



PRESS RELEASE

DATE 20 October 2005, 8 a.m.
NO. 63
CONTACT Tomas Lundberg, press officer, tel. +46-8-7870215

SVERIGES RIKSBANK
SE-103 37 Stockholm
(Brunkebergstorg 11)

Tel +46 8 787 00 00
Fax +46 8 21 05 31
registratorn@riksbank.se
www.riksbank.se

■ Repo rate held unchanged at 1.5 per cent

At its meeting on 19 October, the Executive Board of the Riksbank decided to hold the repo rate unchanged at 1.5 per cent. This decision was taken in the light of the assessment of inflation described in the Inflation Report. **UND1X inflation is expected to be close to target level a couple of years ahead.**

International GDP growth was strong last year. The assessment made in the June Inflation Report and at the monetary policy meeting in August was that international growth would be good this year and over the coming years, but would decline somewhat. This picture remains largely unchanged. However, the oil price has been higher than expected and the assessment is that it will continue to be higher than was previously assumed. This is expected to increase international price pressures and subdue growth somewhat.

The slowdown in the Swedish economy at the beginning of the year was temporary. Growth in private consumption has started to increase and is expected to strengthen further in the coming years. Public sector consumption is also expected to increase, particularly in 2006. At the same time the investment upturn that began last year will continue, although it will gradually enter a calmer phase.

Compared with the assessment made in June, GDP growth and capacity utilisation are expected to be slightly higher over the coming years. This is largely due to more expansionary economic policy, for instance, the repo rate is now lower than it was in June. The Budget Bill presented in September also indicates that fiscal policy during 2006 in particular will stimulate demand more than the Riksbank assumed in June and August.

There are signs of improvement in the labour market, such as an increase in the number of hours worked during the second quarter of this year. Relatively strong growth in domestic demand in future and the measures recently announced by the Government mean that demand for labour is expected to increase.

Inflation has recently risen somewhat but remains low. The assessment is, as before, that inflation will rise, but at a fairly modest rate. At the beginning of the forecast period the oil price in particular is expected to push up the rate of price increase. After that, rising capacity utilisation in Sweden and abroad, together with a decline in the effects of a number of price-dampening factors, is expected



to lead to inflation rising. These factors include international price pressures and productivity growth. The inflation forecast has been revised upwards slightly, compared with the June figures.

The risks of lower inflation are considered to be offset by the risks of higher inflation. There is still uncertainty regarding international economic activity, which is linked to the oil price, global imbalances and the depressed long-term interest rates. At the same time, the high oil price risks leading to higher inflationary pressures. There is also considerable uncertainty as to how the factors that have recently dampened inflation will develop in future.

The assessment in the Inflation Report is for the first time based on the assumption that the repo rate will develop in line with the financial markets' expectations, as reflected in implied forward rates. It is important to emphasise that this is a technical assumption for calculation purposes. It should not be interpreted as reflecting the interest rate path the Riksbank considers to be most desirable.

The current interest rate path entails the assumption that the repo rate will remain unchanged until around the second quarter of next year, when it will gradually begin to be raised. This is an interest rate path which is at present considered to show a reasonable development for inflation over the coming years. UND1X inflation is low, but is expected to rise gradually and be close to the target level a couple of years ahead. However, there are many alternative paths for the repo rate that would give roughly the same outcome for inflation. As before there is also reason to observe that household borrowing and house prices are continuing to rise rapidly. Given this, the Executive Board decided yesterday to leave the repo rate unchanged at 1.5 per cent.

The future stance of monetary policy will depend as usual on new information regarding economic developments abroad and in Sweden and on the Riksbank's assessment of the inflation outlook.

The decision to leave the repo rate unchanged will apply from Wednesday, 26 October.

The minutes of the Executive Board's monetary policy discussion from yesterday's meeting will be published on 31 October.

Riksbank Governor Lars Heikensten will give an account of monetary policy to the Riksdag Committee on Finance at 9 a.m. and afterwards reply to questions.

A press conference with Deputy Governor Irma Rosenberg, and Per Jansson and Kerstin Hallsten, Deputy Heads of the Monetary Policy Department, will be held at 1 p.m. today at 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/.



■ Inflation forecast taking into account the risk outlook

Annual percentage change

	Annual average			12-month rate	
	2005	2006	2007	06 Sept	07 Sept
CPI	0.5	1.5	2.1	1.5	2.2
UND1X	0.8	1.4	1.6	1.2	1.8

Note. The assessment is based on the repo rate following implied forward rates.

Key figures

Annual percentage change

	2005	2006	2007
GDP at market prices	2.3	3.0	2.5

Note. The assessment is based on the repo rate following implied forward rates.