



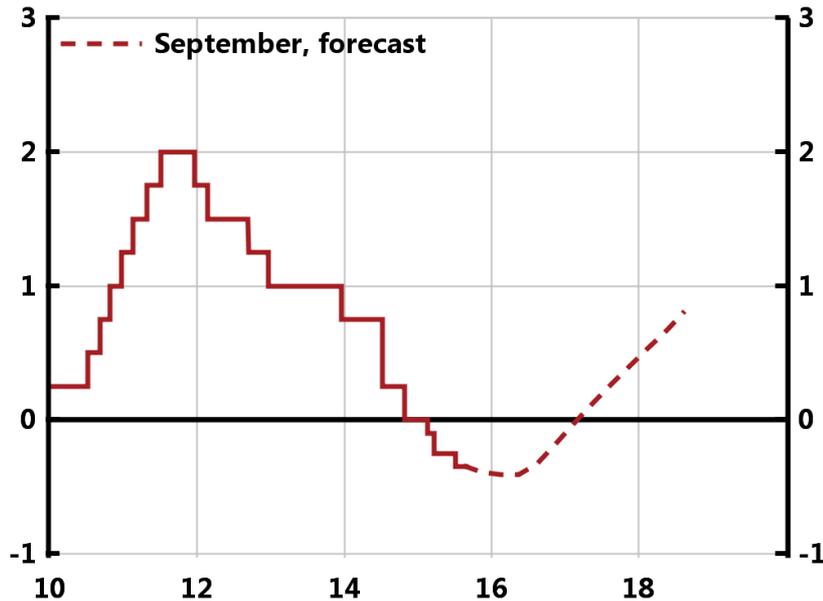
Monetary policy considerations in unusual times

SEB, Västerås
7 October 2015

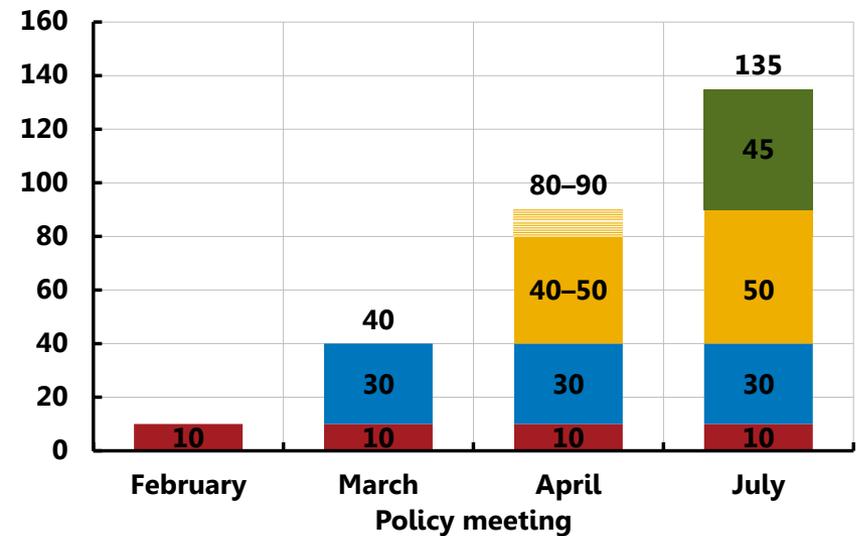
Deputy Governor Martin Flodén

Negative interest rate and asset purchases

Very low repo rate



Purchases of government bonds



The Swedish economy is in pretty good shape

Stable GDP growth



Labour market improving



Note. Annual percentage change and percentage of labour force, 15–74 years, seasonally-adjusted data.

Sources: Statistics Sweden and the Riksbank

Why a negative interest rate? Why are we not content with low inflation?

- Inflation has been low for a long time
 - Interest rates are low internationally
 - The inflation target is not outdated
 - Monetary policy is having an impact
 - The negative interest rate is not that special
 - Aiming for lower inflation will not solve the problem of low interest rates
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Why a negative interest rate? Why are we not content with low inflation?

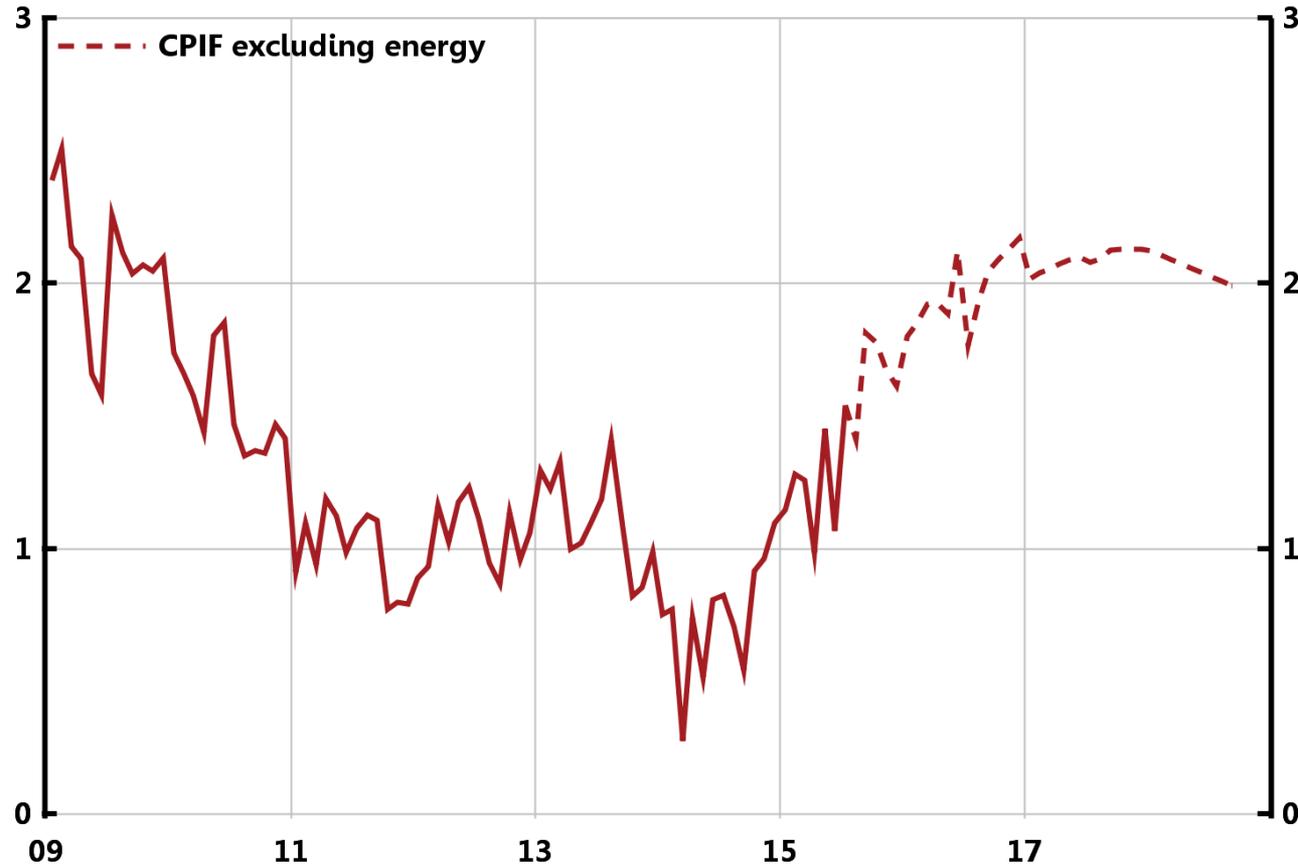


- Inflation has been low for a long time
 - We are tolerant of deviations from the target
 - It is not a question of *fine tuning*



Inflation has been low for a long time

Annual percentage change



Why a negative interest rate? Why are we not content with low inflation?

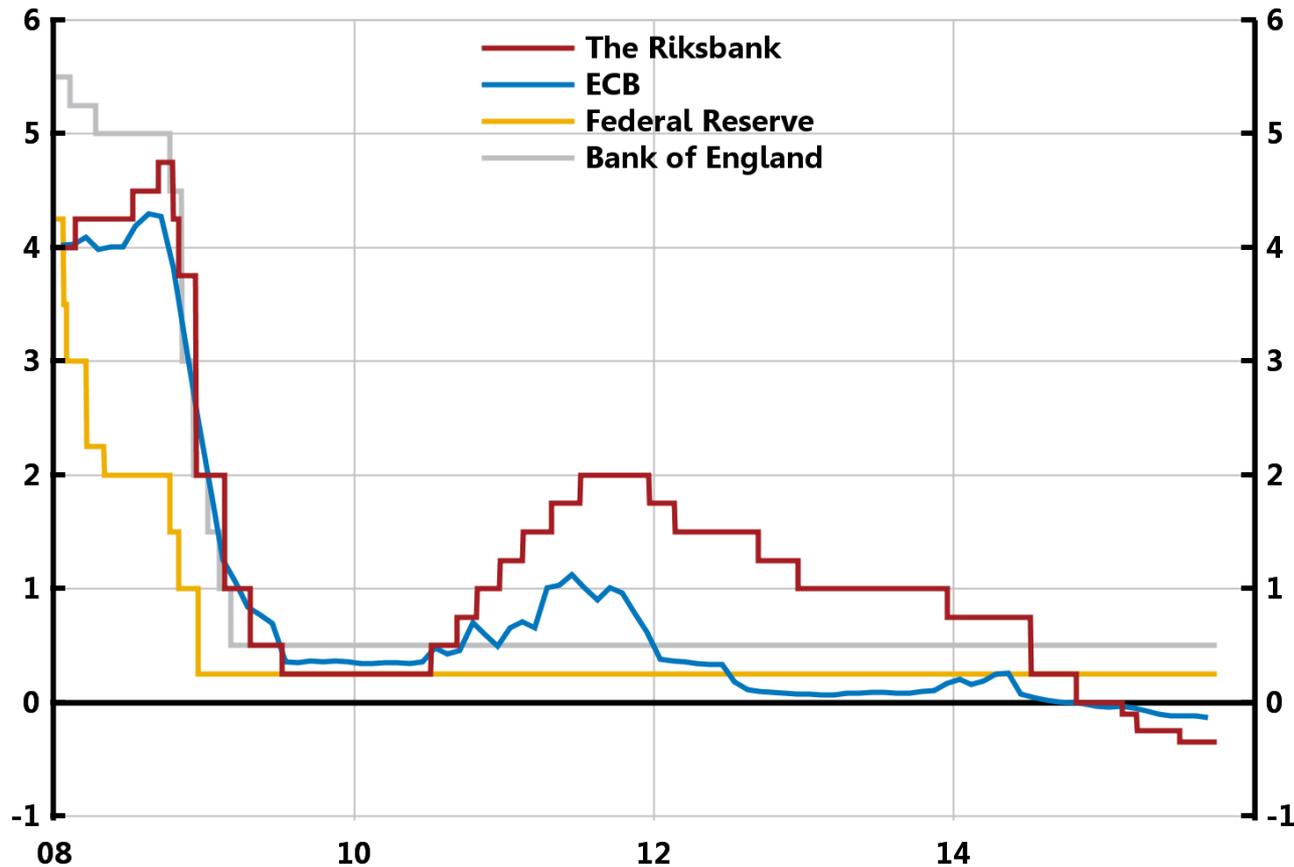


- Inflation has been low for a long time
- Interest rates are low internationally
 - We cannot deviate too much from them



Record-low policy rates internationally

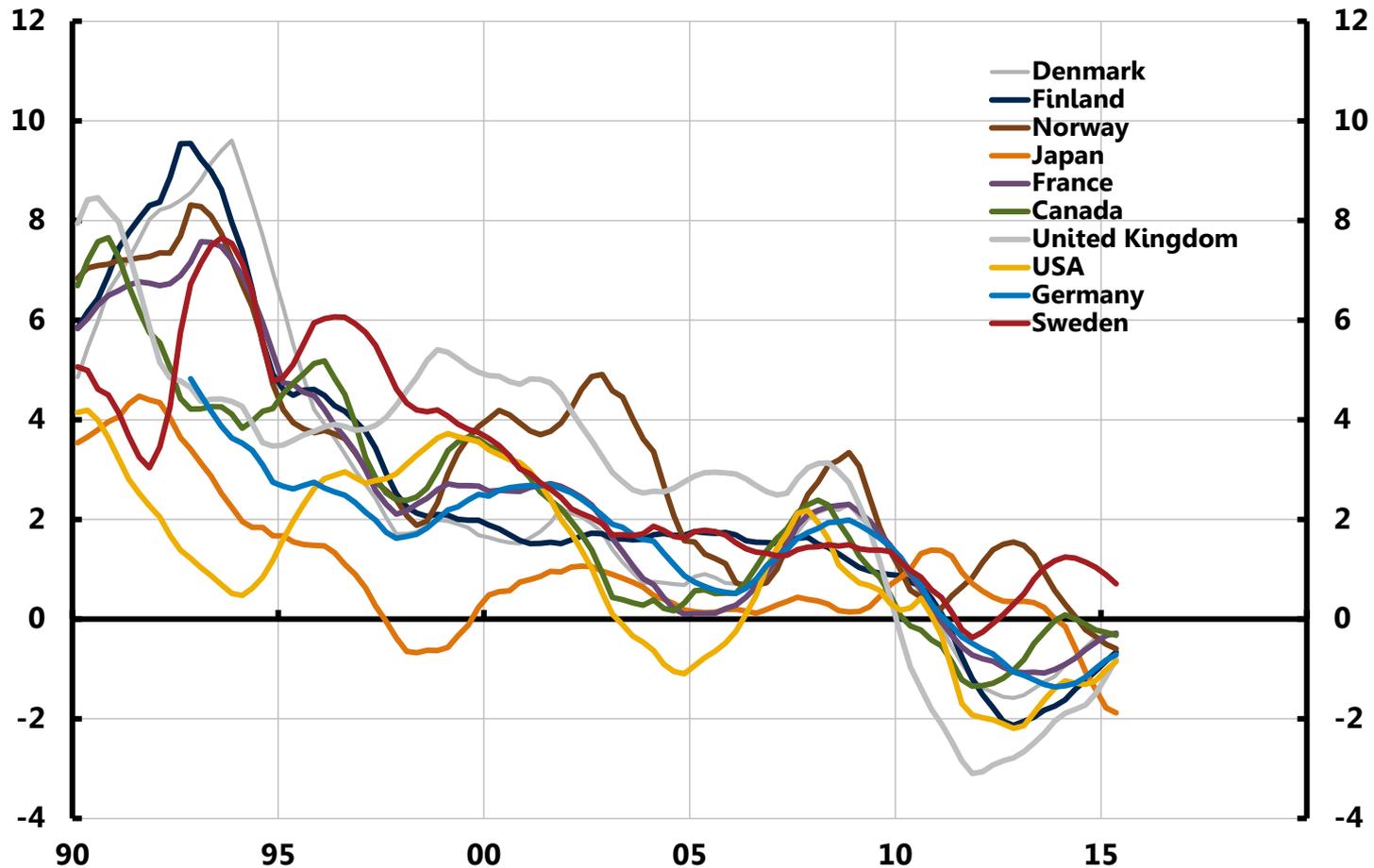
Per cent



Note. ECB refers to EONIA and is a monthly average.

Sources: The Bank of England, the ECB, the Federal Reserve Bank of New York and the Riksbank

International real interest rates have fallen



Note. Quarterly data, two-year moving average.

Source: The OECD and the Riksbank

Why a negative interest rate? Why are we not content with low inflation?

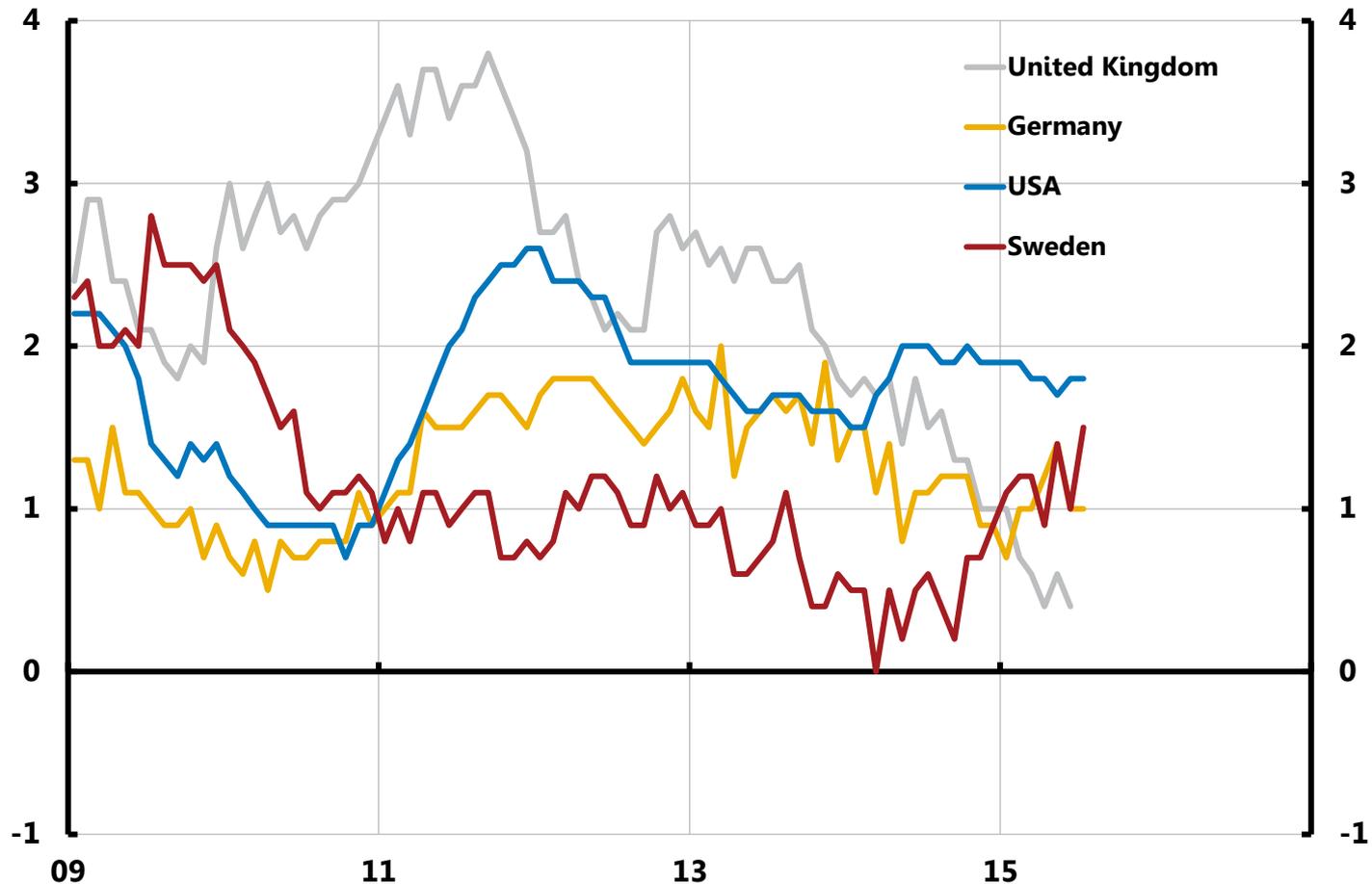


- Inflation has been low for a long time
- Interest rates are low internationally
- The inflation target is not outdated
 - despite globalisation and digitisation



Higher inflation in other countries

HICP excluding energy

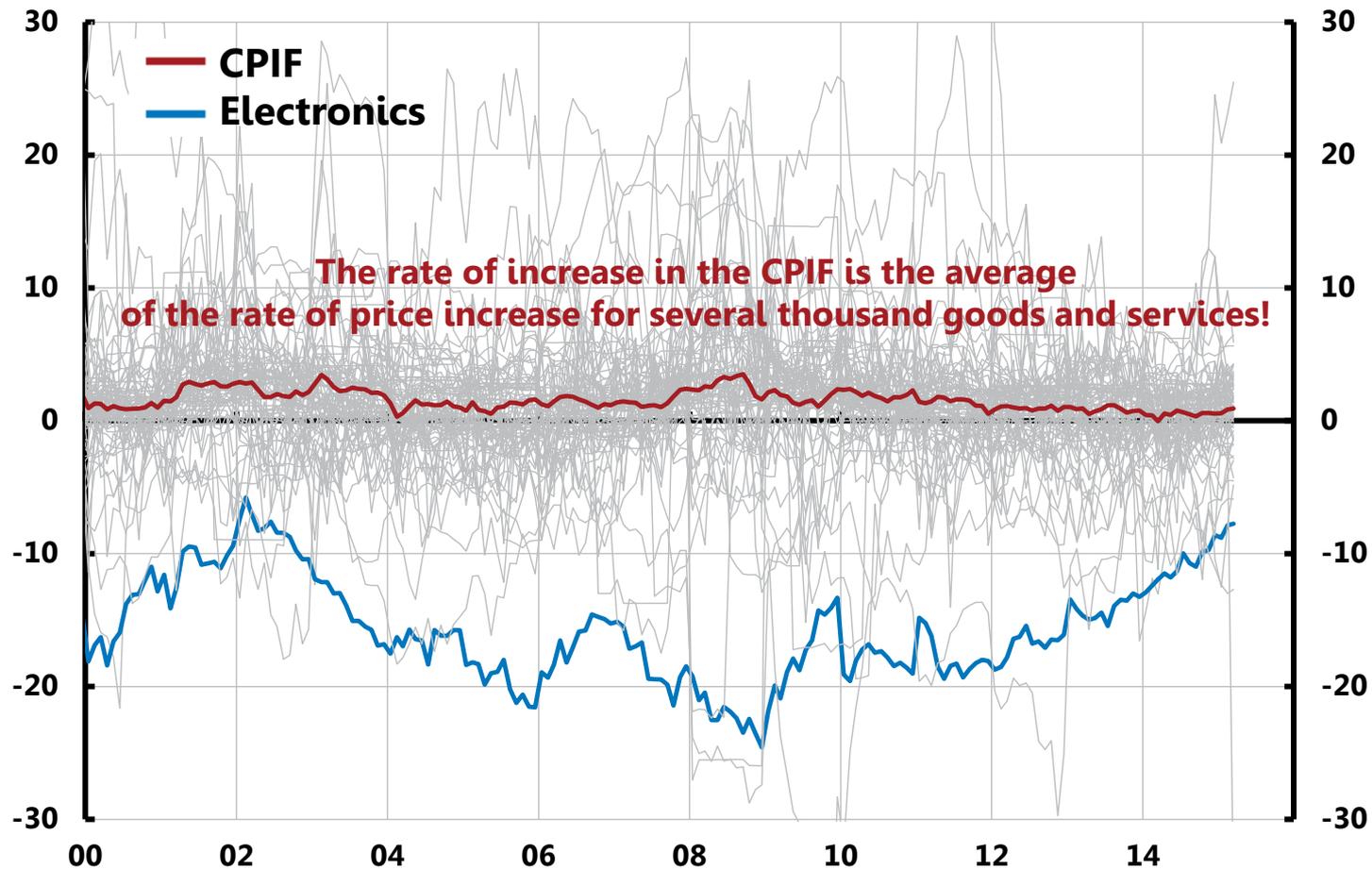


Note. Annual percentage change. For the US the CPI-U (Consumer Price Index for all Urban Consumers) excluding energy is shown.

Sources: Eurostat and US Bureau of Labor Statistics

Inflation is "a general rise of the price level"

Annual percentage change



Note. The CPIF is the CPI with a fixed mortgage rate.

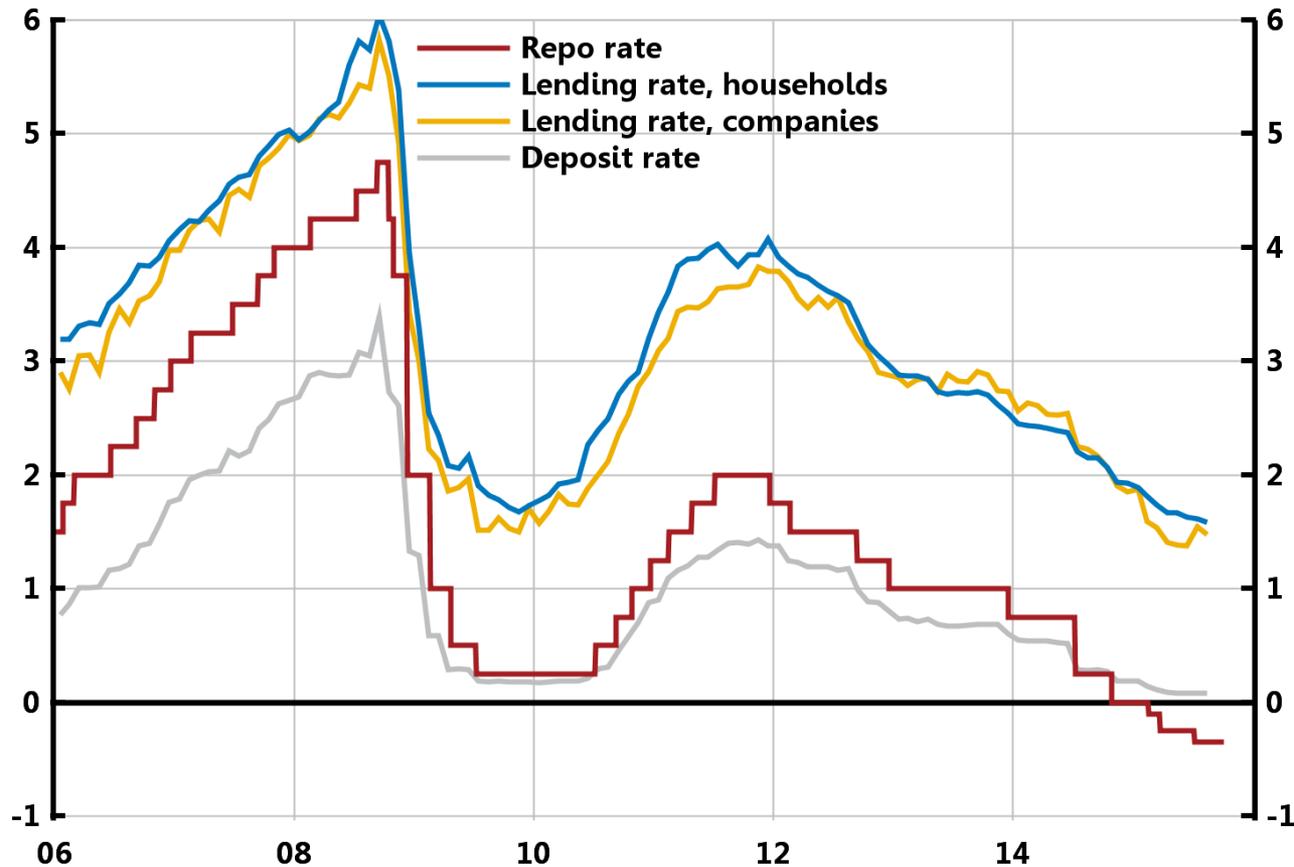
Sources: Statistics Sweden and the Riksbank

Why a negative interest rate? Why are we not content with low inflation?

- Inflation has been low for a long time
- Interest rates are low internationally
- The inflation target is not outdated
- Monetary policy is having an impact
 - but is hitting strong headwinds, particularly from abroad

The repo rate influences lending rates

Per cent



Note. The lending rate to households refers to loans for housing purposes. Deposit rate refers to households and companies.

Sources: Statistics Sweden and the Riksbank

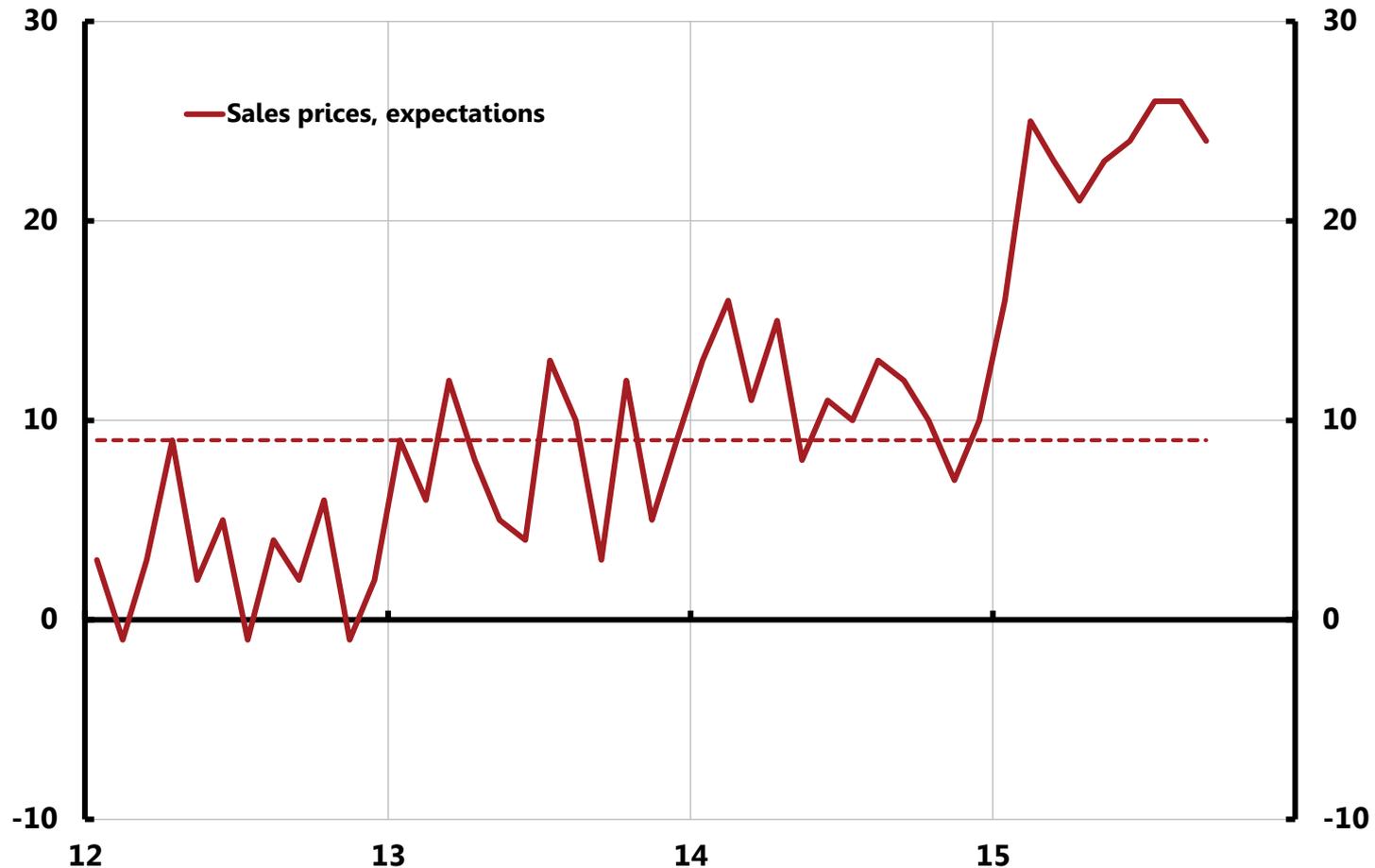
... and the exchange rate SEK/EUR



Note. Broken lines mark monetary policy decisions in 2015.

Sources: Macrobond and the Riksbank

Companies expecting higher prices



Note. Sales prices, expectations among retailers, net figures. Refers to the three months immediately following date of survey. Broken line refers to average since May 2003.

Source: National Institute of Economic Research

Why a negative interest rate? Why are we not content with low inflation?

- Inflation has been low for a long time
 - Interest rates are low internationally
 - The inflation target is not outdated
 - Monetary policy is having an impact
 - The negative interest rate is not that special
 - Monetary policy continues to have normal impact
 - No negative rate for households
 - Few technical problems
-

Experiences of the negative rate

- Normal impact in the economy
 - Lending rates fall with the repo rate
 - No negative rate for households
 - The banks' net interest income and profits remain high
 - Technical problems?
 - No increased demand for cash
 - The FRN market
 - IT systems
-

Why a negative interest rate? Why are we not content with low inflation?

- Inflation has been low for a long time
 - Interest rates are low internationally
 - The inflation target is not outdated
 - Monetary policy is having an impact
 - The negative interest rate is not that special
 - Aiming for lower inflation does not solve any problems
 - To bring the interest rate level up, we need:
 - higher international growth and growth expectations
 - higher Swedish inflation and inflation expectations
-

Why is the inflation target important?

- The important thing is to have a target - something to guide price and wage formation
- Confidence is important
 - Is not created by changing the target



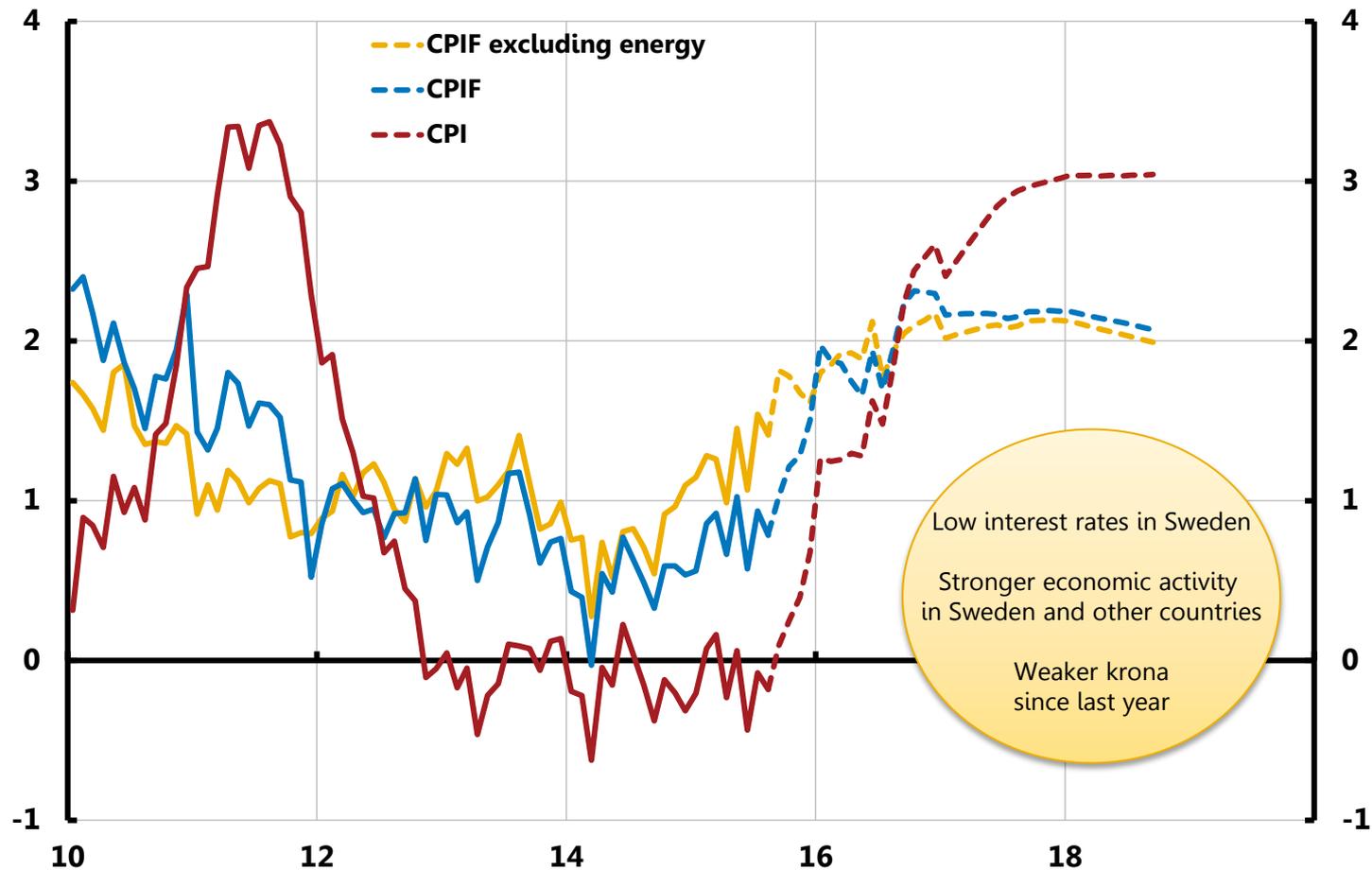
Risks linked to low interest rates

- Housing prices and household debt are increasing fast!
 - We cannot deviate too much from monetary policy in other countries
 - Slightly higher repo rate will hardly solve these problems
 - Targeted measures are needed
- Low interest rates are best countered by expansionary monetary policy
 - Otherwise we will have to live with a low rate for even longer

The Riksbank's forecast

- Economic activity in Sweden strengthening
 - International recovery
 - Rising inflation
 - Risks to the rise in inflation
-

Inflation rising towards the target



Annual percentage change. The CPIF is the CPI with a fixed mortgage rate.

Sources: Statistics Sweden and the Riksbank

Risks to the rise in inflation

**Low inflation for a long
time**

How quickly will inflation
rise?

**Concerns in emerging
economies**

Fall in oil price

**Central banks out of
step**

Rapid appreciation of
the krona - a risk to the
rise in inflation

Continued high level of preparedness

- Important that the upward trend in inflation continues
- Ready to act even between ordinary meetings



Thank you!
