

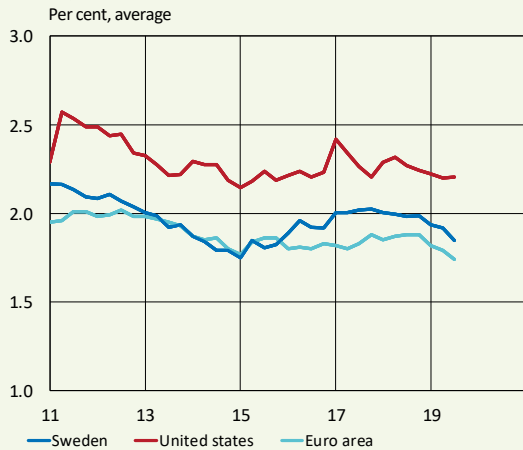
ARTICLE – Inflation expectations in Sweden close to 2 per cent

Long-term inflation expectations are a measure of the amount of confidence various participants in the economy have in the inflation target. According to both pricing on the financial markets and survey-based measures, long-term inflation expectations have risen in Sweden since 2015 and the overall view is that they have been close to 2 per cent for a few years. This development differs from other countries where expectations have developed weakly, particularly in the euro area.

Monetary policy aims to stabilise inflation around the inflation target with the goal of creating stability and predictability in price setting and wage formation. To reach the target, it is important that participants in the economy trust the central bank to return inflation to the target after shocks resulting in target deviations. Long-term inflation expectations that do not deviate too much from the target can be seen as a sign that participants have such confidence in monetary policy.

In Sweden, long-term inflation expectations have risen since 2015 and have been close to 2 per cent in recent years. This concerns long-term expectations measured both in surveys and from pricing on the financial markets (see Figures 1:12 and 1:13). This development coincides with a rise in inflation and differs from developments abroad, where expectations have developed more weakly, particularly in the euro area.

Figure 1:12. Survey based measures of long-term inflation expectations

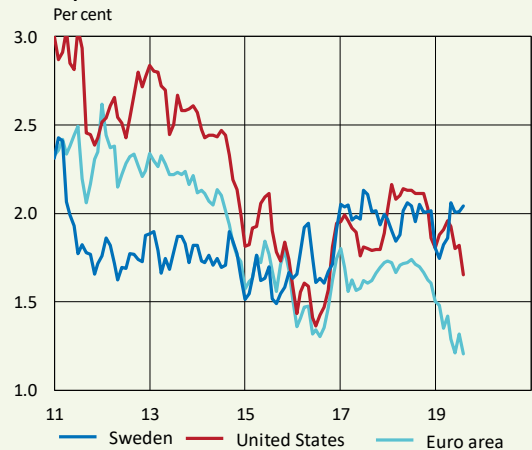


Note. Sweden: Expectations 5 years ahead from money market participants, calculated on a quarterly basis. Euro area and United States: Expectations according to the ECB's and Federal Reserve Bank of Philadelphia's Surveys of Professional Forecasters.
Sources: Kantar Sifo Prospera, ECB and Federal Reserve Philadelphia

According to Prospera's survey, money market participants' inflation expectations 5 years ahead have fallen back slightly in Sweden over the year. However, this downturn is fairly small. In the most recent measurement to be published in August, money market participants expected CPI inflation to be 1.8 per cent in 5 years (see Figure 1:14). For a larger group

of respondents, which includes the business sector and social partners, the downturn in long-term inflation expectations is even smaller (see Figure 1:14). According to both pricing on the financial markets and survey-based measures, long-term inflation expectations are close to 2 per cent.

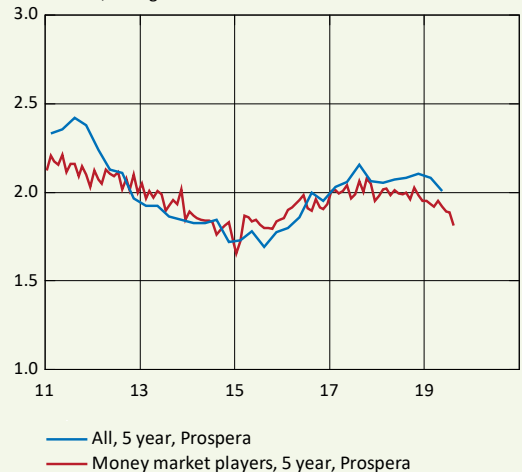
Figure 1:13. Market-based measures of long-term inflation expectations



Note. Inflation expectations refer to a 5-year period starting in 5 years' time. For the United States and Sweden, these are calculated on the basis of bond yields. For the euro area, they are calculated on the basis of inflation swaps.

Sources: Bloomberg, Macrobond and the Riksbank

Figure 1:14. Long-term inflation expectations, Sweden



Source: Kantar Sifo Prospera