

Press Release

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Repo rate left unchanged at 4.25 per cent

At its meeting on Thursday, 15 August, 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, 21 August, is based on the June Inflation Report and on the assessment of information regarding economic developments received since the report was published.

The greater part of the economic statistics received during the summer still indicates a gradual and broad, but relatively tentative, recovery in the global economy. This theory is also supported by a situation with generally falling market interest rates. However, unease on stock markets around the world has led to greater uncertainty regarding the recovery in economic activity. The ever-declining share prices may have a negative effect on investment and consumption. Another factor contributing to the uncertainty is the weaker figures for growth in both the USA and Europe. All in all, there is nevertheless reason to adhere to the view of global economic activity presented in the June Inflation Report and which formed the basis for the monetary policy decision in July, even though prospects have deteriorated slightly.

A continued recovery of the Swedish economy also appears probable during the coming years. Growth during the first half of this year was better than expected. Economic activity barometers indicate that the upturn in industrial activity has become more evident, although the situation is still problematic in certain sectors, such as the telecommunications industry. According to preliminary statistics, household consumption is estimated to have picked up during the second quarter of the year. Despite the fact that the fall on the stock markets has had a negative effect on households' financial wealth, their total wealth has been kept up by the continued rise in property prices. Over the coming years there is reason to assume that economic activity in Sweden will be supported by international developments and a relatively rapid growth in disposable incomes. All in all, there is at present no reason for anything more than a marginal revision of the assessment of the Swedish economy's growth rate; the growth rate during the latter part of the forecast period is thus still expected to exceed the rate sustainable in the long term for production capacity.

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Inflation has developed approximately in line with the assessment made in the Inflation Report and in connection with the monetary policy meeting in July. The inflation rate amounted to 2.2 per cent in July, measured as CPI, and to 2.4 per cent when measured as UNDI_X. The temporary price increases that took place last spring have fallen out of the twelve-month figures. At the same time, inflation expectations have fallen and are now in line with the target level. Inflation prospects one to two years ahead constitute a decisive factor for monetary policy. Seen within this time perspective, inflation is expected to be in line with the target level, although marginally lower than was estimated in previous assessments.

The picture has not changed significantly with regard to the various risks connected with future developments. However, the probability of weaker international economic activity has increased slightly, mainly because the effects of the global stock market decline may prove greater than estimated. In Sweden there remains a risk of a higher level of domestic inflation. Resource utilisation is at a high level, which has been emphasised by the recent figures for employment and growth. The risk for higher wage increases than expected also contributes to an upside risk for domestic inflation. At the same time, however, uncertainty over the inflation propensity in the economy has declined slightly as inflation has developed approximately in line with the assessments made earlier.

All in all, the rate of price increase one to two years ahead is judged to be in line with the Riksbank's inflation target. However, the risk of a weaker international development in economic activity, mainly connected with developments on the stock markets, has increased slightly since July. Nevertheless, the assessment is that the most probable development will be a strengthening of economic activity during the coming years, as estimated previously, and that the rate of price increase will thereby rise again during the latter part of the forecast period. The future development of monetary policy will depend on the information received regarding economic and financial developments of significance to future inflation and on how this information is interpreted.

The minutes of the Executive Board's monetary policy discussion at yesterday's meeting will be published on 29 August, 2002.