



Basis for decision

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DEPARTMENT: Monetary Policy

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REG. [Diarienummer]

Target variable and variation band

Proposed Executive Board decision

The Executive Board adopts the memorandum “Change of target variable and variation band” in accordance with the proposal in [Annex 1](#).

The Executive Board resolves to refer the memorandum to the organisations and authorities specified in [Annex 2](#). Consultation responses are to have been received by no later than 30 June 2017.

Considerations

Ever since the inflation target was introduced, it has been defined in terms of the annual change in the consumer price index (CPI). However, in recent years, the CPI has become increasingly difficult to use as guidance for monetary policy, as the CPI is directly affected by policy rate adjustments. Policy rate adjustments have large and direct effects on the CPI which are not connected to underlying inflationary pressures. The Riksbank is consequently considering, in the attached memorandum, changing target variable to the consumer price index with a fixed interest rate (CPIF).

The target is that the annual change in the CPIF shall be 2 per cent. However, it is not possible for the Riksbank to achieve this target every single month, so inflation will vary around 2 per cent. To illustrate this uncertainty, the Riksbank considers, in the memorandum, using a variation band for the outcome of the CPIF in future communication. The variation band is +/- 1 percentage point around the target of 2 per cent, which captures almost three-quarters of CPIF outcomes since 1995. The design of the variation band is thus linked to the historical development of inflation and should therefore be reviewed as necessary.

The changes now being considered will not entail any change to the monetary policy being conducted. For some time, the CPIF has formed the Riksbank’s operational target variable. It is now being considered to codify this practice by defining the inflation target as a 2 per cent annual change in the CPIF. The aim of monetary policy will continue to be the stabilisation of inflation at 2 per cent. In other words, the variation band under



consideration is not a so-called target range.¹ This means that the Riksbank will always strive towards 2 per cent inflation, regardless of whether outcome is within or beyond the variation band.

The Riksbank's role as an independent central bank means that the members of the Executive Board may not seek or receive instructions when conducting monetary policy (known as the prohibition against instructions). On the other hand, members of the Executive Board and the Riksbank's experts may engage in discussions of the monetary policy framework with external authorities and organisations to create a well-founded and comprehensible monetary policy. For this purpose, the Riksbank will refer memoranda to those bodies specified in Annex 2. Consultation responses shall be received by the Riksbank by no later than 30 June 2017.

The Riksbank will take a decision on the matter after having examined the consultation bodies' opinions. Should the Riksbank decide in favour of the changes being considered, these will initially be applied at the monetary policy meeting in September 2017.

¹ For a discussion of the terms target range and tolerance band, see "The Riksbank's inflation target – target variable and interval", Riksbank Studies, September 2016.