



# Monetary Policy Update

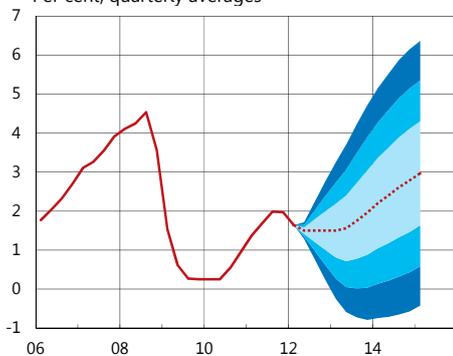
## April 2012

The world economy as a whole is continuing to develop relatively well, in line with the Riksbank's assessment in the February Monetary Policy Report. However, there are differences between countries and regions. In the United States, economic prospects have continued to improve and emerging economies are supporting global growth. In the euro area, developments are marked by the debt crisis and growth prospects are weak. The Riksbank assumes that the debt crisis will be managed so that the financial market unease gradually declines and confidence gradually returns among companies and households.

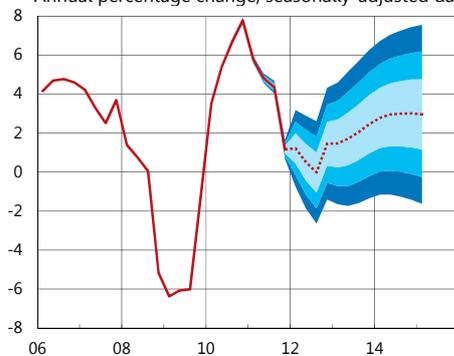
Swedish GDP declined during the fourth quarter, which was mainly due to a heavy fall in exports. However, the situation has improved somewhat since then. Confidence among companies and households as well as developments in the retail trade and goods exports imply that demand in the Swedish economy increases again at the start of 2012. All in all, however, growth will be slower than normal over the year and will then accelerate in 2013. Unemployment is expected to rise somewhat over the coming year, and then gradually fall back during 2013 and 2014. Inflation is currently low, but is expected to increase in the coming period as economic activity strengthens.

Monetary policy needs to remain expansionary to support the recovery. All in all, the economic prospects and outlook for inflation are largely unchanged from February. The Executive Board of the Riksbank has therefore decided to leave the repo rate unchanged at 1.5 per cent, in line with the earlier forecast. The repo rate is expected to remain at this low level for around a year. After this, when inflationary pressures increase and economic prospects gradually improve, the repo rate will need to be raised gradually. This will contribute to gradually stabilising CPI inflation around 2 per cent and resource utilisation stabilising around a normal level. The repo-rate path remains unchanged in relation to the February Monetary Policy Report.

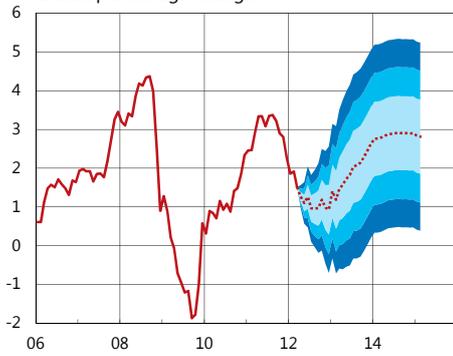
**Figure 1. Repo rate with uncertainty bands**  
Per cent, quarterly averages



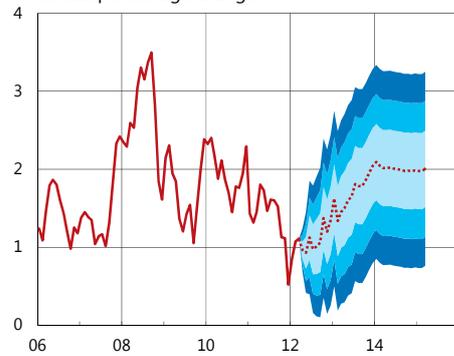
**Figure 2. GDP with uncertainty bands**  
Annual percentage change, seasonally-adjusted data



**Figure 3. CPI with uncertainty bands**  
Annual percentage change



**Figure 4. CPIF with uncertainty bands**  
Annual percentage change



■ 90 % ■ 75 % ■ 50 %

Note. The uncertainty bands in the figures are based on historical forecast errors, see the article "Calculation method for uncertainty bands" in MPR 2007:1. The uncertainty bands do not take into account the fact that there may be a lower bound for the repo rate.  
Sources: Statistics Sweden and the Riksbank

## ■ The economic outlook and inflation prospects

The economic and inflation prospects reported in this Monetary Policy Update are based on the assessments made in the Monetary Policy Report in February and the forecast updates made since then. The forecasts are based on the decision to hold the repo rate and the repo-rate path unchanged since the assessment made in February.

### ■ Growth in the world remains good, but uneven

The world economy as a whole is continuing to develop relatively well, in line with the Riksbank's assessment in the February Monetary Policy Report. However, there are differences between countries and regions. The picture is mixed, however. With regard to the United States, the conditions for domestically-driven growth have been reinforced by continued improvement in the labour market. However, growth is held back somewhat by the higher oil price. The oil price has recently risen substantially and is expected to be higher throughout the forecast period than was assumed in the February Monetary Policy Report. Economic prospects for the euro area remain weak, which is connected to the debt crisis, and the situation is fragile. The Riksbank assesses that the European debt crisis will be managed in such a way that the unease gradually subsides in 2012. This means that confidence on the financial markets and among households and companies will gradually improve, which together with expansionary monetary policy in several parts of the world will contribute to a recovery. The weakening in the emerging economies is expected to be limited, and the forecast is for the global economy as a whole to grow on average by almost 4 per cent a year during the forecast period, which is roughly its historical rate. All in all, this means that growth in the Swedish export markets will be weak in 2012 and then gradually accelerate during 2013. This is roughly the same picture as painted in the Monetary Policy Report published in February.

### ■ Developments in the euro area still marked by debt crisis

Economic developments in the euro area continue to be affected by the debt crisis and are expected to be weak in the coming period. This is partly because of the tighter fiscal policy, a credit crunch and cautious companies and households. However, there are signs that confidence among companies and households has stabilised and the Riksbank assesses that confidence will gradually return over the course of the year. This will contribute to a gradual recovery in consumption and investment. However, the tighter fiscal policy is expected to continue to hamper growth for the entire forecast period. All in all, GDP in the euro area is expected to fall somewhat in 2012 and then grow at a gradually faster pace during 2013 and 2014.

Rising oil prices combined with temporary effects from increases in VAT, for instance, have contributed to higher inflation in the euro area. However, this is only expected to push up inflation in the short term. Other factors also indicating a gradually lower inflation rate are that unemployment has risen to higher levels than during the financial crisis 2008-2009, and resource utilisation in the economy will remain low in the coming years. The underlying inflationary pressure is therefore judged to be low and monetary policy is expected to remain expansionary throughout the entire forecast period.

Since February, Greece has received a second support package and the write down of the sovereign debt has proceeded smoothly. In addition, the Euro area countries have agreed on a somewhat faster increase in new lending capacity in support funds than was previously

decided. However, the situation in the euro area is still fragile, which is reflected, for instance, in the recent severe fluctuations in government bond yields for Spain and Italy. Now, as before, the Riksbank assumes that the European debt crisis will be managed in such a way that the unease gradually subsides in 2012. This does not mean that the path is straight and even; there will probably be setbacks, as has been indicated by recent developments.

#### ■ **Domestically-driven recovery in the USA**

The US economy has continued to improve recently. Employment and confidence among households have increased, albeit from low levels. After several years of falling housing prices and increased household saving, there is thus scope for consumption to grow. Confidence among companies has also improved, which together with their high profits creates the scope for increased investment and employment. In addition, demand is stimulated by the expansionary monetary policy. All in all, this is expected to contribute to a gradual recovery in the US economy, although high oil prices and tight fiscal policy have a restraining effect on growth.

Despite the increase in growth, unemployment is still high and it is assumed that there will be substantial spare capacity in the economy in the coming years. Inflation is expected to fall back in 2012 as the effects of rising oil prices subside. For these reasons, monetary policy in the United States is expected to be expansionary for several years to come.

#### ■ **Good growth in parts of the world**

In Norway, GDP is expected to grow by approximately 3 per cent a year over the coming years. Driving factors behind growth include a high level of activity in the oil-related industries and expansionary monetary policy. These outweigh the negative effects of the weak growth abroad. Inflation in Norway is low, and expected to remain so for some time, partly as a result of the strong krona exchange rate.

In Japan, the central bank has introduced an inflation target and extended its programme for quantitative easing. These measures have contributed to a severe weakening of the yen, which is expected to lead to somewhat higher inflation in the coming period. This, together with fiscal policy stimulation following the natural disasters in 2011, is in turn expected to contribute to slightly higher GDP growth in the coming years than was forecast in February.

The Chinese government's goal for growth in 2012 is 7.5 per cent, which is slightly lower than that for 2011. Growth in China is expected to remain high, although there are indications that it may slow down somewhat. Property prices are continuing to fall, but this is partly the result of a deliberate strategy that involves tighter monetary policy. The price fall is also within the perimeters of what the government is aiming to achieve. At the same time, inflation is below the target, which means there is greater scope for more expansionary monetary policy in 2012, if necessary.

#### ■ **Some positive signs in the Swedish economy**

Most indications are that the Swedish economy is growing again after the unexpectedly large GDP fall at the end of last year. Developments in goods exports, the retail trade and confidence indicators for companies and households point to the fall being temporary and to demand now increasing again, in line with the assessment made in February. However,

growth this year will be weaker than normal and will amount to only 0.4 per cent, which is slightly lower than the forecast in the February Monetary Policy Report. The downward revision is due to the unexpectedly low outcome at the end of 2011, which affects the figures for the year 2012 as a whole.

Confidence is expected to gradually strengthen among companies and households during the current year. At the same time, monetary policy is still expansionary in Sweden and abroad. Growth will therefore gradually become higher and Swedish GDP will grow by 1.9 per cent in 2013 and by 2.8 per cent in 2014. This is a slightly weaker growth rate than was forecast in February, and is partly because the trend growth in productivity is expected to be lower during the forecast period. This assessment is supported by the fact that Statistics Sweden has revised down its figures for productivity growth from 2010 and onwards. Despite the lower GDP growth, the picture of resource utilisation and economic prospects remains more or less unchanged, in relation to February. This is partly because the lower productivity growth trend entails both a lower growth trend and actual growth in GDP.

#### ■ Swedish exports increasing again

Swedish exports fell heavily towards the end of 2011, but developments in exports of goods indicate that the fall was temporary and that exports will increase once again in early 2012. However, in line with the forecast made in February, the weak developments on several of Sweden's most important export markets are expected to hold back growth in exports in the coming period. Indicators such as orders to the Swedish export industry also imply that developments will be subdued in the coming period. All in all, this means that Swedish exports are expected to increase by 0.5 per cent in 2012. As demand in the euro area increases and international economic activity improves, Swedish exports will pick up again. They are expected to increase by 4.9 per cent in 2013 and by 6.7 per cent in 2014.

Imports were weak in the latter part of 2011. Although imports are expected to increase at the end of 2012, they will nevertheless be somewhat lower in total than in 2011. This is because demand is expected to be weak in 2012. As domestic demand and exports increase during the forecast period, imports will also accelerate. In 2013 and 2014 Swedish imports are expected to grow by 4.7 and 6.8 per cent respectively.

#### ■ Temporary slowdown in investment growth in 2012

The weak economic activity in Sweden and abroad is expected to imply that Swedish companies postpone their investments. Moreover, the slowdown in the number of residential construction starts indicates that housing investment will fall in 2012. This leads to the assumption that total fixed gross investment will only grow by 0.5 per cent this year. During the course of 2013 growth in investment is expected to gradually take off and amount to 5.6 per cent in 2014. The driving factors behind growth include the need to expand production capacity in the business sector, particularly industry, as the level of investment is low in relation to production. Thus, the conditions are good for a gradually stronger development in exports as economic activity improves. Housing investment is also expected to increase as economic activity stabilises and confidence strengthens.

Companies have built up their stocks at a rapid rate in recent years. Companies are now expected to reduce the pace of their stocks build-up to avoid stock levels becoming too high in relation to demand, and this will dampen GDP growth in 2012.

### ■ **More rapid increase in household consumption**

Household consumption will rise during the forecast period, but the rate of increase is expected to be somewhat lower than normal in the coming period. Employment is expected to decline in 2012 and this will contribute to holding back growth in households' disposable incomes. Moreover, the fall in prices on the stock market and housing market during the second half of 2011 have contributed to a decline in households' wealth, which will also hold back growth in consumption in the coming period. All in all, consumption is expected to increase by 1.0 per cent in 2012. As the economic situation improves, employment begins to increase and household wealth stabilises, growth in consumption is expected to accelerate over the course of 2013. Towards the end of the forecast period, consumption is forecast to increase by approximately 2 per cent a year.

Over the past year, the growth in household indebtedness has continued to dampen, which is due to the fall in housing prices, the rise in mortgage rates and the introduction of loan ceilings. Household debt is expected to increase at a moderate rate in the coming period. However, debt as a percentage of households' disposable incomes is expected to continue to rise somewhat.

### ■ **Public finance surplus**

The Riksbank's forecasts for fiscal policy are based on an assessment of what can be regarded as a normal fiscal policy in relation to the economic situation and the government's target of a budget surplus of 1 per cent over an economic cycle. The government has emphasised that the debt crisis in Europe means that there is still a need for good safety margins in public finances. Partly as a result of this, the Riksbank has made a new assessment of fiscal policy, where greater weight than before is given to attaining a surplus in public finances. All in all, public sector saving is now expected to amount to -0.1 per cent of GDP this year and then gradually strengthen to 0.9 per cent of GDP in 2014. This includes tax cuts and expenditure increases in the order of SEK 30 billion divided over the years 2013 and 2014, which is SEK 20 billion less than the assessment made in February.

### ■ **Labour market weakens temporarily**

The weak growth will gradually affect developments in the Swedish labour market. Both outcomes and indicators point to employment and the labour force declining in the first quarter of 2012. Various company surveys also point to companies being restrictive in their recruitment plans. The number of hours worked is expected to decline and unemployment is expected to rise this year. Unemployment will peak at 7.9 per cent of the labour force at the beginning of 2013. This assessment is roughly the same as in the Monetary Policy Report published in February. Both labour force participation and the employment rate are expected to be lower in 2012 than was previously forecast, as a result of unexpectedly low outcomes. As economic activity improves during 2013, the labour market will also recover. At the end of 2014, unemployment is expected to have come down to around 6.5 per cent.

### ■ **Resource utilisation lower than normal**

The Riksbank uses a number of different indicators and statistical methods to make an assessment of resource utilisation. One such indicator is what is known as the hours worked gap, which measures the deviation in the number of hours worked in the economy in relation to what is judged to be a sustainable level. Statistics Sweden revised up the figures

for growth in the number of hours worked in 2010 and 2011 in connection with the publication of the National Accounts for the fourth quarter of 2011. The Riksbank assesses that this partly reflects the fact that resource utilisation has been less negative in recent years than was previously assumed. This is well in line with the Riksbank's RU indicator, which is a statistical method for summarising information on resource utilisation from surveys and labour market data. However, the higher growth in the number of hours worked is also thought to reflect the fact that the sustainable level of the number of hours worked is higher than earlier assessments. All in all, resource utilisation is assessed to be lower than normal and will normalise towards the end of the forecast period as the recovery progresses, roughly in line with the assessment made in February.

#### ■ **Wage agreements expected to follow industrial norm**

The central wage agreements for most parts of industry are now complete. They are valid for 12 to 14 months and give wage increases of 2.6 per cent a year. During the spring many central wage agreements in other sectors expire and the Riksbank's assessment is that they will on average follow the norm set by the industrial sector. However, the wage bargaining rounds have been marked by strike warnings, which indicates that they are not running entirely smoothly. A large number of central wage agreements still remain to be signed. All in all, wages in accordance with the short-term wage statistics, which also include wage drift, are expected to increase by 3.3 per cent this year. During the coming two years wages are also expected to increase by an average of 3.3 per cent a year.

#### ■ **Rising cost pressures**

Cost pressures have begun to rise after being low in recent years. This is partly linked to the increasing rapid rise in hourly labour costs towards the end of last year. It is also linked to labour productivity being subdued at the end of last year. During the forecast period, labour costs are expected to increase on average by a good 3.5 per cent a year, at the same time as labour productivity increases by around 2 per cent. Unit labour costs will thus rise by around 1.5 per cent a year during the forecast period, which is the fastest they have risen in the past two years. This year, however, unit labour costs will rise by a good 3 per cent.

The krona has strengthened over the past two years, which contributes to holding back cost pressures. During the forecast period the krona will cease strengthening, which will mean that even imported cost pressures will be higher than during the past two years. Oil prices have risen rapidly since the end of last year. This will contribute to higher cost pressures, primarily this year.

#### ■ **Inflation to rise gradually during forecast period**

Inflation is currently low as a result of the weak cost pressures in recent years. It is expected to remain low, even during the coming year, and then to rise, in line with the assessment made in February.

CPI inflation will fall rapidly over the coming months, partly as a result of the Riksbank's repo-rate cuts in December 2011 and February this year. CPI inflation will be just under 1.0 per cent at its lowest point in 2012. After that it will rise to around 3 per cent in 2014, partly as a result of increases in the repo rate. During periods with large interest rate adjustments, measures of inflation that do not include interest rate costs, such as CPIX inflation, provide a better picture of underlying inflationary pressures. In March, CPI

inflation was 1.1 per cent. As cost pressures increase and resource utilisation normalises, CPIF inflation will also rise gradually towards 2 per cent in 2013, which is in line with the earlier forecast.

#### ■ Repo rate remaining at a low level

The assessment of the economic outlook and inflation prospects for Sweden is more or less the same now as in the February Monetary Policy Report. The Executive Board of the Riksbank has therefore decided to leave the repo rate unchanged at 1.5 per cent, in line with the earlier forecast. The repo rate is expected to remain at this low level for around a year. The repo-rate path is also the same as in the February Monetary Policy Report.

The world economy as a whole will develop relatively well, but there are differences between countries and regions. The Riksbank assesses that the European debt crisis will be managed in such a way that the unease gradually subsides in 2012. Confidence on the financial markets and among households and companies will thus gradually improve. This does not mean that the path is straight and even; there will probably be setbacks, as has been indicated by recent developments on the financial markets. The increased confidence will contribute to a gradual recovery in global demand, which will in turn have positive effects on growth in Sweden. Although the slowdown in the Swedish economy at the end of 2011 was more severe than expected, mainly due to weaker exports, there are clear signs that exports and Swedish GDP are increasing again. The Swedish labour market has weakened in line with the forecast made in February and unemployment is expected to rise slightly over the coming year. But when demand in the economy increases, unemployment will fall. All in all, resource utilisation is judged to be lower than normal at present, but is expected to normalise towards the latter part of the forecast period. Inflation is currently low. Given the higher cost pressures and rising demand, CPIF inflation is expected to increase, however, amounting to around 2 per cent from 2013.

A necessary condition for CPIF inflation stabilising around 2 per cent and resource utilisation around a normal level is that monetary policy will remain expansionary in the coming years. This will be expressed as a real repo rate that is negative for some time to come. When inflationary pressures and economic activity rise, the repo rate needs to be gradually raised and is expected to amount to 3 per cent at the beginning of 2015.

#### ■ Economic developments are uncertain

The situation in the euro area is still fragile, and public finance problems could worsen more tangibly once again so that unease on the financial markets increases. This would also have a negative impact on the Swedish economy. In this situation, the repo-rate path may need to be lower. At the same time, confidence in economic developments could return sooner than expected among households, companies and financial markets. This would lead to higher demand in the Swedish economy and to higher inflationary pressures than assumed in the forecast. This would call for a higher repo-rate path.

## ■ New information since the February Monetary Policy Report

### International economy

- The price of crude oil has continued to rise since February, and forward pricing now indicates a higher oil price during 2012 than was forecast in the Monetary Policy Report published in February. One reason is the expected supply shocks in the Middle East, caused by the conflict regarding Iran's possible nuclear arms programme.
- GDP in the euro area fell by 1.2 per cent during the fourth quarter of last year, when calculated as an annual rate. At the beginning of 2012 the weak trend in industrial production and retail trade persisted. Consumer confidence rose slightly in February and March, but the confidence indicators for both households and companies are still at low levels. The European Commission's confidence indicator for the whole economy fell slightly in March, after an upturn in February. The purchasing managers' index for the manufacturing industry and the services sector fell between January and March. The labour market has weakened further. Employment declined during the fourth quarter and unemployment rose to 10.8 per cent in February. The inflation rate was 2.6 per cent in March, according to preliminary statistics. Excluding energy and food prices, inflation remained unchanged at 1.5 per cent according to the definitive outcome for February. The continued attempts to ensure sufficient capacity to be able to provide support to member states with public debt problems in the future if necessary resulted in an agreement on the support facilities reached at the informal Eurogroup meeting on 30 March. The agreement entails a slightly larger new lending capacity in the short run but the same total new lending capacity in the long run as earlier agreements.
- GDP in the United States rose by 3 per cent during the fourth quarter of 2011 when calculated as an annual rate. The homebuilders' confidence index remained at the same level in March as in February, following a period with a cautiously positive trend in the housing market. Consumption rose in January and February, despite a minor decline in households' disposable incomes. According to the Conference Board, consumer confidence fell in March after a long period with an improvement trend. Higher petrol prices mean that consumption is expected to be relatively weak in the coming quarters. The purchasing managers' index for the manufacturing industry rose in March after falling in February. The labour market has continued to improve, and employment rose by an average of just over 200,000 jobs a month during the first quarter. Inflation measured in terms of the personal consumption deflator (PCE) fell in February from 2.4 to 2.3 per cent, while underlying PCE inflation was unchanged at 1.9 per cent. Inflation expectations have risen in recent months.
- In Norway, GDP rose by 3.1 per cent during the third quarter and by 2.5 per cent during the fourth quarter, when calculated as annual rates. Norges Bank's company surveys from February point to weaker growth in production in the coming period. Norges Bank cut its policy rate and lowered its interest-rate path at the monetary policy meeting held in March.

- Japan's GDP fell by 0.7 per cent in the fourth quarter of 2011, when calculated as an annual rate. In China, GDP growth slowed down in the first quarter, amounting to 8.1 per cent, when measured as an annual percentage change. Property prices in China have continued to fall, which is in line with the government's stated ambition. This has led to weaker activity on the property market, which has also spread to some industrial sectors.

## Financial markets

- Concern over the debt crisis in Europe is continuing to affect the financial markets. The European Central Bank's three-year loans have eased funding for European banks and some debt-ridden countries. European banks have also issued bank bonds for relatively large amounts during the first quarter. Demand for these has been high and interest rates have thus continued to fall. Over the past month, the suspicion that Spain may not manage to obtain funding on the bond market has increased. This has led to an increase in government bond yields for Spain. Italian government bond yields have also risen recently. Yields on Spanish government bonds are at a higher level than they were in February, while Italian yields remain relatively unchanged.
- In the wake of the increasing unease, government bond yields for both short and long maturities have fallen recently for countries such as Sweden, Germany and the United States. This is because the demand for these countries' government bonds has increased as the demand for investments with higher risk and yield has declined.
- The lower demand for high-risk investment is also evident in the fact that market rates on the Stockholm Stock Exchange and the European stock market have fallen. Share prices on these markets have fallen by a good 15 per cent since the Riksbank's monetary policy meeting in February. Share prices in the United States remain unchanged compared with February.
- The Swedish krona has weakened somewhat in trade-weighted terms, compared with the rate in February. Most of this depreciation has taken place in recent weeks. Compared with the situation in February, the largest depreciation is against the US dollar. The krona has actually strengthened marginally against the euro.
- Monetary policy expectations measured in terms of implied forward rates have fallen slightly in the euro area since February. In the United Kingdom, expectations of monetary policy remain unchanged according to the same measure, while expectations in the United States are slightly higher than they were in February. Expectations of policy rates in terms of implied forward rates are still at historically-low levels. According to surveys, too, policy rates are expected to be low for these countries in the coming years. The Bank of England, the ECB and the Federal Reserve are not expected to raise their policy rates until late 2013 at the earliest, according to the surveys.
- In Sweden, monetary policy expectations according to implied forward rates have risen somewhat compared with the Riksbank's monetary policy meeting in February. According to forward pricing, the repo rate is now expected to be 1.1 per cent one year and two years ahead. The Prospera survey indicates that expectations are 1.3 per cent for one year ahead and 1.9 per cent for two years ahead, which is lower than the repo-rate path forecast in February.

- Since the Riksbank cut the repo rate in February mortgage rates fixed for both long and short periods have continued to fall. The variable listed mortgage rates have fallen by 25 basis points. The interest rates that companies pay on average for bank loans have also fallen. However, there is still a larger difference between the repo rate and the average interest rates paid by households and companies than there was prior to 2008. According to the National Institute of Economic Research's consumer tendency survey, households are expecting the variable mortgage rate to be just over 4 per cent at the beginning of 2013. This is 0.1 percentage points lower than the current average level for variable listed mortgage rates.

## GDP in Sweden

- According to the National Accounts, GDP fell by 4.6 per cent in the fourth quarter, when calculated as an annual rate. Compared with the fourth quarter of 2010, GDP only increased by 1.1 per cent. The outcome was much weaker than anticipated. The weak international demand has contributed to the decline in exports and thus had a negative impact on the Swedish economy. Recently, however, sentiment among households and companies has improved, and the National Institute of Economic Research's Economic Tendency Survey for March showed an increase for the second month in a row. Industrial production rose in January, but then declined by around 5 per cent in February. However, there are numerous indications that the large fall in February is due to temporary effects. All in all, GDP is expected to grow moderately in the coming quarters.
- Exports were very weak during the fourth quarter of 2011. However, the monthly statistics on foreign trade in goods imply that exports increased during the first quarter of this year, while imports remained weak. Indicators of orders remain at low levels, which implies that the rate of increase in exports will be subdued in the coming months.
- The turnover in the retail trade was weak last year, but has developed more strongly in recent months. Consumer confidence has also improved, but is still at a low level. Households' purchases of cars have shown a relatively weak development. All in all, this indicates that the increase in consumption will be relatively moderate over the coming period. There has been a slowdown in the housing market, which will also contribute here.
- The trend in household borrowing has been a clear decline over the past year. The annual rate of growth amounted to 5.0 per cent in February, which was 0.1 percentage points lower than in January. The annual rate of increase in borrowing for non-financial companies slowed down during the same period from 6.6 per cent to 6.0 per cent.
- A heavy fall in housing investment affected investment developments negatively in the fourth quarter of 2011. The statistics for construction indicate that housing investment will remain weak for some time. However, for the rest of the business sector, both capacity utilisation in industry, which is now at an historically-normal level, and investment surveys point to companies increasing their investments during 2012.
- General government net lending amounted to 0.1 per cent of GDP in 2011, which was in line with the forecast in the Monetary Policy Report in February. This surplus largely arose in the old-age pension system.

## Labour market

- The number of hours worked in 2010 and 2011 was adjusted by Statistics Sweden in connection with the publication of the National Accounts for the fourth quarter. The figures for the past two years now look much stronger than indicated by earlier statistics, and the level of hours worked has now been revised up by almost 2 per cent.
- Seasonally-adjusted unemployment amounted to 7.5 per cent in February, which was in line with the forecast in the February Monetary Policy Report. However, the labour force and employment were weaker than expected.
- Indicators point to a continued weakening in the labour market in the coming period. The demand for labour has slowed down. This is reflected, for instance, in the number of new vacancies, which is still at a relatively high level, falling clearly in February. The National Institute of Economic Research's Business Tendency Survey points to largely unchanged employment plans in the business sector.
- When the retroactive wage payments are included in the statistics, the definitive rate of wage increase will be 2.7 per cent in 2011, according to the short-term wage statistics. Hourly wages according to the National Accounts, which are defined as total payroll expense divided by the number of hours worked for employees, increased by around 3.0 per cent during the fourth quarter of last year, when measured as an annual percentage change. The revision in the number of hours worked has contributed to hourly wages being much weaker with effect from 2010 according to this measure than was indicated by earlier outcomes.
- After wage agreements for large parts of the industrial sector were finalised at the beginning of December, central wage agreements have also been signed for other areas, including the paper industry, the construction and plant industry and the trade and commerce sector. Although the wage agreements signed are close to the industrial norm of 2.6 per cent a year, when measured as an annual percentage change, the wage bargaining rounds have not been entirely without friction. A number of agreements remain to be signed in the 2012 wage bargaining rounds. The remaining agreements cover around two thirds of the employees whose agreements expire in 2012.
- Cost pressures in the Swedish economy are now expected to be higher in the first half of the year than was assessed in February. Factors contributing here are the higher oil price and a lower rate of increase in productivity. The fact that premium rates in the agreed insurances for both blue-collar and white-collar workers in the business sector are being raised this year also has some effect.

## Inflation

- Prospera's April survey shows that inflation expectations among money market participants remained unchanged one year ahead, and rose slightly for two and five years ahead, from 1.8 to 1.9 per cent and from 2.0 to 2.1 per cent. According to the National Institute of Economic Research's Consumer Tendency Survey, households' inflation expectations 12 months ahead rose from 2.3 per cent in February, to 2.8 per cent in March.
- Inflation is still low. The annual rate of increase in the CPIF, that is, the CPI not directly affected by changes in mortgage rates, amounted to only 1.1 per cent in March in line with the February Monetary Policy Report. CPIF inflation is expected to remain low over the coming months.
- Energy prices have increased somewhat faster than expected. Petrol prices are increasing at a rapid rate, but this is partly counteracted by a fall in energy prices. When changes in energy prices are excluded, the rate of increase in the CPIF was 1.2 per cent in March, which was slightly lower than expected in the February Monetary Policy Report. CPI inflation rose by 1.5 per cent in March compared with the same month last year. Over the coming months, the rate of increase in the CPI will fall rapidly as households' interest expenditure increases more slowly when measured as an annual percentage change.

## ■ Tables

The figures in parentheses show the forecast in the previous Monetary Policy Report.

**Table 1. Repo rate forecast**

Per cent, quarterly average values

	Q1 2012	Q2 2012	Q1 2013	Q1 2014	Q1 2015
Repo rate	1.6 (1.6)	1.5 (1.5)	1.5 (1.5)	2.2 (2.2)	3.0 (3.0)

Source: The Riksbank

**Table 2. Inflation**

Annual percentage change

	2011	2012	2013	2014
CPI	3.0 (3.0)	1.2 (1.4)	1.9 (1.9)	2.9 (2.9)
CPIF	1.4 (1.4)	1.1 (1.1)	1.7 (1.7)	2.0 (2.1)
CPIF excl. Energy	1.0 (1.0)	1.0 (1.3)	1.6 (1.6)	2.0 (2.0)
HICP	1.4 (1.4)	1.1 (1.1)	1.7 (1.7)	2.0 (2.1)

Note. The forecast for the CPI refers to the annual rate of change in revised index figures (the so-called inflation rate). This exceeds the rate of change in the CPI in 2011. The CPIF is the CPI with a fixed mortgage rate. The HICP is an EU harmonised index of consumer prices.

Sources: Statistics Sweden and the Riksbank

**Table 3. Summary of financial forecasts**

Annual average, per cent, unless otherwise specified

	2011	2012	2013	2014
Repo rate	1.8 (1.8)	1.5 (1.5)	1.7 (1.7)	2.5 (2.5)
10-year rate	2.6 (2.6)	2.1 (2.0)	3.1 (2.9)	3.9 (3.7)
Exchange rate, TCW index, 18 November 1992=100	122.3 (122.3)	120.3 (120.6)	117.8 (118.6)	118.2 (119.0)
General government net lending*	0.1 (0.3)	-0.1 (-0.2)	0.2 (-0.2)	0.9 (0.3)

\* Per cent of GDP

Sources: Statistics Sweden and the Riksbank

**Table 4. International conditions**

Annual percentage change, unless otherwise specified

GDP	2011	2012	2013	2014
Euro area (0.14)	1.5 (1.5)	-0.3 (-0.1)	1.1 (1.3)	2.3 (2.2)
USA (0.20)	1.7 (1.7)	2.3 (2.2)	2.4 (2.5)	3.2 (3.2)
Japan (0.06)	-0.7 (-1.0)	1.8 (1.5)	1.6 (1.5)	0.9 (0.8)
OECD (0.55)	1.8 (1.8)	1.6 (1.5)	2.1 (2.1)	2.7 (2.7)
TCW-weighted (0.47)	1.3 (1.3)	0.5 (0.6)	1.5 (1.6)	2.3 (2.3)
World (1.00)	3.8 (3.8)	3.5 (3.5)	4.0 (4.0)	4.3 (4.3)

Note. The figures in parentheses indicate the global purchasing-power adjusted GDP-weights, according to the IMF, 2010.

CPI	2011	2012	2013	2014
Euro area (HICP)	2.7 (2.7)	2.3 (2.1)	1.7 (1.6)	1.6 (1.7)
USA	3.2 (3.2)	2.0 (1.7)	1.8 (1.5)	1.9 (1.9)
Japan	0.0 (-0.3)	0.0 (-0.5)	0.0 (-0.3)	0.0 (-0.2)
TCW-weighted	2.6 (2.6)	2.1 (1.9)	1.7 (1.5)	1.6 (1.7)

	2011	2012	2013	2014
Policy rate for the rest of the world, TCW-weighted, per cent	0.8 (0.8)	0.4 (0.4)	0.4 (0.5)	0.8 (1.0)
Crude oil price, USD/barrel Brent	111 (111)	121 (111)	115 (107)	107 (101)
Swedish export market	3.7 (3.6)	1.9 (2.6)	4.3 (4.5)	6.3 (6.0)

Note. The Swedish export market index is calculated as a weighted average of the imports of the 15 countries which are the largest recipients of Swedish exports. They receive approximately 70 per cent of Swedish exports. The weight assigned to a country is its share of Swedish exports of goods.

Sources: Eurostat, IMF, Intercontinental Exchange, OECD and the Riksbank

**Table 5. GDP by expenditure**

Annual percentage change, unless otherwise specified

	2011	2012	2013	2014
Private consumption	2.1 (1.5)	1.0 (0.6)	1.8 (1.7)	2.5 (3.0)
Public consumption	1.8 (1.8)	0.5 (0.8)	0.7 (0.7)	0.5 (0.5)
Gross fixed capital formation	5.8 (5.9)	0.7 (1.8)	3.5 (4.2)	5.6 (5.4)
Inventory investment*	0.7 (0.6)	-0.7 (-0.9)	-0.2 (0.0)	0.0 (0.0)
Exports	6.8 (8.1)	0.5 (0.0)	4.9 (4.8)	6.7 (6.5)
Imports	6.1 (5.6)	-0.2 (-1.8)	4.7 (4.8)	6.8 (6.5)
GDP	3.9 (4.5)	0.4 (0.7)	1.9 (2.1)	2.8 (3.2)
GDP, calendar-adjusted	4.0 (4.5)	0.8 (1.0)	1.9 (2.1)	2.9 (3.3)
Final domestic demand*	2.6 (2.3)	0.7 (0.8)	1.7 (1.8)	2.4 (2.5)
Net exports*	0.7 (1.6)	0.4 (0.8)	0.5 (0.4)	0.4 (0.6)
Current account (NA), per cent of GDP	7.2 (7.0)	7.4 (7.6)	7.6 (7.7)	7.6 (7.9)

\*Contribution to GDP growth, percentage points

Note. The figures show actual growth rates that have not been calendar-adjusted, unless otherwise stated. NA is the National Accounts.

Sources: Statistics Sweden and the Riksbank

**Table 6. Production and employment**

Annual percentage change, unless otherwise stated

	2011	2012	2013	2014
Population, aged 16-64	0.3 (0.3)	0.1 (0.1)	0.0 (0.0)	0.0 (0.0)
Potential hours worked	0.8 (0.5)	0.4 (0.4)	0.3 (0.3)	0.3 (0.3)
GDP, calendar-adjusted	4.0 (4.5)	0.8 (1.0)	1.9 (2.1)	2.9 (3.3)
Number of hours worked, calendar-adjusted	2.3 (1.3)	0.2 (0.2)	0.1 (0.6)	0.8 (1.1)
Employed, aged 15-74	2.1 (2.1)	-0.1 (0.2)	0.5 (0.1)	0.9 (0.9)
Labour force, aged 15-74	1.2 (1.2)	0.1 (0.4)	0.4 (0.1)	0.1 (0.1)
Unemployment, aged 15-74 *	7.5 (7.5)	7.7 (7.7)	7.7 (7.7)	6.9 (7.0)

\* Per cent of labour force

Note. Potential hours worked refers to the Riksbanks assessment of the long-term sustainable level for the number of hours worked.

Sources: Statistics Sweden and the Riksbank

**Table 7. Wages and unit labour cost for the economy as a whole**

Annual percentage change, calendar-adjusted data

	2011	2012	2013	2014
Hourly wage, NMO	2.7 (2.7)	3.3 (3.3)	3.2 (3.1)	3.4 (3.4)
Hourly wage, NA	3.3 (4.3)	3.5 (3.8)	3.4 (3.4)	3.7 (3.6)
Employers' contributions*	-0.3 (-0.2)	0.3 (0.1)	0.0 (0.0)	0.0 (0.0)
Hourly labour cost, NA	3.1 (4.1)	3.8 (3.8)	3.4 (3.4)	3.7 (3.6)
Productivity	1.7 (3.2)	0.6 (0.8)	1.8 (1.5)	2.1 (2.2)
Unit labour cost	1.4 (0.9)	3.2 (2.9)	1.6 (1.8)	1.5 (1.4)

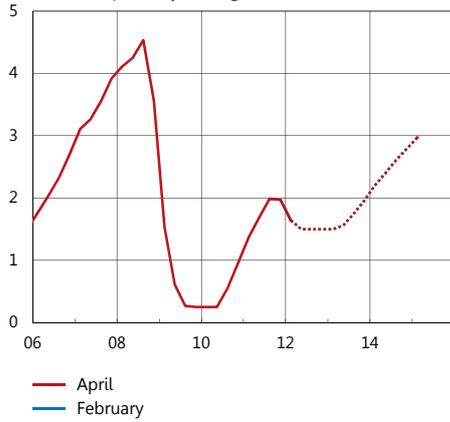
\* Contribution to the increase in labour costs, percentage points.

Note. NMO is the National Mediation Office's short-term wage statistics and NA is the National Accounts. Labour cost per hour is defined as the sum of actual wages, collective charges and wage taxes divided by the seasonally adjusted total number of hours worked. Unit labour cost is defined as labour cost divided by seasonally adjusted value added at constant prices.

Sources: National Mediation Office, Statistics Sweden and the Riksbank

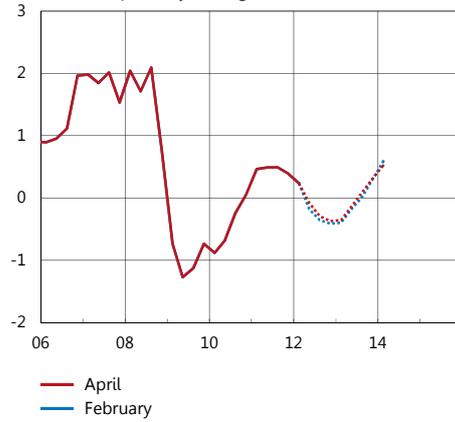
# ■ Diagram

**Figure 5. Repo rate**  
Per cent, quarterly averages



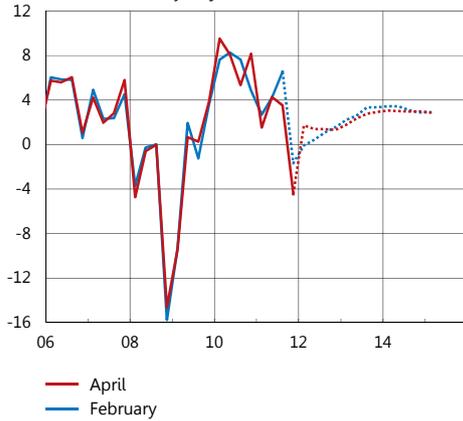
Source: The Riksbank

**Figure 6. Real repo rate**  
Per cent, quarterly averages



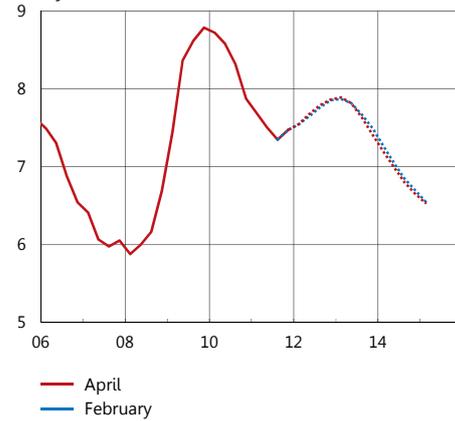
Note. The real repo rate is calculated as an average of the Riksbank's repo rate forecasts for the coming year minus the inflation forecast (CPIF) for the corresponding period.  
Source: The Riksbank

**Figure 7. GDP**  
Quarterly changes in per cent calculated in annualised terms, seasonally-adjusted data



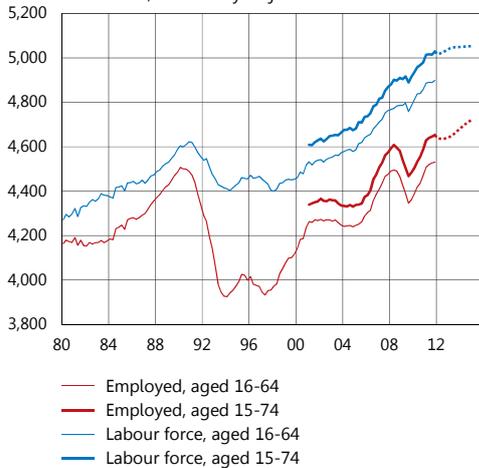
Sources: Statistics Sweden and the Riksbank

**Figure 8. Unemployment**  
Percentage of the labour force, aged 15-74, seasonally-adjusted data



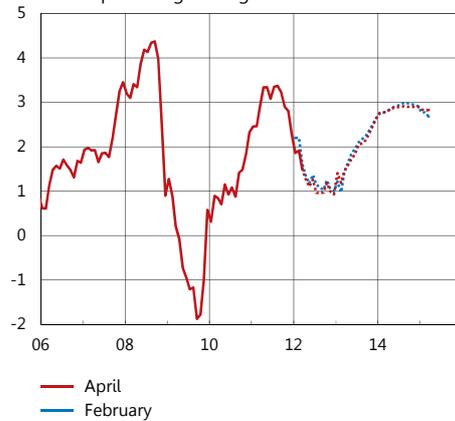
Sources: Statistics Sweden and the Riksbank

**Figure 9. Labour force and number of employed**  
Thousands, seasonally-adjusted data



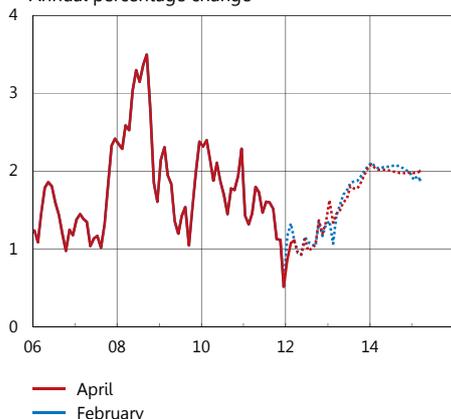
Note. Pre-1987 data have been spliced by the Riksbank.  
Sources: Statistics Sweden and the Riksbank

**Figure 10. CPI**  
Annual percentage change



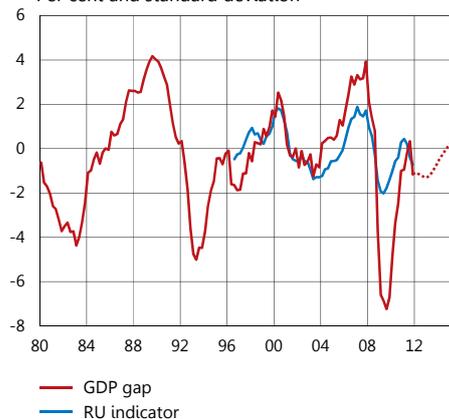
Sources: Statistics Sweden and the Riksbank

**Figure 11. CPIF**  
Annual percentage change



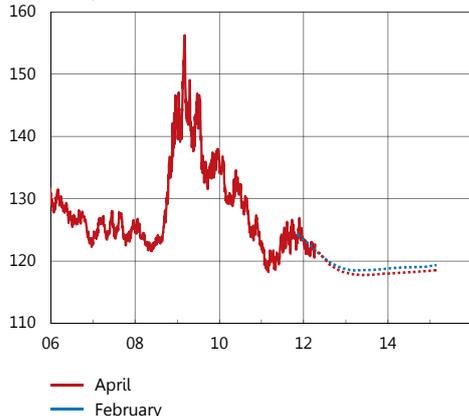
Note. The CPIF is the CPI with a fixed mortgage rate.  
Sources: Statistics Sweden and the Riksbank

**Figure 12. GDP gap and RU indicator**  
Per cent and standard deviation



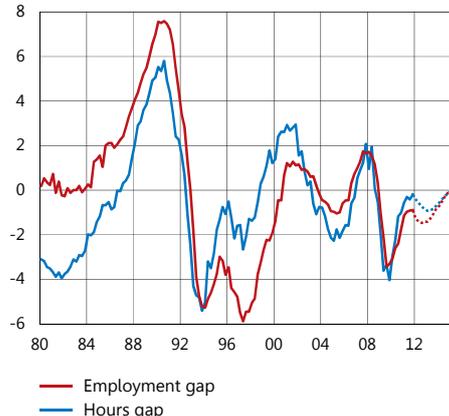
Note. GDP gap refers to the deviation from trend in GDP calculated with a production function. The RU indicator is normalised so that the mean value is 0 and the standard deviation is 1.  
Sources: Statistics Sweden and the Riksbank

**Figure 13. TCW-weighted nominal exchange rate**  
Index, 18 November 1992 = 100



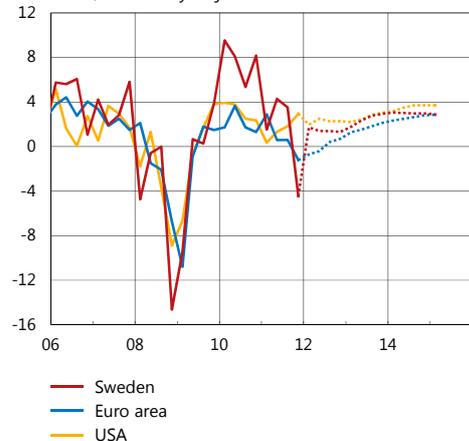
Note. Outcome data are daily rates and forecasts are quarterly averages.  
Source: The Riksbank

**Figure 14. Labour market gap**  
Per cent



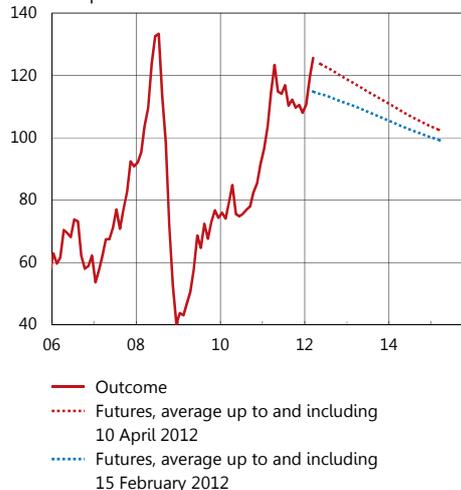
Note. The hours gap refers to the deviation in the number of hours worked from the Riksbank's assumed trend for the numbers of hours worked.  
Sources: Statistics Sweden and the Riksbank

**Figure 15. GDP in different regions and countries**  
Quarterly changes in per cent calculated in annualised terms, seasonally-adjusted data



Sources: Bureau of Economic Analysis, Eurostat, Statistics Sweden and the Riksbank

**Figure 16. Oil price, Brent crude**  
USD per barrel



Note. Futures are calculated as a 15-day average. Outcomes represent monthly averages of spot prices.  
Sources: Intercontinental Exchange and the Riksbank