

Press Release

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Missing pieces in the economic puzzle

First Deputy Governor of the Riksbank Lars Heikensten gave a speech under the heading "Monetary policy" at a conference on Sweden's future in the economic growth league organised by the Swedish Taxpayers' Association.

Economic activity is slowing down more or less as expected, but the picture is not unequivocal

"The Riksbank made a significant downward adjustment in its assessment of the international economic picture in the latest Inflation Report. This was a larger revision than that made by many other analysts. All in all, international developments since then have been well in line with our assessment. However, the economic signals from both the USA and the Euro area have been mixed, while the Japanese economy is faltering," said Heikensten. "It is important to remember that we did not only point out the risks of a weaker economic climate in the Inflation Report, although they weighed heaviest. There could also be a surprise swing in the opposite direction, particularly if developments on the stock exchange stabilise. Although the economy is slowing down, the different indicators are showing a rather fragmented picture of developments in Sweden and the rest of the world."

Wage agreements limit the Riksbank's scope for action

"The wage agreements that have been signed so far are largely in line with the Riksbank's forecasts. Nor do they appear to comprise any acute threat with regard to inflation over the next few years. However, there are still some wage agreements yet to be signed, and it is therefore too early to assess this round of wage negotiations. There is still a risk that the remaining negotiations will lead to higher wage increases than those already negotiated, which could lead to the risk of an increasing compensatory wage drift in future," said Heikensten. "Personally, I consider that the assessments of wage formation in Sweden in recent years have been overly positive, for several reasons. It appears that wages will increase relatively rapidly over the next few years. If productivity growth continues to fall at the same time as economic activity slows down, the problems will increase. There is a risk that the Riksbank will have less scope for action than is desirable."

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Domestic inflation raises questions

"We pointed out in the Inflation Report that there is a risk that the rise in domestic inflation could indicate a less favourable relationship between growth and inflation than we had earlier assumed. If this is the case, there is reason to pay attention to the latest inflation figures, which were once again higher than expected. Although one should not draw any hasty conclusions from a single set of figures, it is now necessary to consider what they mean with regard to the future development of inflation. The rise we have seen in recent years is partly a 'normalisation' of unusually low rents, for instance, but at the same time the rapidly rising prices in the services sector give cause for concern. When companies in several parts of the economy appear able to increase their profit margins, it is probably an indication that resource utilisation is relatively high. However, it could also be an intimation of problems in competition and a higher inflationary tendency than we had assumed," said Heikensten.

Economic activity and resource utilisation decisive in the long term

"As usual, it is none too easy to weigh up the new information and draw an unequivocal conclusion as to where inflation is heading. The surprising upturn in the rate of price increases means that the domestic inflation perspective looks worse than it did a month or so ago. International economic activity and developments on the stock exchanges, as well as the effects these have on economic growth and resource utilisation in Sweden, are still likely to be the decisive factors. If the decline becomes greater, and financial unrest continues, it is probable that inflationary pressure in Sweden will diminish. However, as I mentioned earlier, the information that has come in since March is anything but clear on this point. Moreover, the interest rate situation in Sweden is already low in an international perspective, while the krona remains weak. All in all, this means that I am personally inclined to think the repo rate should remain unchanged," concluded Heikensten.