



# PRESS RELEASE

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## ■ Repo rate raised by 0.25 percentage points to 3.75 per cent

*The Executive Board of the Riksbank decided at its meeting on 6 September to raise the repo rate by 0.25 percentage points to 3.75 per cent. At the same time, the Board made the assessment that the interest rate needs to be raised further in the future at about the same pace as was forecast in June. This is expected to contribute to inflation being close to the target of 2 per cent next year and onwards, and to production and employment developing in a balanced manner.*

The Riksbank's decision is based on the outlook for the economy and inflation presented in the June Monetary Policy Report and on the new information on economic developments received since then.

### **Swedish economy is developing strongly**

The Swedish economy is continuing to develop strongly. The signals from abroad have been mixed, but on the whole developments have been good. Swedish GDP growth during the second quarter was slightly higher than expected and the labour market has become tighter than the Riksbank anticipated in June. Lending and house prices have increased rapidly.

### **Cost pressures increasing**

At the same time, cost pressures have been slightly higher than expected as productivity was unexpectedly low during the second quarter. Rising food prices also contribute to higher inflationary pressures than the Riksbank anticipated in June. At the same time, households and companies have adjusted their inflation expectations upwards for the coming year.



## ■ Financial unrest

The view of economic developments is also affected by the recent unrest in the financial markets. A general increase in uncertainty and less willingness to invest in higher risk assets has led to falling share prices and higher risk premiums. These developments are linked to the problems in the US sub-prime market. It is reasonable to assume that this will have some negative consequences for growth abroad and in Sweden. It is as yet too early to determine the extent and duration of these effects.

## Unchanged interest rate path

Economic activity in Sweden is slightly stronger than was forecast in June and cost pressures have become higher. This could in itself justify a slightly higher interest rate path than that presented in June. At the same time, the financial unrest is expected to have some subduing effect on growth. All in all, the Riksbank's assessment is therefore that the repo rate may need to be raised at about the same pace as was forecast in June. This is why the Riksbank has decided to raise the repo rate by 0.25 percentage points. By raising the rate, the Riksbank is contributing to ensuring that inflation will be in line with the 2 per cent target next year and onwards. The interest rate raises will also contribute to production and employment developing in a balanced manner.

## An interest rate path is a forecast, not a promise

It is important to point out that there is always considerable uncertainty as to how the economy and thus the repo rate will develop in the future. The Riksbank may need to raise the repo rate more if, for instance, cost pressures increase more or if demand rises more quickly than expected. However, if the financial unrest persists and developments are weaker than expected, the interest rate may instead need to be lower. The future direction for monetary policy will depend on how new information on economic developments abroad and at home will affect the prospects for economic activity and inflation in Sweden.

The minutes of the Executive Board's monetary policy discussion from yesterday's meeting will be published on 20 September. The decision on the repo rate will apply from Wednesday, 12 September.

A press conference with Riksbank Governor Stefan Ingves and First 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>.