

## INFLATION SOMEWHAT BELOW THE TARGET

As pointed out earlier by the Riksbank, monetary policy and the fulfilment of the inflation target should be evaluated, not from isolated monthly inflation figures but in an annual perspective. This has to do with the lag before monetary measures can counter an unexpected development of inflation and the need to base the evaluation less on transitory effects.

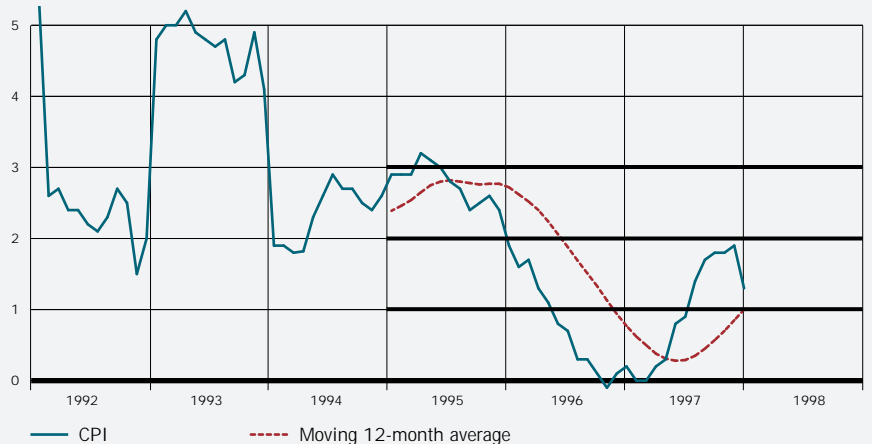
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Since the inflation target came into force, the annual increase in consumer prices has averaged 1.5 per cent. Thus, the average outcome is below but relatively close to the target and well inside the tolerance interval. Underlying inflation in this period has been closer to 2 per cent. In other words, the transitory effects that lowered inflation have been stronger on average than the

upward effects. In certain periods the transitory effects have been particularly marked. From June 1996 to July 1997 the 12-month CPI change figures were outside the tolerance interval's lower limit, in large measure because falling interest rates held back the increase in the CPI, via decreased house mortgage interest costs. The falling interest rates in turn were largely an effect of increased confidence in economic policy in general and the Riksbank's repo rate cuts during 1996.

The impact of interest costs on inflation has already begun to diminish and is currently being offset by effects of changes in indirect taxes and subsidies. In January, both the CPI's 12-month change figure, 1.3 per cent, and the average of changes over the past twelve months, 1.0 per cent, were inside the inflation target's tolerance interval.

**Figure B3.**  
Consumer price index.  
Percentage 12-month  
change (CPI) and moving  
12-month average of these  
changes



Note. The horizontal lines from 1995 onwards represent the Riksbank's annual target and tolerance interval for the CPI.

Sources: Statistics Sweden and the Riksbank.