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RFD 473

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Division of International Finance

REVIEW OF FOREIGN DEVELOPMENTS

March 6, 1964

Economic Developments in Sweden:  
December 1963-February 1964

11 pages

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Economic Developments in Sweden: December 1963-February 1964

Summary

The Swedish economy began the new year under relatively favorable circumstances and in a widespread feeling of optimism.<sup>1/</sup> The trends of industrial production, of exports, and of foreign exchange reserves have all been upward in recent months. In mid-February employment was high and unemployment had been reduced to minimal levels--in marked contrast to the situation during last year's severe winter--indicating that the advance in Swedish industrial production in the closing months of 1963 continued into the first two months of this year. While wages and prices continued to move upward through the year end, the trend is still moderate; despite labor market tightness, some shortages of particular skills, and especially the still unresolved collective wage negotiations, the authorities are proceeding on the assumption that wage and price developments in 1964 will not reflect any increase in general inflationary pressures.

This assumption, together with the necessity for some political gesture in an election year, is largely the justification for the generally expansionary budget for fiscal 1964/65 submitted to the Parliament in mid-January. The budget provides for a further expansion of welfare programs and indicates a sizable increase in government borrowing requirements in the fiscal year beginning next July 1. It would appear that the three-year period characterized by budget surpluses, which permitted some reduction of government debt, despite the financing requirements of expanded welfare programs will soon be ending.

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<sup>1/</sup> For a review of the Swedish economy in the preceding period see "Economic Developments in Sweden: August-December 1963," December 27, 1963.

On the monetary front, the Bank of Sweden raised its discount rate from 4 to 4-1/2 per cent at the end of January. The action was motivated by the general need to restrain bank credit expansion in order to moderate tendencies toward strain in the economy in a period of continued business expansion, and also by the desire to prevent the expansionary budget policy from having inflationary side effects. But the increase was also prompted by technical considerations; having been unsuccessful in holding down the long-term interest rate by open market purchases this past fall, the central bank has adopted the alternative of a higher short-term rate of interest in order to permit mortgage institutions to sell bonds and to facilitate the transfer of commercial bank building credits to the long-term capital market.

Sweden's external position displayed considerable strength at the turn of the year, as an export spurt resulted in a slight reduction in the trade deficit for 1963. In December and in January, finally, Swedish reserve losses were definitely reversed. Additions to reserves of gold and foreign exchange after mid-1963 cut the year's losses to about \$28 million, while an increase of \$45.6 million in January brought total reserves back to \$860 million, a level somewhat higher than the previous peak reached in October 1962.

Industrial output accelerates, prospects optimistic

The pace of Swedish industrial expansion quickened slightly in the final three months of 1963, lifting the year-to-year gain in industrial production from a modest 1-2 per cent in the first three quarters to about 4 per cent in the October-December period. (See Table 1.) Consumer goods industries continued their earlier satisfactory growth under the influence of high levels of domestic demand. However, the most important development in recent months has been the improved performance in some producers' goods branches--chiefly iron ore mining, iron and steel, engineering

and the Swedish shipyards. As a result the pattern of industrial performance earlier in 1963, when virtually all of the gains in output were concentrated in the consumer goods sector, changed in favor of more balanced industrial growth as the year drew to a close.

Table 1. Sweden: Industrial Production, 1961-63

(quarterly averages of seasonally adjusted monthly data, 1935=100)

<u>Quarter</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>
I	286	292	291
II	280	297	305
III	281	300	304
IV	289	296	309

Sources: Statistiska Meddelanden (monthly, mimeographed); Bank of Sweden, Ur tidningarna (daily press releases).

In the fourth quarter, iron ore mines reported high rates of extraction. In particular, the position of many smaller mines in central Sweden improved, and their prospects also brightened because of rising requirements for domestic pig iron production utilizing the output of these smaller units. The Swedish steel industry, operating at near capacity, last year pushed output to a record level some 8 per cent above 1962. Moreover, the inflow of new orders toward the end of 1963 suggests a cessation of the phase of inventory reduction and the onset of a period of inventory build-up in the face of expected high levels of steel use this year. Performance in the engineering and machinery branches has not been so buoyant or so uniformly favorable, but a majority of important firms showed improved order books and gains in employment at the turn of the year. In the shipyards, finally--where conditions looked most unpromising at the beginning of 1963--new orders picked

up noticeably in the final months of the year, and order backlogs in leading yards as the year closed were sufficient to sustain current working levels for two or three years.

While the prevailing tone is one of optimism regarding prospects for 1964, there is continuing concern over the unsatisfactory profit situation in some industrial branches. As before, declining profit margins have eroded sources for internal financing of industrial investment, which is necessary if Swedish industry is to keep its place in the highly competitive export market to which it is so largely oriented. At the moment, there are few signs of a genuine revival of industrial investment demand, which will in any event be made somewhat more difficult in the prevailing period of credit stringency.

The profit situation is definitely mixed, however, with no clear pattern discernible. Despite record iron ore exports last year, for example, prices weakened and export earnings declined. Swedish shipyards are now experiencing the first genuine improvement in a number of years, but their favorable order backlog is somewhat deceptive since increasing competition has made it necessary for shipbuilders to lengthen customary credit terms to buyers. On the other hand, while steel prices have softened in the face of harder competition from major producing countries, Sweden increased its share of several foreign markets in 1963 because of efficient export sales representation and, to some extent, superior quality output. Furthermore, prospects for production and export of some traditional Swedish forest products--lumber, pulp, paper and paperboard--are considered generally good; it is in these lines that both export demand and prices have tended to rise.

#### Labor market developments

Continued advances in levels of activity in the final months of the year reduced Swedish unemployment to minimal levels, especially in relation to the rather

marked increases that occurred because of the exceptionally severe weather conditions at this time last year. (See Table 2.) In the absence of production statistics beyond the end of last year, the unemployment data indicate a continuation of satisfactory economic performance in the first two months of 1964. The labor market continued tight, with the customary reports of some shortages of special skilled categories.

Table 2. Sweden: Unemployment, Selected Months, 1962-64

<u>Year and Month</u>	<u>Unemployment</u>			
	<u>Total</u> <sup>1/</sup>	<u>P e r c e n t a g e s</u> <sup>2/</sup>		
		<u>Total</u>	<u>Industry</u>	<u>Construction</u>
1962 Jan.	35,112	2.1	1.1	8.5
Feb.	34,440	2.2	1.0	9.1
Mar.	31,732	2.0	1.0	8.4
Nov.	22,966	1.2	0.9	2.7
Dec.	22,496	1.3	0.9	3.9
1963 Jan.	56,621	3.6	1.5	17.2
Feb.	40,695	2.5	1.3	9.8
Mar.	32,448	1.9	1.1	6.8
Nov.	20,675	1.1	n.a.	2.5
Dec.	20,617	1.3	n.a.	3.7
1964 Jan.	29,760	1.7	n.a.	5.2
Feb.	27,600	1.6	n.a.	n.a.

<sup>1/</sup> Registered unemployed.

<sup>2/</sup> Percentages of insured workers.

Source: Monthly Digest of Swedish Statistics, December 1963;  
Bank of Sweden, Ur tidningarna.

Wages and prices continued to move up, though moderately, through the end of the year. Between August and November hourly wages rose by 1.8 per cent for male workers and by 1.2 per cent for female workers in Swedish industry, apparently continuing the tendency toward a more moderate upward wage movement observable from the wage statistics reported in February, May and August.<sup>1/</sup> The important renegotiation

<sup>1/</sup> See "Economic Developments in Sweden, August-December 1963," December 27, 1963, pp. 5-6.

of collective wage agreements is still pending and, although the bargaining position is still regarded as unusually complicated, there is some hope that settlement along moderate lines for at least one year will not prove too difficult. The two-year wage agreement which has now expired provided for a somewhat reduced rate of increase in 1963-64, by comparison with the preceding period, and under current conditions labor may have to accept more income in the form of nonmonetary "fringe" benefits than in an increase in contractual wages. While labor tightness continued to encourage wage boosts in excess of contractual margins, considerable resistance to wage contract concessions has developed in the current negotiations, especially on the part of export industries.

Like wages, prices also continued to move upward as the year closed. For the year as a whole, however, the 3.5 per cent rise in the cost-of-living was somewhat below the increase of 4.9 per cent registered in 1962. (See Table 3.) In the case of wholesale prices, the movement was just the reverse, with both import and export prices declining very moderately in 1962, and rising fairly strongly during 1963. A greater rise in import prices relative to export prices in 1963 resulted in some deterioration in Sweden's terms of trade.

Table 3. Sweden: Price Movements 1961-63  
(1949=100)

<u>Item</u>	1961	1962		1963		<u>Percentage Changes</u>	
	<u>Dec.</u>	<u>June</u>	<u>Dec.</u>	<u>June</u>	<u>Dec.</u>	<u>1962</u>	<u>1963</u>
Cost of living	164	171	172	175	178	+4.9	+3.5
Wholesale prices	152	154	156	159	163	+2.6	+4.5
Export prices	144	143	142	143	147	-1.4	+3.5
Import prices	125	125	124	128	131	-0.8	+5.6
Terms of trade <sup>1/</sup>	115	114	115	112	112	-	-

<sup>1/</sup> Ratio of export prices to import prices.

Sources: Monthly Digest of Swedish Statistics, December 1963; Bank of Sweden, Ur tidningarna.

Expansionary budget foreshadows increased government borrowing

The central government budget estimates for the fiscal year ending June 30, 1965, presented to the Swedish Parliament on January 11, presage an end to the period--which has now lasted almost three years--when the combined current and capital budget was in surplus and exerted a counter-expansionary effect. Outlays under the current budget for the coming fiscal year are programmed at SKr. 21.97 billion (\$4.23 billion), about 12 per cent higher than planned expenditures for the fiscal year 1964. Current budget revenue, which is estimated at SKr. 22.1 billion (\$4.25 billion), represents an increase of about 7 per cent. The nominal surplus (of SKr. 80 million) on the current budget will thus make hardly any contribution to the financing of the government's requirements for investment and lending activities under the capital budget so that, after counting depreciation amounts and other available cash, the government's borrowing requirements will total about SKr. 900 million or roughly SKr. 400 million more than in the present fiscal year. (See Table 4.)

Table 4. Sweden: Government Budget, Fiscal Years 1963-65  
(in millions of Swedish kronor)

	Fiscal Years (ending June 30)		
	<u>1964/65</u> <u>Proposed</u>	<u>1963/64</u> <u>Revised</u>	<u>1962/63</u> <u>Final</u>
1. <u>Current Budget</u>			
Revenue	22,050	20,601	19,869
Expenditure	<u>21,970</u>	<u>19,870</u>	<u>18,717</u>
Surplus	80	731	1,152
2. <u>Capital Budget</u>			
Expenditure, net	2,870	2,946	2,754
3. <u>Financing of Capital Budget</u>			
Depreciation and other available funds	1,890	1,713	1,941
Current budget surplus	80	731	1,152
Borrowing	<u>900</u>	<u>502</u>	<u>339</u> <sup>1/</sup>
	<u>2,870</u>	<u>2,946</u>	<u>2,754</u>

<sup>1/</sup> Surplus.

Source: Press release, Ministry of Finance. Amounts shown are rounded in source.

In the new budget, the largest additions to expenditures are to support various welfare programs, such as higher old-age pensions, increased children's allowances and aid to higher education; it is the latter, in the form of loan assistance to students, that will account for a large part of the government's increased borrowing requirements in the coming fiscal year.

The new borrowing requirements are the essential measure of the change in the Swedish budgetary position now being proposed. In the last three fiscal years, the financing of higher pensions and enlarged social welfare programs was made possible by the very large revenue increases which followed the introduction of a general sales tax in 1960; in these years, the budget outturn was favorable enough to accommodate these higher expenditures and also provide for some reduction of public debt. In the changing cyclical situation of the past three years, moreover, the Swedish budget, with its new structure of indirect taxation and its flexible public works programs, approached more closely the Swedish ideal of maximum adaptability in fiscal policy for countercyclical purposes.

It is apparent that the new budget is formulated with an eye on the general elections scheduled for the fall of this year, and that it is consequently politically inspired to a considerable extent. Otherwise, it would seem, the emergence and continuation of a general economic expansion at this time argues for a somewhat less expansionary public policy. In his budget statement, the Swedish Finance Minister indicated his awareness of this apparent conflict, but he defended his budget principally on the grounds that there was no fear of any increase in general inflationary pressure in the economy in 1964. He also defended the large increase in anticipated borrowing requirements--recognizing that they appeared excessive in the light of the general economic situation as well as in relation to industry's requirements for investment capital--as justified from the standpoint of

maintaining general economic equilibrium on the assumption of a "peaceful" development of prices and incomes in the year ahead.

Restrictive credit policy tightened

Throughout the fall of last year, following the discount rate increase (from 3-1/2 to 4 per cent) in mid-June, the monetary authorities pursued a restrictive credit policy by relying primarily on moral suasion in their efforts to restrain bank credit expansion. <sup>1/</sup> This policy maintained a tight rein on commercial bank liquidity and resulted in some moderation of the pace of bank lending in the final months of the year. However, on January 31 the Bank of Sweden moved to tighten credit conditions further by raising discount rate from 4 to 4-1/2 per cent. The action was followed by a corresponding upward adjustment of most deposit and loan rates of the credit institutions and by higher rates on new bond issues marketed immediately afterward.

In his comment following the discount rate increase at the end of January, the Governor of the Bank of Sweden made it clear that the move was motivated essentially by two considerations. His general point was that a more restrictive credit policy was required in order to moderate any tendencies toward strain because of the continuing economic expansion, as well as to supplement budget policy in order to maintain equilibrium in the economy--a point underscored by a high Ministry of Finance official in his explanation of the discount rate increase. In the second place, however, the discount rate increase seemed required for technical reasons. During the fall, the Bank of Sweden had occasionally engaged in open market purchases of bank-held government bonds in order to prevent a rise in the long-term market rate of interest, despite the conflict between this open

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<sup>1/</sup> See "Economic Developments in Sweden: August-December 1963," December 27, 1963, page 8.

market policy and the desire to hold down credit expansion. In addition, the central bank's attempts to hold down the long-term interest rate made it difficult for mortgage institutions to sell bonds to the public, and prevented the orderly conversion of commercial bank building credits--which accounted for a large share of last year's credit expansion--into long-term mortgages. By raising the discount rate, the Bank of Sweden would seem to have recognized the necessity of permitting some upward adjustment in the interest rate structure in order to ease the position of the commercial banks by facilitating the transfer of building credits to the long-term capital market. The Governor of the Bank of Sweden explained that, from the technical point of view, the previous restrictive policy had been carried as far as possible "on the basis of the interest rates ruling," since "some rates were sticking and the bond market threatened to break down." He rejected further open market purchases of bonds as conflicting with "the main object in view," and the "alternative of an increase in bank rate was therefore accepted."

Trade deficit reduced, reserve losses reversed

The closing months of the year witnessed a continuation of the trend toward a lower foreign trade deficit. An unusually good export performance--which exceeded somewhat the preliminary estimate in the November national budget forecast--more than made up for the losses sustained during the period of severely unfavorable weather early in 1963. For the year as a whole exports rose by 9.5 per cent, outpacing the increase of 8.6 per cent in imports. This performance reversed the earlier trend for imports to rise at a faster rate, and the 1963 trade deficit was moderately below that registered in 1962. (See Table 5.)

Table 5. Sweden: Foreign Trade, 1962-63  
(monthly averages, in millions of Swedish kronor)

<u>Quarter</u>	<u>Imports</u>		<u>Exports</u>		<u>Trade Surplus (+) or Deficit (-)</u>	
	<u>1962</u>	<u>1963</u>	<u>1962</u>	<u>1963</u>	<u>1962</u>	<u>1963</u>
I	1,361	1,342	1,178	1,138	-183	-204
II	1,266	1,476	1,307	1,355	+ 41	-121
III	1,221	1,373	1,177	1,427	- 44	+ 54
IV	1,525	1,627	1,387	1,610	-138	- 47
Annual totals	16,154	17,542	15,129	16,573	-1,024	-969

Sources: Monthly Digest of Swedish Statistics, December 1963; Bank of Sweden, Ur tidningarna (daily press releases). Data are not adjusted for seasonal variation.

As Swedish trade accounts improved, the earlier decline in gold and foreign exchange holdings stopped and reversed. Between December 1962 and June of last year reserves declined by SKr. 361 million (\$69.7 million) but by the end of December 1963 reserves had risen by SKr. 214 million (\$41.4 million), marking a net loss for 1963 of SKr. 147 million (28.4 million) (See Table 6.) In January of this year combined gold and foreign exchange holdings increased further by the rather respectable sum of SKr. 236 million (\$45.6 million) and were back at a level somewhat higher than in October 1962, the peak reached before the 1962-63 phase of reserve losses.

Table 6. Sweden: Net Reserve Position

<u>End of Period</u>	<u>Commercial</u>			<u>Change</u>	
	<u>Riksbank</u> (in millions of Swedish kronor)	<u>Banks</u>	<u>Total</u>	<u>(mill. Kr.)</u>	<u>(mill. \$)</u>
1961 December	3,318	472	3,790	--	--
1962 June	3,701	474	4,175	+385	+ 74.4
October <u>1/</u>	3,891	532	4,423	+248	+ 47.9
December	3,869	492	4,361	- 62	- 12.0
1963 June	3,809	191	4,000	-361	- 69.7
December	3,619	595	4,214	+214	+ 41.4
1964 January	3,668	782	4,450	+236	+ 45.6

1/ Peak level.

Sources: Monthly Digest of Swedish Statistics, December 1963; Bank of Sweden, Ur tidningarna.