

Perspectives on monetary policy

Riksdag Committee on Finance
27 September 2016

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Unconventional monetary policy raises questions

Svag krona gör svenskarna fattigare

Minusränta – episkt genidrag eller rena vansinnet?

”Riksbankens taktik livsfarlig”

Blås av den galna inflationsjakten

Negativ ränta kan förvirra mer än hjälpa

Hur farligt är Riksbankens minusexperiment?

Professor: ”Riksbanken agerar dumt och verktygslådan är tom”

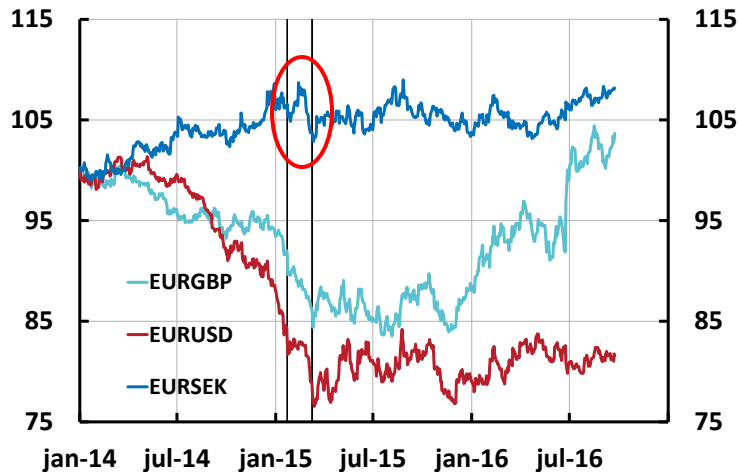
The need for an expansionary monetary policy is being underestimated

There are risks inherent in the highly expansionary monetary policy but...

- The trend of falling global real interest rates is also affecting Sweden
- The inflation target became a cornerstone of the Swedish economic policy framework following the crisis of the 1990s
- Inflation has been clearly below target since 2011 and confidence in the target as a nominal anchor has fallen
- Sweden is a small, open economy – inflationary problems can rapidly become a significantly more serious economic problem

Dangerous situation in spring 2015

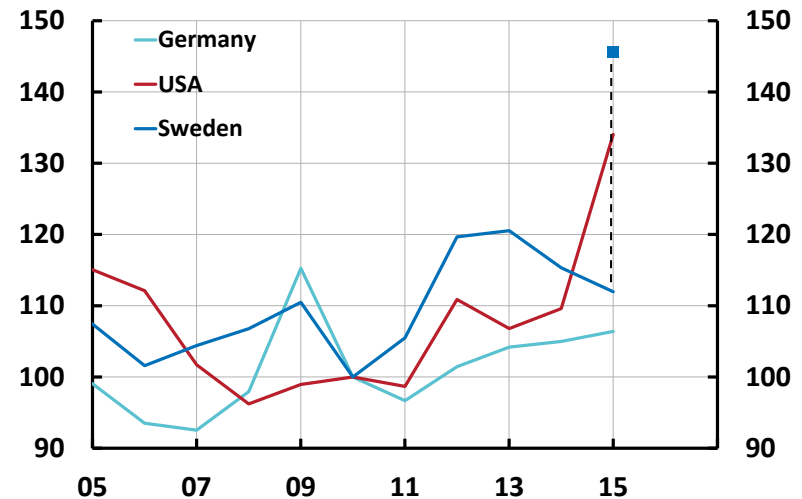
In an unfavourable scenario, the krona could have appreciated like the dollar and sterling...



The left-hand graph shows exchange rates. The ECB communicated its decision to purchase securities on 22 January 2015 and initiated purchases on 9 March 2015. Index, 1 January 2014 = 100.

The right-hand graph shows industrial sector unit labour costs, euro. Index, 2010 = 100. The blue square indicates the effect of the krona appreciating by 30 per cent against the euro.

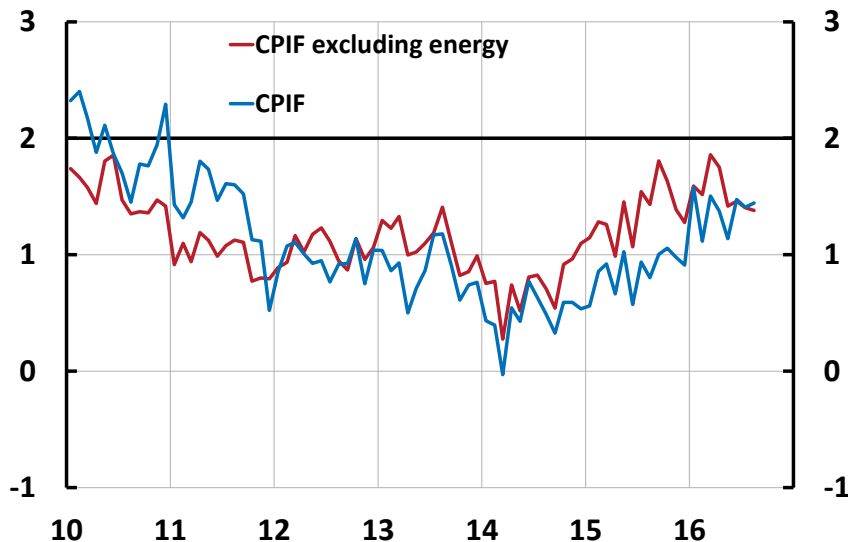
... which would have had devastating consequences for the competitiveness of Swedish companies



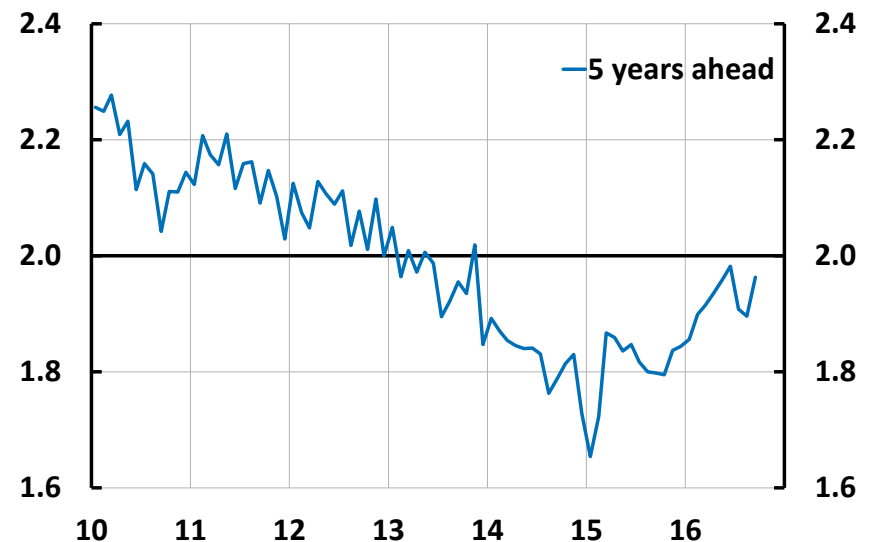
Sources: ECB, Macrobond and Conference Board

The inflation outlook has brightened

Inflation has shown a rising trend since the spring of 2014...



... and the credibility of the inflation target has been strengthened



Annual percentage change. The CPIF is the CPI with a fixed mortgage rate. Inflation expectations according to money market participants.

Sources: TNS Sifo Prospera and Statistics Sweden

Future monetary policy

- Higher inflation is important: otherwise the period of low interest rates will be even longer
 - Greater risk for negative side effects of the expansionary policy
 - The next economic slowdown will be harder to counteract
- The most serious negative side effect yet: exacerbates the problem of household indebtedness – what happens when interest rates rise?
- The inflation outlook has improved but could very quickly deteriorate again. And we must be cautious as regards the exchange rate
- Target variables and intervals
 - Significant problems with the CPI as target variable
 - Target interval not a good idea