

Press Release

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Repo rate raised 0.50 percentage points to 3.75 per cent

At the meeting on Thursday, February 3rd, the Executive Board of the Riksbank decided to raise the repo rate 0.50 percentage points, from 3.25 to 3.75 per cent, with effect from Wednesday, February 9th. The decision is based on the Riksbank's inflation assessment in the December Inflation Report and the analysis of subsequent economic developments.

The present monetary stance is expansionary, but during the economic upswing it will have to be made gradually less expansionary in order to adapt growth to what the Swedish economy is capable of achieving in the long term without generating increased pressure on prices. Today's repo rate increase creates a sound foundation for a continuation of a favourable economic trend with stable prices, sustainable growth and increased employment.

In the main scenario in the Inflation Report it was judged that, excluding transitory effects from indirect taxes, subsidies and interest expenditure and given an unchanged repo rate, the rate of inflation will rise slowly and two years ahead be somewhat above the target. The overall risk assessment, which is included in the deliberations on monetary policy decisions, pointed to inflation being even somewhat higher. Still, the repo rate was not increased, partly out of consideration for the millennium transition.

Since the publication of the December Inflation Report there has been a further improvement in international economic prospects, which were already strong. Together with higher than expected prices for commodities and intermediate goods, the international economic upswing may lead to external price pressure being somewhat stronger than envisaged in the Inflation Report. GDP growth in Sweden was judged in the Report to be 3.4 per cent in 1999, 3.7 per cent in 2000 and 3.3 per cent in 2001. Recent developments support the picture of a strong economic upswing and most things suggest that growth prospects have improved.

Price tendencies in recent months have been mostly in line with earlier assessments. The upward shift in consumer prices has mainly come from rising oil prices, while in other respects prices have been subdued. In the coming two years the price of oil will probably be somewhat higher than assumed in the Inflation Report. Rent increases in the near future may, however, be lower than expected

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earlier and a similar tendency in telecommunications is indicated by the strong price competition there. All in all, the rate of inflation may slacken and in the spring develop somewhat weaker than expected. Monetary policy is formulated, however, mainly in the light of an assessment of inflation one to two years ahead. As demand is growing rapidly and the unutilised resources are being brought into production, in the longer perspective there are grounds for counting on growing inflationary pressure. Taking today's repo rate increase into account, a moderate increase in UNDEX inflation is foreseen, so that two years ahead the rate is approximately in line with the target.

The minutes of the Executive Board's monetary policy discussion at yesterday's meeting will be published on 22 February.

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

The press conference will be transmitted directly (in Swedish) on the Riksbank's website under För journalister/Video.