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Sweden, Turkey, Hungary Cut Interest Rates

By CHARLES DUXBURY And PAUL HANNON

The central banks of Sweden, Turkey and Hungary each cut their key interest rate Tuesday, partly in an effort to counter the impact of the euro-zone crisis on their slowing economies and as inflationary pressures ease.

Each country has close financial and trade ties with the currency area. They have to varying degrees been hurt by reduced demand for their exports from the 17 nations that use the euro. Confidence among households and businesses in each of the three countries has also been weakened by the crisis, which at times has threatened to tear the currency area apart.

The euro-zone economy has contracted for two straight quarters, and most economists expect a further decline in output during the final three months of this year, with little sign of a significant revival in 2013.

While Hungary is grappling with its own financial problems and its economy has contracted for the last three quarters, the previously strong economies of Sweden and Turkey have showed increasing signs of slowing as 2012 has progressed.

Sweden's Riksbank cut its main repurchase, or repo, rate to 1% from 1.25%, and said it expects to keep the rate there for the coming year. Economists had predicted the reduction.

It was the third cut in the rate this year, the most recent having come in September. Hungary's central bank cut its rate for the fifth straight month, to 5.75% from 6.0%. For Turkey's central bank, the cut was the first in over a year, to a record low of 5.50% from 5.75%.

Helped by strong public finances, Sweden's economy has proved resilient to the debt crisis that has gripped much of Europe. But the country relies heavily on its exports to Europe and falling demand there is expected to prompt a contraction in Swedish economic output in the final quarter of this year.

"The weak developments in the euro area are clearly affecting the Swedish economy, which is now slowing down," the central bank said. "Household consumption is weak, unemployment is rising and inflationary pressures are low."

The decision to cut Sweden's interest rate by a quarter of a percentage point wasn't unanimous. One rate setter, Lars Svensson, wanted a bigger cut—to 0.75%. He said a lower rate would help hold down unemployment.

Nordea bank analyst Andreas Jonsson said the Riksbank's statement signaled further monetary easing was in the pipeline.

"Even though the signal is somewhat weaker than the one in October, we stick to our call of another rate cut at the upcoming meeting in February," Mr. Jonsson said.

The central bank now expects Swedish gross domestic product growth of 1.2% in 2013, down from earlier expectations for 1.8%.

Hungary's central bank is also expected to continue to cut its rate. Monetary policy in the country has been the subject of some disagreement between the central bank's senior officials and the government.

As in previous meetings, National Bank of Hungary Governor Andras Simor and his two deputies are likely to have been outvoted by four external members of the Monetary Policy Committee who are appointed by the government.
The central bank went ahead with the expected rate cut despite a weakening in the forint Monday and Tuesday that was driven by the fear that monetary policy will be eased further in coming months.

In a newspaper interview published Saturday, Economy Minister Gyorgy Matolcsy urged strong cooperation between the government and the central bank to help boost economic growth. Mr. Simor's term ends in March.

Turkey's economy was one of the world's fastest-growing in 2010 and 2011, but has slowed sharply this year. Buoyed by a weakened lira, Turkish exports have found increasingly strong markets in the Middle East as an alternative to the euro zone. But the currency area's crisis has hit consumer and business confidence, contributing to a sharp slowdown in household spending and business investment, and regional tensions such as the Syrian conflict are taking a toll on domestic demand.

While the central bank cut its benchmark one-week lending rate for the first time since August 2011, it left the borrowing rate of 5% and overnight lending rate of 9% unchanged.

The Ankara-based lender also increased some reserved requirements to drain $850 million of market liquidity in a sign that even as Governor Erdem Basci took steps to boost economic growth, the central bank won't tolerate excessive bank lending.

The central bank has also been concerned about the lira since Turkey was raised to investment-grade status on Nov. 5 by Fitch Ratings. The bank identified a surge in capital inflows as a threat to the currency and said the country's current account deficit, which stands at 6.6% of gross domestic product, could be widened if the lira appreciates too much.

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