



PRESS RELEASE

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■ Repo rate held unchanged at 2 per cent

At its meeting on Monday, 14 March, the Executive Board of the Riksbank decided to hold the repo rate unchanged at 2 per cent. Inflation, measured in terms of UND1X, is expected to be in line with the Riksbank's target a couple of years from now. However, it is expected to remain low for a large part of the coming two-year period, partly due to increased competition pressing prices downwards in several markets. As economic growth is expected to be robust, inflation will gradually increase.

International economic growth remains strong. There are many indications that growth will continue, albeit at a slower rate and that resource utilisation will gradually increase. Nevertheless, international price pressure is expected to be moderate, partly due to continued integration of low-cost countries into global trade.

Strong international demand for Swedish exports contributed to high GDP growth in Sweden last year. Investment also began to increase. More recently, the economy seems to have entered a slower growth phase, although growth is still expected to be relatively strong this year and over the coming two years. There are numerous indications that investment and net exports will increase at a more rapid rate than was anticipated in the assessments in December and January. The forecast for GDP growth in 2005 has therefore been revised slightly upwards.

Despite last year's strong productivity growth, the number of persons employed fell. Continued strong GDP growth this year is expected to lead to an increase in employment. Fewer notices of redundancy, more new job vacancies and an increase in the number of temporary employees also indicate that the labour market will rebound.

The signals from the manufacturing industry are that capacity utilisation has increased recently. However, the weak labour market means that resource utilisation in the economy as a whole is still assessed as relatively low. Growth this year and in the coming years is expected to remain at a level where unutilised resources will decline.

Inflation has been low over the past year. It is primarily imported inflation that has been lower than expected. There appear to have been structural changes,



■ which have led to increased competitive pressure both in the international market and later channels in the distribution chain in Sweden.

In relation to the assessments made in December and January, the inflation forecast has now been revised down. This is not due to any crucial change in the assessment of the general economic outlook, but to a number of specific factors. Increased competitive pressure is expected to continue to affect imported inflation. The forecast for domestic inflation has been revised down, partly as a result of price pressure in the food industry and lower rent increases. Inflation is accordingly expected to remain low this year. From 2006 onwards, inflation is expected to rise as economic activity continues to strengthen and cost pressure intensifies.

The risks of even lower inflation are now considered to be offset by the risks of higher inflation. Some of the risks in the inflation assessment have applied for some time now; for instance, developments in the twin deficits in the United States, the Swedish krona and productivity. In addition, there are the specific factors that have recently affected certain prices, such as food. It is uncertain how extensive and how lasting the effects on inflation will be.

The overall assessment is that inflation measured in terms of UND1X will be in line with the target a couple of years ahead, under the assumption of a constant repo rate. However, during a large part of the coming two-year period inflation is expected to remain low. At the same time, expansionary economic policy is expected to contribute to strong growth in consumption and investment. The current low interest rates have also led to a rapid rise in household borrowing and house rises. All in all, this calls for some caution in monetary policy. Against this background, the Executive Board of the Riksbank decided to hold the repo rate unchanged at 2 per cent.

The forecasts in the Inflation Report, including the assessments based on a repo rate in line with market expectations indicate that there is no reason for urgency in raising the repo rate. The future stance of monetary policy will depend as usual on new information regarding economic developments in Sweden and abroad and on the Riksbank's assessment of the inflation outlook.

The decision to leave the repo rate unchanged will apply from Wednesday, 16 March.

The minutes of the Executive Board's monetary policy discussion from yesterday's meeting will be published on 1 April.

Riksbank Governor Lars Heikensten will give an account of monetary policy to the Riksdag Committee on Finance at 10 a.m. and afterwards reply to questions.

A press conference with Governor Lars Heikensten, Deputy Governor Irma Rosenberg and Anders Vredin, Head of the Monetary Policy Department, will be held today at 2 p.m. in 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/>.