



# PRESS RELEASE

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## ■ Repo rate cut to 1.75 per cent

*The economic outlook abroad has deteriorated and the Swedish economy is slowing down. At the same time, inflationary pressures are low. The Executive Board of the Riksbank has therefore decided to cut the repo rate by 0.25 percentage points to 1.75 per cent and to lower the repo-rate path.*

### **Swedish economy slowing down**

There is still considerable uncertainty regarding the public-finance problems in, above all, the euro area and several euro countries are expected to implement more stringent fiscal tightening than was previously assumed. Growth in the euro area is therefore expected to be low in the period ahead. However, the global economy as a whole is growing at a relatively good rate.

The weak development of the economy in the euro area is also having a dampening effect on the Swedish economy, which is now slowing down following strong development so far this year. There has been a fall in orders to Swedish export companies and exports will be much weaker next year. Households and companies will postpone their consumption and investment as a result of the poorer outlook. Lower demand will also affect the labour market and unemployment will increase somewhat in the year ahead. When concern about the public-finance problems in the euro area declines, the confidence of the Swedish households and companies will gradually recover. The Swedish economy is then expected to grow at a more normal rate.

### **Low inflationary pressures going forward**

CPI inflation is still high. However, underlying inflation is low. The weak demand in Sweden together with the poorer outlook abroad will also help to keep inflationary pressures low in the period ahead.

### **Low repo rate will stabilise inflation around the target**

As inflationary pressures are low and economic development is weak, the Executive Board of the Riksbank has decided to cut the repo rate by 0.25 percentage points to 1.75 per cent and to lower the repo-rate path. The repo rate is expected to remain low next year. Later on, when inflationary pressures increase, the repo rate will need to be raised gradually. Such a repo-rate path will gradually stabilise inflation around 2 per cent and resource utilisation in the economy around a normal level.



## ■ Considerable uncertainty

As always, the forecasts for the economy and monetary policy are based on the information currently available and new information may lead to changes in these forecasts. There is considerable uncertainty concerning economic developments. The public-finance problems in the euro area in particular may become more serious and have more negative effects on the Swedish economy. In this situation, the repo-rate path may need to be lower. On the other hand, it is possible that confidence in the public finances of the euro countries will recover more quickly than expected. This would call for a higher repo-rate path.

### Forecasts for inflation in Sweden, GDP, unemployment and the repo rate

Annual percentage change, annual average

	2010	2011	2012	2013	2014
<b>CPI</b>	1.2 (1.2)	3.0 (3.0)	1.5 (1.9)	2.0 (2.4)	2.7 (2.6)
<b>CPIF</b>	2.0 (2.0)	1.4 (1.5)	1.2 (1.3)	1.7 (1.8)	2.0 (2.0)
<b>GDP</b>	5.6 (5.6)	4.6 (4.2)	1.3 (1.5)	2.3 (2.4)	2.6 (2.5)
<b>Unemployment, 15-74 years, per cent</b>	8.4 (8.4)	7.5 (7.5)	7.5 (7.2)	7.5 (7.0)	6.8 (6.6)
<b>Repo rate, per cent</b>	0.5 (0.5)	1.8 (1.8)	1.7 (2.2)	2.1 (2.7)	2.9 (3.3)

Note: The assessment in the Monetary Policy Report in October 2011 is shown in brackets.

Sources: Statistics Sweden and the Riksbank

### Forecast for the repo rate

Per cent, quarterly averages

	Q3 2011	Q4 2011	Q1 2012	Q4 2012	Q4 2013	Q4 2014
<b>Repo rate</b>	2.0	2.0 (2.0)	1.7 (2.0)	1.7 (2.3)	2.4 (2.9)	3.2 (3.5)

Note: The assessment in the Monetary Policy Report in October 2011 is shown in brackets.

Source: The Riksbank

Deputy Governor Karolina Ekholm and Deputy Governor Lars E.O. Svensson entered a reservation against the decision to lower the repo rate to 1.75 per cent and against the repo-rate path in the Monetary Policy Update.

They preferred instead to lower the repo rate to 1.5 per cent. They also preferred a lower repo-rate path that stays at 1.25 per cent from the second quarter of 2012 through the third quarter of 2013, and then rises to just below 3 per cent by the end of the forecast period. This was justified by their assessment that the Update's forecasts of foreign policy rates and Swedish resource utilisation were both too high. Their repo-rate path then implies CPIF inflation closer to 2 per cent and a faster reduction of unemployment towards a longer-run sustainable rate.

The minutes of the Executive Board's monetary policy discussion will be published on 3 January 2012. The decision on the repo rate will apply with effect from 21 December. A press conference with Governor Stefan Ingves and Marianne Nessén, acting Head of the Monetary Policy Department, will be held today at 11 a.m. in the Riksbank. Press cards must be shown. The press conference will be broadcast live on the Riksbank's website.