



PRESS RELEASE

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■ Repo rate raised by 0.25 percentage points

At its meeting on 19 June, the Executive Board of the Riksbank decided to raise the repo rate from 2 per cent to 2.25 per cent. This decision was based on the economic outlook and inflation forecasts presented in the Inflation Report. Economic activity is expected to remain good. UND1X inflation is expected to be in line with the inflation target a couple of years ahead. These forecasts are based on the assumption that the repo rate will be gradually increased.

Inflation has risen over the past year. In May both CPI and UND1X inflation were 1.6 per cent. The higher rate of price increases is largely due to rising energy prices, although the prices of some other goods have also been raised at a faster rate than previously. Inflation will fluctuate around the current level over the coming year and then rise a little more. A couple of years ahead, inflation is expected to be in line with the inflation target of 2 per cent. These forecasts are based on the assumption that monetary policy will gradually become less expansionary.

The rise in inflation is being subdued by the fact that prices of imported goods are only rising marginally. Domestic inflation, on the other hand, is expected to rise relatively quickly in the future, due in part to rising domestic cost levels as economic activity improves.

Economic growth in Sweden and abroad remains strong. Over the next few years, the economic upswing is expected to continue, but at a slower pace. Compared with the assessment in February, growth in the rest of the world is expected to be higher. Swedish growth this year has been revised upwards marginally. There has, however, been some shift between the various components of demand. Exports and investment are expected to increase at a faster rate this year. On the other hand, the forecast for household consumption this year has been revised downwards as a result of unexpectedly weak outcomes both at the end of last year and the beginning of this year. However, several factors, such as rising wealth and employment, indicate a good development in consumption in the future.

The improvement in economic activity has led to continued strengthening of the labour market. Employment is rising and indicators point to a continued rise in



the future. The supply of labour will also increase during the forecast period, which means that unemployment will fall relatively slowly.

To ensure an inflation rate close to target and contribute to a balanced development of the real economy, monetary policy should become gradually less expansionary. Given this, the Executive Board decided to raise the repo rate by 0.25 percentage points at yesterday's meeting. As before, the fact that household indebtedness and house prices are continuing to rise rapidly was also taken into account.

It is reasonable to assume that the repo rate will need to be increased further. It is possible that there will be a need for slightly more rate increases over the coming year than recent market expectations have implied.

The future stance of monetary policy will as usual depend on new information received regarding economic developments in Sweden and abroad, and the effects these developments may have on Swedish inflation prospects.

The minutes of the Executive Board's monetary policy discussion from yesterday's meeting will be published on 3 July. The decision on the repo rate will apply from Wednesday, 21 June.

A press conference with Governor Stefan Ingves, Deputy Governor Irma Rosenberg and Kerstin Hallsten, Deputy 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/>.

Table 1. Risk-adjusted inflation forecasts.

Annual percentage change

| | Annual average | | | | 12-month rate | | |
|-------|----------------|-----------|-----------|-----------|---------------|-----------|-----------|
| | 2005 | 2006 | 2007 | 2008 | June 2007 | June 2008 | June 2009 |
| CPI | 0.5 (0.5) | 1.5 (1.1) | 2.3 (2.1) | 2.4 (2.2) | 2.3 (2.2) | 2.4 (2.2) | 2.3 |
| UND1X | 0.8 (0.8) | 1.3 (0.9) | 1.6 (1.5) | 1.8 (1.8) | 1.5 (1.5) | 1.8 (1.8) | 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

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|-----|-----------|-----------|-----------|-----------|------|
| GDP | 2.7 (2.7) | 3.7 (3.5) | 2.8 (2.8) | 2.4 (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.