SPEECH

DATE: 5 March 2018

SPEAKER: Governor of the Riksbank Stefan Ingves

VENUE: Expert Group on Public Economics, Stockholm

SVERIGES RIKSBANK
SE-103 37 Stockholm
(Brunkebergstorg 11)

Tel +46 8 787 00 00
Fax +46 8 21 05 31
registratorn@riksbank.se
www.riksbank.se

Monetary policy in a new environment*

This is a year of celebration for the Riksbank. The major event is our 350th anniversary as Sweden's central bank, which will be celebrated in different ways during the year. Furthermore, it is 25 years since the Riksbank announced its inflation target, which was a milestone in Swedish monetary policy. It also happens to be 20 years almost to the day since the Swedish Riksdag took the decision to strengthen the Riksbank's position and, as part of this work, to create a Riksbank Executive Board with the responsibility for conducting monetary policy independently.[1]

As well as being a reason to celebrate, anniversaries can also give us cause to pause and reflect on what has been, where we are and where we are heading. My intention here today is to perform just such a positioning exercise. A general reflection is that monetary policy internationally and in Sweden finds itself in an environment that in many ways differs from the one we have been experiencing for a long time. It is not merely a question of changes in economic activity. Structural shifts in the economy and changes in underlying trends have also created uncertainty about what the "new normal" will be in the future.

It is sometimes said in the debate that these changes have made it more or less impossible for the Riksbank to keep inflation at such a high level as 2 per cent. We should therefore either relate to our existing inflation target more freely or simply lower it. I think this line of reasoning is misdirected. There is no doubt that it is possible to get inflation to pick up, but it can be done in different ways. The challenge is to create the right amount of inflation in an orderly manner and with reasonable precision. This is the challenge facing monetary policy and it is in this context that the new environment plays a role.

---

* In particular, I would like to thank Björn Andersson for assistance writing this speech. I would also like to thank Charlotta Edler, Jesper Hansson, Per Jansson, Tomas Lundberg, Ann-Leena Mikiver, Åsa Olli Segendorf, Cecilia Roos-Isaksson, Marianne Sterner, Ulf Söderström and Anders Vredin for valuable comments.

[1] The Bank of the Estates of the Realm, later renamed Sveriges Riksbank, was founded on 22 September 1668. The inflation target was announced in a press release on 15 January 1993. The press release specified that the target of 2 per cent inflation would begin to apply from 1 January 1995. The Riksdag approved the Swedish Government's proposal to strengthen the Riksbank's position on 4 March 1998. The changes came into force on 1 January 1999.

In a moment I will look more closely at the new environment and discuss a few properties that characterise it and that monetary policy will need to relate to going forward. Lastly, I also intend to provide an overall picture of what might characterise the way forward. But before doing that, allow me to say something about what has brought us here.

Where we are coming from

I spoke earlier about 2018 being a year of celebration. Another anniversary, but one which does not give cause for any kind of celebration, is that it is also ten years since the collapse of the investment bank Lehman Brothers. The problems on international financial markets, which had been escalating for a long time, came to a head. Confidence in the financial system evaporated and the financial crisis was upon us.

Much has happened during the ten years since then. The actions of central banks during this period have not just been about managing the direct crisis of 2008, even though many of the problems stem from there. It is more accurate to describe the actions as reactions to an interconnected series of crises, or, if you like, a crisis that consists of several phases. These have, in turn, formed the backdrop to the different phases of monetary policy that Sweden has gone through.

Upturn cut short by sovereign debt problems in 2011–2012

An effect of the severe crisis of 2008 was a shutdown in global trade, which brought the Swedish economy to a sudden halt. To support the economy, the Riksbank quickly lowered the repo rate to a, at the time, historically low level of 0.25 per cent. Around the world, other central banks and governments made herculean efforts to kick-start the financial system and reverse the trend. As the situation on the credit markets improved and global trade picked up, the recovery occurred more rapidly than expected in Sweden. From mid-2010, the Riksbank began raising the repo rate towards a more normal level.

But during 2011, the recovery stuttered when unease linked to the problems of heavily burdened public finances in several European countries started to affect the credit markets to an ever-increasing degree. Measures by institutions such as the EU and the ECB helped to stabilise the situation, but weak confidence and low demand among households and companies subdued European developments. This, in turn, led to a slowdown in Swedish economic activity, despite relatively high domestic demand. GDP fell again in 2012 and the Riksbank lowered the repo rate in a number of steps.

Focus on inflation and maintaining confidence in the inflation target has produced results

Something which provoked head-scratching around the world during these years was that inflation remained at a relatively high level to begin with, despite the major economic slowdown after 2008. In hindsight we know that inflation gradually fell and that it happened earlier in Sweden than in other countries –

discounting the effect of interest-rate changes, inflation fell from around 2 per cent during 2010 to around 1 per cent in 2012. When inflation then fell further in late 2013 and early 2014, despite brighter economic signals, it became necessary for the Riksbank to focus more and more on bringing inflation back to the target. This was particularly urgent bearing in mind that the long period of low inflation had begun to leave its mark on inflation expectations.

To bring up inflation and help anchor inflation expectations to the target, the Riksbank cut the repo rate to 0 per cent in 2014 and then gradually down to –0.5 per cent in the following years. As a way of making monetary policy more expansionary, we also began purchasing government bonds at the start of 2015. At that point, the ECB had begun buying assets on a large scale to stimulate demand and bring up inflation. There was a concern that the Swedish krona might strengthen significantly against the euro as a result of this and that this would further prolong the period of below-target inflation. Monetary policy needed to protect the economy against such a development.

Today, we can observe that the extremely low interest rate and the Riksbank's asset purchases have contributed to economic activity growing ever stronger. Employment has risen and growth has been on or above a normal level for four years. Inflation, which has shown a rising trend since 2014, was around 2 per cent last year and long-term expectations are anchored to the target.

The start of a new chapter?

Does this mean we can now sound the all-clear? As you know, there are no guarantees in the forecasting business. Economically, things look good, not least due to increasingly high demand from abroad. It has taken a decade, but it seems as though the global economy has finally recovered enough from the after-shocks of the financial crisis to start a new chapter. The US central bank has begun normalising monetary policy. In Europe, recovery has occurred more slowly but has now reached such a stage that the ECB has reduced the rate of its asset purchases.

However, global inflationary pressures are still modest and the new outcomes for Swedish inflation have been weaker than expected. For the Riksbank, it is a question of remaining vigilant. A prerequisite for inflation to continue to develop in line with the target is that economic activity remains strong and has an impact on price developments. Monetary policy therefore still needs to remain expansionary. But if everything goes as expected, the time to start normalising monetary policy will come closer. The assessment we made in February was that it is probably time to slowly start raising the repo rate during the second half of this year. But such a turnaround requires considerable caution, in my opinion.

As regards the Riksbank's holdings of government bonds, we presented an overall strategy for normalisation before Christmas.[2] In brief, it states that the Riksbank shall continue to reinvest redemptions and coupon payments until the repo rate

[2] See the article "The Riksbank's strategy for a gradual normalisation of monetary policy" in the December 2017 *Monetary Policy Report*.

has reached a suitable level. Thereafter, reinvestments can also be scaled back. When this happens, bond holdings will decrease.

What the environment looks like going forward

Economically, things look relatively good and if everything goes as expected, monetary policy internationally and in Sweden will gradually and slowly move closer to a normal situation. But in what kind of environment will monetary policy be conducted going forward? And what does this normal situation actually look like? These are questions that have come increasingly into focus in recent years.

It would probably be a mistake to take it for granted that the same map used before the crisis can be used to get our bearings in the current situation. To begin with, it is important to properly evaluate the experience gained over the last decade and integrate the lessons learned into our economic thinking. Structural changes may also have influenced underlying trends in the economy and I would like to give three examples of such changes which, in some way or other, will influence Swedish monetary policy in the future.

Lower interest rates on average than before

To start with, it can be noted that we find ourselves in an environment where interest rates are much lower than before. “You’ve made your bed so you must lie in it”, someone may object – is it not central banks themselves that have created this environment? It is true that policy rates have been cut significantly to support economic activity and return to inflation targets. But the fact that this has caused policy rates to fall to extremely low levels is because central banks needed to adapt to a general downward trend in interest rates around the world, a trend that began a long time before the financial crisis in 2008.

Declining trend in real interest rates on a global level

Returns and interest expenditure adjusted for inflation are important to households and companies, as they make decisions on saving and investment. In other words, it is real interest rates that matter. By changing the nominal policy rate, the central bank can affect the real interest rate in the near term and thus demand in the economy. This is possible, as it takes time for companies to adapt their prices to the change in the policy rate and other interest rates in the economy. But once prices have been adjusted, the real interest rate is also reset. In the longer term, therefore, monetary policy has no major effect on real interest rates. In this time perspective, it is structural factors, such as demographics and long-term growth rates, that affect developments.

One striking feature over recent decades is the downward trend in real interest rates around the world. Various explanations have been put forward for this, including demographic trends.[3] One theory that has attracted major attention is that the decline is a sign of secular stagnation, where different factors have driven up saving but dampened the propensity to invest. This has led to a chronic

---

[3] A more detailed description of the decline in global real interest rates and feasible explanations can be found in my speech at the Swedish Economics Association in 2017.

condition of “excessively low” demand in the economy, which has contributed to a lasting decline in real interest rates. Others think that it is not necessarily a question of secular stagnation, but that the situation can, for example, be better described as a deep recession following excessively high debt accumulation in many countries.

An environment with a lower average repo rate

The major question is what we can expect going forward. For a small, open economy like Sweden's, the interest rate on a global level is important as it affects domestic rates. With free movement of capital, it is difficult to have real interest rates that deviate a great deal from the global level in the long run, even if differences in demographic trends or long-term productivity growth can naturally play a part. It is true enough that real interest rates in Sweden have exhibited a similar downward trend to real interest rates internationally. This is of significance for monetary policy as it implies that the Riksbank’s repo rate is lower on average. And a lower repo rate on average means that the margin down to zero and minus rates decreases – I will come back to the implications of this in a moment.

How long will low real interest rates last? The answer naturally depends on what are believed to be the most important driving-forces behind developments. But regardless of whether you believe that it is a permanent phenomenon or that there is a more cyclical explanation, the low interest-rate environment will probably last for some time to come. Even if interest rates will rise in the near term, it is towards a lower average level than previously. Many central banks, including the Riksbank, have adjusted down their assessments of long-term policy rate levels. Our current assessment is that the repo rate will, in the long run, be between 2.5 and 4.0 per cent.[4] But it will probably take a long time before we reach that level.

Higher interest-rate sensitivity among households

One effect of the decline in interest rates in Sweden is, as we all know, the increase in household indebtedness. Seen over the last twenty years, debt in relation to disposal household income has almost doubled. Currently, aggregate household debt is almost twice the level of income. For around a quarter of a million households, debt is 6 times greater than income or higher.

High indebtedness linked to rising housing prices

As most of the debt consists of mortgages, the growing indebtedness reflects the development in housing prices. Prices of detached or semi-detached houses have tripled in the last 20 years, while prices of tenant-owned apartments have increased at an even faster rate. The rapid price increase depends on several factors, in addition to the low interest rate level. The population and income have increased, driving up housing demand while new housing construction has lagged behind, apart from in the most recent years. The abolition of property tax is also a

[4] See the article "The repo rate in the long run” in the February 2017 *Monetary Policy Report*, Sveriges Riksbank.

factor that might explain the growing indebtedness, as is the fact that an increasing number of households own their own home.[5]

The rate of increase in lending to households is still on a high level. The Riksbank's assessment of future developments is that overall household debt will not rise at quite such a high rate as in recent years, due to more subdued housing price growth. But debt is still expected to increase more rapidly than disposable income. So the debt-to-income ratio will continue to rise.

High indebtedness is making household finances more sensitive to interest rate adjustments

When monetary policy gradually starts to normalise and interest rates rise, it will happen against this backdrop of high indebtedness among households and high housing market valuation. In addition, many have taken out variable-rate mortgages with short interest-rate fixation periods. Taken together, this means that household finances are now more sensitive to adjustments in interest rates than before. Disposable income, that is income minus borrowing costs, is affected to a greater extent by interest rate adjustments when debt is high, all other factors being equal.

Calculations show that an interest-rate rise of about 1 percentage point now has a significantly greater direct effect on household disposable income than in the mid-1990s. In this sense, households' interest-rate sensitivity is now greater.[6] The interesting question is whether households adapt their consumption to a corresponding degree so that consumption also changes to a greater extent. It need not necessarily be so. For example, interest income can offset the effect of higher interest expenditure. If households also plan in advance for a scenario where interest expenditure takes a greater share of their income, consumption may not necessarily be affected to any great extent.

But research findings point to this potentially playing a major role at least for certain groups of households.[7] More specifically, it is shown that highly indebted households with variable-rate mortgages adapt their consumption to a greater extent than other households when interest rates change. This may be due to an interest rate adjustment affecting their disposable income to a greater extent, as I just described. But it may also be due to highly indebted households reacting more to a given change in income than other households. You would expect this to be the case if households with high debt do not have the same opportunity as others to maintain their consumption by borrowing more.

---

[5] See Sveriges Riksbank (2011), The Riksbank's inquiry into risks on the Swedish housing market, and Hansen, S. (2013), Explanations of the development of household indebtedness since the mid-1990s, Memorandum 1. Finansinspektionen.

[6] See the article "How are households affected by rising interest rates?" in the December 2017 *Monetary Policy Report*, and Gustafsson, P. et al (2017), How are household cashflows and consumption affected by higher interest rates? Staff memo, Sveriges Riksbank.

[7] See, for instance, Flodén, M. et al (2017), "Household Debt and Monetary Policy: Revealing the Cash-Flow Channel". Sveriges Riksbank Working Paper Series 342. Sveriges Riksbank.

Greater interest-rate sensitivity creates uncertainty about the impact of monetary policy

How total consumption will be affected when interest rates are gradually raised towards more normal levels is difficult to know. Interest expenditure will increase, and for some households by a relatively large extent. But the total effect will also depend on what happens in the economy otherwise as regards income from employment, housing prices, expectations, etc. It is difficult to include all such factors, but calculations show that we should expect a given interest-rate increase to subdue consumption for mortgage holders more now than in the mid-1990s.[8]

At least for certain groups, monetary policy therefore has a greater impact on the real economy now than previously. This could justify slower rate hikes than has been the case in similar economic situations in previous years. For other groups of households, on the other hand, the impact of rate hikes is not as great. There is hence an intrinsic tension here. The Riksbank has only one policy rate and it is adapted to aggregate demand and the economic outlook in general, and above all to how inflation will develop. Higher interest-rate sensitivity and the extent to which it affects the impact of monetary policy will, in other words, be a source of uncertainty. It will, after all, be a challenge to have a situation for a number of years in which interest rates rise – albeit slowly – while debt is higher than ever before.

The supply of labour is greater

From household consumption and the demand side of the economy, I would like to go on to the labour market and the supply side and my third and final example of the transformation of the economic landscape.

Migration and reforms behind labour force participation

Various structural changes have meant that the Swedish labour market differs considerably from the structure in the mid-1990s, and in the ten years since the financial crisis alone, a great deal has happened. One such change is that the number of persons at the disposal of the labour market has grown significantly. Since 2006, the number of persons in the labour force aged 15–74 has increased by over half a million.[9] This means that the share of the working-age population participating in the labour force is now the highest for almost thirty years.

Several factors lie behind this. The working-age population has increased, much as a result of Sweden's substantial intake of refugees. Various reforms in recent decades have also increased the incentives to participate in the labour force by making it more profitable to work and to continue working to a more advanced age. Relatively better health and level of education also seem to have contributed to a rather large increase in the labour force participation rate among older people.[10] We should also remember that the increasingly strong economic

[8] See Finocchiaro, D. et al (2016), "Macroeconomic effects of reducing household debt", *Economic Review* 2016:2, Sveriges Riksbank.
[9] See Flodberg, C. and Löf, M. (2017), "Labour supply has increased surprisingly rapidly", Staff memo, Sveriges Riksbank.
[10] Laun, L. and Palme, M. (2017), "The recent rise of labor force participation of older workers in Sweden," Report 2017:18, Institute for Evaluation of Labour Market and Education Policy.

situation in recent years has probably made it more attractive to participate in the labour force.

Monetary policy cannot solve structural challenges with greater labour supply

Higher labour supply is basically positive as it should lead to higher employment in the long term – which is beneficial not least in light of the challenges we face as regards a greying population. Higher labour force participation in the long term raises the economy's output potential, which means that the wheels can turn more quickly without the risk of overheating and rising prices, which monetary policy ultimately needs to subdue.

But a prerequisite for this positive effect is that the increased labour supply also leads to higher employment. As it takes time for the labour market to adapt to rapidly increasing supply, it is likely that the increase will, in part, result in higher unemployment in the near term. High demand in the economy can facilitate the adjustment. But the extent to which greater labour supply leads to higher employment in the longer term is determined by how the labour market works and by the matching of job-seekers to vacancies. This is particularly true of groups with a vulnerable position on the labour market, for example persons born outside Europe.

We have had a strong labour market in recent years and not only the labour force but also employment are now on a historically high level. The expansionary monetary policy has contributed to this development. But there are signs that the matching of job-seekers to vacancies is not working well. The decrease in unemployment in recent years has, above all, been among those born in Sweden. For this group, unemployment is now on a very low level. Unemployment among those born abroad, on the other hand, has not decreased to the same extent and is significantly higher to begin with. A greater supply of foreign-born labour creates the conditions for long-term higher employment, but it is important that the labour market functions efficiently so that the supply of labour can be fully utilised. With a greying population, this will also become increasingly urgent as the demand for labour in areas such as health and social care rises.

Despite the economic situation continuing to be strong and both the labour force and employment being expected to increase further in the future, it is the Riksbank's assessment that unemployment is not expected to fall much more in the years ahead. So, to keep unemployment down – and above all to bring it down significantly below its current level – measures are needed within policy areas other than monetary policy. I do not mean by this that monetary policy has been exhausted. There is scope to make it even more expansionary if need be. But monetary policy cannot be expected to be able to solve structural problems on the labour market.

What we need to carry with us

Before saying a few words about the way forward for monetary policy in the new environment, I would like to dwell for a moment on the question of what expectations there should be about monetary policy. The fact is that we are emerging from a period in which this question has, in a sense, been brought to a head. Monetary policy in recent years has been focused on bringing inflation up to the target, while consideration of other circumstances in the economy has basically had to take a back seat. I am thinking here primarily of the risks of various negative side-effects from the low level of interest rates. This is an experience we carry with us as we go forward. And it is not only of significance for monetary policy.

Confidence in the inflation target cannot be taken for granted

For a long time, the Riksbank has been expressing concern for the risks posed to the economy by household indebtedness and rising housing prices. And during the period up until 2014, these risks periodically had some influence on rate-setting. As always, however, it was the economic outlook and inflation prospects that directed the focus of monetary policy. But the Riksbank made use of the flexibility in inflation targeting to help subdue debt accumulation and housing price increases to some extent. This was done by keeping the repo rate marginally higher than was justified by the outlook for inflation alone.

Flexible inflation targeting means in practice that the aim is not to bring inflation back to the target as quickly as possible if it deviates from 2 per cent. But a precondition for being able to be flexible is that there are expectations of inflation still returning to target in the longer run. The inflation target has been the nominal anchor in the Swedish economy for so long that it is easy to assume that inflation expectations automatically stay around 2 per cent. But, as developments after 2011 have shown, long-term inflation expectations are not immune to influence. A long period of sub-target inflation caused expectations to creep further and further below 2 per cent. It therefore became increasingly urgent for the Riksbank to focus on reversing the trend and bringing inflation up to the target. This turned out to require major monetary policy efforts over a long period of time.

An insight gained in recent years that therefore needs to be highlighted is that confidence in the inflation target cannot be taken for granted. The main task of monetary policy is to maintain the nominal anchor in the economy and the expectations and demands placed on monetary policy should take this as a starting-point. But on condition that confidence in the anchor is not jeopardised, monetary policy has a certain amount of scope to allow deviation from the inflation target to take a back seat in favour of other considerations.[11] This might, for example, be a question of helping to mitigate risks associated with high indebtedness and rising housing prices. But, and this is important, monetary policy cannot be expected to be the solution when managing risks that stem from fundamental problems relating to the functioning of markets and the incentives for indebtedness, housing construction and employment. Other policy areas need to rectify such problems.

[11] See, for example, my speech at the Swedish Economics Association in 2016 for more details about this.

Reforms needed in the housing and macroprudential policy areas

As a result of Sweden's own crisis in the early-1990s, comprehensive changes were made to economic policy in order to come to terms with deficiencies that became clear during the crisis. We adopted a floating exchange rate and a framework for fiscal policy that would ensure public finances were sustainable. The changes created a stability in the Swedish economy that has been of considerable benefit, not least during the financial crisis. Sweden had the advantage of being able to tackle the economic slowdown with a fiscal policy that was not hampered by major deficits and a monetary policy.

The latest crisis was also the starting point for changes in economic policy areas, primarily to mitigate the risks of financial imbalances once again creating problems for the economy as a whole. But the difference is that Sweden still, ten years after the crisis, has not really managed to fully implement these changes.

The most concrete example of reform based on the lessons learned from the crisis is that macroprudential policy has been established as a separate economic policy area. Over the last ten years, intensive efforts have been made around the world to define and implement macroprudential policy. Sweden has made some progress but more needs to be done. At the end of last year, Finansinspektionen, which has the main responsibility for macroprudential policy, was given the go-ahead by the Government to introduce a tougher amortisation requirement. This is, in itself, a positive development. But a regulatory framework that makes macroprudential policy more flexible needs to be put in place so that measures can be implemented quickly when necessary.

Macroprudential policy can be specifically focused on reducing the risks associated with household debt. But the Riksbank's assessment is that a combination of different measures is required in several policy areas to reduce these risks.[12] Above all, the fundamental causes of rising indebtedness need to be dealt with, something that is difficult to do without first tackling the Swedish housing market and its inherent imbalances. This is of course no easy task. But nevertheless an urgent one. As I mentioned earlier, the interest rate will be lower on average in the period ahead, sometimes much lower if monetary policy is to be able to meet the inflation target. The financial side of the economy needs to be robust enough to cope with such periods without macroeconomic developments being exposed to too large risks.

The way forward

Structural changes and our experience over the last ten years will thus be of significance for monetary policy going forward. But what does this mean in more concrete terms?

[12] See *Financial Stability Report* 2017:2, Sveriges Riksbank.

The main direction is determined by international developments

To begin with, it is important to bear in mind that the Swedish economy is very dependent on developments abroad. Just as before, the main direction of the Swedish economy will follow international developments. I have already discussed how significant the global level of interest rates is for interest rates in Sweden and hence for monetary policy. In addition, the economic outlook and inflation prospects will, to a large extent, be influenced by what happens abroad, especially in the rest of Europe.

One special circumstance is that economic activity and normalisation of economic policy will be in a different phase in the euro area than in the United States in the coming period. This is not so strange given developments over the last ten years. But as Swedish economic activity has been stronger than in the euro area, normalisation here at home looks as though it might start earlier than in the euro area, according to our forecast. In other words, we will probably be after the US central bank but slightly before the ECB. This is a special situation that can affect the impulses from abroad as regards economic activity and inflationary pressures.

Inflation can rise in different ways. Lately, price pressures from abroad have been subdued and the upturn in inflation has largely been domestically driven, primarily via price increases in the service sector. The combination of wage and price developments in domestic sectors and inflationary impulses from abroad will determine how monetary policy should be designed to influence domestic demand and the exchange rate in the desired direction, so that inflation ultimately stays around the target. To some extent, it will of course be less complicated for monetary policy if inflationary pressures both rise abroad and in domestic sectors and in ways we are used to – and the risks of imbalances may then also be mitigated.

Complementary monetary policy measures may be the norm

As I mentioned earlier, the environment of low real interest rates will probably last for quite some time to come, which means that the policy rates of central banks will on average be on a lower level. This may, in turn, limit the scope of central banks to tackle economic downturns by cutting policy rates. Say, for example, that the repo rate will on average be around 2.5 per cent, that is, at the lower bound in the Riksbank's assessment of the long-term level. That does not provide much leeway down to zero. As we have shown, it is possible to lower the rate some way below zero but it is clear that there may be less scope for rate cuts than previously.

Discussions are ongoing among central banks as to what the significance of low interest rates will be for monetary policy and how the scope for monetary policy to act in economic slowdowns can be increased. One conclusion is that complementary monetary policy measures of the type used by many central banks in recent years, such as the purchasing of various assets, may become more common in the future. Other feasible measures in the monetary policy toolbox are loans directly to companies via banks, and foreign exchange interventions.

The new environment also affects other policy areas

Another possibility is other policy areas being used more actively to stimulate the economy in times of recession. In the international debate, it has, for example, been said that the limitations imposed on monetary policy by the low interest-rate environment mean that fiscal policy may need to contribute to stabilisation policy to a greater extent than before.[13]

I think, to start with, that it is important to point out that monetary policy has not be exhausted as a result of the policy rate being lowered as far as is practically possible. As I just mentioned, there are several tools in the monetary policy toolbox that can be used if need be, in order to stimulate the economy. That said, there are obviously feasible tools in other policy areas as well. And it is reasonable to evaluate the costs and benefits of using all these different tools so that economic policy is as efficient and effective as possible for the economy as a whole. But how the various tools are used is a matter for those responsible for the different policy areas and as regards fiscal policy, it is of course the Riksdag and the Government that determine how and on what grounds it is to be conducted.

Price stability still the basis for monetary policy

In conclusion – the decade we are emerging from was characterised by crises and a deep, long-lasting recession. In that perspective, it is difficult not to describe the future as brighter – to refer back to the question which is the title of today's seminar. As always, there are uncertainty factors, but the Riksbank's assessment is that the economic outlook is still good both in Sweden and abroad. For monetary policy, it is a question of ensuring that inflation continues to develop in line with our inflation target. Monetary policy therefore needs to remain expansionary so that the strong economy can have an impact on inflation and so that the Swedish krona does not appreciate too rapidly. In the near term, we also need to be pay particular attention to current downside risks.

When normalisation of monetary policy is under way, it will happen in an environment that is, in many ways, different from the one we have operated in over the last ten years. I have given some examples here today. What they imply in more concrete terms for the actual design of monetary policy is something that the Riksbank has to continue to ponder. But the new environment will not just set challenges for monetary policy, but for other policy areas as well. How we face up to these challenges will of course be a deciding factor in how bright the future will be in practice. I therefore assume that other policy areas in a similar fashion are considering which structural measures are necessary.

As we know, discussions are ongoing, both in Sweden and abroad, on the need for more comprehensive changes to the way monetary policy is conducted, so that, among other things, it is better adapted to a "new normal" environment. It is an interesting discussion that we have every reason to revisit, not least once the Parliamentary Review Commission has made more progress in its work. For the time being, it is worth noting that the discussion in principle centres on

---

[13] See, for instance, Blanchard, O. and Summers, L. (2017), Rethinking Stabilization Policy: Evolution or Revolution? NBER Working Paper Series, no. 24179. National Bureau of Economic Research.

modifications to the existing framework. The starting point is still that the best way for monetary policy to contribute to stable and good economic developments is to maintain price stability. This was true in 1668, and is still true in 2018.