



# PRESS RELEASE

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## ■ The Governor of the Riksbank comments on the economic situation

*"It was appropriate to reduce the repo rate to 0.25 per cent and to complement this cut with a decision to offer loans to the banks at a fixed interest rate. There are also good reasons for allowing the repo rate to remain at this low level for a relatively long period," says the Governor of the Riksbank, Stefan Ingves, who would have supported the majority's assessment of the economic situation and the measures taken at the monetary policy meeting in early July if he had participated in the meeting.*

At the monetary policy meeting held on 1 July, the Executive Board of the Riksbank, under the chairmanship of First Deputy Governor Svante Öberg, decided to cut the repo rate to 0.25 per cent. The Executive Board also decided, as a complementary measure, to offer loans to the banks at a fixed interest rate with a maturity of 12 months. Governor Stefan Ingves was unable to attend the monetary policy meeting due to illness and he therefore comments here on his stance and his view of the state of the economy up to the end of June.

### Recovery abroad may take some time

Governor Stefan Ingves underlines the fact that since the monetary policy meeting in April, several signs have emerged that the downturn in economic activity abroad has slowed down. It will take a while, however, before the entire global economy can return to positive growth. This is partly because different countries and markets entered the downward cycle at different times and because some are now recovering more quickly than others.

One positive piece of news is that it now appears that the financial markets are to a certain extent working more effectively than previously. A lot remains to be done, however, with regard to managing loan losses before the all clear can be sounded. It is difficult to predict when this will happen as the ability and determination to restore the situation in the financial sector also varies from country to country.

At the same time as global fiscal and monetary policies are highly expansionary, there is an ample supply of spare capacity in most economies. This indicates that the global economy will recover quickly. On the other hand, the global imbalances must be handled correctly. It is not realistic to expect that global demand will be able to return to its original level or composition in the course of only a few years. New patterns that lead to a better global balance must be established, and such things always take time.



As far as Sweden is concerned, the position of Europe in the economic cycle and how the imbalances are handled in the European countries will be of particular importance. In this context, the problems of the Baltic countries do not perhaps play such an important role in an economic sense, but handling the problems in the Baltic countries effectively will provide an important signal as this will affect the state of the Swedish financial sector.

### **Weak economic activity abroad is affecting Sweden**

The Governor also notes that there has been a further fall in GDP in Sweden since the monetary policy meeting in April. The negative development of GDP in Sweden is mainly a result of weak economic development abroad. It is mainly the companies' investments and exports that have fallen more than previously estimated. The labour market is therefore continuing to deteriorate quickly and household consumption is falling more than expected.

However, a number of positive signs have also emerged – the decline in economic activity is levelling out and a number of indicators point to a slight improvement in certain areas. For example, both the purchasing managers' index for June and the figures for retail turnover in the same month were encouraging. When the global turnaround comes, Swedish investments and exports will increase once again.

### **Appropriate repo rate decision**

Given this background, the Governor supports the analysis presented in the Riksbank's Monetary Policy Report in July. He believes that the decision to cut the repo rate to 0.25 per cent was appropriate and that there are good reasons for allowing the repo rate to remain at this low level for a relatively long period of time. The adopted monetary policy will enable the Riksbank to meet the inflation target in the long term and will also support demand in the economy.

Under normal circumstances, this would probably have been enough to conduct an expansionary monetary policy. However, the situation on the financial markets is still not normal and complementary measures were needed for the Riksbank's repo rate cut to have the desired effects. The decision to offer the banks 12-month loans at a fixed interest rate in order to complement the repo rate cut was therefore an important one. This should ease access to credit in the Swedish economy, which will benefit both monetary policy and financial stability. Stefan Ingves is not concerned that the extra liquidity or the expansionary monetary policy represent any threat to the inflation target at present. Given the current low inflationary pressure it is possible to stimulate demand without inflation and inflation expectations increasing significantly.

Against the background of the highly unusual economic situation at the moment, the Riksbank may also need to take further complementary measures if the situation so requires. Lending at a fixed interest rate is a measure that may be repeated if necessary. However, the Riksbank also needs to be prepared to use other instruments that can contribute to an expansionary monetary policy.

At the same time, it is important that the Riksbank prepares for a change of course when economic activity and monetary policy eventually return to a more normal state.

The next repo rate decision will be made at a monetary policy meeting on 2 September.