

Press Release

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Repo rate raised 0.35 percentage points to 3.25 per cent

At the meeting on Thursday, November 11th, the Executive Board of the Riksbank decided to raise the repo rate 0.35 percentage points, from 2.90 to 3.25 per cent, to apply from Wednesday, November 17th. The decision is based on the Riksbank's assessment of inflation, presented in the latest Inflation Report, and the analysis of subsequent economic developments. By raising the repo rate now, the Riksbank contributes to a continuation of favourable economic developments, characterised by stable prices and sustainable growth.

In the main scenario in the Inflation Report it was judged that, corrected for transitory effects of changes in indirect taxes, subsidies and interest rates, in the coming years the rate of inflation will tend to move up and be marginally above the Riksbank's target in two years' time if the repo rate is left unchanged. Somewhat higher inflation was suggested, however, by the overall risk assessment, which is included in the basis for monetary policy decisions. The most evident risk was that labour market shortages would lead to higher wage increases and stronger inflationary pressure.

Since the publication of the Inflation Report, international economic prospects have shifted somewhat in a positive direction. Together with higher prices than expected for commodities and intermediate goods, for example oil, this can lead to external price pressure being somewhat stronger than envisaged in the Inflation Report.

Economic growth in Sweden was judged in the Inflation Report to be 3.6 per cent in 1999, 3.8 per cent in 2000 and 3.0 per cent in 2001. The impressions conveyed by recent statistics vary somewhat but the overall picture does not warrant any change in the appraisal of growth prospects. Industrial output, export orders and employment seem to have been somewhat weaker than expected, though the statistics are difficult to interpret. But most other indicators, such as retail turnover and monetary and credit aggregates, suggest that activity is continuing to strengthen as foreseen in the Inflation Report. Moreover, price movements as measured by the CPI and UNDEX have broadly followed the forecast in the Inflation Report.

SVERIGES RIKSBANK

Telephone
+46 8 787 00 00

Telefax
+46 8 21 05 31

E-mail
registratorn@riksbank.se

Internet
<http://www.riksbank.se>

The inflation target is a stabilising factor in wage formation and expectations of inflation in the longer run are still anchored around 2 per cent. To date this autumn, moreover, the wage statistics have been in line with the Inflation Report's main scenario. At the same time, labour market developments, such as new wage agreements and wage demands, confirm that there is a risk of growing wage pressure. Moreover, labour demand is strong in certain industries where wage settlements are due to be renegotiated in the coming year.

All in all, inflation one to two years ahead is judged to be marginally higher than was envisaged in the Inflation Report. The assessment that the Swedish economy is in a strong and broad upward phase has been confirmed recently. Demand is growing and the unutilised resources are successively being brought into production. Underlying price pressure in the economy is accordingly also rising. Against this background it is natural that monetary policy is now adjusted in a less expansionary direction.

The repo rate increase of 0.35 percentage points creates conditions for keeping the repo rate unchanged for the rest of the year, given that future economic developments in Sweden are in line with the Riksbank's assessment.

The minutes of the monetary policy discussion at yesterday's Executive Board meeting will be published on 30 November 1999.

A press conference, attended by Governor Urban Bäckström and First Deputy Governor Lars Heikensten, will be held at the Riksbank at 11 a.m. today, Friday. Admission by press card at 7, Malmkillnadsgatan.