



PRESS RELEASE

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■ Repo rate held unchanged at 0.25 per cent

The recovery has begun, but it will take time. To contribute to a stable recovery and attain the inflation target of 2 per cent, the Executive Board of the Riksbank has decided to hold the repo rate unchanged at 0.25 per cent. The forecast for the repo rate also remains unchanged, and the repo rate is expected to remain at this low level until autumn 2010.

The recovery will take time

The situation in the financial markets has continued to improve, while companies and households are more optimistic about the future. The recovery has begun and GDP growth in the world economy looks to be slightly stronger than expected. However, it has a fragile base and future developments are still uncertain. Sweden has been hit hard by the deep recession abroad and the recovery will take time.

Continued low repo rate

The repo rate needs to be low over a long period of time to come to enable a stable development on the economy and to attain the inflation target of 2 per cent. The Executive Board of the Riksbank has therefore decided to hold the repo rate unchanged at 0.25 per cent and the interest rate is expected to remain at this low level until autumn 2010. The forecast for the repo rate is the same as in September.

Although the situation in the financial markets has improved, it is still not normal. Supplementary measures are therefore still necessary to ensure that monetary policy has the intended effect. The Executive Board of the Riksbank has therefore decided to offer further loans totalling SEK 100 billion to the banks at a fixed interest rate and with a maturity of 11 months. This should contribute to continued lower interest rates on loans to companies and households.

Stable underlying inflation

The low interest rate, together with increased demand from abroad, will contribute to stronger GDP growth in Sweden in the future. The labour market lags behind GDP growth and employment is not expected to begin to rise until the beginning of 2011. Wages are therefore expected to increase at a slow rate.



As economic activity recovers, the repo rate will be raised to more normal levels to attain a balanced development of the economy and an inflation rate in line with the target. Changes in the repo rate affect mortgage rates, which are included in the consumer price index (CPI). There will thus be large fluctuations in the CPI in the future. 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.

Considerable uncertainty

There is still considerable uncertainty surrounding future developments. It is possible that the international recovery will be quicker than is expected in the main scenario, as a result of the improved situation in the financial markets. However, it is also possible that the recovery could slow down when the fiscal policy stimulation packages around the world are gradually phased out. Monetary policy will depend, as always, on how economic developments abroad and in Sweden will affect the prospects for inflation and economic activity in Sweden.

Forecasts for inflation, GDP and the repo rate

Annual percentage change, annual average

	2009	2010	2011	2012
CPI	-0.4 (-0.3)	0.9 (1.2)	3.3 (3.3)	3.7
CPIF	1.8 (1.9)	1.3 (1.6)	1.9 (1.9)	2.1
GDP	-4.6 (-4.9)	2.5 (1.9)	3.4 (3.2)	3.7
Repo rate, per cen	0.7 (0.7)	0.3 (0.3)	1.6 (1.6)	3.6

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

Sources: Statistics Sweden and the Riksbank

Forecast for the repo rate

Per cent, quarterly averages

	Q3 2009	Q4 2009	Q4 2010	Q4 2011	Q4 2012
Repo rate	0.25	0.25 (0.25)	0.4 (0.4)	2.4 (2.4)	4.1

Note. The assessment in the September 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 that meant the repo rate would be kept at this level up until the end of the third quarter of 2010. He considered that such a repo rate path entailed a better-balanced monetary policy, with lower unemployment, higher resource utilisation and a CPIF inflation rate closer to the target, without causing any problems for the functioning of the financial markets or for financial stability.

Deputy Governors Lars Nyberg and Barbro Wickman-Parak supported the decision to hold the repo rate unchanged at 0.25 per cent, but entered reservations against the growth forecasts in the Monetary Policy Report and thereby the repo rate path. They motivated their stance by stating, for instance, a more positive view of how developments in the financial markets could affect economic activity abroad and in Sweden. This would mean that the interest rate needed to be raised slightly earlier



■ than is forecast in the Monetary Policy Report. Nor did they consider that the economy needed to be stimulated by further loans to the banks at a fixed interest rate.

First Deputy Governor Svante Öberg also entered a reservation against a further loan at a fixed interest rate, given the improved situation in the financial markets and the proposed maturity of the loan, but he supported the decision to hold the repo rate and the repo rate path unchanged.

The minutes from the Executive Board's monetary policy discussion will be published on 4 November. The decision on the repo rate will apply with effect from 28 October. The deposit rate will at the same time be held unchanged at -0.25 per cent and the lending rate at 0.75 per cent. A press conference with Governor Stefan Ingves and Jesper Hansson, Deputy 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/.