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■ **Riksbank cuts repo rate to –0.10 per cent, buys government bonds for SEK 10 billion and is prepared to do more at short notice**

There are signs that underlying inflation has bottomed out, but the situation abroad is now more uncertain and this increases the risk that inflation will not rise sufficiently fast. The Executive Board of the Riksbank has therefore decided to cut the repo rate by 0.10 percentage points, to -0.10 per cent, and to adjust the repo-rate path down somewhat. At the same time, the interest rates on the fine-tuning transactions in the Riksbank's operational framework for the implementation of monetary policy are being restored to the repo rate +/- 0.10 percentage point. Moreover, the Riksbank will buy government bonds for the sum of SEK 10 billion. These measures and the readiness to do more at short notice underline that the Riksbank is safeguarding the role of the inflation target as a nominal anchor for price setting and wage formation.

Uncertainty abroad has increased

The recovery in the world as a whole is expected to continue in the years immediately ahead, although at a slow rate. However, the risks of a poorer outcome abroad have increased since December. Oil prices have fallen, which is positive for global growth but it also leads to low global inflation. Economic activity also differs from region to region. This is reflected in increased differences in monetary policy between, for example, the United States and the euro area, and in significant fluctuations on the foreign-exchange markets. Recent developments in Greece also contribute to the uncertainty.

Economic activity in Sweden strengthening but inflation is too low

Although the recovery abroad is slow, growth in Sweden will benefit from the low oil prices, the weaker krona and the very low repo rate. GDP growth is expected to increase at a faster pace in the coming period and the labour market is expected to strengthen.

Inflation is still low, but there are now signs that underlying inflation, for instance, the CPIF excluding energy, has bottomed out and is rising. The krona is weaker than anticipated, which will also contribute to somewhat higher inflation. However, low energy prices are expected to hold down CPIF inflation in the year immediately ahead.

More expansionary monetary policy so inflation will rise towards the target

The recent development of inflation has been roughly as expected, but there is a risk that low oil prices will dampen inflation expectations, and thus inflation, more than is



assumed in the forecast. To this can be added the increased uncertainty about developments abroad and on the financial markets.

The Executive Board of the Riksbank assesses that a more expansionary monetary policy is needed to support the upturn in underlying inflation so that CPIF inflation approaches 2 per cent and to ensure that long-term inflation expectations are compatible with the inflation target. The Board is therefore cutting the repo rate to -0.10 per cent and adjusting the repo-rate path downwards. At the same time, the interest rates on the fine-tuning transactions in the Riksbank's operational framework for the implementation of monetary policy are being restored to the repo rate +/- 0.10 percentage point. The repo rate is expected to remain at -0.10 per cent until CPIF inflation is close to 2 per cent. It will not be appropriate to increase the repo rate until the second half of 2016.

When the repo rate is close to its lower bound, monetary policy can be made more expansionary by purchasing government bonds. The Riksbank will therefore soon make purchases of nominal government bonds with maturities from 1 year up to around 5 years for a sum of SEK 10 billion. This measure also contributes to making monetary policy more expansionary.

Readiness to do more

The measures the Riksbank is now taking underline that the Riksbank is safeguarding the role of the inflation target as a nominal anchor for price setting and wage formation. To ensure that inflation rises towards the target, the Riksbank is prepared to quickly make monetary policy more expansionary, even between the ordinary monetary policy meetings, should the need arise. This will primarily entail making further repo-rate cuts, postponing the first repo-rate increase and increasing the purchases of government bonds. In addition, there is the possibility of a programme of loans to companies via the banks.

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

Annual percentage change, annual average

	2013	2014	2015	2016	2017
CPI	0.0	-0.2 (-0.2)	0.1 (0.3)	1.9 (2.0)	3.3 (3.2)
CPIF	0.9	0.5 (0.5)	0.9 (1.0)	2.0 (2.0)	2.2 (2.1)
GDP	1.3	1.8 (1.8)	2.7 (2.6)	3.3 (3.3)	2.2 (2.3)
Unemployment, ages 15-74, per cent	8.0	7.9 (7.9)	7.6 (7.5)	7.1 (6.9)	6.7 (6.6)
Repo rate, per cent	1.0	0.5 (0.5)	-0.1 (0.0)	0.0 (0.2)	0.9 (1.1)

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

Sources: Statistics Sweden and the Riksbank

Forecast for the repo rate

Per cent, quarterly average

	2014 Q4	2015 Q1	2015 Q2	2016 Q1	2017 Q1	2018 Q1
Repo rate	0.08	-0.05 (0.00)	-0.11 (0.00)	-0.12 (0.00)	0.57 (0.74)	1.43

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

Source: The Riksbank

Deputy Governor Martin Flodén supported the direction for monetary policy, that it needs to become more expansionary, but entered a reservation against the decision to buy government bonds now.



■ The decision on the repo rate and the interest rates for the fine-tuning transactions will apply with effect from 18 February. The minutes from the Executive Board's monetary policy discussion will be published on 25 February. Further information on the Riksbank's purchases of government bonds and interest rates in the operational framework for implementing monetary policy can be found in separate documents on the Riksbank's website, www.riksbank.se.

A press conference with Governor Stefan Ingves and Christina Nyman, Deputy 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, where it will also be available to view afterwards.