



PRESS RELEASE

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■ Repo rate raised by 0.25 percentage points to 3.25 per cent

At its meeting on 14 February, the Executive Board of the Riksbank decided to raise the repo rate by 0.25 percentage points to 3.25 per cent. At the same time, its assessment was that the repo rate needs to be raised by a further 0.25 percentage points over the coming six months. After that it will probably be possible to pause before making a further increase. The interest rate increases are expected to contribute to inflation being on target a couple of years ahead and to a balanced development of the real economy.

Inflation is currently low. At the same time, there has been strong growth in economic activity, both in Sweden and abroad. Capacity utilisation in Sweden is increasing, but is not currently considered to be strained. The high GDP growth in recent years has been driven by strong advances in productivity and high international demand. The strong economic growth has led to lending and house prices continuing to increase at a rapid rate, although some slowdown took place during the second half of 2006. Moreover, stock market rates have risen substantially since summer 2006.

The Riksbank's assessment is that GDP growth in Sweden will slow down during the period 2007-2009, when the international business cycle enters a calmer phase and productivity growth declines. GDP growth will nevertheless be relatively high in 2007 as a result of rising employment and a rapid increase in consumption. Cost pressures will rise as employment increases and wages rise more quickly. Productivity growth will not hold back costs to the same extent as before. Inflation is therefore expected to rise.

However, several factors will contribute to keeping inflation at a relatively moderate level. Abroad, the price pressures of recent years are expected to remain. Combined with the stronger krona exchange rate, this will contribute to low import prices. Moreover, cost pressures are expected to be comparatively modest, although they will rise. One reason is that not only employment, but also the labour supply will increase. Falling energy prices will also lead to a temporary fall in inflation during 2007.



Last year, monetary policy gradually became less expansionary. The Riksbank's current assessment is that a well-balanced monetary policy involves raising the repo rate by a further 0.25 percentage points now and then by a further 0.25 percentage points during the coming six months. After that it will probably be possible to pause before making a further increase. This contributes to inflation being expected to be close to target from autumn 2008 and onwards. At the same time, the real economic development is considered to be balanced. The reason why the Riksbank does not consider it necessary to raise the repo rate more, despite strong growth, is that inflation is subdued by a number of factors, including a rapid increase in the labour supply.

However, it is important to point out that, as always, there is great uncertainty over future economic developments. It is therefore also uncertain how the repo rate will develop in the future. If, for instance, the wage bargaining rounds were to lead to a higher rate of increase in wages, or if domestic demand were to grow faster than expected, it might be necessary to conduct a tighter monetary policy. On the other hand, if international developments turned out weaker than expected, or if the labour supply increased more than anticipated, it might be necessary to conduct more expansionary monetary policy. The future direction for monetary policy will depend as usual on new information on economic developments in Sweden and abroad and the effects this may have on the prospects for inflation and economic activity.

The minutes from the Executive Board meeting held on 14 February will be published on 28 February. The next monetary policy meeting will be held on 29 March. The next Monetary Policy Report will be published on 20 June. The decision on the repo rate will apply from Wednesday, 21 February.

A press conference with Riksbank Governor Stefan Ingves and 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/>.

Table 1. Inflation and GDP forecasts

Annual percentage change

	Annual average					12-month rate			
	2005	2006	2007	2008	2009	Mar 07	Mar 08	Mar 09	Mar 10
CPI	0.5	1.4 (1.3)	1.5 (2.0)	2.1 (1.9)	2.1	1.5 (1.7)	2.0 (2.1)	2.1 (1.9)	2.1
UND1X	0.8	1.2 (1.2)	0.7 (1.3)	1.6 (1.6)	1.9	1.0 (1.3)	1.3 (1.4)	1.9 (1.9)	2.0
GDP	2.9	4.5 (4.3)	3.5 (3.1)	2.9 (2.7)	2.5 (2.2)				

Note. The figures in parentheses are the forecasts in the October Inflation Report.

Sources: Statistics Sweden and the Riksbank

Table 2. Repo rate forecast

Per cent, quarterly average

	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q1 2009	Q1 2010
Repo rate	3.1	3.3	3.5	3.5	3.6	3.7	3.75

Source: The Riksbank