



# PRESS RELEASE

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## ■ Repo rate unchanged at 1.25 per cent

*The Swedish economy has so far grown at a good pace, but is now slowing down due to the weak developments abroad. Unemployment is expected to rise somewhat in the coming period and inflationary pressures are low. The Executive Board of the Riksbank decided to hold the repo rate at the continued low level of 1.25 per cent and to lower the repo-rate path to stimulate the economy so that inflation rises towards the target of 2 per cent.*

### **Swedish economy slowing down**

The unease on the financial markets has declined somewhat. However, the uncertainty over how to resolve the fundamental problems in the euro area remains substantial and GDP growth in the euro area is expected to remain weak. Compared with the euro area, the situation in the United States looks a little better. Although there is now some slowdown in most emerging economies, the world economy as a whole is nevertheless growing at a relatively good pace.

The Swedish economy has so far shown resilience to the debt crisis in Europe, but now Swedish exports are being clearly dampened by the weak activity in the euro area. However, the consequences for the economy as a whole are alleviated by households having relatively good purchasing power. All in all, the Swedish economy is expected to develop in the coming period largely as the Riksbank had forecast earlier.

Employment has increased, but the number of persons in the work force has increased even more, and unemployment has therefore risen. The recovery in the labour market is now expected to be slower, which partly is due to there being signs that it has become more difficult for job seekers to find vacant jobs.

Inflation is low at present. This is mainly because of low cost pressures in recent years and earlier strengthening of the krona, which has a delayed effect on inflation. A continued low repo rate and reduced unease regarding economic developments in Europe are expected to lead to economic activity in Sweden strengthening, wages increasing at a faster pace and inflation rising.

### **Low repo rate stimulates the economy**

A continued low repo rate will stimulate the economy so that inflation rises towards the target of 2 per cent. The Executive Board of the Riksbank has therefore decided to hold the repo rate unchanged at 1.25 per cent and to lower the repo-



rate path. It is now more probable that the repo rate will be cut rather than being raised during the winter. Compared with the assessment in September, the repo rate is expected to be raised at a later stage and at a slower pace. This lower repo-rate path should contribute to an inflation rate in line with the target and to resource utilisation stabilising around a normal level. The low repo-rate path is expected to go hand in hand with households' debt ratios not rising, but instead remaining at the current level.

### The repo-rate path is a forecast, not a promise

The situation in the euro area is problematic and could worsen, which could have further negative effects on the Swedish economy. In this situation, the repo-rate path may need to be lower. At the same time, the Swedish economy has so far been unexpectedly resilient and demand among Swedish households and companies could be higher than expected. This would justify a higher repo-rate path.

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

Annual percentage change, annual average

	2011	2012	2013	2014	2015
<b>CPI</b>	3.0 (3.0)	0.9 (1.2)	0.7 (1.3)	2.4 (2.6)	2.7
<b>CPIF</b>	1.4 (1.4)	1.0 (1.1)	1.1 (1.6)	2.0 (2.0)	2.1
<b>GDP</b>	3.9 (3.9)	0.9 (1.5)	1.8 (1.9)	2.7 (2.8)	2.9
<b>Unemployment, ages 15-74, per cent</b>	7.5 (7.5)	7.7 (7.6)	7.9 (7.6)	7.4 (6.9)	6.5
<b>Repo rate, per cent</b>	1.8 (1.8)	1.5 (1.5)	1.2 (1.4)	1.7 (2.0)	2.3

Note. The assessment in the Monetary Policy Update in September 2012 is shown in brackets.

Sources: Statistics Sweden and the Riksbank

#### Forecast for the repo rate

Per cent, quarterly averages

	2012 Q3	2012 Q4	2013 Q4	2014 Q4	2015 Q4
<b>Repo rate</b>	1.5	1.2 (1.3)	1.3 (1.6)	1.9 (2.3)	2.6

Note. The assessment in the Monetary Policy Update in September 2012 is shown in brackets.

Source: The Riksbank

Deputy Governor Karolina Ekholm entered a reservation against the decision to maintain the repo rate at its current level and against the repo-rate path in the Monetary Policy Report. She advocated lowering the repo rate to 1.0 per cent and a repo-rate path that is lowered further to 0.75 per cent and then stays at this level until the end of 2013, when it rises successively to about 1.75 per cent by the end of the forecast period. This was justified by her assessment that a repo rate that is associated with a higher forecast for CPIF inflation and a lower forecast for unemployment constitutes a better-balanced monetary policy.

Deputy Governor Lars E.O. Svensson entered reservations against the Monetary Policy Report and the decision about the repo rate and the repo-rate path in the Monetary Policy Report. He advocated lowering the repo rate to 0.75 per cent and then a repo-rate path that stays at 0.50 per cent from the first quarter of 2013 through the first quarter of 2014, and then rises to 1.5 per cent by the end of the forecast period. This was justified by his assessment that the Report's forecasts of



■ foreign policy rates further ahead and foreign growth are too high and that given these circumstances his repo-rate path is associated with a forecast for CPIF inflation that is closer to the inflation target and a forecast for unemployment that is closer to a long-run sustainable rate and therefore constitutes a better-balanced monetary policy.

The minutes from the Executive Board's monetary policy discussion will be published on 7 November. The decision on the repo rate will apply with effect from 31 October. 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, [www.riksbank.se](http://www.riksbank.se), where it will also be available to view afterwards.