

Press Release

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Nyberg: The development of the krona and the role of the Riksbank

Deputy Governor of the Riksbank Lars Nyberg gave a speech under the heading "The development of the krona and the role of the Riksbank" at Liberala ekonomklubben (the Liberal economists club) on Wednesday.

"The krona has weakened in nominal terms by approximately 90 per cent since the mid-1970s. At least half of this depreciation can be explained by the fact that inflation has been higher in Sweden than in the world around us. The remainder, at least up until the mid-1990s, can essentially be explained by a weak growth in GDP and productivity in relation to other countries, as well as a deterioration in our terms of trade," said Nyberg.

"It is much more difficult to find a good explanation for the weakening of the krona in recent years. Neither GDP growth nor productivity has been lower than in other countries. Inflation has, if anything, been slightly lower than in other countries and our monetary policy now has the same price stability aims as those of the countries around us," continued Lars Nyberg.

"The discussion in the market has often concerned flows of various types. For instance, for the past two years there has been a strong relationship between the Stockholm Stock Exchange and the development of the krona. On the other hand, if one regards this from a longer-term perspective, there is no covariation at all. The connection between developments on the stock market and in the krona exchange rate should thus be interpreted with some caution," said Nyberg.

"The krona also tends to be affected when there is unrest on the global financial markets, which was clearly illustrated in connection with the terrorist attack in the USA. Finally, one should remember that the weak krona is partly the other side of the strong dollar," said Nyberg.

"Despite the recent strengthening, I still consider the krona to be significantly undervalued. Fundamentals such as relative growth, sound central government finances and a surplus on the current account still indicate a strengthening of the exchange rate. In addition, the uncertainty on the financial markets has declined.

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There is therefore an assumption of a stronger path for the krona in the Riksbank's latest Inflation Report than in the previous report," continued Nyberg.

"On 14 June the Executive Board decided to intervene in the foreign exchange market. The Riksbank has now published an assessment of the interventions, which in itself is worth taking note of. No central bank has ever shown such openness with regard to interventions in the foreign exchange market. In general, it can be said that it is extremely difficult to draw any concrete conclusions from the analysis, mainly because the picture of economic activity has changed so much during the summer and autumn. However, my opinion is that the same effect would have been achieved on the exchange rate, interest rates and inflation expectations through a traditional signalling of tighter monetary policy via speeches by Executive Board members."

"One difficulty with the interventions, which was also noted in the Executive Board's assessment, is that interventions risk creating greater uncertainty with regard to the general intellectual framework for monetary policy," pointed out Lars Nyberg.

"Although the Riksbank was very clear in its communications that the interventions in June were a part of its monetary policy, this type of discussion has still arisen. It is possible that the risk of misunderstanding can be reduced slightly through greater openness and clarity with regard to interventions. Nevertheless, my conclusion is that the Riksbank should be very cautious in its use of this instrument", concluded Lars Nyberg.