



# PRESS RELEASE

DATE 30 August 2006  
NO. 32  
CONTACT Tomas Lundberg, press officer, tel. +46 8 787 02 15

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 raised by 0.25 percentage points

**Inflation is expected to be in line with the target of 2 per cent a couple of years ahead and economic activity is expected to remain good. This assessment assumes that the repo rate will be raised gradually. The Executive Board of the Riksbank therefore decided at its meeting on 29 August to raise the repo rate by 0.25 percentage points.**

The Riksbank's decision is based on the economic indicators and inflation assessments presented in the June Inflation Report and on the new information on economic developments received since then.

Growth in Sweden is expected to be higher this year and also next year in relation to the forecast made in June, despite the fact that expectations of repo rate increases in Sweden have been adjusted upwards. New information points to unexpectedly strong GDP growth so far this year, primarily in Sweden but also to some extent internationally. The fact that household indebtedness and house prices are continuing to rise rapidly supports the picture of strong demand.

Despite the strong GDP growth in Sweden, unit labour costs are expected to be lower this year than was forecast in June. The new national accounts figures show that the number of hours worked increased at an unexpectedly weak rate during the second quarter of the year, which reflects the fact that productivity growth was significantly higher than anticipated. The upturn in productivity is probably largely due to temporary factors. As economic activity continues to improve, the labour market will show stronger development and productivity growth will slow down.

Inflation is expected to be slightly higher than assumed in the previous forecast. The annual rate of increase in CPI and UN1X was 1.7 per cent and 1.4 per cent respectively in July, which was marginally higher than expected. This was mainly due to unexpectedly high energy prices. It is estimated that energy prices will continue to be higher than was forecast in June. This inflationary impulse is to some extent counteracted by lower unit labour costs. During the beginning of 2007 the energy price effects will subside, while rising unit labour costs will



■ contribute increasingly to inflation. A couple of years ahead, inflation is expected to be in line with the target, provided that the Riksbank gradually raises the repo rate.

To ensure that inflation remains close to target and that the real economy develops in a balanced manner, monetary policy should gradually become less expansionary. Given this, the Executive Board decided to raise the repo rate by 0.25 percentage points at yesterday's meeting.

It is reasonable to assume that the repo rate will need to be increased further, roughly in line with market expectations. The future stance of monetary policy will as usual depend on new information 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 12 September. The decision on the repo rate will apply from Wednesday, 6 September.

A press conference with Riksbank Governor Stefan Ingves and Deputy Governor Irma Rosenberg will be held at 11 a.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, <http://www.riksbank.se/>.