



# PRESS RELEASE

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## ■ Repo rate cut by 0.25 percentage points to 1.50 per cent

*Inflationary pressures in the Swedish economy are low. The economic outlook in Sweden has weakened as a result of developments abroad. In order to stabilise inflation around 2 per cent and resource utilisation in the economy around a normal level, the Executive Board of the Riksbank has decided to cut the repo rate by 0.25 percentage points to 1.50 per cent. The repo rate is expected to remain at this level until some time in 2013.*

The global economy as a whole is growing at a relatively good rate and the US economy has performed better than expected. The financial markets have also stabilised somewhat and share prices have risen. However, growth prospects have deteriorated in large parts of the euro area, partly as a result of new consolidation measures and signs of a tighter credit situation.

### **Low growth in Sweden**

Sluggish growth in the euro area has subdued the demand for Swedish exports, which slowed down significantly in late 2011. The weaker economic outlook has led the households to begin saving more and to postpone their consumption, while the companies are postponing their investment. GDP growth in Sweden will therefore be low in the period immediately ahead. Slower economic growth reduces the demand for labour, and unemployment will therefore increase somewhat during the year. The confidence of the Swedish households and companies will gradually recover when concern about the public-finance problems in the euro area declines. The Swedish economy is expected to grow at a more normal rate next year.

### **Low inflationary pressures**

Inflation measured in terms of the CPIF, that is the CPI with a fixed mortgage rate, is low. The main reasons for this are that cost pressures have been low and the krona has strengthened in recent years. The weak demand in the Swedish economy and abroad will help to keep inflationary pressures low in the years ahead.

### **Low repo rate**

Inflationary pressures in the Swedish economy are now low and growth is slow. It has been clear for some time that there would be a slowdown, but the slowdown has been more severe than expected. In order to stabilise inflation around 2 per cent and resource utilisation in the economy around a normal level, the Executive Board of the Riksbank has therefore decided to cut the repo rate by 0.25 percentage points to 1.50 per cent. The repo rate is



expected to remain at this level until some time in 2013. Later on, when inflationary pressures increase, the repo rate will need to be gradually raised.

### Economic development is uncertain

There is considerable uncertainty about economic development abroad. The public-finance problems in the euro area in particular may become more serious and have more negative effects on the Swedish economy. In this situation, the repo-rate path may need to be lower. On the other hand, it is possible that confidence in the public finances of the euro countries will recover more quickly than expected. This would call for a higher repo-rate path.

#### Forecasts for Swedish inflation, GDP, unemployment and the repo rate

Annual percentage change, annual average

	2011	2012	2013	2014
<b>CPI</b>	3.0 (3.0)	1.4 (1.5)	1.9 (2.0)	2.9 (2.7)
<b>CPIF</b>	1.4 (1.4)	1.1 (1.2)	1.7 (1.7)	2.1 (2.0)
<b>GDP</b>	4.5 (4.6)	0.7 (1.3)	2.1 (2.3)	3.2 (2.6)
<b>Unemployment, 15-74 years, per cent</b>	7.5 (7.5)	7.7 (7.5)	7.7 (7.5)	7.0 (6.8)
<b>Repo rate, per cent</b>	1.8 (1.8)	1.5 (1.7)	1.7 (2.1)	2.5 (2.9)

Note. The assessment in the December 2011 Monetary Policy Update is shown in brackets.

Sources: Statistics Sweden and the Riksbank

#### Forecast for the repo rate

Per cent, quarterly averages

	Q4 2011	Q1 2012	Q2 2012	Q1 2013	Q1 2014	Q1 2015
<b>Repo rate</b>	2.0	1.6 (1.7)	1.5 (1.7)	1.5 (1.8)	2.2 (2.6)	3.0

Note. The assessment in the December 2011 Monetary Policy Update is shown in brackets.

Source: The Riksbank

Deputy Governors Karolina Ekholm and Lars E.O. Svensson entered reservations against the decision to lower the repo rate to 1.5 per cent and against the repo-rate path in the Monetary Policy Report. They both advocated a lowering of the repo rate to 1.25 per cent and a lower repo-rate path than in the Monetary Policy Report.

Karolina Ekholm preferred a repo-rate path that stays at 1 per cent from the third quarter of 2012 through the third quarter of 2013, and then rises to slightly above 2 per cent by the end of the forecast period. This was justified by her assessment that the Report's forecasts of foreign policy rates are too high and that a repo-rate path that is associated with a higher forecast of CPIF inflation and a lower forecast of unemployment than in the Monetary Policy Report constitutes a more well-balanced monetary policy.

Lars E.O. Svensson preferred a repo-rate path that stays at 0.75 per cent from the third quarter of 2012 through the third quarter of 2013, and then rises to 2 per cent by the end of the forecast period. This was justified by his assessment that the Report's forecasts of foreign policy rates, euro-area growth and Swedish resource utilisation were all too high. His repo-rate path then implies CPIF inflation closer to 2 per cent and a faster reduction of unemployment towards a longer-run sustainable rate.



■ The minutes of the Executive Board's monetary policy discussion will be published on 29 February 2012. The decision on the repo rate will apply with effect from 22 February. A press conference with Governor Stefan Ingves and Marianne Nessén, 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 broadcast live on the Riksbank's website.