

# Press Release

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## Repo rate retained unchanged at 3.75 per cent

At its meeting on Tuesday, 4 December, the Executive Board of the Riksbank decided to retain the repo rate unchanged at 3.75 per cent. This decision, which will apply with effect from Wednesday, 12 December, is based on the Riksbank's Inflation Report. The overall assessment is that inflation one to two years ahead will be largely in line with the Riksbank's inflation target.

The assessment of international economic growth in the near future is more subdued than that in the previous Inflation Report. According to the main scenario in the new report, demand will begin to recover during the latter half of next year. Economic policy in many industrial nations has been changed over to a more expansive line over the past year. The restraining effect from the decline in investment and clearing of stocks will gradually subside. However, the lower level of activity over the coming year and falling prices on raw materials will contribute to international export prices developing at a rather more subdued rate than was estimated in the previous Inflation Report.

Following an initial period with weak economic activity, growth in Sweden will make a recovery. The fact that the level of activity will be slightly lower than was previously forecast, particularly during next year, is mainly due to a lower international growth rate that will subdue exports, at the same time as the forecast for investment growth is being revised down. Fiscal policy will contribute, through lower taxes and increased transfers, to a strong increase in households' income over the coming years. Real interest rates are also estimated to have an expansive effect on domestic demand. Although the krona is expected to strengthen, it is significantly undervalued to start with, and this, combined with an international recovery, will favour competitive industries. It is assumed in the main scenario that GDP growth will amount to 1.2 per cent next year, 1.8 per cent in 2002 and 2.4 per cent in 2003.

The lower total demand pressure in the economy will lead to a downward revision of the total figure for resource utilisation. GDP growth is expected to be lower than potential production growth both this year and a large part of next year, which means that capacity utilisation will decline. However, towards the end of the

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forecast period the amount of vacant resources will decline again and the economy will approach full capacity utilisation.

The present inflation rate is just below 3 per cent. However, as the effects of the price increases on certain goods and services implemented in the spring abate and import prices are subdued, the forecast is that inflation will fall significantly and lie below 2 per cent for a period. After this, inflation will rise slightly. Weaker demand and a larger amount of available resources will lead to domestic inflation remaining subdued even towards the end of the forecast period. During 2003, however, rising prices on raw materials, particularly crude oil, will lead to an increase in import prices once again. The total assessment is that inflation in the main scenario, measured both as CPI inflation and UNDEX, will be 2.0 per cent in December 2002, while in December 2003 CPI inflation will be 2.1 per cent and UNDEX inflation will be 1.9 per cent.

The risk spectrum is essential when formulating monetary policy. There is still an unusual amount of uncertainty connected with the assessment of risks, although this has declined somewhat since the previous Inflation Report. There is a significant risk that inflation will be lower than in the main scenario, which is mainly connected with a weaker growth in economic activity both abroad and in Sweden. The adaptation of savings and investment in the USA may prove more prolonged. There is also a possibility that the export recovery in Sweden will be slower and developments in the labour market weaker than expected. There is also an upside risk connected with the inflation picture in Sweden. Inflation has been surprisingly high this year, which has raised questions regarding, for instance, the trade-off between the rate of price increase and resource utilisation in a broader sense. In addition, there are risks connected with the exchange rate and inflation expectations, which will be reinforced if the high rate of price increase sticks. The risk spectrum is balanced. The overall inflation assessment at the present time calls for an unchanged repo rate.

The minutes of the Executive Board's monetary policy discussion at yesterday's meeting will be published on 18 December.

A press conference will be held at 10.00 a.m. in the Riksbank. Press cards must be shown. Taking part will be Lars Heikensten, First Deputy Governor of the Riksbank, Claes Berg, Head of the Monetary Policy Department, and Hans Lindblad, Deputy Head of the Monetary Policy Department.

The Inflation Report can be downloaded from the Riksbank's website under the headings Publications/Inflation Report, or ordered from Information Riksbanken, e-mail: [forradet@riksbank.se](mailto:forradet@riksbank.se), fax +46 8 787 05 26 or tel. +46 8 787 0100.