



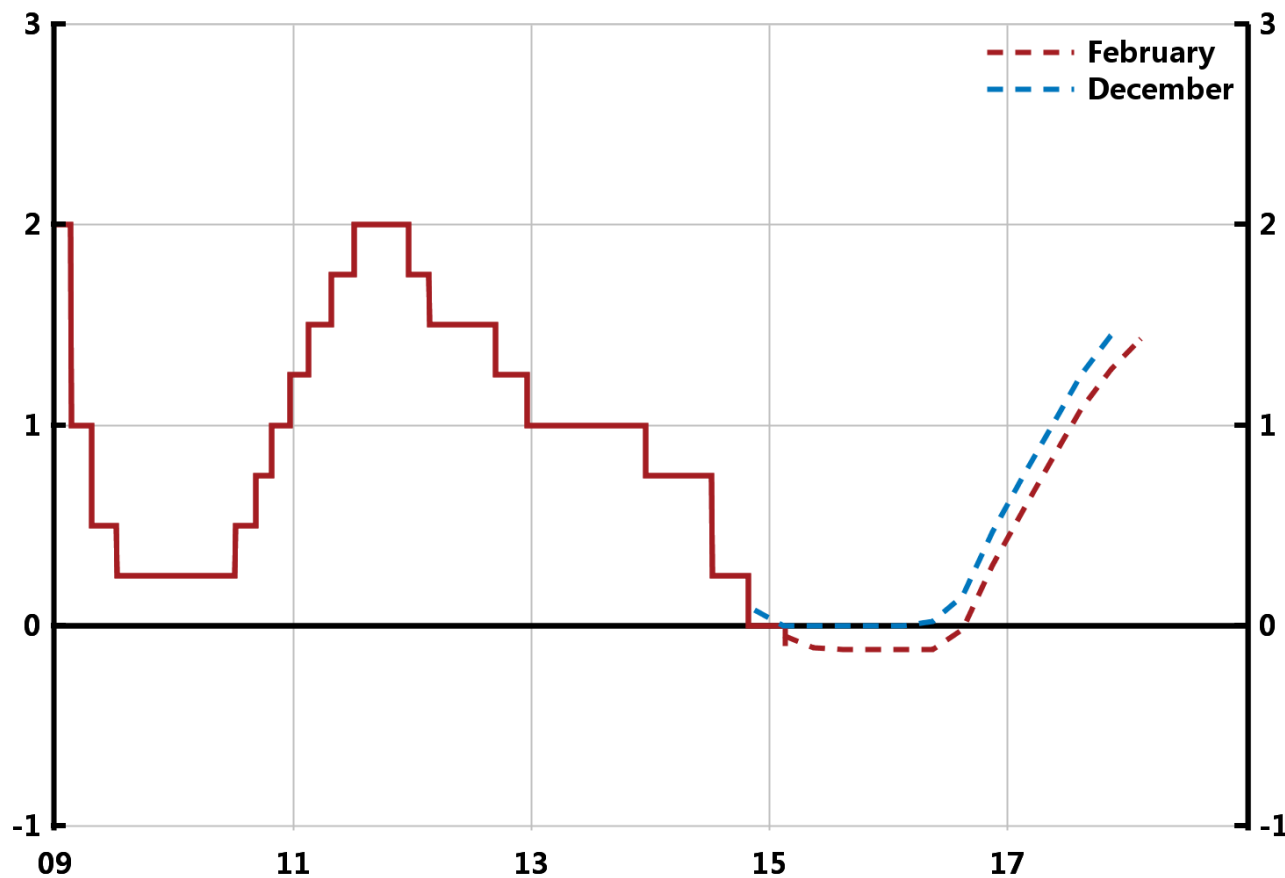
Perspectives on monetary policy and the monetary policy debate

Riksdag Committee on
Finance
5 March 2015

Deputy Governor Kerstin af Jochnick

Lowered repo rate to attain the inflation target

Per cent

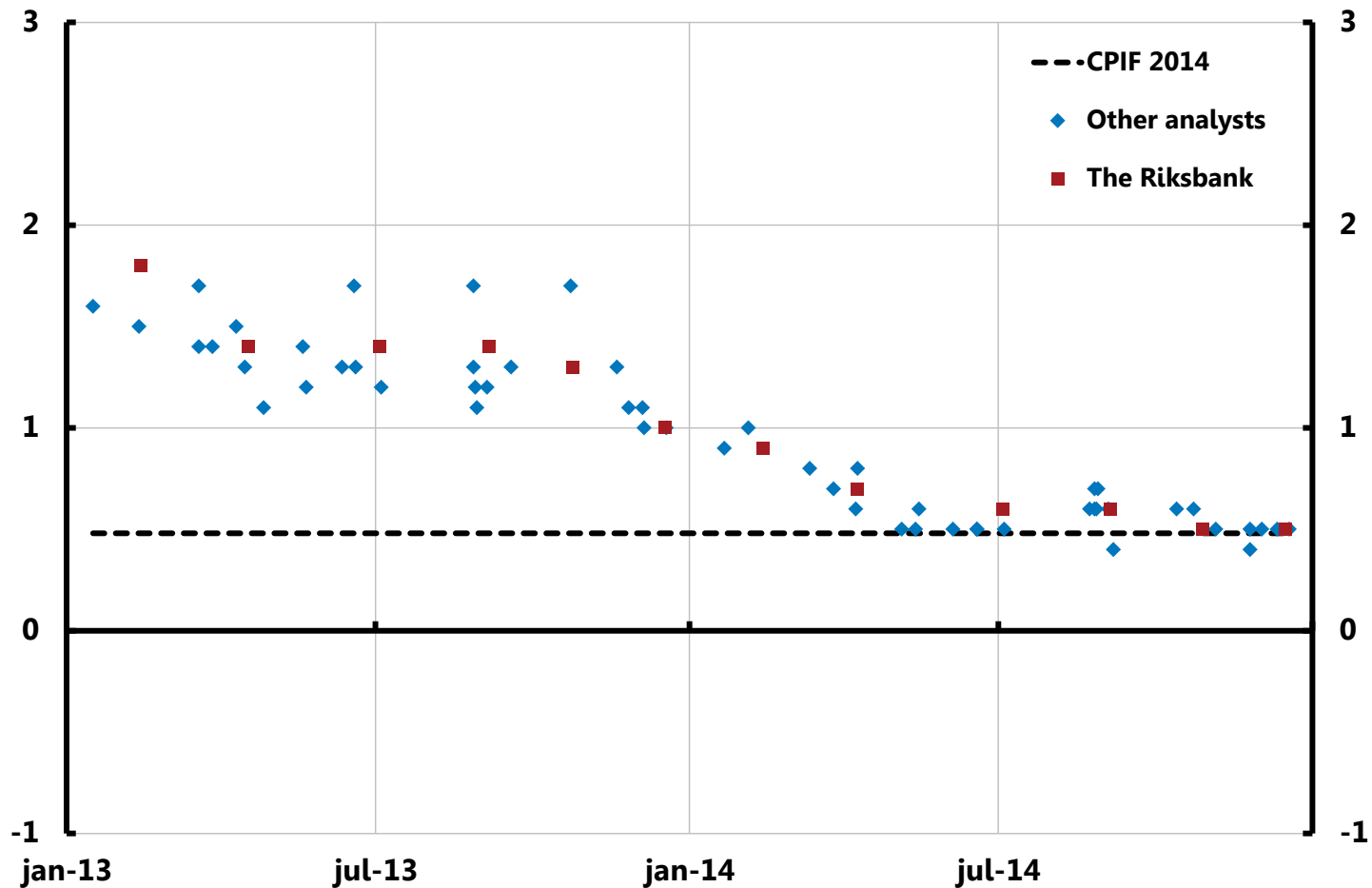


Note. Repo rate. Forecast refers to quarterly mean values, outcome refers to daily data.

Source: The Riksbank

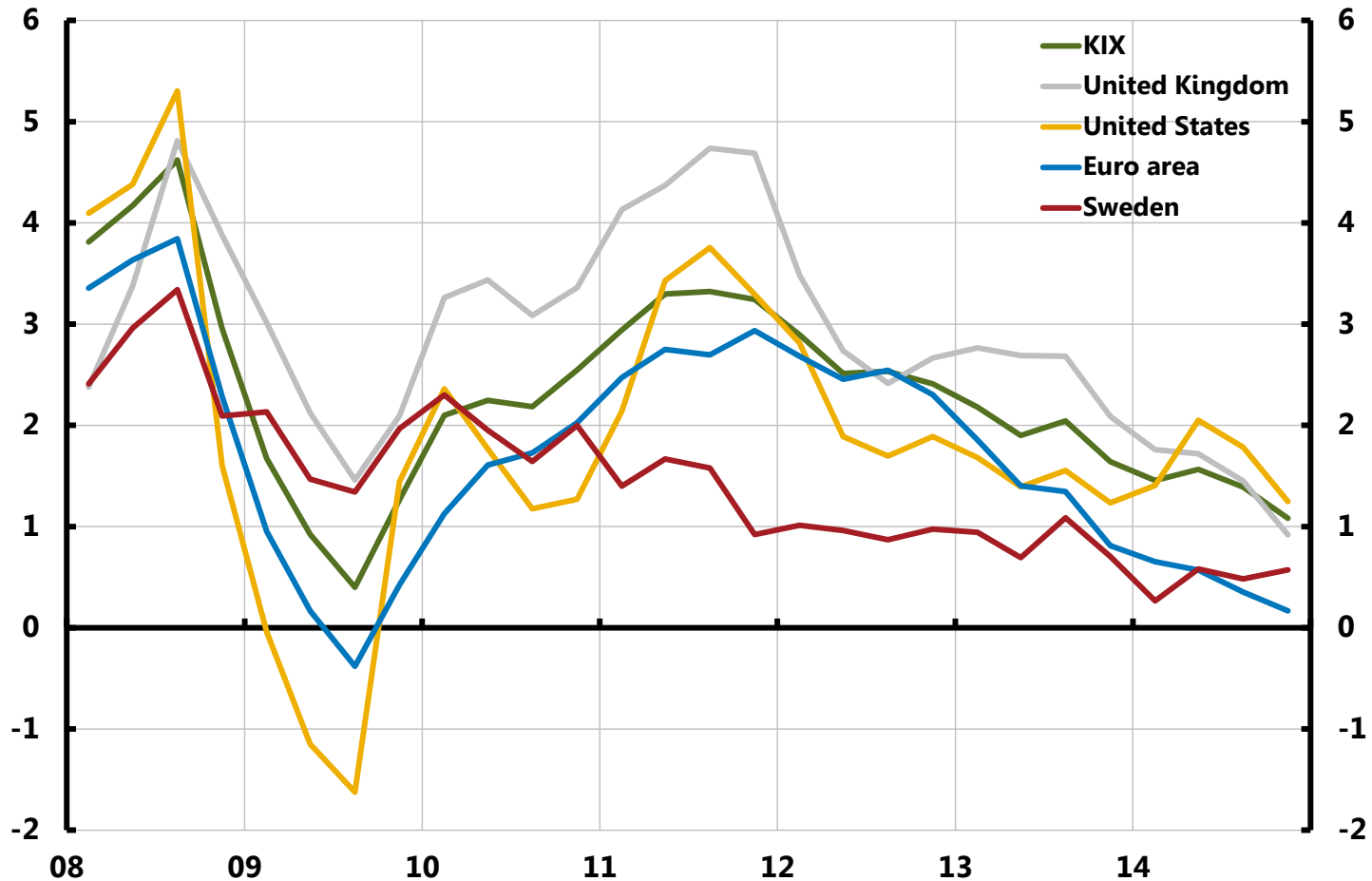
Inflation 2014 lower than expected

Annual percentage change, annual averages



Global decline in inflation

Annual percentage change

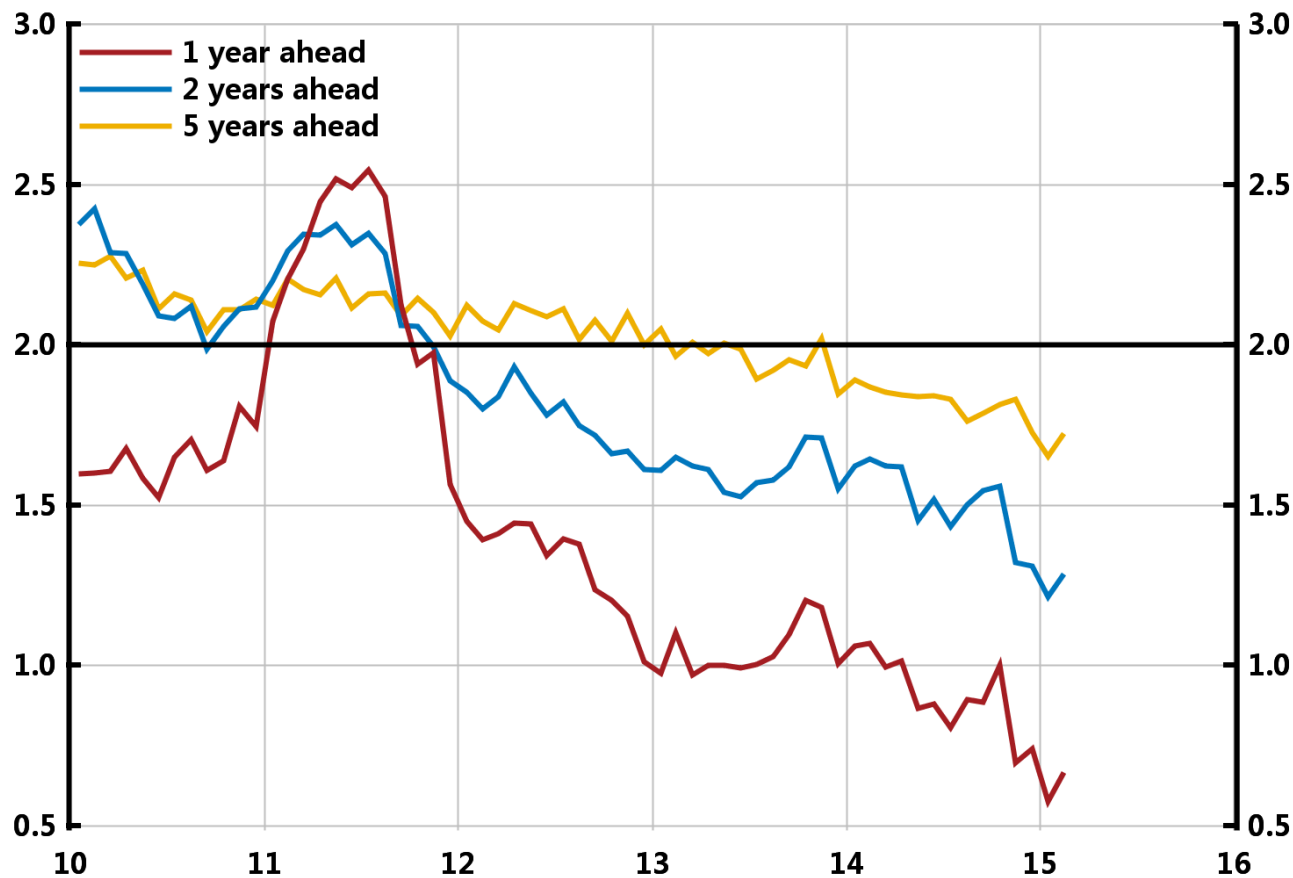


Note. KIX is an aggregate of the countries that are important to Sweden's international transactions. When calculating KIX, the HICP is used for the euro area and the CPI for other countries. For the euro area, inflation is measured as the HICP and for the USA and UK as the CPI. For Sweden, inflation is measured as the CPI.

Sources: Bureau of Labor Statistics, Eurostat, national sources, Office for National Statistics and Statistics Sweden

Important that expectations are anchored

Per cent



Changed conditions for monetary policy



- Inflation lower than expected, forecasts revised downwards
 - Inflation below target for a long time
 - Downward trend in long-term inflation expectations
 - Framework for macroprudential policy (as of 2014)
 - So: Changed conditions – not a completely new policy!
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The debate on monetary policy has completely shifted focus

- Before: "Stimulate more! Debts and housing prices are not a major risk and the inflation target must be prioritised"
 - Now: "Stimulate less! Debts and housing prices are a major risk and the inflation target is not particularly important"
 - "Difficult or impossible to bring up inflation"
 - "Lower the inflation target"
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Problems with earlier criticism

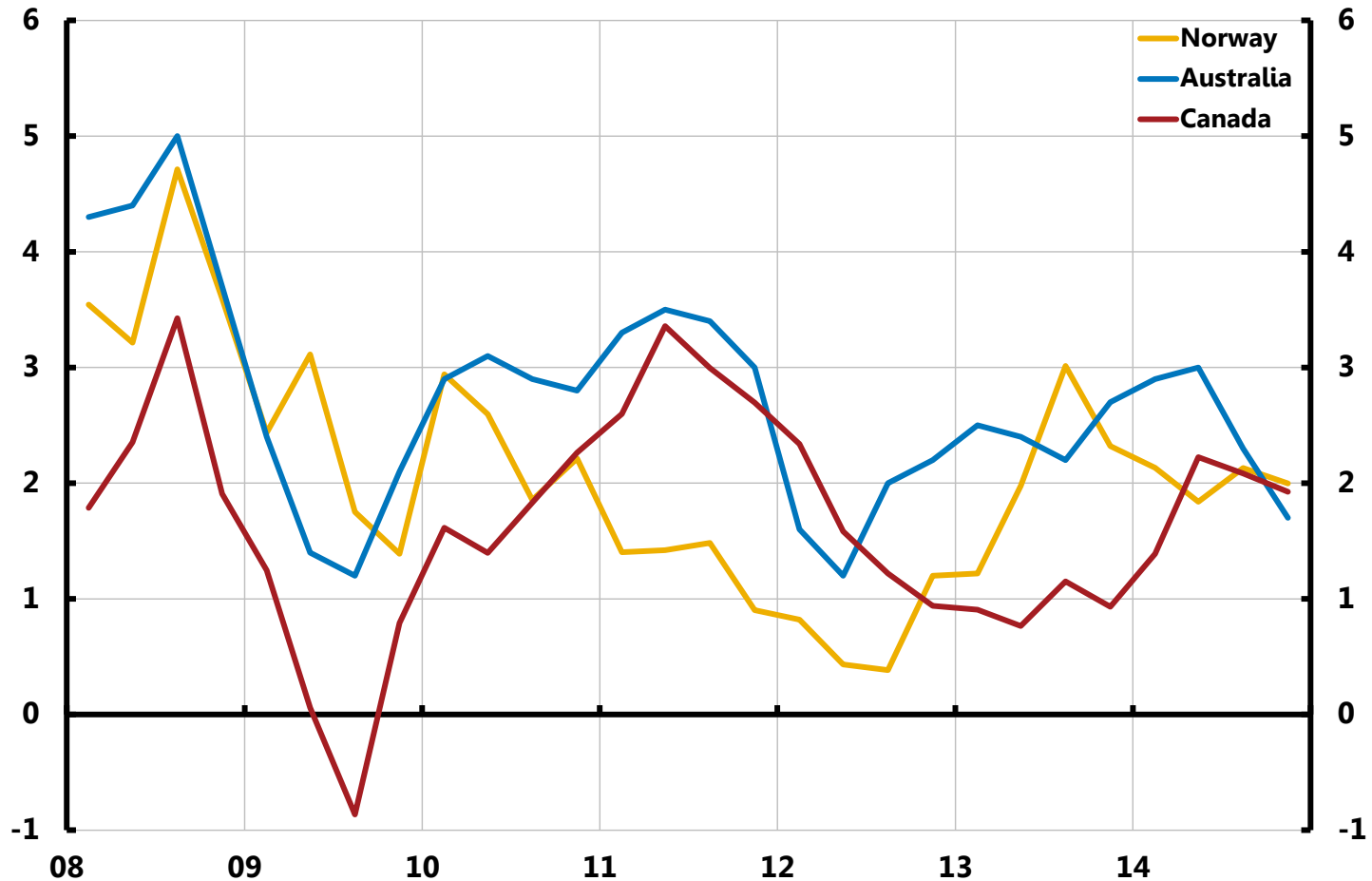
- Took the risks of debts and housing prices too lightly
 - These risks remain, but bringing up inflation relatively quickly is more urgent
 - The scale containing inflation now weighs heavier
 - No scope to take into account the risks linked to debts
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Problems with recent criticism

- Underestimates the importance of the inflation target as a guideline for price-setting and wage formation
 - The academic debate: "*Raise* the inflation target" (to increase scope for policy rate cuts in downturns)
 - The inflation target should not be changed casually - upwards or downwards
 - Hardly impossible to get inflation up
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Higher inflation in certain countries

CPI, Annual percentage change



Summing up the message

- Important that inflation rises towards the target
 - The Riksbank has reacted to changed circumstances not a completely new policy
 - New criticism direct opposite of earlier criticism – complex debate
 - Important that the inflation target acts as a nominal anchor
 - Macroprudential policy is responsible for preventing risks linked to households' debts
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