



# PRESS RELEASE

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CONTACT Press office, tel. +46-(0)8-787 0200

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 0.25 per cent

*The weak development of the economy requires a somewhat more expansionary monetary policy. The Executive Board of the Riksbank has therefore decided to cut the repo rate by 0.25 of a percentage point to 0.25 per cent. The repo rate is expected to remain at this low level over the coming year. At the same time there are several signs that economic activity will improve.*

### **Deep economic downturn**

Economic activity abroad is very weak and this hits Sweden hard. Exports have fallen substantially and the situation on the labour market is continuing to deteriorate rapidly. The information received in recent months points to the economic downturn in 2009 being somewhat deeper than the Riksbank forecast in April.

### **Low repo rate over a long period of time**

A lower repo rate and repo rate path are needed to counteract the fall in production and employment 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 0.25 per cent. The repo rate is expected to remain at this low level until autumn 2010. The Riksbank's assessment is that cutting the rate to 0.25 per cent will not threaten the functioning of the financial markets.

The Riksbank's assessment is that after cutting the repo rate to 0.25 per cent it will have reached its lower limit in practice, and that the situation on the financial markets is still not completely normal. Supplementary measures are necessary to ensure that monetary policy has the intended effect. The Executive Board of the Riksbank has therefore decided to offer loans totalling SEK 100 billion to the banks at a fixed interest rate and with a maturity of 12 months. This should contribute to lower interest rates on loans to companies and households.

### **Stable underlying inflation**

Despite the expansionary monetary policy, production and employment will be lower than normal over the next few years. Inflation will be kept up by weak productivity and a weak krona. However, there will be large fluctuations in CPI inflation during the coming period. This is primarily due to the fact that changes in the repo rate affect mortgage rates, which are included in the CPI. The CPIF underlying inflation rate (the CPI with a fixed mortgage rate) will on the other hand remain stable close to 2 per cent during the forecast period.



## ■ Signs of a turnaround

In recent months there have been several signs that economic activity will improve. At the same time, the financial markets in Sweden and abroad have begun to function more effectively, which creates the potential for an acceleration in international and domestic demand. The low repo rate and current fiscal policy will also contribute to the recovery. GDP growth is expected to be positive in 2010, but the labour market will lag behind and employment will not begin to rise until 2011.

## Considerable uncertainty

The economic outlook is still uncertain. When the turnaround comes, the upturn may be stronger than in the main scenario. However, it could also be the case that the recovery will take longer than expected. The future direction for monetary policy will therefore depend on how new information on economic developments abroad and in Sweden will affect the prospects for inflation and economic activity in Sweden.

### Forecasts for inflation and GDP

Annual percentage change

	2008	2009	2010	2011
CPI	3.4	-0.2 (-0.3)	1.4 (1.3)	3.2 (3.2)
CPIF	2.7	1.9 (1.9)	1.9 (1.8)	2.0 (2.0)
GDP	-0.2	-5.4 (-4.5)	1.4 (1.3)	3.1 (3.1)

### Inflation forecast, 12-month figures

Annual percentage change

	Sept. 09	Sept. 10	Sept. 11	Sept. 12
CPI	-1.2 (-1.4)	1.5 (1.4)	3.7 (3.7)	3.7
CPIF	1.5 (1.4)	1.7 (1.6)	2.0 (2.1)	2.2

Note. The assessment in the April 2009 Monetary Policy Update is shown in brackets.

Sources: Statistics Sweden and the Riksbank

### Forecast for the repo rate

Per cent, quarterly averages

	Q2 2009	Q3 2009	Q4 2009	Q3 2010	Q3 2011	Q3 2012
Repo rate	0.6	0.3 (0.5)	0.3 (0.5)	0.3 (0.5)	1.8 (1.8)	4.0

Note. The assessment in the April 2009 Monetary Policy Update is shown in brackets.

Source: The Riksbank

Deputy Governor Lars E.O. Svensson entered a reservation against the decision and advocated cutting the repo rate to 0 per cent and a repo rate path in line with the scenario for a lower repo rate in the Monetary Policy Report, so that the repo rate would be kept at this level for one year. He considered that such a repo rate path entails a better balanced monetary policy, with lower unemployment and higher resource utilisation without inflation deviating too far from the target.

Deputy Governor Barbro Wickman-Parak supported the decision to cut the repo rate to 0.25 percentage points, but entered a reservation against the growth forecasts, and thereby the repo rate path these entailed, in the Monetary Policy Report. Ms Wickman-Parak said her stance was due to a more positive view of economic activity both abroad and in Sweden further ahead, which would mean that the repo rate would need to be raised earlier than is forecast in the main scenario of the Monetary Policy Report.



■ The minutes from the Executive Board's monetary policy discussion will be published on 16 July. The decision on the repo rate will apply with effect from Wednesday, 8 July. The deposit rate is at the same time cut to -0.25 per cent and the lending rate to 0.75 per cent. A press conference with Deputy Governor Barbro Wickman-Parak 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/).