

Sweden's economic recovery slows to a halt

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Sweden, which had one of the strongest economic growth rates in Europe until a month ago, has hit the buffers with strong recovery from the 2008-2009 crisis grinding to a halt, the National Institute of Economic Research (NIER) said on Wednesday.

"The recovery in the world economy has slowed to a halt, and so has economic recovery in Sweden," the institute cautioned in a statement.

"Given the lacklustre development of the international economy, recovery in Sweden will need boosting from expansionary monetary and fiscal policies," it stressed, adding that in a best-case scenario it expected the Scandinavian country's gross domestic product (GDP) to grow just 1.9 percent next year.

That is well above a new government forecast issued last week estimating the country's economy would increase 1.3 percent, but far below the 3.8 percent growth the centre-right government had expected to see in 2012 when it published its spring budget in April.

NIER also said unemployment would not shrink as previously expected but would level out at around 7.5 percent for all of 2012.

While domestic conditions in Sweden "favour strong growth," the institute pointed out that "growth in Sweden ... will be curtailed by the sluggish pace of recovery in countries that are important markets for Swedish exports."

The 1.9-percent growth figure, it said, would only be possible if, as expected, the global financial turbulence "subsides during the autumn and confidence in the future ... gradually return(s) in 2012."

This scenario also requires that Sweden's monetary policy be expansionary and that the key interest rate remain at 2.0 percent until the middle of next year, NIER said.

However, it cautioned, "there is a significant risk that the debt crisis in the eurozone will

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deepen and prove more severe than in the forecast. In an alternative scenario, there is heightened uncertainty throughout 2012, and the problems spread to the banking sector of the euro area."

In such a case, Sweden's GDP would grow just 0.5 percent next year, while its jobless rate would swell to 8.1 percent in 2012 and 9.2 percent a year later, the institute said.