

Monetary policy in a new setting

Di Risk & Return
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Deputy Governor

Agenda and summary



The inflation outlook has changed

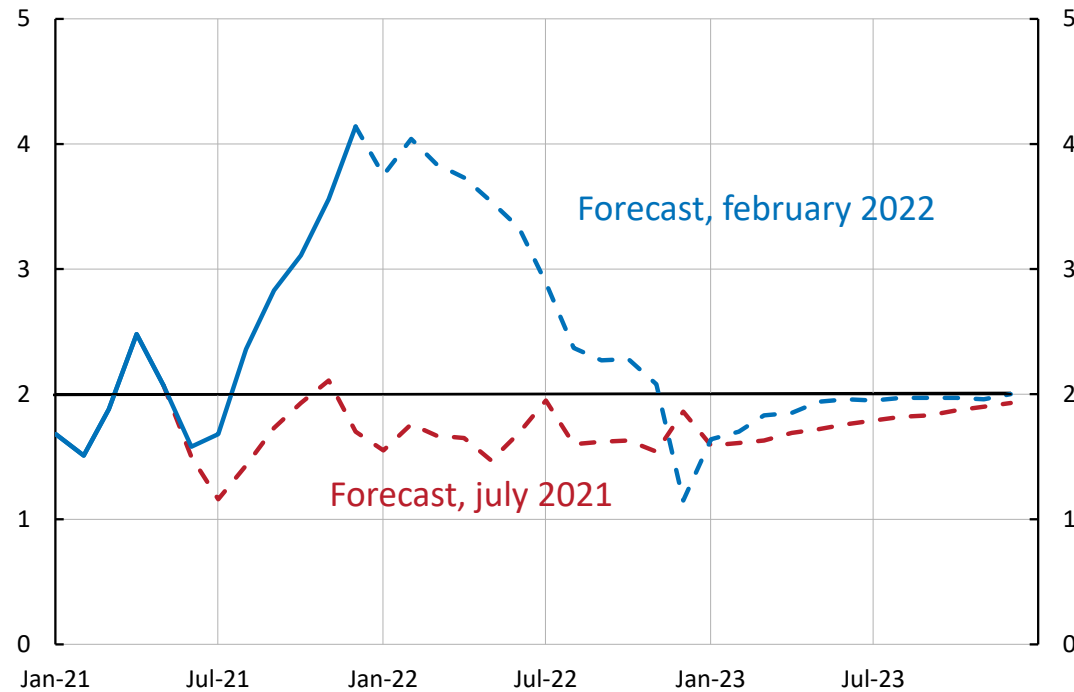
Economic activity is dampened by higher prices and the war

Monetary policy will respond to bring medium-term inflation back to target

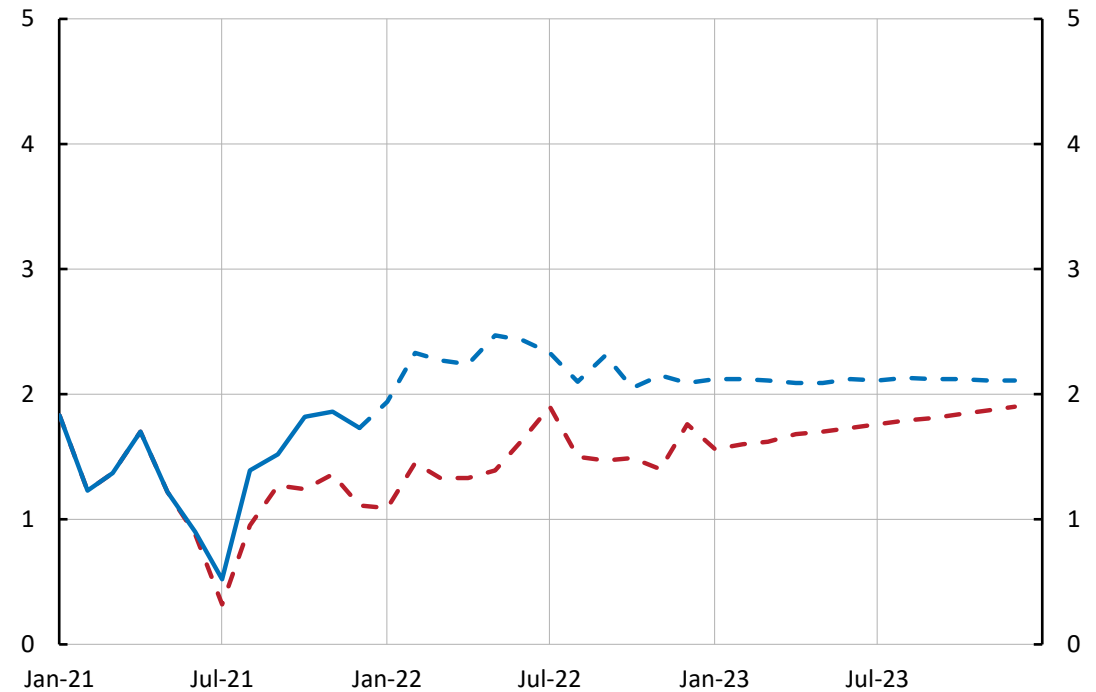
The inflation outlook has changed

Energy prices increased rapidly last fall

Headline inflation

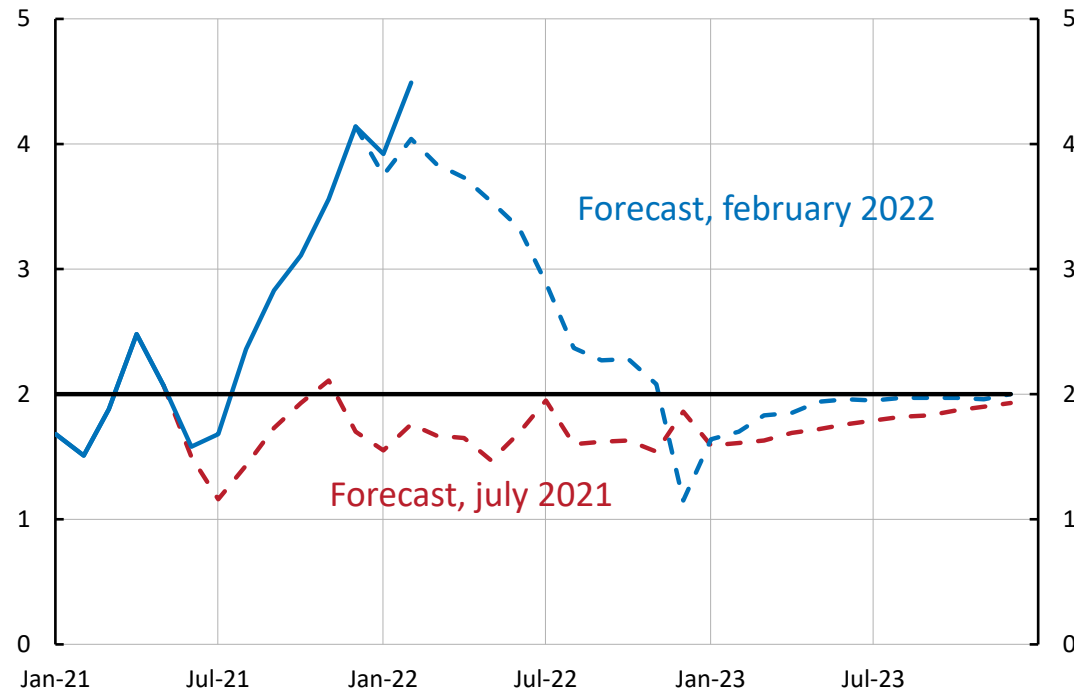


Core inflation

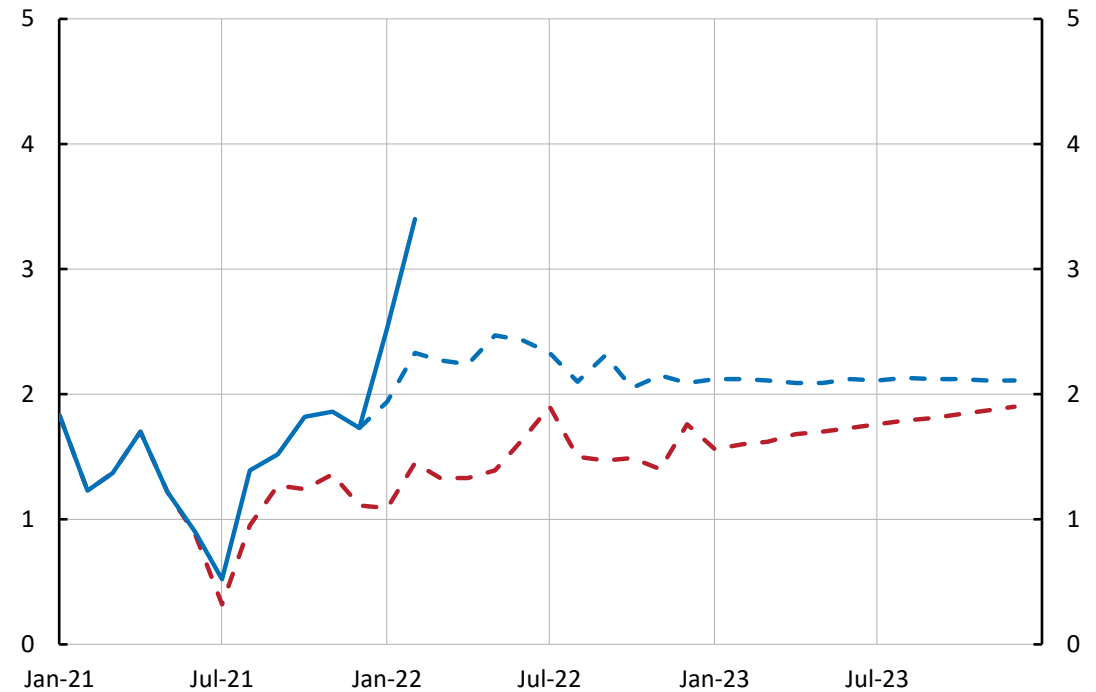


Now surge in core inflation as well

Headline inflation



Core inflation



And then the war in Ukraine

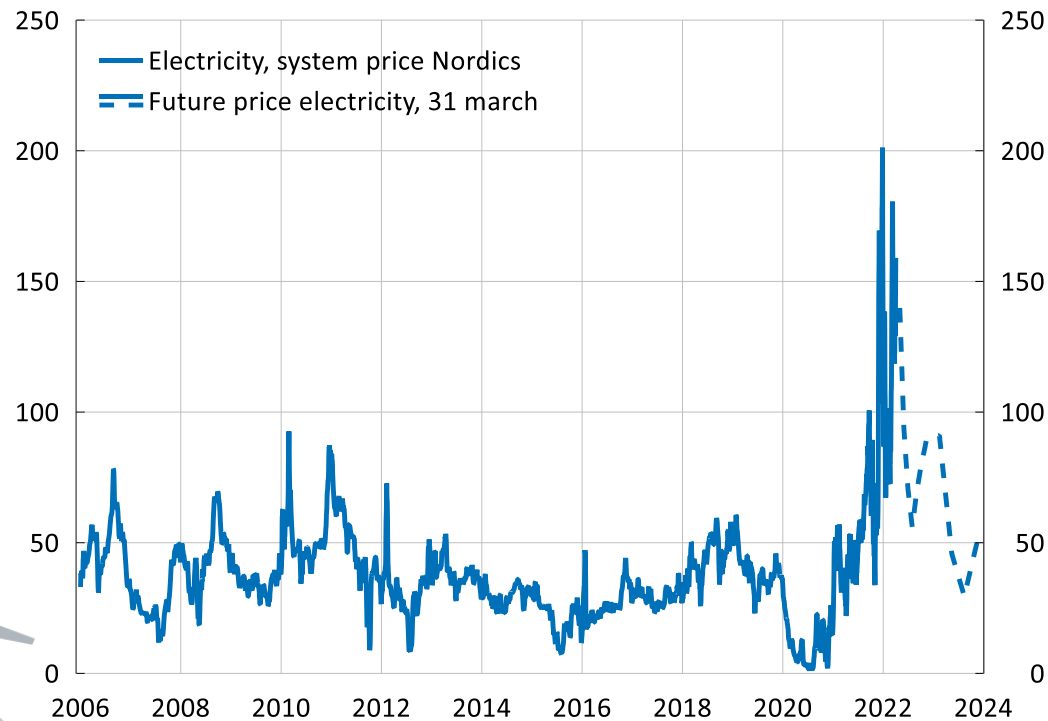
- Russia's invasion of Ukraine
- Extensive sanctions against Russia
- Higher prices for energy, food and metals
- Krona initially depreciated



The world looks different now from when we took the most recent monetary policy decision in February.

High energy prices – where are they heading?

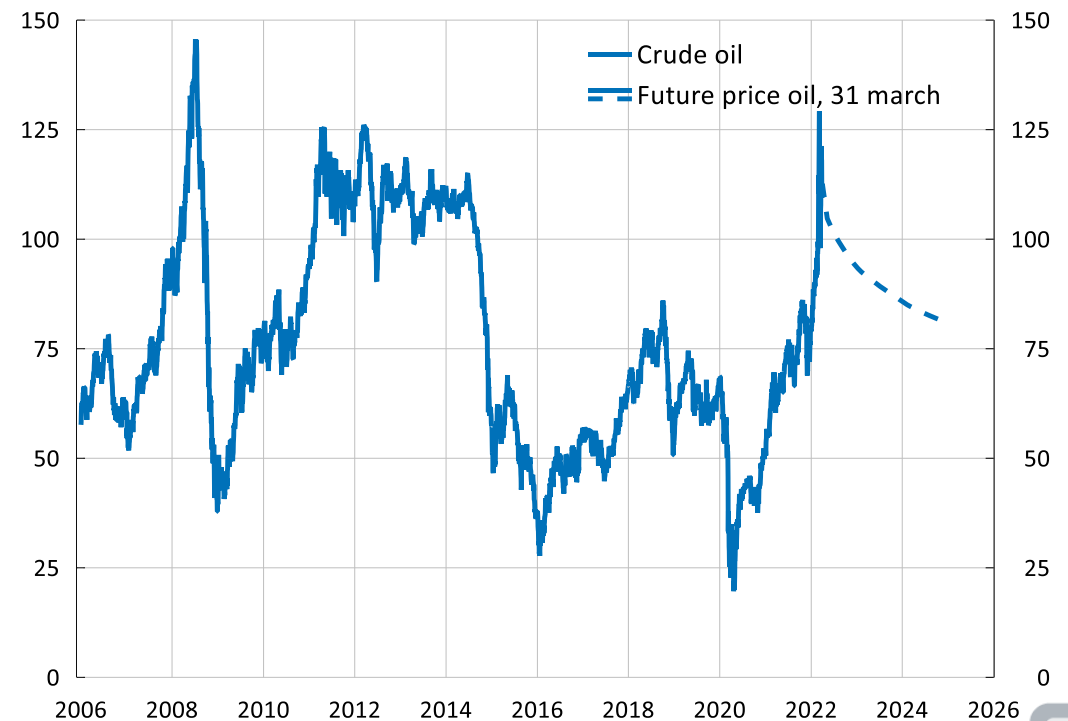
Unusually high electricity prices



EUR/MWh.

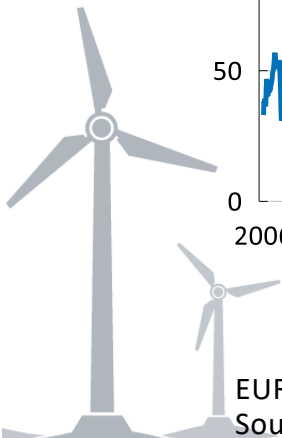
Sources: Nasdaq OMX, Nord Pool and the Riksbank.

The price of oil has risen



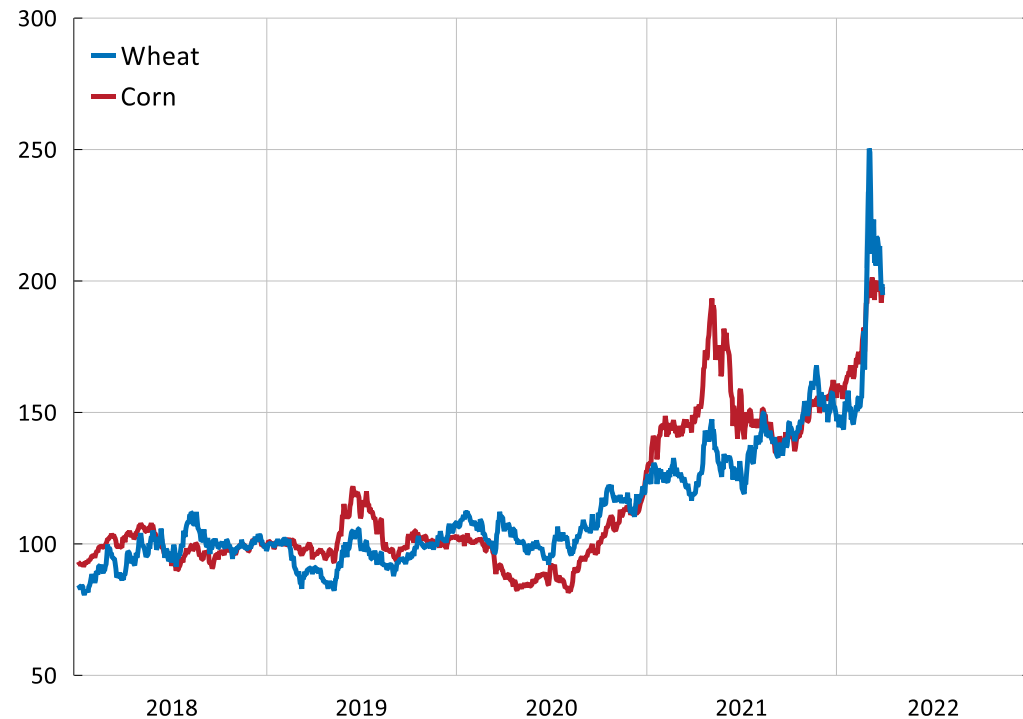
USD/barrel.

Sources: Intercontinental exchange (ICE) and the Riksbank.



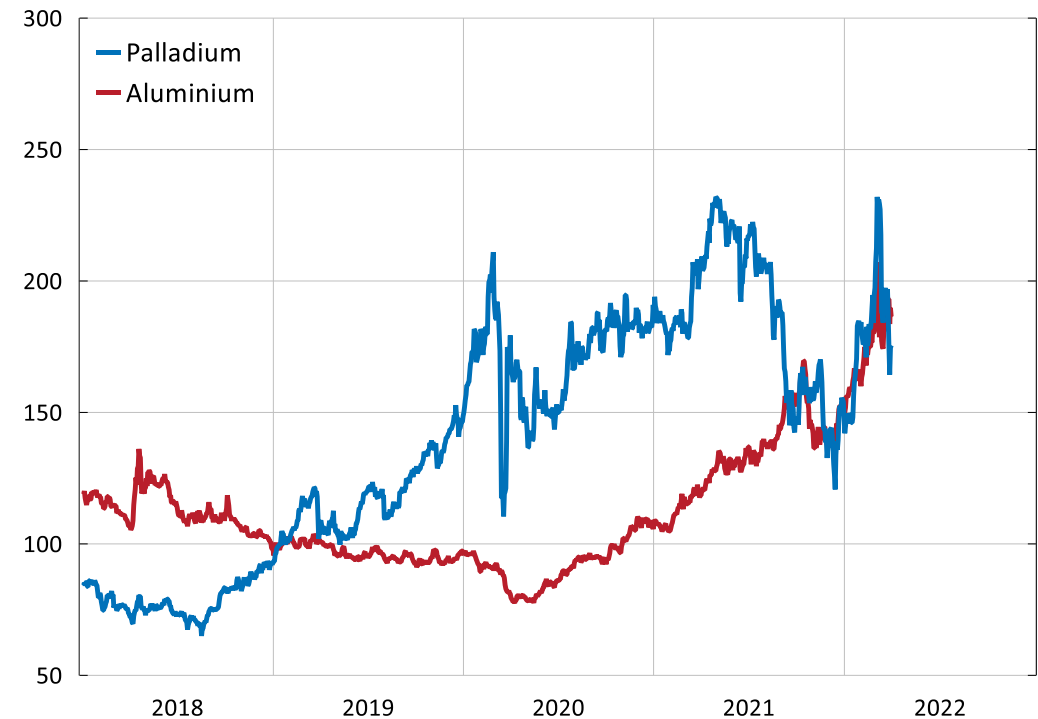
Rising commodity prices after the Russian invasion

High growth in maize and wheat prices



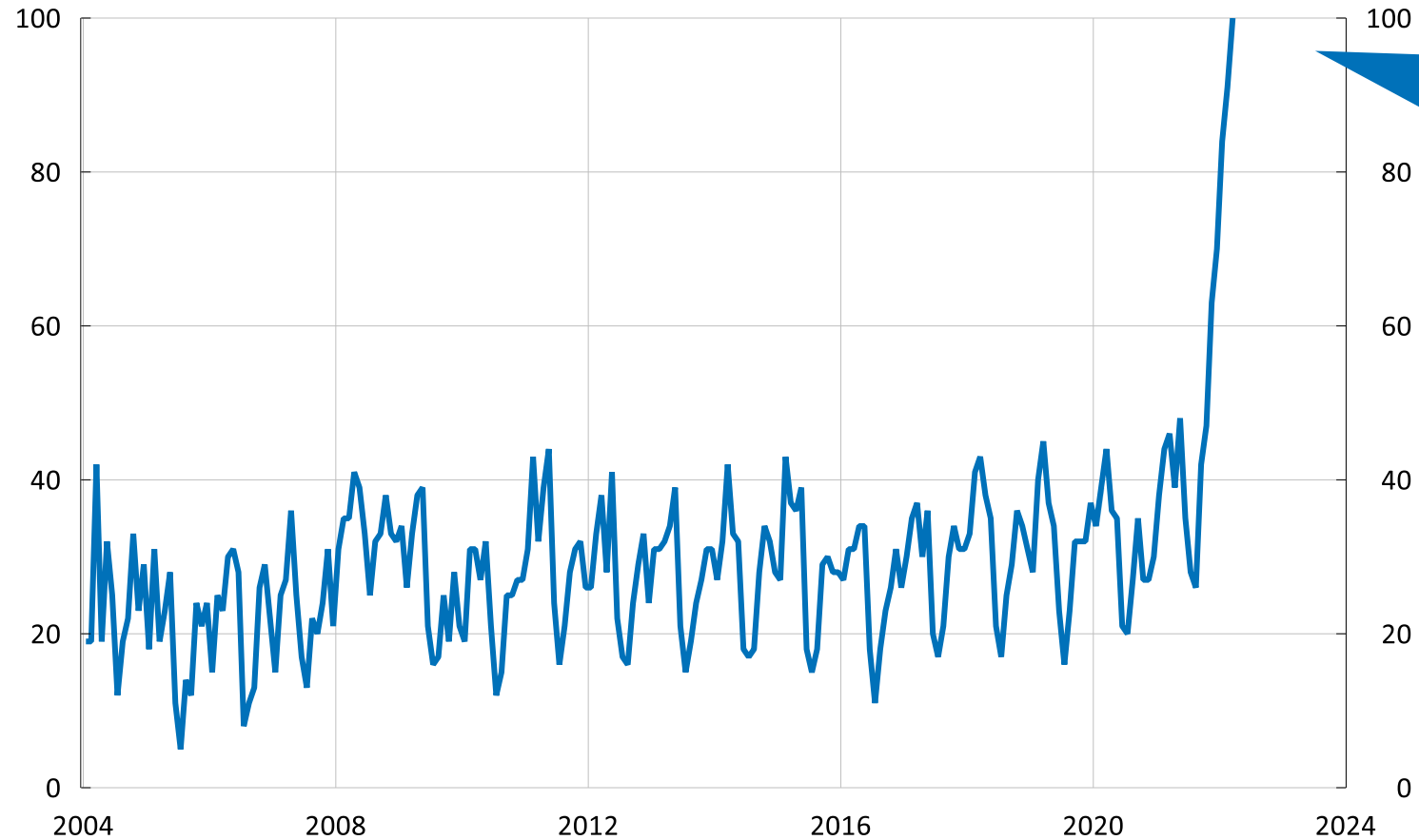
Index, 2019-01 = 100.
Source: Euronext Paris.

Several metal prices have also soared



Index, 2019-01 = 100.
Source: S&P Dow Jones.

Inflation is now on everyone's mind

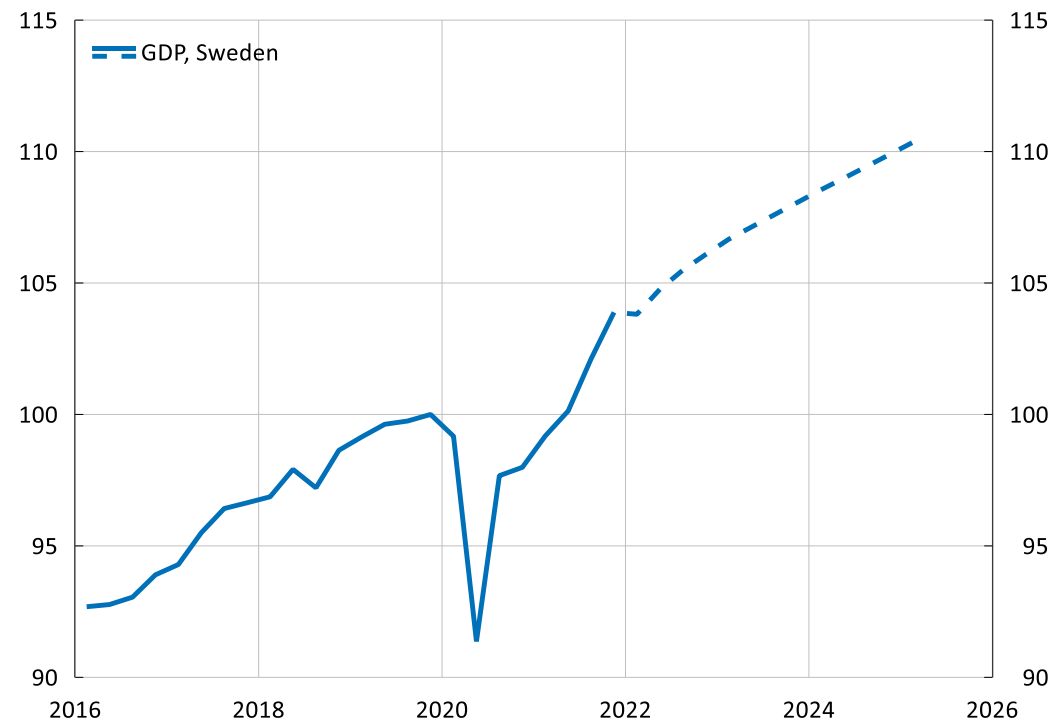


Google
searches for
"inflation"

Economic activity dampened by higher prices and the war

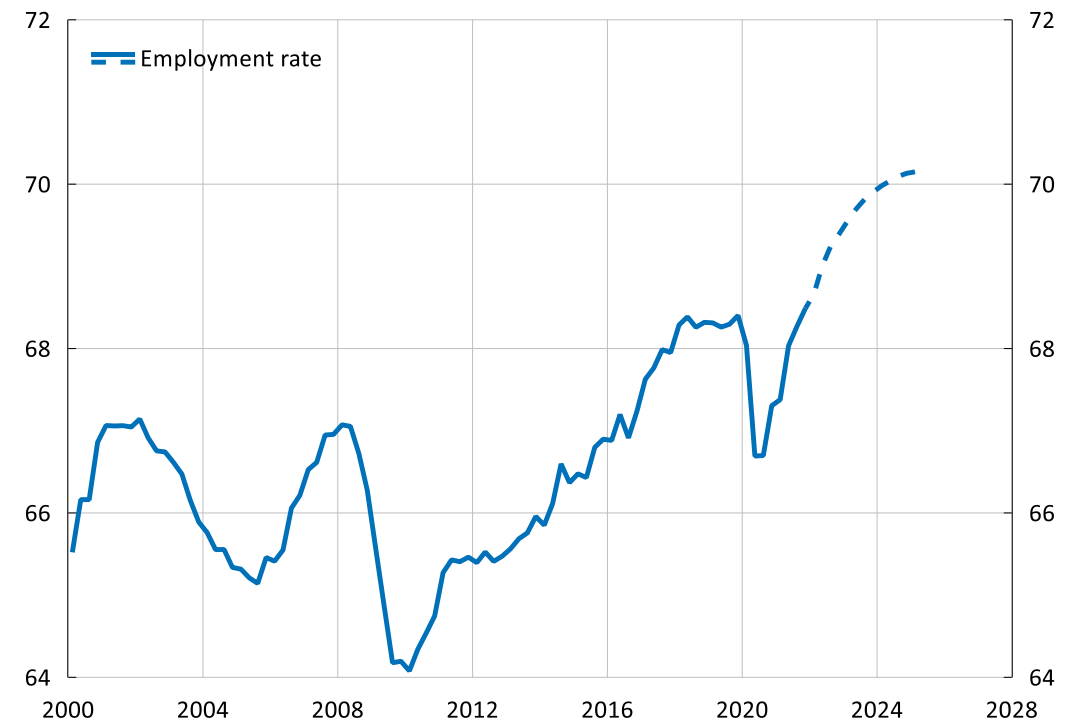
Economic activity is currently high

The economy has recovered



Index 2019Q4=100. Forecast from MPR February.
Sources: Statistics Sweden and the Riksbank.

Employment is high

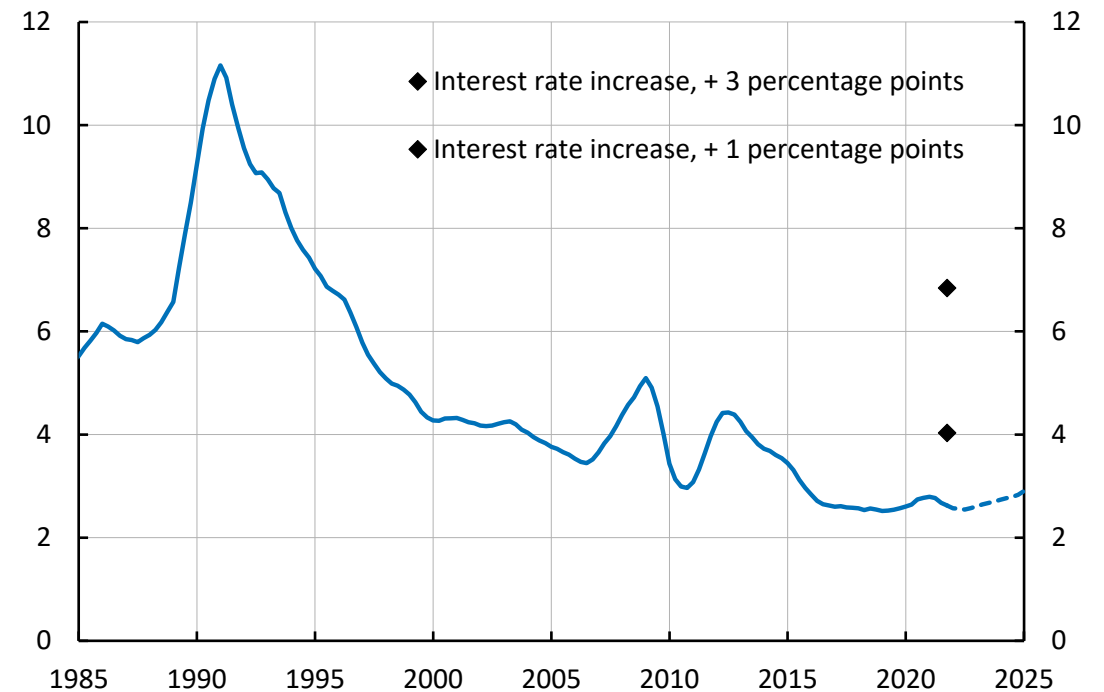


Percent of population aged 15-74. Forecast from MPR February.
Sources: Statistics Sweden and the Riksbank.

Several factors will dampen economic activity

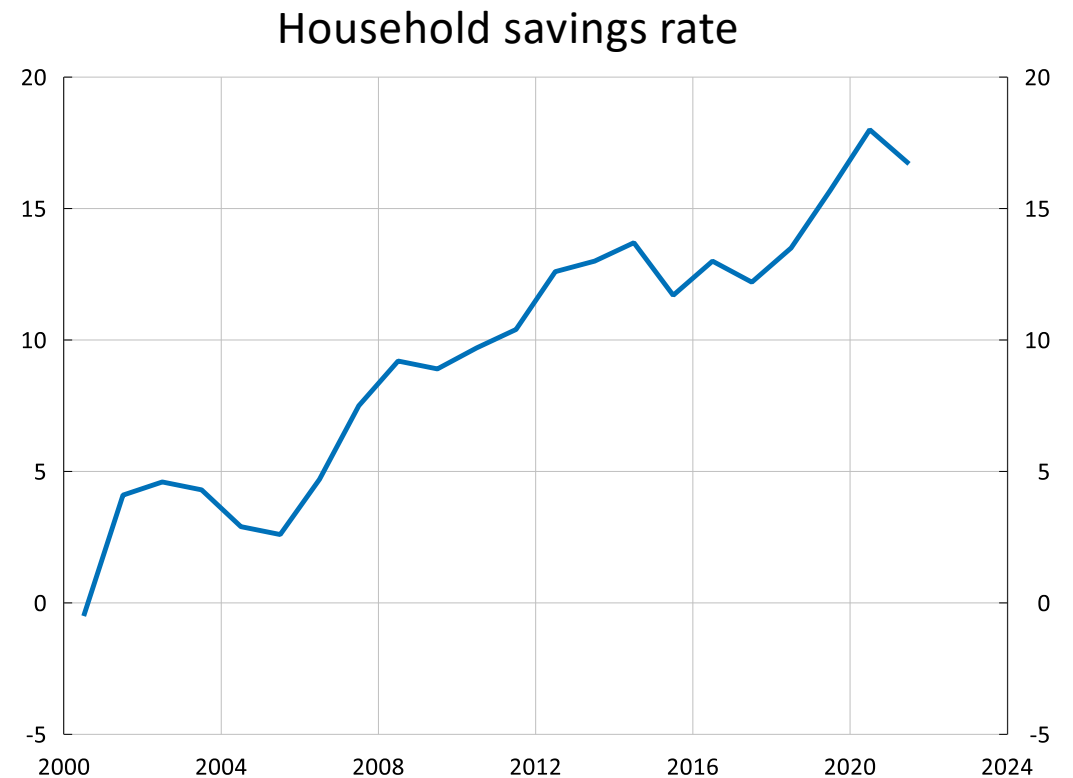
- Real disposable income is falling
- War: uncertainty, disruptions to supply chains
- Higher policy rate would quickly feed into household budgets

Household interest payments



But other factors may support activity

- Household savings rate is high
- Accommodating refugees from the war
- Increased military expenditure
- Fiscal initiatives to mitigate high consumer prices

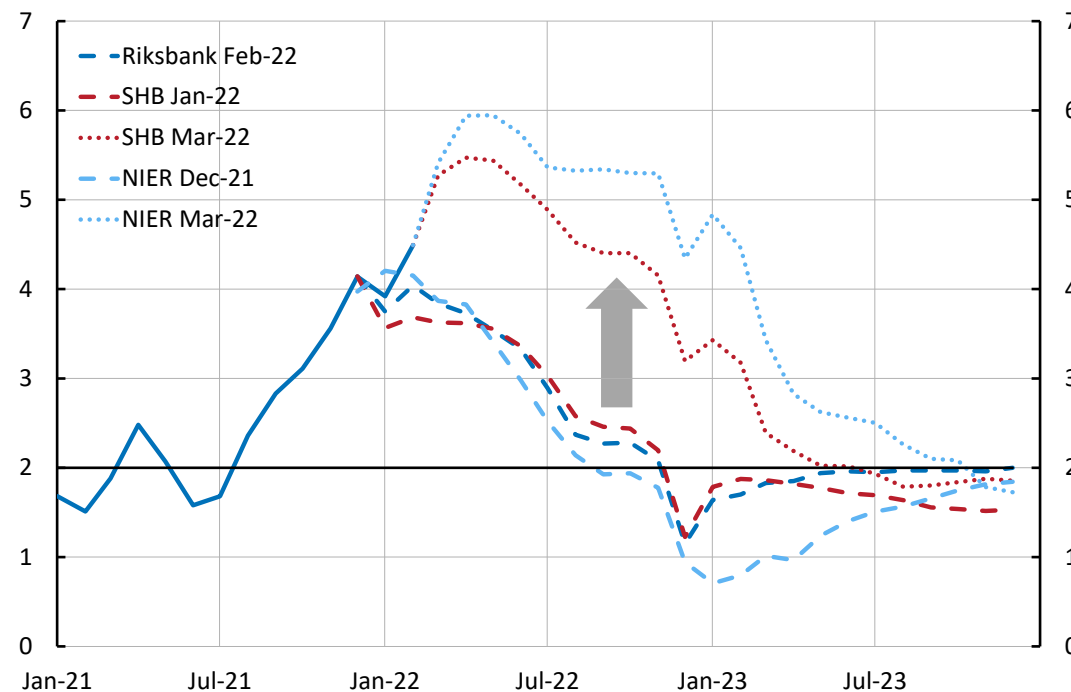


Monetary policy will respond to bring
medium-term inflation back to target

We can bring medium-term inflation back to target

- Near-term inflation forecasts much higher
- Inflation in the medium term *depends on monetary policy*
- Inflation will not return to target if monetary policy is too passive

Inflation forecasts have been revised up



CPI inflation, percent.

Sources: Handelsbanken, the National Institute for Economic Research and the Riksbank.

Monetary policy must respond

Does the *real* interest rate have to increase for monetary policy to reduce inflation?

Modest and gradual increases of the *nominal* interest rate may suffice:

- Cash-flow effects
- Exchange rate
- Expectations, confidence in inflation target



Percent. Yields on index-linked government bonds, 2-year maturity.

Source: The Riksbank.

A new outlook for inflation – monetary policy will be recalibrated

- Significantly higher inflation in the near term, forecasts need to be revised
- The risk of inflation being permanently higher has increased
- Monetary policy will need to be adjusted
- High uncertainty (inflation dynamics, economic activity)

Many factors to analyze before our next monetary policy meeting on 27 April.



Thanks!