



SVERIGES
RIKSBANK

Perspectives on monetary policy and the inflation target

Riksdag Committee on
Finance, 6 March 2014

Deputy Governor Karolina Ekholm

Monetary policy since the autumn of 2012



- Reservations in favour of more expansionary monetary policy until the interest rate cut in December 2013
 - More explicit communication on the role of indebtedness in the monetary policy decisions
 - Starting point: **The repo rate** affects **indebtedness**, which increases the **risk of severe economic downturns** further ahead
 - A balance must be found between stabilising the economy over the short term and over the long term
 - Agreement on monetary policy decisions, considering that inflation had moved further off target
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Reservations in favour of
more expansionary
monetary policy prior to
December 2013

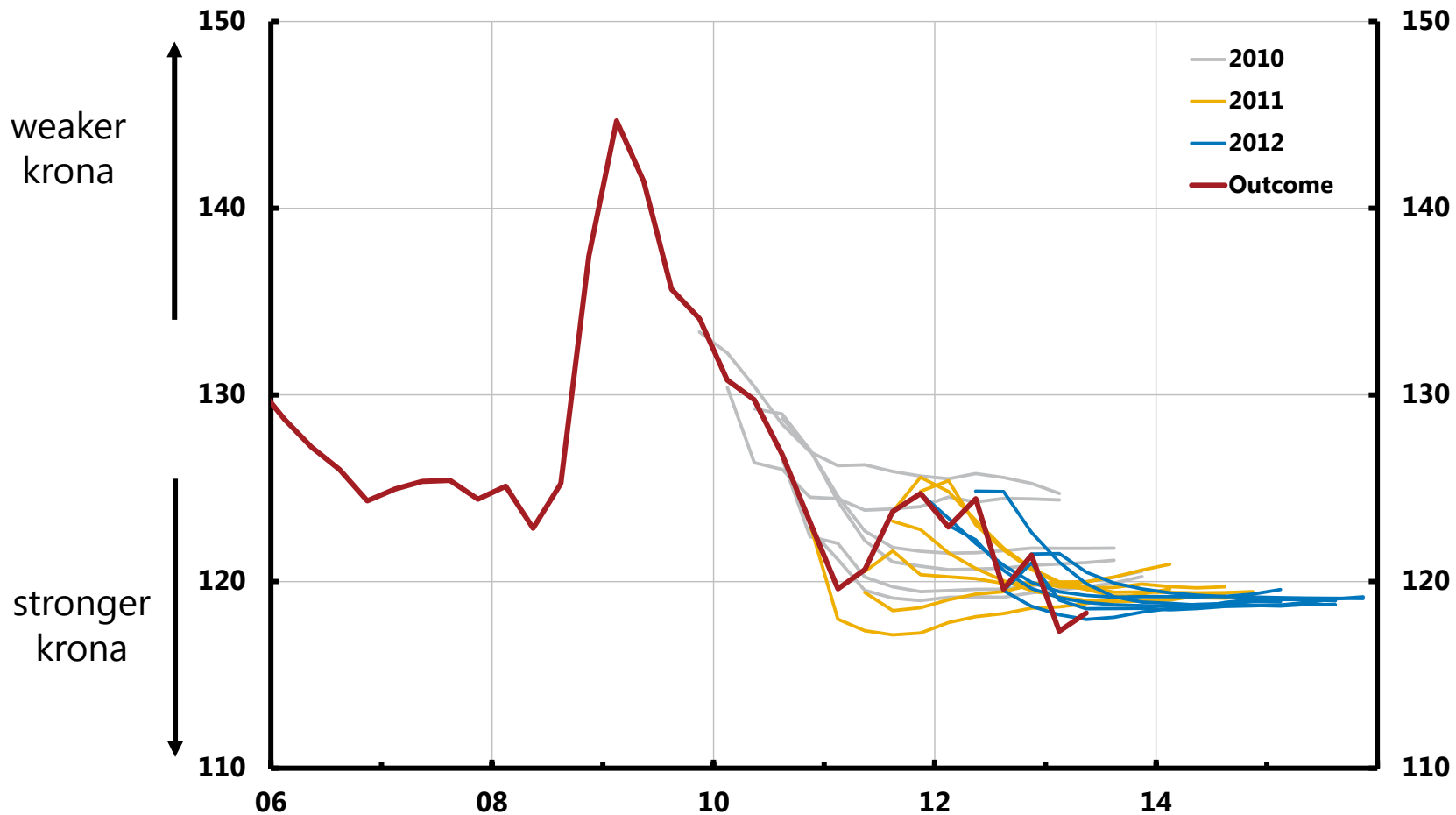
Main arguments

- Better target attainment for inflation and resource utilisation with a more expansionary monetary policy
 - Unemployment could be reduced without risking inflation above the target
 - Doubtful whether increased interest rate differential in relation to the rest of the world is compatible with forecast stable exchange rate
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Tendency for the krona to be stronger than forecast...



Competition-weighted nominal exchange rate, TCW index, 18 November 1992 = 100

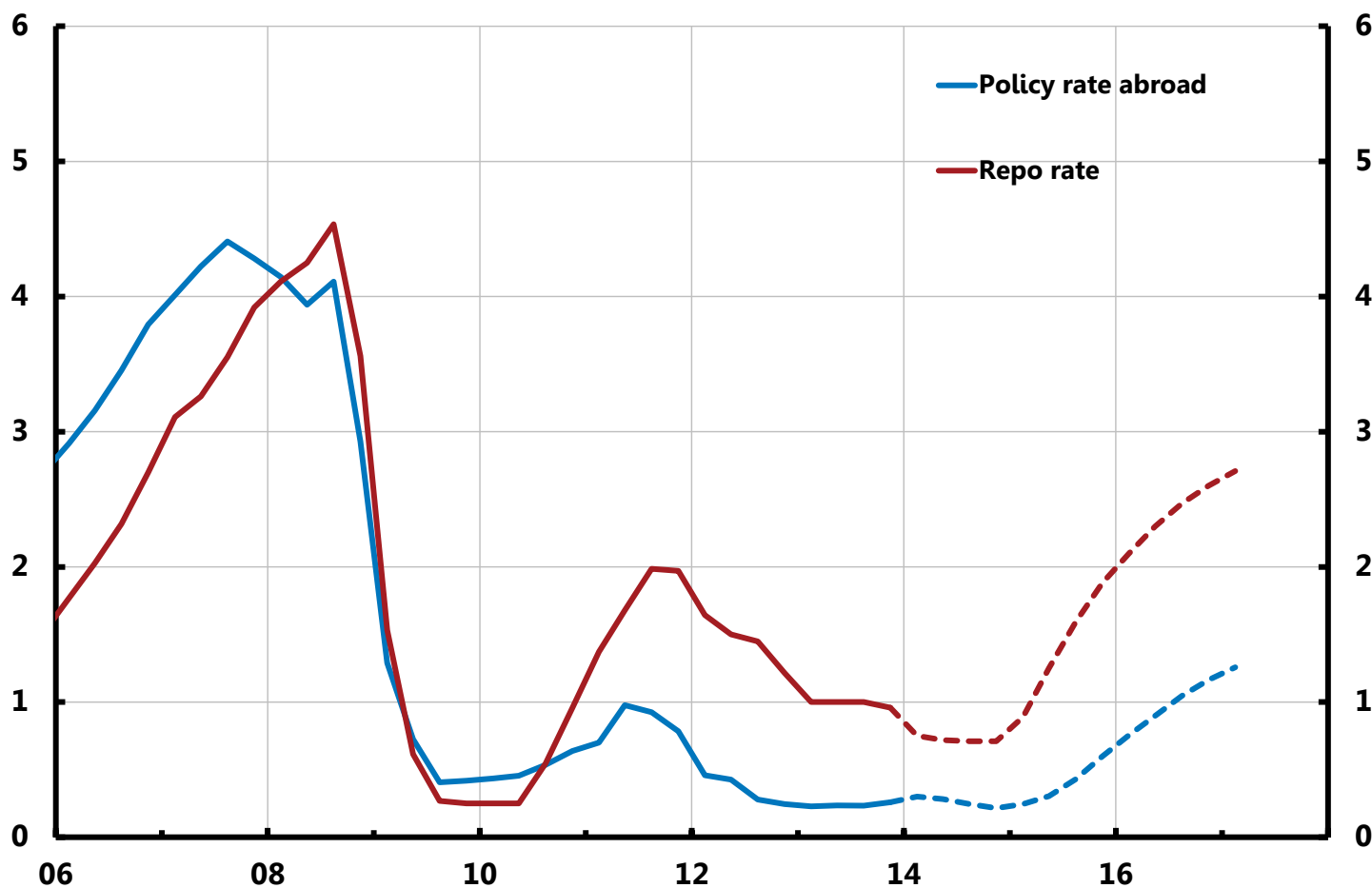


Note. Quarterly averages. TCW refers to an aggregate of Sweden's most important trading partners.

Source: The Riksbank

...at the same time as the repo rate has been higher than policy rates abroad

Quarterly averages, per cent and percentage points, respectively



Note. The policy rate abroad is an aggregate of rates in the United States, the euro area, Norway and the United Kingdom.

Sources: Macrobond, national sources and the Riksbank



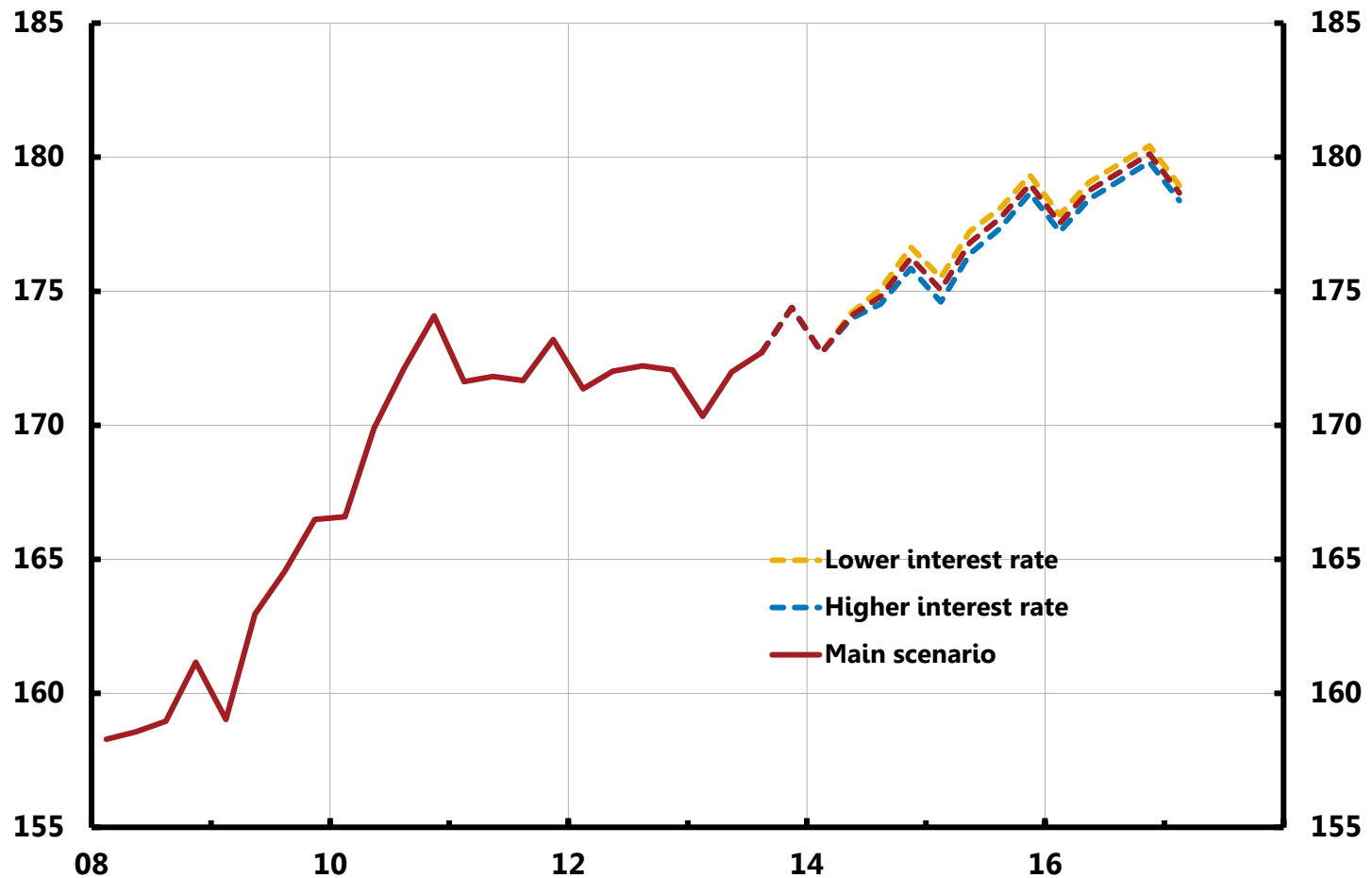
The role of indebtedness
in the monetary policy
decisions

My view of the repo rate and debts

- The effect of the repo rate on indebtedness is far too slight to affect risks linked with household indebtedness
- Poor target attainment over an extended period risks undermining confidence in the inflation target
 - This may make it difficult to stabilise inflation in both the short and long term

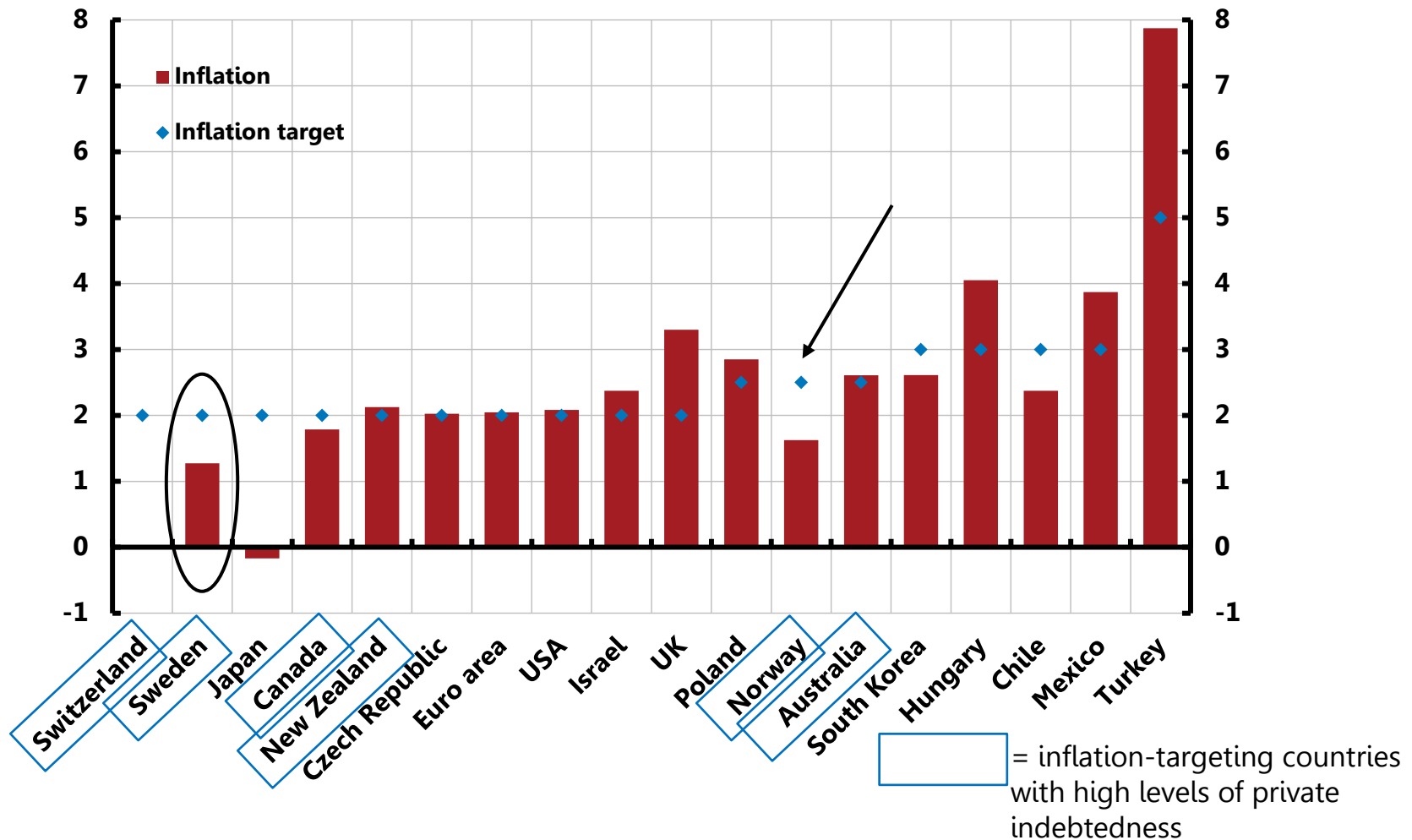
Estimated effects of raising or lowering the repo rate by 0.25 percentage points

Household debt ratio, per cent of disposable income



Few countries with inflation far below target have taken indebtedness into account

Average inflation 2010–2013 and inflation target 2013, annual percentage change



Note. This refers to the HICP for the euro area and the CPI for other countries. Inflation refers to the average for the period 2010–2013. The inflation target refers to the middle of the target interval or ceiling for inflation.

Sources: The OECD and each country's central bank



Agreement on monetary
policy decisions since
December 2013

Low inflation in focus

- Inflation further from target at the same time as the economy has improved
 - My interpretation: the lack of focus on inflation in monetary policy is a contributing factor
 - The low level of inflation could justify an even lower repo rate
 - But large interest rate cuts during an economic upturn would be a surprising departure from earlier patterns
 - Low inflation is a risk factor
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