



PRESS RELEASE

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■ Repo rate cut to 0.5 per cent

The Executive Board of the Riksbank has decided to cut the repo rate by 0.5 percentage points to 0.5 per cent. The lower interest rate and interest rate path are necessary to dampen the fall in production and employment and to attain the inflation target of 2 per cent. The repo rate is expected to remain at a low level until the beginning of 2011.

Economic downturn worsens

The deterioration in global economic activity has hit Sweden hard. Exports fell substantially towards the end of last year. The situation in the labour market has deteriorated rapidly and household consumption is weak. The outcomes and confidence indicators published in recent months point to the economic downturn being even deeper than the Riksbank had forecast in February.

Low repo rate for a long period of time

A lower repo rate and repo rate path are needed to counteract production and employment being too weak and to attain the inflation target of 2 per cent. The Executive Board of the Riksbank has therefore decided to cut the repo rate to 0.5 per cent with some probability of further cuts in the future. But when the repo rate is at such low levels, one must consider the fact that this could have negative effects on the functioning of the financial markets. The repo rate is expected to remain at a low level until the beginning of 2011. If economic activity deteriorates more than expected in the future, the Riksbank has the possibility to resort to other measures.

Positive but low growth in 2010

As the functioning of the global financial system begins to improve demand from abroad and in Sweden will increase. The low repo rate and the fiscal policy measures taken will also contribute to the recovery. At the same time, the weaker krona stimulates the economy. GDP growth is expected to be positive but low in



2010. The labour market will lag behind and employment will not begin to rise until in 2011.

Inflation kept up

Inflation measured in terms of the consumer price index, CPI, will fall very rapidly in 2009. This is largely due to the Riksbank's rapid interest rate cuts at the end of 2008 and the beginning of 2009. If the effects of changes in mortgage rates are excluded, inflation will develop in a more stable manner and be close to the target of 2 per cent for most of the forecast period. Inflation is largely being kept up by low productivity and the weak krona.

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	3.4	-0.3 (-0.5)	1.3 (1.6)	3.2 (3.2)
GDP	-0.2 (0.7)	-4.5 (-1.6)	1.3 (1.7)	3.1 (3.2)

Note. The assessment in the most recent Monetary Policy Report in February 2009 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
CPI	0.2 (-0.1)	1.1 (1.4)	2.6 (2.9)	4.1 (3.3)

Note. The assessment in the most recent Monetary Policy Report in February 2009 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
Repo rate	3.6	1.5	0.6 (0.9)	0.5 (0.8)	0.8 (1.6)	3.0 (3.2)

Note. The assessment in the Monetary Policy Report in February 2009 is shown in brackets.

Source: The Riksbank

Lars E.O. Svensson entered a reservation against the decision and advocated a cut in the repo rate to 0.25 per cent and an interest rate path where the repo rate is kept at this low level for a longer period of time, some quarters into 2011. Such a repo rate path would entail better balanced monetary policy with higher resource utilisation and lower unemployment, without inflation deviating too far from the target.

The minutes from the Executive Board's monetary policy discussion will be published on 5 May. The decision on the repo rate will apply with effect from



■ Wednesday, 22 April. The deposit rate is at the same time cut to 0 per cent and the lending rate to 1.0 per cent. 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/.