Svante Öberg: The current economic situation

Speech by Mr Svante Öberg, First Deputy Governor of the Sveriges Riksbank, at a meeting, Jönköping, 5 March 2009.

The original speech, which contains graphs, can be found on the Sveriges Riksbank's website.

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The minutes of the monetary policy meeting published just over one week ago show how we Executive Board members reasoned when we decided to cut the repo rate to 1 per cent at our monetary policy meeting on 10 February. Today I intend to give my views on economic activity and monetary policy. My speech can be summed up in the following four points:

- The financial turmoil worsened in the autumn and has developed into a global financial crisis
- International developments will be weak this year and there is a considerable risk that economic activity will also be weak next year.
- GDP growth in Sweden will be negative this year and inflation will fall.
- The Riksbank has cut the repo rate to 1 per cent and may need to cut it further

I have structured my presentation in line with these four points. I shall begin with an account of developments in the financial markets. Then I shall describe international economic developments and what we see before us during the coming years. I shall then go on to discuss the Swedish economy. I shall conclude with some views on current monetary policy. I shall now begin with developments in the financial markets.

The financial turmoil worsened in the autumn and has developed into a global financial crisis

The financial turmoil worsened in September 2008. It has now turned into a global financial crisis. Developments during the financial crisis can be illustrated in several different ways, for instance, through TED spreads. These show the difference between the interest rate the banks pay on loans between one another on the interbank market and the interest rate on risk-free government securities. It is thus a measure of how the banks price credit risk. At the beginning of 2007 and also prior to this, the spread was often between 10 and 20 basis points in Sweden, the United States and the euro area.

In August 2007 the TED spreads increased substantially. The large French bank BNP Paribas stopped withdrawals from three of its investment funds, which were exposed to the US subprime market, that is, mortgage loans aimed at households with a poor ability to pay. The reason for this was that it was impossible to calculate what the assets in the funds were worth, as trade in them had largely ceased. At the same time, several other large market participants warned of losses linked to the US mortgage market. The banks began to be unwilling to lend money to one another and interest rates in the interbank market rose substantially. The US central bank, the Federal Reserve (the Fed), and the European Central Bank (ECB) took action in this situation by lending large volumes of money to the banks when they could not borrow from one another.

The degree of financial unease then varied during the course of a whole year. The TED spreads peaked when the banks wanted to secure their liquidity ahead of the turn of the year 2007-2008. A further peak was reached in March 2008 when US investment bank Bear Sterns suffered acute liquidity problems and suspended payments, but things calmed down again after the Fed mediated the takeover of the bank by JP Morgan.

In mid-September 2008, when the US investment bank Lehman Brothers filed for bankruptcy, the financial turmoil became an acute financial crisis. The TED spreads were driven up to very high levels. Many banks, institutions and funds were highly exposed to Lehman Brothers. Few had expected such an important financial agent to be allowed to fall. There was a great deal of concern that more players would end up in a similar situation. The remaining large investment banks as such quickly disappeared.

The financial crisis also spread to other countries and developed into a global financial crisis. Access to credit declined on the financial markets around the world and some markets more or less ceased functioning. No one dared to lend money to anyone else because of fears that the other party could go bankrupt and the money that had been lent would disappear.

What triggered the financial turmoil almost two years ago was problems in the US housing market. After several years of rising rapidly, house prices began to fall in autumn 2006. At the same time economic activity in the United States began to slow down. An increasing number of borrowers experienced difficulties in paying their interest and instalments. This applied in particular to borrowers with subprime loans. Mortgage institutions had often packaged subprime loans together with other loans in what were known as structured products, which had been sold mainly to investors in the United States and Europe. When credit losses increased it was difficult to determine who owned the high-risk assets and how large these risks were.

But the underlying causes of the current crisis are more than just subprime loans and the new financial products. One important cause is the imbalances in the global financial system that have developed over a long period of time. Savings have been too small in the United States and too large in China and the oil-producing countries. The United States has had large deficits in its current account while other countries have had large surpluses. At the same time, monetary policy has been very expansionary in the United States, with low interest rates. Other countries such as China have pegged their currencies to the dollar, which meant that monetary policy in the world as a whole became very expansionary. This supported strong growth in the world during the years 2002-2006 and gradually led to an increase in oil and other commodity prices.

There are also several causes that have interacted and led to the financial crisis. The credit rating agencies have given the new financial products too high ratings because of they have not taken sufficient account of the risk that it would not be possible to sell these products in the market. The supervision of the financial markets has not given sufficient consideration to the problems that can arise from a house price bubble. The regulations in the financial markets are procyclical, that is, they tend to reinforce fluctuations in economic activity. The remuneration structure in the private sector has moreover encouraged short-term thinking and substantial risk-taking.

Massive measures have helped avoid a financial meltdown

Massive measures by governments, central banks and other authorities around the world have meant that a financial meltdown could be avoided. The central banks have contributed large liquidity injections, that is, lent money to the banks against collateral. Several central banks have also provided emergency liquidity assistance to individual institutions. The Fed, the ECB and other central banks have moreover lent money through swap agreements to other central banks to alleviate the crisis in other countries. The central banks have also cut policy rates rapidly and forcefully, sometimes in coordinated actions, to alleviate the repercussions of the financial crisis on production and employment. Governments have offered guarantees and capital injections to reduce the risk of further bankruptcies in the banking sector. Several countries have also decided on large fiscal policy stimulation packages.

The measures taken by central banks and governments around the world so far have contributed to reducing the pressure on the interbank markets. Without these measures the financial markets would probably have ceased functioning entirely. One sign that the crisis is no longer as acute is that the TED spreads have fallen in Sweden, as well as the United States and the euro area. The spreads are now back at around the same levels that prevailed immediately prior to the worsening of the crisis in 2008. But the financial markets are still functioning much less efficiently than normal. It is also still difficult for companies to finance themselves in the capital market.

The Riksbank has also implemented a large number of unconventional measures to safeguard financial stability and mitigate the negative effects of the financial crisis. During the second half of 2008 the Riksbank increased its lending to the banks by more than SEK 450 billion. Almost SEK 200 billion of this was comprised of loans in US dollars. We have largely financed this through a swap agreement with the Fed. Our own foreign exchange reserve was not sufficiently large to manage such extensive lending in dollars. The increased lending has meant that the Riksbank's balance sheet grew during the second half of 2008 from around SEK 200 billion to around SEK 700 billion.

We have also changed our collateral requirements so that the banks can offer more types of security as collateral and thus more easily sustain their functions in the market. We have given special liquidity assistance to Kaupthing and Carnegie to safeguard financial stability and ensure the functioning of the financial markets. We have begun offering loans with commercial paper as collateral to facilitate companies' financing. We have also signed swap agreements with Iceland and Latvia to support crisis management in these countries. And we have cut the interest rate.

Since the monetary policy meeting in February we have further extended these unconventional measures. We have decided on loans with longer maturities, with variable interest rates and with smaller supplements and we have signed a swap agreement with Estonia.

The Swedish National Debt Office and Finansinspektionen (the Swedish financial supervisory authority) have also taken action to alleviate the financial crisis. The Government has raised the state deposit guarantee and extended it to cover all types of deposits in accounts, it has introduced a guarantee programme, established a guarantee fund and decided on means of capital injections to the banks. At the same time, the Government is conducting a more expansionary fiscal policy than before.

I now intend to move on to describe international developments.

International developments will be weak this year

The world economy was in a slowdown phase even before September 2008. Since then the deterioration in the world economy has been rapid. All of the large, developed economies are now in recession. During the fourth quarter of last year GDP growth in the United States and the euro area fell by around 6 per cent calculated on an annual rate. In Japan the fall was even greater, more than 12 per cent calculated on an annual rate.

In the wake of the weak development households and companies have become more pessimistic about the future. Confidence indicators have been in free fall and are now at all-time lows in many countries. For example, the purchasing managers index has never before been so low. Share prices have largely halved since the top levels in 2007. The great uncertainty is also reflected in the large fluctuations in stock market rates.

For the world as a whole we are now expecting more or less zero growth this year. Growth and developing economies appeared for a long time to be coping relatively well. But they have now also been affected by the crisis. In China, growth slowed down significantly during the final quarter of last year. The oil-producing countries in the Middle East and Russia have also experienced a sharp slowdown in economic activity. A few years ago GDP growth in the growth and developing economies was on average around 7 per cent a year. Now the IMF is assuming that it will only amount to just over 3 per cent.[1]

The speed of the global economic downturn is unparalleled in modern times and has come as a surprise to the Riksbank and many other forecasters. At the beginning of September we were expecting world growth to amount to almost 4 per cent in 2009. In the Monetary Policy Report we published in February we are instead forecasting almost zero growth this year. Developments in the world economy are thus expected to be the weakest since the beginning of the 1980s.

Inflation has fallen significantly in recent months. It rose rapidly in 2007 and up to summer 2008, primarily as a result of rising energy and commodity prices. Since then the price of oil has more than halved. This has led to a rapid changeover from high to low inflation. In July inflation in the OECD countries was close to 5 per cent. In January it had fallen to zero per cent in the United States and to around 1 per cent in the euro area. Over the coming six months we will probably see very low or negative inflation in some industrial nations.

Inflation excluding energy and food prices has been more stable in recent years. In the United States, core inflation has fallen slightly, but only from 2.5 per cent during the first half of 2008 to 1.7 per cent in January 2009. In the euro area, core inflation is just below 2 per cent.

We forecast that growth will pick up again in 2010

The forecast published in our February Report assumes that growth in the United States and Europe as well as the world economy will slowly pick up in 2010. There are three main factors pointing to an upturn:

- The first is the force with which central banks and governments have acted during the crisis to stabilise the financial markets. This has meant that one can see some signs that the financial markets are gradually beginning to function again.
- The second is the expansionary monetary and fiscal policy. The policy rates are very low in all of the large countries and fiscal policy has become more expansionary, particularly in the United States, but also in Europe and many other countries.
- The third factor is that inflation will be very low, which strengthens real incomes.

But there is a considerable risk that 2010 will also be a year of weak growth

But there is a considerable risk that 2010 will also be a year of weak growth in the world economy. The main factor in favour of more negative developments is that the financial crisis is so potent and on a global scale. Our forecasting methods do not stretch as far in such a widespread financial crisis as the current one. Our extensive econometric models do not have any inbuilt sophisticated financial sector and are therefore unable to capture the mechanisms in a financial crisis. Our more partial models and assessments have some forecasting ability up to one year, but the uncertainty is considerable, even one year ahead. This is indicated in particular by the revisions to the forecasts for this year.

It is thus necessary to take into account experiences of earlier financial crises. Harvard professor Kenneth Rogoff, who is also one of the advisers to the Executive Board of the

[1] The IMF's most recent forecast update from the end of January 2009, see http://www.imf.org/external/pubs/ft/weo/2009/update/01.

Riksbank, has together with his colleague professor Carmen Reinhart studied the effects of various financial crises. They consider the Swedish bank crisis of the 1990s to be one of the five most serious financial crises, “the big five”.[2] One of their studies shows that the financial crises that have occurred in industrial nations in recent decades have been followed by long periods of weak growth.[3] Seen as an average of the 18 crises reported, this concerns a period of three years of low growth and for the "big five" an average of three years of negative growth.

In their most recent study of financial crises, which was presented in January, professors Reinhart and Rogoff have also chosen to include growth economies.[4] They find three common elements with regard to the consequences of the financial crises:

- Firstly, house and share prices fall substantially and over a long period of time. For house prices the average fall in real terms is 35 per cent over a six-period and for shares it is 55 per cent over three and a half years.
- Secondly, financial crises are associated with large declines in production and employment. On average, GDP per capita falls by 9 per cent over two years and unemployment rises by an average of 7 percentage points over four years.
- Thirdly, national debt almost doubles, but not primarily as a result of the costs of recapitalising the financial system. Instead, the main causes are reduced tax income and costs for fiscal policy stimulation.

Experiences from earlier financial crises thus show that they are usually followed by a prolonged period of low growth and falling employment, falling asset prices and a substantial deterioration in public finances. This time the crisis is a global one, while most of the earlier crises have been of a national or regional nature. In my opinion, this indicated at the most recent monetary policy meeting that there is a risk that the economic downturn will be more prolonged than in the main scenario and that 2010 will also be a year of weak growth in the world economy.

An important condition for growth in the world to pick up again is that the situation in the world’s largest economy, the United States, stabilises and in particular that the US housing market shows an upturn. Real house prices in the United States have remained largely stable from the 1950s until the mid-1990s. They then rose by approximately 80 per cent and are now falling rapidly. As long as they continue to fall, household wealth will fall and the banks’ losses will rise.

I shall now move on to part three of my speech, which concerns the Swedish economy.

GDP growth in Sweden will be negative this year

Sweden is a small, open economy. We are therefore affected when growth abroad declines. It has a rapid impact on Swedish exports. The decline in the export of goods during the fourth quarter of 2008 is the largest measured in an individual quarter. Orders in the export market have also fallen substantially and point to a continued fall in exports in coming months.

Manufacturing companies are very gloomy with regard to future prospects. Both the National Institute of Economic Research’s confidence indicator for the manufacturing sector and the purchasing managers index are at all-time lows.

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[2] The other four are Spain 1977, Norway 1987, Finland 1991 and Japan 1992.

[3] Carmen M. Reinhart, and Kenneth S. Rogoff, “Is the 2007 U.S. Subprime Crisis So Different? An International Historical Comparison”. American Economic Review Vol. 98 No. 2: 339-344. (2008).

[4] Carmen M. Reinhart, and Kenneth S. Rogoff. “The Aftermath of Financial Crises.” Essay prepared for presentation at the American Economic Association in San Francisco, 3 January 2009.

Several companies state in the Riksbank's company survey, which was carried out in December and January, that they have not experienced such a sudden slowdown in the economy as during the final months of 2008. The companies also say that they have found it increasingly difficult to finance their operations. But no clear credit crunch is yet visible in the official financial market statistics. Lending to companies increased by 0.3 per cent in January compared with the previous month and by 10.6 per cent compared with the same month last year.

Our most recent forecast is that GDP will fall by 1.4 per cent this year. Towards the end of the year GDP is expected to begin to rise again. But as with international economic activity, there is a substantial risk that Swedish developments will also be poorer than in our main scenario.

The GDP forecast for this year has been revised down substantially since last autumn. In September 2008 the Riksbank forecast growth this year of 0.9 per cent. It is very rare that forecasts are changed so much in such a short time. The revision is way outside the 95 per cent confidence interval that usually applies to our forecasts. It is also the reason why monetary policy has changed so radically since last autumn.

The weakened economic activity is now also having an increasingly clear effect on the labour market. Employment has begun to fall and unemployment has begun to increase. Labour market indicators such as redundancy notices and the number of job vacancies are pointing to a continued rapid decline in the labour market. In the February Report our forecast is for employment to decline by almost 200,000 persons at the end of 2010, from the top level in 2008, and for unemployment to rise to around 9 per cent in 2010.

However, our most recent forecast is that the current economic downturn will not be as severe as that during the crisis in the 1990s. On the other hand, we are assuming that it will be more severe than the most recent economic downturn in connection with the dotcom crash in 2000. This is indicated by the various measures of resource utilisation we regularly produce.

Since the monetary policy meeting in February Statistics Sweden has published the National Accounts for the fourth quarter of 2008. GDP fell by just over 9 per cent calculated as an annual rate during the fourth quarter of 2008. This is the weakest rate of change measured during the period for which statistical comparisons are available, that is, since 1980. Our forecast in the February Monetary Policy Report assumed that GDP would fall by almost 4 per cent calculated as an annual rate during the fourth quarter.

Inflation will fall rapidly

In 2008 CPI inflation rose up to September. It then peaked at 4.4 per cent. Since then inflation has fallen rapidly. In January 2009 it amounted to 1.3 per cent. This was around a tenth more than we estimated at the most recent monetary policy meeting. A large part of the decline is due to the fall in mortgage rates and energy prices. Underlying inflation measured as the CPIF, which excludes changes in mortgage rates, amounted to 2.1 per cent in January. This underlying inflation has also fallen in recent months, but not as much as CPI inflation. If one also excludes energy prices, underlying inflation amounted to 2.4 per cent in January. Food prices increased by around 5 per cent in January and are still holding up inflation.

We see ahead of us that CPI inflation will continue to fall over the coming six months and that it will become negative for a large part of the year. But the heavy fall is mainly due to our cutting the repo rate, which means that mortgage rates fall. In addition, energy prices will be lower than one year ago, which will also push down inflation. At the beginning of 2010 the rate of increase of the CPI will quickly rise again and be over 3 per cent at the end of 2011. I shall return to this a little later.

Underlying inflation measured as the CPIF excluding energy is calculated to be close to 2 per cent during the forecast period. It is kept up at the beginning of the period by the fact that unit labour costs, that is, the labour cost per unit produced, has increased relatively quickly in recent years as a result of weak development in productivity. The National Accounts for 2008 point to weaker productivity and a larger increase in unit labour costs than we were expecting at our monetary policy meeting.

Moreover, the krona has weakened substantially since the autumn, which is expected to lead to higher imported inflation. You now have to pay more than 9 kronor for a US dollar and more than 11 kronor for a euro. Compared with a basket of currencies belonging to our most important trade partners, what is usually known as the TCW index, the krona has fallen by more than 20 per cent since September. The krona has continued to weaken since the monetary policy meeting.

What the weaker GDP growth in the fourth quarter of 2008, the increased unit labour costs, the weaker krona and other new information means altogether for our assessment of the Swedish economy is something we Executive Board members will have to consider at our next monetary policy meeting on 20 April.

I shall now move on to the fourth part of my speech, about current monetary policy in Sweden.

The Riksbank has cut the repo rate to 1 per cent and may need to cut it further

At the most recent monetary policy meeting on 10 February the Riksbank cut the repo rate to 1 per cent. We Executive Board members were unanimous on this decision. Inflation does not at present entail any restriction on cutting the repo rate. At the same time, developments in the real economy are so weak that they motivate an even more expansionary monetary policy. In total, the repo rate has been cut by 3.75 percentage points since the autumn.

At the same time, the repo rate forecasts were lowered. Personally, I consider it reasonable to have a repo rate path that indicates we will continue to have a low repo rate over a long period of time. The repo rate may need to be cut further if economic developments are weaker than we were expecting at the monetary policy meeting. However, it is also important to be aware that interest rates will not remain this low in the long term.

In this context I would like to comment on some aspects of monetary policy: the monetary policy target, inflation expectations and the weak krona.

The monetary policy target

The target of monetary policy is expressed as being that CPI inflation should be 2 per cent. But with the repo rate decision and the repo rate path we now have as a condition for our forecasts, CPI inflation will not be close to 2 per cent towards the end of the forecast period; it will instead be a good 3 per cent. This could be considered a breach of the monetary policy strategy we have formulated. In this we write that monetary policy should normally be aimed at attaining the inflation target within two years. But the current situation is not normal.

In the present situation it is more reasonable to aim for CPIF inflation being close to 2 per cent towards the end of the forecast period. And it will be, according to our forecasts. CPI inflation varies substantially over time, partly as a result of our own repo rate decisions. The substantial fall in inflation this year is primarily due to our own repo rate cuts and falling energy prices. Inflation measured in terms of the CPIF, on the other hand, is more stable and provides a better picture of the underlying inflation trend. During the period 1995-2008, in which we have hade an inflation target, inflation measured as the CPIF has on average been close to 2 per cent and rarely outside of the tolerance interval of 1-3 per cent. The target for monetary policy is still that CPI inflation should be 2 per cent, but we must accept that it fluctuates around 2 per cent as a result of repo rate changes.

At the most recent monetary policy meeting my colleague Lars E.O. Svensson took up the question of temporarily replacing the inflation target with a price level target. Lars has put forward this idea earlier in his research into monetary policy with a zero interest rate and experiences from Japan's deflation problems in the 1990s. If the central bank has cut the nominal policy rate to zero, one may find oneself in a situation where the real interest rate is too high to be able to stimulate the economy. The central bank must then bring up inflation expectations and thereby bring down the real interest rate. According to Lars, one means of creating expectations of higher inflation and escaping from this liquidity trap could be to introduce a temporary price level target, for instance in the form of an average inflation target where inflation must remain around the target over a five-year period. The central bank would then have the possibility to compensate for low inflation or deflation through a correspondingly higher inflation rate further ahead. The idea is that if the target is credible, inflation expectations will rise and the real interest rate will fall.

My opinion is that we should not change the inflation target. We have invested so much in the credibility of the current inflation target and it has functioned very well. Inflation has on average been close to 2 per cent during the 14 years we have had an inflation target, and in the longer term inflation expectations are firmly anchored close to 2 per cent. Nor does Lars suggest that we should change the inflation target. He discusses a hypothetical situation where the policy rate is zero and inflation expectations are no longer firmly anchored around the inflation target, but are much lower. However, even if we were to find ourselves in such a situation we should not change the inflation target. It takes a long time to build up confidence in an inflation target, and to temporarily replace the inflation target with a price level target would damage credibility.

Inflation expectations

The question of the importance of inflation expectations has risen once again in that there has been greater discussion of deflation, particularly in the United States, where the policy rate is close to zero. In February, the Fed for the first time published its long-term forecasts for growth, unemployment and inflation. The forecasts show that the Fed is aiming to keep inflation between 1.7 and 2.0 per cent a year in the long term. According to the Chairman of the Federal Reserve, Ben Bernanke, this inflation forecast in actual fact represents an inflation target. The increased clarity over the Fed’s aims is intended to help stabilise inflation expectations.

It is important for monetary policy that inflation expectations in the longer term are anchored firmly around the inflation target. Previously, when inflation was higher than 2 per cent it was important that expectations did not rise too far above two per cent. Now that inflation is lower than 2 per cent and the forecasts point towards CPI inflation being negative later this year, it is important that they do not fall too far below 2 per cent and in particular that there are no expectations of deflation.

One should not attach too much importance to surveys of inflation expectations. They have their limitations. But they are nevertheless interesting as a part of the base for monetary policy. I believe that the following conclusions can be drawn from Prospera’s most recent survey, published in January:

- Firstly, inflation expectations five years ahead have fallen from 2.6 per cent in October to 2.3 per cent in January. This is good as they were a little too high in October.
- Secondly, inflation expectations in the longer term have not been pushed up by our rapid and large repo rate cuts. As I said, they have instead declined.
- Thirdly, there are no widespread expectations of deflation in the longer term. Inflation expectations five years ahead are close to 2 per cent. The normal correlation between actual inflation and inflation expectations five years ahead also

indicates that inflation expectations will remain close to 2 per cent even if the CPI falls in 2009 in line with our forecast.

- Fourthly, inflation expectations two years ahead have fallen from 2.8 per cent in October to 1.5 per cent in January. This is slightly more worrying. It is a larger fall than the normal correlation between actual inflation and inflation expectations two years ahead would indicate. The fact that they are far below 2 per cent also indicates that the interest rate should remain low for a longer period of time.

On the other hand, inflation expectations one year ahead are not as interesting in this perspective. They do not say very much about the credibility of monetary policy, as inflation in the short term can deviate quite substantially from 2 per cent, even if monetary policy is well-balanced.

The weak krona

The financial crisis has also given rise to large fluctuations in the international foreign exchange markets. Investors have turned to large currencies, which are perceived as more liquid and secure. In this situation the krona has experienced the largest weakening since it was allowed to float in November 1992. The Riksbank does not have any target for the krona, but our assessment is that the weakening is temporary and primarily a result of the financial crisis. We are expecting the krona to strengthen again as the crisis wanes, partly because Sweden has for a long period of time had a stable surplus in its foreign trade.

But there is a risk that the weakening will be more prolonged. This would lead to exports strengthening and imports slowing down, but at the same time provide an inflationary impulse. In the current situation this may be an advantage in the short term, as economic activity is now weak and inflation is low. But in the longer term a currency that fluctuates substantially can be a problem. It increases uncertainty.

At the monetary policy meeting Lars E.O. Svensson also took up the possibility, as a last resort and in a hypothetical situation with a zero interest rate and very low inflation expectations, of introducing a temporary exchange rate target to bring up inflation expectations. This method would involve first introducing a price level target and then depreciating the currency to attain this price level target. It would in theory make inflation expectations rise and inflation accelerate. The real interest rate would therefore be lower, which would stimulate production and employment.

My own opinion is that the Riksbank should not even temporarily hold the krona exchange rate at an artificially low level. When the repo rate is cut, this normally means that the krona weakens. But the current weakening of the krona began back in August last year before the repo rate cuts were made and ought mainly to be due to the financial crisis. There are primarily three reasons against temporary interventions to keep the krona at a low level. The first is that there is no reason to do this, as underlying inflation and inflation expectations are close to 2 per cent. The second reason is that the current problem is that this is a global crisis and all countries cannot depreciate their currencies at the same time to stimulate production and push up inflation. The third is that our experiences of trying to solve problems by depreciating the currency are not positive.

However, there may be reason to further develop the type of unconventional measures I talked about earlier and to do this at the rate motivated by the problems.

Concluding remarks

Let me now summarise my view of the current economic situation.

The financial turmoil worsened in the autumn and has since then developed into a global financial crisis. As a result of the developments in the financial markets, international developments will be weak this year. There is also a considerable risk that economic activity will also remain weak next year. GDP growth in Sweden will be negative this year and inflation will fall. The Riksbank has therefore cut the repo rate to 1 per cent and may need to cut it further.

At the Riksbank we have now begun work on producing new forecasts for the coming years. On 20 April, my colleagues and I will take a new monetary policy decision. We will then once more take a stance on economic developments and on how the interest rate should be set to attain our inflation rate of 2 per cent in the long term.

Thank you!