

PRESS RELEASE

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Repo rate unchanged at –0.50 per cent

Economic activity is strengthening, but there is considerable political uncertainty abroad and the risks of setbacks have increased. For inflation to stabilise around 2 per cent, a continued strong level of economic activity and a krona that does not appreciate too rapidly are required. Monetary policy therefore still needs to remain expansionary. The Executive Board of the Riksbank has decided to hold the repo rate at –0.50 per cent and there is still a greater probability that the rate will be cut than that it will be raised in the near term. The purchases of government bonds will continue for the first six months of 2017, as was decided in December. The Executive Board has also taken a decision to extend the mandate that facilitates a quick intervention on the foreign exchange market.

Global recovery with the risk of setbacks

The economic outlook abroad is brighter in the near term, and the recovery is continuing in line with earlier forecasts. At the same time, there is considerable political uncertainty in several areas of the world, which means that the risks of setbacks have increased.

Economic activity in Sweden increasingly strong

In Sweden, the Riksbank's expansionary monetary policy has contributed to high growth, falling unemployment, rising inflation and inflation expectations that are back at 2 per cent. CPIF inflation was close to 2 per cent in December, but the recent upturn has been primarily driven by a temporary rise in energy prices. Excluding energy prices, inflation is still low. The strong economic activity creates good conditions for inflation to continue rising. However, inflation is not expected to stabilise around 2 per cent until the end of 2018.

The krona exchange rate continues to create uncertainty about the development in inflation. Since December, the krona has been clearly stronger than expected. This rapid appreciation is not expected to continue, however. The Riksbank's forecast is for the krona to appreciate slowly as economic activity improves.

Expansionary monetary policy for inflation to stabilise around 2 per cent

To ensure inflation stabilises around the target, it is necessary for economic activity to remain strong and for the krona to appreciate at a not too rapid pace. The political uncertainty abroad is enhancing the need for monetary policy to remain expansionary. The Executive Board has decided to hold the repo rate unchanged at -0.50 per cent. The repo rate path reflects the fact that there is still a greater probability that the rate will be cut than that it will be raised in the near term, and that slow increases will not begin until



the start of 2018. Purchases of government bonds will continue for the first six months of 2017, as decided in December 2016. Until further notice, maturities and coupon payments will be reinvested in the government bond portfolio. The Executive Board has also taken a decision to extend the mandate that facilitates a quick intervention on the foreign exchange market.

The Executive Board is still prepared to make monetary policy more expansionary if the upward trend in inflation were to be threatened and confidence in the inflation target weakened. All of the tools that the Riksbank has described earlier, most recently in the September 2016 Monetary Policy Report, can as always be used if necessary.

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 those linked to the high and increasing household indebtedness. To achieve long-term sustainable development in the Swedish economy, these risks need to be managed via targeted measures within housing policy, fiscal policy and macroprudential policy.

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

Annual percentage change, annual average

	2015	2016	2017	2018	2019
CPI	0.0	1.0 (1.0)	1.6 (1.4)	2.1 (2.2)	2.9 (3.0)
CPIF	0.9	1.4 (1.4)	1.7 (1.6)	1.8 (1.9)	2.1 (2.1)
GDP	4.1	3.4 (3.4)	2.5 (2.4)	2.2 (2.2)	2.1 (2.1)
Unemployment, 15-74 years, per cent	7.4	6.9 (6.9)	6.7 (6.7)	6.7 (6.7)	6.7 (6.7)
Repo rate, per cent	-0.3	-0.5 (-0.5)	-0.5 (-0.6)	-0.3 (-0.3)	0.2 (0.2)

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

Sources: Statistics Sweden and the Riksbank

Forecast for the repo rate

Per cent, quarterly means

	2016 Q4	2017 Q1	2017 Q2	2018 Q1	2019 Q1	2020 Q1
Repo rate	-0.50	-0.50 (-0.53)	-0.54 (-0.56)	-0.53 (-0.53)	-0.02 (-0.02)	0.49

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

Source: The Riksbank

Deputy Governor Martin Flodén entered a reservation against the decision to extend the mandate for interventions on the foreign exchange market, with the same motivation as given at the meetings in January, February and July 2016.

The decision on the repo rate will apply with effect from 22 February. The minutes from the Executive Board's monetary policy discussion will be published on 1 March. Further information on the Executive Board's decision on the mandate for foreign exchange interventions can be found in a separate annex to the minutes at www.riksbank.se. A press conference with Governor Stefan Ingves and Mattias Erlandsson, Acting Deputy Head of the Monetary Policy Department, will be held today at 11 a.m. at the Riksbank. Press cards must be shown. The press conference will be webcast live at www.riksbank.se.