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■ Riksbank publishes summary description of monetary policy strategy

At its meeting yesterday the Executive Board of the Riksbank decided to publish a document entitled "Monetary policy in Sweden", which describes the goal and strategy for the Riksbank's monetary policy.

"We hope to be able to increase understanding of our inflation target and of how we formulate our monetary policy to achieve our goal, also giving consideration to developments in the economy as a whole. Most of these points have been raised earlier in speeches, but we hope that this document will have a more widespread distribution and thereby contributed to a good discussion on monetary policy," commented Deputy Governor Irma Rosenberg.

The strategy has evolved gradually in the years since the inflation target was formulated in 1993, in response to practical experiences in Sweden and other countries and to new findings in academic research. The most important aim of the document is to explain how the Riksbank, when setting its interest rate, has scope to take into consideration both developments in inflation and in the real economy (growth, unemployment, employment, etc.). It is also important to make clear that inflation may sometimes be allowed to deviate from target. A desirable monetary policy is characterised by inflation normally being close to the inflation target in a two-year time perspective while at the same time the paths for inflation and the real economy do not exhibit excessively large fluctuations.

The document, which replaces the clarification of monetary policy published in 1999, can be summarised in the following points:

- The statutory objective of monetary policy is to maintain price stability.
- The Riksbank has specified an explicit inflation target whereby the annual change in the consumer price index (CPI) is to be 2 per cent with a tolerance interval of ± 1 percentage point.
- Monetary policy is also guided by various measures of "underlying inflation". There is no single measure of inflation that consistently indicates the appropriate stance of monetary policy.



- Monetary policy acts with a lag and is normally focused on achieving the inflation target within a two-year period. The two-year time horizon also provides scope for taking fluctuations in the real economy into consideration.
- The Riksbank routinely takes into consideration changes in asset prices and other financial variables (exchange rates, house prices, share prices, household and corporate indebtedness, etc.) in monetary policy decisions.
- The Riksbank's forecasts are constructed assuming the repo rate (the policy rate) develops in accordance with market expectations.
- Openness and clarity in monetary policy are prerequisites for the successful combination of credibility for the inflation target and a flexible application of the target in the short term.

Monetary policy in Sweden is available in pdf-format on the Riksbank's website under the heading *Monetary policy/Price stability*. It is also available at the Riksbank's main entrance at Brunkebergstorg 11.