

Introduction on monetary policy

Riksdag Committee on Finance
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S V E R I G E S R I K S B A N K

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Today's presentation

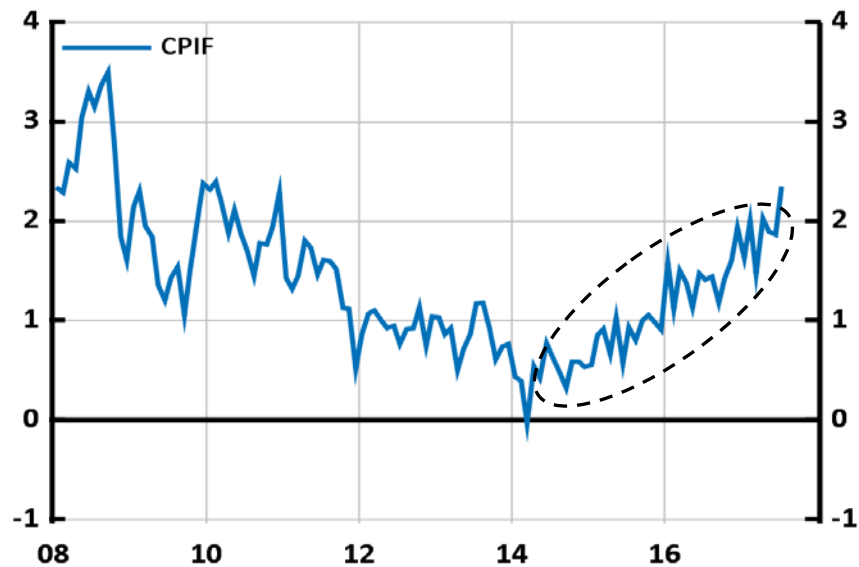
- Almost three years of a negative interest rate and government bond purchases
- Current monetary policy: still expansionary to ensure inflation is close to the target

Almost three years of a negative interest rate and government bond purchases

- The inflation target introduced in 1995 has helped us to establish stable prices - it is important to defend this
- The falling trend in global real interest rates has affected conditions for Sweden
- Difficult situation 2014/2015:
Several years of inflation below 2 per cent
Falling confidence in the inflation target as nominal anchor

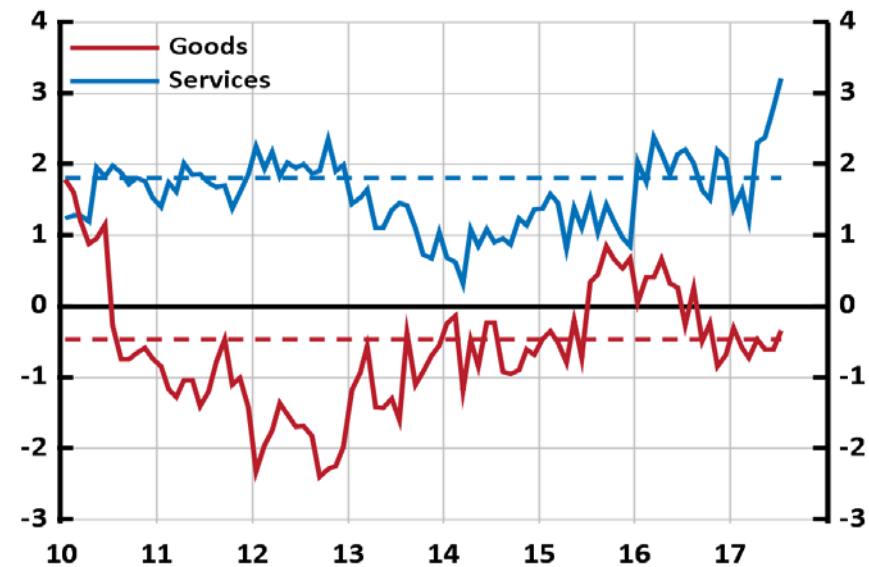
We have acted purposefully and reversed the trend in inflation

Inflation close to 2 per cent



Annual percentage change.
Broken lines represent averages since 2000.

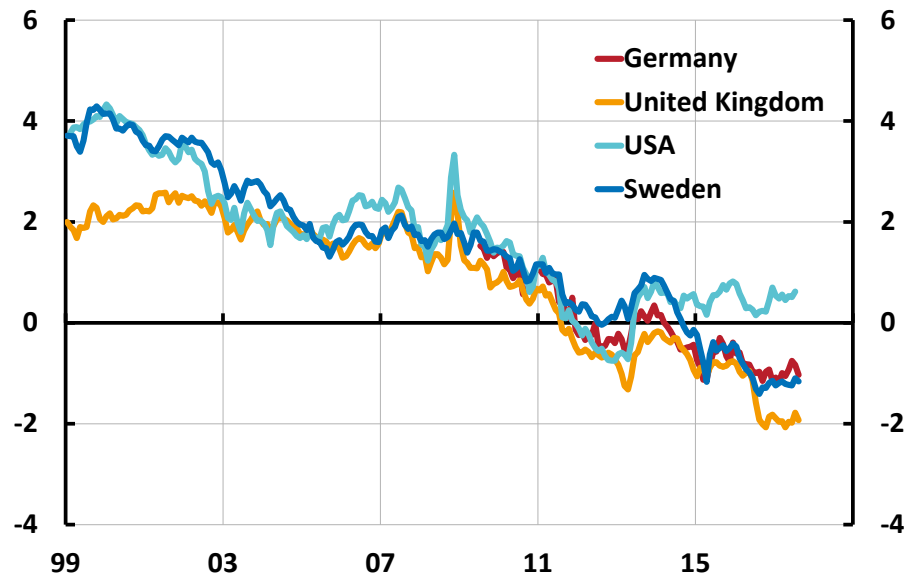
Service prices are making an increasing contribution



Sources: Statistics Sweden and the Riksbank

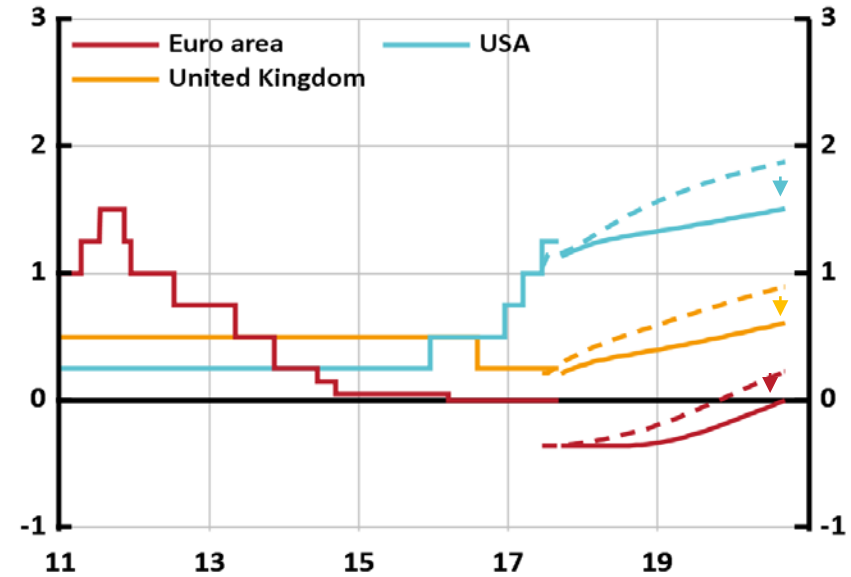
The international situation forms an important condition for Sweden's economy

Global falling trend in real interest rates – continued low levels



10-year yield on real government bonds. Forward rates describe the expected overnight rate, which does not always correspond to the policy rate (the refi rate in the euro area). Unbroken lines are estimated on 31 August 2017, broken lines on 3 July 2017.

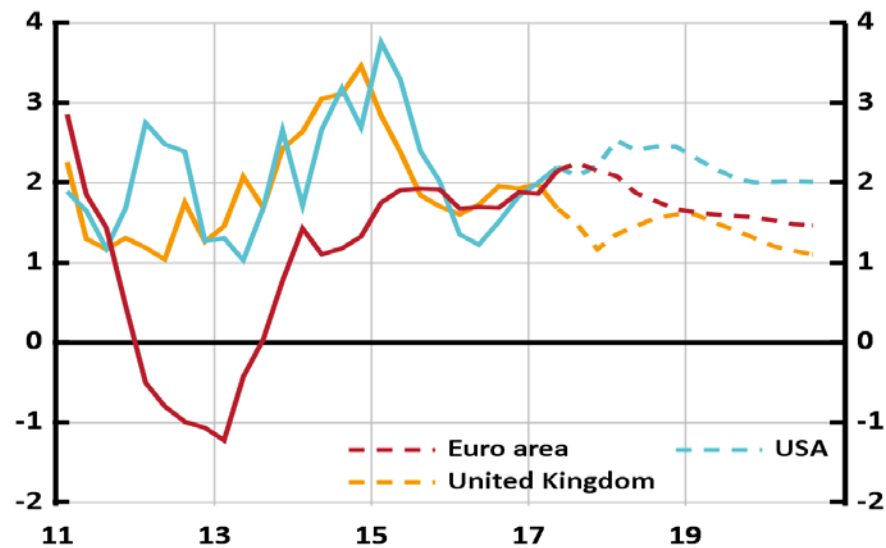
Expectations of a more expansionary monetary policy



Sources: Bureau of Economic Analysis, Eurostat, national sources, Office for National Statistics, Macrobond and the Riksbank

Continuing economic upturn abroad and strong economic activity in Sweden

Stronger global economic activity



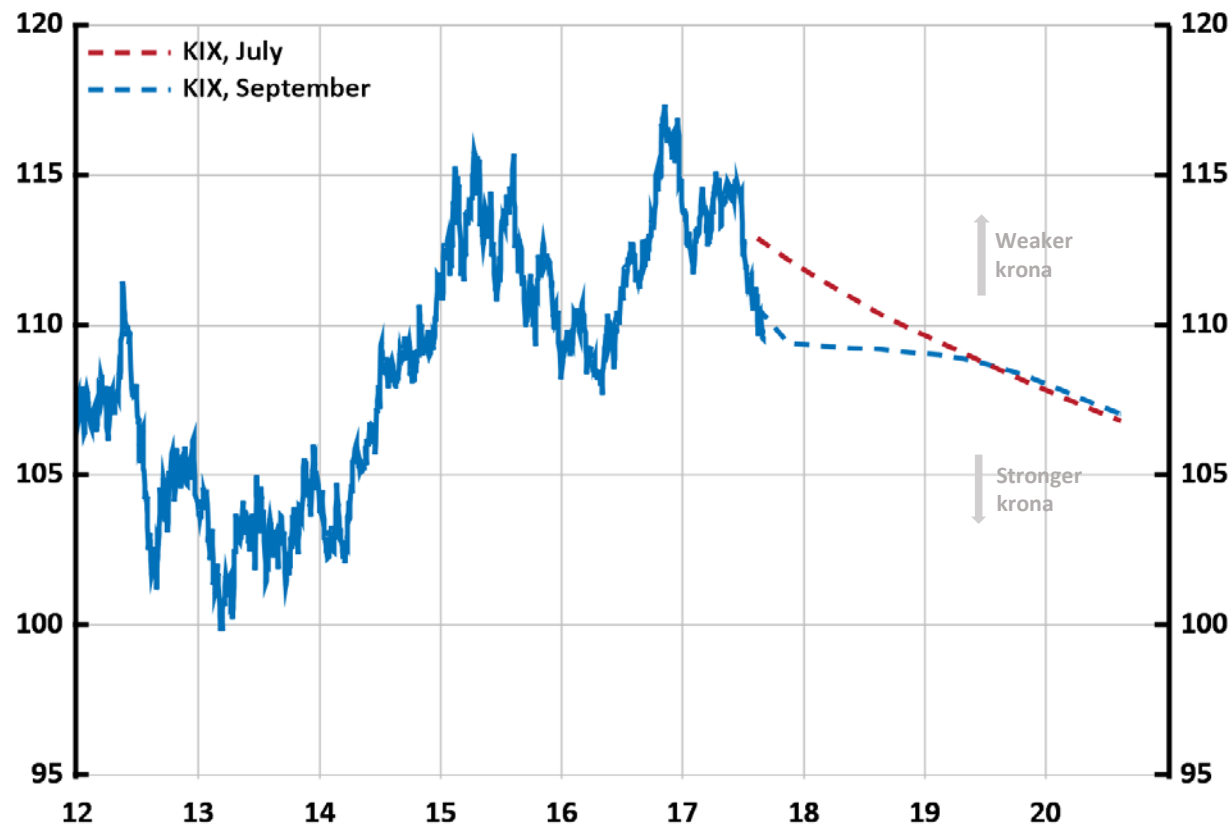
GDP, annual percentage change.

Strong Swedish economic activity



Sources: Bureau of Economic Analysis, Eurostat, national sources, Office for National Statistics, Macrobond, Statistics Sweden and the Riksbank

The krona has strengthened

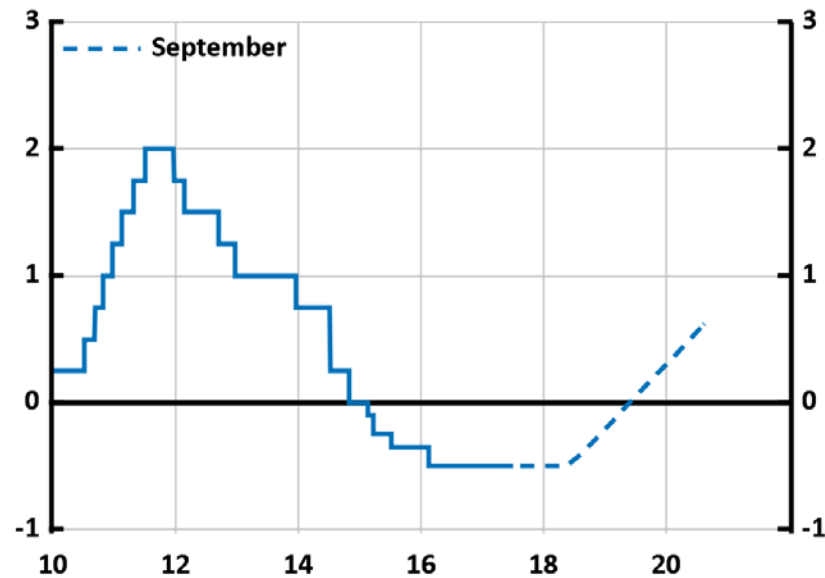


Index, 28 Nov 1992 = 100. The KIX is an aggregate of countries important to Sweden's international transactions. Outcomes refer to daily data up to and including 31 Aug 2017.

Sources: National sources and the Riksbank

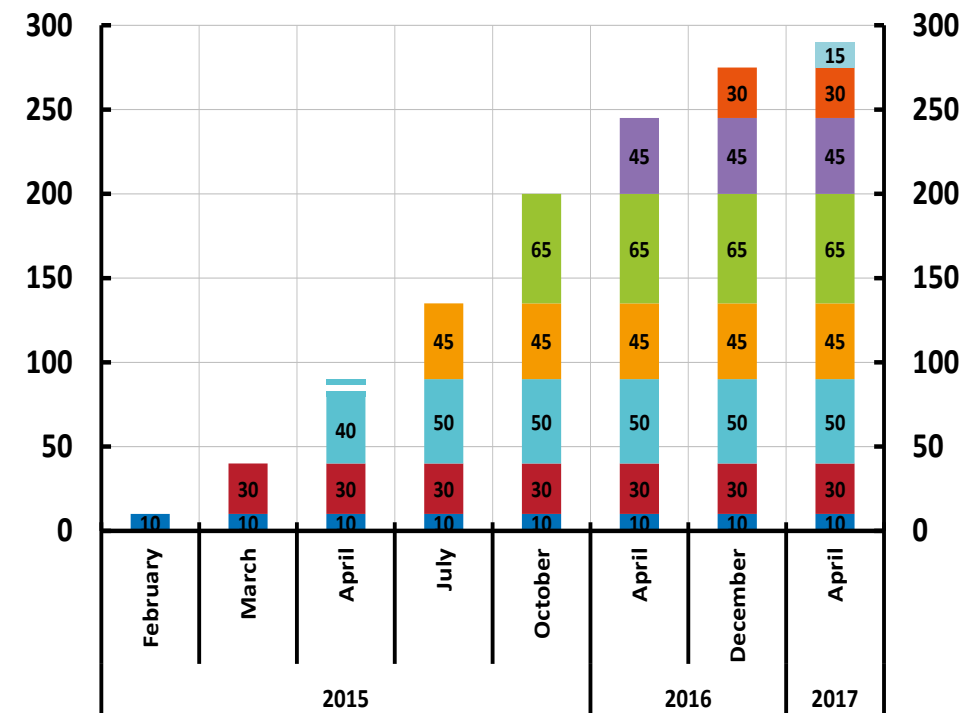
Continued support to the Swedish economy and inflation

Repo rate -0.50 per cent



Per cent and SEK billion respectively

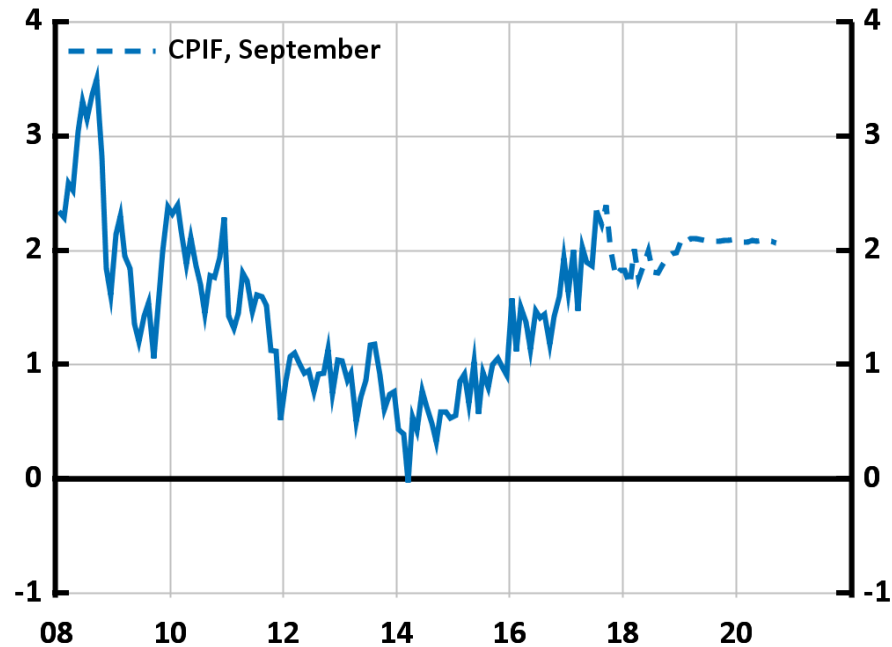
Purchases of government bonds during the second half of the year



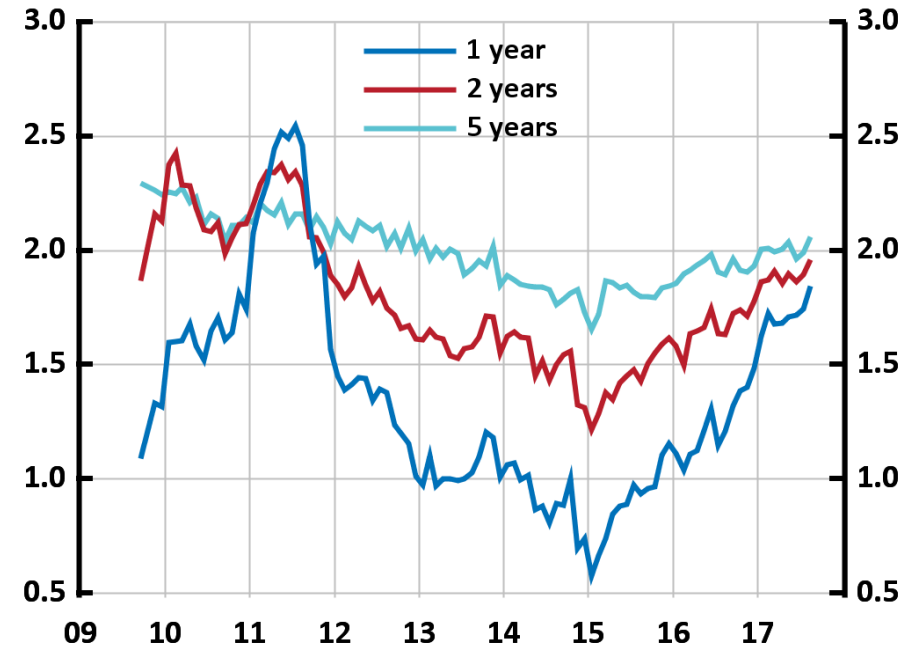
Source: The Riksbank

The expansionary monetary policy is a prerequisite for inflation close to the target

Inflation



Inflation expectations

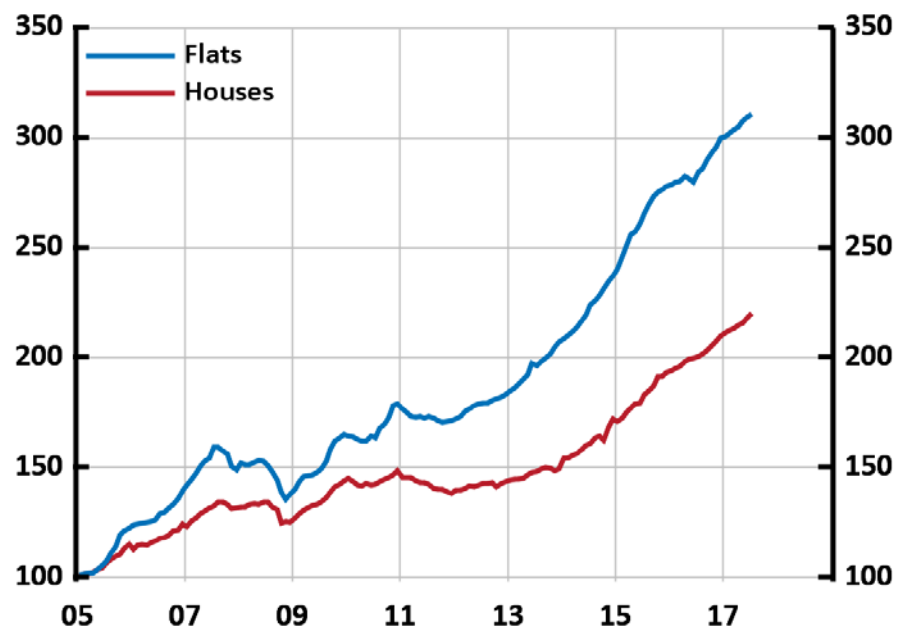


Annual percentage change.
Inflation expectations refer to all money market participants.

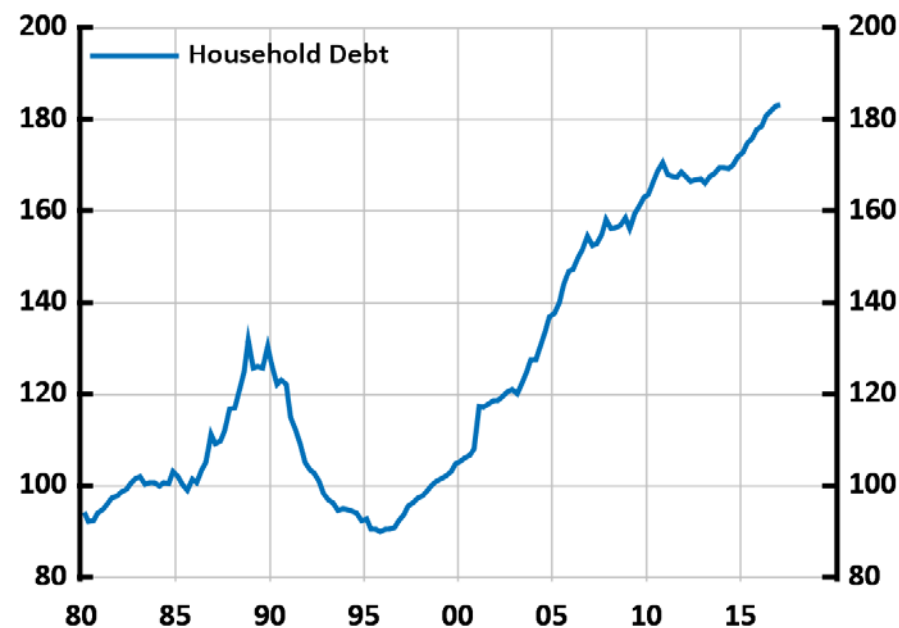
Sources: Statistics Sweden, TNS SIFO Prospera and the Riksbank

But rapidly rising house prices and high indebtedness create vulnerabilities

Rapidly rising housing prices



Rapid growth in indebtedness



Note. Index, 2005 =100 and percentage of disposable income respectively.

Sources: Statistics Sweden, Valueguard and the Riksbank

CPIF and variation band

CPIF now also formal target variable

CPI problematic as target variable

Other measurements of inflation have guided monetary policy, in recent years the CPIF

Does not entail any change in the monetary policy conducted

The band illustrates that inflation is not 2 per cent every single month. Does not affect monetary policy.

