

Press Release

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Repo rate unchanged at 2.90 per cent

At its meeting on Wednesday June 2nd, the Executive Board of the Riksbank decided to keep the repo rate unchanged at 2.90 per cent. The decision is based on the analysis of inflation prospects that the Riksbank presents today in the Inflation Report.

The conclusion in the Inflation Report is that, excluding transitory effects of changes in indirect taxes, subsidies and interest rates, in one to two years the rate of inflation will be marginally below the Riksbank's target. The deviation is small, however, particularly when the altered risk spectrum is taken into account. The risks now appear to be evenly balanced around the Report's main scenario.

International economic prospects have shifted in a positive direction during the spring, above all in the light of a continuation of the strong trend in the United States. The economies first hit by the Asian crisis are gradually starting to recover. In the euro area manufacturing activity has weakened, but most signs now suggest that the slowdown is levelling out and activity is at a low. Even with somewhat stronger growth prospects for the OECD area and higher oil prices, external inflationary pressure is judged to be only somewhat higher than envisaged in the March Inflation Report.

Activity in the Swedish economy in the forecast period is now expected to develop somewhat more strongly than was assumed in the March Report. A successive increase in domestic demand is foreseen, partly in view of low interest rates. Together with some recovery in international activity, this is judged to generate GDP growth rates of 2.5 per cent in 1999 and 3 per cent in both 2000 and 2001. There is a comparatively good reserve of unutilised resources at present, but it will probably decrease successively in the coming two years, which is liable to lead to a gradual rise in inflationary pressure. Inflation expectations in Sweden are, however, still at a low level. According to surveys, inflation in the coming two years is expected to be below 2 per cent and expectations for the longer run are in line with the Riksbank's target.

Changes in indirect taxes, subsidies and house mortgage interest expenditure are judged to have a downward effect on CPI of 0.8 percentage points one year ahead and 0.3 percentage points in two years. In the present situation these transitory

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factors are disregarded in the formation of monetary policy because they are judged to have no permanent effect on inflation or inflation expectations. This means that in practice monetary policy is currently based on an assessment of inflation as measured by UNDIX.

The rate of UNDIX inflation, which excludes changes in indirect taxes, subsidies and interest expenditure, is judged to be 1.9 per cent in one year and 2.0 per cent two years hence. During the same period, inflation measured as CPI is judged to be 1.0 per cent and 1.6 per cent, respectively.

The overall spectrum of risks is now considered to be symmetrical around the main scenario. The risk of a longer and deeper international economic slowdown is judged to have decreased and oil prices could rise more rapidly than assumed in the main scenario. Neither can stronger domestic demand be ruled out; an important factor in this respect is fiscal policy. One downside risk is falling stock markets internationally. Another downside risk has to do with the fact that in recent years inflation, in Sweden as well as internationally, has been lower than historical relationships indicated. This could mean that the link between growth and inflation is weaker than assumed in the main scenario. In coming years, with the prospect of stronger activity and rising inflationary pressure, it will be even more important to detect indications of capacity shortages and monitor price formation in order to assess the validity of earlier relationships.

The minutes of the monetary policy discussion at yesterday's meeting of the Executive Board will be published on 2 August.

A press conference, attended by Deputy Governor Lars Heikensten, Claes Berg, Head of Economics Dept., Hans Lindberg, Deputy Head of Economics Dept. and Hans Lindblad, Head of Price Analysis Division, is to be held at 10 a.m. today at the Riksbank. Entrance by press card at 7 Malmskillnadsgatan.

The next Inflation Report will be presented on 6 October.

Copies of Inflation Report 1999:2 can be ordered on the Internet (www.riksbank.se), by e-mail (info@riksbank.se), fax (+46 8 787 05 26) or phone (+46 8 787 01 00), or collected from the Riksbank (7 Malmskillnadsgatan or 11 Brunkebergstorg). The Report is also available on the Internet (www.riksbank.se/eng).