Living the new normal – perspectives from the Riksbank

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Sweden: low and more stable inflation since the introduction of inflation targeting

Note. Annual percentage change. CPIF (KPIF) is the official target variable since September 2017.

Source: Statistics Sweden
Expansionary monetary policy has led to inflation aligned with the target and anchored inflation expectations.

Inflation

Inflation expectations

CPIF inflation (percent) and inflation expectations among money-market participants (percent).

Sources: Statistics Sweden, TNS Sifo Prospera and the Riksbank.
Monetary policy in recent years: negative policy rate and large-scale asset purchases

Negative policy rate (per cent)

Government bond purchases (billion SEK)

Source: The Riksbank

Note: In right hand panel, the vertical line marks the shift between the forecast and a technical projection, made under the assumption of no further reinvestments.
Impact on other interest rates

2-year government bond yield
SE DE and US

Lending rates to firms and households,
change since January 2015
Lessons learnt and current issues

• The “new” monetary policy tools used during and since the GFC should remain in the tool kit

• Flexible inflation targeting should be used flexibly
  • Avoid impression of fine-tuning and optimal control
  • Decision-making in committees
  • Challenge – how keep inflation expectations anchored?

• Reviews of central bank mandates in e.g. Norway and Sweden
  • Sweden – how make distinction between monetary policy and financial stability (where the former is to be conducted in independent way)