

Swedish krona dives after bank warning

Written by Johan Nylander

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The Swedish krona dived Tuesday after Swedish bank SEB said that the Riksbank is likely to lower the country's repo rate to 1 percent next month and further to 0.75 percent in February in an move to combat unemployment.

"Because of low resource utilisation and inflation prospects, the Riksbank will lower its key interest rate in December and February to 0.75 per cent.

The effect on economic growth will be modest, but pressure on the krona will ease since the differences in monetary policy compared to other countries will be less prominent", SEB said.

"Inflation pressure in the Swedish economy remains low and the Consumer Price Index will stay below zero during the first half of 2013. The krona will appreciate by 3 per cent during 2013 to SEK 8.30 per euro, but weaken somewhat against the US dollar a bit further ahead.

The same day, the outlook for Sweden's four biggest banks -- Nordea, Handelsbanken, SEB and Swedbank -- were downgraded to negative from stable by Standard & Poor's due to rising economic risks as part of a wider action on the financial sector.

Unemployment is a growing headache for Swedish policy makers. Youth unemployment has remained above the European average, reaching a seasonally adjusted 23 percent in October, compared to 7.7 percent for the population as a whole, according to Statistics Sweden.

The currency decreased 0.6 percent to 6.7666 per dollar Tuesday.

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