

Press Release

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Repo rate lowered 0.25 percentage points to 4 per cent

At its meeting on Thursday, 14 November, the Executive Board decided to lower the repo rate from 4.25 per cent to 4.0 per cent. This decision, which will apply from Wednesday, 20 November, should be regarded in the light of the most recent Inflation Report and the new information on economic developments that has been received since then.

There has been no improvement in international economic activity since the previous Inflation Report was published in October. New information received indicates that industrial activity is still weak in both the USA and Europe. Confidence indicators for households and companies show the same picture. Some stabilisation appears to have occurred on the financial markets, but it is as yet too early to determine whether this is permanent. There is also a risk of the heavy fall on the stock markets in recent years having a greater impact on households' and companies' behaviour than has so far been observed. Nevertheless, there is reason to adhere to the assessment that global economic activity will slowly pick up over the coming years. This assessment is entirely based on normal cycles for investment and stocks making a gradual impact, although the recovery this time is weighed down by large debts among households and companies. In the USA, economic activity will be supported by a continued positive development in productivity, higher profits and the overall economic policy. However, there are some signs that developments in Europe may be poorer than was previously estimated. Compared with the assessment made in October, international resource utilisation is now expected to be slightly lower, which contributes to weaker price pressure.

Despite a more subdued level of economic activity during the current year, demand in Sweden has remained relatively good. This is also the picture painted by incoming data. However, there are clear signs of weaker industrial activity; exports have slackened and industrial production has been more subdued than was anticipated in the previous Inflation Report. On top of this comes the risk that stock market falls may have a greater effect on domestic demand than was estimated. The assessment in the Inflation Report was that GDP would grow by 1.7 per cent in 2002, 2.3 per cent in 2003 and by 2.1 per cent in 2003. There is now reason to anticipate a slightly slower rate of economic growth. Resource utilisation in the Swedish economy is thus expected to be less strained.

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Inflation has been in line with the assessment in the October Inflation Report. Inflation expectations one to two years ahead are also in line with the Riksbank's target level.

Employment has developed relatively well so far, although some weakening tendencies could be noted over the past six months, for instance in the manufacturing industry. There is a strong demand for labour in the public sector in particular. Since the previous Inflation Report was published, the Swedish Municipal Workers' Union has demanded the renegotiation of wages for the year 2003. Although the union's decision has not led to similar demands in other collective wage agreement areas, it is a worrying development. Even before the union announced its decision, the Riksbank's estimate was that wage increases over the coming years would be too high in a long-term perspective.

The forecast in the Inflation Report was that UNDEX inflation, with an unchanged repo rate, would amount to 1.8 per cent one year ahead and to 1.9 per cent two years ahead. Since then, there have been some signs of stabilisation on the stock markets. However, the Swedish Municipal Workers' Union's demand for renegotiations makes it clear that there are risks regarding domestic inflation, particularly in the slightly longer term. However, in contrast to this, the statistics that have been presented clearly indicate a weaker level of economic activity in Sweden and abroad.

The Riksbank's total assessment today is that inflation will fall below the target level one to two years ahead. It was therefore decided to adjust the repo rate. The future development of monetary policy will depend, as always, on the Riksbank's assessment of new information received. Over the coming months there will probably be a particular focus, as earlier this autumn, on international economic activity and the course of events in the financial sector and on the financial markets.

The minutes of the Executive Board's monetary policy discussion at Thursday's meeting will be published on Friday, 29 November 2002. A press conference with Governor Urban Bäckström and First Deputy Governor Lars Heikensten will be held at 11 a.m. on Friday, 15 November at the Riksbank, Brunkebergstorg 11. Press cards must be shown.