



SVERIGES  
RIKSBANK

No 22/1 January 1994

# Press Release

## THE RIKSBANK LOWERS THE MARGINAL INTEREST RATE TO 7.50 PER CENT

The Riksbank - the Swedish central bank - has decided to lower the marginal interest rate from 7.75 per cent to 7.50 per cent, effective 24 January 1994.

The strengthening of the Swedish krona and the fall in long-term interest rates are indications of the increased confidence in the Riksbank's price stability target. Expectations of rapid interest rate reductions have also diminished, contributing to the positive development.

Considering the development of interest rates and exchange rates, and the fact that the Swedish economy is in a phase of growth, monetary conditions can be characterised as strongly expansionary.

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SVERIGES RIKSBANK



SVERIGES  
RIKSBANK No 8 17 February 1994

# Press Release

## THE SWEDISH ECONOMY RECOVERS

"Last autumn it became obvious that the Swedish economy is in a period of recovery. Activity is growing, in export sectors in particular. However, signs of recovery are also evident in the domestic market", Urban Bäckström, Governor of Sveriges Riksbank - the Swedish central bank - said at a seminar in London on Thursday.

"Households, for instance, are considerably more optimistic than before about their own and the national economic future. The latest figures show a level of optimism about the economic situation that is the highest since 1986."

"The problems in the banking sector have culminated and although some problems remain the situation is much brighter."

"A continued upswing in the economy and sustained growth with rising employment require, however, that economic policy continues to focus on price stability. The Riksbank expects real GDP to grow with approximately 2 per cent in 1994. In 1995 the growth rate could be even higher."

"Monetary conditions in Sweden have for some time been providing a strong stimulus to the economy, if the combined effects of the fall in interest rates and the depreciation of the krona are taken into account."

"Considering that growth picks up from a relatively low level, that the domestic sector is still weak due to the ongoing balance sheet adjustment process in

the private sector - although it has come a long way, in particular in the household sector - and the uncertain outlook for an international recovery, this monetary stance is appropriate and consistent with price stability in the medium term."

"However, a stronger credibility for economic policy in general would permit a more balanced composition of the aggregate effects on monetary conditions. By this I mean a stronger currency and lower interest rates. The current situation gives an uneven distribution of the stimulus to demand and could potentially create capacity problems in the tradables sector late in 1995."

"In this respect, the appreciation of the krona between December last year and the end of January this year was a favourable development. This, together with the trend during last year of a gradual fall in long term interest rates, indicates that inflationary expectations are coming down."

"This was also confirmed yesterday when a survey of inflationary expectations was published. Market participants in Sweden now expect an inflation rate of 2.8 per cent per year during the next two years. Also expectations in a longer term perspective are now reported to be lower than in the previous survey."

"Still, the weakness of the krona and relatively high long term interest rates may reflect inflationary expectations above the target level - 2 per cent, plus or minus 1 percentage point from 1995 onwards."

"It is the task of the Riksbank to ensure that such expectations are not fulfilled. Thus, the exchange rate and the long interest rates will continue to be the main indicators for the Riksbank."

SVERIGES RIKSBANK

Information Secretariat, phone: +46-8-787 00 00



SVERIGES  
RIKSBANK Nr 918 February 1994

# Press Release

## THE RIKSBANK LOWERS THE MARGINAL INTEREST RATE TO 7.25 PER CENT

The Riksbank - the Swedish central bank - has decided to lower the marginal interest rate from 7.50 per cent to 7.25 per cent, effective 21 February 1994.

The decision should be seen against the background of reductions in interest rates in a number of European countries and the strengthening of the krona. Simultaneously, inflation expectations in Sweden have continued to diminish, signifying increased confidence in the Riksbank's price stability target.

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SVERIGES RIKSBANK



SVERIGES  
RIKSBANK No 113 March 1994

# Press Release

## NEW DEPUTY GOVERNOR

The Governing Board of Sveriges Riksbank - the Swedish central bank - has today appointed Mr. Stefan Ingves as Deputy Governor of Sveriges Riksbank for a five year term. Mr. Stefan Ingves will as one of two Deputy Governors have special responsibilities for matters concerning financial markets. He succeeds Mr. Claes Norgren, now Director General at the Financial Authority.

Mr. Stefan Ingves is since the beginning of 1993 Director General of the Bank Support Authority. Between 1988 and 1992 he was Assistant Under-Secretary and later Under-Secretary at the Ministry of Finance. He has also been Assistant Vice President of Svenska Handelsbanken and Managing Director of Sweden's Options and Future Exchange.

Mr. Stefan Ingves was born in 1953 and holds a doctorate from Stockholm School of Economics.

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SVERIGES RIKSBANK



# Press Release

No 15 14 March 1994

## INFLATIONARY PRESSURES IN SWEDEN HAVE DECLINED

In recent months price increases as well as inflationary expectations in Sweden have moderated. This is apparent from the report on "Inflation and Inflationary Expectations in Sweden", published today by the Economics Department of Sveriges Riksbank - the Swedish central bank. It is the second time that Sveriges Riksbank issues an inflation report, and from now on the Riksbank will publish such reports three times a year.

Price stability is the fundamental objective of the Riksbank's monetary policy. This was the case when the exchange rate was fixed and it continues to apply following the transition to a floating exchange rate in November 1992.

The Riksbank has established a specific inflation target for its monetary policy: starting in 1995, changes in the consumer price index should be limited to an annual rate of 2 percent, with a margin of plus/minus 1 percentage point. In the inflation reports, the Riksbank analyzes price developments against the background of this target. The reports form an important part of the analysis on which monetary policy decisions are based.

Today's report commences with a review of actual price developments. With different techniques, these developments are adjusted for price changes of a

once-for-all nature to produce various measures of the underlying rate of inflation. The conclusion is that at present the underlying rate of inflation is around 2 percent.

Inflationary pressures are also analyzed in terms of the difference between actual and potential output, the so called output gap. There are signs that the output gap may soon be closed in some segments of the economy. The main reason is that aggregate demand is growing. Another factor is that capacity was lost during the recession. These developments in combination with the low propensity to invest implies that inflationary pressures are increasing.

The report notes that the development of the money supply is consistent with the inflation target as well as with a resumption of economic growth in the coming years. At the beginning of the year, the money supply rose at an annual rate of 5 percent. However, structural changes in the financial markets make it necessary to interpret this particular indicator with caution.

The report analyzes the inflationary expectations held by various economic agents. Inflationary expectations over a one to two year horizon have declined somewhat since October last year. Similarly, the expectations that the inflation target for 1995 will be met, have strengthened. However, there are still concerns that from 1996 inflation will exceed the target.

The report reviews the role of monetary policy in recent months. It is shown that the combined effect of reduced interest rates and a weak exchange rate remains strongly expansionary.

As regards fiscal policy, the report points to the general uncertainty generated by the large budget deficits and the rapidly rising public sector debt. It is essential to reduce this uncertainty in order to create conditions for a balanced and lasting economic recovery. The recovery now under way increases the need as well as the opportunity for a budget consolidation.

For further information, please contact:

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The report is obtainable in Swedish and in the near future in English from the Information Secretariat:  
Phone +46 8 787 0100.

SVERIGES RIKSBANK





# Press Release

No. 17 17 March 1994

## THE RIKSBANK SETS RESERVE REQUIREMENTS TO ZERO

The Riksbank - the Swedish central bank - has decided to lower the reserve requirements on banks from 2 per cent to 0 per cent, effective 1 April 1994.

Reserve requirements were last lowered in 1991. The decision to set them to zero should be seen as part of a continued adjustment of the Swedish system for monetary policy implementation to the internationalisation of the economy and the integration of financial markets.

The reduction in reserve requirements lowers the banks' costs. This should over time contribute to reductions in the differences between lending and deposit interest rates in Swedish banks.

Reserve requirements force banks to hold funds in accounts with the central bank. They have traditionally been used to affect bank liquidity and short-term interest rates. However, the importance of reserve requirements as an active policy instrument has gradually diminished. Central banks now have access to more flexible techniques for this purpose, in particular, open market operations.

If funds locked in reserve requirement accounts do not bear interest at market determined levels, reserve requirements create a competitive disadvantage for banks. They also make intermediation via banks more costly, i.e. lending rates are raised and/or deposit rates lowered. As a result of increased competition in financial markets, both domestically from credit

institutions not subject to reserve requirements and from institutions based in countries with lower reserve requirements, the significance of these distortionary effects has increased over time. The central banks in several countries have for these reasons lowered or abolished reserve requirements in recent years.

This reduction in reserve requirements eliminates these untoward effects and, consequently, should contribute to lower margins between lending and deposit rates in the Swedish banking market.

The decision is not intended to affect the stance of monetary policy. The bank reserves made available will therefore be withdrawn through the Riksbank's regular market operations to ensure that the target marginal interest rate level is achieved.

For further information, please contact:  
Thomas Franzén, Deputy Governor, tel.: +46 8 787 0141

SVERIGES RIKSBANK



# Press Release

No 18 28 March 1994

## RECORD HIGH NET EXPORT OF SWEDISH SHARES

Net sales of Swedish shares to abroad amounted to SEK 8.3 billion in February 1994. This is the largest net export figure ever registered for a single month. The statistics is presented in the latest monthly survey of trade in securities with non-resident's published by the Riksbank today. The interest in Swedish shares was directed towards a number of companies within the manufacturing industry and was particularly concentrated to the Volvo. The Volvo share was sold to non-residents for an amount of SEK 2.4 billion.

During the latest twelve-month period, non-residents have bought Swedish shares for SEK 42.5 billion. At the same time, residents have bought foreign shares for SEK 5.1 billion.

Table 1. Trade in shares with non-residents, net  
Billion SEK

	Swedish shares	Foreign shares	Total
Year 1993	31.1	- 0.8	30.3
January 1994	3.9	- 1.1	2.8
February 1994	8.3	- 1.2	7.1
March 1993- February 1994	42.5	- 5.1	37.4

Note. A positive value means an export of securities from Sweden and a negative value means an import of securities from abroad.

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# Press Release

No. 24 5 May 1994

## THE RIKSBANK LOWERS THE MARGINAL INTEREST RATE TO 7 PER CENT

The Riksbank - the Swedish central bank - has decided to lower the marginal interest rate from 7.25 per cent to 7.00 per cent, effective 9 May 1994.

European central banks have continued to lower their instrument interest rates. This shows that the increase in long-term interest rates during recent months has not been perceived as a sign of higher inflationary expectations. Considering price developments and the expected future rate of inflation in Sweden, the rise in Swedish long-term interest rates is also excessive. This picture is reinforced by the fact that the krona exchange rate has been stable, despite the recent turbulence in international financial markets. Today's decision should be seen against this background.

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SVERIGES RIKSBANK



# Press Release

Nr 26 May 19 1994

## THE RIKSBANK ADAPTS THE COMPILATION OF THE CURRENT ACCOUNT TO NEW INTERNATIONAL RECOMMENDATIONS

The Riksbank is changing the method for calculating certain items in the current account. This will adapt the statistics to new international recommendations issued by the International Monetary Fund (IMF).

With the new method, interest payments on non-residents' holdings of SEK bonds and income from the Riksbank's foreign exchange reserves are recorded on an accrual basis. The accrual accounting spreads the effect of the payments over time. In future the current account will record the income from foreign exchange reserves excluding the gains/losses stemming from fluctuations in market interest rates.

- With the change of method, the balance-of-payments statistics present a fairer picture, says Sigvard Ahlzén, head of the Balance of Payments Department at the Riksbank. The earlier accounting method entailed large monthly fluctuations that may have made the statistics more difficult to interpret.

The new accounting principles are being implemented for the publication of statistics for March 1994 onwards. Due to the change of method, the publication of the balance-of-payments statistics for March has been postponed from 25 May to 30 May.

Published statistics for earlier periods will be revised by the Riksbank in accordance with the new principles so that comparisons can be made backwards in time.

As a result of these revisions, the current-account balance for 1993 is about 10 billion kronor weaker than indicated by figures published earlier. The international fall in interest rates during 1993 resulted in price gains on the foreign exchange reserves. With the earlier accounting principle, this made a positive contribution to the balance on current account. When the effect of these price gains passed, the balance weakened.

For January and February 1994 combined, the revision strengthens the current-account balance by about 6 billion kronor. This is because the interest payments on nonresidents' holdings of SEK bonds are now registered on an accrual basis.

The currency flow is also adapted to the altered presentation of the foreign exchange reserves. The quarterly revaluation of the foreign exchange reserves to allow for changes in market prices will not be included in the currency flow. Revised series will be published in conjunction with the Riksbank's Weekly Statement as of 20 May.

A technical account of the change of method can be ordered from the  
Riksbank's Information Centre Phone: + 46 8 787 0100

For further information, please contact:

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Head of Balance of Payments Department

SVERIGES RIKSBANK



# Press Release

No 28 May 26 1994

## THE RIKSBANK INTRODUCES A NEW INTEREST RATE POLICY SYSTEM

Today Sveriges Riksbank - the Swedish central bank - has decided to introduce a new system of policy instruments for short interest rates. The interest rate scale is to be replaced by an interest rate corridor with a ceiling, the lending rate, and a floor, the deposit rate. At the same time the marginal interest rate is replaced by the repo rate as the Riksbank's primary interest rate policy instrument.

The lending and deposit rates are decided by the Governing Board of the Riksbank. The new system entitles the Governor of the Riksbank, under guide-lines cleared with the Board, to decide the repo rate within the established corridor.

The new system of interest policy instruments is to be implemented from 1 June 1994 onwards.

At today's meeting the Governing Board decided that the lending rate, the ceiling, is to be 7.50 per cent and the deposit rate, the floor, 6.00 per cent as of 1 June 1994.

The Governor of the Riksbank has set the repo rate at 6.95 per cent. This is 0.05 percentage points lower than the current marginal rate.

The new system has much in common with the arrangements for managing interest rates used by other central banks in Europe.

The background to the decision is the Riksbank's assessment that it is desirable to be able to adjust the short interest rate in a more flexible way. Following the move to a flexible exchange rate, the Riksbank sets the instrument rate after considering a variety of indicators of economic

development and inflationary pressure. Under these circumstances a gradual approach to interest management is often appropriate. Decisions can then be related to how different indicators develop and can be assessed more continuously in the light of new information. In such a process, interest adjustments of 0.25 percentage points, which is what the interest rate scale currently permits, may seem unduly large.

In the new system, repos or reversed repos (repurchase agreements) are announced every Tuesday at 8.30 a.m. The maturity of the repos will normally be two weeks. A repo/reversed repo is an agreement whereby the Riksbank supplies/withdraws liquidity by buying/selling interest-bearing securities with an undertaking to sell/buy back after a specified number of days. The interest rate on the repo, the repo rate, represents the price of the liquid assets supplied or withdrawn by the Riksbank. This rate serves, like the marginal interest rate at present, as a guide for the general level of interest rates in the country.

The system with an interest rate scale and a marginal interest rate, which is now being abolished, was introduced in December 1985.

#### **Press conference**

A press conference on the new system of interest policy instruments, with the Governor, Mr Urban Bäckström, and the Deputy Governor, Mr Thomas Franzén, will be held today, Thursday, May 26th, 1994, at twelve noon at the Riksbank, entrance Malmskillnadsgatan 7.

**Press card required.**

A memorandum on the background to the new system is available at the Riksbank entrance on Malmskillnadsgatan 7 and can also be ordered from the Riksbank's Informational Centre, phone +46 8 787 0100.

SVERIGES RIKSBANK

Information Secretariat, phone +46 8 787 0418.





SVERIGES  
RIKSBANK No 29 May 30 1994

# Press Release

## CURRENT ACCOUNT SURPLUS OF SEK 0.7 BILLION FOR MARCH 1994

The balance on current account for March 1994 shows a surplus of SEK 0.7 billion. For the first quarter of 1994 the current account surplus amounts to SEK 2.7 billion. For the first time since 1988 the balance on current account shows a surplus for a whole quarter of a year. This is shown by data published today by the Riksbank, the Swedish central bank.

The Riksbank now applies new methods in accordance with international recommendations for calculating certain items in the balance on current account. The new accounting principles concern interest payments on non-residents' holdings of SEK bonds and income from the Riksbank's foreign exchange reserves. (Information of the new methods was published by the Riksbank on May 19, 1994).

Published statistics for earlier periods have been revised by the Riksbank in accordance with the new principles so that comparisons can be made backwards in time.

As a result, the current account for 1993 is weakened by SEK 11.2 billion and shows a deficit of SEK 14.0 billion. The current account for January 1994 is strengthened by SEK 6.5 billion which results in a surplus of SEK 2.0 billion. For February, the balance

on current account amounts to SEK 0.0 billion after being weakened by SEK 0.8 billion.

Table below. The Balance on Current Account for 1993 and January - March 1994. SEK Billion.

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1993		-14.0
1994		
	January	2.0
	February	0.0
	March	0.7
	1st quarter	2.7

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Balance of payments data for March 1994 as well as the technical report on the change of method can be ordered from the Riksbank's Information Centre  
Phone + 46 8 787 0100

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SVERIGES RIKSBANK



# Press Release

Nr 33 14 June 1994

## THE INFLATION TARGET FOR 1995 IS EXPECTED TO BE MET

The immediate inflationary pressure in the Swedish economy is low. The rate of inflation in 1995 is expected to stay below 3 percent. This means that the inflation target, defined by the Riksbank in early 1993, will be met.

This is stated by the Economics Department in its third report on Inflation and Inflationary Expectations in Sweden, published today.

Developments in the years after 1995 are more difficult to assess. Inflationary expectations for 1996 and beyond are, according to some indicators, still in excess of the inflation target, which is formulated as an inflation rate of 2 percent with a tolerance of plus/minus 1 percentage point.

Since the publication of the previous inflation report, long-term interest rates have risen strongly. The rise has probably been caused by, among other things, a higher expected real rate of interest and an increased risk premium for Swedish bonds. Thus, the movement in interest rates does not necessarily indicate that inflationary expectations for the longer term have increased.

The Report analyses capacity utilization in industry, an important indicator of inflationary pressures. The analysis indicates that industry will reach or even exceed the average historical level of capacity utilization already in 1994. Whether the high rate of

capacity utilization will restrain output growth and thus increase inflation, depends on the development of investment and on the flexibility of industry in utilizing existing machinery and equipment.

The Report states that hourly wages for blue-collar industrial workers are rising faster than before. Wage increases have been relatively high even in sectors where demand is low. There is a risk that this development will spread to branches with less favourable productivity development and that consequently inflationary pressures could increase.

Throughout 1993 and early 1994, movements in interest rates and the exchange rate have had a strongly expansionary effect on demand. The increase in long-term interest rates lately has, however, to some extent curbed the stimulus.

The easing of monetary conditions will have its full effect on economic activity in a year ahead. A consolidation of government finances is required in order to dampen possible inflationary impulses.

For further information, please contact:

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The Report is available at the entrance of Sveriges Riksbank, Malmskillnadsgatan 7. It can also be ordered from the Riksbank's Information Secretariat, Phone +46 8 787 0100.

SVERIGES RIKSBANK



# Press Release

No 34

16 June 1994

## INTRODUCTION OF A PRIMARY DEALER SYSTEM FOR THE FOREIGN EXCHANGE MARKET

The Riksbank - the Swedish central bank - decided today upon two aspects concerning the trade on the foreign exchange market:

- In an official letter to the Ministry of Finance it is proposed that the authority to grant permits for trade on the foreign exchange market should be transferred from the Riksbank to the Financial Supervisory Authority (FSA). According to the proposal, trade in foreign exchange with the public should be embraced by the authorization granted to banks and other financial institutions.

- The Riksbank will invite financial institutions to sign a primary-dealer contract for the foreign exchange market as from January 1, 1995. The offer will be limited to institutions supervised by the FSA or other authorities within the EEA.

The primary-dealer system may be seen as a development of the present system (in use since autumn 1990) with institutions acting as guarantors for the market. The main task for the guarantors, as well as for the primary dealers, is to improve the workings of the foreign exchange market, i.e. to continuously quote prices for Swedish kronor. The six banks that presently have the status as market guarantors will be invited to sign primary-dealer contracts with the





# Press Release

No 36 7 July 1994

## **THE FIRST COMPREHENSIVE SURVEY OF THE SWEDISH DERIVATIVES MARKET CONDUCTED BY THE SVERIGES RIKSBANK**

The Riksbank's Financial Markets Department today presents a report on the structure and systemic risk of the Swedish derivatives market. In the report a complete statistical picture of the Swedish derivatives market is presented for the first time.

The survey shows that interest rate derivatives have the largest market share, measured by amounts. As to risks, the report states that the exposures stemming from derivatives lead to relatively limited credit risk for the major Swedish market participants.

The derivatives market is characterised by trading primarily through the major Swedish bank groups and through the derivatives exchanges. Trading in the presumably more risky so called OTC-instruments is very limited. Furthermore, the share of interbank-trade is substantial, which is an indication of high liquidity in the derivatives market.

In the derivatives market instruments are traded providing a locked-in future interest rate level or currency exchange rate (forwards or futures). Other derivative instruments make it possible to exchange cash flows, e.g. related to payments of interest (swaps) or provide the right to buy or sell an underlying asset at a predetermined price (options). According to the survey, forwards/futures and swaps are the most commonly used instruments in the Swedish market.

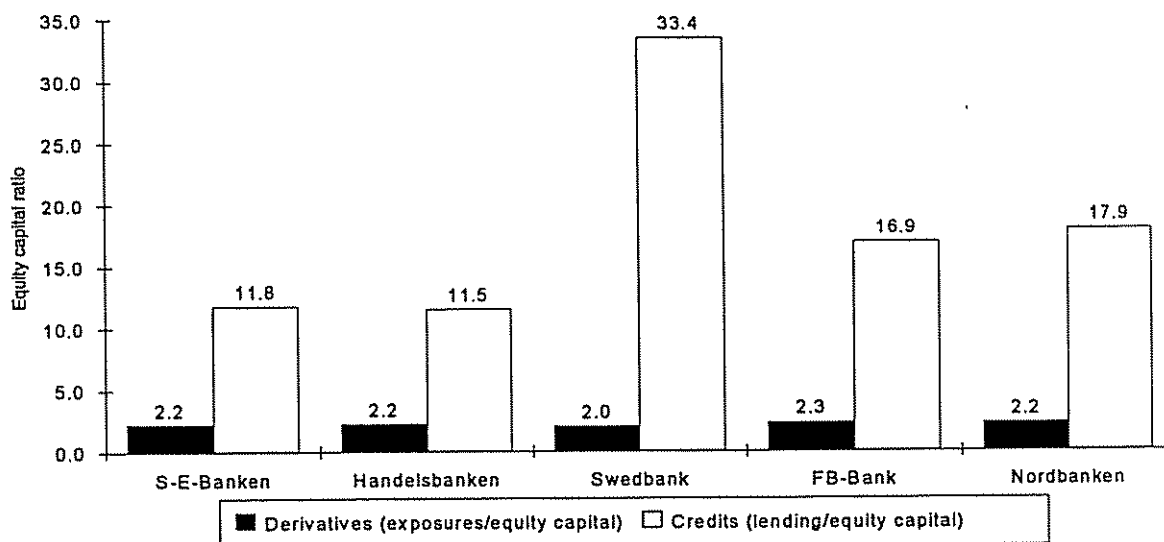
The survey further shows that interest-rate-related derivatives amount to 61 percent of the market, exchange-rate-related derivatives 34 percent and equity-related 5 percent. These market shares refer to the situation at end-1993 and have been measured according to the notional underlying amounts of the contracts.

On the basis of the Riksbank's survey two conclusions can be drawn about systemic risks in the derivatives market, i.e. the risks that disturbances in the derivatives market cause a destabilization in the payment system:



The first conclusion is that the derivatives market should not be seen as separate from other financial markets when considering risk aspects. Compared to the volume of traditional credits extended by the major market participants, counterparty exposures from derivatives are fairly limited.

Counterparty exposures are measured as the sum of positive gross replacement values. This measure reflects the loss of revenue which will affect the first party in the case that a derivatives contract with a present positive value will not be honoured by his counterparty. In the graph below the replacement values in derivatives contracts and the credit risk in traditional lending are shown in relation to the equity capital of the major Swedish bank groups at the end of 1993.



Source: Annual Reports/Riksbank estimates

The second conclusion is that the monitoring of systemic risks in the derivatives market should be focussed on the major Swedish bank group's activities in the segments of the market which are not traded on derivatives exchanges. Further, market agents which provide clearing and settlement or similar functions, in Sweden primarily OM Stockholm AB, should be monitored. To prevent systemic disturbances from originating in the derivatives market, it is pivotal that these market participants maintain high quality risk management.

The report states that the Swedish Financial Supervisory Authority has the responsibility for the supervision of banks and clearing and settlement houses. The role of the Riksbank is to monitor the payment system and to prevent systemic risk. In order to monitor the derivatives market more efficiently





# Press Release

No. 39 11 August 1994

## THE RIKSBANK RAISES THE LENDING RATE TO 8 PER CENT AND THE REPO RATE TO 7.20 PER CENT

The Riksbank - the Swedish central bank - has decided to raise the lending rate, i.e. the ceiling of the Riksbank's interest rate corridor, from 7.50 per cent to 8 per cent. The deposit rate is unchanged at 6 per cent. In addition, the repo rate is raised to 7.20 per cent (from 6.92 per cent). The increases will come into effect in connection with the next regular repo auction on Tuesday 16 August 1994.

Governor Urban Bäckström comments the decision as follows:

- The purpose of the increases in the Riksbank's instrument interest rates is to counteract, at an early stage, a tendency towards higher inflation.
- Recent inflation figures are affected by factors that can be regarded as temporary, e.g. higher coffee prices. However, there are also general indications that there are risks for a rise in the underlying rate of inflation.
- Surveys also show that inflationary expectations among households and firms have risen. In addition, high long-term interest rates and the weakness of the krona indicate that savers and investors are uncertain about the future inflation rate in Sweden. This uncertainty is related to the problems surrounding the public finances.

- Inflation must not be allowed to re-emerge. This view has broad-based support. The Swedish economy has paid a considerable price for the inflation of the 1970s and 1980s. The experiences of the harmful effects of inflation led to the decision to set a target for the long-term rate of inflation of 2 per cent ( $\pm 1$  percentage point).

- Low inflation and low inflationary expectations lead to lower interest rates. This encourages investment and growth. Maintained price stability is therefore crucial for continued expansion of output and employment.

- The importance of price stability means that we must be watchful for signs that inflation tends to increase. For the Riksbank, watchfulness means that we adjust interest rates at an early stage to counter inflationary tendencies and uncertainty about future price developments.

The Riksbank's assessment of the outlook for inflation is presented in a special report, enclosed with this press release.

#### **PRESS CONFERENCE**

A press conference with Governor Bäckström will be held at the Riksbank (entrance at Malmskillnadsgatan 7) today, 11 August, at 13.30.

Press ID is required for admittance.

Additional information is available through the Information Secretariat, tel. +46-8-787 0418.

**SVERIGES RIKSBANK**



**SVERIGES  
RIKSBANK** No. 41 23 August 1994

# Press Release

## **STRONG PRESSURE FOR CHANGES IN THE BANKING AND INSURANCE SECTOR**

European integration is generating strong pressure for changes in the banking and insurance sector. Features of this tendency include increased competition and ongoing structural transformations.

Evidence of this is contained in a report, *Financial Integration in Western Europe - Structural and Regulatory Consequences*, presented today by the Financial Markets Department of Sveriges Riksbank.

The papers in the report provide a broad picture of the pressure for change which the financial sector is exposed to in connection with European integration. As regards legislative and structural changes, the banking sector has come further throughout than the insurance sector. But the report indicates that a similar transformation will occur by degrees in the insurance sector, too.

The move towards increased competition had already begun in the 1980s. Besides the effects of deregulation and advances in computer technology, it had to do with the introduction of new financial instruments, for instance various kinds of derivative contracts. Competition is now being enhanced in that the banking and insurance sector is becoming more open for foreign enterprises as a result of the EU and EEA legislation.

The increased competitive pressure has meant that, since the beginning of the 1980s, changes in the structure of the financial sector have been rapid and far-reaching (see table). This applies both to market structure and to the activities of market agents. The report envisages that the pressure for change will remain strong but that more of the impulses will come from the increased integration in Western Europe.

The heightened competition in the banking and insurance sector also affects financial market stability. Enterprises must become accustomed to smaller profit margins and are more vulnerable to disturbances than earlier, when competitive pressure was weaker.

The report notes that the authorities in Europe have already begun to develop strategies for coping with the new situation. Instead of drawing up detailed instructions for corporate behaviour, regulation and supervision should be directed at monitoring and maintaining solvency.

This approach is echoed in the development of Swedish supervisory legislation and also underlies the new role assigned to the Swedish Financial Supervisory Authority in the 1990s.

The report contains papers by leading international and Swedish experts who participated in a conference which the Riksbank arranged in November 1993.

#### **No. of credit institutions in Sweden**

	1980	1985	1990	1993
Swedish commercial banks	14	15	12	10
Foreign banks	-	-	9	8
Savings banks	164	139	104	90
Cooperative banks	12	12	12	-
Finance companies	107	213	180	130
Housing mortgage inst., etc.	22	23	26	20
Total	319	402	343	258

Copies of the report are available at the Riksbank entrance at Malmskillnadsgatan 7 and can also be ordered from the Riksbank's Information Centre, tel. +46-8-787 0100.

For further information, please contact Erik Blomberg, tel. +46-8-787 0478.

SVERIGES RISKBANK



Monetary and Exchange Rate Policy Department 1994-10-03

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tel 08 / 787 08 01  
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## THE REFERENCE RATE - THE DISCOUNT RATE

The Riksbank - the Swedish central bank - has today determined the reference rate - the discount rate - to 7.0 per cent, effective October 4, 1994.

The discount rate is purely a reference rate and not in any way connected with monetary policy. The discount rate has no relevance for Riksbank lending to the banking sector.

The interest rates used for monetary policy purposes by the Riksbank are the lending rate, the deposit rate and the repo rate.

The discount rate is determined by the Governing Board of the Riksbank at its first meeting of every quarter solely on the basis of interest rate developments during the preceding quarter.

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### THE REFERENCE RATE - THE DISCOUNT RATE

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As from	Rate of interest Per cent	Change Percentage points
1992-07-03	8.5	0.0
1992-10-02	10.0	1.5
1993-01-05	9.0	-1.0
1993-04-02	7.0	-2.0
1993-07-02	6.0	-1.0
1993-10-08	5.0	-1.0
1994-01-04	4.5	-0.5
1994-04-06	4.5	0.0
1994-07-04	5.5	1.0
1994-10-04	7.0	1.5

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# Press Release

No 46 17 October 1994

## GROWTH MAKES BUDGET CONSOLIDATION EASIER AND URGENT

The central task now for monetary policy is to keep inflation down even when growth picks up, thereby securely anchoring confidence in the policy of price stability. For this reason it is important that, if inflationary tendencies begin to appear, Sveriges Riksbank ❖ the Swedish central bank ❖ acts at an early stage. It is natural and proper that monetary conditions become less expansionary as economic activity picks up, Urban Bäckström, Governor of Sveriges Riksbank, said at a Nomura Seminar in Tokyo on Monday.

It has been clear from several international meetings lately, that prospects for growth are improving significantly in many countries. It has also been evident that policy makers have a uniform view on the need to step up efforts to consolidate public finances, in order to lay foundation for sustained growth and create a larger room of manoeuvre in future cyclical downturns.

There has also been positive tendencies in growth forecasts for the Swedish economy. Such a development, makes it easier ❖ and even more urgent ❖ to attack the large public deficit in Sweden in a decisive way. The growth momentum in the economy must be used for prompt action to reduce the public sector deficit.



Statistics presented in recent months confirm that the interest rate increase in August was an appropriate measure. With this increase monetary contribution to demand became less expansionary. Since then the krona has shown an effective appreciation of about 3 per cent. Developments have accordingly moved in the right direction.

The transition to a flexible exchange rate in Sweden have not entailed any change in the ultimate objective of Swedish monetary policy. Price stability was the goal with the fixed exchange rate and continues to be the objective under the flexible exchange rate regime. Stable prices are a necessary condition for attaining sustainably good employment and high economic growth. Price stability objective has broad support in Sweden.

In the period with a flexible exchange rate, that is from 19 November 1992, monetary conditions, taking both interest and exchange rates into account, have provided a strong economic stimulus. The combined impact from interest rates and the exchange rate indicates that at the peak, around the turn of 1993, the total demand stimulus from monetary policy was between 3.5 and 4 per cent.

Since the middle of 1993, the Swedish economy is well on the way to a recovery. Between the first halves of 1993 and 1994 GDP rose almost 3 per cent. Annual forecasts for 1995 and 1996 point to continued growth of between 2 and 3 per cent.

The sharp depreciation of the krona has in combination with high long term interest rates caused a dual character of the economy. The Riksbank would welcome a stronger exchange rate. The Riksbank has stressed that in terms of the respective contributions from interest and exchange rates, the monetary stimulus has had an unsuitable composition.

A more balanced monetary contribution to the development of demand would clearly have been preferable.

The Riksbank, however, has not been in a position to prevent the krona from weakening so markedly. This depreciation has mainly had to do with the development of central government finance.

A political consensus exists on the necessity of consolidating central government finance. The political challenge is to translate this conviction into action. Some measures have already been introduced. However, substantial consolidation efforts still remain to be undertaken.

Given the present imbalances in the Swedish economy, the krona exchange rate will remain flexible for a substantial period. Even in the event of membership in the European Union ❖ EU ❖ Sweden's participation in the ERM lies in the more distant future. However, a fixed exchange rate confers substantial advantages on a small country like Sweden that is dependent on foreign trade. A return to a fixed exchange rate regime is therefore desirable in time, when the state of the economy makes such a commitment credible.

The speech is obtainable from the  
Information Secretariat: Phone: + 46 8 787 0100.

SVERIGES RIKSBANK



SVERIGES  
RIKSBANK No 47 18 October 1994

# Press Release

## INCREASED INFLATIONARY PRESSURE

The inflationary pressure in the Swedish economy has risen since the previous inflation report was published in June. It is primarily the trends in producer prices and the development of capacity utilization in the economy that are providing such indications.

This is stated by the Economics department of the Riksbank in its fourth report on "Inflation and Inflation Expectations", published today.

The depreciation of the krona since the transition to a floating exchange rate has had inflationary effects. The rate of increase of the CPI as well as the underlying inflation rate have risen since last spring. The price trends at the producer stage confirm that the depreciation of the krona has influenced domestic prices. The prices of domestically produced goods for the home market have increased rapidly during the past year. This is true also for sectors that are not subject to direct influences from the exchange rate or from the development of prices in international markets.

For the economy as a whole, the size of the so called output gap has diminished and may soon be closed. This is a result of increased demand as well as reduced production capacity in some sectors of the economy. The capacity utilization in industry is already at historically high levels. Thus, as capacity utilization increases further, there is a risk of higher inflation, in particular if the flexibility in the use of the capital stock and in the wage formation does not increase.

Inflation expectations have increased since the previous report. This is true for the inflation expectations of households and industrial enterprises as well as financial investors. For 1995, the inflation expectations of industrial enterprises and financial investors are now higher than the upper limit of the price stability target. The inflation expectations of labour market organisations and of purchasing managers in firms have been surveyed only once, and it is too early to draw any definitive conclusions, but they appear to be higher than the price stability target.

The conduct of monetary policy depends on the economic situation and on the confidence in the development of central government finances. A consolidation of central government finances would have substantial positive effects: reduced uncertainty and increased confidence in economic policy as well as improved prospects for a stronger krona and lower market interest rates. This, in turn, would increase the possibilities to counteract inflationary tendencies and dampen inflation expectations. In this way, a consolidation of central government finances would facilitate the fight against inflation and make it possible to use the production capacity of the economy more efficiently and to provide for sustainable growth.

Additional information can be obtained from Krister Andersson, phone + 46 8 787 0148 and Jonas Ahlander, phone + 46 8 787 0144.

The report is available at the Riksbank, Malmskillnads-gatan 7. It can also be ordered from the Riksbank's Information Secretariat, phone + 46 8 787 0100.



# Press Release

No 50 27 October 1994

## THE RIKSBANK RAISES THE REPO RATE FROM 7,20 TO 7,40 PERCENT

The new Board of Governors of the Riksbank, Sweden's central bank, received a broad overview of the economic situation and prospects for inflation at its meeting today. According to the guidelines which were confirmed at that meeting, the Governor of the Riksbank has decided to raise the repo rate, the key monetary instrument, from 7,20 to 7,40 percent at the next regular repo tender Tuesday the 1st of November 1994.

Monetary conditions, that is the overall effect of interest rates and the exchange rate have had an expansionary effect on the Swedish economy. This has also contributed to the recovery in economic activity without jeopardizing price stability.

The increase of the repo rate decreases the monetary stimulus and is part of a monetary policy aiming at promoting lasting growth and increased employment while ensuring price stability. Such a monetary strategy will enhance the credibility of fulfilling the price stability objective over the entire business cycle.

For further information, please contact:  
Urban Bäckström, Deputy, Phone + 46 8 787 0109 and  
Thomas Franzén, Deputy Governor,  
Phone + 46 8 787 0141

SVERIGES RIKSBANK



# Press Release

No. 55 24 November 1994

## THE RIKSBANK SIGNS THE EMS AGREEMENT BUT CONTINUES WITH THE FLEXIBLE EXCHANGE RATE REGIME

Sveriges Riksbank, the Central Bank of Sweden, has decided to apply for accession to two agreements which the central banks of the EU member states have concluded, on the European Monetary System (the EMS Agreement) and short-term monetary support.

When they have been signed by all the central banks, the agreements come into force concurrently with Sweden's membership of the EU. The Riksbank's accession to the agreement on short-term monetary support also requires the Swedish Riksdag's approval of lending arrangements enshrined in the agreement.

Accession to these agreements is made possible by Sweden's membership of the EU. It does not entail any change in exchange rate policy. The Riksbank will not link the krona to the Exchange Rate Mechanism (ERM) during a considerable time. The forms for such a link will have to be determined after Sweden has overcome its economic problems and in the light of the development of the ERM cooperation. Meanwhile the Riksbank will also not participate in credits that may arise in conjunction with ERM cooperation.

The EMS Agreement aims at establishing a zone of monetary stability in Europe. Central components of the agreement are the ERM and the creation of official ECUs, which the central banks can use in their mutual transactions. The agreement on short-term monetary support provides for short-run credit facilities for supporting the central bank in a member state that is experiencing balance of payments problems and there are certain links with the credit

arrangements in the EMS Agreement. By acceding to these two agreements the Riksbank wishes to underscore its interest in contributing to the work of promoting stability in foreign exchange markets. The central bank cooperation in connection with the agreements is arranged within the European Monetary Institute (EMI) and entails a more intensive exchange of information as well as consultations between the Riksbank and the other central banks of the EU member states.

Further information can be obtained from Gustaf Adlercreutz, Senior Adviser (European Affairs), phone: + 46 8 787 0660.

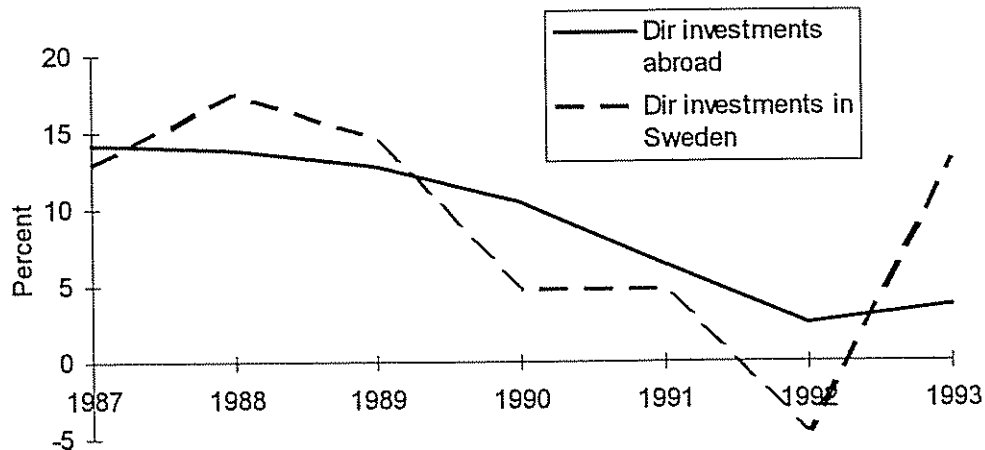
SVERIGES RIKSBANK

## RETURN ON OUTWARD DIRECT INVESTMENT REMAINS LOW IN 1993

Swedish direct investment assets abroad at end 1993 totalled SEK 370 billion and the year's return on this stock amounted to 11 billion. The rate of return, which had displayed a falling tendency in the previous five years, turned upwards in 1993. Direct investment assets in Sweden at end 1993 totalled SEK 107 billion. The return on this stock likewise amounted to SEK 11 billion, which represents a strong upturn.

These figures are included in a survey of direct investment enterprises and their returns which the Riksbank is publishing today.

**Income on direct investment, percentage of equity  
capital, 1987-1993**



The greatly improved productivity among Swedish export producers in 1993 contributed to the higher return on inward direct investment. This was accompanied by relatively weak economic activity in Europe, which tended to subdue the return on direct investments from Sweden.



The Riksbank's annual surveys of direct investment cover investment which amounts to at least 10 per cent of the enterprise's capital or is made to acquire an effective voice in management. The surveys do not cover portfolio investment. The data are used in the compilation of the current account of the balance of payments and in the presentation of Sweden's total assets and liabilities with the rest of the world.

Pending the definitive figures for direct investment income, the Riksbank reports preliminary monthly data in the current account. The final figures are not available until the enterprises have completed their annual accounts.

The combination of a higher return on inward direct investment and a persistently low return on Swedish direct investment abroad had a negative net effect on direct investment income in the current account. The new figures mean that, compared with those published earlier, the net return in 1993 is SEK 12.6 billion weaker. The Riksbank has accordingly revised the balance on current account for 1993 and now reports an annual deficit of SEK 31.3 billion. The outcome for 1993 occasions a revised assessment of annual direct investment income in 1994. This gives a reinforcement of the current-account balance for 1994 by SEK 1.5 billion.

The revision of direct investment income concerns undistributed (reinvested) earnings. The adjustment is included in the balance of payments as an outflow in the current account and an equally large inflow in the capital account.

Copies of the direct investment report are available at the Riksbank entrance at Malmskillnadsgatan 7. They can also be ordered from the Riksbank's Information Secretariat, phone: + 46 8 787 01 00.

Further information can be obtained from:  
Sigvard Ahlzén, phone: + 46 8 787 02 25 and  
Johan Rydman, phone: + 46 8 787 02 07.

SVERIGES RIKSBANK



# Press Release

No 59 13 December 1994

## **THE RIKSBANK RAISES THE REPO RATE FROM 7.40 TO 7.60 PER CENT**

Having first agreed the monetary policy guidelines with the Governing Board, the Governor of the Riksbank has decided to raise the repo rate from 7.40 to 7.60 per cent. The decision comes into effect with the announcement of today's repo.

It is of the utmost importance that the economic recovery which is now evident in Sweden does not lead to higher inflation. The increase in the repo rate today is a feature of a monetary policy which aims to ensure that the economic growth becomes sustained and that employment rises steadily in conjunction with price stability.

SVERIGES RIKSBANK