

# The economic situation and current monetary policy

Handelsbanken, 19 August 2016

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# Developments during the summer

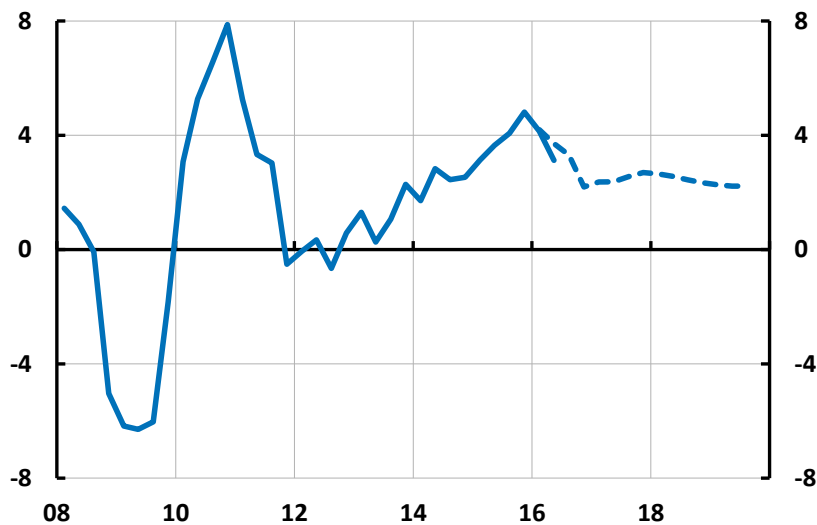
- The Swedish economy is still strong and the upturn in inflation is continuing in line with the forecast
- Continued uncertainty over Brexit
- Central banks out of step
- Stress tests of European banks

# The monetary policy decision in July

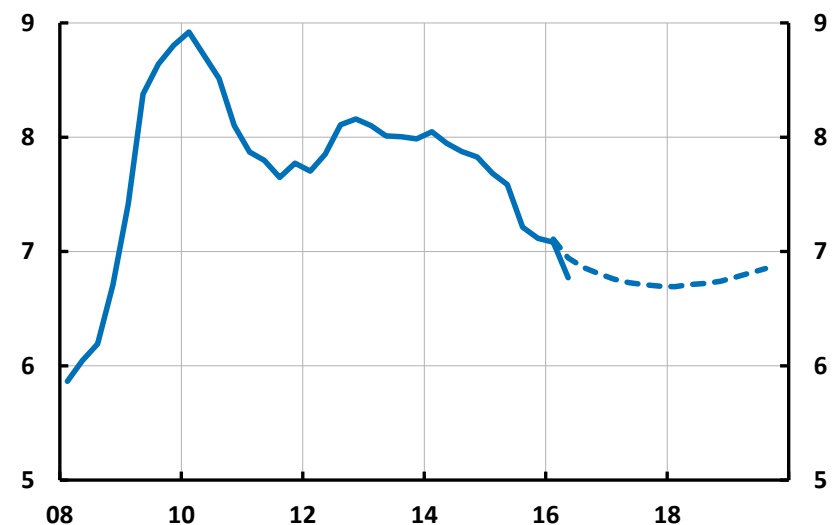
- Continued expansionary monetary policy
  - Repo rate remains at  $-0.5$  per cent
  - Future repo-rate increases postponed
  - Continued purchases of government bonds during the second half of the year
- Monetary policy supports the Swedish economy and inflation
- At the same time, it entails risks
- Continued high level of preparedness in an uncertain environment

# Swedish economy well-equipped

## Good GDP growth



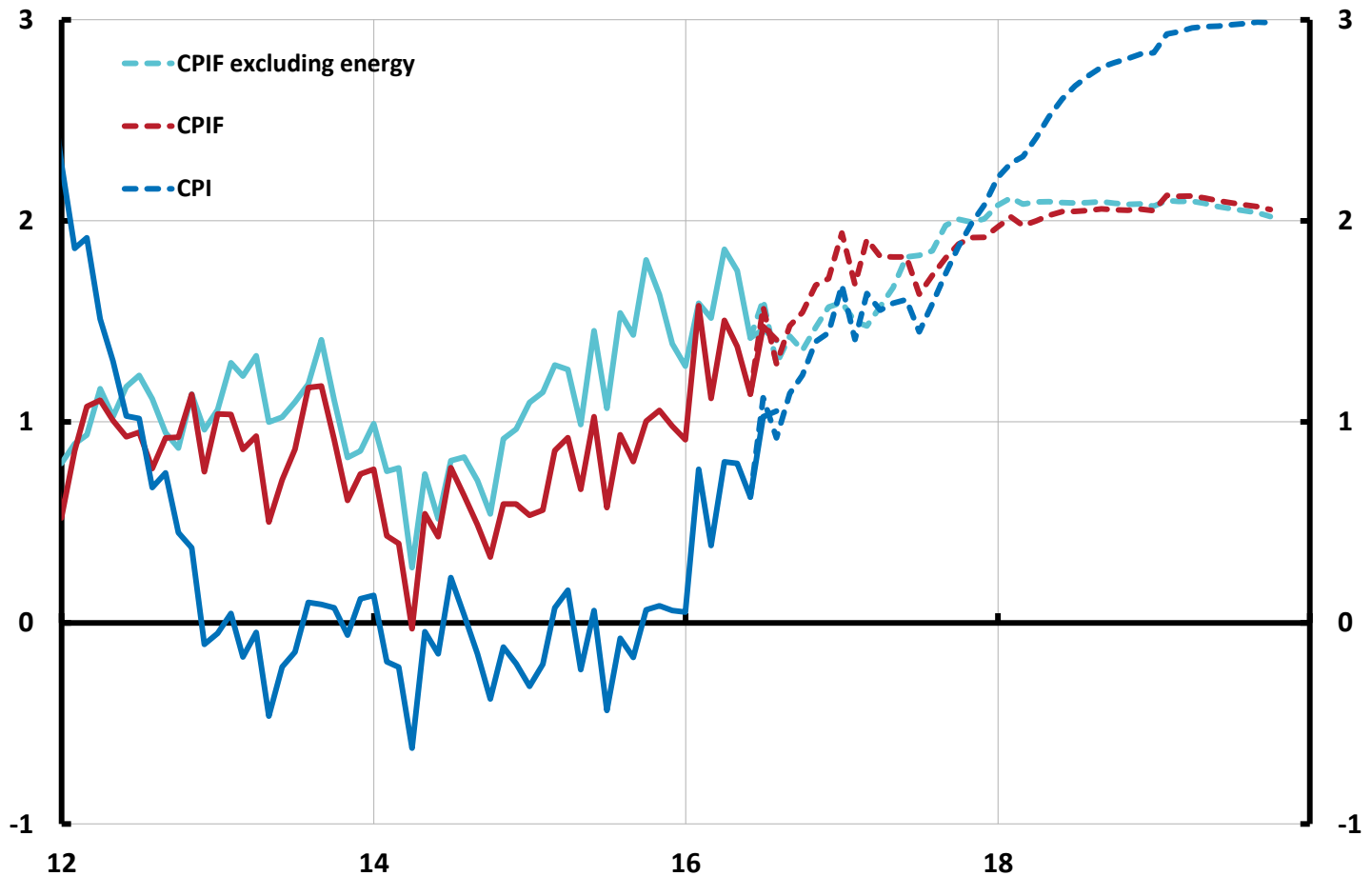
## Falling unemployment



Annual percentage change and percentage of labour force, 15–74 years. Calendar-adjusted and seasonally-adjusted data.

Sources: Statistics Sweden and the Riksbank

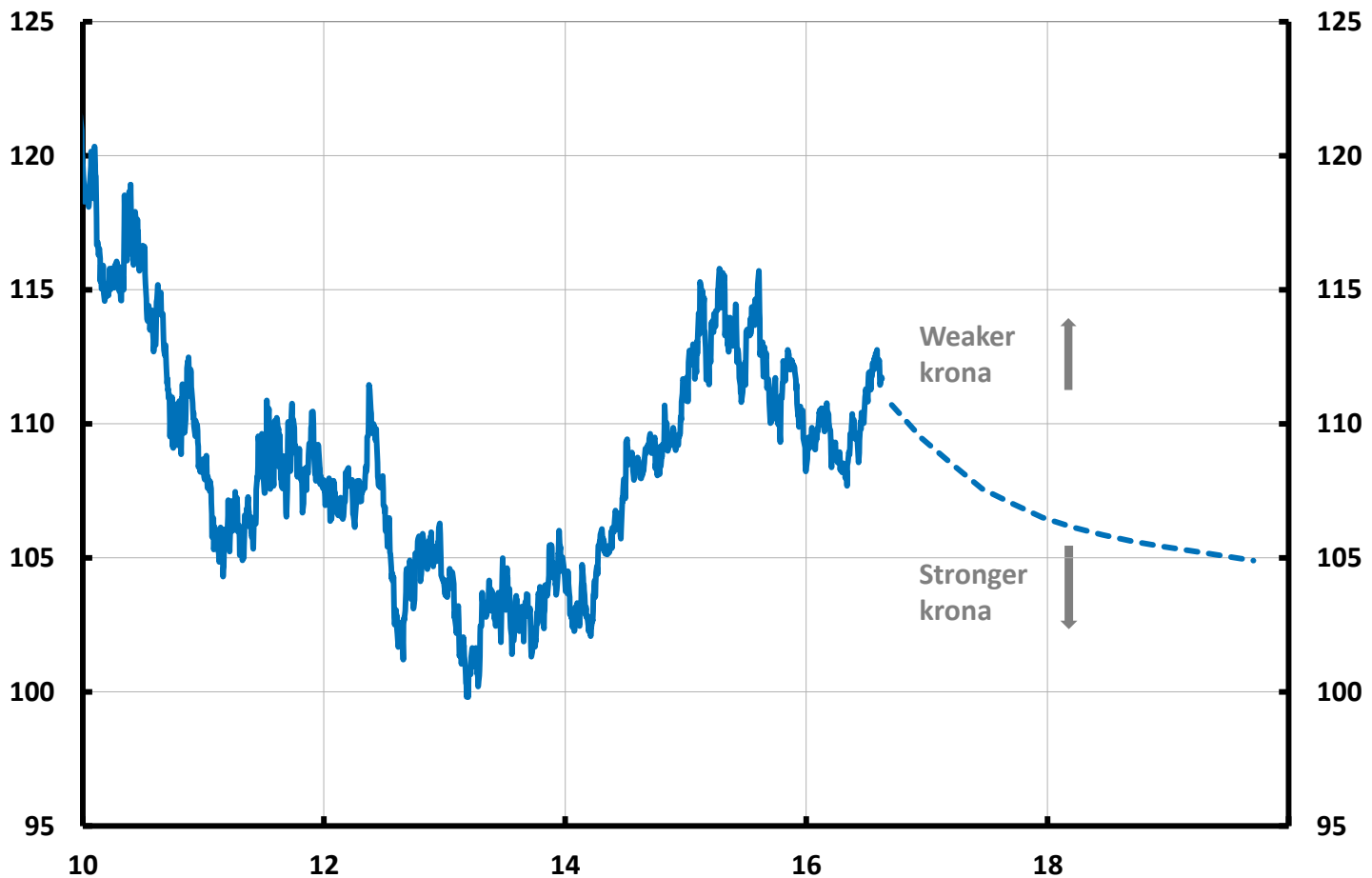
# Inflation is rising



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

Sources: Statistics Sweden and the Riksbank

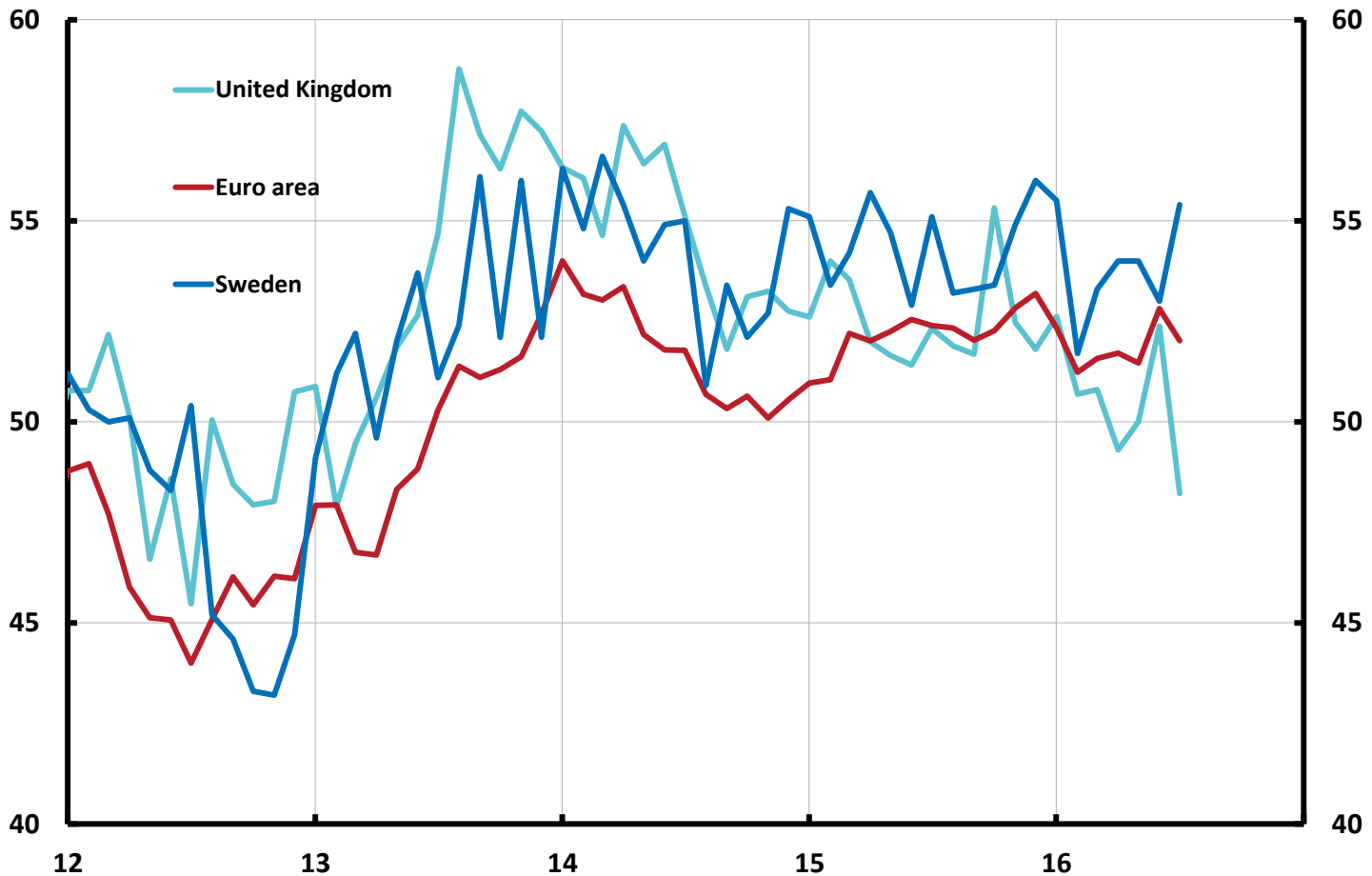
# The krona has weakened



Index, 18 November 1992 = 100

Sources: National sources and the Riksbank

# Uncertainty after UK referendum

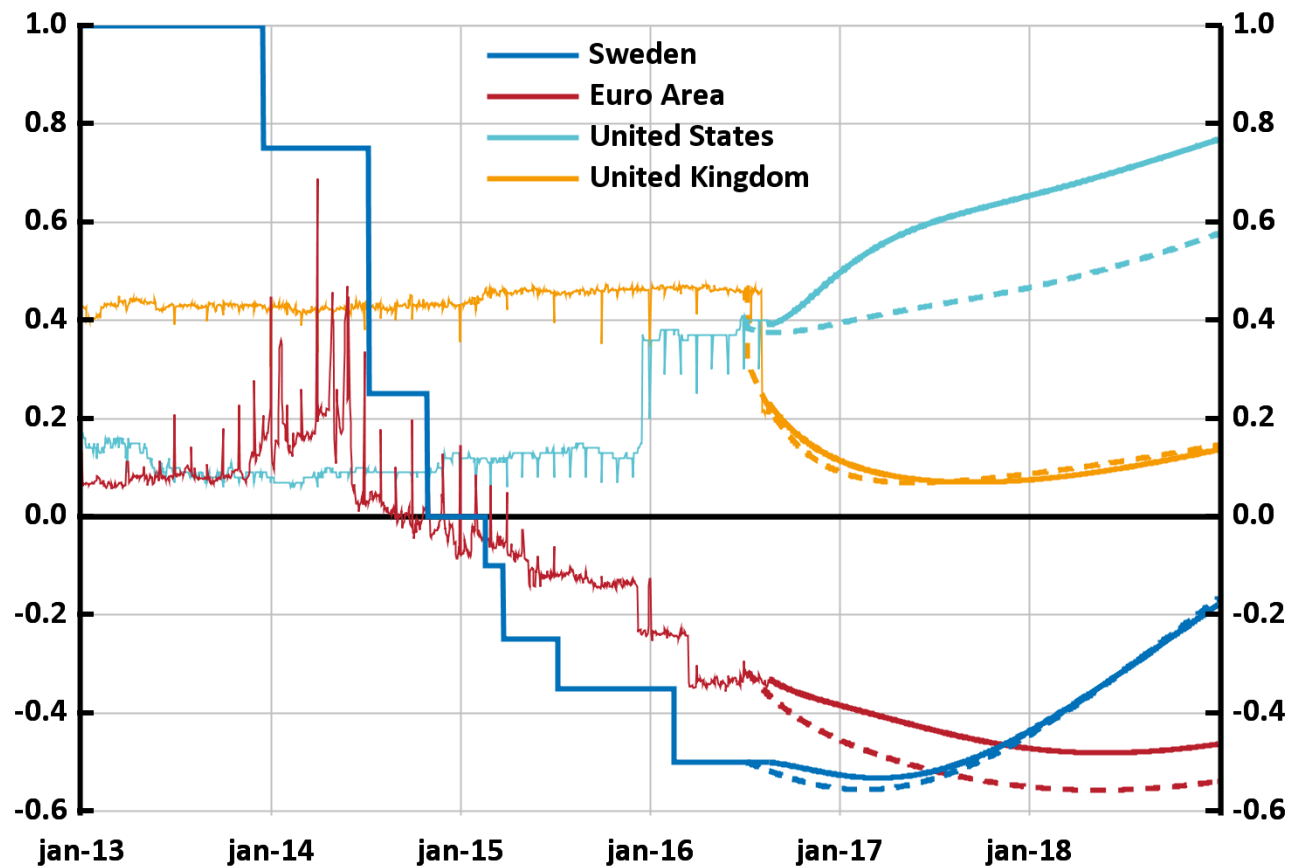


Purchasing managers' index for the manufacturing sector.

Sources: Markit and Swedbank/Silf

# Central banks out of step

Per cent



Forward rates describe the expected overnight rate, which does not always correspond to the policy rate. In Sweden, there is no published overnight rate, but it normally follows the repo rate closely. Unbroken lines are estimated 17 August 2016 broken lines are estimated 6 July 2016.

Sources: Macrobond and the Riksbank



# Continued unease over the health of the European banks



- The outcome of the EBA's stress tests was assessed to be somewhat more positive than market participants had expected
- But there is still considerable unease over the structural problems in the European banking sector
- Swedish and other Nordic banks showed good results in the stress tests

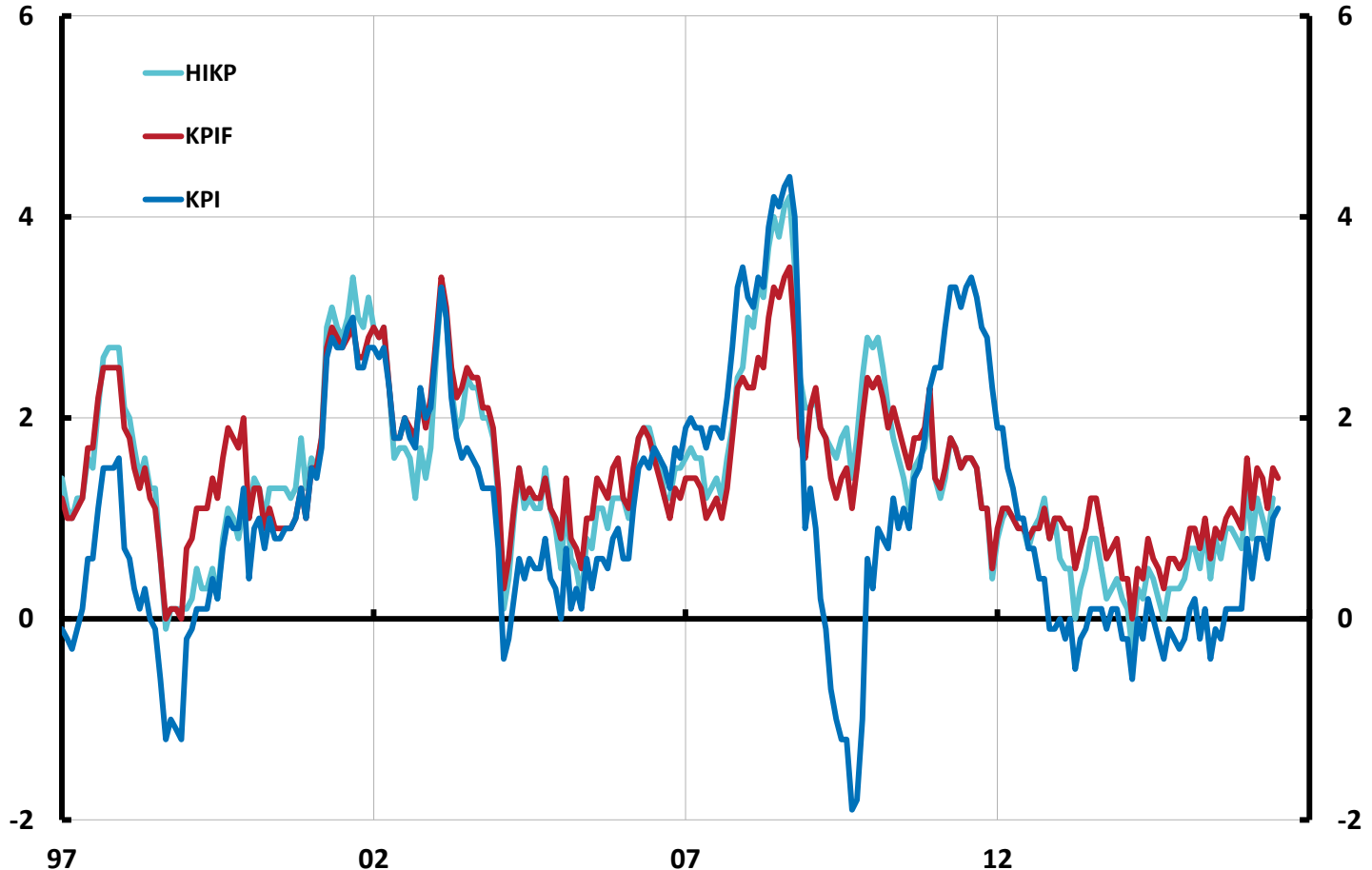
# Discussions following Goodfriend and King report



- A review of the Sveriges Riksbank Act
- Target variables and intervals
- Evaluation of the repo-rate path
- More information on the Executive Board's deliberations in the minutes

# Which is the best target variable: The CPI, the CPIF or the HICP?

Annual percentage change



Sources: Eurostat and Statistics Sweden

# Key differences between the CPI/CPIF and the HICP

- Coverage

In the CPI/CPIF but not the HICP	In the HICP but not the CPI/CPIF
Interest expenditure (4.2 per cent)	Fund services (1.4 per cent)
Tenant-owned homes (4.7 per cent)	Elderly care (0.8 per cent)
Depreciation (2.2 per cent)	Hospital care (0.1 per cent)
Property tax, house insurance, lotteries (2.3 per cent)	

Figures in brackets indicate weights in the CPI and HICP 2016 respectively

- Calculation method; HICP has a simpler index construction
- Pros and cons of all the indices

# How should the inflation target be formulated?



- Point target as today
- Point target with tolerance bands
- Target range

# Expansionary monetary policy provides support to the Swedish economy



- Good GDP growth and falling unemployment
- Economic developments in line with our forecasts
- Essential that the upturn in inflation continues
- There will be considerable uncertainty even going forward and the risks linked to low interest rates remain
- Next monetary policy decision presented on 7 September

# Thank you!

S V E R I G E S R I K S B A N K