



PRESS RELEASE

DATE: 3 July 2014

NO: 14

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■ Repo rate cut by half a percentage point to 0.25 per cent

Economic activity continues to strengthen in the Swedish economy. However, inflation is lower than expected and it is now assessed that underlying inflationary pressures are clearly lower than assessed in April. The Executive Board of the Riksbank considered that an even lower repo rate is required for inflation to rise towards the target of 2 per cent. The repo rate is now being cut by 0.5 percentage points to 0.25 per cent, at the same time as the repo-rate path is revised downward substantially. Increases in the repo rate are not expected to begin until the end of 2015.

Economic activity continues to strengthen

Economic activity abroad is expected to continue to gradually improve. The prospects for the United Kingdom and the United States are good and the recovery in the euro area is expected to continue, albeit at a slow pace. At the same time, global inflationary pressures are low and the forecasts for international policy rates have been revised downwards.

In Sweden, economic activity is continuing to strengthen, mainly driven by a strong household sector and rising housing investment. When demand abroad picks up, growth in the more export-dependent parts of the business sector will also increase. Stronger economic activity will lead to rising demand for labour and the labour market is expected to gradually improve.

Lower inflationary pressures – very low repo rate so that inflation rises towards the target

At the same time as economic activity is strengthening, inflation is low and the outcomes have been lower than expected. There has been a broad fall in inflation and it is now assessed that underlying inflationary pressures are clearly lower than assessed in April. The repo rate and the repo-rate path therefore need to be even lower for inflation to rise towards the target. A further factor taken into account is that the forecasts for international policy rates have been revised downwards.

The low repo rate will contribute to higher demand in the economy as a whole, which will lead to inflation rising. It will also counteract the effects of the lower international policy rates on the exchange rate and inflation.



In addition to leading to higher inflation, the expansionary monetary policy can also contribute to inflation expectations remaining anchored around 2 per cent by sending a clear signal that monetary policy will ensure that inflation approaches the inflation target within the reasonably near future. CPIF inflation is expected to reach 2 per cent at the beginning of 2016.

It is assessed as appropriate to slowly begin raising the repo rate at the end of 2015. At the end of 2017, the repo rate is expected to be just over 2 per cent. From an historical perspective, this is a low policy rate in a stage where economic activity is considered to be balanced and CPIF inflation is close to 2 per cent. Similar conditions also apply for many other central banks.

Low interest rates increase the risks linked to household indebtedness – measures are needed urgently

The low interest rates are already contributing to a relatively rapid increase in household debt as a percentage of household income. An even lower repo rate will strengthen this tendency, thus increasing the risk of the economy developing in an unsustainable way in the long run.

A low repo rate makes it more urgent for other policy areas to manage the risks linked to household indebtedness and to developments on the housing market. To reduce the risks it is not enough just to take measures to strengthen the resilience of the banking system; measures aimed directly at the households' demand for credit are also required. If no further measures are taken, there is a greater risk that the economy will develop in a manner that is not sustainable in the long run, which could also make the conditions for monetary policy more difficult further ahead.

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

Annual percentage change, annual average

	2013	2014	2015	2016
CPI	0.0	-0.1 (0.2)	1.3 (2.2)	3.0 (3.2)
CPIF	0.9	0.6 (0.7)	1.6 (1.7)	2.0 (2.0)
GDP	1.6	2.2 (2.7)	3.3 (3.2)	3.1 (2.8)
Unemployment, 15-74 age group, per cent	8.0	8.0 (7.9)	7.3 (7.3)	6.7 (6.7)
Repo rate, per cent	1.0	0.5 (0.7)	0.3 (1.1)	1.3 (2.3)

Note. The assessment in the April 2014 Monetary Policy Update is shown in brackets.

Sources: Statistics Sweden and the Riksbank

Forecast for the repo rate

Per cent, quarterly averages

	2014 Q2	2014 Q3	2014 Q4	2015 Q3	2016 Q3	2017 Q3
Repo rate	0.75	0.29 (0.66)	0.22 (0.65)	0.25 (1.20)	1.45 (2.40)	2.35

Note. The assessment in the April 2014 Monetary Policy Update is shown in brackets.

Source: The Riksbank

Governor Stefan Ingves and First Deputy Governor Kerstin af Jochnick entered a reservation against the decision to cut the repo rate to 0.25 and against the repo-rate path in the Monetary Policy Report. They advocated cutting the repo rate by 0.25 percentage points to 0.5 per cent and a repo-rate path in which



■ the repo rate remains at 0.5 per cent until 2016 and is slowly raised thereafter. This will also lead to the attainment of the inflation target while at the same time taking into account the risks associated with household indebtedness to some extent.

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 9 July. The interest rates in the Riksbank's standing facilities will be lowered at the same time to -0.5 for the deposit rate and 1.0 per cent for the lending rate.

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.