

# Press Release

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## Repo rate unchanged at 3.75 per cent

At the meeting on Thursday, 6 July, the Executive Board of the Riksbank decided to leave the repo rate unchanged at 3.75 per cent, with effect from 12 July. The decision is based on inflation prospects as assessed in the latest Inflation Report together with the analysis of economic developments since then.

In the June Report's main scenario, the rate of inflation with an unchanged repo rate and excluding transitory effects from indirect taxes, subsidies and house mortgage interest expenditure (UND1X) was judged to be below 2 per cent both one and two years ahead. When various alternative paths were taken into account — above all the risk of stronger domestic demand — it was foreseen, however, that the rate at the end of the two-year period would be in line with the inflation target.

GDP growth was forecast to be 4.3 per cent this year, 3.5 per cent in 2001 and 2.9 per cent in 2002. The information that has become available since the Report was published does not warrant a change in that assessment.

In May the twelve-month rates of CPI and UND1X inflation were 1.4 and 1.5 per cent, respectively, which is an acceleration of about 0.3 percentage points from April. The outcome marginally exceeds the forecast. The increased rate of inflation comes to a large extent from higher prices for domestic heating oil and petrol. In the short run the rate of UND1X inflation is judged to remain somewhat higher than forecast in the June Report as a result of higher prices for oil and petrol. With the price of petrol at about SEK 10 a litre, the deviation from the forecast is expected to be 0.2–0.3 percentage points in June and July. This is not judged to have any sizeable impact on inflation in a longer perspective as long as it does not affect inflation expectations. That has not happened to date.

All in all, against this background there is no reason to alter the inflation assessment from June.

Aggregate demand in the economy is currently high and is also expected to remain high. This means that capacity utilisation is rising and that underlying price pressure is growing. As the assessment's time horizon shifts into the future, the more cyclically related inflationary pressure is likely to become clearer.

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The present assessment favours leaving the repo rate unchanged for now. At the same time it should be recognised that the picture of a strong economic upswing in Sweden still holds. That suggests that a repo rate increase may be called for in the future.

The next monetary policy meeting is scheduled for 16 August, while the next Inflation Report will be published on 10 October. The Report will contain a comprehensive assessment of the Riksbank's appraisal of the path of inflation.

The minutes of the Executive Board's monetary policy discussion at yesterday's meeting will be published on 25 July.