

Press Release

6 JUNE 2002 NO 36

Repo rate left unchanged at 4.25 per cent

At its meeting on Wednesday, 5 June, the Executive Board of the Riksbank decided to leave the repo rate unchanged at 4.25 per cent. This decision, which will apply with effect from Wednesday, 12 June, is based on the picture of future inflation presented in the Inflation Report.

Developments both abroad and in Sweden have largely followed the main scenario depicted in the March Inflation Report. In Sweden, the rate of price increase has fallen as expected, and there is reason to believe in a further decline during the coming months. As economic activity improves over the coming years, it is likely that inflation will once again begin to increase gradually. At the moment, however, the assessment is that inflation will be in line with the Riksbank's target rate in one to two years' time.

The signs of an international upturn in economic activity have become more evident since the previous Inflation Report. The rising growth rate in the USA is expected to contribute to a recovery in Europe, although this will be hampered by a continued weak labour market and subdued growth in real wages. Oil prices, which have increased since the previous Inflation Report, have a restraining effect on growth in demand. The assumption that oil prices will fall and that the krona will appreciate, will contribute to subduing inflation during the latter part of the forecast period.

There is still considerable uncertainty regarding international developments. On the one hand, there is still a slight possibility that the strength of the recovery has been underestimated. The expansionary economic policy in many countries may in particular have contributed to a stronger growth in the global market than was envisaged in the main scenario. On the other hand, it is possible that savings in the USA will increase more and at a faster rate. Developments during the spring could indicate that the recovery in Europe will also be slower than expected.

The essential features of the assessment of the Swedish economy presented in the most recent Inflation Report still prevail. Most indicators show a tentative upturn in economic activity during 2002 and relatively good growth the following years. It appears that a recovery has begun in manufacturing, and a gradual recovery is on the way for consumption. The growth in demand is supported by a good

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development in households' income and by the fact that real interest rates remain low. At the same time, monetary policy has been moved in a less expansionary direction and the prospects for fiscal policy look less expansionary during the forecast period. All in all, there is reason to expect that the growth in demand will be slightly weaker than was previously assumed. Compared with the forecast in the March Inflation Report, resource utilisation during the forecast period is expected to be slightly lower.

The inflation rate was 2.5 per cent in April, when measured as CPI inflation, and 2.8 per cent according to UNDIX. A continued fall is probable over the coming months. However, there is reason to estimate a slight increase once again as economic activity improves. Most indications are that total resource utilisation is already relatively high, although there are significant differences between sectors. Growth will probably once again exceed the long-term rate of increase for production capacity during 2003 and 2004. This indicates that wage increases – even if they are lower this year than last - will be relatively high over the coming years.

The greatest uncertainty in the assessment of inflation concerns the inflation propensity of the Swedish economy in a broader sense, as well as wage formation. There is uncertainty over the level of resource utilisation, which is partly connected with the supply of labour and to sector-specific problems in industry that make it difficult to assess growth in productivity. Wages and other costs could also be higher and have a greater impact on inflation than was assumed in the main scenario, particularly if inflation expectations do not return to the 2 per cent level.

During the spring, the Riksbank has raised the repo rate twice, by a total of 0.5 percentage points. As inflation is expected to be in line with the Riksbank's target, it is at this moment possible to wait before taking further measures. If the economic upturn progresses as expected, and the inflation picture does not alter for other reasons, there is cause to assume that inflation will rise above the target level beyond the normal forecast horizon. This indicates that monetary policy may need to be moved in a less expansionary direction in the near future. The exact timing for this would depend on the information received and the total assessment of future inflation.

The minutes of the Executive Board's monetary policy discussion at yesterday's meeting will be published on 19 June 2002.

A press conference with First Deputy Governor Lars Heikensten, Claes Berg and Hans Lindblad, the Head and Deputy Head of the Monetary Policy Department, will be held at 11 a.m. at the Riksbank. Press cards must be shown. The Inflation Report can be downloaded from the Riksbank's website, www.riksbank.se, under the heading Publications/Inflation Report, or ordered from Information Riksbanken, e-mail: forradet@riksbank.se, fax +46-8-787 05 26 or tel. +46-8-787 0100.