

# Monetary policy and the inflation target – the importance of clarity and openness

Ratio  
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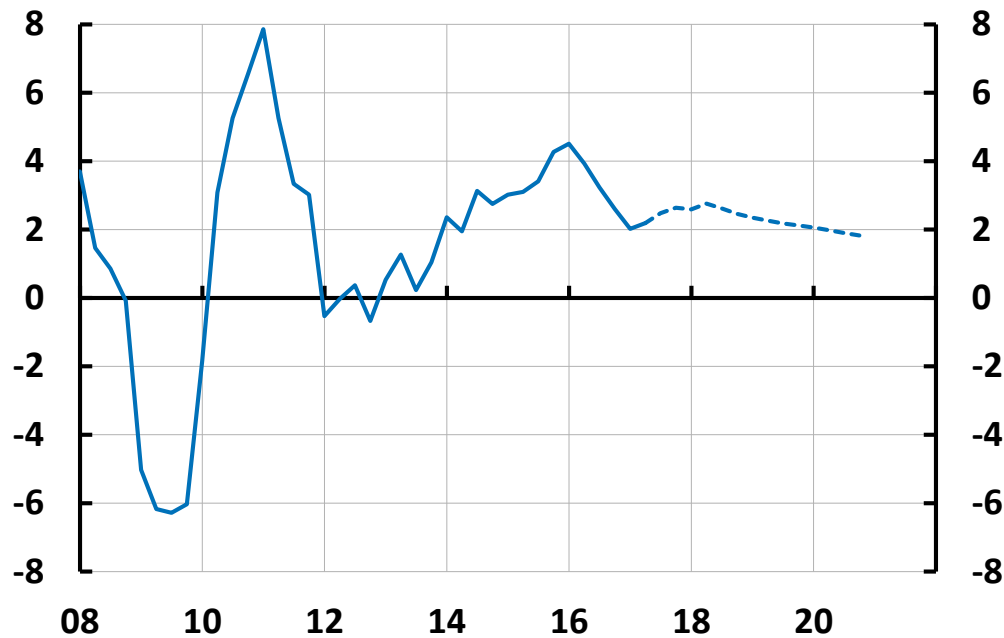
# Today's presentation

- Current monetary policy
  - July decision
  - Brief summary of events during the summer
- The importance of clarity and transparency in monetary policy
  - Our experiences of publishing our own repo-rate forecasts
  - The CPIF as a formal target variable and illustration with a variation band

# Current monetary policy

# Strong Swedish economic activity

Good GDP growth



Unemployment has fallen



Note. Annual percentage change and percentage of labour force, 15–74 years. GDP measured using calendar-adjusted data.

Sources: Statistics Sweden and the Riksbank

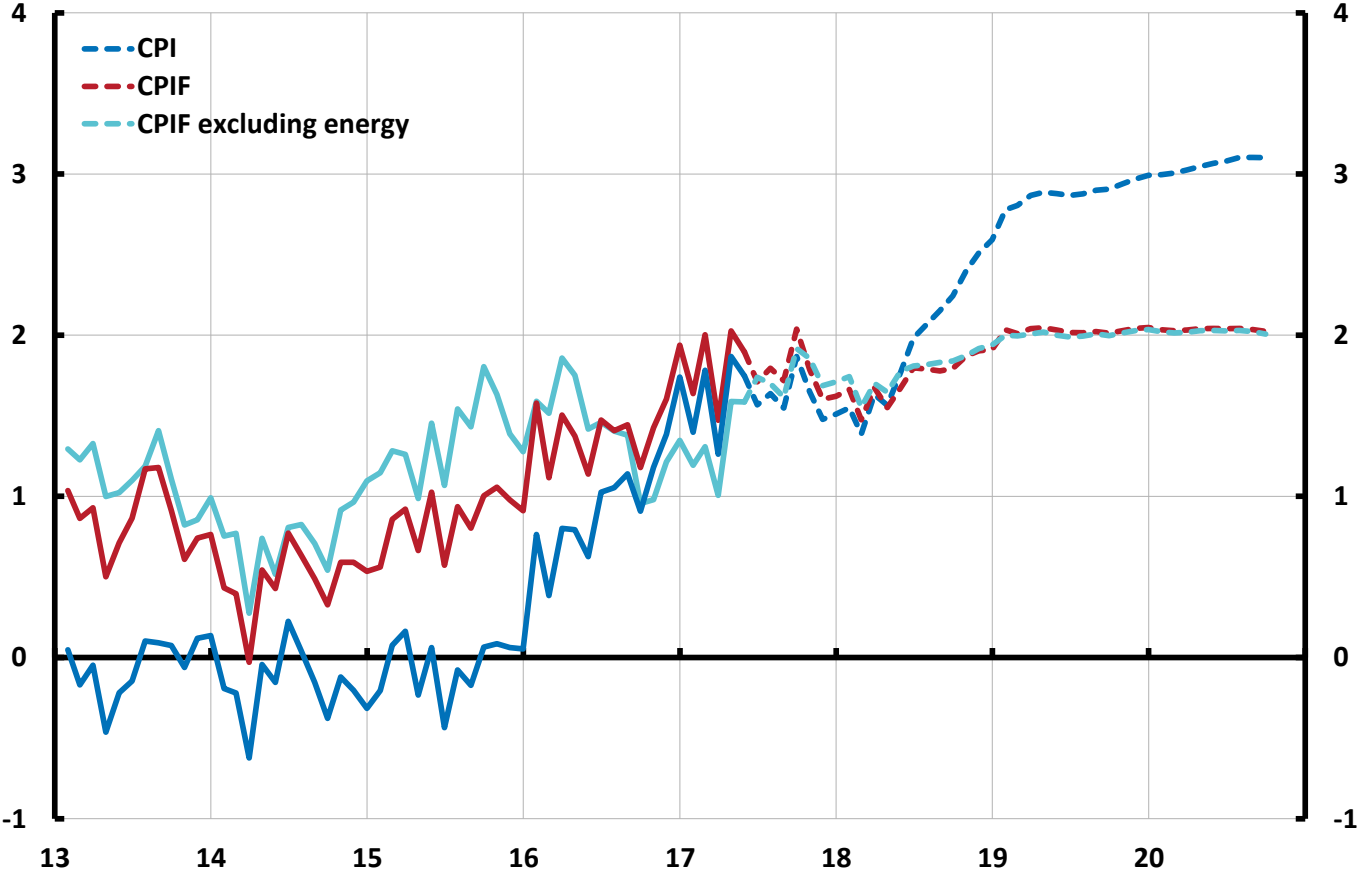
# Krona important for the development of inflation



Note. Index, 28 Nov 1992 = 100. The KIX is an aggregate of countries that are important for Sweden's international transactions. Outcomes refer to daily data up to and including 30 June 2017.

Sources: National sources and the Riksbank

# Continued expansionary monetary policy needed to stabilise inflation around 2 per cent

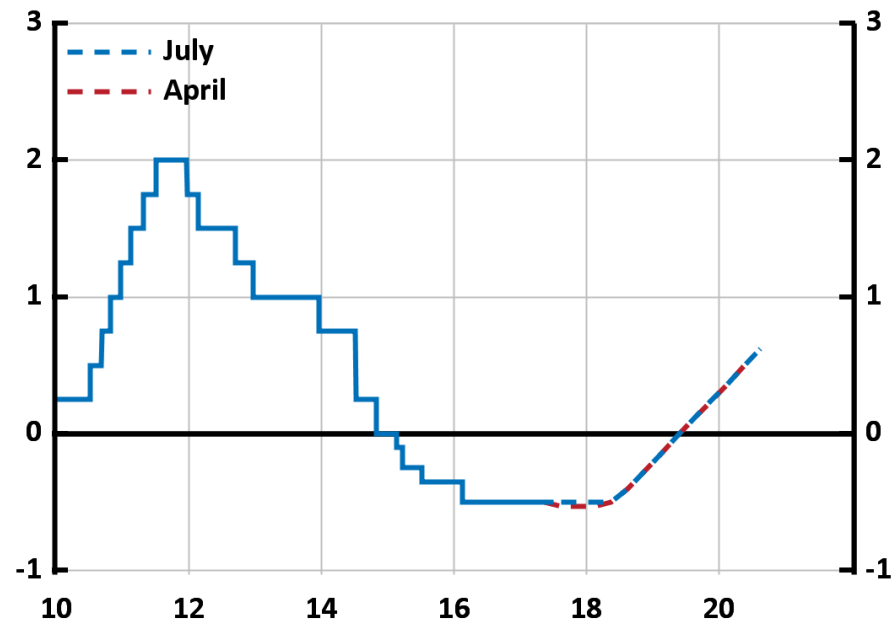


Note. Annual percentage change The CPIF is the CPI with a fixed interest rate.

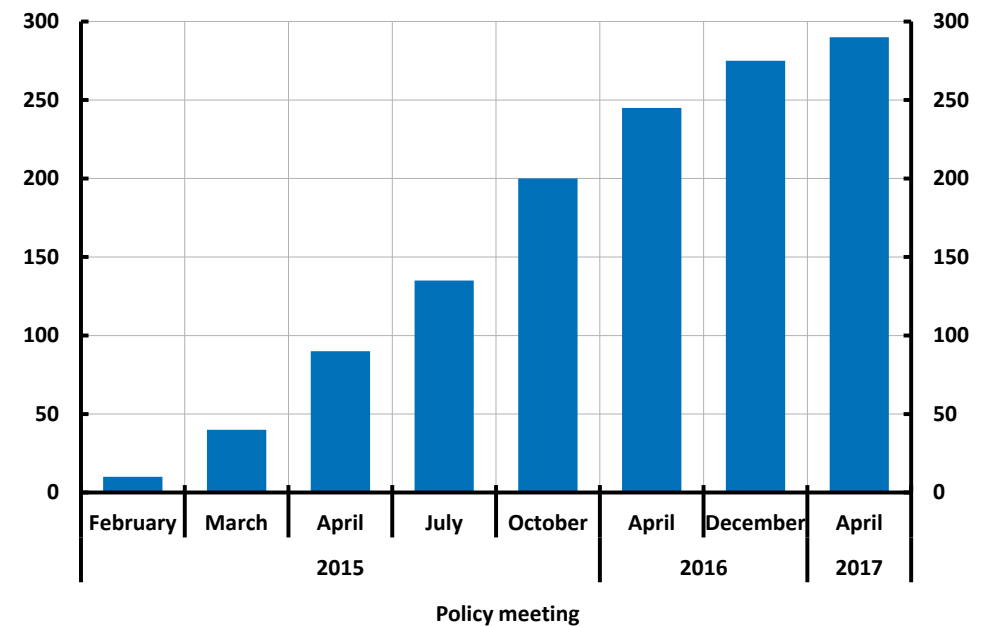
Sources: Statistics Sweden and the Riksbank

# Monetary policy supporting economic activity and inflation

Repo rate unchanged at -0.50 per cent



Purchases of government bonds during the second half of the year



Note. Per cent and SEK billion respectively.

Source: The Riksbank

# Low interest rates needed – but important to have measures aimed at housing market

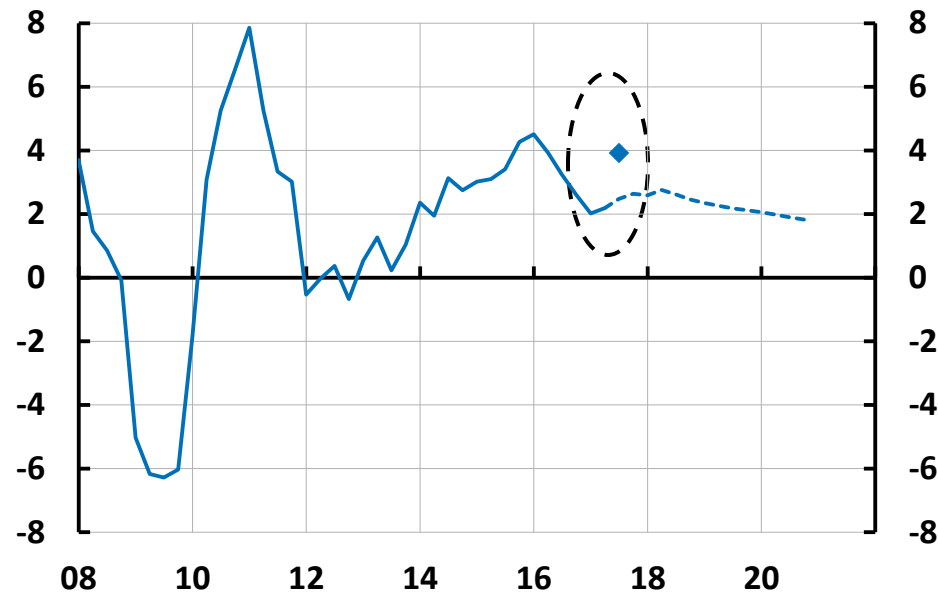
- Household high and rising debt  
– a risk to the national economy
- Measures needed in the housing market,  
taxation policy and macroprudential policy
- Finansinspektionen's proposal for tougher  
amortisation requirement a welcome step



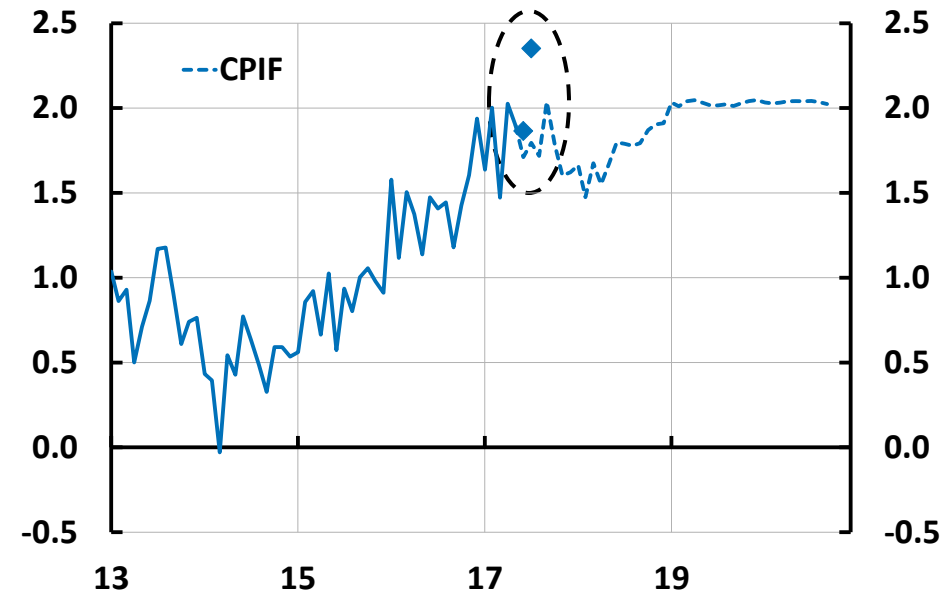


# Developments during the summer

Unexpectedly strong GDP growth in the second quarter



Higher inflation than expected in June and July



Note. Annual percentage change GDP measured using calendar-adjusted data. The CPIF is the CPI with a fixed interest rate. Squares refer to new outcomes after the report was published.

Sources: Statistics Sweden and the Riksbank

# **The importance of clarity and transparency in monetary policy**

***Our experiences of publishing  
our own repo-rate forecasts***

# Several reasons why we began publishing our own repo-rate forecast in 2007



- Facilitates communication concerning monetary policy
- Previous repo-rate assumptions entailed problems for the forecasting work
- Can influence market expectations

# Good experiences

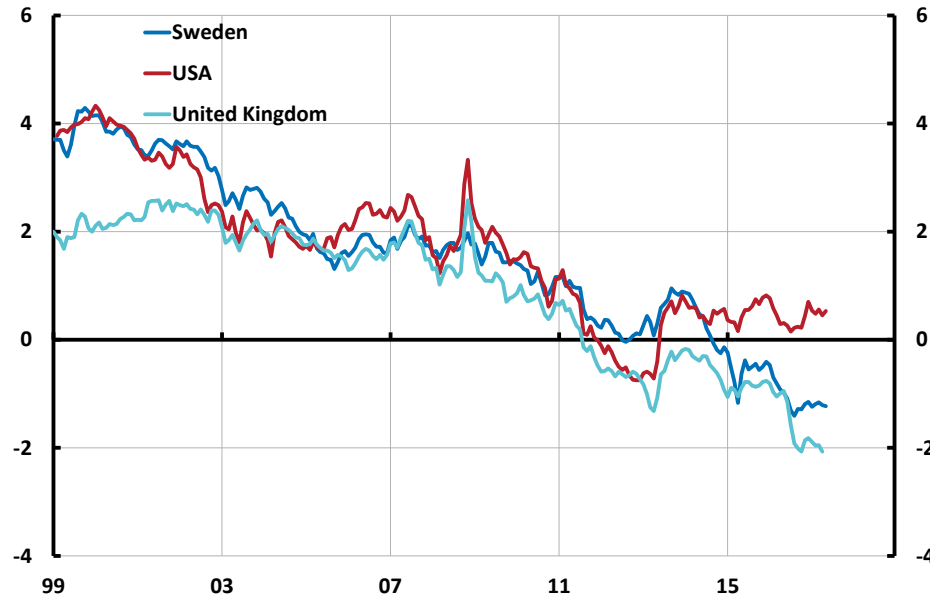
- Has given the **general public greater insight** into monetary policy and **better possibilities for evaluation** and accountability.
- Has **improved the internal analysis work**, partly through increased use of alternative scenarios
- The **cooperation between the Executive Board and the staff has deepened** in that **the forecasts and monetary policy are now more closely linked**

# But there have also been challenges

- Periodically, there have been major differences between the repo-rate path and forward rates
- The accuracy of the repo-rate forecasts

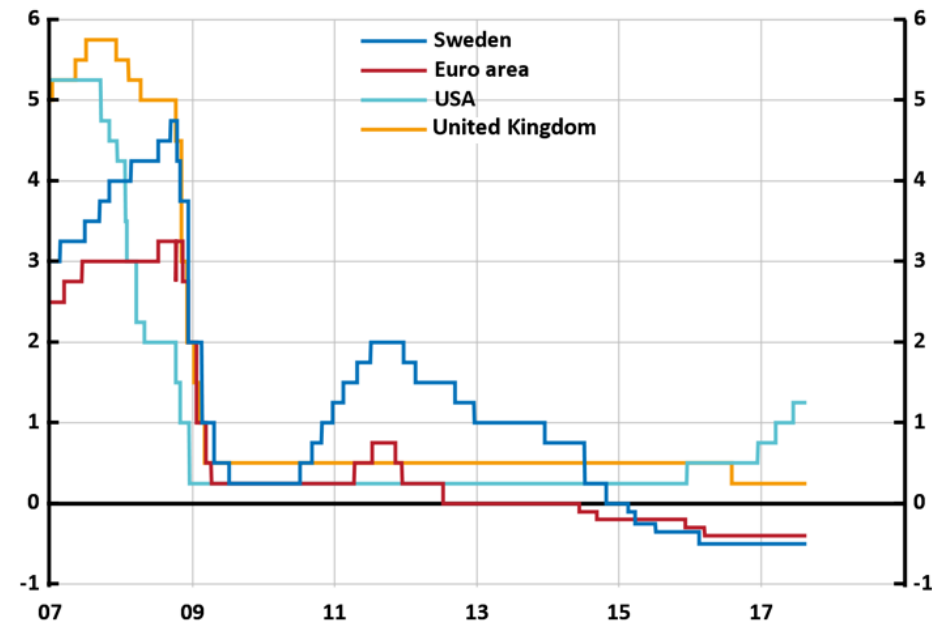
# Both the Riksbank and others have overestimated the future level of the repo rate

Global trend towards lower real interest rates



Note. Per cent. Real yields refer to 10-year real government bonds. The ECB's policy rate refers to the deposit rate.

Financial crisis and sovereign debt crisis led to large policy rate cuts



Sources: Bank of England, ECB, Federal Reserve, Thomson Reuters and the Riksbank

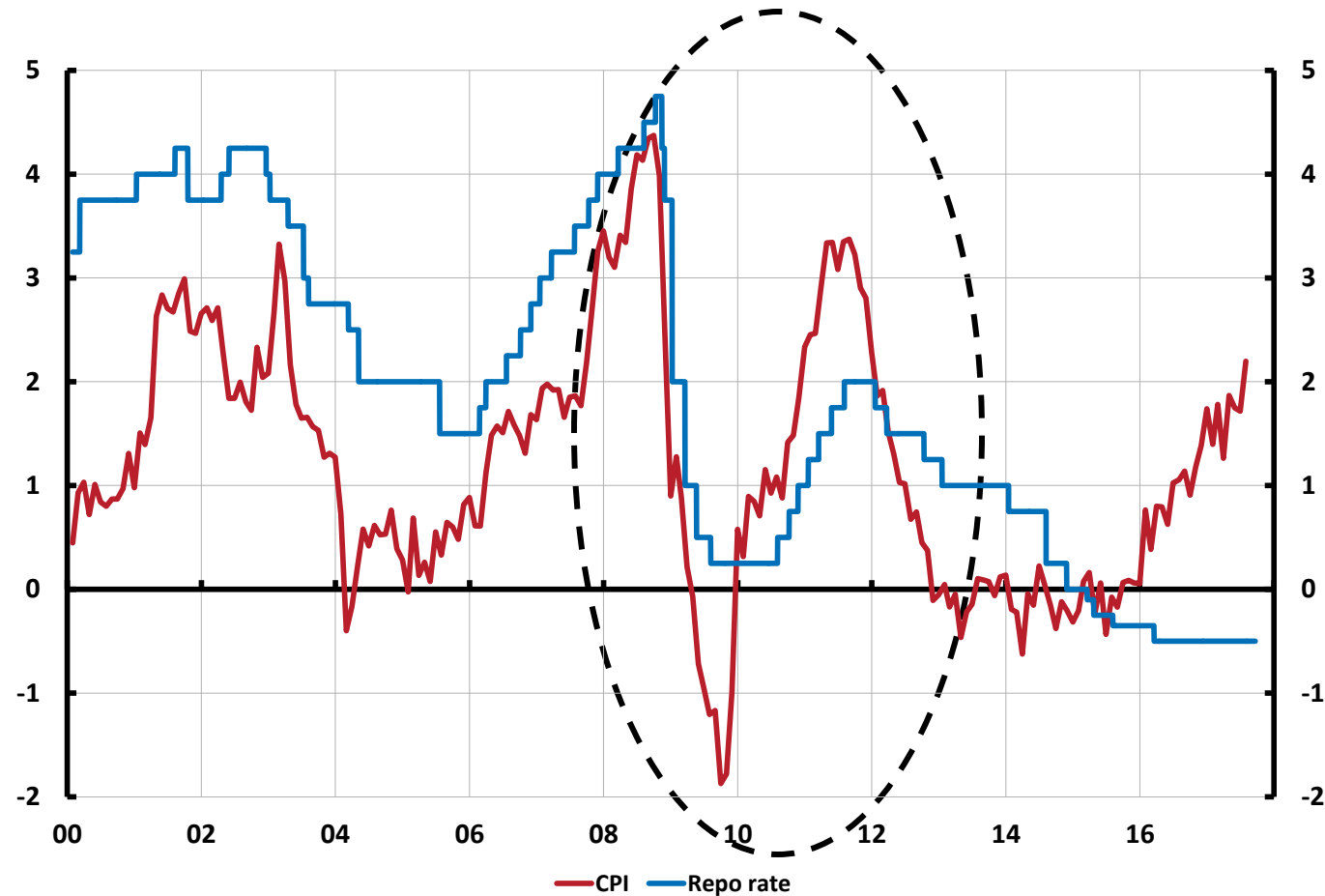
# Lessons for the future

- Accuracy of the repo-rate forecasts
  - We need, for instance, to develop the analysis of **changes in long-term interest rates**
- Communication of monetary policy
  - **Actual changes** in the interest rate compared with **changes in the forecasts** for the interest rate



***The CPIF as a formal target variable and  
illustration with a variation band***

# The CPI is influenced by the repo rate in the short term in the “wrong direction” – a challenge for communication

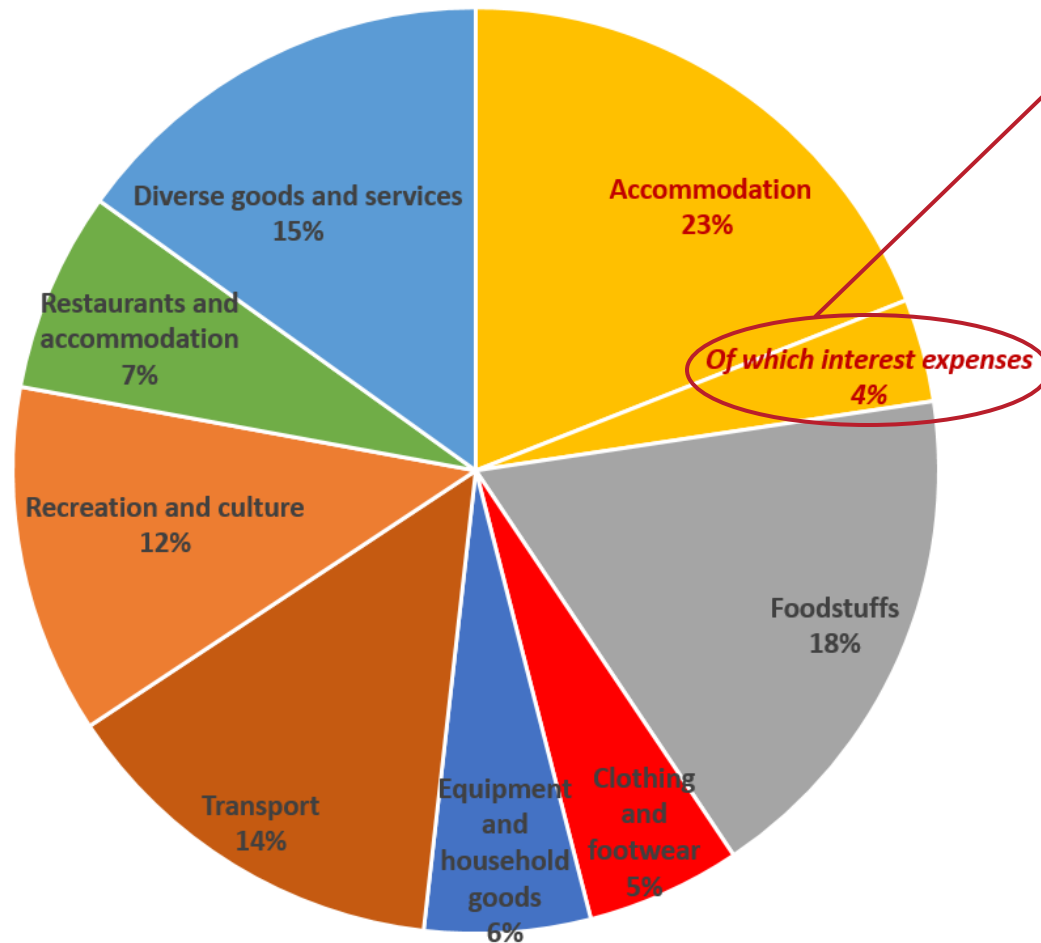


Note. Repo rate in per cent and the CPI expressed as an annual percentage change.

Sources: Statistics Sweden and the Riksbank

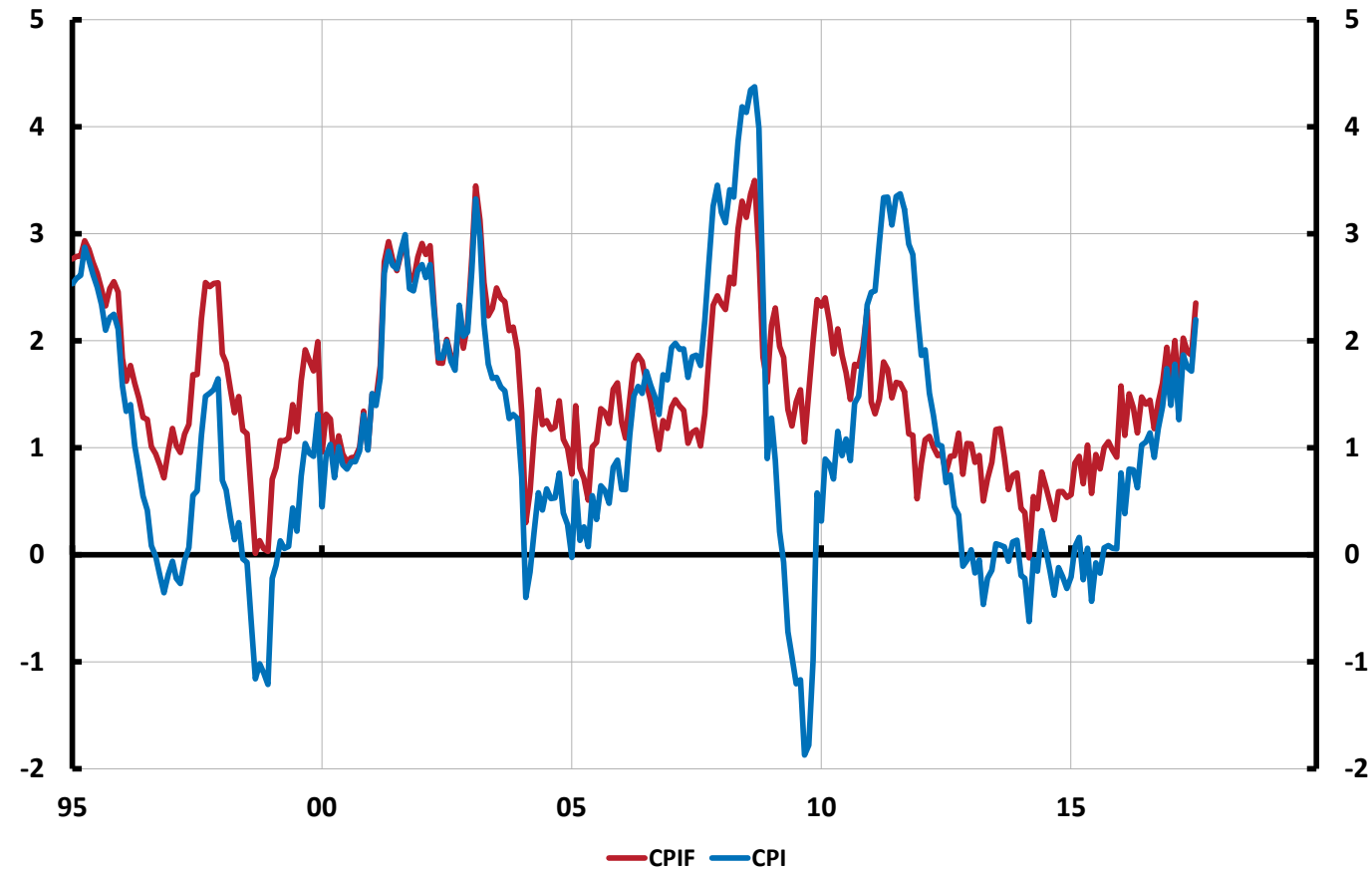
# The CPI and the CPIF – what is the difference?

Weights in the CPI 2017



- $Interest\ expenses = capital\ stock * interest\ rate$
- Capital stock  $\approx$  the value of the home when purchased (sluggish series)
- **Interest rate = mortgage rate; influenced to a large degree by the repo rate**
- **In the CPIF, the mortgage-rate index is constant**

# To attain clearer monetary policy – CPIF as formal target variable

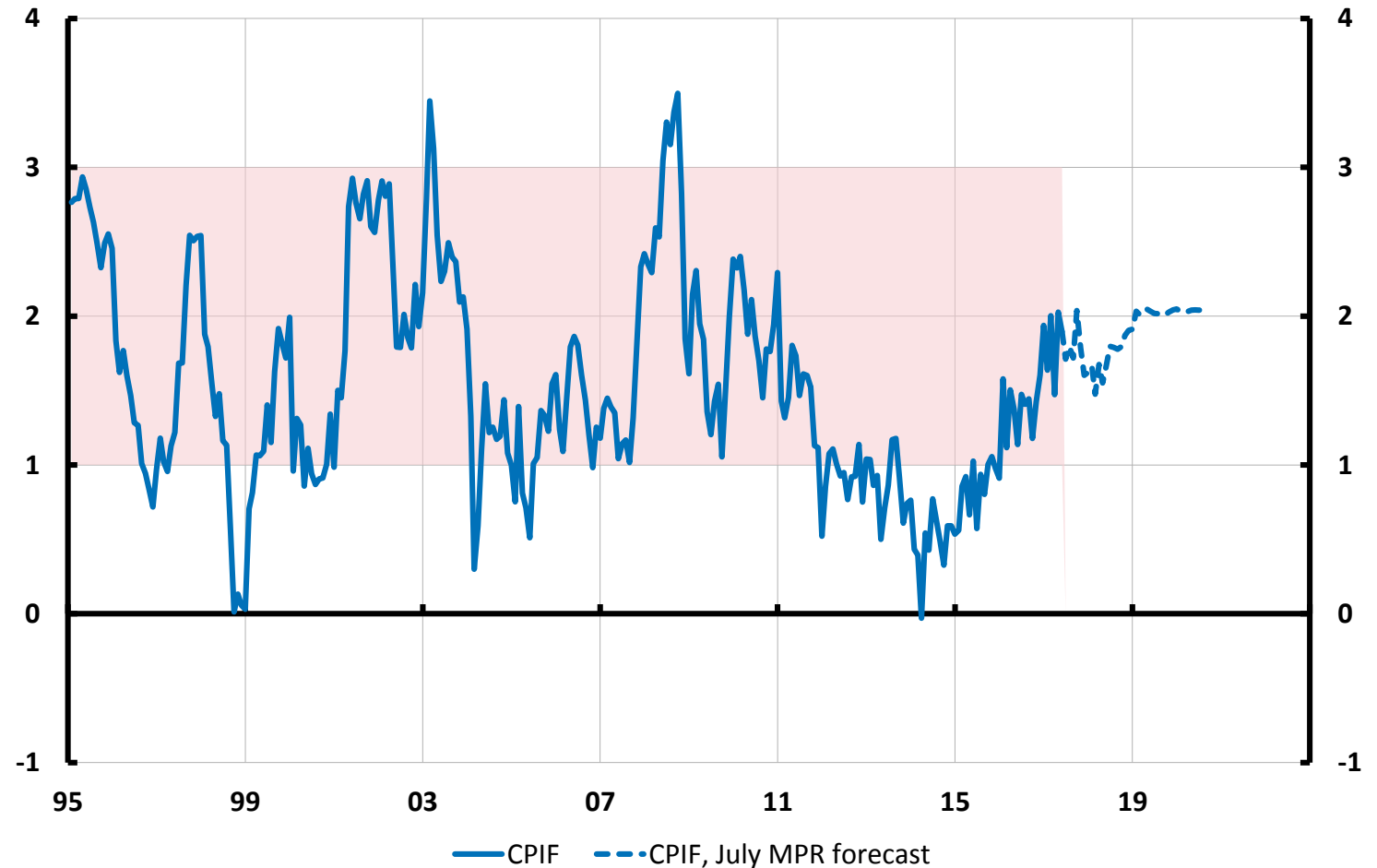


Note. Annual percentage change. The CPIF is the CPI with a fixed mortgage rate.

Source: Statistics Sweden

# Variation band illustrates uncertainty

- To illustrate uncertainty
- Based on historical developments
- Not a 'target range' – monetary policy aims at 2 per cent regardless of whether inflation is inside or outside the band



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

Source: Statistics Sweden and the Riksbank

# Work during the autumn

- The commission of inquiry on a new Sveriges Riksbank Act continues
- Important to have measures on the housing market – Finansinspektionen's amortisation requirements being processed
- Next monetary policy meeting on 6 September