



# PRESS RELEASE

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## ■ Repo rate cut to 3.75 per cent

*The Executive Board of the Riksbank has decided to cut the repo rate by 0.5 percentage points to 3.75 per cent. It is assessed that over the coming six months the repo rate will need to be cut by a further 0.5 percentage points. The interest rate cuts are aimed at alleviating the effects of the financial crisis on the real economy and at the same time attaining the inflation target of 2 per cent.*

### **Financial crisis aggravates economic slowdown**

Since mid-September the global financial crisis has worsened and it is now clearly affecting developments in Sweden. The crisis in the financial markets has led to higher loan costs for companies and households, lower capital wealth and increased uncertainty in general. Access to credit has declined. The assessment is that the financial crisis aggravates the ongoing economic downturn resulting in a weaker labour market and lower inflation.

### **Large interest rate cut and lower interest rate path**

To alleviate the effects of the financial crisis in the Swedish economy, the repo rate needs to be cut relatively substantially over a comparatively short period. The repo rate has been cut by one percentage point in the past fortnight and the assessment is that it needs to be cut further by 0.5 percentage points to 3.25 per cent during the coming six months. However, the effects of the lower repo rate will probably be less than usual. The reason is that the confidence crisis in the financial system has led to high risk premiums so that the normal link between short market rates and the repo rate has been broken. The Riksbank is regularly taking other measures to improve the functioning of the financial markets.

### **Inflation falling rapidly towards the target**

Resource utilisation is still slightly higher than normal, but will fall rapidly next year and then be slightly lower than normal. Inflation is high at present but expected to drop back quickly over the coming year. It will then rise slightly and be at the target level of 2 per cent in 2011.



## ■ Great uncertainty

The uncertainty in the assessments is unusually great this time. If the financial crisis intensifies, or if the effects on the real economy are more extensive, it may be necessary to cut the repo rate more than is assumed in the current assessment. However, if the exchange rate remains weak or if inflation remains high, a higher repo rate may be justified. The future direction for monetary policy will depend on how new information on economic developments abroad and in Sweden will affect the prospects for inflation and economic activity in Sweden.

### Forecast for inflation and GDP

Annual percentage change

	2008	2009	2010	2011
CPI	3.7 (3.9)	2.1 (3.2)	1.6 (2.0)	2.0
GDP	1.2 (1.4)	0.1 (0.8)	2.5 (2.6)	2.8

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

Sources: Statistics Sweden and the Riksbank

### Inflation forecast, 12-month figures

Annual percentage change

	Dec 08	Dec 09	Dec 10	Dec 11
CPI	3.0 (3.9)	1.6 (2.3)	1.8 (2.0)	2.1

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

Sources: Statistics Sweden and the Riksbank

### Forecast for the repo rate

Per cent, quarterly averages

	Q2 2008	Q3 2008	Q4 2008	Q4 2009	Q4 2010	Q4 2011
Repo rate	4.25	4.54	3.9 (4.7)	3.2 (4.5)	3.4 (4.3)	3.76

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

Source: The Riksbank

The minutes from the Executive Board's monetary policy discussion will be published on 5 November. The decision on the repo rate will apply from Wednesday, 29 October.

A press conference with Governor Stefan Ingves, First Deputy Governor Irma Rosenberg and Anders Vredin, Head of the Monetary Policy Department, will be held today at 11 a.m. in the Riksbank. Entry via the bank's main entrance, Brunkebergstorg 11. Press cards must be shown. The press conference will be broadcast live on the Riksbank's website, [www.riksbank.se/](http://www.riksbank.se/)