



PRESS RELEASE

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■ Repo rate raised to 0.5 per cent

The Swedish economy is developing strongly following the severe downturn. The repo rate now needs to be raised gradually towards more normal levels to attain the inflation target of 2 per cent and to ensure stable growth in the real economy. The Executive Board of the Riksbank has therefore decided to raise the repo rate by 0.25 of a percentage point to 0.5 per cent. At the same time, economic growth abroad is expected to be lower, which means that the repo rate in the longer term will not need to be raised as much as was previously assumed.

The Swedish economy is developing strongly

The recovery in the world economy is continuing. Trade between countries is increasing and this benefits Swedish exports and Swedish investments. Households have become increasingly optimistic and consumption is rising. Following the substantial fall in GDP, the recovery in the Swedish economy is now recovering on a broad front and employment is increasing steadily, although unemployment is still high.

The uncertain public finances situation abroad means at the same time that many countries need to tighten their fiscal policy substantially to reduce their budget deficits. This tightening is expected to dampen GDP growth in the euro area, which will also hold back GDP growth and inflation in Sweden in the long run.

Repo rate raised from low level

Inflationary pressures are currently low, but are expected to increase as economic activity strengthens. The repo rate now needs to be raised gradually towards more normal levels to attain the inflation target of 2 per cent and at the same time ensure stable growth in the real economy. The Executive Board of the Riksbank has therefore decided to raise the repo rate by 0.25 of a percentage point to 0.5 per cent. Another factor is that household indebtedness has increased significantly in recent years.

At the same time, the weaker development of the economies of the euro area means that the repo rate in the longer term is not expected to be raised as rapidly as was previously assumed. Also contributing to the normalisation of monetary policy is that the first of the three fixed-interest rate loans granted to the banks in 2009 matured on Wednesday 30 June, and will not be replaced by a new loan at a low, fixed interest rate.



As always, the forecasts made regarding the economy and monetary policy are based on the information currently available and new information further ahead may lead to changes in these forecasts. If the uncertain situation in Europe deteriorates, resulting in increased unease on the financial markets, monetary policy may need to be more expansionary than is forecast in the main scenario. The strong growth in the Swedish economy may on the other hand turn out to be more powerful than expected, and then the repo rate may need to be raised at a faster pace in the period ahead.

Forecasts for inflation, GDP and the repo rate

Annual percentage change, annual average

	2009	2010	2011	2012
CPI	-0.3	1.2 (1.1)	2.0 (2.1)	2.4 (2.9)
CPIF	1.9	2.0 (2.0)	1.4 (1.3)	1.6 (1.8)
GDP	-5.1	3.8 (2.2)	3.6 (3.7)	2.8 (3.1)
Repo rate, per cent	0.7	0.5 (0.4)	1.9 (1.8)	3.0 (3.3)

Note. The assessment in the April 2010 Monetary Policy Update is shown in brackets.
Sources: Statistics Sweden and the Riksbank

Forecast for the repo rate

Per cent, quarterly averages

	Q2 2010	Q3 2010	Q4 2010	Q3 2011	Q3 2012	Q3 2013
Repo rate	0.25	0.5 (0.4)	0.9 (0.7)	2.1(2.0)	3.1 (3.5)	3.8

Note. The assessment in the April 2010 Monetary Policy Update is shown in brackets.
Source: The Riksbank

Deputy Governor Karolina Ekholm entered a reservation against the decision to increase the repo rate, in view of the increased uncertainty prevailing as regards the sovereign debt problems in the euro area. According to Ms Ekholm, the relatively low inflationary pressure makes it possible to wait before increasing the repo rate, without compromising the inflation target. She advocated a repo rate path with an unchanged repo rate of 0.25 per cent until September, followed by successive increases in accordance with the profile presented in the Monetary Policy Report.

Deputy Governor Lars E.O. Svensson entered a reservation against the repo rate path and advocated a repo rate path with a repo rate of 0.25 per cent through the fourth quarter of 2010, and thereafter a gradual return to the repo rate path of the main scenario. He maintained that such a repo rate path results in a better outcome for both resource utilisation and inflation, with both lower unemployment and CPIF inflation closer to the target.

The minutes from the Executive Board's monetary policy discussion will be published on 15 July. The decision on the repo rate will apply with effect from 7 July. At the same time, the difference between the repo rate and the interest rates in the standing facilities will be restored to the level that previously prevailed, which means that the deposit rate will be the repo rate minus 0.75 of a percentage point, and the lending rate will be the repo rate plus 0.75 of a percentage point. See also the decision memorandum in the link below. 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, Brunkebergstorg 11. Press cards must be shown. The press conference will be broadcast live on the Riksbank's website, www.riksbank.se.