



# PRESS RELEASE

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## ■ Repo rate cut to zero per cent

*The Swedish economy is relatively strong and economic activity is continuing to improve. But inflation is too low. The Executive Board of the Riksbank has therefore decided that monetary policy needs to be even more expansionary for inflation to rise towards the target of 2 per cent. The Board is cutting the repo rate by 0.25 percentage points to zero per cent, and making a significant downward revision to the repo-rate path. Their assessment is that the repo rate needs to remain at this level until inflation clearly picks up. It is assessed as appropriate to slowly begin raising the repo rate in the middle of 2016.*

### **Economic activity improving...**

Economic activity in the world as a whole is expected to continue to slowly improve but the difference between regions remains considerable. The economic outlook for the United States and the United Kingdom is good, while the recovery in the euro area is expected to be even slower than in previous assessments. The forecasts for inflation abroad are lower and several of the world's central banks are expected to continue to conduct very expansionary monetary policy for a further period of time.

In Sweden, economic activity is continuing to improve, primarily driven by good growth in household consumption and housing investment. Exports, which have been hampered by the relatively weak economic developments abroad, will increase more rapidly when economic activity improves in the countries Sweden trades with. The labour market will continue to strengthen in the years ahead and there will be a clear fall in unemployment.

### **...but inflation is too low**

Despite the fact that both GDP and employment have increased at a relatively good rate over the last 12 months, inflation has continued to be lower than expected. The broad downturn in inflation and the repeated downward revisions to the inflation forecast imply that underlying inflationary pressures are very low and lower than previously assessed. This, taken together with lower inflation and a weaker development of economic activity abroad, means that it is expected to take longer for inflation to reach 2 per cent.

### **Zero repo rate until inflation clearly picks up**

It is important that inflation rises towards the target of 2 per cent. The repo rate is therefore being cut by 0.25 percentage points to zero per cent. The low repo rate increases demand in the economy, which contributes to higher inflationary pressures. The highly-expansionary monetary policy may also contribute to keeping



inflation expectations anchored around 2 per cent by sending a clear signal that monetary policy is focused on inflation approaching the inflation target.

The repo rate needs to remain at this level until inflation has clearly picked up. Slow increases in the repo rate are expected to begin until the middle of 2016 and it should reach 1.75 per cent towards the end of 2017. This is an unusually low repo rate at a time when economic activity is good, resource utilisation is close to its normal level and CPIF inflation is 2 per cent.

### **Risks associated with household indebtedness must be managed**

The fact that the repo rate is now being lowered further to get inflation to rise will increase the risks associated with high household indebtedness. It is therefore even more urgent now that these risks are managed. Reducing the risks requires measures aimed directly at household demand for credit. In addition, reforms are needed for a better-functioning housing market.

### **Forecast for Swedish inflation, GDP, unemployment and the repo rate**

Annual percentage change, annual average

	2013	2014	2015	2016	2017
<b>CPI</b>	0.0 (0.0)	-0.2 (0.0)	0.4 (1.3)	2.1 (2.9)	3.2
<b>CPIF</b>	0.9 (0.9)	0.5 (0.6)	1.2 (1.7)	2.0 (2.0)	2.0
<b>GDP</b>	1.5 (1.6)	1.9 (1.7)	2.7 (3.0)	3.3 (3.1)	2.3
<b>Unemployment, ages 15-74, per cent</b>	8.0 (8.0)	7.9 (7.9)	7.4 (7.3)	6.9 (6.7)	6.6
<b>Repo rate, per cent</b>	1.0 (1.0)	0.5 (0.5)	0.0 (0.3)	0.3 (1.2)	1.4

Note. The assessment in the September 2014 Monetary Policy Update is shown in brackets.  
Sources: Statistics Sweden and the Riksbank

### **Forecast for the repo rate**

Per cent, quarterly average

	2014 Q3	2014 Q4	2015 Q4	2016 Q4	2017 Q4
<b>Repo rate</b>	0.29	0.08 (0.23)	0.00 (0.40)	0.75 (1.63)	1.75

Note. The assessment in the September 2014 Monetary Policy Update is shown in brackets.  
Source: The Riksbank

### **The Riksbank's fine-tuning interest rate is set at zero**

The decision on the repo rate will apply with effect from 29 October. The deposit rate is at the same time cut to -0.75 per cent and the lending rate to 0.75 per cent. The Executive Board has also decided that the interest-rate for fine-tuning transactions will be set at zero.

A press conference with Governor Stefan Ingves and Mattias Erlandsson, Head of the Riksbank's Forecasting Division, will be held today at 11 a.m. in the Riksbank. Press cards must be shown. The press conference will be broadcast live on the Riksbank's website, [www.riksbank.se](http://www.riksbank.se), where it will also be available to view afterwards.

The minutes from the Executive Board's monetary policy discussion will be published on 11 November.