



PRESS RELEASE

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■ Repo rate held unchanged at 2 per cent

The difficulties in resolving the public finance crisis in Europe has led to increased uncertainty regarding the future. In Sweden, growth is expected to be slightly weaker in the coming period. At the same time, inflationary pressure is low. The Executive Board of the Riksbank has therefore decided to hold the repo rate unchanged at 2 per cent and to wait to increase it until sometime next year.

Unease abroad subdues Swedish economy

The difficulties in creating a long-term solution to the public finance problems in both the United States and the euro area have increased uncertainty regarding the future. This has led to stock market falls, problems in the European banking sector and increased pessimism among households and companies. Tough measures will be required to rectify the deficits in public finances and the unease on the financial markets. The fiscal policy tightening will dampen economic growth in the United States and the euro area in the coming years.

Weaker developments abroad will also affect growth in Sweden. However, so far the main effect on Sweden has been a decline in confidence among households and companies. Household wealth has also declined in that share prices have fallen and the housing market has slowed down. This means that household consumption will increase more slowly, which will also lead to weaker developments in the Swedish economy in the coming period. When uncertainty declines and confidence returns, the Swedish economy is expected to grow at a more normal rate and resource utilisation is expected to rise.

CPI inflation is high. This is mainly because mortgage rates have increased. Underlying inflationary pressure is currently low, but is expected to increase as resource utilisation rises.

Repo rate remains low

There is a need to hold the repo rate at a low level to stabilise inflation around the target of 2 per cent and resource utilisation around a normal level. The Executive Board of the Riksbank has therefore decided to hold the repo rate unchanged at 2 per cent and to wait to increase it until sometime next year. Later on, when resource utilisation and inflationary pressures increase, the repo rate will need to be raised gradually.



■ Great uncertainty over economic developments

As always, the forecasts for the economy and monetary policy are based on the information currently available and new information further ahead may lead to changes in these forecasts. There is considerable uncertainty over economic developments abroad. On the one hand, there is a possibility that the public finance problems in the euro area in particular could become more serious and have more negative effects on the Swedish economy. In this situation, the repo rate path may need to be lower. On the other hand, it is also possible that the financial turmoil will calm down sooner than expected and that the recovery in the euro area will be less drawn out. This could justify a higher repo rate path in Sweden. There is also a possibility that the high inflation abroad will remain high in the future. This will push up Swedish inflation, which could also justify a higher repo rate path.

Forecasts for inflation in Sweden, GDP and the repo rate

Annual percentage change, annual average

	2010	2011	2012	2013	2014
CPI	1.2	3.0 (3.0)	1.9 (2.1)	2.4 (2.6)	2.6
CPIF	2.0	1.5 (1.5)	1.3 (1.5)	1.8 (2.0)	2.0
GDP	5.6	4.2 (4.5)	1.5 (1.7)	2.4 (2.4)	2.5
Repo rate, per cent	0.5	1.8 (1.8)	2.2 (2.4)	2.7 (2.9)	3.3

Note. The assessment in the September 2011 Monetary Policy Update is shown in brackets.

Sources: Statistics Sweden and the Riksbank

Forecast for the repo rate

Per cent, quarterly averages

	2011 Q2	2011 Q3	2011 Q4	2012 Q4	2013 Q4	2014 Q4
Repo rate	1.68	2.0 (2.0)	2.0 (2.1)	2.3 (2.6)	2.9 (3.2)	3.5

Note. The assessment in the September 2011 Monetary Policy Update is shown in brackets.

Source: The Riksbank

Deputy Governor Karolina Ekholm and Deputy Governor Lars E.O. Svensson entered a reservation against the decision to hold the repo rate unchanged and against the repo-rate path in the Monetary Policy Report.

They preferred to lower the repo rate to 1.75 per cent. They also preferred a lower repo-rate path that stays at 1.5 per cent from the first quarter of 2012 through the first quarter of 2013, and then rises to just above 3 per cent by the end of the forecast period. This was justified by their assessment that the Report's forecasts of foreign policy rates and Swedish resource utilisation were both too high. This repo-rate path then implies CPIF inflation closer to 2 per cent and a faster reduction of unemployment towards a longer-run sustainable rate.

The minutes from the Executive Board's monetary policy discussion will be published on 9 November 2011. The decision on the repo rate will apply with effect from 2 November. A press conference with Governor Stefan Ingves and Per Jansson, Head of the Monetary Policy Department, will be held today at 11 a.m. in the Riksbank. **Please note that entrance is through the bank's personnel entrance at Malmskillnadsgatan 7, and that it may take longer than normal to enter the bank.** Press cards must be shown. The press conference will be broadcast live on the Riksbank's website, www.riksbank.se.