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Sweden calls for prudent nations to be on standby

By Ralph Atkins in Stockholm

43

Germany, Sweden and other European countries with strong public finances should be on standby to provide emergency fiscal stimulus if the continent falls into deep recession, Sweden's finance minister has said.

Anders Borg, named European finance minister of the year by the Financial Times on Wednesday, said Europe's most fiscally prudent economies would "most definitely" have to act if the continent's economic prospects turned markedly for the worse.

2011 FT ranking of European finance ministers



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Europe's fiscal and trade "surplus" countries have faced criticism for not using tax and government spending policies to boost growth across the continent and provide demand for goods and services exported from the eurozone's crisis-hit member states.

In a video interview, Mr Borg said Sweden and Germany had room for fiscal stimulus measures but should remain "cautious" if, as he expected, economic growth merely continued at a more modest pace, so as to avoid putting fresh pressure on bond markets.

But if growth went into reverse and employment started to fall, "then we would be willing to use stimulus measures because we could do that without running into major deficit problems".

Mr Borg was hopeful that an economic downturn on the scale seen in 2009 could be averted. "In my mind, we are very far from that very dark outlook," he said.

Sweden is not a member of the eurozone. Although officially committed to joining eventually, public opposition to membership has hardened, making any early entry extremely unlikely.

Mr Borg warned that the eurozone crisis would not be resolved quickly, and fundamental competitive weaknesses in some of its members had still to be addressed. Much work was also needed to strengthen Europe's banks, he added.

Other European finance ministers have demanded bolder action by the European Central Bank, for instance, by ramping up its purchases of government bonds. Mr Borg was wary about the

ECB's role, arguing the firewall needed to contain the crisis should be based on "fiscal solidarity between the euro states". But all options for the ECB "have to be on the table".

Mr Borg's comments, in an FT video interview, come after he was awarded the top spot in the newspaper's sixth annual ranking of Europe's finance ministers. In a tumultuous year for the continent's economies, the Swedish finance minister won praise for his lucidity on economic policy, his contribution to continent-wide solutions and also for the strong performance of Sweden's economy.

Other top performing finance ministers in this year's FT ranking were Germany's Wolfgang Schäuble and Poland's Jacek Rostowski. Trailing at the bottom was Greece's Evangelos Venizelos.

Sweden's economy is forecast by the European Commission to grow 4 per cent this year. But SEB, the Stockholm-based bank, warned on Tuesday that the country would not escape Europe's economic turmoil, forecasting growth would slow to 0.7 per cent in 2012.

"Anders Borg's Swedish tiger economy will thus lose some of its stripes," said Robert Bergqvist, SEB's chief economist.

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