SEPARATE MINUTES OF THE Executive Board, No. 8

SVERIGES RIKSBANK
SE-103 37 Stockholm
(Brunkebergstorg 11)

Tel +46 8 787 00 00
Fax +46 8 21 05 31
registratorn@riksbank.se
www.riksbank.se

DATE: 19 June 2007

TIME: 9 a.m.

PRESENT:

Stefan Ingves, Chairman
Lars Nyberg
Irma Rosenberg
Lars E.O. Svensson
Barbro Wickman-Parak
Svante Öberg

Leif Pagrotsky, Vice Chairman of the General Council

Claes Berg
Kerstin Hallsten
Karolina Holmberg
Per Håkansson
Ann-Christine Högberg
Björn Lagerwall
Pernilla Meyersson
Bengt Pettersson
Ola Pettersson
Britta von Schoultz
Staffan Viotti
Anders Vredin
Anna Webrell

§ 1. Economic developments

It was noted that Bengt Pettersson and Ola Pettersson would prepare draft minutes of paragraphs 1 and 2 on the agenda for the meeting. The discussion was based on the draft Monetary Policy Report, which was discussed and tabled at the Executive Board meeting on 13 June, and on the new statistics and analyses presented by the Monetary Policy Department.

1. Recent data regarding economic developments

The Monetary Policy Department reported on new data received since the Executive Board meeting on 13 June.

In the euro area the annual rate of inflation remained unchanged in May compared with April, according to the HICP. Inflation was 1.9 per cent. The trade balance shows a surplus in April of EUR 3.5 billion, according to seasonally-adjusted statistics.

In the United States retail trade sales rose by 1.4 per cent between April and May, while industrial production remained unchanged. The current account deficit rose during the first quarter to USD 192.6 billion. CPI inflation rose to 2.7 per cent in May. Underlying inflation, measured as CPI adjusted for foods and energy prices, fell to 2.2 per cent.

In Sweden, industrial production fell by 1.6 per cent in April compared with March. It increased by 3.6 per cent on an annual basis. Orders fell by 0.2 per cent between March and April, but rose by 5.8 per cent on an annual rate. The Swedish National Debt Office has revised up its forecast for the central government budget surplus in 2007 by SEK 26 billion, to SEK 138 billion. T-bill borrowing is expected to fall by SEK 32 billion compared with last year.

The global rise in interest rates has come to a halt. Interest rates have fallen in the United States and have remained relatively unchanged in the euro area and Sweden. Monetary policy expectations in terms of implied forward rates have fallen somewhat in the United States and the euro area. They have also fallen somewhat in Sweden in the longer term. The krona has strengthened against the dollar and remained relatively unchanged against the euro. Stock prices have risen in Sweden as well as the United States and the euro area.

2. The economic outlook and inflation prospects

First Deputy Governor Irma Rosenberg presented the draft Monetary Policy Report 2007:2, Annex A to the minutes. The Monetary Policy Report reproduces the main features of the presentations and discussions at the Executive Board meetings on 5 June and 13 June.

International economic activity is still developing strongly and the economic prospects for Sweden are still good. Although growth and productivity appear to have slowed down unexpectedly quickly during the first quarter, the Riksbank's assessment is that this is a temporary weakening. The total resource utilisation, which is currently assessed to be slightly higher than normal, will rise further in the future. Employment is increasing rapidly and as the labour supply is not increasing at the same rate, the labour market is becoming tighter. The wage agreements signed so far in the central wage bargaining rounds have been higher than for many years. The tighter labour market also means that it is reasonable to assume that the rate of wage increase will be higher in the future than it has been in recent years.

As productivity is at the same time expected to develop less favourably than before, the higher wage increases will result in rising cost pressures. Underlying inflation is still low, but higher costs are expected to cause it to rise.

§ 2. Monetary policy discussion

Irma Rosenberg presented a proposal for the monetary policy decision.

Developments in the Swedish economy are good. Most indications are that the slowdown in growth during the first quarter was temporary and that GDP is continuing to grow at a good rate. The situation in the labour market has also improved significantly. Employment has been increasing strongly for the past couple of years and unemployment is falling. This means that cost pressures are increasing and that inflation will rise. The interest rate must therefore be raised to attain the inflation target of 2 per cent, and my proposal is that it should be raised by 0.25 percentage points at today's meeting. This interest rate increase is in line with the assessment we made in the February Monetary Policy Report.

In February we expected that it would be necessary to continue raising the interest rate during the forecast period, but our assessment was that a cautious rise would be sufficient. The information received in recent months indicates that cost pressures and inflation will be higher than we predicted in February and that the interest rate thus needs to be raised more in the future than was implied by the February forecast. This was something we noted at our previous monetary policy meeting in May, although we did not quantify it.

One reason for assuming that cost pressures will increase more quickly is that unit labour costs, which have largely remained unchanged on average over the past three years, soared during the first quarter. This was mainly because productivity growth slowed down substantially and wages rose more rapidly. However, one should not attach too much importance to these preliminary national accounts figures. Productivity is very difficult to calculate and also tends to fluctuate substantially. The short-term wage statistics indicate a much more modest rate of increase in wages than the national accounts figures. However, one must still assume, given the information now available, that labour costs increased more than expected at the beginning of the year. There is also reason to believe in faster growth in wage costs in the future than we were expecting to see in February. The wage bargaining rounds have resulted in agreements that indicate this will be the case, despite the fact that there are still relatively plentiful labour reserves. The labour market situation looks to have been a little tighter than we predicted in February, and this also indicates higher rates of wage increase than we were assuming in February. Employment has developed in line with the earlier forecast, while the labour supply has increased slightly less than calculated. Unemployment has therefore fallen more than expected and labour shortages have continued to rise, according to firms' assessments in the National Institute of Economic Research's (NIER) business tendency survey.

The new information received recently is to some extent difficult to interpret, but on the whole indicates that growth will be slightly weaker this year than anticipated. Weaker growth could mean that inflationary pressures slow down. However, most indications are, as

I mentioned earlier, that the slowdown in growth in the first quarter is temporary. It was mainly exports and household consumption that showed surprisingly weak development. Although the foreign trade statistics for April show a continued slowdown in export growth, international economic activity remains strong and this indicates that exports will nevertheless continue to grow at a relatively good rate. The fact that private consumption increased less than expected during the first quarter was mainly due to a fall in energy consumption. Retail trade sales indicate that developments in the second quarter will be stronger. Disposable incomes are expected to increase substantially and survey data indicate that households have an optimistic view of the future. Although household consumption will increase slightly less this year than was previously anticipated, it will probably be one of the important driving forces behind growth in demand. Investment growth was stronger than anticipated during the first quarter and surveys of firms indicate that willingness to invest remains good. All in all, it is therefore reasonable to assume that growth will remain good and that resource utilisation will continue to rise. This will contribute to inflation rising.

My conclusion is that we must adjust our forecast for the repo rate for the coming years upwards. A repo rate of around 4 per cent at the end of the year and a further one or two increases over the coming years may be needed, in my opinion, to ensure inflation is close to 2 per cent and at the same time ensure a stable development in production and employment. It is important to emphasise that a revision of our interest rate path is without drama. It is not stranger to revise our forecast for the development of the repo rate than to revise the forecasts for GDP, employment or inflation when new information is received that justifies a change in the assessment. The upward adjustment of the interest rate path in the main scenario compared with February is not remarkably large, given the new information received since February. Nor is it a case of a large adjustment if one compares it with how market expectations of the repo rate, measured in terms of implied forward rates, usually vary over time.

There is as usual considerable uncertainty regarding the forecasts. The main scenario is based on the severe slowdown in productivity growth during the first quarter being primarily a temporary cyclical effect and connected with the rapid increase in employment. If it were to remain at a lower rate and if wages were also to increase at a faster rate, this would lead to higher cost and inflationary pressures, which would have consequences in the form of tighter monetary policy. However, there are of course also alternative sequences of events that could lead to weaker inflationary impulses, such as weaker international growth or pressure from international competition holding back inflation more than expected. This would instead indicate a flatter interest rate path.

Deputy Governor Barbro Wickman-Parak expressed support of the proposal to raise the repo rate by 0.25 percentage points and of the forecast for the interest rate path contained in the Monetary Policy Report. Raising the repo rate is a natural step to take in the current cyclical phase. A long period of high growth has increased resource utilisation. The various measures of resource utilisation applied by the Riksbank indicate that it rose fairly quickly last year and is now at a slightly higher rate than normal.

Recent statistics have nevertheless pointed in slightly different directions. Outcome data indicate a slowdown in growth, while survey data point to a continued strong rise in economic activity. Ms Wickman-Parak's assessment was that it is reasonable to assume, as in the Monetary Policy Report, that the statistics show a temporary slowdown and not the beginning of a more lasting downswing in the economy. Given the relatively strong growth expected over the coming two years, around 3 per cent a year, resources will be strained further and cost pressures will increase.

Ms Wickman-Parak noted that although the policy rate has been raised in several stages since the beginning of last year, it is still at a relatively low level. A decision today to raise the interest rate to 3.5 per cent does not change this. A neutral interest rate level, that is to say, a level that is neither contractionary nor expansionary, cannot be determined exactly, but the Riksbank's calculations show that it may be in the interval of 3.5-5 per cent. Today's increase will put the policy rate on the lower limit of this interval.

The economic prospects for Sweden still appear strong and household consumption is an important driving force here. In addition, investment appears to have gathered new strength. Household demand is stimulated by increased employment, rising wages and last but not least by tax reductions, both those already implemented and those that are planned. Households have unchanged strong confidence in their own finances in the future, which indicates continued strong growth in consumption.

Ms Wickman-Parak also emphasised that fiscal policy affects both the demand and supply sides of the economy. On the one hand, fiscal policy involves large tax reductions with immediate effects on households' disposable incomes, which stimulates consumption and increases the demand for labour. The tax reductions and other measures are also aimed at increasing the labour supply. On this point it is much more difficult to assess how great the effects will be and when they will become more evident. There are many indications that they will be more significant only in the slightly longer term. So far the labour supply, although it has increased, has not corresponded to the strength in demand for labour.

Although total unemployment has fallen rapidly over the past year the level is now much higher than during the last economic peak and the number of full-time students seeking jobs is just below 100,000. There is thus a labour reserve close to the labour market, which could quickly be put into employment. However it is not merely the aggregate labour reserve that has significance; its composition is also important. The available statistics indicate that the labour shortages have increased, although the scope varies, depending on what type of statistics is regarded. The NIER's business tendency surveys indicate that the number of firms with labour shortages is increasing, although the levels reported are not alarming – with the exception of the construction sector. However, one can observe that the shortages have increased quickly during a relatively short period of time and there is a considerable risk that they will continue to rise. Anecdotal information also points in this direction.

Ms Wickman-Parak observed that the outcomes of the wage bargaining rounds had been higher than expected. In addition, there are wage increases over and above the agreements and it is difficult to assess the size of these. It is assumed in the Monetary Policy Report that wage drift will amount to around one per cent a year. There is a risk that firms will be forced to push up remuneration more than this to attract qualified workers. The alternative is to lower their requirements regarding qualifications. If this occurs, it could have an effect on productivity growth, which would then slow down more than forecast in the Monetary Policy Report.

Inflation is still low, although it has been on its way up for a year or so according to all of the different inflation measures. There is no reason for alarmism, but monetary policy must look a couple of years ahead and manage different types of risk. Ms Wickman-Parak's assessment was that the continued development of the labour market was one such risk.

Ms Wickman-Parak went on to talk about the risks of household borrowing. Although the rate of borrowing has slowed down, there is no decisive difference in the willingness to take on debts; borrowing is still growing at a two-figure rate. The main reason for raising the interest rate today is to bring about a balanced development to reduce the risk of a cost/inflation spiral arising. However, a higher interest rate also increases the chances of a continued gradual slowdown in household indebtedness. This in turn reduces the risk of a more abrupt adjustment further ahead, with greater setbacks to growth as a result. The newly-introduced system with an own interest rate path has given the Riksbank a new signalling tool that provides valuable information to potential borrowers regarding how the Riksbank sees the continued development in interest rates on the basis of current information.

Ms Wickman-Parak expressed support of both the proposal to raise the interest rate today and of the path for the policy rate assumed in the Monetary Policy Report. Given that there are no major setbacks to economic activity, this is a reasonable balance for monetary policy, she said. If international developments were to be much less favourable than expected and/or the Swedish economy were to enter a much weaker phase than expected, the conditions would change.

Deputy Governor Svante Öberg also expressed support of the proposal to raise the interest rate by 0.25 percentage points. His assessment was also that the future interest rate path needs to be revised upwards in comparison with the path presented in the February Monetary Policy Report. The labour market has developed more strongly, wage agreements have resulted in higher wage increases and fiscal policy has been more expansionary than the Riksbank was expecting then.

Mr Öberg also largely agreed with the picture of economic developments over the coming years that is presented in the Monetary Policy Report. GDP growth will remain above the trend level, unemployment will continue to fall and inflation will continue to rise. But his assessment was that inflationary pressures would become stronger than in the main scenario over the coming years.

Mr Öberg's assessment was therefore that the policy rate would probably need to be raised more than in the main scenario. He considered that his assessment was closer to market expectations and the overheating scenario reported in Chapter 2 of the Monetary Policy Report than the main scenario. Mr Öberg said that he would develop the reasons for his assessment later on in the meeting.

Deputy Governor Lars E.O. Svensson expressed support of both the proposal to raise the interest rate by 0.25 percentage points and of the interest rate path in the main scenario of the Monetary Policy Report, as well as the report as a whole. In his opinion, the repo rate path in the main scenario would mean that the forecast for inflation and various different measures of resource utilisation were reasonable and looked good.

Mr Svensson also expressed his views on flexible inflation targeting. This means that the Riksbank aims to attain the inflation target and to stabilise inflation around the target level as well as stabilising resource utilisation. The Riksbank's task is then to choose a repo rate path that is such that the corresponding forecasts for inflation and resource utilisation "look good". In this context, "look good" means that inflation approaches the target and resource utilisation approaches a normal level at a suitable pace.

Mr Svensson considered that the main scenario of the Monetary Policy Report contains an interest rate path that leads to an inflation forecast that appears reasonable in relation to the inflation target and will approach the target at a suitable speed. The various forecasts of different measures of resource utilisation described in the report indicate that this repo rate path also means that the development of resource utilisation appears reasonable and is approaching a normal level. He therefore considered that the report's main scenario for the interest rate path is reasonable and corresponds to well-balanced monetary policy.

Mr Svensson emphasised that an analysis of and forecast for resource utilisation is in his opinion an essential part of the basis for the Executive Board's monetary policy decisions. At the same time, such analyses and forecasts are very difficult and uncertain and therefore pose a considerable challenge in monetary policy work. He considered it particularly important, and at the same time particularly difficult, to analyse and forecast so-called potential output. Potential output is needed to estimate and forecast the output gap. It is therefore very important that the Riksbank's capacity for analysing and forecasting resource utilisation, including potential output, should be further developed.

Deputy Governor Lars Nyberg expressed support for the decision to raise the repo rate by 0.25 percentage points and for an interest rate path that entails a further couple of increases during the year.

Future developments are more difficult to foresee. Mr Nyberg considered that in the longer term the Swedish economy risked a scenario similar to the so-called overheating scenario in the Monetary Policy Report. He emphasised that the most important thing now is to focus on the current year. Mr Nyberg observed that the assessment of the labour market situation now was different from that made in the Monetary Policy Report published in February this year.

It is possible that the recent statistics will need to be revised. The slowdown in exports and consumption during the first quarter, in particular, is difficult to interpret. There are considerable doubts in this field. The slowdown in exports is difficult to understand given that demand is still strong in the Swedish export markets. Given the continued strong retail trade sales, the consumption statistic is puzzling.

Otherwise, Mr Nyberg wanted to highlight three reasons why he considered that inflationary pressures had increased and why an increase in the repo rate and the interest rate forecast was justified.

Mr Nyberg first pointed to the account of the labour market presented in the Monetary Policy Report. The labour market is characterised by a risk of increased wage drift, rising labour shortages and signs of bottlenecks. The labour immigration that has occurred is declining as economic activity strengthens in the countries from which the labour force originates.

Mr Nyberg also wanted to underline developments in the housing market. The slowdown that could be detected last autumn and winter appears to have ceased. House prices have risen by 3 per cent on a quarterly rate. The price increases are particularly marked with regard to tenant-owned apartments, where prices are now increasing by 20-25 per cent on an annual rate. There are signs that the tenant-owned apartment market is approaching an overheating situation. An increase in housing loans of 10-12 per cent on an annual rate is also not sustainable in the long term. In addition, the money supply is growing at an annual rate of 15-16 per cent.

In conclusion, Mr Nyberg mentioned inflation expectations. The level in itself is not a problem. On the other hand, the clear upward trend is problematic. He emphasised the importance of closely monitoring development in inflation expectations.

Riksbank Governor Stefan Ingves also expressed support for the proposal to raise the repo rate by 0.25 percentage points and for the interest rate path described in the main scenario of the Monetary Policy Report.

Mr Ingves began by commenting on international developments. He observed that long-term interest rates have risen globally but without creating any turbulence in the international financial markets. The rise in interest rates is partly linked to signs of increasing global inflation. There is a large global liquidity surplus and the risks of rising inflationary pressures abroad have increased. However, it is not yet entirely clear how this affects the Swedish economy and monetary policy.

Demand in Sweden is good. Exports are increasing, but imports are growing even more rapidly. The current account surplus will probably decline. The most decisive factor for monetary policy is that cost pressures in Sweden have increased more than in the assessment made in the February Monetary Policy Report. The situation in the labour market is continuing to tighten. At the same time, fiscal policy has become more expansionary.

Mr Ingves pointed out that monetary conditions are still expansionary. The money supply and lending are growing rapidly. The monetary and the real economy are thus both showing signs of a rapid growth in demand. Resource utilisation is above the trend level and pointing towards rising inflationary pressures and the need for an increase in the interest rate.

Mr Ingves pointed out that the discussion on the need to raise the interest rate began one and a half years ago. The Swedish economy was then in a very favourable position. What is happening now does not entail any change of course, but is a further step on the road towards less expansionary monetary policy.

The timing of an interest rate increase can always be discussed. But the direction is clear. It is clear from the Monetary Policy Report that we could soon overshoot the inflation target if we did not continue to raise the interest rate. Previously we counted on attaining the inflation target two years ahead. What we now see indicates that we will attain the target one year from now. This is slightly quicker than before and the risks can therefore be said to be slightly larger.

Mr Ingves had no objections to the scenarios presented in the Monetary Policy Report. However, he did wish to make a reflection regarding the scenarios. In the high-wage scenario higher wages lead to a poorer development of the Swedish economy and to wages falling because of this. But it is also possible to imagine a scenario where we are stuck in a situation with higher nominal wage increases. This would be a possible development that would not be beneficial for the Swedish economy. Inflation would rise, real wages would fall and interest rates would be higher.

Svante Öberg agreed on the whole with the picture of developments painted in the Monetary Policy Report. However, he wanted to develop the reasons for his assessment that inflationary pressures will be stronger in the coming years than assumed in the report's main scenario and that the policy rate would therefore probably need to be raised more than in the main scenario.

Mr Öberg observed that international developments are very strong. Although growth in the world will slow down slightly this year and next year, the rate of increase in world GDP is nevertheless at a level close to 5 per cent a year. A clear slowdown in the United States is balanced by more robust growth in Europe and Japan. The emerging economies in Asia and the previously planned economies in eastern Europe are contributing substantially to the strong world growth. They are growing at a very rapid rate and account for an increasing share of the total world GDP.

Mr Öberg observed that inflation is low and stable, despite the strong international growth. Inflation in the OECD area is at the level of around 2 per cent a year that was established during the second half of the 1990s. At the same time, he said that one factor that needed to be considered more in future is the development of commodity prices. The price of crude oil has trebled in a few years. It is now at a high level and varying substantially. Prices of a number of metals have also increased substantially. But this also applies to wheat, maize, sugar cane and other crops that can be used to produce bio-fuels and propellants. These prices can have a more direct and more substantial significance for world food prices and thereby for consumer prices. The significance will be greater in poorer countries, but it could also affect richer countries such as Sweden.

Mr Öberg also largely agreed with the picture of economic developments over the coming three years that is presented in the Monetary Policy Report. He thought that the report provided a good base for the monetary policy meeting. Nevertheless, Mr Öberg considered it was important to describe the differences in assessments made by members of the Executive Board. His own assessment was that inflationary pressures would become stronger over the coming years than described in the main scenario.

Mr Öberg considered that growth would probably be higher than in the main scenario. GDP growth in 2007 has probably been underestimated. Over the past seven years, the statistics for GDP growth during the first quarter have been revised upwards in later statistics by an average of 0.5 percentage points and the first quarter has considerable significance for average growth during the year. Mr Öberg also considered that the forecasts were in some aspects a little too cautious. This applied to investments, for instance. Capacity utilisation is high and profitability is good. However, the main indication of stronger growth is that the forces affecting the development of the economy are unusually strong. Growth in the world economy is high and stable, fiscal policy is expansionary and monetary policy has been and still is expansionary. The interest rate is still low, credit expansion is strong and house prices have begun to accelerate again.

But the forecasts for further ahead than one year are uncertain. Mr Öberg also thought that if one uses the forecast for GDP growth in the main scenario as a starting point, there is reason to assume that inflationary pressures will be stronger than in the Monetary Policy Report. This is due to two things.

Firstly, the improvement in the labour market will continue at a more rapid rate than in the main scenario and productivity will thereby increase more slowly. The improvement in the labour market has so far this year been quicker than the Executive Board had earlier estimated. The labour supply has increased more slowly and unemployment has fallen more. The increase in employment and the decrease in unemployment will not abate as quickly as is assumed in the main scenario. Both structural and cyclical factors indicate a slower rate of increase for productivity over the coming years. Productivity increased hardly at all during the first quarter of this year and the Riksbank has therefore substantially revised down the forecast for the rate of increase of productivity this year and revised up unit labour costs. It is reasonable to expect also in the coming years that the rate of increase in productivity will be lower than the long-term rate when economic activity has entered a mature phase and is about to slow down.

Secondly, Mr Öberg thought that wages will increase more rapidly than assumed in the main scenario. His assessment was that they will be 4.5-5 per cent a year during the three years covered by the agreements, in the way they are measured in the short-term wage statistics, including wage increases over and above the agreements.

Mr Öberg's assessment was therefore closer to the overheating scenario described in Chapter 2 of the Monetary Policy Report. In this scenario wages rise more than in the main scenario, while productivity growth is weaker. This results in higher cost pressures and UND1X inflation rising to around 2.5 per cent a year. In this scenario, the policy rate is raised to around 5 per cent. But if the conditions on which the overheating scenario is based are realised, it would not suffice with an increase in the policy rate to around 5 per cent, as inflation would then be too far above the target.

Mr Öberg also had two comments regarding inflation. Firstly, it is currently better to focus on UND1X excluding energy, which is a more stable measure of underlying inflation than UND1X including energy. It is almost impossible to make a well-founded forecast for the oil price, as it is so dependent on actions within OPEC and potential supply limits due to conflicts and natural disasters. Electricity prices also vary considerably depending on variations in outdoor temperatures and water flows to reservoirs. The forecasts in February regarding UND1X excluding energy had also proved more accurate so far this year than the forecasts for CPI and UND1X.

Secondly, Mr Öberg thought that the risks were now on the upside, that is, inflation would probably be higher than in the main scenario of the Monetary Policy Report. Inflation is on its way up. Inflation measured as UND1X excluding energy was 1.2 per cent in May. It has increased by roughly one percentage point since the beginning of the year. Inflation expectations are also rising. Two years ahead they are at between 2.1 and 2.7 per cent for different groups, according to Prospera. The forecasts indicate a continued upturn in inflation. Inflation measured as UND1X excluding energy will rise according to the main scenario to just over 2 per cent in slightly over one year and will then remain above the inflation target for the remainder of the forecast period. All in all, his assessment was that inflationary pressures would become stronger than in the main scenario over the coming years.

Irma Rosenberg agreed with the need to analyse different types of inflation measures, for instance different variations of UND1X, as a basis for monetary policy decisions. For instance, it was not appropriate to try to counteract the direct effects of the severe fluctuations in energy prices on inflation in recent years by means of monetary policy. However, she emphasised that this did not mean that the objective of monetary policy had changed. The monetary policy target variable is still CPI. Svante Öberg agreed with Ms Rosenberg's comments.

§ 3. Monetary policy decision

Chairman Stefan Ingves found that there was only one proposal: To raise the repo rate by 0.25 percentage points to 3.5 per cent.

The Executive Board decided

- to adopt the Monetary Policy Report as presented
- to publish the Monetary Policy Report on 20 June at 9.30 a.m.,
- to raise the repo rate to 3.5 per cent and that this decision would apply from Wednesday, 27 June 2007,
- to raise the lending rate to 4.25 per cent and the deposit rate to 2.75 per cent, with effect from Wednesday, 27 June 2007,
- to announce the decision at 9.30 a.m. on 20 June 2007 with the motivation and wording contained in Press Release no. 29 2007 (Annex B to the minutes) and
- to publish the minutes of today's meeting on Wednesday, 4 July 2007 at 9.30 a.m.

Executive Board member Svante Öberg entered a reservation against the Monetary Policy Report. Mr Öberg considered that the report in itself provided a good base for the Executive Board meeting and he agreed on the whole with its description of economic developments for the coming years. But Mr Öberg's own assessment was that inflationary pressures would become stronger over the coming years than assumed in the main scenario of the report and that the policy rate therefore probably would need to be raised more than implied by the main scenario.

This paragraph was confirmed immediately.

Minutes by:

Ann-Christine Högberg

Checked by:

Stefan Ingves, Lars Nyberg, Irma Rosenberg, Lars E.O. Svensson, Barbro Wickman-Parak, Svante Öberg