PRESS RELEASE

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

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

■ Investment in Sweden instead of capital export

Deputy Governor Villy Bergström spoke today at a seminar organised by Statistics Sweden and the Swedish Institute for Growth Policy Studies on the importance of investment for long-term growth.

"In the long-term, the current declining trend in capital formation in Sweden could threaten the upturn in productivity that we have witnessed, and thereby also threaten growth. As things stand today, with large surpluses in the trade balance and current account, Sweden exports capital abroad, despite the fact that there is both the scope and a need for more investment," began Mr Bergström.

"As early as the 1970s, when I was doing research on capital formation in Sweden, I became concerned over the decline we were then seeing in investment as a percentage of GDP. During the thirty years since then this concern has not diminished, quite the reverse – it has increased as the downward trend in investment has continued. This is particularly evident with regard to public sector investment, where the Swedish infrastructure is relatively neglected in comparison with similar countries," said Mr Bergström.

"Part of the downward trend in investment is a compositional effect linked to the change in the structure of the business sector. The manufacturing sector has in total declined as a percentage of GDP in favour of the expanding service sector, where human capital is utilised to a greater extent. Similarly, the decline in housing investment over the past decade has also contributed to reduced figures. In addition, there are problems with the statistics on fixed investment that make it difficult to obtain a clear picture of developments. However, the large surplus in the current account, a record 8.8 per cent of GDP during Q3, 2004, and 8.3 per cent in total over the first three quarters, indicates that there may be reason for concern over investment trends. This reflects the fact that Swedish companies invest more abroad than in Sweden," said Mr Bergström.

"Replacing traditional capital with IT capital appears to have given Sweden a respite from the negative effects of weak capital formation on productivity. The IT effect also looks promising for the future, but does not guarantee sustained good productivity growth. The only long-term guarantee of this is that investment grows at the same rate as the economy," observed Mr Bergström.

"In the future, we will also face an unfavourable age structure in the population and a decline in active generations; a challenge not only to public sector finances, but also to potential growth. In order to face these challenges we need to have a high level of saving and an improved investment climate that stimulates more investment in Sweden, and thereby an increased capital stock in the economy. Capital growth should then be able to compensate for the decline in labour growth, the tax base should increase and so should the possibilities for continued financing of health and welfare," said Mr Bergström.

"The large surplus in the current account today means that total savings are much greater than investment, and that we have a capital outflow of a corresponding size. There is thus considerable scope already to increase domestic investment without increasing saving, but this requires that companies have the will to invest in Sweden and accordingly opportunities for good return on their investment," concluded Mr Bergström.