

Press Release

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Weaker international growth behind interest rate cuts

In connection with an address on topical economic issues on Thursday in Ronneby, the Governor of the Riksbank, Mr. Urban Bäckström, made the following statement:

On Tuesday the Riksbank lowered the repo rate another 25 basis points, from 3.85 to 3.60 per cent. The reason was that the overall assessment of the indicators monitored by the Riksbank showed that the rate of inflation two years ahead would otherwise be below the 2 per cent target. This cut is the third in 1998. Since June the repo rate has been lowered a total of 75 basis points, from 4.35 to 3.60 per cent.

The Riksbank's downward adjustments of the repo rate are very much a consequence of the weaker economic prospects in the rest of the world. As a result, the Riksbank's appraisal of growth in Sweden has been revised downwards. Without the repo rate cuts, resource utilisation would have been lower and inflationary pressure would have gone on falling from a level that is already low.

The repo rate cuts will contribute to a continuation of favourable growth in the Swedish economy. Thus, a monetary policy which targets inflation does in practice take the real economic situation into account. The reason for doing so is that the level of activity is one of the most important determinants of inflation. This presupposes that the longer term inflation expectations are in line with the 2 per cent target.

At the Riksbank we are now finalising the next Inflation Report; it was considered this morning by the Governing Board and will be presented on 3 December. The Report will incorporate effects on the Swedish economy and inflation that stem from the changes which have occurred in the economic conditions, together with the recent series of interest rate reductions.

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