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## ■ Rosenberg: Current monetary policy

*Deputy Governor Irma Rosenberg gave a speech at the Royal Institute of Technology in Stockholm on Monday. Ms Rosenberg began by speaking about the Riksbank's target and strategy and thereafter gave her views on the current monetary policy situation.*

"The Riksbank has a statutory objective for monetary policy; to maintain price stability. We have defined this as an annual change in the consumer price index (CPI) of 2 per cent with a tolerance interval of  $\pm 1$  percentage point. Monetary policy is normally aimed at attaining the inflation target within a period of two years. This is because of the lag in monetary policy's impact on economic activity. But it is also because the Riksbank wishes to dampen fluctuations in the real economy, for instance, in GDP growth and employment," said Ms Rosenberg.

"In some situations we may even need to allow the adjustment to take longer than two years. This could be the case, for instance, if the economy were to suffer an unexpectedly large shock. There is otherwise a risk that the strains on the real economy would be too severe. However, to enable us to be this flexible in our inflation targeting, there must be confidence in our monetary policy. This in turn requires that we openly and clearly describe why inflation is deviating from target and how we see future developments. We do this in Inflation Reports, press releases, minutes from our meetings and speeches held by members of the Executive Board," said Ms Rosenberg.

"Open and clear communication is important to the Riksbank. Many people consider that we are already one of the most open and clear central banks in the world. But there is always more that can be done. This is why we have continued to work on developing our analysis and the way it is presented. Some important changes will occur in connection with the next monetary policy meeting on 14 February. The most important one is that we will publish our own forecast for the repo rate. Since autumn 2005 we have based the forecasts on the assumption that the repo rate will develop in line with market expectations. The fact that we are now making our own forecast for the repo rate will provide even clearer guidance for the general public as to how the Riksbank sees developments in the Swedish economy and how the repo rate may be adjusted. At the same time, I wish to emphasise that our own forecast for the interest rate path does not entail



any promise by the Riksbank, it is merely a forecast. Just as before, economic developments will determine how we change the repo rate in the future," underlined Ms Rosenberg.

"Another change we are making is that the Inflation Report will change its name to the "Monetary Policy Report". This is partly because the report will not only include a forecast for inflation; it will also contain a monetary policy message in that we publish our own interest rate forecast. There will be a clear link between the forecasts and the monetary policy considerations directly in the report. We also hope that the report will be more readable," said Ms Rosenberg.

"I will conclude with a few words on how I see economic developments and what they entail for monetary policy. Developments in the Swedish economy are very positive. Production and employment are increasing rapidly, while inflation remains at a low level. At the most recent monetary policy meeting on 14 December, we raised the repo rate by 0.25 percentage points to 3.0 per cent. The Executive Board also pointed out that we envisaged further increases, roughly at the same pace expressed then in market expectations," said Ms Rosenberg.

"In my opinion, the new information received has not given any reason to significantly alter the assessment made in December. Both international and Swedish economic activity has continued to develop favourably. The global economy has developed in line with both the forecast in the October Inflation Report and the assessment made prior to the monetary policy meeting in December. The Swedish economy has on the whole developed slightly more strongly than expected in October, but in line with the assessment we made in December. The same applies to the labour market and employment," continued Ms Rosenberg.

"Despite the rapid growth, there are many indications that there will still be forces holding back inflation in the future. It is not only the demand side of the economy that is growing rapidly, but also the supply side. Productivity growth is strong and one cannot rule out the possibility that the growth in the labour force will be higher over the coming years than we have previously assumed, partly due to the Government's proposals for tax and labour market policy reforms. Moreover, the oil price has fallen. It therefore appears as though inflation will remain subdued," said Ms Rosenberg.

"All in all, I therefore see no reason today to proceed more quickly with the interest rate increases than the markets were expecting the weeks prior to the monetary policy meeting in December, despite the continued rapid economic upswing. But, as usual, we will decide our stance with regard to the new information received since our previous meeting when we Executive Board members make our next decision on monetary policy on 14 February," concluded Ms Rosenberg.