

Account of monetary policy 2023

Riksdag Committee on Finance
28 May 2024

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

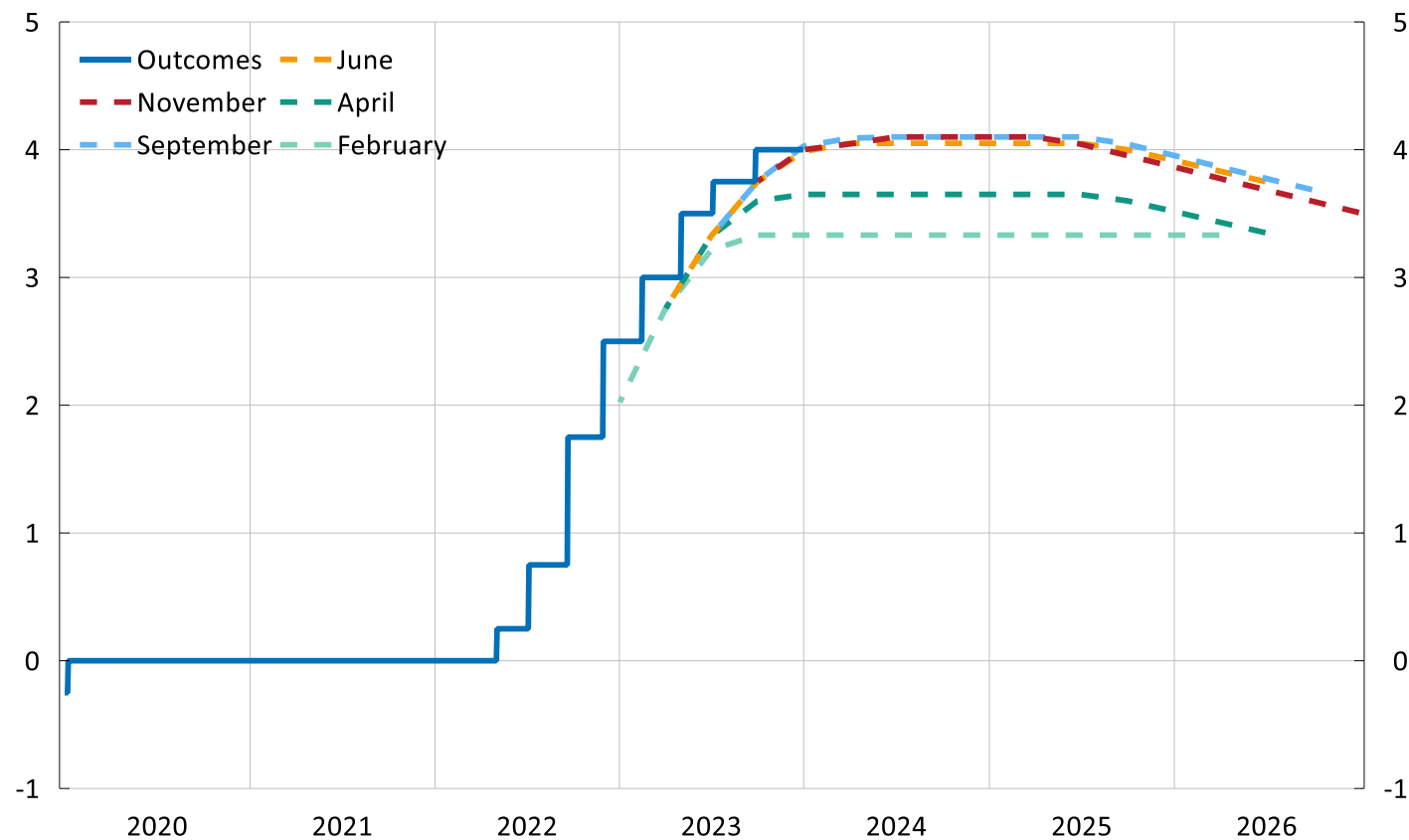


Erik Thedéen
Governor of the Riksbank

Inflation returned close to the target at the end of 2023

- Period of harmful high inflation – the inflation target has been tested for real
- The purpose of the Riksbank's rate rises: to bring inflation back to target within a reasonable time, without slowing the economy unnecessarily
- Monetary policy and the waning supply shocks contributed to inflation falling back relatively quickly in 2023
- The evaluators deem that monetary policy has been well-balanced

How much would monetary policy need to be tightened to bring inflation down and maintain credibility?

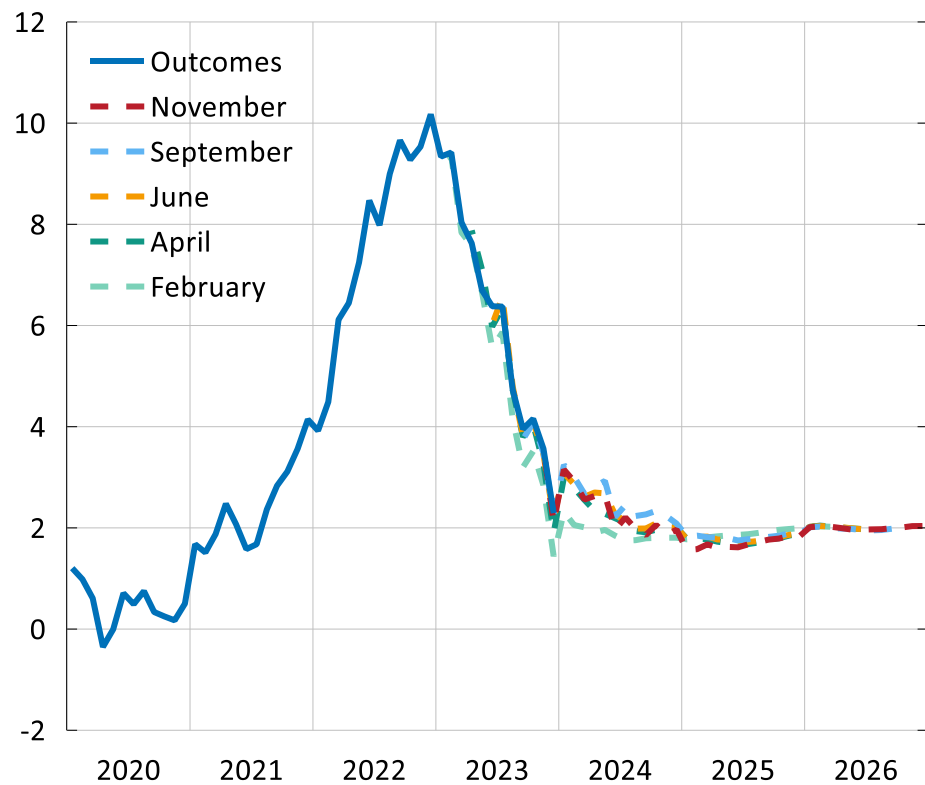


Note. Per cent. Forecasts from 2023. Outcomes are daily rates and forecasts refer to quarterly averages.

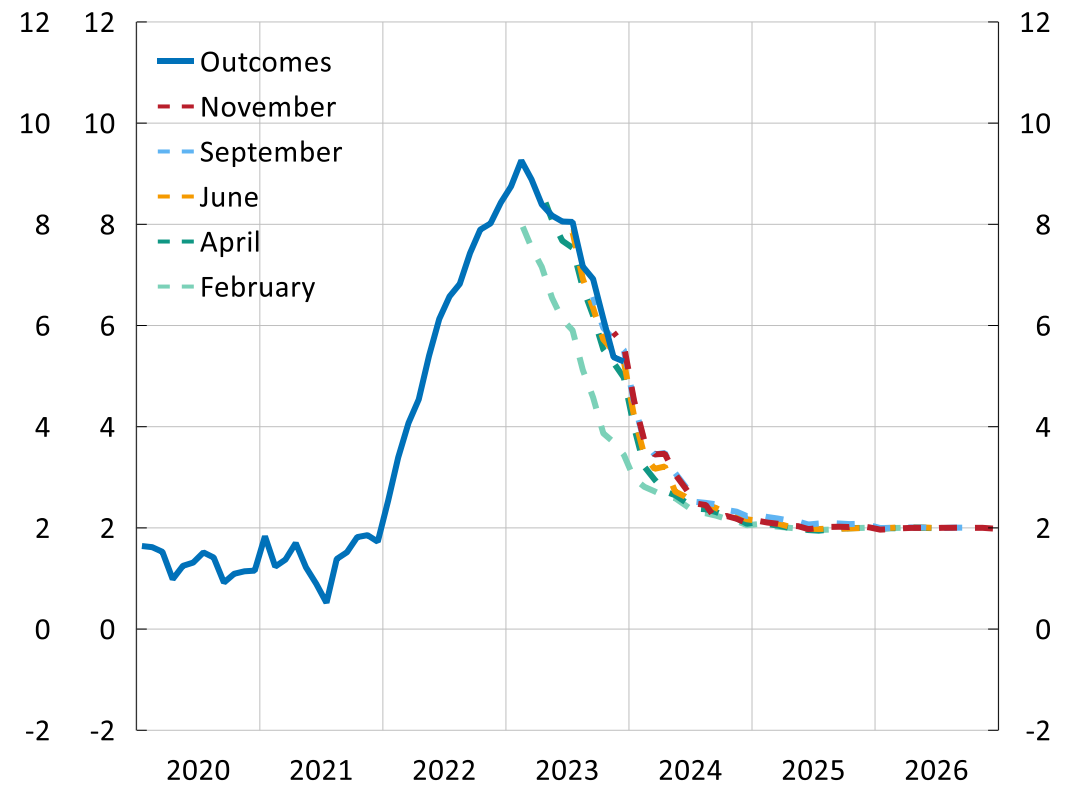
Source: The Riksbank.

Underlying inflation higher than expected in the first six months

CPIF, 2023 forecasts



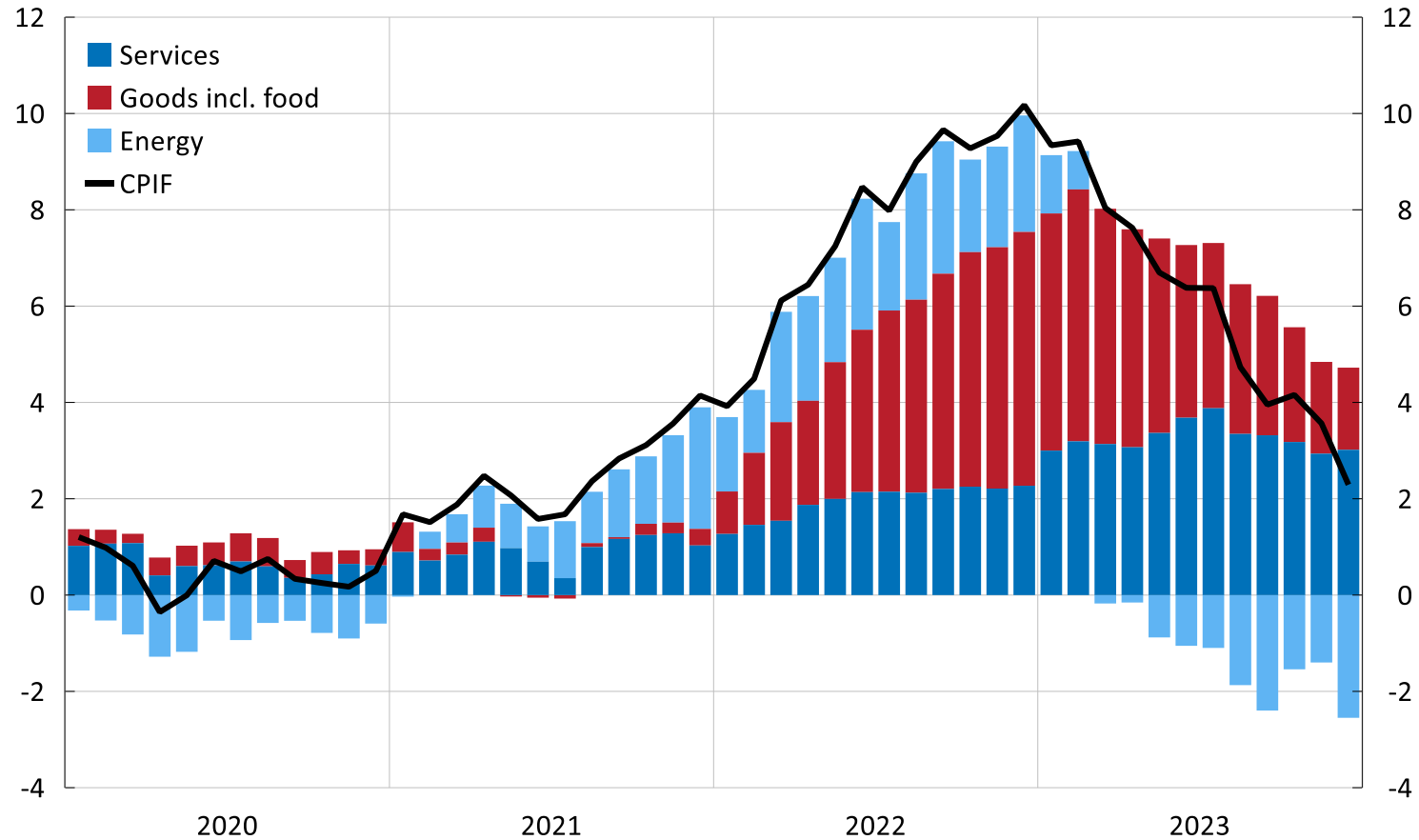
CPIF excluding energy, forecasts 2023



Note. Annual percentage change.

Sources: Statistics Sweden and the Riksbank.

Services prices in particular continued to rise rapidly

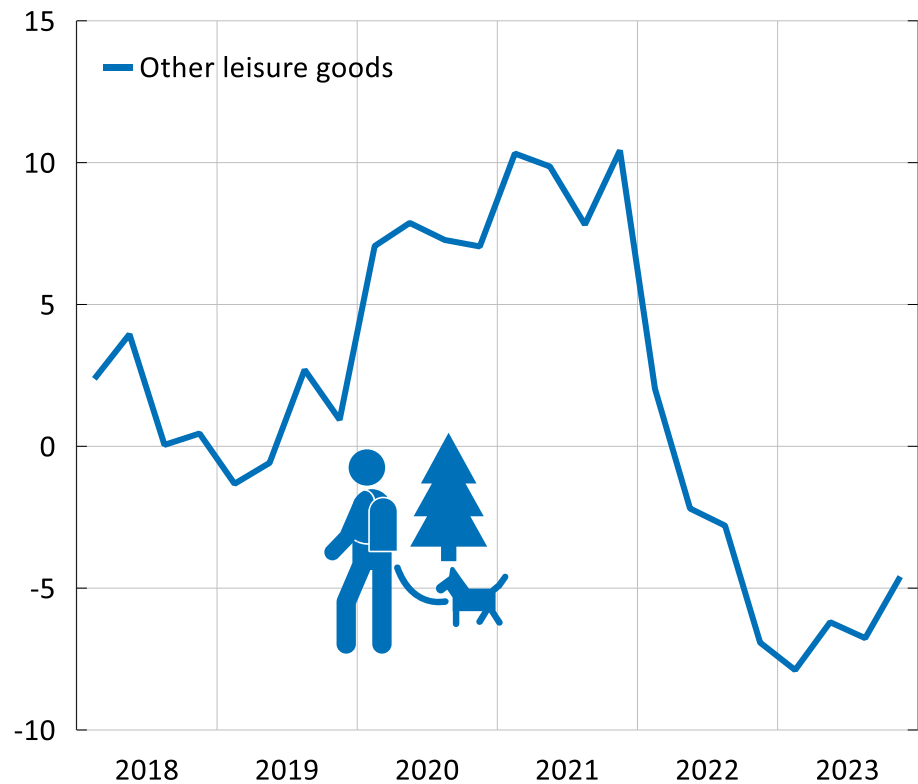


Note. Contributions to CPIF inflation. Percentage points and annual percentage change.

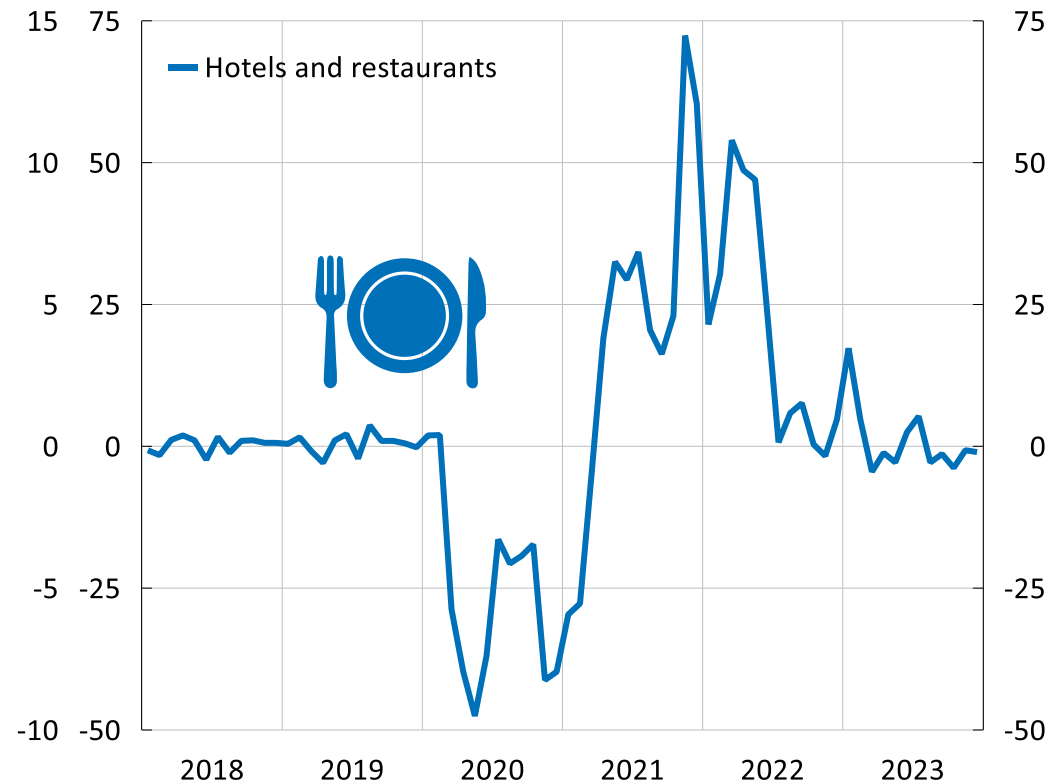
Sources: Statistics Sweden and the Riksbank.

Shifts in demand during and after the pandemic

Consumption of certain goods increased during the pandemic



High demand for services after the pandemic

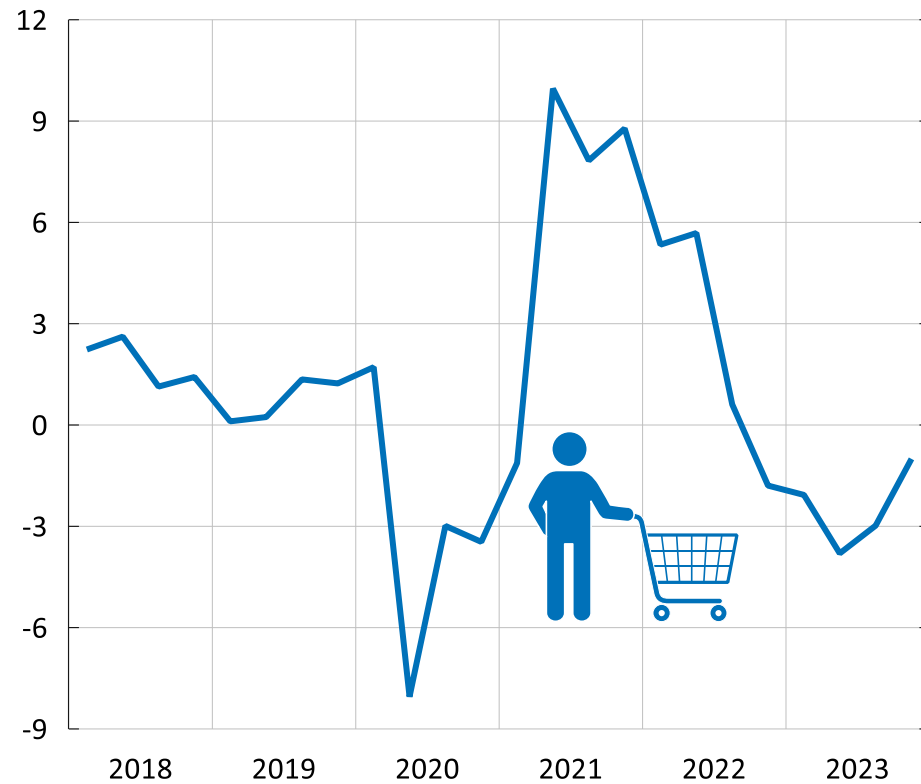


Note. Annual percentage change. Household consumption in fixed prices, seasonally adjusted data.

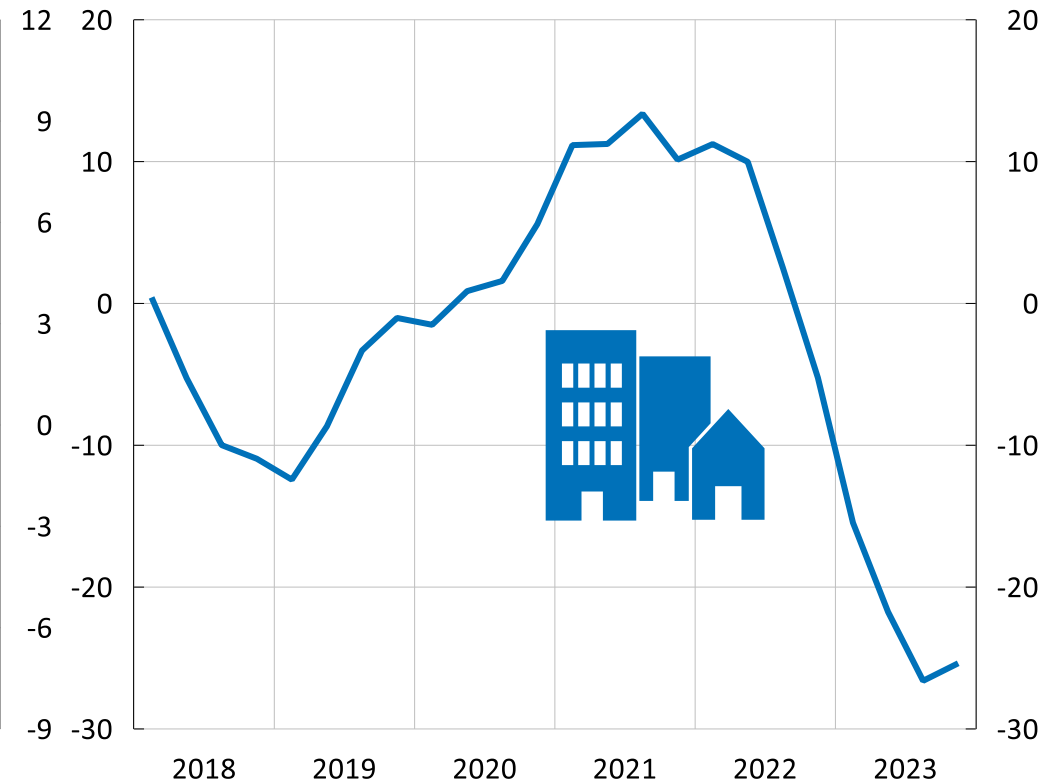
Source: Statistics Sweden.

Interest-rate sensitive parts of the economy have been hit hard

Household consumption



Housing investment

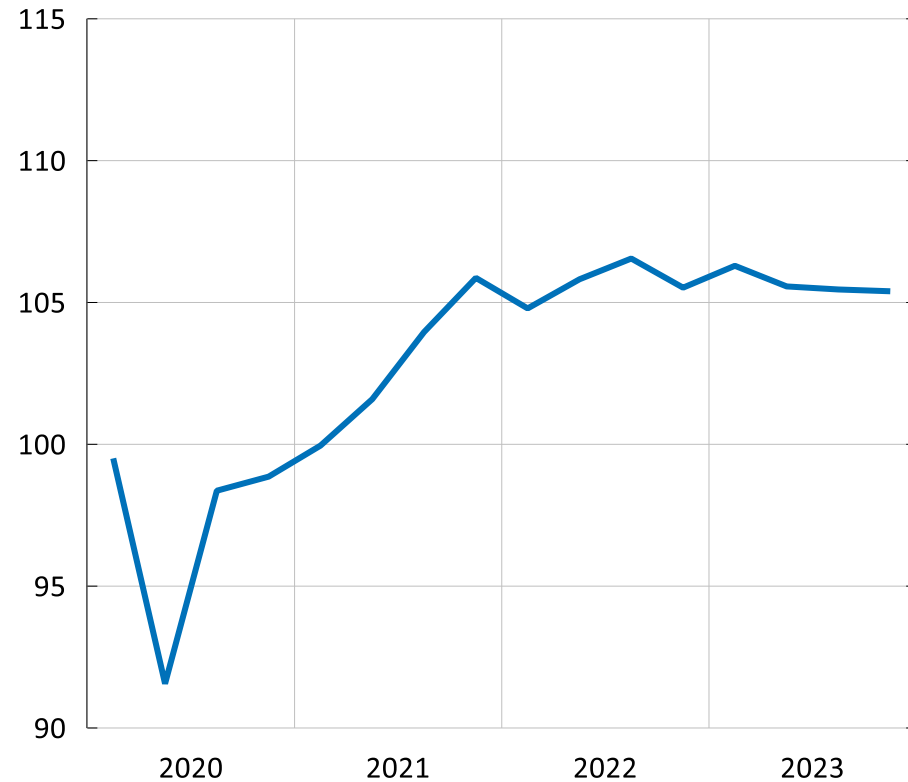


Note. Annual percentage change. Seasonally-adjusted and calendar-adjusted data.

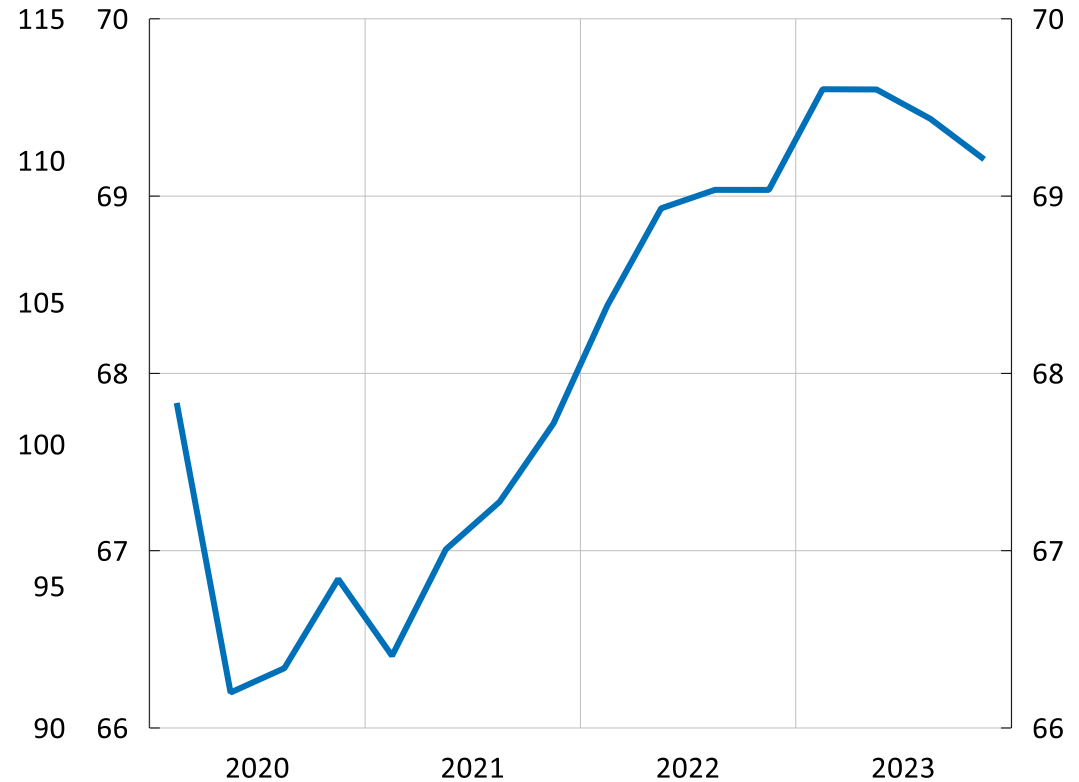
Source: Statistics Sweden.

But the Swedish economy has been unexpectedly resilient

GDP



Employment rate



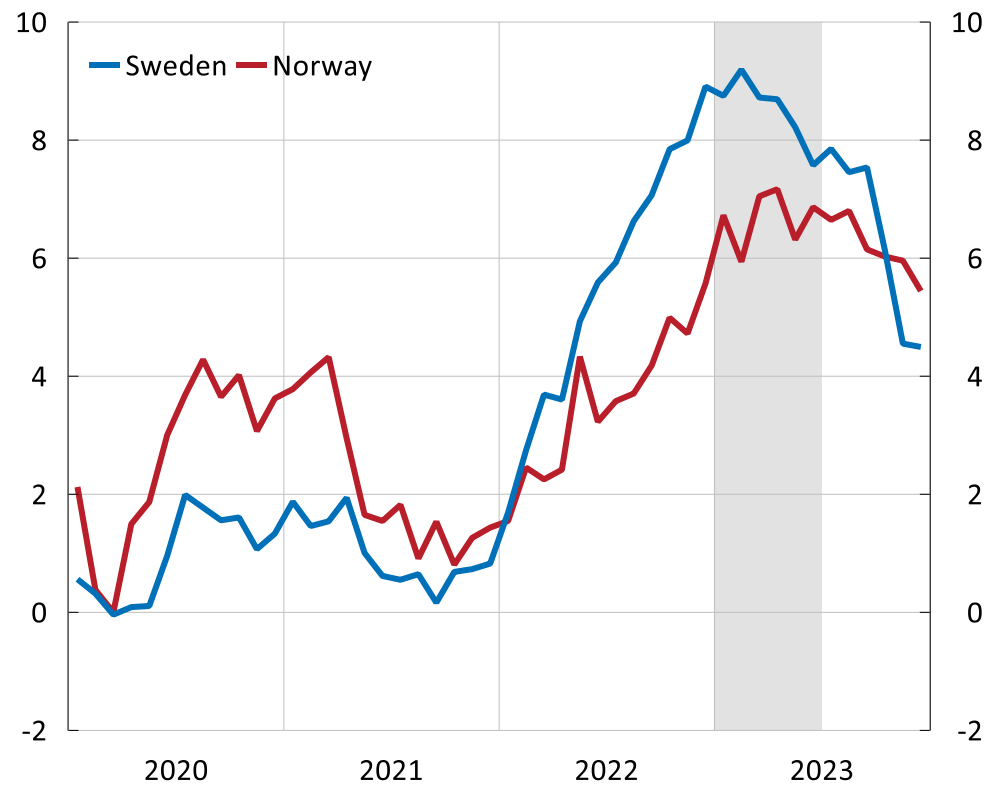
Note. Index, 2019 Q4 = 100 (left). Percentage of population, 15-74 years (right). Seasonally adjusted data.

Sources: Statistics Sweden and the Riksbank.

Inflation prospects in the first six months not convincing enough

- Excessive inflationary pressures
- Companies' price-setting behaviour
- The weakening of the krona and its impact on inflation

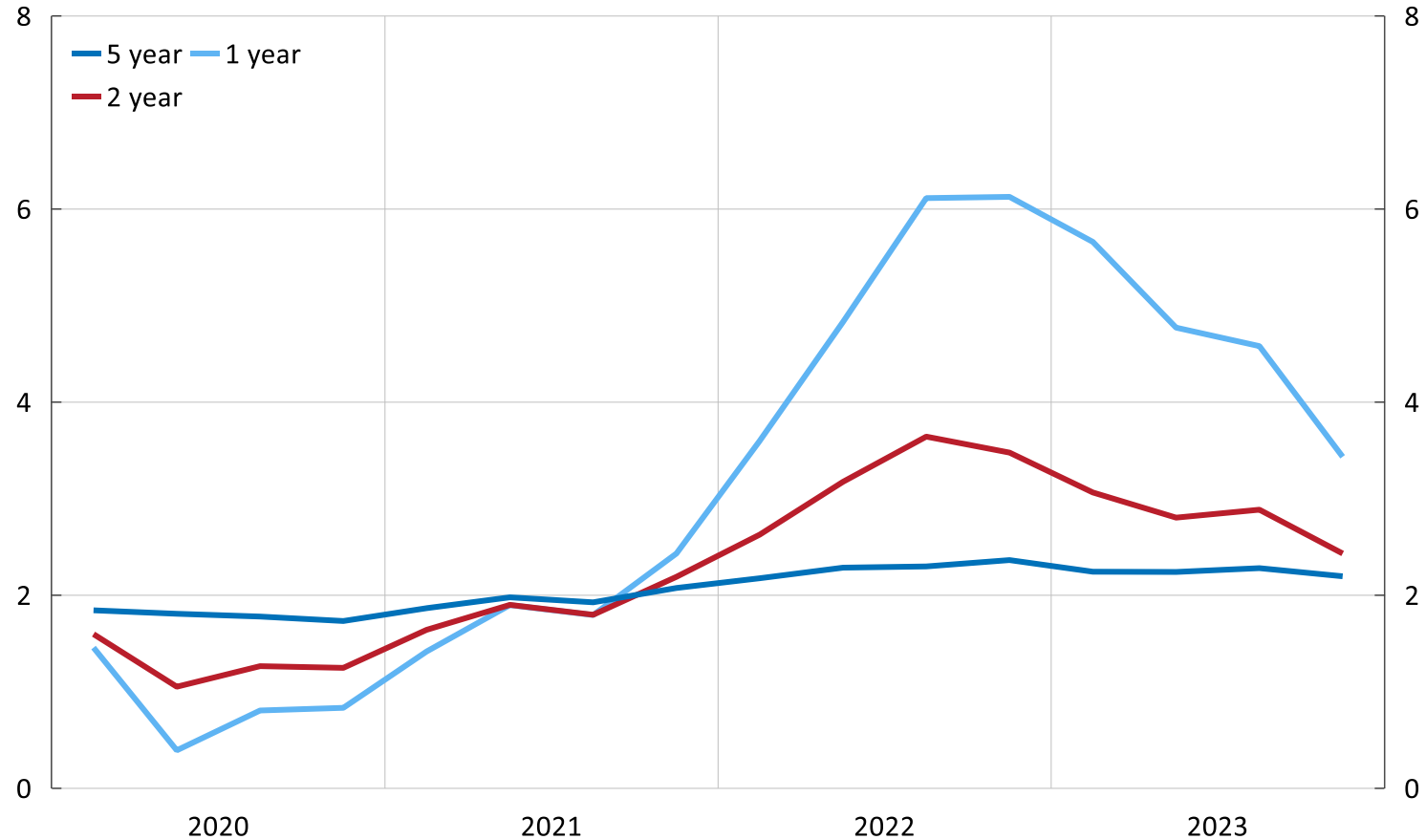
Prices for goods excluding food



Note. Annual percentage change.

Source: Eurostat.

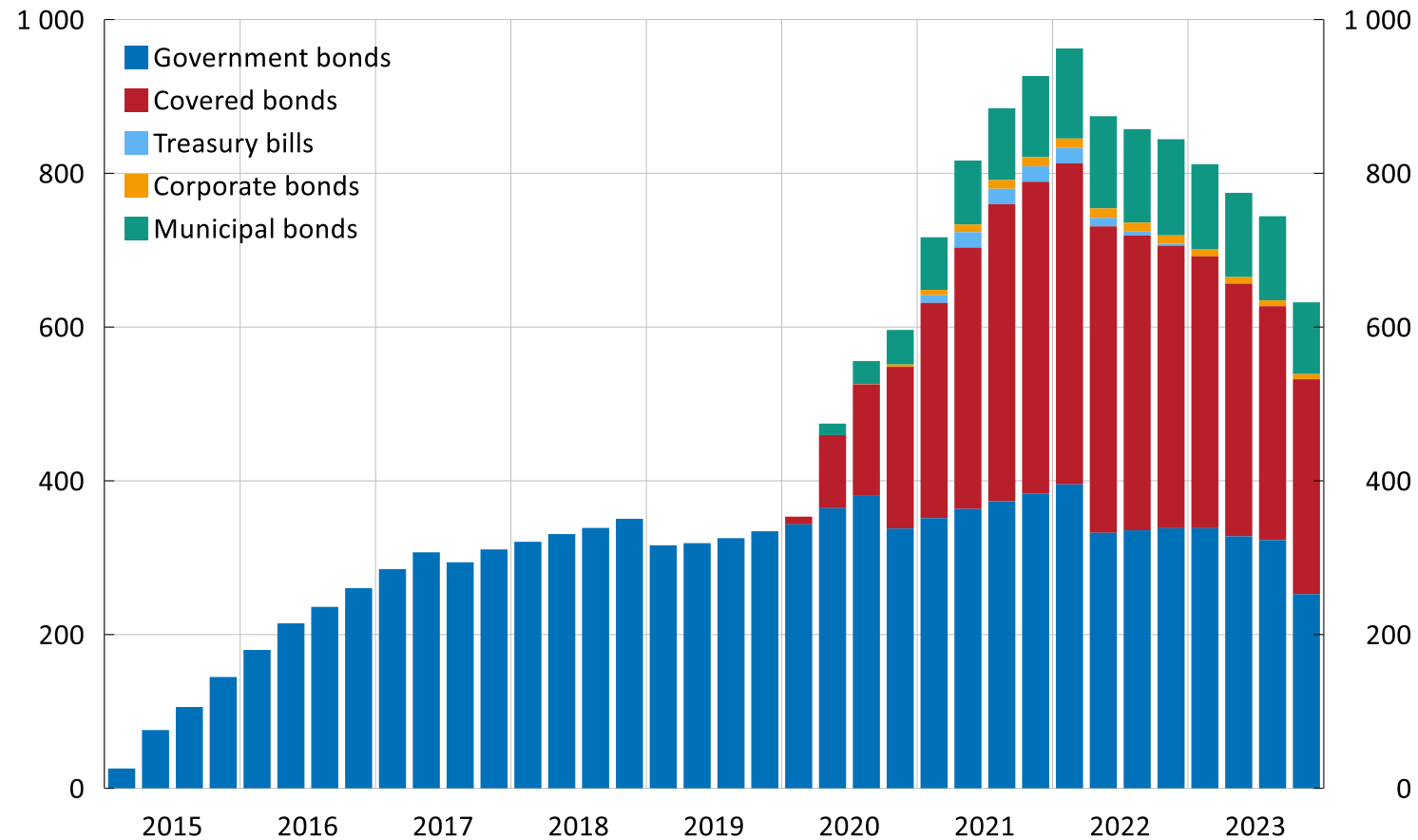
Inflation expectations have been well anchored despite the high inflation



Note. Per cent. Expectations refer to the CPI.

Source: Kantar Prospera.

Normalisation of the balance sheet in 2023 through maturities and sales of government bonds



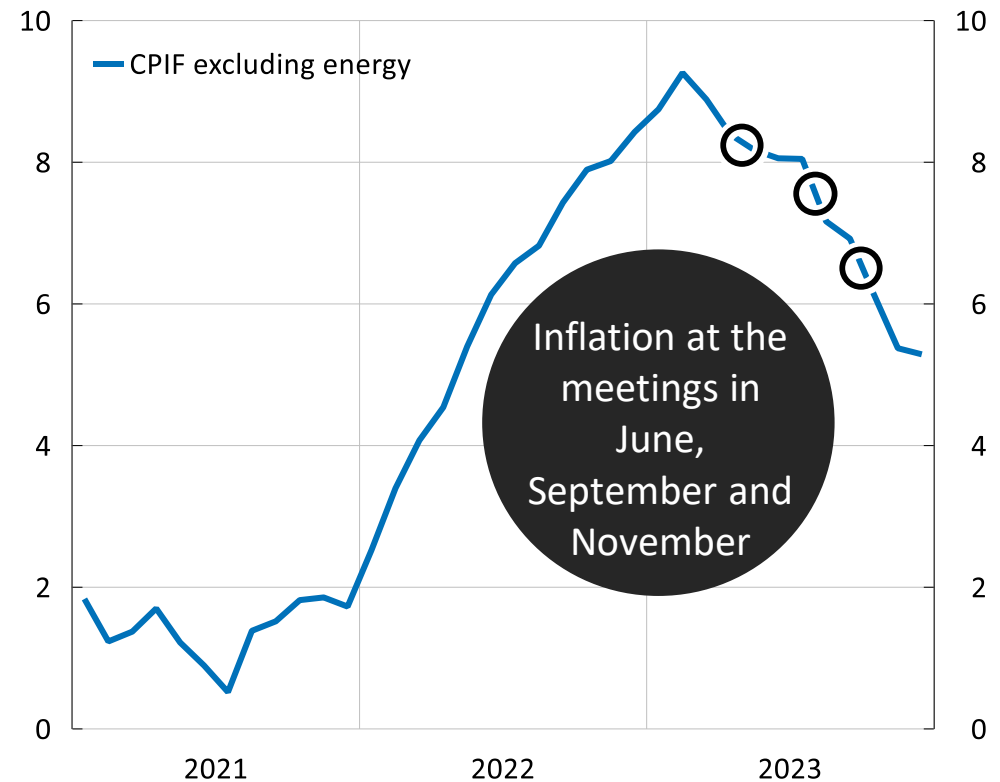
2023:
-212 bn

Note. Nominal amounts, SEK billion.

Source: The Riksbank.

More favourable inflation prospects towards the end of the year

- Forecasts increasingly certain
- Clearer downturn in inflation
- Low inflationary pressures going forward
- In November, we decided to wait and see about further rate rises

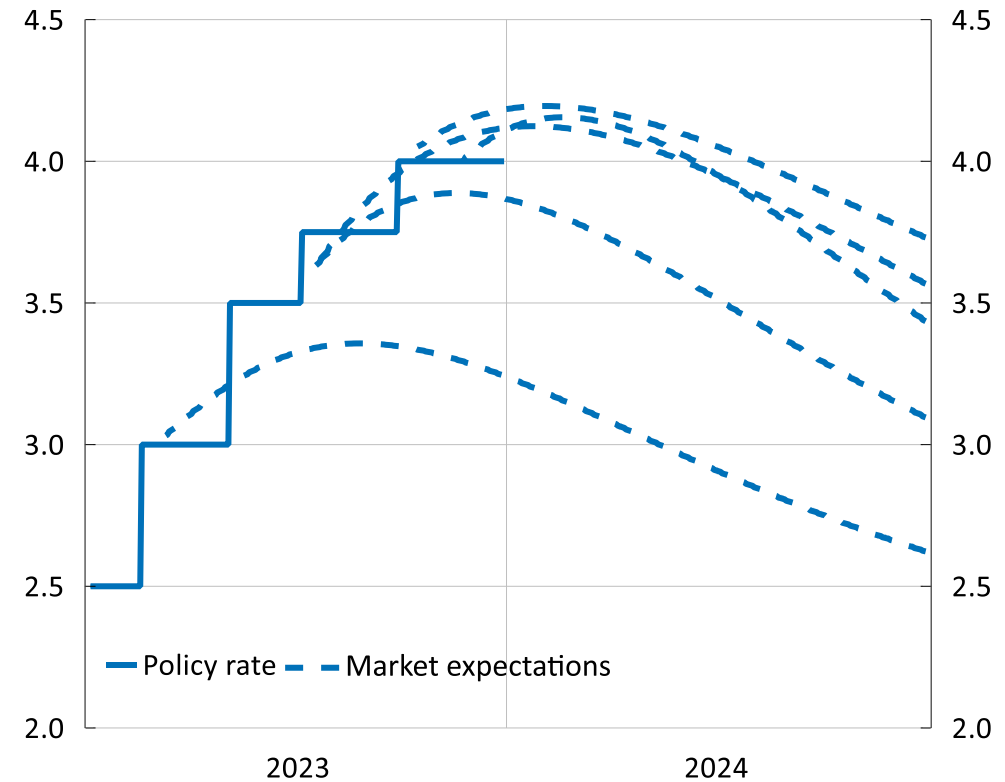


Note. Annual percentage change.

Source: Statistics Sweden.

How to communicate future monetary policy?

- Uncertain which monetary policy is needed for inflation to stabilise around the target – especially after major deviations
- Market expectations are very volatile
- Scenarios and shorter interest rate path to communicate uncertainty



Currency hedging – not monetary policy

- Clear in our communication: “The measure is aimed at limiting the Riksbank’s losses if the krona appreciates and does *not* have a monetary policy purpose”
- Changes in the exchange rate affect the value of the foreign exchange reserves and the Riksbank's results
- Assessment that the krona was undervalued and would appreciate
- Sound risk management





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