



PRESS RELEASE

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■ Repo rate raised by 0.25 percentage points to 1.25 per cent

The Swedish economy is growing at a record rate. The international recovery is continuing, although concern over public finances in Europe has increased. Underlying inflationary pressures are still low in Sweden, but are expected to increase as economic activity strengthens. There is a need to gradually increase the repo rate to stabilise inflation at a level close to the target of 2 per cent and to avoid resource utilisation becoming too high. The Executive Board of the Riksbank has therefore decided to raise the repo rate by 0.25 of a percentage point to 1.25 per cent.

Strong economic performance in Sweden

The Swedish economy is growing at a record rate and benefitting from the increasing world trade. The upturn is broadly based, and now investment has also accelerated. At the same time, the labour market is developing well. Households' optimism and good finances will contribute to an increase in consumption.

While the recovery is continuing in many regions of the world, developments are uncertain for instance in Europe as a result of concern over public finance problems. The outlook in the United States has improved, although there is still uncertainty regarding the housing market and the labour market is still weak.

Repo rate raised towards more normal levels

While higher electricity prices and commodity prices temporarily push up inflation, underlying inflationary pressures in the Swedish economy will be low as a result of low labour costs. During the forecast period inflationary pressures are expected to rise as economic activity improves.

There is a need to gradually raise the repo rate towards more normal levels to stabilise inflation close to the target of 2 per cent and to avoid resource utilisation becoming too high. The Executive Board of the Riksbank has

therefore decided to raise the repo rate by 0.25 of a percentage point to 1.25 per cent. A gradual rise in the repo rate can also contribute to slower growth in household borrowing and reduce the risk of imbalances building up in the Swedish economy.

Repo rate path held unchanged

The overall picture of economic prospects remains largely the same as in October. The forecast for the repo rate is therefore largely unchanged in relation to the Monetary Policy Report. As always, the forecasts for the economy and monetary policy are based on the information currently available and new information further ahead may lead to changes in these forecasts.

Forecasts for inflation in Sweden, GDP and the repo rate

Annual percentage change, annual average

	2009	2010	2011	2012	2013
CPI	-0.3	1.3 (1.2)	2.2 (1.7)	2.0 (2.2)	2.6 (2.6)
CPIF	1.9	2.1 (2.0)	1.7 (1.3)	1.4 (1.5)	1.9 (1.9)
GDP	-5.3	5.5 (4.8)	4.4 (3.8)	2.3 (2.5)	2.4 (2.4)
Repo rate, per cent	0.7	0.5 (0.5)	1.7 (1.7)	2.6 (2.6)	3.3 (3.3)

Note. The assessment in the Monetary Policy Report in October 2010 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
Repo rate	0.5	1.0 (1.0)	1.4 (1.3)	2.0 (2.0)	2.9 (2.9)	3.4 (3.4)

Note. The assessment in the Monetary Policy Report in October 2010 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 1.25 per cent and against the repo rate path in the Monetary Policy Update.

They preferred a repo rate of 1.0 per cent and a repo rate path that then gradually rises to 2.7 per cent at the end of the forecast period. They maintained that the proposed interest rate path would imply a tighter monetary policy than is apparent in the Monetary Policy Update. It would imply a larger appreciation of the krona than in the Update's forecast, and considerably higher long interest rates than at present. This would reduce inflation and raise unemployment. The view that the repo rate path of the forecast is likely to lead to a larger appreciation of the krona 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 3 January 2011. The decision on the repo rate will apply with effect from 22 December. 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.