

Press Release

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The questions regarding the international business climate still remain

Deputy Riksbank Governor Lars Nyberg gave a speech under the heading "The effects on small businesses of an economic downturn" at LRF Konsult in Skövde on Tuesday. One of the subjects covered in his speech was economic developments.

"The questions regarding the international business climate still remain. However, the downturn appears to be deeper and more prolonged than many forecasters had assumed at the beginning of the year", said Nyberg.

"The focus is still on the American economy. So far we have seen no signs of a rapid turnaround. Instead, the picture emerging is of a slower sequence of adaptation. This is despite the fact that the Federal Reserve has cut its steering interest rate seven times since the beginning of the year, by a total of 3 percentage points, to 3.5 per cent.

However, there are some rays of hope. These are in particular consumption and the construction and housing market. American households are continuing to consume, despite the declining value of their wealth as a result of the fall on the stock exchange. The world has seldom been so dependent on American consumers for keeping up demand. Developments in American companies are more uncertain, with doubts regarding future earnings prospects. This is particularly visible in the continuing fluctuations on the stock market."

"If we then turn our gaze to the other two large economic blocs – Japan and the euro area, it is currently difficult to find any clearly positive signals. The Japanese economy is currently entering its tenth year of recession and there are no signs of an impending improvement. In Europe the important German economy is idling, which also has a subduing effect on the European business climate. That is also why the ECB chose to lower its steering interest rate last week," said Nyberg.

"Uncertainty regarding developments in the three major economic areas of the USA, the EU and Japan was one explanation as to why I said I wanted to wait with an interest rate rise at the Executive Board meeting on 5 July. In addition, developments in Sweden, with a subdued demand, particularly on the export side,

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were indicating a reduced risk of generally strained capacity utilisation. This, in my opinion, outweighed the risk of price increases connected with the continuing weak krona," continued Nyberg.

"Despite the dark clouds on the international business horizon, and despite the fact that the growth forecasts for the Swedish economy have been revised down, I feel it is important to remember that the fundamental conditions for the Swedish economy are favourable on the whole. Public finances are showing a surplus. The same applies to Sweden's international trade. The inflation rate is low and inflation expectations are stable. And despite the hike, the steering interest rate is fairly low in an international comparison," said Nyberg.

"We have every reason to carefully monitor developments during the autumn. There is a growing concern here that demand in the important industrial nations will not show an upturn as soon as many analysts are assuming. However, there is also continued anxiety that the krona will not recover as quickly as hoped and that this will have an impact on inflation," concluded Lars Nyberg.