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CONTACT Tomas Lundberg, Press Officer, tel. +46-8-787 02 15

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

■ Rosenberg: The current economic situation

Deputy Governor Irma Rosenberg spoke on Tuesday about the current economic situation and monetary policy at "business economy day 2006".

"It was observed in the Inflation Report published at the end of October that GDP growth in Sweden and abroad had remained high during the first six months of this year and was stronger than anticipated. Growth is also expected to be relatively strong during the remainder of the year and next year. However, the economy would gradually move into a calmer phase. Inflation in international economies is expected to be relatively moderate," began Ms Rosenberg.

"The high growth level in the Swedish economy is expected, according to the Inflation Report, to continue during the remainder of the year, albeit at a slightly slower pace. Over the coming years there will be a gradual slowdown in growth as a result of the slower increase in productivity and demand from abroad. There have been clear improvements in the Swedish labour market during the year and there are many indications that employment will continue to rise. Domestic cost pressure is expected to increase as productivity growth slackens and wages rise at a faster rate. The strong economic growth is also reflected in the fact that companies and households have increased their borrowing by a relatively large amount in recent years, seen from a historical perspective. At the same time, house prices have risen rapidly and household wealth has been boosted further," continued Ms Rosenberg.

"Since the beginning of 2005, inflation has gradually risen from a low level and is expected to be moderate over the coming years, despite good economic activity. The low inflation in recent years is largely due to favourable supply conditions such as strong productivity growth and international price pressures. These factors are also expected to subdue inflation in the future. Low rates of increase in energy prices are also thought to hold back inflation during the forecast period," said Ms Rosenberg.

"The assessment in the Inflation Report is that the risks of inflation being higher than in the main scenario are slightly greater than the risks of it being lower. Two



■ years ahead, risk-adjusted inflation measured as UND1X is expected to be 1.7 per cent. The fact that inflation is expected to be slightly below the inflation target two years ahead is partly due to energy prices temporarily subduing the rate of price increase. When this effect subsides, inflation will rise and is expected to be in line with the target slightly more than two years ahead. Real economic growth is expected to be strong during the forecast period. To ensure that inflation is in line with the target and to contribute to balanced development of the real economy, the Executive Board of the Riksbank decided to raise the repo rate by 0.25 percentage points, to 2.75 per cent, at the most recent monetary policy meeting in October," said Ms Rosenberg.

"The new statistics published since then largely confirm the picture of economic activity painted in the Inflation Report. The preliminary GDP outcome for the third quarter in the United States was slightly weaker than expected, which indicates a slightly slower growth rate there in future. In Sweden, the inflation figures for October have been published. The outcome for both CPI and UND1X was in line with our forecast. New National Accounts statistics show that GDP growth in 2004 and 2005 was stronger than had been estimated earlier. However, productivity growth was also faster, which contributes to holding back cost pressures and inflation. The krona has recently appreciated more than anticipated and this is probably largely due to a general weakening of the US dollar. Experiences show that exchange rates can fluctuate up and down rapidly. It is at present too early to say whether the stronger krona will be permanent and what consequences this might have for the Swedish economy. The labour market statistics for October show a continued strong development in the labour market, albeit slightly stronger than was forecast in the Inflation Report. Other indicators also show that the labour market situation is continuing to improve. The most recent indicators from the business tendency survey and the purchasing managers' index point to continuing good economic activity, although some slowdown has occurred in relation to the strong developments in the first half of the year," observed Ms Rosenberg.

"The assessment in the October Inflation Report was that inflation would be in line with the target just over two years ahead, on condition that the repo rate was gradually increased roughly as expected by the market. The new information received so far does not indicate, as I see it, any major changes to the assessments presented then. However, there are a few weeks left until our next monetary policy meeting and as usual I and my colleagues will have to take a stance on the total information available then," concluded Ms Rosenberg.