



# PRESS RELEASE

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## ■ Repo rate raised by 0.25 percentage points to 1.0 per cent

*The Swedish economy is growing rapidly. On the other hand, the strength of the recovery in the United States and Europe remains uncertain. Inflationary pressures are low in Sweden, but are expected to increase as economic activity strengthens. In order to stabilise inflation close to the target of 2 per cent and attain normal levels of resource utilisation, the repo rate needs to be gradually raised. The Executive Board of the Riksbank has therefore decided to raise the repo rate by 0.25 of a percentage point to 1.0 per cent. However, due to the weak developments overseas, it is not deemed that the repo rate needs to be raised so much in the coming years.*

### **Sweden's economy is growing rapidly**

The Swedish economy is developing well. The global recovery has contributed to an increase in world trade, which benefits Swedish exports. A combination of strong public finances, a high level of household saving and optimism among households is creating the conditions for increasing consumption. The broad upswing in the Swedish economy is also contributing towards a rapid increase in employment.

At the same time, developments overseas remain uncertain. The recovery will take time in the United States, while the major fiscal policy tightening measures in several European countries are dampening growth in Europe. The slow recovery of these countries is leading to moderate inflationary pressures and low international interest rates.

### **Repo rate to be increased towards more normal levels**

The Executive Board of the Riksbank has decided to raise the repo rate by 0.25 percentage points to 1.0 per cent. Even if inflationary pressures in the Swedish economy are presently low due to the weak economic climate abroad, low labour costs for Swedish companies and a strengthening of the Swedish krona, they are

expected to increase in tandem with the strengthening of economic activity in Sweden. In order to stabilise inflation close to the target of 2 per cent and attain a normal level of resource utilisation, the repo rate gradually needs to be increased towards more normal levels. Moreover, households' debts have increased substantially in recent years. If debts continue to increase significantly faster than revenues over a longer period of time, there is a risk of imbalances building up in the Swedish economy.

## Continued uncertainty abroad – repo rate path to be adjusted downwards

The repo rate forecast is adjusted downwards in relation to the September forecast. All in all, developments abroad, together with the low inflationary pressures prevailing in Sweden during the forecast period, argue against the need to raise the repo rate as rapidly in the coming years.

In October, the last of the three fixed-interest rate loans provided to the banks in 2009 matured. These loans have not been replaced by new loans. The phasing out of these loans is an important part of the normalisation of monetary policy.

As always, the forecasts made regarding the economy and monetary policy are based on the information currently available and new information further ahead may lead to changes in these forecasts. If international growth becomes weaker as a result of developments such as a slowdown of the recovery in the United States or a worsening of the fiscal policy problems in Europe, monetary policy may need to become more expansionary than in the main scenario. On the other hand, it cannot be ruled out that domestic demand in Sweden may be stronger than expected, in which case the interest rate may need to be increased further in the future.

### Forecasts for inflation in Sweden, GDP and the repo rate

Annual percentage change, annual average

	2009	2010	2011	2012	2013
<b>CPI</b>	-0.3	1.2 (1.1)	1.7 (1.9)	2.2 (2.5)	2.6
<b>CPIF</b>	1.9	2.0 (2.0)	1.3 (1.3)	1.5 (1.7)	1.9
<b>GDP</b>	-5.1	4.8 (4.1)	3.8 (3.5)	2.5 (2.6)	2.4
<b>Repo rate, per cent</b>	0.7	0.5 (0.5)	1.7 (1.9)	2.6 (3.0)	3.3

Note. The assessment in the September 2010 Monetary Policy Update is shown in brackets.

Sources: Statistics Sweden and the Riksbank

### Forecast for the repo rate

Per cent, quarterly averages

	Q3 2010	Q4 2010	Q1 2011	Q4 2011	Q4 2012	Q4 2013
<b>Repo rate</b>	0.55	1.0 (0.9)	1.3 (1.4)	2.0 (2.4)	2.9 (3.3)	3.4

Note. The assessment in the September 2010 Monetary Policy Update is shown in brackets.

Source: The Riksbank



■ Deputy Governor Karolina Ekholm and Deputy Governor Lars E.O. Svensson entered a reservation against the decision to raise the repo rate by 0.25 percentage points to 1.0 per cent and against repo rate path.

They preferred a repo rate equal to 0.75 per cent and a repo rate path that then gradually rises to 2.7 per cent by the end of the forecast period. They maintained that the higher repo rate path in the main scenario would imply a tighter monetary policy than is apparent in the Monetary Policy Report. It would imply a larger appreciation of the krona than in the report's forecast and considerably higher long interest rates than at present. The view that the repo rate path of the main scenario is likely to lead to a larger appreciation of the krona than in the forecast is based on the view that foreign policy rates will rise more slowly and that the exchange rate is affected by the current low foreign long market interest rates.

The minutes from the Executive Board's monetary policy discussion will be published on 8 November. The decision on the repo rate will apply with effect from 27 October. A press conference with Governor Stefan Ingves and Per Jansson, Head of the Monetary Policy Department, will be held today at 11 a.m. in 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](http://www.riksbank.se).