In December 2019, Sweden’s central bank (Sveriges Riksbank) raised its benchmark interest rate (the repo rate) for the second time in twelve months. It set it at 0%, up from the previous level of -0.25%, with effect from January 2020. Swedish interest rates thus abandoned the negative territory in which Sveriges Riksbank had placed them since February 2015 (see Chart 1). Holding rates negative had been part of the raft of unconventional monetary policy measures set in place by Sweden’s monetary authority since 2009. This also included forward guidance on interest rates, bond purchases, currency swaps and support for lending to businesses, among other things. This box summarises the macroeconomic and financial stability conditioning factors which, according to the Swedish authorities, are behind this monetary policy decision.

Sveriges Riksbank justified its decision to increase the interest rate to 0%, which it had already anticipated in October, essentially on the basis of inflation developments. In Sweden, the inflation rate had stood at around the target of 2% from 2017 until end-2019 (see Chart 2) and

**Sources:** Sveriges Riksbank, Swedish National Institute of Statistics and Konjunkturinstitutet.

a CPIF inflation, which excludes changes in mortgage rates, is Sveriges Riksbank’s target variable.
the Swedish monetary authority considers the hypothetical that economic agents would no longer perceive the financial stability-related arguments taken into press release. Sveriges Riksbank also lists some of the possible adverse effects of a premature increase in interest rates on financial stability were also pointed out; agents’ ability to pay could be hampered against a backdrop of lower growth and high levels of private debt (see Chart 4). Nevertheless, Sveriges Riksbank has stressed that private-sector indebtedness-related risks – largely linked to the real estate market – must be addressed by macroprudential policy instruments (within the remit since 2014 of the Finansinspektionen, which reports to the Ministry of Finance) and by structural reforms.

In conclusion, and based on the foregoing considerations, of different sign, Sveriges Riksbank considers that, in net terms, the negative rates policy has been beneficial for the Swedish economy. It likewise believes any future side-effects can be assumed, though it highlights the need for them to be analysed in greater detail.

1 Note that, unlike ECB/Eurosystem projections, which assume that interest rates will follow the path expected by financial markets, the Riksbank’s macroeconomic projections are shaped by its own expected path of policy rates.

2 In the weeks following Sveriges Riksbank’s announcement in October, the Swedish krona appreciated against the dollar and the euro after a period of protracted weakness, which could mean that the financial markets perceived a tightening. However, attributing the appreciation solely to monetary policy is difficult since it coincided with a period of upward surprises in economic indicators and greater optimism about world trade, which is highly significant for a small open economy like Sweden’s. Since early 2020, the Swedish krona has depreciated again due to global uncertainty and worse-than-expected macroeconomic data.

3 Note that the low use of cash in Sweden could soften the possible difficulties of potential liquidity problems. Worldwide, Sweden is the economy which least uses cash, and its objective is to replace it with electronic means of payment by 2023. Thus, if negative interest rates were applied to household deposits, this would possibly have a more subdued effect on the demand for cash.

4 Since 1994, there has been a robust upward trend in house prices in Sweden which is essentially attributable to structural factors such as supply shortages and high construction costs.