Monetary Policy Update
December 2009

The recovery from the severe recession is continuing. The financial markets are improving all the time and the measures taken by central banks and public authorities are having an effect. The world economy is continuing to improve and this benefits economic developments in Sweden.

The recovery is from a low level and there will be ample spare capacity in the economy over the coming years. Labour market developments do not appear quite as weak as forecast in the October Monetary Policy Report. However, unemployment is still expected to rise next year and the weak labour market is expected to hold back wage increases in the central bargaining rounds in 2010. At the same time, inflationary pressures are further subdued by lower rents, lower inflation abroad and a stronger krona, compared with the assessment in October.

The assessment is still that the repo rate needs to be low over a long period of time to attain the inflation target of 2 per cent and to support the upturn in production and employment. The Executive Board of the Riksbank has therefore decided to hold the repo rate unchanged at 0.25 per cent and the repo rate is expected to remain at this level until autumn 2010. After that the repo rate is expected to rise to more normal levels so that the economy develops in a balanced manner and inflation is in line with the target.

The large changes in the repo rate affect mortgage rates, which are included in the consumer price index (CPI). There will thus be large fluctuations in the CPI in the future. The CPIF underlying inflation rate (the CPI with a fixed mortgage rate) will on the other hand be more stable, lying close to 2 per cent at the end of the forecast period. In the longer term, the rates of increase in the CPIF and the CPI coincide as the repo rate stabilises at a more normal level.

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

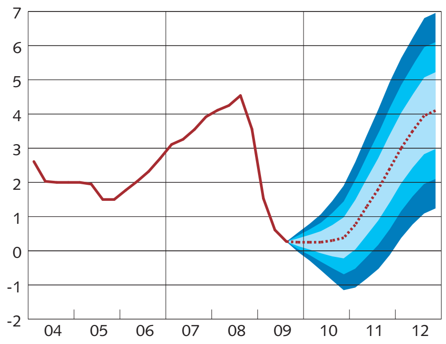


Figure 2. CPI with uncertainty bands
Annual percentage change

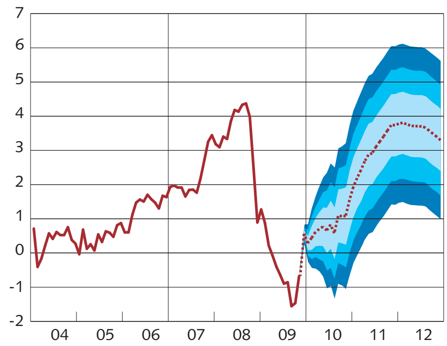


Figure 3.CPIF with uncertainty bands
Annual percentage change, seasonally-adjusted data

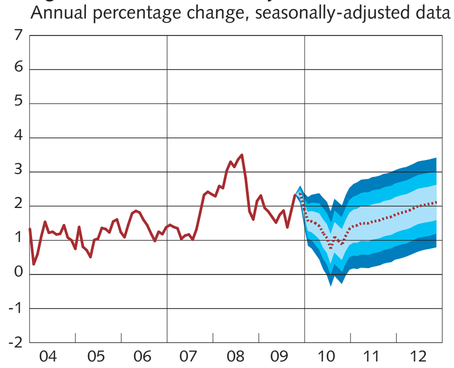
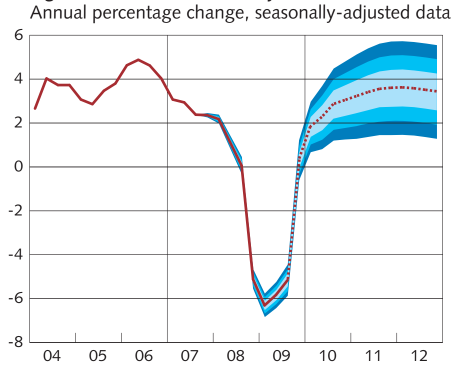


Figure 4.GDP with uncertainty bands
Annual percentage change, seasonally-adjusted data



Outcome Forecast 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 for the repo rate are based on the ability of risk-adjusted market rates to forecast the future repo rate. This uncertainty band does 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 Riksbank's picture of economic and inflation prospects is based on the assessment made in the Monetary Policy Report in October and to the forecasts presented in this Monetary Policy Update. The forecasts are based on the repo rate being held unchanged at 0.25 per cent until autumn 2010. After this the repo rate will be raised and it will be around 4 per cent towards the end of 2012.

Improvement in international economic activity

The world economy has begun to recover from the very deep recession. World trade is now increasing again, and the financial markets are functioning better all the time. Growth was still strong in Asia (excluding Japan) during the third quarter and the recovery is expected to continue. The forecast for growth in the world economy has been revised up slightly both for this year and for the next year. The world economy is nevertheless expected to shrink by around 1 per cent in 2009, which is a very weak economic development in historical terms. Over the coming three years the world economy is expected to grow by an average of 4 per cent a year, which is roughly in line with historical average growth.

In the United States a slightly weaker growth rate is expected during the fourth quarter than during the third quarter. This is partly explained by household consumption no longer being supported by the powerful public-sector funded discounts that were offered for new car purchases. However, the gradual recovery is expected to continue in 2010 and onwards, initially supported by the improvements in the financial markets and by economic policy stimulation measures. Households', companies' and banks' balance sheets will gradually improve, at the same time as the labour market improves. However, it is expected that the conditions for growth will be dampened by limited access to credit during the forecast period. Wealth has declined and household saving is expected to increase. In addition, growth will be held back by the tighter economic policy that will ensue when the stimulation measures are phased out. A positive rate of price increase is expected in the United States with effect from the fourth quarter of this year. After that, rising energy prices in particular will provide a slightly faster upturn towards 2 per cent in 2010, compared with the forecasts in the October Monetary Policy Report.

Continued expansionary fiscal and monetary policy will contribute to stimulating the recovery in the euro area, too. The forecast for GDP growth in 2009 and 2010 has been revised upwards slightly. The outcome for GDP in the third quarter was slightly higher than expected, and is also expected to be slightly higher in the fourth quarter of 2009 and the first quarter of 2010. This is because stocks and net exports are expected to provide a greater contribution to growth. Despite the upward revision, the recovery is expected to be slow. Growth is only expected to be just over 1 per cent in 2010 and not to approach normal levels until 2011. The weak labour market will hold back consumption. Corporate sector investment is also expected to be weak as a result of low resource utilisation and continued strict credit terms.

In the euro area inflation is rising once again after being negative during the summer. However, the upturn is expected to be moderate over the coming years. Compared with the October Monetary Policy Report, inflation has been revised down. An expected weak growth in wages together with low inflation expectations will contribute to dampening inflation. The falling market expectations for the policy rate during the autumn are also compatible with lower expected inflationary pressure.

■■ Growth in the Swedish economy has begun to recover

GDP in Sweden has begun to grow again in recent quarters, following the deep recession at the end of last year. Indicators of economic developments in Sweden for the fourth quarter all in all point to GDP growth being slightly stronger than was forecast in October. A stronger GDP growth abroad contributes to the forecast for the first quarter of next year also being adjusted upwards somewhat compared with the October forecast. Despite the Swedish economy growing once again, GDP is expected to show a fall of 4.5 per cent for the whole year 2009, which means that the year will go down in history for the largest fall in GDP in one single year in modern times.

GDP is expected to grow by 2.7 per cent in 2010, which entails a slightly stronger growth than was forecast in October. Contributing to this are both the fact that international economic activity appears to be recovering slightly faster, and the fact that domestic demand in Sweden is expected to be stronger. Economic activity will be further strengthened in the following years as exports rise more quickly, which also entails increased investment. GDP is expected to grow by 3.4 per cent in 2011 and by 3.5 per cent in 2012. This means that the forecast for total growth during the whole forecast period is largely unchanged compared with the previous forecast.

The krona weakened substantially in connection with the financial crisis hitting the world economy. Since the lowest point noted in early 2009, the krona has appreciated by around 7 per cent in trade-weighted terms. The krona appreciation is expected to continue, but at a slower ate, over the coming years. Compared with the assessment made in October, the krona is expected to be slightly stronger during the period 2010 to 2012, partly due to lower international interest rates.

■■ Consumption and exports increasing while investment continues to fall

Demand in the Swedish economy fell on a broad scale at the end of 2008 and at the beginning of 2009. For the whole year 2009 it is only public sector consumption and public sector investment that are increasing in relation to 2008. But there are now many indications that developments have stabilised and that most components of demand are increasing once again. Household consumption began to grow in the second quarter of 2009 and is expected to continue to grow during the forecast period. A large percentage of households' increases in income in recent years have gone into savings. Now that optimism among households is returning, they are expected to reduce their savings and to continue to increase their consumption, despite a weak growth in incomes. Moreover, household consumption will be stimulated by the low interest rates during the forecast period. Indicators of future growth, such as the Consumer Tendency Survey and the retail trade index, point to household consumption increasing slightly more quickly over the coming quarters than was assessed in October. Household consumption is expected to increase by almost 3 per cent in 2010 and by on average just over 2 per cent during 2011 and 2012.

Total investment is estimated to fall by almost 14 per cent in 2009. Both housing investment and business sector investment are falling heavily. Public sector investment is rising, however, as large investments are being made in, for instance, the infrastructure. During 2010 housing investment is expected to begin rising again. A pent-up need for housing, together with low interest rates and more favourable economic growth, has already affected house prices and is expected to stimulate housing investment. Public sector investment is also expected to continue increasing, although at a slightly slower rate than in 2009. Several large infrastructure projects are still under way. Business sector investment is expected to fall further in 2010, although the fall will be much slower than in 2009. There will still be ample spare capacity in companies in Sweden and business sector investment will not increase again until 2011.

Exports are expected to have fallen by a good 12 per cent in 2009. However, as economic growth abroad improves, Swedish exports will increase. In relation to the export market, which is expected to grow by almost 7 per cent in 2010 and slightly more strongly in 2011 and 2012, Swedish exports will increase slightly more slowly. This is primarily explained by a stronger Swedish krona. Imports have also fallen substantially in 2009, but will increase in the future when both domestic demand and exports show stronger growth.

■■ Resource utilisation will remain lower than normal during the forecast period

Monetary policy aims to hold inflation close to the inflation target of 2 per cent, at the same time as attaching importance to stabilising the real economy. The Riksbank uses a number of different indicators and statistical methods to assess how resource utilisation will develop over the next few years. One such indicator is the National Institute of Economic Research's business tendency survey, which show s that capacity utilisation and labour shortages are currently low in the business sector. The levels of GDP, employment and the number of hours worked are also low in relation to their estimated long-term trends. The Riksbank's assessment is that the long-term levels of production and employment have been negatively affected by the financial crisis and by the economic downturn. The fall in resource utilisation will therefore not be as substantial as the decline in production would otherwise indicate. These assessments are of course very uncertain. Although the forecasts for the labour market have been revised upwards slightly compared with October, the overall picture indicates that resource utilisation is much lower than normal and will remain so for most of the forecast period.

■■ Slightly slower deterioration in the labour market in 2010

The number of employed is expected to fall by just over 100,000 persons in 2009, while unemployment will rise by 2.3 percentage points. The deterioration in the labour market, in the form of a decline in employment and a rise in unemployment, will continue next year. The indicators point to the demand for labour continuing to decline for a further period to come, for example, companies responding to the National Institute of Economic Research's business tendency survey state that they still need to downsize their staff and the number of newly-registered job vacancies at the Swedish employment offices remains low. At the same time, the number of hours worked does not appear to be declining at the rate that was previously forecast. This means that the assessment of the effects of the recession on the labour market has been revised in relation to that in the Monetary Policy Report published in October. The deterioration is expected to be slightly slower and the recovery will thus be from slightly higher levels of employment. Unemployment will rise at most to 10.3 per cent of the labour force at the end of 2010, which is 0.2 of a percentage point lower than was forecast in October.

■■ Fiscal policy normal given the economic situation

General government net lending has long been positive since 2004, but during 2009 and 2010 it will weaken substantially. The main reason for this is that weak economic activity will reduce public revenues at the same time as expenditure will increase partly as a result of the rise in unemployment. General government net lending will fall, at most, to -2.2 per cent of GDP in

2010. Since October the forecasts for public finances have been adjusted upwards slightly as a result of the somewhat better prospects for GDP and the labour market.

■■ Labour market situation leads to low wage increases in coming years

Next year a good 550 collective wage agreements, which cover a total of around 3.3 million employees, will be renegotiated in the labour market. The wage bargaining rounds will take place in a situation where the labour market is deteriorating, company profits are low and productivity has fallen for almost three years in a row. Moreover, the social partners' expectations of future wage increases have been stable around a relatively low level, according to Prospera. According to the short-term wage statistics, wages are expected to increase by an average rate of around 2.5 per cent a year during the period 2010-2012. During the same period, growth in productivity is expected to be around 2.9 per cent a year on average, which means that unit labour costs will fall.

■■ CPIF inflation close to 2 per cent at the end of the forecast period

The weak labour market will contribute to inflationary pressure being low over the coming years. CPI inflation is expected to become positive in December, and then to rise weakly during the first half of 2010. After this the CPI is expected to increase more rapidly as mortgage rates rise in connection with the repo rate increases that will begin during the latter part of 2010. CPI inflation will at most amount to over 3.5 per cent at the beginning of 2012. Inflation measured in terms of the CPIF, which is not directly affected by changes in households' mortgage rates, is currently at just over 2 per cent and is expected to continue rising in December. During 2010 CPIF inflation is expected to fall back to a lowest level of just below 1 per cent and then to rise moderately in 2011 and 2012. CPIF inflation is on average expected to be around 1.5 per cent in 2011 and around 2 per cent in 2012.

The forecast for CPIF inflation has therefore been revised down compared with the assessment in the October Monetary Policy Report. This is partly because inflation abroad is expected to be lower and the exchange rate to be stronger, which will contribute to import prices increasing more slowly. Moreover, rent agreements in 2010 are expected to be low and to hold back inflation. The downward revision in the inflation forecast is to some extent counteracted by a faster upturn in oil prices during the forecast period.

■■ Repo rate

The forecasts in this Update are based on the repo rate being held unchanged at 0.25 per cent until autumn 2010. After that the repo rate will be raised to more normal levels to hold inflation in line with the target of 2 per cent. The forecast for the repo rate is unchanged in relation to the October Monetary Policy Report.

The recovery from the severe recession will continue, in line with the previous forecast. The financial markets are improving all the time and the measures taken by central banks and public authorities are having an effect. Developments in the Swedish labour market do not appear quite so weak as forecast in October. At the same time, the forecast is that lower rents, lower inflation abroad and a stronger krona will lead to lower inflationary pressures.

Since the Monetary Policy Report was published in July, the Riksbank's forecasts for resource utilisation have been gradually revised upwards. In terms of unemployment, this means that

the rise in unemployment is now expected to be almost one percentage point less than was forecast in July. At the same time, the inflation forecast for 2010 and 2011 has been revised down by around half a percentage point. All in all, the Riksbank's assessment is therefore that it is appropriate to hold the repo rate at a low level over a long period of time.
The monetary policy stance takes into account not only inflation, but also resource utilisation. The recovery in the economy is from a low level and there will be ample spare capacity over the coming years. The low resource utilisation is expected to hold back wage increases and inflationary pressure is expected to be low during the forecast period. Resource utilisation will begin to rise in 2011, but despite the very expansionary monetary policy will be lower than normal for most of the forecast period. The assessment made in the October Report still stands; that the repo rate needs to be low over a long period of time to enable a stable development of the economy and for inflation to be close to the target of 2 per cent.

The large changes in the repo rate affect mortgage rates, which are included in the consumer price index (CPI). There will thus be large fluctuations in the CPI in the future. A better picture of underlying inflation is given by CPIF inflation, where mortgage rates are held constant. CPIF inflation will show a more stable development and lie close to 2 per cent at the end of the forecast period. In the longer term, the rates of increase in the CPIF and the CPI coincide as the repo rate stabilises at a more normal level.

New information since the October Monetary Policy Report

- The financial markets in Sweden and abroad are continuing to improve. One sign of this is that the various risk premiums on the interbank and credit markets have fallen slightly further since the Monetary Policy Report was published in October. The levels of most risk premiums now appear to have stabilised within what can be regarded as normal intervals, from an historical point of view. There are still good opportunities for various market participants to acquire longer-term funding through the securities market. Moreover, the Riksbank's risk survey shows that access to funding without government support has increased.

- Since the Riksbank's Monetary Policy Report was published in October an increasing number of central banks have begun to announce or discuss an appropriate timetable for how and when the extraordinary measures will be phased out. This is because the financial markets are functioning better and the demand for the measures has thus declined. During the period the Riksbank announced, for instance, that the dollar loans would be terminated, as the market for dollar funding is functioning better and there is no longer any demand for these loans. The central banks in Australia and Norway have raised their policy rates during this period. A number of central banks, such as the ECB, the Bank of England and the Federal Reserve have held their policy rates unchanged, however. Both survey results and implied forward rate curves indicate that market participants' monetary policy expectations in these countries have fallen somewhat since October. In Sweden, too, monetary policy expectations have shown a slight downswing since the previous monetary policy meeting.

- The world economy has continued to improve during the autumn. The strong development in Asia has continued, although growt in Japan was surprisingly low in the third quarter. It is primarily China's increasing domestic demand and imports that are stimulating growth in the region. Exports from Asia to the rest of the world are also increasing. GDP growth was strong in the third quarter, not only in China but also in, for instance, Korea and Singapore. Brazil and India are also showing clear signs of a recovery.

- World trade is continuing to recover after the heavy fall at the beginning of the year. The total trade volume measured in terms of the World trade monitor index rose by more than five per cent in September, compared with the previous month. The trade volume is now much higher than at the start of the year.

- According to preliminary statistics, GDP in the United States rose by 2.8 per cent in the third quarter, calculated as an annual rate, which was in line with the forecast made in October. This was the first quarter with positive GDP growth since the second quarter of 2008. The measures to stimulate purchases of cars and housing appear to have played a decisive role for GDP growth. GDP growth excluding motor vehicle production was only 1.3 per cent in the third quarter. At the same time, investment in housing contributed approximately one third of GDP growth during the quarter.

- Employment and the number of hours worked in the US economy have continued to decline, albeit at a slower rate. The number of employed fell by 111,000 persons in October and by 11,000 in November. Unemployment rose to 10.2 per cent in October and then fell back 10.0 per cent in November, as a result of labour force participation declining.

- US house prices have risen slightly according to the Case-Shillers index, and increased house sales have reduced the stock of unsold houses somewhat. However, there is considerable uncertainty in the housing market. One contributory cause is that the remaining stocks are still relatively large, given the current rate of sale in the housing market. Another is that the share of borrowers with payment problems is still increasing.

- GDP in the euro area rose by 1.5 per cent calculated as an annual rate in the third quarter. The outcome was in line with the assessment in the October Monetary Policy Report. The euro area has thus as expected left the recession phase. Spain was the only one of the four largest euro countries to show a continued fall in GDP compared with the second quarter of this year.

- The confidence indicators for the euro area have continued to rise in recent months. For example, the total purchasing managers' index for the euro area rose to 53.7 in November, which is the highest level since November 2007. The labour market has continued to deteriorate, however, and unemployment has continued to rise at roughly the same rate as in the past six months. In October unemployment was 9.8 per cent.

- Inflation in the euro area has been negative during the summer and the autumn. According to preliminary statistics, however, inflation rose to 0.6 per cent in November. In the United States, inflation measured as an annual percentage change has been negative since last spring, but the monthly change in the CPI has been positive since May. The annual rate of change in the CPI was -0.2 per cent in October.

- The foreign exchange market has been relatively stable recently. The krona has weakened by approximately 1.5 per cent in trade-weighted terms (the TCW index) since the Monetary Policy Report was published in October. This depreciation is largely explained by the development of the krona against the euro, which has a large weight in the TCW index.

- GDP in Sweden rose in the third quarter by 0.7 per cent, calculated as an annual rate (seasonally-adjusted). Compared with the third quarter of 2008, GDP fell by 5.0 per cent (calendar-adjusted). Compared with the Riksbank's forecast in October, the outcome for the third quarter was slightly weaker than expected. When the National Accounts for the third quarter were published, however, the figures for developments during the first two quarters of the year were also revised upwards. As a result of the revisions in the two first quarters of the year developments in relation to the corresponding quarters last year are in line with the forecast made in October. The outcome for household consumption and fixed gross investment, on the other hand, was stronger than expected in the third quarter. Foreign trade was also slightly stronger than expected. Compared with the third quarter of 2008, both exports and imports fell, but less than before. Companies also continued to reduce their stocks, which provided a negative contribution to GDP growth.

- Information from economic tendency surveys up to the end of November implies that the recovery has continued. The National Institute of Economic Research's business tendency survey for November shows that the situation in the construction and manufacturing industries is still weak, but that it has improved somewhat in recent months. There have previously been reports from retail trade and private service industries earlier this autumn indicating a relatively good development. This has been reinforced in recent months. Households' confidence indicators have also continued to rise and are now above an historical average for the period 1993-2009. Data for industrial production and export orders up to the end of October point to a turnaround, but there is no sign yet of a stable upturn. For example, industrial production fell between September and October. The development of indicators in Sweden in recent months coincides to a great extent with the corresponding international indicators.

- Household borrowing has continued to rise, according to statistics covering the period up to the end of October 2009. The main explanation is that the historically-low interest rates have contributed to an increased demand for credit. The responses to the National Institute of Economic Research's economic tendency survey show an increasing number of companies stating that access to funding has improved. However, financial market statistics extending to the end of October show that companies have reduced their borrowing from Swedish credit institutions. The main explanation for this is probably that companies have a lower investment need than before. Another plausible explanation is that large companies have chosen to fund themselves via the securities market to a greater extent than before.

- According to Mäklarstatistik (estate agents' statistics) for the period August to October this year, the annual percentage change in prices was 16 per cent for tenant-owned apartments and 6 per cent for houses. However, prices fell by 1 per cent in November, compared with the previous month. Statistics Sweden's house price survey shows that house prices have risen by around one per cent during the period August-October 2009, compared with the same period last year. According to Mäklarstatistik the price rise for houses has been much higher in metropolitan areas than in other parts of the country. In recent years, house prices have varied more in metropolitan areas than in the rest of Sweden.

- Household consumption showed a slightly stronger development than expected in the third quarter. According to the outcome of the economic tendency survey until the end of November, households have become increasingly optimistic with regard to both their own finances and the Swedish economy. Households' disposable incomes also increased relatively rapidly in the third quarter. The increasing optimism, the rising incomes and the fact that household saving is high contribute to the expectation that consumption will continue to rise.

- Public sector consumption has been stronger than expected. It is now expected to increase by 2.7 per cent in 2009, compared with 1.5 per cent in the October Monetary Policy Report. Despite the higher consumption, public sector saving now looks to become slightly less negative than expected, which is explained by various tax incomes, such as payroll tax and VAT, having shown stronger growth than expected.

- The number of unemployed declined at a somewhat slower rate in September and October than was assumed in the October Monetary Policy Report. The number of unemployed has been fewer than expected. Unemployment as a percentage of the labour force was 8.9 per cent in October (the Riksbank's seasonal adjustment). Labour market indicators point to a continued weakening, but at a slightly slower rate than forecast in the Monetary Policy Report. In recent months the decline in the number of new job vacancies registered has levelled off. Moreover, the number of persons given notice of redundancy is now back at roughly the same levels as prior to the worsening of the financial crisis in autumn 2008. According to the National Institute of Economic Research's business tendency survey for November, companies are expecting continued cutbacks in staff over the coming months, but the percentage of companies planning to reduce their number of staff has declined.

- The decline in the number of hours worked slowed down during the third quarter, according to the National Accounts. Compared with the third quarter of 2008, the number of hours fell by 2.1 per cent, which was much less than the Riksbank was anticipating in the October Monetary Policy Report.

- Since October, preliminary wage outcomes according to the short-term wage statistics from the National Mediation Office have been published for August and September. The outcome for the whole economy in these months was 3.2 per cent and 3.1 per cent respectively as an annual percentage change. The preliminary wage increases have so far this year been around

0.8 percentage points higher in the public sector than in the business sector. For 2009 wages in the whole economy are expected to increase by 3.4 per cent, which is in line with the assessment in the October Report.

- Since the Monetary Policy Report was published, payroll expenses for the third quarter of this year have been published by the National Accounts. Hourly wages and labour costs per hour in the whole economy increased by 2.4 per cent and 2.0 per cent respectively as an annual percentage change during the third quarter according to the National Accounts. This was lower than predicted in the October Monetary Policy Report. Productivity in the economy as a whole continued to fall during the third quarter of this year, compared with the third quarter of 2008. This means that productivity has now fallen for 11 quarters in a row, measured as an annual percentage change. Weaker than expected productivity during the third quarter means that unit labour costs increased by around 5 per cent as an annual percentage change, which was in line with the Riksbank's assessment in October.

- Households' inflation expectations one year ahead rose from 1.9 per cent in October to 2.0 per cent in November, according to the National Institute of Economic Research's Consumer Tendency Survey. Prospera's survey published in November also showed a slight rise in inflation expectations one and two years ahead among all participants, but unchanged expectations five years ahead. Prospera's December survey, which only included money and bond market participants, showed slightly lower inflation expectations compared with the previous survey. Inflation expectations one year ahead are unchanged at 1.3 per cent, and at two and five years ahead they are revised down, at 2.1 per cent and 2.2 per cent respectively. Breakeven inflation, that is, the difference between nominal and real bond rates with a five-year maturity, has fallen since the Monetary Policy Report was published in October, and is now around 1.8 per cent.

- New outcomes for the CPI in October and November have been published since the October Monetary Policy Report was compiled. The annual percentage change in the CPI amounted to -0.7 per cent in November, which was 0.3 of a percentage point higher than expected in October. The forecasting error was mainly due to an unexpectedly high rate of change in energy prices, but also to food prices being slightly higher than expected.

- Prices of oil products in CPI are rising now, measured as an annual percentage change, for the first time since October 2008. However, electricity prices measured as an annual percentage change have fallen in recent months. In total, energy prices in the CPI have continued to fall, but they fell slightly less than expected in November. During the forecast period, oil price futures have risen by an average of around 10 dollars per barrel since the Monetary Policy Report was published in October.

- Consumer prices of goods (excluding energy and food) and services rose by 1.6 per cent and 2.8 per cent respectively in November, calculated as an annual percentage change. The annual percentage change in the CPIF, where the interest rate is held constant, amounted to 2.3 per cent in November, which was 0.3 percentage points higher than expected in the Report. The CPIF excluding energy rose by 2.4 per cent, which was in line with the forecast made in October.

Tables

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

Table 1. Repo rate forecast
Per cent, quarterly average values

	Q2 2009	Q3 2009	Q4 2009	Q4 2010	Q4 2011	Q4 2012
Repo rate	0.6	0.3	0.3 (0.3)	0.4 (0.4)	2.4 (2.4)	4.1 (4.1)

Source: The Riksbank

Table 2. Inflation, annual average
Annual percentage change

	2008	2009	2010	2011	2012
CPI	3.4	-0.3 (-0.4)	0.8 (0.9)	3.0 (3.3)	3.6 (3.7)
CPIF	2.7	1.9 (1.8)	1.2 (1.3)	1.5 (1.9)	1.9 (2.1)
CPIF excl. energy	2.0	2.3 (2.3)	1.3 (1.6)	1.4 (1.7)	1.8 (2.0)
HICP	3.3	1.9 (1.8)	1.1 (1.2)	1.4 (1.8)	1.9 (2.0)

Note. CPIF is CPI with fixed interest rate.
Sources: Statistics Sweden and the Riksbank

Table 3. Inflation, 12-month average
Annual percentage change

	Dec. -08	Dec. -09	Dec. -10	Dec. -11	Dec. -12
CPI	0.9	0.6 (0.4)	1.5 (1.9)	3.7 (4.0)	3.3 (3.3)
CPIF	1.6	2.4 (2.1)	1.1 (1.6)	1.7 (2.0)	2.1 (2.2)
CPIF excl. energy	1.7	2.3 (2.2)	1.0 (1.5)	1.5 (1.8)	2.0 (2.1)
HICP	2.1	2.4 (2.2)	1.0 (1.5)	1.6 (1.9)	2.0 (2.1)

Note. CPIF is CPI with fixed interest rate.
Sources: Statistics Sweden and the Riksbank

Table 4. Summary of financial forecasts
Annual average, per cent, unless otherwise specified

	2008	2009	2010	2011	2012
Repo rate	4.1	0.7 (0.7)	0.3 (0.3)	1.6 (1.6)	3.6 (3.6)
10-year rate	3.9	3.2 (3.3)	3.7 (3.9)	4.2 (4.5)	4.7 (4.9)
Exchange rate, TCW-index, 1992-11-18=100	127.2	140.0 (139.7)	129.0 (129.6)	127.1 (128.3)	127.3 (128.2)
General government net lending*	2.5	-1.9 (-2.2)	-2.2 (-2.5)	-0.8 (-1.0)	0.5 (0.2)

* Per cent of GDP
Sources: Statistics Sweden and the Riksbank

Table 5. International conditions
Annual percentage change

GDP	2008	2009	2010	2011	2012
Euro area	0.6	-3.9 (-4.0)	1.3 (1.0)	1.7 (1.7)	2.3 (2.3)
USA	0.4	-2.6 (-2.6)	2.4 (2.4)	3.3 (3.3)	2.7 (2.9)
Japan	-0.7	-5.9 (-5.9)	0.8 (1.2)	2.0 (2.0)	1.8 (1.8)
OECD	0.6	-3.5 (-3.6)	1.9 (1.8)	2.7 (2.6)	2.6 (2.7)
TCW-weighted	0.5	-3.7 (-3.8)	1.4 (1.1)	2.1 (2.0)	2.3 (2.3)
World	3.2	-0.9 (-1.0)	3.4 (3.3)	4.2 (4.2)	4.3 (4.4)

KPI	2008	2009	2010	2011	2012
Euro area (HICP)	3.3	0.3 (0.4)	1.2 (1.2)	1.4 (1.7)	1.8 (2.0)
USA	3.8	-0.5 (-0.5)	1.9 (1.8)	2.0 (2.0)	2.2 (2.1)
Japan	1.4	-1.3 (-1.3)	-0.9 (-0.7)	0.0 (0.5)	0.5 (0.5)
TCW-weighted	3.2	0.5 (0.5)	1.3 (1.3)	1.5 (1.7)	1.9 (2.0)

	2008	2009	2010	2011	2012
Crude oil price, USD/barrel Brent	97	62 (60)	81 (74)	87 (78)	89 (80)
Swedish export market	0.7	-14.5 (-9.2)	6.9 (5.7)	7.9 (7.8)	8.2 (8.3)

Note. The Swedish export market is calculated by weighing together imports in the 15 countries that receive Swedish exports. Approximately 70 per cent of Swedish exports go to these countries. The weights are determined by the respective country's share of Swedish goods exports.
Sources: Eurostat, IMF, Intercontinental Exchange, OECD and the Riksbank

Table 6. GDP by expenditure
Annual percentage change, unless otherwise specified

	2008	2009	2010	2011	2012
Private consumption	-0.2	-0.5 (-0.7)	2.8 (2.0)	2.2 (2.1)	2.1 (2.2)
Public consumption	1.5	2.7 (1.5)	1.6 (0.6)	0.6 (0.6)	1.1 (1.1)
Gross fixed capital formation	2.7	-13.9 (-17.3)	1.7 (-1.8)	5.6 (5.7)	6.6 (6.9)
Inventory investment*	-0.6	-1.7 (-1.4)	1.1 (1.1)	0.5 (0.2)	0.1 (0.1)
Exports	1.8	-12.3 (-12.8)	6.3 (4.6)	7.0 (7.3)	7.8 (8.2)
Imports	3.0	-13.1 (-15.0)	8.6 (4.1)	6.4 (6.2)	7.0 (7.4)
GDP	-0.2	-4.5 (-4.6)	2.7 (2.5)	3.4 (3.4)	3.5 (3.7)
GDP, calendar-adjusted	-0.5	-4.3 (-4.4)	2.5 (2.2)	3.4 (3.4)	3.5 (3.7)
Final figure for domestic demand*	0.8	-2.2 (-3.3)	2.1 (0.9)	2.2 (2.1)	2.5 (2.5)
Net exports*	-0.4	-0.5 (0.1)	-0.5 (0.6)	0.7 (1.1)	0.9 (1.1)
Current account (NA), per cent of GDP	9.6	7.3 (7.6)	6.5 (7.7)	6.8 (8.3)	7.2 (8.7)

*Contribution to GDP growth, percentage points
Note. The figures show actual growth rates that have not been calendar-adjusted, unless otherwise stated.
Sources: Statistics Sweden and the Riksbank

Table 7. Production and employment
Annual percentage change, unless otherwise stated

	2008	2009	2010	2011	2012
Population, aged 16-64	0.8	0.6 (0.6)	0.3 (0.3)	0.2 (0.2)	-0.1 (-0.1)
GDP, calendar-adjusted	-0.5	-4.3 (-4.4)	2.5 (2.2)	3.4 (3.4)	3.5 (3.7)
Number of hours worked, calendar-adjusted	0.9	-2.5 (-3.0)	-1.3 (-1.7)	0.6 (0.6)	1.2 (1.3)
Employed, aged 15-74	1.2	-2.2 (-2.4)	-2.1 (-2.6)	-0.1 (-0.1)	1.1 (1.2)
Labour force, aged 15-74	1.3	0.1 (0.0)	-0.3 (-0.6)	-0.1 (-0.2)	0.3 (0.3)
Unemployment, aged 15-74*	6.2	8.5 (8.5)	10.1 (10.3)	10.0 (10.3)	9.3 (9.4)

* Per cent of labour force
Sources: Employment Service, Statistics Sweden and the Riksbank

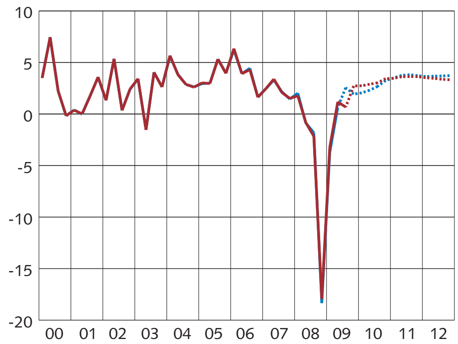
Table 8. Wages and unit labour cost for the economy as a whole
Annual percentage change, calendar-adjusted data

	2008	2009	2010	2011	2012
Hourly wage, NMO	4.3	3.4 (3.4)	2.2 (2.2)	2.3 (2.4)	2.8 (2.9)
Hourly wage, NA	4.8	3.3 (3.8)	2.2 (2.1)	2.5 (2.6)	3.1 (3.2)
Employer's contribution*	-0.5	-0.5 (-0.5)	-0.1 (0.1)	0.1 (0.1)	0.1 (0.1)
Hourly labour cost, NA	4.3	2.8 (3.3)	2.1 (2.2)	2.6 (2.6)	3.1 (3.2)
Productivity	-1.4	-1.9 (-1.4)	3.8 (4.0)	2.8 (2.8)	2.3 (2.3)
Unit labour cost	5.8	4.8 (4.8)	-1.6 (-1.7)	-0.3 (-0.1)	0.8 (0.9)

* Contribution to the increase in labour costs, percentage points.
Note. NMO is the National Mediation Offi ce'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

Figures

Figure 5. GDP
Quarterly changes in per cent calculated in annualised terms, seasonally-adjusted data

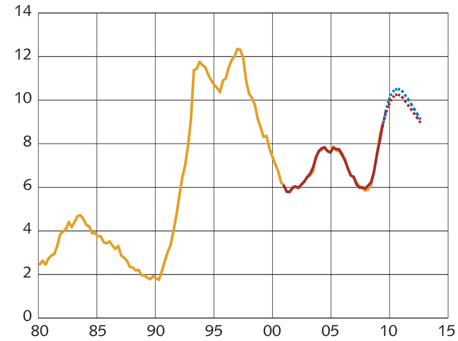


December
October

Note. Broken lines represent the Riksbank's forecast.

Sources: Statistics Sweden and the Riksbank

Figure 6. Unemployment
Percentage of the labour force, seasonally-adjusted data



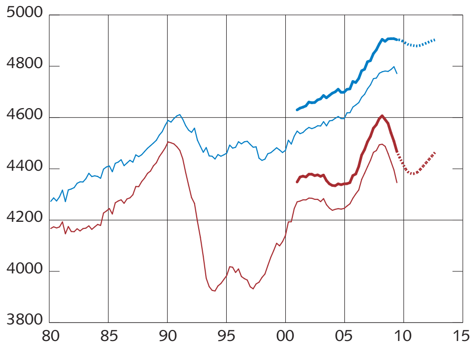
Unemployed 15-74 years
Unemployed 16-64 years
December
October

Note. Pre-1993 data has been spliced by the Riksbank.

Broken lines represent the Riksbank's forecast.

Sources: Statistics Sweden and the Riksbank

Figure 7. Labour force and number of employed
Thousands, seasonally-adjusted data



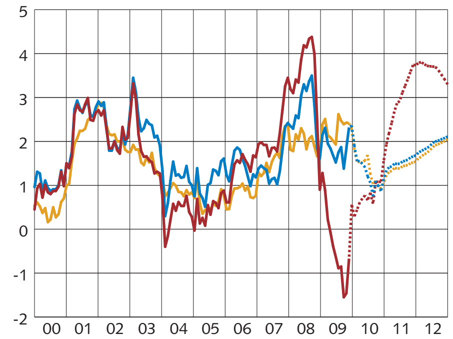
Employed 16-64 years
Employed 15-74 years
Labour force 16-64 years
Labour force 15-74 years

Note. Pre-1993 data has been spliced by the Riksbank.

Broken lines represent the Riksbank's forecast, 15-74 year.

Sources: Statistics Sweden and the Riksbank

Figure 8. CPI, CPIF and CPIF excluding energy
Annual percentage change

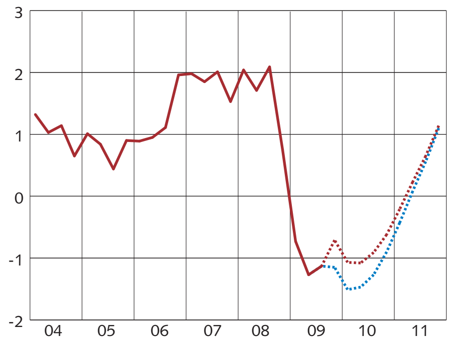


CPI
CPIF
CPIF excluding energy

Note. CPIF is CPI with fixed interest rate. Broken lines represent the Riksbank's forecast.

Sources: Statistics Sweden and the Riksbank

Figure 9. Real repo rate
Per cent, quarterly averages

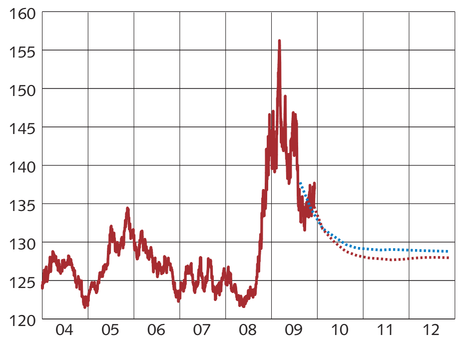


December
October

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. Broken lines represent the Riksbank's forecast.

Source: The Riksbank

Figure 10. TCW-weighted exchange rate
Index, 18.11.92 = 100

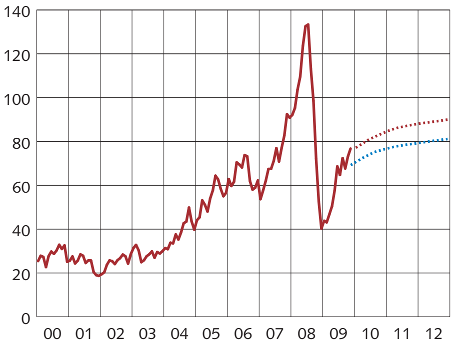


December
October

Note. Outcome data are daily rates up to 10th of December 2009 and the forecasts are quarterly averages. Broken lines represent the Riksbank's forecast.

Source: The Riksbank

Figure 11. Oil price, Brent crude
USD per barrel

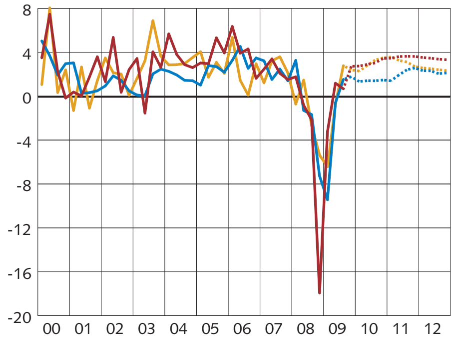


Oil price, outcome
Futures, average up to and including 10 December
Futures, October

Note. Futures are calculated as a 15-day average. Outcomes represent monthly averages of spot prices.

Sources: Intercontinental Exchange and the Riksbank

Figure 12. Development of GDP in different regions and countries
Quarterly changes in per cent calculated in annualised terms, seasonally adjusted data

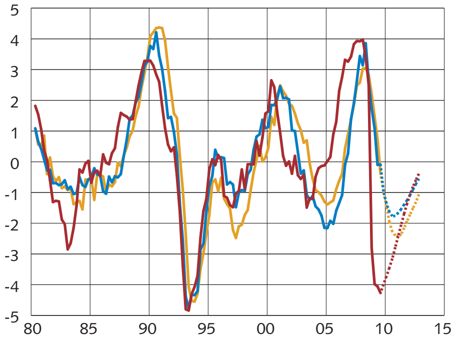


Sweden
Euro area
USA

Note. Broken lines represent the Riksbank's forecast.

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

Figure 13. Estimated gaps
Percentage deviation from the HP trend



GDP
Hours worked
Employment

Note. These gaps should not necessarily be interpreted as the Riksbank's overall assessment of resource utilisation. Broken lines represent the Riksbank's forecast.

Sources: Statistics Sweden and the Riksbank