



Consultation response to the Riksbank's memorandum "Change of target variable and introduction of variation band"

The Riksbank's proposal for a change of target variable and the introduction of a variation band is rejected. There is no urgent need for these changes now and it is inappropriate to forestall the parliamentary committee that currently reviews the monetary policy framework, including the issue of the choice of target variables and a possible variation band. The proposal for introduction of a variation band is specifically rejected. It does not serve any purpose and can, in practice, create a significant ambiguity about the inflation target, result in less effective anchoring of inflation expectations, and make it more difficult both to evaluate the Riksbank's target achievement and to hold the Riksbank accountable for fulfilling the monetary policy goals.

The Riksbank is considering changing the target variable for the inflation target to the CPIF inflation and introducing a +/- 1 percentage point variation band to illustrate that inflation will vary around the target of 2 percent. The changes are expected to be applied by the Riksbank at its monetary policy meeting in September 2017. The Riksbank's considerations in its memorandum "Change of target variable and introduction of variation bands" were sent in May 2017 for consultation to the Stockholm School of Economics among other organizations and authorities.

We reject these changes. The Riksdag has appointed a parliamentary committee with the task of reviewing the monetary policy framework. The committee shall analyze and assess as well as propose any changes it deems necessary on several issues, including monetary policy goals and means. This issue includes the choice of target variables and the possible role of a variation band. Because there is no urgent need now to change the target variable and introduce any variation band, it is advisable to wait for the committee's proposals before any changes are made. It is inappropriate to forestall the committee's work and its democratically supported analysis, assessment and possible proposals regarding target variables and variation bands.

We specifically reject the introduction of a variation band, a new name for the tolerance band that the Riksbank abolished in 2010. The tolerance band was abolished for a good reason: it no longer served any purpose. The tolerance band earlier only served the purpose of emphasizing to the general public that the Riksbank does not have perfect control over inflation and that inflation will realistically fluctuate around the target. However, the fact that inflationary outcome is uncertain and that inflation will vary was well and widely understood in 2010, after 15 years of inflation targeting. A tolerance band was no longer required for this understanding and thus it no longer served any purpose. At present, it is still well and widely understood that the inflation outcome is uncertain and that inflation will therefore vary.

There is also a big disadvantage of introducing a variation band. In practice it risks being perceived as a so-called target range, that is, that the inflation target is achieved as soon as inflation is within the target range. There is a big difference between a target range of 1 to 3 percent and a point target of 2 percent with a variation band of +/- 1 percentage point, although the Riksbank's memorandum does not make any attempt to explain the difference. The introduction of a variation band can therefore, in practice, create a significant ambiguity



about the inflation target, result in less effective anchoring of inflation expectations, and make it more difficult both to evaluate the Riksbank's target achievement and to hold the Riksbank accountable for achieving the monetary policy objectives.

The risk of this ambiguity about the target is particularly large because the variation band would be introduced at a time when inflation for many years have fallen significantly below the target and the Riksbank thereby has missed the target. Therefore, the general public and observers may interpret the introduction of a variation band as an attempt by the Riksbank to avoid the responsibility for missing the target through the introduction of a more ambiguous target formulation.

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