



**SVERIGES
RIKSBANK**

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Press Release

IMPROVED CONDITIONS FOR PRICE STABILITY

In the inflation report which the Riksbank is publishing today it is concluded that the conditions for price stability have improved. It is considered that in the coming years inflation can be in line with the Riksbank's target.

Surveys have shown that since the previous inflation report, from November 1995, inflation expectations have gone on falling. There are also clearer signs of a fall-off in industrial activity, in Sweden as well as internationally. Inflationary impulses from the exposed sector are therefore likely to be weaker than before. At the same time, a number of indicators show that domestic market activity is also weak, so that inflationary pressure is low. This is the background to the repo rate reductions in 1996.

For the assessment of inflation in the coming two years, three factors appear to be particularly strategic: economic activity, the Swedish economy's inflation propensity and the value of the krona.

- *Economic activity:* There is an increased probability of economic growth in the coming years being below the potential rate. The export sector is less expansionary, which reduces the risk of inflationary bottlenecks. The assessment of the domestic sector is more difficult. As capacity utilisation is low, a gradual recovery should be feasible without jeopardising the inflation target.
- *Inflation propensity:* The functional effects of the structural changes in the economy since the end of the 1980s are difficult to gauge. The difficulty in assessing how the inflation propensity has been affected ultimately lies in the fact that in recent years demand has been low in parts of the economy. Problems still exist in wage formation. Changes are needed so that nominal wage costs develop in a way that is compatible with increased employment and sustained price

stability. But the fact that unexpectedly strong growth in 1995 was accompanied by relatively limited inflation does indicate that earlier patterns of inflation are being broken up. Lower inflation expectations are also an indication of this.

- *The krona's value:* In a long-term, fundamental appraisal, it must be said that the krona is undervalued. This points to an appreciation, which would tend to subdue inflationary pressure. Such a development presupposes that confidence in Swedish economic policy as a whole continues to grow. There is still a great need for discipline in Swedish economic policy. There must be no doubt that the Riksbank is continuing to safeguard the value of money. Neither is there any room for ambiguity on the part of the Government or the Riksbank about the consolidation of central government finance.

To sum up: The outlook for inflation in line with the target is good. Some scope may therefore exist for further easings of monetary policy. The self-evident condition is that the prospects for fulfilling the inflation target continue to be perceived as favourable. Were there to be signs that the economy is moving towards paths that are incompatible with the inflation target, this will of course affect monetary policy.

A press conference on the inflation report, with Lars Heikensten, Krister Andersson and Jonas Ahlander, will be held at 10.00 in the Riksbank; admission by No. 7, Malmskillnadsgatan. Press card required.

Copies of the inflation report can be ordered from the Riksbank's Information Centre (fax no. +46 8 787 0526; phone no. +46 8 787 0100) or collected at the Riksbank's entrance, No. 7, Malmskillnadsgatan.

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