



PRESS RELEASE

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■ Repo rate raised 0.25 percentage points to 2.0 per cent

The Swedish economy is growing at a good rate, although international developments are marked by uncertainty. CPI inflation is high at present as a result of rising mortgage rates. At the same time, underlying inflationary pressures remain low, but are expected to increase as economic activity strengthens. The Executive Board of the Riksbank has decided to raise the repo rate by 0.25 percentage points to 2.0 per cent to stabilise inflation around the target of 2 per cent and resource utilisation around a normal level. The forecast for the repo rate is held unchanged.

Swedish economy stable despite increased uncertainty globally

Although the Swedish economy is entering a calmer phase, the economy is continuing to grow at a good pace. Both domestic demand and exports are contributing to this development. The labour market situation is also continuing to develop positively, which means that the rate of wage increase is rising.

The recovery is also continuing in the world as a whole. Several countries in Asia and Latin America are still expected to grow rapidly, even if the growth rate slows down. But the international outlook is also marked by uncertainty. The US economy has developed unexpectedly weakly and the euro area continues to be weighed down by fiscal problems.

Higher repo rate helps keep inflation in line with the target

CPI inflation is high at present as a result of rising mortgage rates. At the same time, different measures of underlying inflation are lower, as the krona has appreciated over the past year and domestic cost pressures are low. However, inflationary pressures are expected to increase during the forecast period as spare capacity in the economy decreases and the rate of wage increase accelerates. In periods with large interest rate adjustments, the CPIF provides a better picture of inflationary pressures.



There is a need to gradually increase the repo rate to stabilise inflation around the target of 2 per cent and resource utilisation around a normal level. The Executive Board has therefore decided to raise the repo rate by 0.25 percentage points to 2.0 per cent.

Continuing good growth, but considerable risks

The overall picture of economic prospects remains largely the same as in April. The forecast for the repo rate is therefore unchanged in relation to the Monetary Policy Update. But, 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.

If the currently high CPI inflation rate has a more tangible effect on various agents' long-term inflation expectations and wage formation, monetary policy may need to be tightened more than in the main scenario of the Monetary Policy Report. If, on the other hand, the international economic situation becomes weaker as a result, for example, of the fiscal problems in the euro area worsening, the repo rate may need to be raised at a slower pace in the period ahead.

Forecasts for inflation in Sweden, GDP and the repo rate

Annual percentage change, annual average

	2010	2011	2012	2013
CPI	1.2	3.1 (3.2)	2.7 (2.8)	2.8 (2.7)
CPIF	2.0	1.6 (1.6)	1.7 (1.7)	2.1 (2.0)
GDP	5.7	4.4 (4.6)	2.2 (2.3)	2.5 (2.5)
Repo rate, per cent	0.5	1.8 (1.8)	2.8 (2.8)	3.4 (3.4)

Note. The assessment in the April 2011 Monetary Policy Update is shown in brackets.
Sources: Statistics Sweden and the Riksbank

Forecast for the repo rate

Per cent, quarterly averages

	2011 Q2	2011 Q3	2011 Q4	2012 Q3	2013 Q3	2014 Q3
Repo rate	1.7	2.0 (2.0)	2.3 (2.2)	2.9 (2.9)	3.4 (3.4)	3.8

Note. The assessment in the April 2011 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 2.0 per cent and against the repo rate path of the Monetary Policy Report.

They preferred a repo rate equal to 1.75 per cent and a repo rate path that first rises slowly to 2 per cent in the third quarter of 2012 and then rises faster to about 3.8 per cent by the end of the forecast period. This is motivated by their assessment that the Report's forecasts of foreign policy rates and Swedish resource utilization are both too high. Their repo rate path would imply CPIF inflation closer to 2 per cent and a faster reduction of unemployment towards a longer-run sustainable rate.

The minutes from the Executive Board's monetary policy discussion will be published on 18 July 2011. The decision on the repo rate will apply with effect



■ from 6 July. 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.