



# Two Decades of Inflation Targeting: Main Lessons and Remaining Challenges

3 June 2013

Welcome address

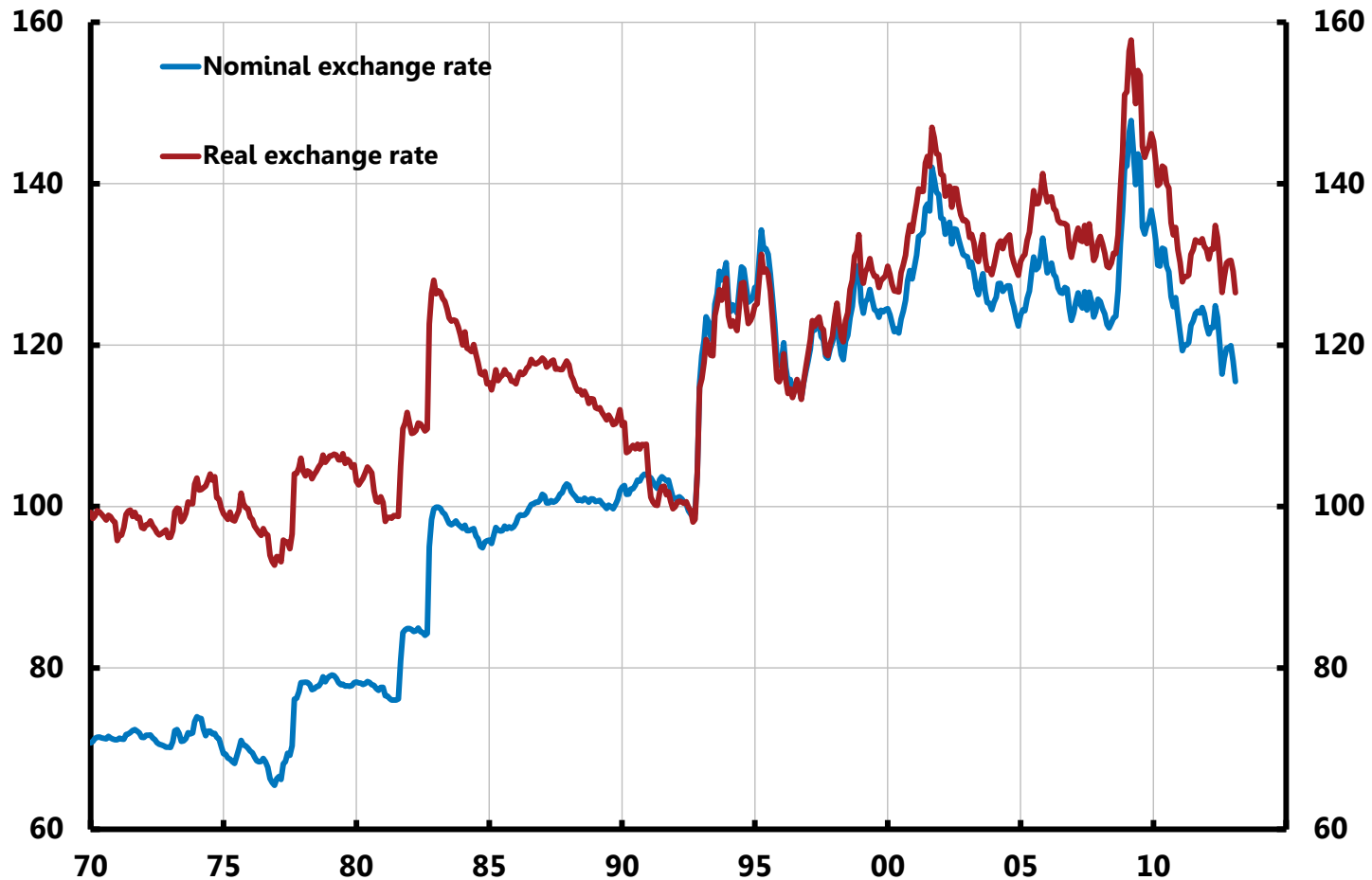
Governor Stefan Ingves

# History of exchange rate regimes in Sweden

- 1873 Gold standard and Scandinavian currency union
- 1914 Floating exchange rate
- 1924 Gold standard
- 1931 Floating exchange rate
- 1933 Krona pegged to the pound
- 1939 Krona pegged to the dollar
- 1951 Bretton Woods
- 1973 Currency snake
- 1977 Currency basket
- 1991 Ecu peg (unilateral)
- 1992 Floating exchange rate

# From a fixed exchange rate to an inflation target

Nominal and real exchange rate, TCW index, 18 November 1992 = 100



Note. TCW refers to a weighting of Sweden's most important trading partners.

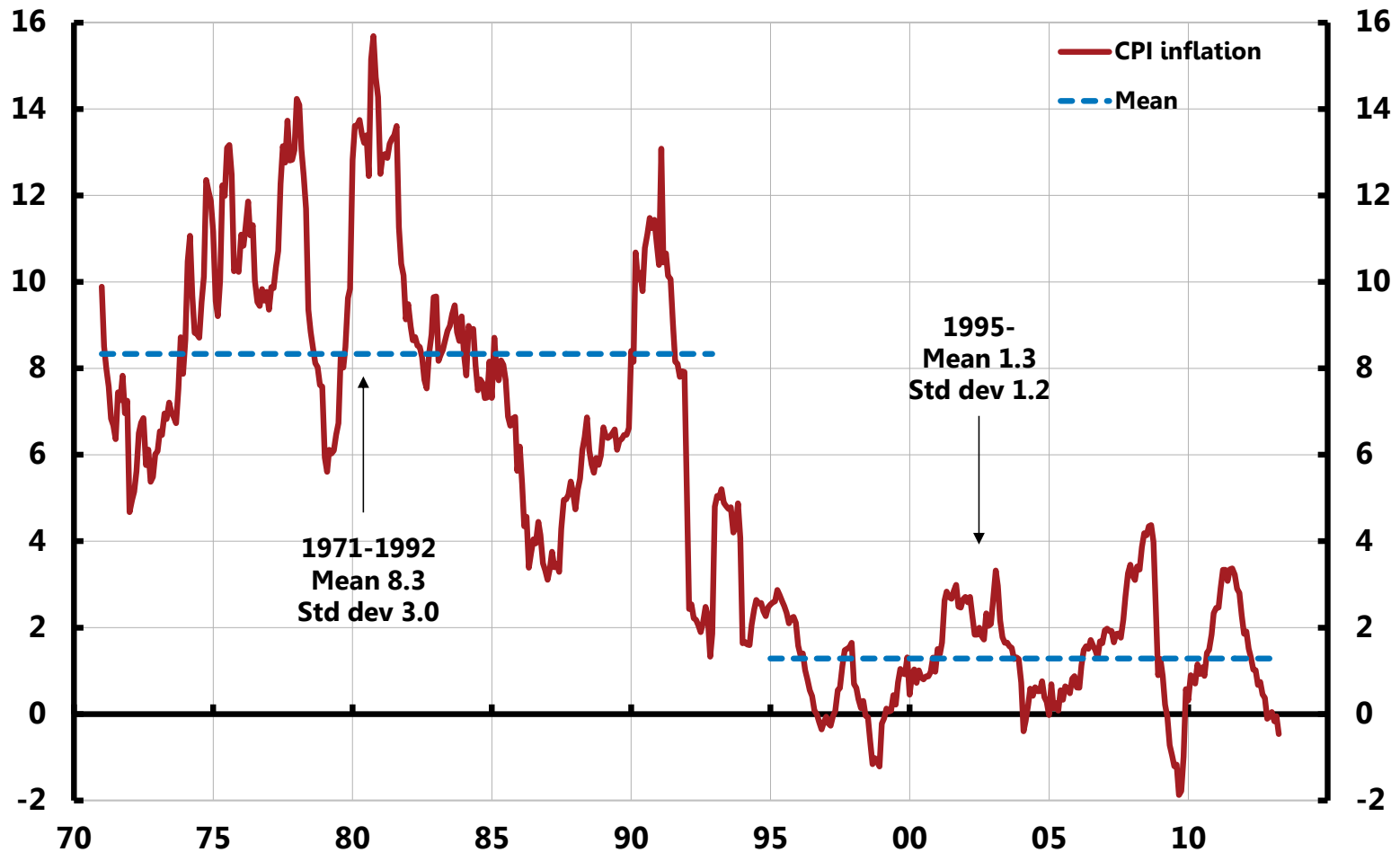
Source: The Riksbank

# Perspectives on the inflation target



# Lower and more stable inflation

Inflation in Sweden, 1970-2013

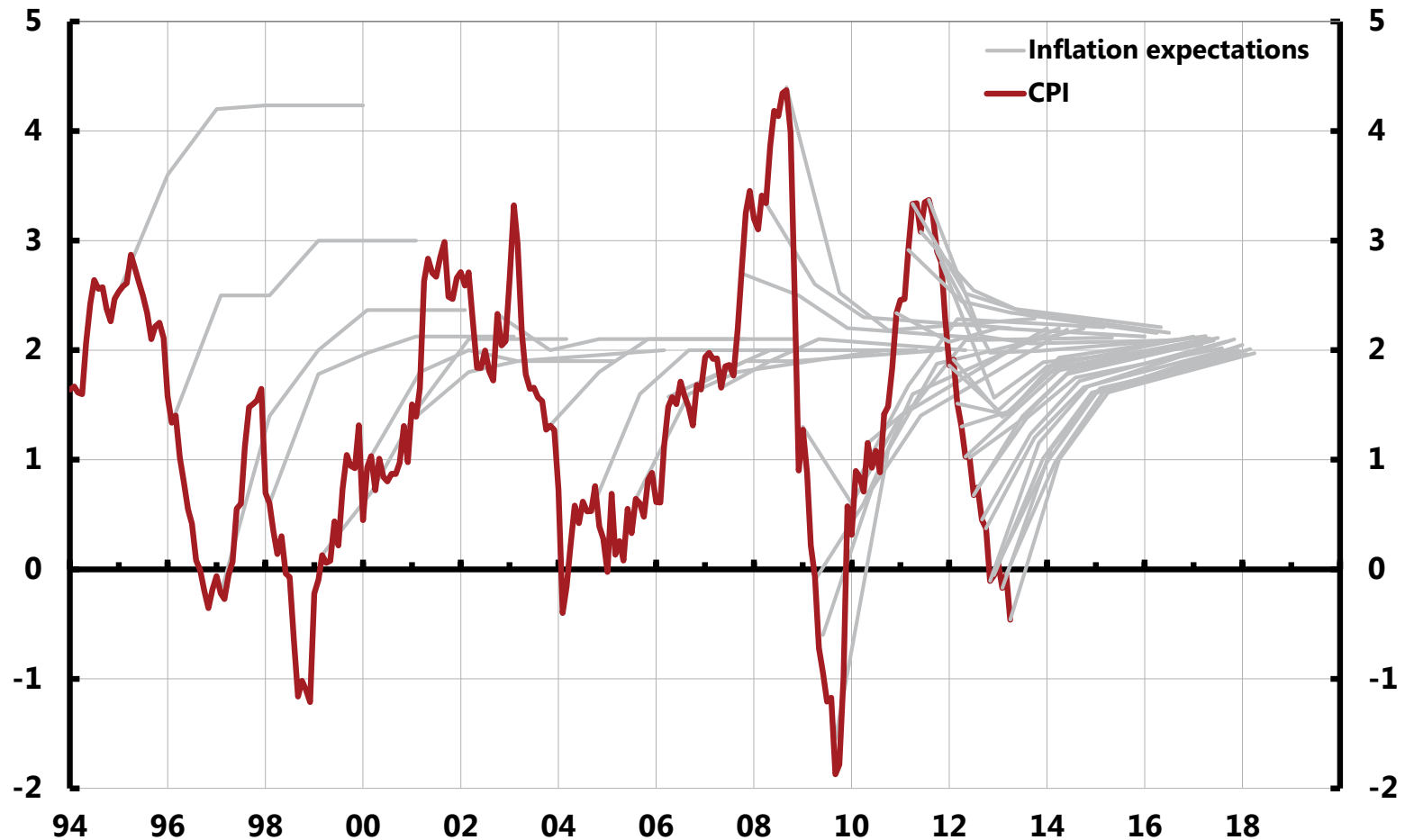


Source: Statistics Sweden

Note. Annual percentage change of the CPI. CPI inflation does not refer to real-time data, but is calculated using the current method. The average for the period from 1995 is therefore one tenth of a percentage point lower than with real-time data.

# Confidence in the inflation target

Actual and expected inflation, per cent



Note. Inflation measured by CPI. Expectations refer to money market agents.

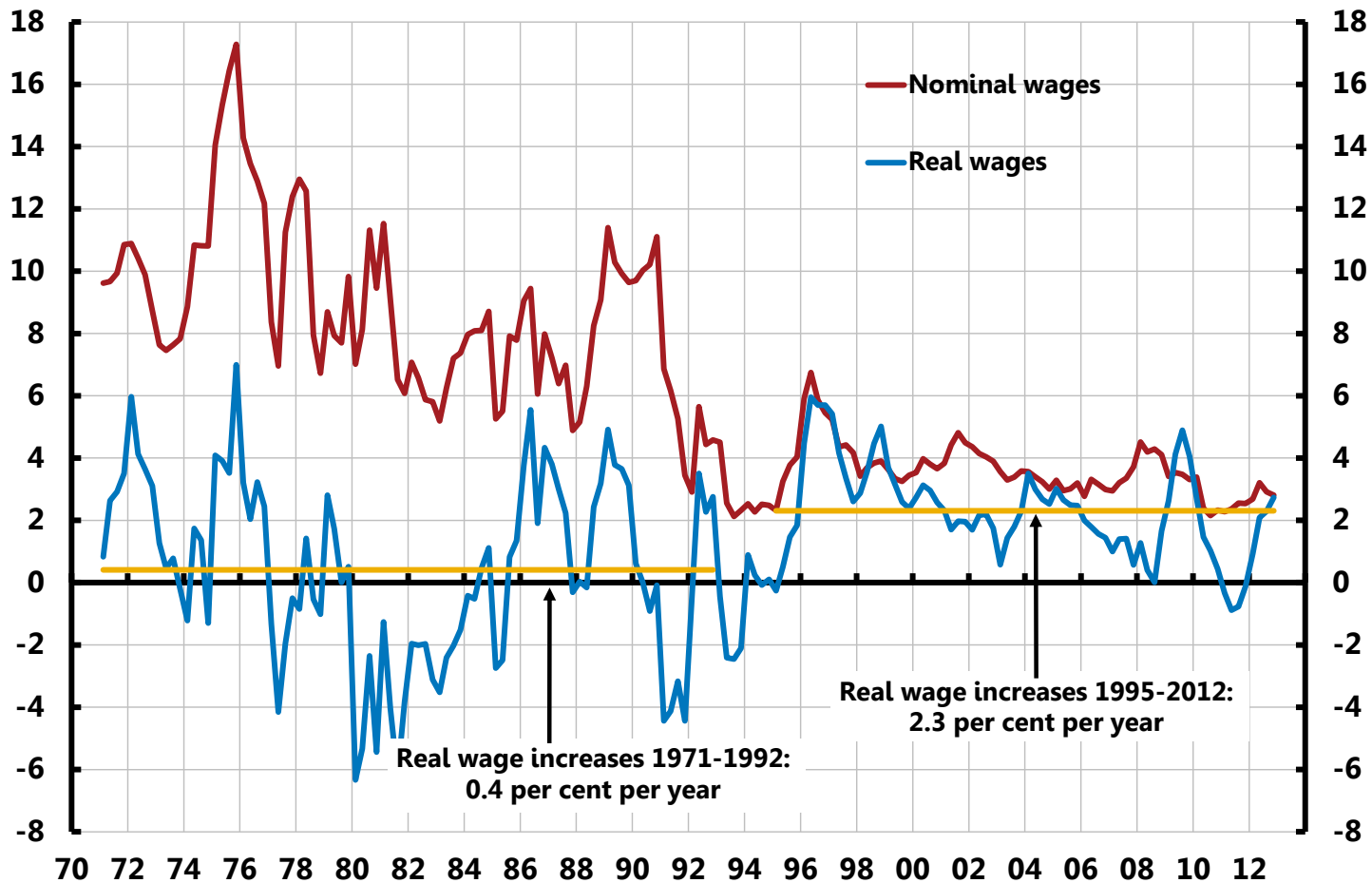
Sources: TNS Sifo Prospera and Statistics Sweden

# **Favourable macroeconomic outcome during the inflation targeting period**



# More effective wage formation

## Nominal and real wages in Sweden

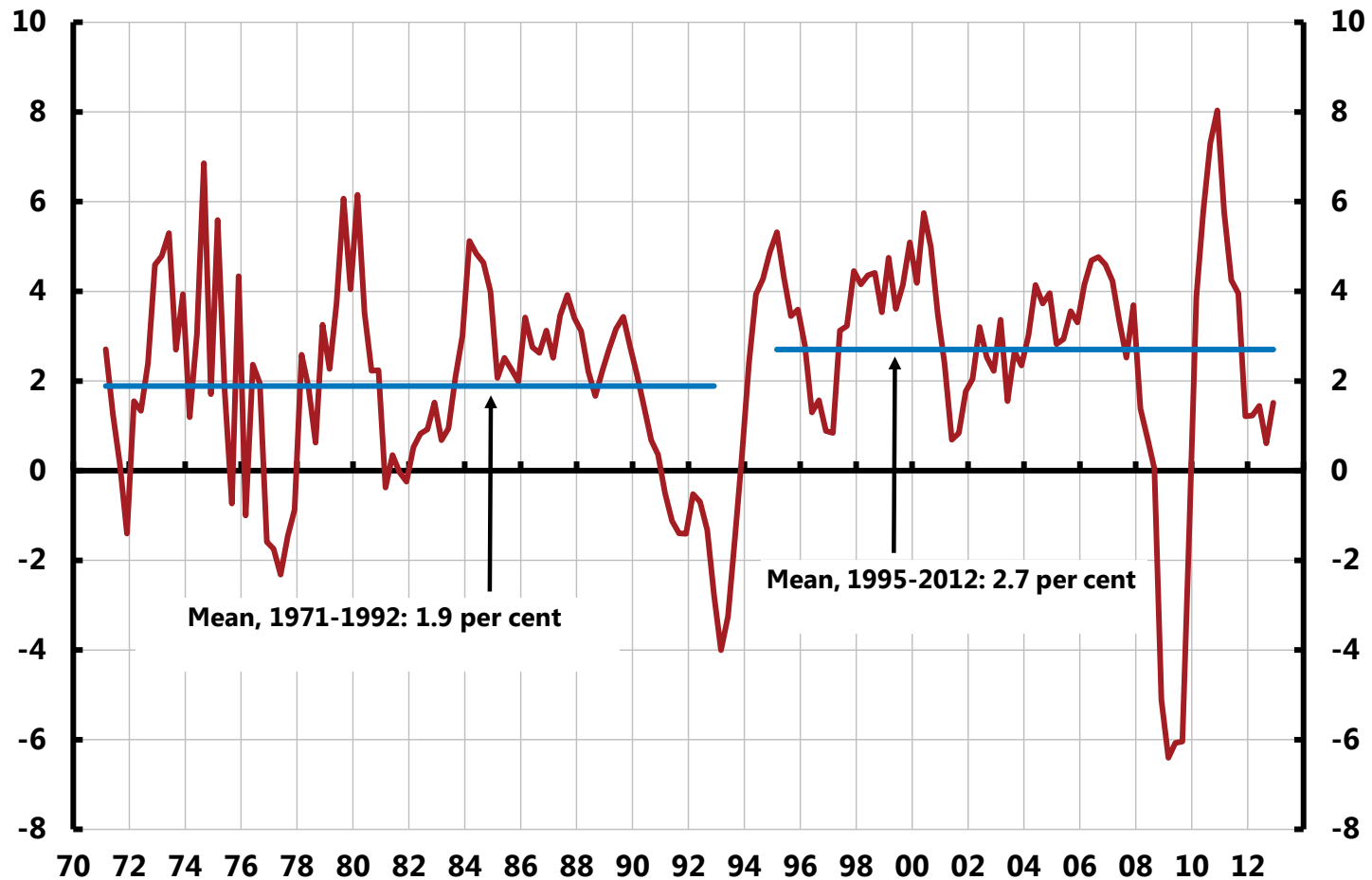


Note. Annual percentage change. Refers to wages according to the short-term wage statistics since 1993 and the wage structure statistics prior to 1993. Real wages are calculated as the difference between the annual percentage change in nominal wages and the annual percentage change in the CPI.



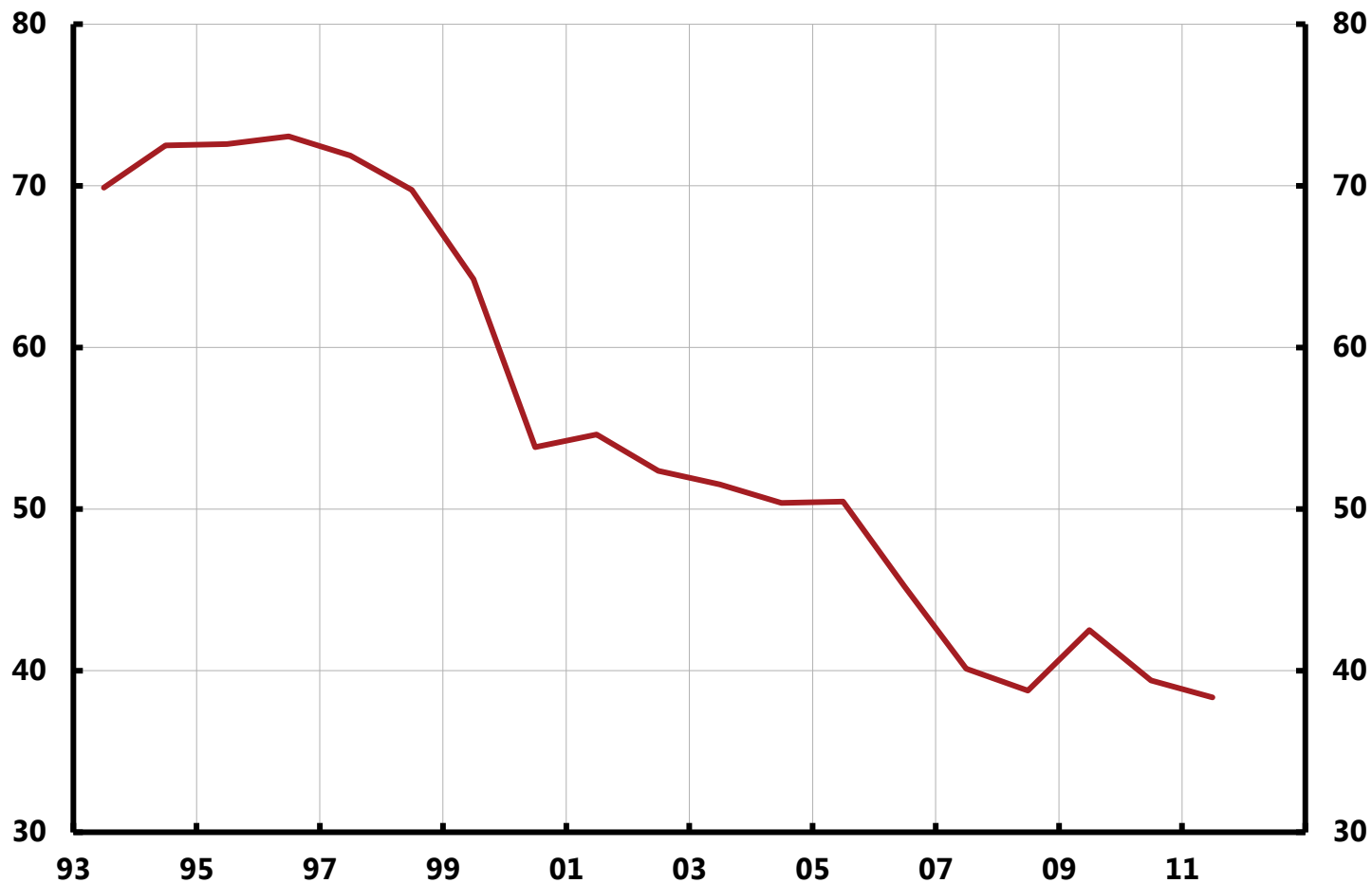
# Higher GDP growth

GDP growth, annual percentage change



# Change in fiscal policy framework has improved public finances

Public debt, per cent of GDP



# Increased transparency in monetary policy, e.g. own forecasts for the repo rate

- Forecasts for the Swedish economy based on
    - Unchanged repo rate
    - Market expectations of the repo rate (from Oct 2005)
    - The Riksbank's own forecast for the repo rate (from Feb 2007)
  - Advantages of having our own repo rate forecast
    - Easier to evaluate and compare our own forecasts
    - Reasoning and considerations are clearer
    - Monetary policy becomes more effective – has greater potential to influence market rates
  - A forecast – not a promise!
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# Remaining challenges

## ■ **The labour market**

- The role of monetary policy

## ■ **Financial imbalances**

- Monetary policy and macroprudential policy

