

Press Release

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US recovery central for the world economy

Governor Urban Bäckström talked on Tuesday at a breakfast meeting arranged by Executive Club, IS Halmia at Hotel Tylösand. Speaking about “The Swedish economy and monetary policy”, Mr Bäckström made the following comments on current developments.

“When economic activity abroad slowed last year, what most people wondered was how deep the fall would be and how long it would last. In the late 1990s the economic locomotive – the United States – had steamed ahead at high speed and imbalances arose. Share prices climbed to high levels, some investment projects failed to meet expectations that they would be profitable in the longer run, household saving declined to exceptionally low levels and foreign trade generated large deficits. Then came the terrorist attacks, with the risk of the recovery suffering a further setback. Under these circumstances the adjustment to date has proceeded in relatively orderly forms and the recovery has been favourable, although many companies and households have been heavily hit, above all by the falling stock exchange. The figures coming in on the US economy point at present in slightly different directions. Some information supports the impression of a gradual recovery, while the continued financial market unrest means that the strength of the recovery remains uncertain. As the situation is sluggish in the euro area as well as Japan, it is just the strength of the US recovery that is central for world economic prospects.

“Sweden was hit by last year’s economic slowdown. We can now see, however, that the effect for us was comparatively mild. This is evident not least in the labour market, which was largely unaffected in spite of the redundancy notices and cutbacks in manufacturing. It should be borne in mind, however, that to some extent the high level of employment is unfortunately a consequence of the high sickness rates, which have obliged firms to hire replacements. So when signals suggested, some months into 2002, that a recovery was in fact on the way in Sweden, resource utilisation was already high. In order to prevent production resources from becoming strained and generating inflationary tendencies later during the upswing, in the spring the Executive Board decided to ease the monetary policy “throttle”. In the early summer, when growing uncertainty about

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the strength of the recovery in the rest of the world affected prospects for Sweden, the Riksbank chose to wait and see about further increases.

“The work on our next inflation report is now under way. At this stage I find it difficult to form a really clear picture of future developments. One risk we have to consider is how the stock market turbulence will affect consumption and investment in the rest of the world as well as in Sweden and whether further disturbances are to be expected. Another risk, in the opposite direction, is how strained production resources will become if the gradual recovery continues. Wage developments in Sweden are a focal point here. The consequences all this will have for inflation prospects and monetary policy will have to be judged as new statistics become available.

“In conclusion, permit me to note that Sweden has managed to establish sound confidence in our economic policy’s commitment to stable growth and low inflation. This confidence rests on a number of pillars that between them provide a firm base. One pillar is an independent central bank with a distinct inflation target, another is the framework that has been established for the government finances in the form of a targeted budget surplus and a spending ceiling. I am convinced that these have served our country well in the work of demonstrating the credibility of economic policy as a whole and will continue to do so in the future,” Mr Bäckström concluded.