



The economic situation and current monetary policy

First Deputy Governor Kerstin af Jochnick
Chamber of Commerce Värmland, Karlstad
March 3, 2015

Agenda

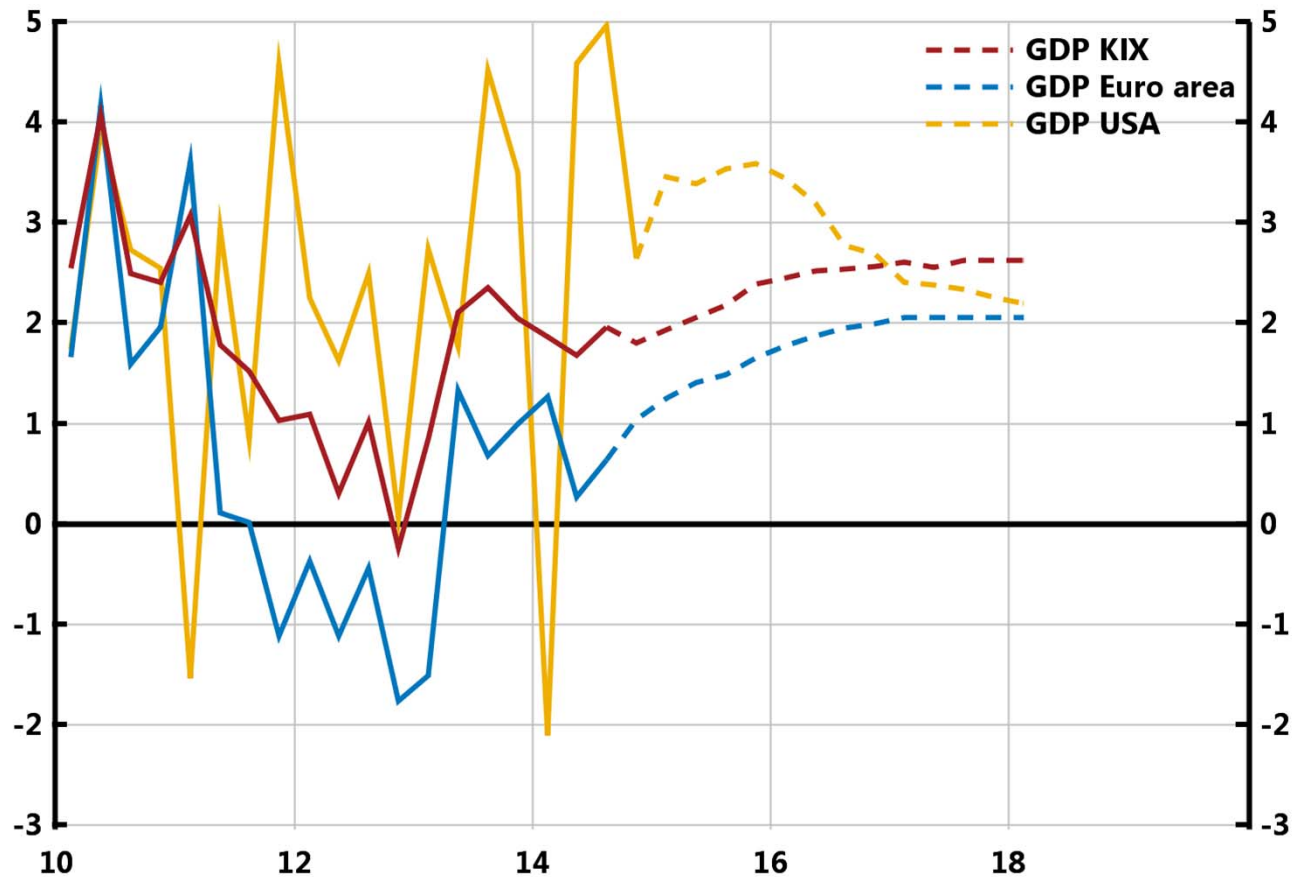
- The economic situation
- Why is the inflation low?
- Current monetary policy
- Household indebtedness





The economic
situation

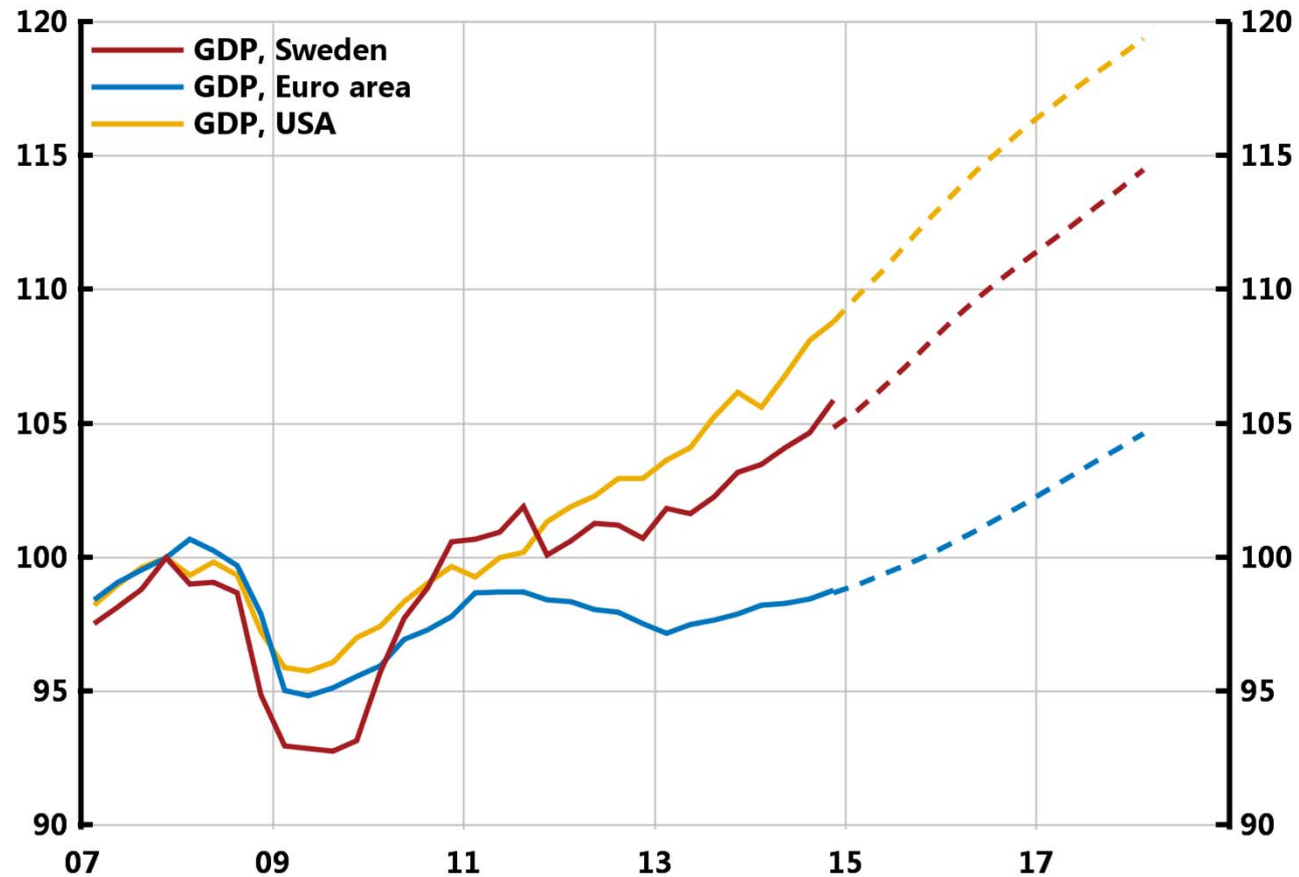
Slow improvement abroad



Quarterly change in per cent calculated as an annual rate, seasonally-adjusted data. KIX is an aggregate of the countries that are important to Sweden's international transactions.

Sources: The Bureau of Economic Analysis, Eurostat, national sources, the Office for National Statistics and the Riksbank

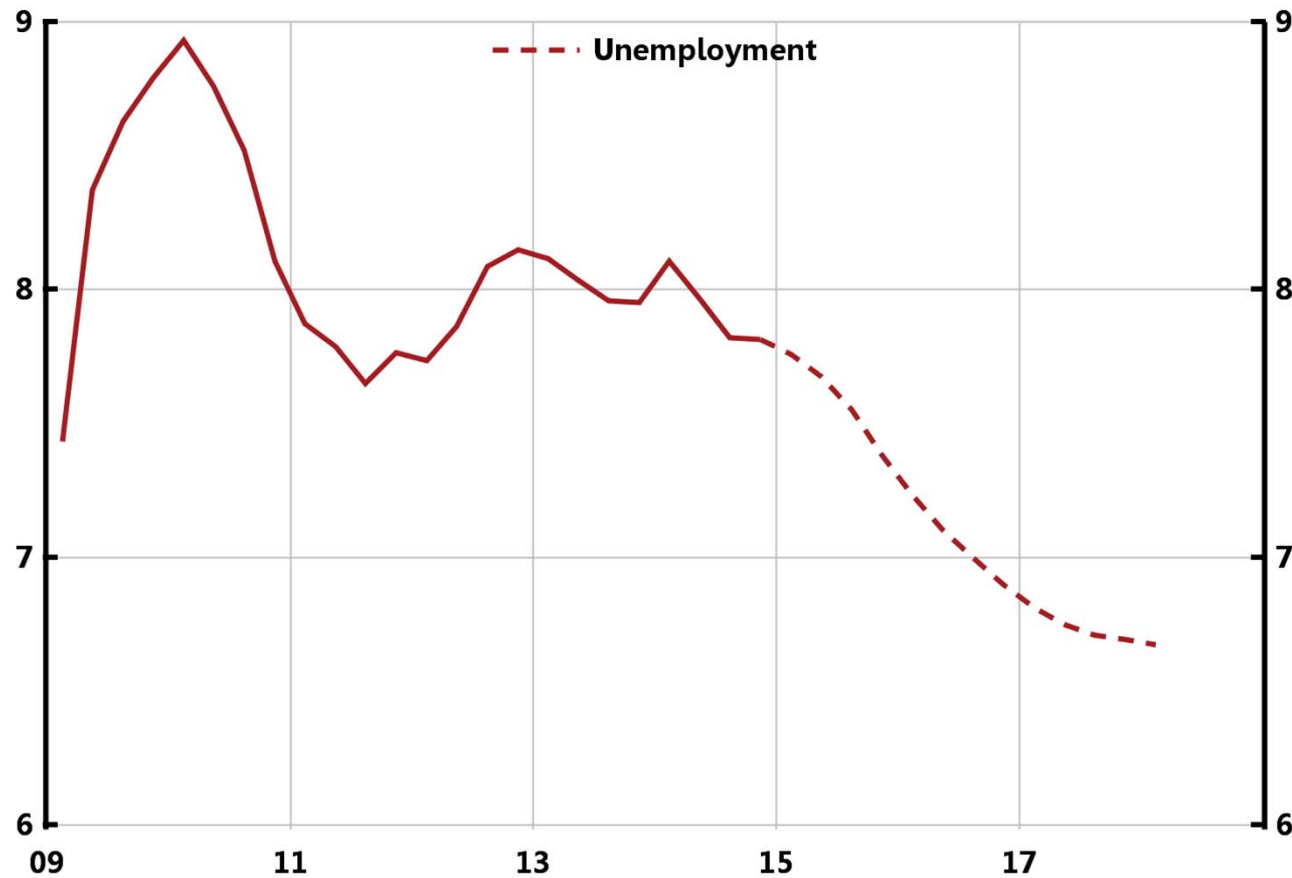
Swedish economy performing relatively well



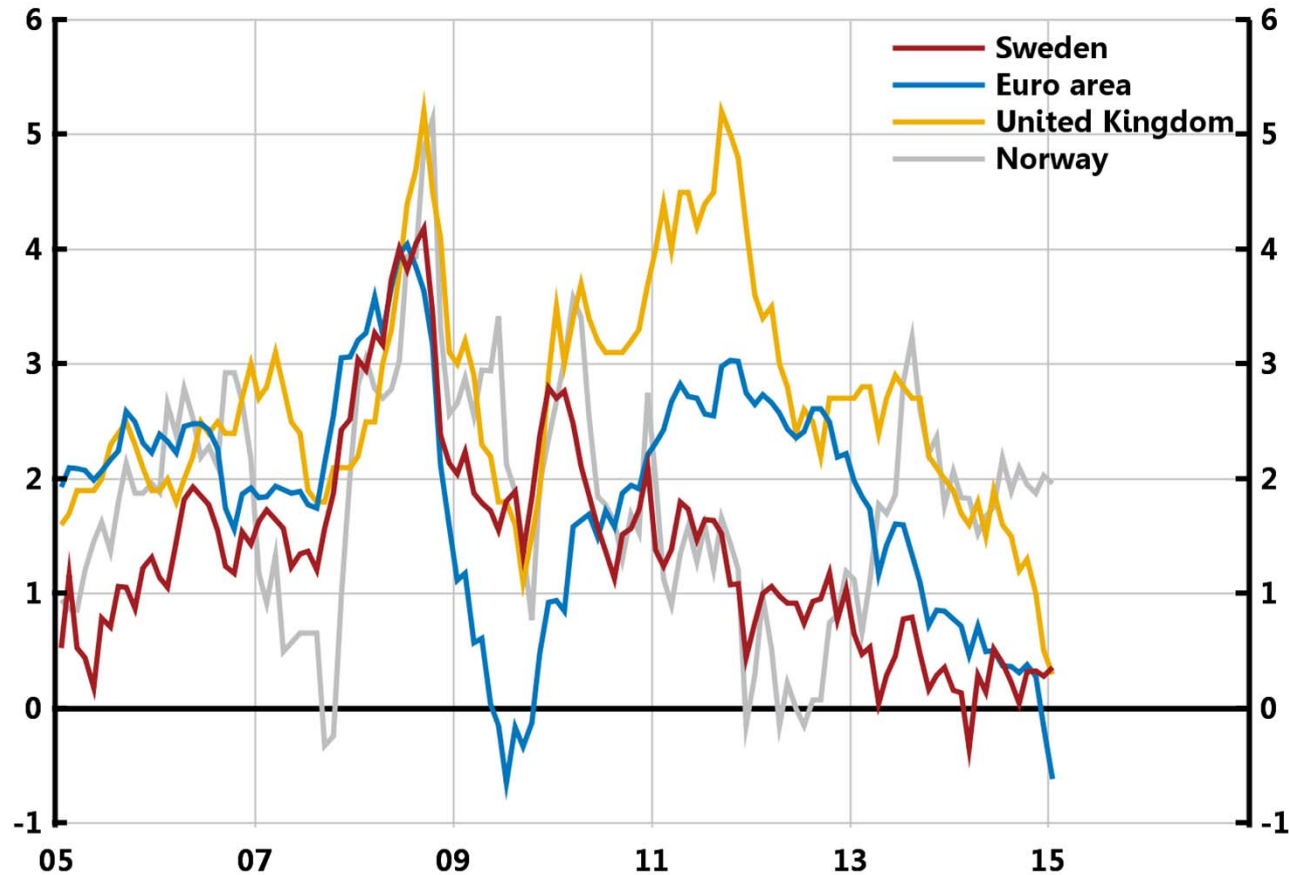
GDP, index 2007Q4 = 100

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

Labour market strengthening



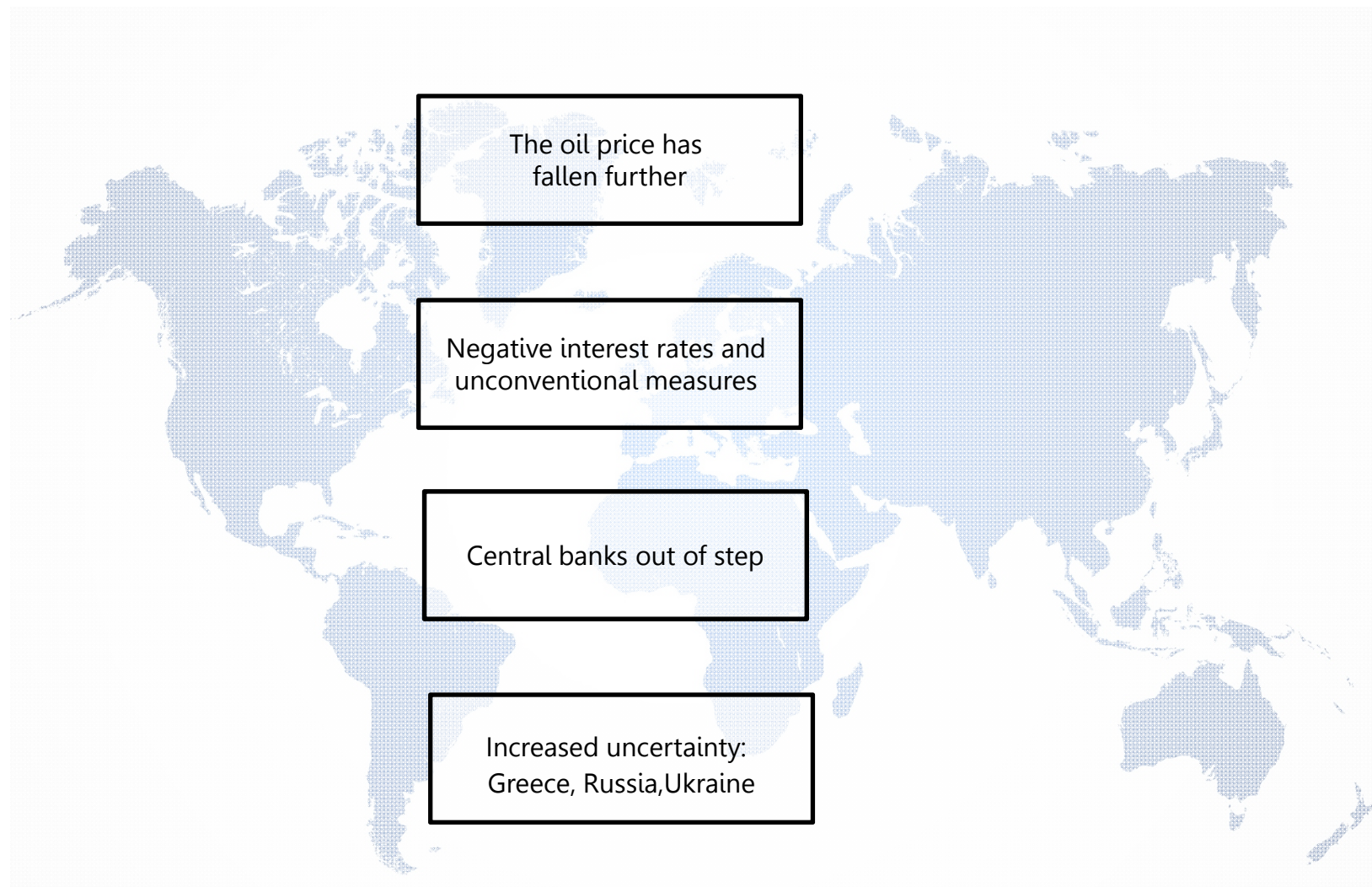
But inflation is to low



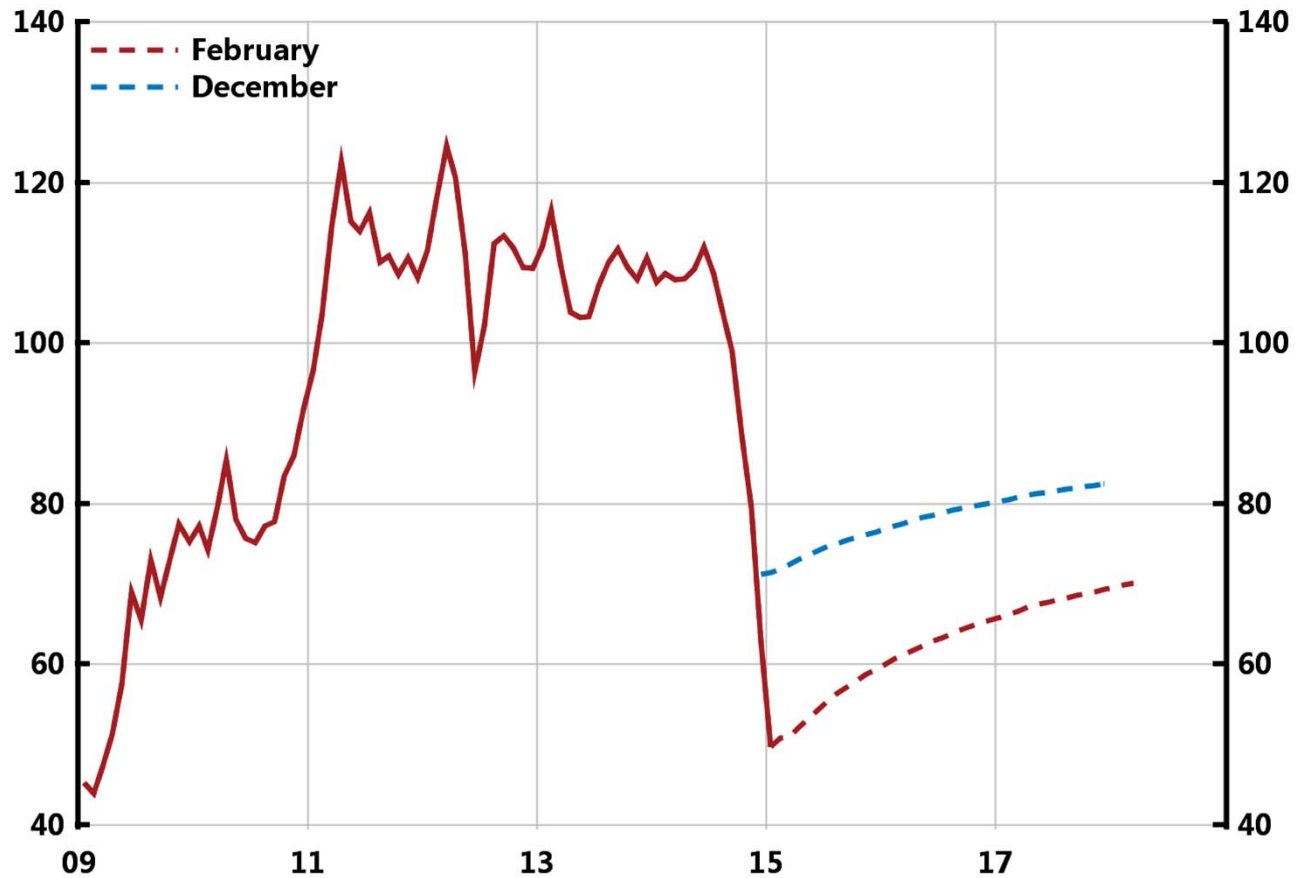
HICP, annual percentage change. The HICP refers to the EU-harmonised index for consumer prices.

Source: Eurostat

Sweden – a small, open economy



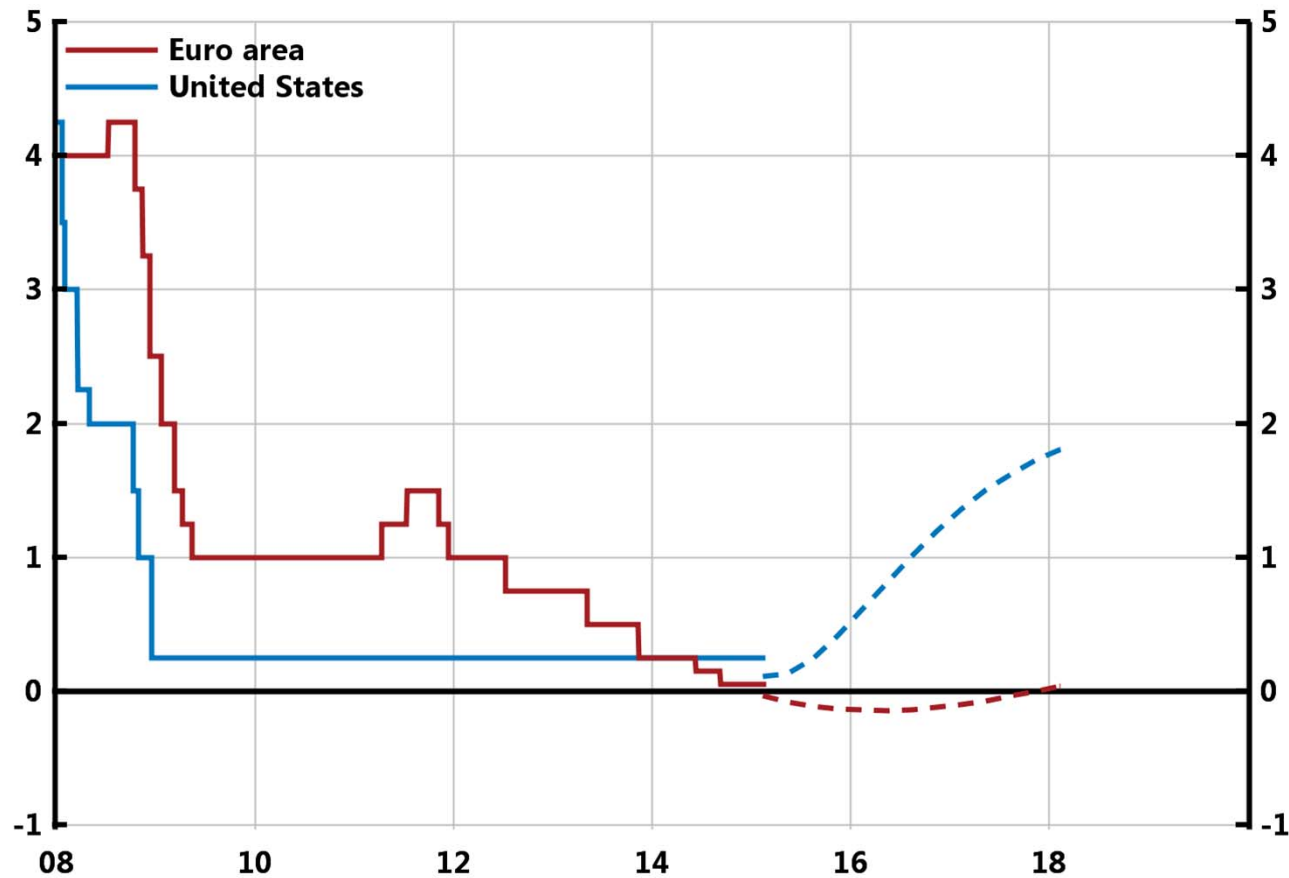
Low oil price



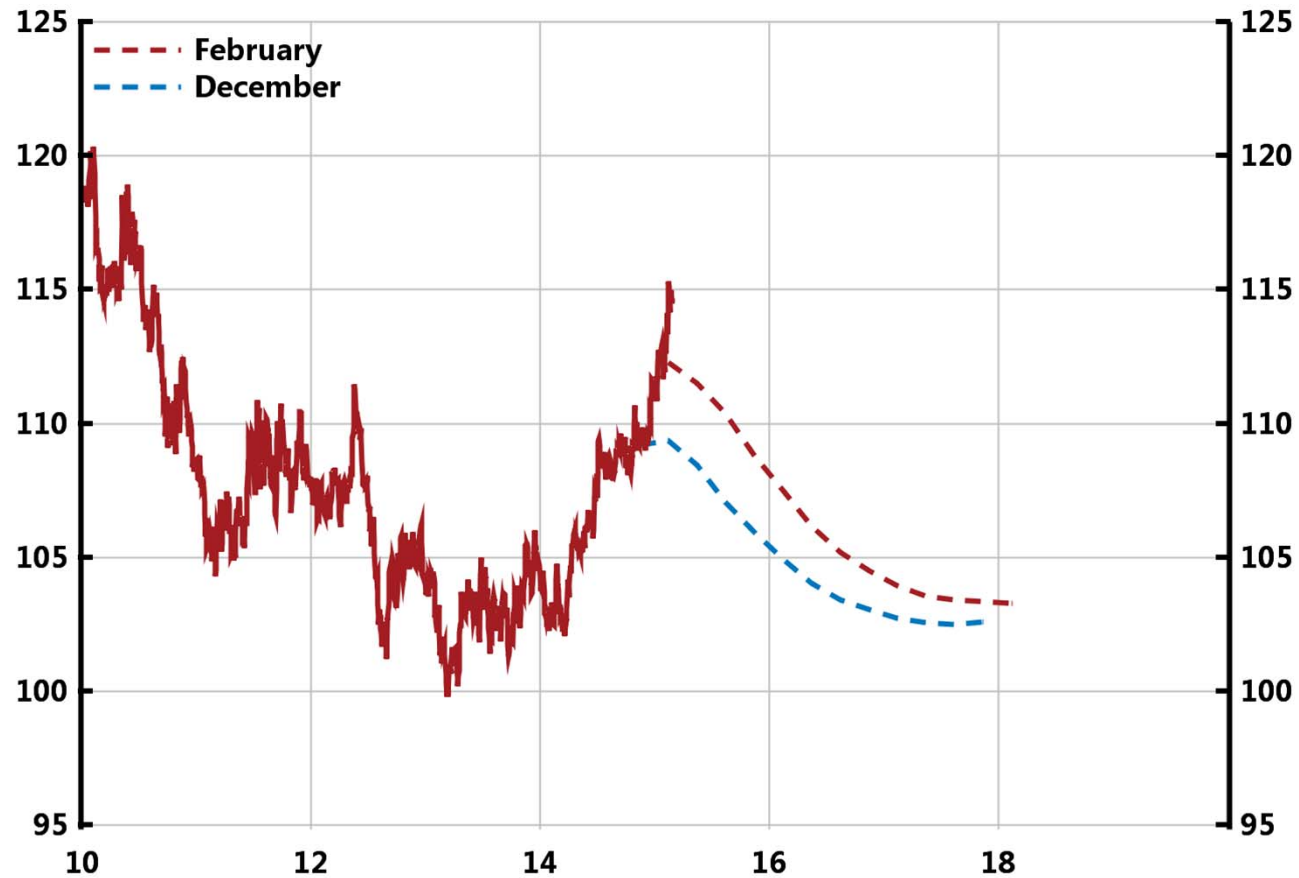
Brent oil, USD per barrel. Forward rates are calculated as a 15-day average. Outcome refers to monthly averages of spot prices.

Sources: Macrobond and the Riksbank

Differences in monetary policy



The krona has weakened



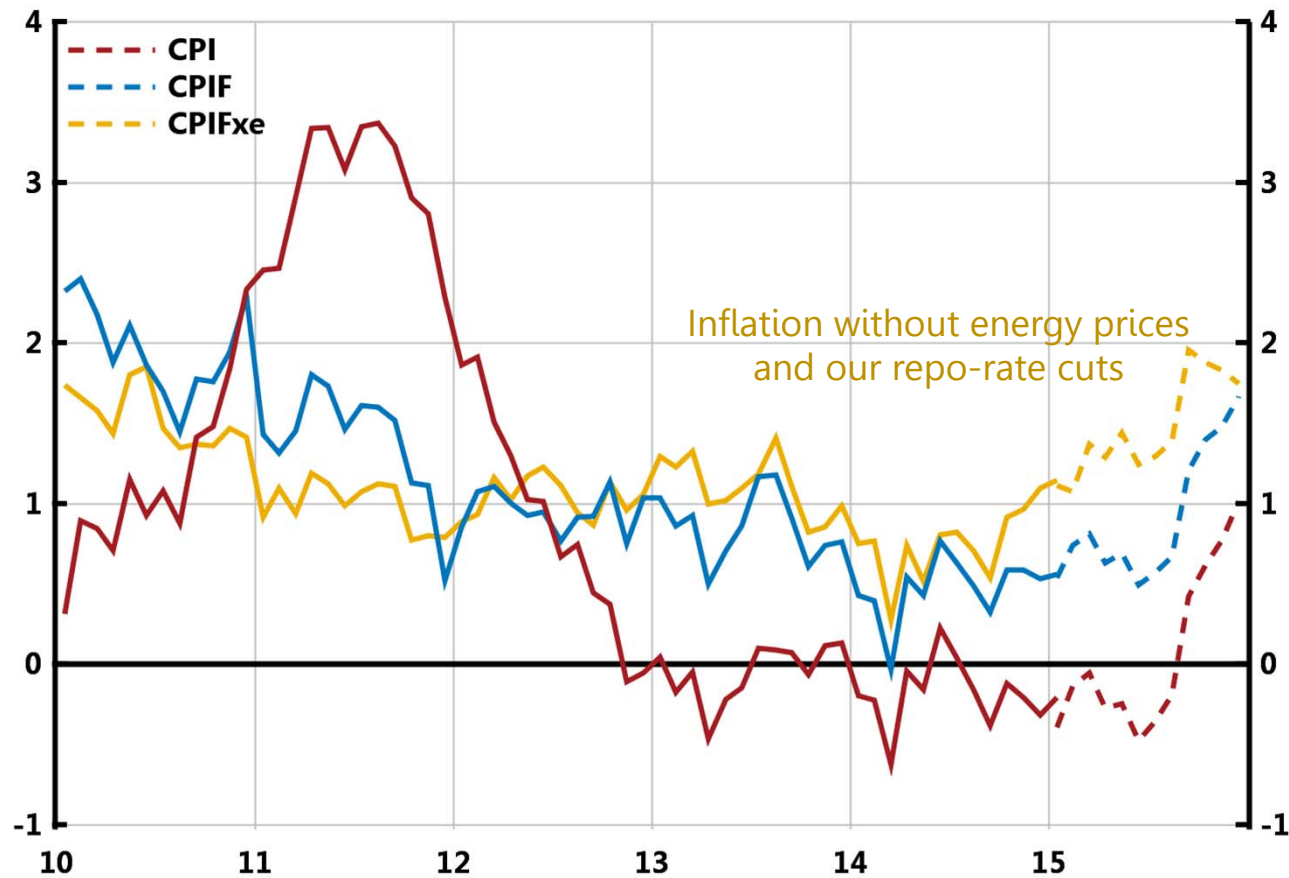
Outcomes are daily rates and forecasts refer to quarterly averages, index. KIX is an aggregate of the countries that are important to Sweden's international transactions.

Source: The Riksbank



Why is the
inflation low?

Low inflation

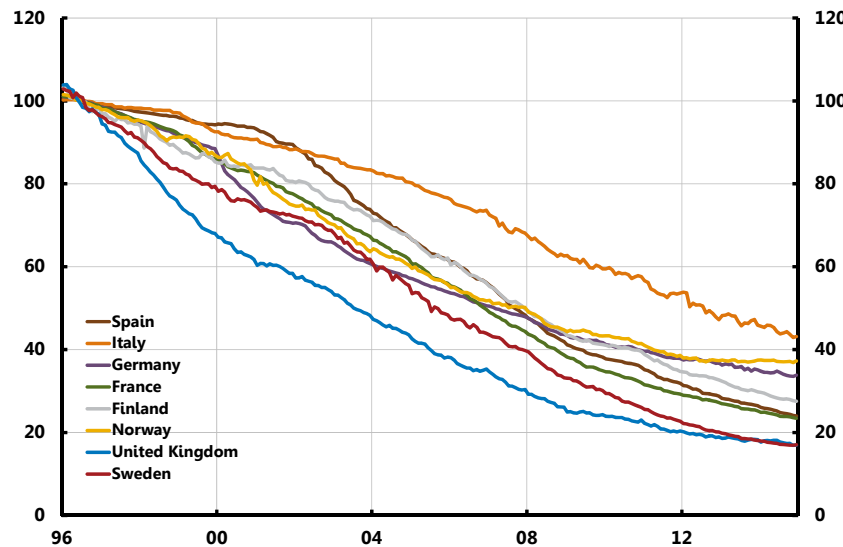


Weak demand and growing competition

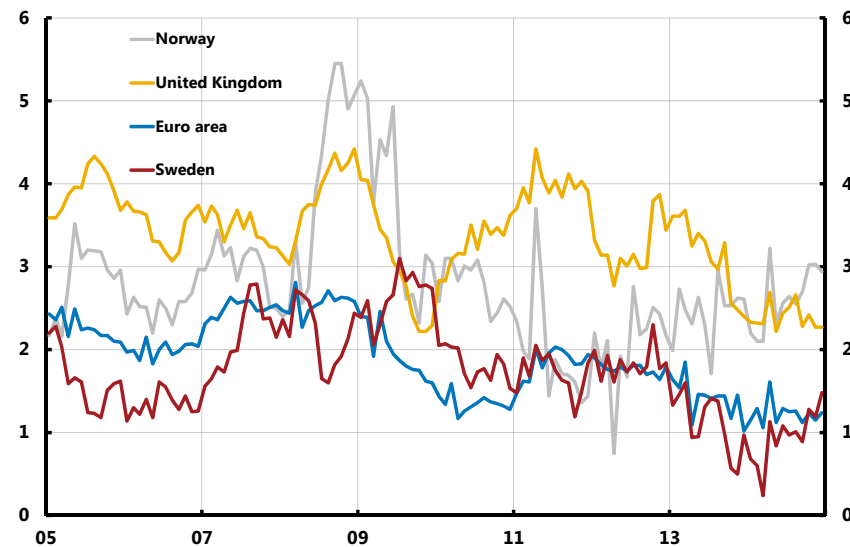


companies find it difficult to pass on cost increases

Home electronics prices



Service prices

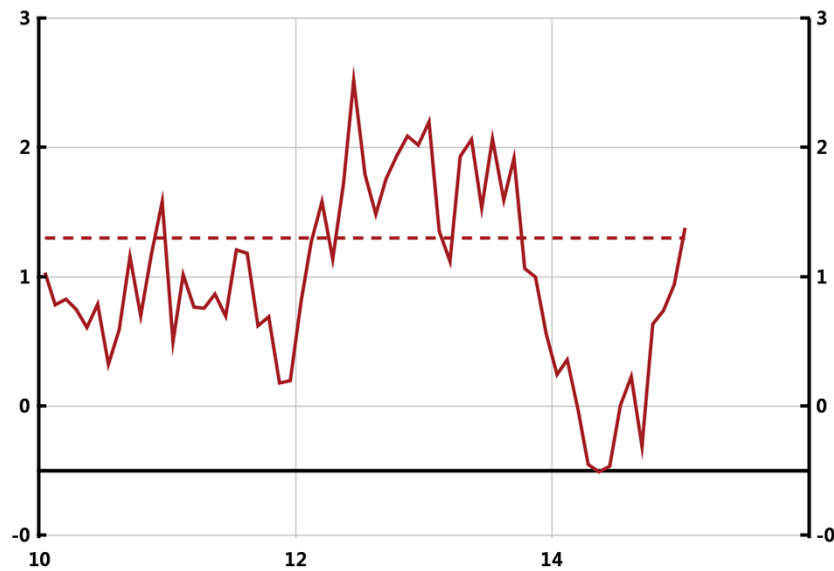


The first graph refers to the index for the subgroup "Audio-Visual, Photographic & Information Processing Equipment" in the HICP, it makes up around 1.5 per cent of HICP. The second graph refers to services in the HICP that makes up around 42 per cent of HICP.

Source: Eurostat

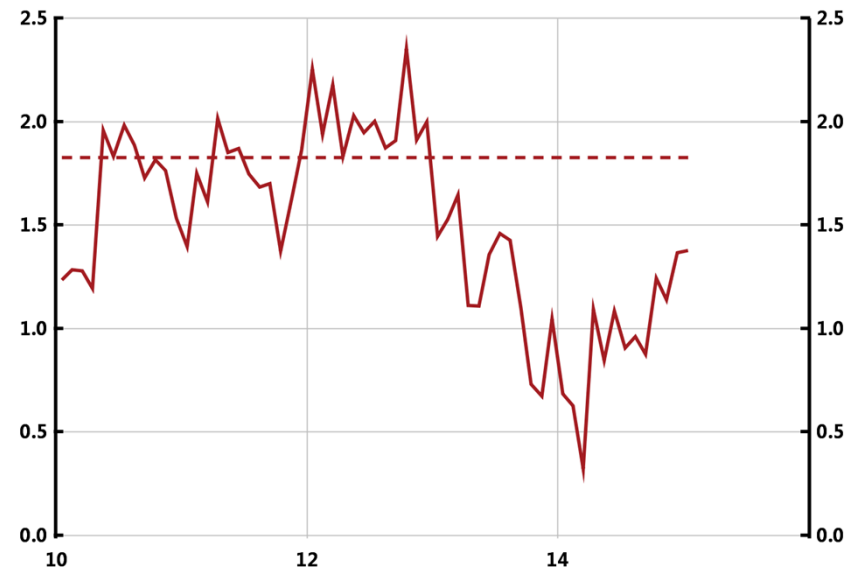
Signs that inflation has bottomed out

Food prices



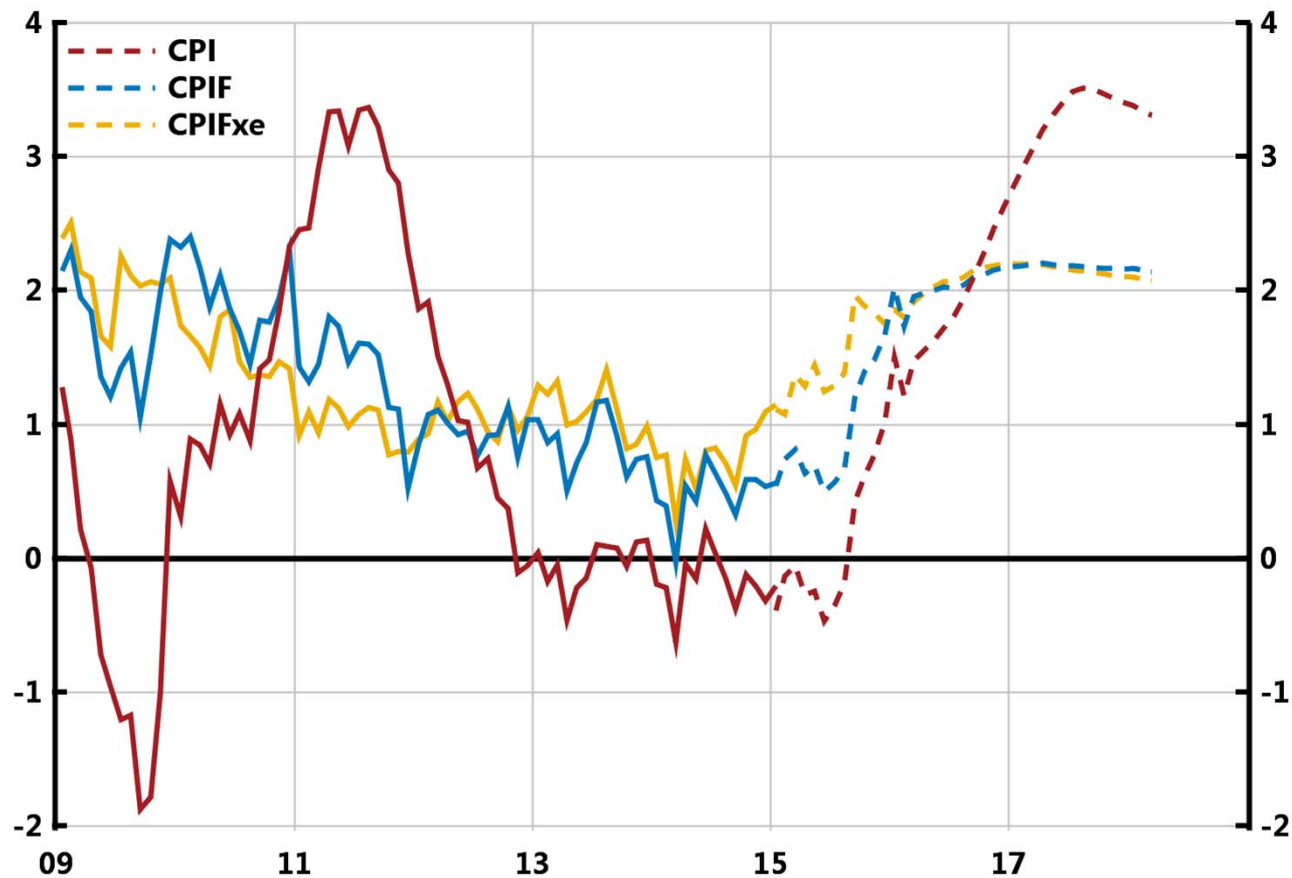
Prices increasing particularly for:
Fruit, vegetables, coffee, cocoa

Services prices



Prices increasing particularly for:
House repairs, travel and eating out

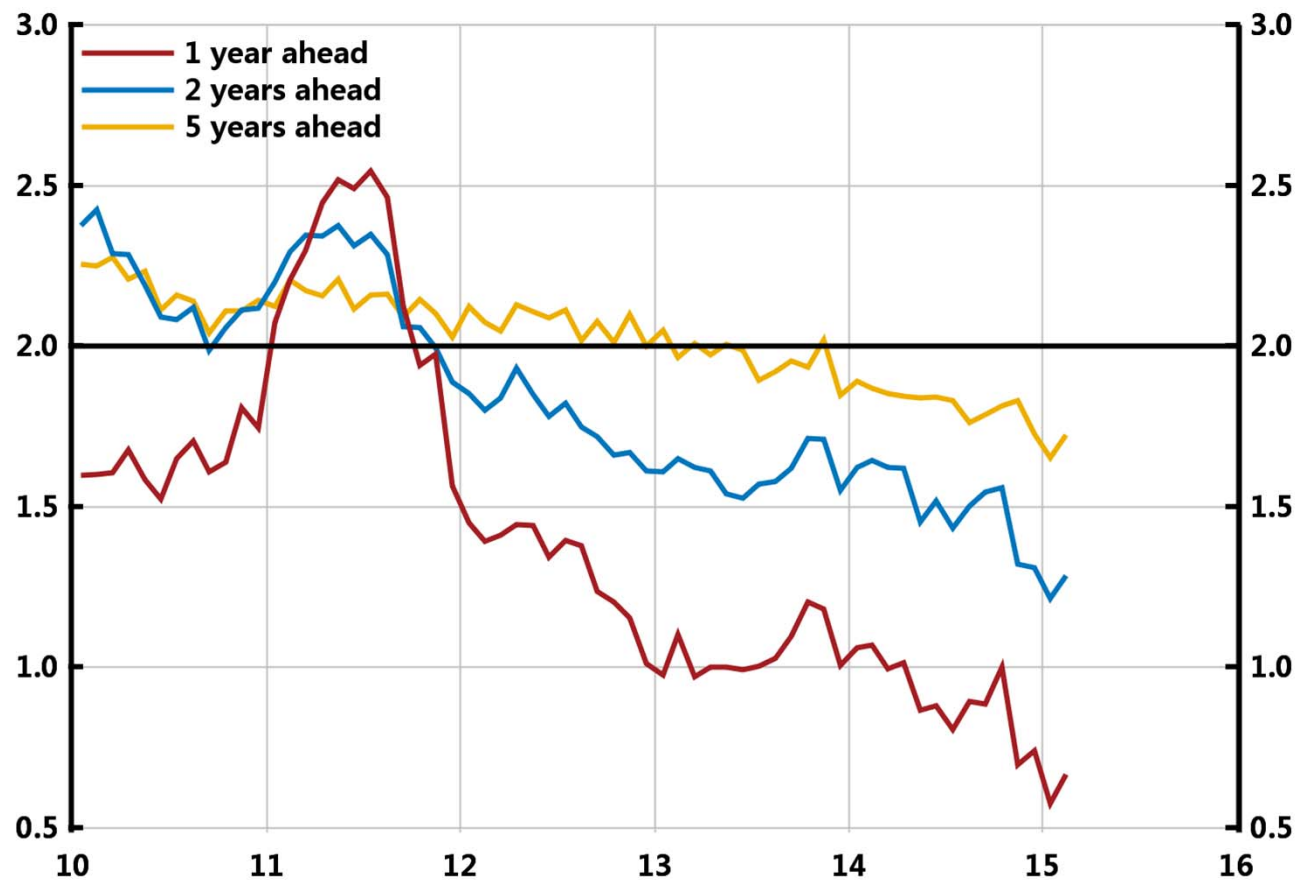
Inflation rising towards the target



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

Sources: Statistics Sweden and the Riksbank

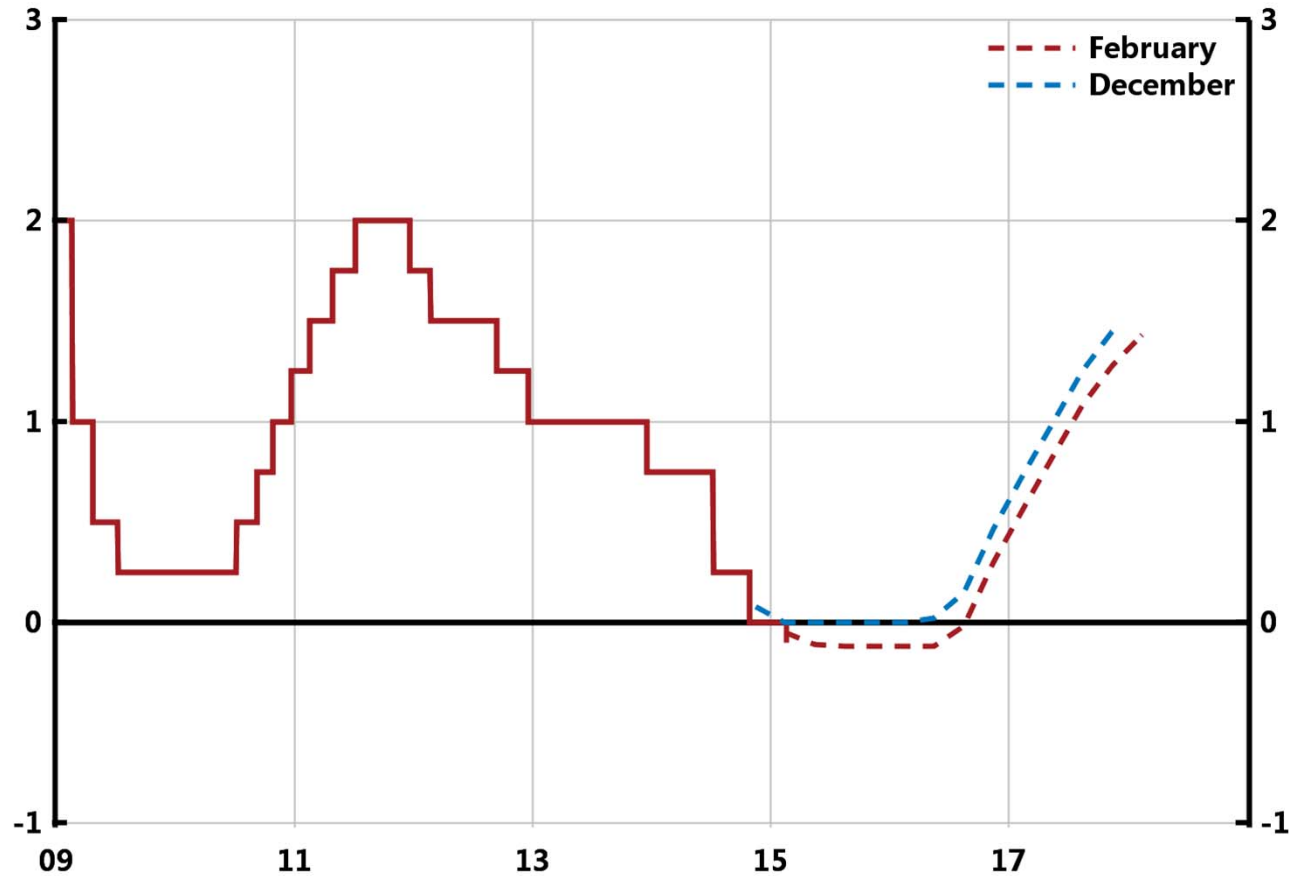
Important that expectations are anchored





Current monetary
policy

Repo-rate path lowered





To support the upturn in inflation

- Monetary policy more expansionary
 - Cut repo rate to -0.10 per cent
 - Lower the repo-rate path
 - Rates for the Riksbank's fine-tuning operations with the banks: repo $\pm 0,1$
 - Purchase government bonds for SEK 10 billion
 - Increase consumption and investment → higher inflation
 - Lower interest rates for households and companies
 - Share and bond prices rise – wealth increases
 - Weaker exchange rate
-



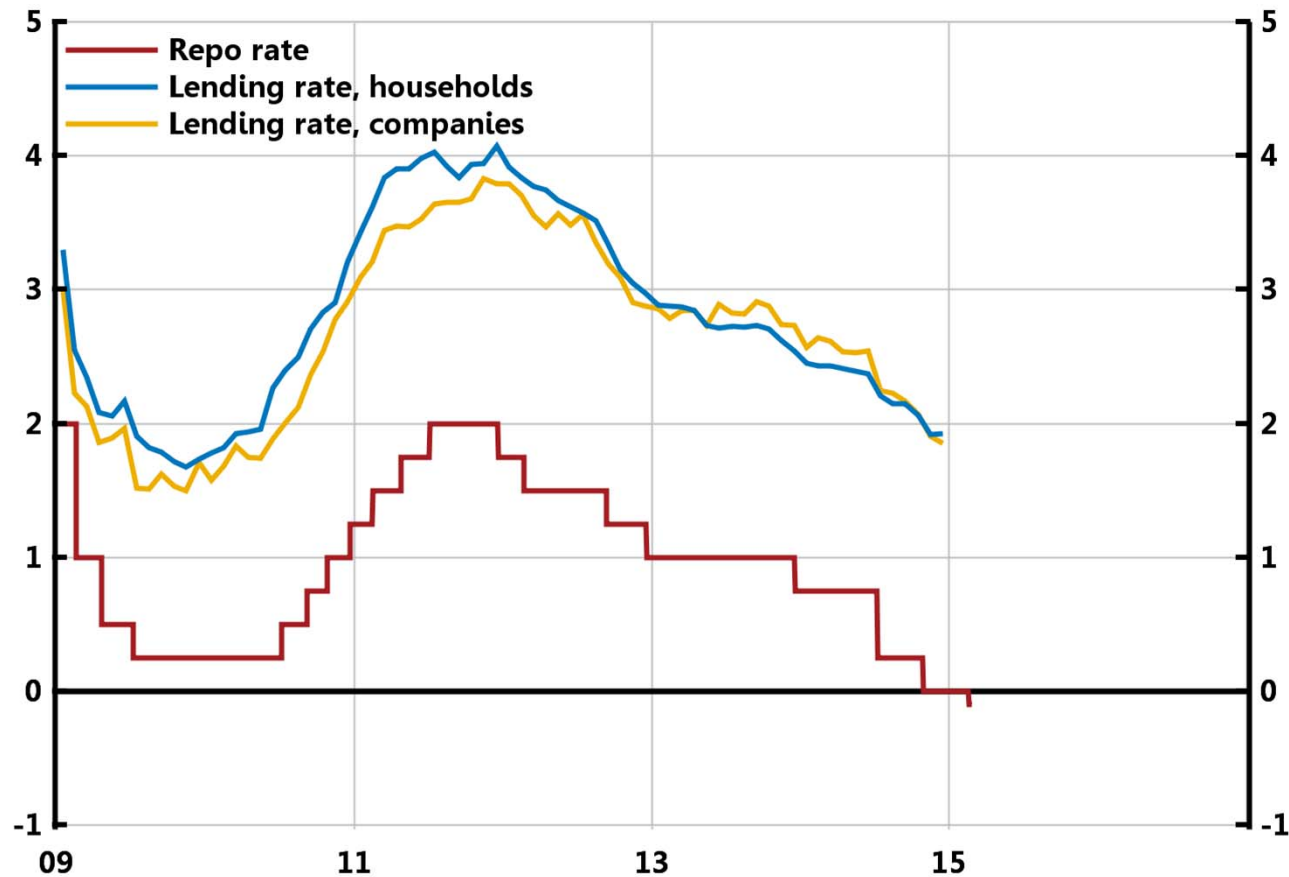
If more is required, we will do more

- If needed to get inflation to rise towards the target
 - Cut the repo rate and lower the repo-rate path
 - Extend purchase of government bonds
 - Lend to companies via banks
- All of this can be done rapidly on a large scale



Low interest rates for households and companies

Per cent



MFIs' mortgage lending and lending to non-financial companies, new loans and agreements, refers to monthly data. Repo rate refers to daily data and date of implementation.

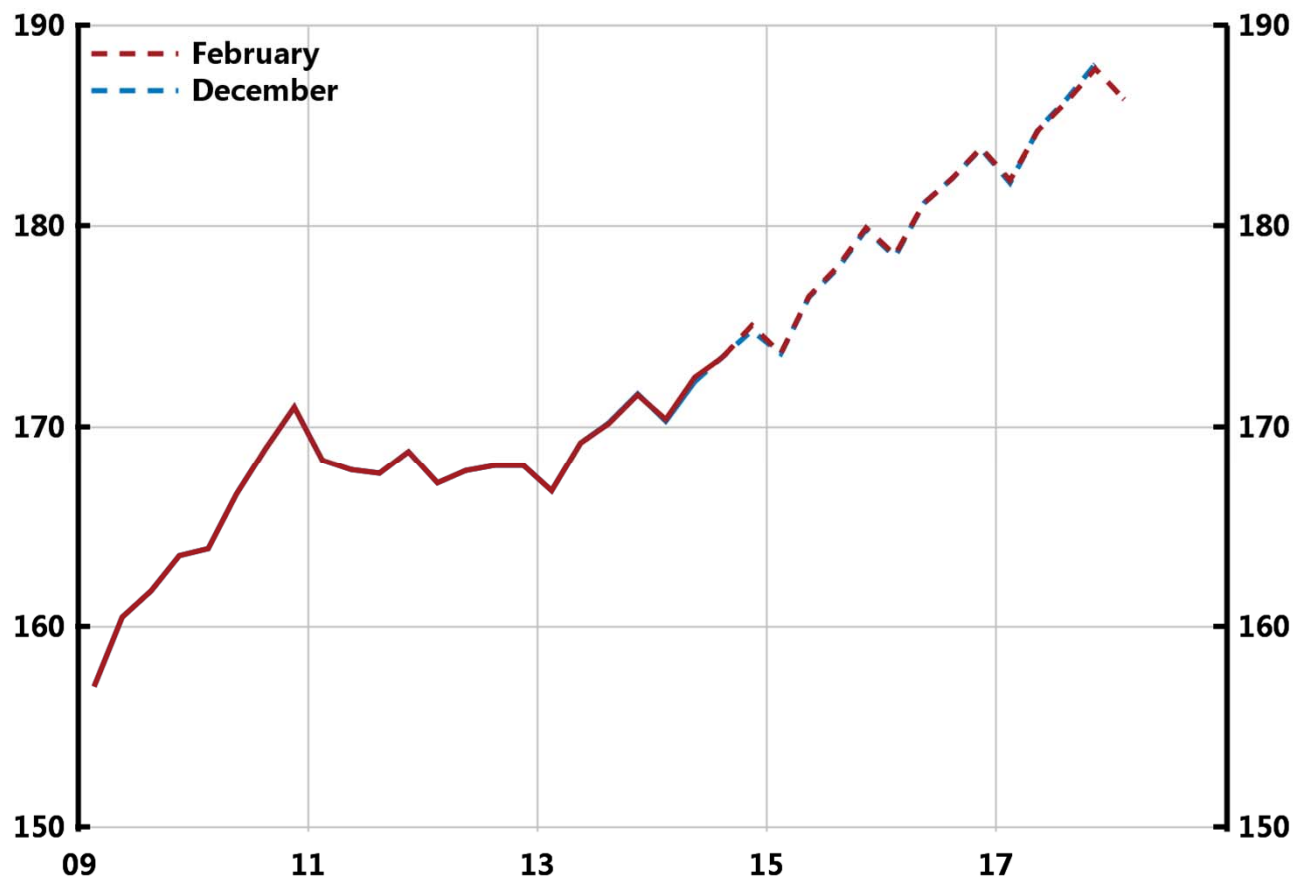
Sources: Statistics Sweden and the Riksbank



Household
indebtedness

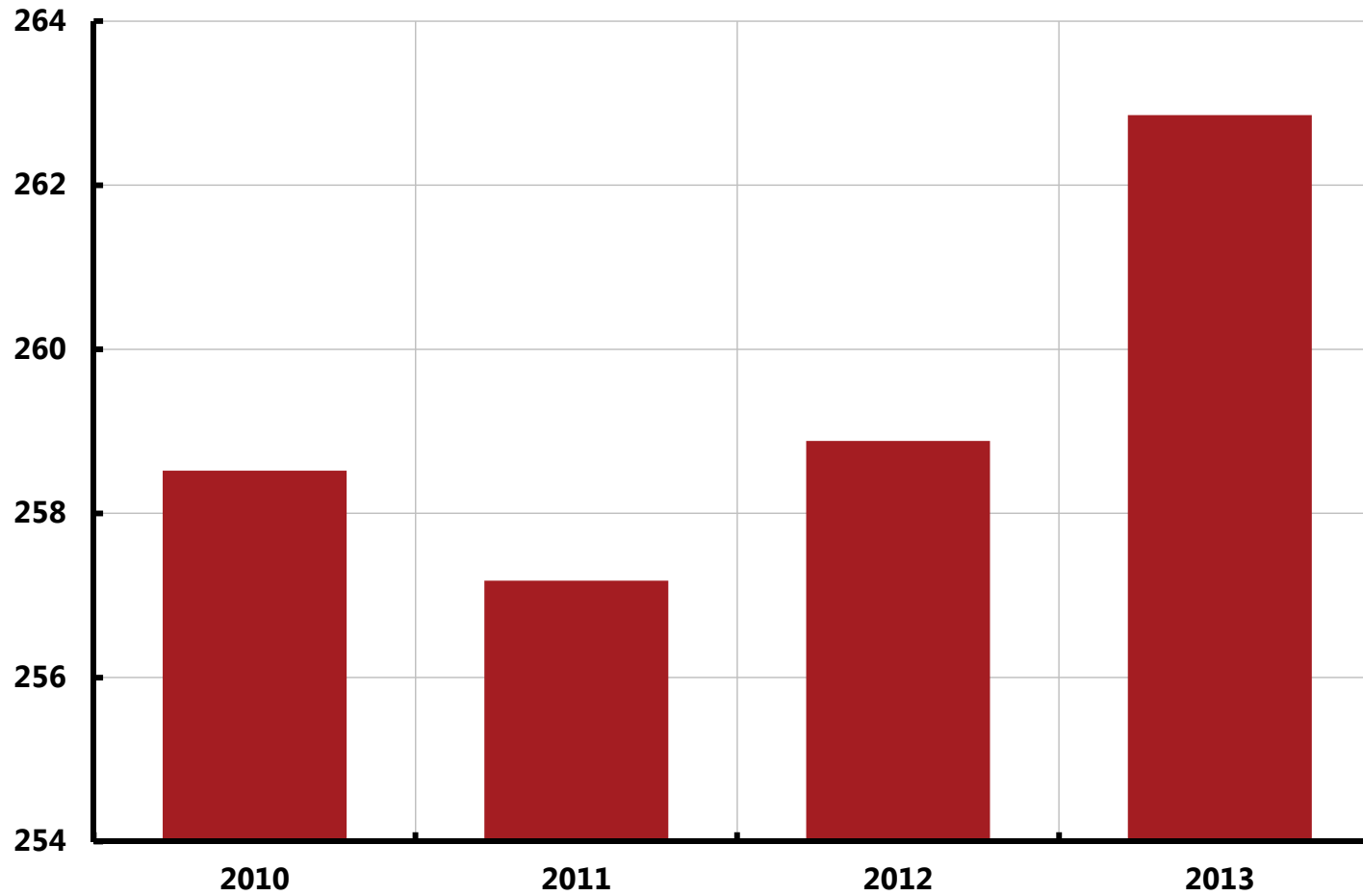
Household debt

All households, per cent of disposable income



Household debt

Only indebted, per cent of disposable income



New banknotes and coins





Summary

- Low interest rates support upturn in inflation
- Firmly-anchored inflation expectations are important
- Measures limiting risks linked to household indebtedness needed urgently
- Historical banknote and coin changeover





Thank you!