Press Release

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Repo rate left unchanged at 4.25 per cent

At its meeting on Thursday, 4 July, 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, 10 July, is based on the June Inflation Report and on the assessment of information regarding economic developments received since the report was published.

Developments abroad are largely following the scenario depicted in the Inflation Report. Despite the recent unease in the financial markets, there is reason to assume that international economic activity will continue to recover and that growth will be relatively good during the next couple of years. The statistics presented regarding macroeconomic development in the USA are in line with the Inflation Report's main scenario. On the other hand, growth in the euro area has been slightly weaker than forecast. The depreciation in the dollar that we have seen so far will probably contribute in the long term to reducing the savings imbalances in the US economy. All in all, the main elements of the forecast for global market growth and international export prices still stand. The krona, according to the TCW index, has strengthened slightly more than was assumed in the Inflation Report.

Economic developments in Sweden have also largely followed the scenario depicted in the Inflation Report. Resource utilisation is at a relatively high level to begin with. The National Accounts for the first quarter of 2002 showed that private consumption, fixed gross investment and stocks had developed slightly more weakly than was estimated in the Inflation Report. On the other hand, productivity growth during the first months of the year appears to have been slightly higher than expected. Productivity may therefore be slightly higher this year than was earlier anticipated. An expansionary economic policy with low real interest rates, reduced taxes and increased transfers supports the assumption of a continued increase in demand in the near future. Growth during 2003 and 2004 is estimated to exceed the long-term sustainable rate for production capacity.

Inflation has fallen back in line with the assessment made in the Inflation Report and in May amounted to 2.0 per cent as CPI inflation and 2.2 as UND1X. Over the coming months, UND1X inflation will probably increase slightly, partly due to the

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fact that one cannot assume that the unusually large clothing sales last year will be repeated this year. However, the decisive factor for monetary policy will not be price developments in the coming months, but inflation prospects, primarily in the range 1 to 2 years ahead. During this time span, a high level of resource utilisation and relatively high wage increases are expected to contribute to an increase in the domestic inflation rate once again. The rise in inflation will be held in check by a relatively slow increase in import prices, which will result from the expected developments for the krona and oil prices.

There still remains a risk of higher inflation, which is connected with the high level of resource utilisation and inflation propensity in a broader sense within the Swedish economy. However, developments in the financial markets indicate a greater uncertainty now than in June with regard to economic developments. Despite relatively good data on economic activity, stock markets have fallen, particularly in the USA, partly due to a decline in confidence in accounting procedures in the corporate sector. There is a risk that the very weak development in share prices will have a negative effect on both consumption and investment. The recovery could then be more subdued both internationally and in Sweden. This would also mean that the total risk spectrum for inflation in Sweden has shifted somewhat since June.

All in all, the rate of price increase one to two years ahead is estimated to be in line with the Riksbank's inflation target. The interest rate hikes during the spring have contributed to this. However, a high, and still rising, level of resource utilisation in the coming years entails a possibility of inflation rising. Given this, it is reasonable to assume that monetary policy will gradually be shifted in a less expansionary direction in future. When this occurs would depend, as always, on the assessment of the information received.

The minutes of the Executive Board's monetary policy discussion at yesterday's meeting will be published on 25 July.