

Press Release

27 MARCH 2001 NO 17

Repo rate remains unchanged at 4.0 per cent

At its meeting on Monday, 26 March, the Executive Board of the Riksbank decided to hold the repo rate unchanged at 4.0 per cent, to apply from Wednesday, 28 March. The decision is based on the analysis of inflation prospects in the Inflation Report that is being published today.

The overall assessment in the report is that, according to the main scenario, the rate of inflation one to two years ahead will be largely in line with the Riksbank's target.

The international slowdown in economic activity is assessed to be more pronounced than was forecast in the previous Inflation Report. Repercussions from the slackening that began in the US economy have gradually been felt in other parts of the world, partly spread via effects in the financial markets and share prices. The weaker growth in global demand affects Swedish prices in several ways. Price trends on import products, e.g. oil, are expected to be slightly more subdued. A lower demand for Swedish goods and services as a result of a declining inflow of orders and reduced confidence in future developments internationally and in Sweden will also affect inflation. However, the effects of the subdued international activity on Swedish inflation will be limited to some extent by the fact that the Swedish krona is expected to appreciate more slowly than was previously assumed.

All in all, GDP growth in the main scenario for the next few years is estimated to follow a trend sustainable in the long term, from the point of view of inflation. Total utilisation of resources will therefore remain largely unchanged over the next few years. This in turn indicates a subdued development in domestic inflation. The assessment for UNDI_X inflation both one and two years ahead is 1.9 per cent, with an unchanged repo rate of 4.0 per cent. The main scenario's forecast for CPI inflation is 1.9 per cent one year ahead and 2.0 per cent two years ahead.

The risk spectrum is also important in the formation of monetary policy. The main risk on the downward side is that the international slowdown will be deeper, last longer and be more widespread than assumed in the main scenario. A more pronounced slowdown in the USA would probably have tangible repercussions in other parts of the world. Countering this downside risk is the risk of a more rapid rise in domestic prices, caused primarily by higher wage costs as a result of spread

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effects from wage agreements at a high level within areas where the negotiations have not yet been concluded, as well as a weaker growth in productivity when economic activity slows down. Neither is it possible to rule out the risk of a weaker exchange rate than assumed in the main scenario, although this could be related to a more profound international slowdown. All in all, the downside risk in the inflation forecast is nevertheless considered to outweigh the upside risk both one and two years ahead.

Taking into account the risk spectrum, UNDIX inflation is forecast at 1.8 per cent both one and two years ahead and CPI inflation is forecast at 1.8 per cent one year ahead and 1.9 per cent two years ahead.

At present, nursery fees are not included in CPI or UNDIX. Previous Inflation Reports have assumed that they would be included for 2002. However, considering the process for reviewing the consumer price index, this is no longer the case. This involves the loss of the moderating effect on inflation that the Riksbank expected to arise from the introduction of a maximum charge on nursery fees. If the consequences of the introduction of a maximum fee are disregarded, the forecast in the Inflation Report means a downward adjustment of UNDIX inflation by 0.2 percentage points for 2002, calculated as an annual average. The statistical processing of nursery fees is mainly a technical problem and does not affect the direction of monetary policy.

There have been significant changes to the monetary policy picture during the last quarter. The overall downside risk for inflation is still fairly slight, however, and even with the risk spectrum, inflation one year ahead is mainly in line with the target. It should also be noted that growth prospects are good from a historical perspective and close to what the economy can bear without inflation accelerating. Together, this indicates that the repo rate should be left unchanged for the moment, at 4.0 per cent. However, uncertainty over international developments and domestic inflationary pressure mean there is a need to be vigilant in the future.

The minutes of the Executive Board's monetary policy discussion during yesterday's meeting will be published on 9 April.

Governor Urban Bäckström is to address the Parliamentary Standing Committee on Finance at 10 a.m. today in Skandiasalen, 1 Mynttorget.

A press seminar at the Riksbank will be held at 2 p.m., entry by press card at 11 Brunkebergstorg. It will be attended by First Deputy Governor Lars Heikensten, Claes Berg, head of the Monetary Policy Department, and Hans Lindblad, head of the department's Division for Macro Economic Analysis.

The Inflation Report can be downloaded from the website under the heading Publications/Inflation Report or ordered from Information Riksbank, e-mail address: forradet@riksbank.se, fax: +46 8 787 05 26, telephone: +46 8 787 01 00.