



PRESS RELEASE

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■ Repo rate cut 0.50 percentage points

At its meeting on 20 June, the Executive Board of the Riksbank decided to lower the repo rate from 2 per cent to 1.50 per cent. GDP growth slackened more than anticipated at the beginning of the year in both Sweden and the euro area. The forecast for Swedish GDP growth has therefore been revised down substantially for this year and slightly for next year. Over the coming years UND1X inflation is therefore expected to be clearly below the 2 per cent inflation target.

The Riksbank's assessment in the March Inflation Report was that international growth would slow down somewhat this year and over the coming years. Nevertheless, growth was judged to be sufficiently strong for global capacity pressures to increase. It was observed at the monetary policy meeting in April that new information and the high oil price indicated a slightly slower global economic upturn than had been expected in March.

Most indications now are that the signs of weakness noted in the United States at the beginning of the year were temporary. However, there are still clear indications in the euro area of a weaker outcome than was anticipated. The growth forecast for Swedish export markets has therefore been revised down further for this year and also slightly for next year compared with the assumptions made in April. The Riksbank's assessment in the main scenario for inflation is still that international growth will be relatively good.

It was assumed in the March Inflation Report that growth in Sweden would slow down somewhat this year compared with 2004. In April, the prospects for economic activity in Sweden appeared more uncertain. New statistics received since then indicate that growth has slackened more than the Riksbank and other analysts had expected this year. During 2005 Q1, GDP growth was much lower than forecast and the labour market remained weak. The slowdown was on a broad scale, covering exports and also private and public sector consumption.

Most indications are nevertheless that growth in Sweden will remain relatively strong. The low interest rates have contributed to a continued rapid rise in household sector borrowing and in house prices. Investment and construction are showing strong growth. Exports are stimulated by the good growth rate in the world market and by the low krona exchange rate. All in all, the strongly expansionary economic policy should stimulate demand.

The assessment in the main scenario is thus that the low growth in Sweden during Q1 was primarily a temporary slowdown. However, the weak outcome so



far this year leads the Riksbank to make a fairly substantial downward revision to its forecast for GDP growth this year and a slight downward revision for next year. Capacity pressures will thereby be lower during the entire forecast period than was forecast in March and April. This means that domestic cost pressure will increase less than was anticipated. Together with low increases in import prices, this means that inflation is expected to increase at a modest rate.

Despite the substantial downward revision to the inflation forecast, the Riksbank's assessment is that the risks of inflation being lower than in the main scenario are slightly greater than the risks of inflation being higher. The risks are mainly connected with uncertainty over economic developments both in Sweden and abroad. As before, there are also other risks in the assessment of inflation, which are connected with the current account deficit in the United States, the effects of the high oil price, the level of long-term productivity growth and the effects of various structural changes, such as increased competition.

CPI and UND1X inflation have remained low, standing in May at 0.1 and 0.2 per cent, respectively. Over the coming two years UND1X inflation is expected to be below the 2 per cent inflation target under the assumption that the repo rate will be held constant. The forecasts based on interest rates developing according to market expectations also indicate that there is scope to cut the repo rate. Given this, the Executive Board decided to lower the repo rate by 0.50 percentage points.

The future direction for monetary policy will depend on new information on economic developments in Sweden and abroad and the effects this may have on inflation in Sweden. Monetary policy is now considered to be well-balanced.

The decision to cut the repo rate will apply from 22 June. The minutes of the Executive Board's monetary policy discussion from yesterday's meeting will be published on 5 July 2005.

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 11 a.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, www.riksbank.se.

Inflation forecast taking into account the risk outlook

Annual percentage change

| | Annual average | | 12-month rate | |
|-------|----------------|-----------|---------------|-----------|
| | 2005 | 2006 | June 2006 | June 2007 |
| CPI | 0.3 (0.1) | 1.1 (1.5) | 1.1 (1.6) | 1.6 |
| UND1X | 0.5 (0.2) | 1.0 (1.4) | 0.9 (1.4) | 1.5 |

Note. The figures in parentheses are the forecasts in the previous Inflation Report.

Key figures

Annual percentage change

| | 2005 | 2006 | 2007 |
|------------------------------|-----------|-----------|-----------|
| GDP at market prices | 1.9 (3.2) | 2.7 (3.2) | 2.7 (2.8) |
| Swedish export market growth | 6.0 (7.0) | 6.7 (6.9) | 6.8 (6.8) |

Note. The figures in parentheses are the forecasts in the previous Inflation Report.