

Press release

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Risk for business cycle downturn

Speaking at a breakfast meeting in Köping and then at a client meeting in Sparbanken Västra Mälardalen on Tuesday morning, Deputy Governor of the Riksbank Villy Bergström warned that the business cycle downturn in the USA could prove deeper and more prolonged than the general public expects.

"There is a considerable risk that concern over the future will drastically reduce consumption by the general public and raise their low level of savings, that investment will decline and the dollar will tangibly weaken, as other countries will no longer wish to finance the gigantic deficit on the current account in the USA.

"The dollar would then fall significantly, and there would be a risk of a considerable deterioration in growth. The deficit on the current account is very large - almost 5 % of GDP – and particularly large in relation to the USA's limited foreign trade. These risks are generally underestimated by American analysts, who often have an optimistic belief in a very short economic downturn. However, imbalances of the size of those in the US economy now are not easily corrected."

Bergström also warned that the Swedish business cycle is in one respect as vulnerable as the American:

"Compared with the situation in the American economy, where the deficit in the household and corporate sectors' financial savings amounted to a total of 7 per cent at the end of last year, the situation here is radically different. Sweden has a surplus on its current account.

"However, household savings are almost non-existent or slightly negative in our country, too, and if the prospects for the future begin to look less bright, households may begin saving as they did during the crisis ten years ago. This would lead to a risk of curbing private consumption to an extent where growth slows down more than is desirable."

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