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## ■ Repo rate cut by 0.5 percentage points

*At its meeting on 31 March, the Executive Board of the Riksbank decided to lower the repo rate by 0.5 percentage points to 2.0 per cent. This decision, which will apply from Wednesday, 7 April, is based on the picture of future inflation presented today in the Riksbank's Inflation Report.*

International economic activity has recently strengthened, largely as expected. The assessment of future developments in the United States, as well as Asia, Latin America and central and eastern Europe is now slightly more positive than in December. On the other hand, a somewhat weaker development is now anticipated in the euro area. A gradual recovery in the global economy and thereby in Swedish export markets is still expected over the next few years.

Economic activity in Sweden is recovering gradually and is essentially developing as anticipated by the Riksbank in December and February. This means that the recent economic downturn was relatively mild. During the coming three years, growth is expected to attain an annual average of just over 2½ per cent. The annual outcomes are affected by the difference in the number of working days in the respective years. Towards the end of the forecast period, the economy is expected to approach full resource utilisation.

Despite the fact that the economic upturn is progressing largely as expected, inflation is low. Since spring 2003, inflation has fallen significantly. This is to a large extent due to an adaptation of energy prices to more normal levels; a development in line with the Riksbank's forecasts over the past year. However, the recent decline in inflation has been greater than anticipated and the Riksbank has gradually changed its view of inflationary pressure. This is partly connected with unexpectedly low import prices. The labour market has also been weaker than forecast and productivity has increased more rapidly, which has led to lower domestic wage and price pressure. The recent decline in inflation also appears to have had some effect on inflation expectations.



■ Inflation is expected to be on average significantly below the Riksbank's inflation target over the coming two years. However, it is expected to rise gradually as resource utilisation increases. The assessment is that the upturn in inflation will be slower than was previously assumed, as domestic cost pressure is assumed to be weaker, while imported inflation is expected to be significantly lower.

The fact that economic activity has developed roughly as expected indicates that the risk of weaker international and domestic growth has declined somewhat, while the probability of stronger growth has increased. This gives some upside risk for inflation from developments in economic activity. The risks of inflation stemming from domestic cost pressure could equally have been overestimated as underestimated and are on the whole assessed to be balanced. There is considerable uncertainty regarding productivity. At the same time, the risks of higher wage increases than in the main scenario have declined, partly as a result of the wage agreements signed so far. Taking into account the risk spectrum, CPI inflation is expected to be 1.2 per cent one year ahead and 2.0 per cent two years ahead. The corresponding assessments for UND1X inflation are 1.0 per cent and 1.7 per cent respectively.

Temporary fluctuations in energy prices have had a strong influence on inflation since the end of 2002. The Riksbank has therefore chosen, when making monetary policy decisions, to attach greatest importance to inflation measures that exclude energy prices. From mid-2005 these temporary effects are expected to have abated. There is at present no reason to make adjustments for energy prices when shaping monetary policy.

Given that the assessment for UND1X inflation is that it will be below the Riksbank's target level one to two years ahead, the Executive Board decided to cut the repo rate by 0.5 percentage points, to 2 per cent.

The repo rate is now low in historical terms. This indicates that it will need to be raised in the longer term. However, the future direction for monetary policy will as usual depend on new information on economic developments in Sweden and abroad and the effects this may have on inflation in Sweden.

The minutes of the Executive Board's monetary policy discussion from yesterday's meeting will be published on 20 April.

Riksbank Governor Lars Heikensten will give an account of monetary policy to the Riksdag Committee on Finance at 9 a.m. and afterwards answer questions.

A press conference with Governor Lars Heikensten, Deputy Governor Irma Rosenberg and Anders Vredin, Head of the Monetary Policy Department, will be held today at 1 p.m. in the Riksbank. Entry via the bank's main entrance, Brunkebergstorg 11. Press cards must be shown. The press conference will be broadcast live on the Riksbank's website, <http://www.riksbank.se>.