



# PRESS RELEASE

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## ■ Repo rate cut to 1 per cent

*The Executive Board of the Riksbank has decided to cut the repo rate by 1 percentage point to 1 per cent. The repo rate may need to be cut slightly further during 2009. This 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.*

### **Sharp deterioration in economic activity**

The downturn in the economy now looks as if it will be even worse than was thought in December. Exports and export orders have fallen dramatically and the number of redundancy notices remains high. The weaker economic activity has also led to the oil price falling further since December, which contributes to a lower inflation rate.

### **Lower interest rate path**

A lower repo rate and repo rate path are needed to counteract production and employment being too weak and inflation becoming too low. The Executive Board of the Riksbank has therefore decided to cut the repo rate by 1 percentage point to 1 per cent. The interest rate may need to be cut slightly more over the coming six months.

### **Recovery will begin in 2010**

A lower repo rate path will dampen the fall in resource utilisation, which will rise again at the end of the forecast period. When the financial system begins to function better and the uncertainty declines, the demand from Sweden and abroad will increase. The effects of the fiscal policy measures taken around the world will also contribute to the recovery. The weaker krona will also dampen the fall in growth and keep inflation in Sweden closer to the target of 2 per cent.



## Large fluctuations in CPI inflation

Inflation measured in terms of the CPI (Consumer price index) will fall very rapidly in 2009. This is largely due to the rapid interest rate cuts at the end of 2008 and the beginning of 2009. With effect from 2011, when the interest rate is expected to be raised again, CPI inflation will rise substantially. If the effects of unchanged mortgage rates are excluded, CPI inflation will develop in a more stable manner and be close to the target of 2 per cent at the end of the forecast period.

## Considerable uncertainty

The economic prospects are unusually uncertain at the moment. For example, it may take longer time before the financial markets function as they should, but the effects of an expansionary economic policy may also come sooner and be stronger than in the main scenario. 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
<b>CPI</b>	3.4 (3.5)	-0.5 (1.2)	1.6 (1.5)	3.2 (2.1)
<b>GDP</b>	0.7 (0.9)	-1.6 (-0.5)	1.7 (2.2)	3.2 (3.0)

Note. The assessment in the December 2008 Monetary Policy Update is shown in brackets.

Sources: Statistics Sweden and the Riksbank

## Inflation forecast, 12-month figures

Annual percentage change

	Mar 09	Mar 10	Mar 11	Mar 12
<b>CPI</b>	-0.1 (1.8)	1.4 (1.4)	2.9 (2.0)	3.3

Note. The assessment in the December 2008 Monetary Policy Update is shown in brackets.

Sources: Statistics Sweden and the Riksbank

## Forecast for the repo rate

Per cent, quarterly averages

	Q4 2008	Q1 2009	Q2 2009	Q1 2010	Q1 2011	Q1 2012
<b>Repo rate</b>	3.6	1.5	0.9 (2.0)	0.8 (2.1)	1.6 (2.6)	3.2

Note. The assessment in the December 2008 Monetary Policy Update is shown in brackets.

The minutes from the Executive Board's monetary policy discussion will be published on 25 February. The decision on the repo rate will apply from Wednesday, 18 February. A press conference with Governor Stefan Ingves 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).