



# PRESS RELEASE

DATE: 11 February 2010  
NO: 10  
CONTACT: Press office, tel. +46-(0)8 787 0200

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 left unchanged at 0.25 per cent

*The Executive Board of the Riksbank has decided to leave the repo rate unchanged at 0.25 per cent. At the same time, the assessment now is that the upturn in economy activity rests on more solid ground and that there are therefore sound reasons for increasing the repo rate somewhat sooner than was assessed in December. The Executive Board expects that it will begin to raise the repo rate in the summer or early autumn.*

### **Upturn in economic activity on more solid ground**

The upturn in economic activity has become gradually more distinct. International growth has increased slightly. In Sweden, inflation has increased in recent months and the development of the labour market does not appear to be as weak as was previously estimated. At the same time, the situation on the financial markets has steadily improved.

Low interest rates and an expansionary fiscal policy have helped to promote a rapid recovery in household consumption. However, the picture of the recovery is divided. The development of the manufacturing industry is still lagging behind. When economic activity abroad picks up, the assessment is that the demand for Swedish products will increase and exports will rise. Relatively strong growth in GDP is therefore expected over the next few years.

The rate of GDP growth will increase in the period ahead, but it will take some time before the economy recovers from the severe downturn in connection with the crisis. The situation on the labour market will continue to deteriorate for a while, although it appears that unemployment will not be as high as was previously assumed. It is expected that the weak labour market will have a restraining effect on wage increases. This will help to reduce inflationary pressures in the period ahead.

### **Towards a more normal monetary policy**

In order for inflation to reach the target of 2 per cent and to support the recovery of the economy, the interest rate needs to remain low. The Executive Board of the Riksbank has therefore decided to leave the repo rate unchanged at 0.25 per cent.

As a result of the crisis, the Riksbank has cut the repo rate to a historically-low level. The information received since December indicates a continued normalisation of the financial markets and a somewhat stronger development of the economy. All in all, this means that the risk of a major setback in the recovery of the economy has declined and



that the upturn therefore rests on more solid ground. There may thus be a need to adjust monetary policy to more normal conditions somewhat sooner than was assumed in December. The current assessment of the Executive Board of the Riksbank is that the repo rate will be increased in the summer or early autumn. At the same time, the assessment now is that it will be possible to make the increases in the slightly longer term more gradually and the forecast for the repo rate in the longer term has therefore been adjusted downwards somewhat.

The repo rate affects mortgage rates, which are included in the consumer price index (CPI). When the repo rate is increased in the period ahead, the CPI will therefore increase quickly. Underlying inflation measured in terms of the CPIF (the CPI with a fixed mortgage rate) will on the other hand be stable at around 2 per cent at the end of the forecast period.

The future direction for monetary policy will depend, as always, on how economic developments abroad and in Sweden affect the prospects for inflation and economic activity in Sweden. If, for example, wage increases are higher or the krona is weaker than expected, it may be necessary to increase the repo rate more quickly. If, on the other hand, wages increase more slowly or the supply of labour is higher, monetary policy may need to be more expansionary than in the forecast.

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

Annual percentage change, annual average

	2009	2010	2011	2012
CPI	-0.3 (-0.3)	1.6 (0.8)	2.9 (3.0)	3.1 (3.6)
CPIF	1.9 (1.9)	1.9 (1.2)	1.4 (1.5)	1.8 (1.9)
GDP	-4.5 (-4.5)	2.5 (2.7)	3.4 (3.4)	3.1* (3.5)
Repo rate, per cent	0.7 (0.7)	0.4 (0.3)	1.8 (1.6)	3.3 (3.6)

Note. The assessment in the December 2009 Monetary Policy Update is shown in brackets.

\*The forecast for actual (not calendar adjusted) GDP growth has been revised downwards for 2012. This is because in the previous forecast for 2012 the Riksbank used an incorrect calculation factor to take into account the difference in the number of working days in 2011 and 2012. This does not affect the analysis, however, as it is based on seasonally-adjusted and calendar-adjusted data.

Sources: Statistics Sweden and the Riksbank

#### Forecast for the repo rate

Per cent, quarterly averages

	Q4 2009	Q1 2010	Q2 2010	Q1 2011	Q1 2012	Q1 2013
Repo rate	0.25	0.25 (0.25)	0.25 (0.25)	1.1 (0.8)	2.8 (3.0)	4.0

Note. The assessment in the December 2009 Monetary Policy Update is shown in brackets.

Source: The Riksbank

Deputy Governor Lars E.O. Svensson entered a reservation against the decision and advocated cutting the repo rate to 0 per cent and thereafter a repo rate path 0.25 per cent below the path of the main scenario through the fourth quarter of 2010. He maintained that such a repo rate path results in a better outcome for both inflation and resource utilisation, with both higher resource utilization and CPIF inflation closer to the target. Such a repo rate path will not cause any problems for the functioning of the financial markets or for financial stability, especially since house prices and mortgages do not entail a stability problem and should not affect monetary policy.



■ The minutes from the Executive Board's monetary policy discussion will be published on 24 February. The decision on the repo rate will apply with effect from 17 February. A press conference with Governor Stefan Ingves and Jesper Hansson, Deputy Head of the Monetary Policy Department, will be held today at 11 a.m. at the Riksbank. Entry via the bank's main entrance, Brunkebergstorg 11. Press cards must be shown. The press conference will be broadcast live on the Riksbank's website, [www.riksbank.se](http://www.riksbank.se).