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■ Repo rate cut to **-0.50 per cent**

The economy continues to strengthen but inflation is expected to be lower during 2016 than previously forecast. The period of low inflation will therefore be longer. This increases the risk of weakening confidence in the inflation target and of inflation not rising towards the target as expected. To provide support for inflation so that it rises and stabilises around 2 per cent in 2017, the Executive Board of the Riksbank has therefore decided to cut the repo rate by 0.15 percentage points to -0.50 per cent. Purchases of government bonds will continue for the first six months of this year, in accordance with the plan adopted in October. The Executive Board has also decided to reinvest maturities and coupons from the government bond portfolio until further notice. There is still a high level of preparedness to make monetary policy even more expansionary if this is needed to safeguard the inflation target.

Stronger economy but longer period of low inflation

The Riksbank's very expansionary monetary policy has helped to strengthen the economy and reduce unemployment, and has contributed to an upward trend in underlying inflation since the beginning of 2014. But the upturn in inflation is still not on a firm footing, as is illustrated by the unexpectedly weak outcomes in recent months. Together with lower energy prices and low rent increases, inflation is expected to be lower in 2016 compared to the forecast from December.

The interest rate is being cut to safeguard the inflation target

There are arguments both for maintaining the monetary policy adopted in December and for making it more expansionary. Growth in the Swedish economy is high and unemployment is falling, which suggests that inflation will rise in the period ahead. In addition, the downward revision of the inflation forecast is to a large extent due to factors that have little to do with the underlying demand-driven inflation in the Swedish economy.

But the downward revision in the inflation forecast increases the risk of weakening confidence in the inflation target and of inflation not rising towards the target as expected. In addition, uncertainty regarding global developments is still high, with low inflation and several central banks pursuing more expansionary monetary policy. Swedish monetary policy must relate to this. Otherwise the krona exchange rate is at risk of strengthening at a faster rate than in the forecast, which would make it harder to push up inflation and stabilise it around 2 per cent.

It is the Executive Board's assessment that the risks inherent in an unchanged policy are greater and that monetary policy therefore needs to be more expansionary.



■ Ready to do more

Inflation is expected to rise during the forecast period. But the upturn is expected to continue to be uneven and there may be surprises along the way. Whether, and if so how, monetary policy will then react depends on how the outlook for inflation is affected. The important thing is that the trend in inflation approaches the target and that confidence in the inflation target is not weakened. The Executive Board therefore still has a high level of preparedness to make monetary policy even more expansionary, even between the ordinary monetary policy meetings.

There is still scope to cut the repo rate further. The Riksbank is also analysing whether it is possible within the operational monetary policy framework to implement other measures to underpin repo rate cuts. Security purchases can be extended, for example, by buying nominal and real government bonds. The Riksbank is also prepared to intervene on the foreign exchange market if the krona appreciates so quickly as to threaten the upturn in inflation. On 4 January, the Executive Board took a delegation decision enabling immediate intervention on the foreign exchange market as a complementary monetary policy measure. The time period for delegation was extended at an extraordinary monetary policy meeting on 19 January and at yesterday's ordinary meeting. The delegated mandate expires at the ordinary monetary policy meeting in July and will be exercised only if there is insufficient time to wait for a decision by the entire Executive Board.

Risks associated with household indebtedness must be managed

The Riksbank has highlighted the risks associated with the low interest rate level on many occasions. In order to reduce the risks of household indebtedness, different reforms are needed that both create a better balance between supply and demand on the housing market and reduce the incentives for households to take on debt. It is also important that Finansinspektionen's mandate for macroprudential policy is clarified. If no measures are taken, this, in combination with the low interest rate level, will further increase the risks. Such a development could 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	0.0 (0.0)	0.7 (1.3)	2.1 (2.5)	2.9 (3.0)
CPIF	0.5	0.9 (0.9)	1.3 (1.7)	2.1 (2.2)	2.1 (2.2)
GDP	2.3	3.7 (3.7)	3.5 (3.6)	2.8 (2.9)	2.5 (2.5)
Unemployment, ages 15-74, per cent	7.9	7.4 (7.4)	6.8 (6.8)	6.7 (6.7)	6.9 (6.9)
Repo rate, per cent	0.5	-0.3 (-0.3)	-0.5 (-0.4)	-0.4 (-0.1)	0.2 (0.5)

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

Sources: Statistics Sweden and the Riksbank



Forecast for the repo rate

Per cent, quarterly means

	Q4 2015	Q1 2016	Q2 2016	Q1 2017	Q1 2018	Q1 2019
Repo rate	-0.35	-0.43 (-0.38)	-0.52 (-0.41)	-0.53 (-0.33)	0.00 (0.26)	0.54

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

Source: The Riksbank

Deputy Governors Martin Flodén and Henry Ohlsson entered reservations against the decision to cut the repo rate and advocated an unchanged rate. Mr Flodén also entered a reservation against the decision to extend the delegation mandate for foreign exchange interventions.

The decision on the repo rate will apply with effect from 17 February. The minutes from the Executive Board's monetary policy discussion will be published on 22 February. Further information on the Executive Board's decisions on reinvestments and the mandate for foreign exchange interventions can be found in separate annexes 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.