



PRESS RELEASE

DATE: 3 July 2013
NO: 15
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■ Repo rate unchanged at 1 per cent

The Swedish economy is on the way to a recovery. At the same time, inflation is expected to be low for a while longer. Economic developments in Sweden and abroad have been largely in line with the Riksbank's most recent forecast in April. The repo rate needs to remain low to support the economy and enable inflation to rise to the target of 2 per cent. The Executive Board of the Riksbank has therefore decided to hold the repo rate unchanged at 1 per cent. Gradual increases in the repo rate are expected to begin during the second half of 2014, as assessed earlier.

Gradually stronger growth in Sweden

Economic developments around the world are in different phases. In the United States, GDP is continuing to grow at a modest pace, while developments in the euro area are weak. Several euro area countries need to implement major reforms, which will take many years, although there are signs that developments are moving in the right direction. Moreover, there are good conditions for an increase in growth in the United States. The economic outlook abroad as a whole is expected to improve gradually over the coming years.

The weak demand in the euro area has led to a fall in exports and investment in Sweden. At the same time, households' finances are relatively strong. Low interest rates and rising employment have contributed to good growth in incomes preparing the ground for continued steady growth in consumption. As the global economy improves, demand for Swedish exports is expected to increase and GDP growth to accelerate at the end of the year. During 2014, the labour market and unemployment will fall again.

Inflation will rise to 2 per cent

Inflation is currently low and CPIF inflation is expected to remain at around 1 per cent this year. When economic activity improves, import prices and labour costs 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 the Swedish economy

Economic developments in Sweden and abroad have been largely in line with the forecast made by the Riksbank in April. The repo rate needs to remain at the current low level for around one year to support the economy and to contribute to inflation rising towards the target. The Executive Board of the Riksbank has therefore decid-



ed to hold the repo rate unchanged at 1 per cent. Slow increases in the repo rate are not expected to begin until the second half of 2014.

An even lower repo rate could lead to inflation attaining the target somewhat 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 forced for one reason or another to quickly reduce their debts, there is a risk that unemployment would rise sharply and there would be prolonged difficulties in attaining the inflation target. The monetary policy conducted is therefore considered to be a reasonable balance that stabilises inflation and the real economy in the short run, at the same time as taking into account more long-term risks linked to households' high indebtedness.

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 (1.4)	2.6 (2.7)
CPIF	1.0 (1.0)	0.9 (1.0)	1.4 (1.4)	1.9 (2.0)
GDP	0.7 (0.8)	1.5 (1.4)	2.8 (2.7)	3.6 (3.5)
Unemployment, ages 15-74, per cent	8.0 (8.0)	8.2 (8.2)	8.1 (7.8)	7.3 (6.8)
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 April 2013 Monetary Policy Update 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 (0.9)	0.9 (0.9)	1.0 (1.0)	2.0 (2.0)	2.8

Note. The assessment in the April 2013 Monetary Policy Update is shown in brackets.

Source: The Riksbank

The minutes from the Executive Board's monetary policy discussion will be published on 16 July. The decision on the repo rate will apply with effect from 10 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, 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 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 Report. 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 Report. 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, it would reduce the risk that the repo-rate might need 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.