

Press Release

16 OCTOBER 2001 NO. 66

Repo rate retained unchanged at 3.75 per cent

At its meeting on Monday, 15 October, the Executive Board of the Riksbank decided to retain the repo rate, the deposit and lending rates unchanged, at 3.75 per cent, 3.0 per cent and 4.5 per cent respectively. This decision, which will apply from Wednesday 27 October, is based on the Riksbank's Inflation Report. The overall assessment in the report is that inflation will develop in line with the Riksbank's target one to two years' ahead.

Even before the acts of terrorism in the USA, there were a number of indicators that demand would decline. Developments in security policy following the attacks risk further dampening confidence in both the household and corporate sectors. It was assessed that the risk of inflation falling below the target two years ahead had increased, which caused the Riksbank to lower its repo rate on 17 September.

The current situation is particularly difficult to assess. On top of the normal problems in determining when the economic cycle will show an upswing as a result of investment and savings adapting to more realistic expectations for income and earnings, etc., there are also the difficulties of evaluating the consequences of the terrorist attacks in the USA and the effects of the easing in economic policy that has occurred. This makes the assessment of the various alternative courses for the economy even more important on this occasion.

The synchronous economic downturn in the USA, Europe and Japan means that international growth is now expected to be weaker than estimated in the May forecast. It is assumed in the main scenario that the expansive monetary and fiscal policy stance pursued in most industrial nations will contribute to the economic cycle following the same pattern as earlier cycles, and showing an upswing during the second half of 2002.

The growth forecast for Sweden is revised downwards for the next couple of years, in relation to the previous Inflation Report. Resource utilisation will thus be lower, although it will increase during the latter part of the forecast period. An expansive economic policy, including tax reductions and lower real interest rates, as well as a weaker krona, will contribute to a recovery. Rising household disposable incomes will lay the foundation for an upswing in consumption, while the krona will

SVERIGES RIKSBANK

Telefon
08-787 00 00

Telefax
08 - 21 05 31

E-post
registratorn@riksbank.se

Internet
<http://www.riksbank.se>

contribute to an increase in net exports. The main scenario assumes a GDP growth of 1.3 per cent this year, with 2.2 and 2.8 per cent respectively for 2002 and 2003.

Inflation will be slightly higher in the short term than was assumed earlier. Domestic inflation is expected to fall once again in spring 2002 as the effects of the large price rises on, for instance, foods, electricity and telecommunications, fade out and as a result of a slight decline in resource utilisation. The recovery and a slight rise in resource utilisation will mean that inflation begins to rise again at the latter end of the forecast period. The effects of the weaker krona will be counteracted by a slower rate of increase in international export prices and by lower oil prices. The total assessment is that CPI and UNDEX inflation will lie at 1.5 per cent and 1.7 per cent respectively in September 2002 and at 2.1 per cent and 2.0 per cent respectively in September 2003.

The risk picture also affects the formulation of monetary policy. Despite a considerable downward revision of forecasts for international growth in the main scenario, the probability of a lower inflation rate as a result of a more pronounced and prolonged international downturn is estimated to be greater than at the time of the previous Inflation Report. Such a development would probably prolong the economic downturn in Sweden.

There are also clear risks that inflation will be higher than in the main scenario. One such risk is connected with a larger than expected rise in domestic inflation, which may be a sign that the trade-off between inflation and growth is in a broad sense less favourable than was previously assumed. The krona also comprises an upside risk for inflation, although a continued weak exchange rate is the most probable scenario, combined with a weaker business cycle and thereby lower resource utilisation.

All in all, the downside risk connected with weaker international growth is balanced by the upside risks from the exchange rate and the trade-off between resource utilisation and prices in a broad sense. The conclusion is that inflation, with an unchanged repo rate of 3.75 per cent and taking into account the risk spectrum, will develop in line with the Riksbank's target.

The minutes of the Executive Board's monetary policy discussion at yesterday's meeting will be published on 30 October.

Governor of the Riksbank Urban Bäckström will appear before the Riksdag Finance Committee at 10 a.m. today, in Skandiasalen, Mynttorget 1.

A press conference will be held at 1.30 p.m. in the Riksbank, Brunkebergstorg 11. Entry by press card only. Taking part in the press conference will be First Deputy Governor Lars Heikensten, Head of the Monetary Policy Department Claes Berg and Deputy Head of the Monetary Policy Department Hans Lindblad.

The Inflation Report can be downloaded from the Riksbank website under the headings 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.