

# Press Release

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## Repo rate left unchanged at 4.25 per cent

At its meeting on Wednesday, 16 October, the Executive Board of the Riksbank decided to leave the repo rate unchanged at 4.25 per cent. This decision, which will apply from Wednesday, 23 October, is based on the assessment of future inflation presented in the Riksbank's Inflation Report, published today.

When the previous Inflation Report was published in June, it was possible to detect the beginning of an upturn in economic activity in the USA, which was expected to stimulate a recovery in other parts of the world. Since then the continued stock market fall and increased security policy risks have contributed to greater insecurity with regard to growth prospects. However, there are also positive signals in the USA, such as a relatively good growth in productivity and continued good growth in household sector disposable incomes. The recovery in the euro area is also expected to be delayed. All in all, the new information indicates a weaker price rise and more prolonged upturn in economic activity than was estimated both in the previous Inflation Report and at the two monetary policy meetings that have taken place since its publication.

Despite a somewhat more subdued development abroad, demand in Sweden has remained relatively stable. The National Accounts for the first half of the year show that GDP growth was slightly stronger than expected. However, recent statistics show some weakening in industry and trade. The Riksbank now estimates that growth will be slightly weaker in coming years than was assumed in the June Inflation Report. Fiscal policy is expected to become less expansionary, partly to ensure the expenditure ceiling is not exceeded. Domestic demand will thereby be lower, while net exports are also expected to weaken somewhat. GDP growth of 1.7 per cent is assumed for 2002, 2.3 per cent for 2003 and 2.1 per cent for 2004. Resource utilisation is estimated to be relatively high at present, despite the slowdown that has occurred; however it is expected to be lower during the forecast period than was previously assessed.

In the main scenario, and with an unchanged repo rate, UNDI<sub>X</sub> inflation is estimated at 1.8 per cent one year ahead and 1.9 per cent two years ahead. The corresponding assessment for CPI inflation is 2.1 and 2.3 per cent respectively. The

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difference is partly due to a change in taxes and rising interest costs for households.

The greatest uncertainty factor in the assessment of future inflation concerns the effects of developments in the financial markets. So far, the adaptation process has taken place under orderly conditions, but there is nevertheless a possibility that stock market developments may have a greater effect than is assumed in the report's main scenario. If stock markets continue to fall, following the rise over the past few days, or if the effects of the fall that has already occurred prove more extensive, the actual scenario for the Swedish economy may be less favourable. This downside risk is partly counteracted by a domestic upside risk that has declined slightly, mainly because inflation and inflation expectations have fallen back to levels in line with the target. Nevertheless, there are still risks, mainly connected to wage formation and other factors related to domestic resource utilisation.

The total assessment is that inflation, taking into account the risk spectrum, will be roughly in line with the Riksbank's target in one to two years' time, or probably at the lower edge. The most likely situation is still that economic activity will strengthen over the coming years. This, combined with the fact that the situation is very difficult to assess – particularly as a result of fluctuations in the financial markets – means that the Riksbank has chosen to leave the repo rate unchanged at present. However, developments in the financial markets and their effects on the economy motivate increased vigilance. The Executive Board therefore decided that they will hold an additional monetary policy meeting at 1 p.m. on 14 November to discuss developments.

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

Governor Urban Bäckström will provide an account of monetary policy to the Riksdag Finance Committee at 9 a.m. today and answer questions.

A press conference with First Deputy Governor Lars Heikensten, Claes Berg and Hans Lindblad, the Head and Deputy Head of the Monetary Policy Department, will be held at 1 p.m. at the Riksbank. NB! Entry via the bank's main entrance, Brunkebergstorg 11. Press cards must be shown.

The Inflation Report can be downloaded from the Riksbank's website, [www.riksbank.se](http://www.riksbank.se), under the heading 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.