



PRESS RELEASE

DATE 16 August 2004

NO. 48

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

■ Inflation outlook remains unchanged on the whole

Riksbank Governor Lars Heikensten today gave a speech on economic developments and inflation prospects at a lunch seminar in Falun, which was arranged by the county administrative board in Dalarna.

"The Riksbank's assessment in the Inflation Report published in early June was that international economic activity would continue to strengthen this year and over the coming two years. We observed at the following monetary policy meeting, held at the end of June, that there might be reason to be slightly more optimistic regarding economic growth this year. Recent statistics confirm this view and indicate that the upturn over the coming years may be stronger than anticipated. Although there have been some rather less positive signals from the United States recently, this is counterbalanced by surprisingly strong growth in other areas, such as Asia," said Mr Heikensten.

"In June we assumed that international inflation would increase over the year, mainly due to a rise in global resource utilisation. However, developments since the beginning of June indicate that the international price upswing has been rather larger than expected. Some upward revision to the forecast for oil prices in the near future appears necessary now, partly due to current forward rates. However, most assessments are still based on oil prices falling over the next few years, which is also reflected in the futures markets. As monetary policy focuses on developments in inflation a couple of years ahead, the present high oil prices need not have any great monetary policy significance. The decisive factor is that the rise in oil prices does not become permanent, spread throughout the economy or lead to higher inflation expectations," continued Mr Heikensten.

"International financial markets have recently been marked by uncertainty over the strength of the upturn in the US economy and the effects of higher oil prices on global growth. Long-term interest rates have fallen since the end of May, as have international stock market rates. The krona has weakened marginally in terms of the TCW index. As I see it now, there is no reason to change the views



expressed before the summer regarding future financial conditions; long-term interest rates can be expected to rise as global resource utilisation increases, while the krona should strengthen, given the continued large trade surplus," said Mr Heikensten.

"Compared with other analysts, the Riksbank has been relatively optimistic in its views on the Swedish economy over the past year. Nevertheless, we have had to make gradual upward revisions to our forecasts for GDP growth. Exports have risen at an unexpectedly rapid rate, both last year and this year. This is connected with a more rapid overall growth in demand than expected, as well as the fact that the relative prices of Swedish exports have been unexpectedly low. Data received since the previous monetary policy meeting indicates that exports have shown surprising results once again. Another positive signal is that the upturn in investment, which we and other analysts have long awaited, appears to have begun. Consumption is continuing to grow at a stable rate. All in all, this indicates that there is reason to be more optimistic with regard to economic growth in Sweden this year," continued Mr Heikensten.

"The labour market has shown relatively weak development so far, and there is as yet no clear sign of a rebound. However, the recovery in economic activity signals that there will be an improvement. Good growth and a subdued labour market are reflected in a continued high rate of productivity growth and low cost pressure in the Swedish economy," observed Mr Heikensten.

"Inflation in Sweden has developed in line with the assessment made in the June Inflation Report, and remains low. As I have already pointed out, the decisive factor for monetary policy is not the current inflation rate, but our view of inflationary pressure a couple of years ahead. The Riksbank's assessment in June was that inflation would remain relatively stable over the coming year and then rise gradually as a result of increasing international and domestic resource utilisation. Given the risks we saw before us – primarily a slightly stronger economic upturn – inflation was expected to be in line with the Riksbank's inflation target two years from now. This was why we chose to leave the repo rate unchanged at the two most recent monetary policy meetings," said Mr Heikensten.

"How will the view of inflation in the coming years be affected by the new information received in July and August? My own assessment is that the conclusions drawn by the Riksbank at the previous meeting in late June remain valid on the whole. Some minor revisions might be necessary to the assessment of economic developments and inflation. In addition, the economic upturn has continued for a further couple of months. Nevertheless, the inflation rate two years ahead still appears to be in line with the Riksbank's target," concluded Mr Heikensten.