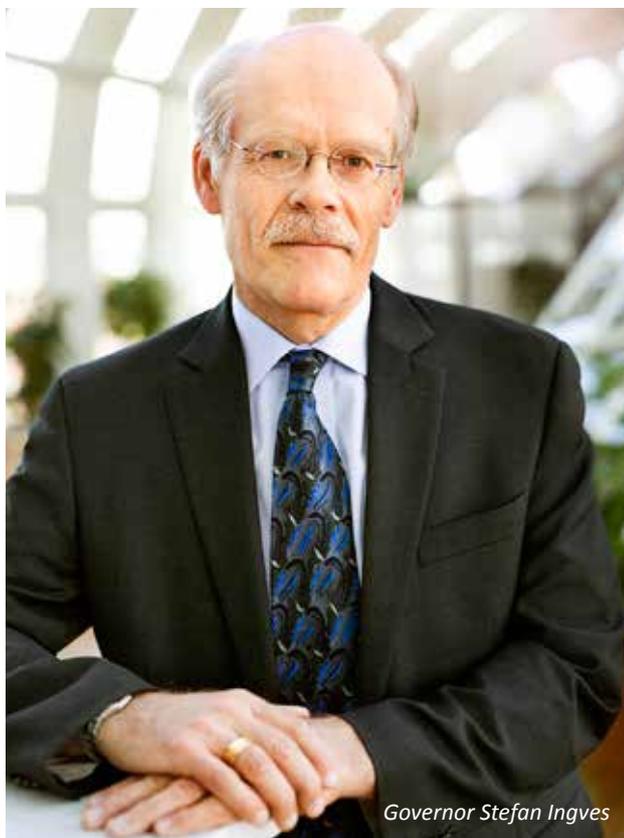


## Statement by the Governor



Governor Stefan Ingves

*The Swedish economy went through some unusual times in 2015. Growth was relatively strong and unemployment fell – very much due to the expansionary monetary policy – while international development was weak. However, the historically low interest rates are increasing the risk that Swedish households will continue to take on debt. The Riksbank has raised the need for measures to dampen this trend on several occasions.*

*Sweden's largest banknote changeover was initiated in 2015, and the Riksbank started to issue the new 20, 50, 200 and 1,000-krona banknotes. To ensure that the banknote changeover went smoothly, the Riksbank implemented measures including a comprehensive information campaign*

### **Expansionary monetary policy to safeguard the inflation target**

The international recovery continued in 2015 from a weak starting point, but uncertainty prevailed concerning the strength of global economic activity. Inflation was low internationally, and many central banks pursued a very expansionary monetary policy aimed at pushing up inflation towards their respective targets. International interest rates therefore remained very low. Despite the weak interna-

tional development, growth in Sweden was relatively favourable. Consumption, housing investments and lower unemployment in Sweden contributed towards this development. However, Swedish inflationary pressures continued to be low. If the effects of the Riksbank's repo rate cuts and energy prices are excluded, inflation was 0.9 per cent measured in terms of the CPIF and 1.4 per cent measured in terms of the CPIF excluding energy.

In 2015, the Riksbank continued to conduct an increasingly expansionary monetary policy to support the positive development of the Swedish economy and maintain the strength of the upturn in inflation. The repo rate was gradually lowered to –0.35 per cent and purchases of Swedish nominal government bonds were conducted for monetary policy purposes. The Riksbank also decided that these purchases of government bonds were to amount to a total of SEK 200 billion by the end of the first six months of 2016. The Riksbank's assessment is that the repo rate will not be raised until the first half of 2017, when CPIF inflation has stabilised around 2 per cent. The Riksbank also maintained a high level of preparedness to rapidly make monetary policy even more expansionary, even between ordinary monetary policy meetings, should inflation prospects have deteriorated over the year. The purchases of nominal Swedish government bonds were the main reason that the balance sheet had increased by SEK 161 billion to SEK 663 billion by the end of the year. At the same time, deposits from the banking system increased by SEK 165 billion to SEK 214 billion.

It is the Riksbank's task to safeguard price stability. This is emphasised by the Riksbank's expansionary monetary policy which, over the year, contributed towards CPIF inflation continuing to rise towards 2 per cent. However, the trend of long-term inflation expectations has been below the Riksbank's target of 2 per cent for a longer time. A well-anchored inflation target makes it easier for households and companies to make well-founded economic decisions and lays the foundation for efficient pricesetting and wage formation. Continued high confidence in the inflation target creates the conditions for a good economic development. The Riksbank therefore considered that monetary policy needed to become even more expansionary over the year.

### **Necessary to brake household indebtedness**

As monetary policy has become increasingly expansionary, the Riksbank has, on many occasions, emphasised the risks the low interest rate situation may entail. These risks are linked with continued rising housing prices and increased indebtedness among households in Sweden, among other things. Over the long term, these risks may threaten both the Swedish economic development and the financial stability. The experiences from the international financial crisis of

2007–2009 have shown that financial stability is one of several necessary conditions for macroeconomic stability and price stability. This unease over household indebtedness is shared by Finansinspektionen (the Swedish Financial Supervisory Authority), the National Institute of Economic Research, the Swedish National Debt Office and the Riksbank. International analysts also warning about indebtedness include the Bank for International Settlements (BIS), the European Commission and the European Parliament, the International Monetary Fund (IMF) and the Organisation for Economic Cooperation and Development (OECD).

The basic problem is that the Swedish housing market does not function well – it is unable to meet the rising demand for housing. It is therefore important that more housing be built, but this takes time. During this time, reforms are needed to obtain a better balance between supply and demand on the housing market. The tax system also needs to be reviewed to reduce households’ incentives to incur debt. The responsibility for such reforms lies with the Riksdag and the Government. It is also of the utmost importance that the Riksdag and the Government bring clarification to Finansinspektionen’s mandate for macroprudential policy. Regarding the need for macroprudential policy measures, we consider that a legislative amendment making it possible to introduce an amortisation requirement is a step in the right direction, but that further measures are needed.

### Vulnerabilities in the Swedish banking system

We assessed that the Swedish financial system functioned well in 2015, at the same time as the financial infrastructure was highly secure and efficient. The Riksbank’s payment system for large-value payments (RIX) also functioned well. We conducted several exercises, both independently and together with the participants in RIX, to ensure that payments can continue to be made in the event of technical disruptions.

However, the Riksbank considers that the Swedish banking system is vulnerable, partly because it is large in comparison to the Swedish economy, and partly because it is concentrated around a small number of participants who are closely interlinked. In addition, the major Swedish banks are dependent on wholesale funding, a large part of which is in foreign currency. The banks are thus sensitive to both disruptions on the international financial markets and to impaired confidence in the Swedish banking system. In a situation of heavily-increased stress, it may become significantly more difficult and expensive for Swedish banks to obtain funding.

The expansionary monetary policies in Sweden and abroad are contributing towards increased investment and higher consumption and thereby to higher economic growth. At the same time, the monetary policy being conducted, with low interest rates worldwide, risks increasing the vulnerability of

the financial system through assets being overvalued and various types of risk not being fully priced. We therefore deem that the long period of low interest rates has increased the vulnerability of the Swedish banking system. The increasing indebtedness of Swedish households is fuelling this development. It may take nothing more than unease over an imminent fall in housing prices for the banks’ wholesale funding of lending to mortgage holders to be impacted. The risk of this would probably increase with higher indebtedness. In our opinion, the banks need to introduce further stability measures to reduce the vulnerability of the Swedish banking system.

### Sweden received new banknotes

In October 2015, we entered the first stage of the changeover of Sweden’s banknotes and coins when the new 20, 50 and 1,000-krona banknotes were introduced. The banknotes have new security features providing better protection against counterfeiting. We also introduced a new denomination, the 200-krona banknote, to make cash usage more efficient.

In 2015, we carried out a major information campaign to keep the general public, banks and retail trade well-informed over the banknote changeover. We also worked on various practical preparations ahead of the changeover and consulted with cash market agents. We made it simpler for the general public to redeem invalid banknotes and streamlined this part of our operations. Over the year, we also made it possible for private individuals and others to redeem commemorative coins at the Riksbank by sending them to us.

After many years’ work preparing for the changeover, it feels very satisfying to see the banknotes out in society. I hope that everyone in Sweden likes the new banknotes and finds them easy to pay with. I also hope that everyone is aware of the new security features and remembers to tilt the banknote to check that it is genuine.

### Committed and motivated employees

Our employees’ expertise and efforts form a precondition for the Riksbank’s ability to take care of its policy tasks and fulfil its commitments. During the spring, we once again carried out an employee survey, which showed that 8 out of 10 employees feel motivated and committed to their work, and that even more report that their work duties feel meaningful. I find this cheering, together with the fact that so many have a high level of confidence in management and feel that there is a good discussion climate here.

  
**Stefan Ingves**