

PRESS RELEASE

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CONTACT: Press Office, tel. +46 8-7870200



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 unchanged at –0.50 per cent, bond purchases according to plan

Economic activity is strong and inflation is approaching 2 per cent. The Riksbank's monetary policy has contributed to this. But it has taken time to bring up inflation and a continued expansionary monetary policy is required for it to stabilise around 2 per cent. The Executive Board of the Riksbank has decided to hold the repo rate unchanged at –0.50 per cent. The first rate increase is not expected to be made until the middle of 2018, which is the same assessment as in April. The purchases of government bonds will continue during the second half of 2017, as decided in April.

International economic activity is increasing in line with the Riksbank's forecasts. The risk of setbacks has declined, although there is still economic and political uncertainty in many parts of the world. Global inflationary pressures are still subdued and monetary policy abroad is expansionary.

The Riksbank's monetary policy, with a low policy rate and extensive purchases of government bonds, has contributed to strong economic activity with a rapid rise in employment. CPIF inflation has risen and during the past six months has varied between 1.5 and 2 per cent.

Continued expansionary monetary policy – a prerequisite for inflation close to the target

But it has taken time and a great deal of support from monetary policy to bring up inflation. The fact that inflation has been below-target for a long time means that there is a risk of inflation expectations being more sensitive than usual to downside surprises. Given this, it is now especially important that inflation stabilises more lastingly close to the target. A prerequisite for this is that economic activity continues to be strong and gradually has a greater impact on price development.

In addition to continuing robust economic activity, it is important that the krona does not appreciate too rapidly. This could happen if, for example, the Riksbank's monetary policy deviates clearly from that of other countries.

The overall picture of the economic outlook and inflation prospects remains largely unchanged since April. Continued expansionary monetary policy is needed to stabilise inflation around 2 per cent. The Executive Board has therefore decided to hold the repo rate unchanged at –0.50 per cent. The first rate increase is expected to be made



in the middle of 2018, which is the same assessment as in April. The purchases of government bonds will continue in the second half of 2017, as decided in April, and at the end of the year total purchases of government bonds will amount to SEK 290 billion, excluding reinvestments. Maturities and coupon payments will be reinvested until further notice.

The fact that inflation has recently been slightly higher than expected and that the risks of setbacks abroad are thought to have decreased makes it less likely than before that the Riksbank will cut the repo rate in the near term. This does not rule out repo rate cuts in the period ahead. Just as before, the Executive Board is prepared to implement further monetary policy easing if necessary to stabilise inflation and safeguard the inflation target. 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. But the low interest rates at the same time contribute to increasing the risks linked to 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

	2016	2017	2018	2019
CPI	1.0	1.6 (1.6)	2.0 (2.1)	2.9 (2.9)
CPIF	1.4	1.8 (1.8)	1.7 (1.8)	2.0 (2.0)
GDP	3.2	2.2 (2.8)	2.4 (2.3)	2.1 (2.1)
Unemployment, 15-74 years, per cent	6.9	6.7 (6.7)	6.6 (6.6)	6.7 (6.7)
Repo rate, per cent	-0.5	-0.5 (-0.5)	-0.4 (-0.4)	0.0 (0.0)

Note. The assessment in the April 2017 Monetary Policy Report is shown in brackets.
Sources: Statistics Sweden and the Riksbank

Forecast for the repo rate

Per cent, quarterly means

	2017 Q2	2017 Q3	2017 Q4	2018 Q3	2019 Q3	2020 Q3
Repo rate	-0.50 (-0.50)	-0.50 (-0.53)	-0.50 (-0.53)	-0.40 (-0.40)	0.11 (0.11)	0.62

Note. The assessment in the April 2017 Monetary Policy Report is shown in brackets.
Source: The Riksbank

The decision on the repo rate will apply with effect from 5 July. The minutes from the Executive Board's monetary policy discussion will be published on 18 July. A press conference with Governor Stefan Ingves and Anders Vredin, acting Head of the Monetary Policy Department, will be held today at 11 a.m. in the Riksbank. **Please note that entrance is through the bank's personnel entrance at Malmkillnadsgatan 7, and that it may take longer than normal to enter the bank.** Press cards must be shown. The press conference will be webcast live at www.riksbank.se.