

PRESS RELEASE

DATE 21 April 2004

NO. 22

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■ Regional balance and sustainable growth

Deputy Governor Kristina Persson spoke today at a conference in Stockholm arranged by Statistics Sweden on the theme of regional growth.

"The Riksbank has responsibility for maintaining price stability and contributing to a safe and efficient payment system. Regional balance is therefore outside of the Riksbank's area of responsibility, although imbalances between regions could make the Riksbank's work more difficult. The same problems that were discussed prior to the EMU referendum last autumn can apply to Sweden, which, regarded as a currency area with regional differences, can be afflicted by unemployment and regional overheating. Given the fact that interest rates and exchange rates cannot be adjusted on the basis of development in different regions of the country, it is necessary to use other mechanisms," began Mrs Persson.

"During the second half of the 1990s, growth in Sweden was largely concentrated to metropolitan regions such as Mälardalen, Skåne and western Sweden, which showed a higher growth rate than the rest of the country. Growth in the Mälardalen and Stockholm region, which comprised a centre for ICT and financial companies, was around 4.5 per cent a year during the period 1994-2000. This was higher than the growth rate in other regions. The recent economic slowdown and the decline in the ICT sector have meant that the Mälardalen region's advantage has been at least temporary reversed, while the two other metropolitan regions have managed the slowdown relatively well," continued Mrs Persson.

"Of course, the metropolitan regions will retain significance for Swedish growth, not least because of their size and their functioning as research and development centres. However, not even they benefit from an excessive imbalance in growth, and nor can they grow unboundedly. When economic activity shows an upturn, the Swedish economy may experience a situation with a shortage of certain types of labour, which could generate bottlenecks and regional overheating. This was what happened in the Stockholm region in particular during 1999-2000. Even when unemployment appears to be relatively high, as it does now, a shortage of



labour may suddenly arise in certain regions or professions. This poses risks with regard to wage formation and thereby inflation," said Mrs Persson.

"From around 2008 and for a long period ahead, the net addition to the labour force will decline substantially, which means that a declining group of workers will have to support an increasing number of people. At the same time, the need for welfare services is increasing. This development will place considerable strain on, for instance, the social insurance system, which will require new, more long-term solutions. Demographic developments also entail a risk of even greater problems in the areas that are already sparsely-populated and have a skewed age distribution. This applies in particular to the northern interior regions, where considerable entrepreneurial spirit and social innovativeness will be needed to stop continued depopulation. Local governments and firms should be encouraged, partly for this reason, to work towards increasing the labour supply and labour force immigration from other countries," said Mrs Persson.

"Stockholm has had a privileged starting point, as a result of extensive immigration over a long period of time, both from other regions and other countries. In addition, Stockholm receives, in its capacity as capital city, a lot more publicly-financed activities than other regions, particularly activities considered important in stimulating growth. The Stockholm region contains no less than 40 per cent of the total resources for research and development and a similar percentage of publicly-financed culture," said Mrs Persson.

"The tougher competition arising in the wake of globalisation can also have regional consequences. New technology means that sectors that were not previously exposed to competition from abroad are now facing this. Substantial differences in labour costs mean that labour-intensive and less qualified production can be taken over by, or moved to, the new EU member states, India or China. The solution to this problem is for Swedish production to advance upwards in the value chain and aim more towards new, growing product areas that can carry high wages. I do not consider wage cuts to be a solution! On the other hand, it is important that young people be admitted into the labour market, how this should be achieved is a different matter," said Mrs Persson.

"The key to regional growth in an increasingly globalised economy, regardless of whether it is taking place in a metropolitan region or sparsely-populated area, is attractiveness. Ventures to increase mobility both geographically and between professions and sectors are also important. A good infrastructure, rules and laws that benefit entrepreneurship, access to skills and labour, cooperation between the business sector and research, as well as a good standard of living, are factors governing where people and investments locate. It is also necessary to have access to risk capital for companies, which can be a problem today, particularly for the more sparsely-populated parts of the country," concluded Mrs Persson.