

Press Release

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Repo rate unchanged at 3.75 per cent

At the meeting on Wednesday, 7 June, the Executive Board of the Riksbank decided to hold the repo rate unchanged at 3.75 per cent, with effect from Wednesday, 14 June. The decision is based on the assessment of inflation prospects that is published today in the Riksbank's Inflation Report.

In the Report's main scenario, the rate of inflation excluding transitory effects from indirect taxes, subsidies and house mortgage interest expenditure (UNDIX) is below 2 per cent both one and two years ahead. When various alternative developments are taken into account — above all the risk of stronger domestic demand — the rate at the end of the forecast period is, however, in line with the inflation target.

International economic prospects remain favourable. Both global inflation and the price of oil are judged to be somewhat higher in the short run, accompanied by an international price tendency for manufactured exports that is somewhat weaker, mainly as a result of increased international competition. Economic growth in Sweden is calculated to be somewhat higher in the forecast period. A favourable development of income and wealth, combined with strong optimism about future prospects, is expected to lead to somewhat higher private consumption. Investment activity is stimulated in turn by, for example, good profitability and strong demand. All in all, GDP growth is judged to be 4.3 per cent in 2000, 3.5 per cent in 2001 and 2.9 per cent in 2002.

Rapid growth suggests that the economy's unutilised resources will be brought into production in the forecast period. The risk of widespread capacity restrictions should be reduced, however, by an expected increase in labour supply and somewhat more favourable productivity growth. There are also signs that unutilised resources to some extent have been underestimated previously. The wage trend, for example, was weaker than expected during 1999 and the early part of 2000.

Inflation prospects in the Report are essentially the same as in the March Report. Underlying domestic inflation (UNDINHX) rises gradually as a result of stronger activity. At the same time, among other things low import price increases, tend to hold inflation down. Compared with the assessment in March, the acceleration of inflation is somewhat lower, mainly as a consequence of the new proposal for a maximum day nursery charge. In the March Report it was assumed that the maximum charge would have a downward CPI inflation effect of 0.1 percentage point in both 2001 and 2002. With the new proposal, presented by the Government in the Spring Bill, the maximum charge is now expected to reduce inflation only in

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2002 and then by 0.3 percentage points. All in all, in the main scenario with an unchanged repo rate, UNDIX inflation is expected to be 1.5 per cent one year ahead and 1.9 per cent after two years.

The risk spectrum is judged to be balanced one year ahead, but points towards somewhat higher inflation after two years. The main factor behind this assessment is that domestic demand may be stronger than in the main scenario. The Spring Bill has indicated that a more expansionary fiscal stance cannot be ruled out. Another important factor in the risk assessment is the development of wages, and at present one cannot dismiss the possibility of a wage outcome for 2001 and 2002 that is either higher or lower than in the main scenario. The risk associated with wages is nevertheless considered to be on the upside because while there is a slight risk of an appreciably higher wage outcome, there is no corresponding risk of an appreciably lower outcome. All in all, given an unchanged repo rate and taking the risk spectrum into account, UNDIX inflation is expected to be 1.5 per cent one year ahead and 2.0 per cent after two years.

The decision to leave the repo rate unchanged for the time being is to be seen against the background of the assessment that inflation will be below 2 per cent during almost the whole of the forecast horizon. It is only towards the end of the period and taking various risks into account that the rate is in line with the inflation target. At the same time, the favourable economic prospects have been confirmed and even become somewhat stronger.

The minutes of the Executive Board's monetary policy discussion at yesterday's meeting will be published on 28 June.

A press conference, attended by Lars Heikensten, First Deputy Governor, Claes Berg, Head of Monetary Policy Department, Per Jansson, Deputy Head of Monetary Policy Department, and Hans Lindblad, Head of Macro Analysis Division, will be held at the Riksbank at 10 a.m.; admission by press card through the entrance at 11 Brunkebergstorg.

The press conference will also be transmitted on the Riksbank's website, www.riksbank.se, under the heading For journalists/Video.

Copies of the Inflation Report can be downloaded from the website under the heading Publications/Inflation Report or ordered from Information Riksbanken: e-mail (info@riksbank.se)
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