

# Press Release

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## Repo rate left unchanged at 3.75 per cent

At its meeting on Thursday, 7 February, the Executive Board of the Riksbank decided to leave the repo rate unchanged at 3.75 per cent. This decision, which will apply from Wednesday 13 February, should be regarded in the light of the most recent Inflation Report and data on economic activity that has been received since then.

International economic activity largely supports the picture painted in the December Inflation Report, which shows an international recovery during the second half of this year. The signals that the subduing effect on demand is waning and that the level of activity in the US economy is stabilising have become clearer. Restraining factors, such as destocking and adaptation of investment, also appear to be gradually fading in strength. However, the uncertainty surrounding developments in the labour market, a lasting imbalance in savings and a volatile stock exchange still comprise risk factors in the forecast. Developments in Europe are weak, although the situation appears to have stabilised somewhat here, too. In Japan, on the other hand, a further weakening of the economy has been noted in recent months.

The December Inflation Report contained a forecast of 1.2 per cent for GDP growth in Sweden in 2001, with forecasts of 1.8 per cent and 2.4 per cent respectively for 2002 and 2003. The main features in the picture painted here still remain. However, growth in private consumption and net exports during 2001 was weaker than had been anticipated, according to GDP statistics received for the third quarter. Forward-looking economic indicators, such as household and company confidence indicators, imply that the decline in the level of economic activity is waning and that developments will stabilise in the near future. All in all, the assessment is that no revision of the figures for GDP growth in 2001 and 2002 is necessary. At the same time, the recovery could possibly be slightly stronger during 2003.

Inflation has risen slightly more than expected. CPI inflation and underlying inflation, measured as UNDI<sub>X</sub>, amounted to 2.9 per cent and 3.4 per cent respectively in December, which is higher than in the Riksbank's forecast. This is partly explained by unforeseen price increases on, for instance, fruit and

SVERIGES RIKSBANK

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Telefon  
08-787 00 00

Telefax  
08 - 21 05 31

E-post  
registratorn@riksbank.se

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

vegetables. In the short term, these prices could continue to increase more rapidly than was anticipated in December. The fact that other prices have also risen slightly more than estimated is due at least in part to a more rapid cost expansion in companies, although, as pointed out in the Inflation Report, it also raises questions concerning resource utilisation in the Swedish economy.

It is estimated that inflation will decline during the current year. This is connected with the slower growth in demand last year and the thereby lower resource utilisation both last year and this year. The development in the exchange rate sends a similar message. In addition, the effects of last year's price increases on certain goods and services, including food and energy, will abate.

To summarise, the risk of a more profound or prolonged downturn in economic activity internationally and in Sweden has declined slightly since December, although there still remains uncertainty. At the same time, the slightly higher inflation figures emphasise the questions raised earlier regarding inflationary propensity in the Swedish economy. The risk of inflation rising above 2 per cent one to two years' ahead has thereby increased. However, at present there is no reason to change the earlier assessment that inflation one to two years' ahead will develop approximately in line with the Riksbank's target.

There is reason to give greater emphasis than usual to the importance of the data that will be received over the coming months, both regarding economic activity and the inflation rate.

Given the above, the Executive Board decided to leave the repo rate unchanged at 3.75 per cent. The deposit and lending rates thereby remain at 3.0 and 4.5 per cent respectively.

The minutes of the Executive Board's monetary policy discussion during Thursday's meeting will be published on 21 February.