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■ **Repo rate unchanged at 0.75 per cent**

Economic activity is clearly strengthening, but inflation is expected to remain low for some time. Monetary policy needs to remain expansionary for inflation to rise towards the target. The Executive Board of the Riksbank has therefore decided to hold the repo rate unchanged at 0.75 per cent. The repo rate is expected to remain at this low level for around a year. It is considered appropriate to wait until inflation picks up before beginning to raise the repo rate. The repo-rate path has been adjusted down somewhat and reflects a greater probability of a repo-rate cut in the near term compared with the assessment made in February.

Stronger economic activity at home and abroad

Economic developments abroad continue to improve, well in line with the Riksbank's earlier assessments. The situation in the US economy is gradually improving and prospects are also brightening in the euro area. There is considerable uncertainty over the situation in Ukraine, but this is not expected to hamper the recovery in the global economy.

In Sweden, GDP growth was unexpectedly high towards the end of last year. This was partly due to temporary factors, but the upturn in demand was broad, implying that an economic upturn has begun. The prospects for the Swedish economy remain bright. Export orders are increasing, at the same time as households and companies are relatively optimistic about the future. During the second half of this year, the labour market is expected to improve significantly, in line with the earlier assessment. At the same time, household debt as a share of income is expected to rise somewhat more in this forecast than was expected in February.

Low inflation in the coming year

Although economic activity is clearly strengthening, inflation is expected to remain low for the rest of the year. Compared with the assessment made in February, the inflation forecast has been revised down somewhat, primarily for the coming months. Price increases have been low for some time relative to developments in companies' costs. However, as economic activity strengthens, companies are expected to be able to raise their prices to a greater extent. CPIF inflation is expected to begin to rise towards the end of the year and to be close to 2 per cent during the latter part of 2015.

Low interest rate until inflation picks up

Monetary policy needs to remain highly expansionary to contribute to inflation rising towards the target. Although inflation has been somewhat lower than expected, only

■ a minor revision has been made to the inflation forecast. The Executive Board of the Riksbank has therefore decided to hold the repo rate unchanged at 0.75 per cent. It is judged appropriate to begin gradually raising the repo rate in one year's time, when inflation has picked up.

As economic activity strengthens, inflationary pressures are expected to rise. However, it is uncertain how quickly inflation will rise, particularly as it has been weaker than expected for some time now. The repo-rate path has therefore been adjusted down somewhat and reflects a greater probability of a repo-rate cut in the near term compared with the assessment made in February.

Monetary policy - a trade-off

For some time now, monetary policy has balanced how low the repo rate needs to be for inflation to approach the target sufficiently quickly against the increased risks linked to households' high indebtedness that can stem from a low interest rate. Economic activity is now strengthening clearly and household indebtedness as a share of disposable income is expected to increase more than was previously forecast. At the same time, inflation has been somewhat lower than expected. The challenge involved in attaining this balance has thus been accentuated.

As low inflation constrains the degree to which monetary policy can address the risks associated with household indebtedness, other policy areas need to contribute more. It is therefore important to state in concrete terms which measures can be implemented in 2014 and thereafter.

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

Annual percentage change, annual average

	2013	2014	2015	2016
CPI	0.0 (0.0)	0.2 (0.6)	2.2 (2.5)	3.2 (3.0)
CPIF	0.9 (0.9)	0.7 (0.9)	1.7 (1.8)	2.0 (2.0)
GDP	1.5 (0.9)	2.7 (2.4)	3.2 (3.6)	2.8 (2.8)
Unemployment, ages 15-74, per cent	8.0 (8.0)	7.9 (7.8)	7.3 (7.2)	6.7 (6.6)
Repo rate, per cent	1.0 (1.0)	0.7 (0.7)	1.1 (1.4)	2.3 (2.4)

Note. The assessment in the Monetary Policy Report in February 2014 is shown in brackets.

Sources: Statistics Sweden and the Riksbank

Forecast for the repo rate

Per cent, quarterly averages

	2014 Q1	2014 Q2	2015 Q1	2016 Q1	2017 Q1
Repo rate	0.75	0.75 (0.72)	0.73 (0.89)	1.95 (2.10)	2.65 (2.71)

Note. The assessment in the Monetary Policy Report in February 2014 is shown in brackets.

Source: The Riksbank

Deputy Governors Karolina Ekholm and Martin Flodén entered reservations against the decision to hold the repo rate unchanged and against the repo-rate path in the Monetary Policy Update.

Ms Ekholm advocated lowering the repo-rate to 0.5 per cent and a repo-rate path that stays at 0.5 per cent for about a year, and then rises gradually to about 2.2 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.

Mr Flodén advocated lowering the repo-rate to 0.5 per cent and a repo-rate path that stays at 0.5 per cent for about a year, and then rises gradually towards the repo-rate path in the Monetary Policy Update. This was justified by his assessment that this repo-rate path entails CPIF inflation moving more quickly towards two per cent.

The minutes from the Executive Board's monetary policy discussion will be published on 24 April. The decision on the repo rate will apply with effect from 16 April. 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. The press conference will be broadcast live on the Riksbank's website, www.riksbank.se, where it will also be available to view afterwards.