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SVERIGES RIKSBANK

Monetary Policy Update
April 2013

Economic developments both in Sweden and abroad have been largely in line with the assessment made in the Monetary Policy Report published in February. The global economy is growing at a relatively good pace. The recovery in the United States is continuing, while the euro area is marked by the economic crisis. The Riksbank is assuming that it will be managed so that confidence gradually returns, but major challenges remain before long-run sustainable solutions are implemented and there is a risk of setbacks.

Swedish growth is slow at present but sentiment among companies and households has improved and growth prospects will gradually improve. As growth picks up at the beginning of 2014, the employment rate is also expected to rise and unemployment to fall. Improved prospects, together with low interest rates, will contribute to housing prices and thereby also household debt beginning to rise more quickly.

Falling import prices, the recent krona appreciation and low price mark-ups by companies have contributed to low inflation. As economic activity in Sweden strengthens, resource utilisation and inflation will rise. However, it will take longer for inflation to attain the target of 2 per cent, compared with the assessment made in February. Companies are expected to find it more difficult to pass on their higher costs to higher consumer prices. Moreover, the krona is expected to be somewhat stronger.

The repo rate needs to remain at 1 per cent for a longer period of time to support the recovery and ensure that inflation rises towards the target. During the first half of 2014, gradual increases in the repo rate will begin. This is almost a year later than was forecast in February. CPIF inflation is expected to reach 2 per cent during 2015. The monetary policy conducted is expected to stimulate economic developments and inflation at the same time as taking into account the risks linked to households' high indebtedness.

Figure 1. Repo rate with uncertainty bands
Per cent

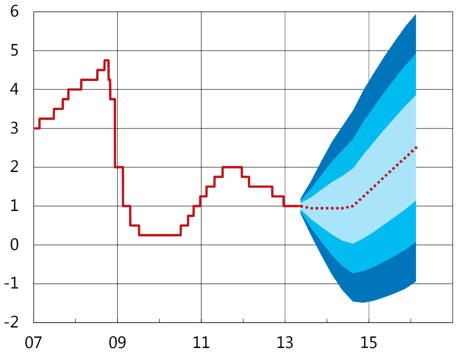


Figure 2. GDP with uncertainty bands
Annual percentage change, seasonally-adjusted data

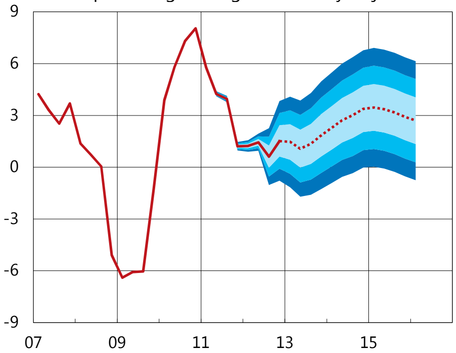


Figure 3. CPI with uncertainty bands
Annual percentage change

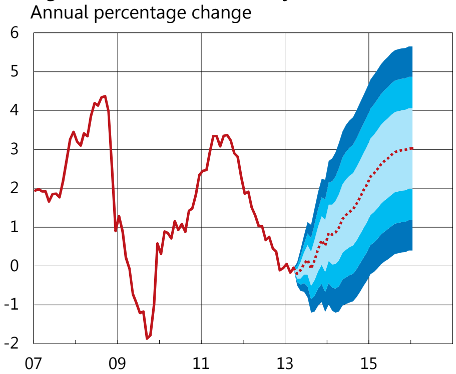
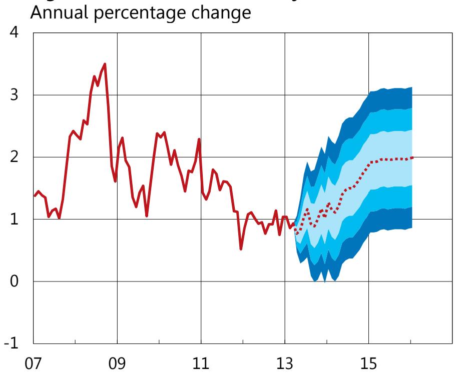


Figure 4. CPIF with uncertainty bands
Annual percentage change



90 %　75 %　50 %

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

The Executive Board decided to adopt the Monetary Policy Update at its meeting on 16 April 2013. The interest rate decision is presented in a press release at 9.30 a.m. on the day following the monetary policy meeting.

■ The economic outlook and inflation prospects

The economic and inflation prospects reported in this Monetary Policy Update are based on the assessments made in the Monetary Policy Report in February and the forecast updates made since then. The forecasts are based on the decision to hold the repo rate unchanged at 1 per cent and on a lower repo-rate path than the one outlined in the February assessment.

■ Global economy improving but risk of setbacks in euro area

After some slowdown in 2012 and 2013, the global economy as a whole is expected to grow by around 4 per cent a year in the period 2014-2015. This is somewhat faster than the average during the period 1981–2011. When GDP growth abroad is considered on the basis of the significance different countries have for the Swedish economy, developments are currently weak, which is largely due to developments in the euro area. However, there should be a gradual improvement during the forecast period. International GDP growth in competition-weighted terms (KIX weights) is expected to rise from 1.3 per cent this year to almost 3 per cent in 2015. Compared with the assessment in February, economic developments abroad are expected to be marginally weaker, as a result of a slower recovery in the euro area. The Riksbank is assuming that the euro area crisis will be managed in such a way that the reform process continues, credible measures are gradually implemented and confidence among households and companies returns. However, there is still a relatively large risk of setbacks.

■ Weak developments in the euro area continuing

Economic developments in the euro area are still marked by the debt crisis. The recent concern over the political and economic developments in Italy and Cyprus have so far had limited contagion effects on the financial markets. But it underlines the sensitivity of the situation. Confidence indicators for the business sector have fallen recently. This has contributed to the assumption that GDP growth will be slightly lower this year than was forecast in the February Monetary Policy Report.

GDP is expected to be largely unchanged in the euro area during the first half of the year and it is mainly developments in southern Europe that are hampering growth. On the other hand, growth is expected to be somewhat stronger in, for instance, Germany. With effect from the second half of the year, growth in the euro area as a whole is expected to be gradually higher as household and company confidence is restored. Several years of debt consolidation work in both the public and private sectors of a number of euro area countries are necessary and this will hold back GDP growth during the entire forecast period.

Inflation in the euro area has fallen over the past year to just below 2 per cent. During the coming period, cost pressures are expected to be weak, which will contribute to inflation being lower in the short run and then rising to almost 2 per cent at the end of 2015. Monetary policy is expected to remain very expansionary throughout the forecast period.

■ Improved growth prospects in the USA despite fiscal tightening

The recovery in the US economy is continuing. The housing market is improving and confidence has risen over the year, at the same time as the labour market is recovering slowly. As households are at the same time reducing their savings, consumption will grow at an increasingly fast pace during the forecast period. The uncertainty over the fiscal policy effects in the United States for the coming years has declined. At the beginning of the year, an agreement was reached not to raise taxes to the extent that would have been required if Congress could not reach an agreement. It is now also clear that the sequester, that is, automatic budget cuts, came into force at the beginning of March. This means that the total fiscal policy tightening for 2013 is expected to amount to almost 2 per cent of GDP, which is slightly more than was expected in the forecast made in February. However, developments during the beginning of the year were stronger than the Riksbank had assumed in February and GDP growth for 2013 is therefore expected to be somewhat higher. The Riksbank assumes that the fiscal policy consolidation will continue throughout the forecast period. The tightening will gradually ease, however, which will contribute to growth increasing more rapidly to just over 3 per cent in 2014 and 2015.

Inflation is expected to rise to just over 2 per cent during the forecast period. Monetary policy is assumed to be very expansionary, in line with the Federal Reserve's most recent forecast.

■ Growth gradually increasing in the UK, Denmark and Norway

The uncertainty over growth in the euro area is also dampening growth in other important Swedish export countries, such as the United Kingdom, Denmark and Norway. In the United Kingdom, developments are weighed down by the need to remedy the public finance deficits. As uncertainty declines and global demand increases, growth in the United Kingdom is expected to rise. The expansionary monetary policy will also contribute to gradually higher growth. Inflation is expected to slow down and be in line with the inflation target of 2 per cent at the end of the forecast period.

The Danish economy is burdened not only by the weak international developments, but also a domestic banking and property crisis. Housing prices have fallen and many Danish households are now saving to compensate for the decline in worth. Fiscal and monetary policy will remain expansionary during the forecast period, which will contribute to gradually higher growth. CPI inflation has fallen faster than expected in recent months, and compared with the assessment in February, it is expected to be lower this year and then to rise gradually and be around 2 per cent during the coming years.

The economic situation in Norway is currently much better than that in the United Kingdom and Denmark. GDP growth in Norway (mainland) is expected to be on average 3 per cent during the coming years and resource utilisation is slightly higher than normal. Inflation is just over 1 per cent at present and is expected to remain lower than the inflation target for the entire forecast period. The forecast for inflation has therefore been revised down somewhat since the February Report and the policy rate is therefore also expected to be lower throughout the entire forecast period, in line with Norges Bank's most recent forecast. According to Norges Bank, inflation prospects in themselves indicate an even lower policy rate, while resource utilisation could indicate a higher policy rate. At the same time, rising house prices and households' high indebtedness risk becoming a problem in the future, which is a further aspect taken into consideration by Norges Bank in its most recent interest rate decision.

■ New stimulus measures in Asia

In China, GDP growth is expected to be around 8 per cent a year over the coming period. The government has taken measures to slow down the continued strong growth in the property market, partly by higher requirements for deposits, and has at the same time announced measures to stimulate domestic demand. An important condition for the forecast in the coming period is that the overheating tendencies in the property market in some parts of China are dampened. Inflation is relatively low and expected to be just over 3 per cent in the coming years.

After a weak outcome at the end of last year, GDP growth in Japan is expected to increase substantially in the coming period. The yen has recently depreciated significantly and the government has indicated that new fiscal policy measures will be taken at the same time as monetary policy has become much more expansionary. The forecast for growth has been revised up since the Monetary Policy Report published in February, particularly for 2014. The inflation forecast has also been revised upwards. Inflation is expected to rise to almost 2 per cent at the end of the forecast period, which is close to the new inflation target.

■ Somewhat stronger krona

The Swedish krona has appreciated against several currencies since the Monetary Policy Report was published in February. The appreciation has mainly taken place in connection with the publication of strong macroeconomic statistics and indicators for Sweden. The real exchange rate, that is, the exchange rate adjusted for differences in price levels in Sweden and other countries, has strengthened over a period of several years. This is linked to a relatively favourable economic development, combined with strong public finances in Sweden. In a more long-term perspective, however, the real exchange rate is not unusually strong. The Riksbank's assessment is that both the nominal and the real exchange rate will remain at roughly the current level throughout the forecast period. The recent strengthening of the exchange rate means that the forecast for the krona is stronger than it was in February, which contributes to lower inflationary pressures in the Swedish economy.

■ Higher GDP growth in the second half of this year

Swedish GDP remained in principle unchanged during the fourth quarter of last year, compared with the third quarter. Both exports and domestic demand will contribute to a dampened GDP growth during the first half of this year, too. Over the course of the year, demand for Swedish exports is expected to return and household and company confidence will rise, which will lead to gradually higher GDP growth. The low repo rate will also contribute to households and companies increasing their consumption and investment at an increasingly rapid pace. Swedish GDP is expected to increase by 1.4 per cent this year, by 2.7 per cent next year and by 3.5 per cent in 2015.

■ Domestic demand important for the recovery

Consumption and investment have been held back for most of 2012 by uncertainty over economic developments. Household confidence has now approached a normal level, the retail trade has begun to recover and house prices have begun to rise. In the coming period, household and corporate sector confidence is expected to gradually strengthen further, which will increase the propensity to consume and invest. Compared with the forecast in February, the current forecast for GDP growth is revised upwards somewhat, which is partly due to the lower repo-rate path.

The weak developments on several of Sweden's most important export markets will continue to hold back growth in exports in the coming period. Exports will increase at a faster pace as confidence in, and demand from, abroad strengthen gradually over the year. However, the stronger krona will contribute to slowing down the upturn in exports somewhat. At the same time, the demand for imported goods and services increases somewhat when the krona strengthens and import prices fall.

When demand increases, the need for new investments also increases. As uncertainty wanes, companies are expected to make planned investments that were postponed earlier. Housing investment, which has declined substantially since the end of 2011, is also expected to gradually pick up as the prospects for the economy as a whole improve.

■ House prices and debts increasing

Higher demand will contribute to an improvement in the labour market, which in turn means that household incomes will rise. Together with low interest rates and generally increased optimism among households, this is expected to lead to a continuing rise in house prices during the forecast period. Thus, household net wealth will increase, but as house purchases are often financed by loans, it means that household debt will also increase. During a large part of the forecast period, debt will increase faster than incomes. Compared with the forecast in February, house prices and debt are now expected to increase at a somewhat faster pace. Household debt as a percentage of disposable income, which is currently around 174 per cent, is expected to increase to just over 177 per cent at the beginning of 2016. Household debt thus remains high in both a historical and international perspective.

■ Temporary deficit in public finances

General government net lending was negative last year and this year it is expected to fall further to -1.3 per cent of GDP. However, the deficit is temporary and when the labour market improves, general government net lending will increase and once again show a surplus in 2015.

The Riksbank's forecasts for fiscal policy are based on measures that have already been announced. In addition, an assessment is based on historical developments in fiscal policy in relation to the economic situation and the surplus target. The forecast includes tax cuts and increases in public expenditure in the magnitude of SEK 16 billion, divided between 2014 and 2015. This is the same assumption as made in the Monetary Policy Report published in February.

■ Labour market will improve in 2014

Employment as a percentage of the population has remained largely unchanged over the past year, while unemployment has increased somewhat as a result of an increase in the labour force. Statistics Sweden has published revised outcomes for the period 2010-2012, which involve higher unemployment and lower employment. In recent months, developments on the labour market have been stronger than previously forecast, however. This means that the rate of unemployment is now roughly the same as was forecast in February. Indicators point to unemployment and the employment rate remaining at their current levels for most of the year. Companies' views of the future have improved, which is illustrated, for instance, in the fact that much fewer redundancy notices have been reported in recent months, than during the autumn. The number of new job vacancies is still at a relatively high level. The labour market normally follows developments in GDP with some time lag, and the rising growth is therefore expected to lead to an increasingly high employment rate and lower unemployment during 2014. The lower repo-rate path will contribute to labour market developments being slightly better than previously expected. Unemployment is expected to fall gradually to around 6.5 per cent at the end of 2015. This is slightly lower than the assessment in February.

■ Resource utilisation normalising

Resource utilisation is currently assessed to be lower than normal. This assessment is supported by the Riksbank's indicators of resource utilisation, which summarise the information from surveys and from the labour market. According to statistics from Statistics Sweden and the National Institute of Economic Research, capacity utilisation in industry is also lower than normal. Other measures of resource utilisation, such as the GDP gap, unemployment, the employment rate and the hours worked gap, all indicate that there is spare capacity in the economy.

The low interest rate will contribute to strengthening economic activity and to a faster increase in growth in GDP and the number of hours worked. This means that resource utilisation will increase and normalise during the latter part of the forecast period. Compared with the forecast made in February, resource utilisation is now expected to normalise somewhat sooner.

■ Wage agreements in line with Industrial Agreement

At the beginning of April, the employee and employer organisations signed new collective wage agreements for the areas covered by the Industrial Agreement. These agreements entail wage increases totalling 6.8 per cent over the coming three years, which corresponds to 2.3 per cent a year. It is possible to give notice of termination of the agreement with regard to the last year covered. The wage agreements in the industrial sector are expected, as before, to act as a norm for other areas of the labour market. So far, other agreement areas, such as the retail and construction sectors, have signed agreements in line with the Industrial Agreement. During 2013, more than 500 collective wage agreements are expected to be signed, covering almost 2.7 million employees.

Local wage formation and traditional wage drift will contribute to the outcomes for the wage increases in the economy as a whole normally being higher than indicated by the collective agreements. According to the short-term wage statistics, wages in the economy as a whole are expected to increase by 2.8 per cent in 2013, compared with the previous year, which is a marginal upward revision to the forecast made in February. In 2014 and 2015 the rate of wage increase is expected to rise gradually as the labour market situation begins to improve from the end of 2013. During the period 2013-2015, wages are expected to increase by on average 3.1 per cent a year, which entails some downward revision since the forecast made in February. The new assessment is partly due to the agreement period for the wage agreements signed so far being longer, and the agreed wage increases lower, than the Riksbank had earlier assumed.

The annual rate of increase in labour productivity is expected to be low for the whole of 2013, but then to rise to a level around the historical average during 2014 and 2015. As productivity growth is low, unit labour costs are expected to rise at a somewhat faster pace during 2013 than in 2014 and 2015. The assessment of cost pressures during the forecast period is largely the same as in February.

■ Inflation still low

Inflation is low at present. The low CPIF inflation is mainly due to falling goods prices and energy prices, while prices of services are rising at a more normal rate. CPI inflation is even lower, which is connected to the interest-rate cuts over the past year and to falling mortgage rates. The fact that goods prices are falling is mainly due to falling import prices and the krona appreciation in recent years. In addition, inflation has been low despite companies' domestic costs, measured in terms of unit labour costs, increasing at a roughly normal rate. The weak demand will probably make it more difficult for companies to raise their prices.

Weak demand, combined with the prolonged effects of the earlier krona appreciation, will mean that inflation remains low over the coming year. The increase in energy prices will also be weak and will contribute to some extent to holding back CPIF inflation. The rate of increase in the CPIF is expected to be around 1 per cent in 2013. CPI inflation will be even lower, as household mortgage costs are lower than they were last year. The annual rate of change in the CPI will be slightly negative for most of the year.

The low repo rate will contribute to stronger economic activity and an increase in resource utilisation, which will increase companies' possibilities to raise their prices. Therefore, inflation will rise gradually during 2014–2015. The gradually higher growth abroad will entail faster price increases on imported goods. In addition, the restraining effects of the earlier krona appreciation on inflation are expected to wane. CPIF inflation will thus rise and reach 2 per cent in 2015. When the repo rate begins to rise again, household mortgage rates will increase, which will lead to CPI inflation rising faster than CPIF inflation. The rate of increase in the CPI is expected to be around 2 per cent at the end of 2014, and to be around 3 per cent at the end of the forecast period. During periods with large interest rate adjustments, measures of inflation that do not include the direct effects of interest rate adjustments, such as the CPIF, provide a better picture of inflationary pressures. In the longer run, when the repo rate has stabilised, CPI inflation and CPIF inflation will coincide, however.

■ Longer time until inflation reaches 2 per cent

In recent months, inflation has been in line with the Riksbank's forecasts. As before, inflation is expected to rise in the coming years, but it is now expected to take longer to reach 2 per cent. Inflation is expected to be lower than was forecast in the February Monetary Policy Report, particularly during 2014.

Inflation in 2012 was lower than expected by the Riksbank and other forecasters. The Riksbank's interpretation of this, as presented in the report Account of Monetary Policy 2012, is that it was mainly due to the international economic activity weakening to an extent that surprised both the Riksbank and other analysts. The unusually weak international economic activity probably had a direct effect on inflation, but may also have had an indirect effect. There are signs that companies raised their prices less than normal in relation to costs and demand. Over the past two years, unit labour costs have increased by around 2 per cent a year, at the same time as CPIF inflation has been around 1 per cent.

This supports the assessment that companies now have more limited opportunities to pass on their higher costs to consumer prices.

Given this, the Riksbank now assesses that prices will also be raised slightly more slowly in the coming years, in relation to costs. Other factors pointing to lower inflation are the forecast for the exchange rate, which is now stronger for the entire forecast period than it was in February. All in all, the forecast for inflation in 2014 has been revised down, despite domestic cost pressures remaining roughly unchanged since the assessment made in February.

■ Monetary policy considerations

The Executive Board of the Riksbank has decided to hold the repo rate unchanged at 1 per cent and to adjust the repo-rate path downwards.

Economic developments have been largely in line with the assessment made in February - growth is low but there are indicators of a better outlook for the Swedish economy, for instance, positive retail trade statistics and rising confidence among households and companies. GDP growth is therefore expected to rise gradually in the coming period and the labour market is expected to begin a recovery in 2014. Improved prospects for the Swedish economy, together with low interest rates, should contribute to housing prices increasing at a slightly faster rate. This means that household debt is also expected to increase at a faster rate in the coming period, compared with the assessment made in February. Inflation is currently low and CPIF inflation is expected to remain at around 1 per cent this year and to rise gradually during 2014. During 2015, CPIF inflation will reach 2 per cent. Compared with the forecast made in February, the Riksbank now assesses that it will take longer before inflation rises towards the target.

■ Low interest rate for longer to counteract low inflation

The repo rate needs to remain at around 1 per cent until the second half of 2014, to stimulate demand and ensure that inflation rises towards the target. This is almost a year longer than was forecast in February. If the repo rate needs to be adjusted in the coming period, it is slightly more likely that it will be cut than that it will be raised, which is due to the low inflationary pressures and continuing uncertainty over developments in the euro area. The repo rate is expected to have been increased to 2.5 per cent by the beginning of 2016. Compared with the assessment made in February, the repo-rate path has been adjusted down, primarily with regard to 2014 and 2015.

The increase in household debt as a percentage of their income is from an already very high level. A high level of debt risks leading to poorer economic developments in the long run, with soaring unemployment and prolonged difficulties attaining the inflation target. This is therefore something that monetary policy needs to take into account. The monetary policy conducted is expected to stimulate economic developments and inflation at the same time as taking into account the risks linked to high indebtedness.

Since December 2011, the Riksbank has halved the repo rate from 2 to 1 per cent and monetary policy is currently very expansionary. There are now signs of an improvement in economic activity, at the same time as housing prices and debt are increasing more quickly. However, the Riksbank now assesses that it will take longer before inflation begins to rise and that CPIF inflation will not reach 2 per cent until 2015. Although an even lower repo rate would mean that inflation approached the target more quickly during the forecast period, it would further increase the risk of imbalances building up. Such imbalances can become particularly difficult to manage if developments were to move towards a strong upwards trend in both housing prices and debt. It is important to prevent this from happening. A number of measures have been taken by various authorities in recent years, such as the introduction of a mortgage cap. However, there is great uncertainty over the effects of these measures and whether they are sufficient. Swedish authorities and other participants should therefore consider carefully whether further measures are needed to ensure that developments in the Swedish economy are sustainable in the long run.

■ Continued uncertainty over economic outlook and inflation prospects

Developments in the euro area are an important source of uncertainty in the forecasts. However, as before the Riksbank is assuming that the crisis will be managed so that confidence gradually returns during 2013. If the crisis were to worsen, it could also have consequences for the development of the Swedish economy and inflation. However, there are at the same time signs of strength in, for instance, the United States and the Asian emerging economies, which could lead to the recovery in international economic activity coming sooner than expected. If so, it is possible that growth and inflation in Sweden will be higher than expected. If the economic situation worsens or improves more quickly than in the Riksbank's forecast, monetary policy will need to be adapted to the new circumstances.

Other important sources of uncertainty are the development of the krona and companies' pricing behaviour. The Riksbank has no target for the exchange rate, but the development of the krona influences monetary policy through its effects on the rate of inflation and on resource utilisation. In the Riksbank's assessment, no major changes are expected in the exchange rate, neither the real nor the nominal rate, during the forecast period. Inflation is also affected to a large degree by how quickly companies pass on their higher costs to consumer prices. It is now assumed in the forecast that it will be more difficult than normal over a period of time for companies to pass on their costs. If developments regarding these two aspects were to change, this would need to be taken into account in monetary policy.

New information since the February Monetary Policy Report

Financial markets

- Financial risk indicators, such as the volatility of the stock markets and various risk premiums, are at relatively low levels. Since mid-February, broad US equity indices have risen, while the corresponding European indices are at roughly the same levels as they were then. Concern over political developments in Italy and the restructuring of Cypriot banks has been evident primarily in the price of European bank shares, which has fallen since mid-February. The vulnerability of some European banks has also meant that the cost of insuring against payment defaults has risen. Yields on government bonds in Greece have risen somewhat, while the corresponding yields in other debt crisis countries are lower or roughly the same level as in mid-February. Nor are there any indications of contagion effects on financial markets outside of the euro area.

- Government bond yields for Germany, the United States, the United Kingdom and Sweden have fallen since the Monetary Policy Report was published in mid-February, which means that most of the upturn earlier in the year has been erased. Yields fell in connection with the Italian parliamentary elections held at the end of February. At the same time, Italian government bond yields have risen as the parliamentary situation in Italy has created uncertainty over the country's ability to take decisions on fiscal policy and structural reforms. This means that investors have demanded a higher risk premium for bonds issued by the Italian government. One contributory factor to Italian government bond yields now being back at roughly the same level as prior to the election is the European Central Bank's capacity to buy government securities within the framework of the OMT programme.

- Ireland has succeeded in funding itself with longer bond loans on the open market, at the same time as holding negotiations regarding a possible extension of the international lenders' loans to both Ireland and Portugal. It will probably not be possible to take a decision on Portugal before the country's government has decided on certain new austerity measures in 2013, as the country's constitutional court rejected parts of an earlier austerity package. It can further be noted that the so-called troika, that is, the ECB, the European Commission and the IMF, has temporarily taken a break in its assessment of the Greek government's observance of the bailout terms. This means that the payment for the month of March has been postponed.

- Greater political uncertainty and somewhat delayed growth prospects have made forward rates in the euro area and the United Kingdom fall. The ECB is expected to hold its policy rate unchanged at 0.75 per cent for a long period of time or possibly even to cut it, while the Bank of England is expected to hold its policy rate unchanged at 0.5 per cent for at least the rest of the year. The Federal Reserve is expected to continue its expansionary policy with asset purchases of USD 85 billion a month, and according to money market pricing, the policy rate is expected to remain unchanged within the interval of 0-0.25 per cent up to 2015. In Japan, the central bank has changed its operational target for monetary policy; from a target for the intraday rate to a target for the size of the monetary base. By substantially increasing the asset purchases, the Bank of Japan hopes to attain an inflation rate of 2 per cent in two years' time. In Norway, Norges Bank indicated at its meeting in March that the probability of a policy rate cut from 1.5 per cent during 2013 has increased.

- Pricing on the Swedish money market indicates that no change in the Riksbank's policy rate is expected at the April monetary policy meeting and that increases in the policy rate are not expected until 2015. According to market analyses, policy rate increases are not expected to begin until 2014 at the earliest. Prospera's most recent survey shows that the Riksbank is expected to hold the policy rate unchanged over the coming 12 months.

- According to a competition-weighted index, KIX, the Swedish krona has appreciated since the Monetary Policy Report was published in mid-February. Strong indicators for the Swedish economy have surprised the market and contributed to a stronger krona. The krona has appreciated most against the Norwegian krona and the Japanese yen, but less against the euro, which is the clearly dominant currency in KIX. The euro has weakened against the dollar and against many other currencies in recent weeks.

- The banks' and credit institutions' lending rates to companies have not changed appreciably since February. Interest rates on loans with shorter maturities have fallen, while interest rates on loans with longer maturities have risen slightly. The banks' rate of lending to companies has remained stable, at 1.4 per cent, during the beginning of 2013. Companies have good opportunities to obtain funding by issuing securities on the capital markets and by using their own liquidity. According to the National Institute of Economic Research's Business Tendency Survey, slightly fewer companies consider it is more difficult or much more difficult to fund the company's operations than it was a few months' ago. The ALMI loan indicator shows that the percentage of bank managers expecting an increase in lending to companies has risen two quarters in a row, and now six out of ten bank managers expect their lending to increase during the coming year.

- The average interest rates on new loans granted to households by banks and credit institutions are largely unchanged since February. However, mortgage rates with longer maturities have risen marginally. Lower funding costs for mortgage institutions have contributed to variable interest rates and interest rates fixed for shorter periods have fallen somewhat. The banks' lending rate to households was 4.6 per cent in February and increased by 0.1 percentage points compared with January.

- Housing prices have begun to rise again. According to Valueguard's index (HOX), which illustrates recent developments, both house prices and prices of tenant-owned apartments rose in January and February. In February, prices were 4 per cent higher than three months earlier. Compared with one year ago, house prices and prices of tenant-owned apartments have risen by 3.5 per cent and 7.4 per cent respectively, according to the same index. However, there are substantial regional differences in the rate of increase in housing prices.

International developments

- GDP in the euro area fell by 2.3 per cent from the third to fourth quarter of 2012, when calculated as an annual rate. This outcome means that GDP fell for the fifth quarter in a row. The largest fall was in Portugal's GDP. However, GDP also fell in Germany and France, which have earlier experienced positive growth. Monthly statistics indicate that GDP in the euro area will remain largely unchanged during the first quarter of this year, compared with the fourth quarter of 2012. Industrial production, which showed a falling trend last year, stabilised during the beginning of 2013. On the other hand, the retail rose more than expected in January, only to fall slightly in February. Confidence indicators such as the purchasing managers' index for the manufacturing industry and the service sector fell in March. The European Commission's survey indicator fell somewhat in March after having risen during the previous months. The labour market has weakened further and unemployment is at an all-time high. According to preliminary figures, inflation was 1.7 per cent in March. The underlying rate of inflation (excluding energy, food, alcohol and tobacco) amounted to 1.3 per cent in February. Tax increases contributed almost 0.5 percentage points to CPI inflation in the euro area in January.

- In the United States, GDP increased by 0.4 per cent from the third to fourth quarter of 2012, when calculated as an annual rate. This outcome entails some slowdown compared with the most recent quarters, but the United States has shown positive quarterly growth since the middle of 2009. Monthly statistics show that consumption rose at a relatively good pace during the first quarter of the year. According to the University of Michigan's survey, consumer confidence continued to rise somewhat in March, despite households facing higher taxes after the turn of the year, due to the agreement in Congress on fiscal policy tightening. There are many signs that the housing market is continuing to improve. For instance, the sale of new and existing homes is increasing. The recovery in the labour market is continuing slowly. Unemployment fell to 7.6 per cent in March, which is largely due to many people leaving the labour force. CPI inflation amounted to 2.0 per cent in February.

- In the United Kingdom and Denmark, GDP fell by 1.2 and 2.9 per cent respectively from the third to fourth quarter of 2012, when calculated as an annual rate. In Norway, there was an upturn of 1.3 per cent. Industrial production in the United Kingdom is weak, but rose in February, as did the retail sales turnover after falling for several months. In Denmark, retail sales rose in February, while industrial production fell. Companies in both countries have become slightly more optimistic over the past six months, but household confidence remains at low levels. Households in Norway are currently much more optimistic and retail sales have also continued to increase at a relatively good pace. CPI inflation in Norway rose to 1.4 per cent in March, while in Denmark it continued to slow down to 0.9 per cent. CPI inflation in the United Kingdom has been stable in recent months, and was 2.8 per cent in February.

- In Japan, GDP rose by 0.2 per cent from the third to fourth quarter of 2012, when calculated as an annual rate. Monthly statistics for 2013 published so far indicate that economic activity will be stronger in the coming period. The purchasing managers' index for the manufacturing industry continued to rise in February and March. Industrial production and exports rose in January, but fell somewhat in February. There are signs that domestic demand has strengthened. Household consumption expenditure rose in January, and the retail sales indicates a further stable increase in February. Consumer prices are continuing to fall, however, and in February CPI inflation was -0.6 per cent.

- The emerging markets are continuing to grow, albeit at slightly different rates. In China, GDP rose by 8.2 per cent and in Russia it rose by 7.5 per cent from the third to fourth quarter of 2012, when calculated as an annual rate. At the same time, GDP rose by a good 2 per cent in Brazil and almost 5 per cent in India, compared with the previous quarter and calculated as an annual rate. The rate of inflation also differs considerably between the emerging markets. In March, CPI inflation in China was 2.1 per cent, while it was just over 7 per cent in Russia in February.

GDP in Sweden

- Swedish GDP rose by 0.1 per cent from the third to fourth quarter of 2012, when calculated as an annual rate. Compared with the corresponding quarter in the previous year, calendar-adjusted GDP increased by 1.4 per cent. GDP growth was thus a little stronger than was forecast in the February Monetary Policy Report. The outcomes for household consumption and for fixed gross investment were stronger than expected, while imports fell less than expected. Weak international economic activity combined with continued uncertainty over international developments is expected to lead to GDP growth being weak during the first half of this year, too.

- There appears to have been some recovery in confidence among households and companies in recent months. The National Institute of Economic Research's Economic Tendency Survey continued to rise in March, but is still at a lower level than normal. The purchasing managers' index for the manufacturing industry has risen this year and is now above 50, which is the breaking-point in the index between expansion and contraction in the economy. The purchasing managers' index for service industries rose in January and February, but fell in March, and is now below 50 again.

- During the fourth quarter of 2012, household consumption increased by 3.5 per cent, compared with the previous quarter and calculated as an annual rate. This was a larger increase than was forecast in the February Monetary Policy Report. The upturn was partly temporary, as housing costs, including heating costs, rose rapidly. But household consumption of leisure and entertainment also showed a rapid increase. After the retail sales developed weakly in January, sales rose in February. Households have also become increasingly optimistic with regard to the future. The National Institute of Economic Research's total confidence indicator for households rose in March, but is still at a lower level than normal. Households' views on their own finances are still more positive than their views on the Swedish economy.

- Exports fell by 3.6 per cent from the third to fourth quarter of 2012, when calculated as an annual rate. This fall was larger than was forecast in February. The continuing weak international economic activity and monthly statistics published for trade in goods point to developments in Swedish exports being weak at the beginning of the year. According to the National Institute of Economic Research's Economic Tendency Survey and the purchasing managers' index, the development in export orders has improved since the end of last year. However, the upturn has occurred from a low level and export orders indicate that exports are weaker than normal.

- During the fourth quarter of 2012, growth in investments was stronger than was forecast in February. Investments increased by 8 per cent from the previous quarter, when calculated as an annual rate. The prospects for the beginning of 2013 look slightly poorer, however. The responses to Statistics Sweden's investment survey in March indicate that growth in investment will be slow for the beginning of the year. Capacity utilisation in the manufacturing industry has fallen, which reduces the need for new investment in industry in the short run.

- General government net lending in 2012 showed a deficit of SEK 25 billion, corresponding to 0.7 per cent of GDP. The forecast in the February Monetary Policy Report was for SEK 18 billion, corresponding to -0.5 per cent of GDP. Public consumption expenditure and transfers increased more than expected in 2012, which was partly counteracted by higher capital incomes.

Labour market

- The Swedish labour market has so far developed in line with the forecast in the February Monetary Policy Report. Several indicators point to the labour market having stabilised. The number of redundancy notices, which increased during the autumn and amounted to on average 10,000 in October and November, has declined significantly since then. At the same time, the number of new job vacancies is still at a relatively high level. Employment plans in the business sector point to largely unchanged employment in the coming period, according to the National Institute of Economic Research's Business Tendency Survey.

- The National Accounts figures for the fourth quarter of 2012 show an increase in the number of hours worked of almost 2.8 per cent, when calculated as an annual rate. This was a stronger outcome than the assessment in the most recent Monetary Policy Report. In February, the labour force surveys published revised statistics for the labour market during 2010-2012. The revision was due to Statistics Sweden introducing a new method of calculation. This has led to the unemployment rate becoming higher and the employment rate lower during the period. But with the new history as a reference point, unemployment and employment were slightly stronger in January and February than was forecast in February. Seasonally-adjusted unemployment amounted to 8.2 per cent in February.

Cost pressures and inflation

- The short-term wage statistics from the National Mediation Office are revised over 12 months, which entails a relatively large time lag for the definitive outcomes in the statistics. In 2011 the final rate of wage increase in the economy as a whole was 2.4 per cent, calculated as an annual percentage change. In 2012, wages in the economy as a whole increased by an average of 2.9 per cent as an annual percentage change. When all of the retroactive wage payments have been entered into the statistics for 2012, wages are expected to have increased by 3.1 per cent for the year as a whole. According to the National Accounts, wages per hour worked increased by 3.2 per cent in 2012, while wage costs per hour increased by 3.0 per cent.

- Prospera's latest survey, which was published in March, showed that wage expectations declined marginally among all agents for one year ahead, compared with the survey in December. Employee and employer organisations are expecting wages to increase on average by 2.4 per cent one year ahead and by 2.6 per cent two years' ahead.

- Productivity increased by only around 0.2 per cent during the fourth quarter of 2012, when measured as an annual percentage change, while unit labour costs increased by around 2.6 per cent. In 2013, productivity is expected to increase more slowly and unit labour costs to increase more quickly than was forecast in February.

- According to the National Institute of Economic Research's Economic Tendency Survey for March, households' expectations of inflation one year ahead amounted to 1.1 per cent, which was around 0.2 percentage points lower than in the February survey. Prospera's monthly survey published in March showed that inflation expectations among money market participants fell at one and two years' ahead, while they were unchanged at five years' ahead. Money market participants are expecting an inflation rate of 1.0 per cent in one year's time, 1.6 per cent in two years' time and 2.0 per cent in five years' time. According to Prospera's quarterly survey published in March, inflation expectations among all participants one year ahead amounted to 1.0 per cent, two years' ahead amounted to 1.5 per cent and five years' ahead to 1.9 per cent. Compared with Prospera's previous survey, the changes were minor.

- Since the Monetary Policy Report was published in February, the inflation outcomes for the first three months of the year have been published. In March, the annual rate of change in the CPI was unchanged, which was in line with the assessment made in February. Compared with the same month in the previous year, CPIF inflation, that is, the CPI with a fixed mortgage rate, increased by 0.9 per cent in March, which was slightly higher than was forecast in February. The annual rate of increase in the CPIF, when adjusted for energy price changes, amounted to 1.3 per cent in March. In the same month, goods prices (excluding food and energy) fell by 0.6 per cent, while prices of services increased by 1.6 per cent compared with the same month in the previous year.

- Over the coming six months, CPIF inflation is expected to be around 1 per cent, calculated as an annual percentage change. The large difference in the rate of increase for prices of goods and services during the past two years is expected to continue over the coming period. It is mainly the falling goods prices that contribute to the expectation of low CPIF inflation. Since the middle of 2012, prices of imported consumer goods in the producer channel have been falling, and in February this year they fell by around 2 per cent, when calculated as an annual percentage change. Prices of services, on the other hand, are expected to continue to rise, but at a slightly slower rate than before, which is also indicated by the low price change plans for the service sector, according to the NIER's Business Tendency Survey.

- CPI inflation is expected to continue to be negative over the coming six months, which can be largely explained by lower costs for housing. This in turn is due to earlier cuts in the repo rate, which have meant lower mortgage costs for households.

Tables

The forecast in the previous Monetary Policy Report is shown in brackets.

Table 1. Repo rate forecast
Per cent, quarterly averages

	Q1 2013	Q2 2013	Q1 2014	Q1 2015	Q1 2016
Repo rate	1.0 (1.0)	1.0 (1.0)	0.9 (1.2)	1.5 (2.0)	2.5 (2.7)

Source: The Riksbank

Table 2. Inflation
Annual percentage change, annual average

	2011	2012	2013	2014	2015
CPI	3.0	0.9 (0.9)	0.1 (0.4)	1.4 (2.1)	2.7 (2.6)
CPIF	1.4	1.0 (1.0)	1.0 (1.0)	1.4 (1.8)	2.0 (2.0)
CPIF excl. energy	1.0	1.0 (1.0)	1.2 (1.2)	1.5 (1.8)	2.0 (2.1)
HICP	1.4	0.9 (0.9)	0.6 (1.0)	1.4 (1.9)	2.0 (2.1)

Note. The CPIF is the CPI with a fixed mortgage rate. HICP is an EU harmonised index of consumer prices.
Sources: Statistics Sweden and the Riksbank

Table 3. Summary of financial forecasts
Per cent, unless otherwise stated, annual average

	2011	2012	2013	2014	2015
Repo rate	1.8	1.5 (1.5)	1.0 (1.0)	1.0 (1.5)	1.9 (2.2)
10-year rate	2.7	1.6 (1.6)	1.8 (2.2)	2.5 (3.1)	3.4 (4.0)
Exchange rate, KIX, 18 Nov. 1992 = 100	107.6	106.1 (106.1)	101.4 (103.0)	101.1 (103.1)	101.2 (103.1)
Exchange rate, TCW-index, 18 Nov. 1992 = 100	122.3	120.9 (120.9)	115.5 (117.4)	116.7 (117.4)	117.3 (117.7)
General government net lending*	0.0	-0.7 (-0.5)	-1.3 (-1.1)	-0.6 (-0.4)	0.5 (0.3)

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

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

GDP	2011	2012	2013	2014	2015
Euro area (0.14)	1.5	-0.5 (-0.5)	-0.4 (-0.2)	1.2 (1.3)	2.0 (1.9)
USA (0.19)	1.8	2.2 (2.2)	2.1 (1.9)	3.2 (3.0)	3.5 (3.4)
Japan (0.06)	-0.5	2.0 (2.1)	1.1 (1.0)	1.8 (1.1)	1.1 (1.0)
China (0.15)	9.2	7.8 (7.8)	8.1 (8.1)	8.2 (8.2)	8.2 (8.2)
KIX-weighted (0.79)	2.2	1.0 (1.0)	1.3 (1.4)	2.5 (2.5)	3.0 (3.0)
World (1.00)	3.9	3.2 (3.3)	3.4 (3.5)	4.1 (4.0)	4.3 (4.3)

Note. In the euro area data refers to calendar-adjusted growth rates. The figures in parentheses in the left column indicate the global purchasing-power adjusted GDP-weights for 2012, according to the IMF. The National Institute of Economic Research updates the weights for the KIX krona index at the start of every year. The figures in the table are based on new KIX weights for 2010 that are used for 2013, and on an assumption that the weights will develop according to the trend of the past five years in the coming forecast year.

CPI	2011	2012	2013	2014	2015
Euro area (HICP)	2.7	2.5 (2.5)	1.7 (1.7)	1.4 (1.5)	1.6 (1.6)
USA	3.2	2.1 (2.1)	1.6 (1.8)	1.9 (1.8)	2.5 (2.3)
Japan	-0.3	0.0 (0.0)	0.3 (0.2)	1.3 (1.4)	1.7 (1.5)
KIX-weighted	3.2	2.6 (2.5)	2.3 (2.2)	2.1 (2.2)	2.3 (2.3)

	2011	2012	2013	2014	2015
Policy rates in the rest of the world, per cent	0.8	0.4 (0.4)	0.2 (0.3)	0.3 (0.5)	0.6 (0.7)
Crude oil price, USD/barrel Brent	111	112 (112)	111 (111)	104 (104)	99 (99)
Swedish export market	5.6	1.4 (1.5)	2.2 (2.8)	5.7 (5.9)	6.9 (6.8)

Note. The export market aims to measure demand for imports in the countries to which Sweden exports. This is calculated by aggregating the imports of 32 countries and covers around 85 per cent of the Swedish export market. The weights comprise the respective country´s share of Swedish export of goods. Policy rates in the rest of the world refer to a weighted average of USA, the euro area, Norway and the United Kingdom.
Sources: Eurostat, IMF, Intercontinental Exchange, OECD and the Riksbank

Table 5. GDP by expenditure

Annual percentage change, unless otherwise stated

	2011	2012	2013	2014	2015
Private consumption	2.1	1.5 (1.4)	2.1 (1.4)	3.0 (2.7)	3.3 (2.7)
Public consumption	1.1	0.8 (0.4)	1.1 (0.9)	0.7 (0.7)	1.1 (1.1)
Gross fixed capital formation	6.4	3.4 (3.2)	0.1 (0.1)	5.0 (4.5)	6.9 (5.8)
Inventory investment*	0.5	-1.1 (-0.9)	0.0 (-0.1)	0.2 (0.2)	0.0 (0.0)
Exports	7.1	0.7 (0.0)	0.9 (1.3)	5.1 (5.4)	7.0 (7.0)
Imports	6.3	-0.1 (-1.0)	0.9 (0.7)	5.9 (5.8)	7.4 (7.1)
GDP	3.7	0.8 (0.9)	1.4 (1.2)	2.7 (2.7)	3.5 (3.1)
GDP, calendar-adjusted	3.8	1.2 (1.2)	1.4 (1.3)	2.9 (2.8)	3.2 (2.9)
Final figure for domestic demand*	2.5	1.6 (1.4)	1.3 (1.0)	2.6 (2.3)	3.2 (2.7)
Net exports*	0.8	0.4 (0.5)	0.1 (0.4)	0.0 (0.2)	0.2 (0.4)
Current account (NA), per cent of GDP	7.3	7.0 (7.3)	6.9 (7.5)	6.6 (7.3)	6.4 (7.3)

*Contribution to GDP growth, percentage points

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

Sources: Statistics Sweden and the Riksbank

Table 6. Production and employment

Annual percentage change, unless otherwise stated

	2011	2012	2013	2014	2015
Population, aged 16-64	0.3	0.1 (0.1)	0.2 (0.2)	0.2 (0.2)	0.2 (0.2)
Potential hours worked	0.8	0.5 (0.5)	0.5 (0.4)	0.5 (0.4)	0.4 (0.4)
GDP, calendar-adjusted	3.8	1.2 (1.2)	1.4 (1.3)	2.9 (2.8)	3.2 (2.9)
Number of hours worked, calendar-adjusted	2.3	0.6 (0.4)	0.4 (0.0)	1.0 (0.8)	1.0 (0.9)
Employed, aged 15-74	2.3	0.6 (0.6)	0.4 (0.2)	0.7 (0.6)	1.3 (1.2)
Labour force, aged 15-74	1.4	0.8 (0.8)	0.7 (0.7)	0.3 (0.2)	0.3 (0.2)
Unemployment, aged 15-74 *	7.8	8.0 (7.7)	8.2 (8.1)	7.8 (7.8)	6.8 (6.9)

* Per cent of the labour force

Note. Potential hours refer to the long-term sustainable level for the number of hours worked according to the Riksbank's assessment.

Sources: Statistics Sweden and the Riksbank

Table 7. Wages and labour costs for the economy as a whole

Annual percentage change, calendar-adjusted data unless otherwise stated

	2011	2012	2013	2014	2015
Hourly wage, NMO	2.4	3.1 (3.1)	2.8 (2.8)	3.1 (3.2)	3.5 (3.6)
Hourly wage, NA	3.2	3.2 (3.3)	3.0 (2.9)	3.4 (3.5)	3.7 (3.8)
Employers' contribution*	0.0	-0.2 (-0.2)	-0.1 (0.0)	0.0 (0.0)	0.0 (0.0)
Hourly labour cost, NA	3.2	3.0 (3.0)	3.0 (2.9)	3.4 (3.5)	3.7 (3.8)
Productivity	1.4	0.6 (0.8)	1.0 (1.3)	1.9 (1.9)	2.2 (2.0)
Unit labour cost	1.8	2.4 (2.2)	1.9 (1.6)	1.5 (1.5)	1.5 (1.8)

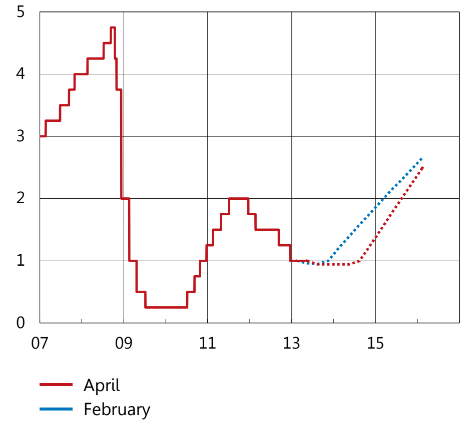
* Contribution to the increase in labour costs, percentage points

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

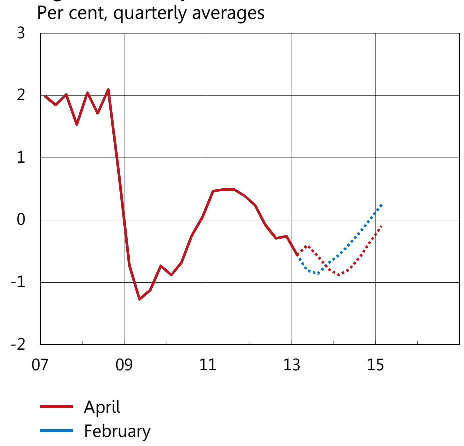
Figure 5. Repo rate
Per cent



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

Source: The Riksbank

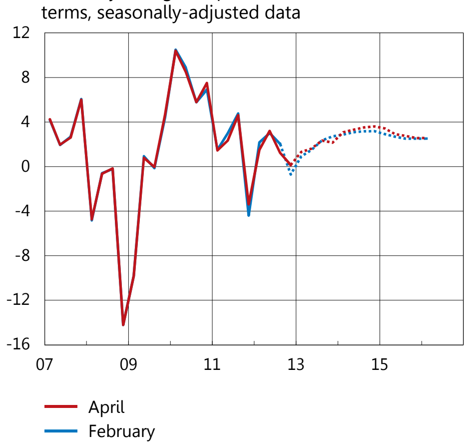
Figure 6. Real repo rate
Per cent, quarterly averages



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

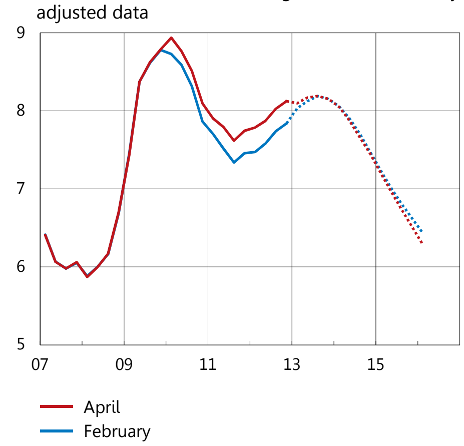
Source: The Riksbank

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



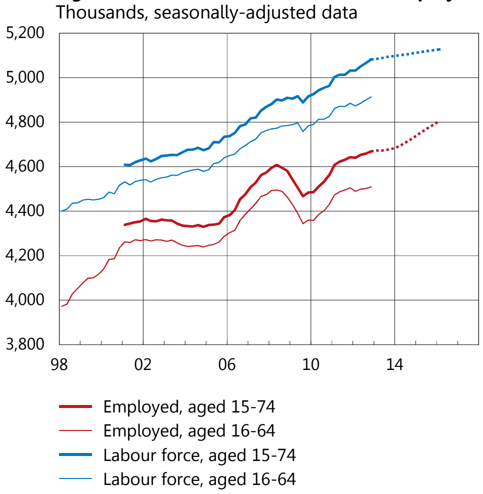
Sources: Statistics Sweden and the Riksbank

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



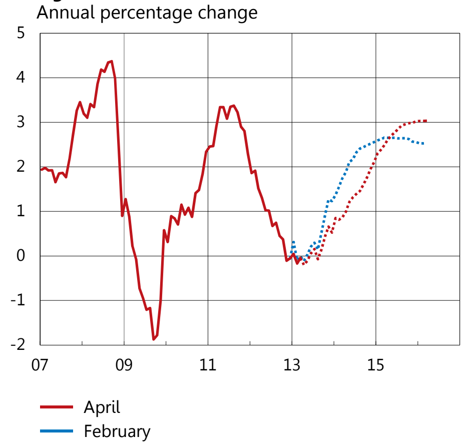
Sources: Statistics Sweden and the Riksbank

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



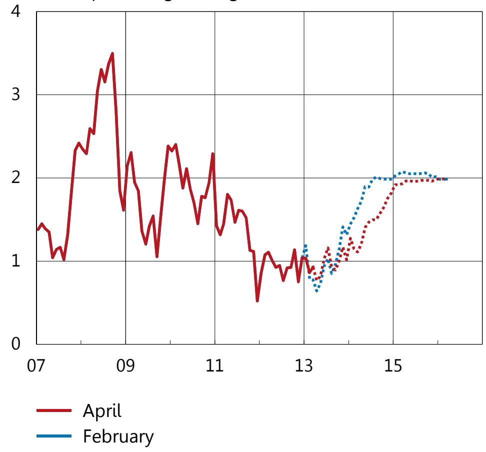
Sources: Statistics Sweden and the Riksbank

Figure 10. CPI
Annual percentage change



Sources: Statistics Sweden and the Riksbank

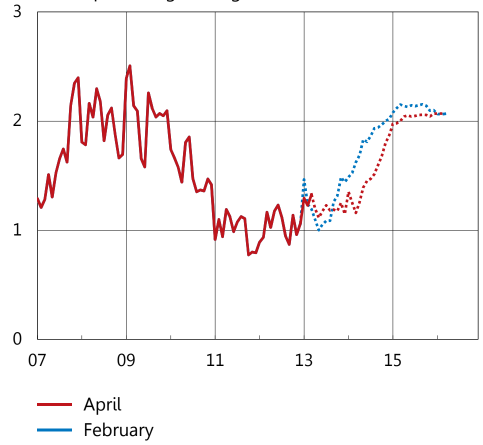
Figure 11. CPIF
Annual percentage change



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

Sources: Statistics Sweden and the Riksbank

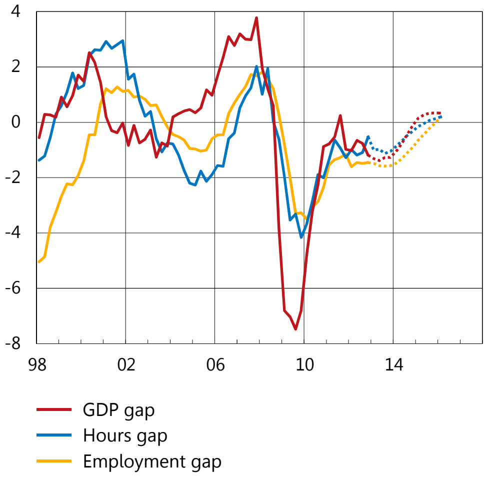
Figure 12. CPIF excluding energy
Annual percentage change



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

Sources: Statistics Sweden and the Riksbank

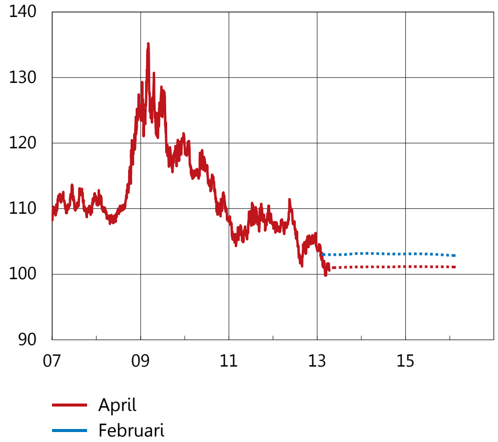
Figure 13. GDP gap, hours gap and employment gap
Per cent



Note. GDP gap refers to the deviation from trend in GDP calculated using a production function. The hours gap and the employment gap refer to the deviation in the number of hours worked and the number of those employed from the Riksbank's assessed trend.

Sources: Statistics Sweden and the Riksbank

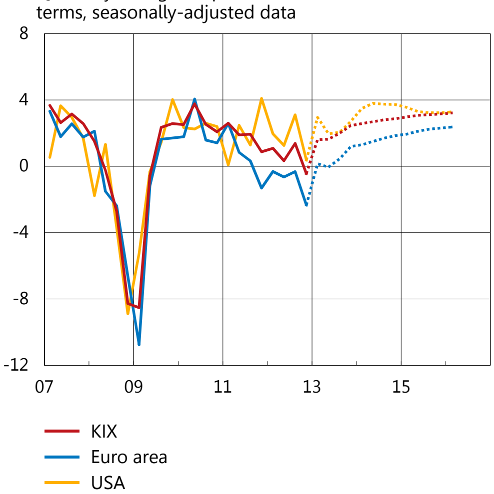
Figure 14. KIX-weighted nominal exchange rate
Index, 18 November 1992 = 100



Note. Outcomes are daily rates and forecasts refer to quarterly averages. KIX is an aggregate of currencies that are important for Sweden's international transactions.

Source: The Riksbank

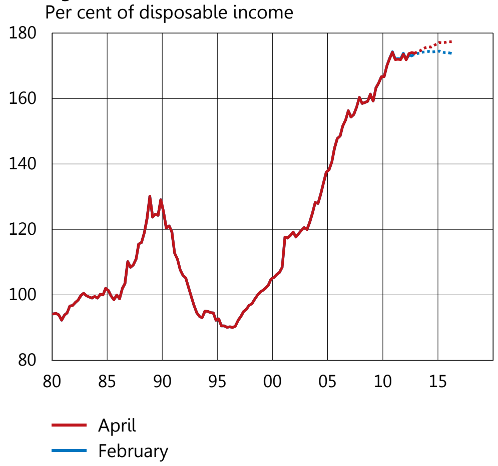
Figure 15. GDP in different regions and countries
Quarterly changes in per cent calculated in annualised terms, seasonally-adjusted data



Note. KIX is an aggregate of Sweden's most important trading partners.

Sources: Bureau of Economic Analysis, Eurostat and the Riksbank

Figure 16. Household debt
Per cent of disposable income



Sources: Statistics Sweden and the Riksbank