

Press Release

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Joint efforts to safeguard confidence

Deputy Governor of the Riksbank Kristina Persson held a speech under the heading "The importance of confidence in the future and of trust for the development of the economy" at Jobs & Society's board meeting on Wednesday. The speech also touched on current economic developments.

"International economic organisations are now doing all they can to minimise the negative effects of the acts of terrorism in the USA. On Monday the Executive Board of the Riksbank decided to lower the repo rate by 0.5 percentage points. This decision should be seen in the light of the terrorist attack and of the interest rate reductions implemented by other central banks. The increased uncertainty following the events in the USA risks subduing confidence in the future in both the household sector and the corporate sector, which would lead to a decline in global demand.

"During the first days after the attack, central bank measures mainly concerned preparations to deal with any disturbances in the payment system and the financial infrastructure. The Riksbank is constantly in contact with other central banks to ensure that the payment system functions and that liquidity is maintained. Despite the US stock exchange being out of action for almost a week, the problems on the financial markets have so far been limited. Experience shows the importance of a well-functioning co-operation and mutual trust between the central banks, supervisory authorities and market operators around the world.

"Measures have been taken to safeguard the banking system's supply of US dollars. The American central bank, the Federal Reserve, and the European Central Bank (ECB) have decided on a swap agreement to allow banks in the euro area access to US dollars via the Eurosystem. With the aim of facilitating Swedish banks' payments in US dollars, the Riksbank has also decided to place USD 1 billion of its foreign currency reserve at the disposal of a swap facility. This facility is available to Swedish banks if they should need it.

"The material damage is extensive, but can be repaired. The human damage is considerably worse. It is also possible that the human damage can have significant economic effects. The key factor for the development of the world economy now is

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how trust - confidence among consumers and companies will develop. In times of crisis and unrest it is natural for them to act with great caution.

"The attack against the USA came at a very sensitive time. During the weeks before the catastrophe, the future was in the balance: Hopes were pinned on American consumers, who had till then slowed down the decline in the US economy and it was hoped they could overcome the economic downturn.

"It is at present difficult to assess the lasting effects on share prices, interest rates, oil prices, the Swedish krona and other currencies. The future effects will depend partly on the economic policy measures taken now, in particular the scope of the reconstruction programme now being discussed and the interest rate reductions.

"When dramatic events occur, it is important to consider the effects of these in the context of the philosophy we work with at the Riksbank. Monetary policy affects demand and prices with a considerable time lag. Our objective is to safeguard the value of money, which the Riksbank interprets as an inflation rate of 2 per cent. In our philosophy, we focus on a collective assessment of price trends, where both the main scenario and the risk spectrum are considered, over the coming years. Individual events can influence the direction taken in monetary policy if they bring about a tangible and enduring change in price prospects in the main scenario or the risk spectrum in the medium term. What happened in the USA on 11 September was just such an event", concluded Kristina Persson.