PRESS RELEASE

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■ Repo rate unchanged at 1.0 per cent

Growth prospects are gradually brightening, but at the same time the forecast is that it will now take longer before inflation attains the target of 2 per cent. The repo rate needs to remain at a low level for a longer period of time to support the recovery to ensure that inflation rises towards the target. The Executive Board of the Riksbank has therefore decided to hold the repo rate unchanged at 1 per cent and to make a downward adjustment to the repo-rate path. Increases in the repo rate are not expected to begin until the second half of 2014.

Gradual recovery in the economy

The global economy is growing at a relatively good pace. The recovery in the US economy is continuing and developments in Asia are strong. At the same time, the euro area is marked by the economic crisis. There is still considerable uncertainty and GDP growth in the euro area is expected to remain weak.

After a weak outcome at the end of last year, the Swedish economy is now showing a gradual recovery. Sentiment among households and companies has improved and consumption and investment are expected to increase more quickly in the coming period. Unemployment is still high, but the labour market is expected to improve next year when GDP growth picks up. The brighter prospects for the Swedish economy, together with low interest rates, have contributed to an increase in housing prices. This development is expected to continue and to contribute to a faster increase in household debt in the coming period than was forecast earlier.

Continued low inflation

Inflation is currently low, which is due to weak demand in the economy, to the appreciation of the krona in recent years and to low price mark-ups by companies. As economic activity strengthens, inflation will rise, but is now expected to take longer before inflation attains the target of 2 per cent. This is partly because companies are now assessed to have more difficulty in passing on higher costs to consumer prices, and partly because of the stronger krona. At the beginning of 2015, CPIF inflation is expected to be close to 2 per cent.

Low interest rate for longer to counteract low inflation

The repo rate needs to remain at a low level for a longer period of time to support the recovery to ensure that inflation rises towards the target. The Executive Board of the Riksbank has therefore decided to hold the repo rate unchanged at 1 per cent and to make a downward adjustment to the repo-rate path. Gradual increases in the repo rate are not expected to begin until the second half of 2014, which is around a year later than the earlier forecast.

Over the past year, the repo rate has been gradually cut to 1 per cent and monetary policy is currently very expansionary. There are now signs of a gradual recovery in the economy, at the same time as household debt is expected to increase from an already high level. However, it will take longer than was previously assumed before inflation rises towards the target. An even lower repo rate today would mean that inflation attained the target somewhat more quickly, but at the same time it would further increase the risk of imbalances building up. The monetary policy conducted is expected to stimulate the economy and inflation at the same time as taking into account the risks linked to households' high indebtedness.

A forecast, not a promise

Developments in the euro area are a source of uncertainty, as are developments in the exchange rate and the companies' possibility to pass on costs to consumers. If economic developments and inflation in Sweden were to develop differently from the forecasts in the Monetary Policy Update, the repo rate and repo-rate path would need to be adjusted accordingly.

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 (0.4)	1.4 (2.1)	2.7 (2.6)
CPIF	1.0 (1.0)	1.0 (1.0)	1.4 (1.8)	2.0 (2.0)
GDP	0.8 (0.9)	1.4 (1.2)	2.7 (2.7)	3.5 (3.1)
Unemployment, ages 15-74, per cent	8.0 (7.7)	8.2 (8.1)	7.8 (7.8)	6.8 (6.9)
Repo rate, per cent	1.5 (1.5)	1.0 (1.0)	1.0 (1.5)	1.9 (2.2)

Note. The assessment in the Monetary Policy Report in February 2013 is shown in brackets.
Sources: Statistics Sweden and the Riksbank

Forecast for the repo rate

Per cent, quarterly averages

	2013 Q1	2013 Q2	2014 Q1	2015 Q1	2016 Q1
Repo rate	1.0 (1.0)	1.0 (1.0)	0.9 (1.2)	1.5 (2.0)	2.5 (2.7)

Note. The assessment in the Monetary Policy Report in February 2013 is shown in brackets.
Source: The Riksbank

The minutes from the Executive Board’s monetary policy discussion will be published on 29 April. The decision on the repo rate will apply with effect from 24 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.

Deputy Governor Karolina Ekholm entered a reservation against the decision to maintain the repo rate unchanged 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 third quarter of 2014, and then rises to around 1.75 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 Update and the decision about the repo rate and the repo-rate path in the Update. He advocated lowering the repo rate to 0.5 per cent and then a repo-rate path that stays at 0.25 per cent from the third quarter of 2013 through the third 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 Update's forecasts of foreign policy rates further ahead and foreign growth were exaggeratedly high and that its CPIF forecast exaggerates inflation pressure. His repo-rate path then 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. It therefore constitutes a better-balanced monetary policy. His lower repo-rate path might increase the household debt ratio by a couple of percentage points within a couple of years, but not in the long term. It would not have any noticeable effect on any risks associated with household debt.