



Introduction on monetary policy

Riksdag Committee on
Finance

6 March 2014

Governor Stefan Ingves

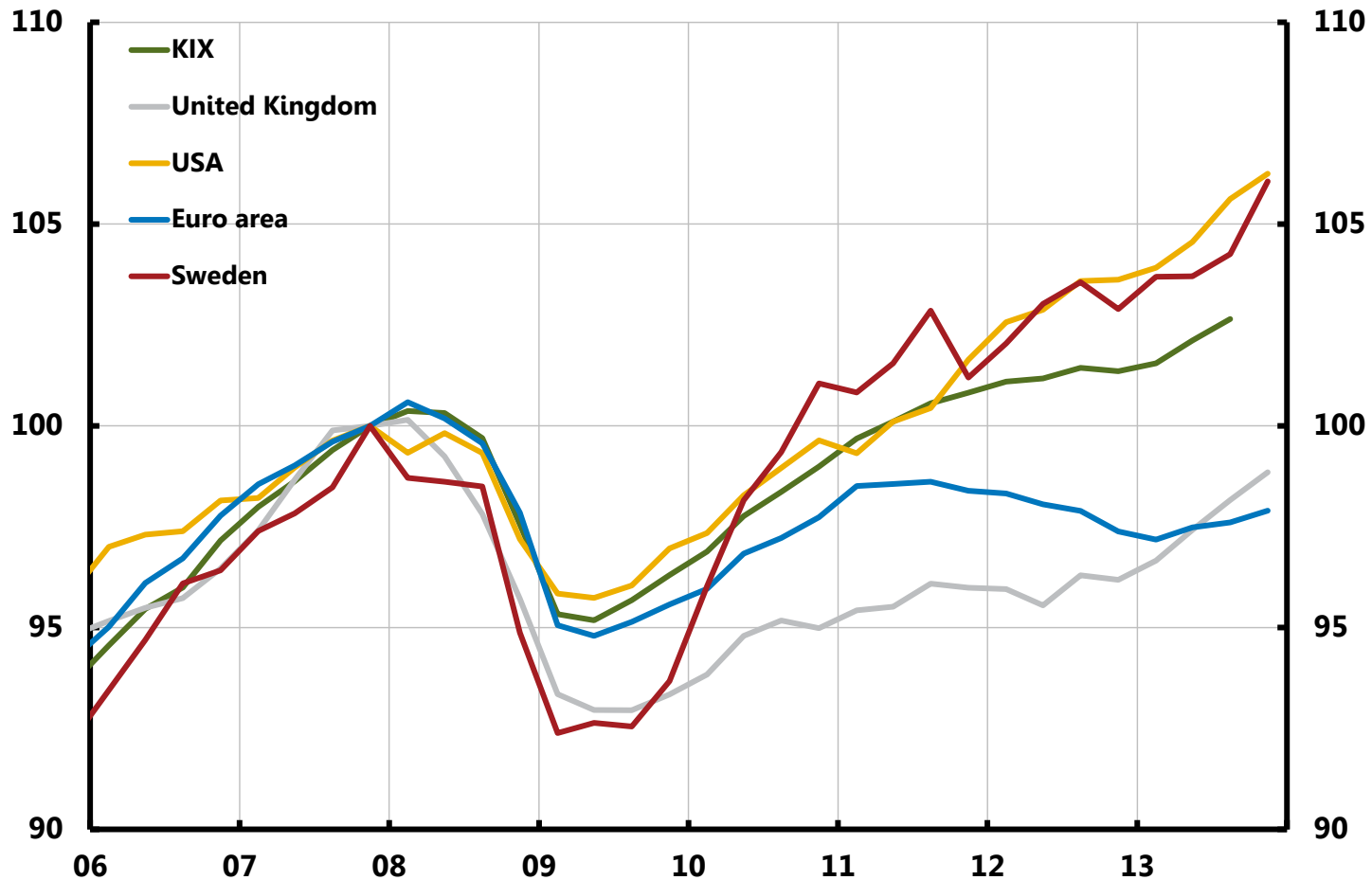
Today's presentation

- **The Swedish economy and monetary policy - where are we heading?**
 - The Swedish economy has proven to be relatively strong
 - Good prospects for increased growth
 - Low interest rate until inflation accelerates

 - **Some key issues for monetary policy**
 - Challenges in the labour market
 - The low rate of inflation
 - Household indebtedness and the housing market
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Sweden has recovered relatively well

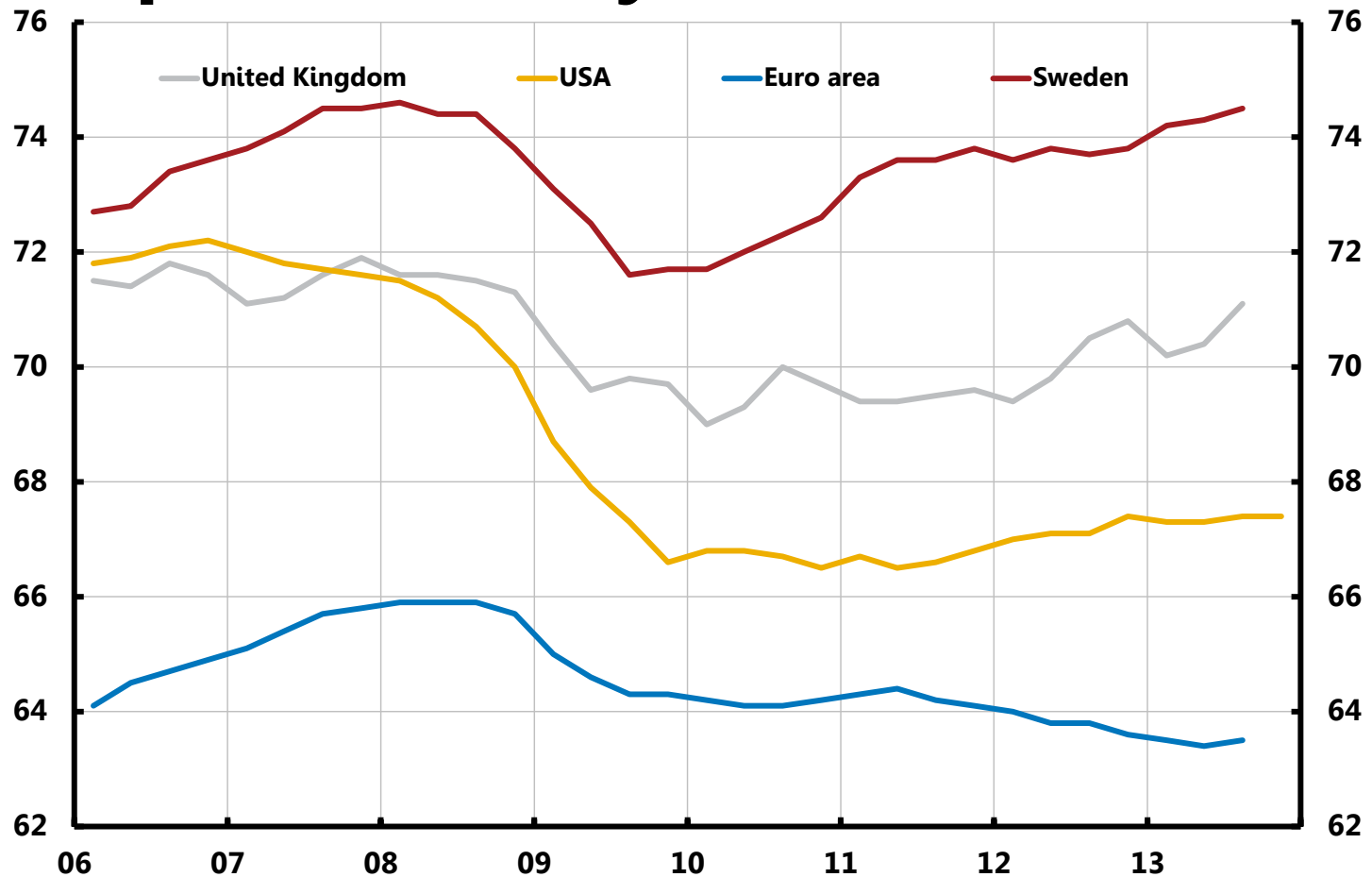
GDP in different regions and countries



Note. Index, 2007 Q4 = 100

Sources: Bureau of Economic Analysis, Eurostat, Office for National Statistics, national sources and Statistics Sweden

The employment rate has also developed relatively well

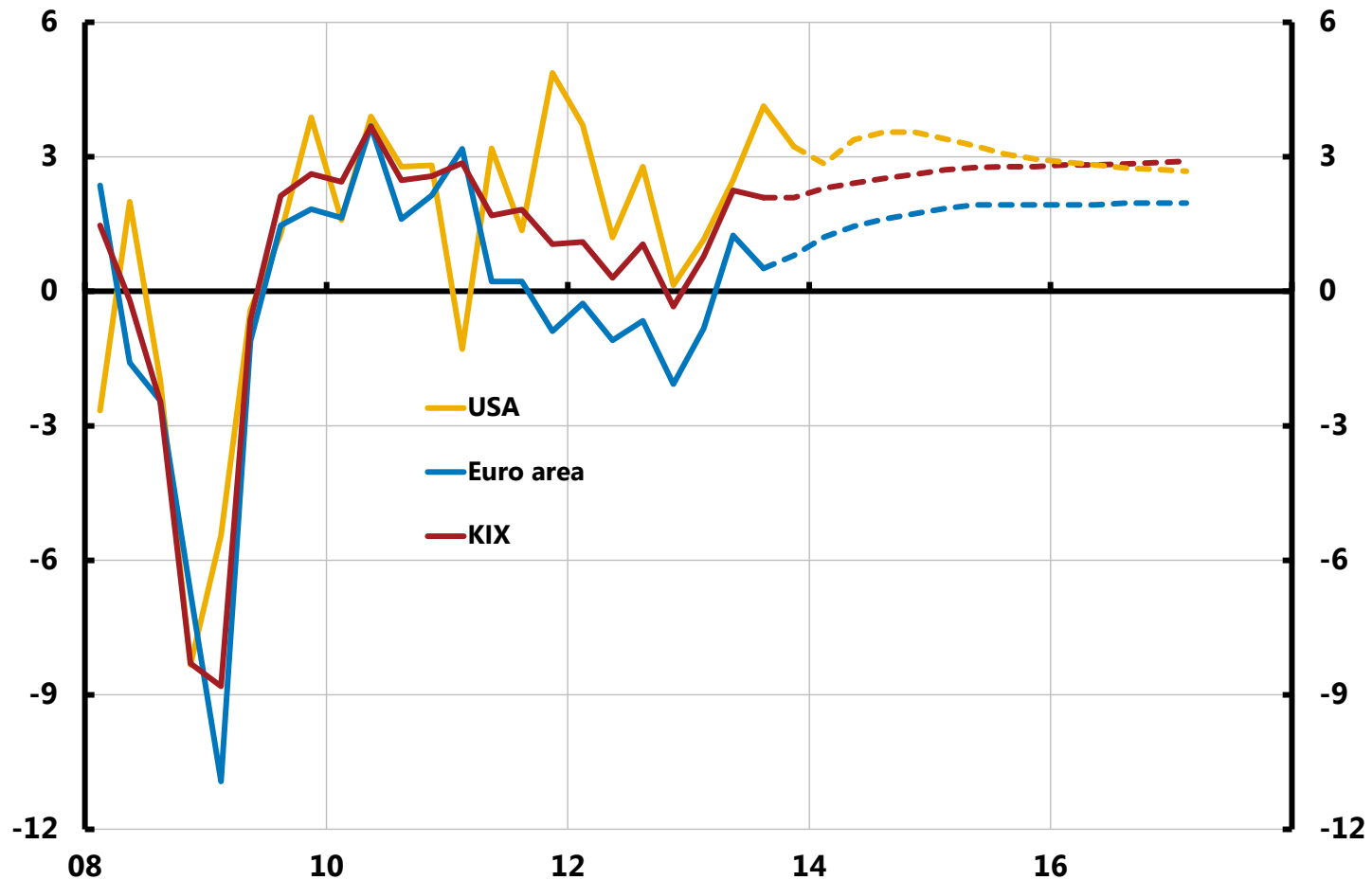


Note. Per cent of the population aged 15-64.

Sources: Eurostat and the OECD

Other countries recovering

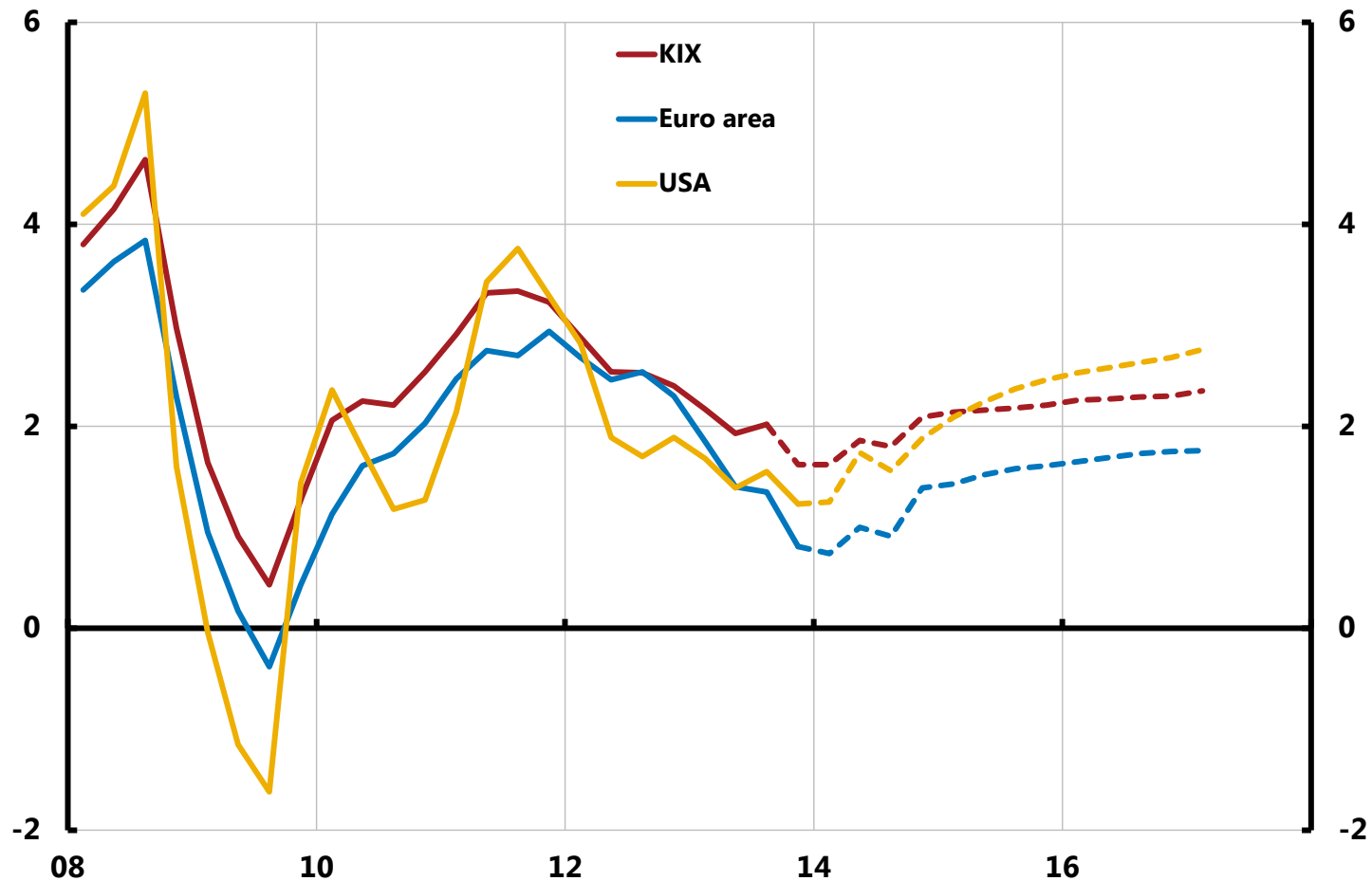
GDP, quarterly changes in per cent calculated in annualised terms



Note. Seasonally-adjusted data. KIX is an aggregate of countries that are important to Sweden's international transactions.

Sources: Bureau of Economic Analysis, Eurostat and the Riksbank

Low but rising inflationary pressures abroad



Note. Annual percentage change. This refers to HICP for the euro area and to CPI for the United States. KIX is an aggregate of countries that are important to Sweden's international transactions.

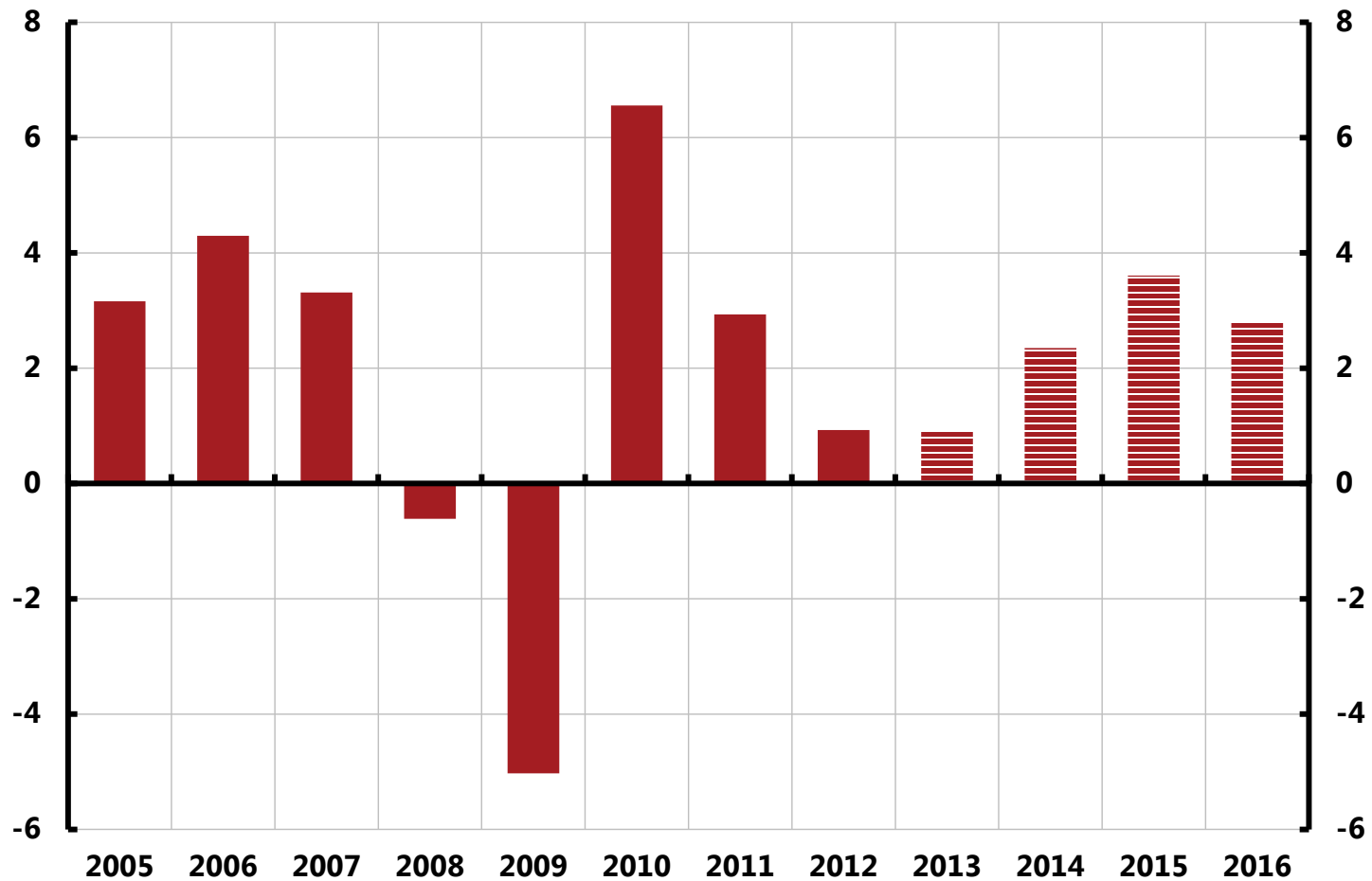
Sources: Bureau of Labor Statistics, Eurostat, national sources and Statistics Sweden

Good prospects of an upturn in Sweden



Clear recovery 2014

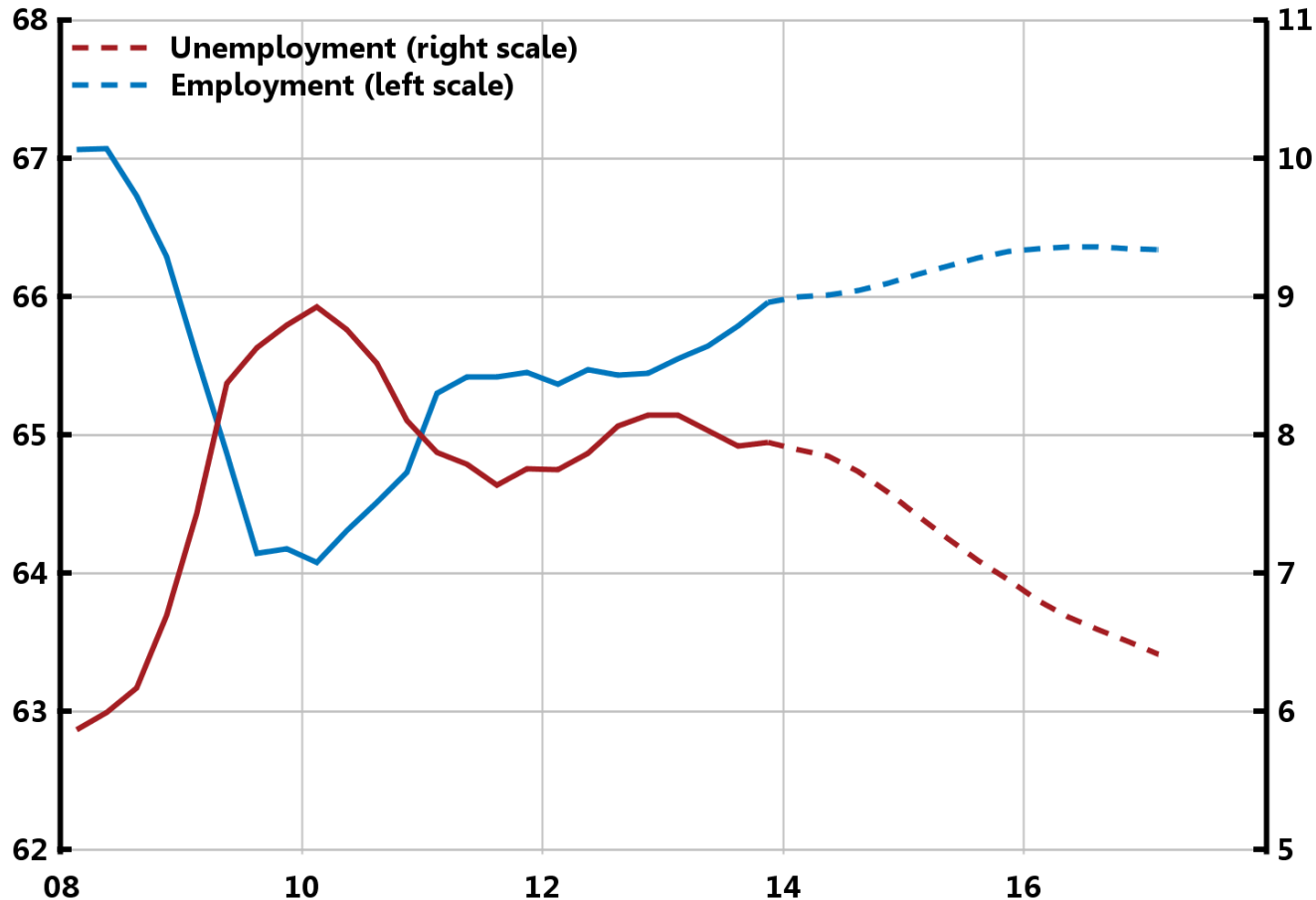
GDP, annual percentage change



Note. The broken bars represent the Riksbank's forecast.

Sources: Statistics Sweden and the Riksbank

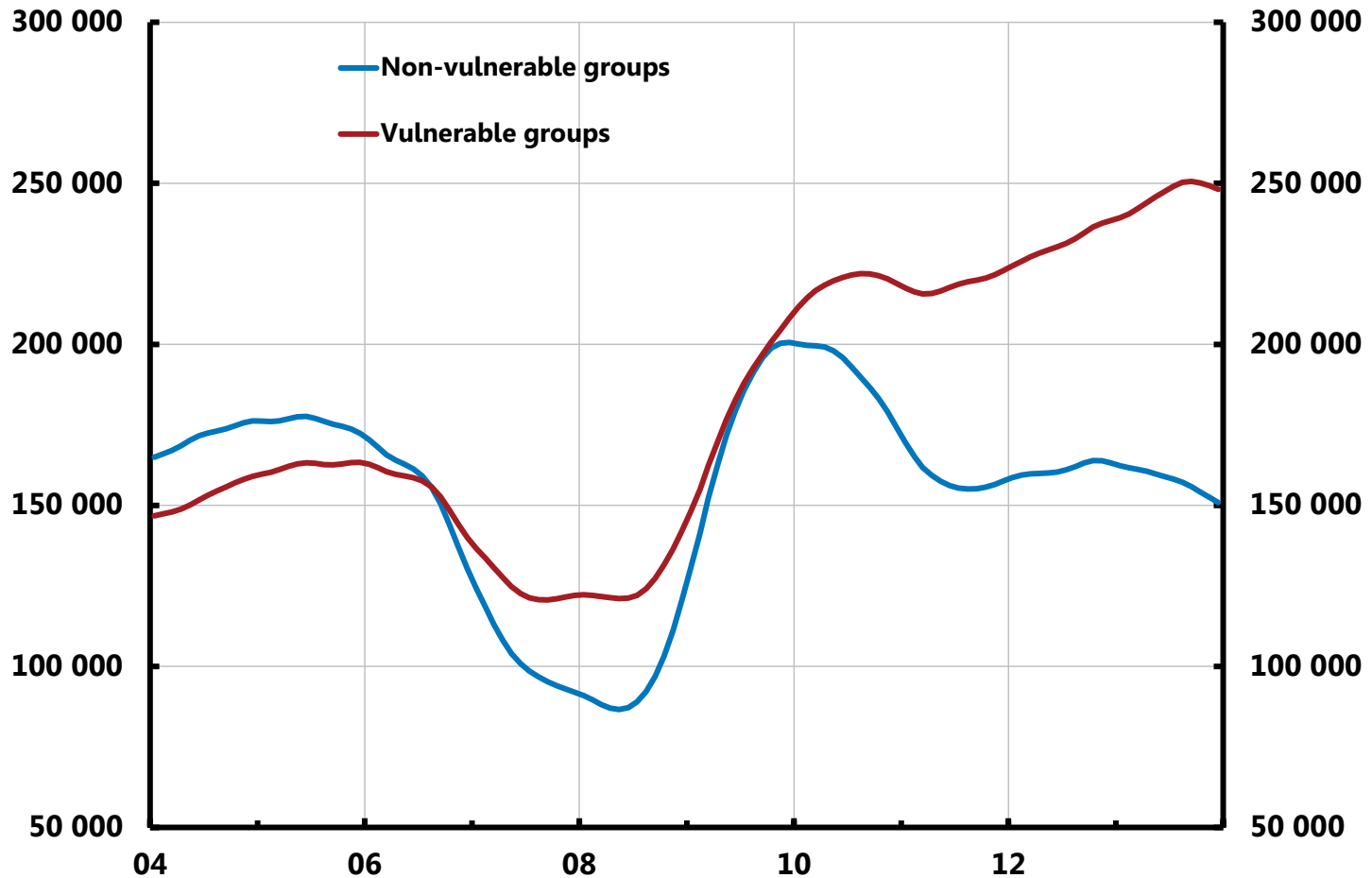
Low repo rate contributes to improved labour market



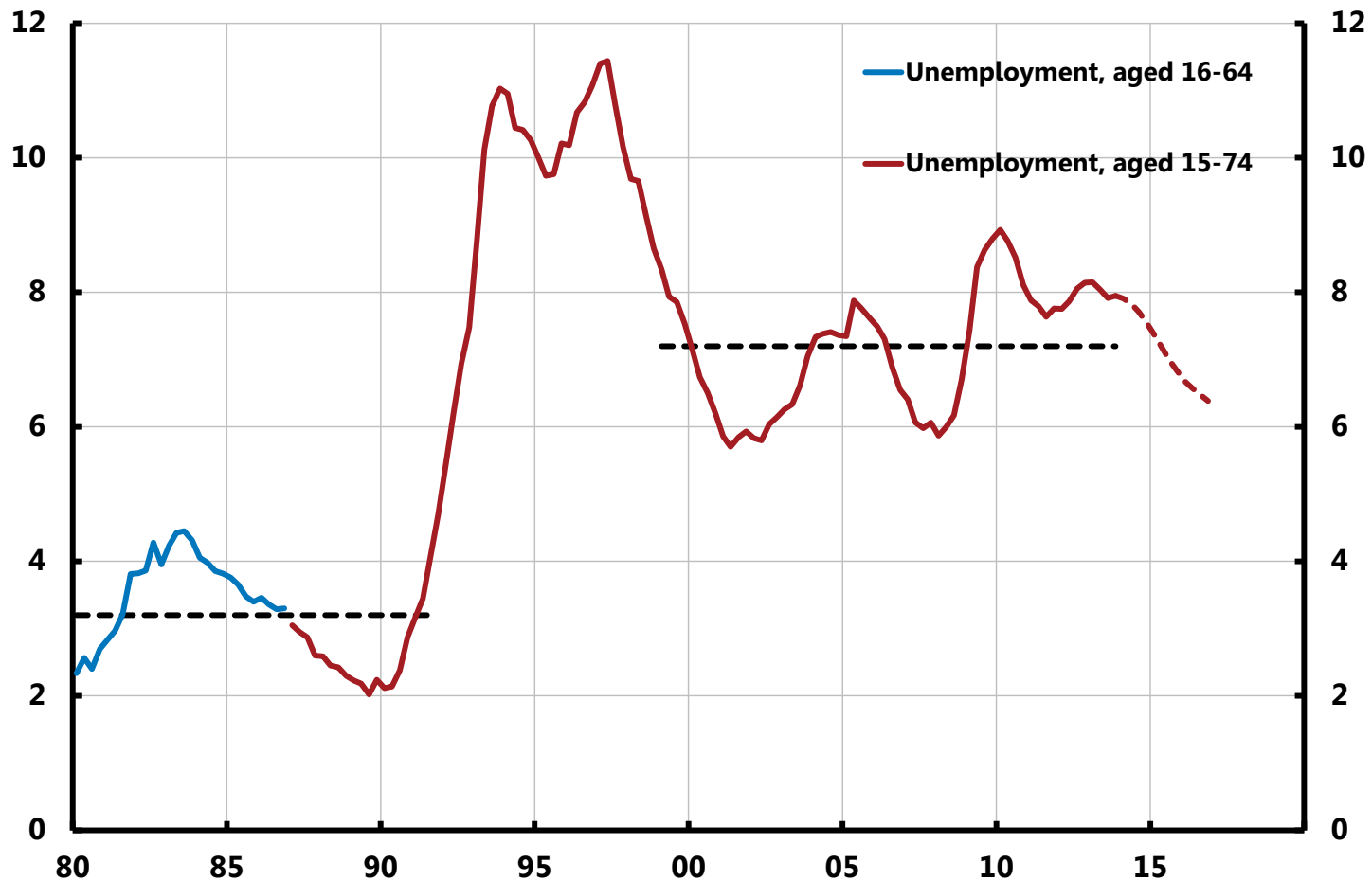
Note. Per cent of the labour force and the population, aged 15-74, seasonally-adjusted data.

Sources: Statistics Sweden and the Riksbank

However, there are structural problems



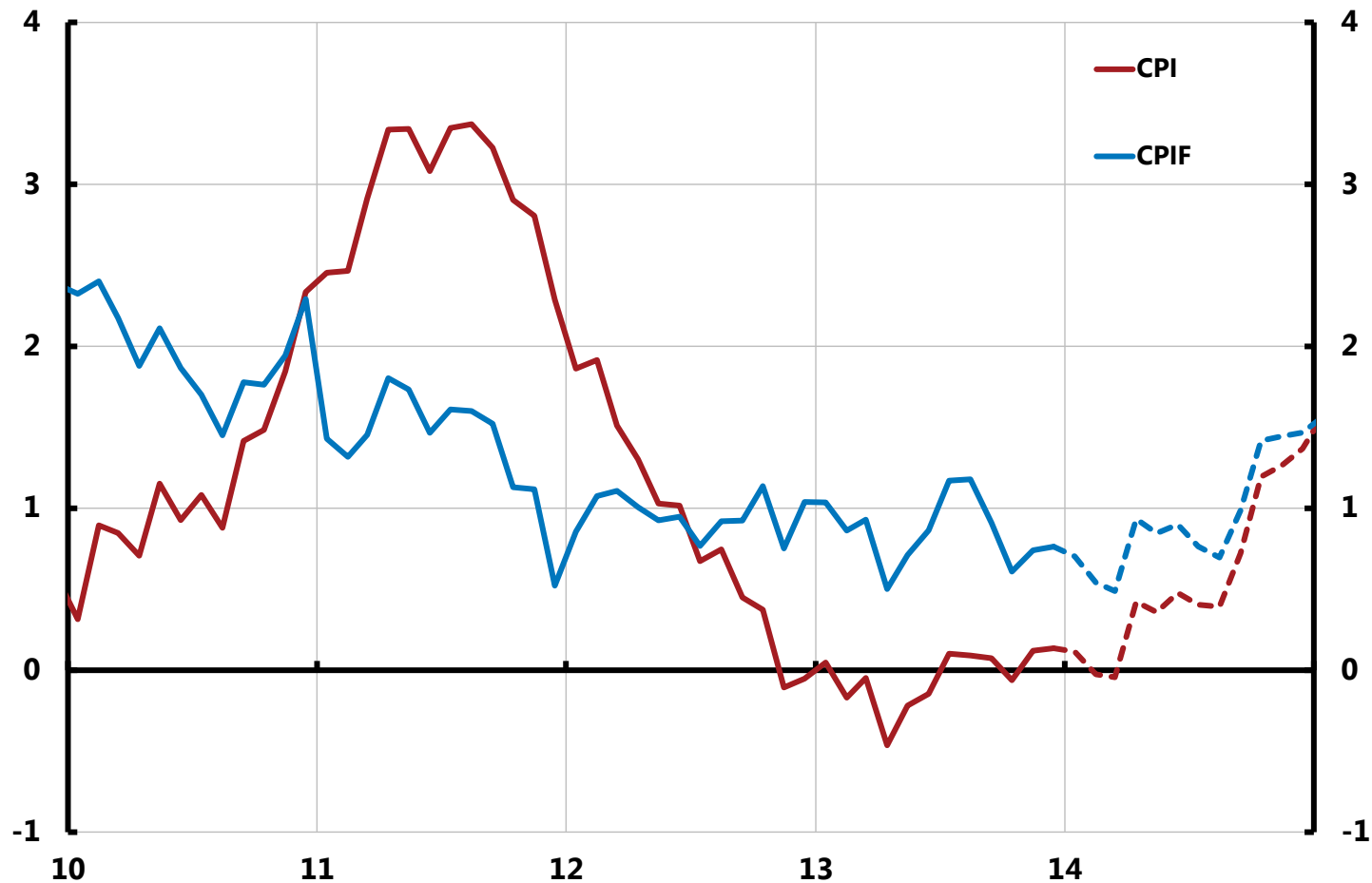
Other measures are needed to achieve markedly lower unemployment



Note. Per cent. Broken lines in black represent average unemployment for the periods 1980–1991 and 1999–2013. The broken line in red represents the Riksbank's forecast.

Sources: Statistics Sweden and the Riksbank

Stronger economic activity but low inflation in the coming year

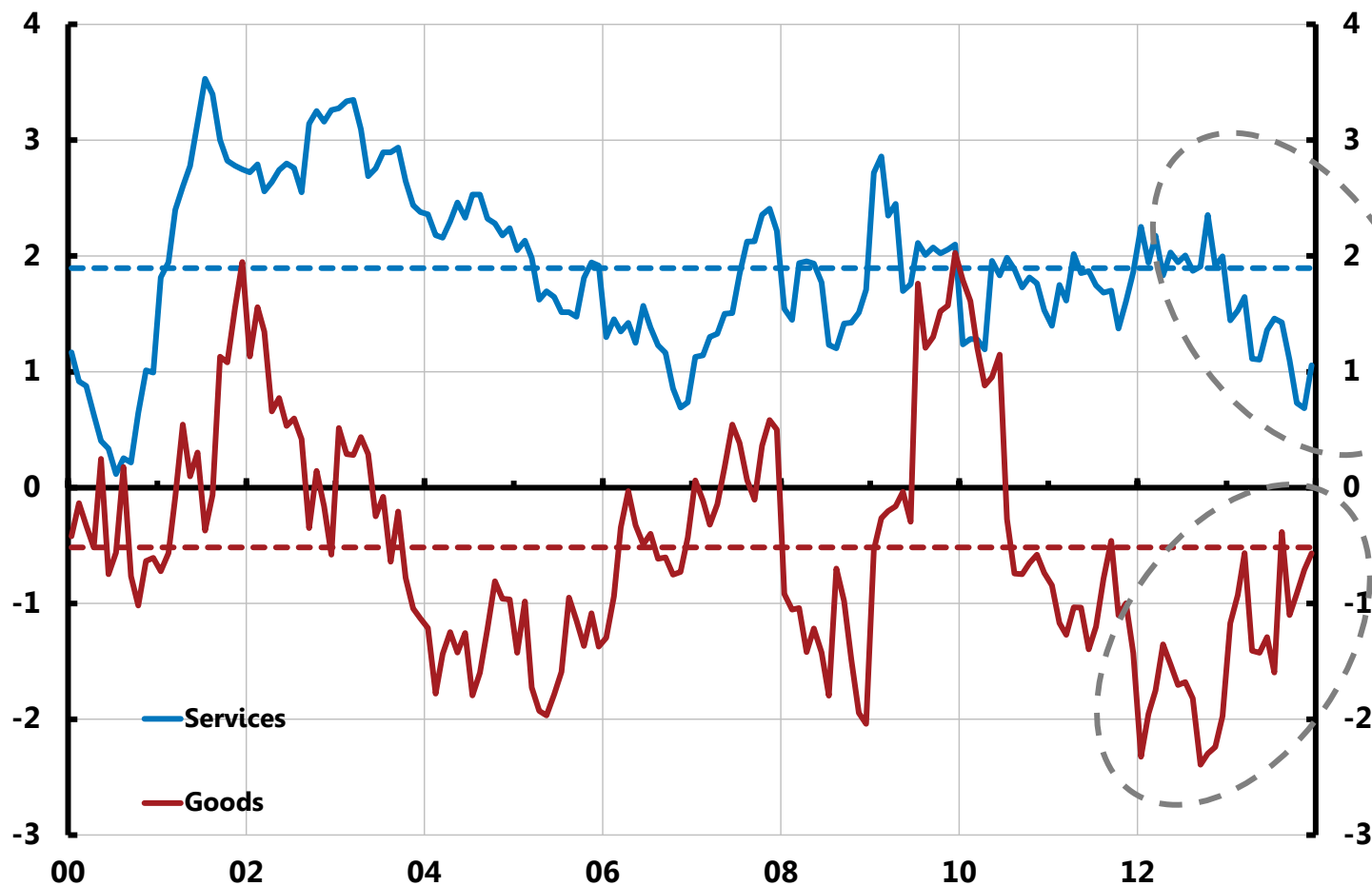


Note. Annual percentage change. The CPIF is the CPI with a fixed mortgage rate. Broken lines represent the Riksbank's forecast.

Sources: Statistics Sweden and the Riksbank

Lower services inflation counteracted rising goods inflation

Annual percentage change



Note. The broken lines represent the average for the period 2000-2013.

Sources: Statistics Sweden and the Riksbank

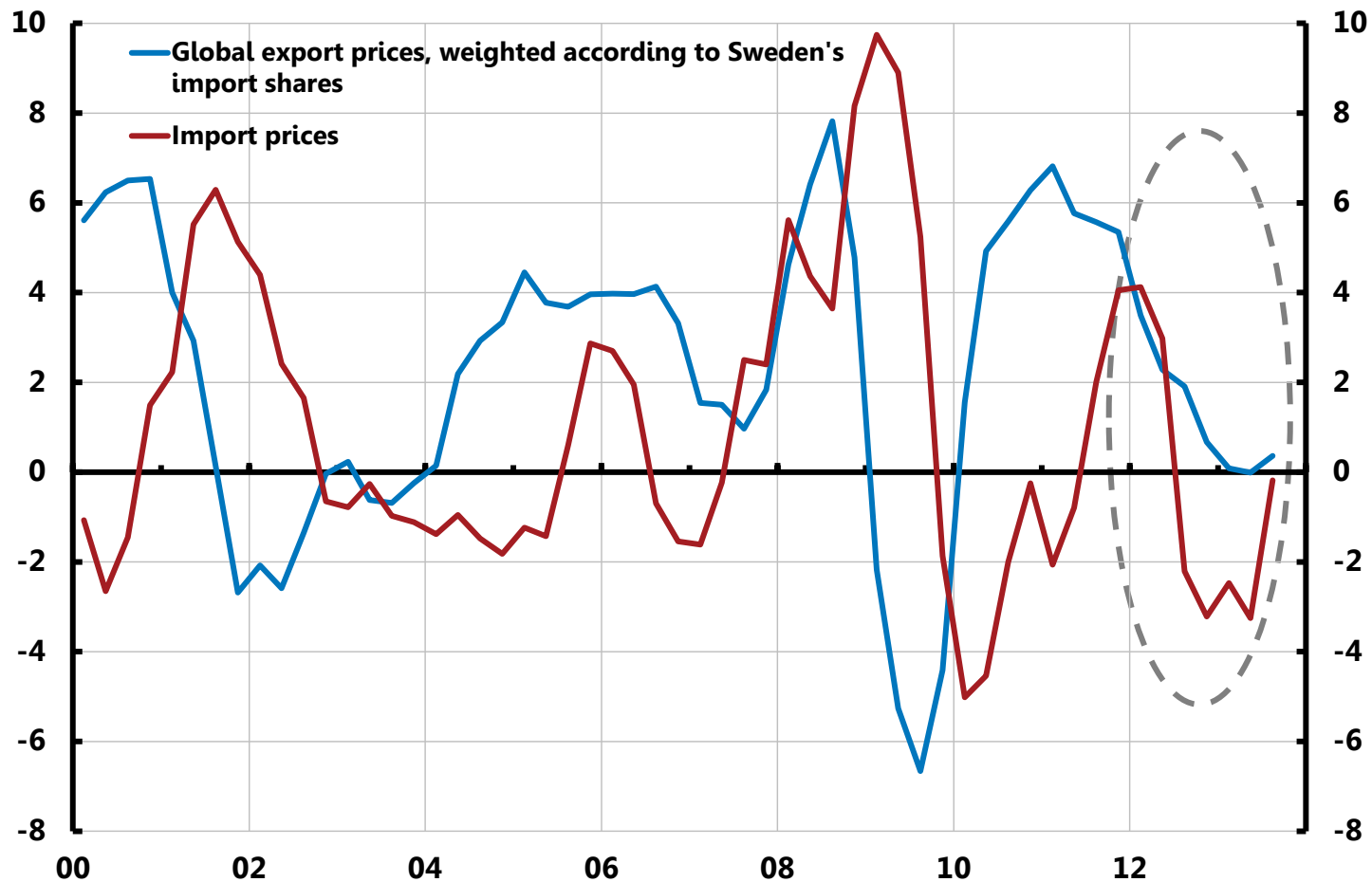
Why low inflation?



- Low global export prices, together with the appreciation of the krona, have led to low import prices
 - The weak state of the economy in Sweden is making it difficult for businesses to cover costs by raising consumer prices
 - These factors will hold back inflation in the coming year as well
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Low import prices due to weak developments abroad

Global export prices and import prices

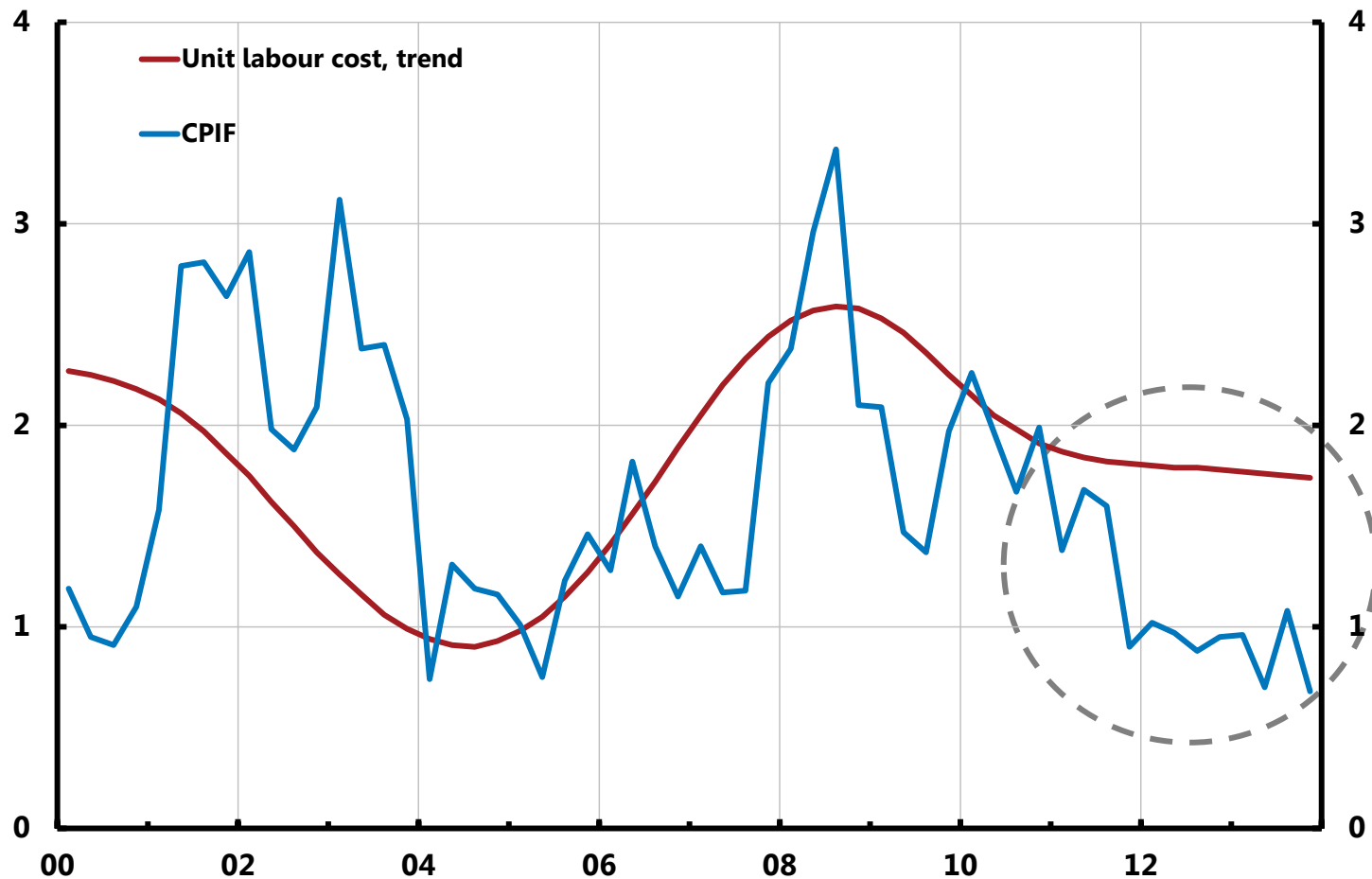


Note. Annual percentage change. Global export prices are an aggregate of export deflators (in local currencies), where Sweden's import shares are used as a weight. Import prices refer to consumer goods.

Sources: National sources and the Riksbank

Businesses are finding it difficult to cover costs by raising consumer prices

CPIF inflation and unit labour costs

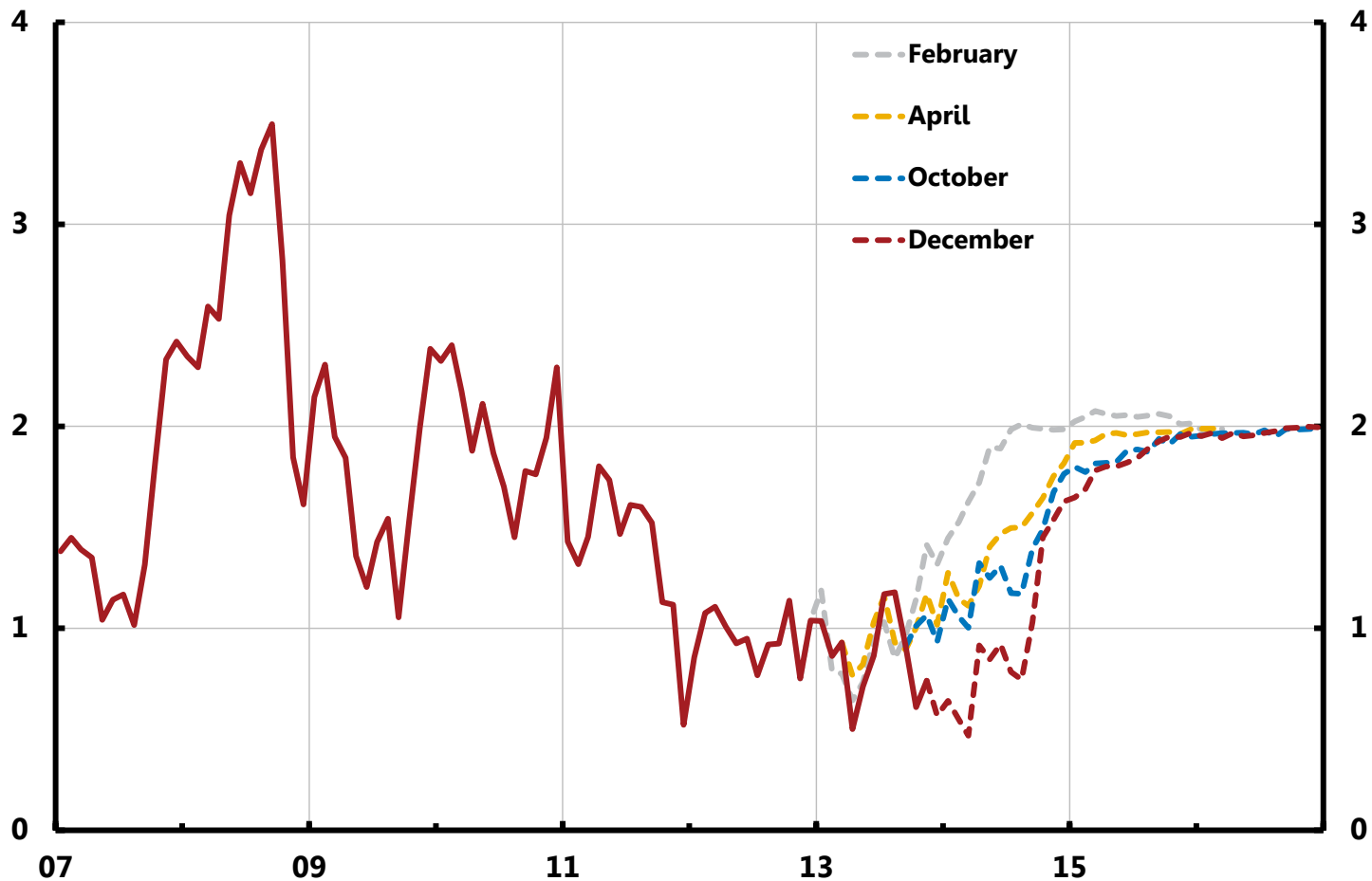


Note. The CPIF is the CPI with a fixed mortgage rate, annual percentage change, and unit labour cost, trend, per cent.

Sources: Statistics Sweden and the Riksbank

New assessments led to revised CPIF forecasts 2013

Annual percentage change

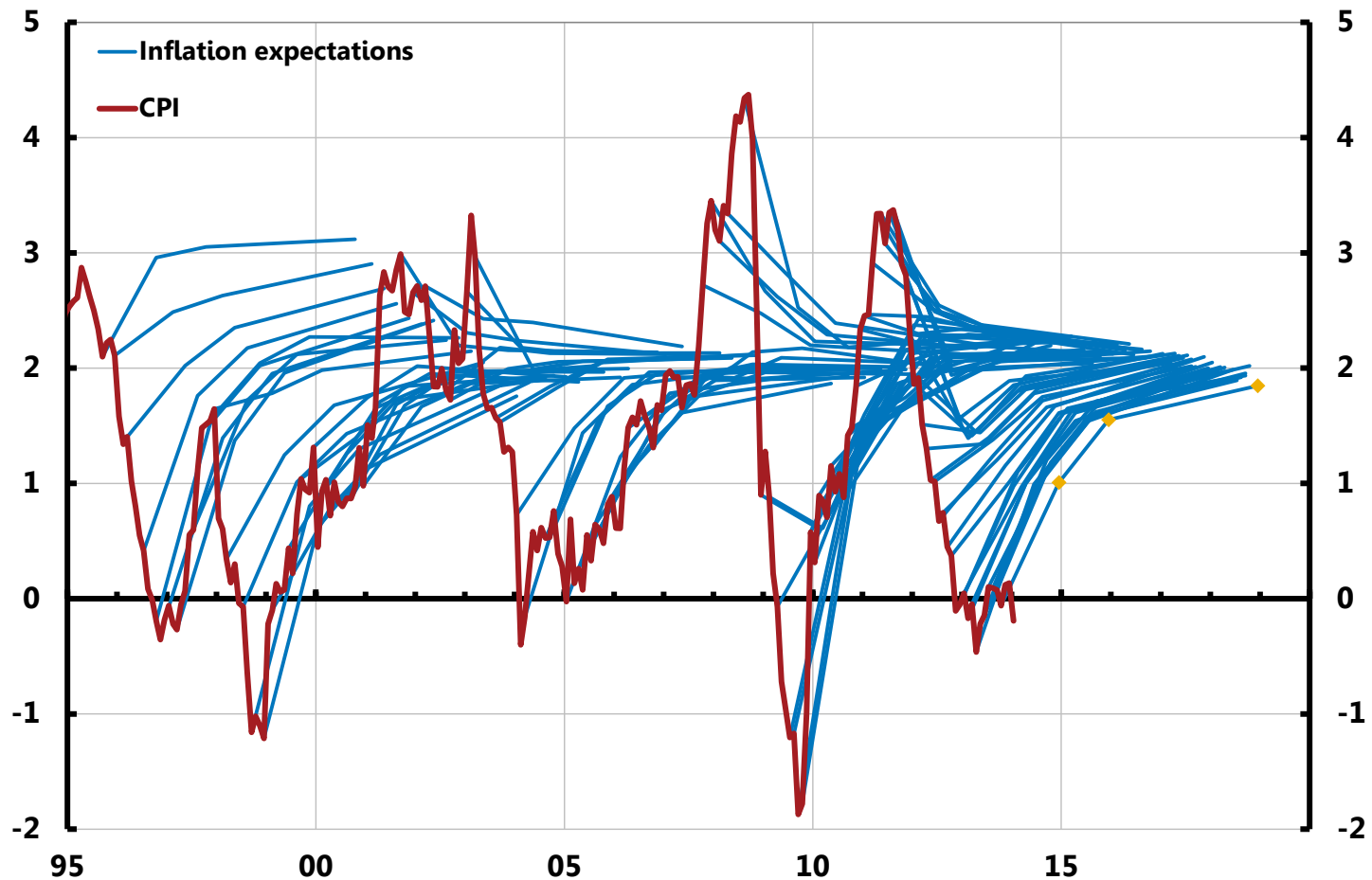


Note. The CPIF is the CPI with a fixed mortgage rate. The broken lines represent the Riksbank's forecast.

Sources: Statistics Sweden and the Riksbank

Inflation expectations well anchored – confidence in the inflation target

CPI inflation and inflation expectations



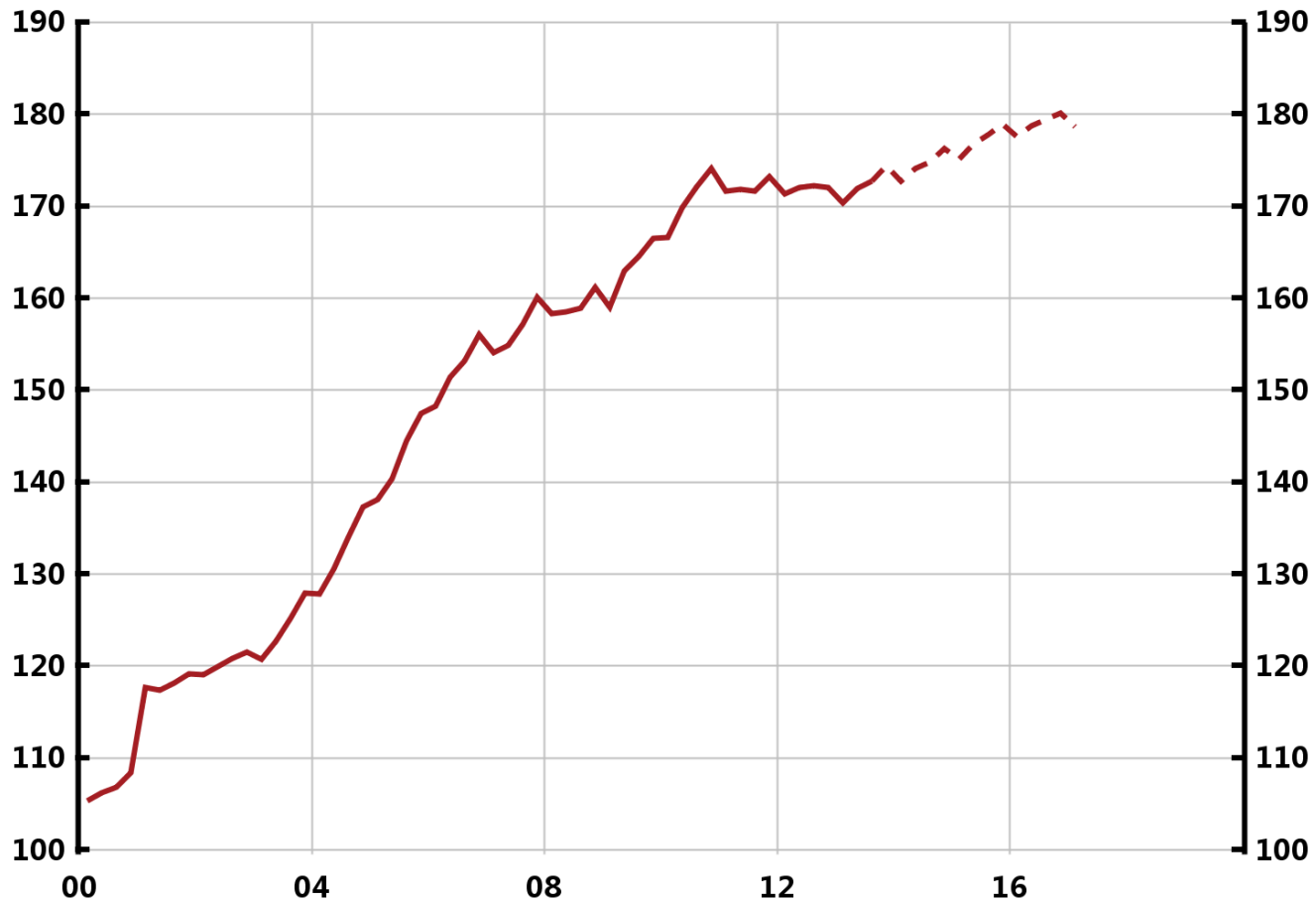
Note. Inflation expectations among money market participants
1, 2 and 5 years ahead.

Sources: Statistics Sweden and TNS SIFO Prospera

Higher inflation in the coming period

- International recovery
 - Stronger economic activity in Sweden
 - Increasing employment and wage increases
 - Companies need and are getting greater scope to raise their prices
 - Low repo rate until inflation accelerates
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High indebtedness a risk – measures are important



Household indebtedness and the housing market



- Macroprudential policy and monetary policy influence credit growth in the economy
 - But the fundamental problems are due to how the housing market functions
 - Several policy areas need to cooperate
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Several central banks are taking account of the risks of high debt



■ Bank of Canada

"[T]he Bank must also take into consideration the risk of exacerbating already-elevated household imbalances."

Press release, October 2013

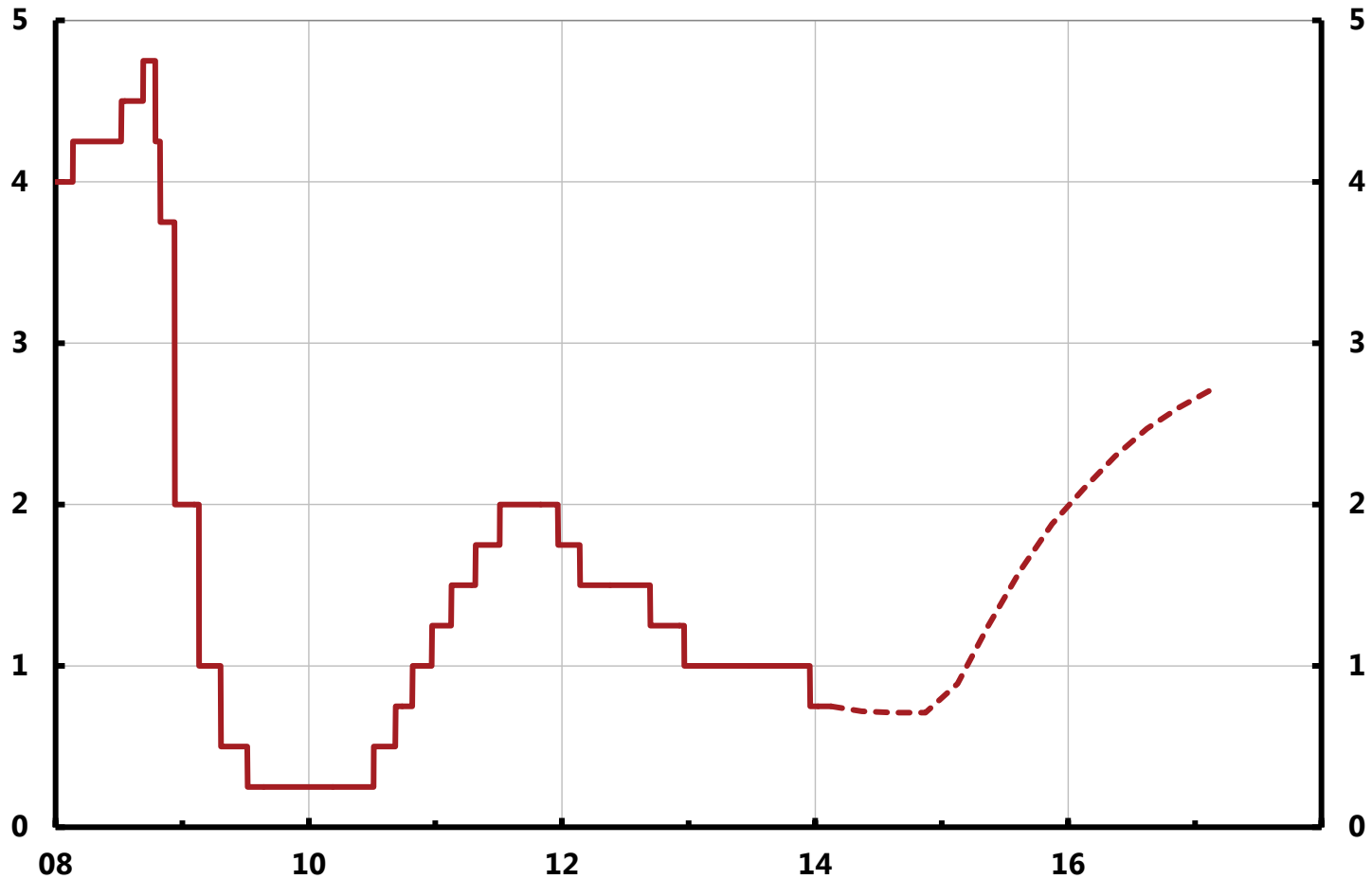
■ Norges Bank

"Weight was also given to the fact that house prices and debt have risen faster than income for a long period. A lower key policy rate may increase the risk of a renewed acceleration in house prices and debt accumulation and of build up of financial imbalances."

MPR, September 2013

Low repo rate until inflation picks up

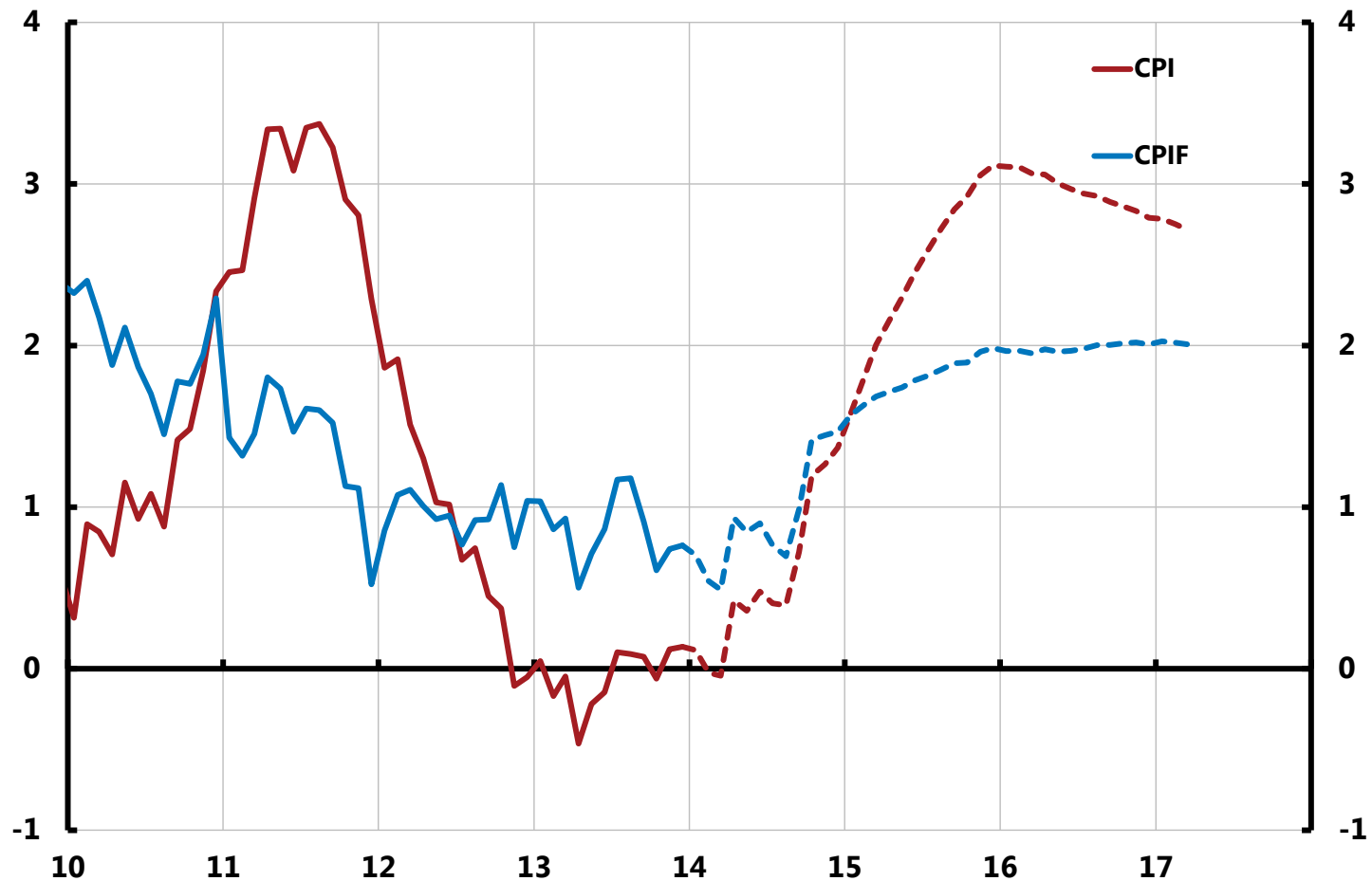
Repo rate



Note. Per cent. Outcomes are daily rates and the forecasts refer to quarterly averages.

Source: The Riksbank

Inflation is rising towards 2 per cent



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

Sources: Statistics Sweden and the Riksbank