



PRESS RELEASE

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■ Repo rate unchanged at 1 per cent

There are now increasing signs confirming that economic activity is beginning to improve. The Executive Board of the Riksbank has decided to hold the repo rate unchanged at 1 per cent to give continued support to the economic upturn and to contribute to inflation rising to the target of 2 per cent. The repo rate needs to remain at the current low level until economic activity is showing a clearer improvement and inflation has risen for a while. As before, the repo rate is not expected to be raised until the end of 2014.

Clearer signs of an improvement

Economic developments both in Sweden and abroad have been in line with the forecast made by the Riksbank in July. There are signs that an improvement has begun in the euro area, although the recovery is expected to take several years. In the United States, too, the prospects for a continuing recovery are good, while emerging markets are slowing down after several years of very high growth.

The recovery abroad will contribute to brighter prospects for the Swedish economy. Confidence in both the household and corporate sectors has risen and developments on the labour market have been somewhat better than expected. As international economic activity strengthens, the demand for Swedish exports will rise at the same time as household consumption increases faster. Growth in Sweden is thus expected to be gradually stronger in the coming period, which will in turn mean that employment rises faster and unemployment declines next year.

Gradually rising inflation

Inflation is currently low and CPIF inflation is expected to remain at just over 1 per cent in the near term. When economic activity improves, import prices and wages will rise at a faster rate, at the same time as companies are able to raise their prices more. This means that inflation is expected to attain 2 per cent in 2015.

Low repo rate supports economic upturn

The repo rate needs to remain low to support the economic upturn and contribute to inflation rising towards 2 per cent. The Executive Board of the Riksbank has therefore decided to hold the repo rate unchanged at 1 per cent. The repo rate needs to remain at the current low level until economic activity is showing a clearer improvement and inflation has risen for a while. As before, the repo rate is not expected to be raised until the end of 2014.



An even lower repo rate could lead to inflation attaining the target slightly sooner. However, at the same time, a lower repo rate now, when the situation for households is already relatively favourable, could lead to a further increase in the risks related to high household debt. If households were to be forced, for one reason or another, to rapidly reduce their debt, there is a risk that unemployment would rise sharply and that long-term difficulties in stabilising inflation around the target could arise. The monetary policy being conducted now is expected to stimulate economic developments and contribute to inflation rising towards 2 per cent, at the same time as taking into account the risks linked to households' high indebtedness.

The Riksbank has long called for a clearer framework and new tools to prevent and manage risks linked to financial imbalances, such as households' high indebtedness. The Riksbank therefore now welcomes the Government's proposal for a stronger framework for financial stability. This clarifies the allocation of responsibility and gives better conditions for taking further measures to reduce risks linked to households' high indebtedness. How monetary policy is affected when the new macro-prudential policy measures are implemented will depend on both economic developments and financial stability and the risks linked to households' high indebtedness. These are questions the Riksbank will return to when concrete measures have been specified.

Forecasts for Swedish inflation, GDP, unemployment and the repo rate

Annual percentage change, annual average

	2012	2013	2014	2015
CPI	0.9 (0.9)	0.1 (0.1)	1.3 (1.3)	2.6 (2.6)
CPIF	1.0 (1.0)	1.0 (0.9)	1.4 (1.4)	1.9 (1.9)
GDP	0.7 (0.7)	1.2 (1.5)	2.7 (2.8)	3.6 (3.6)
Unemployment, ages 15-74, per cent	8.0 (8.0)	8.1 (8.2)	7.9 (8.1)	7.2 (7.3)
Repo rate, per cent	1.5 (1.5)	1.0 (1.0)	1.0 (1.0)	1.9 (1.9)

Note The assessment in the Monetary Policy Report in July 2013 is shown in brackets.

Sources: Statistics Sweden and the Riksbank

Forecast for the repo rate

Per cent, quarterly averages

	2013 Q2	2013 Q3	2013 Q4	2014 Q3	2015 Q3	2016 Q3
Repo rate	1.0	1.0 (1.0)	1.0 (0.9)	1.0 (1.0)	2.0 (2.0)	2.8 (2.8)

Note The assessment in the Monetary Policy Report in July 2013 is shown in brackets.

Source: The Riksbank

Deputy Governor Karolina Ekholm entered a reservation against the decision to maintain the repo rate at its current level and against the repo-rate path in the Monetary Policy Update. She advocated a lowering of the repo rate to 0.75 per cent and a repo-rate path that stays at 0.75 per cent through the second quarter of 2014, and then rises to about 2.25 per cent by the end of the forecast period. This was justified by her assessment that a repo-rate path that is associated with a higher forecast of CPIF inflation and a lower forecast of unemployment constitutes a better-balanced monetary policy.



■ Deputy Governor Martin Flodén entered a reservation against the decision to hold the repo rate unchanged and against the repo-rate path in the Monetary Policy Update. He advocated cutting the repo rate to 0.75 per cent and a path where the repo rate remains at this level until the end of the second quarter of 2014, after which it follows the repo-rate path in the Monetary Policy Update. This is justified by his assessment that this repo-rate path would entail a forecast where CPIF inflation returns to 2 per cent sooner and resource utilisation is better balanced. Moreover, this would reduce the risk that the repo rate needs to be revised down in the future and that it would take a long time before the repo rate can be raised from the current low levels.

The minutes from the Executive Board's monetary policy discussion will be published on 18 September. The decision on the repo rate will apply with effect from 11 September.

A press conference with Governor Stefan Ingves and Marianne Nessén, Head of the Monetary Policy Department, will be held today at 11 a.m. in the Riksbank. Press cards must be shown. As a result of the extensive security precautions in connection with US President Obama's visit, large areas of central Stockholm will be cordoned off 4-5 September. We therefore suggest that you allow plenty of time to get here. The press conference will be broadcast live on the Riksbank's website, www.riksbank.se, where it will also be available to view afterwards.