



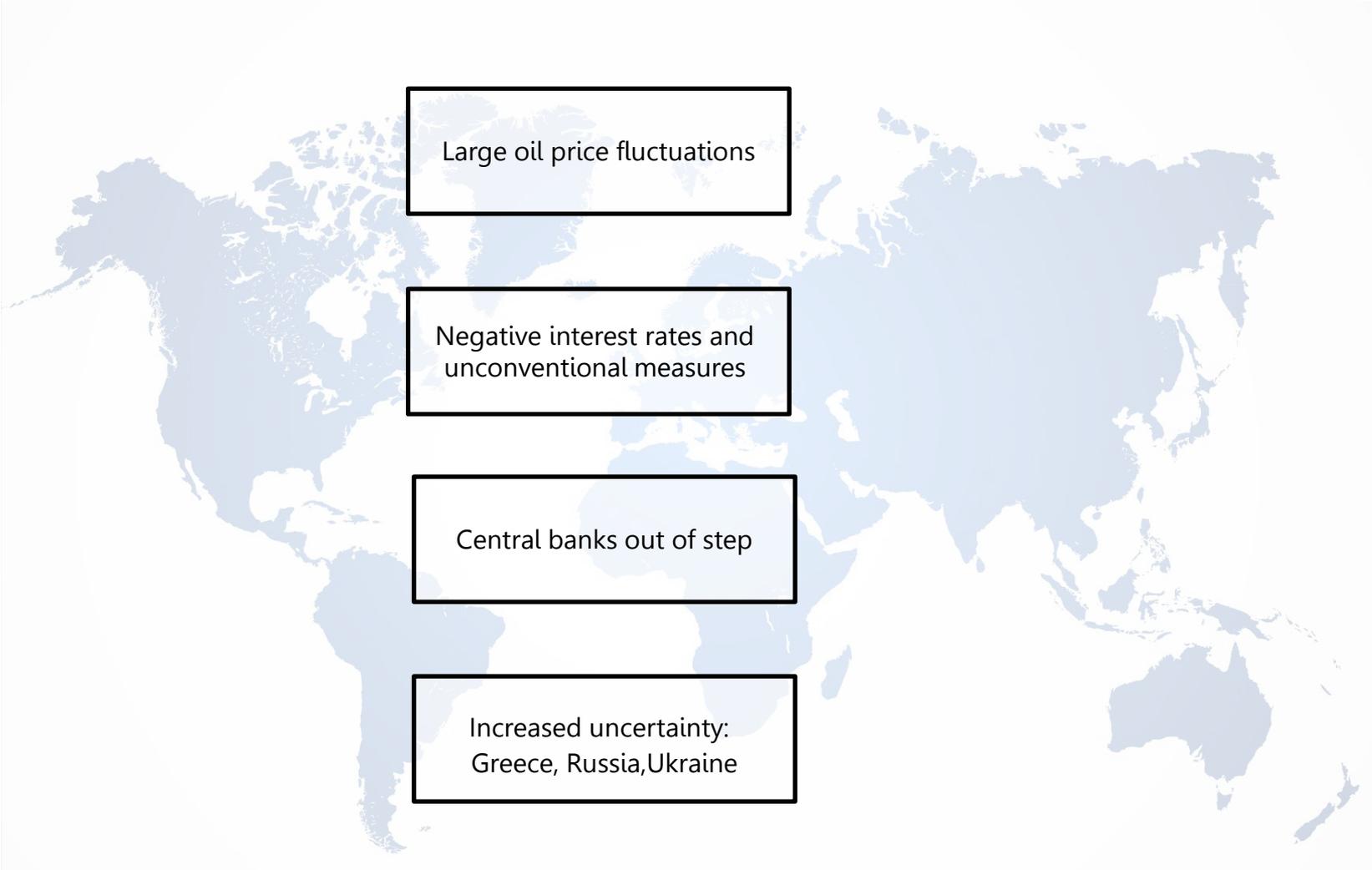
Introduction on monetary policy

Riksdag Committee on
Finance

5 March 2015

Governor Stefan Ingves

Sweden – a small, open economy



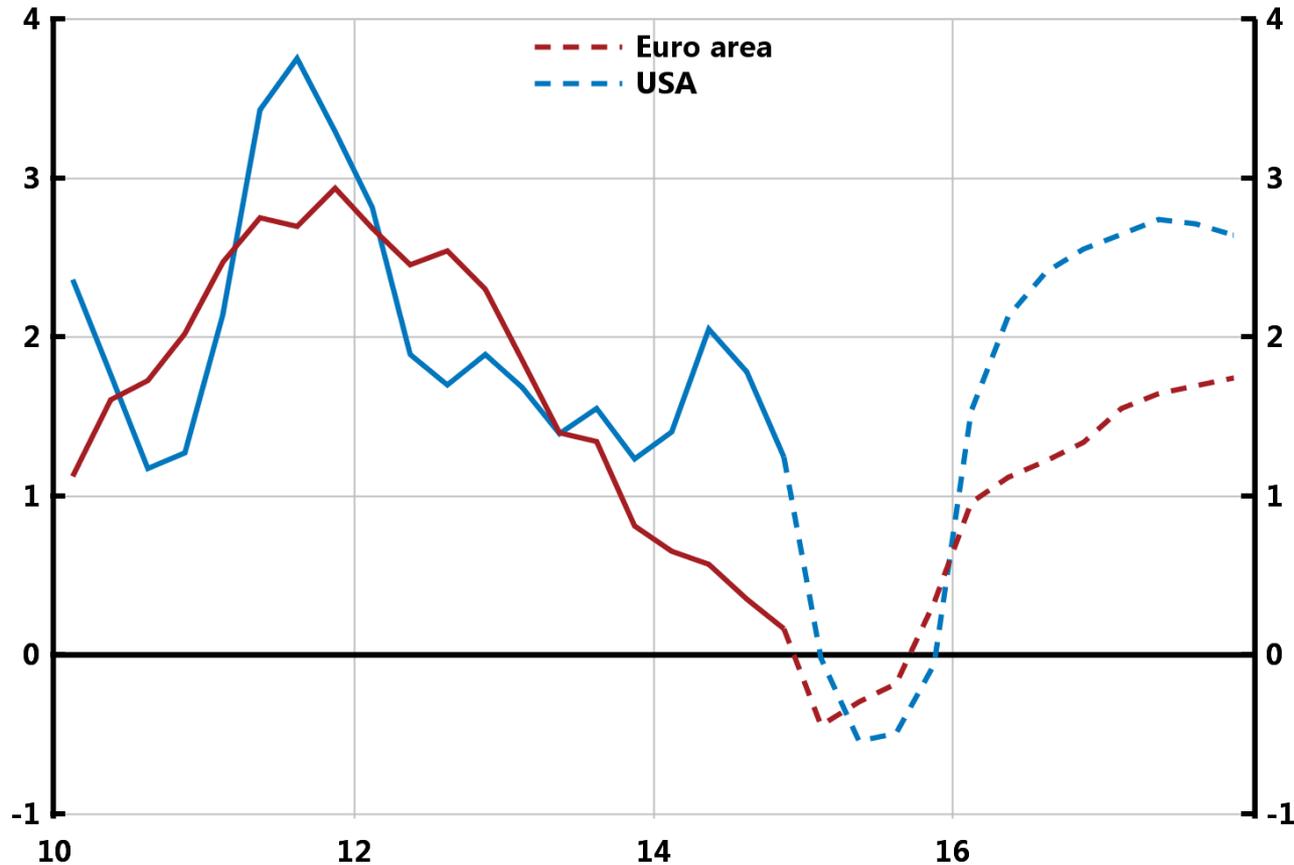
Large oil price fluctuations

Negative interest rates and
unconventional measures

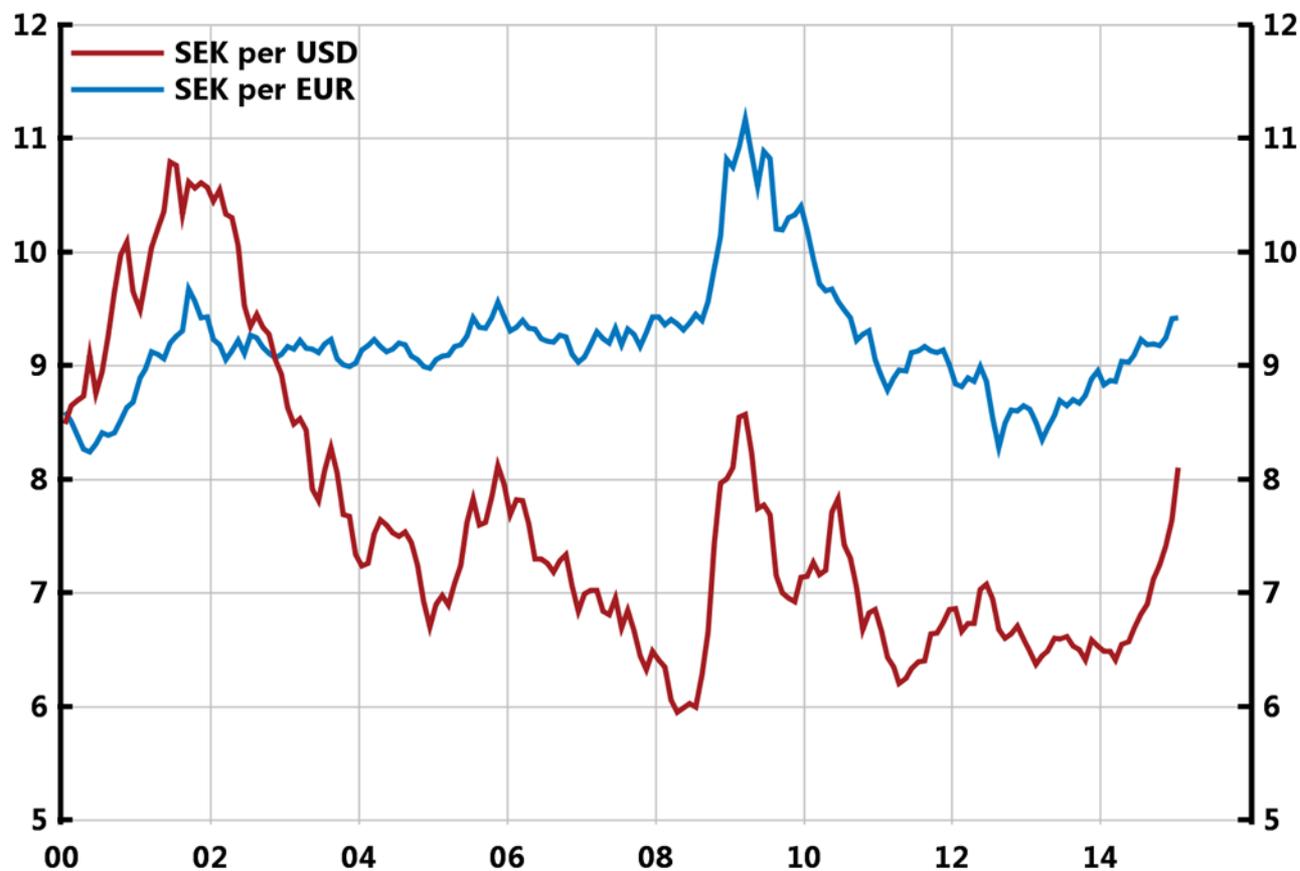
Central banks out of step

Increased uncertainty:
Greece, Russia, Ukraine

Oil price pushing down inflation abroad



Out-of-step central banks creating uncertainty on the foreign exchange market



Swedish economy performing relatively well

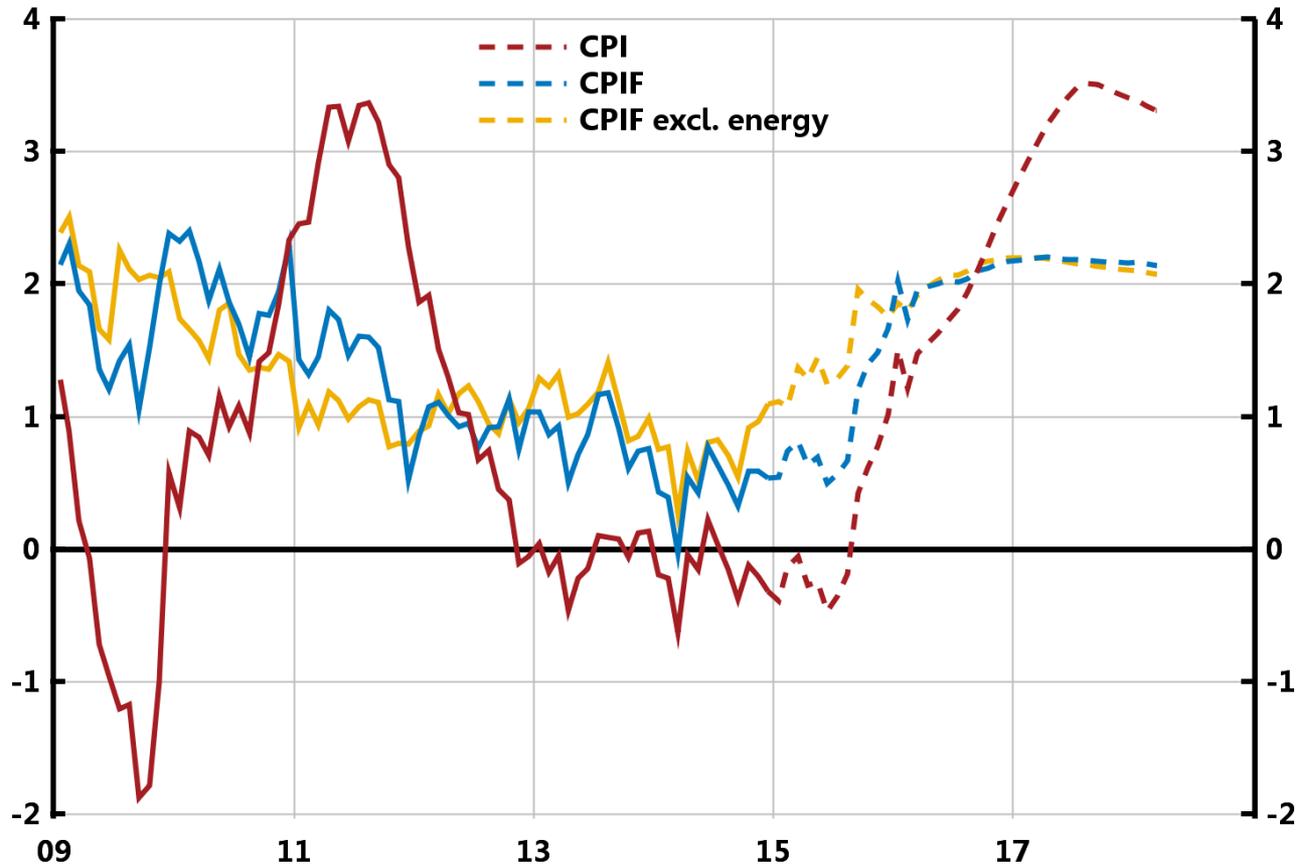
Normal GDP growth



Labour market strengthening

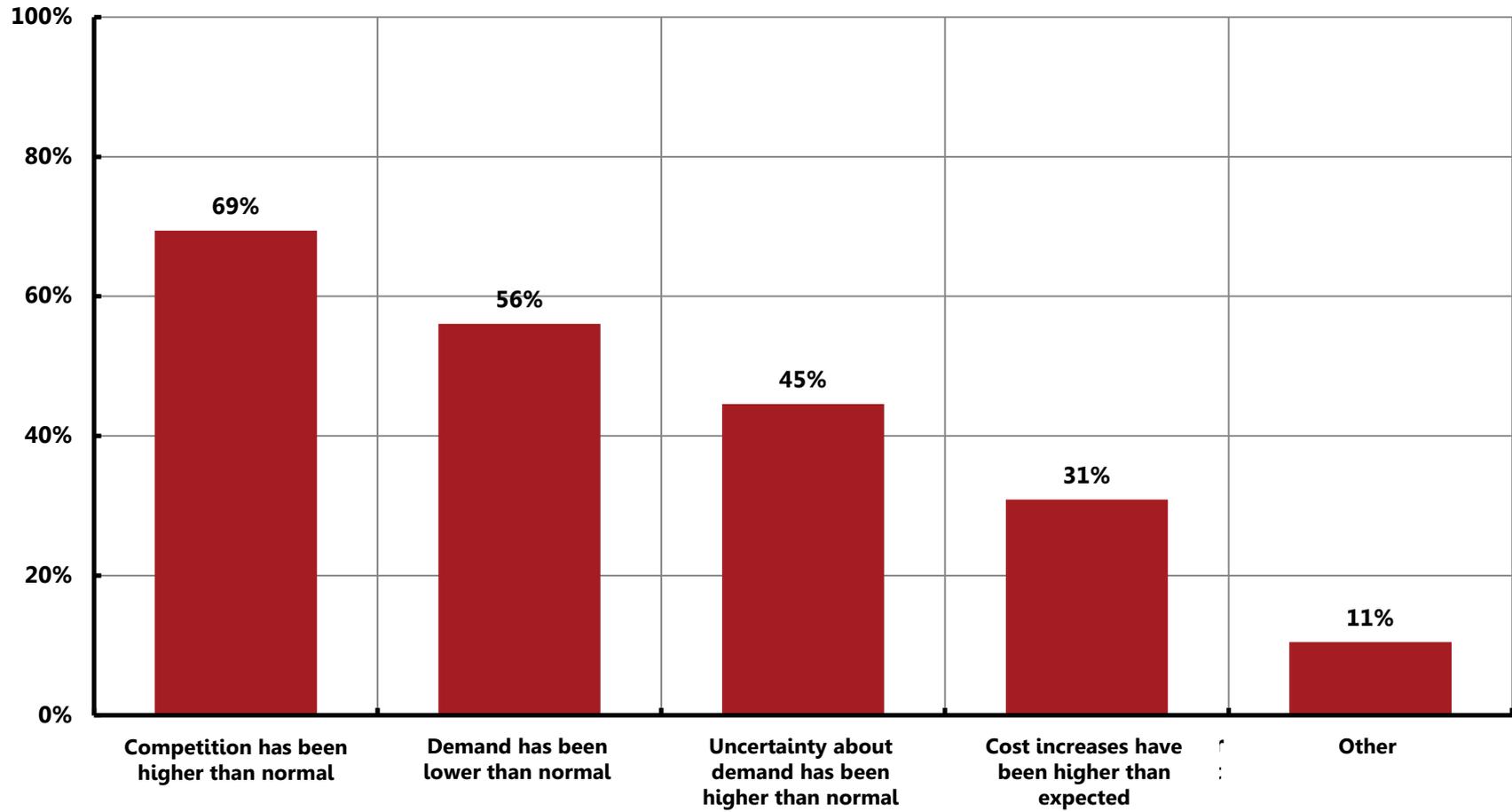


Inflation rising from low level



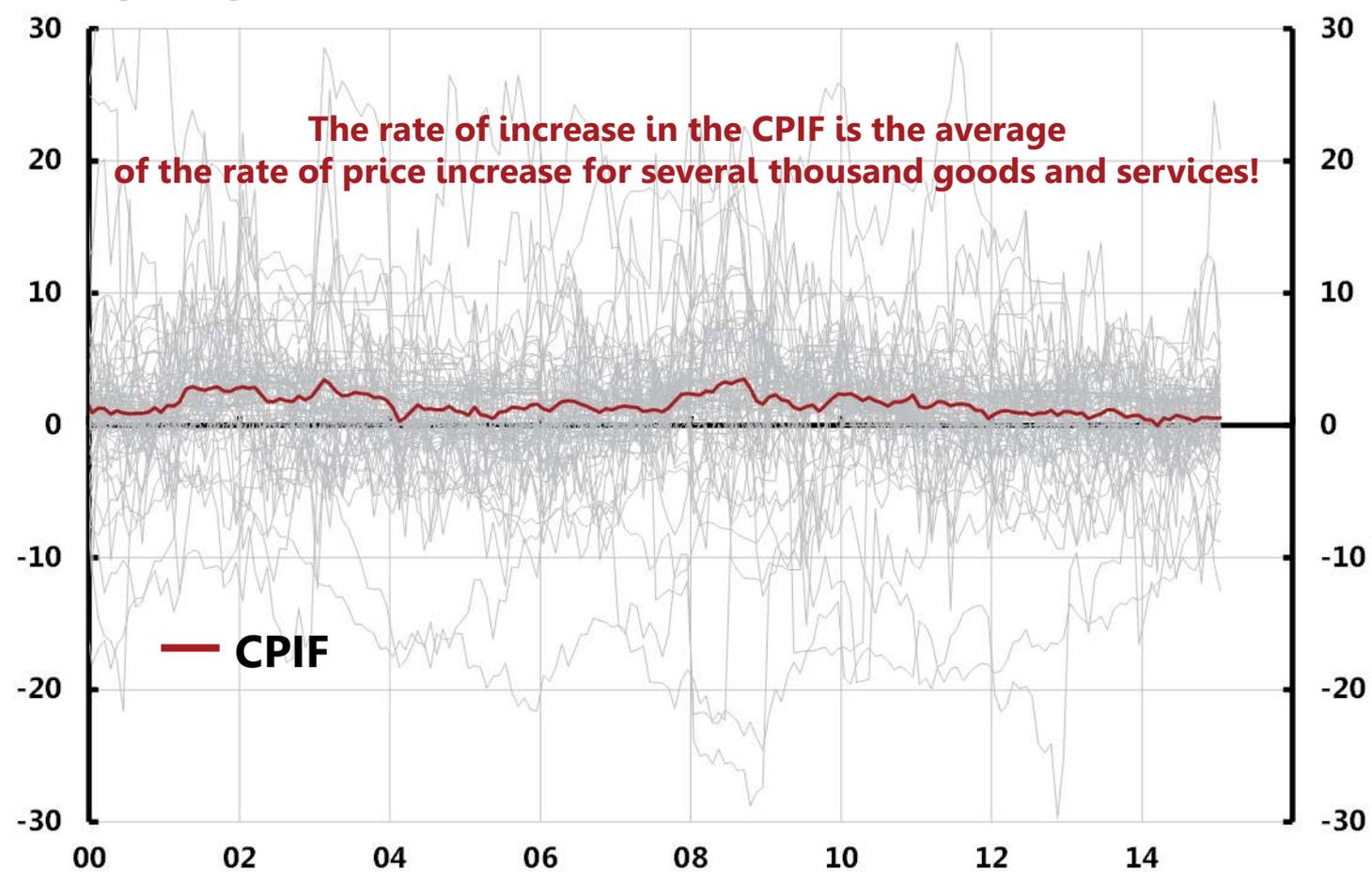
Why is inflation low today?

Weak demand and increasing competition have led to low mark-ups



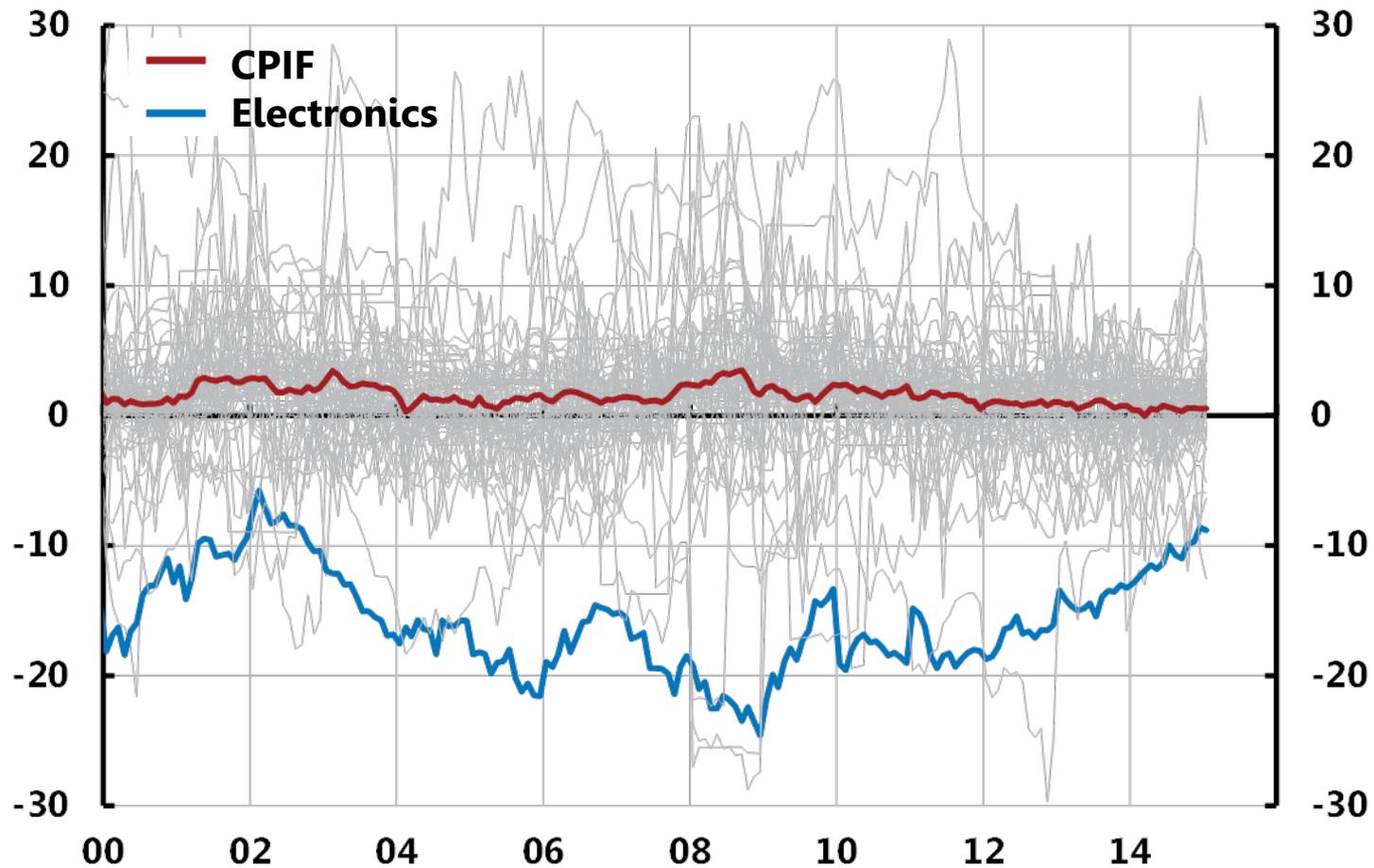
Inflation is "a general rise of the price level"

Annual percentage change



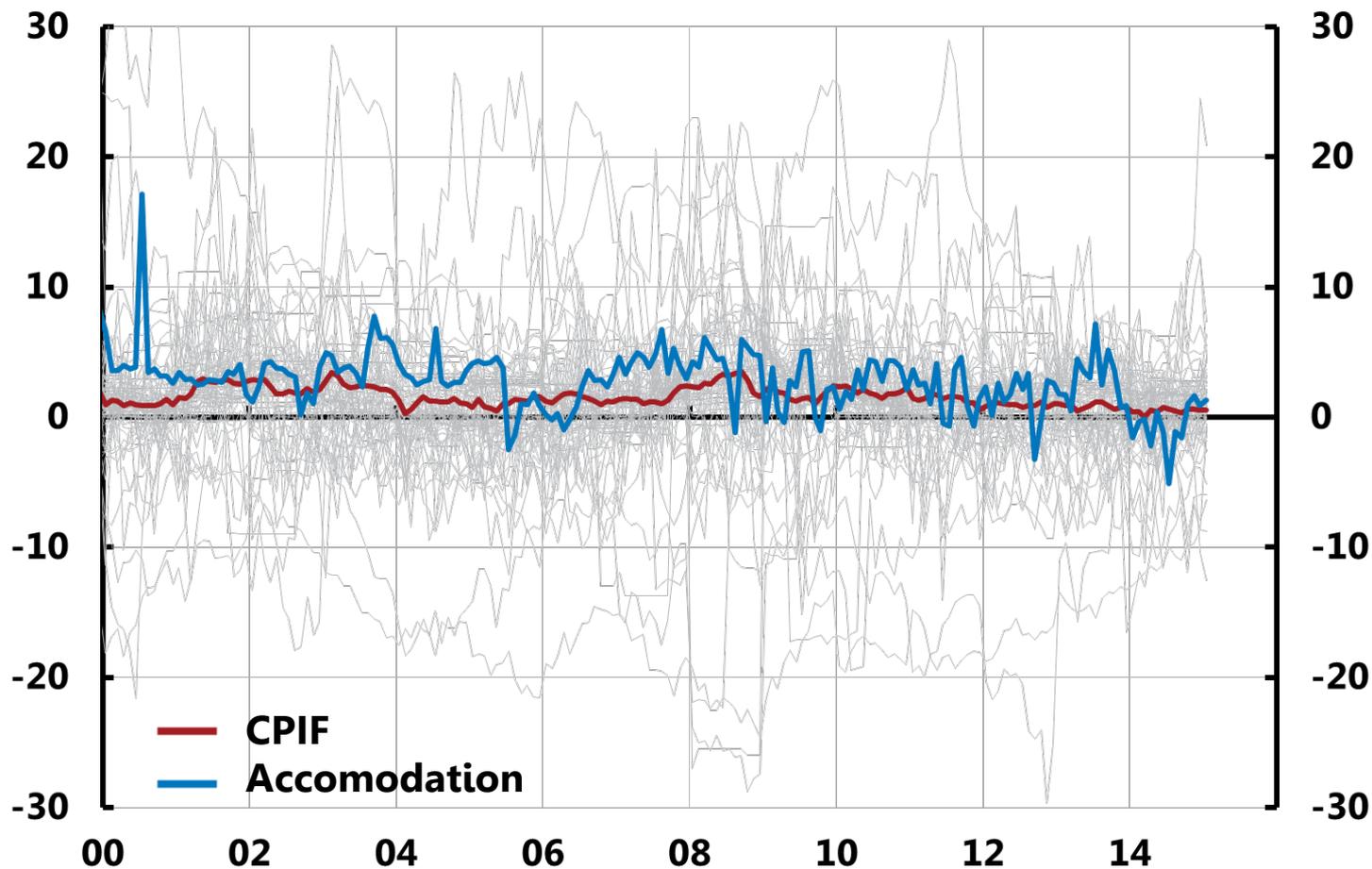
Prices for electronics have long been falling

Annual percentage change



Prices for accommodation have increased rapidly at times

Annual percentage change



Signs that inflation has bottomed out

Food prices



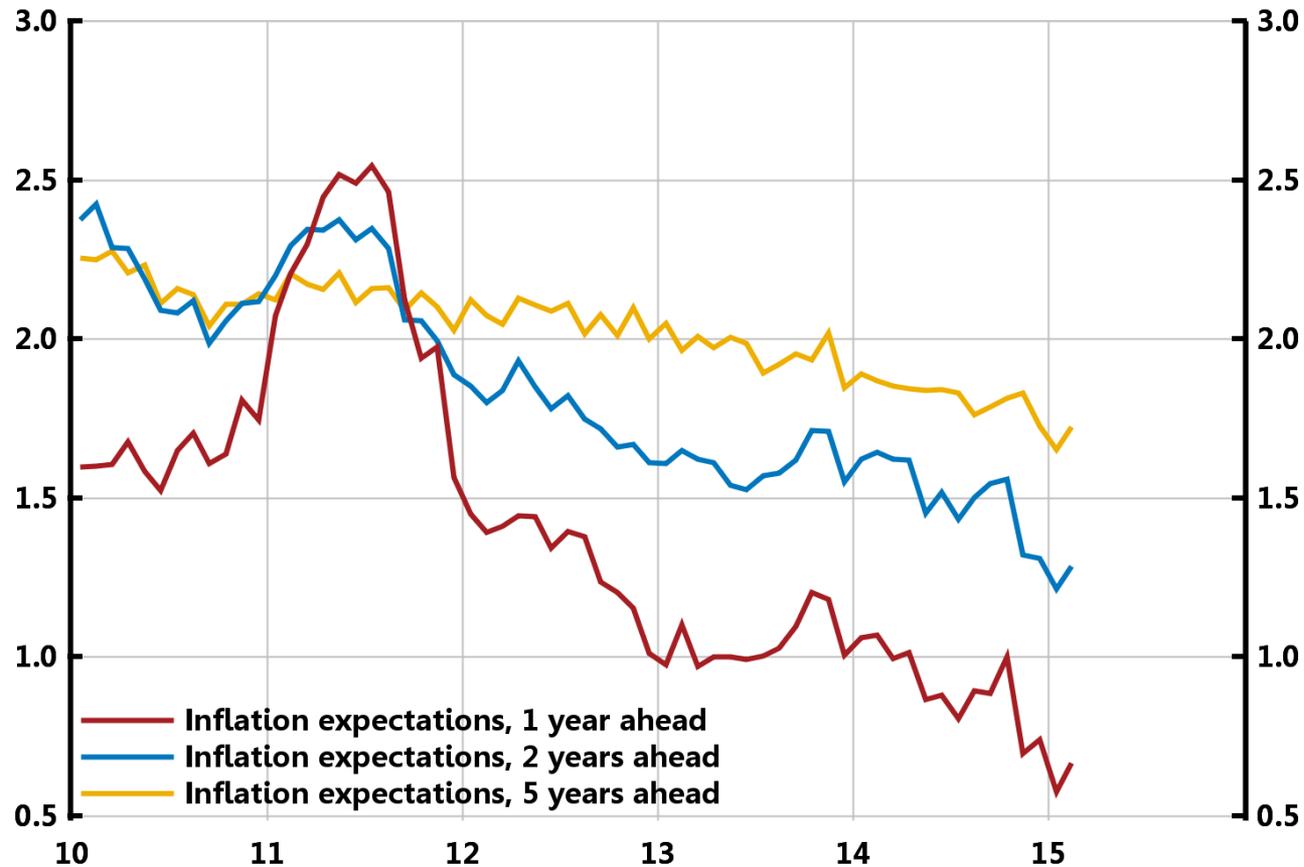
Clear upswing in the rate of price increase for:
fruit, vegetables, coffee, cocoa

Services prices



Clear upswing in the rate of price increase for:
travel, accommodation and car rental

Important that expectations are anchored



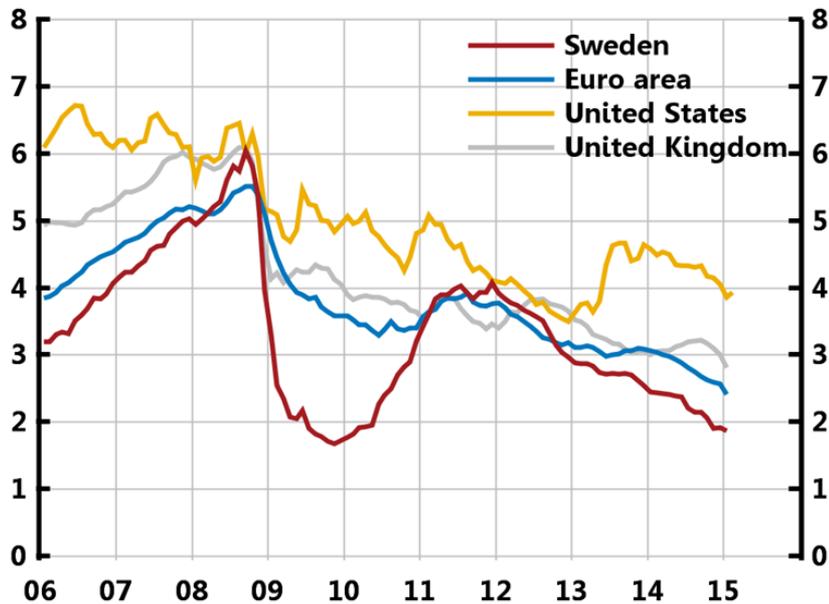
To support the upturn in inflation

- More expansionary monetary policy
 - The repo rate is now -0.10 per cent
 - Lower repo-rate path
 - Rates for the Riksbank's fine-tuning operations with the banks: repo +/- 0.1
 - Purchase of government bonds for SEK 10 billion initiated
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Lending rates to Swedish households and companies are low

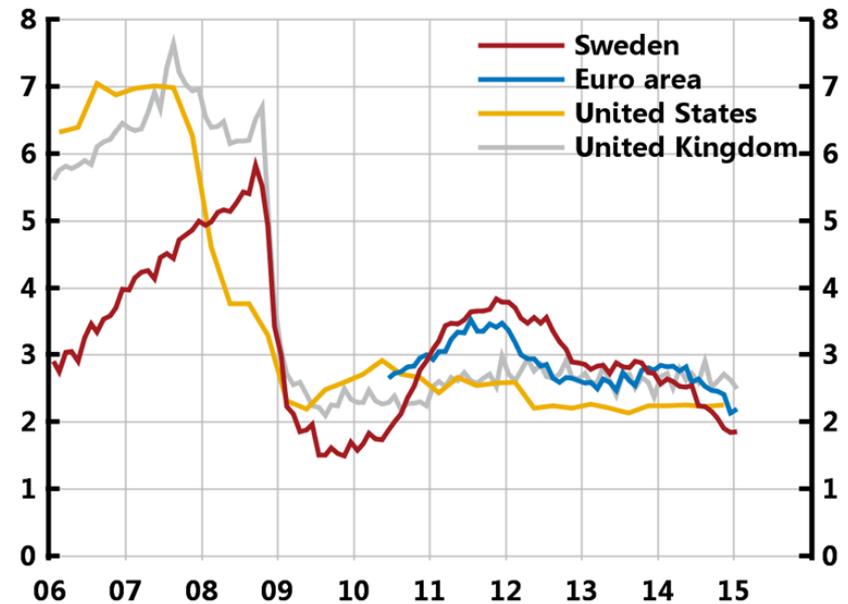
Households

Per cent



Companies

Per cent



Note. Average rates for new loans. Maturities vary over time and between countries. Loans to households refers to mortgages.

Sources: Bank of England, ECB, Federal Reserve, Mortgage Bankers Association (MBA) and Statistics Sweden

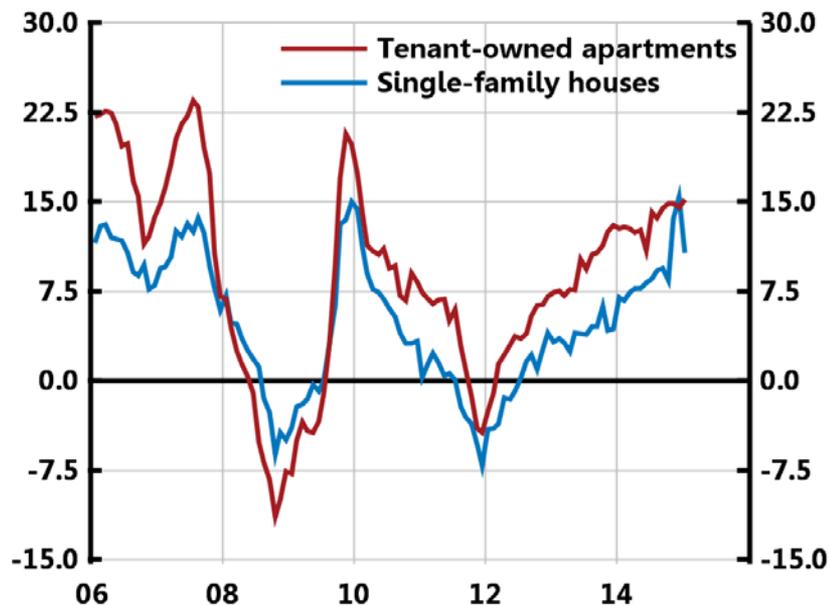
If more is required, we will do more

- The Riksbank safeguards the role of the inflation target as nominal anchor for price-setting and wage-formation
 - If needed to get inflation to rise towards the target
 - Cut the repo rate and lower the repo-rate path
 - Extend purchases of government bonds
 - Lend to companies via banks
 - All of this can be used rapidly on a large scale
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High and rising loan-to-value ratio creates risks

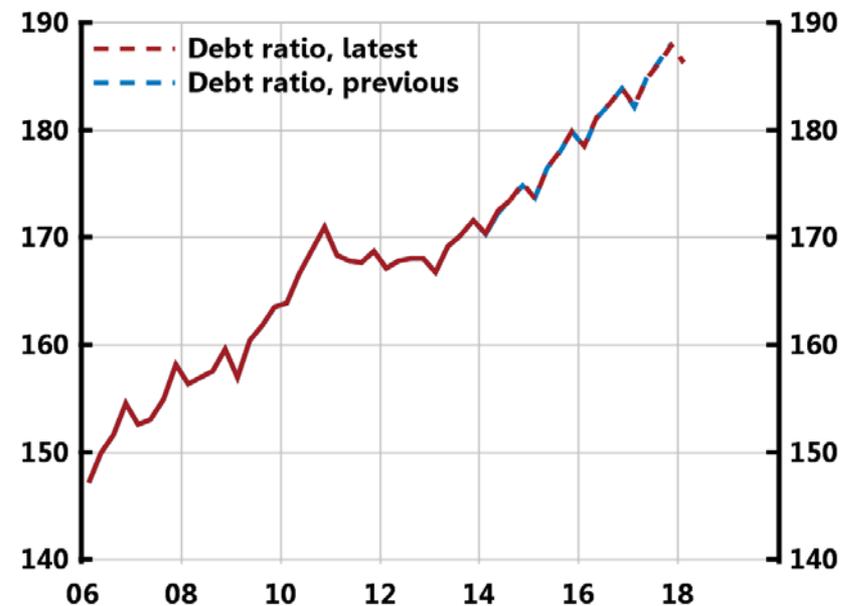
House prices

Annual percentage change, seasonally-adjusted data



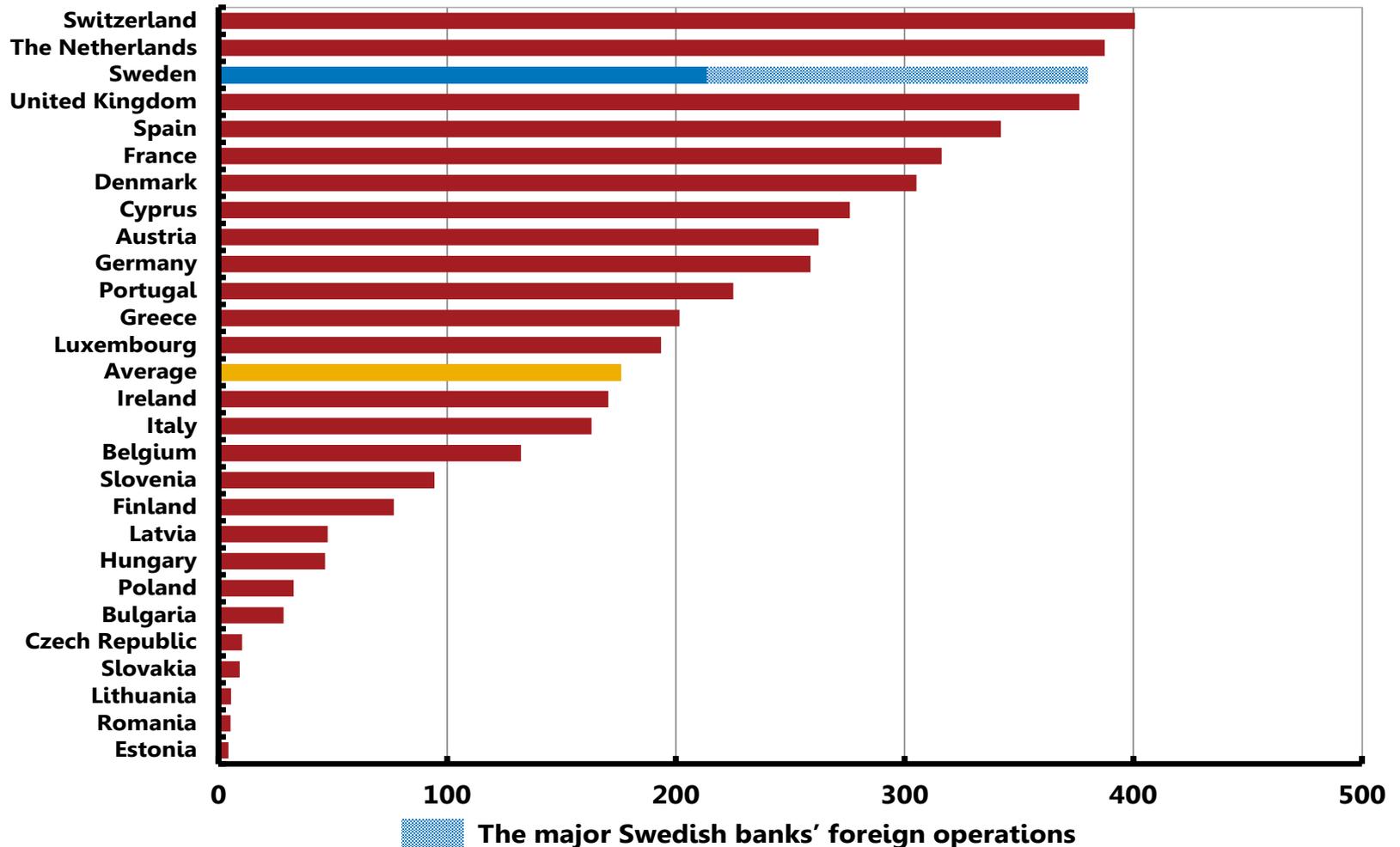
Liabilities

Per cent of disposable income



The banks' assets in relation to GDP

December 2013, percentage



Household debts - double risks

- Real economic instability
 - Households consume less

 - Financial instability
 - Funding problems for banks
 - Loan losses on banks' lending

 - Substantial build-up of debt, rapidly-rising housing prices are increasing the risk of financial crises
 - Current high indebtedness means that the effects of a crisis will be greater
-

The time to act is now!

- Risks have increased over a long period of time and are again showing signs of a faster rate of increase
 - The long period of low interest rates makes it urgent for other policy areas to manage these risks
 - Measures to manage the driving forces behind household indebtedness
 - Further macroprudential policy measures
 - The European Commission, OECD and IMF have repeatedly pointed out the risks
 - A source of concern: banks are borrowing significant amounts of funds on the international capital markets
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**Low interest rates support
upturn in inflation**

Readiness to do more
