



Introduction on monetary policy

Riksdag Committee on
Finance

7 November 2013

Governor Stefan Ingves

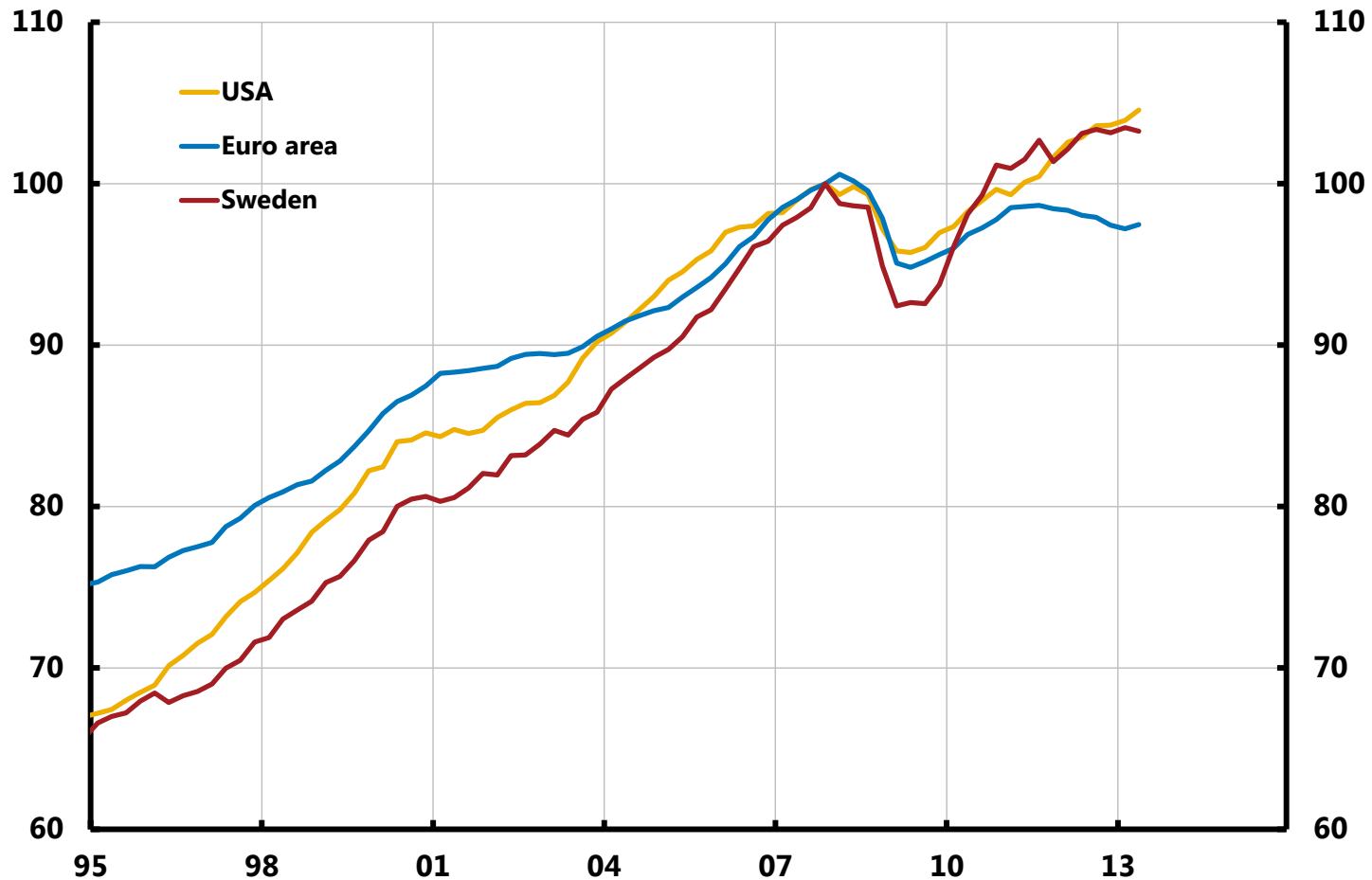
Today's presentation

- **The situation in the Swedish economy and current monetary policy**
 - Challenges in the labour market
 - Why low inflation?
 - **The Swedish economy and monetary policy - where are we heading?**
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The situation in the Swedish economy and current monetary policy

Sweden is a small, open economy - developments abroad are important

GDP in different regions and countries

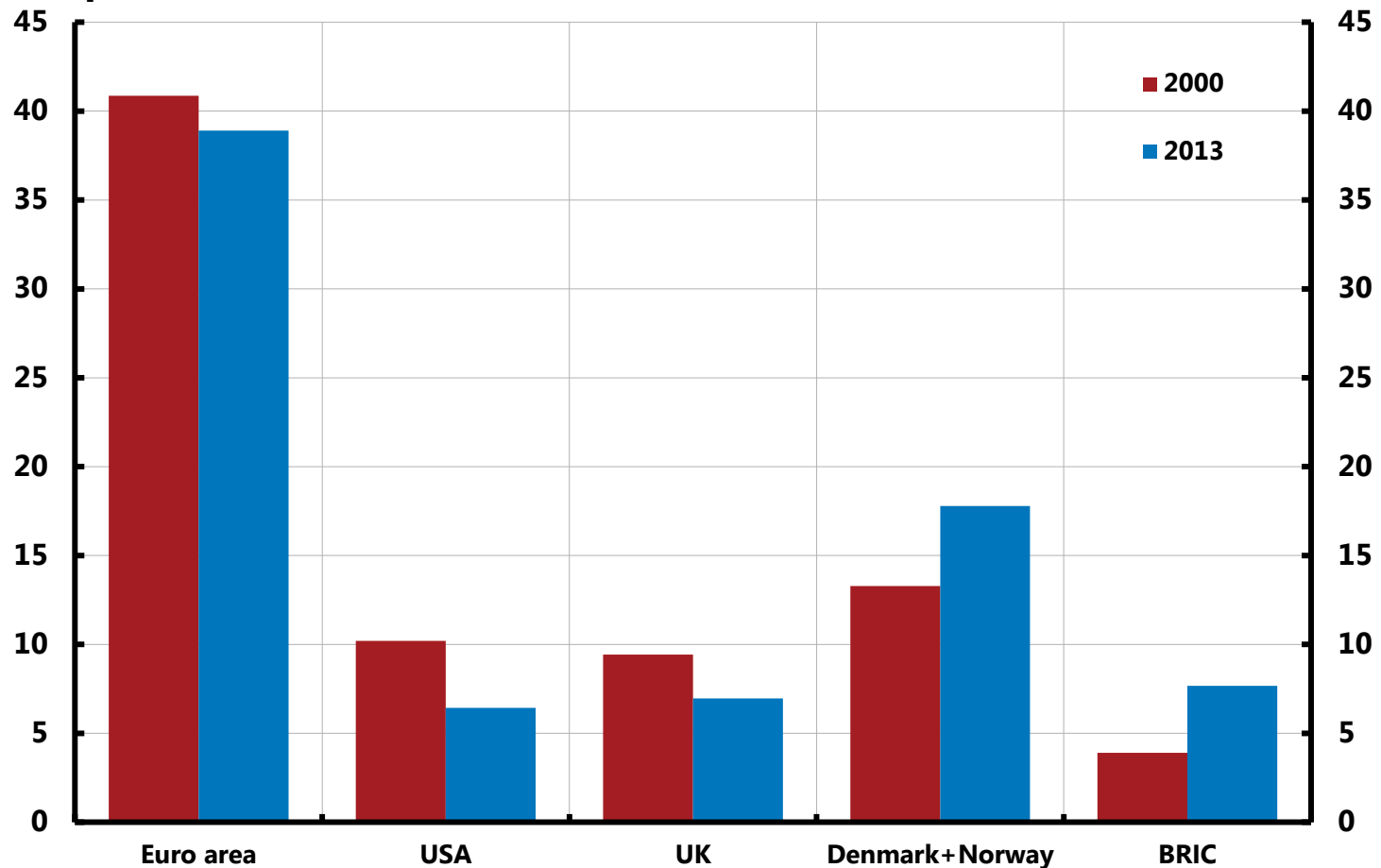


Note. Index, 2007 Q4 = 100

Sources: The Bureau of Economic Analysis,
Eurostat, Statistics Sweden and the Riksbank

Weak development in the euro area has affected Sweden's exports...

Sweden's export markets

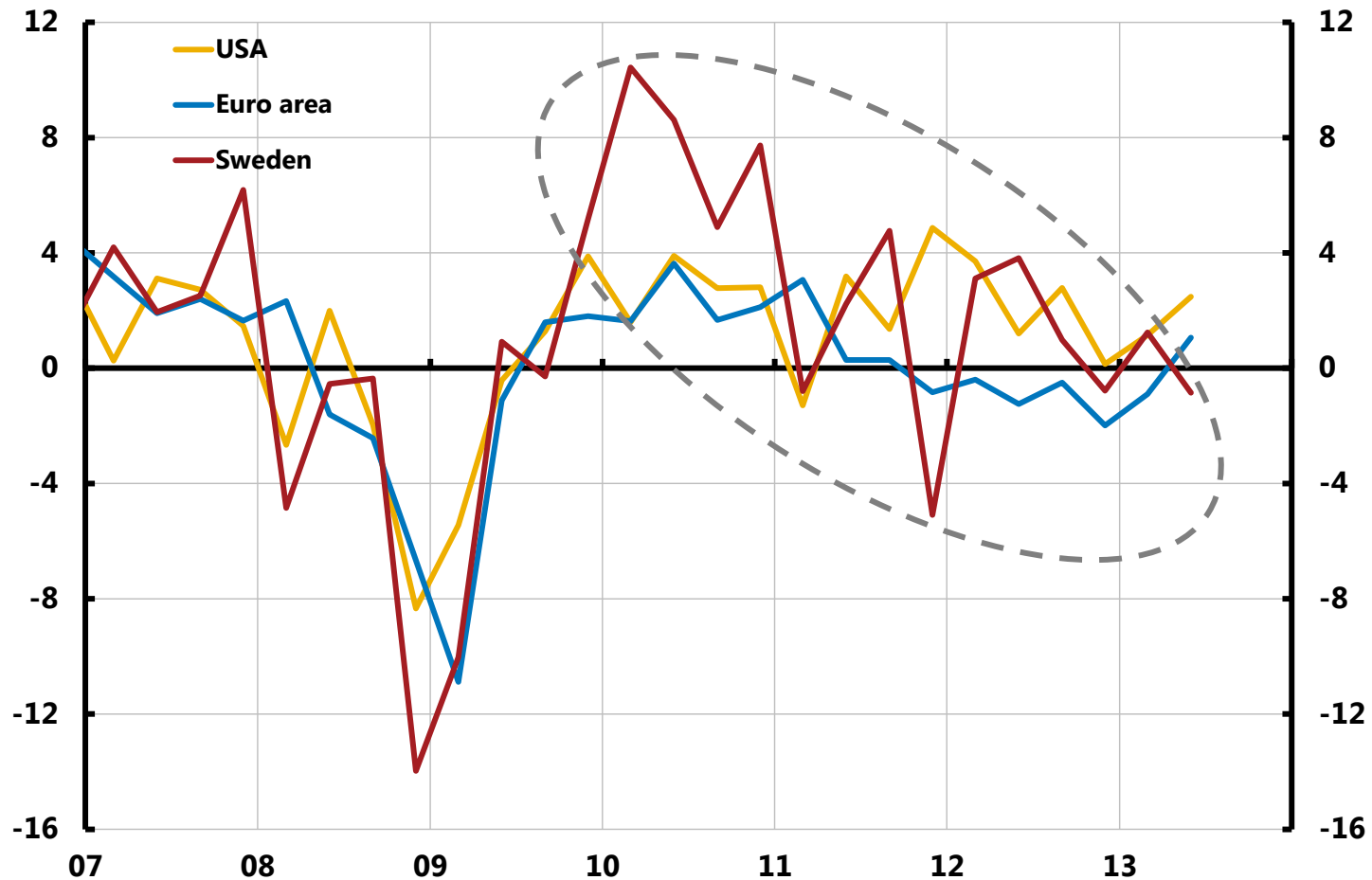


Note. Percentage of Sweden's total goods exports. The figures for 2013 are averages up to August. These figures do not total 100 per cent, as not all countries have been included.

Source: Statistics Sweden

...and growth has slowed down

GDP in Sweden and abroad

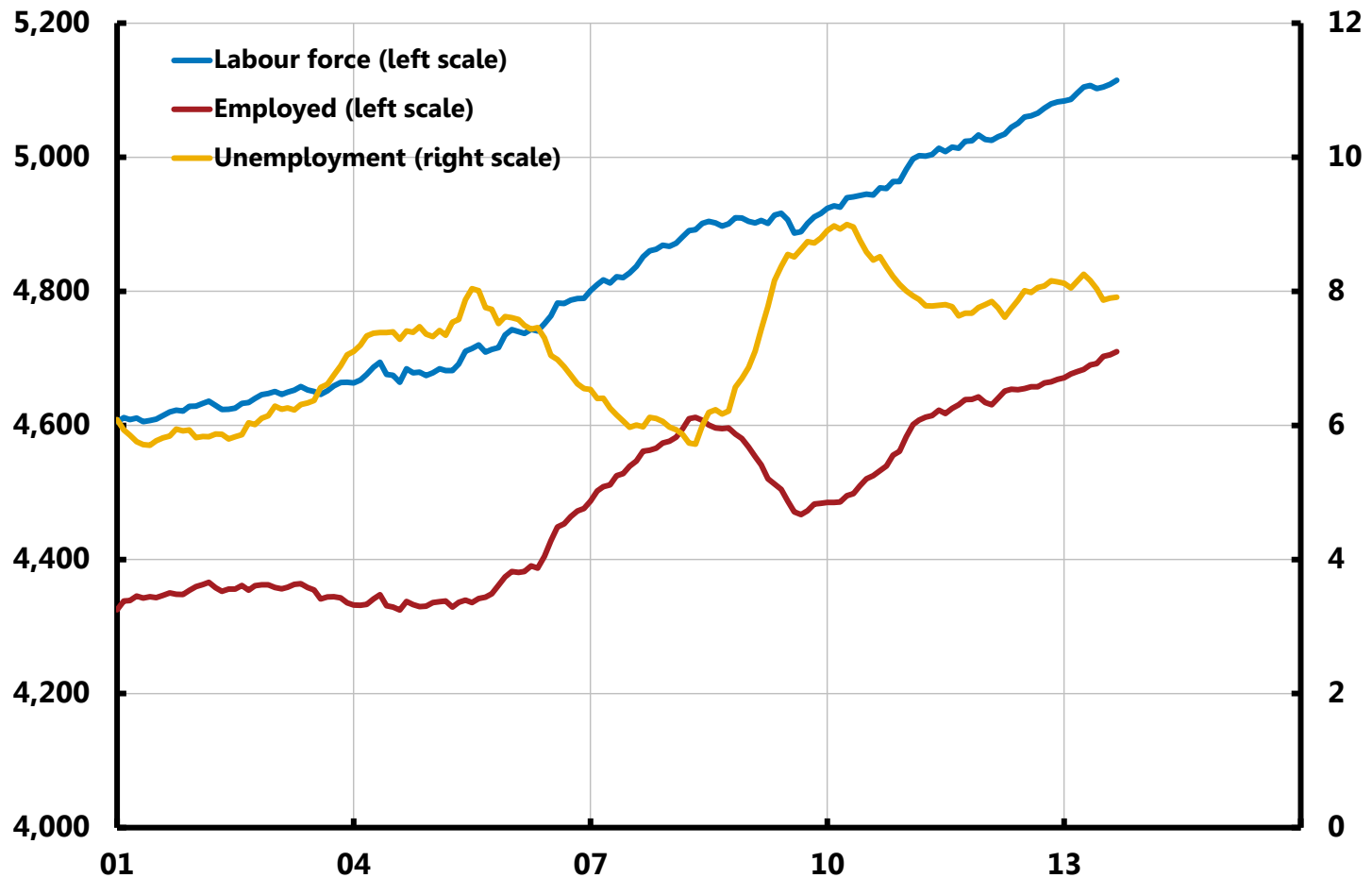


Note. Quarterly changes in per cent calculated as annual rate, seasonally-adjusted data.

Sources: The Bureau of Economic Analysis, Eurostat and Statistics Sweden

Swedish labour market has shown good resilience, but the high unemployment level is a problem

Labour force, employment and unemployment



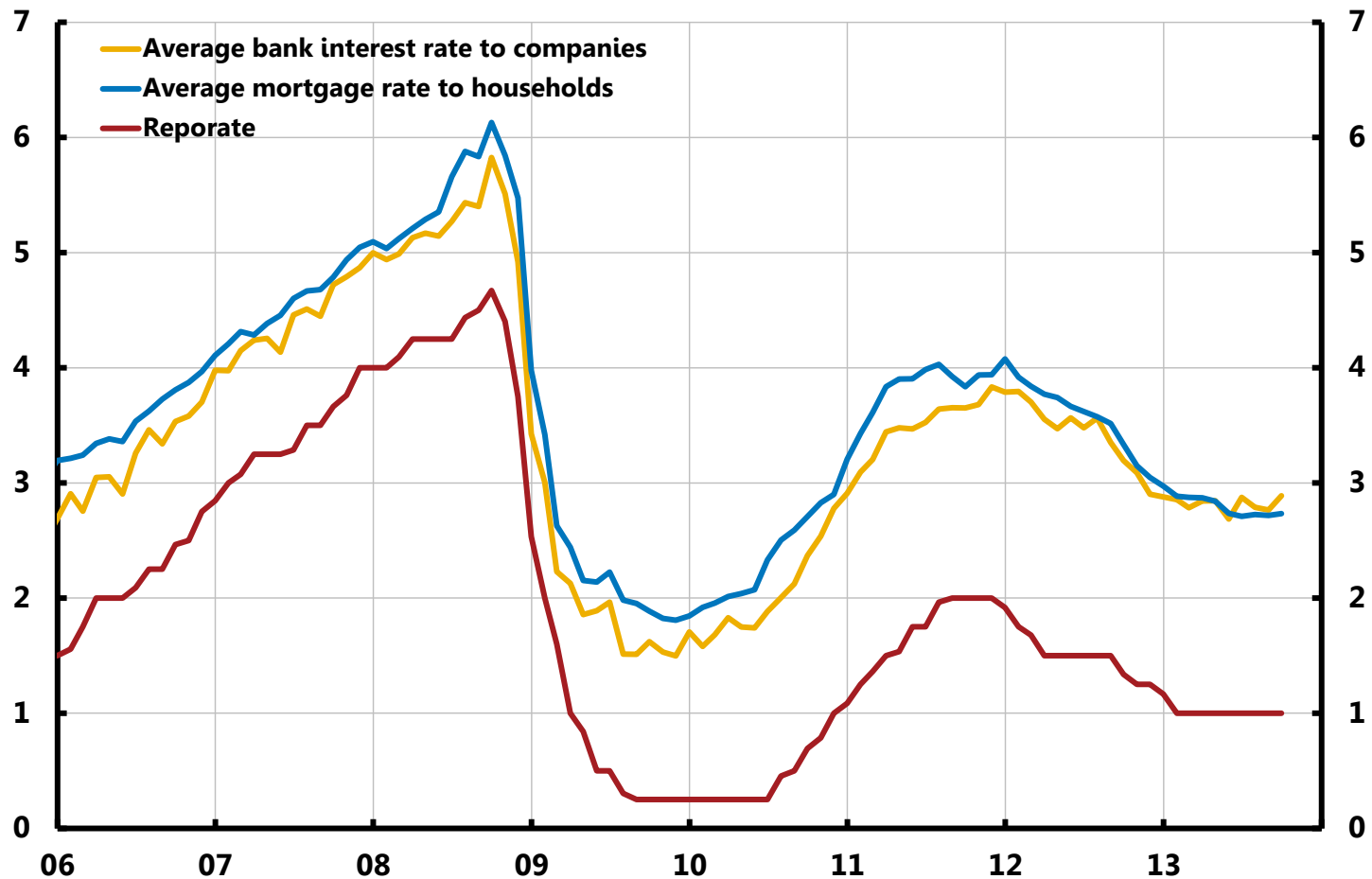
Note. Thousands of people and percentage of labour force, 15-74 years
Seasonally-adjusted data. Three-month moving average.

Sources: Statistics Sweden and the Riksbank

Challenges in the labour market

Low repo rate supports the labour market

Repo rate and lending rates to households and companies

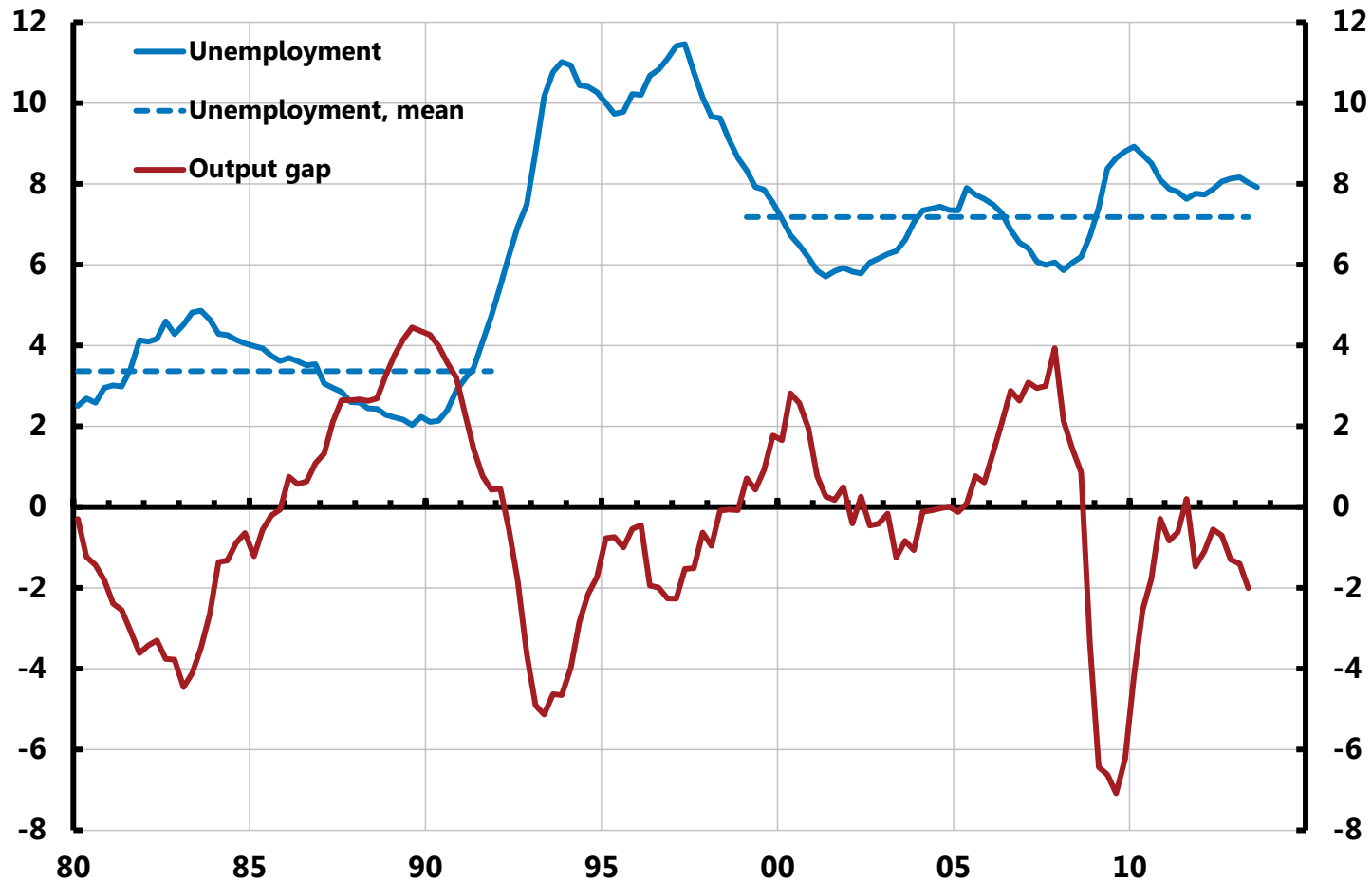


Note. Per cent. Average mortgage rates for households and bank interest rates for companies on new agreements, monthly averages.

Sources: Statistics Sweden and the Riksbank

But monetary policy cannot remedy structural problems

Unemployment and the output gap

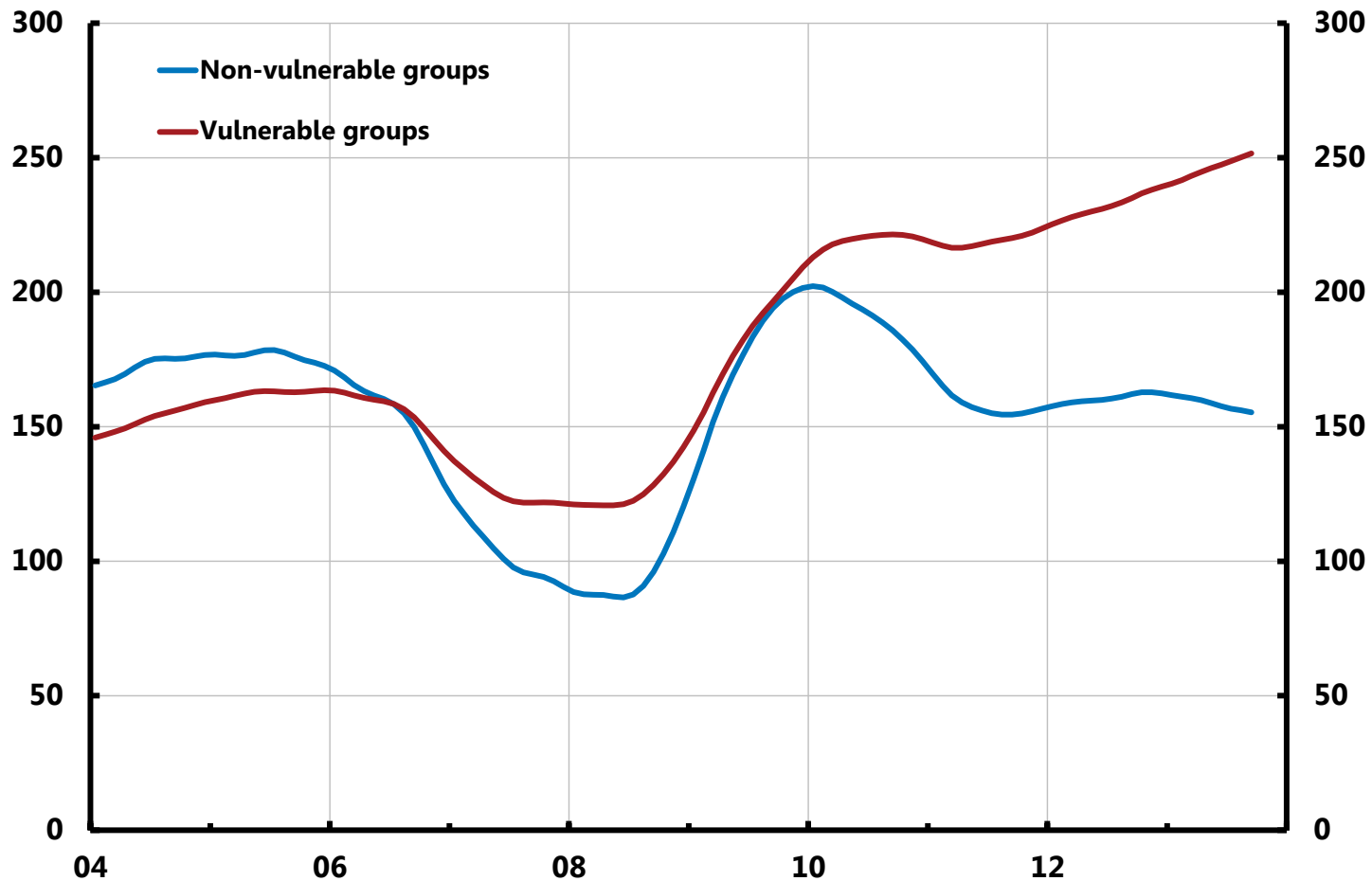


Note. Per cent. Output gap according to production function method. Average unemployment refers to the periods 1980-1991 (3.4 per cent) and 1999-2013Q2 (7.2 per cent), respectively.

Sources: Statistics Sweden and the Riksbank

More measures than a low repo rate are needed to significantly reduce unemployment

Number of unemployed in vulnerable and non-vulnerable groups

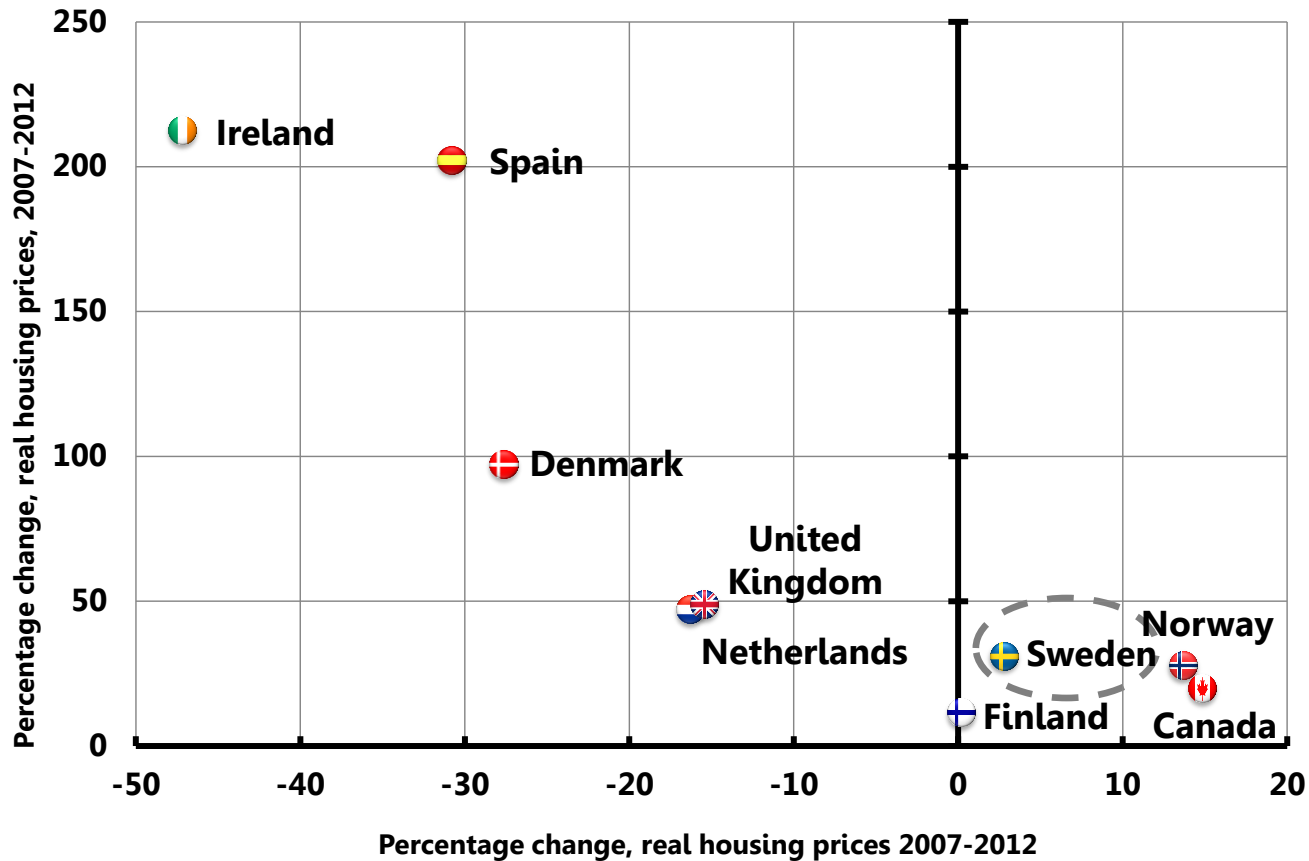


Note. Thousands. Seasonally-adjusted and trended data. Unemployed including people in programmes with activity grants. Vulnerable groups as defined by Arbetsförmedlingen.

Source: Arbetsförmedlingen
(Swedish Employment Service)

Household debt and housing prices a risk – not least for unemployment

Developments in unemployment and real housing prices in different countries



Note. The vertical axis shows the change in unemployment in per cent between 2007 and 2012, and the horizontal axis shows the percentage change in real housing prices during the same period.

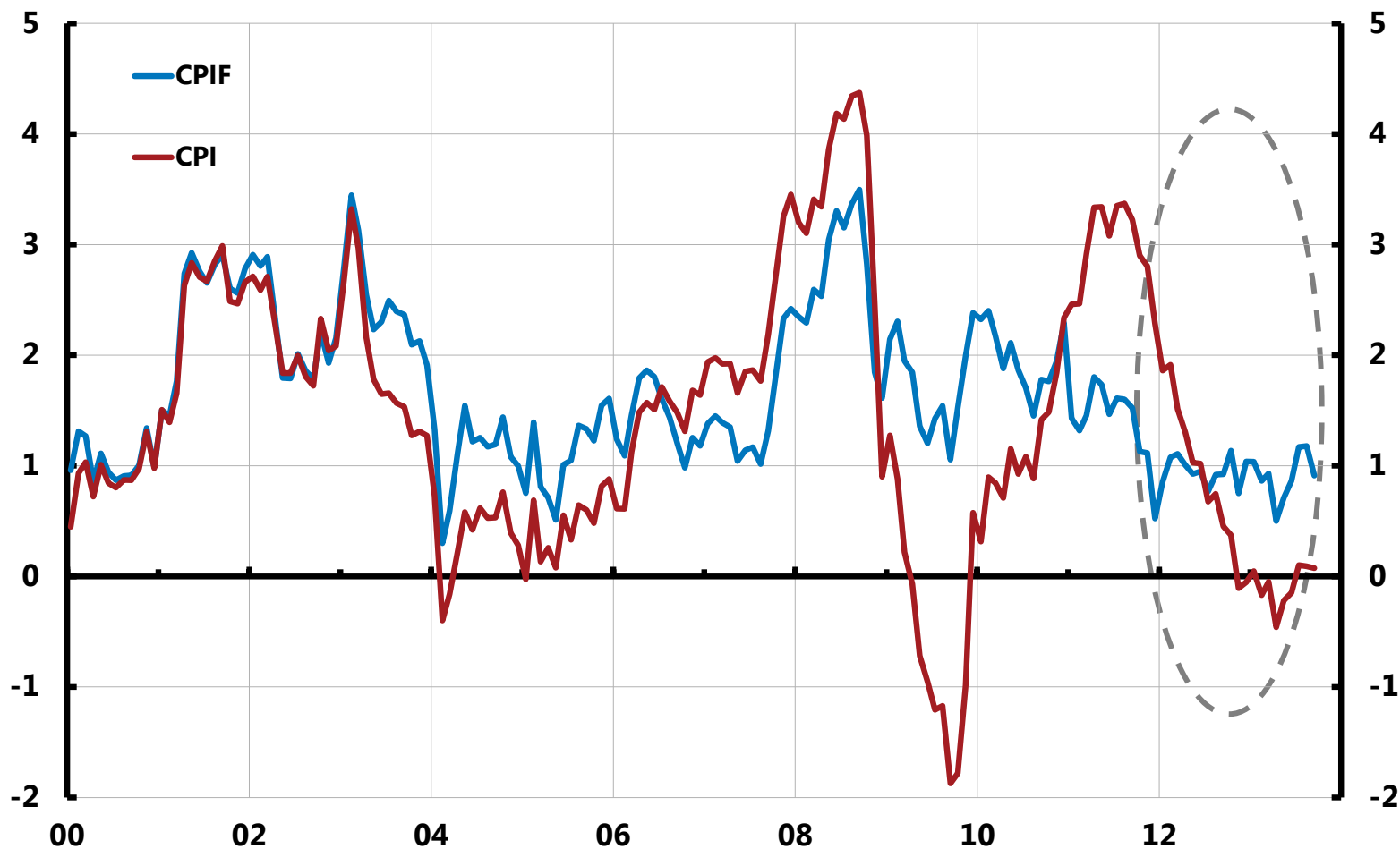
Sources: National sources and the Riksbank

Why low inflation?



Falling interest rates explain why the CPI is increasing more slowly than the CPIF

The CPI and the CPIF

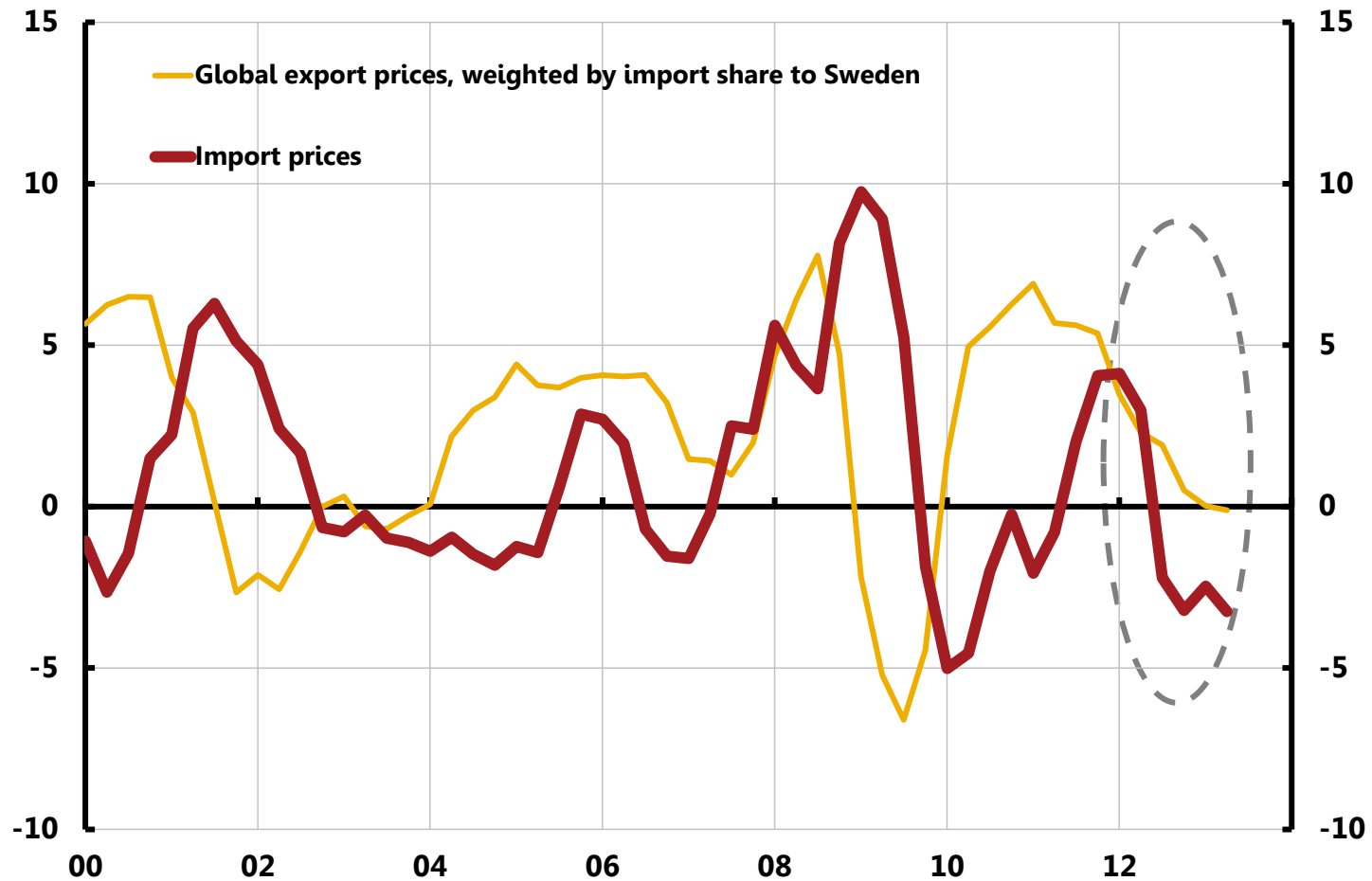


Note. Annual percentage change. The CPIF is the CPI with a fixed mortgage rate.

Source: Statistics Sweden

Low import prices, due to weak developments abroad...

Global export prices and import prices

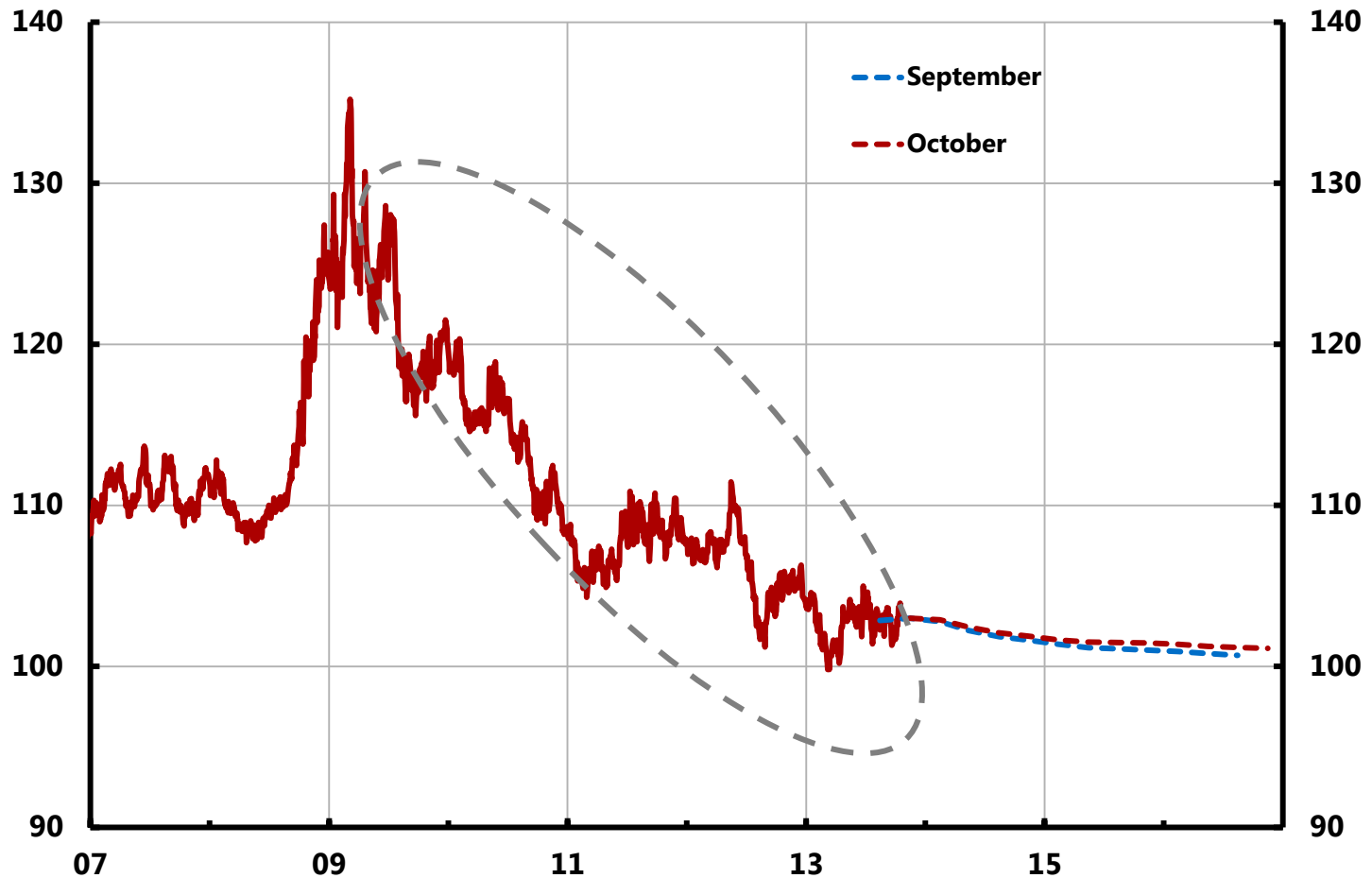


Note. Annual percentage change. Global export prices are an aggregate of export deflators (in local currencies), where Sweden's import shares are used as a weight. Import prices refer to consumer goods.

Sources: National sources and the Riksbank

...and appreciation of the Swedish krona

Competition-weighted nominal exchange rate, KIX index

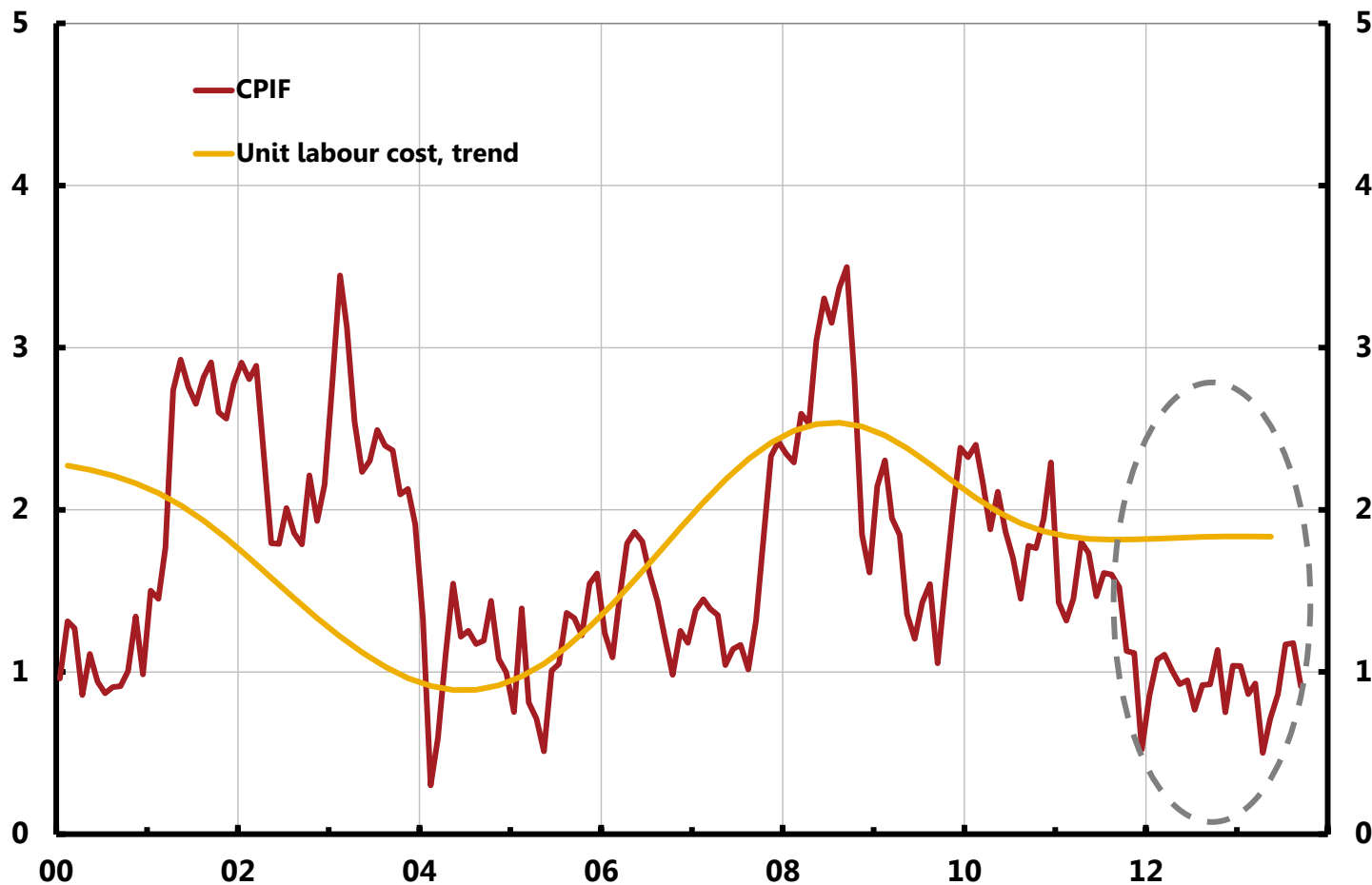


Note. Index, 18 November 1992 = 100 Outcomes are daily rates and forecasts refer to quarterly averages.
KIX is an aggregate of the countries that are important to Sweden's international transactions.

Source: the Riksbank

Low price mark-ups by Swedish companies

CPIF inflation and unit labour costs

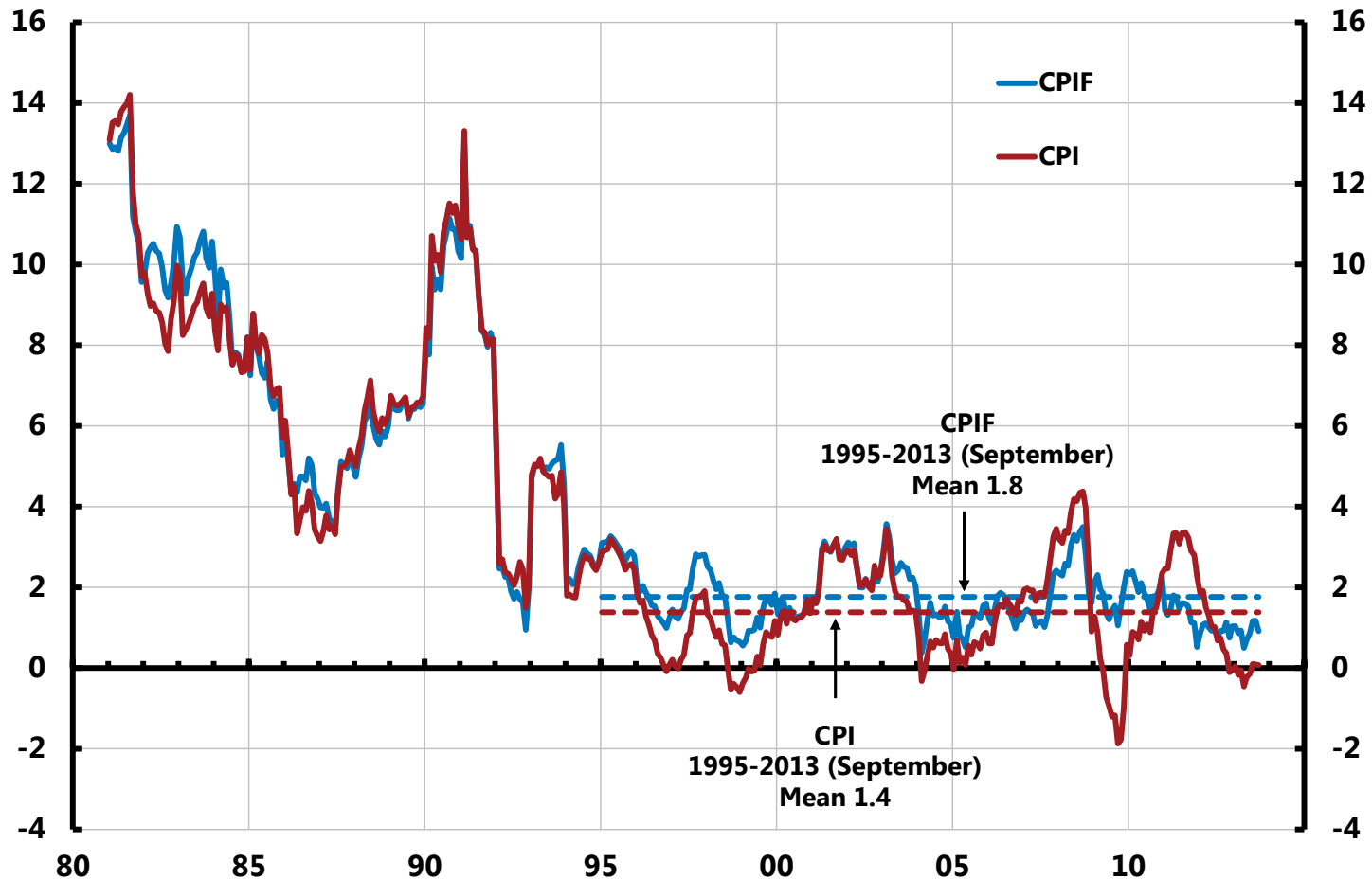


Note. Annual percentage change. The trend for unit labour costs is calculated using a Hodrick-Prescott filter, with data up to the end of 2013 Q3, where the figure for the last quarter is the Riksbank's forecast.

Sources: Statistics Sweden and the Riksbank

Important to have perspective on the development of inflation

The CPI and the CPIF

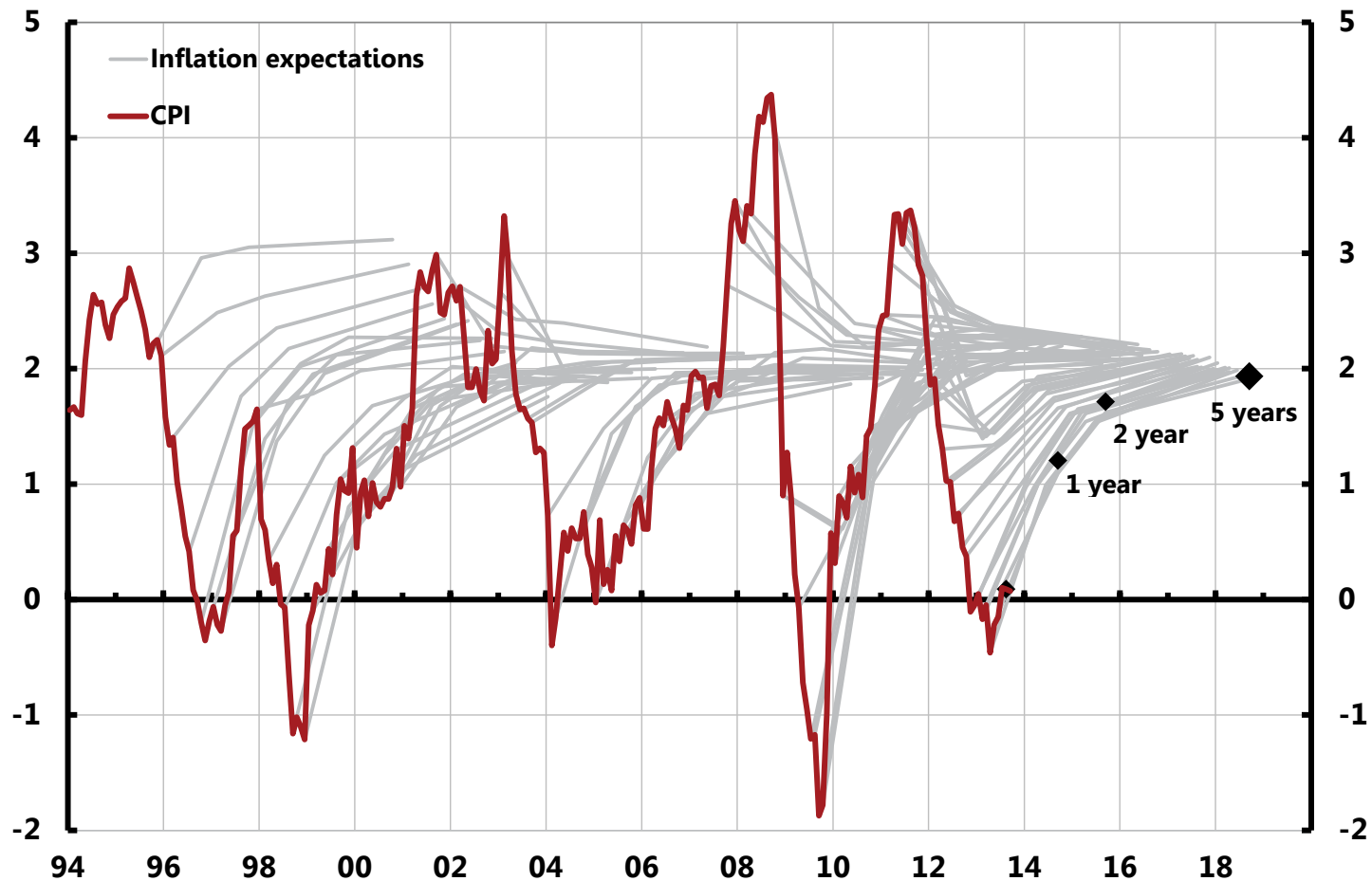


Note. Annual percentage change. The CPIF is the CPI with a fixed mortgage rate. Monthly real-time data.

Sources: Statistics Sweden and the Riksbank

Inflation expectations well anchored – confidence in the inflation target

CPI inflation and inflation expectations

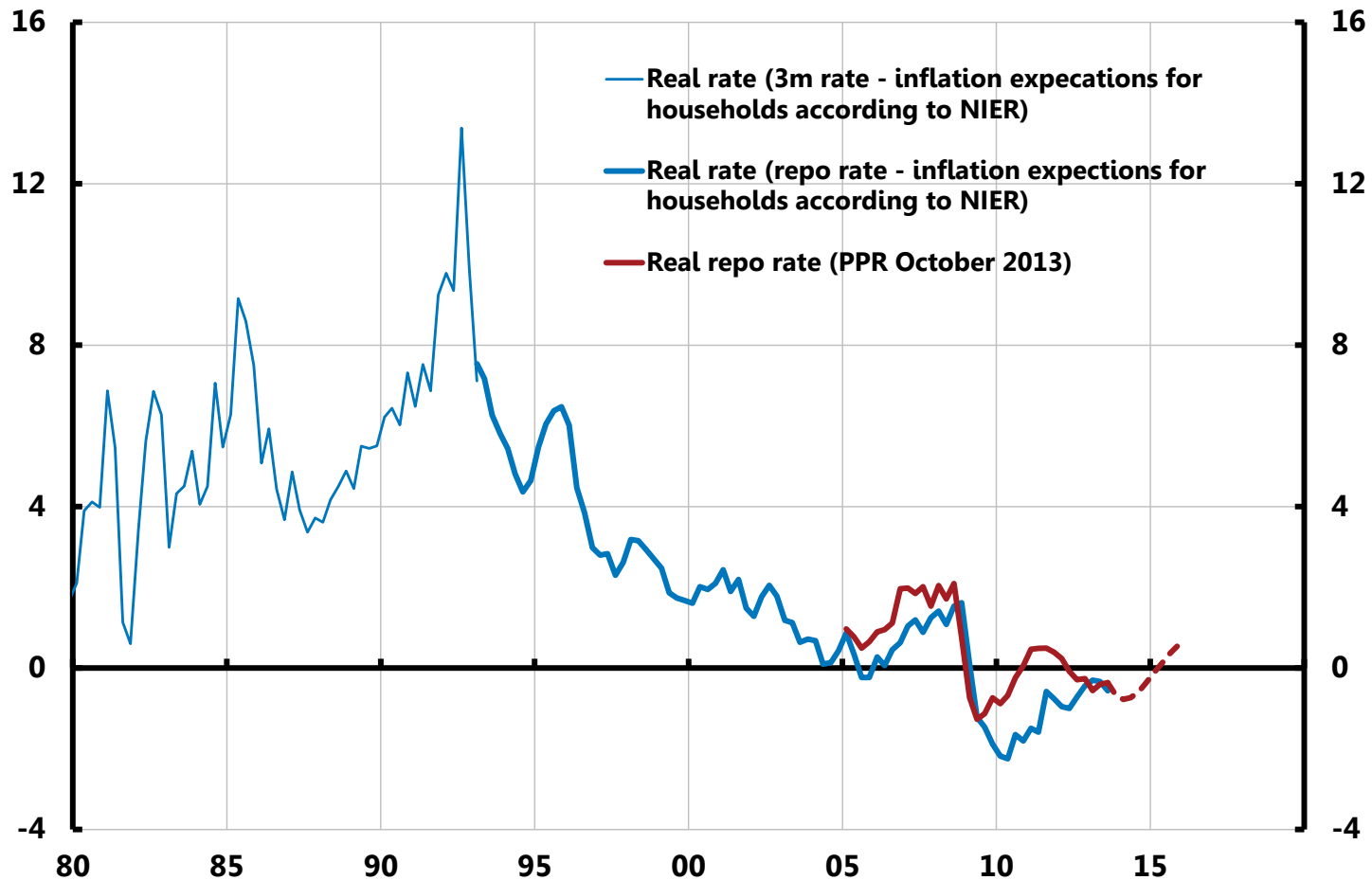


Note. Inflation expectations among money market participants 1, 2 and 5 years ahead.

Sources: Statistics Sweden and TNS SIFO Prospera

Repo rate is historically low

Real repo rate



Note. Per cent, quarterly mean values The real repo rate is calculated as a mean value of the Riksbank's repo-rate forecast for the year ahead minus the inflation forecast (CPIF) for the corresponding period.

Sources: The National Institute of Economic Research and the Riksbank.

The Swedish economy and monetary policy - where are we heading?

Some storm clouds abroad...

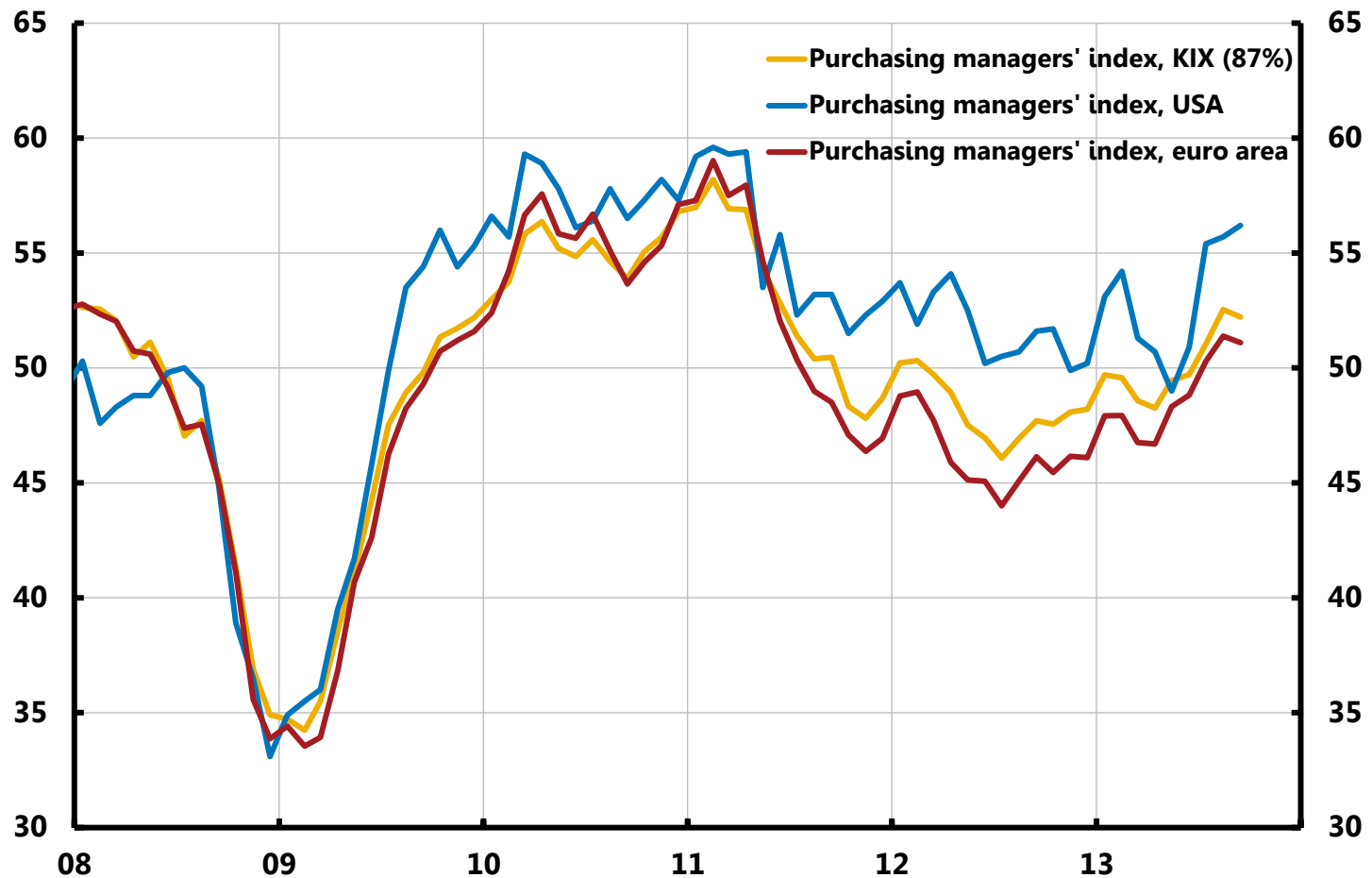
**US fiscal and
monetary policy**

**Debt and banking
problems in euro
area**

**Capital outflows
from emerging
markets**

...but confidence is showing a rising trend

Purchasing managers' index in the manufacturing industry

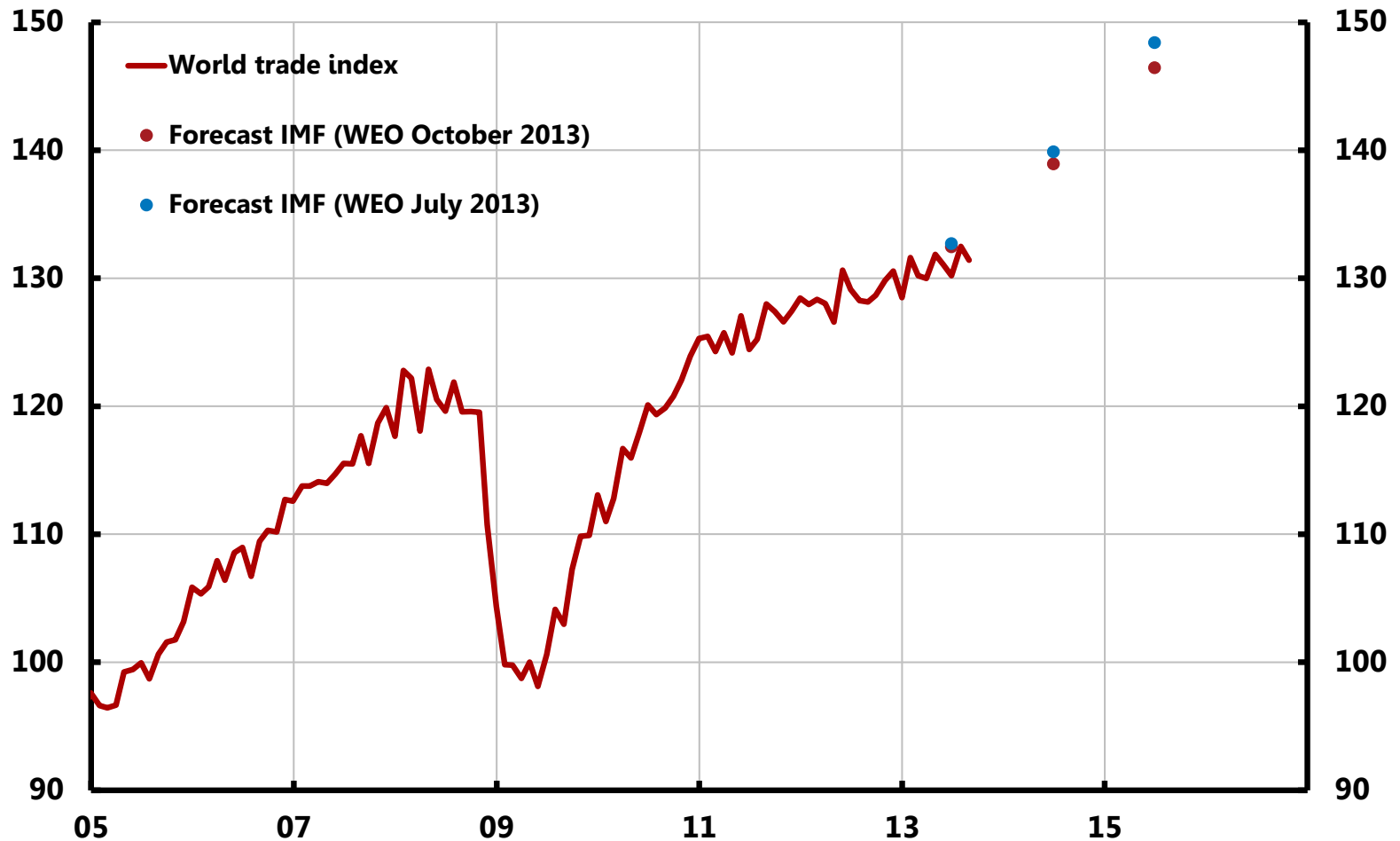


Note. KIX (87%) includes 87 per cent of the countries included in KIX.
Values above 50 indicate growth.

Sources: Institute for Supply Management,
Markit Economics and the Riksbank

Stable growth in world trade

World trade index

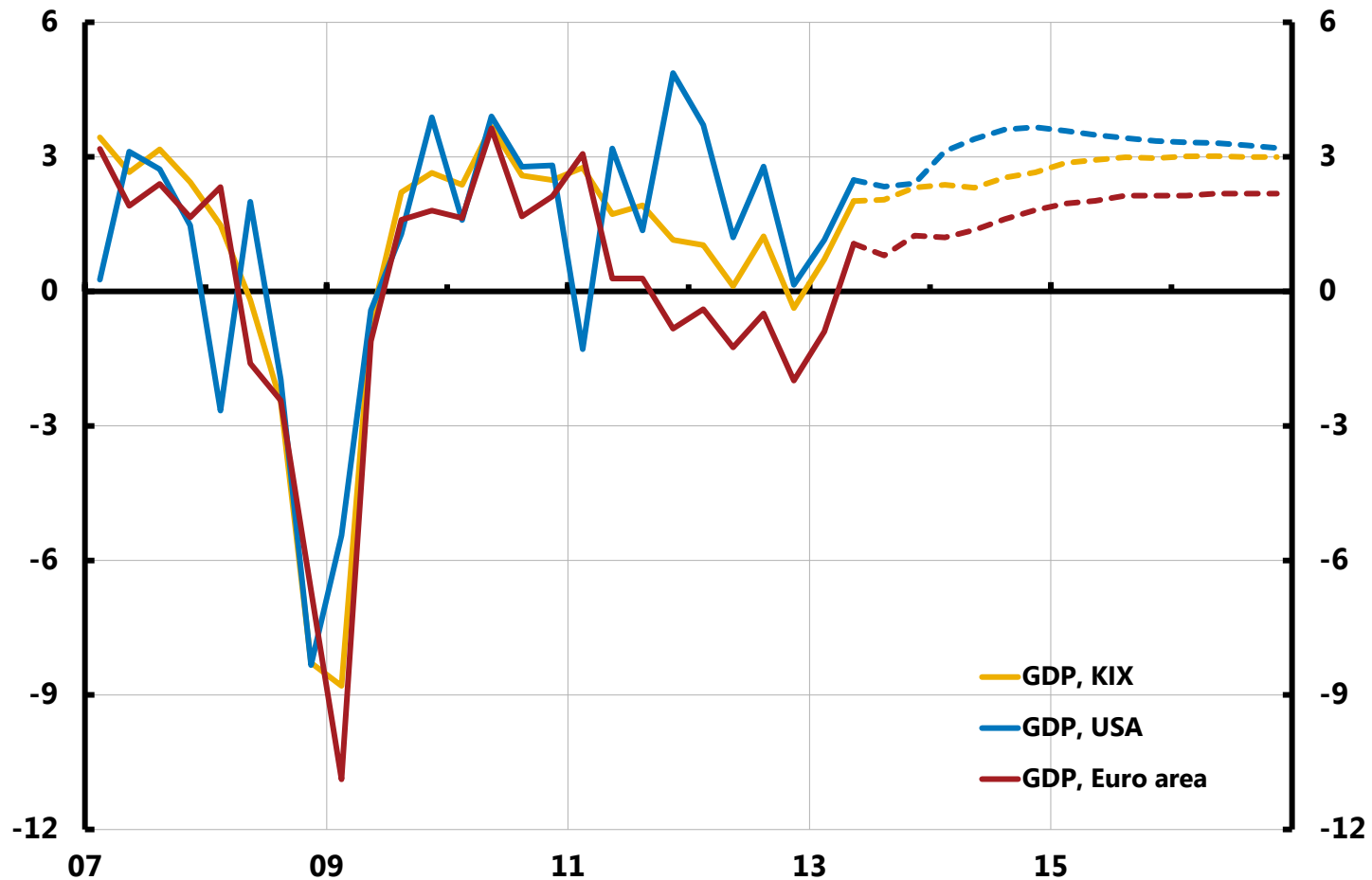


Note. Index, 2005 = 100.
USD, seasonally-adjusted data.

Source: CPB Netherlands Bureau of Economic Policy Analysis

Recovery abroad contributes to growth in Sweden

GDP in different regions and countries



Note. Quarterly changes in per cent calculated as annual rate, seasonally-adjusted data. KIX is an aggregate of the countries that are important to Sweden's international transactions.

Sources: The Bureau of Economic Analysis, Eurostat, national sources and the Riksbank

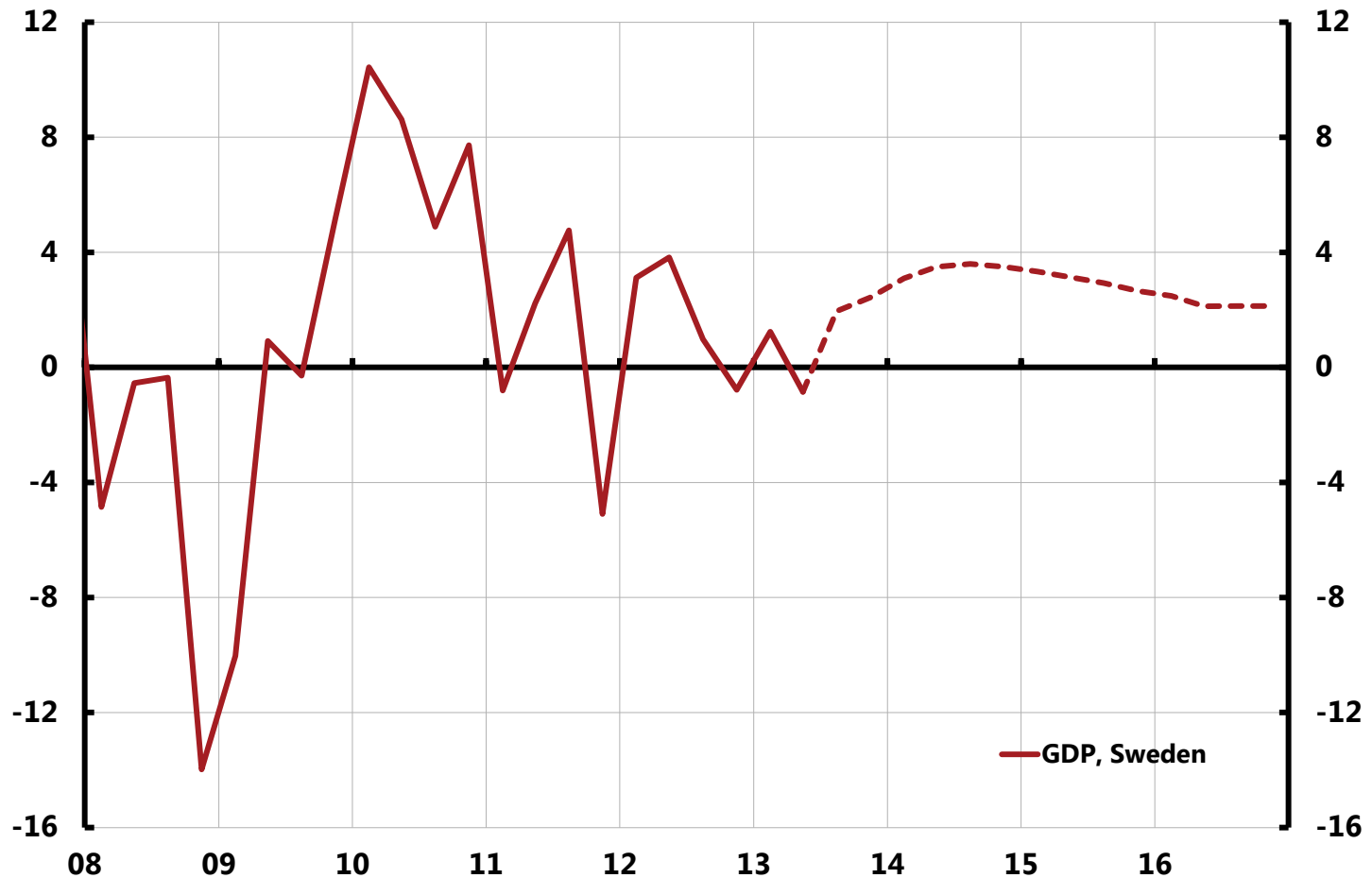
Conditions are right for an economic improvement in Sweden



- Better growth abroad
 - Households and companies more optimistic
 - Expansionary fiscal and monetary policy
 - Good development of incomes
-

Clearly higher growth next year

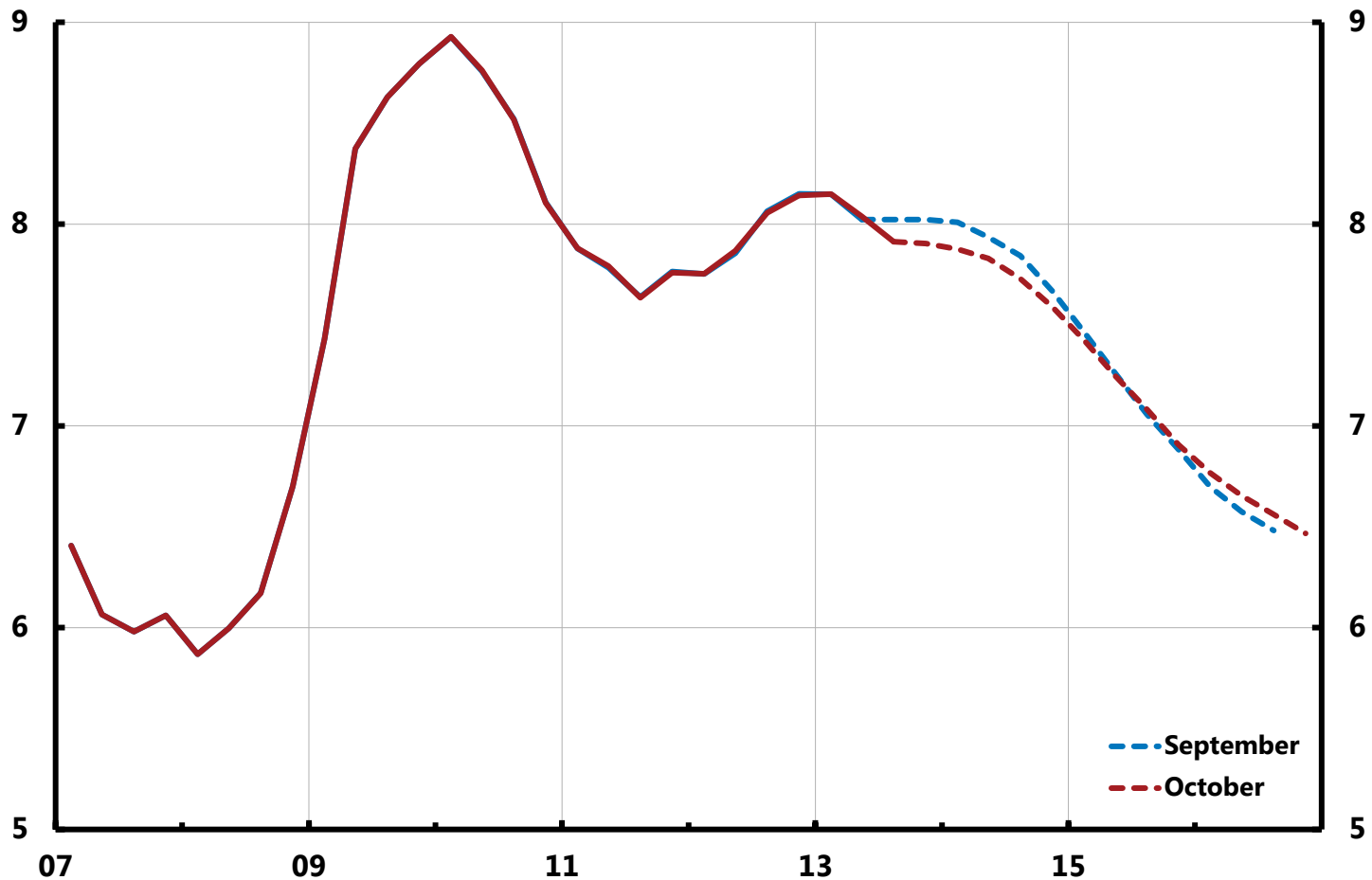
GDP growth



Note. Quarterly changes in per cent calculated as annual rate, seasonally-adjusted data.

Sources: Statistics Sweden and the Riksbank

Unemployment will fall

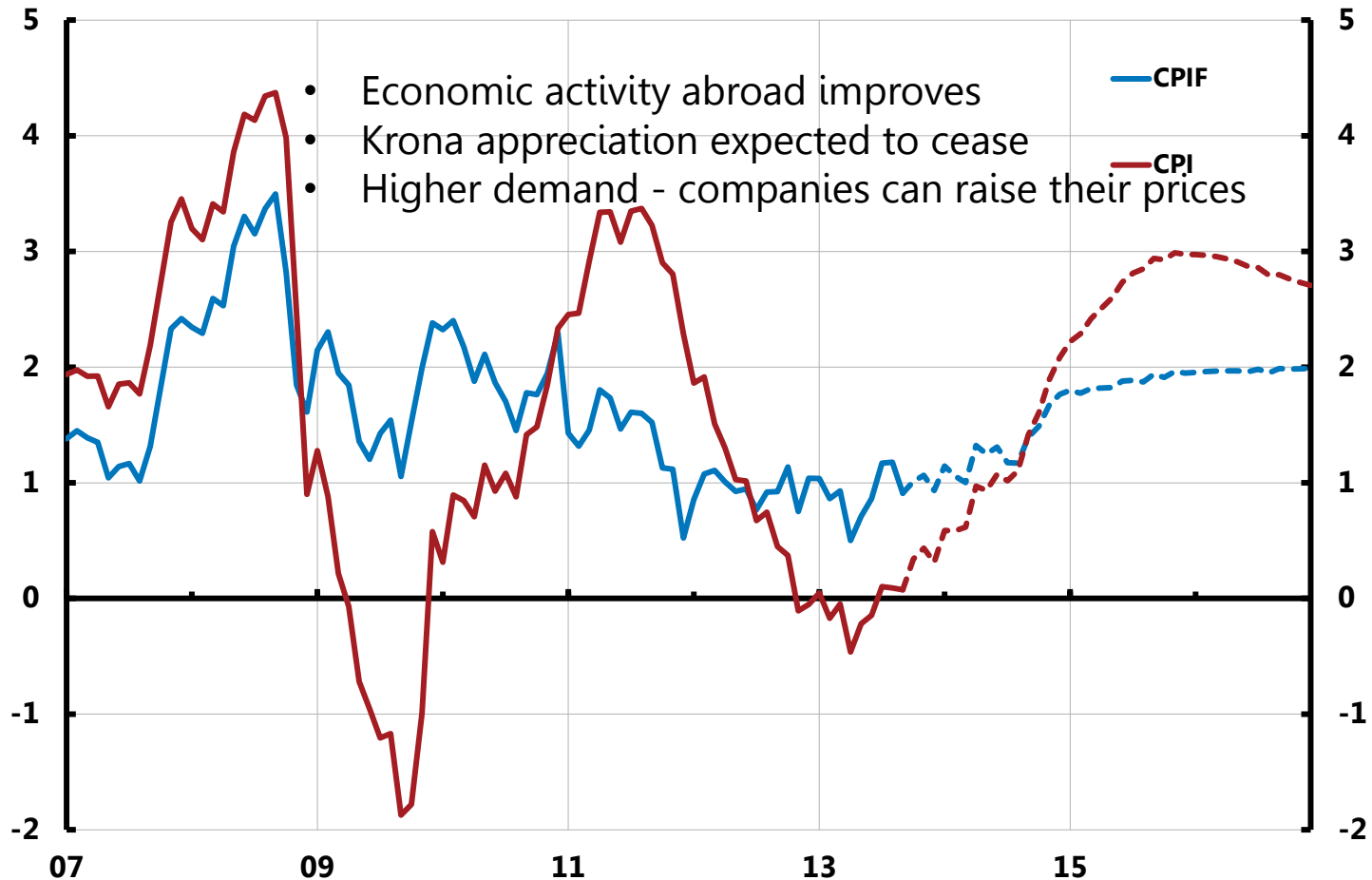


Note. Percentage of labour force, 15-74 years, seasonally-adjusted data.

Sources: Statistics Sweden and the Riksbank

Inflation rising towards the target

Inflation measured in terms of the CPI and the CPIF

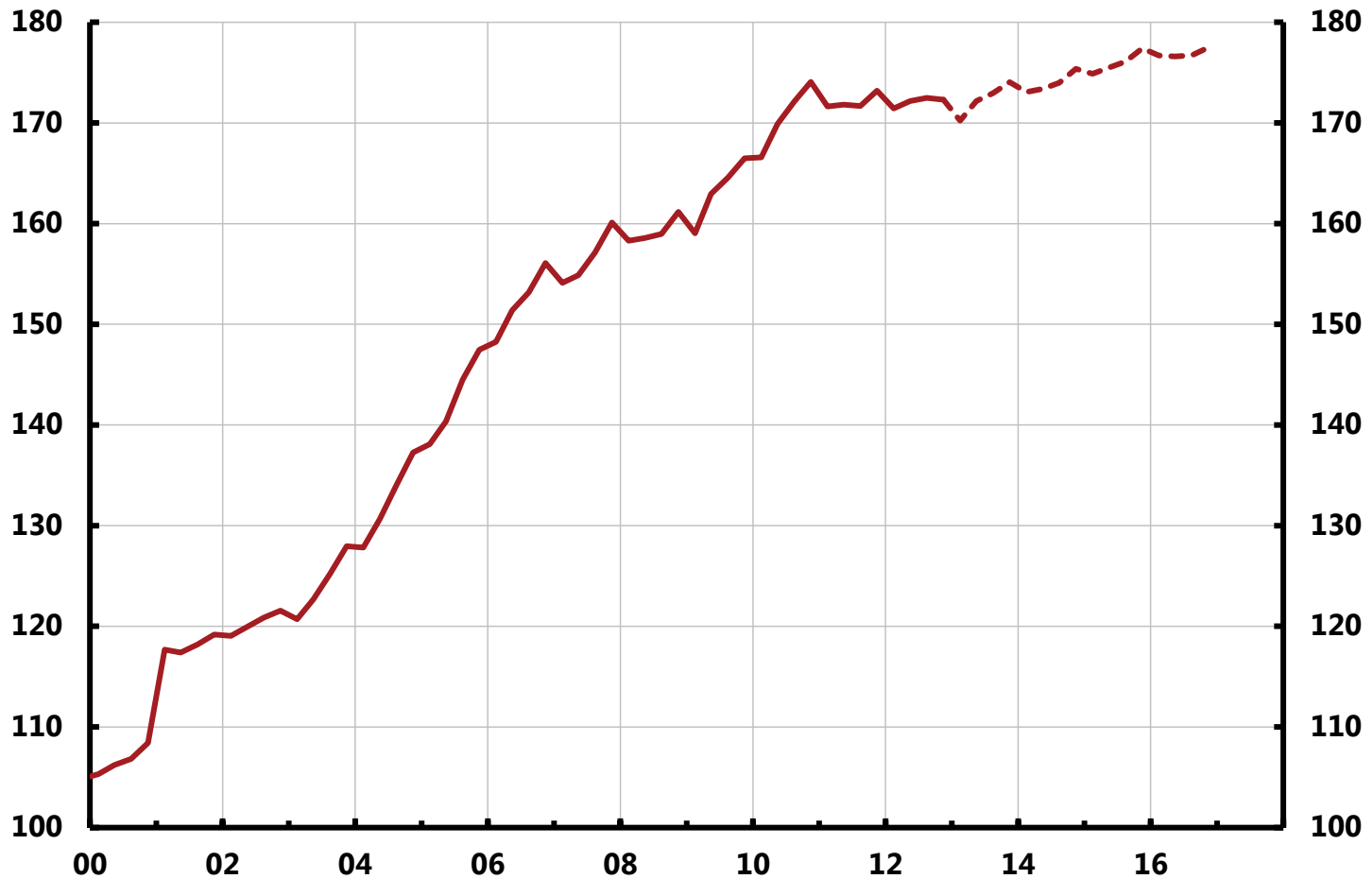


Note. Annual percentage change. The CPIF is the CPI with a fixed mortgage rate.

Sources: Statistics Sweden and the Riksbank

Household indebtedness has been taken into account

Households' debt ratio



Note. Percentage of disposable income.

Sources: Statistics Sweden and the Riksbank

A suitable balance

Repo rate

