

# Press Release

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## Why was the price stability objective successful?

Governor Urban Bäckström participated on Tuesday in a seminar arranged by SNS. The theme was “A decade since the krona fell” and Mr Bäckström presented conclusions that can be drawn from the change of stabilisation policy regime that the krona’s fall entailed and the subsequent economic policy.

“From my viewpoint it is natural to ask whether the change of stabilisation policy regime that occurred in that the exchange rate became flexible can explain the stable development we experienced in the 1990s. Was it the introduction of a target for price stability and a flexible exchange rate that were crucial for the ability to break away from the inflationary development in the 1970s and 1980s? No, I don’t think so. A price stability target is not of itself a guarantee that inflation will be lastingly low. That is evident not least from what happened in the Swedish economy. The notion of a target for the rate of price increases was in fact launched already in 1984 by the Social Democratic government of the day. The target was set at 4 per cent for the first year and then tightened to 3 per cent for the second. But it was not a success. Inflation in both years ended up at between 7 and 8 per cent.

“So the issue of why Sweden was able to shift from a high to a low inflation regime is more complex than just a matter of the price stability target and the flexible exchange rate by themselves. I believe it was basically a matter of two factors:

*One* was a growing will among people in Sweden and their representatives in the Riksbank and government to try, with the aid of price stability, to achieve a more permanently stable economic development. *The other* was a gradually growing awareness of the need for decisions whereby such a policy could be carried out.

This laid a foundation for three main characteristics of stabilisation policy in much of the 1990s: *A clear objective, a medium-term direction and regular decisions untrammelled by day-to-day party politics.* In addition there was the consolidation of the government finances, which was also crucial for the more stable development after the crisis.

“Here we also have an important lesson for the future and in the event of full EMU participation. Even if Sweden does adopt the euro, a national stabilisation policy will be needed. There are many indications that it ought to rest on stabilisation policy’s three major characteristics in recent years,” Mr Bäckström concluded.

SVERIGES RIKSBANK

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Telephone  
+46 8 787 00 00

Telefax  
+46 8 21 05 31

E-mail  
registratorn@riksbank.se

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