



PRESS RELEASE

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■ Repo rate unchanged at 1.50 per cent

Following a bright start to the year, the unease in Europe is now casting a shadow over the Swedish economy. Despite the unease, the Swedish economy is still growing, albeit weakly. At the same time, inflation is low. The repo rate needs to remain low to support economic activity and ensure inflation is in line with the target of 2 per cent. The Executive Board of the Riksbank has therefore decided to hold the repo rate unchanged at 1.50 per cent and to revise the repo-rate path downwards somewhat.

Unease in Europe casts a shadow over the Swedish economy

The unease on the financial markets in Europe has increased and the economic downturn in the euro area is expected to be protracted. Several euro area countries are facing considerable challenges. The work on rectifying the problems is continuing but a lot of work remains before long-run sustainable solutions have been implemented. At the same time as GDP in southern Europe will fall in the coming period, however, many of Sweden's most important trading partners are expected to continue growing, albeit at a slow rate.

The Swedish economy has developed more strongly than expected so far this year. Household consumption and corporate investment increased relatively strongly at the beginning of the year, while unemployment has been lower than expected. The weak developments in the euro area subdue Swedish exports and the increased unease affects sentiment among households and companies. GDP growth is therefore expected to be weak for some time to come, and unemployment is expected to rise slightly.

Inflation is low at present, which is mainly due to cost pressures being low and the krona having strengthened after the financial crisis 2008-2009. As the unease in the euro area abates, it is expected that the economic activity in Sweden will strengthen, resource utilisation will increase and inflation will rise.

Continued low repo rate stimulates the economy

The Executive Board of the Riksbank has decided to hold the repo rate unchanged at 1.50 per cent to support economic activity and ensure that inflation is in line with the target of 2 per cent. The repo rate is expected to remain at this low level for just over a year. Later on, when inflationary pressures increase, the



repo rate will need to be gradually raised. This repo-rate path will contribute to stabilising inflation around 2 per cent and resource utilisation in the economy around a normal level. Compared with the decision in April, the repo-rate path has been adjusted downwards somewhat as a result of the poorer outlook abroad.

Economic developments are uncertain

There is considerable uncertainty concerning economic developments. The situation in the euro area is problematic and could worsen, which could have further negative effects on the Swedish economy. In this situation, the repo rate may need to be lower. However, it is also possible that confidence in economic developments could return sooner than expected, which could lead to higher demand in the Swedish economy. This would justify a higher repo-rate path.

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

Annual percentage change

	2011	2012	2013	2014
CPI	3.0 (3.0)	1.1 (1.2)	1.7 (1.9)	2.8 (2.9)
CPIF	1.4 (1.4)	1.0 (1.1)	1.7 (1.7)	2.1 (2.0)
GDP	3.9 (3.9)	0.6 (0.4)	1.7 (1.9)	2.8 (2.8)
Unemployment, aged 15-74, per cent	7.5 (7.5)	7.6 (7.7)	7.7 (7.7)	7.0 (6.9)
Repo rate, per cent	1.8 (1.8)	1.5 (1.5)	1.6 (1.7)	2.3 (2.5)

Note. The assessment in the April 2012 Monetary Policy Update is shown in brackets.

Sources: Statistics Sweden and the Riksbank

Forecast for the repo rate

Per cent, quarterly averages

	2012 Q2	2012 Q3	2012 Q4	2013 Q3	2014 Q3	2015 Q3
Repo rate	1.5	1.5 (1.5)	1.4 (1.5)	1.6 (1.8)	2.4 (2.6)	3.1

Note. The assessment in the April 2012 Monetary Policy Update is shown in brackets.

Source: The Riksbank

Deputy Governors Karolina Ekholm and Lars E.O. Svensson entered reservations against the decision to keep the repo rate unchanged and against the repo-rate path in the Monetary Policy Report. They both advocated a lowering of the repo rate to 1.0 per cent and a lower repo-rate path than in the Monetary Policy Report.

Karolina Ekholm preferred a repo-rate path that stays at 1 per cent through the third quarter of 2013, and then rises to 2.6 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.

Lars E.O. Svensson preferred a repo-rate path that stays at 0.75 per cent from the fourth quarter of 2012 through the fourth quarter of 2013, and then rises to 2 per cent by the end of the forecast period. This was justified by his assessment that the Report's forecasts of foreign policy rates further ahead and euro area growth are too high and that his repo-rate path is associated with a fore-



■ cast of CPIF inflation that is closer to the inflation target and a forecast of unemployment that is closer to a long-run sustainable rate and therefore constitutes a better-balanced monetary policy.

The minutes of the Executive Board's monetary policy discussion will be published on 17 July 2012. The decision on the repo rate will apply with effect from 11 July. 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 where it will also be available to view afterwards.