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■ Repo rate cut 0.25 percentage points to 1.0 per cent

The weak developments in the euro area are clearly affecting the Swedish economy, which is now slowing down. Household consumption is weak, unemployment is rising and inflationary pressures are low. The Executive Board of the Riksbank has decided to cut the repo rate by 0.25 percentage points to 1.0 per cent, to support the Swedish economy so that inflation rises towards the target of 2 per cent.

Clear slowdown in Swedish economy

Developments in the euro area are weak and still marked by the debt crisis. Although the uncertainty on the financial markets has declined during the autumn, much work remains to be done to remedy the problems in the euro area countries. There are nevertheless signs of improvement in other parts of the world, for instance, the United States and China.

The weak developments in the euro area are having a clear effect on the Swedish economy. International trade has been weak for some time now. Swedish households and companies now have a more gloomy outlook and consumption and investment are weak. The situation on the labour market has also deteriorated and the number of redundancy notices has risen in recent months. In addition, wage increases are expected to be lower in the coming period. The weak economic development will contribute to low inflationary pressures.

Towards the end of 2013, however, inflation is expected to rise as a result of stronger economic activity in Sweden and a rise in employment. Other contributing factors are better prospects for the global economy, the gradual effects of the measures taken in the euro area, and a low policy rate in Sweden.

Low repo rate supports Swedish economy

The Executive Board of the Riksbank has decided to cut the repo rate by 0.25 percentage points to 1.0 per cent, to support the Swedish economy so that inflation rises towards the target of 2 per cent. The repo rate is expected to remain around this low level for the coming year. This repo-rate path will contribute to CPIF inflation being close to 2 per cent from 2014 onwards and to resource utilisation normalising in the coming period. The risks entailed in households' high level of indebtedness remain, but given the weaker economic activity and lower inflation, the Executive Board of the Riksbank assesses that it is appropriate to cut the repo rate.

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

The situation in the euro area is still uncertain 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, growth and inflation in Sweden can also be higher. When household and corporate sector expectations of future developments improve, consumption and investment may grow at a faster pace than expected and inflation may be higher. 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
CPI	3.0 (3.0)	0.9 (0.9)	0.3 (0.7)	2.3 (2.4)	2.6 (2.7)
CPIF	1.4 (1.4)	0.9 (1.0)	0.9 (1.1)	2.0 (2.0)	2.0 (2.1)
GDP	3.7 (3.9)	0.9 (0.9)	1.2 (1.8)	2.7 (2.7)	3.2 (2.9)
Unemployment, ages 15-74, per cent	7.5 (7.5)	7.7 (7.7)	8.1 (7.9)	7.6 (7.4)	6.8 (6.5)
Repo rate, per cent	1.8 (1.8)	1.5 (1.5)	1.0 (1.2)	1.5 (1.7)	2.2 (2.3)

Note. The assessment in the Monetary Policy Report in October 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
Repo rate	1.5	1.2 (1.2)	1.1 (1.3)	1.8 (1.9)	2.5 (2.6)

Note. The assessment in the Monetary Policy Report in October 2012 is shown in brackets.
Source: The Riksbank

The minutes from the Executive Board's monetary policy discussion will be published on 8 January. The decision on the repo rate will apply with effect from 19 December. 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, where it will also be available for viewing afterwards.

Reservations

Deputy Governor Karolina Ekholm supported the decision to cut the repo rate by 0.25 percentage points, but entered a reservation against the repo-rate path in the Monetary Policy Update. She advocated a repo-rate path that is lowered to 0.75 per cent at the beginning of 2013, stays at this level through the first quarter of 2014, and then rises to about 1.75 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 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 Update and the decision about the repo rate and the repo-rate path in the Monetary Policy Update. 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 second 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 Update's forecasts of foreign policy rates further ahead, foreign growth and Swedish inflation are too high and that given these circumstances his repo-rate path implies 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. His assessment was that his lower repo-rate path would not noticeably affect any risks associated with household indebtedness, since monetary policy normally has very small short-run effects on household indebtedness and with low and stable inflation no long-run effects.