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That miracle has not arrived. Sweden today is locked into a "debt trap" of Ibero-American dimensions. Interest costs on debt are growing faster than the economy.

In 1994, the government was forced to pay nearly SKr 100 billion in interest on its debt, making it the second largest budget item—SKr 40 billion more than planned, because of the sharp rise in international and Swedish interest rates last year. The interest alone on the public debt is 50% of the current deficit, compounding state debt in a self-feeding manner. Such is the definition of a classical "debt trap."

Further, the kroner has continued to fall since September 1992, largely because international speculators have realized that the government is paralyzed from raising interest rates to attract foreign investment, because of the effect on the cost of this debt. George Soros's Quantum Fund began to abandon its Swedish holdings already last summer prior to the elections. As the state deficits continued to add to the debt, Soros and other speculators sold what they saw as an increasingly worthless kroner. In the last weeks, even Swedish multinational companies and banks, led by the Wallenberg family's SE-Banken, led the selling of kroner for marks. For the private export companies like L.M. Ericsson or Saab, the cheap kroner improves export prospects, but for the government it spells catastrophe.

Worse, with the domestic economy in depression and deficits rising at a pace of more than SKr 200 billion per year (13% of GDP), the government was forced in the past several years to turn abroad to finance its deficits, borrowing in dollars, marks, and yen to keep going. Here is where the crisis began to assume alarming dimensions.

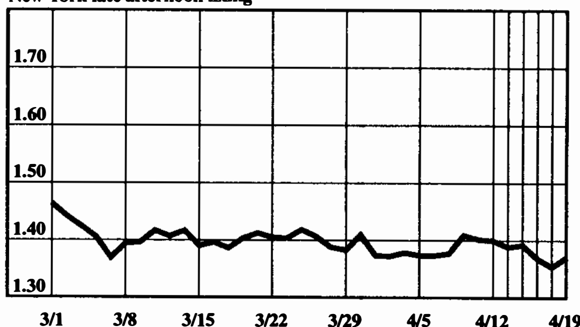
In order to finance its deficits amid what today is 14% unemployment, Sweden's government has been forced to borrow abroad in foreign currency for 30-40% of its public debt of SKr 1,400—a debt that equals the total of all national production and services of the Swedish economy for one year. And with 40% of that debt ($80 billion) held in marks or other currencies, that foreign part of the debt alone has cost an added $10 billion since January.

Worse, most of this foreign borrowing can only be done on the shortest-term basis (less than one year), forcing it to roll over the debt at an ever more rapid pace. This has led R.G. Andersen, chief economist of the Norwegian investment firm FIBA Nordic, to call Sweden today "the Mexico of the North." At this point, the scale of budget cuts the Carlsson government is debating, Skr 10-15 billion in its supplemental budget released on April 25, is insignificant compared to these numbers. Given Sweden's net foreign debt of some 54% of GDP, it is like a Third World country, not an OECD economy. At the present rate, Sweden would have to raise interest rates astronomically in order to upvalue the kroner by 25%, or to run heavy trade surpluses for the next 50 years. Neither is possible under current terms. If nations could go bankrupt like corporations, Sweden could be the first.

Currency Rates

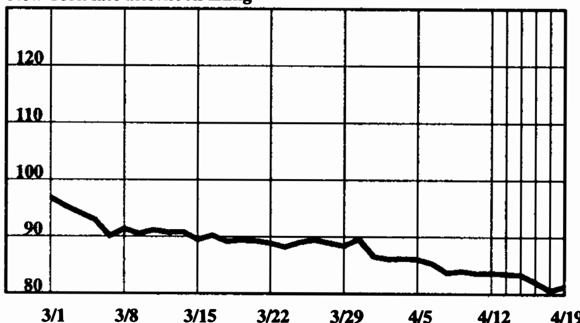
The dollar in deutschemarks

New York late afternoon fixing



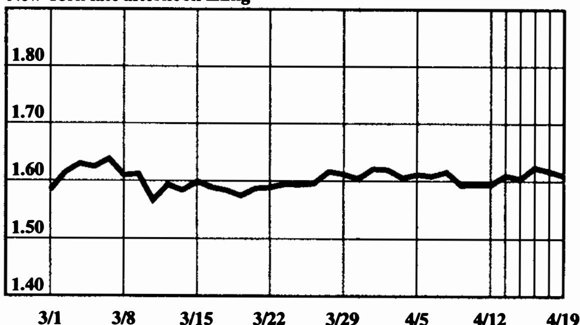
The dollar in yen

New York late afternoon fixing



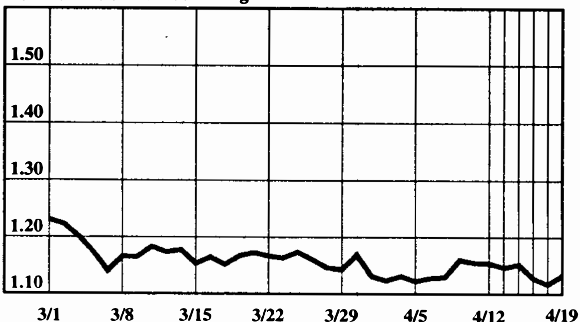
The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



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