



PRESS RELEASE

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■ Repo rate held unchanged at 1.5 per cent

At its meeting on Thursday, 1 December, the Executive Board of the Riksbank decided to hold the repo rate unchanged at 1.5 per cent. This decision was reached as UND1X inflation a couple of years ahead was expected to be roughly in line with the Riksbank's inflation target. The forecast is based on the assumption that the repo rate will follow market expectations, which entails an increase in the repo rate, starting at the beginning of next year.

The Riksbank's assessment in the October Inflation Report was that international growth this year and during the coming years would be good but would decrease slightly. The data received since then largely support this assessment. At the same time, international inflation has been slightly higher than expected. Some upward revision has therefore been made to the forecast for global price pressures in 2005 and 2006.

Interest rates abroad have risen since October. There are many indications that this is partly connected to strong economic activity and rising inflation. These developments have also led to an increase in Swedish interest rates. The krona has been weaker than expected. However, the favourable growth prospects in Sweden and the surplus on the current account indicate that the krona will strengthen during the forecast period. In addition the interest rate differential towards other countries is expected to decline.

The data received since October confirm the picture of continued good economic growth in Sweden. The driving forces behind future growth will be expansionary economic policy, good export market growth and large corporate earnings. There are also signs that the situation in the labour market is improving. All in all, this points to an increase in capacity utilisation in future. Some upward revision has been made to the forecast for GDP growth this year and next year, partly because new information indicates that developments have been slightly stronger than expected. At the same time, the weaker exchange rate is expected to provide further stimulation to exports.

Inflation has risen somewhat recently but remains low. The assessment is that inflation will continue to increase, partly as a result of rising capacity utilisation in Sweden and abroad. However, the upturn is expected to be moderate. The forecast for inflation now is largely the same as that in the October Inflation Report. The effects of a weaker exchange rate and slightly higher international



■ inflation are partly counteracted by a lower forecast for oil prices than was made in October.

Growth prospects for the world economy and the Swedish economy are now judged to be slightly less uncertain. However, there is still some uncertainty over economic developments and inflationary pressures linked to the oil price and to global imbalances. Important domestic uncertainty factors are, as before, developments in productivity and increased competition. In addition, there is a risk that the krona, particularly in the short term, will not strengthen as anticipated, despite the fundamental factors still indicating a stronger krona. The Riksbank's assessment is that the risks of higher inflation than in the main scenario are now slightly greater than the risks of lower inflation.

All in all, UND1X inflation is expected to rise gradually and to be roughly in line with the 2 per cent target a couple of years ahead. The forecast is based on the technical assumption that the repo rate will be raised at the beginning of next year in line with market expectations as reflected in implied forward rates. As before, there is also reason to take into account the fact that household borrowing and house prices are continuing to rise at a rapid rate. Given this, the Executive Board's assessment yesterday was that the repo rate could be held unchanged at present at 1.5 per cent. However, this decision was not self-evident.

It is reasonable to assume that the repo rate will need to be increased in future, as the market is currently assuming. However, one cannot rule out the possibility that the repo rate will need to be raised more during the winter and spring than market rates imply. Essential factors in this context are, for instance, the development of the krona and the strength of the real economy and the consequences these factors have for inflation prospects. The future stance of monetary policy will depend as usual on new information received and on the Riksbank's assessment of the inflation outlook.

The decision to leave the repo rate unchanged will apply from Wednesday, 7 December.

The minutes of the Executive Board's monetary policy discussion from yesterday's meeting will be published on 15 December 2005.

A press conference with Governor Lars Heikensten, Deputy Governor Irma Rosenberg and Anders Vredin, Head of the Monetary Policy Department, will be held today at 11 a.m. in 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, <http://www.riksbank.se/>.



Inflation forecast taking into account the risk outlook

Annual percentage change

	Annual average				12-month rate		
	2005	2006	2007	2008	Dec 06	Dec 07	Dec 08
CPI	0.5 (0.5)	1.5 (1.5)	2.2 (2.1)	2.4	2.0 (1.7)	2.4 (2.3)	2.5
UND1X	0.8 (0.8)	1.2 (1.4)	1.7 (1.6)	2.1	1.4 (1.2)	2.0 (1.9)	2.1

Note. The figures in parentheses are the forecasts in the previous Inflation Report. The assessment is based on the repo rate following implied forward rates.

GDP forecast.

Annual percentage change

	2004	2005	2006	2007	2008
GDP	3.7	2.4 (2.3)	3.2 (3.0)	2.5 (2.5)	2.2 (2.2)

Note. The figures in parentheses are the forecasts in the previous Inflation Report. The assessment is based on the repo rate following implied forward rates.