



The economic situation and monetary policy

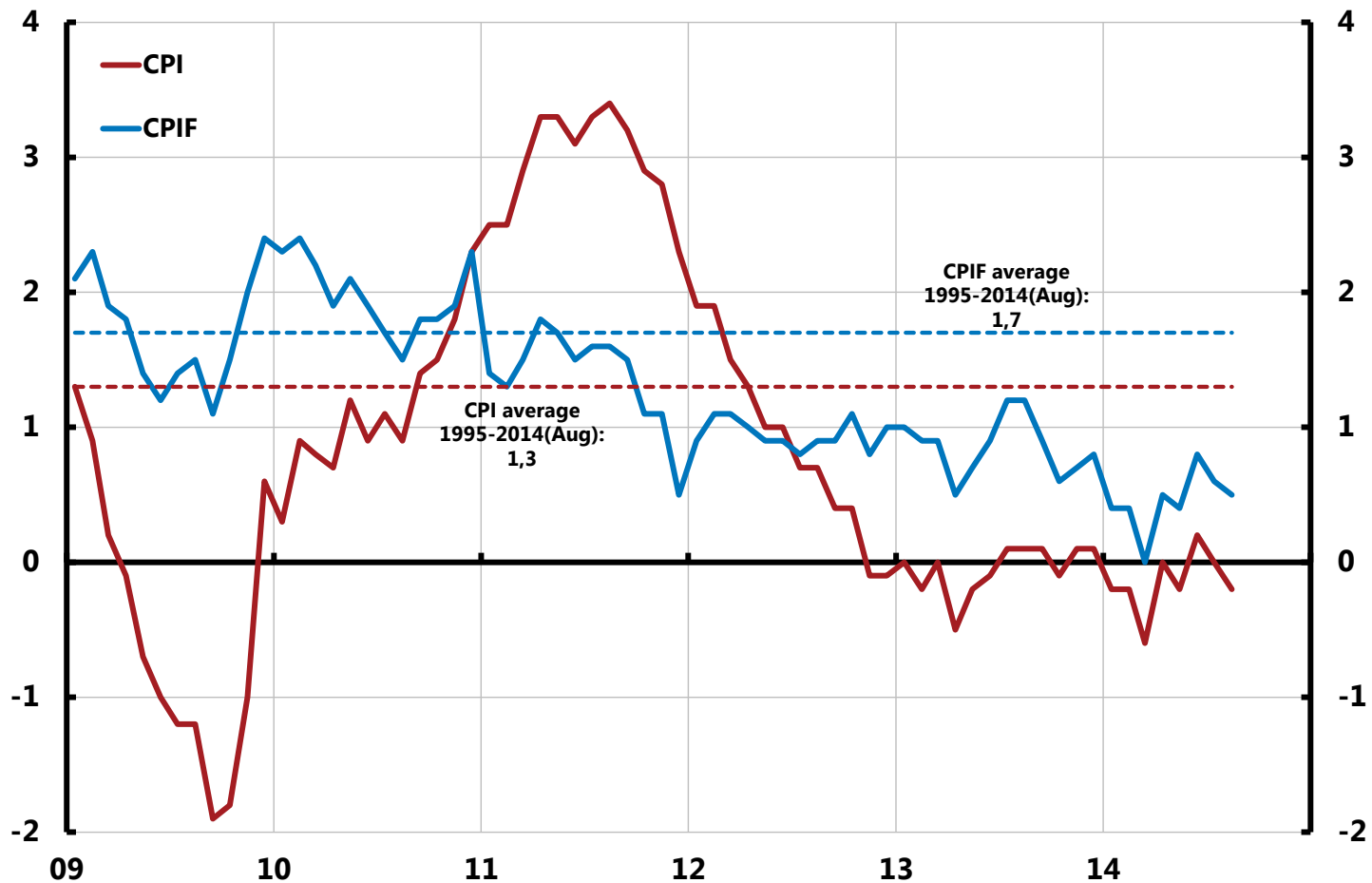
Statistics Sweden
6 October 2014

Deputy Governor Per Jansson

Topics I will discuss today

- Recent monetary policy (including the most recent decision on 3 September)
- The Riksbank's monetary policy strategy in recent years
 - Has the strategy changed? How self-critical should we be? What will determine the direction of future monetary policy?

Low inflation over several years

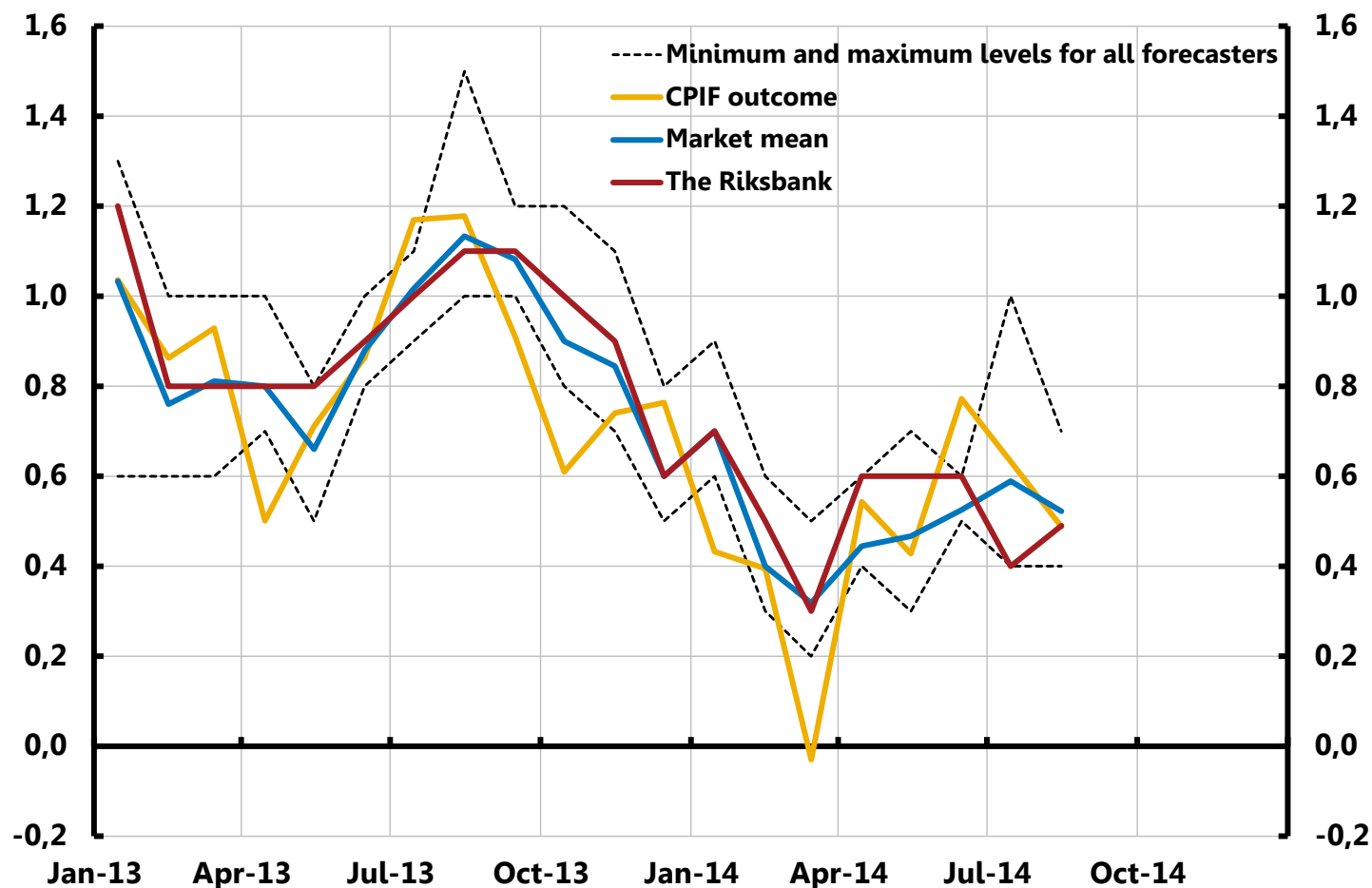


Note. Annual percentage change. The CPIF is the CPI with a fixed mortgage rate. Broken lines represent real-time averages since 1995.

Sources: Statistics Sweden and the Riksbank

The situation worsened at the end of 2013 and beginning of 2014

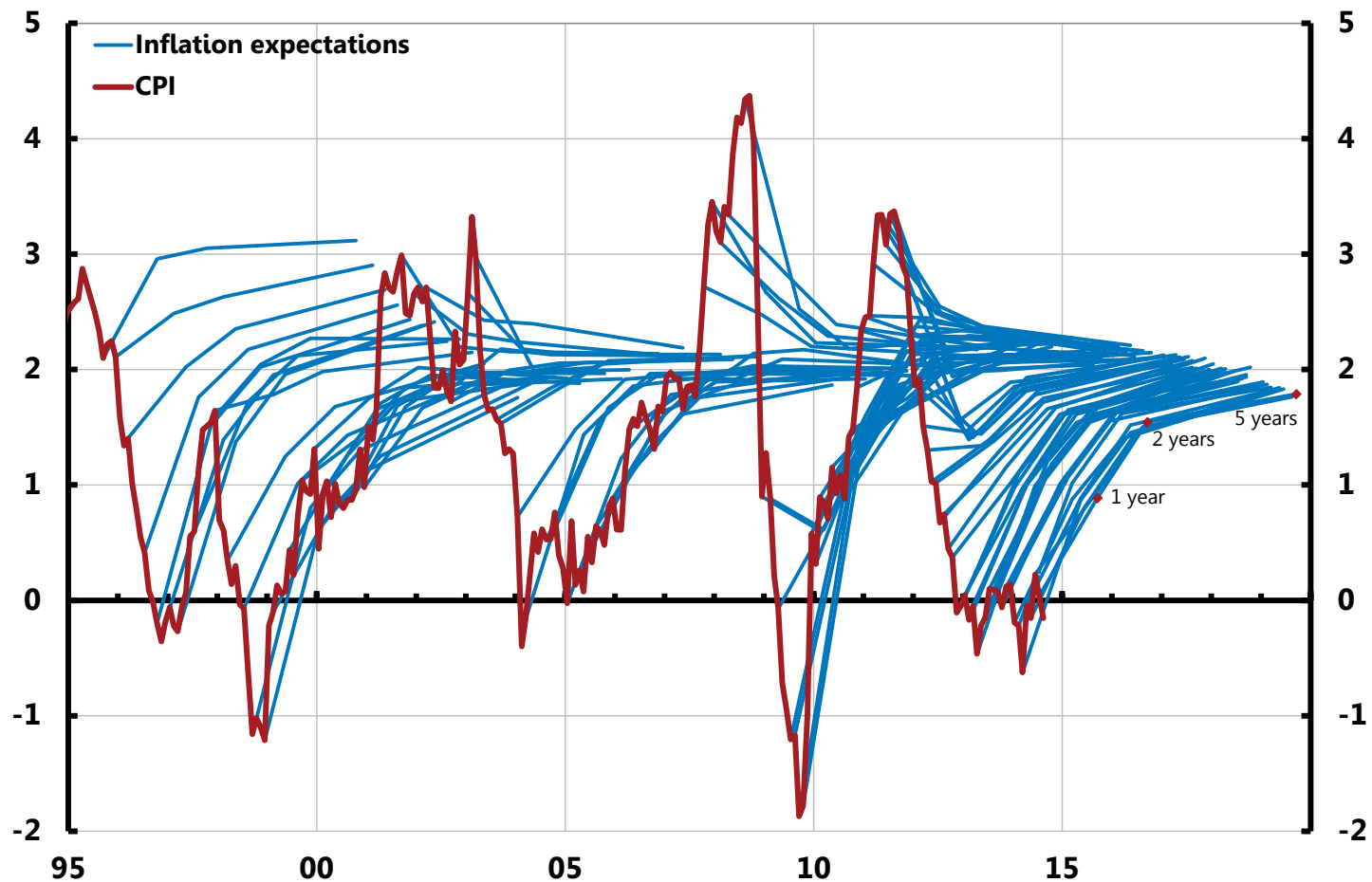
Short-term forecasts for CPI inflation, annual percentage change



Note. The Riksbank's forecasts according to the most recently-published forecast and market expectations, compared with outcomes. The Riksbank's figures are not entirely comparable with market participants' expectations, as the Riksbank's forecasts are often older. Broken lines refer to the minimum and maximum intervals for all forecasters.

Sources: Bloomberg, Statistics Sweden and the Riksbank

Important that expectations are firmly anchored



Note. Annual percentage change. Inflation expectations according to money market participants.

Sources: Statistics Sweden and TNS SIFO Prospera

Monetary policy has reacted decisively

- December 2013: repo rate cut by 0.25 percentage points, repo-rate path adjusted down for entire forecast period
 - April 2014: repo-rate path adjusted down for entire forecast period
 - July 2014: repo rate cut by 0.5 percentage points, repo-rate path adjusted down for entire forecast period
 - All in all, a much more expansionary monetary policy
 - the repo rate has been cut from 1 to 0.25 per cent from December 2013 to July 2014
 - the forecast for the repo rate at the end of the forecast period has been reduced from almost 3 to just over 2 per cent
 - the timing of a first increase has been moved from the end of 2014 to the end of 2015
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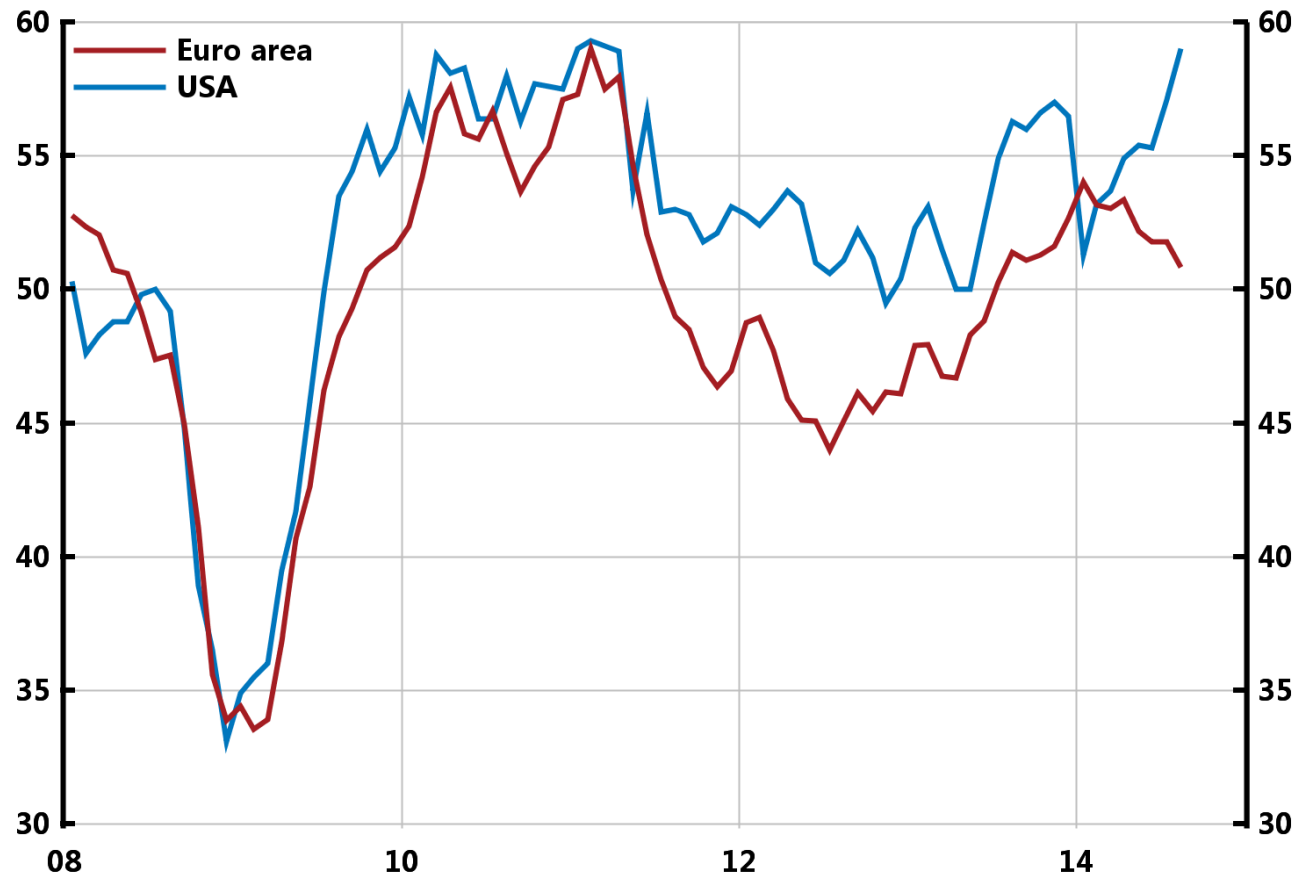
The monetary policy decision on 3 September



**Continued low repo rate
so inflation will rise towards the target**



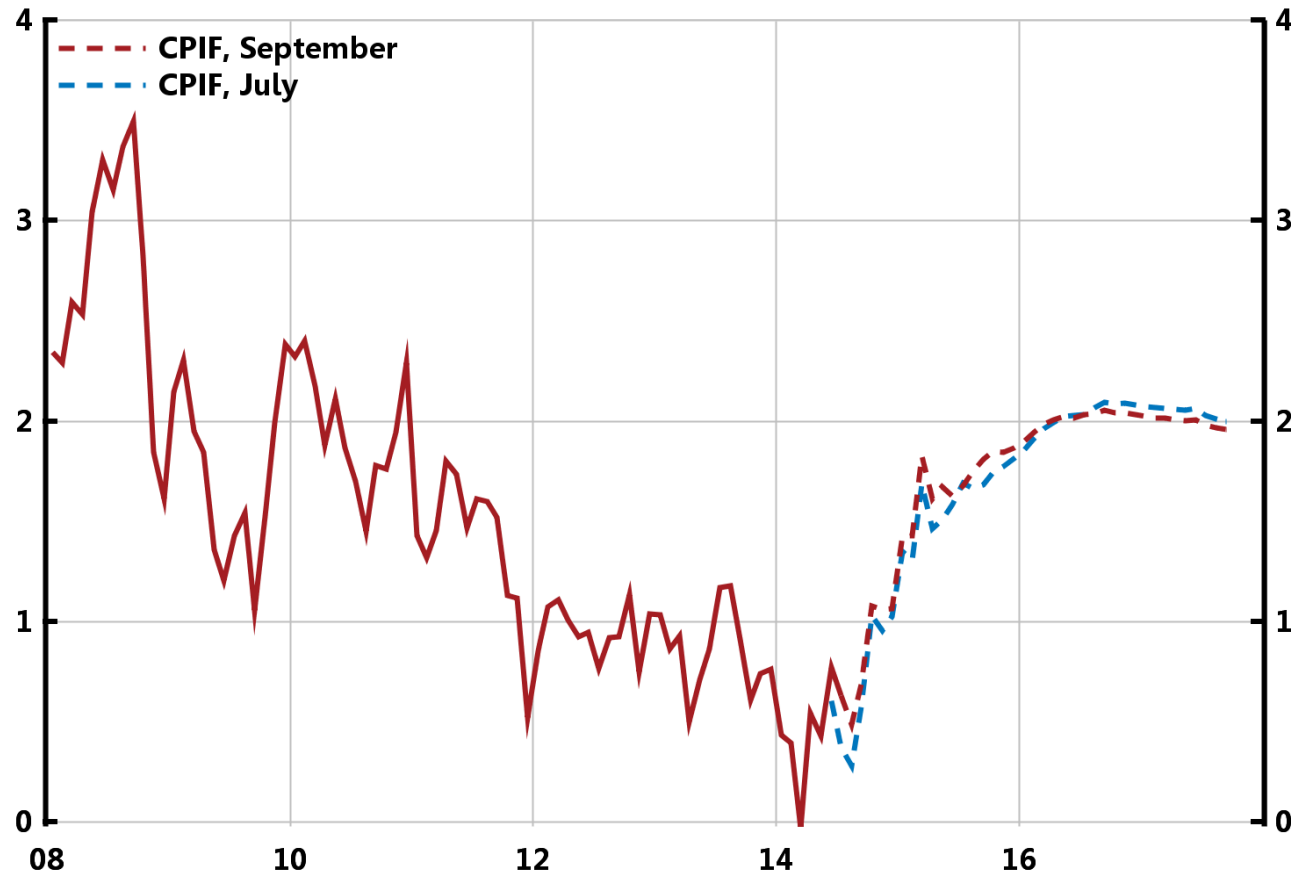
Subdued confidence in the euro area



Note. Purchasing managers index, manufacturing.

Sources: Markit and Institute for supply management

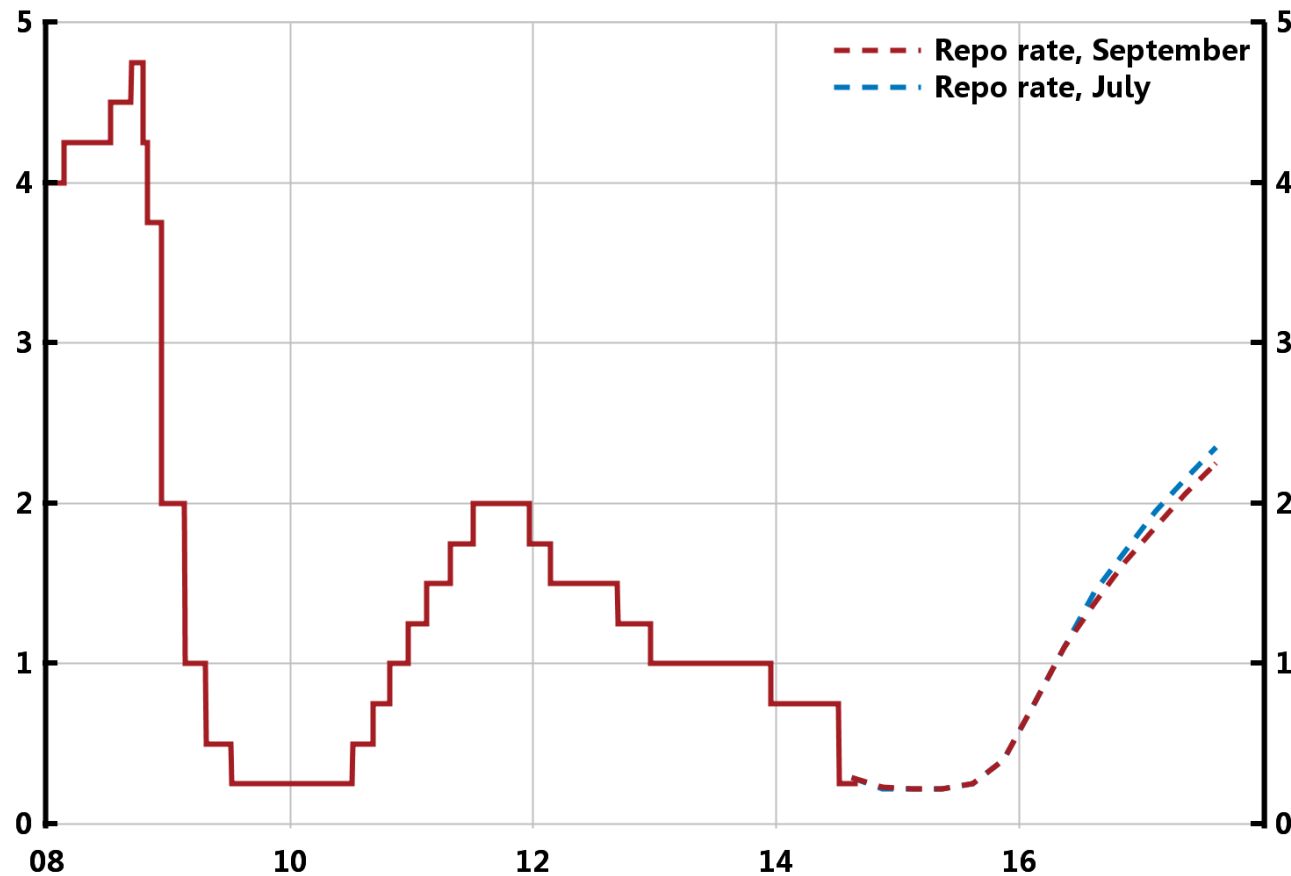
Stable prospects for inflation in Sweden



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

Sources: Statistics Sweden and the Riksbank

Continued low repo rate so inflation will rise towards the target



Note. Repo rate, per cent. Forecast refers to quarterly mean values, outcome refers to daily data.

Source: The Riksbank

Good prospects for rising inflation

- Very expansionary monetary policy for a long time
 - Increasing demand and rising resource utilisation
 - Faster wage increases
 - Easier for companies to raise prices
 - Positive price impulses from abroad
 - Weaker krona (around 10% since spring 2013)
 - In the background: stable financial system and stable fiscal policy
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High and growing household indebtedness creates risks



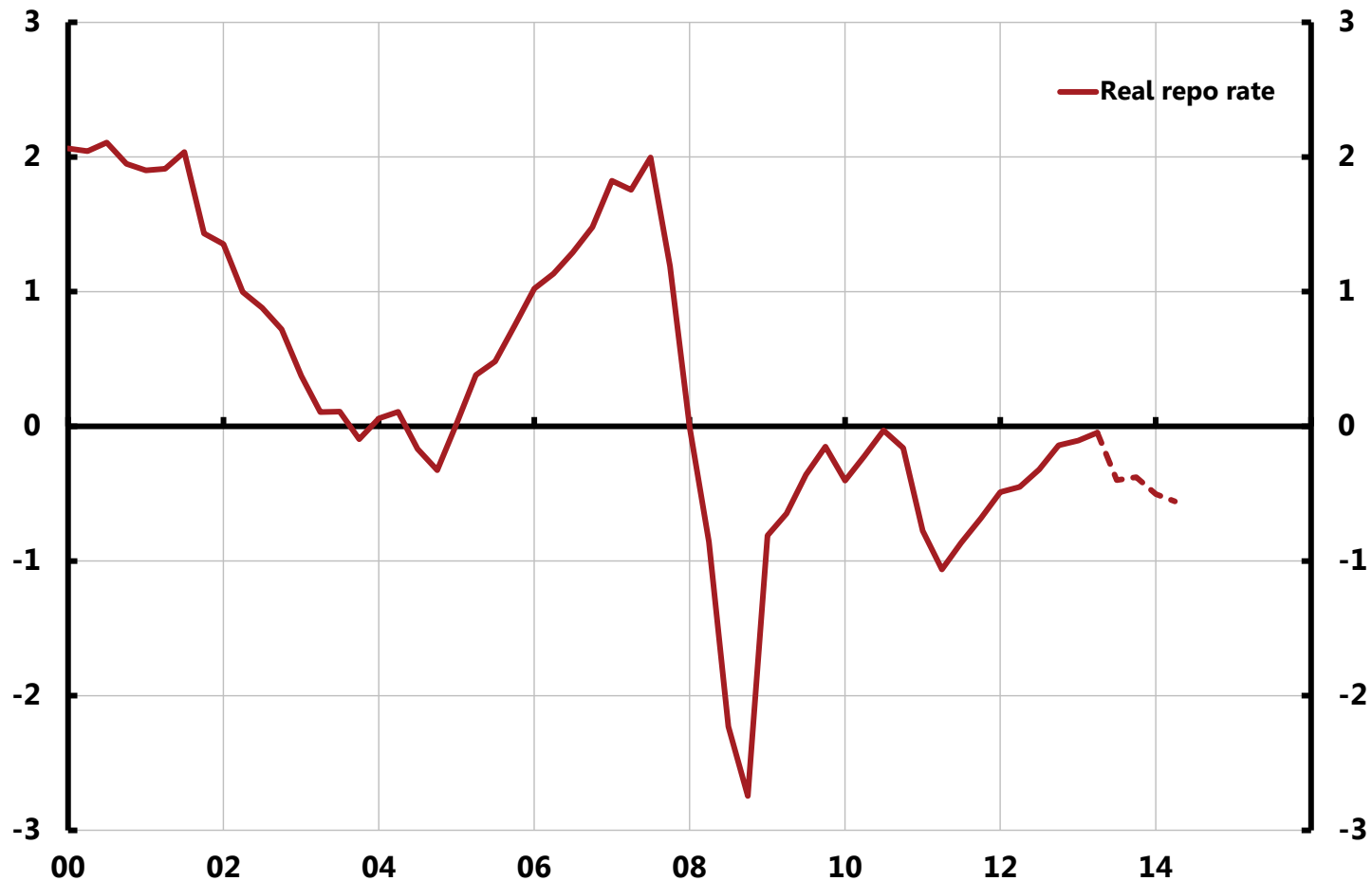
- Low repo rate contributes to higher inflation
 - But also entails risks for the economy
 - Measures in other policy areas needed
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The monetary policy strategy in recent years



- Throughout very expansionary monetary policy to attain inflation target within a reasonable time frame
 - Unexpected weakening of international economic activity and surprisingly low inflation propensity have played a role
 - Some element of "leaning against the wind", with the emphasis on SOME
 - Not "leaned against the wind" aggressively – if we had, the economy would not have developed as well as it has
 - The monetary policy decisions have always been a trade-off, which the Riksbank has been clear about
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Very expansionary monetary policy for many years

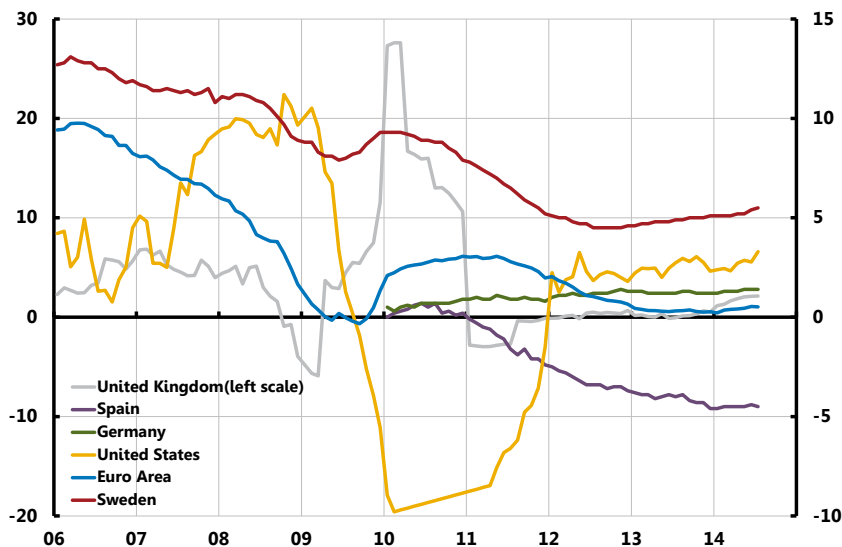


Note. The real repo rate is calculated as the average repo rate one year ahead, minus one-year inflation expectations according to TNS SIFO Prospera. The broken lines are based on the Riksbank's forecast for the repo rate for 2014 Q3 to 2015 Q2.

Sources: TNS SIFO Prospera and the Riksbank

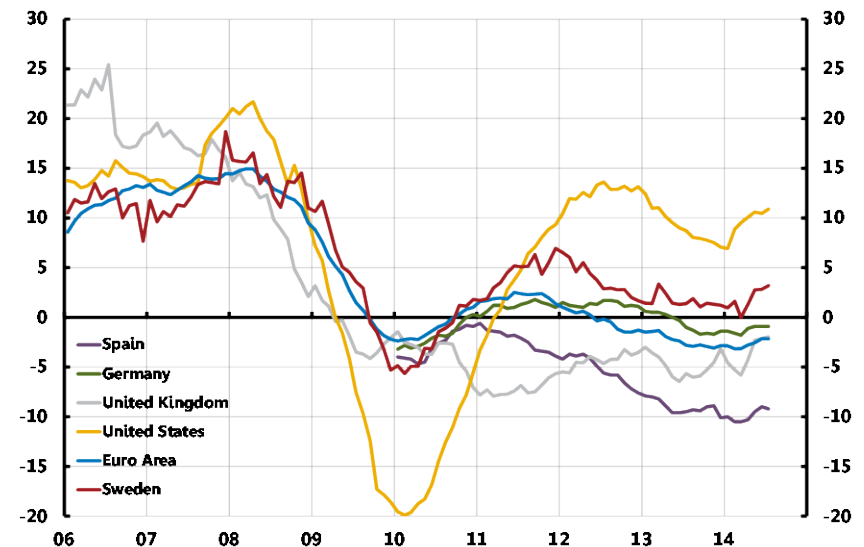
Lending has increased faster than in most other countries

Households



Note. United Kingdom on left-hand scale. Others on right-hand scale.

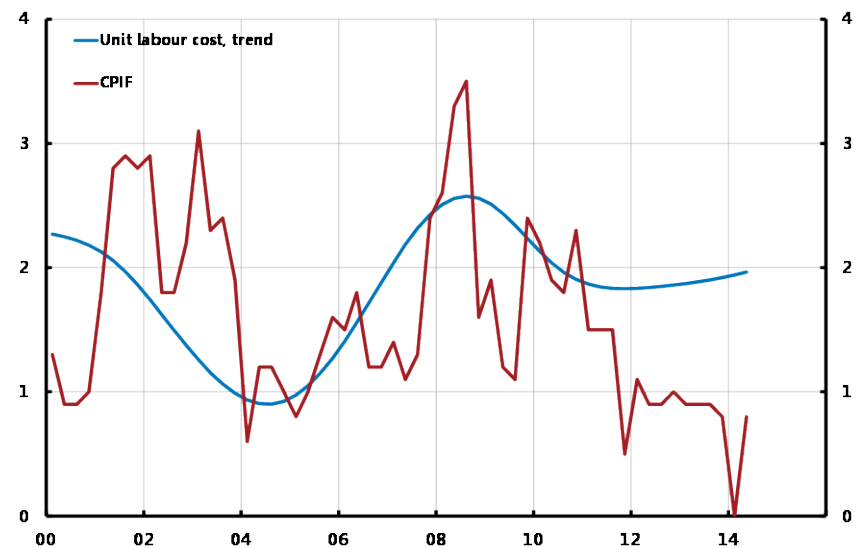
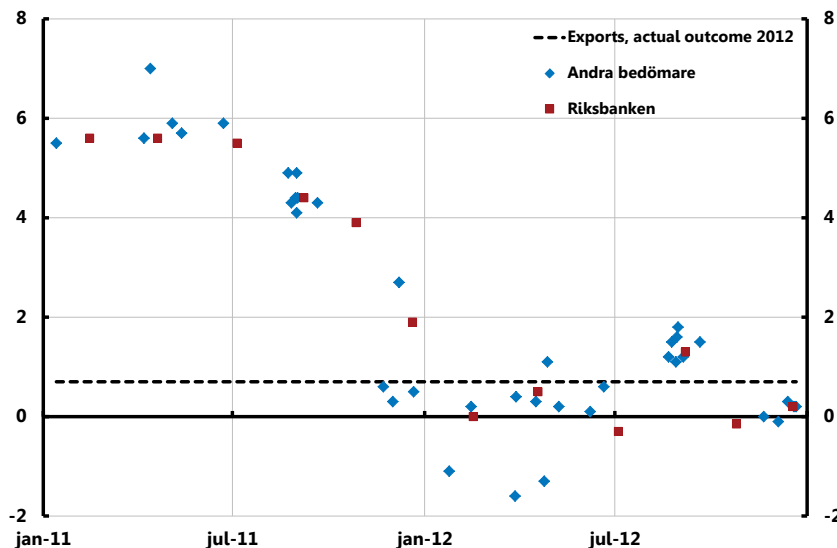
Companies



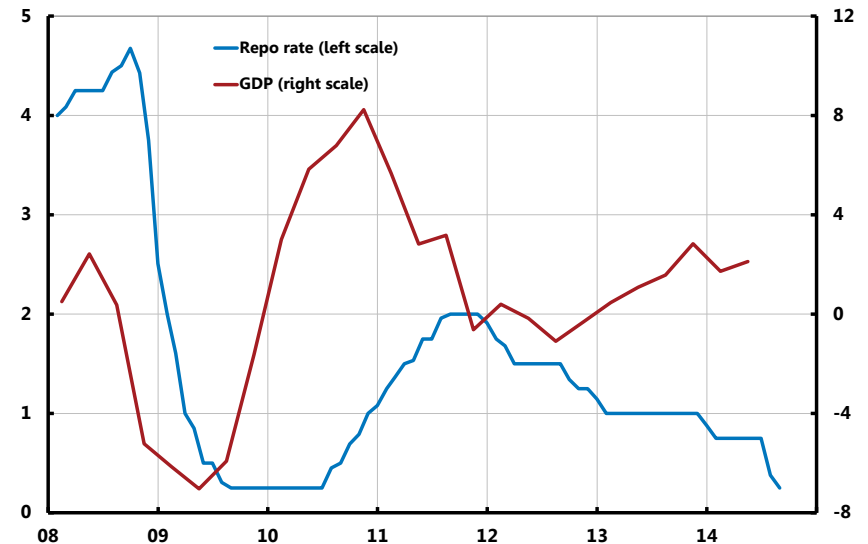
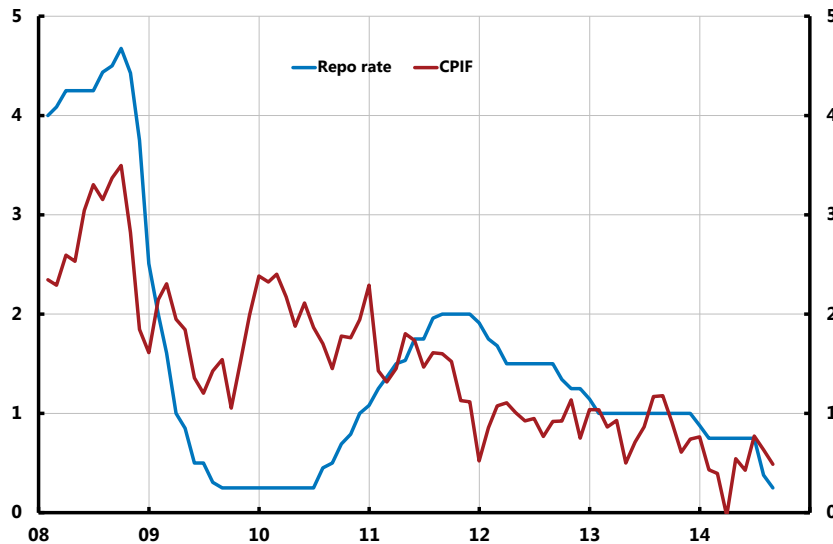
Unforeseen events have occurred and been significant

Unexpectedly weak international developments affected Swedish exports

Inflation propensity has also been surprisingly low



The element of "leaning against the wind" should not be exaggerated



Note. The repo rate refers to the monthly average; CPIF, month, annual percentage change; GDP, quarter, annual percentage change.

Sources: Statistics Sweden, the Riksbank

Always a trade-off

from the minutes of the meeting on 30 June 2010

Stefan Ingves

- "The strength of the Swedish recovery ... is *the main reason* why monetary policy needs to be changed. ... [An] interest rate increase is *also... a signal* to avoid new financial imbalances from building up[.]"

Svante Öberg

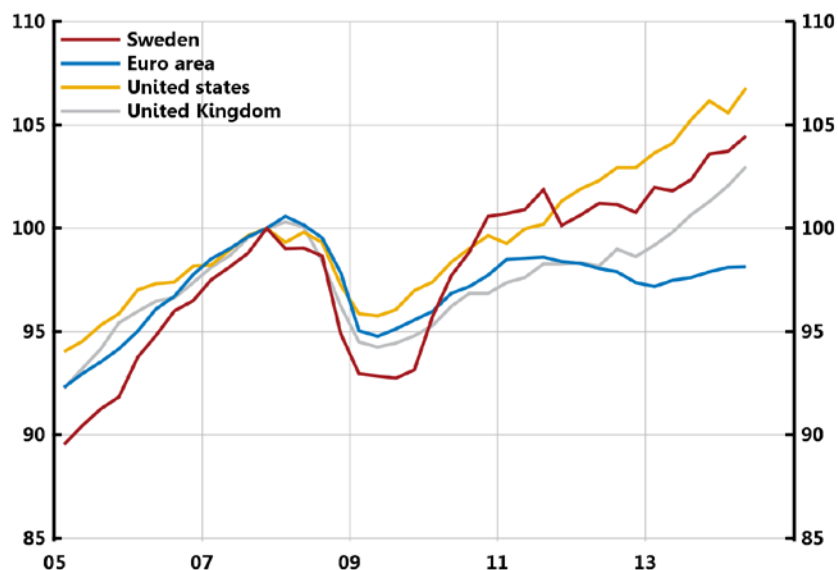
- "With the very low interest rates we are expecting to prevail ... *we are supporting production and employment* ... How far one should go in this support *needs to be balanced against* other aspects, such as the negative effects of long period with low interest rates[.]."

Karolina Ekholm

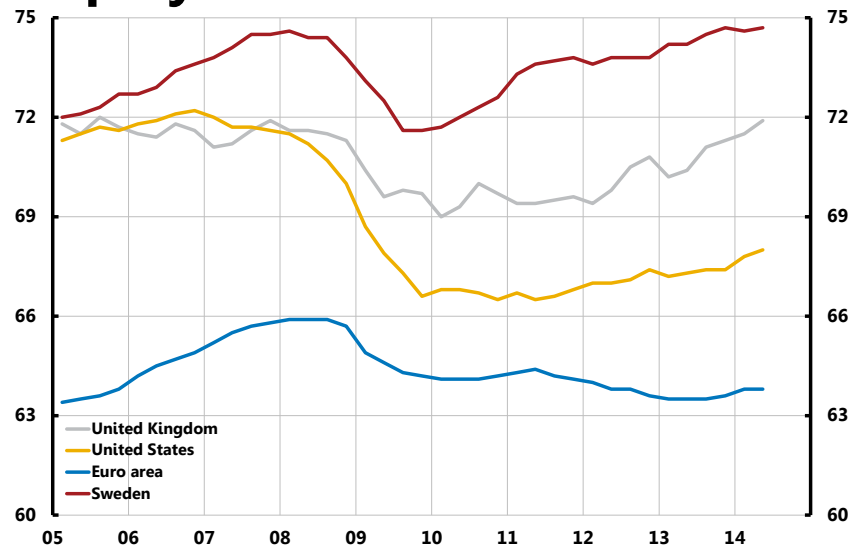
- "[A] balance between on the one hand the need for continued very expansionary monetary policy *to attain the inflation target* and stabilise the real economy ... and on the other hand the need to *avoid an exceptionally-low policy rate in itself creating imbalances*[.]."

Sweden has managed the crisis much better than many other countries

GDP



Employment rate



Note. GDP, index, 2008 Q1 = 100.

Employment rate, per cent of population, aged 15-64.

Sources: Eurostat and the OECD

Getting inflation to rise is the top priority



- Despite a relatively good development of the real economy: Low inflation over a long period of time, falling inflation expectations
 - New information in the form of unexpectedly low inflationary pressures and concern that the role of the inflation target as nominal anchor will be weakened have increased the need for monetary policy stimulation
 - Does not mean that the risks linked to household debt and the housing market have declined: it is urgent that measures are taken in other policy areas
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