

# Press Release

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FRIDAY, 12TH FEBRUARY 1999, NO. 11

## Repo rate lowered 0.25 percentage points to 3.15%

At its meeting on Thursday, February 11th, the Executive Board of the Riksbank decided to lower the repo rate 0.25 percentage points, from 3.40 to 3.15 per cent. The Board also decided to lower the deposit and lending rates, in each case by 0.50 percentage points. The deposit rate is set at 2.75 per cent and the lending rate at 4.25 per cent. These decisions apply from Wednesday, February 17th.

Compared with the Riksbank's most recent inflation assessment in December 1998, immediate inflationary pressure in Sweden has proved to be somewhat lower. International economic activity and inflationary pressure have also been dampened, which probably means that in the coming two years economic activity and inflation in Sweden will be somewhat weaker.

In the main scenario of the December Inflation Report the 12-month change in CPI was judged to be 1.2 per cent in December 1999 and 1.4 per cent in December 2000. The corresponding assessment of underlying inflation, measured as UNDEX, was 1.7 and 1.8 per cent. The Report noted, however, that the downside risk in the inflation assessment was greater than the upside risk, and that this had to do with the risk of a more marked and more prolonged international slowdown. In recent months, the international developments has shifted somewhat in that direction.

Immediate inflationary pressure in Sweden is still low; the outturn for December 1998 was 0.3 percentage points below the assessment in the Report's main scenario. Around 0.1 percentage points is attributable to lower interest expenditure and approximately 0.1 percentage points to lower world market prices for oil. Underlying inflation has also been somewhat weaker than expected.

Since the December Report the U.S. economy has shown signs of continued strength. Tendencies in the euro area look like being somewhat weaker than expected, though there are still no indications of a slowdown in consumption. At the same time, there is no clear evidence of an economic recovery in Japan. Taken together, this suggests that growth in the OECD area in 1999 and 2000 will probably be somewhat lower than the Riksbank's earlier estimates. That is likely to contribute to a further easing of the already low inflationary pressure from the rest of the world.

The prospects for economic growth in Sweden in 1999 and 2000 now appear to be somewhat weaker on account of the international slowdown. Business

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expectations and manufacturing orders show a negative shift. This indicates that exports and investments will be somewhat weaker than expected. However, private consumption seems to show continued strong development, roughly in line with the earlier assessment. On the whole, total capacity utilisation in the Swedish economy is judged to be somewhat lower than expected, which would subdue inflationary pressure. The increasingly low inflation expectations point in the same direction.

Given a repo rate of 3.40 per cent, CPI inflation one to two years ahead is judged to be below the Riksbank's 2 per cent target. This is partly a consequence of transitory factors that are not considered to have a more permanent effect on either inflation or the inflation process and therefore do not influence the formulation of monetary policy. Changes in indirect taxes and subsidies, along with lower interest expenditure, are judged to hold back the change in consumer prices by between 0.5 and 1.0 percentage points in both 1999 and 2000. However, even when these transitory factors are excluded, it is foreseen that inflation one to two years ahead will be below the 2 per cent target.

The Riksbank will publish a new Inflation Report on March 25th. It will contain a more comprehensive assessment of inflation prospects as well as the ensuing conclusions for the formulation of monetary policy.

*A press conference with Governor Urban Bäckström and First Deputy Governor Lars Heikensten will be held at the Riksbank today, Friday, at 11 a.m. Entrance by press card from no. 7 Malmskillnadsgatan*