



PRESS RELEASE

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■ The Riksbank to purchase government bonds for a further SEK 65 billion and keep the repo rate at –0.35 per cent for a longer time

Economic activity in Sweden is strengthening and inflation is showing a clear upward trend. But there is still considerable uncertainty regarding the strength of the global economy and central banks abroad are expected to pursue an expansionary monetary policy for a longer time. Compared with the previous assessment, inflation is expected to be a little lower in 2016 and 2017. CPIF inflation is still expected to be close to 2 per cent during 2016. To safeguard the robustness of the upturn in inflation, the Executive Board of the Riksbank considers it necessary to make monetary policy more expansionary.

Inflation is rising

The Riksbank's expansionary monetary policy has contributed to a stronger Swedish economy, a fall in unemployment and a clear upward trend in inflation since last year. In September, CPIF inflation was 1.0 per cent, and excluding energy prices, inflation was 1.8 per cent. The trend of rising inflation is expected to continue. But compared with the assessment at the previous monetary policy meeting, the inflation forecast has been revised down slightly. This depends on poorer inflation prospects abroad as well as on a new assessment that demand needs to be stronger in Sweden in order to stabilise inflation around 2 per cent.

Still considerable uncertainty

The recovery abroad is continuing but there is uncertainty regarding the strength of the global economy. Compared with previous forecasts, inflation abroad is deemed to be slightly lower and many central banks are expected to pursue an expansionary monetary policy for a longer time. International interest rates are therefore expected to remain very low. Swedish monetary policy needs to take this into consideration. Otherwise the krona risks strengthening earlier and more rapidly than forecast, which would lead to a slower increase in the prices of imported goods and services and lower demand for Swedish exports. This would make it more difficult for the Riksbank to push up inflation and stabilise it around the target.

Another source of uncertainty is the large numbers of people fleeing to and seeking protection in Europe. It is, however, too early to judge what the macroeconomic effects of the increased immigration will be. The Riksbank is following developments and will adjust its forecasts accordingly.

An expansionary monetary policy to maintain the positive trend

Overall, the Executive Board's assessment is that monetary policy needs to be more expansionary in order to underpin the positive development in the Swedish economy and safeguard the robustness of the upturn in inflation. The Executive Board has therefore



decided to extend the government bond purchasing programme by an additional SEK 65 billion so that purchases will amount to SEK 200 billion in total by the end of June 2016. The repo rate is left unchanged at -0.35 per cent but an initial raise in the rate will be deferred by approximately six months compared with the previous assessment.

Readiness to do more

It is important that inflation rises and stabilises around 2 per cent. This contributes to long-term inflation expectations that are compatible with the inflation target. The Riksbank still has a high level of preparedness to quickly make monetary policy even more expansionary if the inflation prospects deteriorate, even between the ordinary monetary policy meetings. The repo rate can be cut further, which is reflected in the repo rate path, and the Riksbank can purchase more securities. The Riksbank is also ready to intervene on the foreign exchange market if the upturn in inflation should be threatened as the result of a problematic market development. Moreover, the Riksbank is prepared to launch a programme of lending to companies via the banks.

Risks associated with household indebtedness must be managed

On many occasions, the Riksbank has highlighted the potential risks of low interest rates. In order to reduce the risks of household indebtedness, reforms are needed that create a better balance between supply and demand on the housing market. It is also important to review the tax system in order to reduce the incentive for households to take on debt. The responsibility for such reforms lies with the Riksdag and the Government. It is also of the utmost importance that Finansinspektionen is given the mandate and tools as soon as possible so that it can pursue macroprudential policy in an effective way. If no measures are taken, this, in combination with the low level of interest rates, will further increase the risks, which may ultimately be very costly for the national economy.

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

Annual percentage change, annual average

	2014	2015	2016	2017	2018
CPI	-0.2 (-0.2)	0.0 (0.0)	1.4 (1.8)	2.4 (2.8)	3.1
CPIF	0.5 (0.5)	0.9 (0.9)	1.8 (2.0)	2.1 (2.2)	2.2
GDP	2.3 (2.3)	3.3 (3.1)	3.0 (3.4)	2.7 (2.6)	2.3
Unemployment, 15-74 years, per cent	7.9 (7.9)	7.4 (7.6)	7.1 (7.2)	6.9 (6.9)	6.8
Repo rate, per cent	0.5 (0.5)	-0.3 (-0.3)	-0.4 (-0.3)	-0.1 (0.2)	0.5

Note: The assessment in the September 2015 Monetary Policy Report is shown in brackets.

Sources: Statistics Sweden and the Riksbank

Forecast for the repo rate

Per cent, quarterly averages

	2015 Q3	2015 Q4	2016 Q4	2017 Q4	2018 Q4
Repo rate	-0.34	-0.36 (-0.39)	-0.41 (-0.18)	0.12 (0.40)	0.66

Note: The assessment in the September 2015 Monetary Policy Report is shown in brackets.

Source: The Riksbank

The decision on the repo rate will apply with effect from 4 November. The minutes from the Executive Board's monetary policy discussion will be published on 10 November. Further information on the Riksbank's purchases of government bonds can be found in a separate annex to the minutes 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, www.riksbank.se, where it will also be available to view afterwards.