

Appendix D to the minutes

Executive Board meeting 16 January 2007, § 7 PM

DATE: 5 January 2007
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DNR 2007-117-APP

■ Monetary policy: Bases for decision making and communication

The Riksbank's views on the future repo rate

Monetary policy research in recent years, together with practical experiences from countries conducting monetary policy aimed at price stability, show that there are advantages to being open and clear with regard to how the central bank views future developments in inflation and the real economy. The monetary policy considerations should also be described as clearly as possible. This helps to reduce the general public's uncertainty and to stabilise expectations, while it also creates the conditions for evaluation and accountability.

The Riksbank is considered by many analysts to be one of the most open and clear central banks in the world. The Riksbank was among the first to introduce a specific inflation target and to publish its inflation forecasts and the minutes of monetary policy meetings. The proposal here is that the Riksbank should become even clearer, by producing forecasts for inflation and developments in the real economy based on an own forecast for the repo rate that the Riksbank considers would lead to well-balanced monetary policy. This interest rate path should also be published.

Previously, the Riksbank's forecasts were made under the assumption that the repo rate would remain constant. During 2005, the Riksbank changed over to making its forecasts under the assumption that the repo rate would develop in accordance with market expectations (as reflected in implied forward rates). This changeover was one step on the road towards increased information on how the Riksbank views future interest rate developments and it provided much greater transparency, compared with the assumption of a constant repo rate. In connection with this, the Riksbank began to talk more systematically about future interest rate developments by commenting on whether the interest rate path given by market rate expectations was reasonable instead of only commenting on interest rates at one single point in time.

The most important reason for publishing the Riksbank's views on what can be regarded as a possible future development for the repo rate is to become even clearer and be better able to explain to the general public and the financial markets how the Riksbank reasons when making its monetary policy decisions.

■ Another reason is that it will become easier to connect forecasts for various macro economic variables (that is, to make them consistent) when the path assumed for the repo rate is that considered most probable and used as a basis for the other forecasts.

However, there are a number of practical considerations in the work on establishing what can be considered a reasonable future development for the repo rate. The Executive Board must take a joint stand on what is considered a desirable path for the repo rate during the forecast period, even if the Executive Board's interest rate decision at a monetary policy meeting only refers to the current level of the repo rate, that is, the level that will apply until the next monetary policy meeting. The different members of the Executive Board may have differing opinions on, for instance, the current situation in the economy and at what pace inflation should be brought back on target, giving consideration to the real economy and various risks. The assessment is that these questions are manageable. The change in the interest rate assumption also leads to certain changes in the forecasting process and the internal work at the Riksbank.

To avoid problems in communication with the general public when publishing the Riksbank's views on a suitable future development of the repo rate, it is important to emphasise that this does not involve a commitment on the part of the Riksbank that the repo rate will actually follow a particular path. There is considerable uncertainty over economic developments. The exact formulation of future monetary policy will depend on new information that is received regularly on economic developments in Sweden and abroad and the effects this may have on the Riksbank's assessments of inflation and economic activity in Sweden. One way of showing this may be to present an uncertainty interval around the expected interest rate path. Moreover, the consequences of alternative scenarios may be analysed in the new monetary policy report.

The Inflation Report becomes the Monetary Policy Report

It is proposed that the Inflation Report should be changed. The content of the report will be broadened to also include a monetary policy message. A natural result of this change is that the report will change its name from "Inflation Report" to "Monetary Policy Report".

The main reason for making these changes is so that the Riksbank will become even clearer and more efficient in its communication. The aim is to make it easier for external parties to follow, understand and assess our monetary policy. The report will also have a new, more reader-friendly design. The ambition is for the monetary policy report to be clear and easily understood by a broad readership. The changeover to forecasts based on the Executive Board's expected interest rate path will also lead to a need to change the contents of the report. Above all, it will contain more information on important monetary policy considerations.

Changed time for the monetary policy meetings

To enable the Riksbank to include the decision and the deliberations from the monetary policy meeting in the new report, it is proposed that the monetary policy meetings should be held on the morning of the day before the report is published. Previously, the meetings have been held at 1 p.m. and this was also the intention for the monetary policy meetings to be held during the first half of 2007. It is proposed that the time of the meetings to be held on 14 February and 19 June be changed to 9 a.m.

■ Publication

To enable the deliberations from the monetary policy meeting to be included in the report, it will be published as a PDF file on the Riksbank's website. The printed version will be available at a slightly later date. The need for paper copies will be provided for when the report is made public.

Proposed decision

- The proposed decision by the Executive Board is:
- to base the forecasts, that are made as a basis for the decisions at the monetary policy meetings, on a path for the repo rate that the Executive Board of the Riksbank considers will provide well-balanced monetary policy,
- to change the name of the Inflation Report to the Monetary Policy Report,
- to publish the report as a PDF file on the Riksbank's website the day after the monetary policy meeting and to issue it in printed form as soon as possible after this time, and
- to change the time of the monetary policy meetings to be held on 14 February and 19 June to 9 a.m.