

Northern Flank by Tore Fredin

Sweden drowns in debt

The head of Sweden's central bank has admitted what everyone knew all along: The country is unable to refinance its state debt.

When the present ruling Swedish liberal-conservative alliance took over in 1991, it was confronted with this century's deepest national banking and financial crises. It wasn't their fault, but rather was the result of the previous Social Democratic regime's nine-year policy of monetarist speculation. The Social Democrats were only too glad to hand over their mess to someone else. But since then the crisis has grown even worse, with unemployment at over 15%—unheard-of for this former "socialist paradise."

To give an indication of the scale of crisis, the heaviest loss was that of the state-owned Nordbanken, which by itself lost over SKr 60 billion (\$7.7 billion) for Swedish taxpayers. That amount matches the recent losses of the French bank *Crédit Lyonnais*, except that Sweden's population is only one-sixth that of France. The total bill for the Swedish banking and finance crisis is now close to SKr 100 billion.

Meanwhile, Sweden's state debt has risen to SKr 1.2 trillion—80% of its Gross National Product—and its budget deficit is 11% of GNP. Some 40% of the huge debt is controlled by so-called international financial investors. In order to maintain regular business and refinancing of the state debt, the government is forced to borrow at least SKr 20 billion each month on the international market. Worse, in order to attract short-term investors, Sweden must keep an interest rate on its bonds which is at 2-2.5% above levels in Germany.

Sweden was badly hit by the U.S.

Federal Reserve's decision to raise its interest rate in the beginning of February. In order to maintain already shaky "confidence," Swedish finance authorities have been forced to almost double any increase which takes place internationally. The recent tremors on the international financial markets, coming on top of frequent interest rate hikes, have led to a double-digit interest rate level, with virtually no inflation.

The current double-digit interest rates mean the end of any idea of financing investments in industry. This gives the lie to the illusion which the government presently is peddling that the economy is turning around, and that an export-driven recovery is on its way, thanks to a successful devaluation of the Swedish krona—a devaluation forced upon Sweden in November 1992, following the break-up of the European Monetary System in the wake of the blow-out caused by short-term investors with fly-by-night liquidity schemes.

Although Sweden's dire financial straits have been an open secret for some time, the crisis was officially announced on April 19 by Urban Bäckström, the newly appointed head of the central bank, at a public hearing held by the parliament's Finance Committee. Bäckström announced that the Swedish state is having problems refinancing its debt, and that twice during March, it had difficulty obtaining liquidity for two new bond issues.

As a measure of how tight the situation really is, Bäckström confessed

that he has been biting his fingernails during the past 80 days—i.e., during almost the entire time since he was named head of the central bank on Jan. 1.

Sweden's underlying problem is that the government, headed by Prime Minister Bildt, is promoting nothing but wishful thinking as its solution to the crisis, claiming that everything is under control, that the economy is recovering, and that no financial blow-out will occur—at least, not before the national elections in September. The Social Democratic opposition is already out putting up election posters which ridicule the government's impotence. One poster reads: "With the Conservative Party, you have a free choice of unemployment." Prime Minister Bildt is chairman of the Conservative Party, which also is the biggest party of the ruling coalition.

The New Democracy protest party, which won a landslide election victory in 1991, is in deep trouble, only partly because of the economic crisis. The party was not included in the coalition government in 1991. To a large extent, the party's members are people who have stepped into politics for the first time, many of whom do not agree with Ian Wachtmeister, the former party leader, who wants to support the economic policies of the conservative party. The former number two man in New Democracy, Bert Karlsson, has stated that he would rather support the Social Democratic party on the unemployment issue. As these internal differences intensify, polls show a drastic reduction of support for New Democracy. Just what direction New Democracy will take, remains to be seen.

Meanwhile, Sweden's industrial and financial establishment, together with Urban Bäckström, keep biting their nails, hoping that if they lie low, the whole thing will blow over.