Press Release

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Repo rate raised 0.25 percentage points to 4.0 per cent

At the meeting on Monday, 18 March, the Executive Board of the Riksbank decided to raise the repo rate 0.25 percentage points, to 4.0 per cent. The decision, which applies with effect from Wednesday, 20 March, is based on the picture of inflation prospects in the Inflation Report the Riksbank is presenting today.

The assessment in the Report is that inflation one to two years ahead will be somewhat above the Riksbank's target. There are increasingly clear signs of an economic recovery both internationally and in Sweden. Moreover, resource utilisation in Sweden is probably more strained than had been expected and this contributes to an increase in domestic inflation that is somewhat stronger than envisaged earlier.

The inflation forecast in the Report's main scenario assumes that the prospects for growth in the rest of the world have improved. The expansionary economic policy is judged to provide a basis for a continued recovery abroad in the coming years. At the same time there are factors whereby the upswing may be comparatively moderate. Private saving is low initially, particularly in the United States, which points to the growth of consumption being conservative. Another cause for concern is the possible reaction of stockmarkets and the corporate sector to the prospect of subdued profits. In Europe, rigidities in both product and labour markets could pose problems when activity picks up.

In Sweden, too, incoming statistics suggest that activity has levelled out. Interest rates are low at present and the exchange rate is weak. Together with tax cuts and increased transfers, this is expected to contribute to increases in household consumption as well as saving. Exports will also recover, albeit cautiously at first, in line with the international upturn in economic activity. The picture also includes an appreciation of the Swedish krona in the forecast period. GDP growth in the main scenario is judged to be 1.6 per cent this year, 3.0 per cent in 2003 and 2.6 per cent in 2004.

Inflation is judged to fall back over the coming six months from its present high level. This largely mirrors the ebbing away of the effects of last year's transitory price increases for oil, electricity and food. Somewhat more strained resource utilisation in the forecast period will contribute to increases in labour costs and

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domestic inflation that are somewhat higher than foreseen in the December Report. Imported inflation, on the other hand, is now judged to follow a weaker path. In the main scenario, CPI inflation is calculated to be 2.2 per cent one year ahead and 2.4 per cent after two years, while UND1X inflation is 2.2 per cent both one and two years ahead.

The risk spectrum is also relevant for the formulation of monetary policy. Domestic inflation has gone on rising since the time of the December Report. The increase has been greater than expected and is only partly attributable to transitory factors. Together with the fact that recent wage increases have also exceeded expectations, this raises questions about resource utilisation, inflationary pressure and the workings of the economy. Although the economy's inflation propensity has been revised upwards to some extent in the main scenario, there is still judged to be some upside risk from domestic inflation. The overall assessment is that UND1X inflation will be 2.3 per cent both one and two years from now.

The Executive Board decided to raise the repo rate 0.25 percentage points, to 4.0 per cent. This means that the deposit and lending rates are also adjusted, to 3.25 and 4.75 per cent, respectively.

The future development of the instrumental rate depends, as usual, on incoming information and on how this is assessed in turn by the Riksbank. If economic activity continues to strengthen as expected – and if there are no grounds for changing the appraisal of the inflation propensity – it is, however, reasonable to assume that the level of interest rates in Sweden will be adjusted successively upwards. This does not come as a surprise to financial market participants. Such a tendency is a natural consequence of the Riksbank's commitment to ensuring a rate of wage and price increases that is in line with the inflation target in a situation where economic activity in Sweden is gradually becoming stronger.

The minutes of the Executive Board's monetary policy discussion at yesterday's meeting will be published on 8 April, 2002.

Governor Urban Bäckström will account for monetary policy to the Riksdag Finance Committee at 10 a.m. and then answer questions.

A press conference on the Inflation Report, with First Deputy Governor Lars Heikensten, Head of the Monetary Policy Department Claes Berg and Deputy Head Hans Lindblad, will be held at 2 p.m. in the Riksbank. Entrance from 7 Malmskillnadsgatan. Press cards must be shown.

The Inflation Report can be downloaded from the Riksbank's website, www.riksbank.se, under the headings Publications/Inflation Report, or ordered via e-mail, forradet@riskbank.se; fax, +46 8 787 05 26; or tel., +46 8 787 0100.