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## ■ The Riksbank and the wage bargaining rounds

*Deputy Governor Svante Öberg gave a speech in Västerås today at a meeting organised by the Swedish Trade Union Confederation, Västmanland section.*

"Next year a large share of the wage agreements in the labour market will come up for renegotiation. The Riksbank is not a party in the wage bargaining rounds. It is the social partners who are responsible for the wage bargaining rounds. On the other hand, there are connections between wage formation and monetary policy. The Riksbank's task is to ensure that inflation remains at a low and stable level. This is an important basis for wage negotiations and their outcome. At the same time, both actual and expected developments in wages play a major role for inflation. All those involved should be aware that these connections are important. This applies to the employees, the employers and the Riksbank," began Mr Öberg.

"Things have gone well for Sweden over the past ten years. Growth has been high and inflation low. Public finances have been strong and the surplus on the balance of trade has been large. Employment has increased and unemployment has fallen, although not as far as the government had hoped. Despite moderate nominal wage increases, real wages have risen significantly. And thanks to a high rate of increase in productivity, the companies' labour force costs have been held back and competitiveness has improved. This is a striking contrast to the substantial economic problems in the 1970s and 1980s," continued Mr Öberg.

"Most indications are that we can look forward to wage bargaining rounds in 2007 that are compatible with continued good economic growth. There are three reasons in particular that imply this will be the case," said Mr Öberg.

"Firstly, the economic conditions prior to next year's bargaining rounds are good. Wages have increased at a moderate rate in recent years. Although one might expect that the rate of wage increase will rise slightly over the coming years as the labour market situation improves, there is considerable spare capacity in the labour market, as we observed in our October Inflation Report. The fact that there is such a large labour reserve should hold back increases in wages and



prices. At the same time, the labour market is improving rapidly and there is a risk that the bargaining rounds could be more problematic and result in higher wage increases than we have assumed," continued Mr Öberg.

"Secondly, wage formation has improved since the crisis at the beginning of the 1990s. The Rehnberg Commission, the Industrial Agreement and the National Mediation Office are important components in this change. Over the past ten to fifteen years the national agreements have contained wage levels that are compatible with low and stable inflation. The bargaining rounds have begun in good time before the old agreements have expired. The sector exposed to competition has normally signed agreements first and set the standard for other parts of the economy. The agreements have normally been for three years. They no longer contain flexibility clauses that lead to wages and prices chasing one another in an upward spiral. At the same time, wage formation within the national frameworks has provided scope for substantial variations between companies and individuals. The number of conflicts in the labour market has been lower than before," continued Mr Öberg.

"Thirdly, the monetary policy framework has improved and thereby the conditions for maintaining low and stable inflation. This change was introduced at the end of 1992, when the fixed exchange rate was abandoned in favour of a floating exchange rate. In January 1993 it was decided that monetary policy should have an inflation target, with effect from 1995. A decision by the Riksdag (the Swedish Parliament) at the end of the 1990s stipulated by law that the Riksbank was to target price stability and gave the Riksbank independence. This has entailed new conditions for monetary policy. The Riksbank currently enjoys a high level of credibility to the extent that the general public's expectations are disposed towards inflation being around the two per cent target," said Mr Öberg.

"In short, there is greater stability in the Swedish economy. Efficiently-functioning wage formation together with efficiently-functioning monetary policy has had tangible and positive results. The Swedish economy functions much better now than it did in the 1970s and 1980s. This is something we should safeguard. Although the chances are good that the positive developments will continue over the coming years, this is not something we can take for granted. I and my colleagues have the job of steering the interest rate to ensure we attain our target of low and stable inflation. In this way we can contribute to a stable economy. A stable economy in turn increases the chances for good economic development," concluded Mr Öberg.