

# Press Release

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5 DECEMBER 2002 NO. 82

## Repo rate lowered 0.25 percentage points to 3.75 per cent

At its meeting on Wednesday, 4 December, the Executive Board of the Riksbank decided to lower the repo rate from 4.0 to 3.75 per cent. This decision, which will apply from Wednesday, 11 December, is based on the picture of future inflation presented today in the Riksbank's Inflation Report.

Developments in the real economy remain weak. Industrial activity has deteriorated both internationally and in Sweden. In the USA it is assessed – in roughly the same way as earlier this autumn – that the conditions for a domestic driven recovery are relatively good. However, prospects look somewhat poorer for the euro area. The uncertainty in the financial markets has declined slightly, although it is too early to draw the conclusion that this stabilisation will endure. The GDP forecast for the euro area is revised downwards for both this year and next year. Growth in the OECD area as a whole is estimated at 1.4 per cent in 2002, 2.2 per cent in 2003 and 2.7 per cent in 2004.

The weaker growth in demand has a subduing effect on international price pressure. The krona is expected to appreciate during the forecast period. Altogether this will have a dampening effect on price developments for imported products in Sweden.

A weaker level of industrial activity in several of the countries that are our major trading partners entails somewhat poorer prospects for the Swedish economy. Exports have slackened, industrial production has been subdued and the order intake is weak. Fiscal policy is still expected to become less expansionary. It is anticipated that households' incomes – after several years of rapid growth – will rise only moderately and investment will be held back by lower demand. Despite this, domestic demand is expected to recover during the forecast period. Altogether, Swedish growth is expected to become more subdued over the coming years. The Riksbank's main scenario assumes a GDP growth of 1.5 per cent in 2002, 2.1 per cent in 2003 and 2.3 per cent in 2004. Resource utilisation is expected to be slightly lower during the forecast period than was previously anticipated, but to remain at a relatively high level.

The weaker demand situation in the main scenario leads to the assessment that there will be no pronounced spread to the private sector from higher wages in

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municipalities and county councils during 2003. However, rising costs for companies in connection with higher contracted allocations to pension funds will entail a marked rise in unit labour costs in the private sector during 2003, compared with the assessment in the October Inflation Report. Given these developments, the uncertainty over the outcome of the collective wage bargaining rounds in 2004 has increased.

Inflation has developed in line with the assessment in the previous Inflation Report. In October, UNDEX inflation and CPI inflation amounted to 2.4 per cent and 2.5 per cent respectively. Since last winter, inflation has fallen, which provides support for the Riksbank's earlier assessment that the rise in inflation in 2001 was largely due to temporary factors. Inflation expectations are also in line with the price stability target once again.

The risk spectrum is important in shaping monetary policy. Although there has been some stabilisation, international economic activity still entails a downside risk. This is not entirely counteracted by an upside risk connected with domestic inflationary pressure and wage formation. Taking into account the risk spectrum, UNDEX inflation is expected to amount to 1.9 per cent one year ahead and 1.8 per cent two years ahead.

During the period covered by the forecast, inflation is expected to be largely in line with the Riksbank's target level. In the time perspective towards which monetary policy is aimed, inflation will be slightly below the target level, which is the reason for lowering the repo rate. However, this decision was not self-evident. The future direction for monetary policy will depend as usual on new information received and how this affects the total assessment of future inflation over the coming years.

The minutes of the Executive Board's monetary policy discussion from yesterday's meeting will be published on 19 December.

A press conference with Governor Urban Bäckström, First Deputy Governor Lars Heikensten, Claes Berg and Hans Lindblad, the Head and Deputy Head of the Monetary Policy Department, will be held today at 11 a.m. in the Riksbank, 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.