

Press Release

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Repo rate raised 0.25 percentage points to 4.25 per cent

At its meeting on Thursday, 25 April, the Executive Board of the Riksbank decided to raise the repo rate by 0.25 percentage points, from 4.0 per cent to 4.25 per cent. This decision, which will apply with effect from Thursday, 2 May, is based on the most recent Inflation Report and new information on economic developments received since then.

Recent international developments have largely been in line with the picture painted in the most recent Inflation Report. It would now appear that the changeover towards a more expansionary economic policy last year has laid the foundation for a recovery. Growth in the USA appears to have been stronger at the start of this year than was previously assumed. Developments in the euro area have been more subdued than in the USA, but there are signs of a tentative improvement, in line with the assessment in the Inflation Report. The remaining imbalances in the USA, which are expressed, for instance, in a low level of savings, contribute to some uncertainty regarding the strength and endurance of the recovery. Another contributing factor to the uncertainty is the unease in the Middle East and the recent high oil prices. Another factor is the higher inflation rates in the euro area. All in all, there is no reason to alter the assessment in the Riksbank's March report, that a gradual recovery of the global economy will take place during 2002 and that growth will thereafter be relatively high. For the OECD area, this means a growth in GDP of 2.5-3.0 per cent over the coming years.

In Sweden the demand situation is essentially following the main scenario outlined in the Inflation Report. The services sector has sustained the level of activity relatively well, while there are now signs of a recovery in manufacturing. The total economic policy is expansionary, which is illustrated in the fact that real interest rates are low, the krona is weak and increased transfers and lower taxes are giving households greater scope for consumption. The rise in oil prices and the weak developments on the stock exchange, combined with problems in the telecom sector, may contribute to a slightly weaker growth in demand than was earlier assumed. Nevertheless, a recovery roughly in line with that described in the Inflation Report is expected over the coming years. GDP growth in Sweden is thus also assumed to be within the interval 2.5-3.0 per cent.

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Prices in Sweden have been marginally higher than was assumed in the Inflation Report. However, it is estimated that inflation will fall from the current high levels over the coming six-month period, mainly as a result of the effects of temporary price increases subsiding. There is a possibility that the fall may be slowed down somewhat in the short term by the higher prices for petrol and oil. After this, the relatively high level of resource utilisation is estimated to contribute to a slight increase in labour costs and domestic inflation.

The inflation propensity of the economy still comprises an upside risk for domestic inflation. The questions regarding resource utilisation, inflationary pressure and the functioning of the economy that were raised in the Inflation Report still remain. There is currently no reason to change the assessment made in March that inflation will slightly exceed the Riksbank's target level of 2 per cent in 1-2 years time, the time horizon used when shaping monetary policy. Given this, the Executive Board has decided to raise the repo rate by 0.25 percentage points, to 4.25 per cent. This decision means that the deposit and lending rates will also be adjusted, to 3.5 per cent and 5 per cent respectively.

The future direction for monetary policy will, as always, depend on the Riksbank's assessment of future inflation. If demand continues to strengthen and there is no reason to change the view of inflation propensity, further steps towards a less expansionary monetary policy may be necessary. However, the Riksbank has raised the repo rate 0.5 percentage points since the beginning of this year. The rate at which any future adjustments might need to be made is uncertain and will, as usual, depend on the information received and how it is interpreted.

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

A press conference with Riksbank Governor Urban Bäckström and First Deputy Governor Lars Heikensten will be held at 10 a.m. on Friday, 26 April at the Riksbank, Malmskillnadsgatan 7. Press cards must be shown.