PRESS RELEASE

DATE 4 December 2008
NO. 67
CONTACT Press service, tel. +46-(0)8-787 02 00

SVERIGES RIKSBANK
SE-103 37 Stockholm
(Brunkebergstorg 11)

Tel +46 8 787 00 00
Fax +46 8 21 05 31
registratorn@riksbank.se
www.riksbank.se

■ Repo rate cut to 2 per cent

The Executive Board of the Riksbank has decided to cut the repo rate by 1.75 percentage points to 2 per cent. The repo rate is expected to remain at this level over the coming year. A large reduction in the interest rate and the interest rate path is necessary to dampen the fall in production and employment and to attain the inflation target of 2 per cent.

The Riksbank's current assessment of economic and inflation prospects is based on the assessment made in the Monetary Policy Report in October and the update to the forecasts presented in the Monetary Policy Update.

Rapid deterioration in economic activity

There has been an unexpectedly rapid and clear deterioration in economic activity since October. Economic activity is also expected to continue to weaken over the coming period. Several economic indicators are at historically low levels. At the same time, the crisis in the financial markets is persisting, despite the forceful measures that have been taken around the world. The financial turbulence has made it both difficult and expensive for companies and households to borrow money. The weak developments in the global real economy have led to the oil price and other commodity prices continuing to fall, which has led to lower cost pressures.

Large reduction in repo rate path

A much lower repo rate and repo rate path are needed to counteract economic developments being too weak and inflation being too low. The fact that the interest rate needs to be cut substantially is also due to monetary policy not having such a large impact recently as it normally does. The Executive Board of the Riksbank therefore decided to cut the repo rate by 1.75 percentage points to 2 per cent. After this the repo rate may in principle remain unchanged over the coming year.

Lower inflation

A lower interest rate path will dampen the fall in resource utilisation, which is expected to rise again at the end of the forecast period. Important components in the recovery include increased demand from abroad, improved functioning in the financial system and a general reduction in uncertainty. The weakening of the krona will also dampen the fall in growth. Inflation will fall rapidly next year and be below target over the coming two years. Inflation will then approach the target of 2 per cent a couple of years ahead.

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	3.5(3.7)	1.2 (2.1)	1.5(1.6)	2.1(2.0)
GDP	0.9 (1.2)	-0.5 (0.1)	2.2 (2.5)	3.0(2.8)

Note. The assessment in the most recent Monetary Policy Report in October 2008 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	1.9 (3.0)	1.5 (1.6)	2.0(1.8)	2.2 (2.1)

Note. The assessment in the most recent Monetary Policy Report in October 2008 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	4.3	4.5	3.6 (3.9)	2.0 (3.2)	2.5 (3.4)	3.2 (3.8)

The minutes from the Executive Board's monetary policy discussion will be published on 17 December. The decision on the repo rate will apply from Wednesday, 10 December.

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/.