

Sweden ducks EU debt crisis, but rougher seas may lie ahead.



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With record growth, healthy public finances, booming exports and a soaring krona, Sweden has easily skirted Europe's debt woes, but with a worried eye on the aching eurozone observers say it could be rougher sailing ahead.

"You can't have a long recovery in Sweden isolated from a recovery in Europe. I don't think that's possible," Mauro Gozzo, the chief economist at the Swedish Trade Council, told AFP.

"If the European economy doesn't accelerate, the Swedish growth will slow down because we're so export dependent," he added.

Seen in isolation, Sweden's economic future looks paved in gold.

"Crisis? What Crisis," was the headline used last week by a newspaper reporting that only 20 percent of Swedes say they are at all affected by the ongoing European debt crisis.

With a record 6.9 percent annual growth registered in the third quarter of 2010, which easily erased 2009's deep five-percent recession, Sweden's economy is now swelling at the pace of booming Asian nations rather than in step with "old" Western economies.

'Crisis? What Crisis,' Swedes say

Written by AFP / The Swedish Wire

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Sweden, a European Union member but not part of the eurozone, also saw its exports take flight last year, soaring 15 percent.

And the state budget ended 2010 with a deficit shrunk to a mere one billion kronor (110 million euros, 146 million dollars), down from 175 billion a year earlier.

As other European countries tighten their belts, Sweden, which is considered to have among the continent's healthiest public finances, plans to start offering new tax cuts next year, Prime Minister Fredrik Reinfeldt has promised.

The krona, which dived mercilessly at the end of 2008, has also been boosted by the slow heightening of the country's main interest rate, which dipped as low as 0.25 percent during the crisis but today stands at 1.25 percent.

Along with the Swiss franc, the Swedish currency has risen in recent months to become the star of the European exchange market.

After gaining more than 25 percent compared to the European single currency in just two years, the krona soared last week to its highest level against the euro in a decade.

And at just under 8.92 kronor to the euro, "the Swedish krona is still undervalued. I think we can handle a strong krona in Sweden," Robert Bergqvist, SEB bank's chief economist, told AFP.

Unemployment is also slowly inching down from a high of nearly 10 percent at the height of the crisis to just over seven percent in November, and Sweden's economic growth forecast for 2011 is excellent, at around 3.5 percent.

But the Scandinavian country worries the slow recovery of its neighbours could drag it back down, with the government recently cautioning against getting swept away by "euphoria."

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Sweden is especially concerned about its exports, and has said it is open to contributing on a "case-by-case" basis to the European stability fund created last May.

"It is completely unrealistic to think one cannot help" by contributing to the stability fund, Swedish Finance Minister Anders Borg said at the time.

After offering bilateral loans worth hundreds of millions of euros to Latvia and Iceland, which were both nearly wiped out by the financial crisis, Sweden late last year offered debt-stricken Ireland a direct loan worth some 600 million euros.

Besides the outside threat to its exports, the main shadow on the Swedish horizon is the country's still ballooning property market, which has led to fears of a real estate bubble.

"That's the risk for the Swedish economy: a correction of the housing market price. This would be negative," said Bergqvist, insisting higher interest rates are needed to keep the housing market from overheating.

But if the central bank, or Riksbank, does decide to increase rates further, this would also lead to an even stronger krona, which in turn is bad news for exporters.

Two of Sweden's six central bank directors opposed the most recent rate hike for that very reason.

"If this goes on it might become a problem for some companies," Gozzo lamented.

"Of course they will adjust and handle the problem and probably establish more activities abroad. But it's most certainly not the good solution for Sweden," he added.

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