



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 by 0.25 percentage points to 3.50 per cent. At the same time, they made the assessment that the repo rate will need to be around 4 per cent at the end of the year. Over the coming years it is probable that the interest rate will need to be raised further. The interest rate raises are expected to help ensure inflation is in line with the target from next year and onwards, and that production and employment will develop in a stable manner.

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

Underlying inflation is still low but cost pressures have increased. Productivity growth has slowed down, while wage costs are rising at a faster rate. GDP growth in Sweden slowed down somewhat during the first quarter, but various indicators point towards the weakening being temporary. The number of persons employed is increasing rapidly and international economic activity is still strong. Lending and house prices are still increasing rapidly. The Riksbank's assessment is that GDP growth in Sweden will slow down somewhat in future, but that cost pressures are estimated to be higher than they have been in recent years.

The increased cost pressures in the economy and the strong economic activity mean that the interest rate needs to be raised. The Riksbank's assessment is that a well-balanced monetary policy is to now raise the repo rate by 0.25 percentage points. The repo rate is expected to be around 4 per cent at the end of the year. Over the coming years it is probable that the interest rate will need to be raised further. This will contribute to inflation being in line with the target from next year and onwards. At the same time, production and employment are expected to develop in a stable manner.

The new assessment means that the repo rate needs to be raised more in the future than was considered justified in February. This is because the labour market has tightened, the central wage agreements have been higher and fiscal policy has been more expansionary than the Riksbank estimated at the time.



It is important to point out that there is always great uncertainty over future economic developments. It is therefore also uncertain how the repo rate will develop in the future. The Riksbank may, for instance, need to raise the repo rate further if wages increase more, productivity grows at a slower rate or demand rises more quickly than in the main scenario. On the other hand, if international developments prove weaker, for instance, the interest rate may need to be lower. The future direction for monetary policy will depend as usual on new information on economic developments in Sweden and abroad and the effects this may have on the prospects for inflation and economic activity.

The minutes of the Executive Board's monetary policy discussion from yesterday's meeting will be published on 4 July. The decision on the repo rate will apply from Wednesday, 27 June.

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, www.riksbank.se.

Table 1. Inflation and GDP forecasts

Annual percentage change

	Annual average				12-month rate			
	2006	2007	2008	2009	June 2007	June 2008	June 2009	June 2010
CPI	1.4	2.1 (1.5)	2.3 (2.1)	2.3 (2.1)	1.6 (1.1)	2.5 (2.2)	2.3 (2.1)	2.2
UND1X	1.2	1.1 (0.7)	2.0 (1.6)	2.1 (1.9)	0.8 (0.4)	2.0 (1.7)	2.0 (1.9)	2.0
GDP	4.2 (4.5)	3.1 (3.5)	3.0 (2.9)	2.3 (2.5)				

Note. The figures in parentheses are the forecasts in the previous Monetary Policy Report.
Sources: Statistics Sweden and the Riksbank

Table 2. Repo rate forecast

Per cent, quarterly average

	Quarter 1 2007	Quarter 2 2007	Quarter 3 2007	Quarter 4 2007	Quarter 2 2008	Quarter 2 2009	Quarter 2 2010
Repo rate	3.1 (3.1)	3.3 (3.3)	3.6 (3.5)	3.9 (3.5)	4.2 (3.6)	4.4 (3.7)	4.4

Note. The figures in parentheses are the forecasts in the previous Monetary Policy Report.
Source: The Riksbank