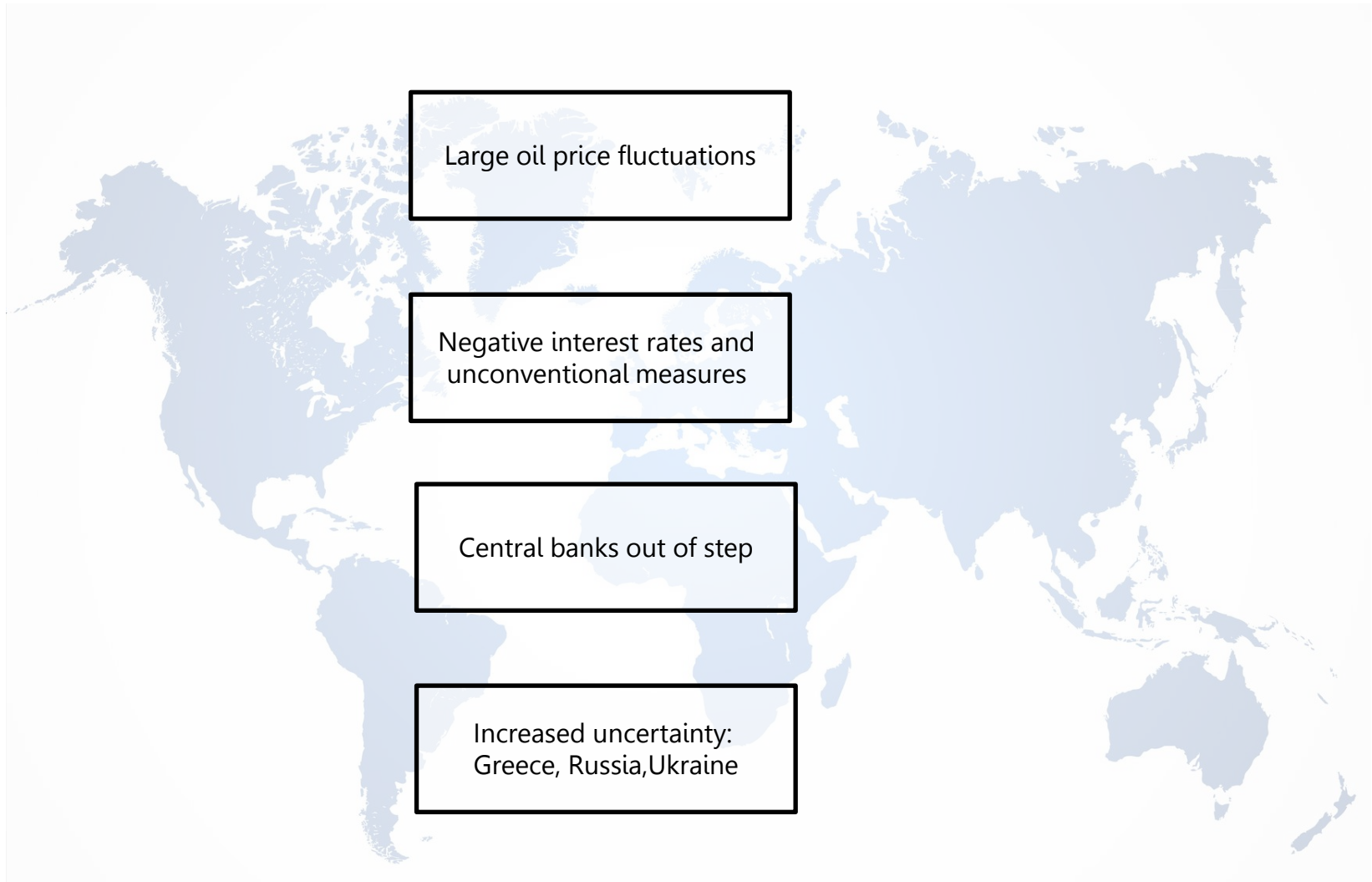




Low repo rate
supports upturn in
inflation

Governor Stefan Ingves
Bank & Finans Outlook
18 March 2015

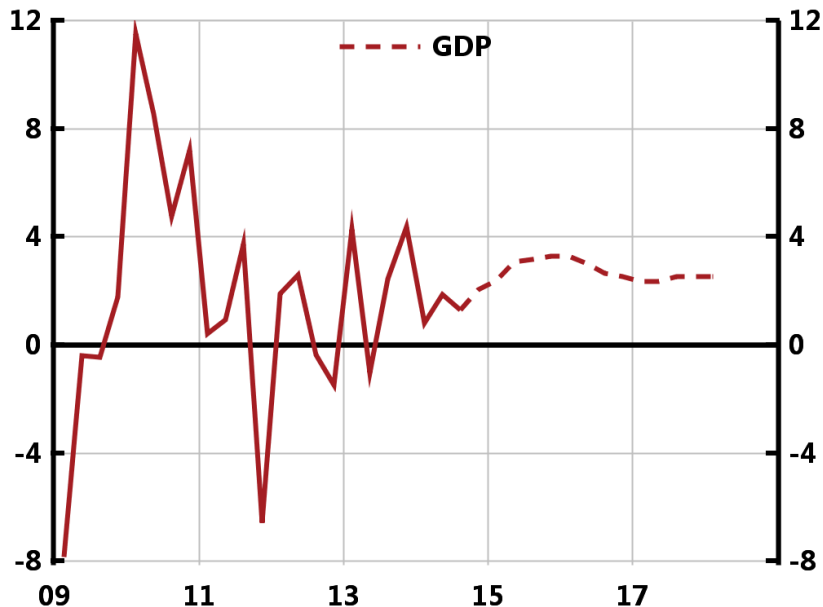
Sweden - a small open economy in an uncertain world



Swedish economy performing relatively well

Normal GDP growth

Quarterly changes in per cent
calculated as an annual rate

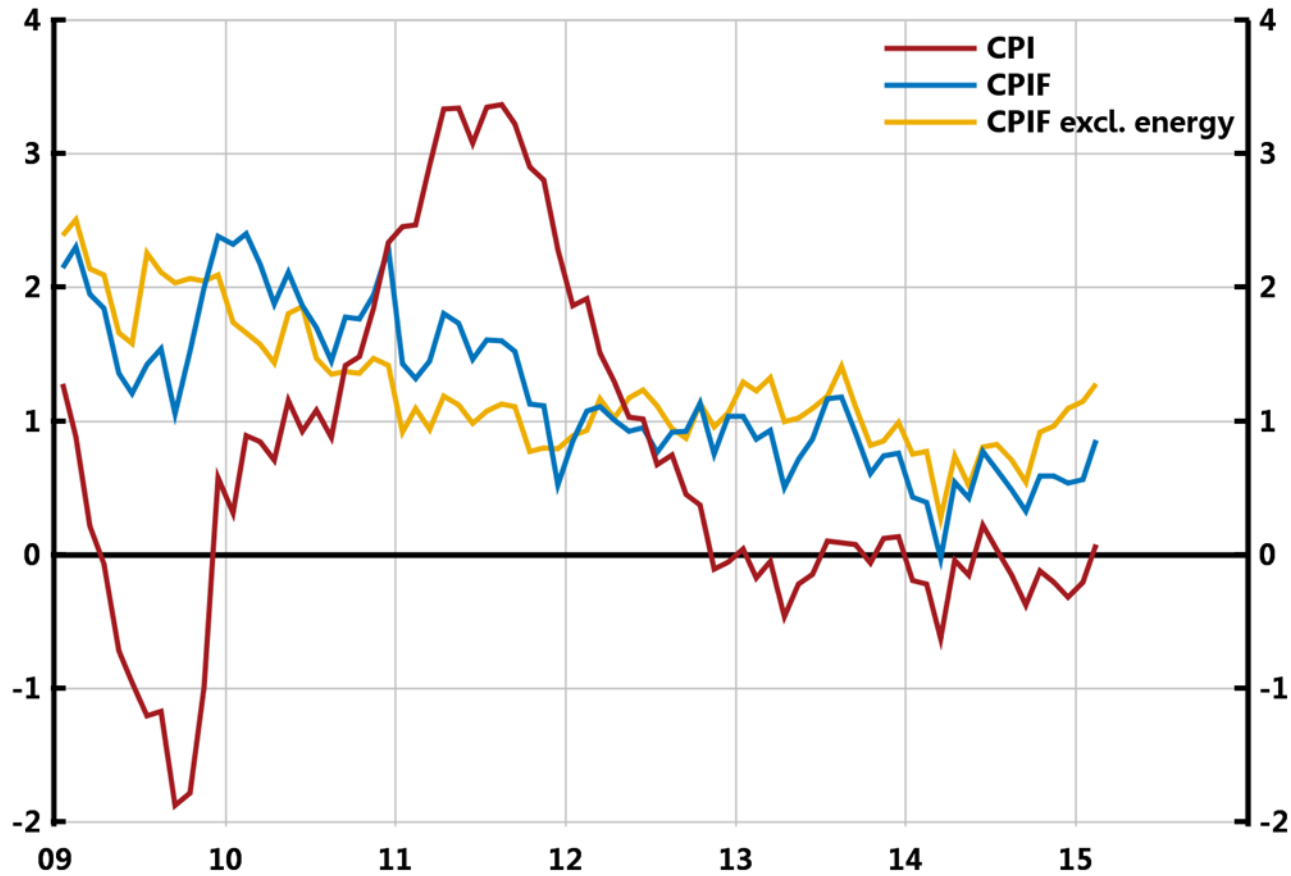


Labour market strengthening

Percentage of labour force aged 15-74



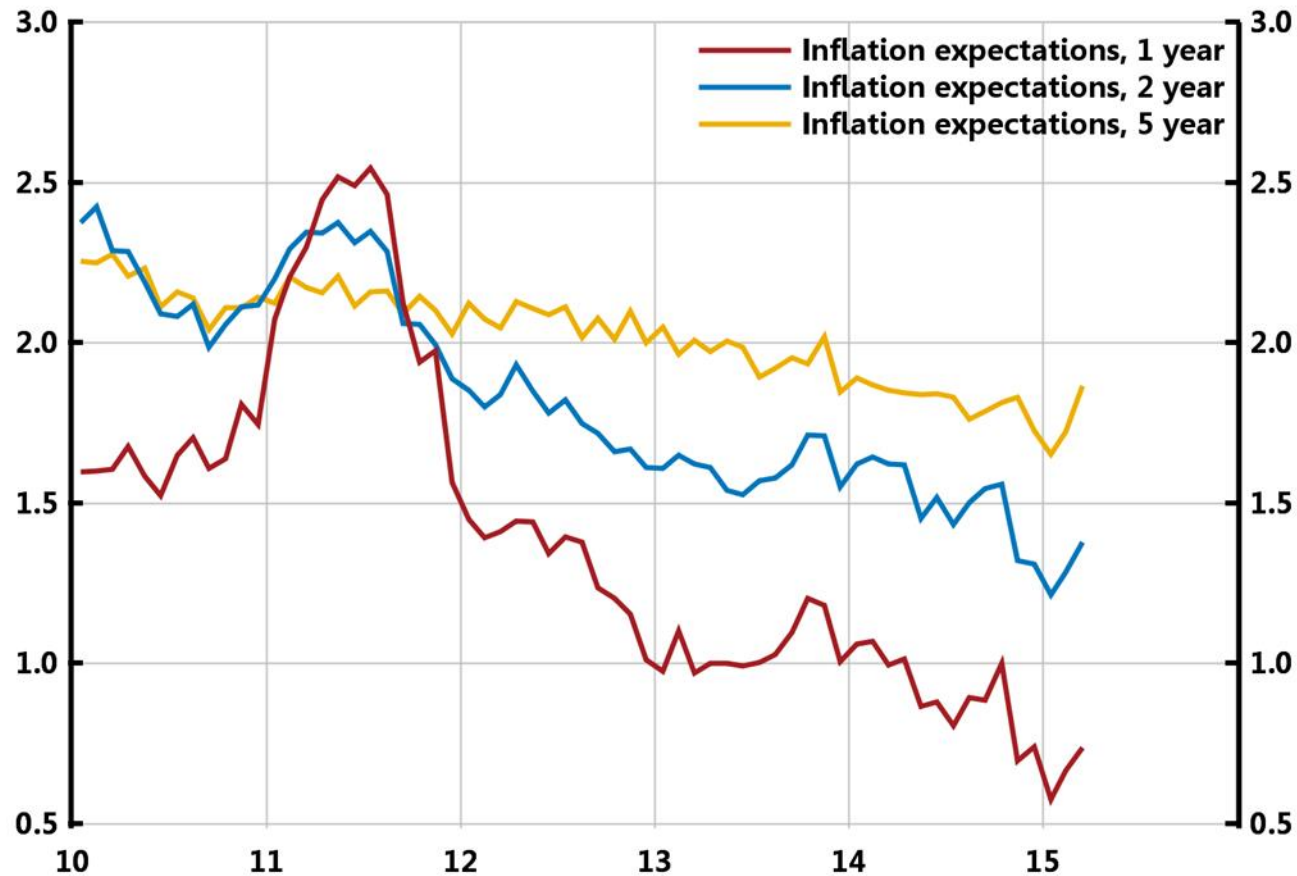
Signs that inflation has bottomed out and is rising



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

Sources: Statistics Sweden and the Riksbank

Important that expectations are anchored



The Riksbank is supporting the upturn in inflation



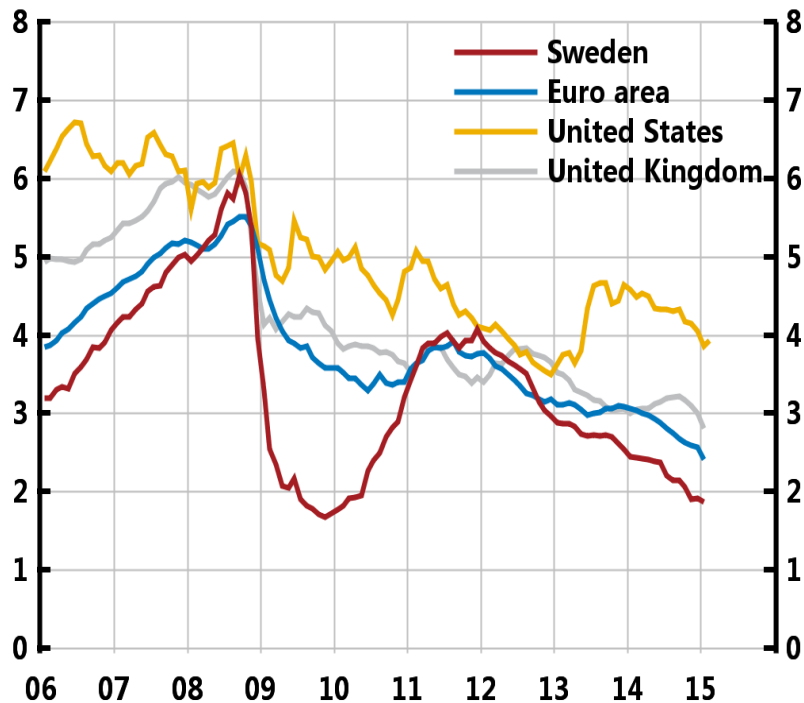
- Expansionary monetary policy
 - Repo rate -0.10 per cent
 - Rates for the Riksbank's fine-tuning operations with the banks: repo +/-0.10
 - Purchase of government bonds for SEK 10 billion

 - If more is required, we will do more!
-

Interest rates for Swedish households and companies are low

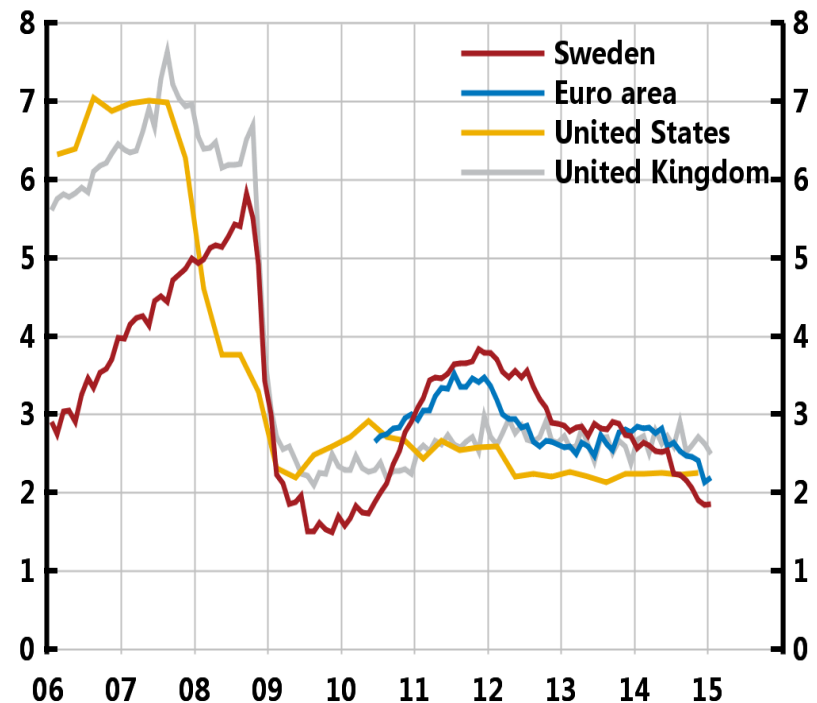
Households

Per cent



Companies

Per cent



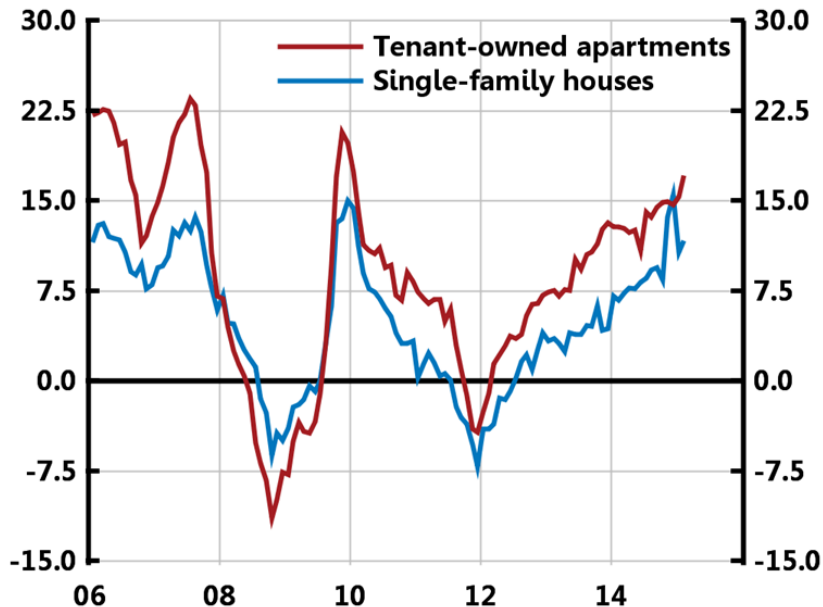
Note. Average rates for new loans. Maturities vary over time and between countries. Loans to households refers to mortgages.

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

Risks increase with low interest rates for a long timer

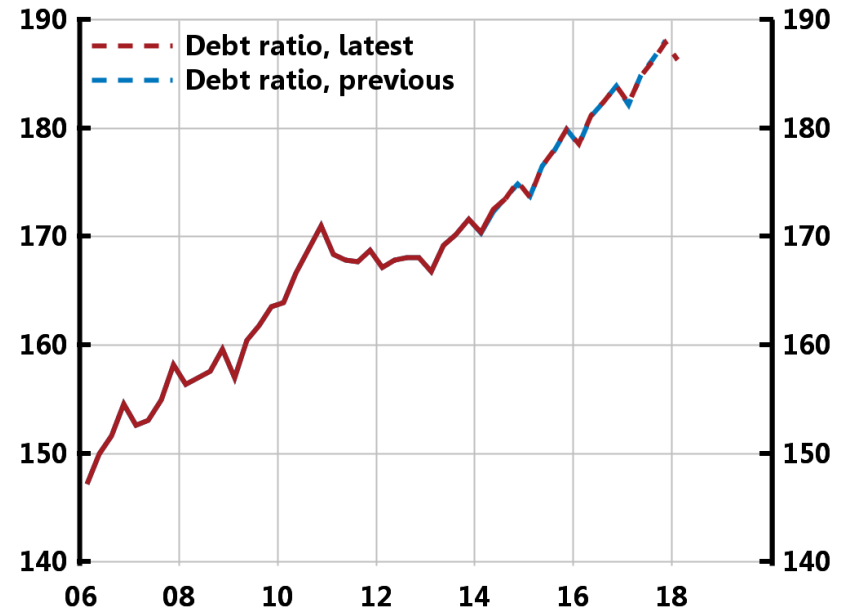
Housing prices

Annual percentage change, seasonally-adjusted data

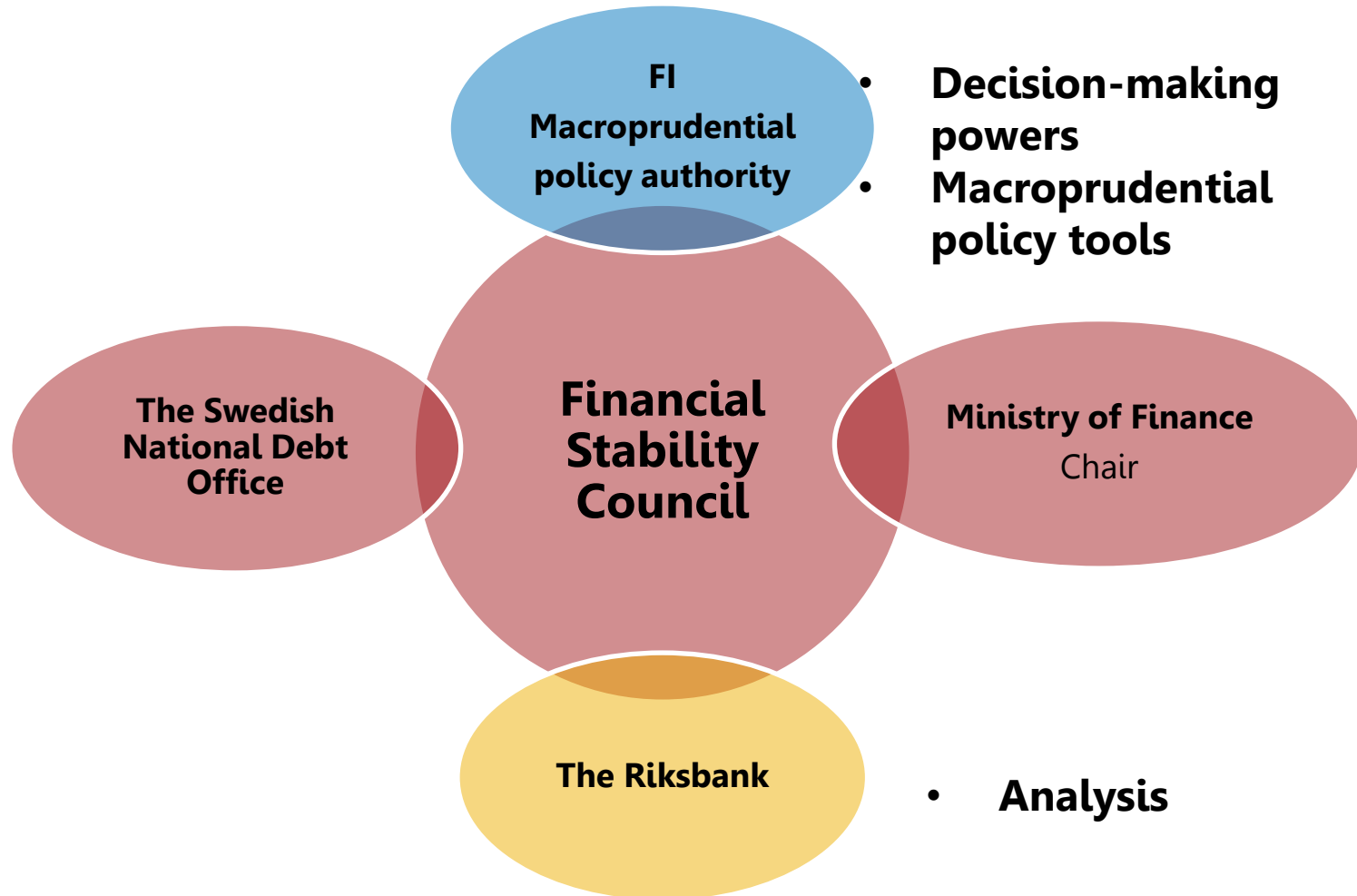


Debts

Percentage of disposable income




The Riksbank's role in macroprudential policy



Household debts - double risks

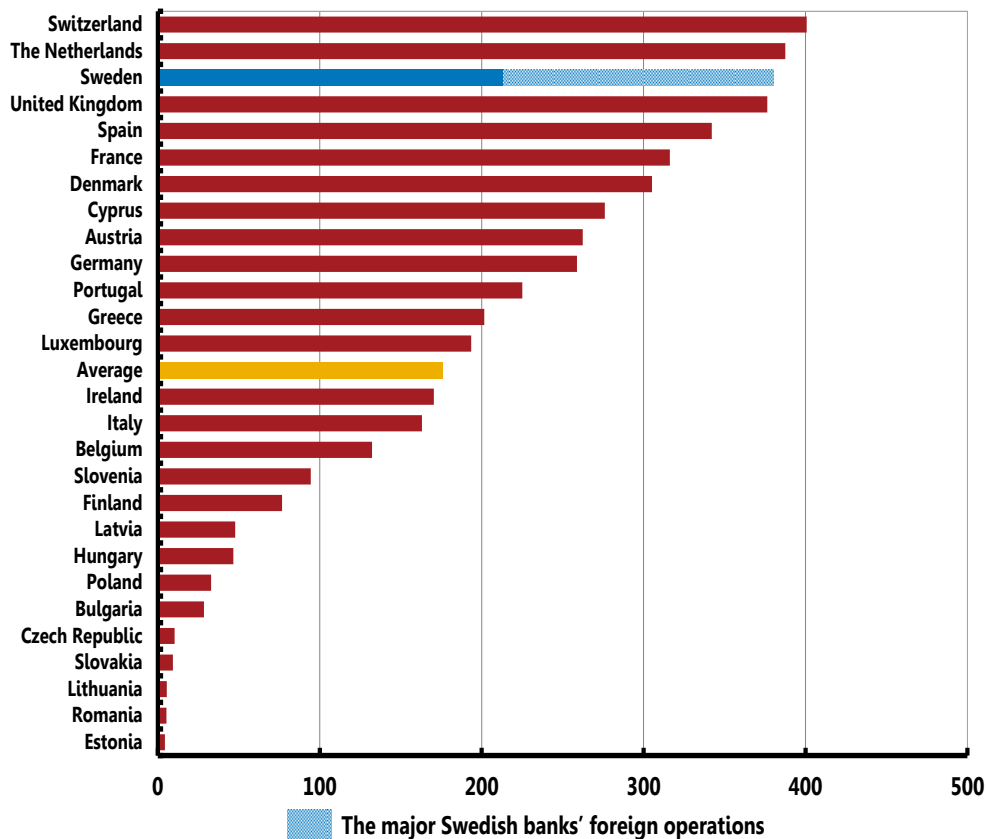
- Real economic instability
 - Households consume less

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

 -  ■ Current high indebtedness means that the effects of a crisis will be greater
-

Vulnerabilities in the banking system increase the risks relating to household debt

The banks' assets in relation to GDP



- Large and interlinked banking system
- Dependent on market funding on foreign currencies
- Tangible liquidity risks
- Limited equity in relations to assets

Indebtedness: where can we find the balance?

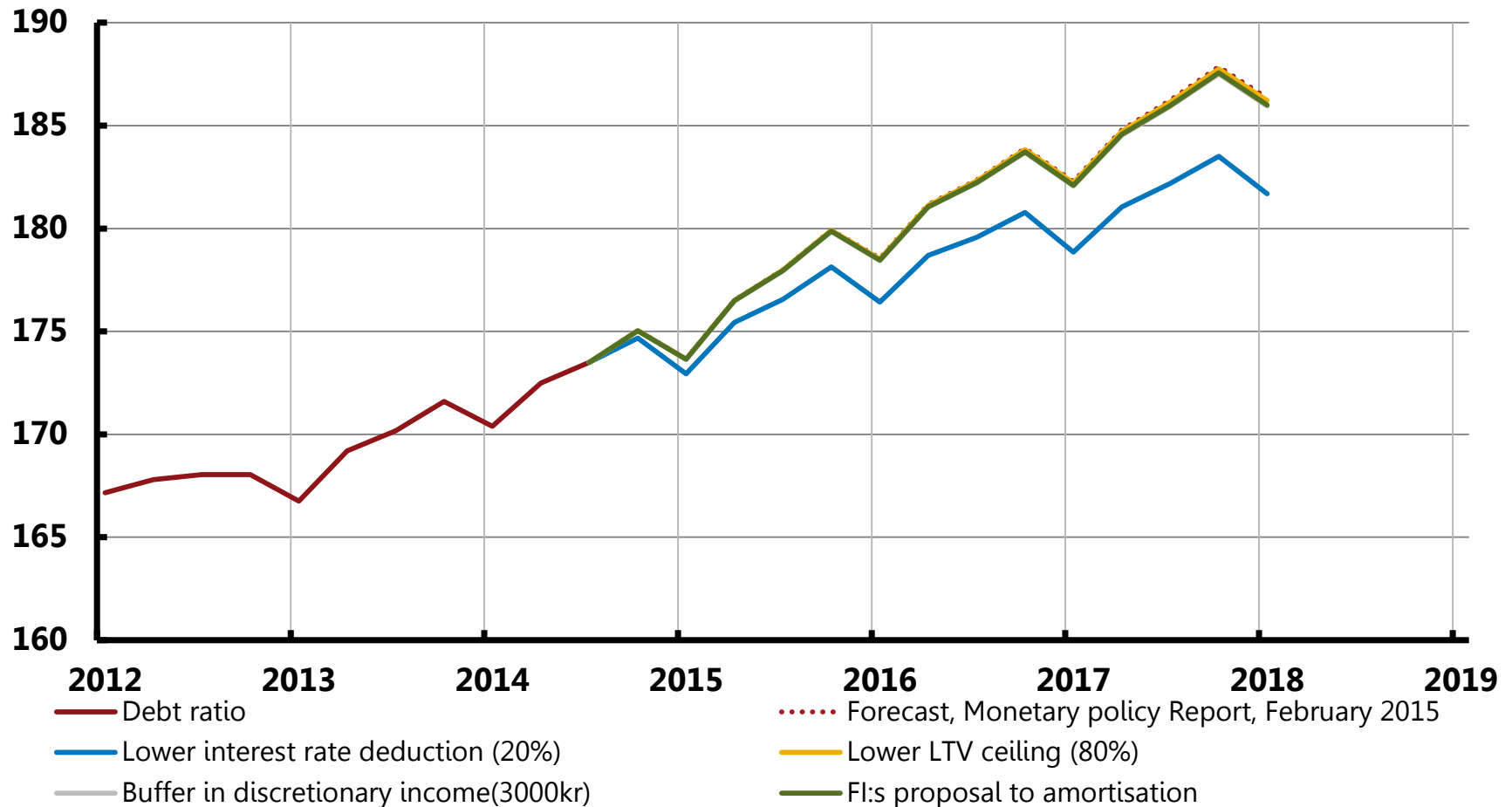
**Risks to the
economy**



**Welfare gains
associated with
loans**

Takes time to slow down debt growth

Percentage of disposable income

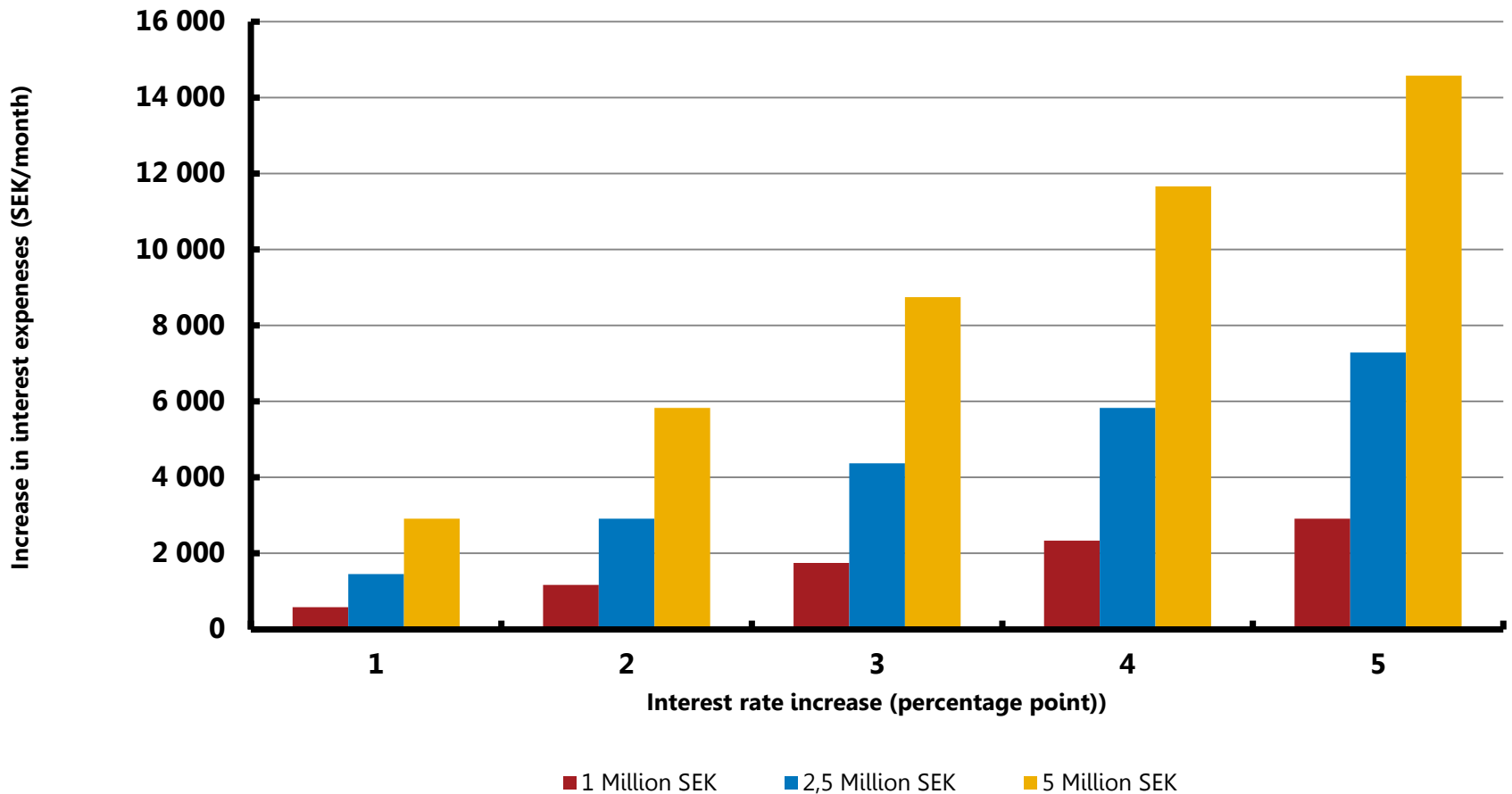


Toolbox for managing risks

Demand-side measures	Supply-side measures
Mortgage ceiling	Capital requirements
Debt ratio ceiling	The countercyclical capital buffer
Debt service ratio	Sectorial capital requirements
Discretionary income calculations	
Amortisation requirements	
Fixed-rate period	Improve the supply of housing
Interest deductions	
Increased housing taxation	
The repo rate	

Substantial impact of interest rate increases

Interest expenses in SEK



Important to manage the risks relating to household debt



- Risks have increased over a long period of time and are again showing signs of a faster rate of increases
 - 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
-



Thank you!