

Sweden cuts 2012 growth forecast

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STOCKHOLM, August 26, 2011 (AFP) - Sweden's finance ministry on Friday slashed its growth forecast for next year and said the budget surplus would shrink to all but nothing.

"Growth in Sweden will be strongly dampened in the wake of the global debt crisis," the ministry warned in a statement.

It said the Scandinavian country's economy was now expected to expand by 1.3 percent next year instead of the 3.8 percent estimated in the spring budget presented in April.

Finance Minister Anders Borg had already warned earlier this month that the Scandinavian country would need to "significantly" revise down its growth expectations for 2012 amid the rekindled global financial crisis.

For this year, the ministry cut its growth forecast to 4.1 percent from 4.6 percent.

At the same time, the large budget surplus of 1.8 percent next year that was predicted in April has shrunk to "near-balance" of just 0.1 percent.

"There is great uncertainty going forward and the risk of weaker development is predominant," the finance ministry said.

"The great uncertainty when it comes to developments places heavy demands on having clear

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safety margins to secure that Sweden has the freedom of movement it needs to meet a longer and deeper downturn," Borg told reporters Friday following a meeting of the government coalition parties to prepare the 2012 budget, in Harpsund in central Sweden

"By making sure the financial savings are near even in the year to come we will ensure satisfying margins," he added.

With this in mind, he said, the government was for the time being planning only temporary reform measures aimed only at stimulating domestic demand and boosting the labour market.

"The space for reforms is very limited," he said.

Stockholm for instance announced recently that it could no longer carry out broad tax cuts, especially for retirees, that it promised just a few months ago.

The finance ministry explained in its statement that Sweden, "as a small and export-dependent economy with a large financial sector, is affected by the increased unease on the finance markets and by the weakening global economy."

Unemployment in the Scandinavian country was also expected to be higher than in the rosy April outlook, the finance ministry said, now predicting that the jobless rate this year would stand at 7.5 percent, up from a previous estimate of 7.3 percent.

It now expects it to rise to 7.8 percent next year, instead of 6.6 percent, and come down to 5.5 percent by 2015.

While Friday's announcement did not come as a surprise, some commentators questioned whether Sweden's centre-right government was doing enough to limit the impact of the

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international debt crisis.

Chief Nordea analyst Annika Winsth for instance stressed that if economic growth slowed as much as the government now predicted, it would have consequences for employment that Stockholm did not appear ready to counter with stimulus measures.

"We will have to talk about this," she told the TT news agency, adding that "I think the government is counting on the central bank to keep the rates low so the economy can be stimulated that way."

A Synovate poll published Friday meanwhile showed that Swedes still have confidence in the centre-right government, which was re-elected last year largely due to the way it helped steer the country through the 2008-2009 financial crisis.

Sweden's small, export-reliant economy was initially hard-hit by the financial crisis three years ago, but emerged from recession in the second quarter of 2009 and quickly saw its economy boom to show one of Europe's strongest growth rates.