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■ Ingves: Monetary policy with an inflation target

Riksbank Governor Stefan Ingves spoke at the Swedish Trade Union Confederation (LO) in Stockholm today. Mr Ingves discussed the inflation-targeting policy in general and also gave an account of the economic assessment published in connection with the Riksbank's most recent interest rate decision.

"The Riksbank conducts what is known as flexible inflation targeting. Our primary task is to stabilise inflation around the target of two per cent, but where there is scope we will also give consideration to ensuring that production and employment do not fluctuate too much. In more concrete terms, this means that we try to find a path for the repo rate which will ensure that the forecasted inflation rate is close to the target within a reasonable time horizon, at the same time as the real economy develops in a manner sustainable in the long term," began Mr Ingves.

"For the policy to function well, it is important that confidence in it is high. A sign of this is that inflation expectations are firmly anchored around the target. If they were to rise substantially, as in the 1970s and 1980s, we might need to fight a costly battle to bring down inflation once again. And the fact that inflation expectations have risen recently, even a few years ahead, was one of the factors behind our interest rate decision in February," continued Mr Ingves.

"At our monetary policy meeting a little more than one week ago we Executive Board members decided to raise the repo rate to 4.25 per cent. We are expecting the repo rate to remain around this level over the coming year. This will contribute, according to our forecast, to inflation falling back and landing close to the 2 per cent target a couple of years ahead, at the same time as production and employment develop in a balanced manner," stated Stefan Ingves.

"We reached our decision after weighing together many factors. Different forces are pulling in different directions. Inflation rose rapidly in 2007 and will remain high over the coming year. Inflation expectations have also risen and cost pressures are high. Economic activity in Sweden remains good and the labour market is strong. Despite GDP growth slackening and employment increasing



■ more slowly this year, resource utilisation will be higher than normal. On the other hand, we see that the risk of weaker international economic activity has increased. There is considerable uncertainty over the prospects for economic development in the United States and the effects on other countries, and developments in the financial markets continue to be marked by unease and turmoil," continued Mr Ingves.

"A lot has happened; both events that could push up inflation and events that could hold it back. But all in all the indicators of future inflation prior to the decision were in line with our forecast from December. When we had weighed together all of the factors, we reached largely the same view of the repo rate path as we did then. But it is important to remember that there is considerable uncertainty regarding future economic and inflation prospects. It may be worth pointing out once again that the repo rate path is a forecast and not a promise. And future interest rate decisions will of course be affected by new information significant to the future prospects for inflation and economic activity," said Mr Ingves.

"The Riksbank received criticism in connection with the most recent interest rate decision. The majority of the criticism concerned the fact that the raise came as a surprise to most analysts. We must of course take this to heart. We are always reflecting over whether there is anything we can do better. Naturally, we want our policy to be clear and predictable," concluded Mr Ingves.