



PRESS RELEASE

DATE: 6 September 2012
NO. 15
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■ Repo rate cut 0.25 percentage points to 1.25 per cent

Growth in the Swedish economy is now slowing down after an unexpectedly strong outcome so far this year. During the summer the krona has appreciated faster than expected and productivity has also been unexpectedly high. Inflationary pressures are therefore expected to be lower than was forecast in July. The Executive Board of the Riksbank has decided to cut the repo rate by 0.25 percentage points, to 1.25 per cent, to prevent inflation from being too low in the coming period. The repo rate is expected to remain at this level until the middle of next year, which will support economic activity and contribute to inflation rising towards the target of 2 per cent.

Economic developments in the euro area remain weak and it will take time to rectify the underlying structural problems. The economic downturn in the euro area will therefore be protracted. At the same time, the recovery in the US economy is continuing, and the world economy as a whole is growing at a good pace. The economic outlook abroad is roughly the same as in July.

Swedish GDP growth has been unexpectedly strong so far this year, which has mainly been due to a large increase in exports of services. But the weak demand from the euro area will now dampen exports and contributes to the forecast for a weak GDP growth over the coming period. Unemployment will therefore increase somewhat over the year and then fall back as economic activity improves. The economic prospects for the Swedish economy are thus largely in line with the assessment made in July.

Low inflationary pressures

The Riksbank noted in July that inflationary pressures in the Swedish economy were low and that monetary policy thus needed to be expansionary. Since then, the krona has appreciated faster than expected and productivity in the Swedish economy has also been unexpectedly high. All in all, this means that inflation will be lower in the coming period, compared with the assessment in July.

Repo rate cut to counteract low inflation ahead

The Executive Board of the Riksbank has decided to cut the repo rate by 0.25 percentage points, to 1.25 per cent, to prevent inflation from being too low in the coming period. The repo rate is then expected to remain at this level until

the middle of next year. The repo-rate path is thus lower throughout the forecast period than was assessed in July. As economic activity improves, and inflationary pressures increase, the repo rate will be raised gradually. This repo-rate path will contribute to an inflation rate in line with the target of 2 per cent and resource utilisation around a normal level.

Economic developments are uncertain

The situation in the euro area is still uncertain and could worsen, which could have further negative effects on the Swedish economy. However, the Swedish economy has so far been unexpectedly resilient and confidence among Swedish households and companies may also rise faster than expected. In addition, the krona can be stronger or weaker than expected. Both the economic outlook abroad and the exchange rate may thus develop differently than in the forecast and thereby have different effects on growth and inflation in Sweden. This could also mean that the monetary policy stance is a different one.

Forecasts for Swedish inflation, GDP unemployment and the repo rate

Annual percentage change, annual average

| | 2011 | 2012 | 2013 | 2014 |
|---|-----------|-----------|-----------|-----------|
| CPI | 3.0 (3.0) | 1.2 (1.1) | 1.3 (1.7) | 2.6 (2.8) |
| CPIF | 1.4 (1.4) | 1.1 (1.0) | 1.6 (1.7) | 2.0 (2.1) |
| GDP | 3.9 (3.9) | 1.5 (0.6) | 1.9 (1.7) | 2.8 (2.8) |
| Unemployment, ages 15-74, per cent | 7.5 (7.5) | 7.6 (7.6) | 7.6 (7.7) | 6.9 (7.0) |
| Repo rate, per cent | 1.8 (1.8) | 1.5 (1.5) | 1.4 (1.6) | 2.0 (2.3) |

Note. The assessment in the Monetary Policy Report in July 2012 is shown in brackets.

Sources: Statistics Sweden and the Riksbank

Forecast for the repo rate

Per cent, quarterly averages

| | 2012 Q2 | 2012 Q3 | 2012 Q4 | 2013 Q3 | 2014 Q3 | 2015 Q3 |
|------------------|---------|-----------|-----------|-----------|-----------|-----------|
| Repo rate | 1.5 | 1.5 (1.5) | 1.3 (1.4) | 1.4 (1.6) | 2.2 (2.4) | 2.9 (3.1) |

Note. The assessment in the Monetary Policy Report in July 2012 is shown in brackets.

Source: The Riksbank

Deputy Governor Lars E.O. Svensson entered reservations against the Monetary Policy Update and the decision about the repo rate and the repo-rate path in the Monetary Policy Update. He advocated a lowering of the repo rate to 1.0 per cent and then a repo-rate path that stays at 0.75 per cent from the fourth quarter of 2012 through the fourth 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 Update's forecasts of foreign policy rates further ahead and foreign growth are too high and that his repo-rate path is associated with a forecast of CPIF inflation that is closer to the inflation target and a forecast of unemployment that is closer to a long-run sustainable rate and therefore constitutes a better-balanced monetary policy.

Deputy Governor Karolina Ekholm entered a reservation against the repo-rate path in the Monetary Policy Update. She advocated a repo-rate path that is low-



ered to 1.0 per cent during the fall, stays at this level through the third quarter of 2013, and then rises to about 2.5 per cent by the end of the forecast period. This was justified by her assessment that a repo-rate path that is associated with a higher forecast of CPIF inflation and a lower forecast of unemployment constitutes a better-balanced monetary policy.

The minutes from the Executive Board's monetary policy discussion will be published on 18 September. The decision on the repo rate will apply with effect from 12 September. 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 where it will also be available to view afterwards.