

PRESS RELEASE

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Government bond purchases extended by SEK 15 billion, repo rate unchanged at –0.50 per cent, rate increases postponed

Economic activity in Sweden is increasingly strong, but the Riksbank now assesses that it will take longer before inflation stabilises around 2 per cent. There is still considerable uncertainty over political and economic developments abroad. The Executive Board decided to extend the purchases of government bonds by SEK 15 billion during the second half of 2017 and to hold the repo rate unchanged at –0.50 per cent. The repo rate is now not expected to be raised until mid-2018, which is slightly later than in the previous forecast.

Stronger international economy but risk of setbacks

Growth around the world is increasing in line with the Riksbank's earlier forecasts. The global economy is in a phase with increasingly strong industrial activity and rising global trade. However, considerable political uncertainty is prevailing in several parts of the world, creating risks for economic developments.

Slower upturn in inflation

Swedish economic activity is good and is expected to strengthen further over the next few years. Inflation has shown a rising trend for some years, but it is now expected to take longer before it stabilises around 2 per cent. The collective agreements signed so far on the labour market indicate that cost pressures in the economy will rise more slowly than expected. The inflation forecast is somewhat lower for 2018 and 2019.

Monetary policy is continuing to support the upturn in inflation

To support the upturn in inflation, monetary policy needs to be somewhat more expansionary. The considerable uncertainty over economic and political developments abroad is also important for the stance of monetary policy.

The Executive Board has decided to hold the repo rate unchanged at –0.50 per cent and to extend the purchases of nominal government bonds by SEK 7.5 billion and the purchases of real government bonds by SEK 7.5 billion. At the end of 2017, the purchases will thus amount to a total of SEK 290 billion, excluding reinvestments. Until further notice, maturities and coupon payments will also be reinvested in the government bond portfolio. The Executive Board moreover assesses that the repo



rate needs to be held at the current low level for a quarter longer than was assumed in February. The first repo-rate increase is now expected to be made in the middle of 2018. The repo rate path also reflects the fact that there is still a greater probability of the rate being cut than of it being raised in the near term.

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 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. At the same time, the low interest rates contribute to increasing the risks of the high and rising household indebtedness. To achieve long-term sustainable development in the Swedish economy, these risks need to be managed via targeted measures within housing policy, taxation 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	1.6 (1.6)	2.1 (2.1)	2.9 (2.9)
CPIF	0.9	1.4	1.8 (1.7)	1.8 (1.8)	2.0 (2.1)
GDP	4.1	3.3 (3.4)	2.8 (2.5)	2.3 (2.2)	2.1 (2.1)
Unemployment, 15-74 years, per cent	7.4	6.9	6.7 (6.7)	6.6 (6.7)	6.7 (6.7)
Repo rate, per cent	-0.3	-0.5	-0.5 (-0.5)	-0.4 (-0.3)	0.0 (0.2)

Note. The assessment in the Monetary Policy Report in February 2017 is shown in brackets.

Sources: Statistics Sweden and the Riksbank

Forecast for the repo rate

Per cent, quarterly means

	Q4 2016	Q1 2017	Q2 2017	Q2 2018	Q2 2019	Q2 2020
Repo rate	-0.50	-0.50 (-0.50)	-0.50 (-0.54)	-0.50 (-0.40)	-0.02 (0.11)	0.49

Note. The assessment in the Monetary Policy Report in February 2017 is shown in brackets.

Source: The Riksbank

Deputy Governors Martin Flodén, Henry Ohlsson and Cecilia Skingsley entered reservations against the decision to extend the purchases of government bonds, as they consider that monetary policy does not need to be made more expansionary in the current economic situation.

The decision on the repo rate will apply with effect from 3 May. The minutes from the Executive Board's monetary policy discussion will be published on 10 May. Further information on the Riksbank's purchases of government bonds and reinvestments can be found in an annex to the minutes at www.riksbank.se. A press conference with Governor Stefan Ingves and Christina Nyman, Deputy 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.