

The Interest Rate Path of the Riksbank

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

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Deputy Governor

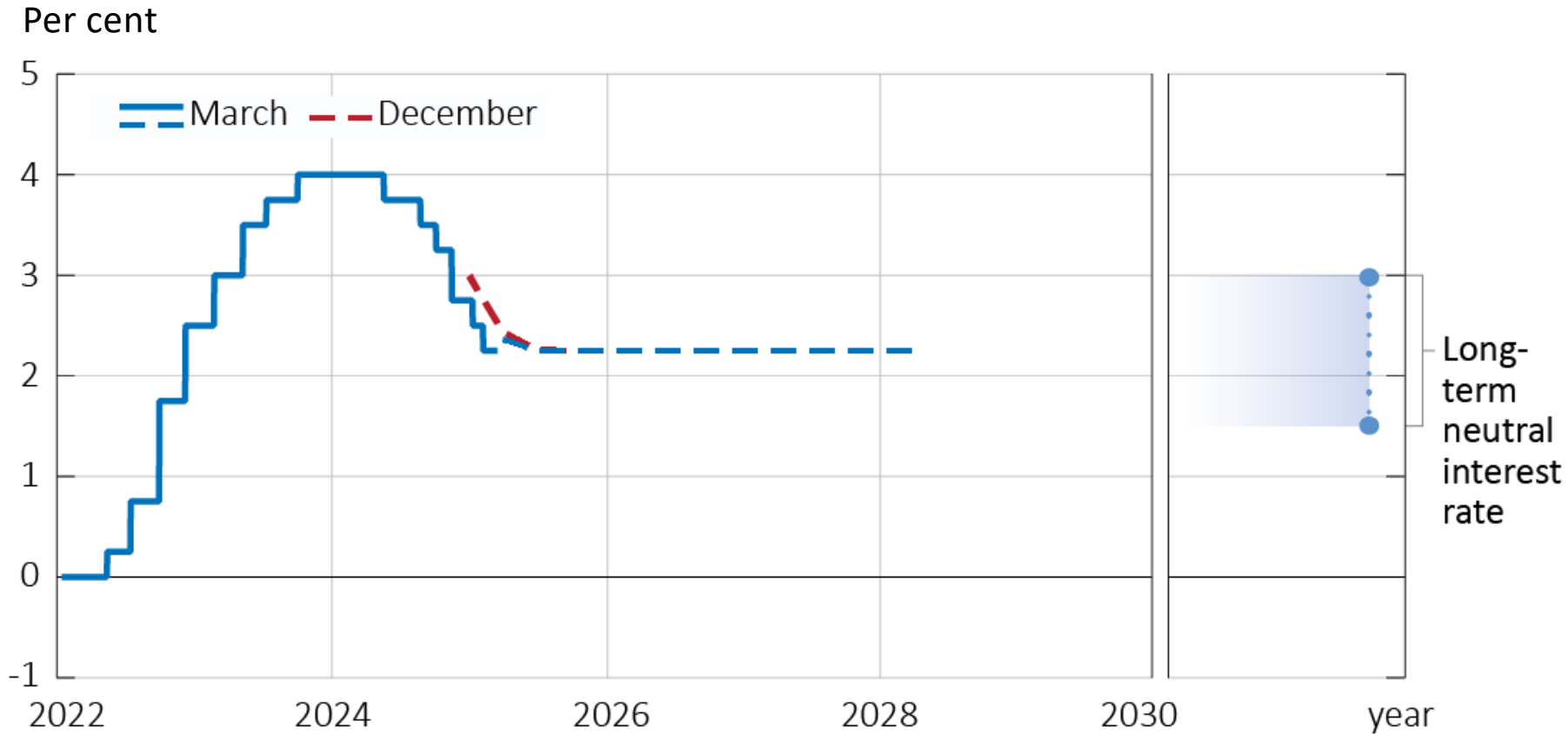
Managing expectations: the strategy of the Riksbank

- Flexible inflation targeting regime since 1995
- Target: 2 per cent annual increase in CPI at fixed rates (CPIF)
- The interest rate path:
 - Policy rate forecast 3 years ahead
 - Introduced in 2007
 - Together with scenarios, the most important tool for conveying our reaction function

Institutional setting

- 5 members of the executive board
- Monetary policy meetings 8 times a year:
 - 4 of these meetings: Monetary Policy Report (forecasts)
 - Every other meeting: Monetary Policy Update (no forecasts)
- The executive board takes decision on the current policy rate and the contents of the MPR (including the path) but may dissent
- Transcripts of monetary policy meetings published with a 5-day lag

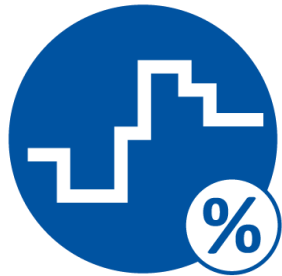
The interest rate path



Note. Solid line refers to outcome and dashed line refers to the Riksbank's forecast. The shaded area shows the uncertainty surrounding the forecast for the policy rate in the longer run. Outcomes are daily rates and the forecasts refer to quarterly averages.

Source: The Riksbank.

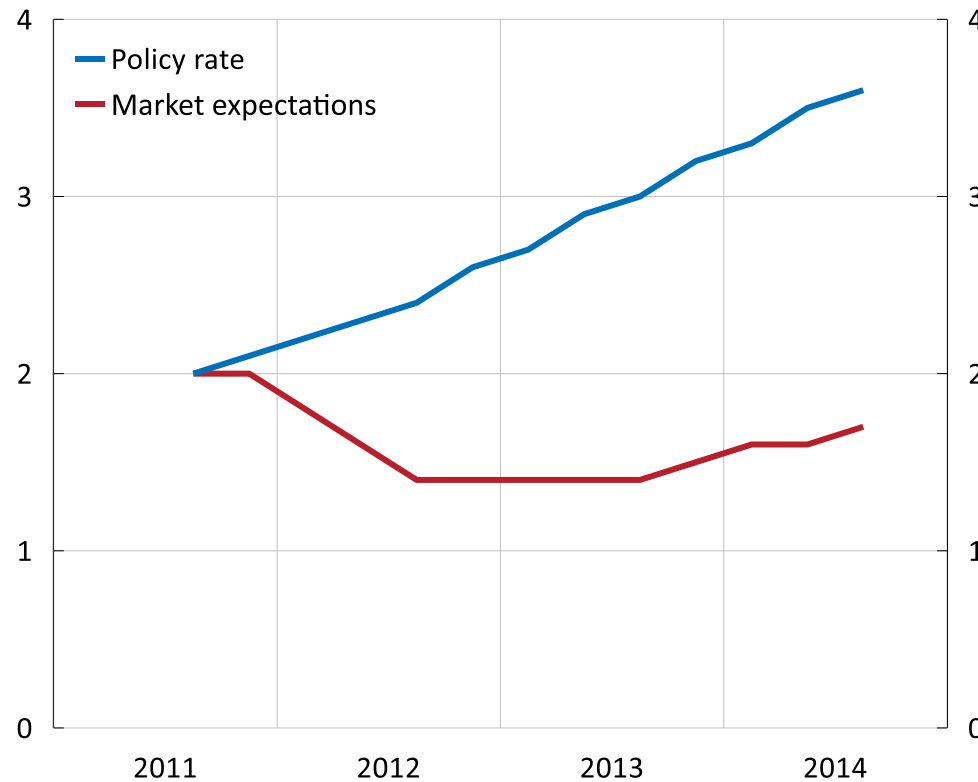
Key properties of the policy rate forecast



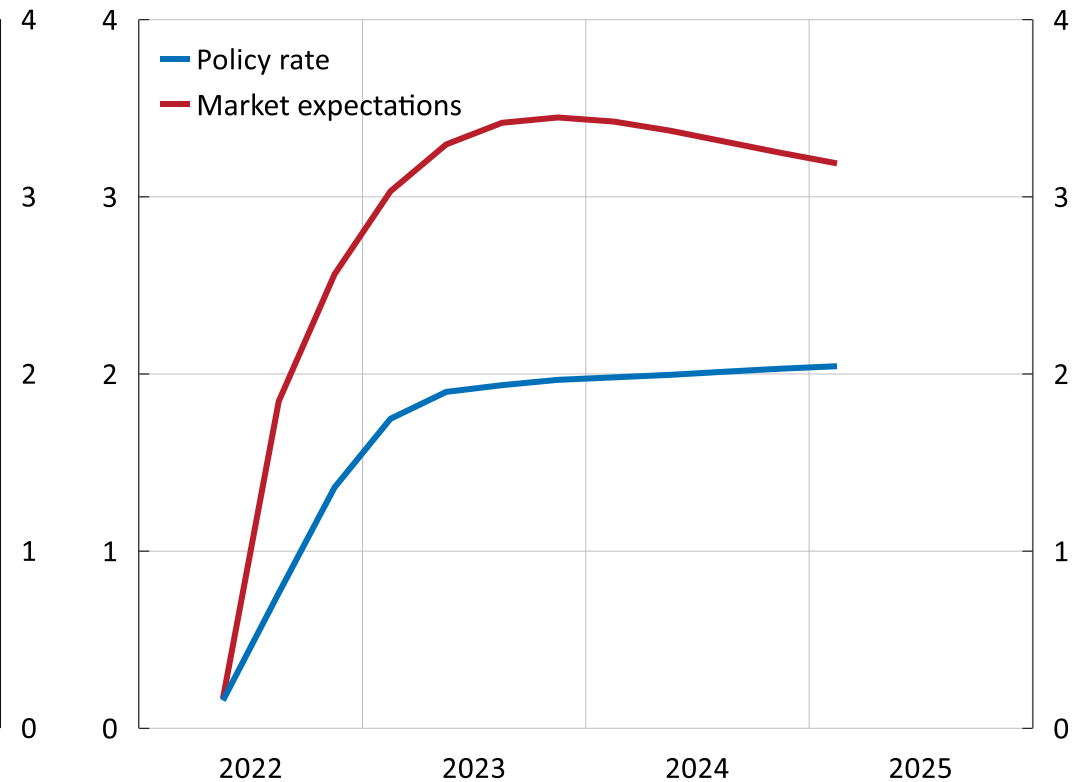
- Consistent with flexible inflation targeting and our estimate of the long-run neutral rate
- Efficient
- Robust
- Predictable

Occasional discrepancies between the forecast and market expectations

Monetary Policy Report July 2011



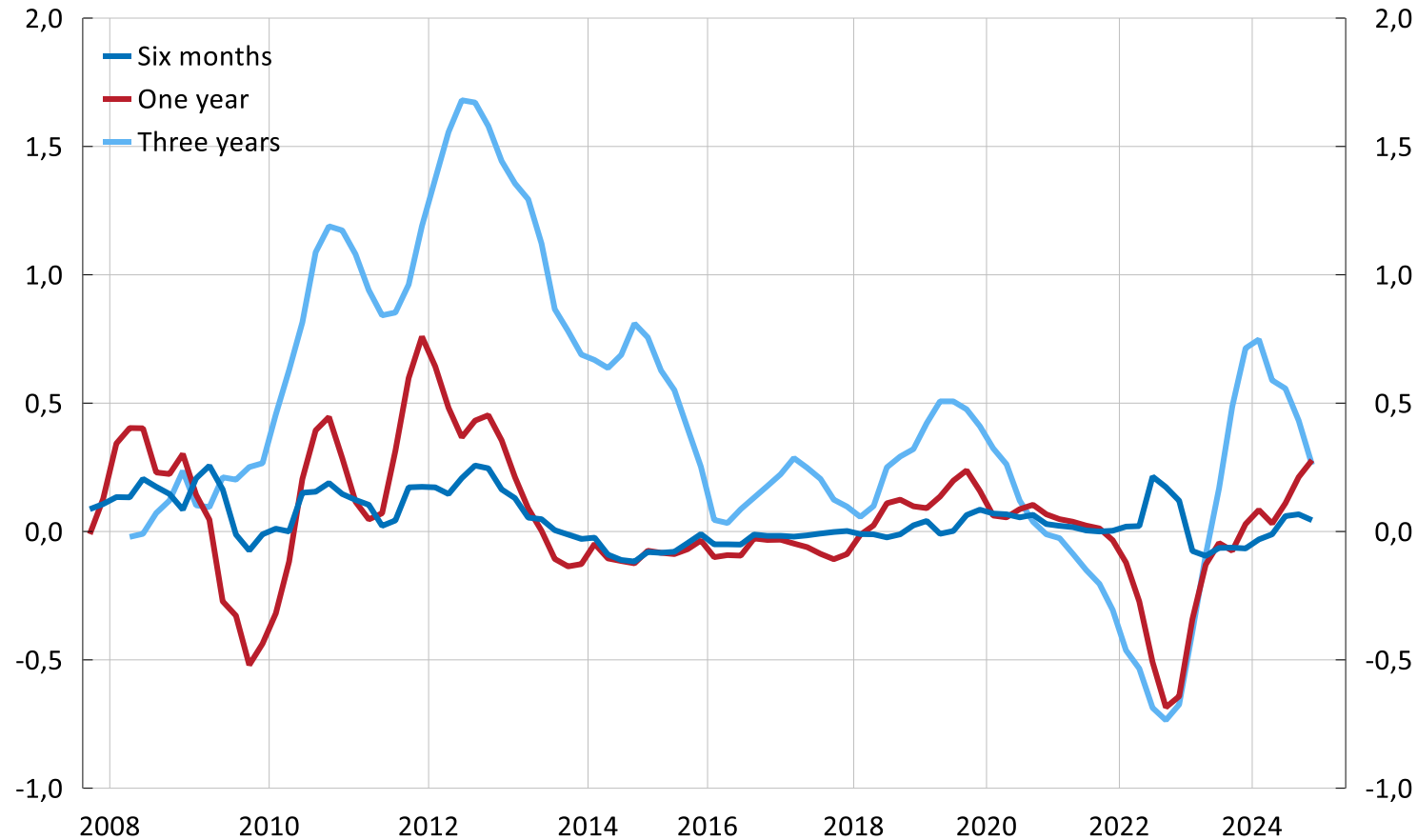
Monetary Policy Report June 2022



Note. The Riksbank policy rate forecast and market expectations on the policy rate.

Source: The Riksbank.

The policy rate path influences market rates in the short term



Note. Difference between the Riksbank's policy rate forecasts and market expectations. Series smoothed by moving averages.

Source: The Riksbank.

Concluding remarks

- Positive experiences publishing policy rate forecasts since 2007
- Together with scenarios our most powerful tool for communicating the reaction function of the Riksbank
- Not an executive board striving for consensus, but the institutional setting is part of the reason it has worked so well
- Monetary policy reports and forecasts invaluable communication tools