

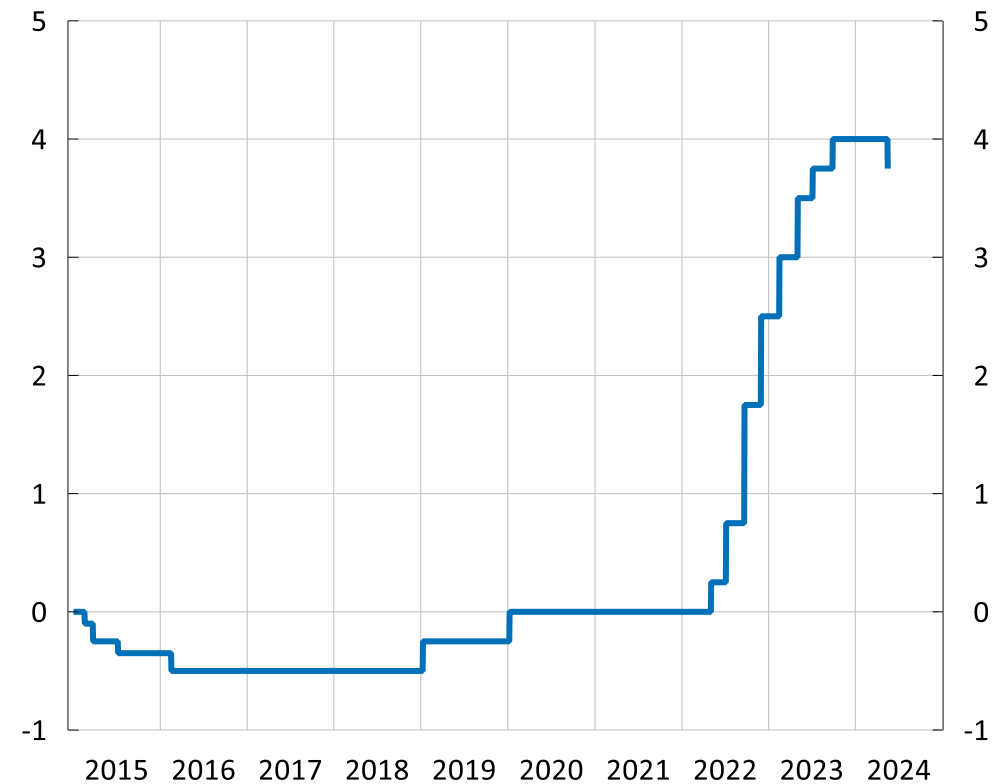
# Light at the end of the tunnel – time to start thinking about next time?

Fastighetsdagen Stockholm  
2024-05-23

Aino Bunge  
Deputy Governor

# Monetary policy spring 2024

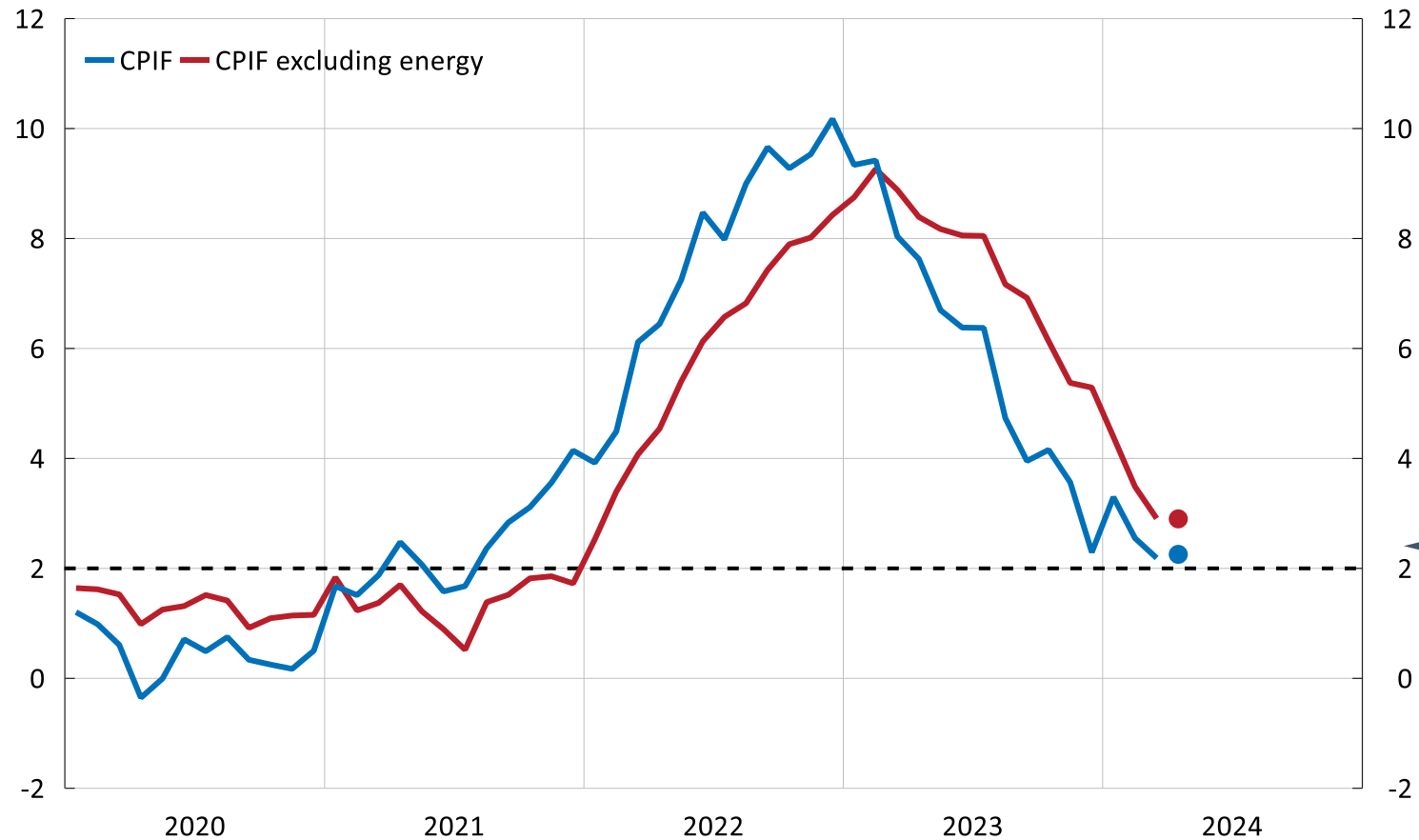
- **Policy rate cut** by 0.25 percentage points to 3.75 per cent
- If the outlook for inflation remains the same, the policy rate can be **cut two more times** during the second half of the year



Per cent.

Source: The Riksbank.

# Inflation is close to the target



CPIF APRIL:  
**2.3%**

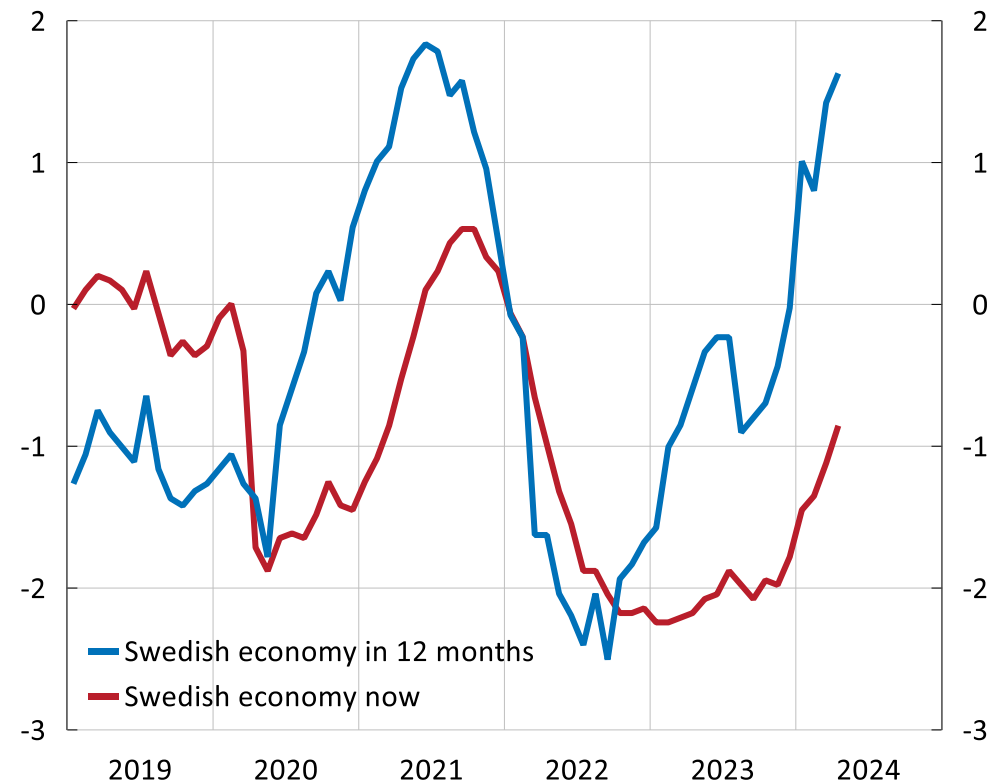
Annual percentage change.

Source: Statistics Sweden.

# Weak economic activity, but with green shoots

- Given high inflation and interest rate hikes – moderate economic slowdown in recent years, but very tough for interest rate sensitive sectors (households, residential construction)
- Unemployment rising further
- Increasing optimism supports view of economic activity bottoming out this year
- Pricing behaviour more normal

## Households believe in better times ahead



Household barometer. Standardised values. Most recent outcome April.  
Source: National Institute of Economic Research.

# Inflation falling towards target, but risks remain

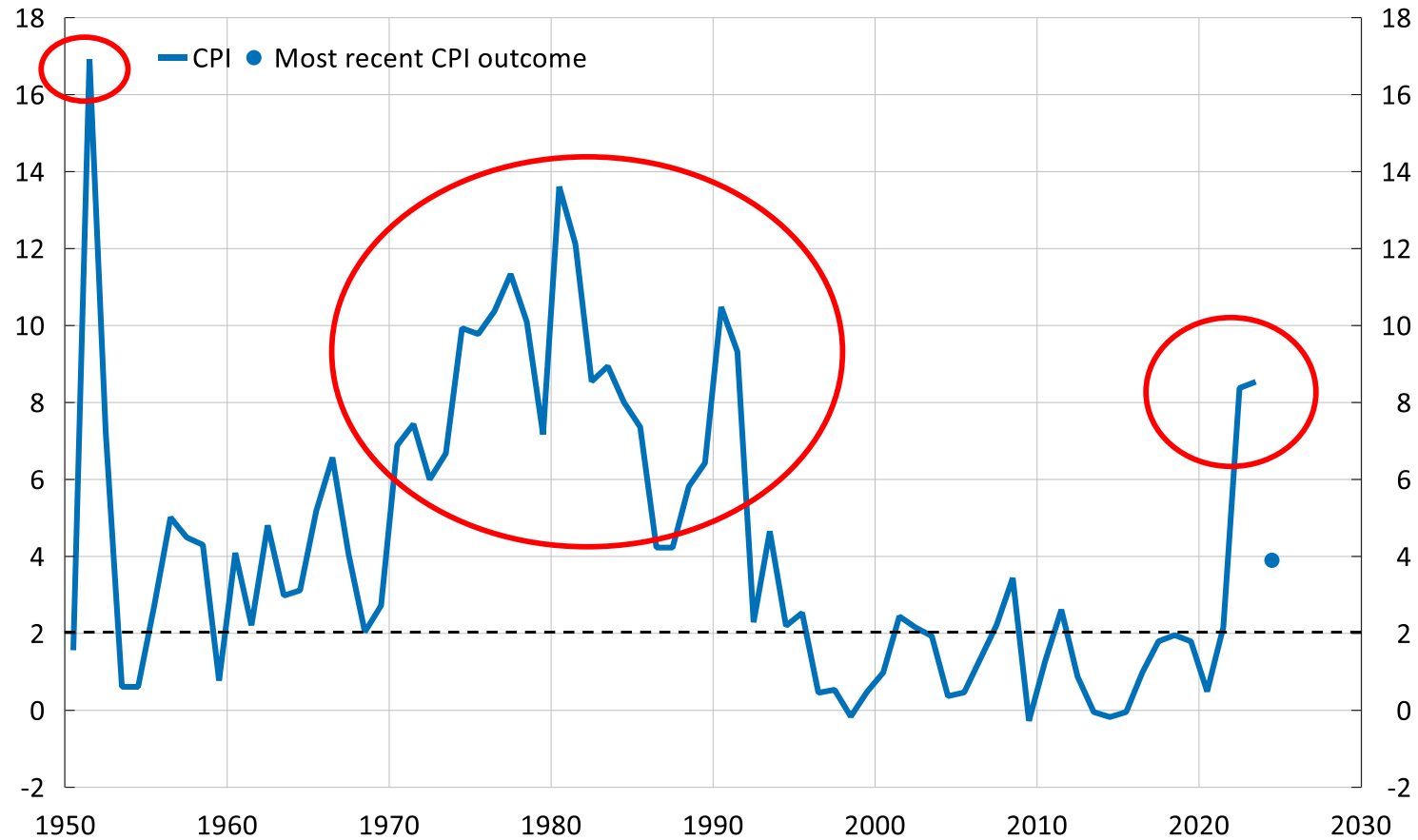
- Inflation in the process of stabilising at the target

## **Risk of inflation rising again**

- Geopolitical tensions
- Strong growth and higher inflation in USA
- Krona exchange rate



# High inflation for three periods



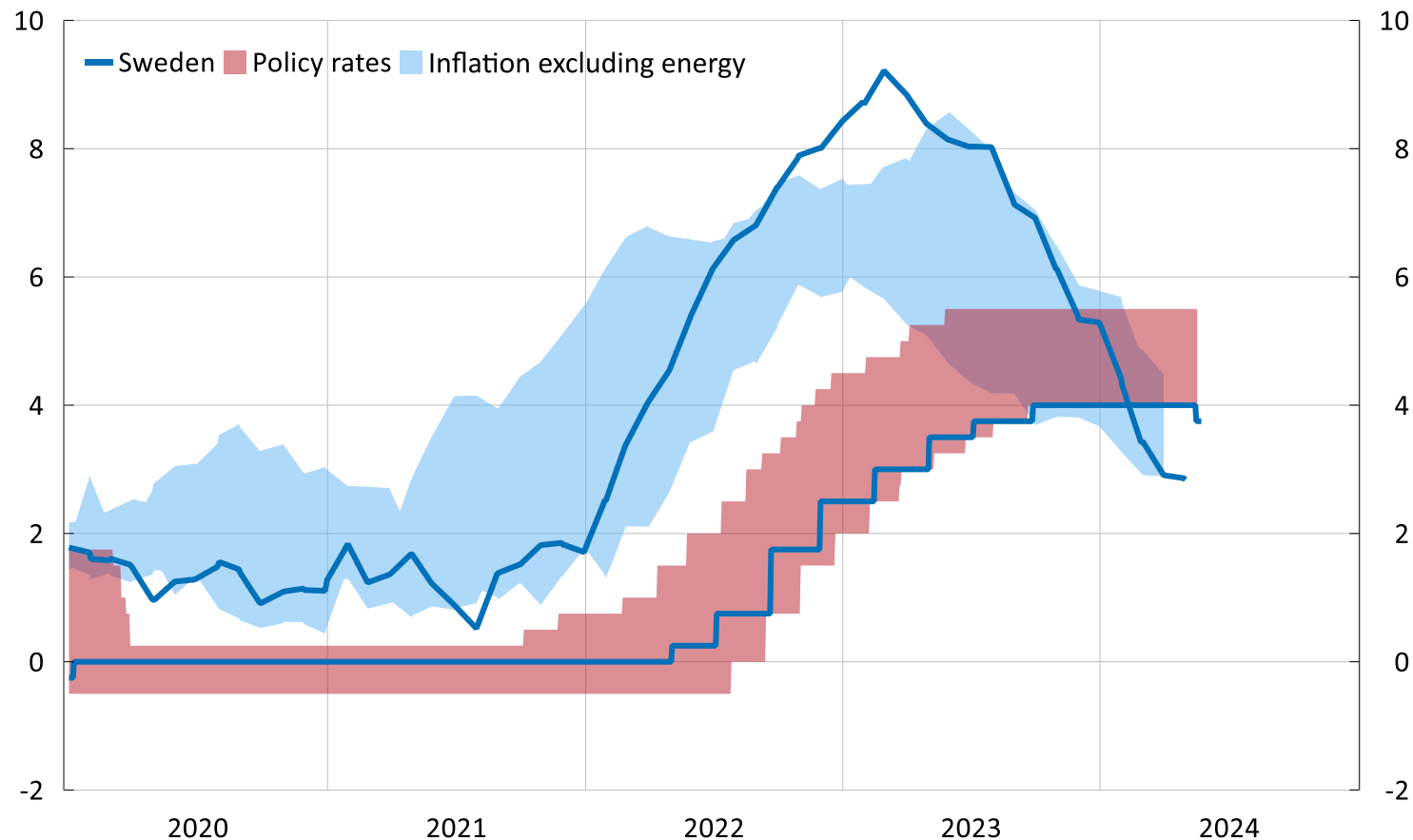
Note: Annual percentage change. Dot refers to the latest CPI outcome.

Source: Statistics Sweden.

# Inflation excluding energy and policy rates in a number of economies



Per cent and annual percentage change



Note: The red bar shows the highest and lowest outcomes for the policy rate in the euro area, the United States, the United Kingdom, Norway, Canada and New Zealand (per cent). The light blue area shows the highest and lowest outcomes for inflation excluding energy for the same sample of countries (annual percentage change).

Sources: Eurostat, Statistics Canada, Statistics New Zealand, Statistics Sweden, U.K. Office for National Statistics, US Bureau of Labor Statistics, Statistics Sweden and the Riksbank.

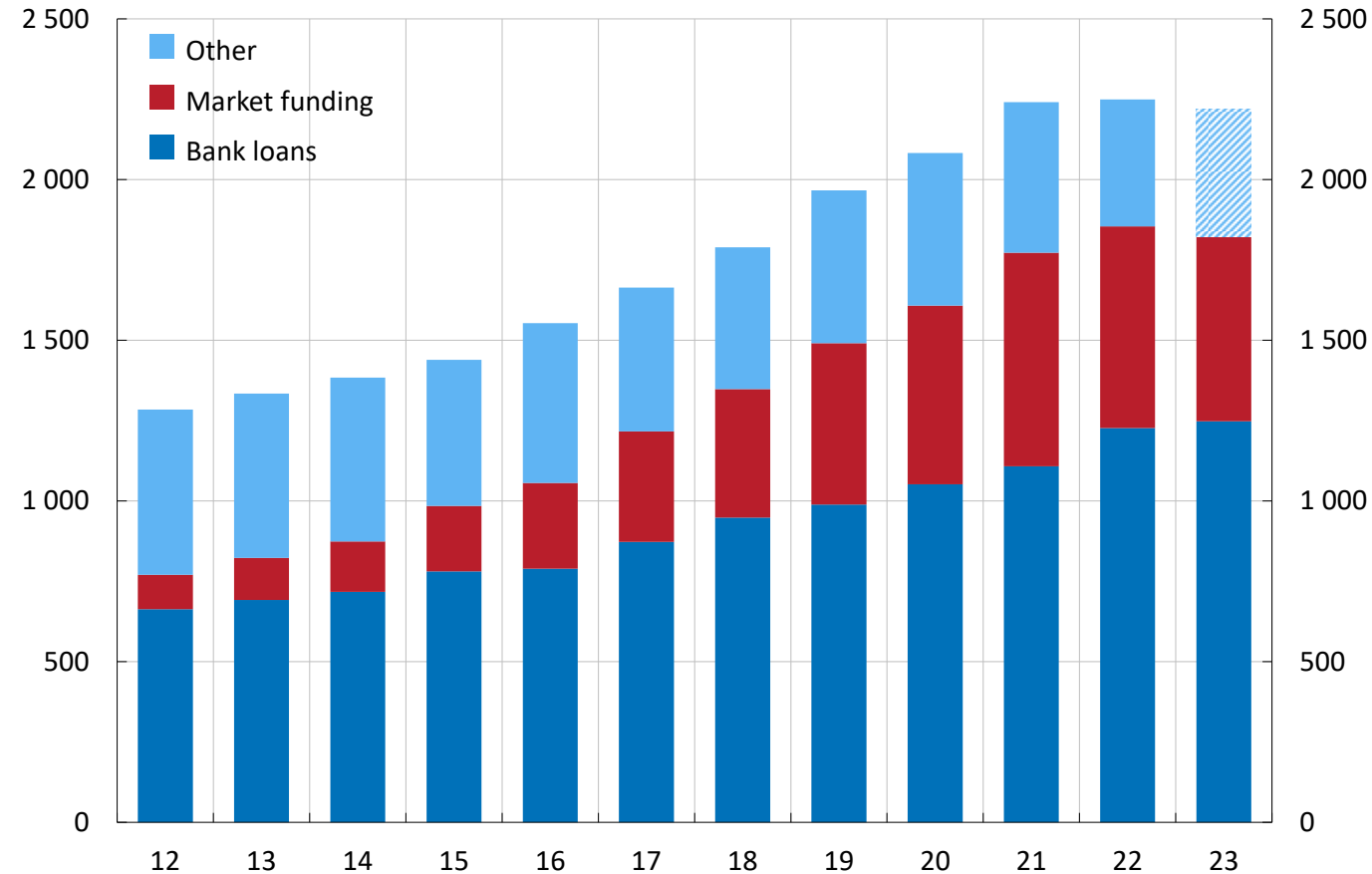
# Interaction with other policy areas is important

- The economy must be able to manage the interest rate changes the Riksbank needs to make to fulfil its mandate
  - Both low interest rate periods and high interest rate periods
  - Recent years were useful wake-up call
- Stability in wage formation has reduced the risk of a wage-price spiral
- The interaction with fiscal policy has generally worked well during the rise in inflation
- Potential for development of the interaction between macroprudential, monetary and fiscal policies
  - For example, a better policy mix is needed to tackle household debt problems



# Sharp increase in property sector borrowing over time

SEK billions

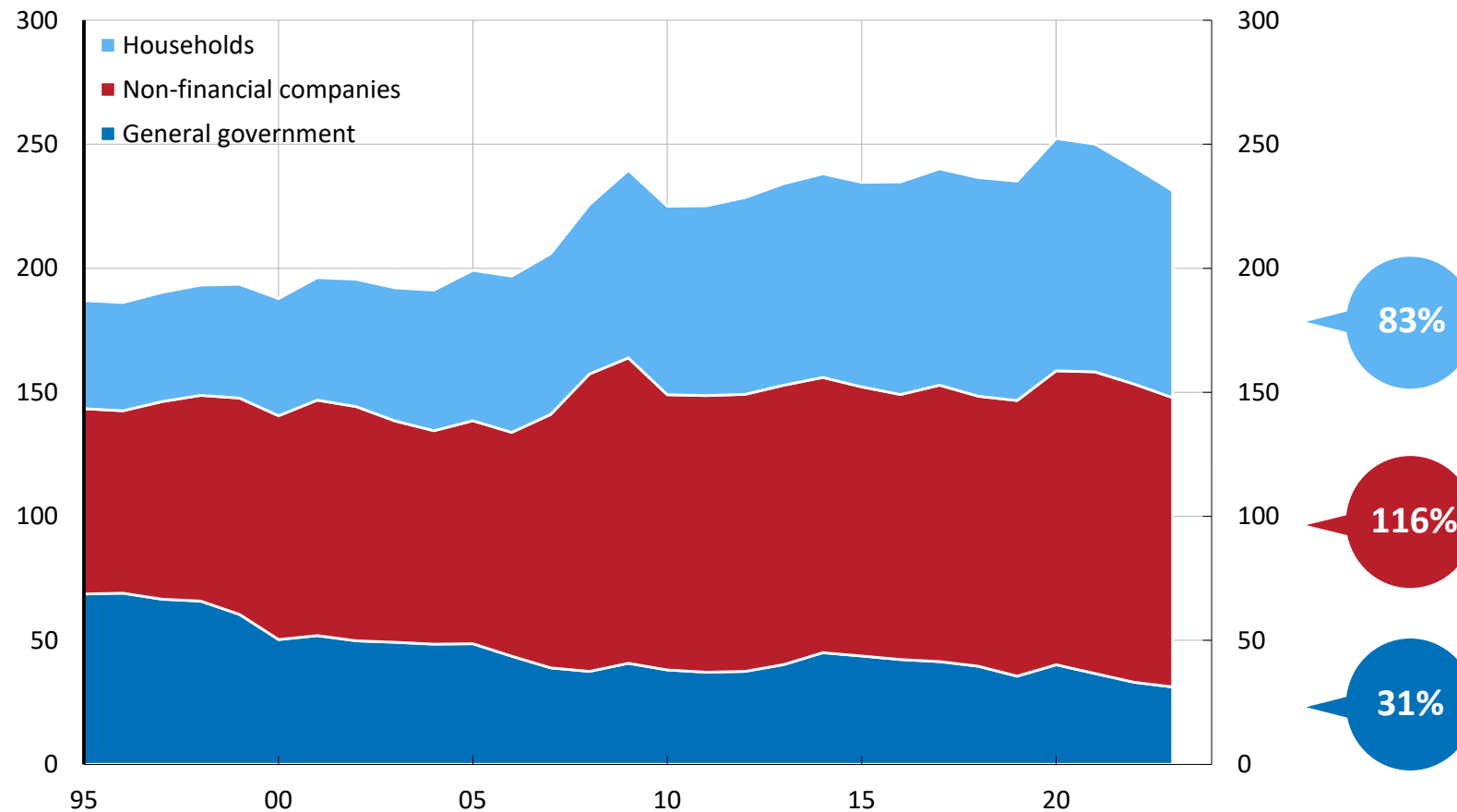


Note: Other loans includes direct loans, ownership loans and loans from foreign banks. These are calculated as total liabilities less Swedish bank loans, commercial paper, bonds, intercompany loans, tax liabilities and trade payables. Other loans 2023 (the patterned part of the bar), are the same data as for 2022.

Sources: Statistics Sweden and the Riksbank

# Increased indebtedness in the private sector

Per cent of GDP



Note: Refers to consolidated liabilities.

Source: Statistics Sweden

# Building up risks can lead to difficult trade-offs

- There have long been clear examples of risk build-up in the Swedish economy, not least in the commercial property sector
  - Many property companies also came under pressure as inflation and interest rates rose
- If the financial system cannot cope with the necessary interest rate increases, the central bank may have problems raising interest rates – ‘financial dominance’
- If the central bank does not implement the necessary rate hikes, it may require even greater tightening in the future
  - This can lead to *both* higher unemployment and lower output *and* financial instability

# Strengthening resilience requires work on several fronts

- An important prerequisite for a stable smoothly functioning corporate bond market is the correct pricing of credit risks
  - The behaviour of credit rating agencies has raised questions about the reliability of the ratings
- A macroprudential framework is needed that also covers ‘non-banks’
- The Riksbank has long emphasised that fund management companies need to manage liquidity risks in corporate bond funds
- Important to increase transparency on how property is valued
- Structural reforms are needed to address the dysfunctional housing market – and failing that, a preserved macroprudential policy that reduces incentives to take on debt

# Prepare for the next inflation peak now

- Inflation broadly back on target
- Important that the economy becomes even more stable to avoid bigger problems next time
- A better functioning housing and property market is very important for Sweden's future economic stability





Thank you!

S V E R I G E S R I K S B A N K