

# Press Release

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## Repo rate remains unchanged at 4.0 per cent

At its meeting on Thursday, 26 April, the Executive Board of the Riksbank decided to hold the repo rate unchanged, at 4.0 per cent. This decision, which will apply from Wednesday 2 May, should be regarded in the light of the March 2001 Inflation Report and the assessment made of information that has been received since then.

The overall assessment in the Inflation Report was that the rate of inflation one to two years ahead was in line with the Riksbank's target. This forecast was based on a substantial downward revision of international activity, which contributed to an adaptation of demand in the Swedish economy to a level more sustainable in the long term. The report also pointed out a downside risk for inflation in the event of a deeper international decline than forecast in the main scenario. This downside risk was partly counteracted by the risks of a more rapid increase in domestic prices and a weaker development in the exchange rate. Given the above, the repo rate was held unchanged.

Since the Inflation Report was published, international developments have been largely in line with the assessment made in the Report. Statistics received from the USA have given mixed signals. In Europe, demand has been kept up while industrial activity has declined slightly more than expected. Spread effects from the slowdown in the USA have become more evident in several countries. At the same time, stagnation tendencies in Japan have become more pronounced. Although the total effect in the OECD region has been an easing of monetary policy, there is still considerable uncertainty in financial markets.

There are signs that demand in Sweden may have been subdued even more. At the same time, the level of resource utilisation is still high. Altogether, the most recent statistics indicate a slowdown largely in line with the assessment in the Inflation Report. Prices have risen more than expected recently. Both CPI inflation and UNDIX inflation amounted to 1.9 per cent in March, compared with March 2000, which is higher than assumed by the Riksbank in the Inflation Report. Even the domestic underlying inflation rate (UNDINHX) increased more than estimated. This could be due partly to a normalisation in fields where prices had fallen in

SVERIGES RIKSBANK

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Telephone  
+46 8 787 00 00

Fax  
+46 8 21 05 31

E-mail  
registratorn@riksbank.se

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

recent years. It could also be a result of resource utilisation or inflation propensity in the economy being slightly higher than expected.

In the short term, the rate of price increase may exceed 2 per cent, partly as a result of price effects arising from foot and mouth disease, and partly due to high petrol prices. However, in the longer term, it is the growth in economic activity and utilisation of resources that will determine inflation prospects. The downside risks with regard to international economic growth remain. However, a continued weak krona may to some extent counteract the dampening effect on prices. Inflation expectations are at around 2 per cent. The conclusion is that inflation prospects one to two years ahead are largely in line with the Riksbank's target, even when the risk spectrum is incorporated. This makes it natural to hold the steering interest rate unchanged. In addition, the Swedish repo rate is lower than the corresponding steering interest rates in most industrial nations. However, there is still considerable uncertainty, requiring vigilance in the future.

The minutes of the Executive Board's monetary policy discussion during yesterday's meeting will be published on 15 May 2001.