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■ **Riksbank purchases government bonds for a further SEK 40-50 billion, lowers the repo-rate path significantly and holds the repo rate at –0.25 per cent**

The expansionary monetary policy is having a positive impact on the Swedish economy and inflation has begun to rise. To ensure this development continues, the Executive Board of the Riksbank has decided to purchase government bonds for a further SEK 40-50 billion. In addition, the repo-rate path has been lowered significantly compared with the decision in February. The repo rate has been left unchanged at –0.25 per cent but may be cut further. Slow increases in the repo rate are not expected to begin until the second half of 2016. These measures and the readiness to do more underline that the Riksbank is safeguarding the role of the inflation target as a nominal anchor for price setting and wage formation.

Economic activity strengthening

Economic activity abroad continues to slowly improve. Although the development of economic activity abroad continues to be uncertain, the recovery in the euro area appears to be on firmer ground. GDP growth in Sweden is good and the labour market is continuing to improve.

Inflation is rising from low levels

Inflation has begun to rise, although from low levels. This is partly due to the weakening of the krona over the last 12 months, which has led to higher import and goods prices. However prices for services, which are not affected as much by the exchange rate, are also increasing more rapidly than last year. At the same time, inflation expectations have increased somewhat. As economic activity improves, it will become easier for companies to raise their prices. But it is uncertain how quickly this will happen, particularly given the fact that inflation has been lower than expected on several occasions. Weaker international economic activity or a rapid appreciation of the krona could also lead to inflation not rising fast enough.

Further measures to ensure that inflation continues to rise

To support the positive development and ensure that inflation rises sufficiently quickly, the Executive Board of the Riksbank has decided to extend the purchases of nominal government bonds by a further SEK 40-50 billion. The purchases will be made during the period from May to the end of September and will comprise maturities of up to 25 years. The purchases decided on by the Riksbank to date thus comprise SEK 80-90 billion. At the same time, the repo-rate path has been lowered significantly compared with the decision in February. Slow increases in the repo rate from –0.25 per cent are not expected to begin until the second half of 2016. The repo-rate path also reflects the fact that it is possible to cut the repo rate further.

The Riksbank's measures are pushing down interest rates for households and companies. This will increase demand in the economy, which will make it easier for companies to pass on



their cost increases to consumer prices. The expansionary monetary policy will also contribute to the krona remaining at a weaker level for a longer period of time, which will lead to a faster increase in the demand for exports and higher prices for imported goods. CPIF inflation is expected to reach 2 per cent at the turn of the year 2015-2016.

Readiness to do more

Monetary policy reflects the fact that the Riksbank's tolerance for low inflation is very limited. The Riksbank is still highly prepared to make monetary policy even more expansionary if necessary, even between the ordinary monetary policy meetings. The purchases of government bonds can be extended. Moreover, the repo rate can be cut further and future increases can be implemented more slowly. The Riksbank is also prepared to launch a programme for loans to companies via the banks and to intervene on the foreign exchange market if the upturn in inflation is threatened as the result, for instance, of a very troublesome market development. Purchases of other assets than government bonds are also a possibility.

Financial risks must be managed

Monetary policy now needs to be highly expansionary to push up inflation and reduce the risks associated with a situation in which inflation is too low. At the same time, however, the low interest rates contribute to the trends of rising house prices and increasing indebtedness in the Swedish household sector continuing. It is therefore important that the government and other authorities implement measures that reduce the risks relating to household indebtedness. Rapid price increases for high-risk financial assets also entail risks that require increased vigilance in the period ahead.

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

Annual percentage change, annual average

	2014	2015	2016	2017
CPI	-0.2	0.3 (0.1)	2.1 (1.9)	2.7 (3.3)
CPIF	0.5	1.1 (0.9)	2.3 (2.0)	2.2 (2.2)
GDP	2.1 (1.8)	3.2 (2.7)	3.4 (3.3)	2.7 (2.2)
Unemployment, ages 15-74, per cent	7.9	7.6 (7.6)	7.2 (7.1)	6.9 (6.7)
Repo rate, per cent	0.5	-0.2 (-0.1)	-0.2 (0.0)	0.3 (0.9)

Note. The assessment in the Monetary Policy Report in February 2015 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 Q2	2017 Q2	2018 Q2
Repo rate	0.08	-0.06 (-0.05)	-0.26 (-0.11)	-0.29 (-0.12)	0.24 (0.83)	0.78

Note. The assessment in the Monetary Policy Report in February 2015 is shown in brackets.
Source: The Riksbank

The decision on the repo rate will apply with effect from 6 May. The minutes from the Executive Board's monetary policy discussion will be published on 12 May. Further information on the Riksbank's purchases of government bonds can be found in a separate basis for the decision on the Riksbank's website, www.riksbank.se.



■ 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 where it will also be available to view afterwards.