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## **DOES THE FISHER HYPOTHESIS HOLD IN SWEDEN? AN ANALYSIS OF LONG-TERM INTEREST RATES UNDER THE REGIME OF INFLATION TARGETING□**

### **Abstract:**

This paper examines the validity of the Fisher hypothesis in Sweden by analyzing inflation expectations and long-term interest rates from January 1993 to February 2015 under a regime of inflation targeting. The Fisher hypothesis holds for the maturities of 2, 3, 4, 5, and 7 but not 10 years. The results show that changes in inflation expectations move in the same direction and degree as nominal long-term interest rates for the maturities of 2, 3, 4, 5, and 7 years. This can primarily be attributed to the credibility of the inflation-targeting framework in Sweden for the last 20 years and the success it has achieved in locking inflation expectations into the target range within these maturities. In the maturity of 10 years, this credibility has never been as certain.

### **Keywords:**

Fisher Hypothesis, Inflation Targeting, Long Term Interest Rates

**JEL Classification:** E43, G19