

Press Release

9 DECEMBER 1999 NO. 82

Economic upswing and a rising tendency in inflationary pressure

At the meeting on Wednesday, 8 December, the Executive Board of the Riksbank decided to hold the repo rate unchanged at 3.25 per cent. The decision, which applies from Wednesday, 15 December, is based on the analysis of inflation prospects the Riksbank is publishing today in the Inflation Report.

The conclusion in the Inflation Report is that, excluding transitory effects from indirect taxes, subsidies and interest expenditure and given an unchanged repo rate of 3.25 per cent, the rate of inflation will rise slowly and two years ahead be somewhat above the target.

Since the October Inflation Report, there has been a further improvement in international economic activity. Annual OECD area growth in 1999–2001 is now judged to average rather more than 2.5 per cent. An appreciation of the krona is foreseen, but at a somewhat slower rate than allowed for in the October Report. Together with higher prices for oil and other commodities, this is expected to result in a somewhat stronger trend for Swedish import prices than envisaged in the October Report, though this trend still looks weak and is judged to hold back the increase in inflation.

The Swedish economy is in a broad and stable upward phase. There are grounds for expecting a rapid expansion of domestic demand, accompanied by a somewhat more favourable development of net exports on account of the brighter international prospects. All in all, the GDP growth rate is judged to be 3.4 per cent in 1999, 3.7 per cent in 2000 and 3.3 per cent in 2001.

With the comparatively rapid growth of total demand, unutilised resources in the economy will successively be brought into production. In time, capacity constraints may begin to take hold and influence the development of prices. At present, however, there are no signs that marked shortages will arise during the forecast period.

The general public's short-run inflation expectations have continued to move up to some extent, but the level is still low. Inflation one year ahead is expected to be below 2 per cent, while expectations for the longer run are in line with the target, which should help to modify inflationary impulses from the stronger economic activity.

In the main scenario in the Inflation Report, the rate of inflation measured as UNDIX is judged to be 1.8 per cent one year ahead and 2.2 per cent after two

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years. This means that, even with the November repo rate increase, inflation is judged to be marginally higher than was foreseen in the October Report. The main explanation is that the price trend for imported goods will not counter rising domestic inflationary pressure to the extent assumed earlier.

The balance of risks in the inflation assessment is still judged to be on the upside. Import prices may rise more rapidly than foreseen in the main scenario and inflation may react more markedly to strong growth of demand. Neither can a higher wage trend be ruled out. With the risk spectrum incorporated in the forecast, UNDEX inflation is judged to be approximately 0.1 percentage point higher than in the main scenario, that is, 1.9 per cent one year ahead and 2.3 per cent two years ahead.

All in all, activity in the Swedish economy is rising rapidly and inflationary pressure is growing gradually. The November repo rate increase created conditions for holding the repo rate unchanged for the rest of the year. If future economic development is in line with the Riksbank's assessment, monetary policy cannot continue to be as expansionary as at present.

The minutes of the Executive Board's monetary policy discussion at yesterday's meeting will be published on 11 January.

A press conference, attended by Lars Heikensten, First Deputy Governor, Hans Lindberg, Deputy Head of Economics Department and Hans Lindblad, Head of Price Analysis Division, will be held at the Riksbank at 10 a.m.; admission by press card through the entrance at 7 Malmkillnadsgatan.

The Inflation Report can be ordered from Information Riksbank; e-mail: info@riksbank.se, fax: +46 8 787 05 26, telephone +46 8 787 01 00. The Report is also available on the Riksbank's website, www.riksbank.se.