

Press Release

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Economic outlook surrounded by risks

Deputy Governor Kristina Persson spoke at a luncheon meeting in Stockholm organised by ALMI Företagspartner and heads of industry in Jämtland. Mrs Persson described her views on the risks for future economic developments.

“Recent developments essentially confirm the picture painted by the Riksbank in connection with the monetary policy meeting in November. Economic activity has deteriorated both internationally and in Sweden and confidence among companies and households has been subdued. In the USA, interest rate reductions and fiscal policy stimulation have created the right conditions for a tentative upturn in economic activity. However, the most recent data received gives an ambiguous message. The latest data coming from the USA has been a little more positive, although the picture is still fragmented. In Europe, economic prospects have if anything deteriorated slightly further, with weak domestic demand. Share prices appear to have stabilised, although it is too early to draw the conclusion that this is a more permanent development. The fact that international demand remains weak means that industrial activity in Sweden has weakened,” observed Mrs Persson.

“Moreover, I consider that the risk of a weaker development in economic activity in our surrounding world dominates the picture. There are signs of unease in several parts of the world. In Europe we cannot be certain that economic activity has really passed its lowest point; the situation in Germany looks worrying and this is a large market. Fiscal policy will probably be tighter and there is also a risk of contractionary effects from a stronger euro. Structural problems in Europe also contribute to unsatisfactory competition and a weak development in productivity. Nor is it certain that Europe will be given a boost by the USA,” asserted Kristina Persson.

“The development of productivity in the USA has been good so far and household consumption has been sustained. But there are problems that risk subduing growth. The savings imbalances, in the form of a high level of indebtedness among companies and households, and the large current account deficit lead to considerable uncertainty regarding developments in the USA, which also has a growing budget deficit. A correction of the savings imbalances could come more rapidly than would be desirable in the prevailing economic climate. This could in

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turn entail a further fall in share prices, which would risk leading to falling property prices and triggering a recession. Although the likelihood of such a scenario is not very great, it must be taken into account, as the consequences for the rest of the world would be considerable. This risk exists regardless of the risk of war in the Middle East, which still cannot be ruled out. A war risks triggering – or reinforcing – the sequence of events I just described. In addition, oil prices could soar,” said Mrs Persson.

“As these downside risks for the international economy are dominant and risk subduing the recovery in Sweden, too, it was right to lower the repo rate a couple of weeks ago. Further reductions may be necessary if the recovery is delayed. However, it is important to point out that interest rate reductions are not sufficient to safeguard the economic recovery; this also requires structural reforms and a policy that promotes growth,” concluded Kristina Persson.