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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Division of International Finance

REVIEW OF FOREIGN DEVELOPMENTS

June 10, 1966

Paul Gekker

19 pages

Recent Economic Developments in Sweden:  
November 1965-May 1966

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Recent Economic Developments in Sweden:  
November 1965-June 1966

Summary

The Swedish economy has now rounded out the third year in the cyclical upswing that began in mid-1963, but under conditions of increasing strain and intensified inflationary pressures.<sup>1/</sup> For most of this three-year period, continued expansion was stimulated by vigorous export demand and by high levels of consumer spending and construction activity. Local authority expenditure, which was also at high levels, served to fill a gap created by persistent stagnation in private industrial investment demand.

These favorable factors were substantially altered in 1965, especially in the second half of the year. Output expansion slowed as capacity operating levels were reached in many branches of industry, in large measure because of severe labor shortages. Foreign demand also weakened for some Swedish exports. Consumer spending, which included a wave of anticipatory buying in advance of the increase in the general sales tax which became effective on July 1, exceeded the increase in disposable personal incomes, so that there was a decline in savings in 1965. Local authority spending continued upward though there was some reduction in housing construction, partly in response to direct controls imposed in order to accommodate a marked revival of private industrial investment. One adverse impact of the continued strong rise in consumer and investment demand in the Swedish economy was a doubling in the current account deficit.

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<sup>1/</sup> See "Economic Developments in Sweden: June-November 1965," dated December 2, 1965.

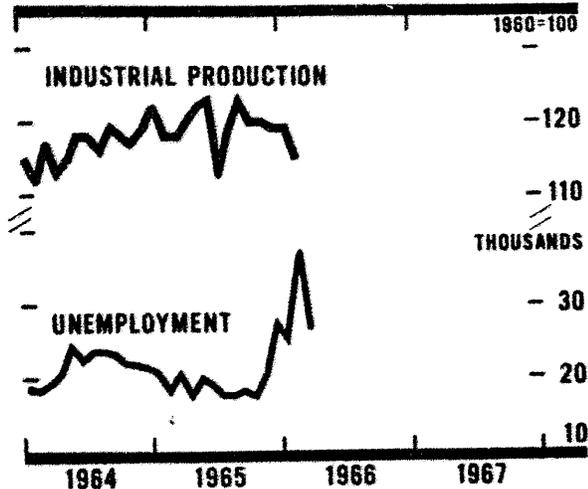
Another was an increase in consumer prices of 5 per cent and in wholesale prices of 4.2 per cent. As a result of pressures of demand on resource availability, the increase in Sweden's real gross national product was about 3-1/2 per cent in 1965, compared to a rise of over 7 per cent in 1964-65 and an annual average growth rate of close to 5 per cent in 1959-64.

These moderating tendencies on real growth persisted into the opening months of 1966, although the statistical evidence reflects to a very considerable degree the impact of the unprecedented winter cold. Labor markets continued tight through the end of 1965 and have only recently showed signs of easing; but the severe weather boosted unemployment to unusually high levels. (See Chart.) There is no evidence that upward wage tendencies are moderating in any degree. Higher indirect taxes have also been a factor influencing the further advance in domestic prices at wholesale and retail.

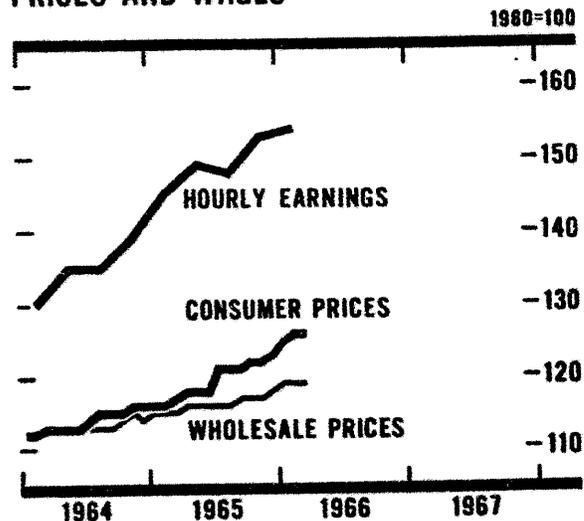
The monetary authorities have continued to pursue highly restrictive credit policies. On June 10, in a move prompted partly by continued concern over inflationary pressures and partly by technical considerations, the Bank of Sweden raised discount rate from 5-1/2 to 6 per cent, marking the fifth rate increase since mid-1963. Commercial bank liquidity has been under continued strain largely because of vigorous loan demand and in the past year the commercial banks have undertaken a fairly heavy volume of borrowing from the central bank. Much of this borrowing has reportedly been at the prevailing penalty rate, which is double the discount rate.

# SWEDEN: MAIN ECONOMIC INDICATORS

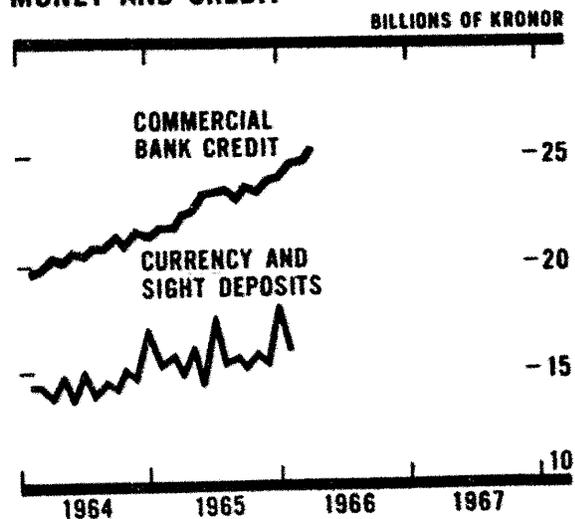
**INDUSTRIAL PROD. AND UNEMPLOYMENT**  
SEASONALLY ADJUSTED



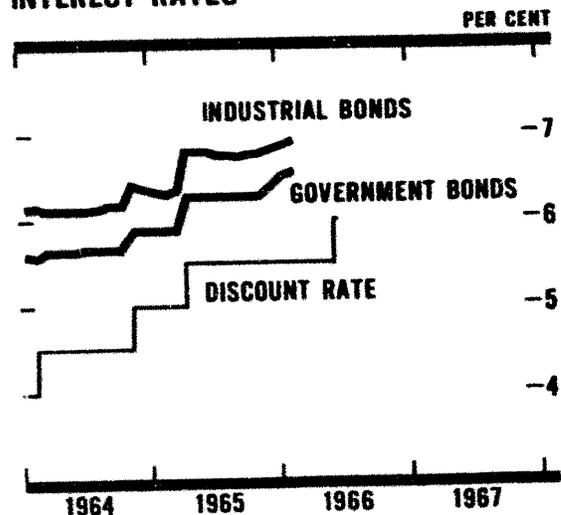
**PRICES AND WAGES**



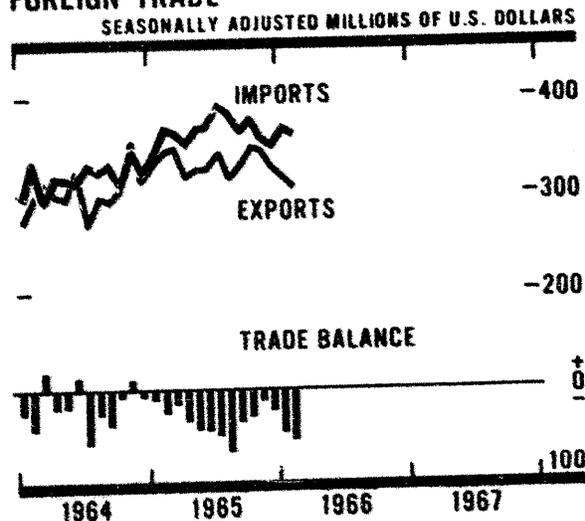
**MONEY AND CREDIT**



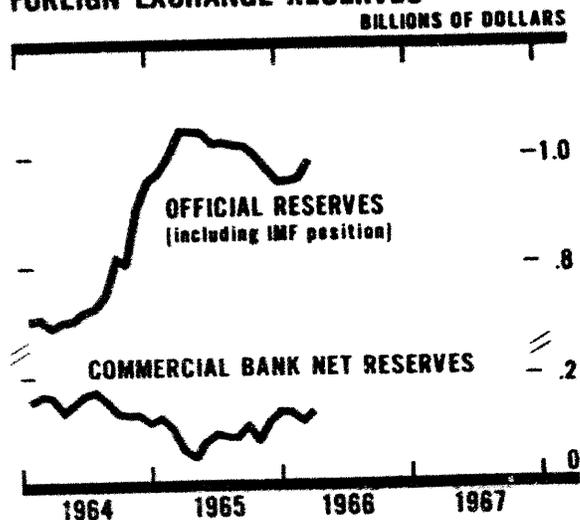
**INTEREST RATES**



**FOREIGN TRADE**



**FOREIGN EXCHANGE RESERVES**



The marked deterioration last year in Sweden's external position, when the trade deficit increased from \$180 to \$405 million, was not reflected in the reserve position, which amounted to \$1,086 million at the end of the year, hardly changed from the previous year-end total of \$1,064 million. The trade deficit worsened further, and sharply, in the first quarter of 1966, primarily as a result of the adverse weather conditions; but total reserves amounted to \$1,090 million at the end of April, showing virtually no net change. (See Chart.) Throughout the period, tight domestic credit conditions have encouraged capital inflow, much of it in unrecorded forms. The authorities expect a repetition this year of the current-account deficit registered in 1965 and are prepared for some decline in their currently quite favorable reserve standing.

Output growth continues to moderate

The expansion of industrial production, which had slackened during the first half of 1965, came to a halt in the second half, primarily in response to two factors. In some branches of industry, such as machine-building and metalworking, labor shortages and the approach of full capacity operating levels made the attainment of further output increases more difficult. Secondly, there was some weakening in external demand for selected Swedish exports. Conditions continued to be depressed, as they have for some time, for the Swedish textile, clothing, shoe and leather industries, in which the effect of import competition is exceedingly strong. As a result of these tendencies, the second half of the year witnessed no net gain in industrial production, although activity was maintained at very high levels. (See Table 1 and Chart.)

Table 1. Sweden: Production Trends 1965-66  
(monthly or monthly averages)

| <u>Period</u> | <u>Index of Industrial Production</u> <u>a/</u> | <u>Indices of Change</u> <u>b/</u> |                         |                       |
|---------------|---|------------------------------------|-------------------------|-----------------------|
|               |   | <u>Total</u>                       | <u>Investment Goods</u> | <u>Consumer Goods</u> |
| 1965 I        | 341   | 103.9                              | 105.8                   | 101.1                 |
| II            | 346   | 104.7                              | 104.9                   | 103.6                 |
| III           | 337   | 100.0                              | 100.3                   | 100.9                 |
| IV            | 341   | 100.6                              | 102.7                   | 99.3                  |
| 1966 January  | 339   | 97.4                               | 98.6                    | 96.4                  |
| February      | 328   | 97.3                               | 96.9                    | 97.4                  |

a/ Mining and manufacturing, seasonally adjusted, 1935 = 100.

b/ Corresponding period of preceding year = 100. Components of total index are not seasonally adjusted.

Sources: Monthly Digest of Swedish Statistics; Statistiska Meddelanden (mimeographed series).

The general slowdown in the industrial sector after the middle of the year is also indicated by components of the production index. As before, the slowdown was more pronounced for consumer than for investment goods, but for somewhat different reasons. (See Table 2.) Thus, activity in iron ore mining and metals fabrication was maintained at the highest levels attainable under conditions of severe labor shortage. The moderation in the second half of last year in the forest products industries reflected the effects of weaker foreign demand for some traditional Swedish exports.

The most noticeable slowdown, in textiles and leather goods, occurred throughout the year and reflected the continued effects of strong import competition. During the period under review several textile manufacturing concerns went out of business. According to press reports, the

Swedish authorities have been unwilling to consider import protection for these adversely affected sectors, preferring to deal with the problem of transferring resources by promoting maximum labor mobility through training program and other means.

Table 2. Sweden: Output Trends in Industry, 1964-65

| <u>Industrial Sector</u> | <u>Indices of Change, 1964-65<sup>a/</sup></u> |                       |
|--------------------------|--|-----------------------|
|                          | <u>Jan. -<br/>June</u>                         | <u>July-<br/>Dec.</u> |
| Iron ore mines           | 113.6  | 107.7                 |
| Base metals              | 108.3  | 104.0                 |
| Wood pulp                | 104.4  | 96.4                  |
| Paper and paperboard     | 107.5  | 105.0                 |
| Wood industry            | 108.3  | 102.2                 |
| Food processing          | 99.6   | 101.3                 |
| Textiles and clothing    | 101.8  | 99.0                  |
| Leather and shoes        | 98.4   | 94.2                  |
| Total index              | 104.5  | 96.0                  |

<sup>a/</sup> Base, 1935 = 100. Not adjusted for seasonal variation.  
Source: Central Bureau of Statistics, Statistiska Meddelanden.

At the beginning of this year, industrial production was significantly affected by the severe winter weather. On the basis of preliminary and unadjusted data for the first two months, it appears that total industrial production was about 3.5 per cent below the fourth quarter of 1965 and 2.7 per cent lower than in the first quarter of last year.

Controls and financing problems affect building activity

The pace of building activity, a sector that is accorded high priority on social grounds in Sweden, continued at high levels but was significantly affected by two factors during 1965. Last year the authorities took steps to moderate construction activity, a major cause of the general overheating, by progressively more restrictive permit regulations and by intensifying efforts to obtain the voluntary cooperation of local authorities in reducing outlays for construction. These efforts appeared to have had some effect in reducing building starts in the second and third quarters--the height of the season--when total starts were about 30 per cent lower than in the same six-month period in 1964. (See Table 3.)

Table 3. Sweden: Building Activity, 1964-65  
(in millions of Swedish kronor)

| <u>Period</u> | <u>Value of Project Starts</u> |                 |              |              |
|---------------|--------------------------------|-----------------|--------------|--------------|
|               | <u>Total</u>                   | <u>Industry</u> | <u>Flats</u> | <u>Other</u> |
| 1964 II       | 2,708                          | 178             | 1,386        | 1,144        |
| III           | 2,969                          | 288             | 1,379        | 1,302        |
| IV            | 2,082                          | 279             | 613          | 1,190        |
| 1965 I        | 2,463                          | 511             | 672          | 1,280        |
| II            | 2,190                          | 393             | 898          | 899          |
| III           | 1,722                          | 322             | 807          | 593          |
| IV            | 3,432                          | 518             | 1,622        | 1,292        |
| 1966 I p/     | 1,786                          | 240             | 525          | 1,021        |

p/ Preliminary.

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

However, the lower level of project starts through the third quarter also reflected developments in the mortgage market. As has happened so frequently in periods when the authorities have attempted to combine general credit restraint with efforts to maintain low long-term mortgage rates, short-term building credits have become "frozen" in commercial banks because the inability to market mortgage bonds has not permitted the banks to transfer these short-term advances to the secondary market. As a consequence, the volume of new starts in the third quarter of 1965 was somewhat lower than would otherwise have been the case. By the same token, after the Bank of Sweden authorized a resumption of bond sales in October, some of the backlog of project starts awaiting financing could be undertaken, and this development is reflected in the substantial increase registered in the final three months of the year. (See Table 3.) As a consequence of these fluctuations, total building starts through the end of the year were about 5 per cent above the 1964 total.

Building activity was very significantly affected by the severe winter weather in the first quarter but financing problems also continued to be an important factor. The permission given by the Bank of Sweden to market bonds in October was soon exhausted; the central bank did not authorize further mortgage bond sales until mid-March of this year, a development which will be reflected in significant fluctuations in the data for building starts in the quarter now coming to an end. On the other hand, the authorities have recently extended their efforts to restrain the pace of building activity, which should have an opposite effect on

the volume of starts. In early March the government announced a program of measures to curtail building activity, in order to counteract what has been termed "dangerous over-heating" in the construction sector. The program included a 10 per cent reduction in employment in government building work for the period from April through October, severely restrictive review procedures for various categories of construction, and measures to facilitate transfers of labor to expanding areas of the country.

These administrative measures are designed to stabilize building activity at a lower level. On the financing side, the latest discount rate increase was partly a technical adjustment to prevailing market conditions; designed to permit more orderly selling conditions for mortgage bonds and to facilitate the transfer of building credits to the long-term capital market.<sup>1/</sup>

Labor market tightness permits wages to continue upward

Tight Swedish labor market conditions continued unabated almost through the end of last year, with unemployment ratios at their lowest levels in the decade. Thereafter, the short-run labor market situation changed rather rapidly, but the apparent easing reflected primarily the effects of bad weather. (See Table 4.) At its most severe point, in mid-February, unemployment ratios were at levels not experienced since the 1959 recession. More normal conditions returned in March and April but

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<sup>1/</sup> A comparable situation arose in early 1964, when similar technical considerations played a part in the decision to raise discount rate from 4 to 4-1/2 per cent, effective February 1, 1964. See "Economic Developments in Sweden: December 1963-February 1964," dated March 6, 1964, pp. 9-10.

unemployment ratios remained at higher levels than in the same months in 1965 and also above unemployment levels experienced in the last severe winter of 1962-63.

Table 4. Sweden: Unemployment, Selected Months, 1965-66

| <u>Period</u> | <u>Insured<br/>Unemployed<br/>(thousands)</u> | <u>Unemployment Ratios<sup>a/</sup></u> |                             |
|---------------|---|---|-----------------------------|
|               |   | <u>Total<br/>(%)</u>                    | <u>Construction<br/>(%)</u> |
| 1965 January  | 28.3  | 1.8                                     | 6.8                         |
| February      | 24.1  | 1.5                                     | 5.5                         |
| March         | 23.8  | 1.5                                     | 5.9                         |
| April         | 19.9  | 1.3                                     | 4.4                         |
| 1966 January  | 33.8  | 2.1                                     | 9.1                         |
| February      | 49.9  | 3.1                                     | 16.4                        |
| March         | 31.6  | 2.0                                     | 8.3                         |
| April         | 28.7  | 1.8                                     | 6.6                         |

a/ In per cent of registered unemployed.

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

These short-run fluctuations in Swedish labor market trends hardly affected the pressure of wage demand, and the period under review witnessed Sweden's most difficult postwar wage bargaining experience. Dissatisfaction on the union side with what were considered excessively modest negotiated gains in the last central agreement (in 1964), and concern on the employers' side over their long-term competitive position because of the adverse foreign trade developments clashed in a unusually dramatic confrontation throughout the first quarter.

However, a new central wage agreement was concluded on April 5. The agreement is for a three-year period, instead of the usual two, and provides for a reduction in weekly working hours from 45 to 42-1/2 hours by 1968. Contractual wage increases will amount to 4 per cent this year, 3.9 per cent in 1967 and 1.9 per cent in 1968. With the addition of fringe benefits and an estimated annual upward wage "drift" of 4 per cent, it is estimated that total wage costs will rise by 8.4 per cent in 1966, 8.9 per cent in 1967 and 7.6 per cent in 1968. For the current year, at least, indicated increases considerably exceed the margin of 6-7 per cent considered as permissible by the authorities.

#### Price increases accelerate

The pace of Swedish price inflation, as measured by the cost of living indices, clearly accelerated in the period under review. (See Table 5 and Chart.) About half, or somewhat less, of the increase last year reflected the increase in the general sales tax from 6 to 9.1 per cent that took effect on July 1. Prices rose further by about 3 per cent in the first quarter, in part because of higher indirect taxes on cars, motor fuels and alcoholic beverages imposed in January and February of this year. It is now expected that prices will rise by at least 5 per cent in the course of 1966.

The tendency for wholesale and import prices to remain relatively stable through the third quarter of last year was reversed at the end of 1965 and in the first quarter of this year, and prices trended upward. By contrast, the tendency for export prices to increase was halted in the second half of the year. For 1965 as a whole, however, average export

prices rose by 3 per cent and import prices by somewhat less, compared with 1964, so that there was a very slight improvement last year in Sweden's terms of trade.

Table 5. Sweden: Price Trends, 1965-66

| Item             | P e r c e n t a g e C h a n g e s <sup>a/</sup> |       |       |       |         |       |
|------------------|---|-------|-------|-------|---------|-------|
|                  | 1965/64   |       |       |       | 1966/65 |       |
|                  | 1st Q   | 2nd Q | 3rd Q | 4th Q | 1st Q   | April |
| Cost of living   | 3.9   | 3.9   | 5.5   | 5.5   | 8.1     | 7.5   |
| Wholesale prices | 4.9   | 4.8   | 3.0   | 1.8   | 2.9     | 3.5   |
| Export prices    | 4.8   | 4.1   | 2.7   | 0.1   | -0.1    | -0.1  |
| Import prices    | 2.3   | 1.4   | 0.0   | 0.0   | 3.7     | 3.6   |

a/ Change over corresponding period of previous year.

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

Central bank intensifies tight credit policies

The Bank of Sweden has held to its severely restrictive credit policies throughout the period under review, in a determined effort to restrain inflationary pressures. These efforts culminated in the Bank of Sweden's latest action, which was unexpected, raising discount rate from 5-1/2 to 6 per cent, effective June 10. The 6 per cent rate was last in effect only briefly in 1931.

The central bank has explained its action on two grounds. The authorities regard a higher discount rate as a necessary action in the light of continued deterioration in the balance of payments and of further price increases. Secondly, the discount rate increase was also a technical adjustment designed to permit continued financing of the government's housing program.

Prevailing tight money policies--now in effect since about mid-1963--were reinforced during most of 1965 by a movement toward surplus in the cash budget and by an increase in currency in circulation. At the same time the banks were faced by continued vigorous loan demand and bank credit to the private sector increased by nearly 9 per cent in 1965, compared to about 8 per cent in the previous year. (See Chart.) Bank liquidity was under almost continuous pressure, as a result of which commercial banks were seldom out of debt to the central bank, with a significant volume of this borrowing reportedly at the prevailing penalty discount rate of 11 per cent. Moreover, tight credit conditions have kept market rates of interest at historically high levels. With the discount rate increase on June 10, the Bank of Sweden's penalty rate, currently applicable to commercial bank borrowing in excess of 25 per cent of an individual bank's capital and reserves, moved up from 11 to 12 per cent. At the same time, commercial and savings bank loan and deposit rates were increased by 1/2 of 1 per cent. As a result of these changes, the entire structure of Swedish interest rates has shifted upward by two and one-half percentage points in exactly three years. (See Table 6.)

As in past periods of monetary restraint, the Swedish authorities have had to take special action to ensure the continued financing of housing. In the fall of 1965 and the first quarter of this year short-term building credits tended to be frozen in commercial bank asset structures because the authorities would not permit the mortgage institutions to market bonds at prevailing terms, and the commercial banks were unable to continue the normal financing of building activity. On two occasions--in October 1965 and

March 1966--the Bank of Sweden gave permission to market mortgage bonds, in return for agreements by the banks to grant new advances to the amount of building credits converted into mortgages.

Table 6. Sweden: Selected Interest Rates, 1963-66  
(in per cent per annum)

|                            | 1963 | 1 9 6 4 |       | 1 9 6 5 |       | 1 9 6 6        |       |
|----------------------------|------|---------|-------|---------|-------|----------------|-------|
|                            | June | Feb.    | Nov.  | Apr.    | Dec.  | Mar.           | June  |
| <u>Discount rate a/</u>    | 4.00 | 4.50    | 5.00  | 5.50    | 5.50  | 5.50           | 6.00  |
| Penalty rate               | --   | 9.00    | 10.00 | 11.00   | 11.00 | 11.00          | 12.00 |
| <u>Security yields</u>     |      |         |       |         |       |                |       |
| Treasury bills <u>b/</u>   | 4.84 | 4.76    | 5.76  | --      | 5.78  | 6.09           | n. a. |
| Gov't bonds <u>c/</u>      | 4.96 | 5.60    | 5.87  | 6.27    | 6.38  | <u>g/</u> 6.55 | n. a. |
| Industrial loans           | 5.97 | 6.14    | 6.40  | 6.80    | 6.82  | <u>g/</u> 6.91 | n. a. |
| <u>Posted loan rates</u>   |      |         |       |         |       |                |       |
| Commercial banks <u>d/</u> | 5.75 | 6.25    | 7.00  | 7.50    | 7.50  | 7.50           | 8.00  |
| Savings banks <u>e/</u>    | 5.25 | 5.75    | 6.50  | 7.00    | 7.00  | 7.00           | 7.50  |
| <u>Deposit rates f/</u>    | 3.75 | 4.25    | 4.75  | 5.25    | 5.25  | 5.25           | 5.75  |

- a/ Discount rate was changed during months indicated, except for December 1965 and March 1966.
- b/ Rate on new issues, end of period.
- c/ Issues with 15 years to maturity.
- d/ Three-month loans against security other than bonds and mortgages.
- e/ Recommended interest rate on mortgages against agricultural and housing property without fixed maturity.
- f/ Six-month deposits at commercial and savings banks.
- g/ February.

The period under review witnessed the re-introduction of the system of recommended investment quotas, previously in effect until early in 1963, under which the life insurance companies place designated shares of increased funds in priority investments. The current recommendation, in effect since December 1965, is that life insurance companies place at least 70 per cent of increases in funds this year in mortgage bonds.

Swedish budget continues to exert contractionary effect

The Swedish cash budget position continued to move into surplus during the course of 1965, chiefly because of the effects of increased taxes and high levels of economic activity. For the calendar year 1965 the combined current and capital budgets recorded a surplus of Skr. 245 million, compared to a deficit of Skr. 260 million in January-December 1964, marking a net improvement of about Skr. 500 million, or almost \$100 million. This trend continued into the new year, and the combined accounts for the twelve-month period ending in April showed a shift from deficit to surplus of roughly the same proportions. (See Table 7.)

Table 7. Sweden: Budget Position, 1965-66  
(in millions of Swedish kronor)

| <u>Items</u>             | <u>Year through April</u> |               |
|--------------------------|---------------------------|---------------|
|                          | <u>1965</u>               | <u>1966</u>   |
| <u>Budget operations</u> |                           |               |
| Current budget           | +675                      | +1,365        |
| Capital budget           | <u>-931</u>               | <u>-1,143</u> |
| Balance                  | -256                      | + 222         |
| <u>Financing</u>         |                           |               |
| National debt            | +260                      | - 216         |
| Cash position <u>a/</u>  | <u>- 4</u>                | <u>- 6</u>    |
| Total                    | +256                      | - 222         |

a/ Deposits of government departments and National Debt Office, plus short-term loans; minus sign indicates increase.  
Source: Bank of Sweden, Ur tidningarna.

However, in the revised budget proposals presented to the Swedish Parliament at the end of April, the Finance Minister estimated that the budget for the current fiscal year will close with a combined deficit of Skr. 200 million and that the accounts for fiscal 1966-67 will show a deficit of Skr. 800 million. In the past, the authorities have quite consistently underestimated receipts--especially in periods of expansion--and, as in past periods, results may differ widely from the official forecasts. In general terms, the authorities have indicated their determination to pursue restrictive spending policies but, in this respect as well, the budget is best interpreted in large part as a politically-motivated document.

Import surge doubles foreign trade deficit

The deterioration in Sweden's foreign trade position, already amply evident through the third quarter, continued into the end of the year with some falling off in the rate of sales abroad as demand weakened for some staple Swedish products. For the year as a whole imports rose by 13.6 per cent in value while export values increased by 8.1 per cent and the trade deficit, at Skr. 2,097 million (\$405 million), was more than double the deficit of Skr. 932 million (\$180 million) registered in 1964.

A very large part of the increase in imports in 1965 reflected anticipatory buying in advance of the increase from 6.4 to 9.1 per cent in the retail sales tax that became effective on July 1. On the basis of seasonally adjusted data, import growth moderated in the second half of the year. (See Table 8 and Chart.) Among exports, there was some decline in sales of wood products and of chemical pulp; exports of engineering

products matched the annual increase in total exports, while sales of Swedish ships rose by about 25 per cent, an impressive gain. Of the annual export gain of 8 per cent, about 3 per cent reflected higher export prices.

Table 8. Sweden: Foreign Trade, 1964-66  
(monthly averages, million of dollars, seasonally adjusted)

| <u>Period</u> | <u>Imports</u> | <u>Exports</u> | <u>Trade Surplus (+)<br/>or Deficit (-)</u> |
|---------------|----------------|----------------|---|
| 1964 I        | 311            | 290            | -21   |
| II            | 317            | 308            | - 8   |
| III           | 324            | 295            | -29   |
| IV            | 329            | 322            | - 7   |
| 1965 I        | 358            | 339            | -19   |
| II            | 364            | 323            | -40   |
| III           | 380            | 328            | -51   |
| IV            | 361            | 340            | -21   |
| 1966 January  | 367            | 319            | -48   |
| February      | 362            | 307            | -55   |

Source: OECD, Main Economic Indicators.

The unusually severe winter was the principal factor responsible for continued sharp deterioration in Sweden's foreign trade in the first three months of this year. Each year exports are much more adversely affected than imports because the major ports (Stockholm, Gothenburg and Malmö) are ice-free or can be kept open whereas Sweden's major exports-- forest products and ores--cannot be moved to port. These effects were intensified in January and February and while there was some return to more normal conditions in March, the unadjusted trade data indicate that imports rose by 8 per cent and exports by 4 per cent in the first quarter,

and the trade deficit increased to Skr. 1,023 million (\$198 million), up 32 per cent from a deficit of Skr. 772 million (\$150 million) registered in January-March 1965. These trade results were affected, on the import side, by larger than normal requirements for fuels and by the inclusion, in March, of the cost of the M/S Kungsholm, Sweden's new flagship liner.

Deterioration in current account continues

As before, the customary surplus on non-trade items in the balance of payments has been less of an offset to the larger trade deficit than in preceding years. Net income from shipping was little changed, on balance, but the deficit on other current account transactions rose from Skr. 716 million (\$138 million) to Skr. 983 million (\$190 million). About 60 per cent of this subtotal is the net deficit on tourism, which has been rising steadily in recent years, and amounted to Skr. 587 million (\$113 million) in 1965. (See Table 9.)

Tight domestic credit conditions continued to encourage a considerable amount of short-term borrowing. Much of this capital inflow is in unrecorded forms, and appears to be part of the explanation of the substantial increase--from Skr. 768 to Skr. 1,060 million (\$148 to \$205 million)--in the residual item in Sweden's balance of payments. (See Table 9.)

Deterioration not mirrored in reserve position

The significant increase in 1965 in capital inflow--in recorded and unrecorded forms--served to prevent any loss in foreign exchange reserves. The Bank of Sweden's gold and net foreign exchange holdings and net exchange reserves of the Swedish commercial banks rose by \$22 million in 1965.

Table 9. Sweden: Balance of Payments, 1963-65  
(millions of Swedish kronor)

| <u>Item</u>                               | <u>1963</u>    | <u>1964</u>    | <u>1965</u>    |
|---|----------------|----------------|----------------|
| <b>A. <u>Current transactions</u></b>     |                |                |                |
| Exports, f.o.b.                           | 16,568         | 19,014         | 20,554         |
| Imports, c.i.f.                           | <u>-17,552</u> | <u>-19,946</u> | <u>-22,651</u> |
| Trade balance                             | - 984          | - 932          | - 2,097        |
| Freight earnings, net                     | 1,465          | 1,540          | 1,590          |
| Others                                    | <u>- 616</u>   | <u>- 716</u>   | <u>- 983</u>   |
| Goods and services,<br>balance            | - 135          | - 108          | - 1,490        |
| <b>B. <u>Capital transactions</u></b>     |                |                |                |
| Official transactions                     | 73             | 123            | 42             |
| Security transactions                     | - 117          | - 40           | - 47           |
| Private loans                             | - 254          | 476            | 522            |
| Direct investment                         | 125            | - 280          | - 78           |
| Other private transactions                | <u>4</u>       | <u>5</u>       | <u>42</u>      |
| Capital account,<br>balance               | - 169          | 284            | 481            |
| <b>C. <u>Residual item</u></b>            | 187            | 768            | 1,060          |
| <b>D. <u>Banks' external position</u></b> |                |                |                |
| Bank of Sweden                            | - 251          | 857            | - 269          |
| IMF position, net                         | 26             | 181            | 284            |
| Commercial banks'<br>exchange             | 104            | - 19           | 102            |
| Commercial banks' food<br>position        | 4              | - 75           | - 66           |
| Total change in foreign<br>exchange       | - 117          | 944            | 51             |

Source: Bank of Sweden, Ur tidningarna.

Moreover, reserves showed a further net increase of \$4 million by the end of April as an increase of \$35 million in the first three months offset a decline of \$31 million in April. (See Table 10 and Chart.)

Table 10. Sweden: Net Reserve Position  
(in millions of U.S. dollars)

| <u>End of</u><br><u>Period</u> | <u>Bank of</u><br><u>Sweden</u> | <u>Commercial</u><br><u>Banks</u> | <u>Total</u> | <u>Changes</u> |
|--------------------------------|---------------------------------|-----------------------------------|--------------|----------------|
| 1964 December                  | 953                             | 111                               | 1,064        | <u>a/</u> +204 |
| 1965 June                      | 1,026                           | 88                                | 1,114        | + 50           |
| December                       | 955                             | 131                               | 1,086        | - 28           |
| 1966 March                     | 990                             | 131                               | 1,121        | + 35           |
| April                          | 999                             | 91                                | 1,090        | - 31           |

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a/ Increase during 1964 includes increase of \$88 million in IMF position, first included in Bank of Sweden statistics in November 1964.  
Source: Bank of Sweden, Ur tidningarna.

The authorities anticipate a balance of payments deficit this year of about 1 billion kronor, or about the same as in 1965, and are prepared for some decline in reserves. Despite the evident deterioration in Sweden's foreign trade position last year, reserve growth has been favorable for at least three years and the reserve position is strong enough to sustain some loss of earlier gains.