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■ Repo rate raised by 0.25 percentage points

At its meeting on 25 October, the Executive Board of the Riksbank decided to raise the repo rate by 0.25 percentage points to 2.75 per cent. Continued good economic activity and rising inflation mean that the repo rate needs to be raised. Inflation is forecast at slightly below target level two years ahead, partly due to temporarily falling energy prices, but is then expected to rise. It is reasonable to assume that the interest rate will need to be increased further, roughly in line with recent market expectations. However, the exact rate at which this should be done will, as usual, depend on economic developments.

The Riksbank's decision is based on the economic outlook and inflation forecasts presented in the Inflation Report.

GDP growth in Sweden and abroad remained high during the first six months of this year and was stronger than anticipated. Growth is also expected to be relatively strong for the remainder of this year and during next year. However, the economy will gradually move into a calmer phase. There have been clear improvements in the Swedish labour market during the year and there are many indications that employment will continue to rise. Domestic cost pressure is expected to increase as productivity growth slackens and wages rise at a faster rate.

The strong economic growth in Sweden is also reflected in the credit and asset markets. During the summer, share prices recovered from the downturn noted in the spring. Companies and households have in recent years increased their borrowing relatively sharply seen from a historical perspective. At the same time, house prices have risen rapidly and household wealth has increased further. To a certain extent, these developments are the result of the expansionary monetary policy.

Inflation has risen gradually since the beginning of 2005. Over the coming years, UND1X inflation is expected to continue to rise as a result of increasing costs as economic activity improves. The forecast is based on the assumption that the repo rate will be gradually increased. Inflation is expected to be moderate, despite good growth in economic activity. This is due to favourable supply



conditions, such as a rapid increase in productivity and international price pressures. These factors are also expected to subdue inflation in the future. In addition, inflation is held down by temporarily falling energy prices.

The assessment is that there are risks linked to both domestic and international developments. All in all, the assessment is that the risks of higher inflation are slightly greater than the risks of lower inflation. Risk-adjusted inflation measured according to UND1X is expected to be 1.7 per cent two years ahead and 2.1 per cent three years ahead. The risk-adjusted CPI inflation rate is expected to be 1.9 per cent two years ahead and 2.0 per cent three years ahead. The fact that inflation is thus expected to be slightly below target two years ahead is partly due to energy prices temporarily muting the rate of price increase. When the restraining effect of the energy prices abates, inflation will rise. Real economic growth is expected to be strong during the forecast period. To ensure that inflation is close to the target and to contribute to a balanced development of the real economy, the Executive Board of the Riksbank 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 recent market expectations. 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 15 November. The decision on the repo rate will apply from Wednesday, 1 November.

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. 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	Sept. 07	Sept. 08	Sept. 09
CPI	0.5	1.4 (1.5)	2.1 (2.3)	2.0 (2.4)	2.2 (2.4)	1.9 (2.4)	2.0
UND1X	0.8	1.3 (1.3)	1.4 (1.6)	1.7 (1.8)	1.5 (1.6)	1.7 (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.

Sources: Statistics Sweden and the Riksbank.

Table 2. GDP forecast.

Annual percentage change

	2005	2006	2007	2008	2009
GDP	2.7	4.3 (3.7)	3.1 (2.8)	2.7 (2.4)	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.

Sources: Statistics Sweden and the Riksbank.