Press Release

5 SEPTEMBER 2002 NO 52

Developments in line with assessments

Deputy Governor Lars Nyberg today gave a speech at a seminar arranged by Nordic Capital in Stockholm under the heading "The Swedish Economy in the fall of 2002". Mr Nyberg commented on developments since the last Inflation Report and the most recent monetary policy decision.

"I believe that the picture painted by the Riksbank in the June Inflation Report of an international global upturn still holds true. However, the storm clouds hanging over international economic activity have grown slightly in size and perhaps darkened somewhat. This applies in particular to the negative development on the stock markets, which was accentuated during June and July. At the same time, I believe it is important to remember that almost three quarters of the downturn on the market since the peak noting actually occurred prior to summer 2002," said Mr Nyberg.

"It still remains to be seen what consequences the unease in the financial markets will have regarding international economic activity. There is a risk that consumption and investment will be negatively affected as households and companies' assets decline in value. This applies above all in the USA, where developments on the stock market tend to set the tone for the real economy to a greater extent than in other parts of the world. Nevertheless, even in the USA, experiences indicate that disposable income and property values have a greater effect on demand than developments on the stock market. In Europe, new figures show that the German economy is on a long upward slope. It remains to be seen how steep this slope will be, but it will probably take some time before Germany reaches the brow of the hill. All in all, it is reasonable to expect an international recovery to be weaker and more protracted than we have earlier had reason to believe", continued Mr Nyberg.

"The dominant impression in Sweden is of a tentative but clearly discernible recovery following a relatively mild recession. Developments in production and order intake are positive in the traditional forest and steel industries and even more so in the vehicle and engineering industries. This is to some extent obscured by developments in the telecom sector, where there is still considerable uncertainty", said Lars Nyberg.

SVERIGES RIKSBANK

Telefon	Telefax	E-post	Internet
08-787 00 00	08 - 21 05 31	registratorn@riksbank.se	http://www.riksbank.se

“Despite the unease in the financial markets, Swedish households have maintained their positive belief in the future. This is clear in particular when one looks at the figures on retail trade. Behind households’ confidence in the future lie, to all appearances, a relatively strong labour market, relatively rapid growth in disposable incomes and continued stable, or even rising, house prices.”

“Households' confidence in the future is also reflected in the fact that they have rapidly increased their borrowing from banks and mortgage associations, something that has received a lot of media attention. It is true that the banks’ lending to households has increased by between 8 and 9 per cent a year over a couple of years, but the rate of increase has slowed down recently. If one looks at households' debts in relation to wealth, it is clear that we are a long way from the levels experienced at the end of the 1980s, even taking into account the effects of the fall on the stock markets. If one also looks at the interest rate ratio, i.e. the ratio between interest payments and disposable income, the picture is even less alarming. Households feel that they can afford a greater burden of debt now that interest rates are lower,” said Mr Nyberg.

“If house prices were to fall, this could of course lead to a rise in household debts in relation to assets, which could in turn cause them to save more and consume less. However, property prices in Sweden appear to essentially reflect real factors rather than expectations of future price increases, as was the case in the crisis at the beginning of 1990s,” continued Mr Nyberg.

“The increase in household borrowing can hardly be said to entail a risk to the stability of the financial system. The household sector alone rarely comprises a threat to the stability of the banks. The risks in the banking system are connected more with a combination of rising commercial property prices and a rapid increase in corporate lending and this is not what we see today. The growth in bank lending to the corporate sector has declined markedly so far this year," said Mr Nyberg.

“The assessment in the June Inflation Report was that future inflation was largely in line with the Riksbank's target of 2 per cent. The Executive Board did not see good reason to change this assessment at its meeting on 15 August. If we look at recent developments, UND1X inflation rose by 2.2 per cent on an annual rate in June and 2.4 per cent in July. This is marginally lower than the Riksbank foresaw in the June Inflation Report. Naturally, the events on the stock markets and the uncertainty regarding international economic activity that this has created have had a negative effect on the risk scenario. At the same time, I believe that the risk of higher inflation still remains, because of a high level of resource utilisation in the wake of the continuing strong figures for employment and growth. The Executive Board decided on 15 August to leave the instrumental rate unchanged at 4.25 per cent. The future shape of monetary policy will depend, as always, on the new information received. Naturally, we will keep a close eye on the extent to which the fall on the stock markets may affect real demand," concluded Lars Nyberg.