



PRESS RELEASE

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■ Repo rate raised by 0.25 percentage points

At its meeting on 22 February, the Executive Board of the Riksbank decided to raise the repo rate from 1.75 per cent to 2 per cent. This decision was based on the inflation outlook presented in the Inflation Report. UND1X inflation is expected to be close to target level a couple of years ahead, given the assumption that the repo rate is gradually increased.

Recent economic data indicate continuing firm growth both in Sweden and abroad. Although the GDP growth rate unexpectedly slowed down in both the euro area and the United States towards the end of last year, this is considered to be a temporary phenomenon. Other indicators of economic activity imply continuing positive developments over the coming period, in the euro area and the United States as well as in the world economy as a whole.

GDP growth in Sweden amounted to more than 3 per cent during the third quarter of 2005, compared with the corresponding period in 2004. Most indications are that the economy continued to expand at a rapid rate also at the end of 2005. Over the coming years, household consumption is expected to grow at a slightly more rapid rate than was forecast in the December Inflation Report, as the labour market situation is expected to improve and income to increase. Corporate investment is also expected to continue to rise at a relatively rapid rate. International demand for Swedish goods and services is also expected to grow at a stable rate over the coming years.

The high growth rate has coincided with rapid productivity growth. The strong increase in productivity over the past decade appears to have continued last year. Average productivity growth is now expected to be slightly higher over the coming years than was assessed in the December Inflation Report. All in all, there is reason to expect slightly higher average GDP growth in the Swedish economy than was anticipated in the earlier assessment.

The economic growth of the last few years also appears to have led to a gradual upturn in the labour market. Employment rose at a slightly faster rate than anticipated at the end of last year. Other labour market indicators also point to a continued rise in employment. The rate of wage increase rose slightly last year, from a low level, and is expected to continue to rise gently during the forecast



■ period as the demand for labour increases. Capacity utilisation is expected to gradually increase over the coming years, but the continuing high productivity growth will mean that cost pressures rise only moderately.

In January UND1X inflation was 0.9 per cent. CPI inflation was slightly lower, at 0.6 per cent. The outcome for January was lower than the forecast in the December Inflation Report. Prices of imported goods in particular were lower than expected.

Despite the high growth in production and demand, inflation has remained low for a long period of time. This is due to both falling import prices and good domestic productivity growth. Behind these factors is increased competition, both international and domestic. These factors are expected to continue contributing to holding down inflation, although inflation will gradually rise and approach the inflation target a couple of years ahead. The inflation forecast has been revised down slightly in comparison with the December forecast. The low outcome for January has effects on inflation in the short term, but the main factor holding back inflation in the longer term is productivity growth.

All in all, UND1X inflation is expected to rise gradually and to be close to the 2 per cent target a couple of years from now. This forecast is based on, for instance, the assumption of strong growth in Sweden and abroad and of gradual increases in the repo rate. As before, there is also reason to observe that household indebtedness and house prices are continuing to rise rapidly. Given this, the Executive Board decided to raise the repo rate by 0.25 percentage points at yesterday's meeting. Even after this increase, interest rates are relatively low from a historical perspective.

The forecasts described in the Inflation Report indicate low inflationary pressure and that it might be possible to increase the repo rate at a slightly slower rate in future, compared with the interest rate path on which the forecasts are based. Market expectations of future interest rate increases have also been adjusted downwards somewhat over the past few days, which thus appears reasonable. The future stance of monetary policy will as usual depend on new information received and on the Riksbank's assessment of the inflation outlook.

The decision to raise the repo rate will apply from Wednesday, 1 March.

The minutes of the Executive Board's monetary policy discussion from yesterday's meeting will be published on 8 March 2006.

Riksbank Governor Stefan Ingves 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 Anders Vredin, Head of the Monetary Policy Department, will be held today at 1 p.m. in the Riksbank. Press cards must be shown. The press conference will be broadcast live on the Riksbank's website, www.riksbank.se.



■ Table 1. Risk-adjusted inflation forecasts.

Annual percentage change

	Annual average				12-month rate		
	2005	2006	2007	2008	Mar 07	Mar 08	Mar 09
CPI	0.5 (0.5)	1.1 (1.5)	2.1 (2.2)	2.2 (2.4)	2.1 (2.1)	2.3 (2.4)	2.3
UND1X	0.8 (0.8)	0.9 (1.2)	1.5 (1.7)	1.8 (2.1)	1.3 (1.5)	1.8 (2.0)	1.9

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.

Sources: Statistics Sweden and the Riksbank.

Table 2. GDP forecast.

Annual percentage change

	2004	2005	2006	2007	2008
GDP	3.7	2.7 (2.4)	3.5 (3.2)	2.8 (2.5)	2.4 (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.

Sources: Statistics Sweden and the Riksbank.