



**SVERIGES  
RIKSBANK** No 38

# Press Release

14 November 1996

**In connection with the October CPI figures from Statistics Sweden, the following statement is issued by Mr. Lars Heikensten, Deputy Governor of Sveriges Riksbank:**

- A stable and good economic development calls for low inflation. That is why the Riksbank has the function of safeguarding the value of money. The Riksbank operates with a target for price stability: the increase in the Consumer Price Index (CPI) is to be limited to 2 per cent, with a tolerance interval of  $\pm 1$  percentage point.

- Since the spring of 1995 the rate of increase in the CPI has come down from above 3 per cent to -0.1 per cent this October. The rate of inflation in October is accordingly below the inflation target's lower tolerance interval.

- In large measure, inflation's retardation this year stems from transitory factors. Not the least important of these has been the krona's appreciation. The Riksbank's cuts in its instrumental rate have also helped to keep the consumer price rise down. These tendencies have to do with increased confidence in Sweden as a low-inflation country with sound government finance.

The inflation propensity of Sweden's economy seems to have decreased. This is supported by other indicators of price movements that the Riksbank follows continuously, as well as by the low inflation expectations. Trend inflation is estimated to be between 1.5 and 2 percent.

- Since the low in activity in the summer of 1993 the Swedish economy has been growing at an annual rate of 3 per cent. In keeping with most other observers, the Riksbank is counting on growth in 1996-97 totalling 3-4 per cent.

- It takes one to two years for monetary policy to exert its full effect on price movements. For monetary policy it is therefore the appraisal of future inflation that is decisive.

- At the time of the latest cut in the instrumental rate the Riksbank considered that some limited room existed for lowering the repo rate. It was also pointed out that the assessment was not unambiguous; additional time was needed to follow and analyse incoming information. In the opinion of the Riksbank, the conclusion could also be an unchanged repo rate. That is still the case.

SVERIGES RIKSBANK