

PRESS RELEASE

DATE: 6 July 2016
NO: 15
CONTACT: Press Office, tel. +46-(0)8-7870200



SVERIGES RIKSBANK
SE-103 37 Stockholm
(Brunkebergstorg 11)

Tel. +46 8 787 00 00
Fax +46 8 21 05 31
registratorn@riksbank.se
www.riksbank.se

Repo rate unchanged at -0.5 per cent, future rate increases postponed

Economic activity in Sweden is continuing to strengthen, but there is considerable uncertainty over economic developments abroad and this has increased as a consequence of the result of the British referendum on the EU. A highly expansionary monetary policy is needed to provide support to the Swedish economy and rising inflation. The Executive Board of the Riksbank has therefore decided to hold the repo rate unchanged at -0.5 per cent and now assesses that there will be a longer delay until the repo rate begins to be raised. The purchases of government bonds will continue during the second half of 2016, as decided in April. There is still a high level of preparedness to make monetary policy more expansionary if this is needed to safeguard the inflation target.

The results of the UK referendum have created uncertainty

The forecast for GDP developments abroad, and particularly for the United Kingdom, has been revised down as a result of the increased uncertainty arising from the UK voting to withdraw from the EU. The Riksbank's assessment remains that global economic activity will continue to strengthen, but at a slower rate than was previously forecast.

Swedish economy in relatively good shape

Supported by the highly expansionary monetary policy in recent years, economic activity in Sweden has strengthened rapidly and inflation has shown a rising trend. Although the forecast for GDP growth going forward has been revised down due to weaker international developments and increased uncertainty, economic activity is expected to continue improving. This creates the conditions for inflation to continue rising.

At present, it is difficult to assess the political and economic consequences of the outcome of the UK referendum, but the Riksbank assumes so far that the effects on the Swedish economy will be relatively limited. There is a risk of larger negative effects, but these are at present difficult to quantify in a forecast. The Riksbank is following developments closely and its forecasts will be adjusted as more information becomes available.



Monetary policy supports economic activity and inflation in Sweden in an uncertain world

A highly expansionary monetary policy is needed to provide continued support to the Swedish economy and rising inflation. The Executive Board has therefore decided to hold the repo rate unchanged at -0.5 per cent. Given the increased uncertainty, the Executive Board now assesses that it will take longer before the repo rate begins to be raised. Slow increases in the repo rate are not expected to begin until the second half of 2017. The purchases of government bonds will continue during the second half of 2016, as decided in April. The Riksbank will also continue to reinvest maturities and coupons from the government bond portfolio until further notice.

Readiness to do more

The Executive Board remains highly prepared to make monetary policy even more expansionary, if necessary, even between the ordinary monetary policy meetings. There is still scope to cut the repo rate further. If necessary, the Riksbank could also adopt measures in the framework for the implementation of monetary policy to support monetary policy. In addition, the asset purchases could be extended. The Riksbank is still prepared to intervene on the foreign exchange market if the krona appreciates so quickly as to threaten the upturn in inflation. The Executive Board has therefore also taken a decision to extend the mandate that facilitates a rapid intervention on the foreign exchange market.

The repo rate needs to be low to safeguard the role of the inflation target as nominal anchor for price-setting and wage formation. But the low interest rate levels also entail risks, such as rising house prices and increasing household indebtedness. A long-term sustainable development of the Swedish economy needs targeted measures to manage these risks within macroprudential policy, housing policy and fiscal policy.

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

Annual percentage change, annual average

	2015	2016	2017	2018
CPI	0.0	1.0 (1.0)	1.7 (1.9)	2.6 (2.9)
CPIF	0.9	1.5 (1.4)	1.8 (2.0)	2.0 (2.2)
GDP	4.2	3.6 (3.7)	2.2 (2.7)	2.4 (2.3)
Unemployment, ages 15-74, per cent	7.4	6.9 (6.8)	6.7 (6.6)	6.7 (6.7)
Repo rate, per cent	-0.3	-0.5 (-0.5)	-0.5 (-0.4)	0.0 (0.2)

Note. The assessment in the April 2016 Monetary Policy Report is shown in brackets.

Sources: Statistics Sweden and the Riksbank

Forecast for the repo rate

Per cent, quarterly averages

	2016 Q2	2016 Q3	2016 Q4	2017 Q3	2018 Q3	2019 Q3
Repo rate	-0.50	-0.51 (-0.53)	-0.53 (-0.53)	-0.45 (-0.30)	0.06 (0.28)	0.57

Note. The assessment in the April 2016 Monetary Policy Report is shown in brackets.

Source: The Riksbank



Deputy Governor Martin Flodén entered a reservation against the decision to extend the mandate for interventions on the foreign exchange market, with the same motivation as given at the meetings in January and February.

The decision on the repo rate will apply with effect from 13 July. The minutes from the Executive Board's monetary policy discussion will be published on 19 July. Further information on the Executive Board's decision on the mandate for foreign exchange interventions 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 webcast live on www.regeringen.se.