

PRESS RELEASE

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■ Repo rate cut by 0.25 percentage points to 0.75 per cent

Economic activity is developing largely as the Riksbank had forecast earlier. However, inflation has been unexpectedly low and, despite the recovery, inflationary pressures over the coming year are expected to be much lower than in the most recent forecast in October. To contribute to inflation rising towards 2 per cent, the Executive Board of the Riksbank has decided to cut the repo rate by 0.25 percentage points, to 0.75 per cent, and to make a downward adjustment in the repo-rate path for the entire forecast period. Slow increases in the repo rate are not expected to begin until the start of 2015. The risks linked to high household indebtedness remain, but the low inflation rate justifies cutting the repo rate.

Growth in Sweden will pick up next year

Economic developments in Sweden and abroad have been largely in line with the Riksbank's forecasts. The slow recovery in the euro area is continuing and growth in the United States is on increasingly firm ground. However, at the same time, inflation abroad has fallen in recent months and been lower than expected.

The recovery abroad is important to the Swedish economy, which after almost a year of weak growth is now moving towards better times. The labour market has improved and confidence in the Swedish household and corporate sectors has continued to rise. Together with increasing demand from abroad, this means that growth will pick up next year. The demand for labour should therefore increase further and unemployment should fall more tangibly.

Low inflation for some time to come

Inflation has recently been unexpectedly low, with weak developments in prices of goods and services. At the same time, domestic cost pressures have been higher than inflation. This indicates that companies have had difficulty in passing on their higher costs through higher prices, which in turn may be due to weak demand. Compared with the most recent assessment in October, inflation is now expected to be much lower over the coming year.

The Riksbank's expansionary monetary policy will contribute to an increase in resource utilisation in the economy. Wages are then expected to rise at a faster pace, at the same time as companies can gradually raise their prices. As global economic activity improves, import prices will also increase. CPIF inflation is thus expected to rise to 2 per cent in 2015.

Repo-rate cut contributes to higher inflation

Given the unexpectedly low inflation and that inflationary pressures are expected to be lower in the coming period, the Executive Board of the Riksbank has decided to cut the repo rate by 0.25 percentage points to 0.75 per cent and to adjust the repo-rate path downwards for the entire forecast period. In this way, monetary policy will contribute to CPIF inflation rising towards 2 per cent. The Executive Board now assesses it is appropriate to begin raising the repo rate at the start of 2015. The recovery is then expected to be on firmer ground and inflation is expected to be on the way up. At the end of the forecast period, the repo rate will be 2.6 per cent.

For some time now, monetary policy has involved balancing how low the repo rate needs to be for inflation to approach the target soon enough against the increased risks linked to households' high indebtedness that can stem from a low interest rate. Inflation has been low for a long time, and the unexpectedly low outcomes in recent months regarding in particular service prices imply that it may take longer than anticipated for inflation to rise. Without a more expansionary monetary policy, there is a risk that inflation would not reach 2 per cent in the coming years, and there is thus good reason to cut the repo rate by 0.25 percentage points and to adjust the repo-rate path downwards. At the same time, households' high indebtedness remains a risk to sustainable long-run development. Several policy areas need to cooperate to manage these risks.

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

Annual percentage change, annual average

	2012	2013	2014	2015	2016
CPI	0.9	-0.1 (0.0)	0.6 (1.2)	2.5 (2.7)	3.0 (2.9)
CPIF	1.0	0.8 (0.9)	1.0 (1.3)	1.8 (1.9)	2.0 (2.0)
GDP	0.9	0.9 (0.7)	2.5 (2.6)	3.7 (3.5)	2.8 (2.7)
Unemployment, ages 15-74, per cent	8.0	8.0 (8.0)	7.8 (7.8)	7.1 (7.2)	6.5 (6.6)
Repo rate, per cent	1.5	1.0 (1.0)	0.7 (1.0)	1.4 (1.8)	2.4 (2.7)

Note. The assessment in the October 2013 Monetary Policy Report is shown in brackets.

Sources: Statistics Sweden and the Riksbank

Forecast for the repo rate

Per cent, quarterly averages

	2013 Q3	2013 Q4	2014 Q4	2015 Q4	2016 Q4
Repo rate	1.00	0.96 (0.99)	0.71 (1.15)	1.88 (2.24)	2.60 (2.88)

Note. The assessment in the October 2013 Monetary Policy Report is shown in brackets.

Source: The Riksbank

The minutes from the Executive Board's monetary policy discussion will be published on 8 January. The decision on the repo rate will apply with effect from 18 December. 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.