

Press Release

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*The Riksbank's quarterly journal, Penning- och valutapolitik, deals with subjects in fields of relevance to the central bank. The fourth issue of 2001 is published today and contains three articles: one on the relationship between price stability and financial stability, one on the use of cash and one on models to explain wage trends. The English version of the journal, **Sveriges Riksbank Economic Review**, will be published in late January.*

Why is there no decline in the value of the banknotes and coins in circulation?

The value of the banknotes and coins out in circulation has remained unchanged over the past ten years and even increased slightly in relation to the level of economic activity. At the same time, various calculations regarding the use of cash show that this has declined. It is thus impossible to explain a large part of the cash holdings as normal transactions and the need to maintain a safety buffer. One possible explanation is that cash is used in transactions that the parties do not want to be traced, for instance, where buyers and sellers want to evade tax or for other reasons do not want the authorities to be able to detect the transaction. This is contained in the article by Martin Andersson and Gabriela Guibourg of the Financial Stability Department entitled "The use of cash in the Swedish economy" and which also describes the consequences for the issuing of banknotes.

The relationship between price stability and financial stability

Price stability and financial stability are regarded as the main objectives of the Riksbank's operations. The work on attaining these two objectives has been conducted more or less parallel within the Riksbank, as though the objectives were independent of one another. However, Sonja Daltung of the Research Department shows in her article "The relationship between price stability and financial stability" that there are many points of contact between the two objectives. An operationalisation that takes a narrow look at one objective could therefore reduce the possibility of attaining the objectives. The author concludes with an enumeration of some issues regarding operationalisation that deserve further investigation.

What governs wage trends?

It is necessary to have reliable inflation forecasts to be able to conduct a good monetary policy under an inflation-targeting regime. Developments in payroll expense are therefore an important element in assessing the future path of inflation, which means there is also a need to be able to explain wage trends. There are different empirical approaches that can be used to explain wage trends: the

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naive expectations-augmented Phillip's curve, models with equilibrium unemployment that varies over time and models with wage-setting curves. Lars Calmfors and Eva Uddén Sonnegård discuss the different approaches in their article "Explaining wage trends", as well as the way these approaches can be used in forecasting. The three different approaches are all of value and complement one another. According to the authors, the major advantage with wage-setting curves from a forecasting point of view is that they more clearly identify structural changes in the wage formation process that can affect equilibrium unemployment.

The journal will be available at the Riksbank's website (www.riksbank.se) under the headings Publications/Sveriges Riksbank Economic Review. It can be downloaded in pdf format. It can also be collected at the main entrance to the Riksbank at Brunkebergstorg 11 or ordered by e-mail: forradet@riksbank.se, fax: +46 8 787 05 26 or telephone: +46 8 787 01 00.

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