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CONTACT: Tomas Lundberg, Press Officer, tel. +46 8 787 02 15

SVERIGES RIKSBANK  
SE-103 37 Stockholm  
(Brunkebergstorg 11)

Tel +46 8 787 00 00  
Fax +46 8 21 05 31  
registratorn@riksbank.se  
www.riksbank.se

## ■ Structural reforms important for employment

Deputy Governor of the Riksbank Kristina Persson on Monday gave her view of economic developments at a seminar in Paris arranged by the Swedish Center for Business and Policy Studies and the Swedish Chamber of Commerce.

“At the two most recent monetary policy meetings, in June and August, the Riksbank judged that there was reason to be somewhat more optimistic about economic growth abroad, particularly this year, compared with the assessment in the latest Inflation Report. I share this judgement, but at the same time I see several factors that risk darkening the bright outlook and affecting developments in the period ahead. I am thinking, among other things, of the oil price and its dampening effect on the world economy. But I also think that there are other reasons to be concerned about developments, especially in the United States. The country is on the eve of an election, and somewhat tighter economic policy is most likely to be expected after the election. Furthermore, there still remain, in my opinion, question marks over the deficits in the budget and current account”, said Mrs Persson.

“Turning then to Sweden, we have a mild slowdown behind us and demand has risen steadily since last year. It is exports in particular that have been driving the increase in demand. At the most recent interest rate meeting in August, the Riksbank concluded that investment also appeared to have picked up. The overall economic picture appeared therefore to be somewhat brighter compared with the assessment in the most recent Inflation Report. Developments in the labour market, however, continue to be weak, and there are no convincing signs yet of a clear recovery. I see a risk of the recovery in employment being slow, despite the favourable economic activity. This is because the strong productivity we are now experiencing holds back the need to employ new staff when demand increases”, said Mrs Persson.

“Taken together, this means that I don’t see any obvious risks that could threaten the inflation target during the forecast horizon”, said Mrs Persson.



■ Mrs Persson then went on to speak about issues of longer-term significance.

“The functioning of the labour market is also a worry as regards the Swedish economy’s longer-term performance. It is ominous that employment has not increased more in the last ten years even though economic growth has been unusually high in a historical comparison. This shows that many of those who have lost their job are not re-entering the labour market. This indicates a badly functioning labour market”, said Mrs Persson.

“There has been criticism recently from certain quarters that the Riksbank has conducted an overly tight monetary policy and thereby contributed to a loss of jobs in the past few years. It cannot be ruled out that an excessively tight monetary policy has contributed on the margin to the increased unemployment but I think it is oversimplifying the issue to say that the problems are solely a result of too low demand. The problems cannot be solved through stabilisation policy measures only, such as general fiscal or monetary policy. Structural policy measures are needed to create a better functioning labour market and reduce unemployment. In my opinion, it’s a question, among other things, of overhauling the social insurance and tax systems in a broad sense”, said Mrs Persson.

“Issues regarding the functioning of the labour market are central to potential growth and thereby to what scope there will be to increase public and private consumption in the future”, concluded Mrs Persson.