

Press Release

25TH MARCH 1999, NO. 23

Repo rate lowered 0.25 percentage points to 2.90%

At its meeting on Wednesday, March 24th, the Executive Board of the Riksbank decided to lower the repo rate 0.25 percentage points, from 3.15 to 2.90 per cent, to apply from Wednesday March 31st. The decision is based on the analysis of inflation prospects that the Riksbank presents today in the Inflation Report.

The conclusion in the Inflation Report is that the rate of inflation will be somewhat below the Riksbank's target in one to two years time, even when transitory effects from changes in indirect taxes, subsidies and interest rates are taken into account.

International economic prospects are marginally weaker than at the time of the December Inflation Report, but the picture is not entirely uniform. In the euro area, which is of major importance for Swedish exports, economic activity has slackened somewhat. At the same time, there are signs of stabilisation in parts of Asia and continued strength in the US economy. The international price trend has been weaker than expected. Against this background, inflationary pressure from external sources via import prices is judged to be somewhat lower than envisaged in the assessment published in December.

Growth prospects in Sweden are still good. The international slowdown is admittedly expected to have some downward effect on growth in Sweden during 1999, but a successive increase in domestic demand is foreseen, partly on account of low interest rates. Together with a gradual recovery in international activity, this is expected to result in GDP growth rates of slightly more than 2 per cent in 1999 and approximately 2.5 per cent in 2000. Notwithstanding relatively good growth, in two years time the economy will probably still have unutilised resources, which suggests that underlying inflationary pressure will be low.

In the Report's main scenario, CPI inflation is judged to be 1.1 per cent one year ahead and 1.4 per cent in two years time. The weak development of consumer prices is partly explained by transitory factors that are judged to not have lasting effects on inflation and therefore do not influence the formulation of monetary policy. Altered indirect taxes and subsidies, together with declining house mortgage interest costs, are judged to have a downward effect on CPI by on average 0.9 percentage points in 1999 and 0.6 percentage points in 2000. Excluding these transitory factors, core inflation, measured as UNDEX, is judged to be 1.7 per cent one year ahead and 1.8 per cent in two years time.

The spectrum of risks is also of importance for the formulation of monetary policy. All in all, assessing future developments is about as difficult as when the December Report was published. The unrest in international financial markets has admittedly subsided, but uncertainty about international economic activity is high and has increased, if anything, in the

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past month with the publication of strong economic statistics from the United States. The overall appraisal, however, shows some downside risk in the inflation assessment due to the possibility of international economic prospects being weaker than allowed for in the main scenario.

The Riksbank Governor, Mr Urban Bäckström, will be addressing the Riksdag's Standing Committee on Finance at 9 a.m. today (Förstakammarsalen, Östra Riksdagshuset). A press seminar, attended by Deputy Governor Lars Heikensten, Claes Berg, Hans Lindberg and Hans Lindblad, will be held at the Riksbank at 2 p.m.; admission by press card through the entrance at 7 Malmskillnadsgatan.