Monetary policy in a new environment

ESO seminar: A brighter future?
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The economic landscape has changed

- Lower interest rates
- Higher interest-rate sensitivity among households
- Increased supply of labour
Global interest rates lower than before

• Downward trend in global interest rates
• Policy rates lower on average
• Complementary monetary policy more common in the future?
Households more sensitive to interest rate adjustments

• High indebtedness among households
• Greater effect of interest rate on disposable income
• Greater effect on consumption
• Impact of monetary policy?
Significantly more people in the labour force

• Greying population
• Migration and reforms
• Fundamentally a positive development
• Presupposes better integration
The new economic landscape

• Important to have reasonable expectations of monetary policy
  • Flexibility only if the inflation target is credible
  • Not the solution to structural problems

• Challenge for other policy areas as well
The target was met in 2017 after powerful support from monetary policy

Inflation close to target...

...and inflation expectations close to 2 per cent

Note. Annual percentage change and per cent, mean value.

Sources: TNS Sifo Prospera, Statistics Sweden and the Riksbank
Need for continued expansionary monetary policy

Service prices have slowed

Note. Annual percentage change. Broken lines refer to the average from 1995.

Sources: Statistics Sweden and the Riksbank
Inflation and monetary policy going forward

• Inflationary pressures abroad
• Wages and productivity in domestic sectors
• Prices of goods and services
• Exchange rate

Combination determines design of monetary policy
A brighter future?

- Stronger economic activity in Sweden and abroad
- Inflation on average on target in 2017
- More macroprudential policy tools in place
- Employment increasing among foreign-born persons

But challenges remain...

How we face up to these challenges will determine how bright the future will be in practice