

# The gap in the monetary policy debate

Danske Bank  
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# Main messages

- Often a big difference between the view on monetary policy in research and (large parts of) the public debate
- Framework and legislation are based on mainstream research
- The differences may apply to
  - The conditions for monetary policy
  - Why the Riksbank has the task it has
  - What the main task is(!)
- Problematic and given too little attention



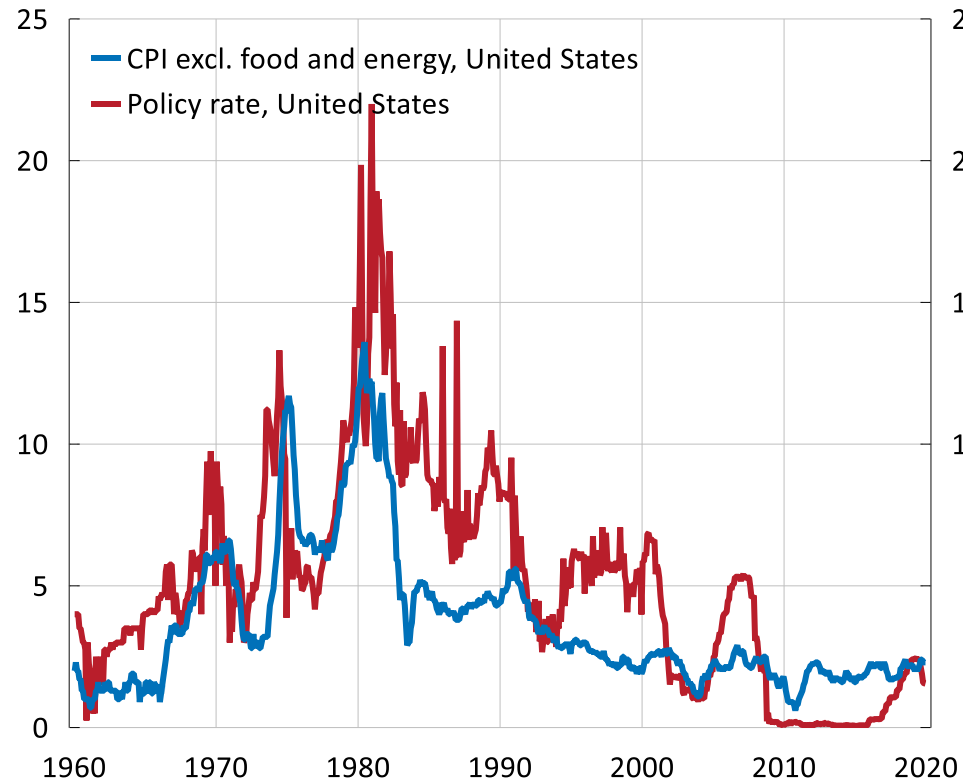
# Improvements in the new Riksbank Act: More clearly formulated inflation target

- "Low and stable inflation"
- The Riksdag has to approve the target
- Stands behind the current wording (2 per cent with CPIF)
- Increased clarity and legitimacy – reduced risk of misinterpretation

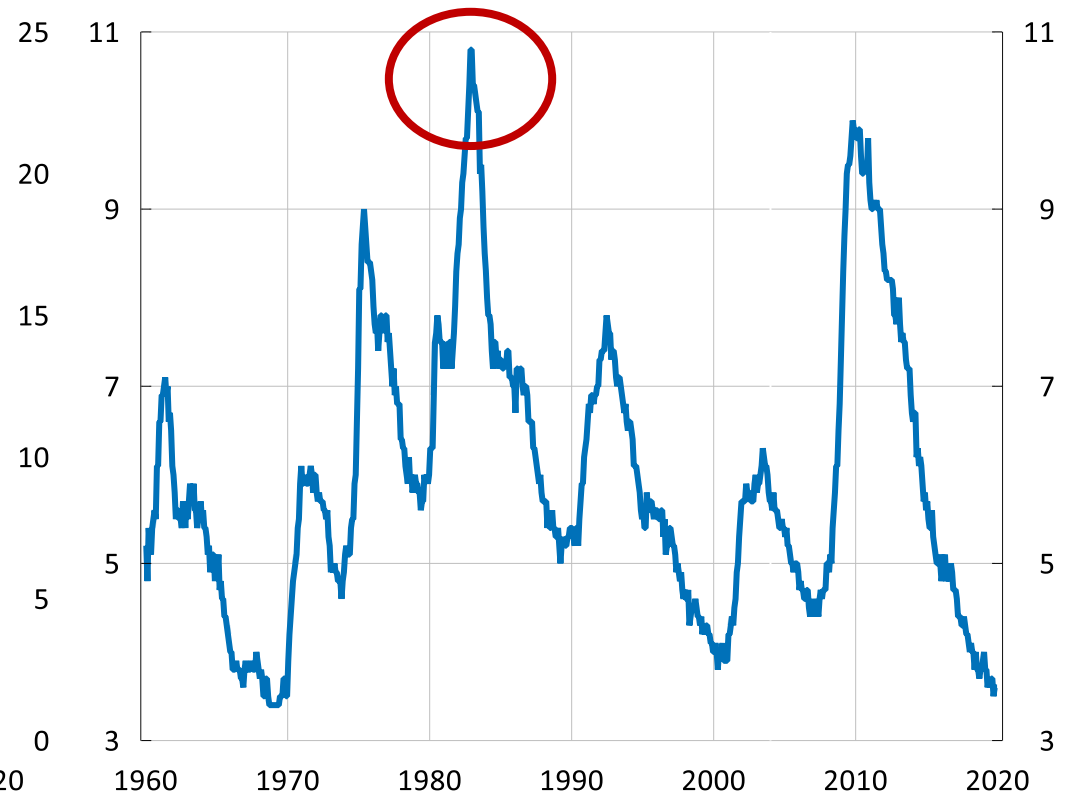


# Very costly if the anchor loosens: the example of the United States

## Policy rate and inflation



## Unemployment



Note. Annual percentage change (blue) and percentage (red), respectively (left). Monthly frequency, seasonally adjusted data. Unemployment among persons aged 16 and older as a share of the labor force (right).

Sources: SCB, US. Bureau of Labor Statistics, Federal Reserve Bank of New York and the Riksbank.

# Improvements in the new Riksbank Act: The Committee on Finance's evaluation is strengthened



- Riksdag Committee on Finance has evaluated monetary policy every year since 1999
  - Hearings of the Executive Board with independent opponents
- “External” evaluations approximately every five years
- This year a special report from the Center for Monetary Policy and Financial Stability at Stockholm University by Hassler, Krusell and Seim
- The report representative of mainstream research (important)

**Debatt: Den svaga kronan  
beror på Riksbanken**

Riksbanken hade fel i allt – nu  
betalar folket priset

**”Alltför ensidigt fokus på  
att nå inflationsmålet”**

**Höjd ränta gör fler  
arbetslösa**

Vad vill vår nya riksbankchef egentligen?

**Minusräntans  
värld är galen**

Höjningarna av  
räntan har varit  
för snabba.

**Riksbanken sågas –  
agerade för långsamt**

**Riksbankens fiasko ett  
hån mot svenska folket**

**Ingves får skulden för galna bostadspriser**

**”En riksbank som inget vet  
förtjänar inte självständighet”**

**”Riksbanken borde ställa sig i  
skamvrån”**

**”Riksbankens experiment  
har stått oss dyrt”**

# Examples of common criticism that the evaluation rejects

*"The negative policy rate was a mistake"*

*"The policy rate increases were too drastic"*

*"The low policy rate and asset purchases have caused the high inflation"*

*"The policy rate increases have driven inflation"*

# The evaluation's objections to monetary policy 2022

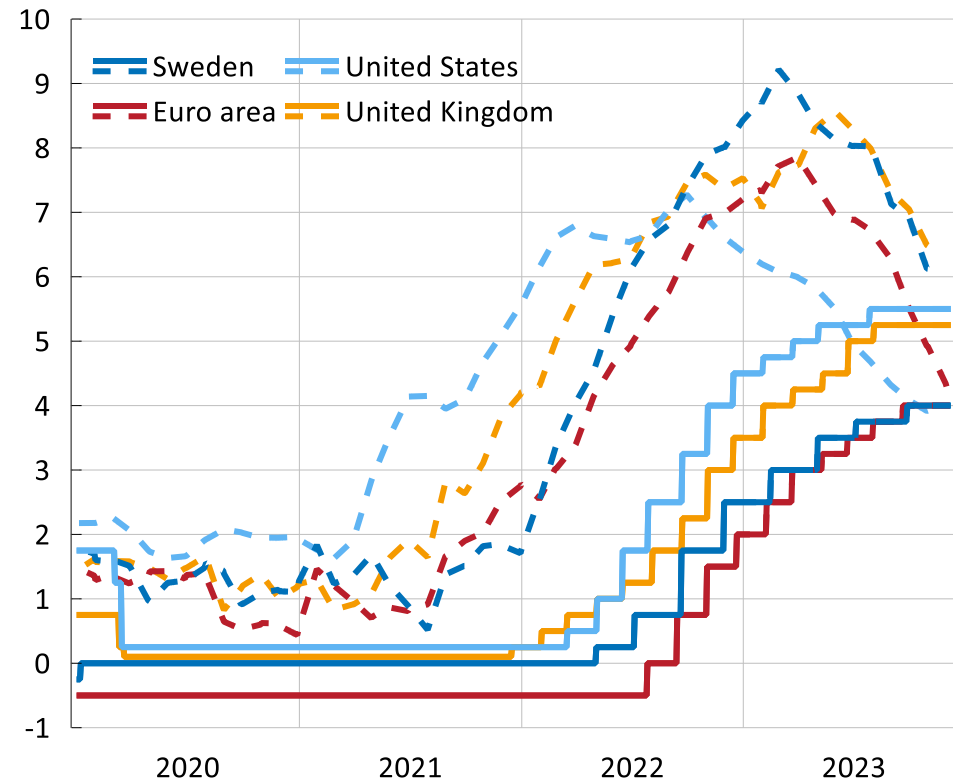


- The Riksbank should have raised the policy rate earlier and more forcefully
  - Inflation forecasts were poor
- The Riksbank should have started to sell off its asset holdings early in 2022
  - Disclaimer: Neither the sale nor the purchase of assets is a particularly effective tool
- But: The Riksbank largely met the inflation target in 2022
  - Intact nominal anchor despite inflation well above target
  - Generous assessment, inflation with and without energy 7.7 and 5.9 per cent in 2022



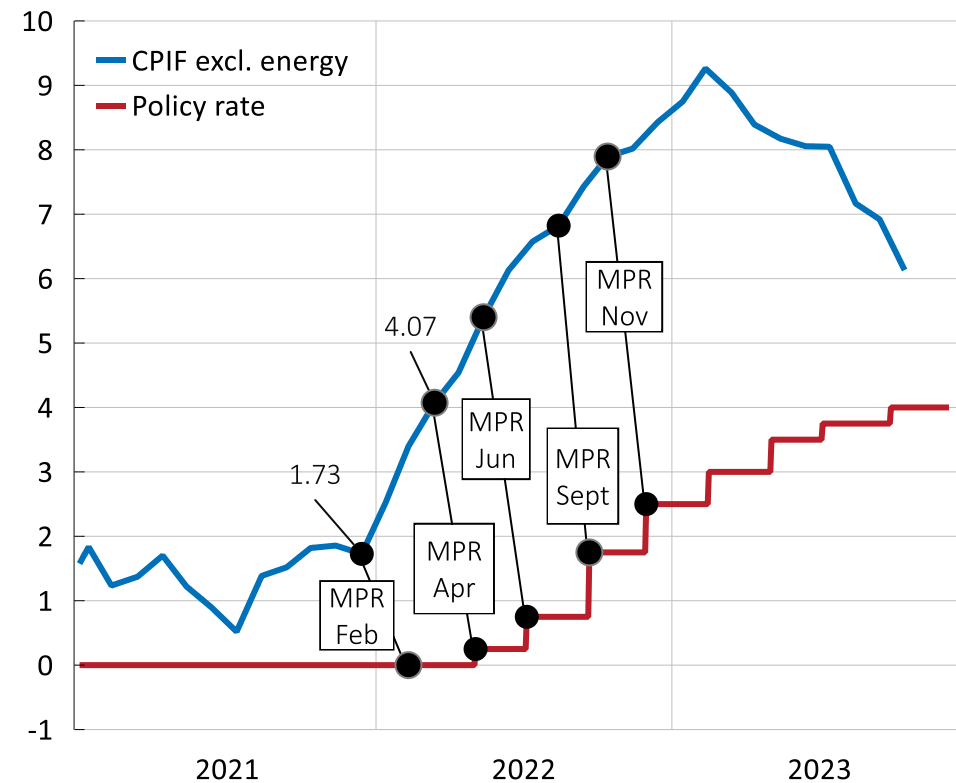
# Central banks reacted with a delay

Policy rates and inflation excl. energy



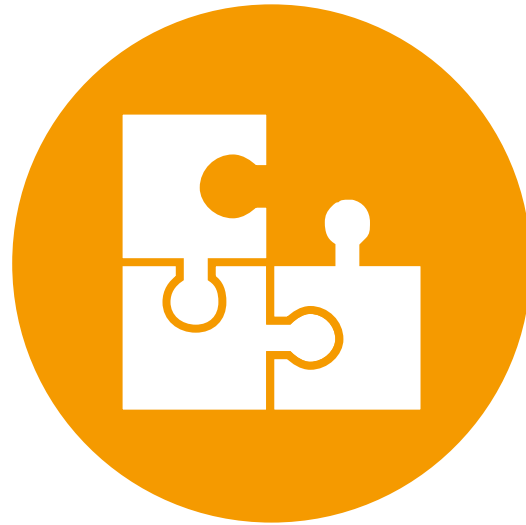
Note. Solid lines refer to policy rates (per cent), dashed lines refer to inflation excluding energy (annual percentage change) (left).

Sweden



Sources: Individual central banks, BLS, ONS, Eurostat and Statistics Sweden.

# Two central components that are often missing from the debate

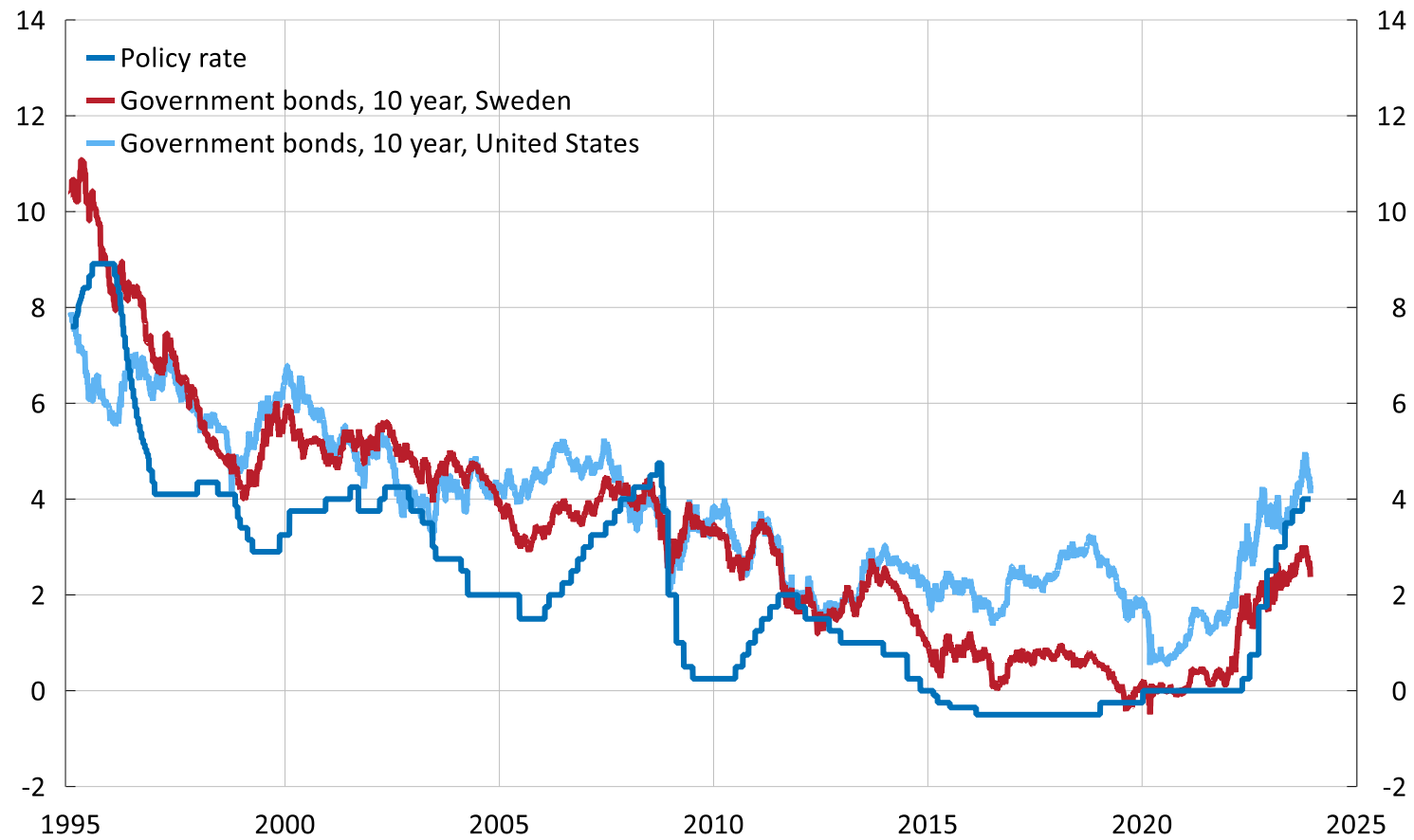


**The neutral rate**



**The inflation target(!)**

# The neutral rate has trended down

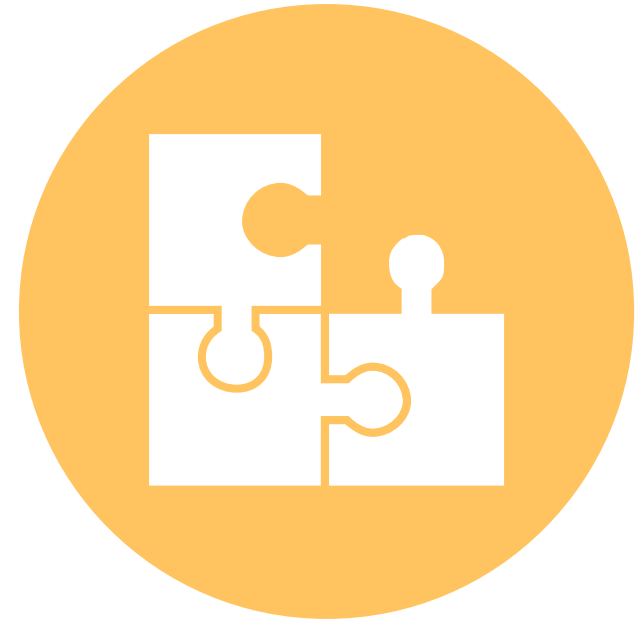


Note. Per cent. Interest refers to zero coupon rates for Sweden and benchmark rates for the United States.

Sources: U.S. Treasury, Refinitiv and the Riksbank.

# Important conclusions will be missed if the neutral interest is absent

- Historically low neutral real interest rates result in low policy rates *on average*
- “*Low interest rate policy*” has often been about monetary policy *operating in a low interest rate environment*
- Negative policy rate less of a strange phenomenon
- House prices have been affected by the trend decline in the neutral interest rate



# Inflation target often omitted

- Unclear what one thinks is the main task of the Riksbank
  - Stabilise or strengthen the krona?
  - Avoid low or negative policy rates?
  - Short-term stabilisation of the business cycle?
  - Counteract a rise in asset prices?
- Criticism of the *framework* rather than monetary policy
- The framework can of course also be questioned
  - But it should be clear that this is what one is doing
  - Higher demands on the argumentation



# Main take-aways

- The message is *not* that the Riksbank never makes mistakes or should never be criticized
  - Criticism in the evaluation of monetary policy 2022
  - Important discussion about how much the interest rate needs to be raised
- Message: There is often a gap between research and the public debate
  - Been given too little attention
- Clear from the evaluation of monetary policy in 2022
  - Special section with “common criticism of the Riksbank”
- “Same playing field” prerequisite for a meaningful discussion