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■ Repo rate left unchanged at 2 per cent

At its meeting on 13 October, the Executive Board of the Riksbank decided to leave the repo rate unchanged at 2 per cent. The forecast for Swedish GDP growth this year and next year, in particular, has been revised upwards, compared with the May assessment. This, together with higher oil prices, has led to an upward revision of the inflation forecast. Despite increasing resource utilisation, inflation is forecast to be moderate in the period ahead. This is explained by a favourable cost situation and a relatively large amount of unutilised resources initially. UND1X inflation is expected to be in line with the Riksbank's target two years from now.

The assessment in the May Inflation Report was that the prospects for economic activity were favourable. Global GDP growth was assumed to have peaked, but resource utilisation was expected to continue to rise. Over the summer, the Riksbank's assessments of international economic growth and Swedish export market growth have gradually become somewhat more optimistic. Although the high oil prices will subdue the upturn to some extent in, for instance, the United States and the euro area, this is counterbalanced by the fact that growth in other countries is expected to be stronger than anticipated in May.

Oil prices have risen to much higher levels than expected in the previous Inflation Report. As before, they are expected to fall back somewhat, but the assessment is that oil prices in the coming years will be higher than forecast in May.

The forecast for GDP growth in Sweden has been gradually revised upwards at the monetary policy meetings since last May. New data indicate unexpectedly strong exports so far this year, which is linked to the high level of international growth. Exports are therefore expected to show stronger growth this year and next year. The proposals announced in the Government's Budget Bill indicate a more expansionary direction for fiscal policy in the period ahead. This is expected to lead to an increase in domestic demand in 2005 and 2006. The Riksbank's assessment is now that GDP growth will be 3.6 per cent in 2004 and 3.2 per cent a year in the following two years.



Both employment and unemployment have developed largely in line with the assessment made in May, despite the stronger GDP growth. Firms have increased production without enlarging their workforces. This is reflected, for instance, in the fact that productivity growth has once again been stronger than expected. Some upward revision has therefore been made to the forecast for productivity this year and in the coming two years.

Inflation is currently low. In September, CPI inflation was 0.6 per cent and UND1X was 1 per cent. Next year, inflation is expected to increase as a result of rising international and domestic cost pressure and capacity utilisation. Compared with the assessment in the May Inflation Report, the forecast for inflation has been revised upwards slightly, owing to the upward adjustments to the forecasts for oil prices and GDP growth. However, these inflationary impulses are to some extent counteracted by the relatively large amount of unutilised resources initially and by the fact that productivity is expected to be higher.

This time, the inflation risks are judged to be balanced around the main scenario. There is a risk that oil prices will be higher and that the effects of higher oil prices on inflation will be greater than assumed in the main scenario. There are also risks of lower inflation and weaker economic activity. These risks stem partly from the large deficits in the US federal budget and current account and from the substantial current account surpluses in Asia. At the same time, there is still uncertainty over productivity growth in the Swedish economy.

Taking into account the risk outlook, CPI inflation is expected to be 1.6 per cent one year ahead and 2.5 per cent two years ahead. The corresponding assessments for UND1X inflation are 1.4 per cent and 2.0 per cent, respectively. UND1X inflation is considered to provide the best picture of underlying inflationary pressure at present. Given that the assessment is for inflation to be in line with the Riksbank's target two years ahead, the Executive Board decided to leave the repo rate unchanged at 2 per cent.

As economic activity continues to strengthen, there is reason to expect gradually rising inflationary pressure. This suggests that the repo rate will need to be raised. It is not possible today to determine exactly when this will happen. Future monetary policy will depend as usual on how the Riksbank assesses the inflation outlook and on new information regarding economic developments in Sweden and abroad.

The decision to leave the repo rate unchanged will apply from Wednesday, 20 October. The decision is based on the outlook for inflation presented today in the Riksbank's Inflation Report.

The minutes of the Executive Board's monetary policy discussion from yesterday's meeting will be published on 27 October.

Riksbank Governor Lars Heikensten will give an account of monetary policy to the Riksdag Committee on Finance at 9 a.m. and afterwards reply to questions.

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 1 p.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, <http://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.