

# PRESS RELEASE

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CONTACT: Press Office, tel. +46 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

## Further purchases of government bonds for SEK 30 billion, repo rate unchanged at -0.50 per cent

**Correction: The first sentence in the fifth paragraph should read “The Executive Board is still prepared to make monetary policy (...).”**

*Increasingly strong economic activity creates the conditions for inflation to continue rising. But there are risks that can jeopardise the upturn in inflation. Monetary policy therefore needs to remain very expansionary. The Executive Board of the Riksbank has decided to continue purchasing government bonds during the first six months of 2017, both nominal and real bonds, each corresponding to SEK 15 billion. The repo rate is retained at -0.50 per cent and there is still a greater probability that the rate will be cut than that it will be raised in the near term. Increases in the repo rate are not expected to begin until the beginning of 2018.*

### **Brighter economic prospects**

The outlook for economic activity in Sweden and abroad has on the whole improved somewhat since the assessment made in October. The international recovery is expected to continue in the coming years, and global inflation is expected to rise from low levels.

The Riksbank's expansionary monetary policy has had a broad impact and pushed down interest rates in the Swedish economy. Monetary policy has thus contributed to the positive development in the Swedish economy in recent years, with high growth, falling unemployment and rising inflation. Long-term inflation expectations are also close to 2 per cent. The increasingly strong economic activity means there are good conditions for inflation to continue rising.

### **Risks to the upturn in inflation**

But there are still risks that can jeopardise the upturn in inflation. Inflation has been lower than expected in recent months, and it is still uncertain how quickly it will rise going forward. It is difficult to know, for instance, how the krona exchange rate will develop in an environment where the ECB has extended its asset purchase programme and the Federal Reserve has raised its policy rate. The Riksbank assesses that the krona will strengthen slowly in the period ahead. An overly rapid appreciation of the krona could dampen import prices and the demand for Swedish exports and make it more difficult to bring up inflation.



### Continued strong support from monetary policy

Monetary policy needs to remain very expansionary for inflation to rise towards 2 per cent. The Executive Board of the Riksbank has decided to hold the repo rate at –0.50 per cent and there is still a greater probability that the rate will be cut than that it will be raised in the near term. Increases in the repo rate are not expected to begin until the beginning of 2018. To further support inflation, the Executive Board has also decided to extend the purchases of government bonds by SEK 30 billion during the first half of 2017. The purchases include both nominal and real government bonds, corresponding to SEK 15 and SEK 15 billion, respectively. Until further notice, maturities and coupon payments on the government bond portfolio will be reinvested, during 2017 to a value of around SEK 30 billion. There will be a large maturity in August, but reinvestments will begin at the beginning of 2017 and are planned to continue throughout the year. In the middle of 2017, the Riksbank's purchases will amount to SEK 275 billion, excluding reinvestments.

The Executive Board is still prepared to make monetary policy more expansionary if the upward trend in inflation were to be threatened and confidence in the inflation target weakened. All of the tools that the Riksbank has described in earlier Monetary Policy Reports, most recently in September, can still be used.

Monetary policy needs to be expansionary 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 increased household indebtedness. To achieve long-term sustainable development in the Swedish economy, these risks need to be managed via targeted measures within housing policy, fiscal policy and macroprudential policy.

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

Annual percentage change, annual average

	2015	2016	2017	2018	2019
CPI	0.0	1.0 (1.0)	1.4 (1.4)	2.2 (2.2)	3.0 (2.9)
CPIF	0.9	1.4 (1.4)	1.6 (1.6)	1.9 (1.9)	2.1 (2.1)
GDP	4.1	3.4 (3.3)	2.4 (2.0)	2.2 (2.4)	2.1 (2.2)
Unemployment, 15-74 years, per cent	7.4	6.9 (6.9)	6.7 (6.7)	6.7 (6.7)	6.7 (6.7)
Repo rate, per cent	-0.3	-0.5 (-0.5)	-0.6 (-0.6)	-0.3 (-0.3)	0.2 (0.2)

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

Sources: Statistics Sweden and the Riksbank

### Forecast for the repo rate

Per cent, quarterly averages

	2016 Q3	2016 Q4	2017 Q4	2018 Q4	2019 Q4
Repo rate	-0.50	-0.50 (-0.50)	-0.56 (-0.56)	-0.15 (-0.15)	0.36 (0.36)

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

Source: The Riksbank

Deputy Governors Martin Flodén, Henry Ohlsson and Cecilia Skingsley entered reservations against the decision to extend the purchases of government bonds by SEK 30 billion. Mr Flodén advocated that the purchases should be extended by SEK 15 billion and only cover real



government bonds. Mr Ohlsson and Ms Skingsley considered that the purchases should not be extended as monetary policy does not need to be made more expansionary in the current economic situation.

The decision on the repo rate will apply with effect from 28 December. The minutes from the Executive Board's monetary policy discussion will be published on 12 January. Further information on the Riksbank's purchases of government bonds and reinvestments can be found in an annex to the minutes at [www.riksbank.se](http://www.riksbank.se). A press conference with Governor Stefan Ingves and Mattias Erlandsson, Acting Deputy Head of the Monetary Policy Department, will be held today at 11 a.m. at the Riksbank. Press cards must be shown. The press conference will be webcast live at [www.riksbank.se](http://www.riksbank.se).