



My view of monetary policy

Riksdag Committee on
Finance 7 November 2013

Deputy Governor Martin Flodén

My view of monetary policy

- I support...
 - ...the economic outlook in the Monetary Policy Report
 - ...the view that the repo rate needs to be kept low
 - ...that monetary policy can take financial risks into account

 - But taking risks into account must be balanced against the inflation target
 - Inflation has been way below the target for the past two years
 - Difficult to take other things into consideration over a long period of time
 - And the repo rate probably has very minor effects on financial risks

 - Lower repo rate is currently justified
 - Important to ensure that inflation now rises towards the target
-

Consideration to financial risks?

- Compatible with our mandate?
 - Should we be concerned over household indebtedness?
 - Is the repo rate the right tool?
-

Consideration to financial risks?

- Compatible with our mandate?
 - Yes, subordinate to the inflation target, the Riksbank is to promote sustainable growth and high employment
 - Should we be concerned over household indebtedness?
 - High indebtedness makes households more vulnerable to shocks
 - A low repo rate over a long period of time can lead to incorrect expectations
 - Is the repo rate the right tool?
-

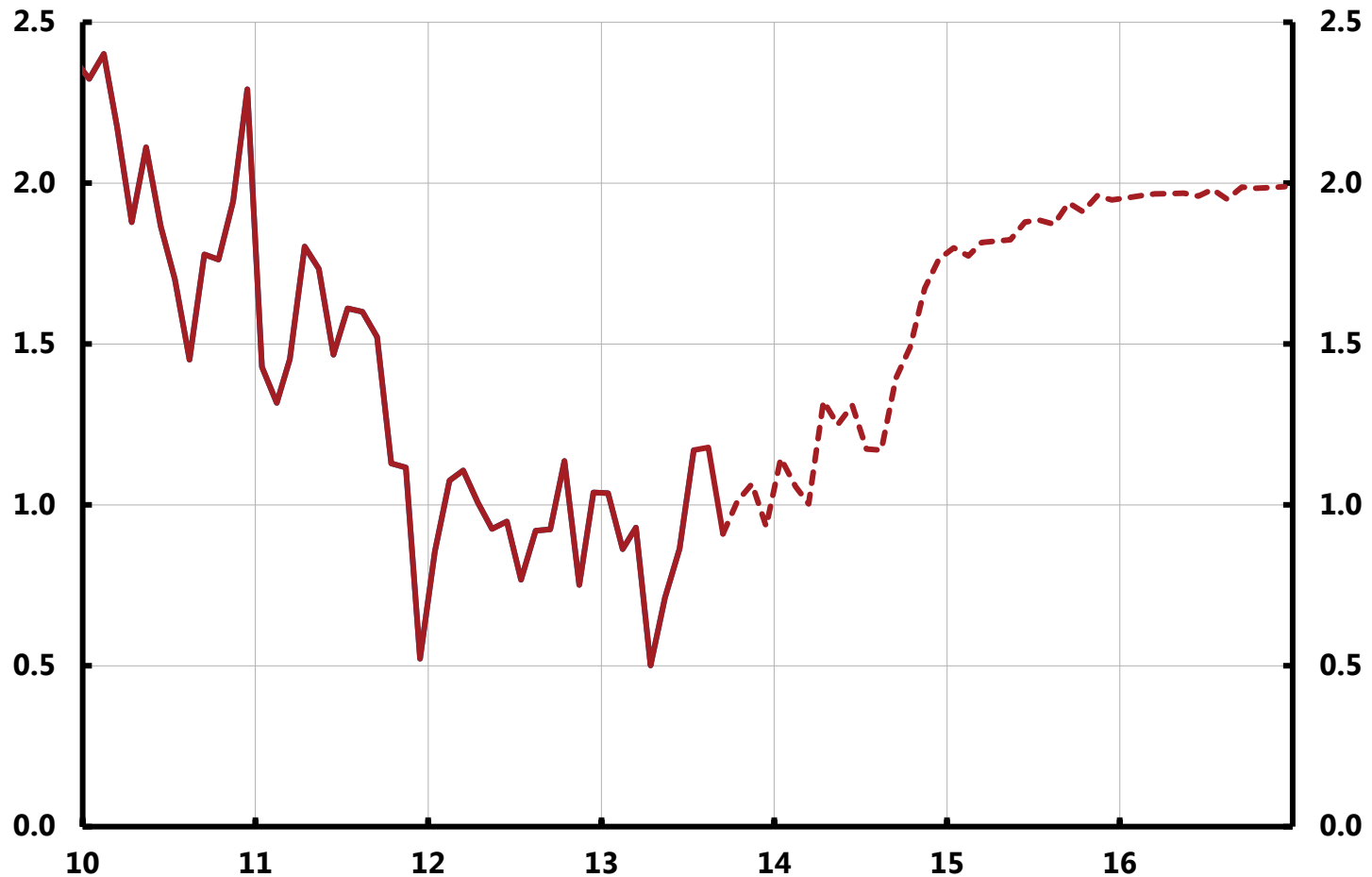
Is the repo rate the right tool?

- The repo rate probably has minor effects on financial risks
 - The effects on indebtedness must be balanced against the inflation target and economic activity
 - A lower repo rate now means that it can be raised faster
 - There are other supervisory tools
-

***The inflation target takes precedence
- it is important to ensure that
inflation now rises towards the
target***

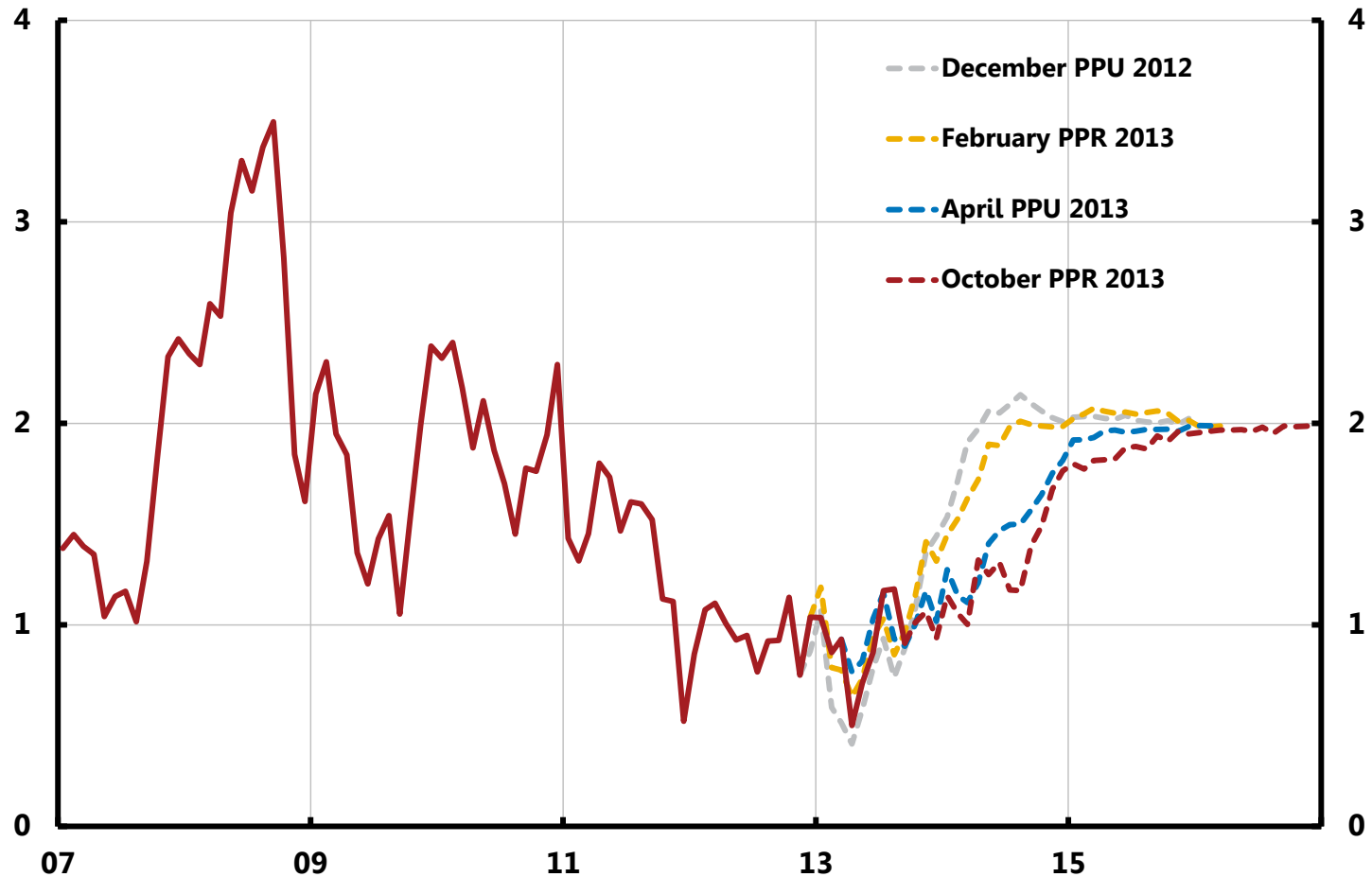
Inflation has been low for two years

The CPIF, annual percentage change



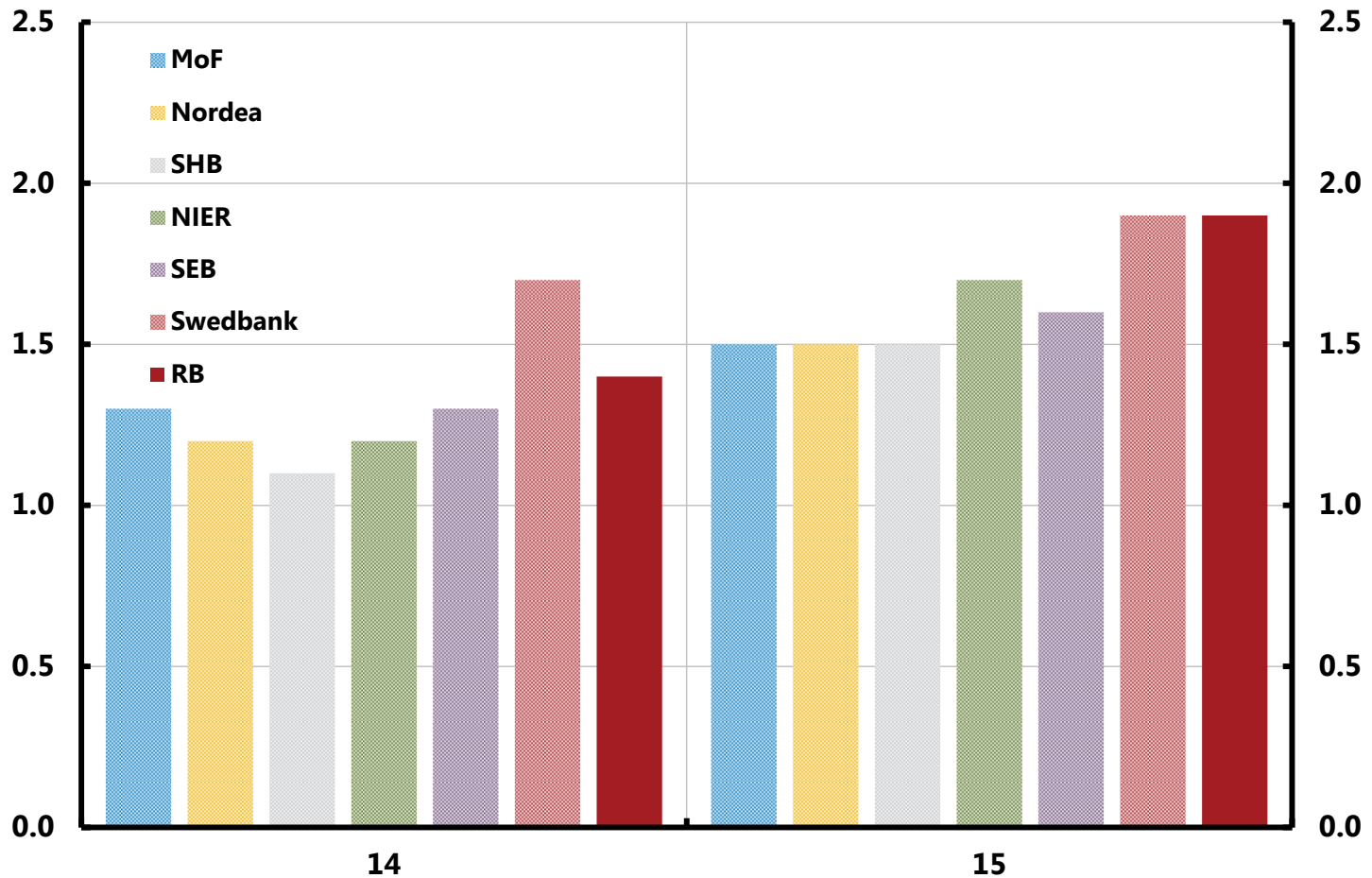
The inflation forecast has been revised down

The CPIF, annual percentage change



Many believe inflation will remain low

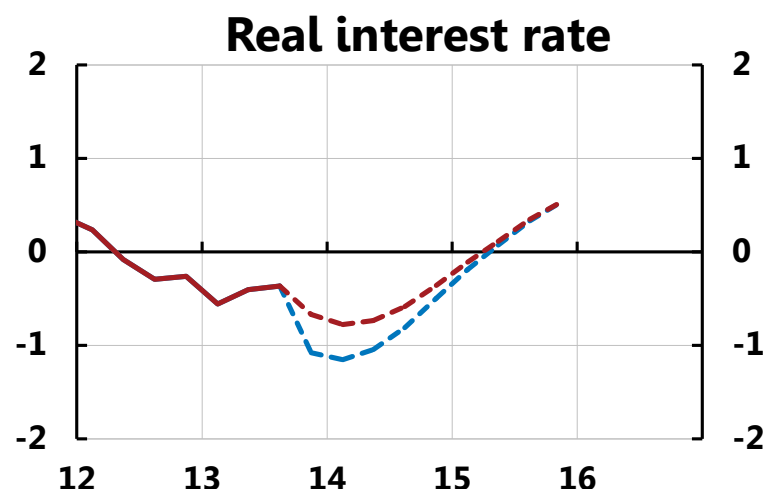
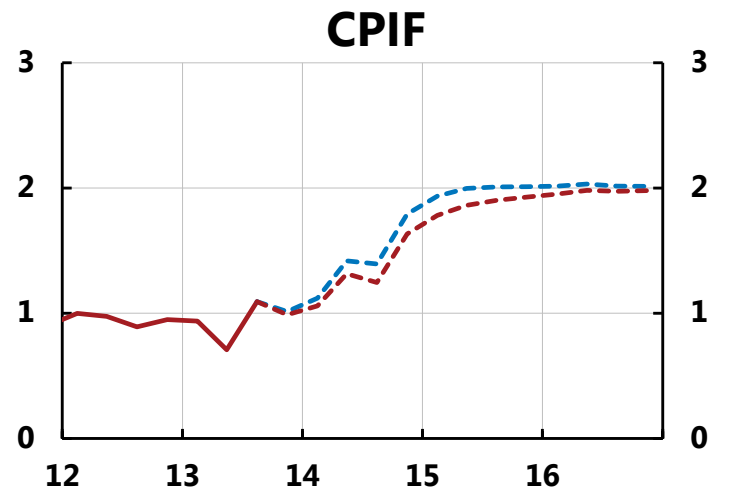
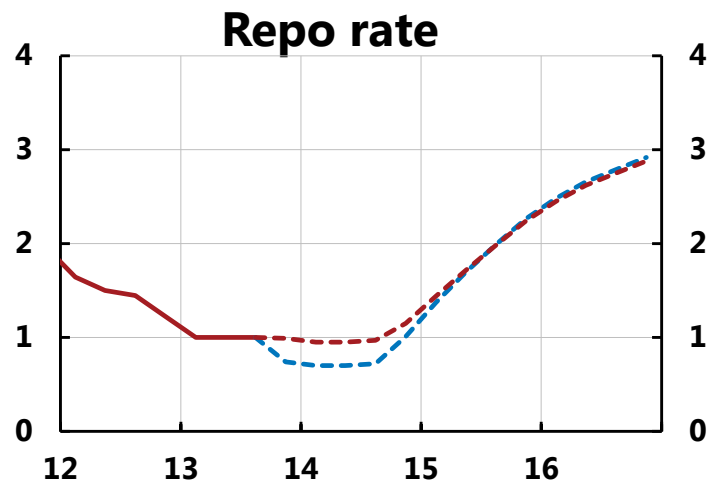
The CPIF, annual percentage change



***The effects on indebtedness must be
balanced against the inflation target
and economic activity***

Lower repo rate gives better target fulfilment

Alternative scenario according to the Riksbank's macro model, Ramses



Main scenario Lower interest rate

Note. Repo rate, per cent, quarterly averages. The CPIF, annual percentage change, quarterly averages. Unemployment, percentage of labour force, 15-17 years, seasonally-adjusted data. Real interest rate, 1 year, per cent, quarterly averages. .

Sources: Statistics Sweden and the Riksbank