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■ Bright prospects for Swedish economy

Deputy Governor Villy Bergström held a speech at Örebro master builders association on the subject of the current economic situation.

"The Riksbank's assessment in the Inflation Report published in October was that international growth would remain good, although it would decrease somewhat, this year and over the coming years. The oil price had been higher than was forecast in June and was expected to continue to be higher than previously anticipated. Growth in the Swedish economy appeared to have accelerated again following the decline at the beginning of the year. Household consumption was expected to continue to strengthen in coming years, and public consumption was estimated to increase, particularly next year. The investment upturn that began last year was expected to continue, but to gradually enter a calmer phase. All in all, the assessment was that growth would be relatively robust in the Swedish economy in the coming years. Wage trends were expected to be relatively favourable and prospects appeared good for increased growth in domestic demand and employment. The expansionary fiscal policy was also expected to contribute to increased domestic demand," said Mr Bergström.

"The new information received since then indicates that international economic activity is continuing to improve. The preliminary national accounts figures for the United States indicate continuing good growth during Q3. There have also been positive economic signals from other parts of the world. The purchasing managers index for the manufacturing sector rose in October, both in the euro area and in Japan. The turnaround in Japan appears to have been more stable this time, which means that the world's second largest economy is beginning to accelerate," said Mr Bergström.

"Swedish growth also appears to be continuing to strengthen. Exports are showing strong growth and there are signs that household consumption is beginning to pick up, while disposable incomes and the labour market are improving. House building is an important growth engine and the infrastructure investments decided last year still stand. Productivity has been high, which has improved Sweden's competitiveness. Together with the weak krona, this contributes to a favourable situation for the export industry. It is also important in this context to emphasise that economic policy has a strongly stimulating effect,



■ through a low repo rate and expansionary fiscal policy. This could reasonably lead to continuing high growth in demand in the economy," continued Mr Bergström.

"The low interest rates have also contributed to rapid growth in lending to households and rising asset prices. We have seen a rapid increase in house prices and commercial property prices are also rising now," added Mr Bergström.

"Let me say a few words about recent developments in the krona rate. As you know, the Riksbank does not have a target for the krona exchange rate. Monetary policy is aimed at achieving a low, stable inflation rate. At the same time, it is clear that the exchange rate is an important factor for inflation. If the krona were to become established at a low level in the long term, this would affect our assessment of inflation. The krona has recently been much weaker than expected. However, there is no reason at present to believe that this is based on any concern over developments in the Swedish economy. There is thus no reason to fundamentally change our assessment of the exchange rate. However, it does not prevent the weak krona from having effects. The events so far affect our forecast to some extent. In addition, and I am sure my colleagues would agree with this, the longer the krona remains weak, the greater is the risk that it will affect future inflation. Thus, in practice, the development of the krona can also come to play a role in future monetary policy," continued Mr Bergström.

"My assessment – and this is my personal opinion – is that financial conditions are very expansionary and that it would now appear that tighter monetary policy is required to ensure that inflation is not allowed to accelerate and threaten the 2 per cent target. I also see developments in the property market as a reason for a shift towards less expansionary monetary policy. What worries me is that if the current developments continue, we may sooner or later face an abrupt adjustment, which would have a negative effect on general demand and on employment," concluded Mr Bergström.