



Introduction to monetary policy

Riksdag Committee on
Finance

24 September 2015

Governor Stefan Ingves

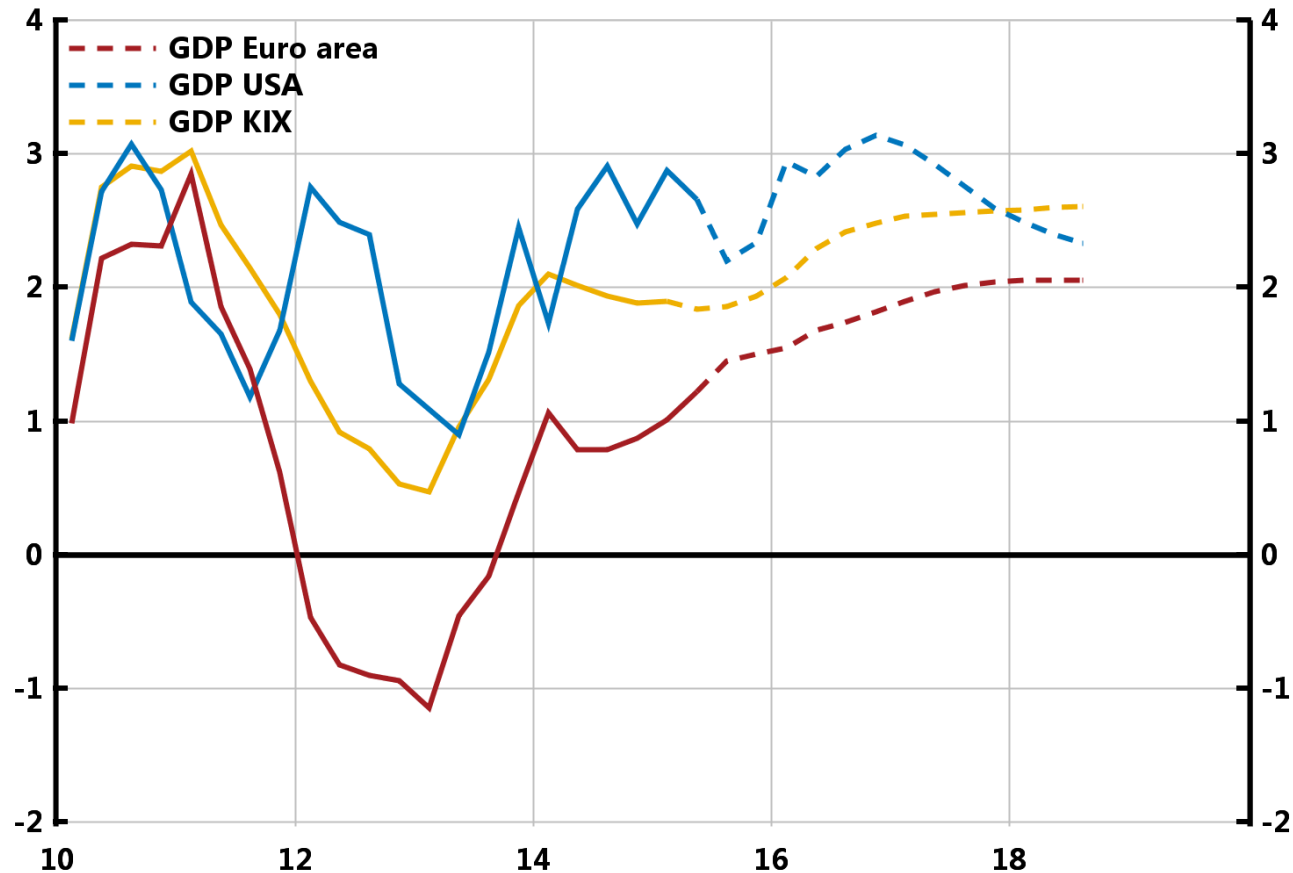
Today's presentation

- Current monetary policy
 - The economic outlook, inflation prospects and monetary policy
- High and growing household indebtedness
 - What more needs to be done to create sustainable growth?



Recovery abroad despite certain sources of concern

GDP growth in various parts of the world



Note. Annual percentage change, seasonally-adjusted data. The KIX is an aggregate of the countries that are important for Sweden's international transactions.

Sources: Bureau of Economic Analysis, Eurostat, national sources and the Riksbank

Economic activity in Sweden strengthening

Stable GDP growth



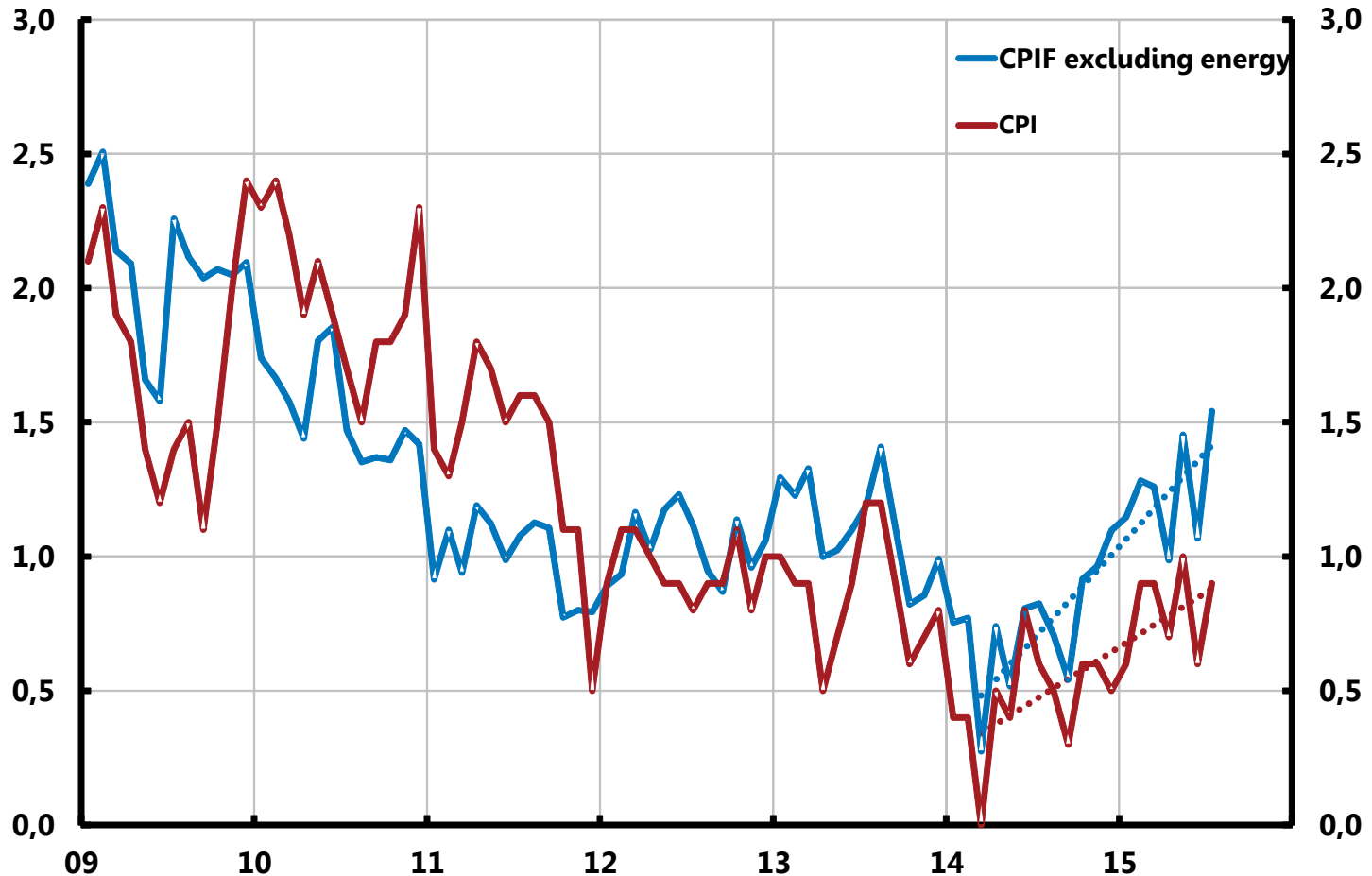
Labour market improving



Note. Annual percentage change and percentage of labour force, 15–74 years, seasonally-adjusted data.

Sources: Statistics Sweden and the Riksbank

Monetary policy is having an effect - rising trend in inflation

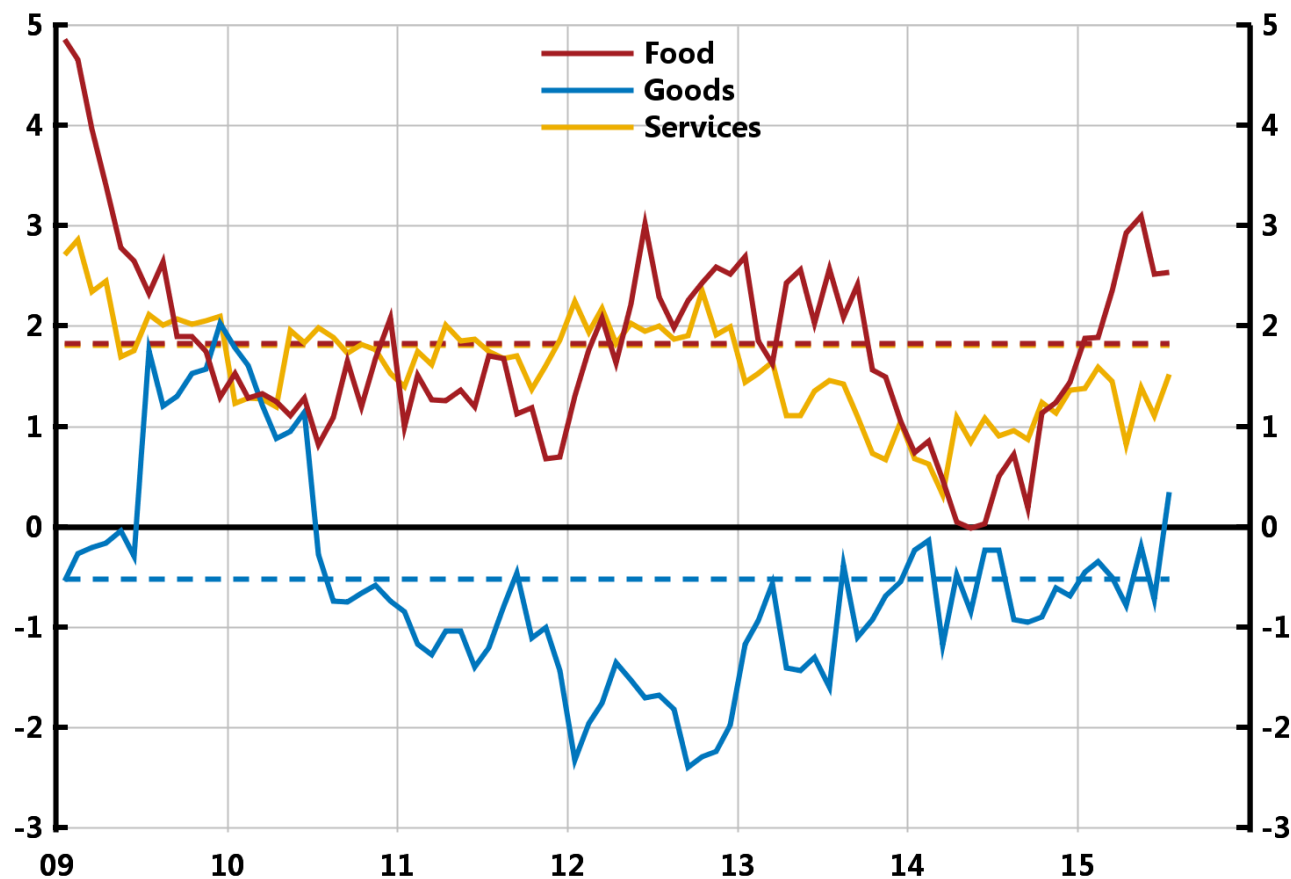


Note. Annual percentage change. The CPIF is the CPI with a fixed mortgage rate.

Sources: Statistics Sweden and the Riksbank

Increase in inflation is broadly distributed

Price of food, goods and services, annual percentage change

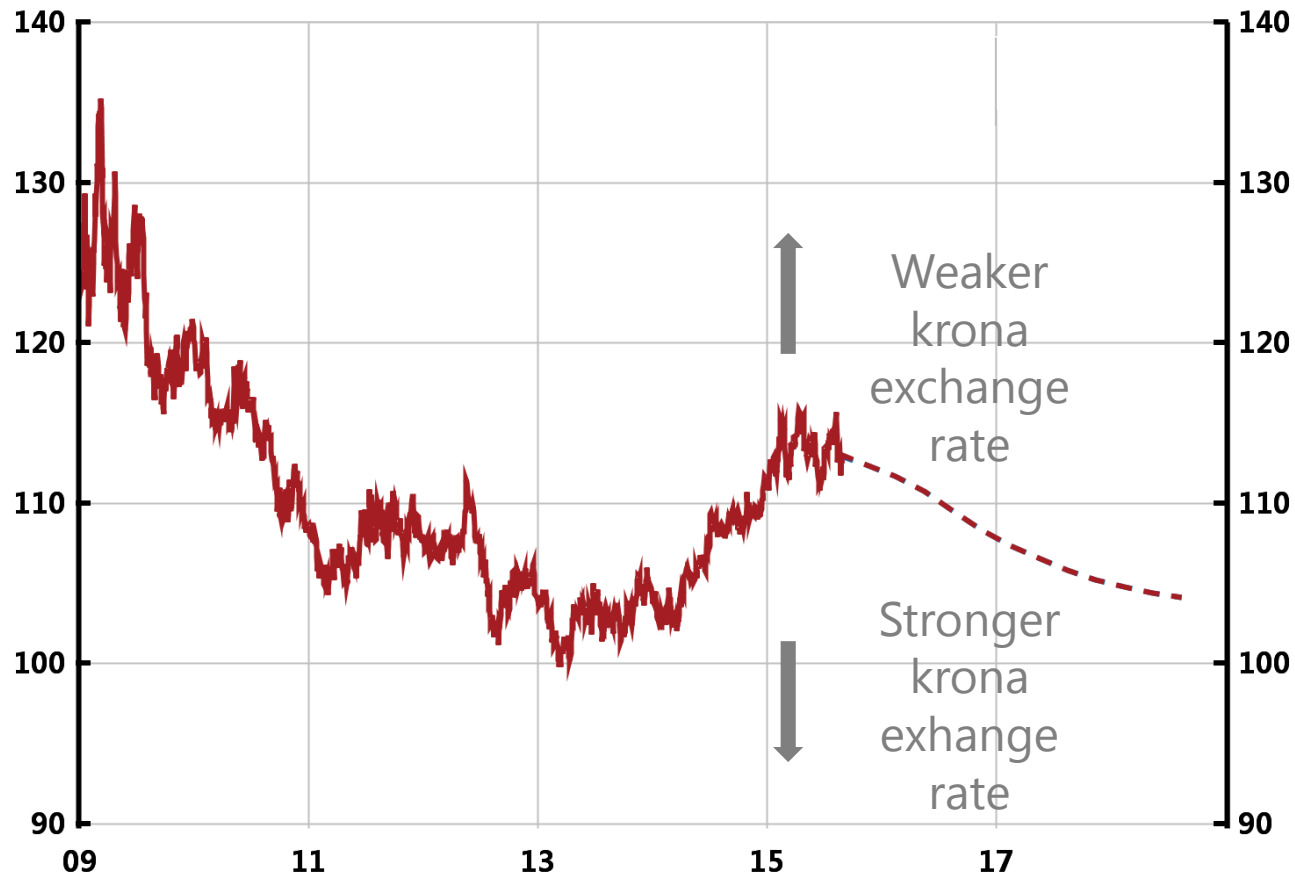


Note. The broken lines refer to the average for the period 2000 to the latest outcome. The line which shows the average for services merges with the line showing the average for food.

Sources: Statistics Sweden and the Riksbank

Weak krona helping to lift inflation

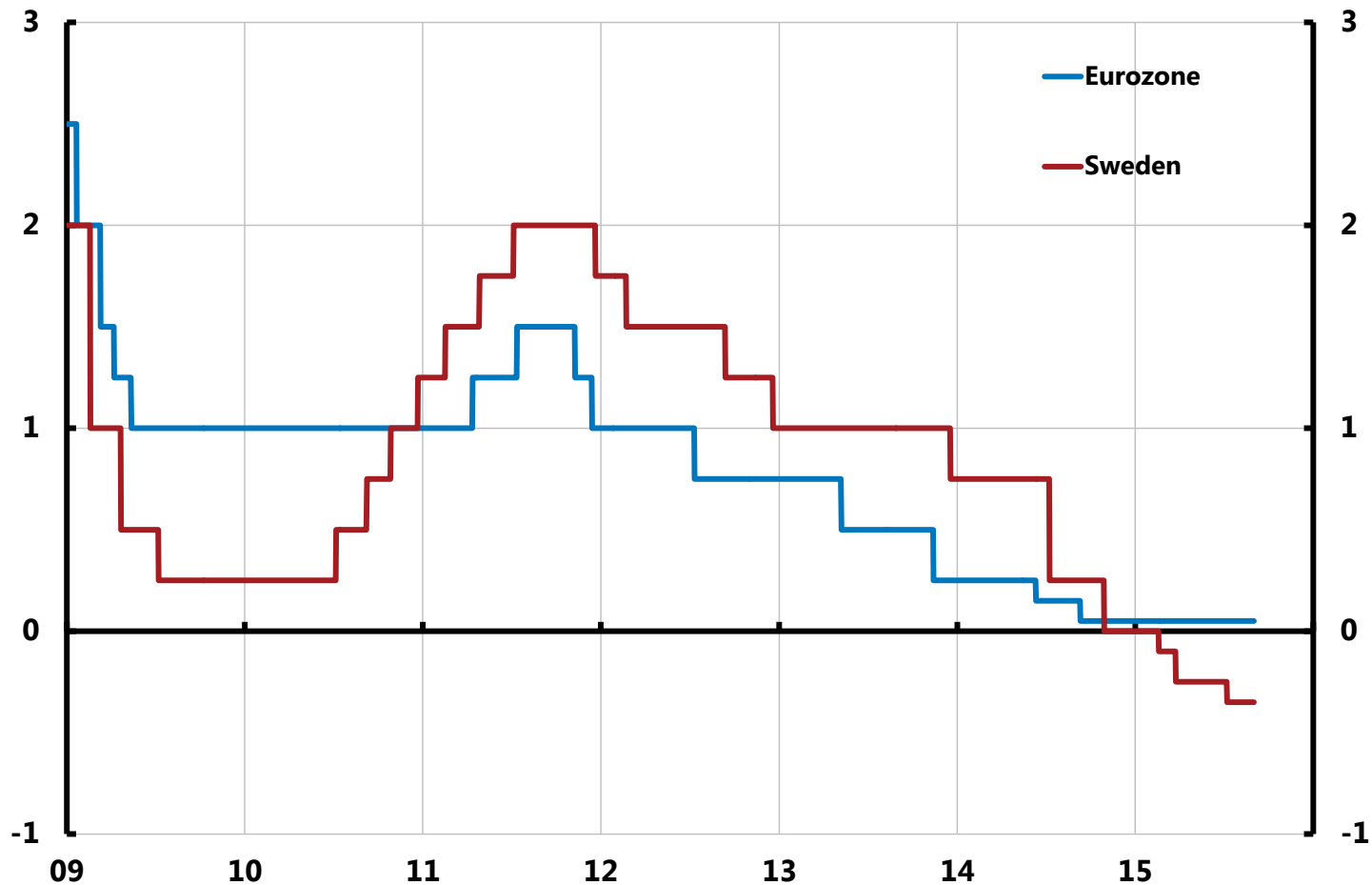
TCW-weighted exchange rate, index, 18/11/1992 = 100



Note. The broken line represents the Riksbank's forecast. Outcomes are daily rates and the forecasts refer to quarterly averages. The KIX is an aggregate of the countries that are important for Sweden's international transactions. Source: The Riksbank

International monetary policy having an impact on Sweden's prospects

Policy rates in Sweden and the eurozone

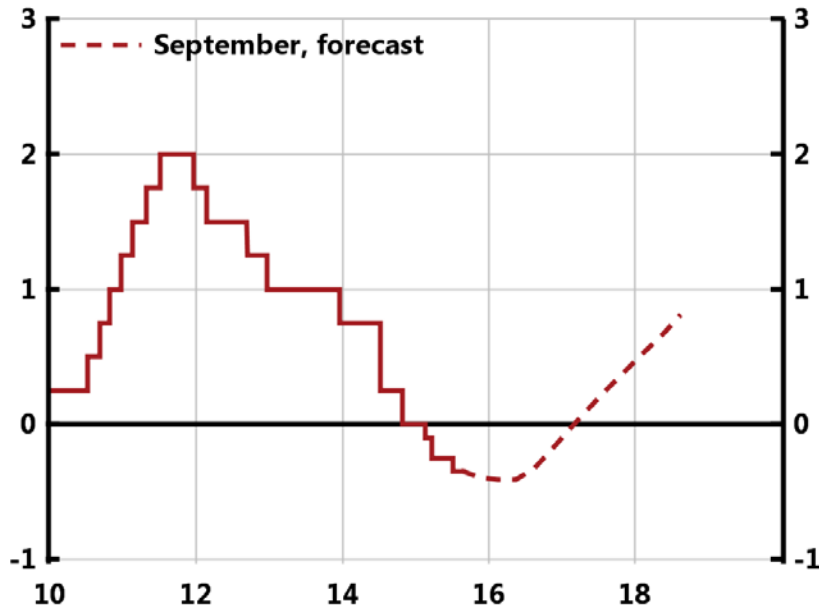


Note. Per cent.

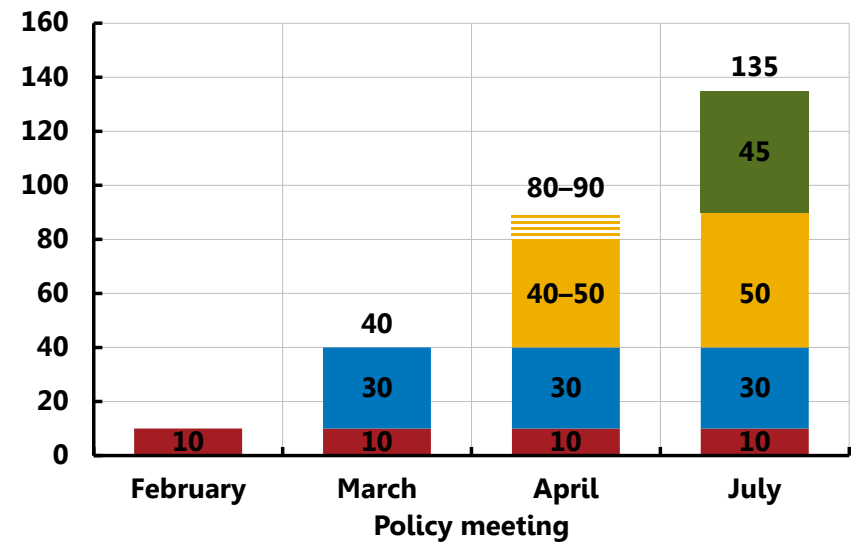
Sources: Macrobond and the Riksbank

Expansionary monetary policy - to ensure the trend of rising inflation continues

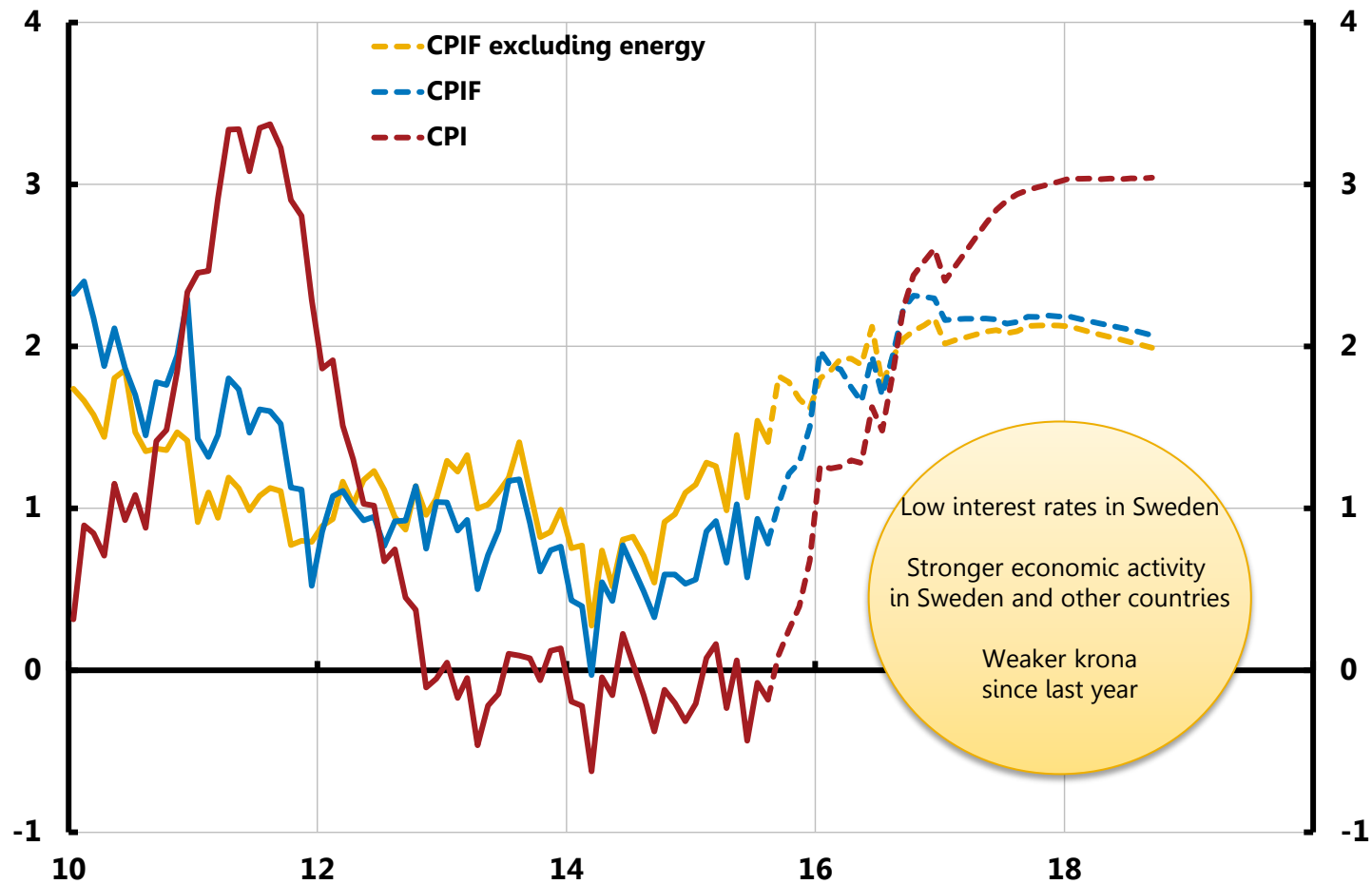
Very low repo rate



Purchases of government bonds



Inflation rising towards the target



Note. Annual percentage change. The CPIF is the CPI with a fixed mortgage rate.

Sources: Statistics Sweden and the Riksbank

Risks to the rise in inflation

**Low inflation for a long
time**

How quickly will inflation
rise?

**Concerns in emerging
economies**

Fall in oil price

**Central banks out of
step**

Rapid appreciation of
the krona - a risk to the
rise in inflation

Continued high level of preparedness

- Important that the upward trend in inflation continues
- Ready to act even between ordinary meetings
 - Cut the repo rate
 - Buy more government bonds
 - Intervene on the foreign exchange market
 - Lend to companies via banks

The low interest rate is necessary

- The inflation target contributes to better economic growth
- Not to change the target owing to where inflation is at the moment
- Low interest rates internationally
- Monetary policy having an effect - inflation is rising

But

- The low interest rates can lead to exaggerated risk-taking
 - Risks linked to household debt and the housing market
 - Other government agencies, the Riksdag and the Government have the tools - high time to use them!
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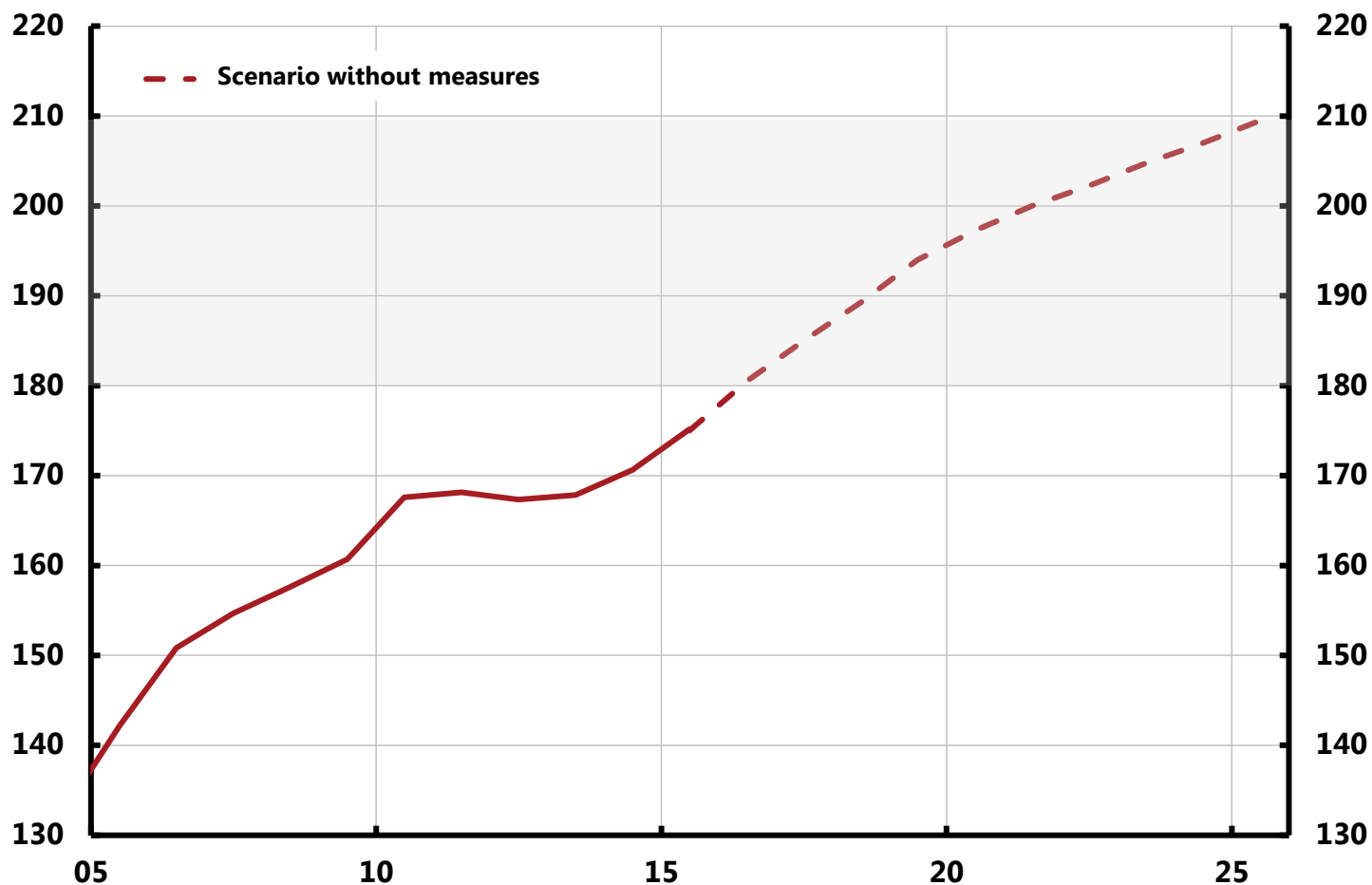
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If no further measures are taken there is a risk that indebtedness will increase

Household debt as a proportion of disposable income, per cent

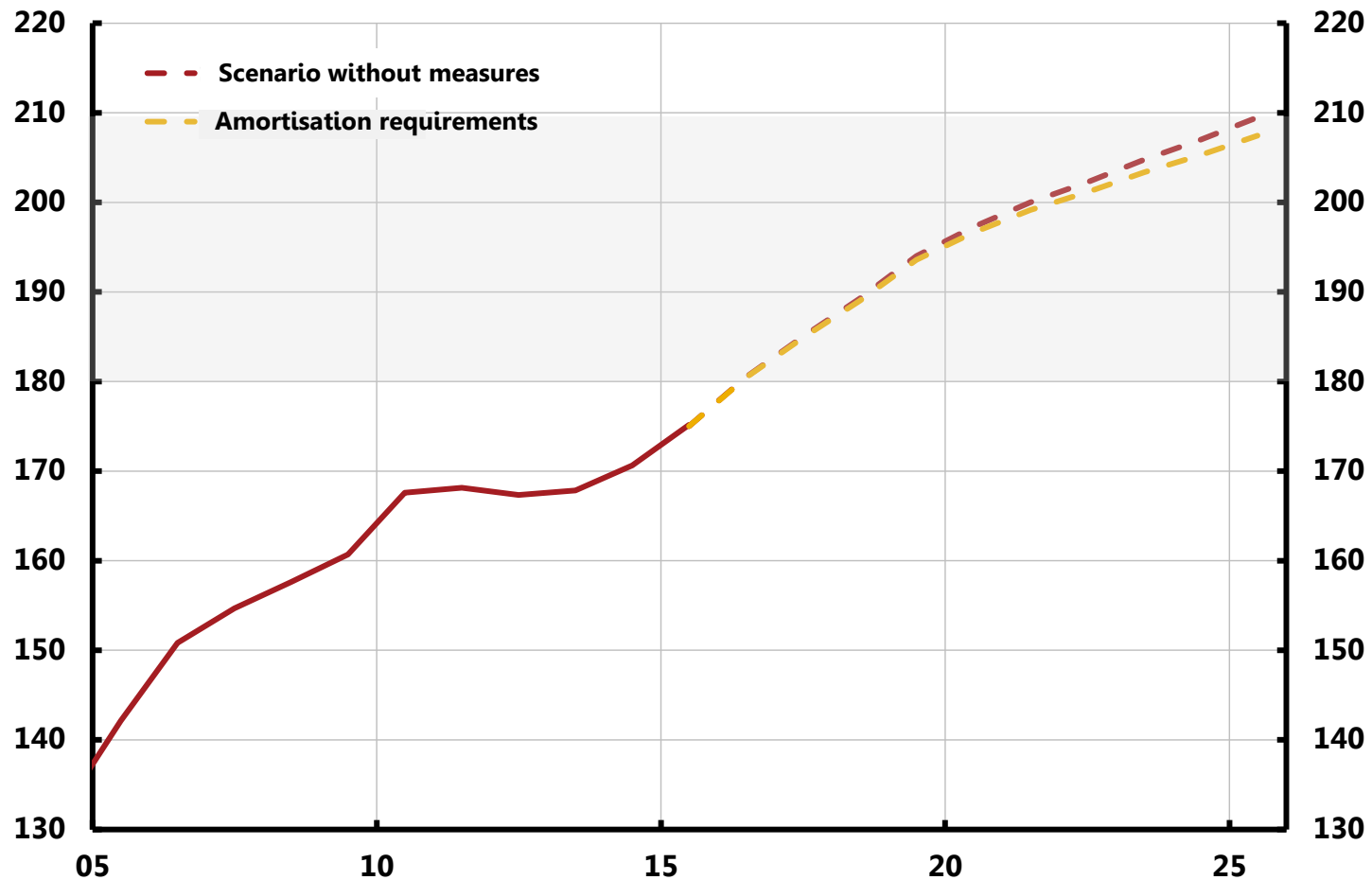


Sources: Statistics Sweden and the Riksbank

Note. The broken red line shows an estimate of development over the next 10 years without further measures. The shaded area indicates a conceivable lower limit for when the risks are raised in the economy. See Financial Stability 2015:1.

Current amortisation requirements are having minor effects

Household debt as a proportion of disposable income, per cent

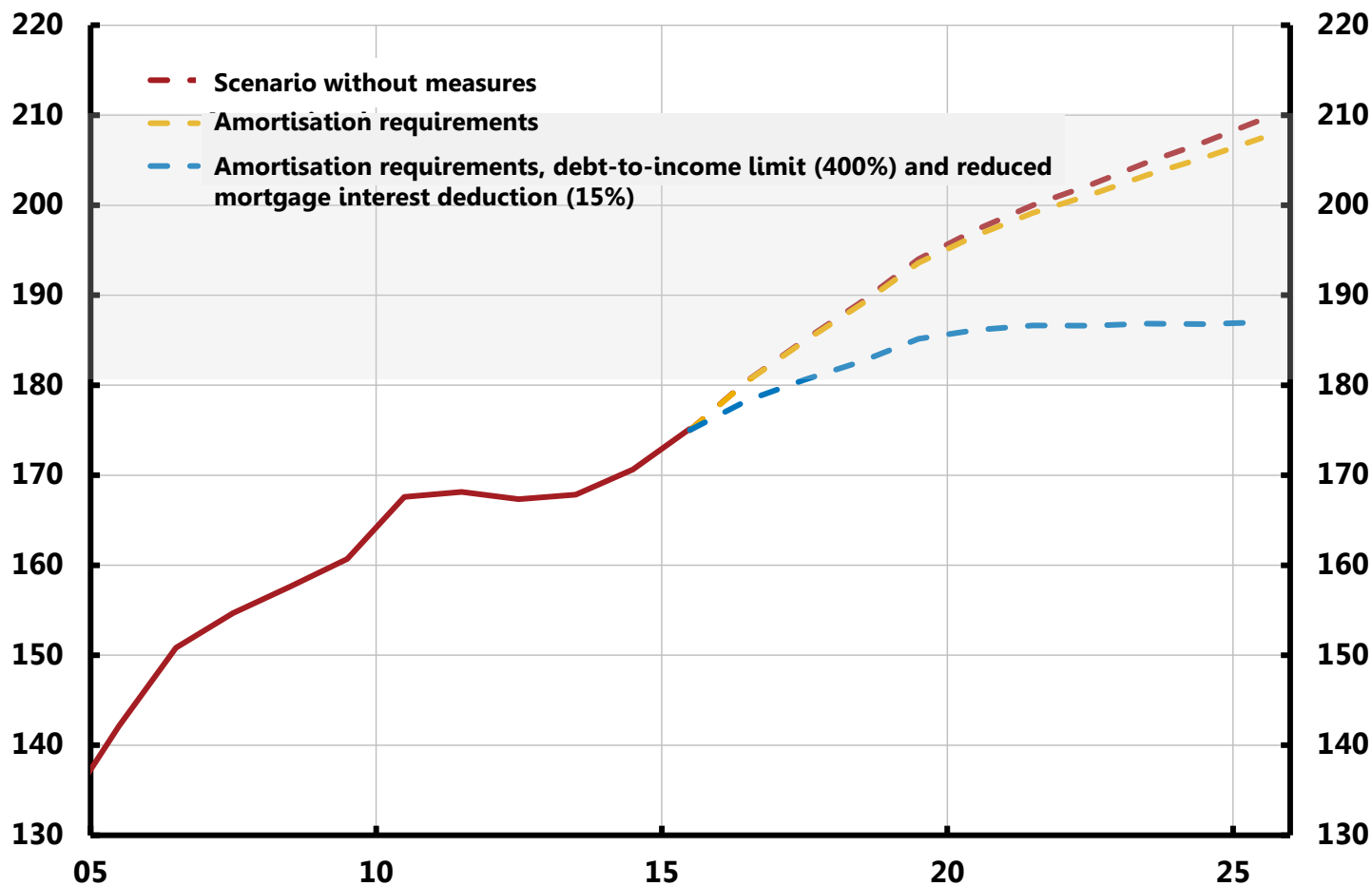


Sources: Statistics Sweden and the Riksbank

Note. The broken red line shows an estimate of development over the next 10 years without further measures. The shaded area indicates a conceivable lower limit for when the risks are raised in the economy. The broken yellow line shows an estimated effect of amortisation requirements. See Financial Stability 2015:2.

More measures are needed - an example

Household debt as a proportion of disposable income, per cent



Sources: Statistics Sweden and the Riksbank

Note. The broken red line shows an estimate of development over the next 10 years without further measures. The shaded area indicates a conceivable lower limit for when the risks are raised in the economy. The broken yellow line shows an estimated effect of amortisation requirements, and the broken blue line an estimated effect of further measures. See Financial Stability 2015:1.

The measures reduce risks in the Swedish economy



- Reduce the likelihood of a future economic crisis
 - Increase resilience in a crisis if one occurs
 - Opportunities for households to borrow money are limited
 - Lower demand and growth in the short term
 - But a reduction in tax relief is improving government finances
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