

ARTICLE - The Riksbank's monetary policy development work

Understanding the drivers of inflation and analysing how the economy is affected when the policy rate and securities holdings change was the focus of the Riksbank's monetary policy development work in 2023. An important question was to what extent companies' pricing behaviour has changed over the past years of high inflation. To better understand aggregate inflation, the Riksbank studied what could explain the depreciation of the krona and whether the impact of cost changes, such as changes in the exchange rate, is greater when inflation and demand are high. There were signs that the change in the exchange rate has affected consumer prices faster than usual over the past year. Other in-depth analysis included the unexpectedly strong labour market and the household liquidity buffer of savings. The Riksbank's analytical work also continued to be deepened through international co-operation.

Focus on the drivers of inflation and the effects of monetary policy

It was important for the Riksbank to develop the analysis in 2023 to better understand firms' pricing behaviour and how it can affect inflation prospects. Research projects have used microdata containing information on financial variables and company prices to study both how the effects of monetary policy differ across households and what macroeconomic conclusions can be drawn from companies' pricing behaviour. The Riksbank used microdata to analyse how prices for individual products change and how changes in producer prices affect consumer prices. The fact that this was analysed carefully in preparation for the monetary policy decisions in 2023 is evident from the articles published in the Monetary Policy Reports. Given that inflation was so much higher than expected in 2022, there was considerable uncertainty regarding inflation prospects and the Riksbank examined and learned from the major forecasting errors to better understand the development of inflation going forward.

An important question was to what extent companies' pricing behaviour has changed over the past years of high inflation. It is clear that the correlations between producer prices and consumer prices, between energy prices and consumer prices, and between exchange rates and inflation have not followed historical patterns. The exchange rate is one of many factors that influence inflation, as it affects the price of what is imported. To better understand aggregate inflation, the Riksbank therefore studied what could explain why the krona had weakened relatively much and what indicated that it would strengthen in the future. Various studies analysed whether the pass-through from cost changes, such as changes in the exchange rate, was greater

when, for example, inflation and demand were high. There were signs that the change in the exchange rate had affected consumer prices faster than usual over the past year. The Riksbank's Business Surveys were also important in gaining an in-depth understanding of the companies' assessment of the economic situation and early and reliable signals of the development of the economy.

The Riksbank also analysed how economic activity and inflation were affected when the policy rate and asset holdings changed, the way the labour market functions, and the interplay between monetary policy and fiscal policy.

That the labour market was so strong initially, despite the high inflation having led to monetary policy tightening and despite restrained GDP growth, has surprised many analysts. The analysis suggested that the strong willingness of households to consume services after the pandemic could be one explanation. Companies also chose to continue to recruit even though demand slowed down, presumably because they had previously experienced large labour shortages. In addition, real wages had fallen and this too may have contributed to higher demand for labour.

An important area of analysis has been household savings, which rose sharply at the start of the pandemic. The restrictions imposed and changed behaviour patterns thus led households to accrue a liquid buffer. The Riksbank's analysis indicated that households still retained a large part of this buffer in 2023 and if households were to use more of it for consumption, demand could develop more strongly than in the Riksbank's forecast.

Other elements of the Riksbank's development work over the year with a bearing on monetary policy worth mentioning include describing and analysing the changes in the new Sveriges Riksbank Act and their implications for monetary policy work in practice.

The Riksbank's analytical work continued to deepen through international cooperation. In January, an international symposium was organised in Stockholm that addressed, among other things, the independence and mandate of central banks and how independence is affected by the need for global policy coordination. The Riksbank participates in a global network for central banks, where, among other things, the issue of how climate change can affect monetary policy was discussed during the year. The Riksbank also organised several scientific conferences. At one of the conferences, researchers discussed the challenges and opportunities that climate change presents for central banks. Another conference presented research on geo-economics and how economies are affected by energy price shocks and economic sanctions. At another conference, female researchers presented papers in macroeconomics and financial economics.

An important committee for the Riksbank's international co-operation is Working Party 3, which is a working group within the OECD in which the largest economies participate. Each country is represented by one member from the ministry of finance and one from the central bank. In 2023, the group discussed, among other things, the impact of Russia's invasion of Ukraine, the causes of high inflation and appropriate economic policies to address various labour market challenges. The design of fiscal

policy was also discussed, such as the lessons learnt from the stimulus during the pandemic, the role of fiscal policy in high inflation and the interaction between fiscal and monetary policy in times of high inflation. The Riksbank also cooperates with other central banks within the European System of Central Banks (ESCB), by participating in a number of sub-groups. The development work in these working groups mainly concerns forecasting, public finances, and econometrics and modelling.

Table 2. Monetary policy-related studies conducted in 2023

Year of publication 2023, unless otherwise specified

Articles in Monetary Policy Reports
"The new Riksbank Act and the monetary policy framework", February
"How quickly will inflation fall?" April
"Strong labour market in Sweden and abroad", June
"The krona will strengthen in the medium term", September
"Household savings increased significantly during the pandemic", September
"The pass-through of the krona to inflation appears to have been larger than usual", November
Economic Commentaries
C.-J. Belfrage, J. Hansson and A. Vredin, "How should we view the development of the krona?", No. 3
H. Lovéus, "New indicators of resource utilisation", No. 4
N. Holmer, "The Business Survey's new indicator of economic activity – an early temperature gauge of the Swedish economy", No. 5.
I. Häkkinen Skans and P. Wasén, "The labour force, employment and changes in population composition", No. 6.
Economic Review
P. Holmberg and T. P. Tangerås, "The Swedish electricity market - today and in the future", No. 1.
Staff memos
Y. Akkaya, C.-J. Belfrage, P. Di Casola and I. Strid, "The macroeconomic effects of Riksbank asset purchases during the pandemic: simulations using a DSGE model", February
M. Kilström and R. Nilavongse, "Monetary policy transmission and the cash-flow channel via nominal and real interest rates", August
M. Lindskog and H. Lovéus, "Import prices, labour costs and profits – what role have they played in inflation dynamics?", September
L. Thomas, "Global Currents, Local Waves: The Foreign Influences Shaping Sweden's Economy", October
M. Beechey Österholm and P. Gustafsson, "Estimating the effect of Riksbank government bond purchases on bond term premia and yields", December
Riksbank studies
"Evaluation of the Riksbank's forecasts", No. 2, 30 March.

Working papers

S. Laséen, “Central bank asset purchases: Insights from quantitative easing auctions of government bonds”, No. 419.

C. Olovsson and D. Vestin, “Greenflation?”, No. 420

Y. Akkaya, C.-J. Belfrage, P. Di Casola and I. Strid, “Effects of foreign and domestic central bank government bond purchases in a small open economy DSGE model: Evidence from Sweden before and during the coronavirus pandemic”, No. 421

N. Amberg, T. Jacobson, V. Quadrini and A. Rogantini Picco, “Dynamic Credit Constraints: Theory and Evidence from Credit Lines”, No. 422

E. Ahlander, M. Carlsson and M. Klein, “Price Pass-Through Along the Supply Chain: Evidence from PPI and CPI Microdata”, No. 426

M. Blix Grimaldi and S. Kapoor, “Fed QE and bank lending behaviour: a heterogeneity analysis of asset purchases”, No. 428.

E. Bylund, J. Iversen and A. Vredin, “Monetary policy in Sweden after the end of Bretton Woods”, No. 429.
