

Sweden and the Euro

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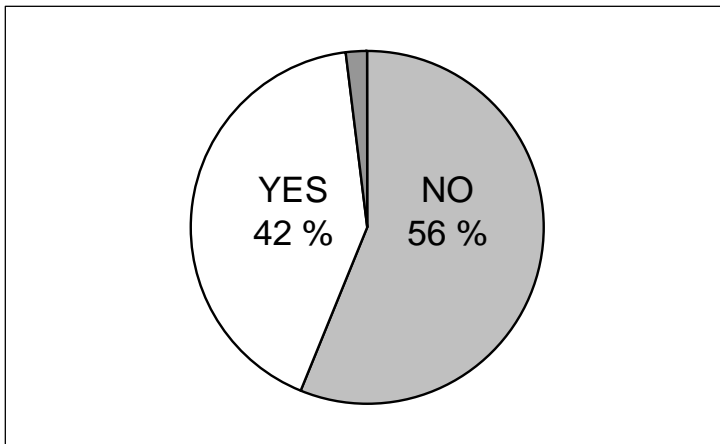
I. The Swedish Referendum

**II. Economic Debate on the Euro in
Sweden**

III. Experiences Outside and Inside

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I. The Swedish Referendum



“Political elite vs. people” “Stockholm vs. the rest”

Politics: Swedes sceptical to continuing centralization of power

Economic arguments: for and against

In the news: Sweden does better, breakdown of SGP

II. Economic Debate on the Euro in Sweden

Calmfors report: Sweden and EMU (Kluwer 1997)

Alternative: floating + inflation target

Micro gains: transaction costs, exchange rate stability

- “small”

Macro gains: credibility, lower inflation and interest rate

- “irrelevant”

... and losses: risks and consequences of asymmetric shocks

- “serious”

Fiscal policy? Second government commission on EMU:

- “fiscal policy will do it”

Debate:

- large effects on trade!
- volatile and depreciating currency outside!
- higher interest & inflation outside!
- risks of asymmetric shocks in EMU overestimated!
- political project! 12 countries join!

III. Experiences Inside and Outside

1) *Trade*: positive effects +10-15 %
(Micco-Stein-Ordonez).

2) *Exchange rate volatility*: more outside,
but worse?

3) *Credibility*: similar inflation and interest
rates outside

3) *Asymmetric shocks*: substantial growth
and inflation differentials in EMU

... and *inflation differentials magnify
imbalances*:

high inflation → low real interest rate →
booms and busts

Extremes: Ireland & Germany

4) *Fiscal policy* does not do it all the time
in all countries. German problems with
SGP *because of* monetary union.

Conclusion:

Evidence for both good and bad sides of the Euro:

- positive effects on trade
- there are asymmetric shocks and they have serious consequences

References:

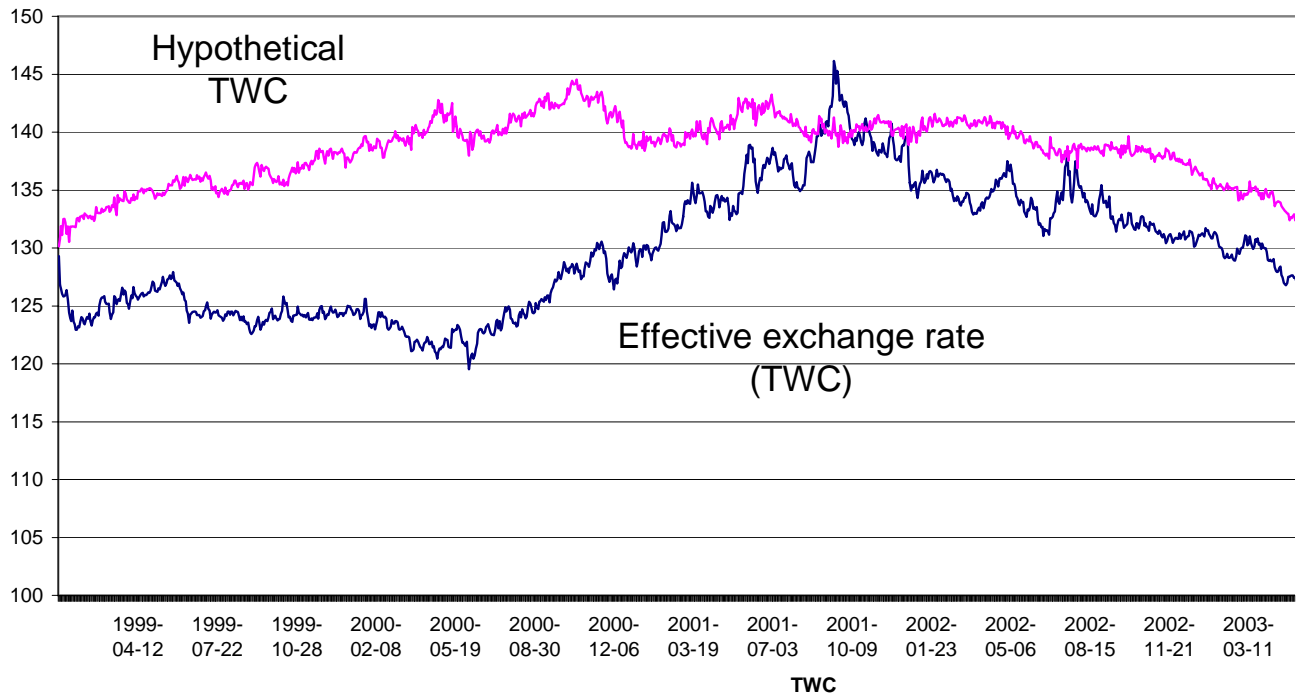
Why is Sweden not in EMU?, 2002,

http://www.sweden.se/templates/Article_2347.asp

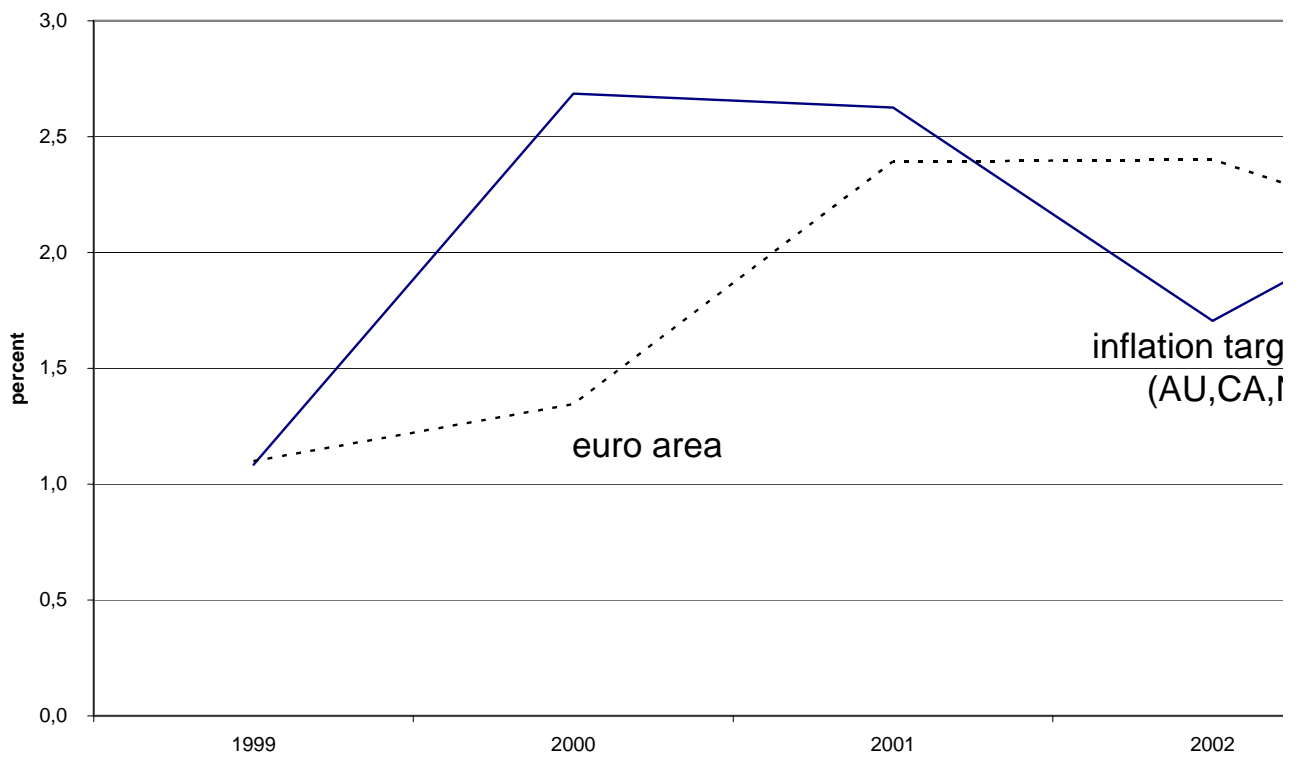
Booms and Busts in EMU, 2003,

http://swopec.hhs.se/uunewp/abs/uunewp2003_029.htm

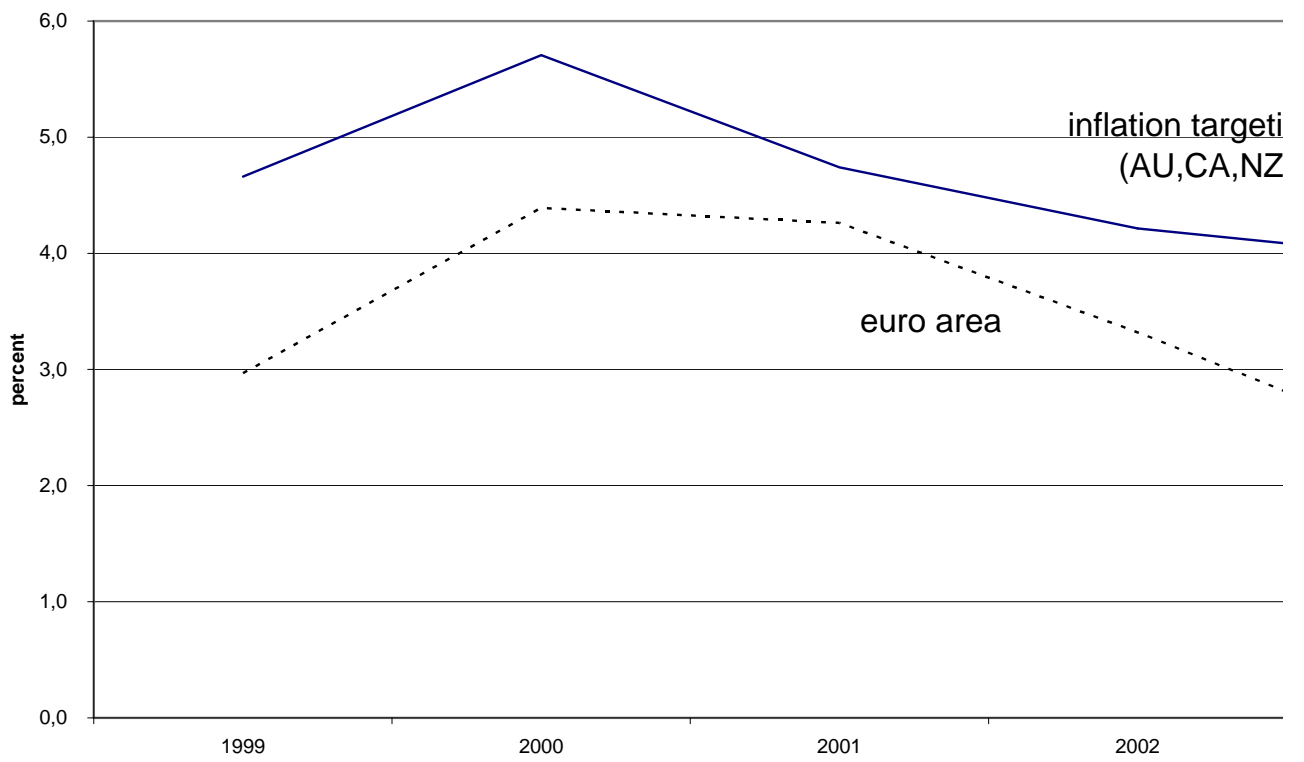
Effective (trade weighted) Exchange Rate in and out of EMU



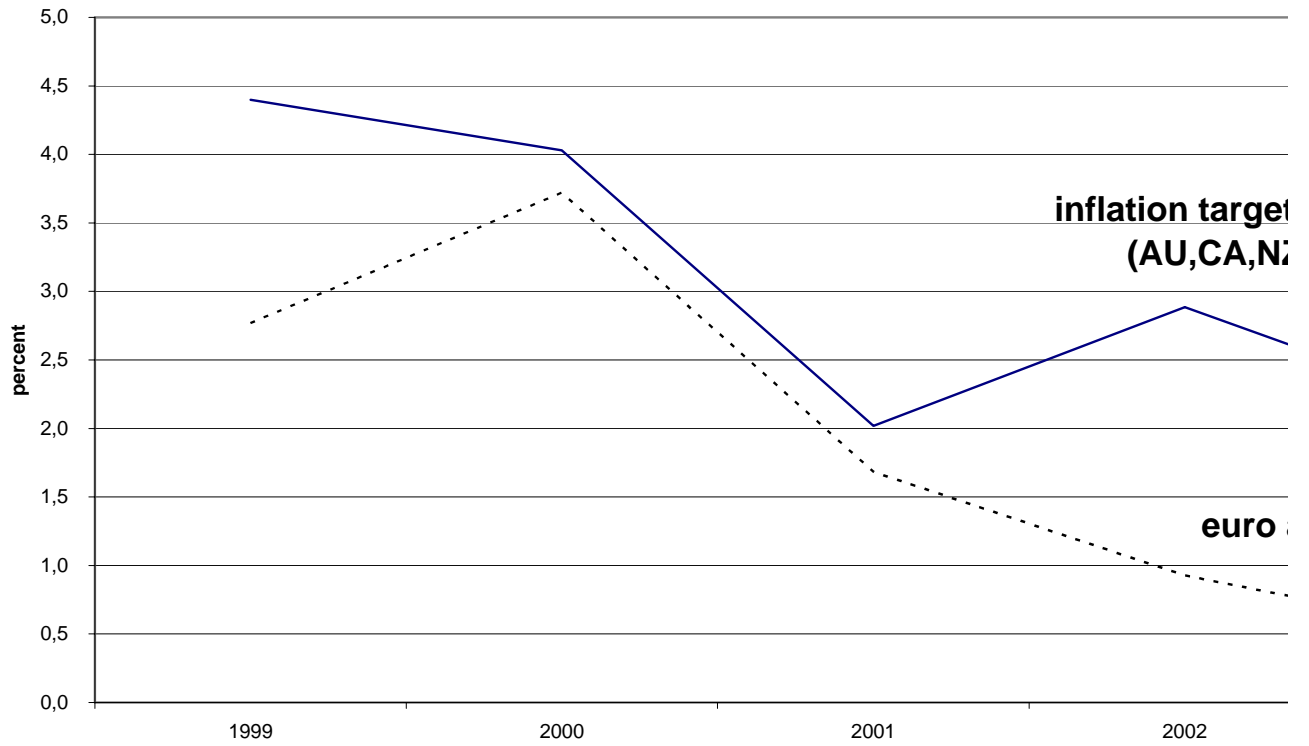
Inflation (GDP deflator) Inside and Outside



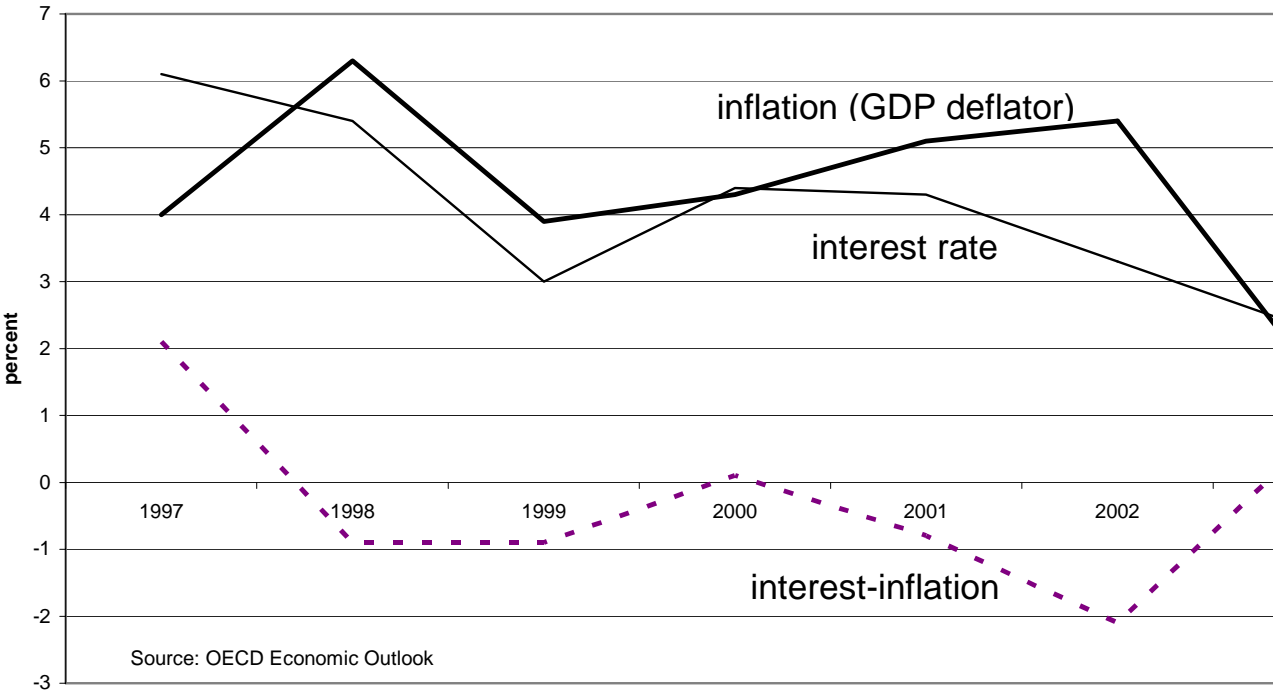
Short-term Interest Rates Inside and Outside



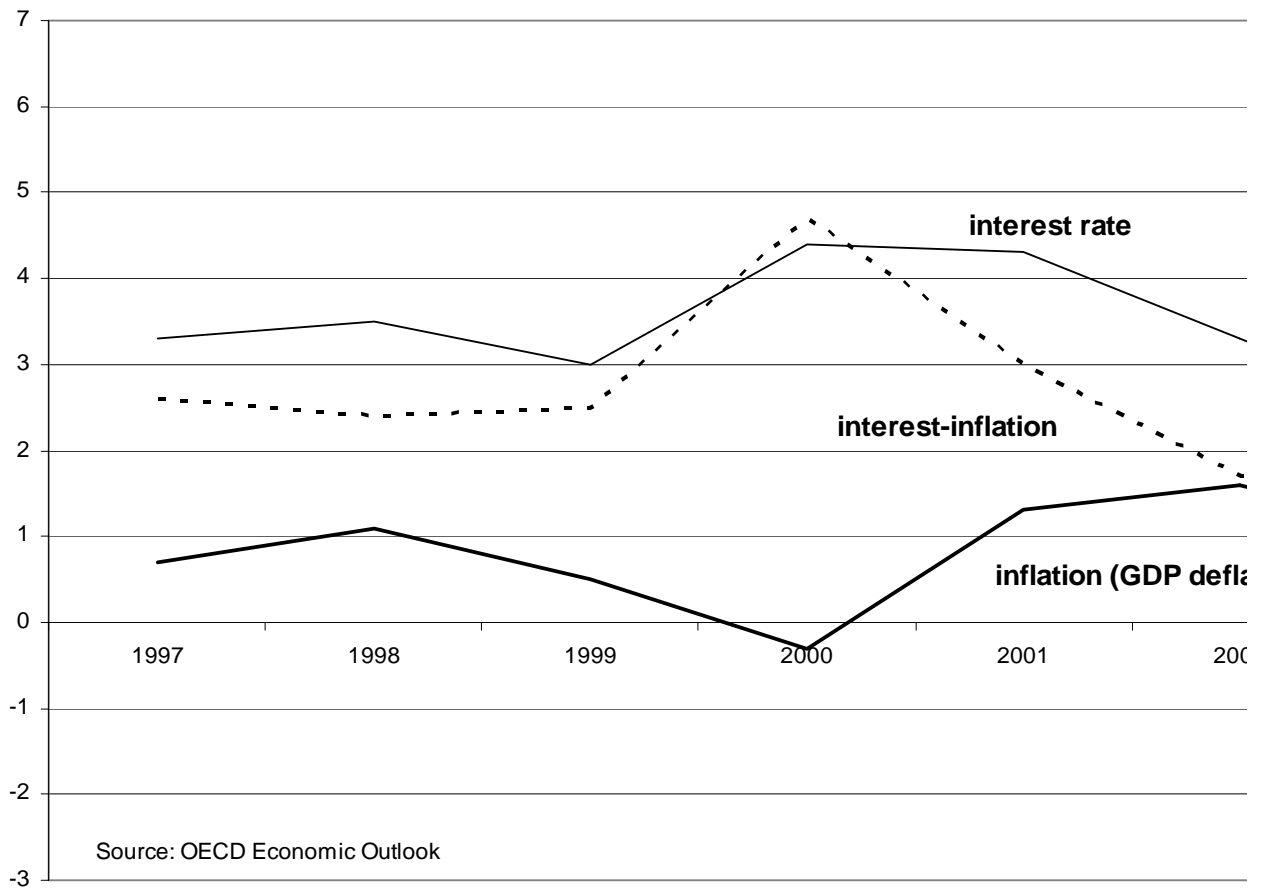
Real GDP Growth Rates Inside and Outside



Ireland in the First Years of Monetary Union



Germany in the First Years of Monetary Union



Ireland and Germany

	1997	1998	1999	2000	2001	2002	2003	1999-2003
<i>Ireland:</i>								
wage growth	6,0	0,7	5,7	5,4	5,8	4,3	4,1	5,1
inflation (GDP-defl.)	4,0	6,3	3,9	4,3	5,1	5,4	1,7	4,1
interest rate	6,1	5,4	3,0	4,4	4,3	3,3	2,3	3,5
interest - inflation	2,1	-0,9	-0,9	0,1	-0,8	-2,1	0,6	-0,6
GDP growth	11,1	8,6	11,3	10,1	6,2	6,9	1,8	7,3
<i>Germany:</i>								
wage growth	0,7	0,9	1,0	2,2	1,8	1,5	2,5	1,8
inflation (GDP-defl.)	0,7	1,1	0,5	-0,3	1,3	1,6	1,0	0,8
interest rate	3,3	3,5	3,0	4,4	4,3	3,3	2,3	3,5
interest - inflation	2,6	2,4	2,5	4,7	3,0	1,7	1,3	2,6
GDP growth	1,5	1,7	1,9	3,1	1,0	0,2	0,0	1,2

Inflation (GDP deflator) in the Euro Countries

	1999	2000	2001	2002	2003
Germany	0,5	-0,3	1,3	1,6	1,0
France	0,4	0,7	1,7	1,9	1,5
Austria	0,7	1,4	2,1	1,4	1,8
Belgium	1,4	1,2	1,8	1,7	2,5
Finland	-0,2	3,2	2,7	1,1	0,5
Luxembourg	2,2	3,9	2,2	0,6	1,6
Italy	1,6	2,1	2,7	2,7	2,7
Netherlands	1,6	3,9	5,4	3,4	2,7
Spain	2,8	3,5	4,2	4,4	3,7
Portugal	3,1	3,5	4,9	4,6	2,6
Greece	3,0	3,4	3,5	4,0	3,5
Ireland	3,9	4,3	5,1	5,4	1,7
Euro area	1,1	1,3	2,4	2,4	1,9

Real GDP growth

	1999	2000	2001	2002	2003
Australia	4,4	3,0	2,7	3,3	2,4
Canada	5,5	5,3	1,9	3,3	1,8
New Zealand	4,7	3,7	2,2	4,2	2,7
Sweden	4,6	4,4	1,1	1,9	1,5
United Kingdom	2,8	3,8	2,1	1,7	1,9

Inflation targeting

Euro area	4,4	4,0	2,0	2,9	2,1
	2,8	3,7	1,7	0,9	0,5

GDP deflator

Australia	0,8	4,3	3,1	2,8	2,8
Canada	1,7	4,0	1,0	1,0	3,5
New Zealand	-0,1	2,4	4,7	0,2	1,2
Sweden	0,7	1,3	2,0	1,3	2,0
United Kingdom	2,3	1,4	2,3	3,2	2,8

Inflation targeting

Euro area	1,1	2,7	2,6	1,7	2,5
	1,1	1,3	2,4	2,4	1,9

Short term interest rate

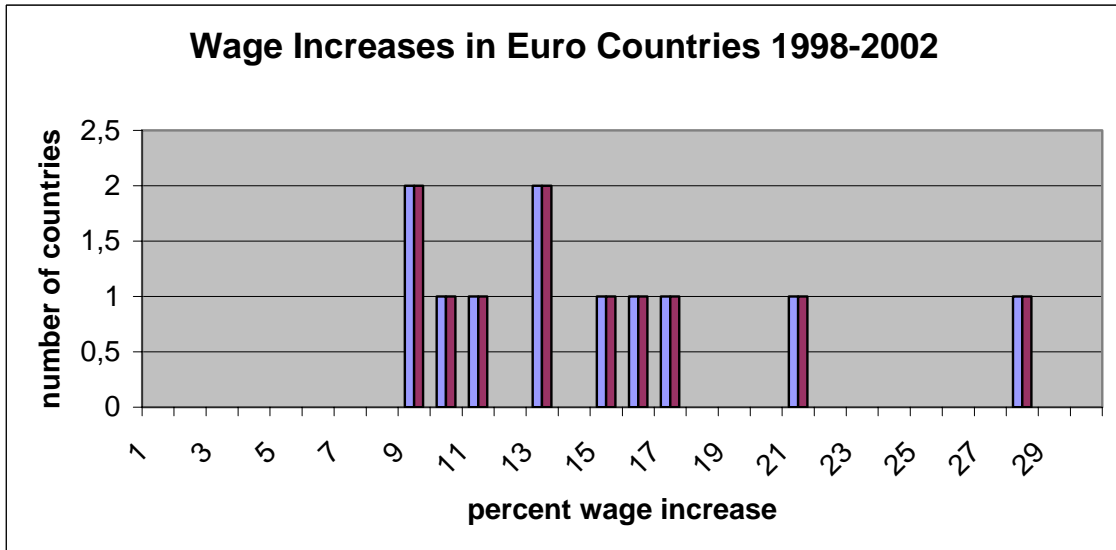
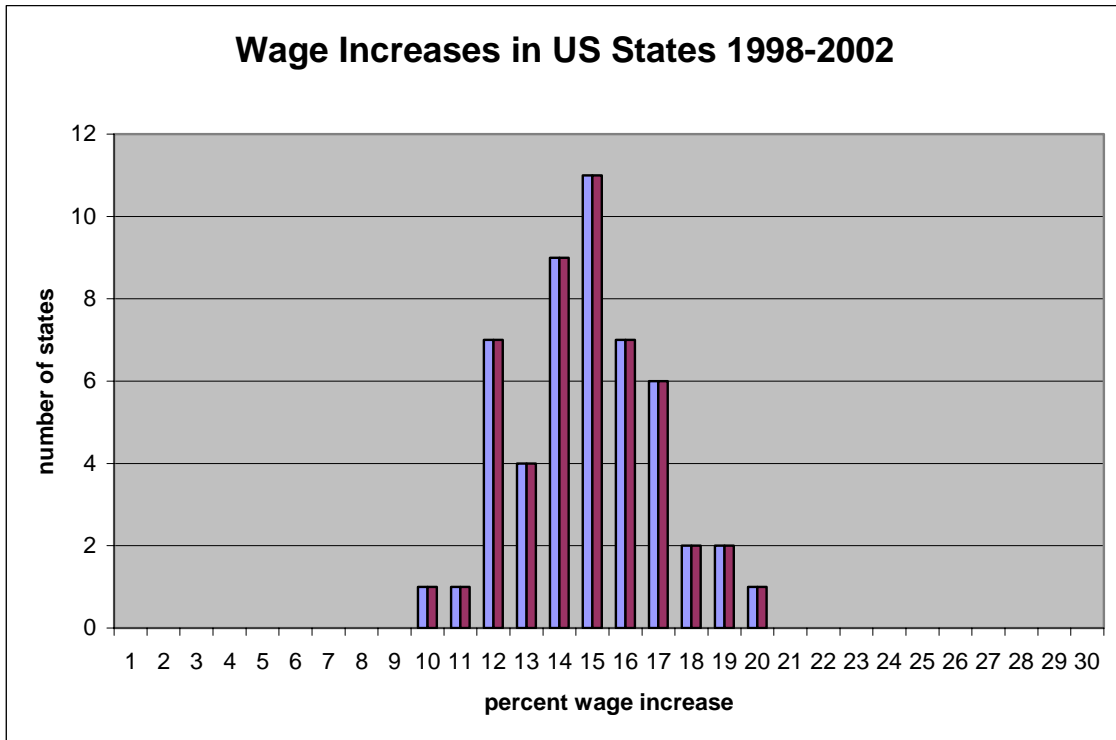
Australia	5,0	6,2	4,9	4,7	4,8
Canada	4,9	5,8	4,0	2,6	2,9
New Zealand	4,8	6,5	5,7	5,7	5,4
Sweden	3,1	4,0	4,1	4,1	3,0
United Kingdom	5,4	6,1	5,0	4,0	3,6

Inflation targeting

Euro area	4,7	5,7	4,7	4,2	4,0
	3,0	4,4	4,3	3,3	2,3

OECD Economic Outlook

The Disparity of Wage Increases in Europe Compared to US States



From "Booms and Busts in EMU", 2003,
http://swopec.hhs.se/uunewp/abs/uunewp2003_029.htm