



PRESS RELEASE

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■ Repo rate left unchanged at 2 per cent

At its meeting on Thursday, 27 May, the Executive Board of the Riksbank decided to leave the repo rate unchanged at 2 per cent. This decision, which will apply from Wednesday, 2 June, is based on the picture of inflation prospects presented today in the Riksbank's Inflation Report.

Real economic developments abroad point to a broad-based economic upswing. The recovery in the United States and the euro area has advanced as expected in the previous Inflation Report. In Asia as well as central and eastern Europe, growth appears to be somewhat stronger than previously assumed. All in all, the Riksbank forecasts GDP growth in the OECD area to average around 3 per cent over the coming three years, which is in line with the assessment in the previous Inflation Report and at the most recent monetary policy meeting at the end of April. Financial market players have gradually brought forward the time at which they expect key interest rates, particularly in the United States, to begin to be raised. This has contributed to a global rise in market interest rates.

On the whole, the recovery in the Swedish economy has progressed largely as anticipated in the previous Inflation Report. New data suggest that net exports will be unexpectedly robust this year. However, the pickup in investment has been postponed somewhat. The labour market has also been somewhat weaker than expected. Compared with the previous Inflation Report, GDP growth in the period ahead is expected to be somewhat stronger, partly owing to the most recent repo rate cut of 0.5 percentage points. All in all, GDP growth in the coming years is forecast to average just less than 3 per cent a year. The assessment coincides largely with that which formed the basis of the latest monetary policy decision in April.

As expected, inflation dropped sharply last year and at the beginning of 2004. The fall in the inflation rate was broken in March, when a slight rise was noted. While inflation was expected to rebound, the rise proved unexpectedly sharp mainly as a result of import prices, including the price of oil, increasing more than previously assumed.



■ Inflation is expected to increase in the period ahead as resource utilisation picks up in Sweden and abroad. Compared with the previous Inflation Report, faster GDP growth over the forecast period motivates an upward revision of the inflation forecast. However, due to a continuation of relatively weak labour market conditions and a favourable cost situation, the rise in inflation is forecast to be comparatively moderate.

One special circumstance on this forecast occasion is that Statistics Sweden has decided to change the way it calculates the inflation rate as from January 2005. According to estimates from Statistics Sweden, the rate of inflation as measured according to the new method is expected to average 0.2 percentage points lower per year than with the current method. The forecasts of inflation from January 2005 onwards refer to the new definition.

As in the previous Inflation Report the overall assessment is that the risks of inflation being higher than in the main scenario outweigh somewhat the risks of it being lower. The risk of a faster inflation rate is above all associated with domestic and international economic developments. The main risk stems from underestimating the strength of the recovery and its effect on inflation. In addition, the uncertainty regarding the price of oil has increased recently. At the same time, uncertainty remains over productivity growth and international price pressures, which have recently had a dampening effect on inflation.

Taking into account the risk spectrum, CPI inflation is expected to be 1.1 per cent one year ahead and 2.3 per cent two years ahead. The corresponding forecasts for UND1X inflation are 1.1 per cent and 1.8 per cent, respectively. At present, UND1X inflation is judged to provide the best picture of underlying, cyclical inflationary pressures. Given that inflation is forecast to be in line with the Riksbank's target towards the end of the forecast period, the Executive Board of the Riksbank has decided to leave the repo rate unchanged at 2 per cent.

That the repo rate is low in historical terms indicates that it will need to be raised in the longer term. However, the future stance of monetary policy will as usual depend on new information on economic developments in Sweden and abroad and the effects these may have on inflation prospects in Sweden.

The minutes of the Executive Board's monetary policy discussion from yesterday's meeting will be published on 11 June.

A press conference with Deputy Governor Irma Rosenberg, Anders Vredin and Kerstin Hallsten, Head and Deputy Head, respectively, of the Monetary Policy Department, will be held today at 11 a.m. 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, www.riksbank.se.

The Inflation Report can be downloaded from the Riksbank's website under the heading Published/Publications/Inflation Report, or be ordered from the Riksbank by e-mail forradet@riksbank.se, fax +46 8 787 05 26, or tel. +46 8 787 00 00.