



# Monetary Policy Update

## September 2010

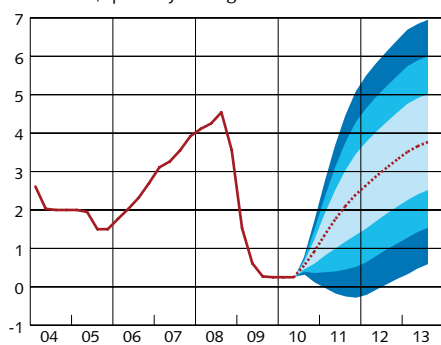
The recovery of the Swedish economy is now proceeding more rapidly than expected. Above all, investments and exports are increasing rapidly. GDP is expected to increase by approximately 4 per cent this year and by 3.5 per cent in 2011. The strong development of the Swedish economy is also reflected by labour market statistics. Employment has been increasing and unemployment decreasing for some time.

The upswing of economic activity in the United States has slowed down and now looks likely to take longer than was previously expected. Despite this, the assessment continues to be that the situation in the international economy is gradually improving. Among other factors, this scenario is suggested by the comprehensive economic policy measures adopted by central banks and governments, and the existing preparedness for further stimuli. In addition, the emerging economies of Asia are continuing to grow rapidly.

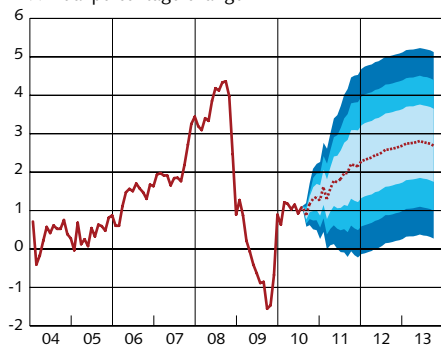
Resource utilisation in the Swedish economy is still low, but is expected to increase successively towards more normal levels over the coming years. Underlying inflation measured as the CPIF is expected to decrease slightly during 2010 before increasing to reach 2 per cent by the start of 2013. Increases of the repo rate will result in mortgage rate increases, pushing up CPI inflation. CPI inflation will temporarily exceed the target of 2 per cent during 2012 and 2013. Over the longer term, once the repo rate has reached a more normal level, CPI inflation is also expected to be approximately 2 per cent.

To manage the inflation target of 2 per cent and, at the same time, have a stable growth in the real economy, the Riksbank's assessment is that it is appropriate to continue the normalisation of monetary policy that was initiated in the summer. Consequently, the repo rate is now being increased to 0.75 per cent. The presently low level of resource utilisation justifies maintaining the repo rate at a comparatively low level for some time yet. When resource utilisation increases, the repo rate will gradually be increased to more normal levels. The forecast for the repo rate made in this update is unchanged in relation to the Monetary Policy Report published in July.

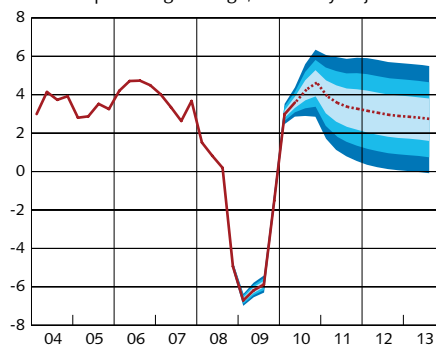
**Figure 1. Repo rate with uncertainty bands**  
Per cent, quarterly averages



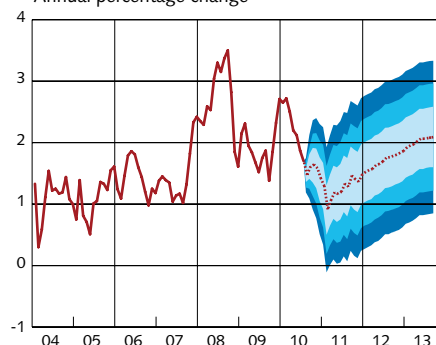
**Figure 3. CPI with uncertainty bands**  
Annual percentage change



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



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



— 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.

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 July and the update to the forecasts presented in this Monetary Policy Update. The forecasts assume that the repo rate will now be raised by 0.25 percentage points to 0.75 per cent, and that, following this, it will successively be raised to more normal levels.

## ■■ Recovery in the global economy continuing but is still uncertain

The situation in the world economy is continuing to improve, even if uncertainty remains over the strength of the recovery. The unrest concerning central government finances in southern Europe that was discussed in the early summer has not dissipated, but the risk that this unrest will lead to serious problems for European banks is deemed to be minor. On the other hand, the risk of slower growth in the United States has increased.

Over the coming three years, the world economy is expected to grow by an average of 4 per cent per year, which is above the historical average, but marginally lower than was assumed in the most recent Monetary Policy Report. The emerging economies of Asia are continuing to grow rapidly. For some time, certain countries, including China, have been showing strong growth and rising inflationary pressures, and, consequently, a tighter economic policy has been introduced. The slowdown recently observed in Asia has therefore largely been expected and is in line with previous forecasts. However, the recent weak development in Japan may indicate that the slowdown in Asia may be more marked than our present assessment.

The recovery is continuing in the United States, although there are signs that this will happen at a somewhat slower rate in the years ahead. Revised national accounts statistics indicate that households have consumed less and saved more than was indicated by previous figures. The relatively firm growth at the start of the year was largely a consequence of stock changes, while domestic demand was weaker than expected. Recent statistics regarding the development of the labour and housing markets also confirm the picture of a slowdown in growth. Growth forecasts for this year and next year have therefore been revised downwards. The lower level of resource utilisation has also led to a downward revision of inflation over the coming years. Consumer prices have fallen in recent months, leading a number of analysts to warn of deflation. However, the Riksbank's assessment is that the threat of deflation in the US economy is so far minor. This assessment is justified by positive growth, rising wages and other indicators. Inflation is expected to decrease slightly over the short term before increasing to approximately 2 per cent by the end of the forecast period.

There remains uncertainty in the euro area regarding the consequences of the sovereign debt problems and tighter fiscal policy for demand in the economy. However, the financial market turmoil has eased. One of the reasons for the dampening of the turmoil is the stress tests of banks conducted by the CEBS and ECB during the summer. However, it cannot be ruled out that renewed concern over public finance problems may once again arise.

The GDP of the euro area increased unexpectedly rapidly during the second quarter, primarily due to strong growth in Germany. Strong increases in exports and investment contributed greatly towards the rapid growth, but household consumption also showed signs of recovery. The upswing is deemed to be of a partly temporary nature and growth is not expected to be as strong during the present quarter. Growth has been revised upward slightly over the short term, at the same time as it has been revised downward slightly over the long term, due to weaker development, primarily in the United States. Even so, all in all, these forecast revisions are minor. The low level of resource utilisation in the euro area means that inflationary pressures are expected

to be weak in the period ahead. Inflation is expected to decrease slightly over the coming year before rising again to approximately 1.5 per cent by the end of the forecast period. The inflation forecast for next year has been revised upward slightly due to a slightly weaker euro, among other factors. Inflation is also deemed to be higher than expected in the United Kingdom next year, among other reasons due to the increase of VAT at the start of 2011.

All in all, these recent developments have led to the downward revision of growth forecasts in the United States and Japan. In contrast, growth prospects in the euro area remain largely unchanged compared with July's forecast, even if a certain upward revision has been made over the short term, primarily due to stronger growth than expected during the second quarter.

### ■ ■ Growth prospects favourable in Sweden

The global economic downturn of 2008 and 2009 impacted severely on the export-dependent Swedish economy. Now that world trade is picking up, Sweden's economy is expected to grow more rapidly than those of many other countries in the years ahead. Another reason for the rapid growth of the Swedish economy is the relatively strong state of the public sector finances, which means that Sweden, unlike many other countries, will not have to implement any fiscal policy tightening. This suggests that, in the period ahead, the Swedish economy will grow more rapidly than those of the euro area or the United States, for example.

Strong confidence among both households and companies is expected to keep domestic demand up over the coming years. Swedish GDP growth is expected to amount to approximately 4 per cent in 2010, before increasing at a slower rate. The strong upturn in GDP this year is also connected with the build-up of stocks by companies now that production has started to increase.

By mid 2011, this rapid growth in Sweden is expected to lead to GDP returning to the same level as prevailed at the end of 2007, before GDP started to decline.

### ■ ■ Consumption, investment and exports are growing

The financial crisis primarily impacted the Swedish economy through the reduction of demand from overseas. On the other hand, household consumption did not decline as strongly as exports and investments. It is a normal pattern for households to attempt to spread their consumption evenly over time. Unlike total production (GDP), consumption has already risen to approximately the same level as prevailed before the financial crisis. Households are optimistic and their saving has been initially high, meaning that they can be expected to continue increasing consumption rapidly in the period ahead. Households' disposable incomes are also expected to increase as the labour market situation improves. This year consumption is expected to increase by just over 3 per cent, to then increase by around 2 per cent a year over the remaining part of the forecast period.

Growth in public sector consumption is expected to slow down during the forecast period. The public sector financial balance weakened significantly more than expected during the global economic slowdown of 2008 and 2009, declining to a low point of -1.0 per cent of GDP in 2009. This is a modest deterioration of public finances compared to the development of public sector finances in most other OECD countries during the same period. Public sector finances are expected to return to balance again during 2010. Saving is expected to increase to over 1 per cent of GDP in 2012.

Total investments are expected to increase ever more rapidly in the period ahead, at the same rate as demand from overseas and exports pick up. Business sector investment will increase as

capacity utilisation increases in the manufacturing sector. At the same time, housing investments will also continue to increase. This is due to low interest rates and high demand in relation to the supply of housing. In contrast, public investments, which were very high in 2009, are expected to be dampened in the period ahead. Investments' share of GDP will increase during the forecast period, albeit from a low level.

Foreign trade is expected to increase strongly during the forecast period. Average growth on the Swedish export market will be 8 per cent per year during the forecast period, and Swedish exports are expected to increase in line with this figure. Imports are also expected to increase against the background of rising domestic demand and exports. The Swedish krona has strengthened marginally more than was expected in July's forecast. This stronger growth and the tighter monetary policy conducted in Sweden when compared with our most important trading partners, implies that, in the period ahead, the Swedish krona can be expected to strengthen at a slightly more rapid rate than previously assumed.

### ■■ Recovery on the labour market

The recovery of the labour market is taking place at a faster rate than forecast. Unemployment is expected to decrease at the same time as employment and the number of hours worked show a rapid increase. Compared with the forecast made in July, both employment and hours worked will increase more rapidly this year. Next year, employment is thus expected to return to the same level as prevailed prior to the crisis.

The labour supply has increased during the crisis, even though employment has fallen. The assessment is that reforms to the pension system, unemployment insurance system and sickness insurance system, together with tax deductions for the employed, have increased the incentives to remain in the labour force. These economic policy measures, together with a better growth in the economy, are expected to lead to the labour supply increasing further during the forecast period.

Unemployment will fall relatively rapidly over the coming quarters, before decreasing at a slower pace. At the end of the forecast period, unemployment is expected to be 7.4 per cent, which is 0.2 percentage points lower than the forecast in the July Monetary Policy Report.

### ■■ Increase in resource utilisation

Monetary policy aims to hold inflation close to the inflation target of 2 per cent, at the same time as attaching importance to stabilising resource utilisation. The Riksbank utilises a number of different indicators and statistical methods in the assessment of resource utilisation, but, as resource utilisation is not directly measurable, these assessments are uncertain. This regards both the current situation and developments further ahead. The recent positive development, with stronger growth of GDP, hours and employment, together with lower unemployment, indicates that current resource utilisation is higher than was assumed in July's Monetary Policy Report.

Resource utilisation will also continue to increase over the coming years. This forecast can be justified by the fact that unemployment is falling and employment rising towards historically more normal levels. Even though unemployment is falling, it will remain at a high level over the entire forecast period. On the other hand, the deviation of GDP, hours worked and employment from long-term trends is being normalised. The overall picture is that resource utilisation is still at a low level, but will have increased to an approximately normal level by the end of the forecast period. Compared with the assessment in July, resource utilisation is now expected to be higher throughout the forecast period.

### ■ ■ Low rate of increase in unit labour costs over coming years

Union-level agreements indicate relatively low wage increases this year, followed by successive increases. According to short-term wage statistics from the National Mediation Office, wages in the economy as a whole are forecast to increase by 2.6 per cent this year, and by 2.7 and 3.1 per cent in 2011 and 2012, respectively. Wage expectations one and two years ahead among the labour market parties have also increased successively since last October, according to Prospera's surveys.

Productivity is once again increasing in Sweden. However, the rate of increase of productivity is expected to slow down slightly during the forecast period, as is normal when the economy has experienced relatively high growth for a period of time. In the years ahead, average productivity growth is expected to be 2.3 per cent, a lower figure than was forecast in July.

The rate of wage increase and productivity growth means that the rate of increase of unit labour costs is deemed to increase gradually during the forecast period, but the rate of increase will be much lower than the historic average over the coming years.

### ■ ■ CPIF to rise to 2 per cent by 2013

The labour market situation is improving and the rate of wage increases will rise over the coming years, which will contribute to the increase of inflationary pressures. CPI inflation is expected to increase from the current level of 1.1 per cent to, at most, just below 3 per cent by mid 2013. The rapid rate of increase of CPI in 2011 is primarily due to the rise of housing costs, following on from the repo rate increases that have now been initiated. On the other hand, CPIF inflation, which is not directly impacted by changes in household mortgage rates, is expected to decline to a level of just under 1 per cent, at lowest, by mid 2011. Following this, CPIF is expected to start to rise at a faster rate during 2011 and 2012, before attaining the target of 2 per cent by the start of 2013.

The forecast for CPIF inflation for 2011 has been revised downward slightly, compared with the forecast in the Monetary Policy Report for July. This is because the exchange rate is expected to be stronger, which will contribute towards the slower increase of import prices, and because energy prices are expected to develop slightly more weakly. The low rate of increase of producer prices thus far this year will also contribute towards restraining inflation during 2010 and early 2011. For the rest of the forecast period, CPIF inflation has been revised upward slightly, primarily due to the lower level of productivity and the stronger labour market.

### ■ ■ Repo rate to increase in tandem with recovery of economic activity

The forecasts in this report are based on an increase of the repo rate to 0.75 per cent. Continued increases of the repo rate towards more normal levels, as economic activity recovers, are assumed in the period ahead.

Although the recovery in the United States now seems to be somewhat weaker and more protracted than was previously expected, the general assumption is that the situation in the international economy will gradually improve during the forecast period. Among other factors, this scenario is suggested by the comprehensive economic policy measures adopted by central banks and governments, as well as the existing preparedness to implement further stimuli, should this become necessary. In addition, the emerging economies of Asia, which were not impacted as severely by the financial crisis, are continuing to grow rapidly.

This improvement of the international economy forms the basis of continued increasing exports and investments in Sweden. There also exist domestic factors that argue for favourable growth in the Swedish economy in the period ahead. Among these factors, optimistic households, with initial high levels of saving, are in a good position to increase their consumption. At the same time, strong public finances will mean that there will be no need to adopt fiscal policy tightening in Sweden. Labour market statistics also emphasise that the Swedish economy is now developing strongly. Employment has been increasing and unemployment decreasing for some time. Compared with July's Monetary Policy Report, the forecasts for Swedish growth have been revised upward in the short term due to both strong outcome and indicators. At the same time, employment is expected to increase more rapidly and the unemployment level to fall.

The overall picture of resource utilisation is that it is still low, but will successively increase towards more normal levels over the coming years. This more rapid growth, in combination with the stronger development of the labour market, means that resource utilisation has been revised upward since July's assessment, and is expected to be approximately normal by the end of the forecast period.

This increasing resource utilisation will have a successive impact on inflation developments. Underlying inflation measured as the CPIF is expected to continue to decrease during 2010, before increasing to reach 2 per cent by the start of 2013. In the short term, inflationary pressures will be low due to the strengthening of the Swedish krona's exchange rate and the decrease of companies' unit labour costs. Increases of the repo rate will result in mortgage rate increases, which are already pushing up CPI inflation. CPI inflation will temporarily exceed the target of 2 per cent during 2012 and 2013. Over the longer term, once the repo rate has reached a more normal level, CPI inflation is also expected to be approximately 2 per cent.

In light of the stronger Swedish krona and lower energy prices, inflation has been revised downward slightly in the short term, compared with the forecast made in July. In the longer term, the forecast is slightly higher, due to the stronger labour market situation, which has impacted the assessment of the development of wages and productivity.

All in all, the revisions of the forecast now being made are minor, and the forecast for the repo rate remains unchanged in relation to the Monetary Policy Report published in July.

To manage the inflation target of 2 per cent and, at the same time, have a stable growth in the real economy, the Riksbank's assessment is that it is appropriate to continue the normalisation of monetary policy that was initiated in the summer. The presently low level of resource utilisation justifies maintaining the repo rate at a lower than normal level for some time yet. When resource utilisation increases, the repo rate will gradually be increased to more normal levels. Another factor is that household indebtedness has increased significantly in recent years.

Another element in the normalisation of monetary policy is that two of the three fixed-interest rate loans granted in 2009 matured during the summer. The maturity of the loans, a total amount of SEK 200 billion, has not entailed any disruption to the functionality of the overnight market or to that of the financial system in general. The last fixed interest-rate loan, for SEK 95 billion, will mature on 6 October.

# ■ New information since the July Monetary Policy Report

## International economic activity

- The global economy is continuing to recover, above all due to strong development in the emerging economies. However, in some areas, primarily the United States, the recovery has slackened.
- In the United States, GDP growth weakened between the first and second quarters. Employment in the private sector has increased slowly and the average period of unemployment has risen at the same time as labour productivity has declined. In the annual review of the national accounts in the United States, it was noted that GDP growth was somewhat weaker in the period 2007-2009 than had previously been reported.
- Household consumption in the United States, which dominates demand, developed weakly during the second quarter. The development of the labour market indicates that consumption will continue to be restrained over the quarters ahead. This is also indicated by a decline in consumer confidence and by new retail-trade statistics.
- Consumption and investment in the United States are also being curbed by a weaker development of the housing market with low sales figures and weak outcomes for forward-looking indicators for the construction and building of housing. In addition, consumer prices have fallen for several months.
- According to the preliminary statistics, GDP in the eurozone was stronger than expected in the July Monetary Policy Report. It is primarily growth in Germany that has pushed up the average for the eurozone. There has been a broadly-based upturn in GDP in Germany with household consumption, investments and exports contributing to the highest level of growth since the reunification of Germany. Exports have also developed strongly in the eurozone as a whole which, together with improved confidence indicators, requires a slight upward revision of the forecast for GDP in the eurozone in the third quarter.
- Unemployment in the eurozone was 10 per cent in July for the fourth consecutive month. Inflation in the eurozone was 1.7 per cent in July, which was somewhat higher than the assessment in the July Monetary Policy Report.

## The financial markets

- Concern about the sustainability of central government finances in the European countries has abated somewhat since the July Monetary Policy Report. Government bond rates have fallen for the most vulnerable countries, with the exception of Greece and Ireland. However, the difference in these rates in relation to German government bond rates is still high. The strong statistics for the eurozone and the publication of the stress tests of selected European banks conducted by the CEBS and the ECB are among the factors that reduced concern. The fact that some countries managed to renew loans that matured during the summer also probably helped to reduce concern.
- During the summer, however, concern that the recovery of the US economy will come to a halt has increased. US government bond rates have therefore fallen further and the dollar has weakened. Government bond rates have also fallen to very low levels globally, and in Sweden, Germany and the United Kingdom the long-term rates have fallen to the lowest levels for several decades. On the other hand, the stock markets in Europe and the United States have recovered since the July Monetary Policy Report and volatility has declined somewhat.

- Pricing on the markets in the eurozone, the United Kingdom and the United States shows that expectations of increases in policy rates have shifted to mid-2011 or even later. In Sweden, the Riksbank is expected to increase the repo rate so that it will be at 1 per cent by the turn of the year. At the end of the forecast period (the third quarter of 2013) it is expected, according to market pricing, that the repo rate will be just below 2 per cent.
- Due to the weak recovery in the United States, the Federal Reserve decided at its latest monetary policy meeting to retain the measures designed to stimulate the US economy by purchasing government bonds for the funds that will be received when the previously-purchased mortgage bonds mature.
- The Riksbank's total lending to the banks declined during the summer as loans at a fixed interest rate totalling approximately SEK 200 billion matured on 30 June and 25 August. No unexpected market disruptions occurred in connection with this.
- The variable interest rates that households and companies pay for their loans have increased since the Riksbank raised the repo rate in July. The majority of the household loans with housing as collateral and the variable interest rates for these loans have increased at the same time as the long-term mortgage rates have fallen together with other long-term interest rates.
- The annual rate of growth for lending to households fell by 0.1 percentage points to 8.8 per cent in July. The households are thus continuing to increase their indebtedness at approximately the same rate as previously this year.
- Total lending to non-financial companies from monetary financial institutions increased in July compared to the level in June. The annual rate of growth in lending to companies increased from -3.4 per cent to -1.8 per cent in July. The decline in corporate lending that was noted above all in 2009 therefore seems to have come to a halt.
- Risk premiums on the interbank market, measured in terms of the three-month basis-spread, have fallen in Sweden and the USA but increased in Europe. One explanation may be that the European banks will have a greater need to acquire market funding as the ECB reduces the outstanding volume of loans. However, these risk premiums are low compared to the levels that prevailed during the period following the Lehman Brothers bankruptcy in the autumn of 2008.
- The development of the krona has been somewhat stronger than the Riksbank forecasted in July, which is linked, among other things, to the strong macroeconomic development in Sweden and the relatively strong central government finances in comparison with the rest of the world. The strengthening of the krona is also probably related to an increase in the difference between expected policy rates in Sweden and abroad.

## Economic activity in Sweden

- According to the preliminary version of the National Accounts, GDP in Sweden continued to rise rapidly in the second quarter compared with the previous quarter. The outcome for the second quarter was slightly stronger than the Riksbank forecast in July. This is primarily due to the fact that investments began to increase earlier than expected. The strong upturn in GDP during the first half of 2010 is also partly due to the fact that the companies have begun to build up their stocks of input goods now that production is gathering momentum. Recently-received information on the Swedish economy indicates that growth will continue to be strong

in the second half of the year. The figure for GDP growth in 2010 as a whole has therefore been revised upwards.

- Household consumption continued to increase during the second quarter of this year. The increase was over a broad front but increased car sales provided a particularly strong contribution to growth. However, the consumption of non-durables developed weakly.
- Retail sales increased during the summer. According to the Business Tendency Survey, households have also become increasingly optimistic about their own financial situation and the Swedish economy. Their view of the development of the labour market is also very positive. The optimism of the households is also reflected by increasing housing prices and increasing lending to households.
- Gross fixed capital formation increased at a much faster rate than expected in the second quarter of 2010. This is above all due to housing investments, which increased significantly. However, investments in the business sector excluding housing, measured as the annual percentage change, also increased for the first time since the end of 2008. The increase in capacity utilisation and new information about the companies' planned investments also indicate that investment will continue to recover in the period ahead.
- Swedish exports increased more than expected in the second quarter of 2010 and the export of goods continued to increase in July. Exports have now made up a lot of the ground lost in late 2008 and early 2009. This development is in line with the development of world trade which has also gathered momentum and returned to approximately the same levels that prevailed before the crisis. Export orders declined somewhat in June but are still at a level that indicates that exports will continue to increase.
- Imports also increased more rapidly than expected in the second quarter. This is in line with the relatively rapid increase in other demand components. The contribution to growth from net exports was somewhat smaller than expected.
- The financial balance in the public sector is expected to be higher in 2010 than was predicted in the July Monetary Policy Report. The monthly data for the central government budget have been slightly stronger than expected during the summer and as the level of employment has been a positive surprise the outcomes for the budget are also expected to be stronger for the rest of the year.

## The labour market

- In June and July, the level of employment was higher and the level of unemployment was lower than the assessment in the July Monetary Policy Report. According to the preliminary version of the National Accounts for the second quarter, the number of hours worked developed in line with the Riksbank's forecast. However, Statistics Sweden recently published more comprehensive and up-to-date statistics that show that the number of hours worked in the second quarter increased much more than this. This entails both a lower level of productivity and a higher level for mean working hours than expected.

- Outcomes and indicators suggest that the recovery of the labour market is progressing more rapidly than was predicted in the July Monetary Policy Report. Unemployment is falling faster than expected at the same time as the business tendency survey of the National Institute of Economic Research shows that a rapidly increasing percentage of companies are planning to continue recruiting new personnel.
- Preliminary wage outcomes based on short-term wage statistics from the National Mediation Office have been published for April, May and June this year since the July Monetary Policy Report. Wages in the economy as a whole increased by an average of 1.7 per cent measured as an annual percentage change during these months, compared with a preliminary rate of wage increases of over 3.4 per cent during the preceding quarter. The slowdown in the rate of wage increases is partly due to the levels in the new wage agreements signed this year.
- For 2010 as a whole, labour costs per hour are expected to develop somewhat more slowly than hourly wages. This is explained by the fact that employers' contributions have been reduced. During the first quarter of this year, labour productivity increased by over 3 per cent measured as an annual percentage change, which is the highest growth figure since mid-2006. New information on the labour market now shows that productivity continued to increase in the second quarter, although at a somewhat slower rate. However, the assessment is that productivity will continue to develop more strongly than labour costs per hour in 2010, which means that unit labour costs will fall compared to the level in 2009.

## Inflation

- The survey of household inflation expectations one year ahead conducted by the National Institute of Economic Research shows that these fell from 2.4 per cent in July to 2.0 per cent in August. The Prospera survey conducted in August shows, on the other hand, that inflation expectations among money market agents have increased marginally. In July, inflation expectations one year ahead were at 1.6 per cent, while in August the figure was 1.7 per cent. Expectations two and five years ahead are at 2.1 per cent.
- The inflation outcomes for June and July have been published since the July Monetary Policy Report was published. These have largely been in line with the preceding forecast. The CPI increased by 1.1 per cent in July, measured as an annual percentage change. CPIF inflation, which is not directly affected by changes in household mortgage rates, was at 1.7 per cent in July.
- It is expected that underlying inflation in the form of the CPIF and the CPIF excluding energy will continue to decrease during the rest of the year, while CPI inflation is expected to continue rising as the households' mortgage costs increase more rapidly.

# ■ Tables

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

**Table 1. Repo rate forecast**

Per cent, quarterly average values

	2010 Q2	2010 Q3	2010 Q4	2011 Q3	2012 Q3	2013 Q3
Repo rate	0.25	0.5 (0.5)	0.9 (0.9)	2.1 (2.1)	3.1 (3.1)	3.8 (3.8)

Source: The Riksbank

**Table 2. Inflation, annual average**

Annual percentage change

	2009	2010	2011	2012
CPI	-0.3 (-0.3)	1.1 (1.2)	1.9 (2.0)	2.5 (2.4)
CPIF	1.9 (1.9)	2.0 (2.0)	1.3 (1.4)	1.7 (1.6)
CPIF excl. energy	2.3 (2.3)	1.6 (1.6)	1.5 (1.5)	1.8 (1.7)
HICP	1.9 (1.9)	1.8 (1.9)	1.0 (1.1)	1.5 (1.4)

Note. CPIF is CPI with fixed interest rate. HICP is an EU harmonised index of consumer prices which does not include household mortgage costs.

Sources: Statistics Sweden and the Riksbank

**Table 3. Summary of financial forecasts**

Annual average, per cent, unless otherwise specified

	2009	2010	2011	2012
Repo rate	0.7 (0.7)	0.5 (0.5)	1.9 (1.9)	3.0 (3.0)
10-year rate	3.3 (3.3)	2.8 (3.0)	3.1 (3.5)	3.8 (4.1)
Exchange rate, TCW-index, 1992-11-18=100	140.2 (140.2)	130.8 (131.0)	123.8 (125.0)	122.6 (124.1)
General government net lending*	-1.0 (-1.0)	0.0 (-0.5)	0.9 (0.5)	1.4 (1.1)

\* Per cent of GDP

Sources: Statistics Sweden and the Riksbank

**Table 4. International conditions**

Annual percentage change

GDP	2009	2010	2011	2012
Euro area	-4.1 (-4.1)	1.5 (0.8)	1.3 (1.3)	1.9 (1.9)
USA	-2.6 (-2.4)	2.6 (3.2)	2.2 (3.0)	2.9 (2.8)
Japan	-5.2 (-5.2)	2.9 (2.8)	1.6 (1.8)	1.7 (1.7)
OECD	-3.4 (-3.3)	2.5 (2.6)	2.2 (2.5)	2.6 (2.5)
TCW-weighted	-3.9 (-3.8)	1.6 (1.4)	1.7 (1.8)	2.0 (2.0)
World	-0.7 (-0.7)	4.3 (4.2)	4.0 (4.2)	4.3 (4.2)

CPI	2009	2010	2011	2012
Euro area (HICP)	0.3 (0.3)	1.4 (1.4)	1.3 (1.0)	1.4 (1.3)
USA	-0.3 (-0.3)	1.6 (1.9)	1.5 (1.7)	1.6 (2.0)
Japan	-1.4 (-1.4)	-0.8 (-0.7)	-0.2 (-0.1)	0.2 (0.3)
TCW-weighted	0.5 (0.5)	1.5 (1.6)	1.4 (1.2)	1.5 (1.5)

	2009	2010	2011	2012
Crude oil price, USD/barrel Brent	62 (62)	77 (77)	83 (81)	86 (84)
Swedish export market	-13.1 (-12.6)	9.5 (5.0)	7.9 (6.9)	6.8 (6.8)

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.

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

**Table 5. GDP by expenditure**

Annual percentage change, unless otherwise specified

	2009	2010	2011	2012
Private consumption	-0.8 (-0.8)	3.3 (3.5)	2.4 (2.4)	1.9 (1.9)
Public consumption	1.7 (1.7)	1.2 (1.3)	1.1 (1.2)	0.6 (0.6)
Gross fixed capital formation	-16.0 (-16.0)	5.0 (2.6)	8.1 (6.3)	5.7 (5.7)
Inventory investment*	-1.5 (-1.5)	1.6 (1.2)	0.3 (0.4)	0.1 (0.2)
Exports	-12.4 (-12.4)	11.4 (7.2)	7.7 (6.7)	5.8 (6.2)
Imports	-13.2 (-13.2)	14.1 (8.2)	8.3 (6.4)	5.9 (6.0)
GDP	-5.1 (-5.1)	4.1 (3.8)	3.5 (3.6)	2.6 (2.8)
GDP, calendar-adjusted	-5.1 (-5.1)	3.9 (3.5)	3.5 (3.6)	3.0 (3.2)
Final figure for domestic demand*	-3.1 (-3.1)	2.9 (2.6)	2.9 (2.6)	2.2 (2.1)
Net exports*	-0.5 (-0.5)	-0.3 (0.1)	0.2 (0.6)	0.3 (0.5)
Current account (NA), per cent of GDP	7.2 (7.2)	5.9 (6.3)	5.9 (6.7)	5.9 (6.9)

\* 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

	2009	2010	2011	2012
Population, aged 16-64	0.7 (0.7)	0.4 (0.5)	0.1 (0.2)	0.0 (0.0)
GDP, calendar-adjusted	-5.1 (-5.1)	3.9 (3.5)	3.5 (3.6)	3.0 (3.2)
Number of hours worked, calendar-adjusted	-2.6 (-2.6)	1.5 (0.6)	1.1 (1.0)	0.8 (0.9)
Employed, aged 15-74	-2.1 (-2.0)	1.0 (0.6)	1.5 (0.9)	0.7 (0.6)
Labour force, aged 15-74	0.2 (0.2)	1.2 (1.1)	0.8 (0.5)	0.4 (0.2)
Unemployment, aged 15-74*	8.3 (8.4)	8.5 (8.9)	7.9 (8.5)	7.6 (8.1)

\* Per cent of labour force

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

	2009	2010	2011	2012
Hourly wage, NMO	3.4 (3.5)	2.6 (2.4)	2.7 (2.5)	3.1 (3.0)
Hourly wage, NA	2.8 (2.8)	1.9 (2.0)	2.9 (2.7)	3.3 (3.2)
Employer's contribution*	-0.9 (-0.9)	-0.1 (-0.1)	0.1 (0.1)	0.1 (0.1)
Hourly labour cost, NA	1.9 (1.9)	1.8 (1.9)	2.9 (2.7)	3.3 (3.3)
Productivity	-2.6 (-2.6)	2.3 (2.9)	2.4 (2.6)	2.2 (2.3)
Unit labour cost	4.6 (4.6)	-0.5 (-1.0)	0.5 (0.1)	1.1 (0.9)

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

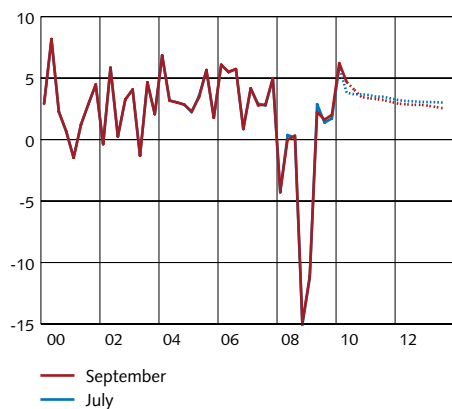
Note. NMO is the National Mediation Office's short-term wage statistics and NA is the National Accounts. Labour cost per hour is defined as the sum of actual wages, collective charges and wage taxes divided by the seasonally adjusted total number of hours worked. Unit labour cost is defined as labour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

Sources: National Mediation Office, Statistics Sweden and the Riksbank

# Figures

**Figure 5. GDP**

Quarterly changes in per cent calculated in annualised terms, seasonally-adjusted data

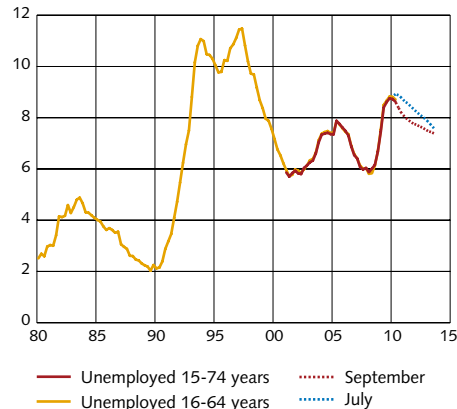


Note. Broken lines represent the Riksbank's forecast.

Sources: Statistics Sweden and the Riksbank

**Figure 6. Unemployment**

Percentage of the labour force, seasonally-adjusted data



Note. Pre-1987 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

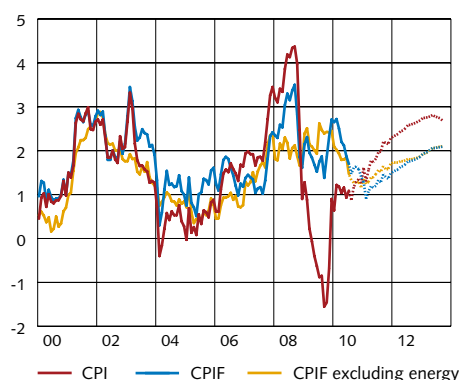


Note. Pre-1987 data has been spliced by the Riksbank.  
Broken lines represent the Riksbank's forecast, 15-74 year.

Sources: Statistics Sweden and the Riksbank

**Figure 8. CPI, CPIX and CPIX excluding energy**

Annual percentage change

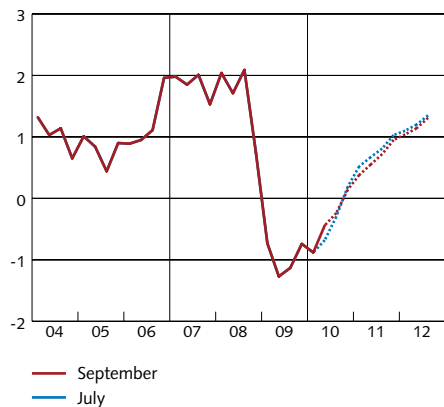


Note. CPIX is CPI with fixed interest rate. Broken lines represent the Riksbank's forecast.

Sources: Statistics Sweden and the Riksbank

**Figure 9. Real repo rate**

Per cent, quarterly averages

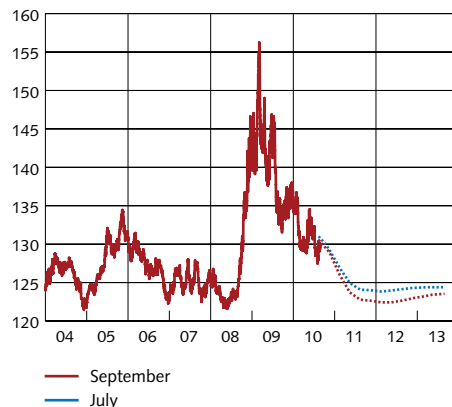


Note. The real repo rate is calculated as an average of the Riksbank's repo rate forecasts for the coming year minus the inflation forecast (CPIX) for the corresponding period. Broken lines represent the Riksbank's forecast.

Source: The Riksbank

**Figure 10. TCW-weighted exchange rate**

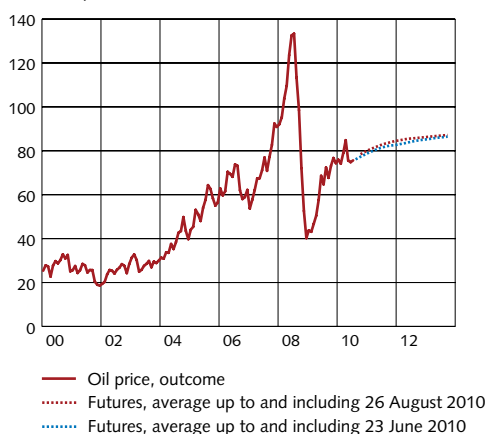
Index, 18.11.92 = 100



Note. Outcome data are daily rates and the forecasts are quarterly averages. Broken lines represent the Riksbank's forecast.

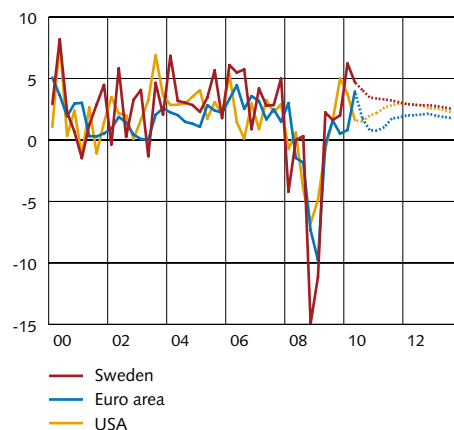
Source: The Riksbank

**Figure 11. Oil price, Brent crude**  
USD per barrel



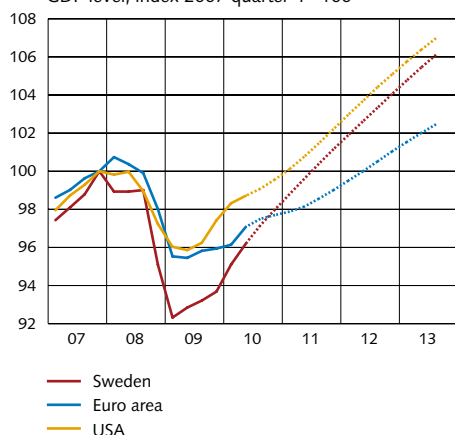
Note. Futures are calculated as a 15-day average. Outcomes represent monthly averages of spot prices.  
Sources: Intercontinental Exchange and the Riksbank

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



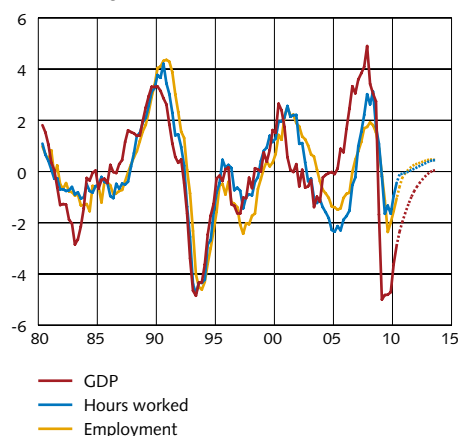
Note. Broken lines represent the Riksbank's forecast.  
Sources: Bureau of Economic Analysis, Eurostat, Statistics Sweden and the Riksbank

**Figure 13. Comparison of the recovery in Sweden, USA and the euro area**  
GDP level, index 2007 quarter 4 = 100



Note. The quarter prior to the outbreak of the recession in the USA = 100. Broken lines represent the Riksbank's forecasts.  
Sources: Bureau of Economic Analysis, Eurostat, Statistics Sweden and the Riksbank

**Figure 14. Estimated gaps**  
Percentage deviation from the HP trend



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