

High interest rates create 'instability' in Sweden

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Bloomberg said that higher benchmark interest rates in Sweden create financial instability as banks are forced to go abroad for short-term funding.

“Swedish banks are now choosing to fund themselves by short-term borrowing in foreign currencies, which is cheaper than borrowing in Sweden,” Riksbank Deputy Governor Lars E. O. Svensson said, adding an argument to his call for rate cuts.

“But this entails some risks as foreign investors are an unstable source of funding.”

Sweden escaped a recession last quarter after consumers and businesses drove growth in the largest Nordic economy. Gross domestic product expanded 0.8 percent in the three months through March after contracting a revised 1.0 percent the previous quarter, the statistics office said.