



# PRESS RELEASE

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CONTACT Press service +46 8 787 02 00

SVERIGES RIKSBANK  
SE-103 37 Stockholm  
(Brunkebergstorg 11)

Tel +46 8 787 00 00  
Fax +46 8 21 05 31  
registratorn@riksbank.se  
www.riksbank.se

## ■ Repo rate held unchanged at 4 per cent

*At its meeting on 18 December, the Executive Board of the Riksbank decided to hold the repo rate unchanged at 4 per cent. The Riksbank's view of the future repo rate path remains largely the same as in October. During the first half of 2008 the repo rate is expected to need to be raised to around 4.25 per cent, but there is considerable uncertainty due to the turmoil in the international financial markets. The Riksbank's assessment is that this development in the repo rate will contribute to an inflation rate in line with the 2 per cent target from 2009 onwards, at the same time as production and employment develop in a balanced manner.*

The Riksbank's decision is based on the economic indicators and inflation assessments presented in the October Monetary Policy Report and on the new information on economic developments received since then. The Monetary Policy Update December 2007 contains revised versions of the most central forecasts.

### **Good economic activity in Sweden, but signs of a slowdown**

Economic activity in Sweden is good and employment is rising. However, activity in the economy has recently slowed down more than expected. The Riksbank's assessment is that growth in Sweden will be weaker than the Bank assumed in the October Monetary Policy Report.

### **Financial market turmoil and weaker international developments**

The weaker developments in Sweden are partly due to the turmoil in the international financial markets and to weaker developments abroad. Borrowing costs for both companies and households have risen more than is motivated by expectations of future policy rates. This development is expected to subdue demand abroad and in Sweden. The financial turmoil also creates general uncertainty regarding economic developments, which can affect plans for investment and consumption.



## ■ Cost pressures increasing

At the same time, cost pressures and inflation expectations are continuing to rise. Inflation has also risen more than expected. This is primarily due to an unexpectedly large rise in energy and food prices. The annual rate of increase in CPI and CPIX was 3.3 per cent and 1.9 per cent respectively in November. Over the coming year the Riksbank is expecting inflation to continue rising as a result of high energy prices and increased cost pressures. The Riksbank's assessment is that inflation will be higher in 2008 than was previously expected, but the main scenario is that it will then fall back in line with the October forecast.

## Largely unchanged interest rate path

The Riksbank holds largely the same view of how the repo rate will develop in the future as in October. The fact that the picture remains largely the same is due to different factors pulling in different directions. Higher inflationary pressures indicate that the repo rate could need to be raised slightly more in the future, but signals of weaker economic activity in Sweden and abroad together with the continued turmoil in the international financial markets point in the opposite direction.

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

There is always great uncertainty regarding future economic events. This means there is also considerable uncertainty as to 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.

**Table 1. Inflation and GDP forecasts, annual averages**

Annual percentage change

	2006	2007	2008	2009	2010
CPI	1.4	2.2 (2.1)	3.6 (2.9)	2.4 (2.4)	2.2 (2.2)
CPIX	1.2	1.2 (1.1)	2.7 (2.0)	2.1 (2.0)	2.0 (2.0)
GDP	4.1	2.6 (3.1)	2.4 (2.8)	2.1 (2.3)	2.8 (2.6)

Note. The assessment in the most recent Monetary Policy Report is shown in brackets.

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	3.6 (2.8)	2.9 (2.8)	2.3 (2.3)	2.2 (2.2)
CPIX	2.2 (1.5)	2.4 (2.2)	2.1 (2.1)	2.0 (2.0)

Note. The assessment in the most recent Monetary Policy Report is shown in brackets.

Sources: Statistics Sweden and the Riksbank



■ **Table 3. Repo rate forecast**

Per cent, quarterly average

	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q4 2009	Q4 2010
Repo rate	3.9 (3.9)	4.1 (4.1)	4.2 (4.3)	4.3 (4.3)	4.3 (4.4)	4.3 (4.4)	4.2 (4.3)

Source: The Riksbank

The minutes of the Executive Board's monetary policy discussion at yesterday's meeting will be published on 8 January 2008. The decision on the repo rate will apply from Thursday, 20 December.

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/>.