

Challenges for inflation targeting: Swedish experiences when introducing an inflation target

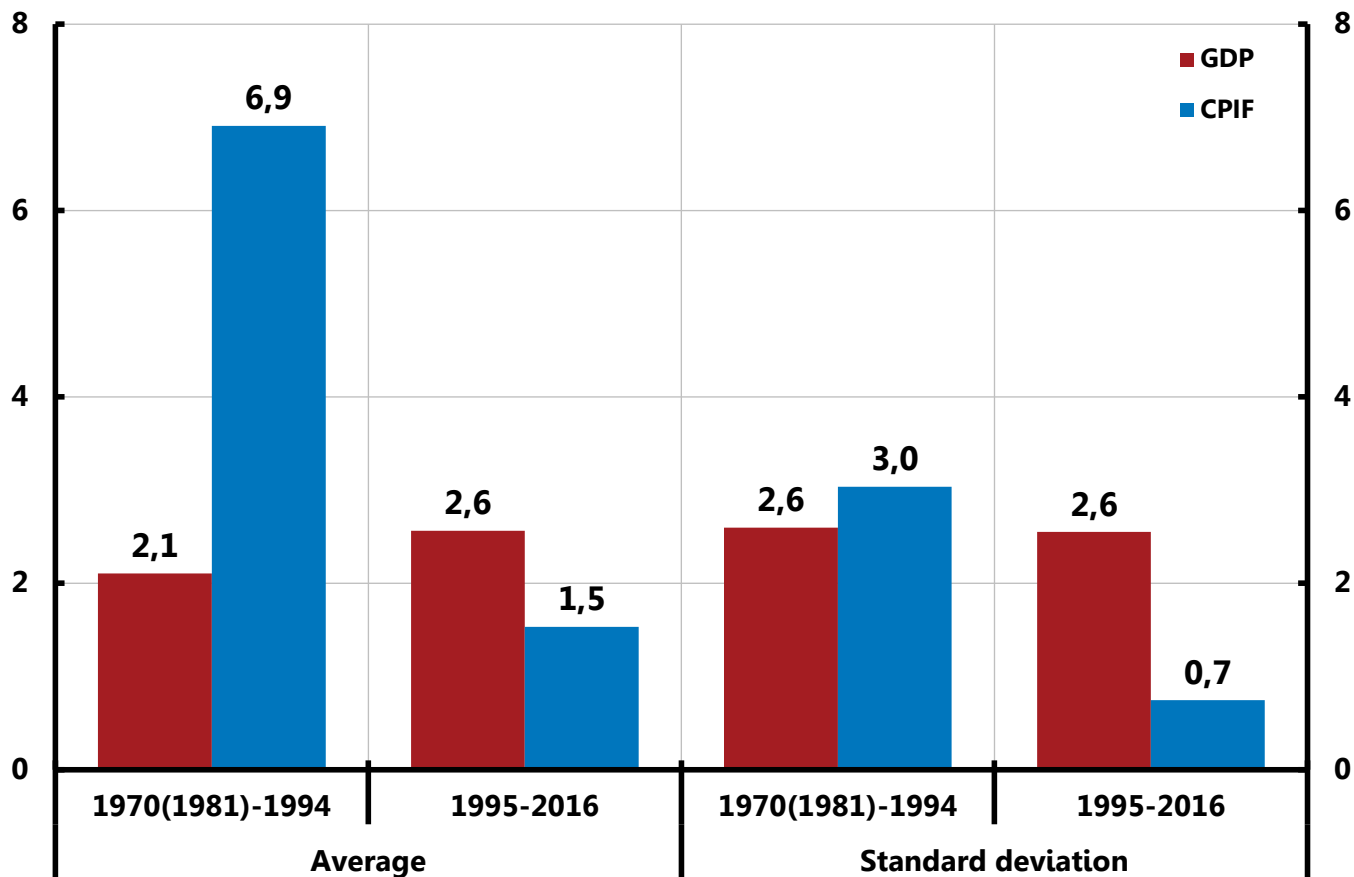
National Bank
of Ukraine

20 May 2016

Deputy Governor

Per Jansson

The best first: A great success story!



Note. Annual percentage change. CPIX refers to the period 1981–1994. CPIX is CPI with a fixed mortgage rate.

Sources: Statistics Sweden and the Riksbank

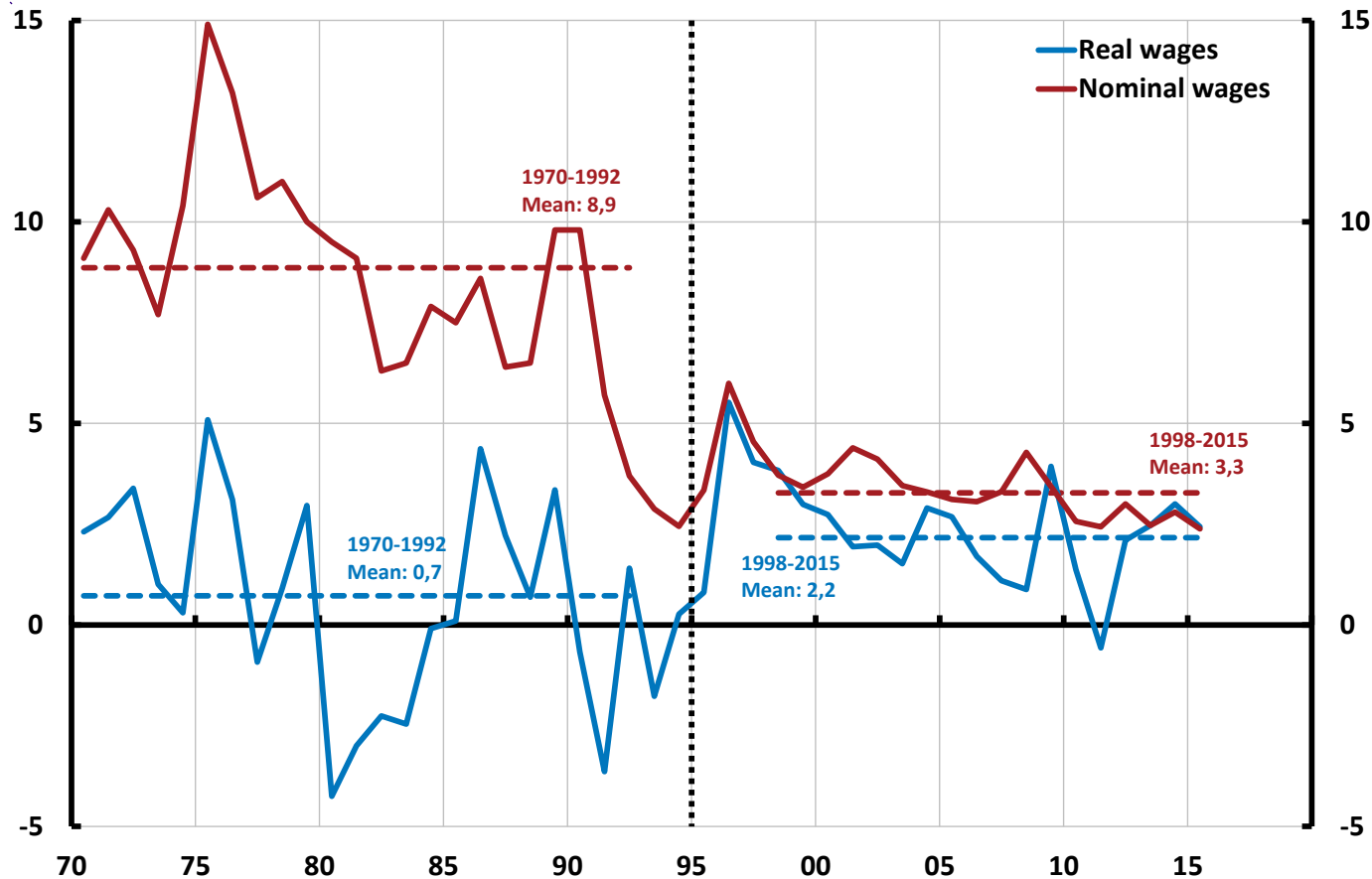
Some Swedish lessons (1 of 2)

- IT needs broad-based backing
 - In SE, wage formation and fiscal policy were reformed at the same time
- At the beginning, keep it simple!
 - Short and easy-to-read reports focusing on actual and (longer-term) expected inflation
 - Talk to the general public, not economics professors
 - Do not jump immediately to DSGE models and complicated policy trade-offs
 - Being an "inflation nutter" in the beginning may make it easier to gain credibility, but switch quickly to FLIT when credibility has been established

Some Swedish lessons (2 of 2)

- Do not create the impression that you can do more than you actually can!
 - Coarse-tuning rather than fine-tuning
 - Persistent deviations from IT are very likely to occur
- Be open and transparent but take steps gradually when you are ready for them
 - Openness makes it easy to criticise the CB but over time builds legitimacy, credibility and institutional robustness
 - Publishing detailed forecasts of a huge array of variables is not necessarily an important aspect of openness...

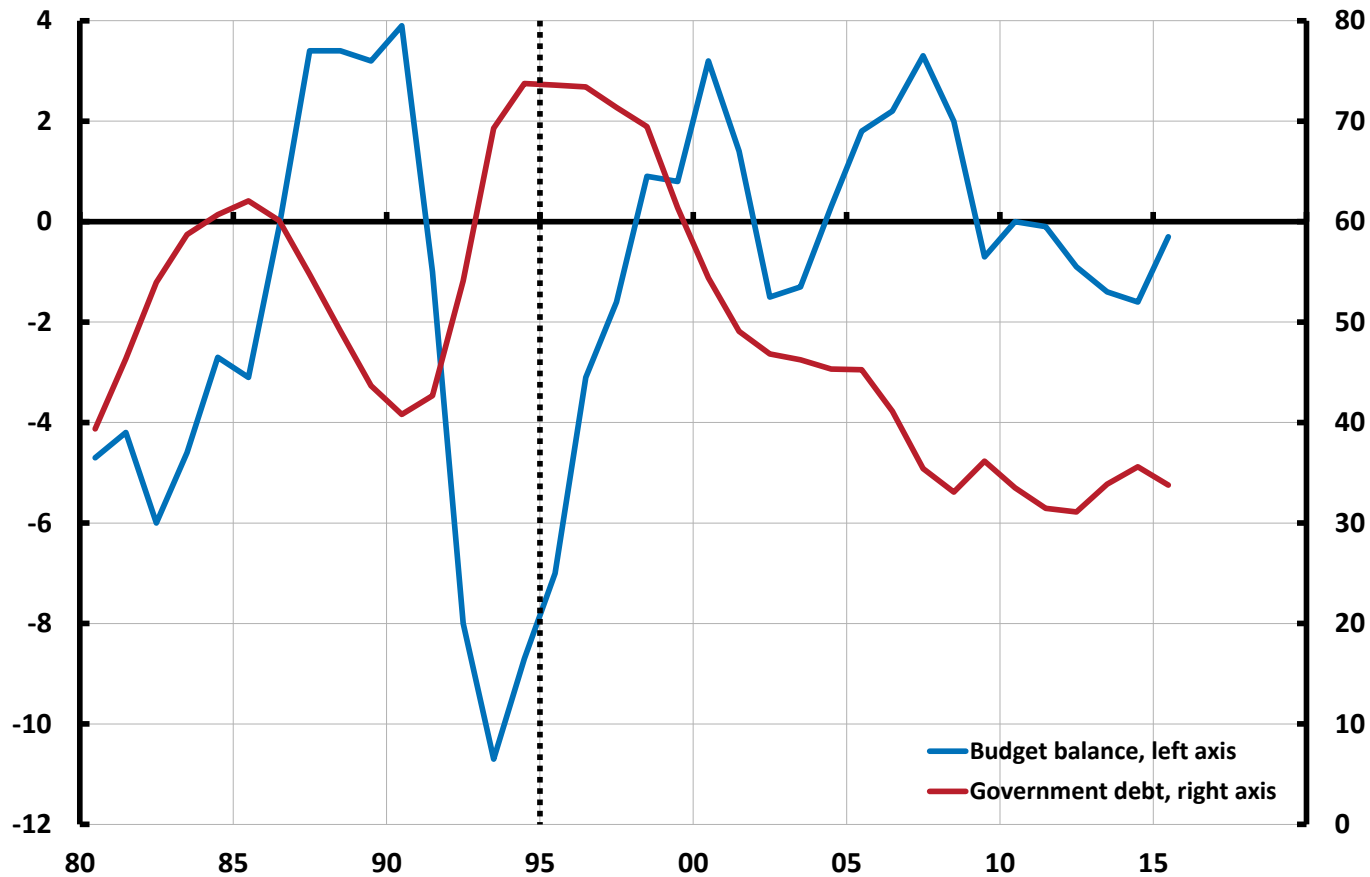
Better wage formation has led to greater purchasing power and more stability



Note. Annual percentage change. The dashed vertical line refers to the introduction of the inflation target, 1 January 1995. Short-term wage statistics after 1993 and wage structure statistics prior to 1993. Real wages are the difference between the change in nominal wages and the change in the CPI.

Sources: National Mediation Office and Statistics Sweden

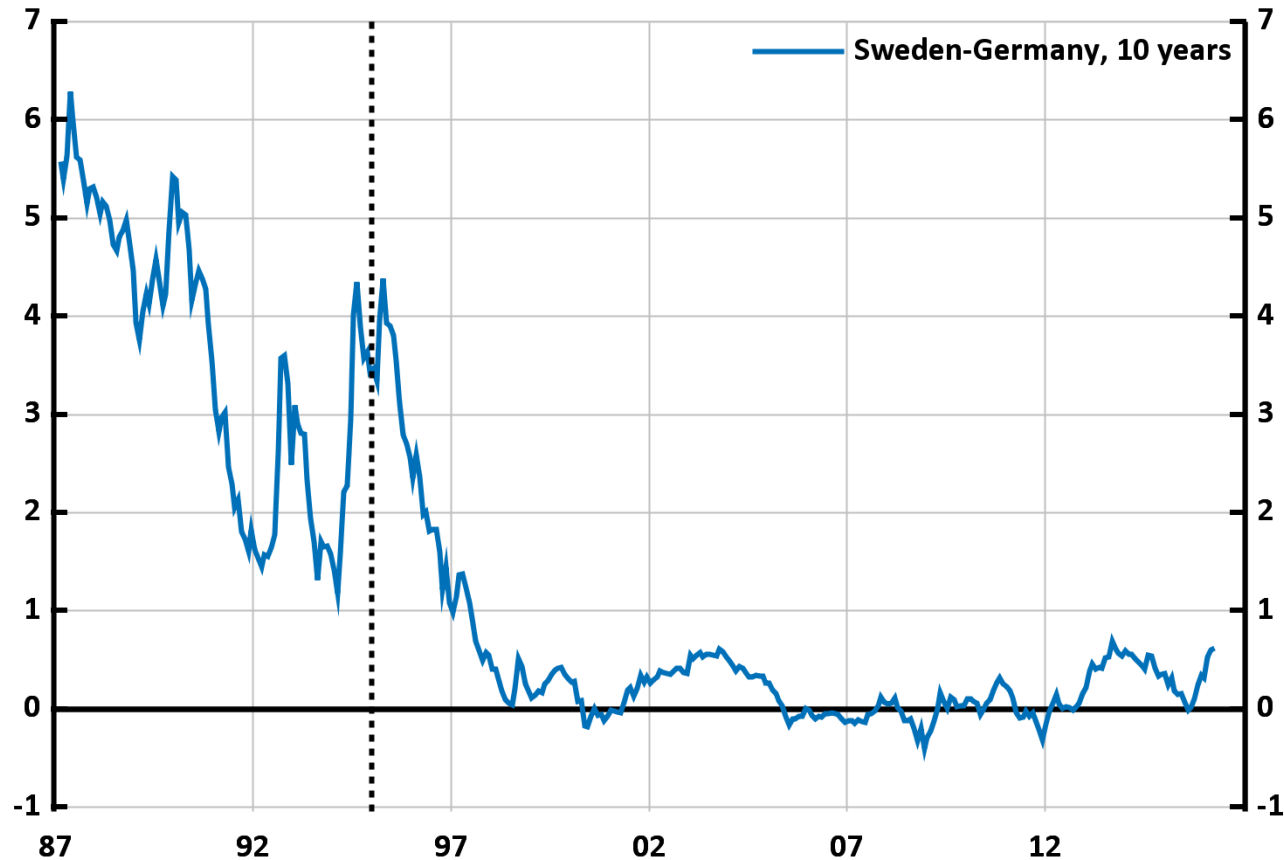
Reformed fiscal policy without deficit bias



Note. Per cent of GDP. The dashed vertical line refers to the introduction of the inflation target, 1 January 1995.

Sources: Swedish National Debt Office and National Institute of Economic Research

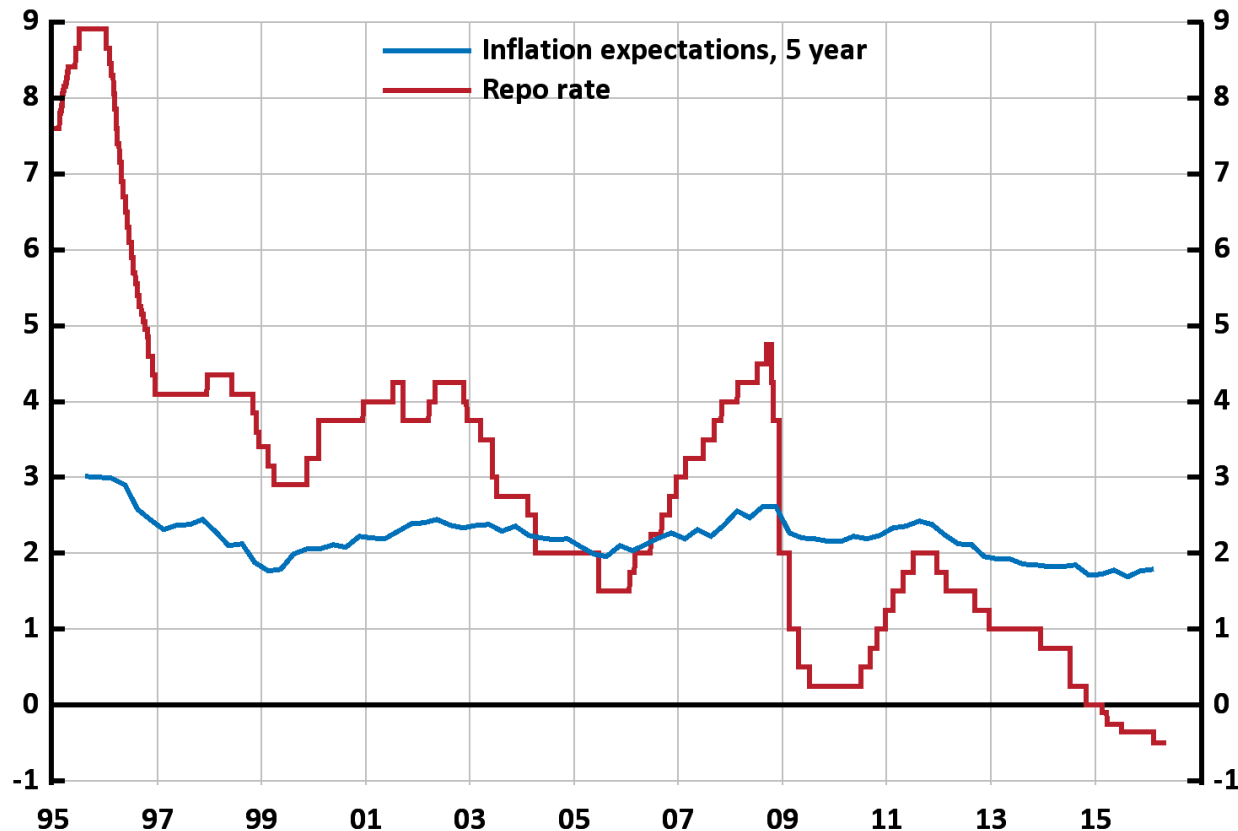
New Swedish economic policy framework deemed credible



Note. Per cent. Benchmark bonds, 10 years, monthly.
The dashed vertical line refers to the introduction of the
inflation target, 1 January 1995.

Source: Macrobond

Repo rate could be cut quickly when credibility was established



Note: Per cent. Inflation expectations refer to all market participants.

Sources: TNS Prospera and the Riksbank

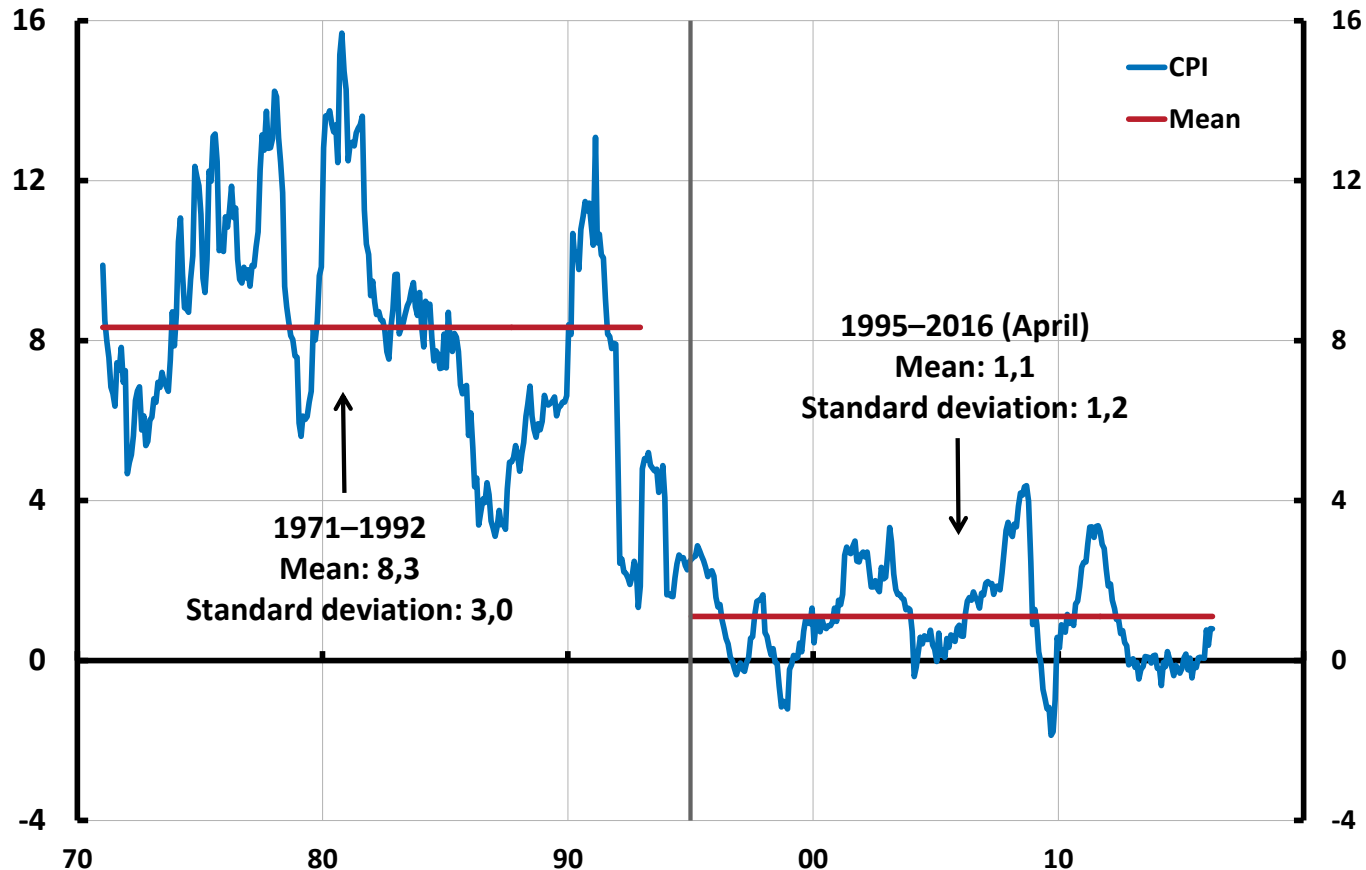
The importance of transparency

Measures by the Riksbank:

- Monetary policy reports including forecasts and policy rate paths
- Minutes from EB monetary policy meetings
- Speeches and presentations by EB members
- Internal and external assessments of the monetary policy
- Parliamentary committee hearings

Thank you!

Lower and more stable inflation since the inflation target



Note. Annual percentage change. The vertical line refers to the introduction of the inflation target, 1 January 1995.

Sources: Statistics Sweden and the Riksbank

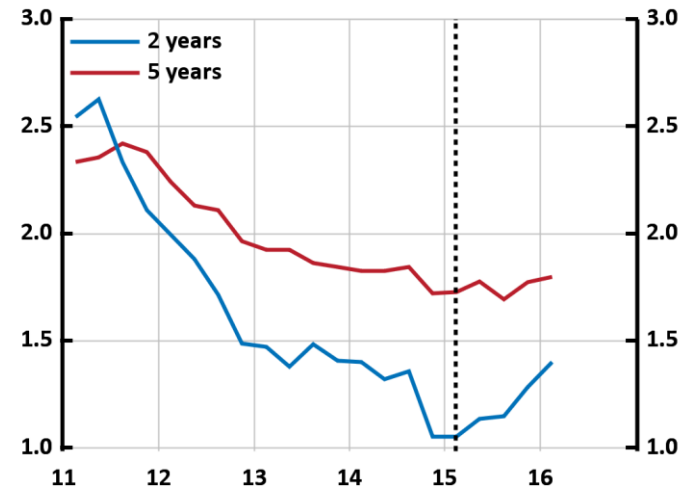
Negative rate and QE programme

Inflation too low for many years and falling inflation expectations

Inflation



Inflation expectations



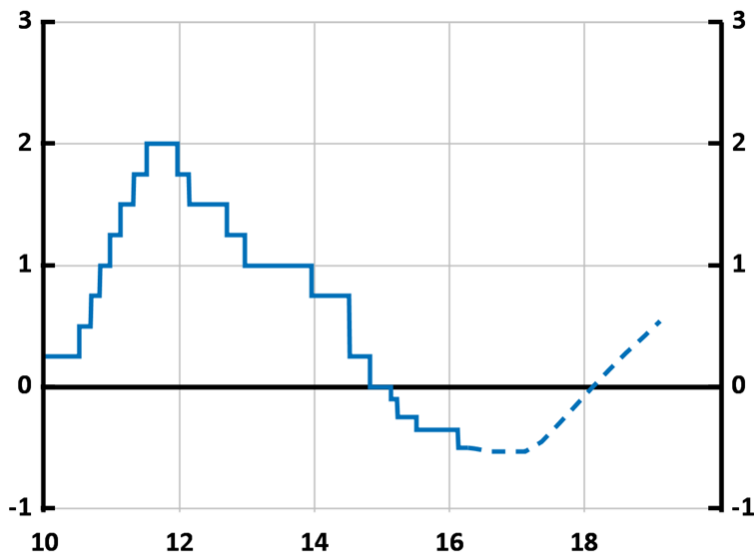
Note. CPIF is CPI with a fixed mortgage rate. Dashed vertical line refers to the announcement of the negative interest rate (-0.1 per cent) and the first government bond purchase of 10 billion SEK in February 2015.

Sources: Statistics Sweden and TNS Prospera

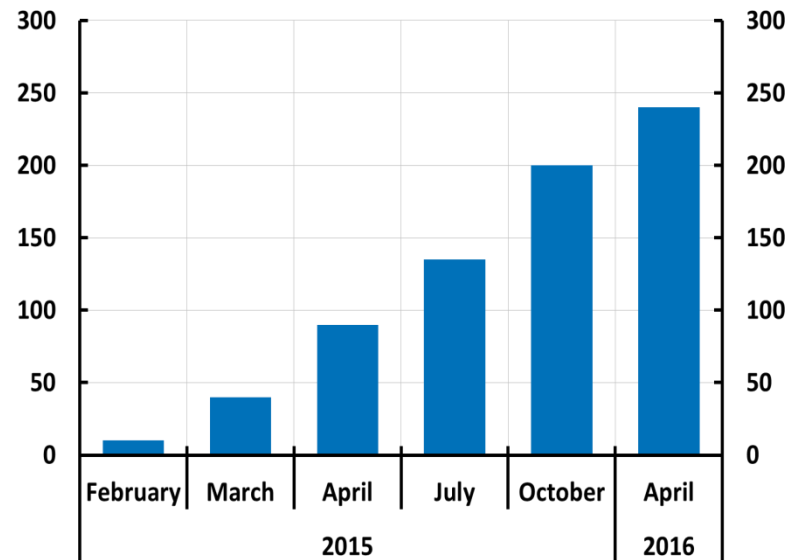
Expansionary monetary policy necessary to safeguard a credible inflation target



Repo rate at -0.50



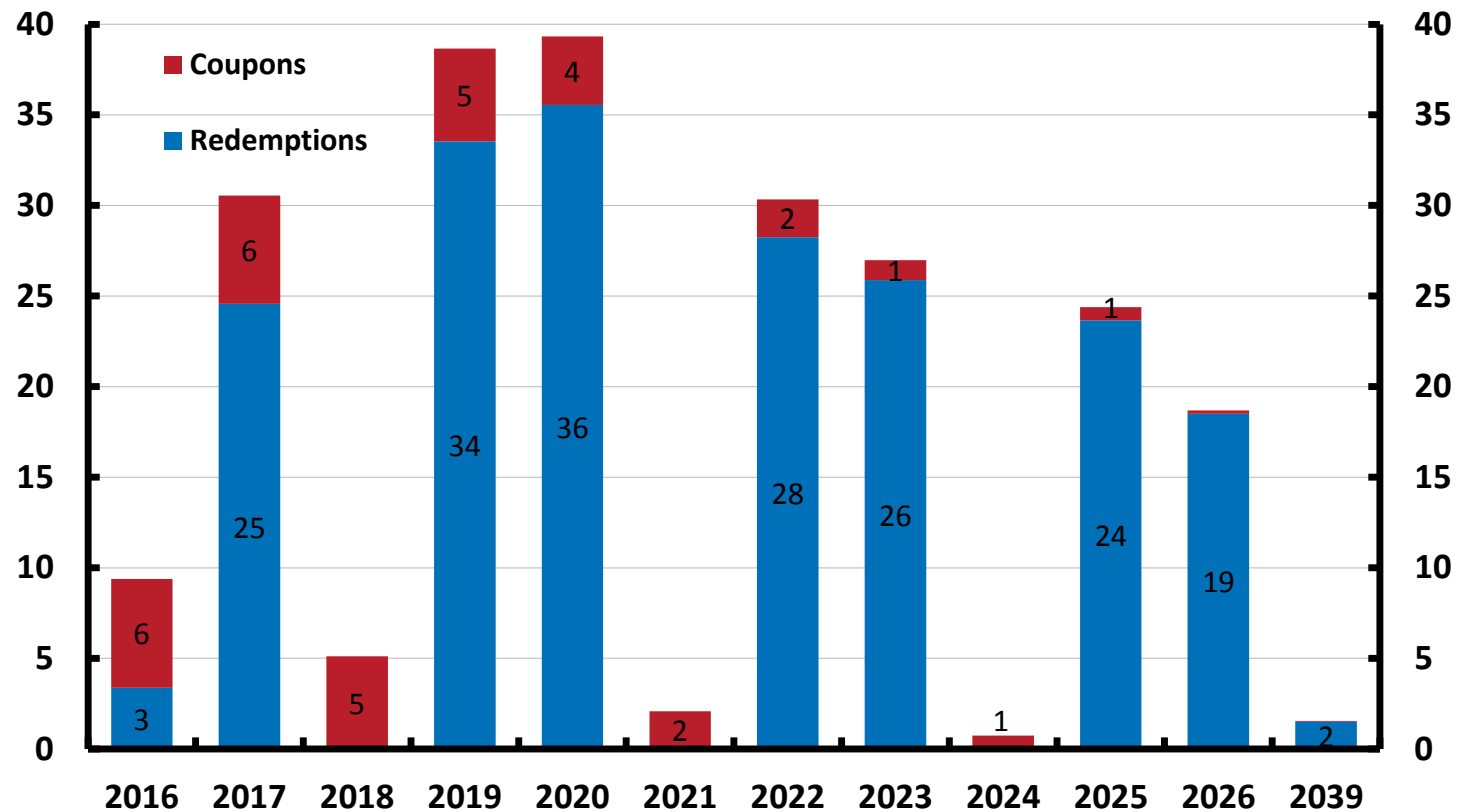
Purchases of government bonds



Note. Per cent and SEK billion.

Source: The Riksbank

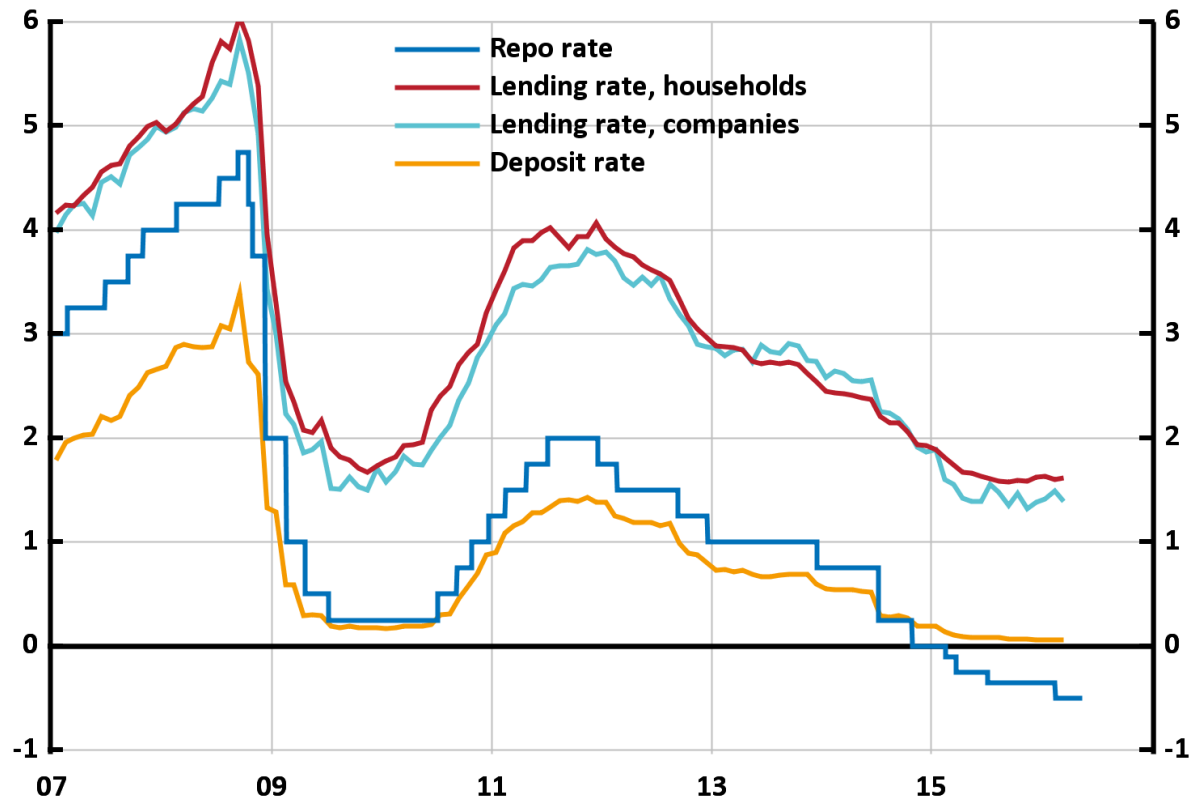
Coupons and redemptions from the Riksbank's holdings of Swedish government bonds



Note. Per 12 May 2016, SEK billion.

Sources: Swedish National Debt Office and the Riksbank

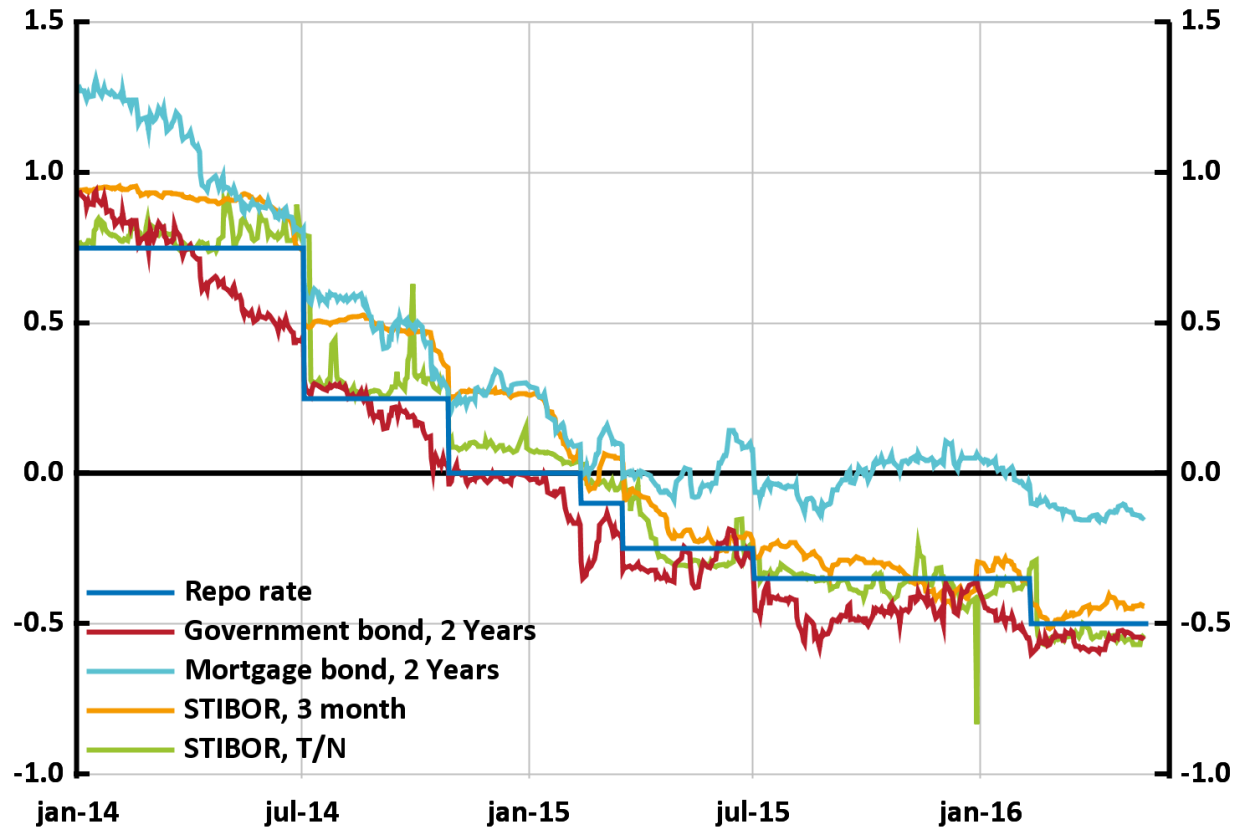
Lending and deposit rates have followed the repo rate...



Note. Per cent.

Sources: Statistics Sweden and the Riksbank

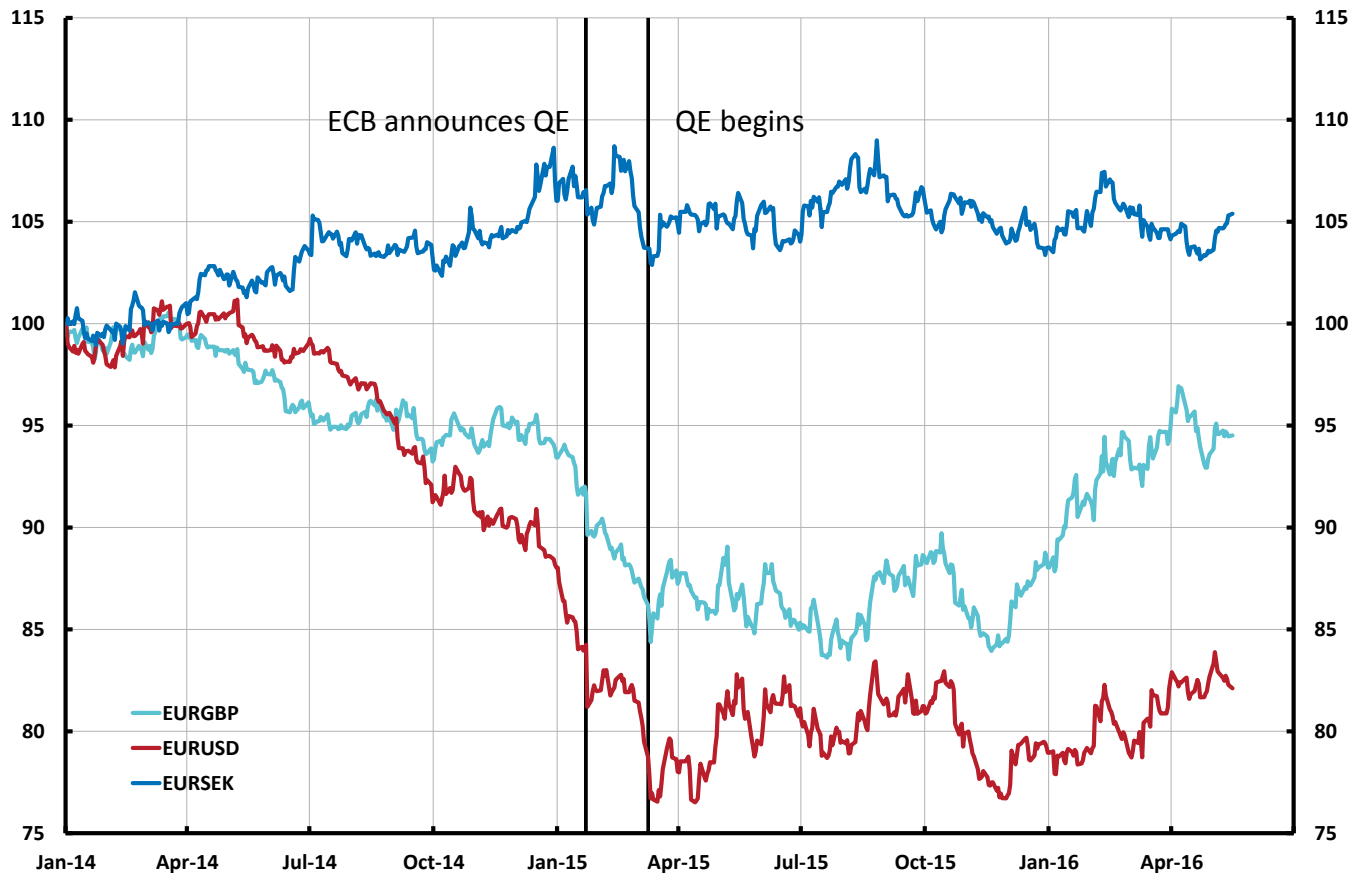
... and so have market interest rates



Note. Per cent.

Sources: Macrobond and the Riksbank

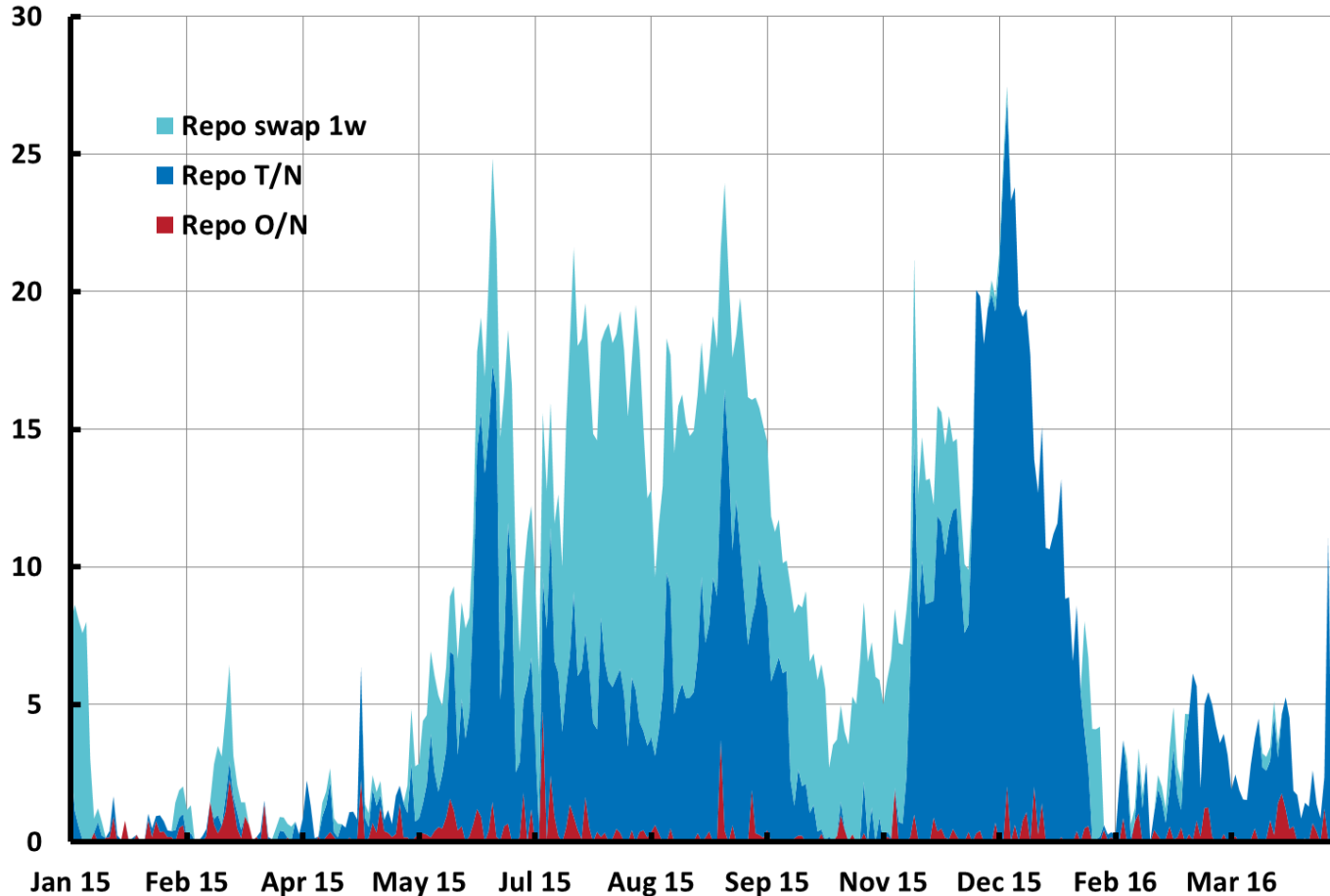
Too strong appreciation of krona exchange rate so far prevented



Note. The ECB announced QE 22 January 2015 and started its purchases 9 March 2015. Index, 1 January 2014 = 100.

Source: ECB

Little use of the Swedish Debt Office facilities for government bonds



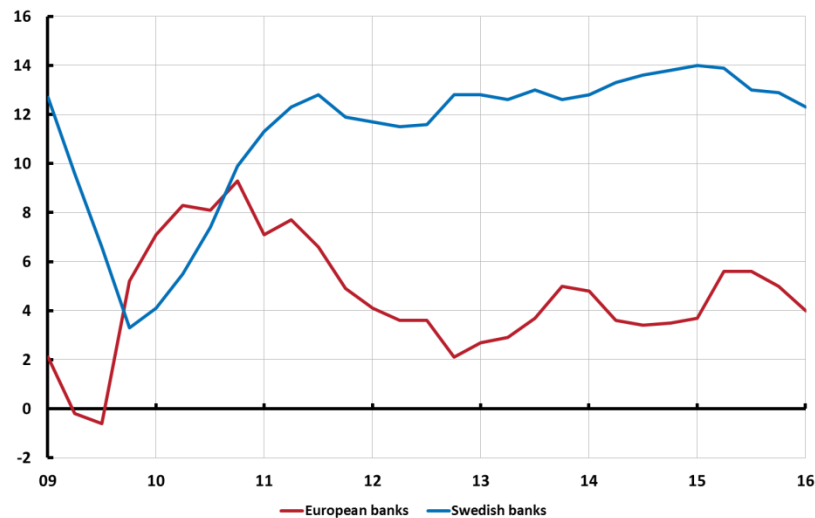
Note. SEK billion.

Source: Swedish National Debt Office and the Riksbank

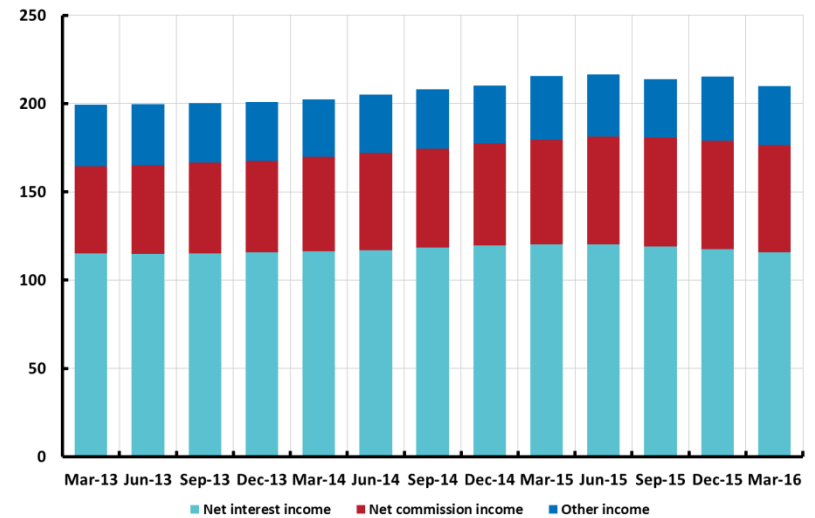
Swedish banks are very profitable despite negative interest rates



Return on equity



Swedish banks' income

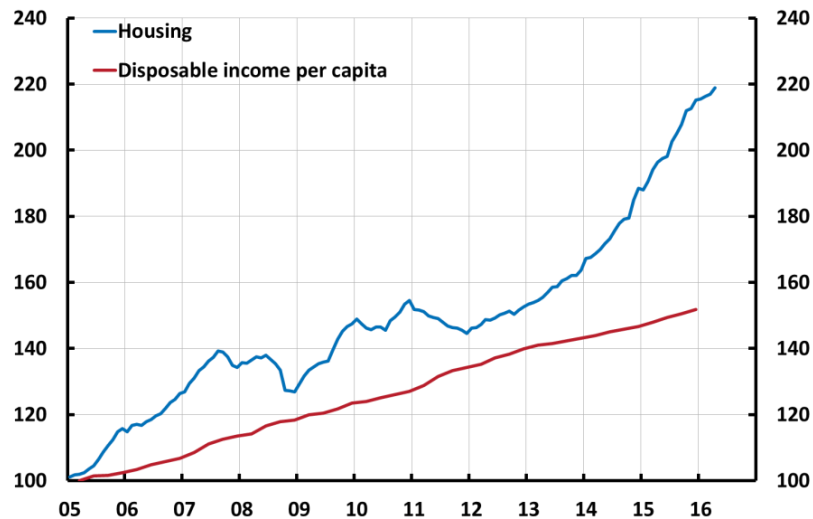


Note. Per cent and SEK billion. The right hand panel shows rolling average of four quarters.

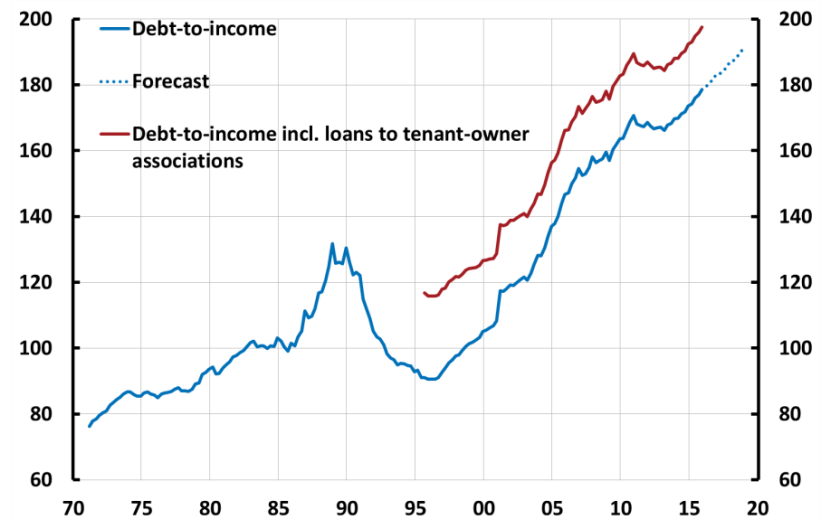
Sources: SNL and the Riksbank

Worrying trends in housing prices and household debt

Housing prices



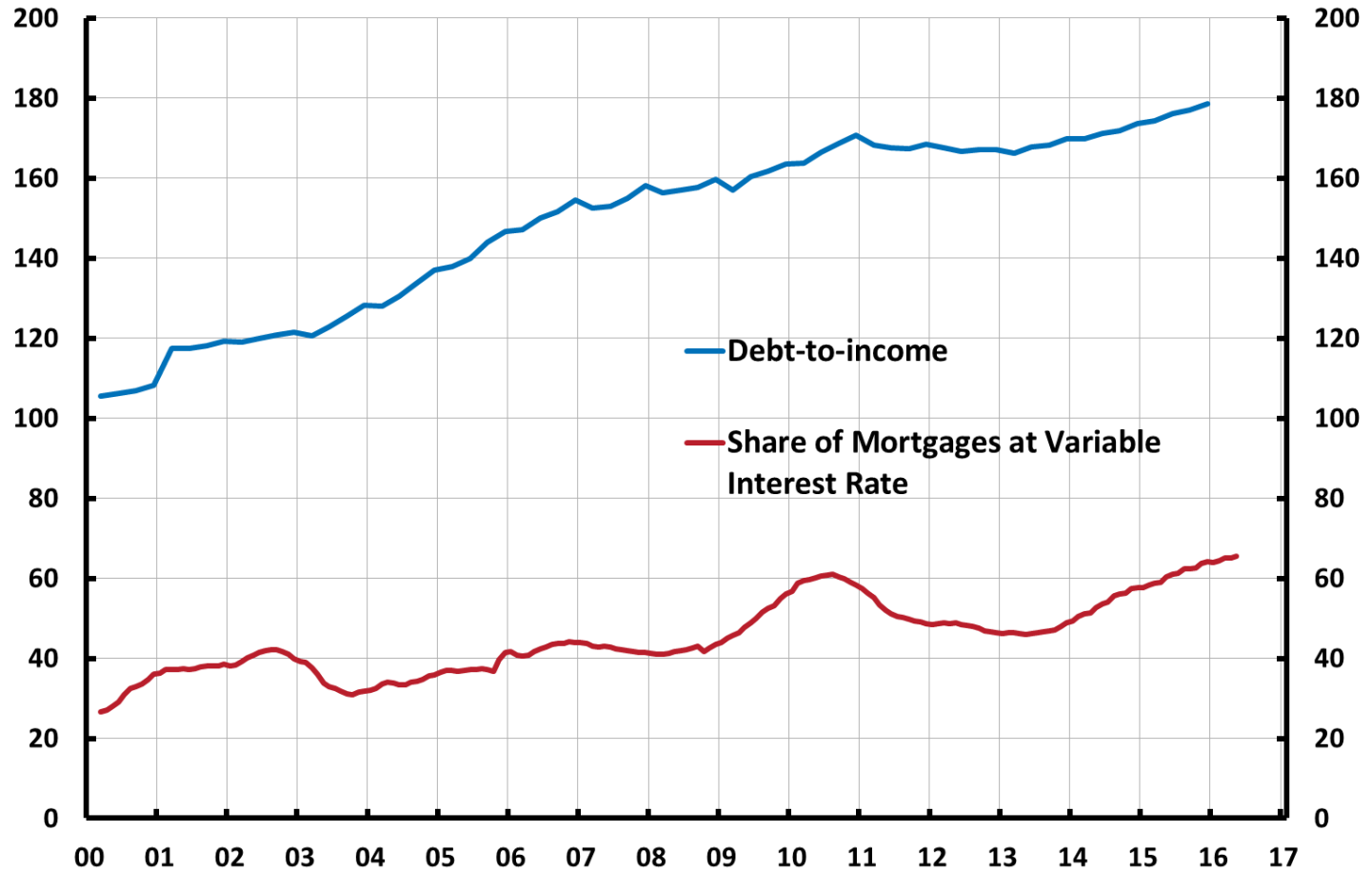
Household debt



Note. Housing prices refer to prices of tenant-owned apartments and single-family houses across the whole country. Household disposable income per capita refers to working age population, 16-64 years. Disposable income is summed over the past four quarters. The left panel displays the index of housing prices (January 2005=100) and disposable income per capita (2005 Q1=100). The right panel displays debt as a percentage of disposable income.

sources: Statistics Sweden, Valueguard and the Riksbank

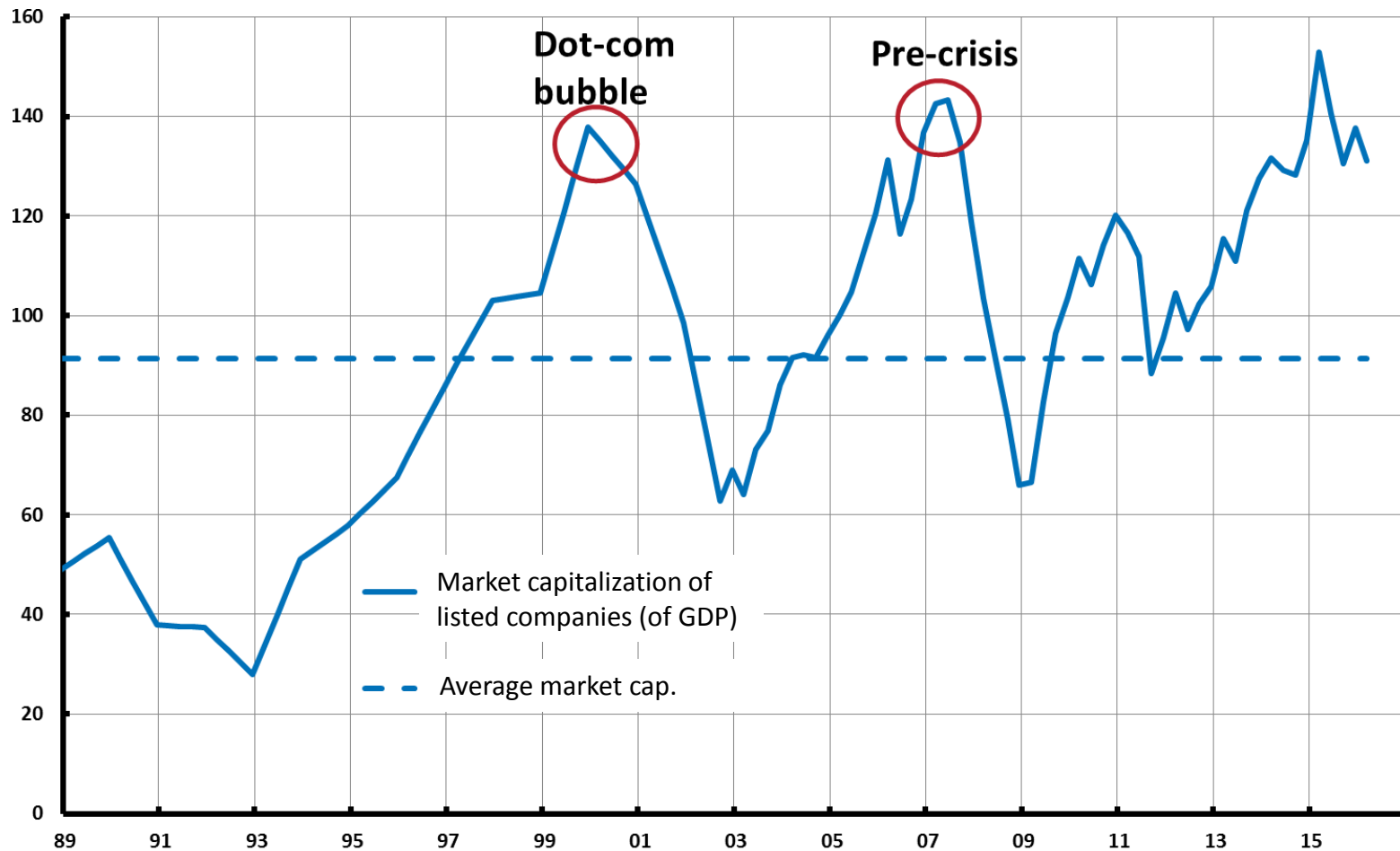
Pass-through will be quick when interest rates change



Note. Percentage of disposable income and percentage of mortgage stock.

Sources: Statistics Sweden and the Riksbank

Valuation of Swedish stock market is at historical high

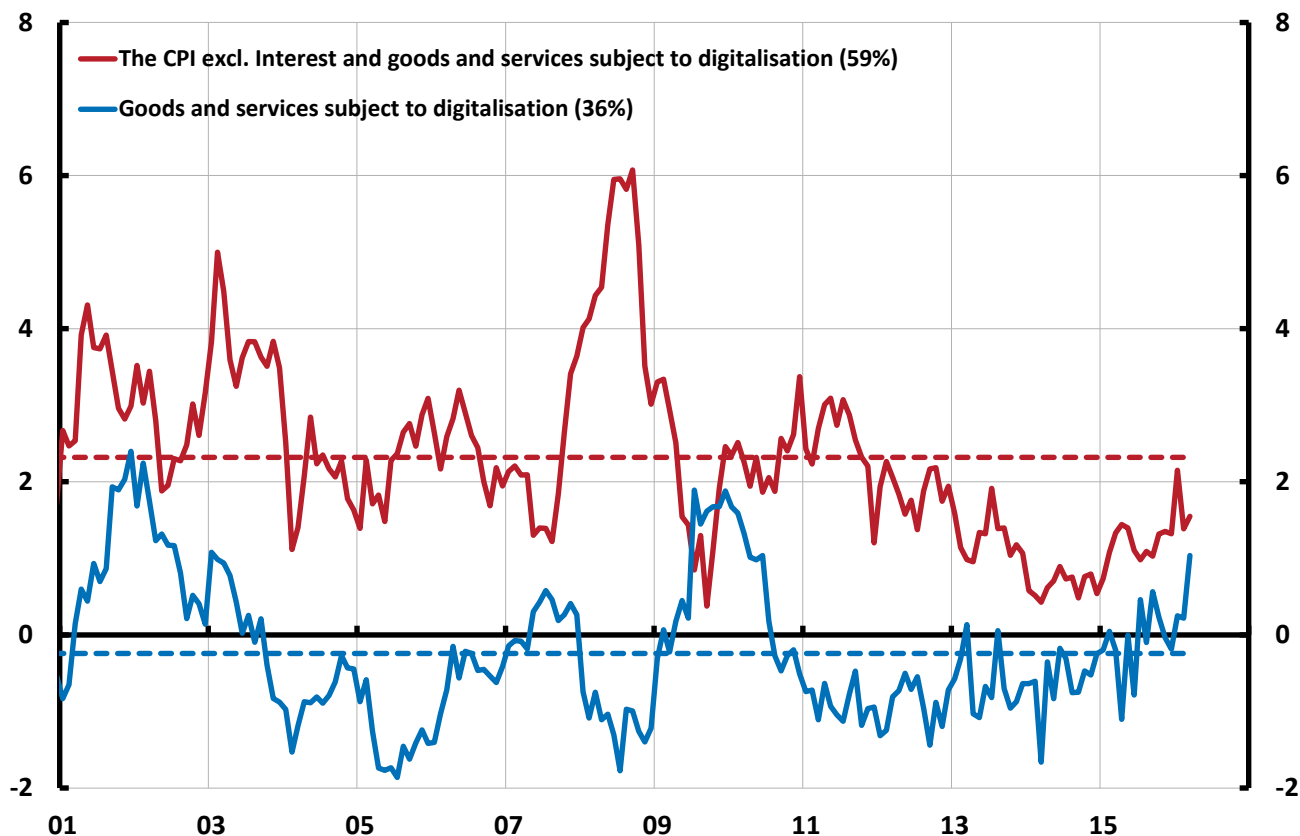


Note. Percentage of GDP.

Source: World Bank, Bloomberg and the Riksbank

Inflation and digitalisation

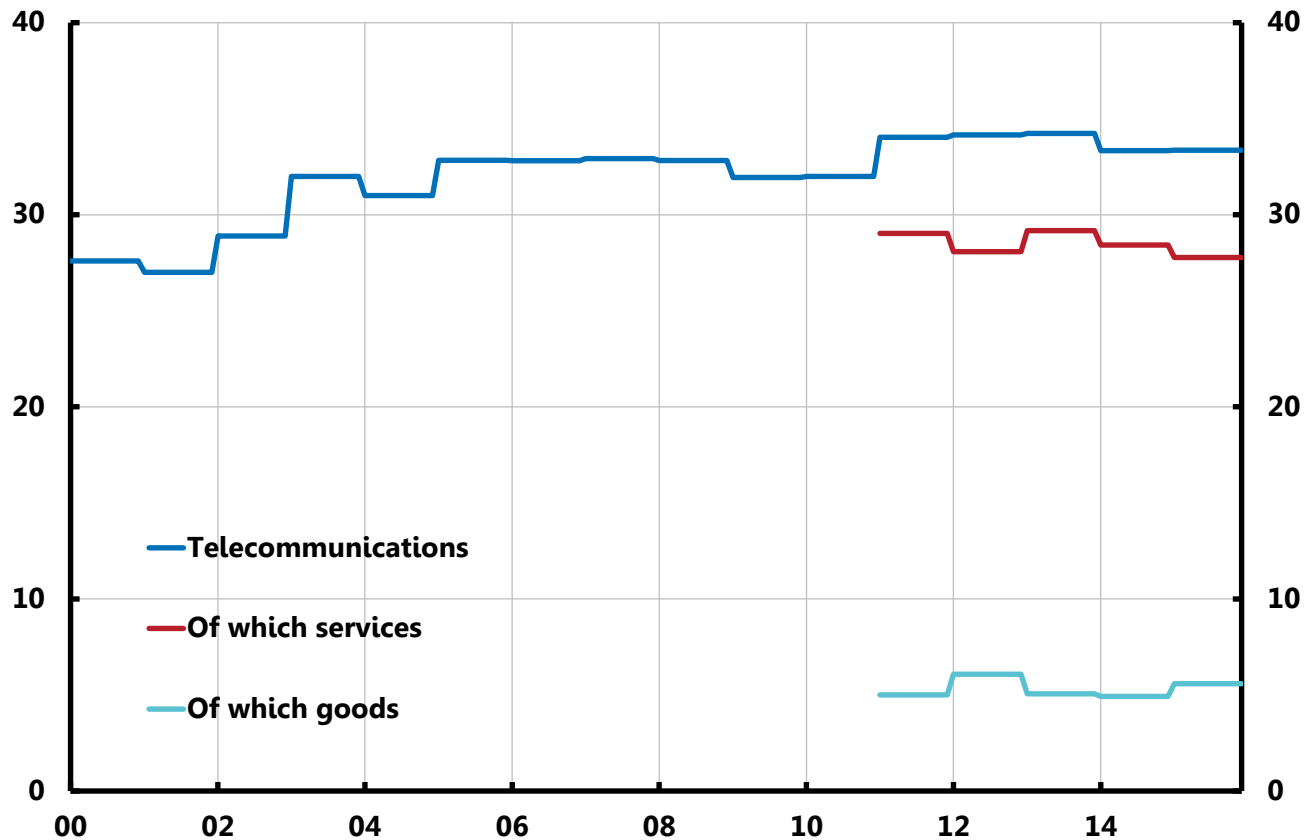
Not obvious that digitalisation is an important source of recently low inflation



Note. Annual percentage change. Broken lines refer to averages from 2000–2015. Numbers in brackets refer to the weight in CPI.

Sources: Statistics Sweden and the Riksbank

Weights for telecommunications in CPI fairly stable



Note. Weight in per mille.

Sources: Statistics Sweden and the Riksbank