PRESS RELEASE

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Nyberg: Challenges in monetary policy

Deputy Governor Lars Nyberg gave a speech today at a meeting arranged by Nordea in Stockholm. He discussed, among other things, the monetary policy situation and his stance at the most recent monetary policy meeting.

"The fact that economic activity is currently very favourable will not have escaped anyone's notice. International economic developments are very strong. Although it is possible to discern some signs of weakness in the United States linked to the housing and vehicle markets, the European economies are growing at a slightly faster rate than anticipated. Most indications are that international growth will overall be in line with the forecasts the Riksbank made in February. Another positive sign is that there is renewed optimism in the stock markets after a decline earlier this year, and an increased willingness among financial market agents to increase high-risk positions," Mr Nyberg began.

"In Sweden, too, growth is currently high. During the spring the Government has put forward proposals for new tax cuts that will increase households' disposable incomes. This, combined with higher wage increases, could contribute to more rapid growth in consumption in the future. Increases in public expenditure can also contribute to increased public consumption and production in the economy. Several central wage agreements have been signed recently and the outcomes of these appear so far to be higher than is compatible with the forecast for wages we made in February. The improved labour market situation, with lower open unemployment than expected, also indicates that on the whole there is reason to make an upward adjustment to the forecast for wage increases over the coming years," observed Mr Nyberg.

"Inflation has so far this year been higher than in the February forecast, largely due to the fact that oil prices have risen. Apart from oil prices, a number of other prices have also risen more than expected, including fruit and vegetable prices, which on occasion fluctuate relatively substantially. House prices are continuing to increase at a rapid rate, although there has been some slowdown in the rate of increase. But the higher prices in the property market also follow a rapid growth in credit to households," Mr Nyberg pointed out.

"We Executive Board members noted in February that the repo rate needs to be increased further in future so that inflation will develop in line with the target and so that developments in the real economy are balanced. At the meeting on 3 May we were all agreed that the interest rate path needed to be raised slightly, but there were marginal differences of opinion as to how quickly this should be done. My view was that recent developments provided justification for quicker action and therefore advocated raising the repo rate. The majority of my colleagues did not agree, and I therefore chose to enter a reservation against the decision," said Mr Nyberg.

"My stance is based on concern over developments in several important factors, which I have mentioned above. The outcome of the wage bargaining rounds so far indicates that the costs for companies will increase, which in turn risks leading to higher inflation than expected. It can be added here that developments in the labour market remain strong. Although the balance in the labour market looks reasonable in total, one cannot disregard the possibility of bottlenecks in certain sectors increasing wage costs further. Household consumption may also grow more than expected, partly as a result of the tax reductions notified by the Government. Finally, developments in property prices and the related rapid credit expansion are a source of unease, both in Sweden and other countries," Mr Nyberg pointed out.

"The major challenges in monetary policy at the moment are, in my opinion, linked to two questions. The first question concerns how quickly the rising demand will have effects on inflation, which in turn is related to how long we can expect continued good growth without hitting the capacity ceiling in various industries. In other words, this question is strongly linked to how productivity develops. The other question concerns what effect credit growth in the short term will have on inflation, and here we are unfortunately lacking in knowledge. Although there is considerable uncertainty with regard to both questions, my assessment is that the risks to both inflation and developments in the real economy are at present clearly on the upside," concluded Mr Nyberg.