

EBD/85/135

MASTER FILES

May 22, 1985

ROOM C-120

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To: Members of the Executive Board
From: The Secretary
Subject: Sweden - Decision on Interest Rates

The Secretary has received the following memorandum dated May 20, 1985 from Mr. Lundstrom:

We have received the following information from the Sveriges Riksbank:

The Sveriges Riksbank has decided:

- to raise the official discount rate from 9.5 percent to 11.5 percent, effective May 14, 1985;
- to raise the interest rate for bank borrowing from the Riksbank above a certain level, the so-called penalty rate, from 13.5 percent to 16 percent effective from May 14, 1985;
- to raise the issue rate of priority bonds from 11 percent to 12 percent;
- to abolish the recommendations concerning banks' lending rates;
- to lower the ceiling for bank lending from 4 percent to 2 percent for 1985;
- to lower the ceiling for lending from finance houses from 4 percent to 2 percent for 1985;
- to lower the ceiling for nonpriority lending from housing institutions by 25 percent for 1985.

The current account has deteriorated during the first quarter of 1985. The deficit is estimated to about SKr 6 billion. The deterioration is the result of weakening exports and a marked upswing in imports to a large extent due to a rather strong growth in private consumption.

Private capital account showed a small surplus during the first quarter of 1985 which implies currency outflows during the period emanated from the current account.

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Currency outflows, emerging in November last year, have continued into the second quarter, by then probably indicating a weakening of private balance as well.

The liquidity in the economy is very high. Household saving is by historical standards very low and households have increased their indebtedness heavily.

In order to moderate domestic demand and strengthen the private capital balance the Riksbank has decided to tighten monetary policy. The discount rate and the penalty rate are raised. Existing guidelines for bank lending rates, implying the average interest rate is not to exceed the official discount rate plus 4 percentage points, are abolished. Banks will be free to set their interest rates. Banks are recommended to reduce their lending, in particular consumer credits, for the rest of the year. In order to curtail credits to households from housing institutions and finance houses lending from these institutions are also further restricted.

Would you kindly inform the Executive Board.

Other Distribution:
Department Heads