

Press Release

6 OCTOBER NO. 65

Repo rate unchanged at 2.90 per cent

At the meeting on Tuesday, October 5th, the Executive Board of the Riksbank decided to keep the repo rate unchanged at 2.90 per cent, to apply from Wednesday October 13th. The decision is based on the analysis of inflation prospects that is presented today in the Riksbank's Inflation Report.

The conclusion in the Inflation Report is that, disregarding transitory effects of changes in indirect taxes, subsidies and interest expenditure, in the coming years there will be some increase in inflation so that, given an unchanged repo rate, in two years' time the rate of inflation will be marginally above the Riksbank's target.

International economic prospects have improved since the previous Inflation Report last June. In the period 1999–2001, annual growth in the OECD area is expected to be almost 2.5 per cent. In view of the improved situation in world markets and higher commodity prices, international export prices are judged to rise somewhat more than foreseen in June. However, the krona is judged to be stronger and the price of oil to fall back from the current levels. This will tend to dampen the development of Swedish import prices one to two years ahead.

Growth prospects in Sweden are favourable. Exports, export-related investment and domestic demand are all judged to be stronger than envisaged in the June Report. All in all, GDP growth is judged to be 3.6 per cent in 1999, 3.8 per cent in 2000 and 3.0 per cent in 2001. The economy is estimated to have unutilised resources at present, but these are expected to come into productive use more quickly than was assumed in the June report.

There has been some increase in inflation expectations, though the level remains low. The rate of inflation one year ahead is expected to be below 2 per cent. The medium and long-term inflation expectations have been anchored for some time around 2 per cent.

In the Report's main scenario, which is based on an unchanged repo rate of 2.90 per cent, UNDIX inflation is judged to be 1.8 per cent in one year's time and 2.1 per cent two years ahead.

In the light of price developments in recent years, the Riksbank's view of the link between growth and inflation has been revised a number of times. In the main scenario of the Inflation Report, the link between growth and inflation is somewhat weaker than that incorporated in the June Report. Various international observers

SVERIGES RIKSBANK

Telephone
+46 8 787 00 00

Telefax
+46 8 21 05 31

E-mail
registratorn@riksbank.se

Internet
www.riksbank.com

consider that in the OECD area the relationship between growth and inflation has become somewhat more favourable. The low and stable inflation expectations in the Swedish economy, together with increased competition in connection with deregulation and EU membership, point in the same direction. Hence, notwithstanding stronger economic activity, the rise in inflation is presumed to be comparatively restrained.

The clearest risk in a situation with rapidly growing demand and a gradual increase in the use of productive resources, is that labour market shortages become more pronounced. This could lead in turn to higher wage increases and consequently to inflationary pressure that is stronger than envisaged in the Report's main scenario.

The favourable economic prospects imply strong demand growth in the coming two years, so that resources unutilised at present are successively brought into production. This suggests that monetary policy will need to be adjusted in a less expansionary direction in the future. However, the confidence in economic policy's commitment to price stability that has been established in recent years, allows the Riksbank to keep the repo rate unchanged for some time to come. Continued analyses of incoming statistics can also provide a clearer picture of growth and inflation prospects.

The Riksbank Governor, Mr Urban Bäckström, will be addressing the Riksdag's Standing Committee on Finance at 9 a.m. today (Förstakammarsalen, Östra Riksdagshuset).

A press seminar, attended by Deputy Governor Lars Heikensten, Claes Berg, Hans Lindberg and Hans Lindblad, will be held at the Riksbank at 2 p.m.; admission by press card through the entrance at 7 Malmskillnadsgatan.

The Inflation Report can be ordered from Information Riksbank; e-mail: info@riksbank.se, fax: 08-787 05 26, telephone 08-787 01 00. The Report is also available on the Riksbank's website, www.riksbank.com under Publications/Inflation Report.