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■ Economic outlook is unchanged

Deputy Governor Irma Rosenberg spoke about a number of current issues of relevance to monetary policy at a meeting organised by SEB in Gothenburg.

"In the previous Inflation Report that was published in the middle of October the Riksbank's assessment was that international economic activity would continue to strengthen this year and over the next two years. The Riksbank observed that the oil price had risen considerably sharper than forecast at the end of May, but it was judged to result in relatively limited effects both on the rate of price increases and on the real economy. Over the past months there have been some indications that economic growth abroad has weakened somewhat. The high oil price is most likely *one* reason for this. Other possible explanations include the weaker dollar, which has dampened exports in, for example, the euro area. All in all, this may imply a slight downward revision of the forecast for growth in the industrial countries, compared with the October Inflation Report. Nevertheless, the picture of favourable economic developments in the period ahead is unchanged," began Ms Rosenberg.

"Allow me to say something about the dollar's depreciation. It is difficult to single out any one factor behind this, but the large deficits in the US current account and federal budget, which have long been a source of concern regarding the dollar's development, have come under the spotlight even more in recent months. The current account deficit has grown further in spite of the dollar's weakening, and several members of the Federal Reserve Board have publicly commented on the deficits recently. That may have accelerated the course of events. The US administration has not taken any measures to slow the developments, either. So far the adjustment has been orderly, but it could become a faster and sharper correction, which the Riksbank has long highlighted as a risk. This would subdue developments internationally," continued Ms Rosenberg.

"Price increases abroad have been relatively muted in recent years and this has been an important cause of the low inflation in Sweden. Over the past half-year international producer prices have risen relatively steeply in the wake of higher commodity and oil prices. At the same time there is reason to believe that the



■ increasing international competition will continue to somewhat dampen the rises in producer prices. So far the impact of the oil price increase on consumer price inflation abroad, and in Sweden, has been relatively limited. Nor do inflation expectations seem to have been affected significantly up to now," said Ms Rosenberg.

"In the past year the Riksbank has held a positive view of Swedish economic activity. Despite that, we have gradually had to revise up our growth forecasts, most recently in connection with the October Inflation Report. Exports in particular have been surprisingly robust. This is mainly because international demand has increased faster than expected. Business investment also appears to be picking up again after a number of years' weakness. The proposals in the Government's Budget Bill mean that fiscal policy will be more expansionary, contributing to somewhat stronger growth in domestic demand over the coming two years. The other side of this, however, is that the central government finances will continue to weaken. Private consumption will continue to grow steadily. In the October Inflation Report economic growth in Sweden was forecast to be slightly more than 3.5 per cent this year and just over 3 per cent in 2005 and 2006. So far this forecast appears to hold in the main, but somewhat weaker growth abroad and a stronger krona are likely to mean that the growth forecast may need to be revised down somewhat in the period ahead," said Ms Rosenberg.

"Swedish unemployment and employment have largely developed in line with the assessment in the latest Inflation Report. This means that labour market developments will continue to be weak and that there are still no clear signs of a turnaround. The continuation of favourable economic growth, however, suggests that employment will increase gradually and unemployment fall over the course of next year. I currently see no reason to change that assessment," said Ms Rosenberg.

"So how has our outlook for inflation in the coming years been affected by the new information received since the last Inflation Report in October? My personal assessment is that the Riksbank's conclusion about inflation at the last monetary policy meeting in October remains essentially unchanged. Given that we are in the midst of a cyclical upswing there is reason to expect that the shift of the forecast horizon a couple of months ahead will imply somewhat higher inflation. On the other hand there is cause to make some adjustments in the outlook for economic developments and inflation against the background of the somewhat weaker economic tendencies during the third quarter and the somewhat stronger exchange rate. In the light of the information that has been available up to now, inflation a couple of years ahead seems to be still in line with the target. The risks associated with the inflation developments, which the Executive Board discussed in the latest Inflation Report, are as relevant as before. The Swedish economy will grow faster than its long-term sustainable rate in the coming years. Consequently, we must expect gradually increasing inflationary pressures. This suggests that monetary policy sooner or later will need to be made less expansionary. When this will be appropriate remains to be judged, however," concluded Ms Rosenberg.