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■ Repo rate left unchanged at 2 per cent

At its meeting on Wednesday, 8 December, the Executive Board of the Riksbank decided to leave the repo rate unchanged at 2 per cent. Compared with the October assessment, the forecasts for growth in Sweden and abroad have been revised down slightly, while economic activity is still expected to strengthen. Large fluctuations in the foreign exchange and oil markets recently have led to some revision of the forecasts regarding oil prices and the Swedish krona. All in all, the assessment of future inflation remains largely the same as in October. Inflation is expected to be moderate despite increasing resource utilisation. This is explained by favourable cost conditions and relatively plentiful unutilised resources initially. **UND1X** inflation is expected to be in line with the Riksbank's target two years from now.

Global GDP growth was assumed in October to have peaked, but resource utilisation was expected to continue to increase. New statistics received since then indicate that international growth, particularly in the euro area, will not be quite as strong as was previously assumed. Oil prices have been slightly higher than expected and the US dollar has weakened relatively substantially against both the euro and the krona. All in all, the forecasts for international growth and Swedish export market growth have been revised down slightly. Nevertheless, global economic activity is still expected to strengthen.

The weakening of the dollar has been a gradual process over a couple of years. The decline has accelerated of late. Most indications are that this has been driven by the increased focus on the large current account deficit in the United States. The Riksbank assumes that the krona will be stronger over the coming years than was anticipated in October.

In Sweden, GDP growth has been high over the past year. Growth has been supported by strong export activity, while household consumption has increased at a stable rate. Weaker international developments and a stronger krona have led to some downward revision in the forecast for growth next year. However, the view is still that economic activity will be strong and growth will be around 3 per cent over the coming two years.



■ The high growth rate over the past year has not yet resulted in any significant improvement in employment in terms of the number of people employed. However, the number of hours worked has increased and productivity growth has been robust. Over the coming years, continued strengthening of economic activity is expected to lead to an increase in employment.

The inflation rate remains low. In October, CPI and UND1X inflation stood at 0.8 per cent and 1.3 per cent, respectively. Next year, inflation is expected to increase as a result of rising international and domestic cost pressures and higher capacity utilisation. Nevertheless, it is expected to remain moderate because of favourable cost conditions and relatively plentiful unutilised resources initially. Compared with the assessment made in October, the krona is expected to be stronger in terms of the TCW index over the next few years, which should subdue inflation. This is, on the other hand, counteracted by the assumption of higher oil prices. The forecast also extends further across the economic cycle now, which is expected to give a higher inflation rate at the end of the forecast period. All in all, the forecast for inflation remains largely unchanged since October.

The assessment regarding the balance of risks is now that there is a downside risk to the inflation outlook. For example, a more dramatic fall in the dollar could cause a sharper slowdown in world market growth. Taking into account the risk outlook, CPI inflation is expected to be 1.6 per cent one year ahead and 2.4 per cent two years ahead. The corresponding forecasts for UND1X inflation are 1.5 per cent and 2.0 per cent, respectively. UND1X inflation is considered to provide the best picture of underlying inflationary pressure at present. Against this background the Executive Board decided to leave the repo rate unchanged at 2 per cent.

If economic activity continues to strengthen as anticipated, there is reason to expect gradually rising inflationary pressure. This indicates that the repo rate will need to be raised sooner or later, although recent developments have increased uncertainty over when this will occur. The future direction of monetary policy will depend as usual on the Riksbank's assessment of the inflation outlook and of new information on economic developments in Sweden and abroad.

The decision to leave the repo rate unchanged will apply from Wednesday, 15 December. It is based on the inflation outlook presented in the Riksbank's Inflation Report, which is published today.

The minutes of the Executive Board's monetary policy discussion from yesterday's meeting will be published on 22 December 2004.

A press conference with Deputy Governor Irma Rosenberg, Anders Vredin and Kerstin Hallsten, the Head and Deputy Head of the Monetary Policy Department, will be held 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, <http://www.riksbank.se>.