



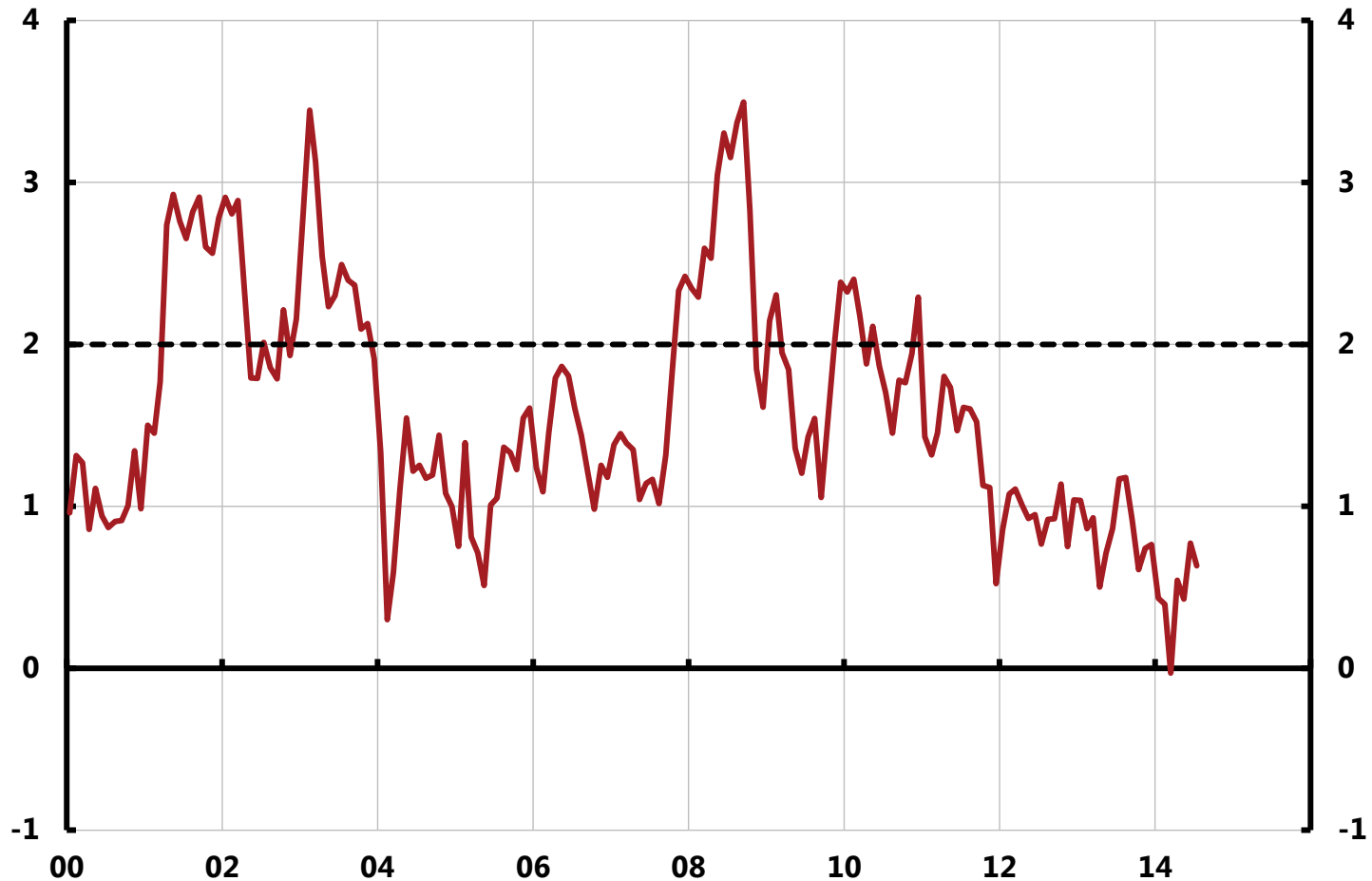
The motives for the
more expansionary
monetary policy

Riksdag Committee on
Finance

Deputy Governor Martin Flodén
19 August 2014

Inflation has been low for three years

The CPIF, annual percentage change

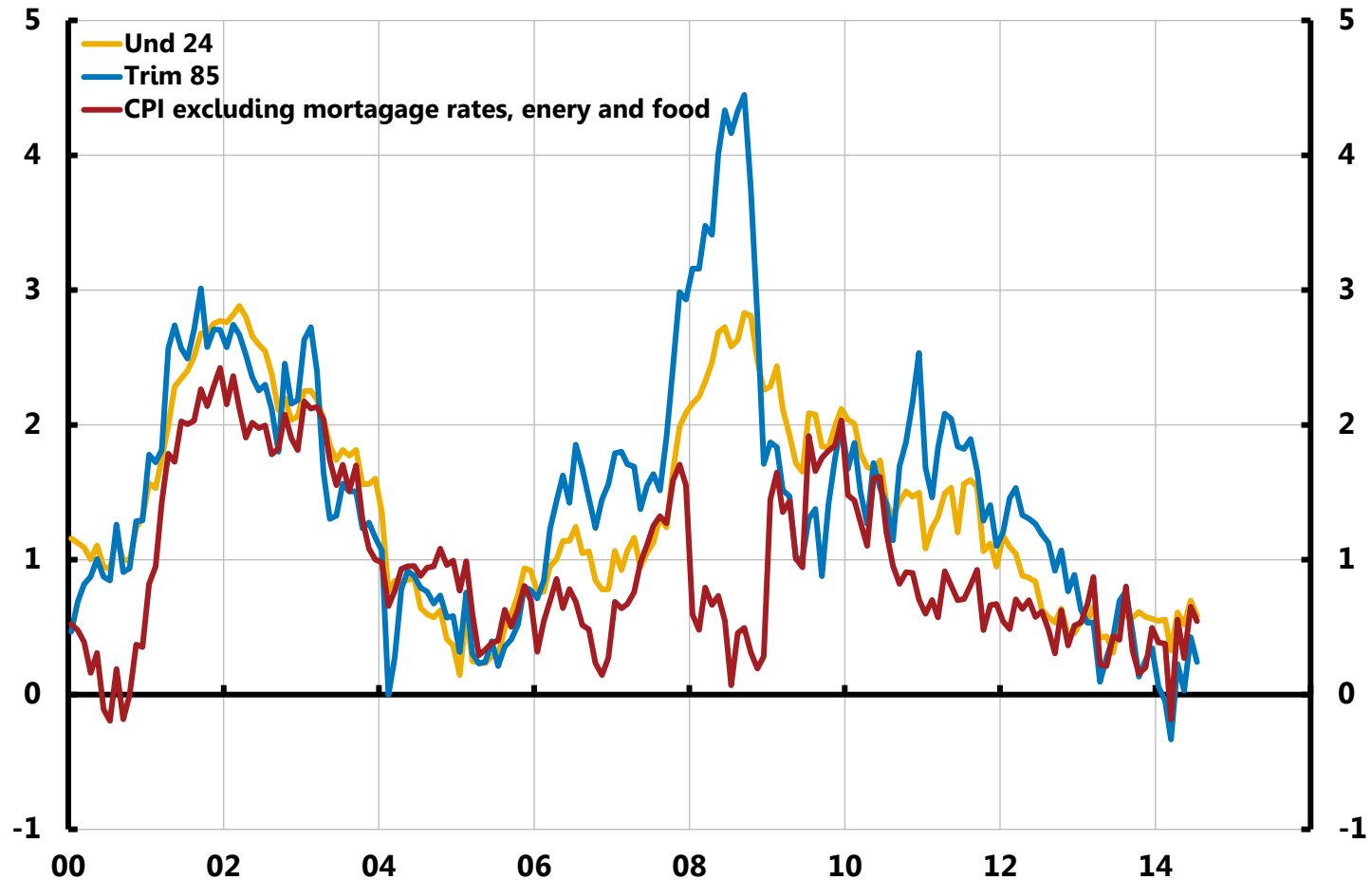


Note. The CPIF is the CPI with a fixed mortgage rate. The broken line refers to the inflation target.

Sources: Statistics Sweden and the Riksbank

Underlying inflation is low

Annual percentage change

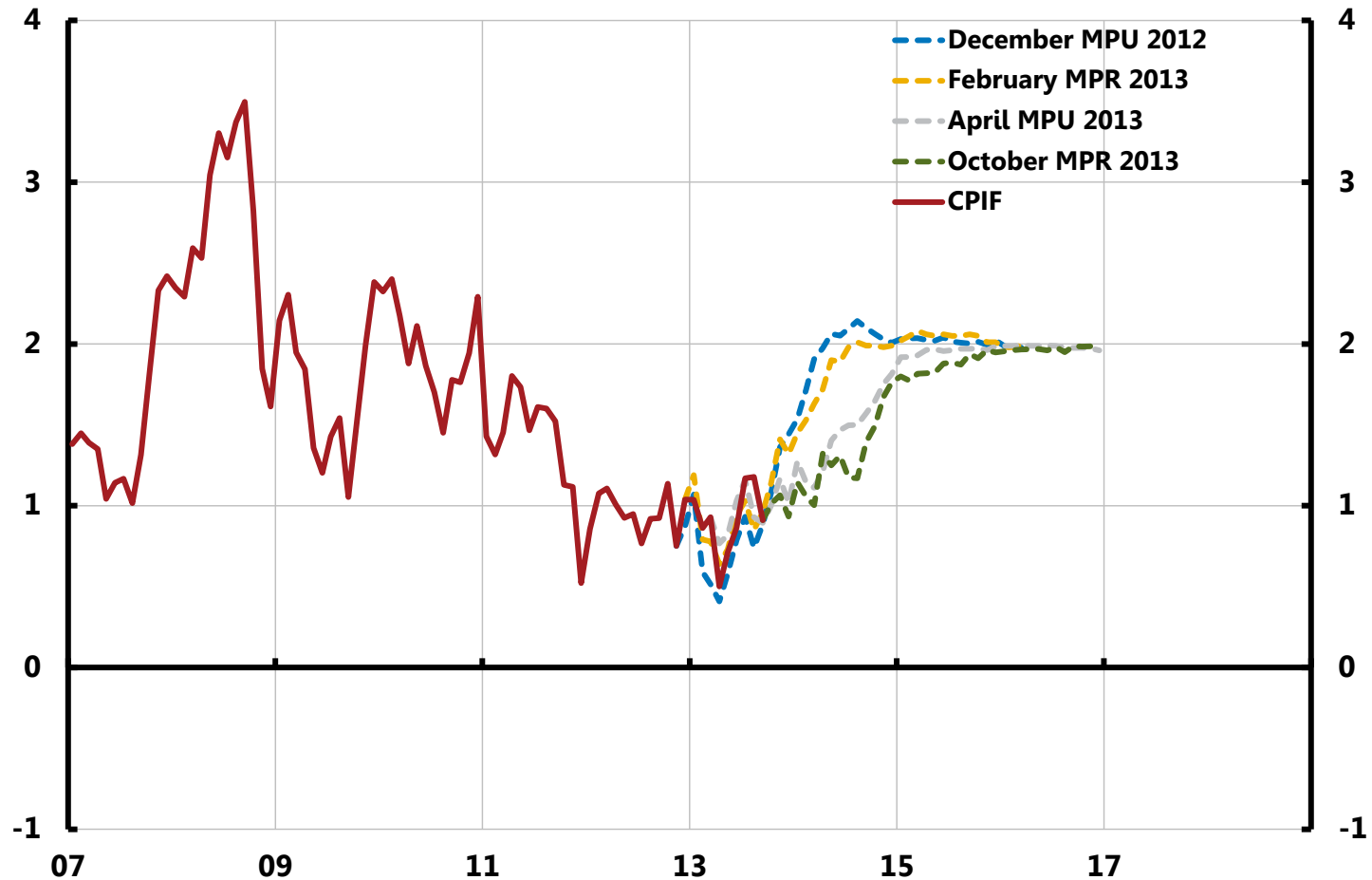


Note. Und 24 and Trim 85 are statistical measures calculated on the basis of the CPI divided into approximately 70 subgroups. Und 24 is weighted and adjusted for the historical standard deviation. In Trim 85, the 7.5 per cent highest and the 7.5 lowest yearly price changes have been excluded.

Sources: Statistics Sweden and the Riksbank

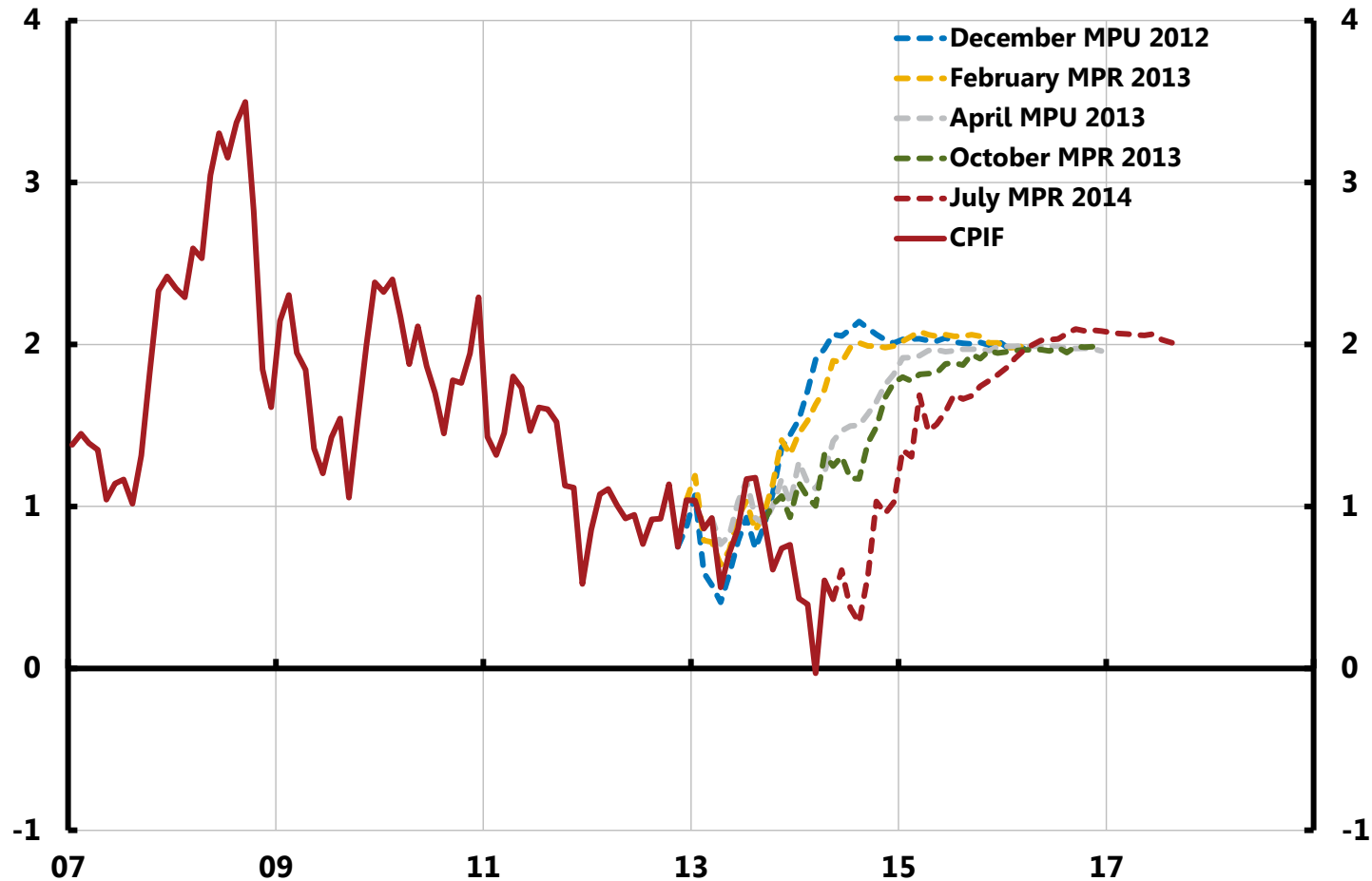
The inflation forecast has been revised down

The CPIF, annual percentage change



The inflation forecast has been revised down

The CPIF, annual percentage change



Is low inflation a problem?

- The inflation target is a nominal anchor
 - Facilitates e.g. wage formation and long-run planning
 - Important to preserve confidence and expectations
- Surprisingly low inflation
 - leads to overly high real wages
 - redistributes from those in debt to lenders
- ...

Does expansionary monetary policy work?

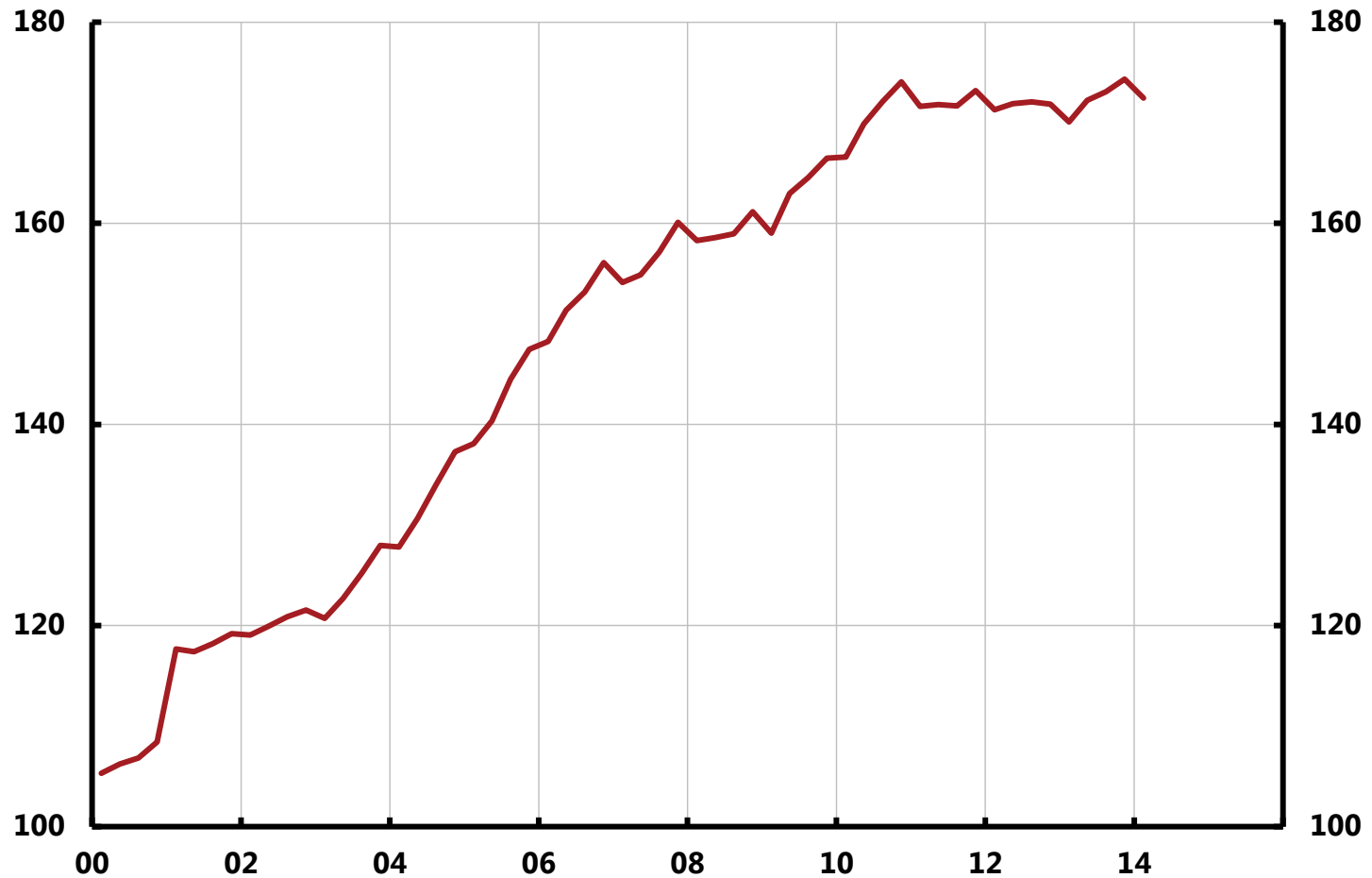
- Our low inflation is largely due to "international factors"
 - low demand from abroad and a strong exchange rate
 - Monetary policy can counteract these factors
 - Repo-rate cut
 - strengthens domestic demand
 - counteracts a strengthening of the krona
 - shows that the focus of monetary policy is on the inflation target
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Will the risks associated with household debt increase?

- The low interest rates can generate risks
 - But low interest rates cannot be avoided now
 - A higher repo rate now would hardly reduce the risks
 - The krona would become stronger, inflation lower and economic activity weaker
 - The repo rate would then need to be kept low for longer
 - Low inflation and weak economic activity can aggravate the debt problem
 - Rising debts need to be counteracted by other means
-

Household debt

Percentage of disposable income



Note. Households' total debts as a share of their disposable incomes, totalled over the past 4 quarters.

Source: Statistics Sweden

Conclusion

- Low repo rate so that inflation rises towards the target sufficiently fast
- The risks linked to household debt remain – these risks must be managed by other policy areas

