



Introduction on monetary policy

Riksdag Committee on
Finance

18 November 2014

Governor Stefan Ingves

Today's presentation

■ Where have we come from?

- Inflation is low in Sweden
- In the euro area, both growth and inflation are low
- Relatively good GDP and employment growth in Sweden

■ Where are we going?

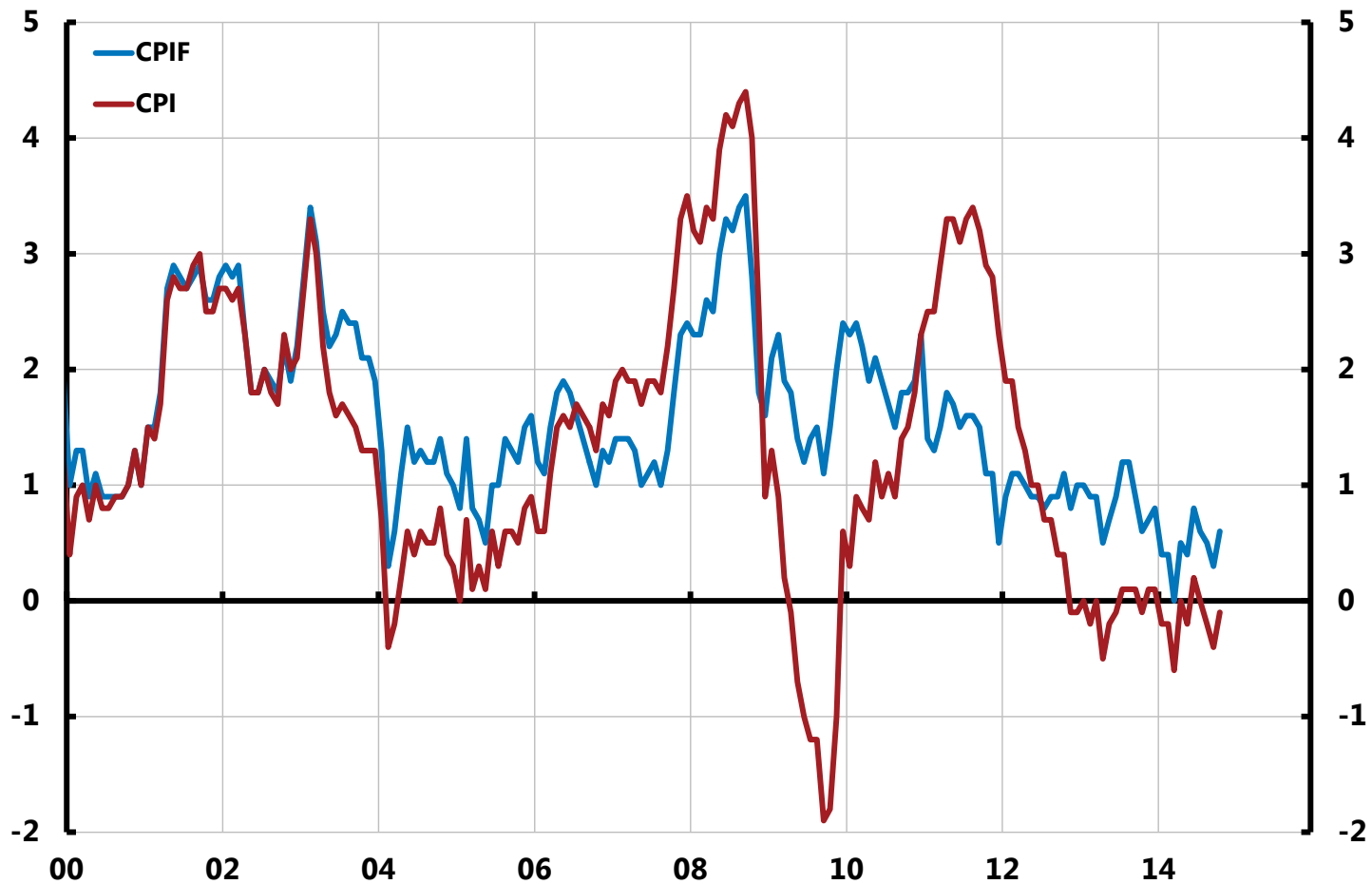
- A low repo rate for a long time strengthens economic activity and contributes to that inflation rises towards the target

■ Important questions

- A world out of step – how does this affect Sweden?
 - A low repo rate contributes to higher inflation but also to increased risks
-

Inflation is low

Annual percentage change

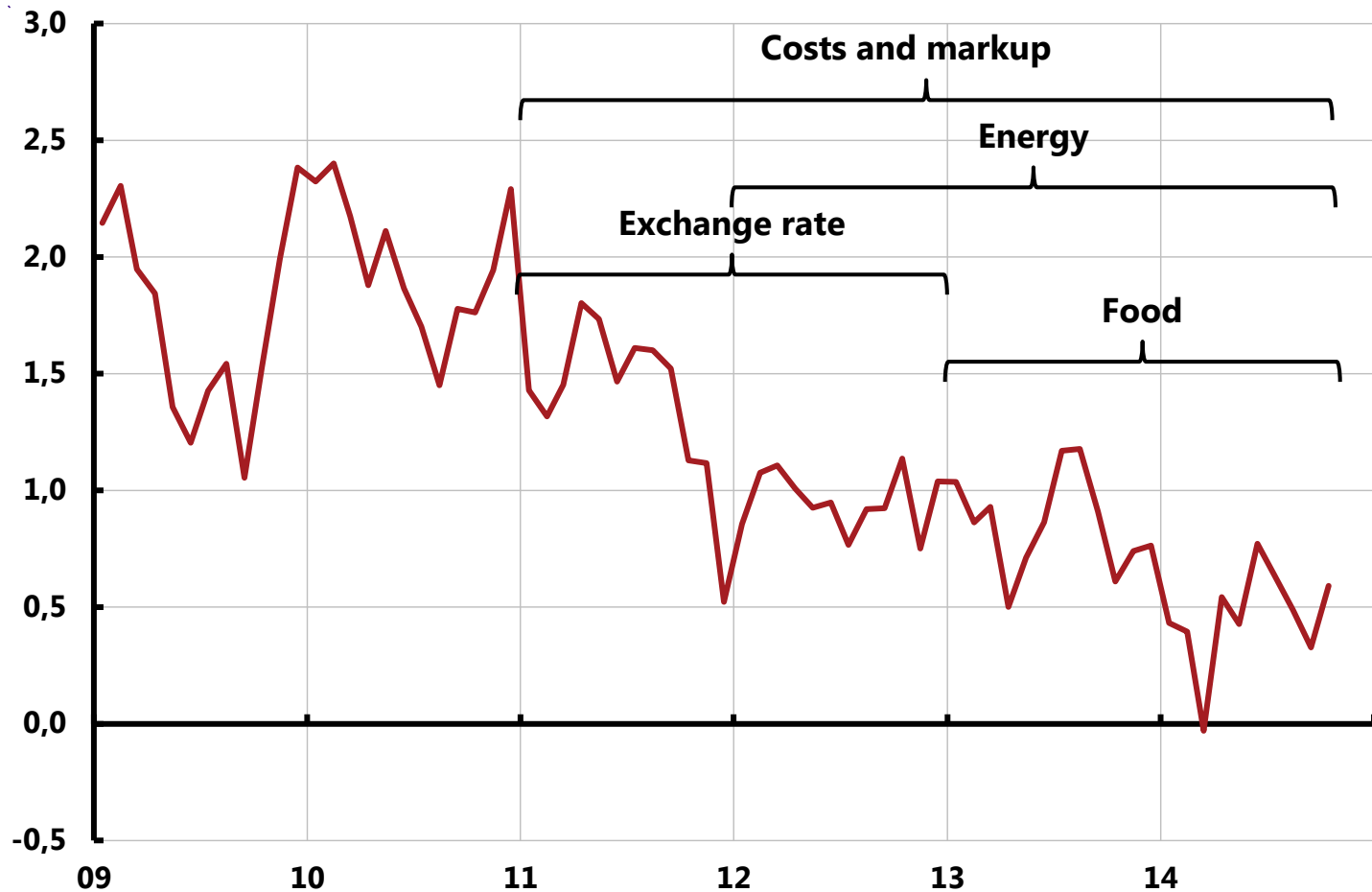


The CPIF is the CPI with a fixed mortgage rate.

Source: Statistics Sweden

Several factors explain low inflation

The CPIF, annual percentage change

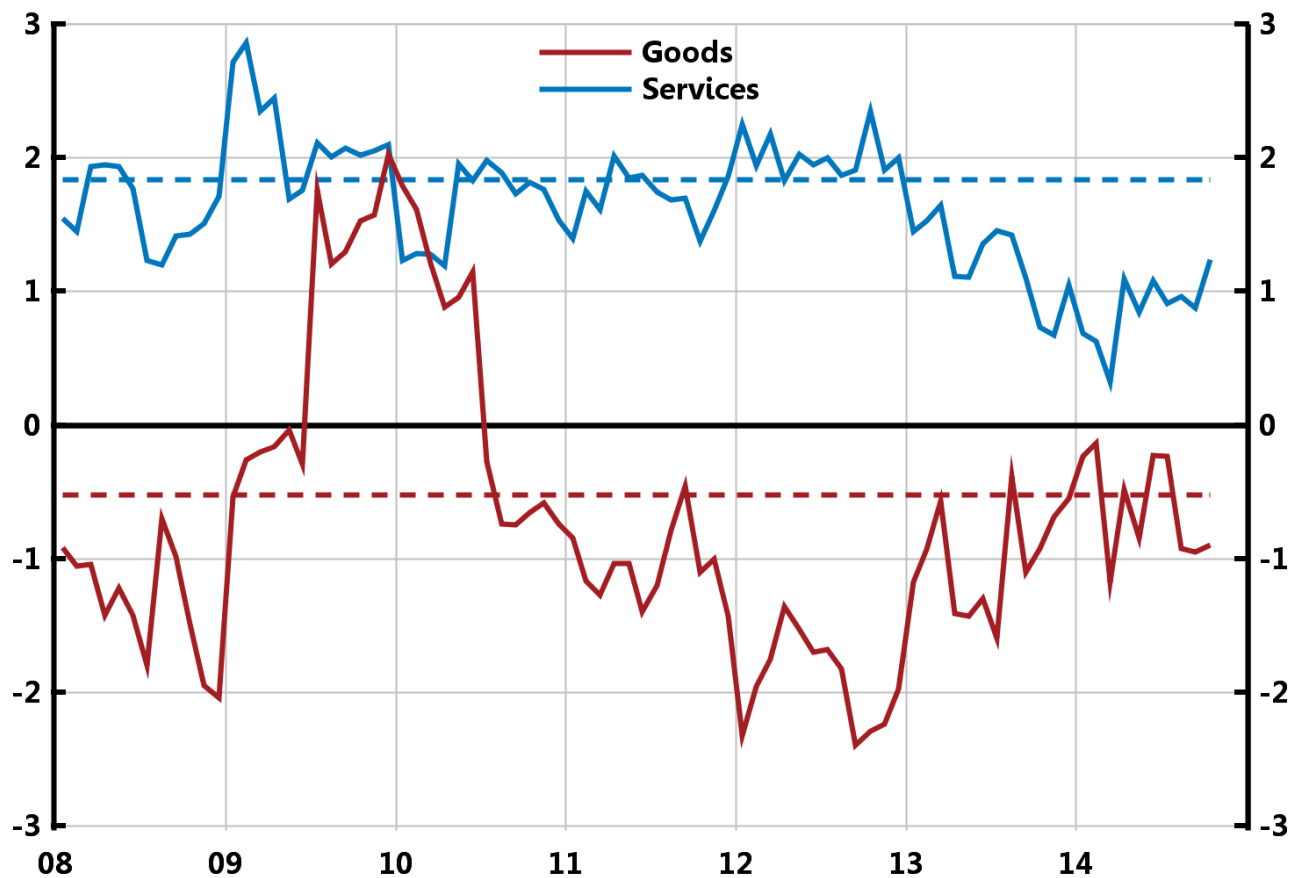


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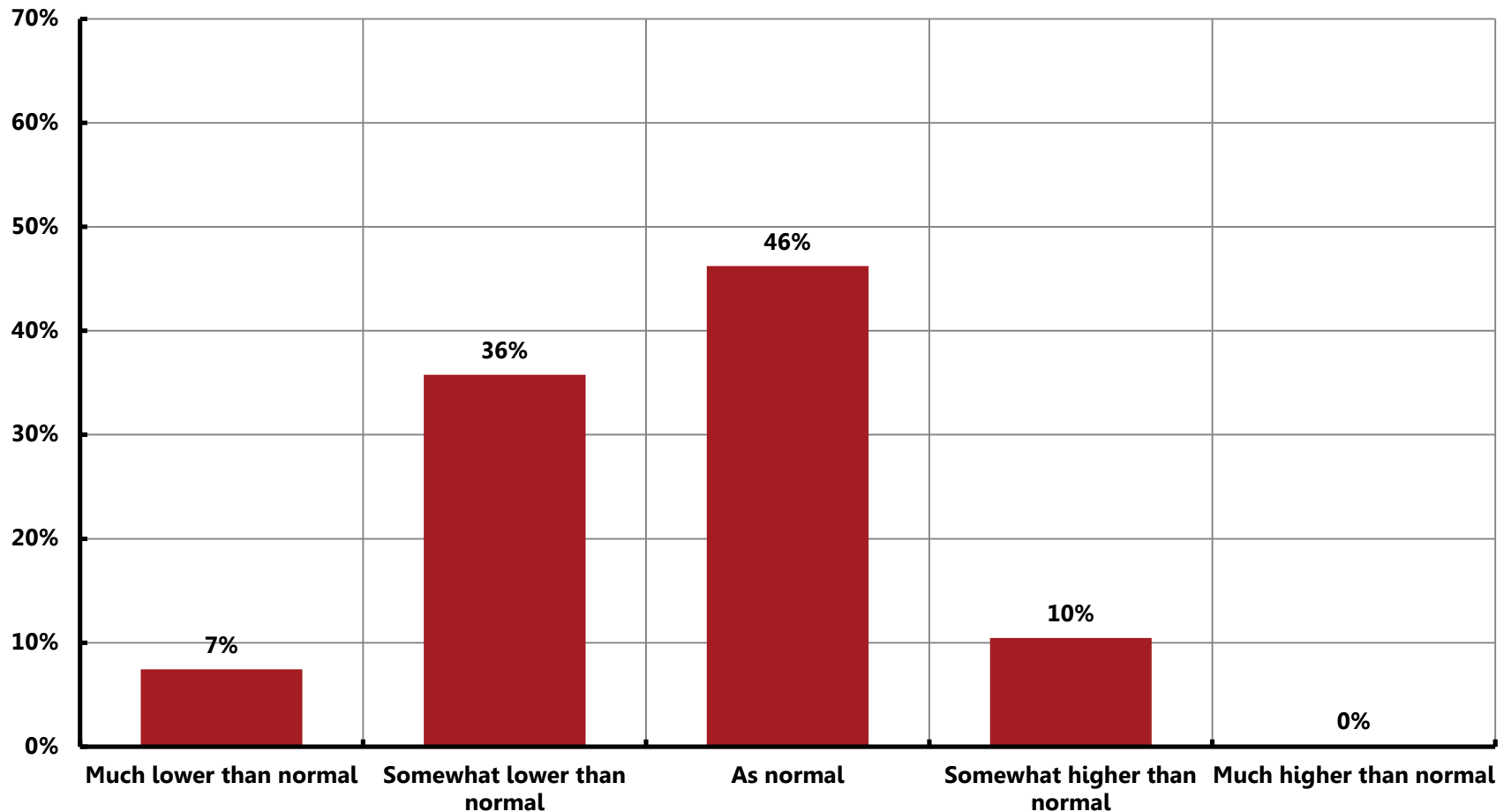
Sources: Statistics Sweden and
the Riksbank

Goods prices falling and services prices increasing marginally

Annual percentage change

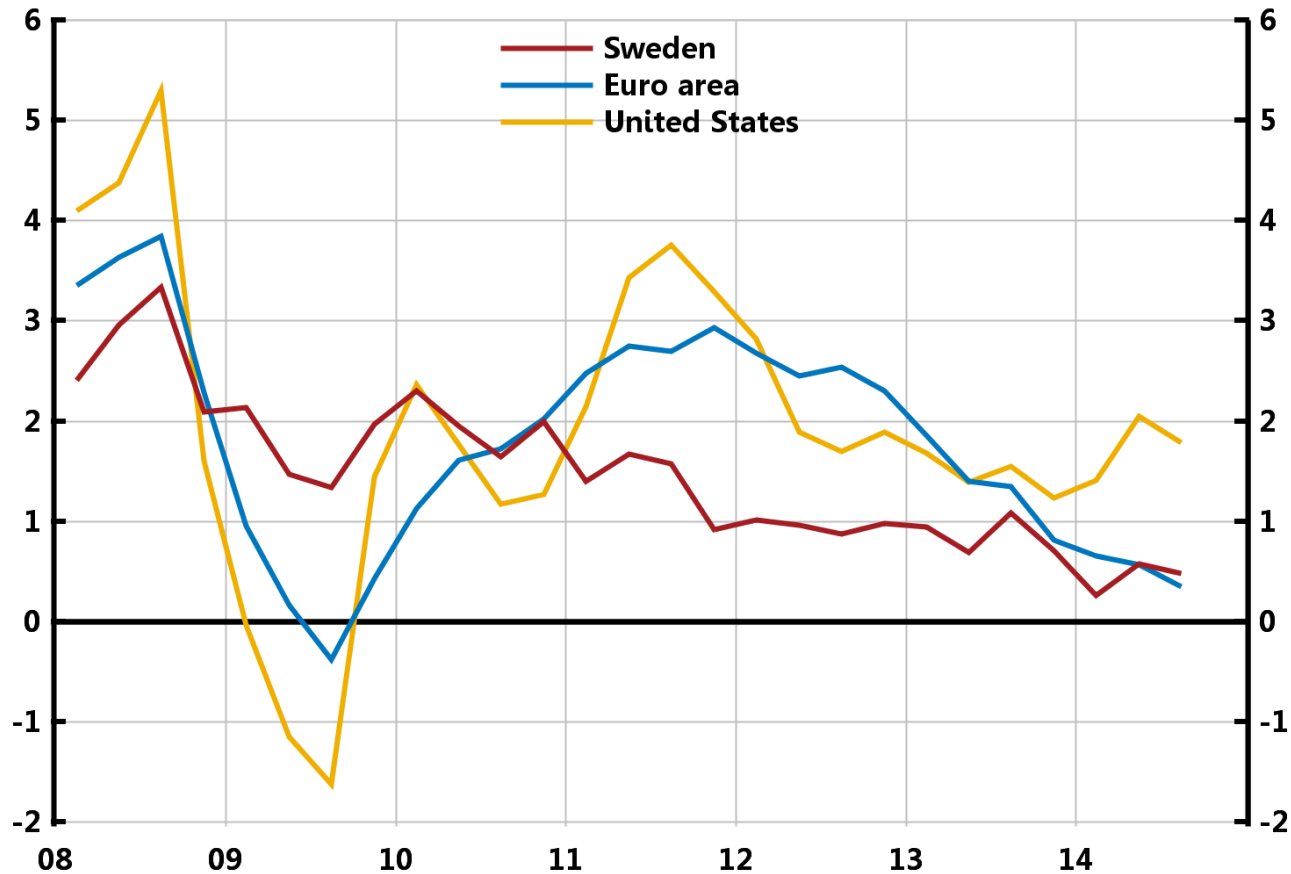


Weak and uncertain demand and increasing competition have led to low price add-ons



Low inflation abroad, too

Annual percentage change

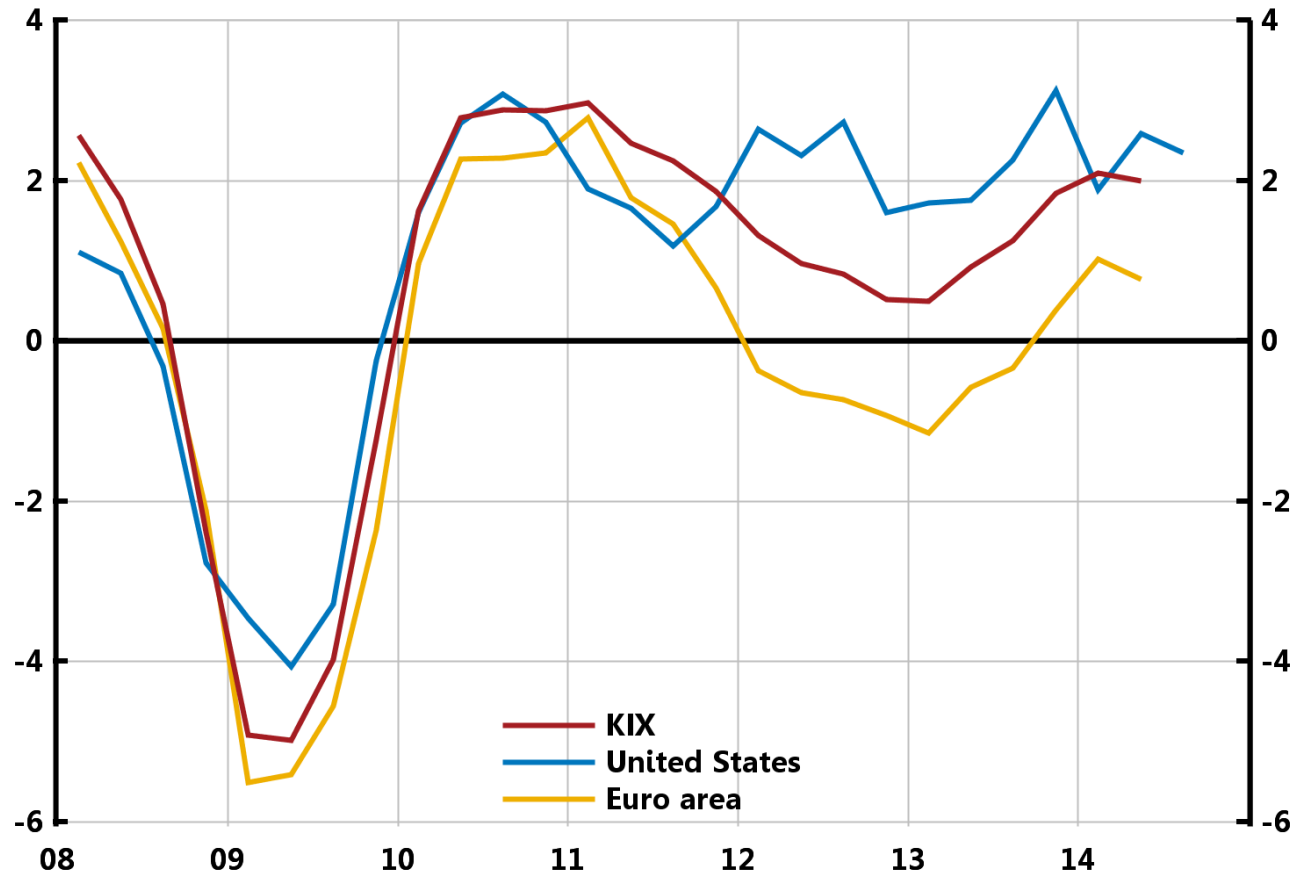


For the euro area inflation is measured as the HICP and for the USA as the CPI. For Sweden the CPIF is shown. The CPIF is the CPI with a fixed mortgage rate.

Sources: Bureau of labour statistics, Eurostat and Statistics Sweden

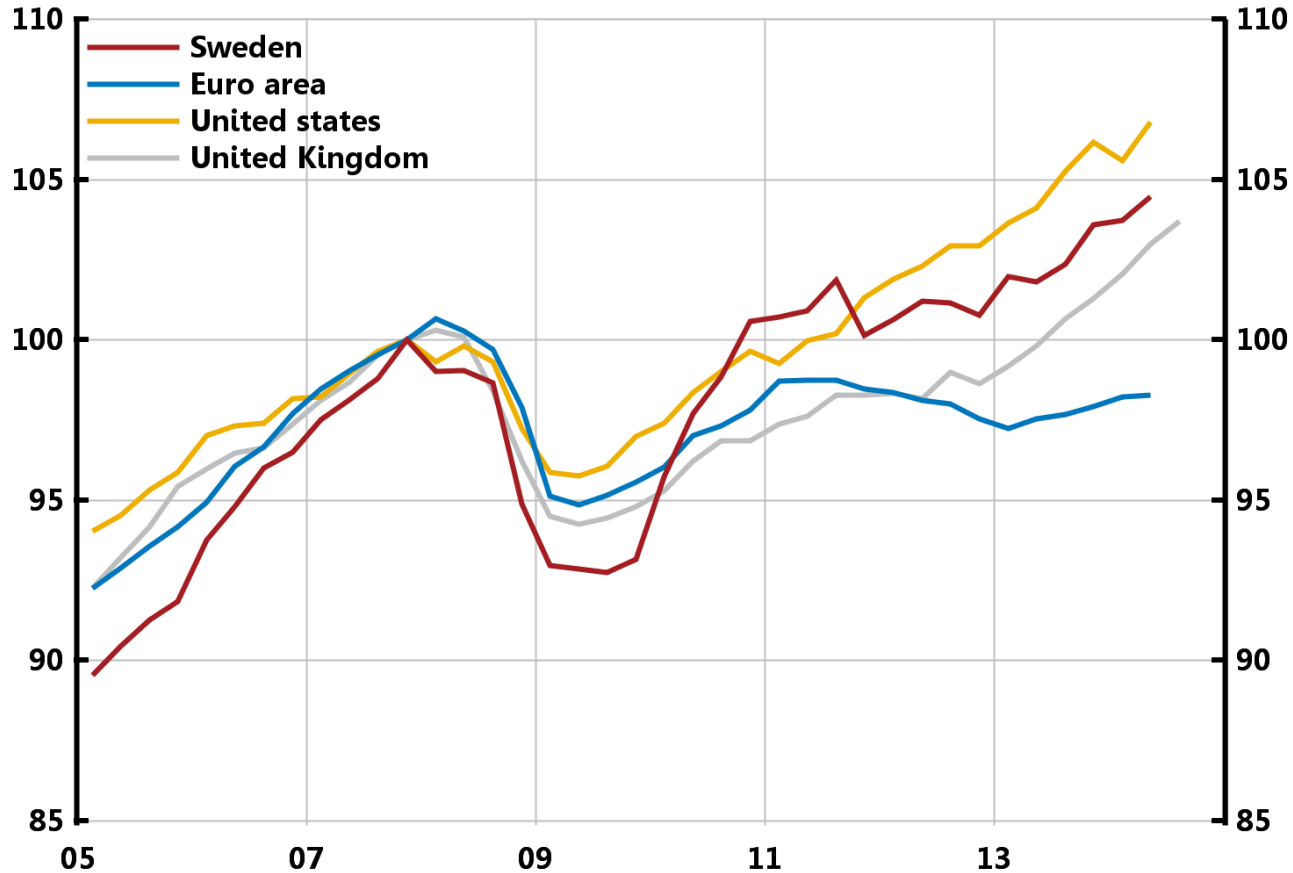
Growth in the euro area is still weak

GDP, annual percentage change



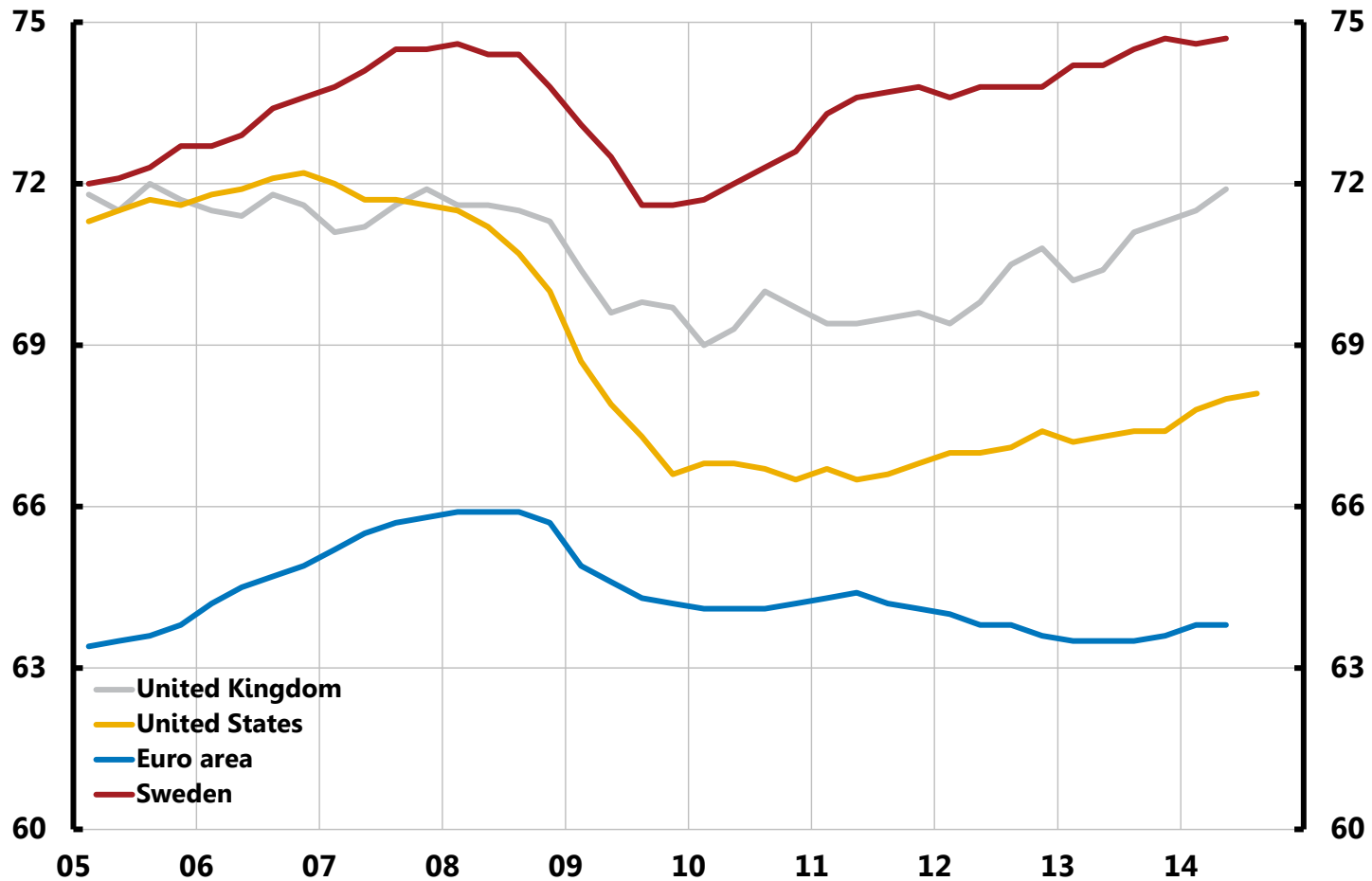
The Swedish economy has developed relatively well

GDP in different regions and countries, index, 2007 Q4 = 100



Relatively high employment rate

Per cent of population aged 15-64



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- Despite the relatively good real development in Sweden

■ Where are we going?

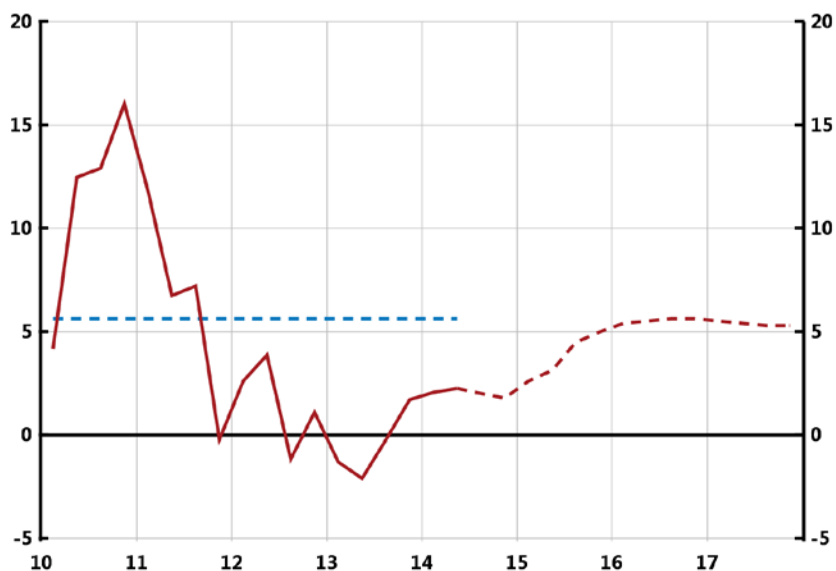
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■ Important questions

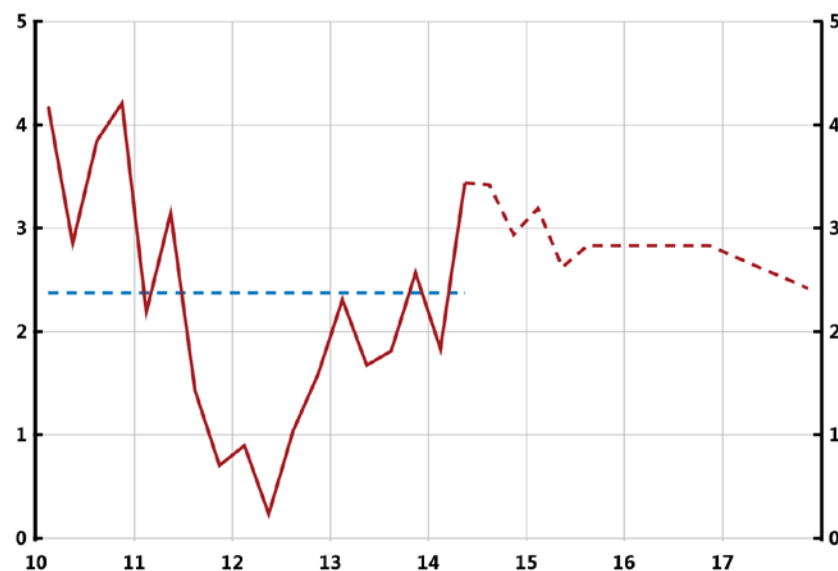
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Weak exports, but strong households in Sweden

Exports, annual percentage change

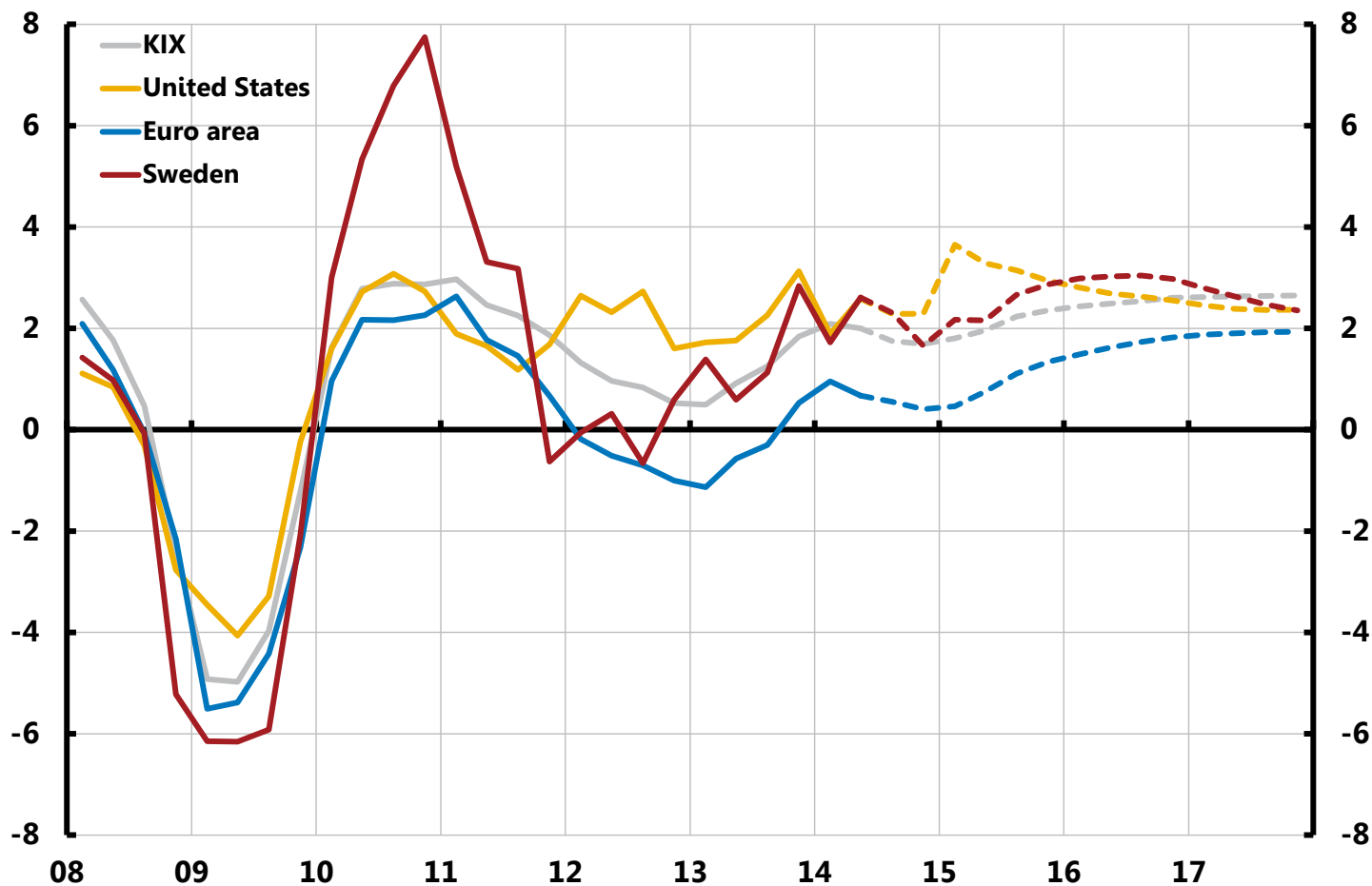


Consumption, annual percentage change



Swedish economy continuing to develop relatively well

GDP, annual percentage change

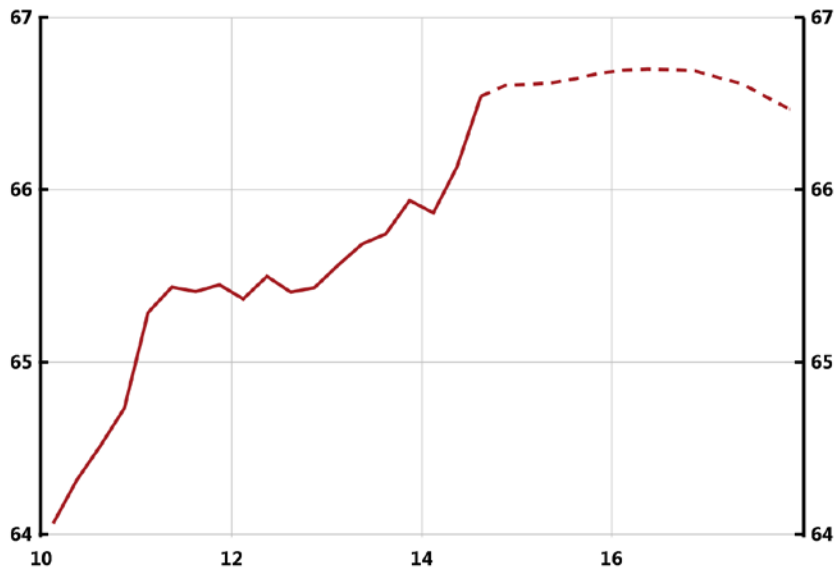


Seasonally-adjusted data. The KIX is an aggregate of the countries that are important to Sweden's international transactions.

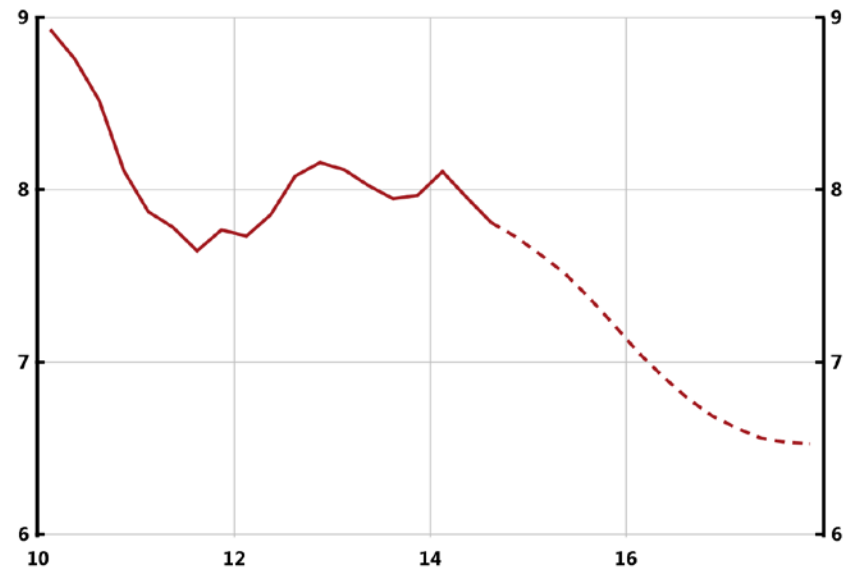
Sources: The Bureau of Economic Analysis, Eurostat, national sources and the Riksbank

Continued labour market improvement

Employment rate

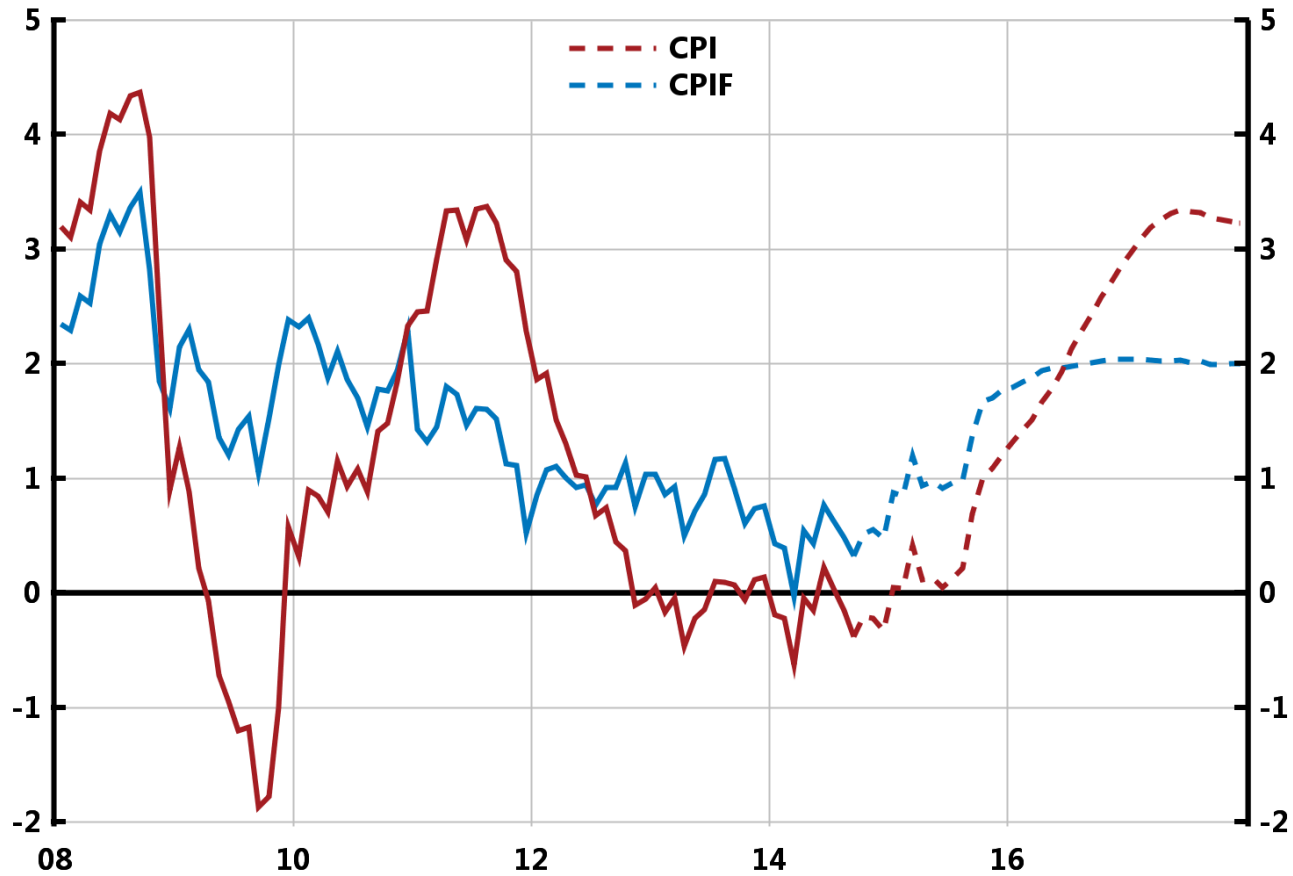


Unemployment rate



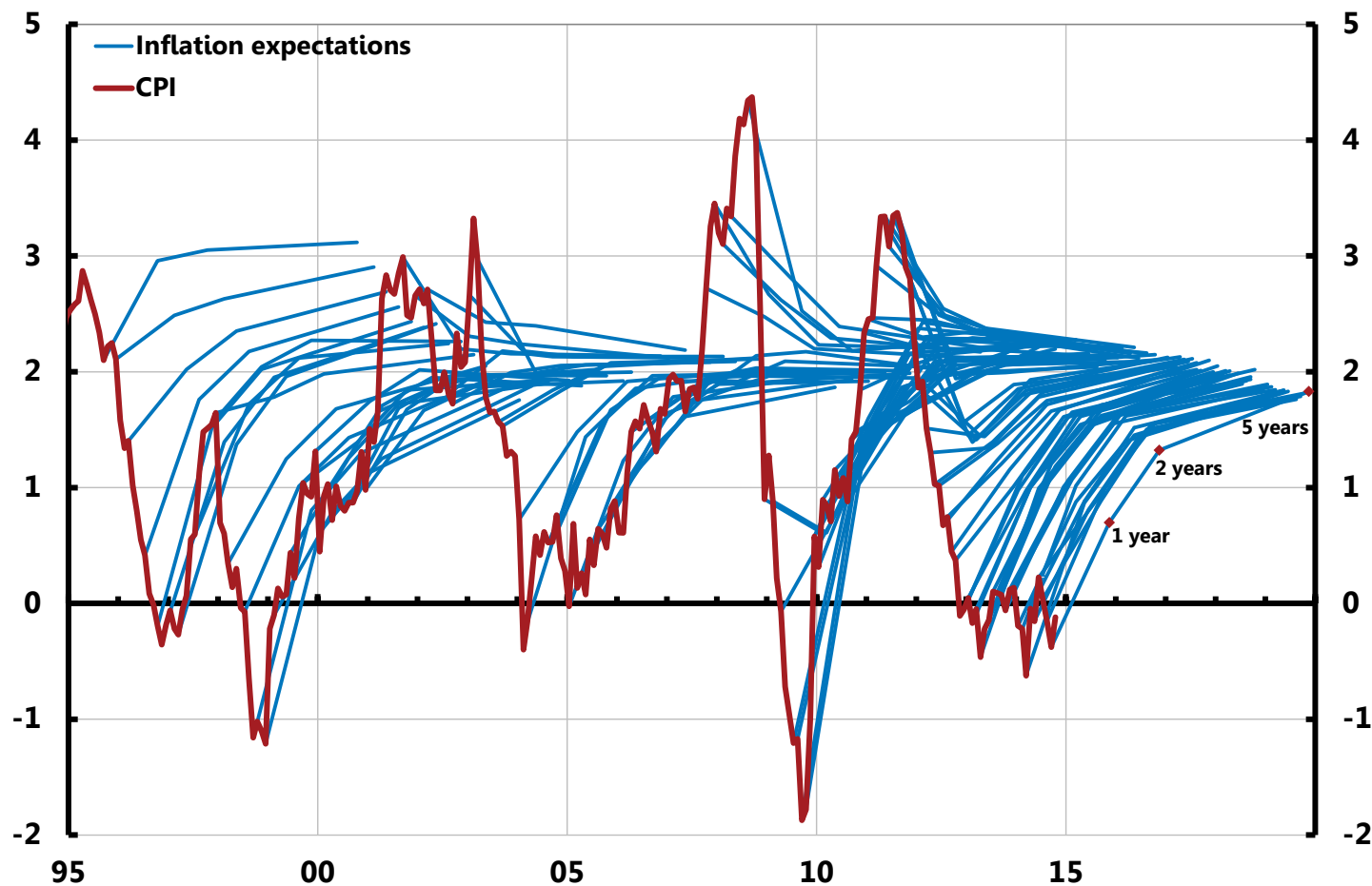
Low but rising inflation

Annual percentage change



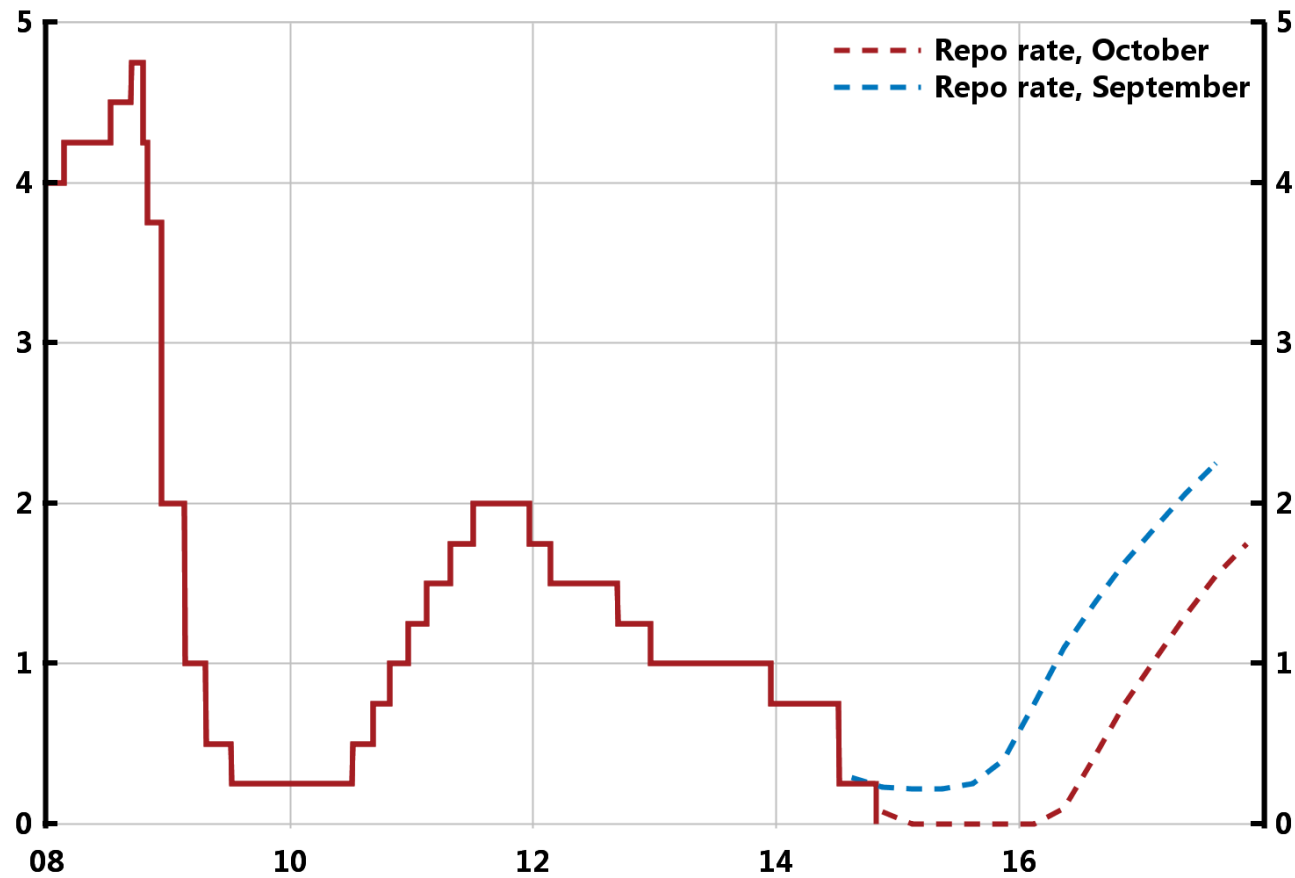
Important to have firmly-anchored inflation expectations

Annual percentage change



Low repo rate over a long period of time

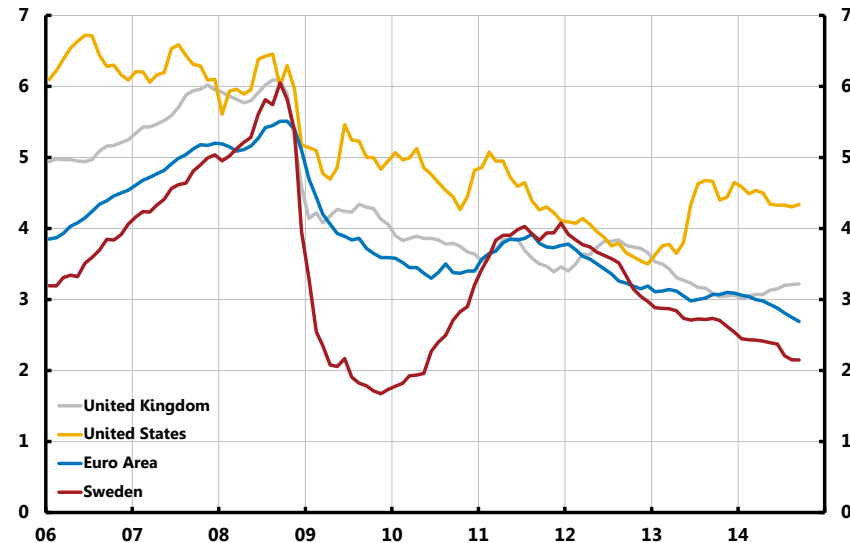
Per cent



Lending rates to Swedish households and companies are relatively low

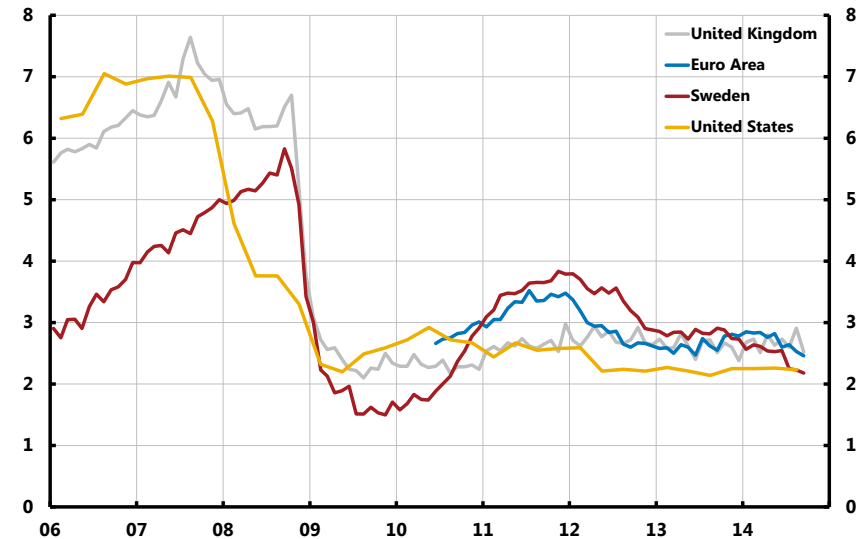
Household

Per cent



Companies

Per cent



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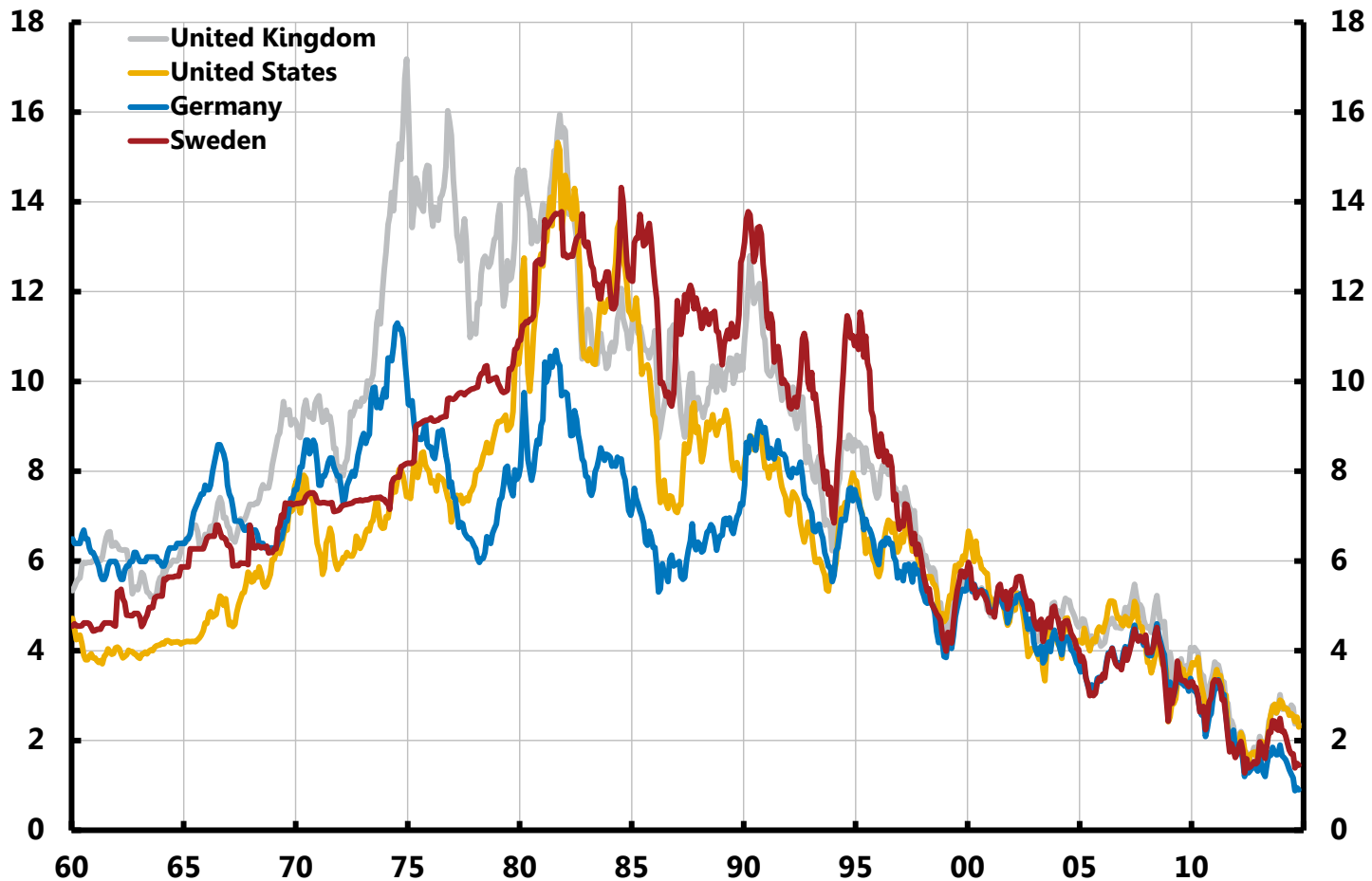
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Global interest rates have been falling for a long time

Long-term nominal interest rates

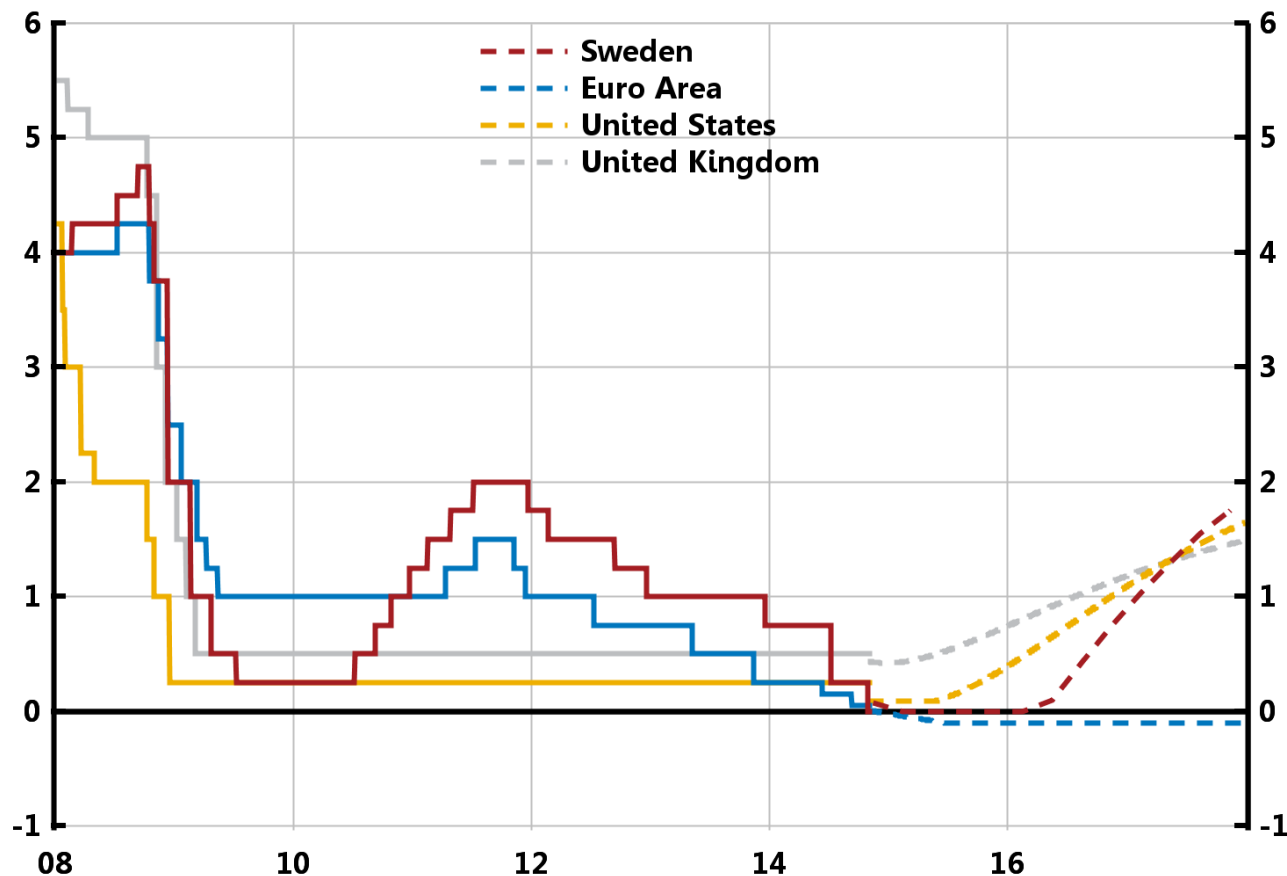


Government bonds with approximately 10 years left to maturity.

Source: Macrobond

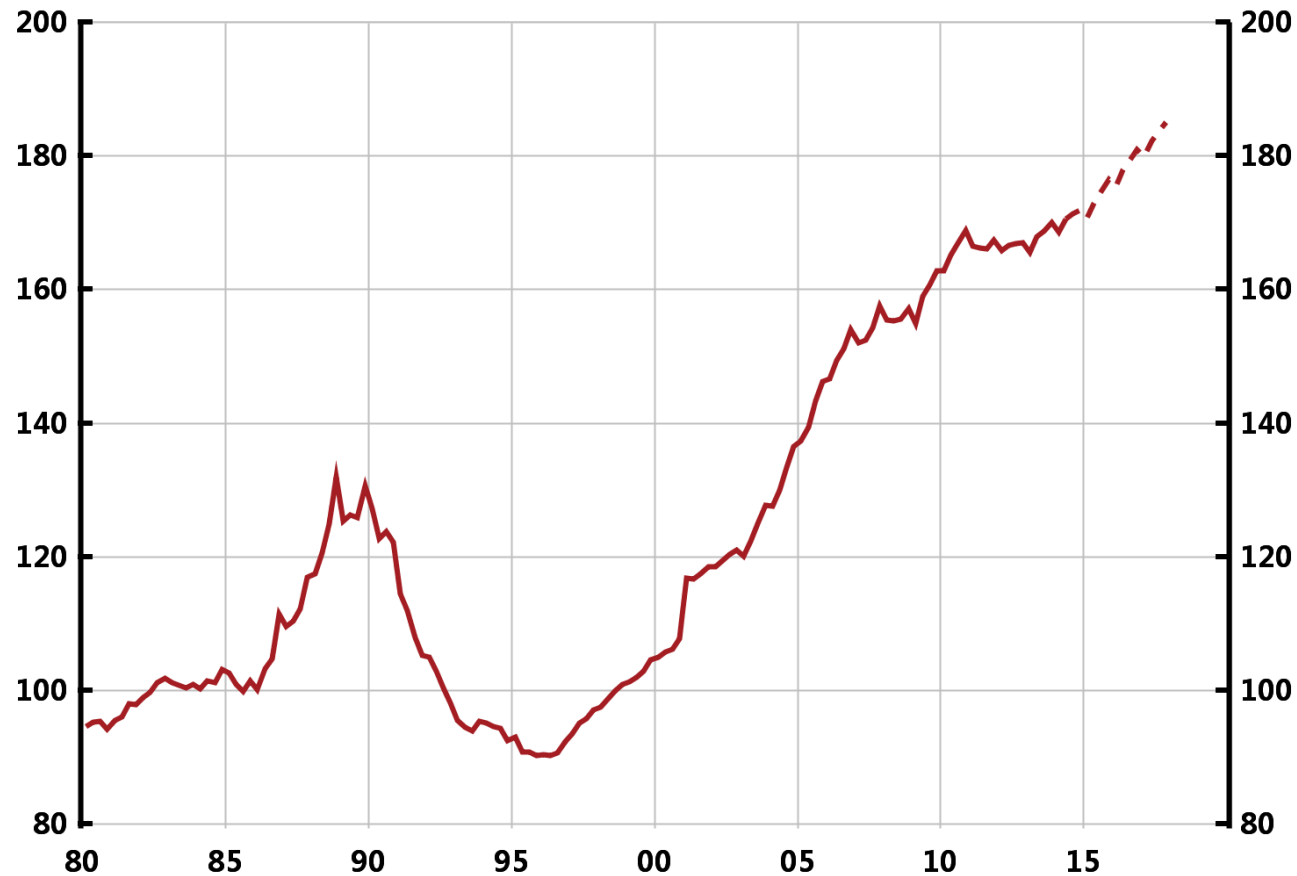
A world out of step – how does this affect Sweden?

The repo-rate path and market expectations of policy rates abroad
Per cent



Household debts continuing to grow

Per cent of disposable income

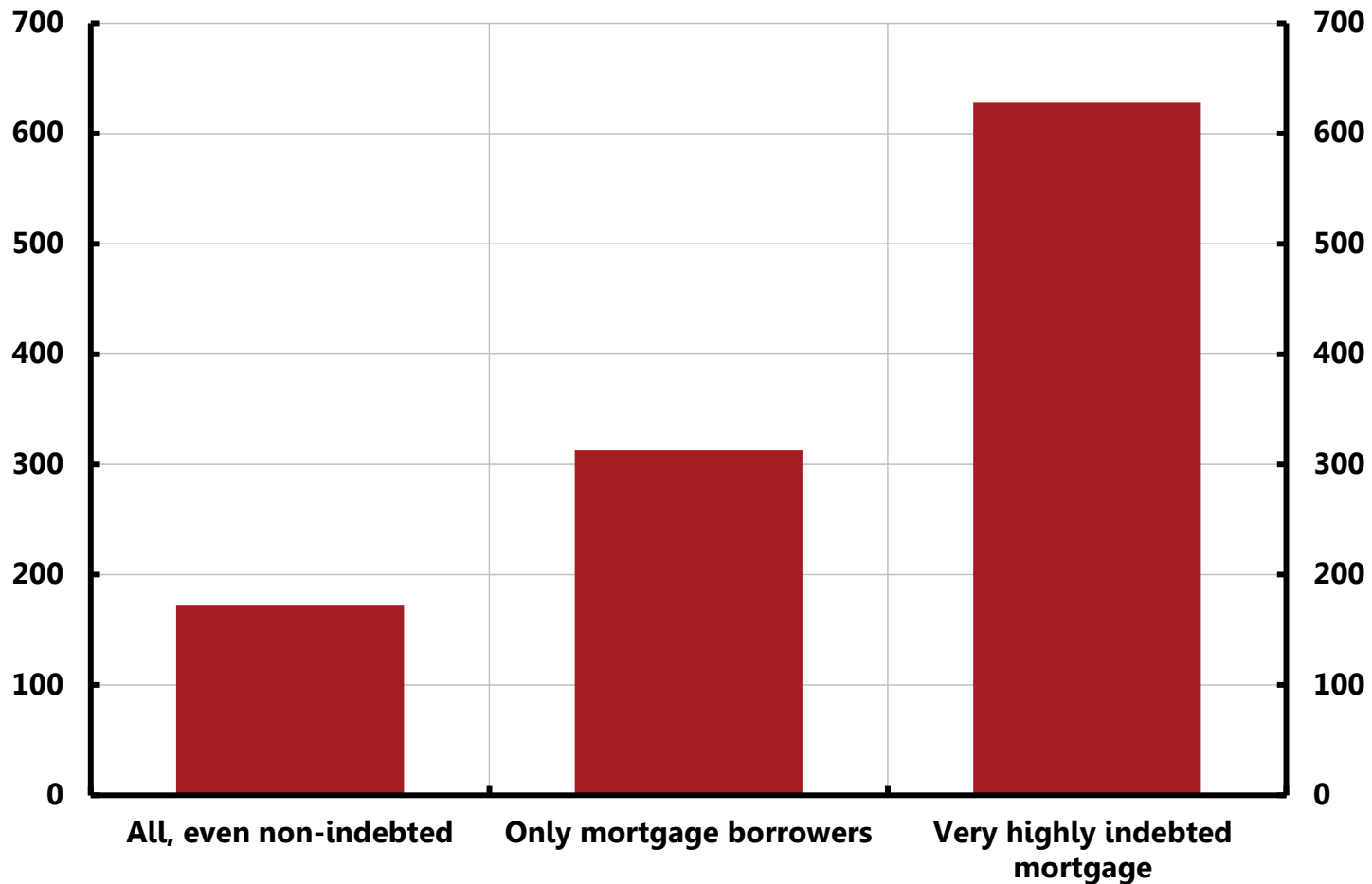


Households' total debts as a share of their disposable incomes, totalled over the past 4 quarters.

Sources: Statistics Sweden and the Riksbank

Major differences in indebtedness between groups of households

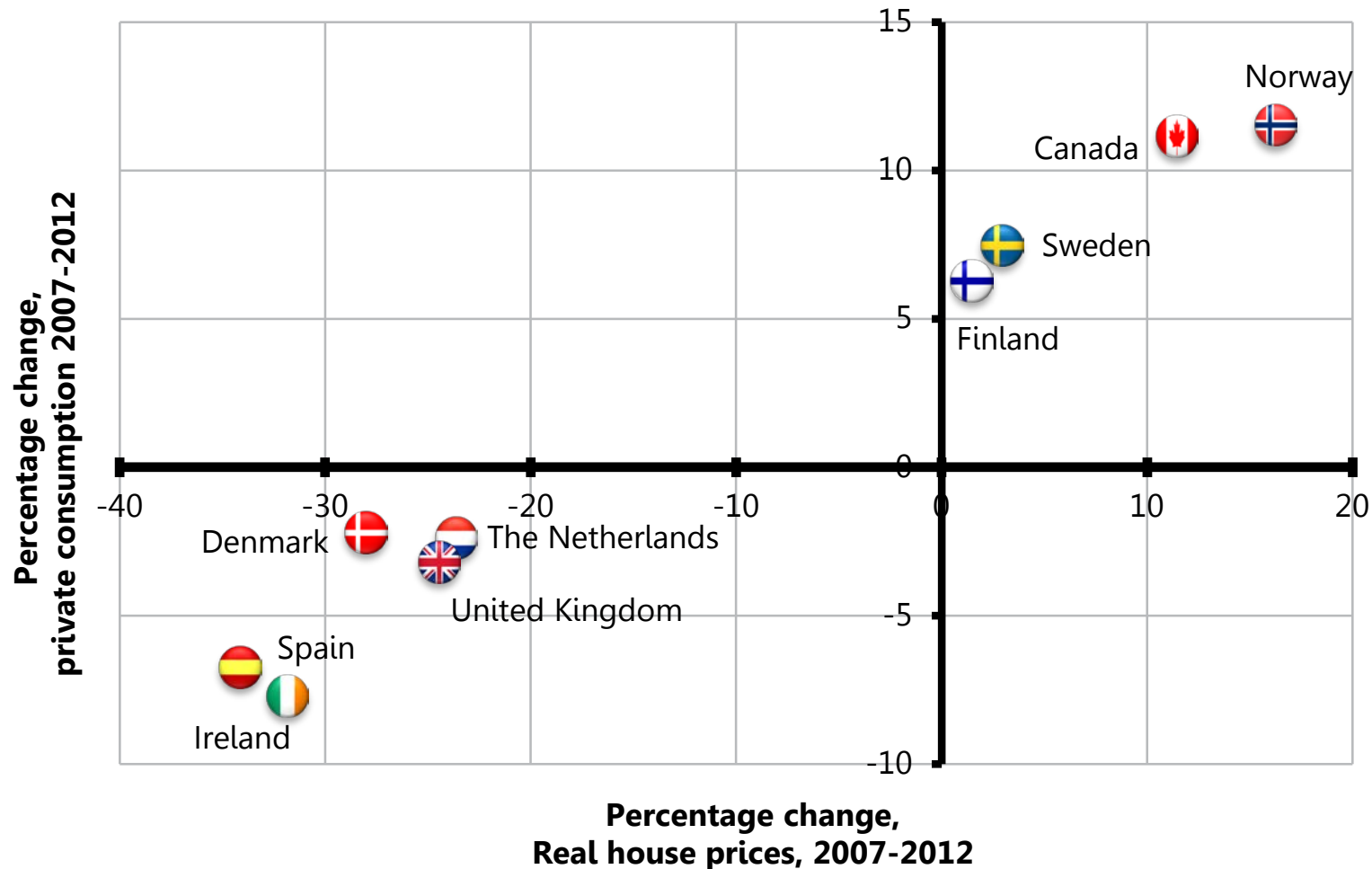
Per cent of disposable income



Mortgage borrowers are based on the Riksbank's credit data from July 2013. Very highly indebted mortgage borrowers refer to the ninetieth percentile. All, even non-indebted refers to the aggregate debt ratio calculated on Statistics Sweden data from 2013 Q2.

Sources: Statistics Sweden and the Riksbank

In countries where housing prices fell during the crisis, consumption also declined



Risks associated with household indebtedness must be managed

- A long period of low repo rates will contribute to higher inflation
 - But simultaneously increase risks in the economy
 - Measures in other policy areas needed
-

**Economic activity improving
but inflation is too low**

Zero repo rate until mid-2016
