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## ■ Repo rate raised by 0.25 percentage points

**At its meeting on 14 December, the Executive Board of the Riksbank decided to raise the repo rate by 0.25 percentage points to 3 per cent. Continued strong economic activity and rising inflation mean that the repo rate needs to be increased. It is reasonable to assume that the interest rate will need to be increased further, roughly in line with recent market expectations. The exact rate at which this should be done will as usual be determined by economic developments.**

The Riksbank's decision is based on the outlook for inflation and the real economy as presented in the October Inflation Report and on the new information on economic developments received since then.

International economic activity has largely developed in line with the assessment made in October. Growth looks to be somewhat lower in the United States and Japan, but on the other hand it appears slightly stronger in the euro area and the Nordic countries. In Sweden, GDP growth this year appears to be slightly stronger than expected and there may also be reason for making some upward revision to the forecast for next year's growth. The same applies to the forecasts regarding employment and the labour force. The strong economic growth in Sweden is also reflected in the credit and asset markets. In November, CPI inflation amounted to 1.7 per cent and UND1X inflation was 1.3 per cent, which was in line with the forecast in October.

The strong economic activity is expected to gradually lead to an increase in domestic cost pressures, as productivity growth slows down and wages rise more quickly. This means that inflation will rise. However, inflation is expected to be moderate, despite good economic activity. This is due to a high level of productivity, low domestic cost pressures and international price pressures. Moreover, inflation is held down by temporarily falling energy prices and a stronger krona exchange rate. The forecast for inflation made in October may need to be revised downwards in the short term, primarily as a result of lower energy prices.



■ Two years ahead, inflation is expected to be close to target, roughly in line with the assessment in the October Inflation Report. Real economic growth is expected to be strong during the forecast period. This assessment is based on the repo rate being increased gradually. To ensure that inflation is close to the target and to contribute to a well-balanced development in 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 course 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 2 January 2007. The decision on the repo rate will apply from Wednesday, 20 December.

A press conference with Riksbank Governor Stefan Ingves and Deputy Governor Irma Rosenberg will be held at 10.30 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/>.