



PRESS RELEASE

DATE: 24 October 2013
NO: 20
CONTACT: Riksbank press office, +46-(0)8-787 0200

SVERIGES RIKSBANK
SE-103 37 Stockholm
(Brunkebergstorg 11)

Tel +46 8 787 00 00
Fax +46 8 21 05 31
registratorn@riksbank.se
www.riksbank.se

■ Repo rate unchanged at 1 per cent

Following the slowdown in recent years, the outlook for the Swedish economy is brightening. There has been some improvement in the labour market and this is expected to become clearer during 2014. At the same time, inflation is low. The Executive Board of the Riksbank has decided to hold the repo rate unchanged at 1 per cent, to enable inflation to rise towards 2 per cent and to support the economic upturn. The repo rate needs to remain at this low level until economic activity is stronger and inflation rises. As before, the repo rate is not expected to be raised until the end of 2014.

Good prospects of an upturn in Sweden

Economic developments in Sweden and abroad have been largely in line with the Riksbank's forecasts for some time now. There are signs of an improvement in the euro area and the recovery in the United States is continuing. However, major challenges still remain. The political disagreement in the United States over fiscal policy is one source of uncertainty, as are the effects of the Federal Reserve's tapering of its asset purchases. Despite a slightly more subdued development in several emerging markets, the world as a whole is expected to grow at a relatively good rate during the coming years.

The recovery abroad will contribute to brighter prospects for the Swedish economy. Sentiment among households and companies has gradually risen, at the same time as there has been some improvement in the labour market. Low interest rates and an expansionary fiscal policy create the conditions for stronger consumption among households in the coming period. Growth in Sweden is thus expected to be gradually higher, which means that employment will rise at a faster pace and unemployment will fall.

Low but gradually rising inflation

Inflation is low, and measured in terms of the CPIF is expected to be around 1 per cent for a further period. When economic activity improves, import prices and wages will rise faster. Swedish companies will then also find it easier to pass on their cost increases to prices. This means that inflation is expected to attain 2 per cent in 2015.

Low repo rate supports economic upturn

The repo rate needs to remain low to support the economic upturn and contribute to inflation rising towards 2 per cent. The Executive Board of the Riksbank has therefore decided to hold the repo rate unchanged at 1 per cent. The repo rate needs to remain at this low level until economic activity is stronger and inflation rises. As before, the repo rate is not expected to be raised until the end of 2014. The monetary policy being conducted now is expected to stimulate economic developments and contribute to



inflation rising towards 2 per cent, at the same time as taking into account the risks linked to households' high indebtedness.

The government recently proposed that Finansinspektionen should have responsibility for macroprudential policy tools in Sweden. Once measures have been taken in the field of macroprudential policy, the risks linked to household debt can be assumed to decline. This will have an impact on the conditions for monetary policy, but it is difficult to determine as yet how much and how quickly. As previously, the Riksbank will need to analyse risks and resilience in the financial system and ascertain how these affect general economic development and thereby monetary policy.

Forecasts for Swedish inflation, GDP unemployment and the repo rate

Annual percentage change, annual average

	2012	2013	2014	2015	2016
CPI	0.9 (0.9)	0.0 (0.1)	1.2 (1.3)	2.7 (2.6)	2.9
CPIF	1.0 (1.0)	0.9 (1.0)	1.3 (1.4)	1.9 (1.9)	2.0
GDP	1.0 (0.7)	0.7 (1.2)	2.6 (2.7)	3.5 (3.6)	2.7
Unemployment, ages 15-74, per cent	8.0 (8.0)	8.0 (8.1)	7.8 (7.9)	7.2 (7.2)	6.6
Repo rate, per cent	1.5 (1.5)	1.0 (1.0)	1.0 (1.0)	1.8 (1.9)	2.7

Note. The assessment in the September 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 Q4	2015 Q4	2016 Q4
Repo rate	1.00	1.00 (1.00)	0.99 (0.97)	1.15 (1.25)	2.24 (2.25)	2.88

Note. The assessment in the September 2013 Monetary Policy Update is shown in brackets.
Source: The Riksbank

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 third quarter of 2014, and then rises to about 2.4 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, holding it at this level until the end of the third quarter of 2014, and then rapidly raising it with effect from the fourth quarter of 2014 towards the repo-rate path in the main scenario of the Monetary Policy Report. More specifically, he advocated the lower repo-rate path in Figure 2:17 of the draft 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 it would be a long time before the repo rate can be raised from the current low levels.



■ The minutes from the Executive Board's monetary policy discussion will be published on 6 November. The decision on the repo rate will apply with effect from 30 October. 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.