

# Press Release

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## Positive development in line with the Riksbank's forecast

Deputy Governor Lars Nyberg held a speech on Friday at a seminar in Copenhagen arranged by Nordea. Mr Nyberg commented on economic developments since the publication of the March Inflation Report, amongst other issues.

“Since the previous Inflation Report in March, the signs of an international economic upturn have become more evident. The unexpectedly rapid turnaround in stockbuilding in the USA has created the right conditions for increased production and a strong growth in productivity. In addition, low wage cost increases have contributed to improved profit margins, which indicates that investments will increase. The positive development in the USA also provides stimulation for economic activity in Europe. However, there is still considerable uncertainty, which is reflected for instance in the recent fall in prices on the stock market,” said Mr Nyberg.

“The essential features of the assessment of the Swedish economy made in the most recent Inflation Report still prevail. The manufacturing industry appears to have entered a phase of recovery, judging by the figures for industrial production, order intake and expectations for the future. The weak exchange rate is also beneficial to the export industry. Consumption, too, appears to be picking up speed. However, the unease on the stock market and interest rate rises will have a subduing effect,” observed Mr Nyberg.

“Inflation is on its way down and the effects of various disturbances that have temporarily driven up prices on, for instance, energy and some foodstuffs, have largely abated, in line with our forecasts. Inflation measured as UNDI<sub>X</sub> was 2.8 per cent in April, and is expected to fall further in the near future. As economic activity recovers, however, inflation is expected to rise slightly once again. Resource utilisation in the economy is assessed to be relatively high from the start, although there are differences between sectors.

“The Riksbank has eased up on the accelerator since the previous Inflation Report and raised the repo rate by 0.5 percentage points with the aim of moving towards a less expansionary monetary policy. This is a natural reaction when economic

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activity is rising and should not be dramatised. The fact that we have reacted more quickly than other countries should be seen in the light of resource utilisation being relatively high and wages and prices in recent years having risen more than expected. This could be a sign that the underlying domestic price pressure has been underestimated. Both with regard to resource utilisation and price pressure, we appear to be in a slightly different situation than, for instance, the USA.

“What can we say about the future? It may be the case that force behind the rise has been underestimated. This has happened before during a turnaround phase in economic activity. However, there are numerous possible events that could slow down developments, both abroad and here in Sweden. If economic activity continues to strengthen in line with the Riksbank's assessment, however, further interest rate rises will be necessary. When and at what rate these would occur is impossible to say now. There is good reason to carefully analyse the information being received,” concluded Lars Nyberg.