

# Press Release

---

26 OCTOBER 2001 No 67

## Watchful eye on inflation trends

Deputy Governor of the Riksbank Villy Bergström gave a speech under the heading “The Riksbank’s view of the Swedish economy” at a seminar in Ljusdal on Friday. The speech touched on inflation trends.

“Last week the Riksbank published its third Inflation Report for this year. There we have outlined an economic development that includes a rather more subdued demand both abroad and in Sweden, than was forecast in the May report. This adjustment has been made as a result of imbalances in the US economy that had grown out of an exaggerated optimism for the future. The terrorist attack on 11 September and the security policy developments since then have further deteriorated economic prospects,” said Bergström.

“Sweden is strongly dependent on exports and therefore very much affected by international developments. The Swedish economy is thus expected to show weaker growth in the coming years. At the same time, we can conclude that a number of economic policy measures are being taken to stimulate national economies, particularly in the USA. The Federal Reserve has lowered its prime rate by 4 percentage points, to 2.5 per cent, and the government is conducting an expansive fiscal policy. In Sweden, too, economic policy is expansive, with tax cuts, low interest rates and a weak krona. Our assessment is that demand will show an upswing during the second half of next year. Households’ disposable incomes are increasing more than expected. Meanwhile, there is a stabilisation in the development of wealth. Domestic inflation will be slightly higher than was previously assumed, partly because of rising prices on electricity. However, in the longer term, prices are expected to be subdued and become lower than estimated in earlier forecasts,” said Bergström.

“But, and this is a big ‘but’, there is great uncertainty in these forecasts and we see risks both on the upside and the downside,” continued Bergström.

“On the one hand, we have the risk that the economy will deteriorate further, not least because of the increased uncertainty ensuing from the acts of terrorism and security policy developments thereafter. On the other hand, indicating higher inflation, we have the effects of a weak krona and the fact that the krona has been weak for a long time. The increase we have seen in certain price groups in recent

SVERIGES RIKSBANK

---

Telefon  
08-787 00 00

Telefax  
08 - 21 05 31

E-post  
registratorn@riksbank.se

Internet  
<http://www.riksbank.se>

months is mainly temporary. At the same time, we can still note a certain increase trend when an adjustment is made to exclude these non-recurring factors. This can be explained by the trade-off between growth and inflation in a broader sense being more favourable than forecast in our main scenario,” said Bergström.

“Nevertheless, our assessment is that the temporary rise in inflation will fade out during spring 2002. If this forecast proves wrong for some reason, we cannot rule out the possibility of interest rate rises to defend the inflation target. It should be remembered that economic policy is currently expansive. Some recovery in the economy could lead to a change in policy. At the same time, it should be borne in mind that the global economy could deteriorate further in future, which would have a dampening effect on inflation. Instead of constraint, there may be an easing. As you will understand, the situation is very complicated. However, it is clear that the Riksbank is ready to act to safeguard the inflation target of 2 per cent,” concluded Bergström.