

Comparison between the upswings in 1986-1987 and 1998-1999

The present upswing resembles that at the end of the 1980s in many ways but differs in others. The following is a comparison of the main features of these two economic growth periods:

- The current account deficit is greater now, or 5.7% of GDP in 1998 compared with 3½% in 1987.
- Public sector debt now, although decreasing, is much greater than in the 1980s. The same applies to household debt, corporate debt and the national debt.
- Real interest rates on borrowing are higher now than during the expansionary period of the 1980s.
- Capital movements are unrestricted now, increasing the risk of a currency and financial crisis if market players lose confidence in the economic policy.
- The competitive position of industry is much better now, the real exchange rate closer to equilibrium and corporate profits higher. Furthermore, real interest rates are lower, which reduces the debt burden. Inflation is also lower, giving more scope for tackling overheating before a currency adjustment becomes unavoidable.
- Unemployment in 1987 was even lower than now, and there was more tension in the labour market which was not as open externally then as today.
- Public sector operations are in much better shape with a sizeable surplus now but a considerable deficit in 1985-1987.
- Investment plays a larger part in the upswing in recent years than in the 1980s. However, the proportion of investment is not high in historical terms.
- The Central Bank is now better equipped to counteract expansionary forces. The Bank has been granted greater independence in applying interest rates and exchange rate policy is somewhat more flexible.