

PRESS RELEASE

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Low repo rate for longer, Executive Board ready to extend government bond purchases in December

The upturn in the Swedish economy is continuing, but the Riksbank assesses that it will take longer before inflation attains the target of 2 per cent. The upturn in inflation therefore needs continued strong support. The Executive Board assesses that the repo rate needs to be held at -0.50 per cent for six months longer than was forecast in September. The probability that the rate will be cut further has increased. The purchases of government bonds will continue during the second half of 2016, as decided in April. Prior to the monetary policy meeting in December, the Executive Board is prepared to extend the purchases of government bonds.

The international recovery is expected to proceed at a relatively modest rate going forward. Global inflation is expected to rise gradually from a low level, supported by expansionary monetary policy.

In Sweden, the Riksbank's cuts to the repo rate and the purchases of government bonds have had a broad impact and have pushed many rates down. This has contributed to positive development in the Swedish economy with high GDP growth and falling unemployment. Inflation has been rising since 2014 and long-run inflation expectations are back around 2 per cent. However, in recent months inflation has slowed down, which illustrates the uncertainty over how quickly inflation will rise towards the target.

The upturn in inflation needs continued strong support

The Riksbank now assesses that it will take longer for inflation to reach 2 per cent. The upturn in inflation therefore needs continued strong support. The Executive Board assesses that the repo rate needs to be held at the current low level, -0.50 per cent, for six months longer than was assumed in September. The Board does not expect to begin slowly raising the rate again until early 2018. The repo-rate path now also reflects a greater probability that the rate could be cut further. In accordance with previous decision, purchases of nominal and real government bonds will continue so that these amount to SEK 245 billion at the end of 2016. Until further notice, maturities and coupon payments on the holdings in the government bond portfolio will be reinvested. Prior to the monetary policy meeting in December, the Executive Board is also prepared to extend the purchases of government bonds. As the current asset purchase programme will run for the remainder of the year, there is thus opportunity to await further information that can affect the



decision to extend the purchases. Examples of such information include the outcomes for inflation in the near term and actions of other central banks.

There are several factors that create uncertainty in the inflation forecast. The Riksbank therefore still has a high level of preparedness to make monetary policy even more expansionary if the upward trend in inflation were to be threatened. This also applies between the ordinary monetary policy meetings. All of the measures that the Riksbank has described earlier 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 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	2019
CPI	0.0	1.0 (1.1)	1.4 (1.8)	2.2 (2.6)	2.9
CPIF	0.9	1.4 (1.5)	1.6 (1.9)	1.9 (2.1)	2.1
GDP	4.1	3.3 (3.2)	2.0 (2.2)	2.4 (2.4)	2.2
Unemployment, ages 15-74, per cent	7.4	6.9 (6.9)	6.7 (6.7)	6.7 (6.7)	6.7
Repo rate, per cent	-0.3	-0.5 (-0.5)	-0.6 (-0.5)	-0.3 (0.0)	0.2

Note. The assessment in the September 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 (-0.52)	-0.56 (-0.32)	-0.15 (0.19)	0.36

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

Source: The Riksbank

The decision on the repo rate will apply with effect from 2 November. The minutes from the Executive Board's monetary policy discussion will be published on 9 November. 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 at www.riksbank.se.