

Introduction on monetary policy

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S V E R I G E S R I K S B A N K

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Today's presentation

- Two years with a minus repo rate and government bond purchases – how did we get here?
- Current monetary policy

Two years with a minus repo rate and government bond purchases – how did we get here?

- The inflation target – a cornerstone of the Swedish economic policy framework following the crisis of the 1990s
- Low interest rates abroad affect the conditions for Sweden
- Difficult situation 2014/2015
 - Declining confidence in the inflation target as a nominal anchor after several years of inflation below 2 per cent



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**THE RIKSBANK STATES THE TARGET FOR
MONETARY POLICY**



With a floating exchange rate, price stability is still the overall target for monetary policy.

Credibility in the price stability target is dependent on how overall economic policy is formulated.

The budget statement states that the underlying inflation rate must remain low and that a price rise of more than 5 per cent during 1993 cannot be tolerated.

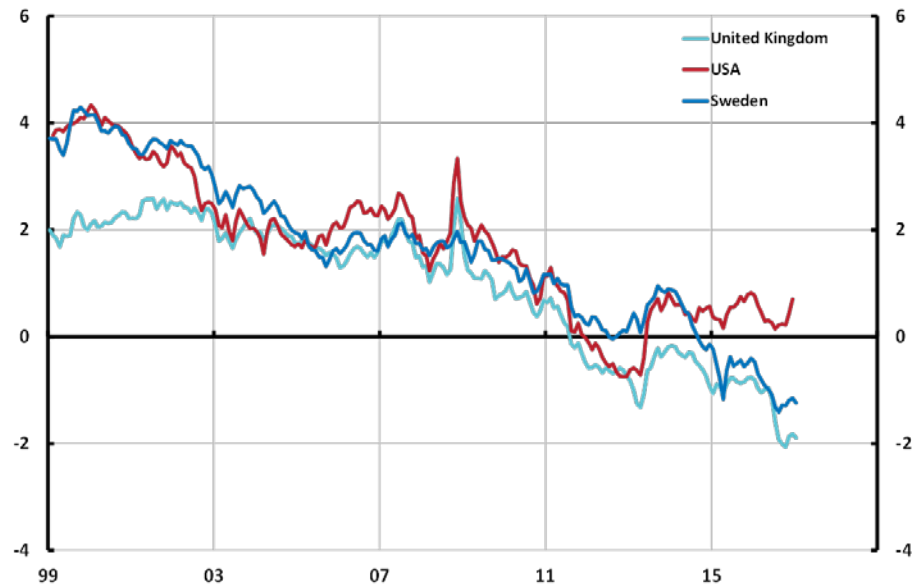
Via its monetary policy, the Riksbank itself will advocate the results achieved in the fight against inflation.

The Riksbank specifies the objective for monetary policy to be to limit the change in the consumer price index to 2 per cent as from 1995, with a tolerance interval of ± 1 percentage point. This corresponds to the current underlying inflation rate.

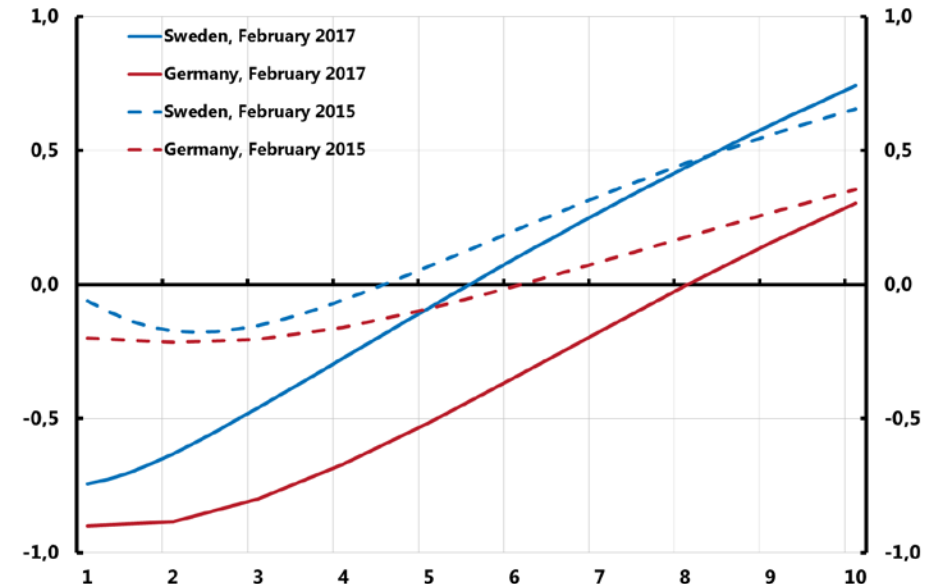
Price stability creates good conditions for economic growth, high employment and combats an arbitrary redistribution of income and wealth.

Low interest rates abroad affect the conditions for Sweden

Falling trend in real interest rates globally



Expansionary monetary policy in the euro area

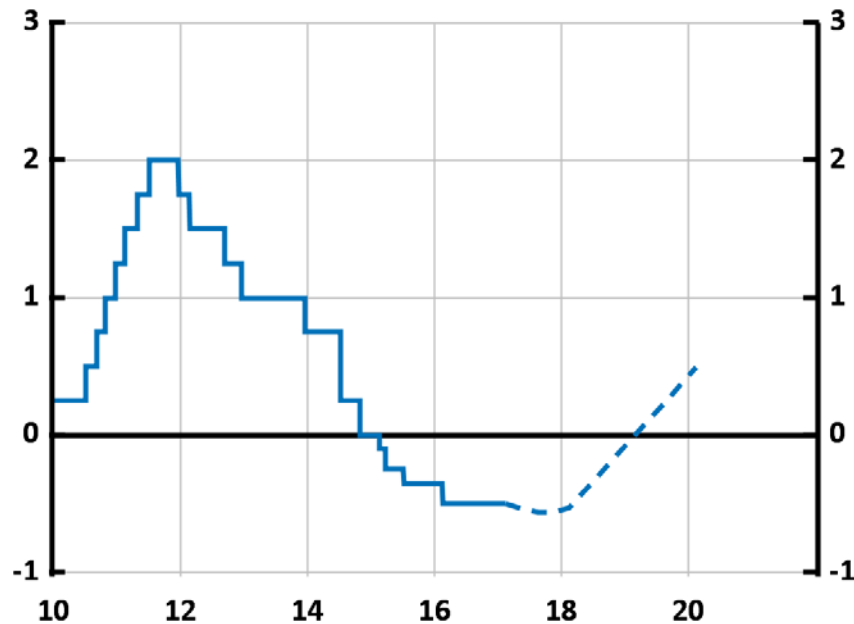


Note. Left-hand picture: 10-year yield on inflation-indexed government bonds, per cent.
 Right-hand picture: Government bond yields on different maturities, per cent.
 February 2015 corresponds to the closing rate on 11 February, that is, the day before publication of MPR Feb 2015. Unbroken lines refer to 21 February 2017.

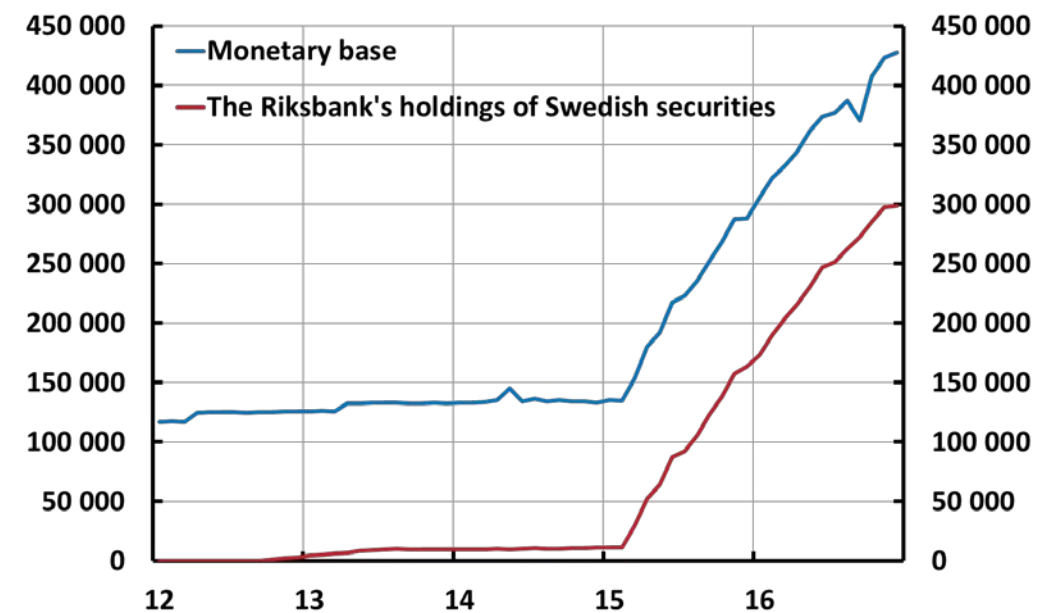
Sources: Statistics Sweden and the Riksbank

Expansionary monetary policy in the form of lower interest rate and greater amount of money in the economy

Repo rate -0.50 %



Purchases of government bonds

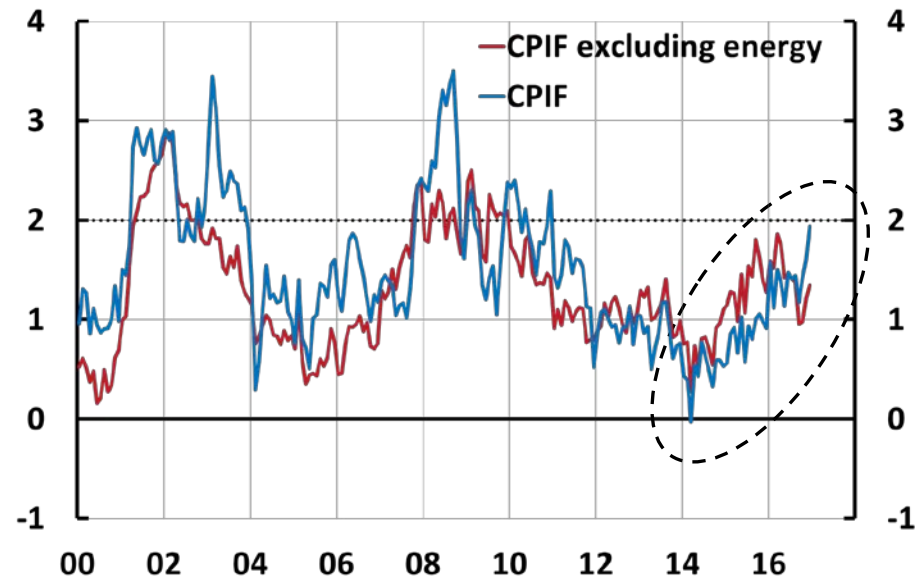


Note. Per cent and SEK billion.

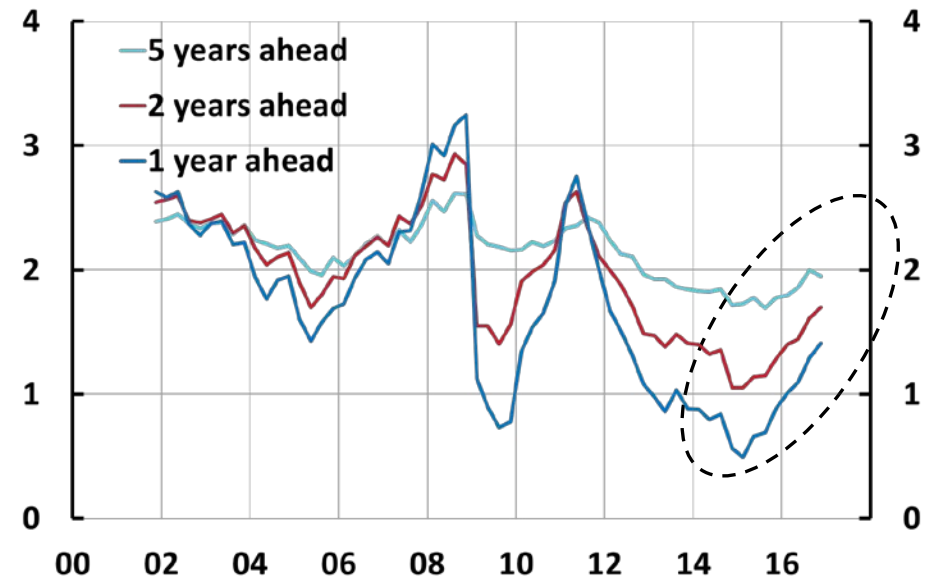
Source: The Riksbank

We have acted purposefully and reversed the trend in inflation

Higher inflation



Rising inflation expectations

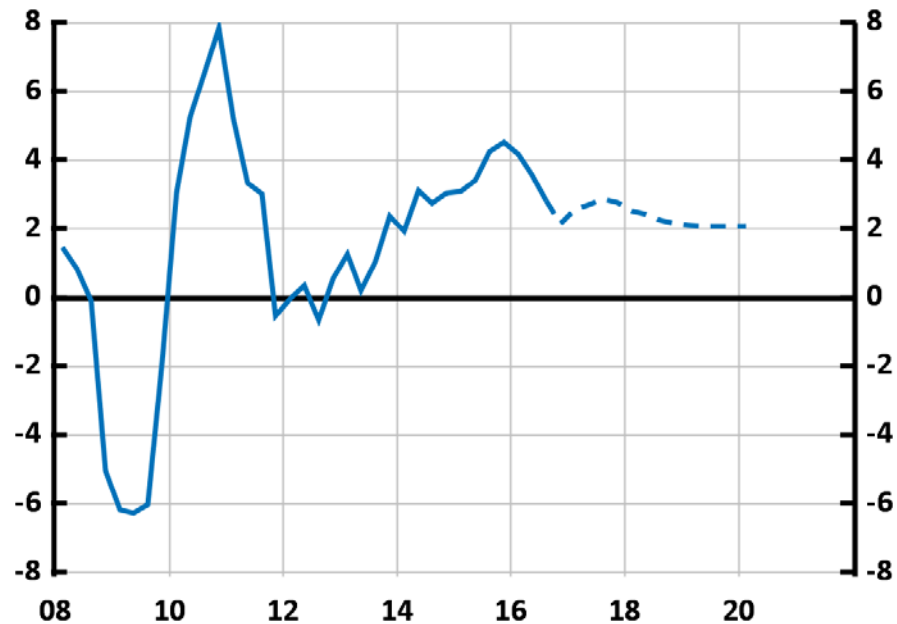


Note. The CPIF is the CPI with a fixed mortgage rate. Inflation expectations refer to all participants questioned.

Sources: Statistics Sweden and TNS Sifo Prospera

Strong Swedish economy

Good GDP growth



Increasing number have jobs

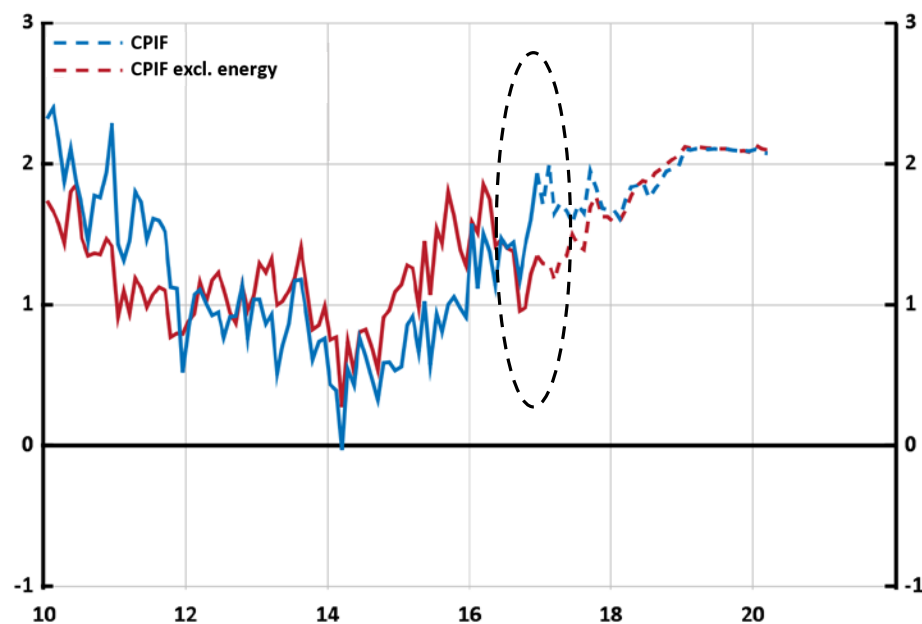


Note. Annual percentage change and percentage of labour force, 15–74 years. Calendar-adjusted and seasonally adjusted data.

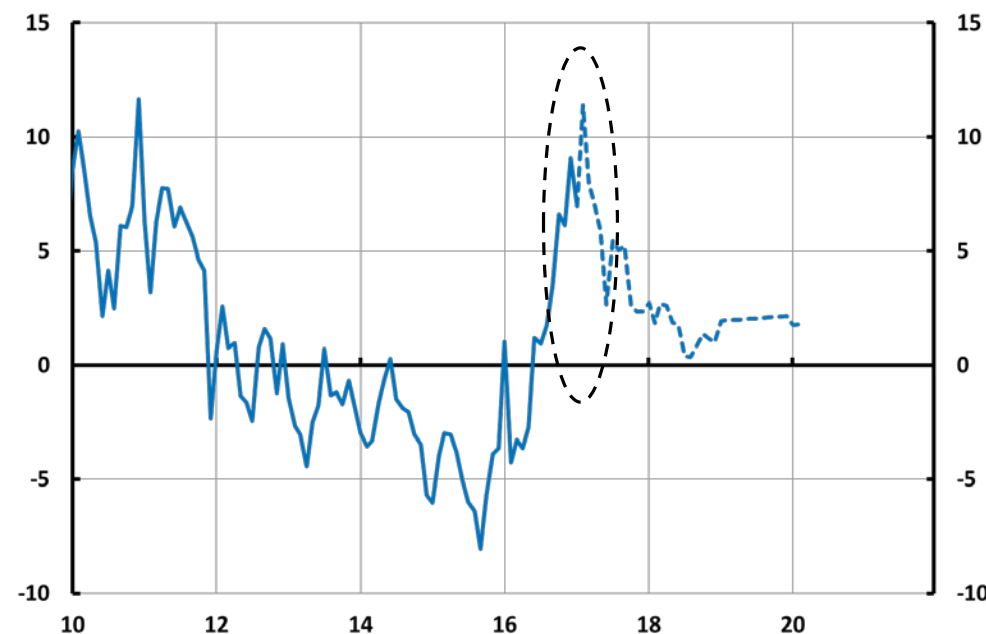
Sources: Statistics Sweden and the Riksbank

But we are “not out of the woods yet” as regards inflation

The CPIF and the CPIF excluding energy



Energy prices



Note. Annual percentage change. The CPIF is the CPI with a fixed mortgage rate. Energy prices refer to energy prices in the CPI and are an aggregate of the development of electricity and fuel prices and constitute 7.6 per cent of the CPI.

Sources: Statistics Sweden and the Riksbank

Exchange rate is important for the development of inflation



Note. Index, 18 November 1992 = 100 The KIX is an aggregate of countries that are important for Sweden's international transactions.

Source: The Riksbank

Continued expansionary monetary policy is required for inflation to stabilise around 2 per cent



Inflation is rising and inflation expectations are close to 2 per cent

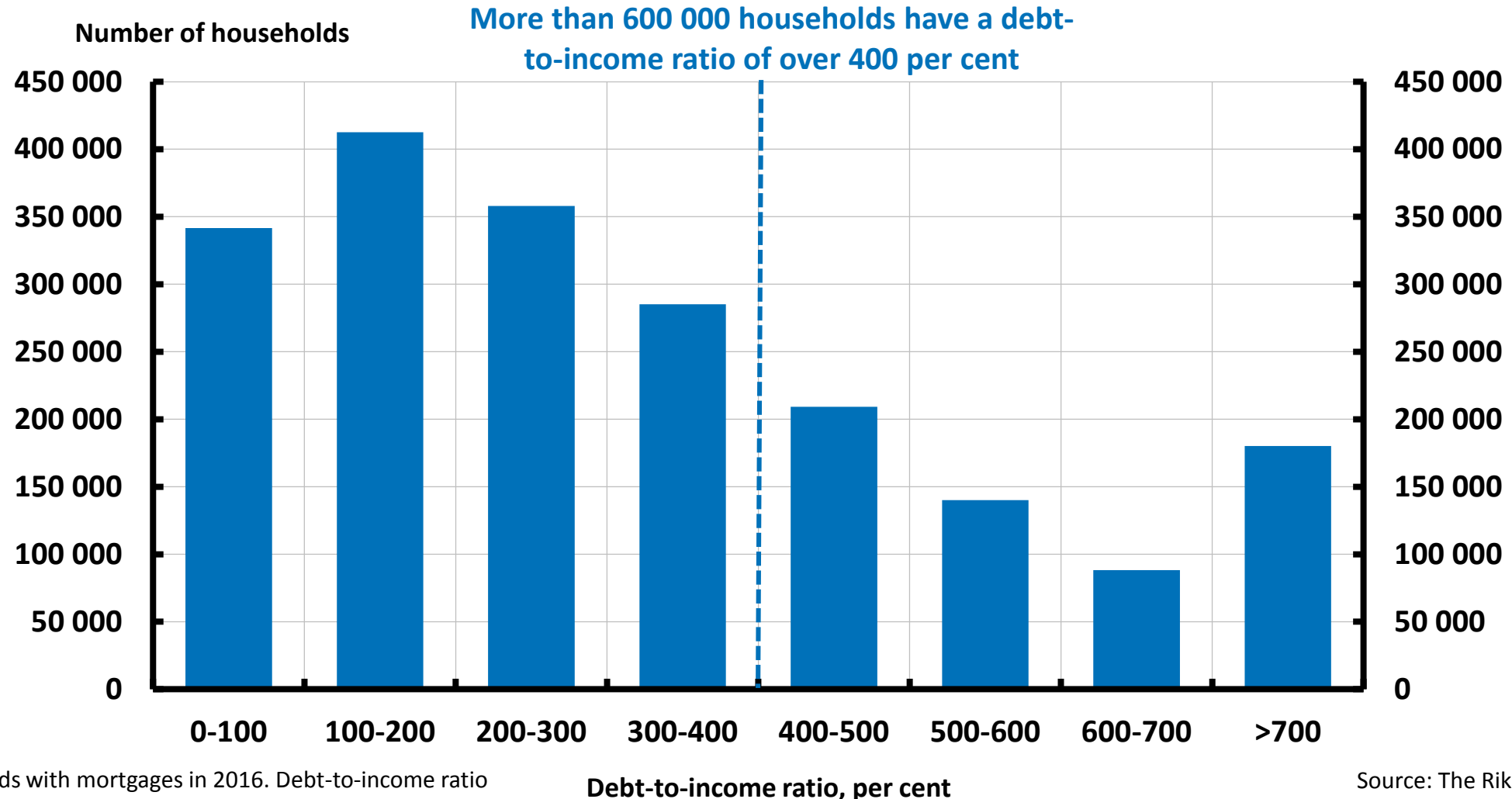
But

Excluding energy prices, inflation is still low

Inflation only expected to stabilise around 2 per cent next year

Uncertainty about policy abroad

But – to succeed in the long run, indebtedness must be managed



Refers to households with mortgages in 2016. Debt-to-income ratio is defined as the household's debt as a share of its disposable income.