2 percentage points. Moreover, the upturn in unemployment is broad. All groups are being affected, strong as well as weak.

The increased unemployment caused by the economic crisis is of course undesirable. Many of the unemployed are well-equipped and will have good opportunities to obtain work when economic activity increases again. Others will need labour market policy measures to reinforce their human capital so they can get work.

Sweden is a small, open economy. We are dependent on economic activity and politics abroad. During the spring, draconian measures have been taken around the world, measures that have strongly reduced economic activity. These measures decreased in strength over the summer. We saw signs of recovery in many parts of the world. Lockdown measures have returned during the autumn. However, these are not as comprehensive as in the spring. I also note that lockdown policies have led to demonstrations and social unrest in a number of places.

The world trade in goods decreased by up to just over 15 per cent at an annual rate in some months in the spring. The most recent available monthly measurement for August 2020 shows a decrease of just over 4 per cent at an annual rate. It is an open question how world trade will develop given the lockdowns that have taken place over the autumn.

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<sup>8</sup> I discuss this in greater detail in my speech "Monetary policy during the economic crisis", which was held in June 2020.

<sup>9</sup> See Diewert, W.E and Fox, K.J. (2020), "Measuring real consumption and CPI bias under lockdown conditions", NBER Working Paper Series, No. 27144 and Cavallo, A. (2020), "Inflation with Covid consumption baskets", NBER Working Paper Series No. 27352.

I will now 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 around 1.7 per cent despite the ongoing economic crisis.

During the spring and summer, the Riksbank decided on a number of monetary policy measures. When financial markets do not function as normal, the credit supply in the economy is threatened. The measures have two effects. The credit supply has been facilitated, as the Riksbank has in this way supplied more money to the financial system. Once the amount of money has increased, market rates have been kept low. In other words, the result is both a secure credit supply and expansionary monetary policy.

Economic activity can be expected to fall, both in Sweden and abroad, this winter. Inflation in Sweden is now well below target. My assessment is therefore that the Riksbank should take further measures to make monetary policy even more expansionary. I therefore support the proposal to expand asset purchases by up to SEK 200 billion until the end of 2021.

To sum up, I support expanding the asset purchases by up to SEK 200 billion until the end of 2021. And I also support the proposal to hold the repo rate unchanged at zero, and to hold the repo-rate path horizontal during the forecast period. Additionally, I support the economic picture and the forecasts in the draft Monetary Policy Report.

Dixi!

### **Deputy Governor Anna Breman:**

I support the proposed decision to extend the asset purchases during the second half of 2021, to increase the purchasing rate in the first quarter of 2021 and to introduce norms-based negative screening when purchasing corporate bonds. I also support keeping the repo rate unchanged and the proposed repo-rate path in the draft Monetary Policy Report. However, I am entering a reservation against the decision to expand the asset purchases by SEK 200 billion and against the inclusion of treasury bills. I instead advocate an expansion of SEK 100 billion, which I will justify in more detail below.

Let me first comment on developments since the last monetary policy meeting. The spread of infection has increased and we now find ourselves in the midst of a second wave of the pandemic with almost 60 million confirmed infections worldwide. Over 1.4 million people around the world have lost their lives. In Sweden, the positive trend we saw during the summer has been broken. The spread of infection, pressure on the health service and number of deaths are all increasing again, causing substantial human suffering.

The recovery in the Swedish economy that began in May has run out of steam. The third quarter was somewhat stronger than expected. This is positive, but is overshadowed by an increased spread of infection and new recommendations clearly pointing to a decline in the Swedish economy during the fourth quarter. However, we have had positive news that several vaccines are on the way and may be distributed on a large scale next year. We need to weigh the slowdown in the near term against the possibility of a stronger recovery in the longer term and consider what this means for our price stability mandate.

In recent months, inflation measured in terms of the CPIF and the CPIF excluding energy has been somewhat lower than expected, while inflation expectations are more or less stable. Inflation outcomes should still be interpreted with caution as consumer habits have changed, which is not reflected in the composition of the CPI basket, and some prices need to be estimated. These measurement problems will probably persist for some considerable time to come. We therefore need to see through short-term fluctuations in inflation and focus more on economic developments as a whole. Providing support to a healthy economic recovery is the best way of safeguarding price stability in the long term.

Since the last meeting, the krona has appreciated, which is expected to have a certain negative effect on inflation. Let me be clear that I do not consider this appreciation in the krona and the risk of it strengthening further in the near term to be an argument for expanding asset purchases. With a floating exchange rate, fluctuations of this nature in the exchange rate are to be expected. There may be situations in which very substantial and lasting changes in the exchange rate provide justification for the Riksbank to act to safeguard price stability, but I do not feel we are close to such a situation at present. In most situations when an appreciation of the exchange rate makes target achievement more difficult in the short term, it is even more important to consider different measures of inflation that reflect domestic prices. An example is the domestic market price index in Figure 44 in the draft Monetary Policy Report, which shows striking stability at an annual rate of increase close to three per cent despite the pandemic. As the domestic market price index only refers to goods manufactured and consumed in Sweden, however, the measure should be complemented with other measures to gain as accurate a picture of domestic inflationary pressures as possible.

Let me now comment on the monetary policy considerations at today's meeting and my reservation against the size of the asset purchases and the inclusion of treasury bills.

On repeated occasions, I have emphasised that this is an unusual economic crisis and that it is important for our measures to be adapted to the challenges posed by the coronavirus pandemic. The monetary policy measures should be effective and proportional. By effective, I mean that

that they clearly contribute to an economic recovery and to achieving the inflation target. Proportionality refers to the expected effect of the measures being weighed against any negative side-effects, including unnecessary risks on the Riksbank's balance sheet.

I wish to be clear about the following: My primary reason for supporting the extension of asset purchases is that the decline in the real economy will now be deeper and the recovery more prolonged than previously. If and when a vaccine arrives, it is important that the economic recovery is not hampered by rising interest rates for households and companies. Extended asset purchases until the end of 2021 will help to sustain a low interest rate environment throughout the economy and ensure continued efficient credit supply, and thus support the recovery and help inflation rise towards the target. The extension of the purchases is therefore both effective and proportional.

However, it is not clear that the size of the purchases needs to be so substantial. The interest rates on the assets in the current buying programme can probably be kept on low levels by reinvesting principle payments and by making smaller purchases than those now being proposed in the draft decision. My assessment is therefore that SEK 100 billion would suffice to keep interest rates low throughout the economy during the second half of 2021 and provide support to the recovery and inflation. Neither do I consider it justified to include treasury bills. The scope of current asset purchases, that is, the inclusion of different types of assets, reflects a need to have a low interest rate environment in the whole economy. Including treasury bills at this juncture does not provide significantly more support to an economic recovery beyond the support provided by the government bond purchases. My assessment is that this is not an effective tool in the current situation.

If conditions deteriorate even more than we currently expect, and if inflation does not also start to rise towards the target, we are prepared to take new decisions at short notice. In such a scenario, I would not hesitate to expand the purchases further and consider other measures such as a rate cut and/or improved terms for funding-for-lending programmes offered to banks. The appropriateness of the various measures will depend on the prevailing circumstances. The actions of other policy areas may also be important.

As in previous meetings, I would like to emphasise the important role to be played by fiscal policy in this crisis. The impact of the corona crisis differs across sectors and households. Fiscal policy can provide targeted measures to the households and companies hardest-hit by the crisis. Structural reforms would also be welcome to combat the long-term negative effects of the crisis, such as persistent unemployment.

Finally, I would like to stress that I welcome the opportunity to take the decision to carry out norms-based negative screening in our purchases of corporate bonds. We have a legal obligation to consider risks in the purchase of assets and norms-based negative screening will help us in this regard. The best outcome would be if all companies comply with international norms and standards so that we do not need to exclude any of them. In addition, measuring and reporting greenhouse gas emissions associated with the purchase of corporate bonds also helps us to have a high degree of transparency in our measures. This also highlights the importance of better data at the company level related to climate risks. For more information about the Riksbank's climate transition strategy and compliance with our mandate, I warmly recommend the article in the draft Monetary Policy Report.

In summary, I would like to stress that I see a need for expansionary monetary policy for a long time to come and for a high level of preparedness to use all our tools should conditions deteriorate more than expected. However, I am entering a reservation against the size of the expanded asset purchases and against the inclusion of treasury bills. I advocate instead an expansion of SEK 100 billion. I do, however, support the proposal to extend the programme during the second half of 2021, to leave the repo rate unchanged and to introduce norms-based negative screening when purchasing corporate bonds.

Thank you – and I would also like to thank the Riksbank staff for their dedication and perseverance throughout this crisis.

### **Deputy Governor Martin Flodén:**

I support the assessment of the present situation, as well as the forecasts and analyses presented in the draft Monetary Policy Report. However, I do not support the conclusion for the monetary policy decision. I am entering a reservation against the decision to expand the programme for asset purchases and against including treasury bills in the programme. More precisely, I enter reservations against points 1 and 2b in Annex B to the minutes. I support the proposal to hold the repo rate unchanged and the other parts of the annex to the minutes.

Economic developments abroad and in Sweden continue to be marked by the coronavirus pandemic. Many economic outcomes were surprisingly positive in the autumn, but it was also clear that the economies were being held up by comprehensive support measures. The spread of infection has recently increased again and new restrictions have been introduced. Although there has been encouraging news suggesting that vaccination programmes may soon be initiated, it will take time for a large proportion of the population to be vaccinated.

And even if we will then be able to see an end to the direct disruption to the economy of the pandemic, businesses will hardly make a rapid return to the situation we previously regarded as normal. Many companies are now making major losses and are being forced to take on increasing amounts of debt. The pandemic is also affecting our behaviour and our preferences, which will cause structural changes that may become problematic during a transitional period.

In combination with the continued spread of infection, this means that economies will require support and stimuli for many years to come. Monetary policy will therefore continue to be expansionary, both in Sweden and abroad. But great responsibility will fall on the countries' fiscal policies. The pandemic has had a very heterogeneous impact across sectors and households, and fiscal policy can, in various ways, direct its support to where the need is greatest.

And fiscal policy has already reacted with comprehensive stimulation and guarantee programmes. Now that the spread of infection has picked up again, this support will be extended. In many countries, public debt is continuing to increase rapidly from already high levels.

Weak balance sheets with high indebtedness in both the private and public sectors will characterise the period after the pandemic. Inflation is low just now in most economies. In addition, there is much to indicate that inflation will remain low for a few years to come, despite the comprehensive economic support measures. However, in the longer term, the large debts form a clear upside risk for inflation. It is therefore not completely surprising that long-term inflation expectations have been relatively stable, even though inflation has fallen rapidly.

I will now move on to my monetary policy considerations. The Riksbank's measures throughout the pandemic have been important and have resulted in a low level of interest rates and continued access to credit for companies and households. The consequences of the pandemic will impede the Swedish economy for a long time to come. The Riksbank therefore needs to ensure that the level of interest rates remains low for many years. In this way, monetary policy will facilitate an economic recovery, which will contribute to inflation ultimately rising towards the target of 2 per cent.

So far, I agree with the reasoning behind the proposed monetary policy decision in the draft Monetary Policy Report. Nevertheless, my objections to the proposed decision are many.

I will now present a long list of objections to the proposed decision. But the length of the list is not a good indication of how far from the proposed decision I stand. No point on my list would alone justify a reservation to the proposed decision. It is the list as a whole that leads me to enter a reservation. In addition, my opinion is that I have the same view of the need for a continued

expansionary policy as the rest of the Executive Board. My reservation thus concerns how we can best design monetary policy to achieve this.

First, the Riksbank has already decided on a comprehensive purchase programme, running until mid-2021. The programme has had a positive impact on interest rates and lending. Yields on safe assets, such as government bonds, are low at all maturities. For example, the yield on all government bonds with maturities up to 10 years is negative and thus lower than our policy rate. The yield curve is thus low and flat. Additionally, yields on riskier and less liquid assets are also low. For example, yields on mortgage and corporate bonds are lower than before the pandemic. This is contributing to low lending rates to both households and companies. My assessment is that the repo rate sets a boundary for how low all of these rates can fall. In my opinion, it is unlikely that further purchases will be able to push the rates down to noticeably lower levels. I therefore deem that a promise today for larger asset purchases will not make monetary policy more expansionary in the near term.

Second, I consider it uncertain whether asset purchases in the autumn of 2021 will make monetary policy more expansionary then. When our previously-announced purchase programme expires in mid-2021, the Riksbank will own a large proportion of Swedish nominal government bonds and have a large holding of mortgage bonds. The Riksbank will also be a significant actor in the fairly illiquid secondary markets for municipal and corporate bonds, as well as real government bonds. I therefore consider it likely that the Riksbank will be able to hold yields on these assets at low levels by only buying assets to compensate for redemptions, or at least by purchasing new assets to a lesser extent than is now proposed in the draft decision. I do not rule out the possibility that substantial asset purchases may be justified but I do not see it as a main scenario.

Third, I consider that communication concerning a comprehensive purchasing programme until the end of 2021 may generate more uncertainty than clarity. It is good that central banks are transparent and provide guidance on their policy rules and future plans. But the Riksbank is now a major actor on the bond markets. At present, it is not possible to predict how purchases next autumn will affect these markets. Instead of promising purchases of a certain magnitude, I think that our communication should focus on what we wish to achieve. Consequently, I would rather see us communicating that, for a long time to come, we will keep the repo rate low, ensure that the level of interest rates otherwise remains low, and make sure that lending continues to function. The tools we need to use to achieve this and the possible purchase sums that will be relevant can be assessed on an ongoing basis. Increased asset purchases may hold the level of interest rates down if risk, liquidity or term premia start to rise. But if the level of interest rates as

a whole needs to be pushed down from the current level, it would probably be better to cut the repo rate instead.

Fourth, there are situations in which we can inspire confidence by demonstrating strong initiative and preferring to do too much rather than too little. It was important that the Riksbank acted rapidly and forcefully with major support programmes at the outbreak of the pandemic in the spring. The pandemic is now getting worse again and some sectors are being very badly impacted, but the actors and markets that the Riksbank can directly affect are still not in such an acute crisis situation as they were in the spring. Our asset purchases must be balanced both against the undesirability of a central bank dominating the markets and excessively affecting price mechanisms – for example by generating abnormally low risk premia – and against large purchases leading to increased credit and, above all, interest rate risk on the Riksbank's balance sheet.

Fifth, I do not consider purchases of treasury bills to be an effective measure. There are various hypotheses around how and why quantitative easing works. Easing presumably acts via several different mechanisms and in different ways depending on the economic situation and institutional conditions. But perhaps the most important mechanism is that central banks, via asset purchases, are able to remove risk from the markets. This mechanism hardly works if the Riksbank purchases government securities with short maturities. These securities are liquid and secure, and lack term premia. Among other things, this can be seen by the way they are already being traded at rates that are lower than the Riksbank's repo rate. If our ambition is to bring short-term market rates for safe assets down, this can best be achieved by cutting the repo rate.

Sixth, uncertainty over developments in the near term is high. The spread of infection has increased substantially in recent weeks and new restrictions have been introduced. I therefore consider it positive that we are laying down a plan for asset purchases in the first quarter of next year that remains extensive. I advocate the same purchase plan for the first quarter of next year as in the proposed decision, with the exception of the SEK 10 billion intended for the purchases of treasury bills. However, conditions on the financial markets can change rapidly, in which case new measures may be needed from the Riksbank. The Riksbank therefore also needs to be prepared to adjust monetary policy before the next ordinary monetary policy meeting. But the expanded programme does not make us better equipped to react if conditions change in the near term. We are now making decisions on the rate of purchases for the first quarter in 2021. Consequently, we need to take a new monetary policy decision to purchase more in the near term, regardless of whether or not we expand the programme today.

Instead of expanding the programme, I advocate that we communicate clearly that we will ensure that the level of interest rates remains low for a long time to come. In more concrete terms, this would involve us keeping to the previously announced programme of asset purchases for SEK 500 billion until the middle of next year and communicating our preparedness, even in the near term, either to extend the purchase programme, cut the repo rate or otherwise react to developments that otherwise would jeopardise the expansionary impact of monetary policy.

## §4. Monetary policy decision

The Executive Board decided

- to hold the repo rate unchanged at zero per cent and that this decision shall apply with effect from Wednesday 2 December 2020,
- to adopt the Monetary Policy Report according to the proposal, Annex A to the minutes,
- on an expanded and extended programme for the Riksbank's purchases of assets for monetary policy purposes in 2021 in accordance with 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 26 November 2020,
- to publish the minutes from today's meeting at 09.30 on Monday 7 December 2020.

Deputy Governors Anna Breman and Martin Flodén entered reservations against the decision to expand the Riksbank's asset purchase programme by SEK 200 billion and to include treasury bills in the programme. Ms Breman advocated that the programme should instead be expanded by SEK 100 billion during the second half of 2021. Mr Flodén thought that the Riksbank should pledge that monetary policy will remain expansionary as long as necessary without deciding now on purchase sums for the second half of 2021. They both supported the other decisions at today's meeting.

This paragraph was verified immediately.

Minutes taken by

Elsa Boyer de la Giroday

Pia Fromlet

Verified:

Stefan Ingves

Cecilia Skingsley

Anna Breman

Martin Flodén

Per Jansson

Henry Ohlsson



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