PRESS RELEASE

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Repo rate unchanged at 1.0 per cent

Growth in the Swedish economy is still weak and inflationary pressures are low. But there are some positive signs pointing towards stabilisation and strengthening in economic activity over the year. Developments are in line with the assessment made by the Riksbank in December. The repo rate needs to remain low to support the economy and to ensure inflation rises to the target of 2 per cent. The Executive Board of the Riksbank has therefore decided to hold the repo rate unchanged at 1.0 per cent. The repo rate is expected to remain at this low level over the coming year.

Low growth but some positive signs

The Swedish economy is still being affected by the economic crisis in the euro area. The problems in the countries suffering debt crises are still a source of uncertainty and weak demand. This will contribute to Swedish GDP growth also being weak during the first half of the year. However, there are some positive signs. The unease on the financial markets has declined, and households and companies, both in Sweden and abroad, have become slightly more optimistic with regard to the future. At the same time, developments in the emerging economies are strong and the recovery in, for instance, the United States is continuing. Altogether, this implies that Swedish GDP growth will gradually increase over the year, although there is a risk of setbacks.

The labour market is affected by developments in GDP, but with some time lag. The increase in employment is now coming to a halt, and unemployment is expected to rise slightly over the year. All in all, resource utilisation in the economy is now expected to be lower than normal. As GDP growth picks up, employment will rise, however, and unemployment will fall.

Low repo rate to attain inflation target and support the economy

The weak economic developments in Sweden, together with falling prices on imported goods have contributed to low inflationary pressures. The repo rate needs to remain low for inflation to rise towards the target. The Executive Board of the Riksbank has therefore decided to hold the repo rate unchanged at 1.0 per cent. The low interest rate supports economic activity so that inflation will rise towards the target of 2 per cent. The repo rate is expected to remain at this low level for around a year. This repo-rate path will contribute to CPIF inflation being close to 2 per cent from the middle of 2014 and to resource utilisation normalising during the forecast period. Household debt as a percentage of their income is still high and the risks this entails for the economy in the long run still remain.

The repo-rate path is a forecast, not a promise

Developments abroad, particularly in the United States and the rapidly-growing economies in Asia, could be stronger than expected, which may lead to higher demand in the Swedish economy and higher inflationary pressures. This would justify a higher repo-rate path. At the same time, there are other factors that could mean the repo rate needed to be lower. At present, inflationary pressures are low and unemployment is rising. If unemployment were to increase more and inflation were to be lower than expected, the repo-rate path might need to be lower.

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

Annual percentage change, annual average

	2012	2013	2014	2015
CPI	0.9 (0.9)	0.4 (0.3)	2.1 (2.3)	2.6 (2.6)
CPIF	1.0 (0.9)	1.0 (0.9)	1.8 (2.0)	2.0 (2.0)
GDP	0.9 (0.9)	1.2 (1.2)	2.7 (2.7)	3.1 (3.2)
Unemployment, ages 15-74, per cent	7.7 (7.7)	8.1 (8.1)	7.8 (7.6)	6.9 (6.8)
Repo rate, per cent	1.5 (1.5)	1.0 (1.0)	1.5 (1.5)	2.2 (2.2)

Note. The assessment in the December 2012 Monetary Policy Update is shown in brackets.
Sources: Statistics Sweden and the Riksbank.

Forecast for the repo rate

Per cent, quarterly averages

	2012 Q4	2013 Q1	2013 Q2	2014 Q1	2015 Q1	2016 Q1
Repo rate	1.2	1.0 (1.0)	1.0 (1.0)	1.2 (1.3)	2.0 (2.0)	2.7

Note. The assessment in the December 2012 Monetary Policy Update is shown in brackets.
Source: The Riksbank

The minutes from the Executive Board's monetary policy discussion will be published on 26 February. The decision on the repo rate will apply with effect from 20 February. 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.

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 Report. 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 first quarter of 2014, and then rises to just below 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.

Deputy Governor Lars E. O. Svensson entered reservations against the Monetary Policy Report and the decision about the repo rate and the repo-rate path in the Monetary Policy Report. He advocated lowering the repo rate to 0.5 per cent and then a repo-rate path that stays at 0.5 per cent through the first quarter of 2014, and then rises to 1.5 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, foreign growth and Swedish inflation are too high and that given these circumstances his repo-rate path implies a forecast for CPIF inflation that is closer to the inflation target and a forecast for unemployment that is closer to a long-run sustainable rate and therefore constitutes a better-balanced monetary policy. His assessment was that his lower repo-rate path would not noticeably affect any risks associated with household indebtedness, since monetary policy normally has very small short-run effects on household indebtedness and, with low and stable inflation, no long-run effects.