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CPIF target variable for monetary policy

The Executive Board of the Riksbank has decided to adopt inflation measured in terms of the CPIF (the consumer price index with a fixed interest rate) as a formal target variable for monetary policy. The target for monetary policy is that the annual change in the CPIF shall be 2 per cent, that is, the same level previously applied to the CPI. The Riksbank will also use a variation band of 1-3 per cent for outcomes for CPIF inflation to illustrate that monetary policy is not able to steer inflation in detail, but that inflation normally varies around the target.

“These changes will not affect the monetary policy conducted. In practice, the CPIF has been the Riksbank’s operational target variable for several years. Formally adopting the CPIF as target variable only confirms this practice,” says Governor of the Riksbank, Stefan Ingves.

The CPI has characteristics that could sometimes make it problematic to use as guidance for monetary policy. One reason is that repo-rate adjustments, through their effect on households’ mortgage rates, have large and direct effects on the CPI which are not connected to underlying inflationary pressures.

The variation band is intended to illustrate, in a simple way, that inflation varies and will not be exactly 2 per cent every single month. The target for monetary policy is, however, still 2 per cent. Consequently, this is not a so-called target range.

“2 per cent still applies. The Riksbank will always aim for this, regardless of whether inflation is inside or outside the variation band to start with,” says Governor Stefan Ingves.

These decisions will apply with effect from the monetary policy decision on 6 September 2017. For more information on the background and deliberations behind the decisions, see the enclosed annex to the minutes.