

# Press Release

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## Clarification of monetary policy's formulation

At the meeting on 4 January 1999 the Executive Board decided that the formulation of the monetary policy target continues to apply. At the same meeting, First Deputy Governor Lars Heikensten was given the tasks of presenting proposals for a clarification of monetary policy's formulation and proposing a process for an ongoing appraisal of monetary policy.

At the meeting on 4 February the Executive Board decided on such a clarification. Monetary policy is normally conducted so as to meet the 2 per cent inflation target,  $\pm 1$  percentage point, defined in terms of the CPI change, one to two years ahead. Departures from this general rule may be warranted, however, for two reasons. One is that the CPI can be pushed upwards or downwards in the relevant time perspective by one or more factors that are not considered to affect inflation more permanently. Changes in interest expenditure, indirect taxes and subsidies are examples of such factors. The other reason for departing from the rule can be that a quick return to the target in the event of a sizeable deviation can sometimes be very costly for the real economy. In the event of either of these situations occurring, the magnitude of the deviation from the inflation target, defined in terms of the CPI, that may be motivated 1 to 2 years ahead will be clarified by the Riksbank *in advance*.

It should be underscored that the question of what constitutes a transitory effect is *complex*. For assessments by the Riksbank, a matter of particular weight is whether the shocks affect inflation expectations. If they do, they should be taking into account when making monetary policy decisions.

Facilitating an appraisal of monetary policy is particularly important in view of the Riksbank's more independent status as of 1999. Clarification along the lines indicate above will simplify *backward-looking* assessments of monetary policy. An account of the policy outturn will be presented regularly by the Riksbank in connection with the Governor's first appearance each year before the Parliamentary Standing Committee on Finance. If the CPI changes have moved outside the Riksbank's tolerance interval, the reasons for this will be explained.

For further information, please contact Claes Berg, head of Economics Department, telephone: +46 8 787 01 83.

SVERIGES RIKSBANK

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Telephone  
+46 8 787 00 00

Telefax  
+46 8 21 05 31

E-mail  
registratorn@riksbank.se

Internet  
www.riksbank.se/eng