



PRESS RELEASE

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■ Repo rate raised by 0.25 percentage points to 4 per cent

At its meeting on 29 October, the Executive Board of the Riksbank decided to raise the repo rate by 0.25 percentage points to 4 per cent. It is also probable that the interest rate will need to be raised slightly further in the future. During the first half of 2008 the repo rate is expected to be around 4.25 per cent. The Riksbank's view of the future repo rate path remains largely the same as in June. The assessment is that the interest rate increases will contribute to an inflation rate in line with the 2 per cent target at the same time as production and employment develop in a balanced manner.

Swedish economy going strong – cost pressures increasing

The Swedish economy is continuing to grow at a good pace and employment is rising. Lending and house prices have increased rapidly. As inflation has increased, companies and households have also revised up their inflation expectations for the coming year. Underlying inflation is still low, although cost pressures are increasing. This is because productivity growth has slowed down. It is also due to the fact that wages are expected to rise more quickly as a result of the new central wage agreements and a tighter labour market. Food and energy prices will also contribute to inflation rising.

Greater uncertainty and weaker international growth

There have been international signals of weaker economic growth in the United States and the euro area, among others. This is largely balanced by the fact that growth is relatively strong in other parts of the world. The weaker growth in the United States and the uncertainty that has arisen in the financial markets is linked to the problems in the US housing and mortgage markets. The slowdown in the United States and other countries, together with the recent unease in the financial markets, is expected to slow down growth in Sweden somewhat.

Largely unchanged interest rate path

Although the international slowdown is expected to lead to some slackening in growth in Sweden, it is not sufficient to check the increased cost pressures. The Riksbank's assessment is therefore that the interest rate needs to be raised by 0.25



percentage points now. It is also probable that the interest rate will need to be raised slightly further over the coming year. By raising the interest rate the Riksbank is contributing to ensuring that underlying inflation is in line with the target from next year onwards, while production and employment develop in a balanced manner.

The Riksbank holds largely the same view of how the repo rate will develop in the future as was held in June. The fact that the picture remains largely the same is due to different factors counteracting one another. While domestic cost pressures indicate that that repo rate could need to be raised slightly more in the future, the financial unrest and international developments point in the opposite direction.

The interest rate path is a forecast, and not a promise

There is always considerable uncertainty regarding future economic events. 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 more if cost pressures are higher than in the main scenario. However, if the financial unrest persists and international economic activity is weaker than expected, the interest rate may instead need to be lower. The future direction for monetary policy will depend, as usual, on how new information on economic developments abroad and in Sweden 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 13 November. The decision on the repo rate will apply from Wednesday, 31 October.

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, www.riksbank.se/.

Table 1. Inflation and GDP forecasts, annual averages. Annual percentage change

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|-------|------|-----------|-----------|-----------|------|
| CPI | 1.4 | 2.1 (2.1) | 2.9 (2.3) | 2.4 (2.3) | 2.2 |
| UND1X | 1.2 | 1.1 (1.1) | 2.0 (2.0) | 2.0 (2.1) | 2.0 |
| GDP | 4.2 | 3.1 (3.1) | 2.8 (3.0) | 2.3 (2.3) | 2.6 |

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

Table 2. Inflation forecast, 12-month rate. Annual percentage change

| | Dec 07 | Dec 08 | Dec 09 | Dec 10 |
|-------|-----------|-----------|-----------|--------|
| CPI | 2.8 (2.7) | 2.8 (2.3) | 2.3 (2.2) | 2.2 |
| UND1X | 1.5 (1.4) | 2.2 (2.3) | 2.1 (2.0) | 2.0 |

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

Table 3. Repo rate forecast. Per cent, quarterly average

| | Quarter 3 | Quarter 4 | Quarter 1 | Quarter 2 | Quarter 4 | Quarter 4 | Quarter 4 |
|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| | 2007 | 2007 | 2008 | 2008 | 2008 | 2009 | 2010 |
| Repo rate | 3.6 (3.6) | 3.9 (3.9) | 4.1 (4.1) | 4.3 (4.2) | 4.4 (4.3) | 4.4 (4.4) | 4.3 |

Source: The Riksbank