



PRESS RELEASE

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■ Repo rate cut to –0.35 per cent and purchases of government bonds extended by SEK 45 billion

Inflation is rising and economic activity in Sweden is continuing to strengthen. But uncertainty abroad has increased and it is difficult to assess the consequences of the situation in Greece. Since the repo-rate decision in April, the krona has also become stronger than the Riksbank had forecast and the development of the exchange rate remains a risk to the upturn in inflation. In this uncertain environment, monetary policy needs to be even more expansionary to ensure that inflation continues to rise towards the target of 2 per cent. The Executive Board of the Riksbank has therefore decided to cut the repo rate by 0.10 percentage points to –0.35 per cent and to extend the purchases of government bonds by a further SEK 45 billion with effect from September and until the end of the year.

Monetary policy is having an effect – inflation is rising

The Riksbank's expansionary monetary policy is having an effect and inflation is rising. In May, CPIF inflation was 1.0 per cent. Prices of goods and food are increasing in line with historical averages, while the rate of price increase on services is rising from a low level. At the same time as inflation is rising, economic activity is continuing to strengthen and the situation on the labour market is gradually improving. CPIF inflation is expected to be close to 2 per cent from the end of 2015.

An uncertain world

International growth is also rising. In the euro area, economic activity is strengthening, but the events in Greece over the past few days have substantially increased the uncertainty. The consequences of the situation in Greece for the euro area as a whole and for Sweden are difficult to judge.

Since the Riksbank's most recent decision in April, the krona has strengthened more than expected against several currencies. If the exchange rate were to be too strong in relation to the Riksbank's forecast, prices of imported goods would increase more slowly and demand in the Swedish economy would fall. Such a development would risk breaking the upturn in inflation that has now begun.

Measures to support the upturn in inflation

In this uncertain environment, monetary policy needs to give more support to ensure that inflation continues to rise towards the target of 2 per cent. The Executive Board of the Riksbank has therefore decided to cut the repo rate by 0.10 percentage points to –0.35 per cent and to extend the purchases of government bonds by a further SEK 45 billion until the end of the year. The purchases decided upon in April are expected to be concluded in September, at which point the new purchases will be initiated. The repo



rate is expected to be around -0.35 per cent for just over a year. The repo-rate path reflects the fact that it is possible to cut the repo rate further. The expansionary monetary policy underlines the Riksbank's aim to safeguard the role of the inflation target as nominal anchor for price-setting and wage-formation.

Readiness to do more

The Riksbank still has a high level of preparedness to make monetary policy even more expansionary if necessary, even between the ordinary monetary policy meetings. The repo rate can be cut further and the government bond purchases can be extended. The Riksbank is also prepared to intervene on the foreign exchange market if the upturn in inflation is threatened as the result of, for instance, a very problematic development in the markets. The purchase of other types of securities and the launch of a company lending programme via the banks may also come into question.

Risks associated with household indebtedness must be managed

Monetary policy now needs to be very expansionary so that inflation rises towards the target and to 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. As current debt levels already entail significant risks for the Swedish economy, it is essential that the government and other authorities implement measures that will reduce them. Rapid price increases for high-risk financial assets also 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	0.2 (0.3)	2.0 (2.1)	2.7 (2.7)
CPIF	0.5	1.1 (1.1)	2.1 (2.3)	2.1 (2.2)
GDP	2.3	2.9 (3.2)	3.6 (3.4)	2.6 (2.7)
Unemployment, ages 15-74, per cent	7.9	7.7 (7.6)	7.3 (7.2)	7.0 (6.9)
Repo rate, per cent	0.5	-0.3 (-0.2)	-0.3 (-0.2)	0.2 (0.3)

Note. The assessment in the April 2015 Monetary Policy Report is shown in brackets.
Sources: Statistics Sweden and the Riksbank

Forecast for the repo rate

Per cent, quarterly average

	2015 Q2	2015 Q3	2015 Q4	2016 Q3	2017 Q3	2018 Q3
Repo rate	-0.25	-0.37 (-0.28)	-0.41 (-0.29)	-0.33 (-0.21)	0.26 (0.38)	0.81

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

Deputy Governor Henry Ohlsson entered a reservation against the decision to cut the repo rate. He considered that the repo rate and the repo-rate path should be held unchanged. Mr Ohlsson thought it was sufficient to extend and prolong the purchases of government bonds in the current economic situation.

The decision on the repo rate will apply with effect from 8 July. The minutes from the Executive Board's monetary policy discussion will be published on 15 July. 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.