

## Market analysis

# Introduction

The global economic slowdown intensified in pace with the growing impact of the financial crisis on the real economy in 2008. Growth in the global economy in 2009 is expected to be the weakest in the post-war period.

### The financial crisis has unleashed a global recession

For several years, the global economy was stimulated by low interest rates, rising asset prices and credit expansion. At the same time, imbalances increased and debt levels rose to ever higher levels in both OECD countries and emerging economies. The U.S. mortgage crisis, which began in the second half of 2007, marked the start of a worldwide financial crisis. After the investment bank Lehman Brothers' bankruptcy in September 2008, concerns about the financial markets transformed into an acute crisis of confidence. Increased risk aversion led to substantially higher risk premiums, serious liquidity and insolvency problems in the financial system and lower equity prices globally. A large number of banks and credit institutions have either been taken over or nationalized.

Extraordinary measures by central banks and governments have helped to keep rates low on interest-bearing instruments with short maturities, but loan costs are still significantly higher on corporate debt and bank loans with longer terms. At the same time, debt levels remain high among many actors in the financial markets. Efforts to adjust balance sheets to lower debt/equity levels could also stifle lending to solvent companies and households.

The financial crisis is increasingly affecting the real economy through higher risk premiums, stricter credit terms and falling asset prices, which in turn is holding investment and consumer spending in check. Moreover, household and business confidence has weakened.

This has accelerated the slowdown in the global economy, which is not expected to rebound until 2010 at the earliest. The credit crunch and falling asset prices increase the risk that the recovery could be further delayed. We expect global economic growth in 2009 to be the weakest since the beginning of the 1980s. The downturn is most obvious among OECD countries, several of which will report negative growth. It is also clear that emerging economies will be affected more than previously expected, not least due to falling commodity prices. The economic turmoil quickly led to significantly lower inflation around the world. At the same time, there is a greater risk of deflation in connection with the decline in asset prices. To counteract deflationary pressure, extensive fiscal stimulus packages have been announced in the U.S., the EU and Asia.

### Is the Swedish economy currently on more stable ground than during the crisis in the 1990s

The Swedish crisis in the 1990s was largely a national phenomenon. Efforts to defend the link between the krona and a basket of currencies until 19 November 1992 led to record-high interest rates, constricting domestic demand i.e., investments and spending. In addition, Sweden's creditworthiness was called into question when the public sector deficit and national debt skyrocketed. This also left less room for fiscal stimulus measures. The savings ratio in the economy turned substantially higher after a lengthy period of negative savings. The turnaround was due partly to the high interest rates, but also to limits on the deductibility of interest expenses.

Since the early 1990s, the economy has become more international and competitive. This means, however, that Sweden is more affected by international factors than before, which is the main reason why the economy is now in recession. However, the Swedish economy is currently on more solid ground than during the crisis of the 1990s. Large current account surpluses indicate that Swedish businesses are competitive thanks in no small part to the weak krona and good productivity growth. The introduction of surplus targets and the fiscal framework have helped to strengthen the country's budgetary position. Government debt has fallen to around 40 percent of GDP, among the lowest in the EU. Expansive fiscal and monetary policies and low inflation will help to increase real household disposable income in the year ahead despite a worsening labour market.