Sweden and the euro**Out and happy****A casehistory in successful economic management**

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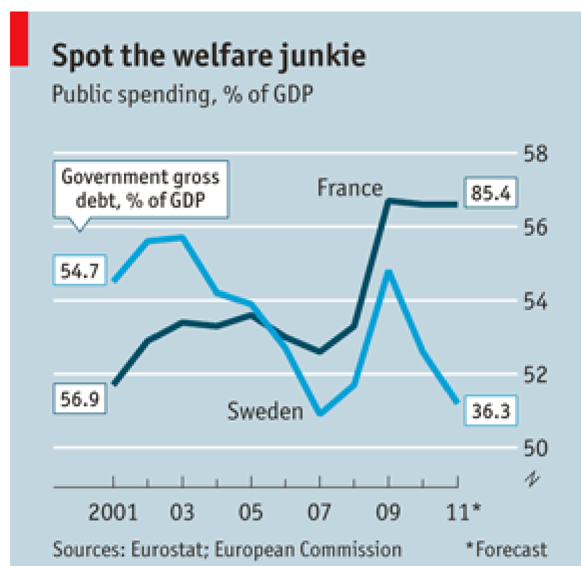
A case-history in successful economic management



WHEN Swedes voted in 2003 on whether or not to join the euro, most political and business leaders were strongly in favour. **Today even the euro's supporters are grateful to the 56% of voters who said no.** As worried investors push up yields on government bonds right across the euro zone, **yields on Swedish ten-year bonds have fallen to 1.7%, more than half a point below German Bunds.**

Anders Borg, the finance minister, still thinks that in the long run Sweden should join the euro. But he seems happy to be out for now. Fears that Sweden, a small export-based economy, might suffer if it kept the krona were a strong pro-euro argument in 2003. Yet Mr Borg says that Sweden has gained something from standing aside. "Being an outsider, you must make sure your competitiveness and public finances are in order. We have had to impose on ourselves a self-discipline that euro countries did not feel they needed. If you know the winter will be very cold, you

have to ensure the house has been built well. Otherwise you will freeze."

In Sweden this translates into tight fiscal policy, a budget surplus of some 0.1% of GDP and a shrinking public debt. With memories still fresh of the banking and housing bust in the early 1990s, all political parties accept the need for sound public finances. Exports fell after the financial crisis in 2008 but have bounced back, helped by a weaker krona. Last year GDP expanded by 5.7%. This year it may grow by another 4.4%; third-quarter figures were better than expected. Yet Sweden will be hurt by the euro zone's troubles. Exports make up half of GDP and many companies report slowing foreign demand. Growth could drop below 1% next year.

The centre-right government plans to impose stricter capital rules on Sweden's four big banks (Handelsbanken, Nordea, SEB and Swedbank) than elsewhere. The finance ministry wants to see tier one capital worth 12% of risk-weighted assets by 2015, five points above the Basel minimum. The aim is to avert any chance of Swedish taxpayers again paying for "irresponsible risk-taking".

Mr Borg often urges fiscal prudence on his European colleagues. Sweden has given emergency loans to Ireland, Latvia and Iceland as they, according to Mr Borg, have shown a credible ambition to clean up their economic mess. He is less forgiving of Italy and Greece, saying they need to do much more. It is a pity that Sweden is too small to make much impact on the wider European economy—and that Mr Borg has so often found himself preaching to the deaf.