Monetary Policy Update
April 2011

The recovery in the world as a whole is continuing at a good pace, despite natural disasters in Japan, political unease in North Africa and the Middle East and public finance problems in the euro area. Rising energy prices are pushing up global inflation, which together with the improved growth prospects has caused a number of central banks to begin tightening their monetary policy.

The growth rate of the Swedish economy will slow down after the rapid recovery in 2010. The labour market will continue to develop strongly, resource utilisation will normalise and the rate of wage increase will rise. However, the coming wage bargaining rounds are expected to result in wage increases that can be considered reasonable.

At present there is a large difference between the different measures of inflation. CPIF inflation is low and when the rising energy prices are excluded, it is even lower. As resource utilisation increases, CPIF inflation is expected to rise gradually to around 2 per cent in 2013. At the same time, CPI inflation is high at present as a result of rising mortgage rates. The increases in the repo rate will entail a continuing rise in mortgage rates, which will further boost CPI inflation. CPI inflation is expected to peak at 3.7 per cent in autumn 2011, and to coincide in the longer run with CPIF inflation at 2 per cent.

The repo rate is now being increased to 1.75 per cent. We need to gradually raise the repo rate towards more normal levels to stabilise inflation close to the target of 2 per cent and to avoid resource utilisation becoming too high. Compared with the Monetary Policy Report in February, the forecast for the repo rate in this Monetary Policy Update remains unchanged. One important condition for not adjusting the repo-rate path upwards is that the currently high CPI inflation does not make a more significant impression on various agents' long-term inflation expectations and on wage formation.

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

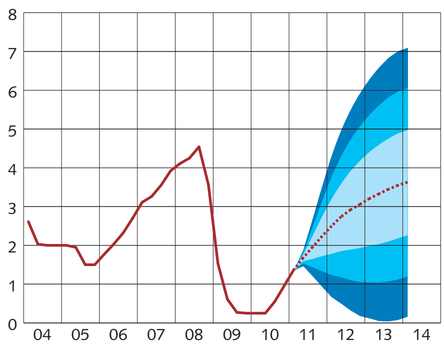


Figure 2. GDP with uncertainty bands
Annual percentage change, seasonally-adjusted data

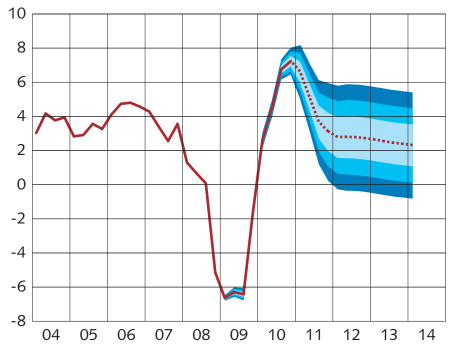


Figure 3. CPI with uncertainty bands
Annual percentage change

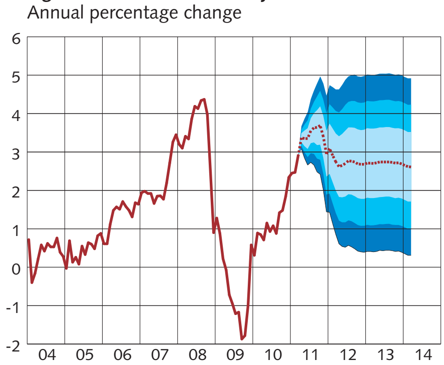
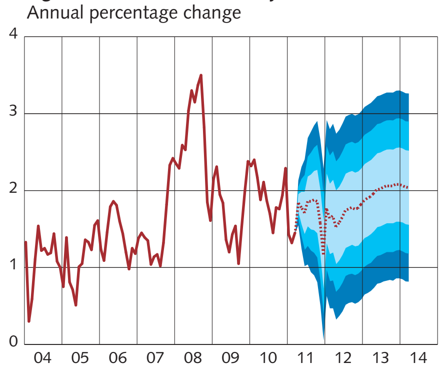


Figure 4. CPIF with uncertainty bands
Annual percentage change



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 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 repo rate now being raised by 0.25 percentage points to 1.75 per cent, and that it will thereafter be successively raised to more normal levels.

Higher global inflation

The recovery in the world economy will continue during the forecast period. Growth is particularly strong in Asia, but economic activity is also increasing in Europe and the United States. Growth in the world economy is strong, despite the natural disasters in Japan and the political unease in North Africa and the Middle East. The earthquake in Japan and the ensuing tsunami will hit the Japanese economy hard this year, but a recovery is expected relatively quickly once the rebuilding work has started. Japan is an important exporter of components to the motor vehicle industry, among others, around the world and there is considerable uncertainty over what effects the stoppage in Japan will have. However, the current assessment is that the contagion effects will be limited for the world economy.

The emerging economies in Asia are expected to continue to grow well and the rapid growth in these countries has contributed to pushing up energy prices and other commodity prices in the world market. However, the development in the energy price observed since February is expected to be largely due to the uncertainty over the supply of oil that has arisen in connection with the political unease in North Africa and the Middle East. As energy commodities are relatively difficult to replace, at least in the short term, in both production and consumption the rising oil prices are having a restraining effect on GDP growth. The growth forecasts for the United States, the euro area and the United Kingdom are therefore revised down somewhat for 2011 and 2012, compared with the assessments made in the February Monetary Policy Report.

In Asia as a whole there are now signs of overheating. High demand and high inflation lead to a need for tighter economic policy. At the same time, the economic situation is quite different in the United States and the euro area, where there is still spare capacity. Although outcomes and indicators point to growth in the euro area being slightly stronger than expected at the start of 2011, the year will be characterised by the extensive fiscal policy tightening that needs to be implemented. This is necessary, but will have a restraining effect on the euro area's economy. The upswing in energy prices has pushed up HICP inflation in the euro area and inflation over the coming year is expected to be higher than was assumed in the previous forecast. The European Central Bank raised its policy rate in April, after holding it unchanged for two years. Over the coming year the rate is expected to rise by between 0.5 and one percentage point, which is in line with market pricing.

The prospects for economic activity in the United States are continuing to improve, although GDP growth in the second half of 2010 was slightly lower than expected. Companies remain optimistic, and more recently employment growth has been good and unemployment has fallen. However, the housing market is still weak, with falling house prices and housing investment. Monetary policy is expected to remain very expansionary, but as resource utilisation increases, it is assumed that the policy rate will be raised at roughly the same pace as during previous economic recoveries. Economic activity in the United Kingdom is also expected to strengthen in the coming years, but the recovery is judged to be relatively weak as the result of tighter fiscal policy. Inflation is expected to be high, however, and to overshoot the Bank of England's inflation target for the whole of 2011.

■■ The Swedish economy remains strong

The Swedish economy grew by 5.5 per cent in 2010, compared with 2009. The upturn was broadly based and covered both exports and domestic demand. The high rate of growth last year means that production volumes have now returned to roughly the same levels as prior to the financial crisis. The recovery has been relatively quick and Sweden is expected to experience higher growth than many other countries in 2011, too. Swedish exports will benefit from the continuing growth in export markets and a favourable composition of exports. Moreover, the conditions for domestic demand are good. The combination of the currently relatively high level of public and private saving gives scope for good growth in consumption in the coming period. Confidence indicators and other market information indicate continued strong GDP growth in the coming quarters. Swedish GDP growth is expected to be 4.6 per cent in 2011 and then to fall back towards a historically-average level.

The krona has strengthened considerably over the past year. This strengthening has been gradual in line with growth in Sweden being stronger than that in other countries and as the Riksbank has increased the repo rate. In the coming period the Swedish economy will grow more in line with other countries, and the difference between Swedish and foreign interest rates will decline. The Riksbank assesses that the exchange rate will remain at roughly the same level as now over the coming years.

■■ Both exports and domestic demand are strong

Despite the stronger krona, Swedish exports grew quickly during 2010 and have now almost recovered the large fall that took place during the financial crisis. Exports of investment goods, such as motor vehicles and telecom products, were hit hard during the crisis. However, this part of exports recovered strongly last year and is expected to continue increasing relatively quickly over the coming years. Imports have also increased substantially and are expected to rise in line with the increase in domestic demand and exports.

Investment has now picked up and is expected to continue to increase rapidly. As production increases, capacity utilisation will also rise and the investment needs of the business sector will increase. Housing investment has recovered a large part of the downswing that took place during the crisis. A large demand in relation to supply, possibilities for tax deductions when renovating and a brighter labour market provide the right conditions for a continuing increase in housing investment. However, public investment, which really accelerated in 2008 and 2009, is expected to increase at a slower rate in the coming period. Although the upswing in investment is broad and rapid, the increase in total investment is from a low level. Consequently, it will take until mid-2012 for investment to return to its pre-crisis level.

Household consumption has for some time now been back at higher levels than prior to the financial crisis. Households have now begun to reduce their high level of saving. Although the consumption growth rate will decline in the coming period, it is expected to remain strong and households are expected to further reduce their saving. The labour market situation is improving steadily, which will lead to increased income for households, although higher interest rates will have a partly counteracting effect. In a situation where the repo rate is increasing, it is natural that households will expect mortgage rates to increase. However, the short mortgage rates have risen more than is justified with reference to the Riksbank's repo rate increases.

■■ Public finances in good shape

Public sector net lending improved from -0.9 per cent to -0.3 per cent of GDP between 2009 and 2010. Compared with most other OECD countries, which have large public finance deficits, Sweden has very strong public finances. Many other countries will need to manage necessary tightening of fiscal policy over the coming years. Sweden, on the other hand, is expected to have the scope to implement some fiscal policy easing. The assessment is that coming changes in income and expenditure will mainly increase the supply of labour and the long-term sustainable level of GDP. All in all, fiscal policy reforms equivalent to around 1.5 per cent of GDP are expected during 2012 and 2013. Despite these measures, net lending is expected to rise to 1.5 per cent of GDP in 2013. At the same time, the national debt will quickly fall to levels that are low both in comparison with the average for EU member states and in relation to the requirements of the EU's Stability and Growth Pact.

■■ Strong employment growth

Since autumn 2009, the Swedish labour market has recovered almost all of the 140,000 jobs lost during the crisis. However, the upswing in employment has so far been mainly in sectors that were not hit particularly hard during the crisis, such as construction and the services sector. Indicators point to continued strong growth in employment as the demand for labour is increasing in most sectors. The service sector's recruitment plans in particular are positive, but industrial sector companies are also planning new recruitment. Compared with the assessment in February, employment growth is expected to be slightly higher during the forecast period.

The supply of labour has also grown strongly. This is partly as a result of earlier reforms in the pension system, unemployment benefits and sickness benefits, together with tax deductions for the employed. Participation in the labour force for the age group 16-64 years declined only slightly in 2009 and is now at a higher level than in autumn 2007. During the forecast period participation in the labour force will increase further. Despite an increased supply of labour, unemployment has fallen by just over 1 percentage point since the end of 2009. As employment will grow more quickly than the number of persons in the labour force during the forecast period, unemployment will continue to fall and is expected to be just below 6.5 per cent at the end of 2013.

■■ Resource utilisation normalising

Monetary policy normally aims to attain a suitable balance between on the one hand keeping inflation close to the target of 2 per cent and, on the other hand, stabilising the resource utilisation around a normal level. However, it is not possible to directly measure resource utilisation, which means that estimates of these levels are uncertain. When the Riksbank assesses resource utilisation, we use several different indicators and statistical measures. According to some indicators, resource utilisation has increased rapidly and is now largely normal. This mainly applies to indicators based on surveys. According to the National Institute of Economic Research's Business Tendency Survey, a shortage of labour is becoming visible in many sectors, while capacity utilisation has risen quickly in the manufacturing industry. Other indicators, such as the level of unemployment, point on the other hand to spare capacity in the economy. The overall assessment is that resource utilisation is still slightly lower than normal, but that it will rise and within a few years be normal or slightly higher than normal.

■■ Rising wage increases from low levels

The rapid improvement in the labour market is expected to lead to higher wage increases during the forecast period. The wage bargaining rounds that began during the autumn are taking place in a much stronger cyclical phase than the previous rounds. The assessment is that wage formation will function smoothly, as it has done over the past 10-15 years, and will give rise to reasonable wage increases. The central wage agreements signed in autumn 2011 and in 2012 are expected to be slightly higher than the agreements that influenced wage increases in 2010 and 2011. At the same time, the wage formation over and above the central agreements is also expected to lead to slightly faster wage increases. All in all, the rate of wage increase is expected to increase gradually during the forecast period. Wage expectations have also increased, according to Prospera's most recent survey, although from a low level.

The rate of increase in labour costs per hour worked will also rise gradually and approach a more normal level at the end of the forecast period. Productivity growth 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. This assessment means that the rate of increase in unit labour costs will rise over the coming years and be in line with the historical average at the end of the forecast period.

■■ Low underlying inflation

Underlying inflation is currently low. The annual rate of increase in the CPIF, that is the CPI with a fixed mortgage rate, amounted to 1.5 per cent in March, which was much lower than the forecast in the most recent Monetary Policy Report. The low outcome is partly explained by weak growth in food prices, but price increases on many other goods and services were also unexpectedly low. Energy prices have continued to rise, which means that CPIF inflation excluding energy prices amounted to a moderate 0.9 per cent in March. The strengthening of the krona over the past year contributes to the low inflation rate. As resource utilisation rises and wages increase at a faster rate, inflationary pressures in the economy rise. CPIF inflation is therefore expected to rise gradually over the coming years to around 2 per cent in 2013.

The forecast for CPIF inflation has been revised down for 2011 as a result of the low outcomes. During 2012, however, CPIF inflation is expected to be slightly higher than in the February forecast as a result of the upward revision in energy prices.

■■ Large difference between CPI and CPIF

CPI inflation, unlike underlying inflation, is high. Over the coming months, CPI inflation will rise to a peak of 3.7 per cent and then gradually fall during the forecast period to just over 2.5 per cent in 2013. The reason for CPI inflation being much higher than CPIF inflation is that mortgage rates will rise as a result of the Riksbank's repo-rate increases. During the financial crisis the situation was the opposite, as the Riksbank's repo-rate cuts led to CPI inflation instead being much lower. During periods with large interest rate adjustments, measures of inflation that do not include interest rate costs, such as CPIF inflation, provide a better picture of underlying inflationary pressures.

Compared with the assessment made in February, CPI inflation has been revised up considerably for both 2011 and 2012, which is connected to the updated weights having increased the importance of the variable interest rate in the sub-index for interest rate expenditure in the CPI. The increased importance for variable interest rates also means that the difference between CPI inflation and CPIF inflation will be greater this year and next year when variable interest rates rise more quickly than fixed interest rates. In the longer run, when the repo rate has returned to more normal levels, the two measures of inflation will coincide.

■■ Repo rate raised as economic activity improves

We need to gradually raise the repo rate towards more normal levels to stabilise inflation close to the target of 2 per cent and to avoid resource utilisation becoming too high. The forecasts in this Monetary Policy Update are based on the repo rate now being raised to 1.75 per cent and then rising to 3.6 per cent at the beginning of 2014.

The economic prospects for Sweden and abroad are roughly the same as in the forecasts published in February. The recovery abroad is continuing and rising energy prices are pushing up global inflation, which together have meant that a number of central banks have begun to tighten monetary policy. Swedish GDP is growing at a good rate and the labour market is recovering quickly. The overall picture of resource utilisation is that it is still slightly lower than normal, but will increase to a normal, or slightly higher than normal, level over the coming years.

At present there is an unusually large difference between the different measures of inflation. CPIF inflation is low and when the rising energy prices are excluded, it is even lower. As resource utilisation increases, CPIF inflation is expected to increase gradually over the coming years, to around 2 per cent towards the end of the forecast period. At the same time, CPI inflation is high as a result of rising mortgage rates, and it is expected to remain high above the inflation target of 2 per cent during 2011. The fact that CPI inflation is higher due to rising mortgage rates is a transitory effect. It is thus natural that in periods with large interest rate adjustments greater weight is given to measures of underlying inflation when formulating monetary policy. In the longer run, inflation will amount to 2 per cent, both in terms of the CPI and the CPIF.

Household debts have increased substantially in recent years. Although there are indications that this trend has weakened recently, households' debts are still increasing faster than their incomes. If this continues over a longer period of time, there is a risk of imbalances building up in the Swedish economy. A gradually increasing repo rate may help to slow down the growth of household borrowing.

The forecast for the repo rate in this Monetary Policy Update is unchanged in relation to the February Monetary Policy Report. One important condition for not raising the forecast for the repo rate is that the currently high CPI inflation does not make a more significant impression on various agents' long-term inflation expectations and on wage formation. Over the past 10-15 years, wage formation has resulted in reasonable wage increases and the assessment in this Update is that this will continue to apply. If these conditions should change, it may have consequences for monetary policy.

New information since the February Monetary Policy Report

International economy

- New information received since the Monetary Policy Report was published in February supports the picture of a continuing recovery in the world economy. The unease in the Middle East and North Africa has led to rising oil prices. Moreover, the problems with public debt in some European countries have continued.

- Growth in Asia remains strong. However, in the near-term, the consequences of the natural disaster in Japan may lead to some slowdown in growth in the region. The purchasing managers' index in China showed a slight upturn in March, but at the same time retail trade statistics were lower than expected. Inflation in China amounted to 4.9 per cent in February, which is higher than China's inflation target of 4 per cent. The Chinese central bank has also continued to tighten its policy and raised its policy rate at the beginning of April.

- Revised statistics show that GDP in the United States increased by 3.1 per cent when calculated as an annual rate in the fourth quarter of last year. The purchasing managers' index rose in February and was at a high level in March, but the retail trade and consumer confidence figures were weaker than expected. Since the Monetary Policy Report was published in February, the US labour market has continued to improve. Employment increase by just over 200,000 persons in March and unemployment has fallen from 9 per cent in January to 8.8 per cent in March. The President and Congress have agreed on the budget for 2011 and avoided parts of the public sector being temporarily closed down. However, there is still no political solution for the long-term budget consolidation.

- GPD in the euro area increased by 1.1 per cent when calculated as an annual rate in the fourth quarter of 2010. In February, the retail trade fell slightly, but industrial output has continued to recover. Confidence indicators for manufacturing have fallen marginally, while indicators for the service sectors have increased slightly up to and including March. The labour market has improved; employment has risen and unemployment fell to below 10 per cent in February. The inflation rate in the euro area has increased, primarily because energy and food prices have risen. Given the rising inflation, the European Central Bank, ECB, raised its policy rate to 1.25 per cent in April.

- The public finances problems in the European countries have once again become topical in that Portugal's outgoing government, with the support of the opposition, handed in an application for financial support from the EU. The costs faced by Portugal for obtaining funding on the financial markets increased substantially after the government lost a budget vote in parliament. This also led to the country's government resigning. A new election will be held at the beginning of June. However, the financial unease regarding Portugal has not spread to Spain, for instance, where the interest rate differential towards Germany has fallen back slightly.

- GDP in the United Kingdom fell by 1.9 per cent when calculated in annualised terms between the third and fourth quarters of 2010. Inflation was 4.0 per cent in March and has thus overshot the inflation target for the past 16 months. The high inflation rate is a result of rising energy prices as well as higher VAT and a weak exchange rate. At the same time, households' inflation expectations in both the short term and long term are 3.5-4 per cent, which is much higher than the Bank of England's inflation target.

- GDP in Norway increased by around 10 per cent when calculated as an annual rate during the final quarter of last year. However, GDP in Denmark fell by 1.6 per cent calculated as an annual rate during the fourth quarter.

Financial markets

- Following the natural disaster in Japan the international equity markets were weak as risk propensity declined and investors chose safer assets. Since then the equity markets have recovered and several stock exchanges are now at a higher level compared with the beginning of this year. The exception is the Japanese stock market, although there has been some recovery there, too. Commodity prices are still high and the oil price has risen, primarily in connection with the outbreak of unease in the Middle East and North Africa.

- In connection with the decline in risk propensity on the financial markets, government bond yields with longer maturities fell in Sweden, the United Kingdom and the United States. But as the stock markets have recovered, bond yields have also risen, although they are still slightly lower than at the time of the monetary policy meeting in February. However, in the euro area (Germany), government bond yields are higher now than i February, as the ECB has begun to raise its policy rate.

- As a small currency, the Swedish krona has historically tended to weaken during periods of unease when risk propensity declines. The Swedish krona has actually weakened in trade-weighted terms since February. At the same time, Swedish public finances are good, and the Swedish economy is recovering rapidly. These are factors that contribute to the krona still being listed, despite the unease, at levels against the euro that are stronger than prior to the financial crisis.

- In the United Kingdom and the United States monetary policy expectations have shifted down since the middle of February, according to market pricing. Monetary policy expectations in the euro area, on the other hand, have shifted up and in April the ECB raised its policy rate, the refi rate. The signals from the ECB have been interpreted to mean that it is still an open question whether the policy rate increases will continue in the near term.

- According to market pricing, monetary policy expectations in Sweden are more or less in line with the Riksbank's forecast for the repo rate one year ahead. Pricing remains almost unchanged since February. For longer horizons, however, they are lower than the Riksbank's forecast. Expectations of the repo rate according to surveys are in line with the Riksbank's forecast in the long run, too. Both surveys and market pricing point to expectations of an increase in the repo rate in April, and three further increases this year.

- The problems with public finances in Portugal have meant that the interest rate differential between Portuguese and German government bonds has risen substantially. So far, there have been no contagion effects and government bond yields for other countries in the euro area have developed more in line with the German ones.

- In Sweden, interbank rates have risen since the Monetary Policy Report was published in February, when the repo rate was raised and the forecast for the repo rate was revised upwards. It is natural that interbank rates should rise in line with the forecast for the repo rate. However, the shortest interbank rates have risen more than this would justify. The upturn in interest rates on the interbank market has taken place parallel with an increase in households' variable mortgage rates and variable interest rates on bank loans given to companies.

- Lending to companies has been increasing since the start of the year, after having declined in the wake of the financial crisis. Lending to households increased by 7.5 per cent in February compared with the same month last year. The rate of lending to households is thus continuing to slow down.

GDP

- Since the Monetary Policy Report was published in February the National Accounts for the fourth quarter of last year have been published. Seasonally-adjusted growth was 5.1 per cent measured as an annual rate. Industrial output and the production of services continued to rise in January and February. Other new information received, such as confidence indicators and other monthly statistics, also point to continued strong growth during the first half of 2011, in line with the assessment we made in February.

- Gross fixed investment increased by 6.3 per cent in 2010. Housing investment increased the most, but extensive investment in infrastructure and construction projects has also contributed. Business sector investment has been held back by the industrial sector, which was hit hard by the crisis. Capacity utilisation in manufacturing has risen rapidly, however, and is now in line with the historical average. As industrial investment fell to very low levels during the financial crisis, there is scope for a strong growth in investment. Statistics Sweden's February survey also shows that a majority of manufacturing sectors is planning to increase investment volume this year. This is a more positive picture than was painted in the survey carried out in October last year.

- Both exports and imports continued to rise during the fourth quarter of 2010 and are now up at their pre-crisis levels. The main contribution to the increase has come from trade in goods. According to the National Institute of Economic Research and to Statistics Sweden, orders on the export market are still high and indicate that exports will continue to increase strongly over the coming quarters.

- According to the National Accounts, household consumption increased strongly during the fourth quarter of last year. Factors behind this increase were a rise in consumption of motor vehicles and durable goods, although there was also a contribution from consumption of services. However, weaker indicators for the retail trade, a slowdown in household purchases of cars and a decline in consumer confidence mean that the rate of increase in consumption will slow down somewhat.

- Last year public sector consumption increased by 2.6 per cent, which was higher than forecast in February. Public sector investment also grew more than anticipated, which was largely due to government investment in railways.

Labour market

- New statistics show that the Swedish labour market has largely recovered the 140,000 jobs lost during the crisis. The supply of labour has been strong and in February workforce participation amounted to 81.2 per cent of the population aged 16-64. This is higher than the pre-crisis level. Despite a large supply of labour, unemployment fell to 7.6 per cent in February. The fact that unemployment has been in line with the assessment made in February is linked to a strong development in employment, too. Indicators also point to employment being slightly stronger during the coming period than was expected in the February forecast. The number of newly-registered vacancies reported by the Swedish Employment Agency show that the rising trend is continuing. Moreover, the National Institute of Economic Research's Business Tendency Survey shows very positive recruitment plans. The expectations of services companies in particular point to a strong growth in demand. However, industrial companies are also planning to increase their personnel. At the same time, there are increasingly clear signals of recruitment problems in the business sector, not least in the construction industry.

- The National Accounts for the fourth quarter of last year show that wages, labour costs and labour productivity were in line with the assessment made in the Monetary Policy Report in February. Labour costs per hour worked rose by around 3 per cent, when measured as an annual percentage change, during the fourth quarter of last year. Labour productivity increased more, which means that unit labour costs fell when measured as an annual percentage change. The assessment is that unit labour costs will continue to fall during the first half of this year.

- Prospera's March survey points to an increase in wage expectations in a one to two year horizon. On average, wage expectations among employee and employer organisations increased from 2.4 per cent to 2.9 per cent for one year ahead. This is the largest increase since the surveys began in 1995. However, since the end of 2009 wage expectations one year ahead have been at a low level, from an historical point of view. Expectations for five years ahead fell slightly and in March were at almost 3 per cent.

Inflation

- Inflation expectations have risen recently. Prospera's quarterly survey shows that inflation expectations one year ahead rose for all agents from 1.9 per cent in December to 2.5 per cent in March. Expectations for two years ahead rose from 2.2 to 2.5 per cent. Expectations of inflation five years ahead have also risen slightly. On the other hand, Prospera's monthly survey, which is directed only towards money market participants, points to unchanged long-term inflation expectations between April and March.

- Since the Monetary Policy Report was published in February the inflation outcomes for January, February and March have been published. The underlying inflation rate is still low. The annual rate of increase in the CPIF, which unlike the CPI is not affected by changes in mortgage rates, amounted to 1.5 per cent in March. At the same time, electricity and fuel prices have continued to rise. When these are excluded, CPIF inflation amounted to a moderate 0.9 per cent in March.

- The percentage of companies stating they intend to raise their prices has been rising for some time now, according to the National Institute of Economic Research's Business Tendency Survey. Nevertheless, the rate of price increase for many goods and services was unusually low in January. For example, food prices in Sweden fell, despite world market prices continuing to rise.

- The CPI inflation rate, on the other hand, has been higher than expected. This is linked to the weight for the variable interest rate in the sub-index for interest expenditure in the CPI having increased more than had been calculated. At the same time, the variable mortgage rate has risen more than fixed mortgage rates. This also contributes to CPI inflation now increasing more quickly than in the forecast made in February.

- The rising oil price will also contribute to a higher rate of increase in energy prices over the coming period than was previously expected. The price of oil in the forward market has risen substantially since the Monetary Policy Report was published in February, and is now on average more than 10 US dollars higher during the forecast period. Electricity prices are also expected to be slightly higher in the short term than was previously assumed.

Tables

The figures in brackets show the forecast in the previous Monetary Policy Report (February 2011).

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

	Q1 2011	Q2 2011	Q1 2012	Q1 2013	Q1 2014
Repo rate	1.4 (1.4)	1.7 (1.7)	2.5 (2.5)	3.2 (3.2)	3.6 (3.6)

Source: The Riksbank

Table 2. Inflation, annual average
Annual percentage change

	2009	2010	2011	2012	2013
CPI	-0.5 (-0.3)	1.2 (1.3)	3.2 (2.5)	2.8 (2.1)	2.7 (2.6)
CPIF	1.7 (1.9)	2.0 (2.1)	1.6 (1.9)	1.7 (1.5)	2.0 (2.0)
CPIF excl. energy	2.1 (2.3)	1.5 (1.7)	1.1 (1.7)	1.7 (1.7)	2.1 (2.1)
HICP	1.9 (1.9)	1.9 (1.9)	1.7 (1.7)	1.7 (1.3)	2.0 (1.8)

Note. The forecast for CPI refers to the annual rate of change in the revised index (the so-called inflation rate). This will temporarily exceed the rate of change in the CPI during 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

	2009	2010	2011	2012	2013
Repo rate	0.7	0.5 (0.5)	1.8 (1.8)	2.8 (2.8)	3.4 (3.4)
10-year rate	3.3	2.8 (2.8)	3.5 (3.4)	4.1 (4.0)	4.5 (4.4)
Exchange rate, TCW index, 1992-11-18=100	140.2	129.3 (129.3)	119.6 (119.3)	120.1 (120.1)	121.1 (121.1)
General government net lending*	-0.9	-0.3 (0.6)	1.0 (2.0)	1.4 (1.9)	1.5 (1.8)

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

Table 4. International conditions
Annual percentage change, unless otherwise specified

GDP	2009	2010	2011	2012	2013
Euro area (0.14)	-4.1	1.7 (1.7)	1.5 (1.5)	1.6 (1.7)	2.3 (2.3)
USA (0.20)	-2.6	2.9 (2.9)	2.8 (3.3)	3.0 (3.1)	2.8 (2.7)
Japan (0.06)	-6.3	4.0 (4.3)	0.4 (1.7)	2.6 (1.7)	1.8 (1.8)
OECD (0.55)	-3.5	2.9 (2.9)	2.3 (2.6)	2.6 (2.6)	2.6 (2.6)
TCW-weighted (0.47)	-3.9	1.9 (1.9)	1.8 (1.8)	2.0 (2.0)	2.3 (2.3)
World (1.00)	-0.3	4.9 (4.8)	4.3 (4.4)	4.4 (4.3)	4.4 (4.4)

Note. The international GDP weights adjusted for purchasing power in 2010, according to the IMF, are given in brackets.

CPI	2009	2010	2011	2012	2013
Euro area (HICP)	0.3	1.6 (1.6)	2.2 (1.9)	1.5 (1.4)	1.8 (1.8)
USA	-0.3	1.6 (1.6)	2.5 (1.9)	1.9 (1.7)	2.0 (2.0)
Japan	-1.3	-0.7 (-0.9)	0.0 (-0.1)	0.5 (0.3)	0.7 (0.5)
TCW-weighted	0.5	1.6 (1.6)	2.2 (1.9)	1.6 (1.5)	1.8 (1.8)

	2009	2010	2011	2012	2013
Policy rates in the rest of the world, TCW-weighted	0.7	0.5 (0.5)	1.0 (1.0)	1.8 (1.6)	2.8 (2.7)
Crude oil price, USD/barrel Brent	62	80 (80)	114 (99)	114 (100)	110 (99)
Swedish export market	-12.3	8.4 (10.0)	8.3 (8.2)	6.7 (6.8)	6.5 (6.5)

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

	2009	2010	2011	2012	2013
Private consumption	-0.4	3.5 (3.5)	3.0 (2.9)	2.2 (2.3)	2.2 (2.3)
Public consumption	1.7	2.6 (2.0)	1.4 (0.9)	0.5 (0.5)	0.7 (0.7)
Gross fixed capital formation	-16.3	6.3 (5.8)	10.6 (10.1)	6.5 (5.9)	5.6 (5.5)
Inventory investment*	-1.5	2.1 (2.2)	0.1 (-0.3)	-0.3 (-0.2)	0.0 (0.0)
Exports	-13.4	10.7 (11.4)	8.4 (8.7)	5.6 (5.6)	5.9 (5.9)
Imports	-13.7	12.7 (13.1)	7.9 (7.2)	6.0 (5.8)	6.5 (6.4)
GDP	-5.3	5.5 (5.5)	4.6 (4.4)	2.3 (2.4)	2.5 (2.5)
GDP, calendar-adjusted	-5.3	5.3 (5.3)	4.6 (4.4)	2.7 (2.8)	2.5 (2.5)
Final domestic demand*	-3.0	3.6 (3.3)	3.8 (3.4)	2.4 (2.3)	2.4 (2.3)
Net exports*	-0.8	-0.1 (0.0)	0.8 (1.2)	0.2 (0.3)	0.1 (0.2)
Current account (NA), per cent of GDP	6.8	6.2 (6.4)	6.6 (7.2)	6.4 (7.1)	6.3 (7.0)

*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 specified

	2009	2010	2011	2012	2013
Population, aged 16–64	0.7	0.5 (0.5)	0.3 (0.2)	0.1 (0.0)	0.0 (-0.1)
Potential hours worked	1.2	0.9 (0.9)	0.5 (0.5)	0.4 (0.4)	0.3 (0.3)
GDP, calendar-adjusted	-5.3	5.3 (5.3)	4.6 (4.4)	2.7 (2.8)	2.5 (2.5)
Number of hours worked, calendar-adjusted	-2.6	1.9 (1.8)	1.8 (1.9)	1.2 (1.1)	0.7 (0.7)
Employed, aged 15–74	-2.1	1.0 (1.0)	2.5 (2.1)	0.9 (0.9)	0.5 (0.6)
Labour force, aged 15–74	0.2	1.1 (1.1)	1.3 (0.9)	0.3 (0.4)	0.2 (0.2)
Unemployment, aged 15–74*	8.3	8.4 (8.4)	7.3 (7.3)	6.7 (6.8)	6.4 (6.4)

* Per cent of labour force
Note. “Potential hours” refers to the sustainable level for the number of hours worked according to the Riksbank’s assessment.
Sources: Statistics Sweden and the Riksbank

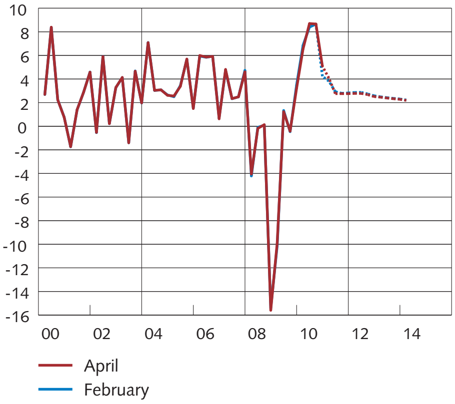
Table 7. Wages and unit labour cost for the economy as a whole
Annual percentage change, calendar-adjusted data

	2009	2010	2011	2012	2013
Hourly wage, NMO	3.4	2.7 (2.6)	2.9 (2.8)	3.3 (3.3)	3.6 (3.5)
Hourly wage, NA	2.8	1.4 (1.4)	3.2 (2.9)	3.4 (3.5)	3.8 (3.8)
Employers’ contributions*	-1.0	-0.3 (-0.2)	-0.2 (0.1)	0.1 (0.1)	0.0 (0.0)
Hourly labour cost, NA	1.8	1.1 (1.1)	3.0 (3.0)	3.5 (3.5)	3.8 (3.8)
Productivity	-2.7	3.3 (3.4)	2.8 (2.5)	1.5 (1.7)	1.8 (1.8)
Unit labour cost	4.7	-2.2 (-2.2)	0.2 (0.5)	1.9 (1.7)	2.0 (1.9)

* 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 total number of hours worked, seasonally-adjusted data. 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

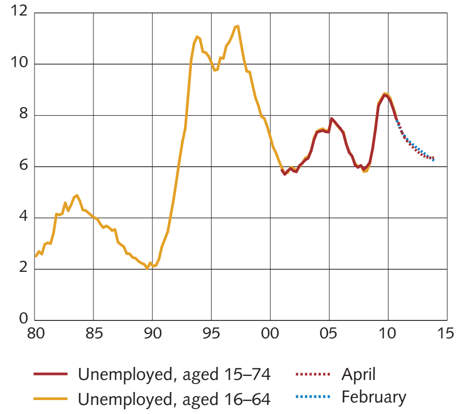
Figures

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



Sources: Statistics Sweden and the Riksbank

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



Note. Pre-1987 data have been spliced by the Riksbank

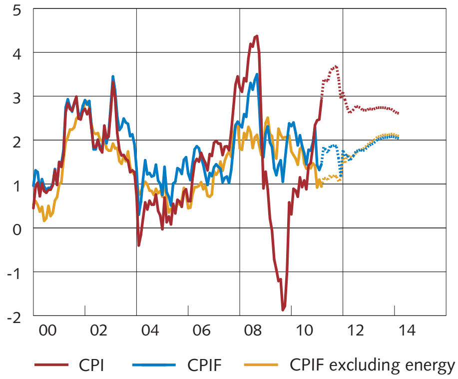
Sources: Statistics Sweden and the Riksbank

Figure 7. 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

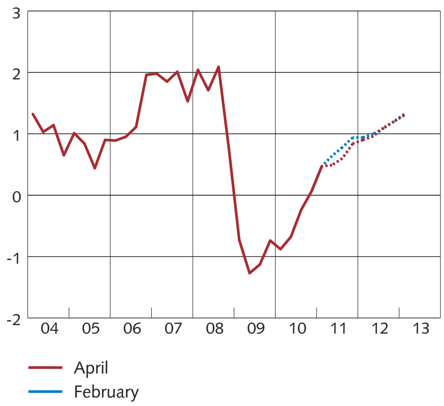
Figure 8. CPI, CPIF and CPIF excluding energy
Annual percentage change



Note. The CPIF is the CPI with a fixed mortgage rate.

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 (CPIF) for the corresponding period.

Source: The Riksbank

Figure 10. TCW-weighted exchange rate
Index, 18 November 1992 = 100

Note. Outcome data are daily rates and forecasts are quarterly averages.

Source: The Riksbank

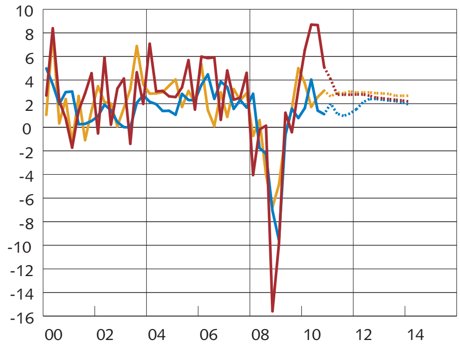
Figure 11. Oil price, Brent crude
USD per barrel

Oil price, outcome
Futures, average up to and including 12 April 2011
Futures, average up to and including 9 February 2011

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

Sources: Intercontinental Exchange and the Riksbank

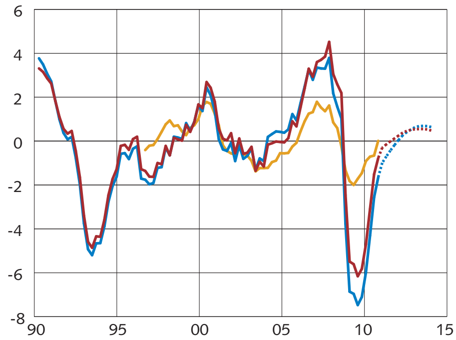
Figure 12. GDP in different regions and countries
Quarterly changes in per cent calculated in annualised terms, seasonally-adjusted data



Sweden
Euro area
USA

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

Figure 13. GDP gap and RU indicator
Per cent and standard deviation

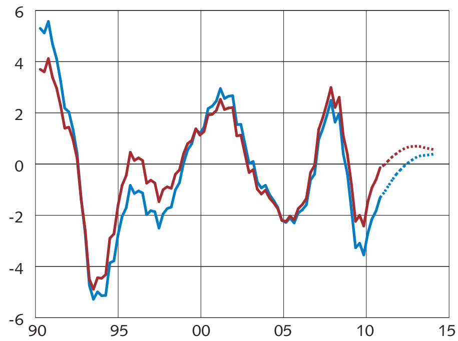


GDP (HP)
GDP (PF)
RU indicator

Note. GDP gap (HP) refers to the deviation from trend in GDP calculated with a Hodrick-Prescott filter. GDP gap (PF) refers to the deviation from trend in GDP calculated with a production function. The RU indicator is normalised so that the mean value is zero and the standard deviation is 1.

Sources: Statistics Sweden and the Riksbank

Figure 14. Hours gap
Per cent



Hours gap (HP)
Hours gap

Note. The hours gap (HP) refers to the deviation from trend in the number of hours worked calculated with a Hodrick-Prescott filter. 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