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■ The interest rate path and monetary policy

Riksbank Governor Stefan Ingves spoke today at a meeting of representatives of local business in Köping. Mr Ingves described the Riksbank's view of the economic situation. He also discussed the motives for presenting the Riksbank's own assessment of the future development of the repo rate in the new Monetary Policy Report.

"The Swedish economy is doing well. Inflation is low, while economic activity is growing strongly, both in Sweden and abroad. The economy is expected to grow at a good rate this year as a result of employment rising and consumption increasing rapidly. Our current assessment is that growth will slow down slightly in the coming years. International economic activity will then enter a calmer phase, while the rapid increase in productivity will slow down," began Mr Ingves.

"Over the next six months, our assessment is that inflation will fall temporarily. The main reason for this is lower energy prices. After this we expect prices in the economy to begin to rise more quickly. One reason is the slower productivity growth. Wages are also expected to increase faster as employment rises. But the upturn in inflation that we envisage is still relatively modest. This is due to continued favourable supply conditions. For one thing, productivity growth is expected to be relatively high, despite slowing down, and for another thing the labour supply will probably increase more than it has done in previous economic upswings. We are also expecting the continued international price pressure to keep down price increases on imported goods," continued Mr Ingves.

"The repo rate needs to be raised to keep inflation close to the target a couple of years ahead and to contribute to a balanced development of the real economy. When we Executive Board members met on 14 February we therefore decided to raise the repo rate by 0.25 percentage points to 3.25 per cent. As our assessment is that inflationary pressures will be relatively limited, we are only expecting to need to make moderate increases in the interest rate," said Mr Ingves.

He then went on to explain why the Riksbank has now begun to publish its own assessment of the future repo rate.



■ "We have chosen to present our own assessment of how the repo rate will develop. The explanation for this is essentially simple. The most important reason is that we want to be as clear and open as possible with regard to the interest rate development we consider to be the most appropriate in the future, given the information we have today. This will make things easier, for instance, for households planning their private finances to get an idea of where the interest rate is heading," observed Mr Ingves.

"However, it is important to be clear that the interest rate path presented in the Monetary Policy Report is a forecast and not a promise. The Riksbank cannot undertake, regardless of what happens in the economy, to follow the path published. New information could change the economic outlook. Then we have to reconsider how the repo rate should be set in future. But this is hardly a reason for refraining from describing as clearly as possible what we currently believe will happen. That would be rather like the Swedish Meteorological Institute refusing to publish five-day weather forecasts just because the conditions might change. I also believe that there is currently widespread understanding both among the general public and market participants that monetary policy must be adjusted when conditions change," continued Mr Ingves.

"When we published our Monetary Policy Report a month ago we noted that the revisions made since the monetary policy meeting in December on the whole had little effect on the inflation forecasts. We therefore did not see any reason why the repo rate should be raised more quickly than was foreseen then. Some people had probably expected slightly larger interest rate rises over the coming years and were therefore surprised. The fact that forecasters make different assessments, particularly in the slightly longer term, is not in itself particularly remarkable – it is in the nature of things when forecasting economic activity. I can merely state that the Riksbank has made the best assessment that we believe we can make," concluded Mr Ingves.