

Swedish economy is looking up as the crisis policies are beginning to have a real impact – although the risk of new financial bubbles lure around the corner.

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SEB, Sweden’s third largest bank by market capitalization, wrote in its Nordic Outlook that its soon time to phase out "monetary insurance" as growing risk appetite and better-functioning credit markets indicate that the effectiveness of crisis policies is increasing.

"The prospects for economic growth have clearly improved, compared to the severe crisis situation this past winter. Greater stability will lay the groundwork for decent growth," said Robert Bergqvist, Chief Economist at SEB.

Looking ahead, the bank warned, economic policymakers face the dual challenge of ensuring continued thrust towards recovery while keeping away from new financial bubbles and excesses.

Swedish GDP growth will reach 1.7 per cent in 2010 and 2.6 per cent in 2011, the bank said. Sweden's Riksbank will raise its repo rate to 2 per cent late in 2010 and to 3 per cent during 2011.

“This implies that monetary policy will still remain expansive”, the bank said.

Unemployment is expected to climb to 11 per cent during 2010 and then decline slowly. The government will add another 25 billion kronor (€2.5 billion, \$3.6 billion) in fiscal stimulus in its autumn budget.

“The budget will be expansive in 2011 as well, regardless of whether the non-socialist Alliance stays in power or a left-leaning government takes over after the September 2010 election”, the

“Crisis policies are beginning to have an impact”

Written by Johan Nylander

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report said.

Last week Jan Höggström, chief economist at Sweden's second-biggest bank Svenska Handelsbanken, struck a cheerful tone in an interview with Swedish Radio and said "The worst of the financial crisis is behind us" and that "there's no lack of credit availability in Sweden".

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