

Press Release

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Low inflationary pressure thanks to real and structural factors

Extract from Mr Urban Bäckström's address to the FOREX meeting on March 20th

In recent years a comparatively high rate of economic growth in Sweden has been combined with the maintenance of low inflation. A major factor here has been the surplus capacity that existed after the recession in the early 1990s.

However, the capacity surplus that existed and still exists is not the only explanation. Another factor is the economic changes of a more structural nature. Not the least of these is the introduction of an explicit inflation target and the effect this can be presumed to exert on price and wage formation. Economic agents now count on a low rate of price increases and this influences their behaviour.

International competitive pressure also seems to have grown, for instance as a consequence of it being more feasible to locate even comparatively advanced production processes to countries where wages are considerably lower than in the western economies. This is, strictly speaking, a matter of one-off effects but the increased competition can continue to influence global inflationary pressure for a long time. Expanding international trade, deregulation and the European economic and monetary union are all working in the same direction.

The low international inflationary pressure has indeed helped to keep import prices down. Together with a continued capacity surplus in the Swedish economy, in recent years the structural changes have resulted in low inflation. This is the case even when factors with just a transitory impact on inflation are excluded. In February this year the 12-month rate of CPI inflation was -0.2 per cent and the underlying rate of inflation, measured as UNDIX, was 1.2 per cent.

There are many indications that in the years ahead, inflation will remain relatively low. A continued capacity surplus and good productivity growth in the Swedish economy, together with the increased global competition, are likely to keep the rate of inflation down.

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