Separate minutes of the Executive Board meeting No. 8

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TIME: 09.00

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
Jesper Hansson
Ann-Christine Högberg
Martin W Johansson (§1)
Andreas Johnson
Anna Lidberg (§1)
Tomas Lundberg
Pernilla Meyersson
Christina Nyman
Marianne Nessén
Bengt Pettersson
Maria Sjödin
Åsa Sydén
Staffan Viotti
Anders Vredin

§ 1. Economic developments

It was noted that Andreas Johnson and Bengt Pettersson would prepare draft minutes of paragraphs 3 and 4 on the agenda for the meeting.

Anders Vredin, Head of the Monetary Policy Department, presented a base for the Executive Board's discussion in the form of a draft Monetary Policy Update. He noted to begin with that an international outlook, a current status report and proposals for forecasts had been presented by the Monetary Policy Department and the Financial Stability Department and discussed at the drafting meetings held on 27 and 28 August. Forecasts and texts for the Monetary Policy Update had been discussed further at a meeting held on 2 September.

The financial turbulence has continued since the monetary policy meeting in July. International GDP growth is now expected to be lower. The GDP forecast for the euro area has been revised down, while the forecast for the United States has been revised marginally upwards for the current year. Trade-weighted (TCW) growth, that is, the growth rate expected in Sweden's most important export countries, has been revised down for the coming years. TCW-weighted inflation has been revised up for the current year.

The oil price has fallen since July. Expectations of the oil price in terms of forward pricing have also fallen.

In Sweden, the labour market situation remains strong and the number of hours worked is rising faster than expected. However, there are indications of a weaker labour market further ahead. All in all, the labour market situation so far is roughly as expected. According to preliminary statistics, GDP was unchanged between the second and first quarters. Economic indicators in general point to a weaker picture than expected. Productivity is continuing to decline, which means that cost pressures have increased in terms of unit labour costs. However, wages have been slightly lower than expected. Inflation and inflation expectations are still high and above the inflation target. However, inflation expectations have recently shown a slight fall.

The forecast for the labour market and GDP growth has been revised down compared with the assessment in the July Monetary Policy Report. Productivity is now expected to increase more slowly in future, but a turnaround is still expected next year. The inflation forecast has been revised down as a result of the fall in oil and other commodity prices. The forecast for the repo rate path has also been revised down as a result of the expected lower growth and inflation. The forecasts for growth and inflation are based on the assumption that the repo rate will be raised at today's meeting and then lowered further ahead. Resource utilisation, measured according to the HP-gap (Hodrick Prescott), is high in terms of the number of hours worked and employment. The HP gap is a statistical method that divides up a time series into cyclical and trend components. However, it is lower in terms of the difference between trend and actual GDP.

Anna Lidberg from the Monetary Policy Department reported on developments in the financial markets since the previous Executive Board Meeting on 27 August. Interest rates have in general fallen. The Swedish krona has weakened against both the dollar and the euro. The stronger dollar is generally interpreted as a result of the falling oil price and of surprisingly strong revised GDP figures for the second quarter. Positive statistics for house sales in July also contributed to the dollar appreciation. Growth between the first and second quarters in the United States was 3.3 per cent on an annual rate.

Share prices have risen, particularly in Sweden and Europe, partly as a result of the lower oil price. The US stock market has slowed down, partly as a result of uncertainty linked to Hurricane Gustav.

The majority of market participants believe that the repo rate will be raised by 0.25 percentage points to 4.75 per cent at today's meeting. However, the perceptions of whether or not there will be a raise are divided. Pricing in the market indicates a probability of 55 to 65 per cent that the rate will be raised to 4.75 per cent. Expectations of the future interest rate path have been revised down since 27 August.

Martin W Johansson from the Financial Stability Department reported on developments in the housing finance market in Sweden. The banks' financing costs have risen. It is expected that some of these additional financing costs will be passed through to the banks' customers.

§ 2. Economic outlook abroad

Deputy Governor **Lars Nyberg** opened the discussion. He began with some reflections on the development of the crisis in the international financial markets. It was possible to note as early as July that the crisis had not developed quite as one might have expected and hoped. This still applies. Time should tend to gradually restore confidence in the bank system – and within the bank system. The high degree of leverage in many financial institutions has fallen substantially. Considerable loan losses have come to light and been written off. Large financial agents have succeeded in acquiring new capital – although there is still some way to go to fill all of the holes in the balance sheets. However, confidence in the banks has not returned to a corresponding extent.

On the contrary, the unrest has continued and worsened during late summer. The liquidity in the bank system, which caused concern during the spring, has not in itself improved or deteriorated when measured in terms of basis spreads, that is, the difference between the interbank rate and the expected policy rates. But the cost to the banks' external financing has increased further and the dependency on borrowing in the central banks has not declined, rather the reverse. Many banks are now forced to pay higher interest on their borrowing in the bond market than their large customers have to pay – and the difference has increased in recent weeks. This situation is not sustainable in the long term. The banks should live on lending at slightly higher interest rates than they pay for their own borrowing.

It is possible that some banks have postponed their borrowing in the hope that the crisis would peter out and that financing costs would return to more normal levels. However, this is always a hazardous undertaking. Ultimately, a number of bond loans will need to be refinanced and the investors in the market are aware of this. They will then hold onto their money and wait for interest rates to rise further. The short-term forward rates noted for the period around the turn of the year indicate that the banks' financing costs will continue to be higher than normal at least until then. It is difficult to say that the crisis is on the verge of being resolved before investors' required rate of return on bank bonds and the interbank rates have fallen to more normal levels.

Mr Nyberg pointed out that the most sensational event during the summer is that the large private mortgage institutions known as Fannie Mae and Freddie Mac were given support both for their liquidity and their solvency by the US authorities when they could no longer finance themselves. Without this support the shares in the companies would probably have been worthless. The measures calmed the markets, but there remains considerable uncertainty regarding the next step. A regular government takeover of the companies would have been regarded by many as the natural solution. All of the risk is now borne by the taxpayers.

The fact that international economic prospects have deteriorated probably also contributes to the banks' problems. Poorer economic activity creates expectations of rising loan losses and declining profitability. The growth figures for the euro countries and for the United

Kingdom and the Nordic countries have been poorer than expected during the summer and most forward-looking indicators point to a continuing decline. In the United States GDP increased in the second quarter, compared with the first quarter, by more than three per cent, calculated as an annual rate. However, one contributory factor is a large upswing in the construction of commercial property. This is ominous in a country with an ongoing bank crisis as one can only assume that demand, after will also fall in this sector, after a probable overheating. Exposures to the commercial property sector usually comprise a significant part of the banks' losses in most bank crises.

Deputy Governor **Barbro Wickman-Parak** began by commenting on the fall in the oil price. At the previous monetary policy meeting the oil price was at a historically high level with the daily listing for Brent crude at over USD 140 per barrel. It has now fallen to below USD 110 per barrel and the forward rates are around 20 dollars lower now than they were then. On condition that there is no return to the rising oil prices, the situation has become slightly easier for the central banks, including the Riksbank, to manage. Inflationary pressures are easing and this gives greater scope for monetary policy to meet weaker economic activity.

The financial turbulence still lies as a backdrop of uncertainty behind all of the forecasts. Ms Wickman-Parak agreed with Mr Nyberg's description and analysis of the developments in the financial markets and with his conclusion that there had not been any improvement since the monetary policy meeting in July.

GDP growth in the United States was much stronger than expected during the second quarter, but she did not think one should be deceived by this. If one studies the underlying statistics one sees that growth was to a large extent driven by exports, as in the previous year. Now that we are seeing weaker economic activity abroad and the dollar has strengthened, we cannot rely on exports continuing to be a strong growth engine in the United States.

Housing investment has continued to fall and companies' investment in machinery has fallen slightly in the last two quarters. One component in the National Accounts that has shown strong growth over a couple of years is the construction of commercial property. This continued during the second quarter, when these investments increased by more than 13 per cent, compared with the first quarter, calculated as an annual rate. Nor is the expansionary element of demand expected to remain; a downward adjustment is expected in the forecast.

Ms Wickman-Parak considered that private consumption in the United States is uncertain. It has been maintained fairly well with the aid of the tax rebate cheques that began to be sent out in late April. By the end of July all of the cheques had been sent out. The forecast is that private consumption will scarcely increase at all during the second half of this year. The forecast for GDP growth is 1.5 per cent for this year and Ms Wickman-Parak considered this to be a realistic figure. As in the assessment made in July, it is assumed that a recovery in growth will begin next year. This is on condition that the housing market has stabilised by then, that the repercussions of the financial crisis have petered out and that employment has begun to rise. Ms Wickman-Parak now considered, as at the monetary policy meeting in July, that the forecast was genuinely uncertain.

Her opinion was that anyone who might have hoped that the economy in the euro area would not be affected so much by the downswing in the United States had seen their hopes dashed to the ground. When the forecast was made in July, there were clear tendencies towards a slowdown in the form of weaker indicators. The assessment was therefore that growth during the second quarter would only be slightly positive despite a surprisingly strong first quarter. The outcome for the second quarter proved to be even poorer, as compared with the first quarter growth was negative. Growth fell in the large euro countries Germany, Italy and France. Most of the indicators for households and companies point unequivocally towards continued weak GDP growth and the growth forecast for both this year and 2009 has been adjusted downwards.

Ms Wickman-Parak also stated that the Japanese economy, which had earlier looked to be managing relatively well, had negative GDP growth in the second quarter and its future growth prospects have deteriorated.

Finally, she pointed out that the recovery in the world economy, including Sweden, which was predicted in the forecast assumes there will be a recovery in the United States next year. As already mentioned, the forecast for the US economy is very uncertain, said Ms Wickman-Parak. This means that the forecast as a whole is uncertain.

First Deputy Governor **Irma Rosenberg** began by pointing out that there were three problem areas that the Riksbank and other central banks need to manage. The financial turbulence is continuing and is manifested in new ways and it has not yet peaked. Rising energy and commodity prices have pushed up inflation and there is still considerable uncertainty over future developments. However, the probability of a weaker development in commodity prices has increased. Finally we have the slowdown in economic activity that can be regarded as the most certain observation. Growth is gradually slowing down and there is even a risk of a recession in some areas. There is thus a risk that international economic activity will weaken further.

Ms Rosenberg agreed with the description Lars Nyberg gave of developments in the financial markets. The financial turbulence is continuing and it is quite clear that the time of negative surprises that increase the stresses in the financial markets is not over yet. During the summer, for instance, concerns have increased in connection with the information that the US mortgage finance giants Fannie Mae and Freddie Mac need both liquidity assistance and solvency support. The severe weakening in economic activity in the Baltic countries also risks having repercussions in the form of tighter conditions in the Swedish credit market.

Ms Rosenberg's assessment was that prospects for international economic activity have deteriorated further during the summer.

The forecast for GDP growth in the United States has been revised upwards slightly due to stronger outcomes in the second quarter than expected. She agreed with the assessment in the Update that it was probable that this is only temporary. Household consumption was boosted by the tax rebate cheques sent out mainly during the second quarter. In addition, net exports accounted for almost all of the growth during the second quarter. It is difficult to believe that exports will continue to contribute to growth to the same extent. According to the purchasing managers' index, export orders fell heavily in August and weaker international developments indicate that export growth will slow down. Construction of commercial property increased rapidly during the second quarter, but there is no reason to believe that this is sustainable. According to the US central bank's questionnaire to banks, loan terms are now being tightened with regard to large and medium-sized companies as well as small companies. Nor is the demand for loans increasing. The crisis in the housing sector is continuing. According to the statistics, house sales have possibly begun to level off, but prices are falling, and so are applications for mortgages. Overdue debts are still increasing. Inflation remains high, but wage costs do not appear to have been pushed up. Ms Rosenberg still found it difficult to believe that the US economy will turn around as quickly as assumed in the forecast.

She went on to point out that regarding the economy in the euro area, information had been received as early as July that indicated weaker growth during the second quarter, compared with the strong first quarter. GDP growth has since slowed down more suddenly than expected and the forecast has been adjusted downwards compared with the assessment made in July. Various surveys of economic activity indicate almost unequivocally that the weaker development will continue. Industrial production is falling and confidence indicators for both households and companies have deteriorated rapidly. Inflation is substantially higher than the ECB's target, although it fell slightly according to the most recent monthly outcome published in August.

Ms Rosenberg went on to emphasise that the forecast for global growth assumes that there will not be any substantial slowdown in the emerging markets. However, this is an uncertain assumption. It is difficult to believe that growth will not weaken there too. The higher energy and food prices will reduce purchasing power in these countries too and it will probably be necessary to partly withdraw subsidies on these goods in many countries. The consensus forecasts for Asia excluding Japan have also been revised down somewhat in recent months. There is thus an evident risk that world growth will slow down more than the downward revision of one tenth contained in the forecast for 2008 and 2009.

Governor **Stefan Ingves** pointed out that after a long period of low inflation and high growth we are now entering a period of higher inflation than before and of falling growth. Growth is falling in developed economies, while it remains high in emerging markets and will probably remain favourable in the future. This could mean that the fluctuations in economic activity will be more substantial than before, although global growth will on the whole remain good. Growth abroad in TCW terms has slowed down and this affects an open economy like the Swedish one. Inflation is expected to fall in many countries as a result of slower price developments in energy, food and other commodities. What central banks will probably need to deal with is prolonged high prices on goods with substantial demand from rapidly-expanding economies, for instance, energy.

Some emerging markets have their currencies pegged to the dollar which means that they import the expansionary US monetary policy. In addition, some countries have a need to reduce their energy subsidies. The question that will keep recurring is how successful inflation combating will be in different parts of the world.

Mr Ingves pointed out that the international economic downswing is not surprising. In many countries access to credit has been much too high for far too long and this has contributed to an unsustainable situation. The imbalances in the global economy are being corrected, but it is still uncertain how long the adjustment will take. For instance, one can note how quickly the discussion of a "new era" has disappeared. The idea behind the new era was that the fluctuations in GDP and inflation in the world economy had declined permanently and that the global economy was in a new situation. It would now appear that people are questioning whether we have actually obtained a more stable world economy. We must be prepared for substantial fluctuation in the international economy, which can in turn affect the Swedish economy in the future.

For a small, open economy with a floating exchange rate and an inflation target it is important in this situation to make use of the degree of freedom allowed by independent monetary policy. The interest rate decisions do not need to clearly follow what is happening elsewhere. It also means that we are prepared for the monetary policy that would be required if entirely different international scenarios began to be realised. It may even be the case that the inflation target will become more important as an anchor for monetary policy if financial imbalances and large fluctuations in commodity prices continue to contribute to the shocks in the international economy over a long period of time.

Mr Ingves concluded by pointing out that the problems in the financial markets in the United States appear to be following a not entirely unusual pattern, where one moves from purely subprime problems, that is, problems related to mortgages for households with low or unverified incomes, to different types of more common bank problem following on from an economic downswing. The focus will be on bad loans in general, solvency problems and structural transformation. As long as these problems have not been entirely resolved, suspicions within the financial sector and concerns over solvency will affect lending, which in turn will have an effect on macroeconomic developments. A similar development would also have an effect on the economy in Europe. The uncertainty factors in our immediate surroundings that we need to monitor closely are developments in the Baltic countries and Iceland.

Deputy Governor **Svante Öberg** agreed on the whole with the assessment of international developments in the Monetary Policy Update and said he did not find it necessary to repeat what is written there. However, he had three comments.

Mr Öberg agreed that there was a risk of developments in the United States being weaker than in the forecast in the Update. Although GDP growth in the United States was surprisingly high during the second quarter, growth is largely being maintained by net exports, while domestic demand has been weak. The problems in the financial markets remain and house prices are continuing to fall. The experiences from earlier financial crises are that they often lead to more prolonged periods of low growth.

However, for the world as a whole, GDP growth will probably be maintained at a relatively high level. GDP growth in emerging and developing countries will probably also slow down, but it is nevertheless at a high level, driven by domestic demand rather than exports. This means that world growth is expected to be at a higher level this year and in the coming years than during the international economic downswings at the beginning of the 1990s and the 2000s. The emerging economies and developing countries together account for around half of world GDP and for around three quarters of the growth in the world in 2008 and 2009.

There is also a risk that the global inflation process will be more prolonged than is assumed in the forecast. The most probable development is that inflation in the world will fall over the coming year. Normally, inflation wanes when growth declines, even if there is some time lag. Another factor that could contribute to inflation slowing down is the fall in commodity prices. However, growth in the world as a whole is expected to remain relatively strong and there is considerable uncertainty regarding the development of commodity prices. It would be sufficient to experience fairly normal supply shocks for the oil price to rise again.

Deputy Governor **Lars E.O. Svensson** began by saying that he agreed with the assessment in the Monetary Policy update reading the prospects for international economic activity. He wanted to make two points. One was whether the downturn in oil prices was lasting and what might happen to the oil price in the future. There is some scientific support for the best forecasting method being what is known as a random walk, that is, assuming that the current oil price is the best forecast for the future price, regardless of the price of oil futures. The other point was that in uncertain times with a lot of things happening at once and when there are large shocks to the economy, flexible inflation targeting is the most robust monetary policy and the best for managing difficult situations. It is an advantage that many countries are conducting such a policy with an explicit inflation target. In addition, there are some countries that conduct this policy but with an implicit inflation target. However, there are some countries where the currency is pegged to the US dollar. This means that they will import the expansionary US monetary policy. Although this expansionary monetary policy may be correct for the United States, it is hardly so for these other countries; it is much too expansionary for them. Mr Svensson agreed with Mr Ingves' earlier contribution to the discussion, when he said that this could contribute to increased global inflation.

Stefan Ingves summarised the discussion by saying that there is some concern regarding future GDP growth in the United States. There are signs that inflation is falling in some parts of the world, but from a very high level. The financial turbulence will continue and is manifesting itself in new ways.

§ 3. Economic developments in Sweden and the monetary policy discussion

Deputy Governor **Svante Öberg** agreed on the whole with the assessment of developments in Sweden in the Monetary Policy Update. He proposed that given the account in the Monetary Policy Update the interest rate path should be lowered in relation to the path reported at the previous monetary policy meeting in July, but that the policy rate should be raised by 0.25 percentage points. Mr Öberg pointed out that it was a difficult decision and stated that there were three reasons for lowering the interest rate path in relation to the path published in July.

Oil prices and other commodity prices have fallen. The assessment now is that the oil price will be lower next year than was forecast in July. On the other hand, even after this downward revision the oil price is much higher than it was last year. This means that the oil price will contribute to high inflation for a good while ahead. Moreover, there is considerable uncertainty regarding the oil price. It could also rise.

The slowdown in economic activity has become more pronounced. The GDP forecast has been revised downwards for this year and next year. This dampens the demand pressure on inflation. On the other hand, international studies indicate that the relationship between GDP growth and inflation is now weaker than it was before. It was possible to observe this in Sweden during the years in the middle of the decade when we had strong growth and low inflation.

The expectations of monetary policy in terms of forward rates in the euro area have shifted downwards, as a lower interest rate is forecast in the future. A lower interest rate path in Sweden will therefore not contribute to a weaker krona and dearer imports in the way it would have done in July. The Riksbank does not have any target for the krona exchange rate. However, it is a factor that has some significance. At the same time, the development of the krona is affected by many other factors and the krona has weakened since the July meeting.

Mr Öberg stated three important reasons for raising the policy rate.

Inflation has continued to rise. In July it reached the highest level measured since the mid-1990s and was far above the inflation target. It was also marginally higher than was forecast at the July meeting.

Inflation expectations are still high. Different measures of inflation paint slightly different pictures, but all of the measures are above the inflation target.

Cost pressures have increased. The National Accounts for the second quarter showed that productivity was weaker than had been forecast in July and the forecasts regarding cost pressures have been revised upwards, despite a downward revision in the forecast for hourly wages.

There are also other observations that point in favour of raising the repo rate. Inflation has risen more in Sweden than in the euro area. From having had an inflation rate that was lower than the euro area inflation one year ago, Sweden now has an inflation rate that is marginally higher. Food prices have risen more rapidly in Sweden than in the euro area. Food prices increased by eight per cent in July, compared with the same month last year, which is more than in almost all of the countries in the euro area. This could indicate that what started out as price increases in the world market has begun to spread to other goods. The economic tendency survey in August indicated continued plans for price increases in the food trade. Two thirds of the companies in the food trade were counting on continued price rises. There was also a fairly large percentage of companies in manufacturing which were planning to raise prices in the home market.

Mr Öberg's assessment was that in the current situation it is reasonable to conduct a slightly tighter monetary policy. Both the nominal and the real policy rate will be slightly above what can be regarded as average levels after a raise. He considered this to be a well-balanced monetary policy.

The most probable development is that inflation will fall quickly in 2009, given the interest rate path and the other conditions reported in the Monetary Policy Update. However, forecasts are uncertain. Mr Öberg said he would prefer to see inflation begin to fall at the beginning of next year before easing monetary policy. Nod did he rule out the possibility that the repo rate might need to be cut to a lower level than 4.25 per cent in the long term if economic developments were much weaker than forecast.

First Deputy Governor **Irma Rosenberg** began by pointing out that at the previous monetary policy meeting in July she had supported the decision to raise the repo rate by 0.25 percentage points to 4.5 per cent, but that she had then considered that the most probable development was that no further increase would be needed to bring inflation back on target. Ms Rosenberg had justified this primarily by saying that one could see clear signs of a slowdown in the economy and this would contribute to dampening inflationary pressures in the economy. She had therefore entered a reservation against the interest rate path on which the Monetary Policy Report was based and which entailed the probability of a couple of further increases during the autumn.

Ms Rosenberg's opinion was that since the previous monetary policy meeting the arguments in favour of not needing to raise the repo rate further to bring inflation back on target had become stronger. Although inflation has so far roughly followed the forecast in the previous Report, it is still far above the target. But the new information received during the summer indicates that inflation will be weaker in future and that the risk of contagion effects has declined. There are a number of reasons for this.

The oil price and food prices have fallen over the summer. This means that to some extent developments have approached the alternative scenario outlined in the July Report, which analysed the consequences of lower energy and commodity prices. There is still considerable uncertainty as to how these prices will develop in the world market. They can of course begin to rise again, but the probability of this has declined as a result of the clear weakening in economic activity in industrial countries and the increased risks of weaker growth in developing countries, which Ms Rosenberg had earlier mentioned.

Ms Rosenberg pointed out that inflation expectations have risen over the past year and they are still far above the inflation target. Since July the only new information received regarding household and corporate sector inflation expectations is from the economic tendency survey. According to this, households' expectations have fallen slightly and are now in line with the inflation forecast 12 months ahead.

An important issue in the discussions on monetary policy since last autumn has been the risk of contagion effects from the price increases on energy and food leading to lasting high inflation. Ms Rosenberg's assessment was that this risk has declined substantially as a result of GDP growth now slowing down more quickly and substantially than expected. Growth in the second quarter, compared with the same quarter last year, was 0.7 per cent and between the first and second quarter of this year GDP did not increase at all, when the figures are seasonally adjusted. It is uncertain whether developments were really as weak as indicated by the preliminary statistics, as the first GDP figures are often revised upwards when more complete statistics are reported. However, in this case there are also many other important indicators of a noticeable slowdown in the Swedish economy. These include, for instance the National Institute of Economic Research's economic tendency survey, where the sentiment indicator has declined substantially and is much weaker than normal. The purchasing managers' index also shows a pronounced weakening in industrial activity, as do the statistics on production and orders in industry. Even if some upward revision is made in the National Accounts' growth figures later on, the assessment of a severe slowdown in economic activity will probably remain.

In July, Ms Rosenberg's assessment was that household demand would slow down more than was then indicated in the forecast in the Monetary Policy Report. This has been proved to be the case and the forecast for private consumption has now been revised down. Households have become much more pessimistic during the summer; according to the National Institute of Economic Research's interpretation they are much more pessimistic than usual. This can also be seen in retail trade sales, which have slowed down substantially.

The fact that oil and commodity prices have fallen slightly will of course provide some relief to households. But the upswing in prices so far has undermined households' purchasing power. It is therefore probable that households will continue to be fairly restrictive in their consumption. Another factor contributing to this is that the repo rate has been raised from 3 to 4.5 per cent since the beginning of last year. The effects of this have not yet made their full impact on demand and inflation.

A slowdown in economic activity will also lead to a decline in resource utilisation. This is now clearly beginning to be felt in the labour market. Employment has developed strongly in recent years and has continued to increase over the summer, although slightly more slowly than was previously expected. At the same time, there are various labour market indicators, such as shortages and employment plans in accordance with the business tendency survey, the number of redundancy notices and the number of job vacancies, which point fairly unanimously to the labour market beginning to cool down. This reduces the risk that wages will be pushed up. In actual fact, wages have increased slightly less than expected during the first six months and the forecast for hourly wages has had to be adjusted downwards once again.

Ms Rosenberg considered that it is more difficult to assess how productivity will develop. It did not rise during the second quarter as had been assumed in the July forecast; it continued to fall. This means that unit labour costs are rising more quickly than estimated, despite lower hourly wages.

According to Ms Rosenberg, this could of course entail a risk that inflation will accelerate, which is something that must be closely monitored. However, as Ms Rosenberg has pointed out at earlier monetary policy meetings, she is not very concerned about this at present. Ms Rosenberg emphasised that she had pointed out at earlier monetary policy meetings that it was more probable that the weak productivity would lead to companies cutting down their workforces rather than trying to raise prices quickly. She still stood by this assessment. There would be much greater risk of price increases in a situation where demand is rising and economic activity strengthening. The slowdown in GDP growth and domestic demand means it is probably difficult for companies to pass on price increases to consumers. Although inflation excluding energy, food and interest expenditure has risen compared with the very low levels of a few years ago, it is still low, around one per cent. This indicates that domestic cost-driven inflation is so far not a problem.

Ms Rosenberg pointed out that the inflation forecast has been adjusted downwards in the Update now presented and that CPI inflation is expected to be close to the 2 per cent target at the beginning of 2010. But her assessment was that inflation could be lower than this with the monetary policy indicated by the interest rate path. One reason for this is that her assessment was that the risk of inflation effects as a result of the weak productivity growth is slightly lower than assumed in the forecast in the Monetary Policy Update as a result of the abrupt slowdown in growth. Another reason is that Ms Rosenberg assumed that international growth risked slowing down more than indicated in the forecast. If it does, there will be repercussions for Swedish growth and thereby inflation.

Ms Rosenberg's conclusion from this was that the interest rate should now be kept unchanged. She considered that there was only a very small probability that it would need to be raised later this year. On the contrary, it would probably need to be cut more next year that was expressed in the interest rate path outlined in the Update so that inflation will be close to the target a couple of years ahead. Ms Rosenberg therefore advocated a lower interest rate path than that outlined in the draft Monetary Policy Update. She advocated that the repo rate should largely remain at 4.5 per cent this year and should be cut more next year than was now assumed in the Monetary Policy Update.

Deputy Governor **Lars Nyberg** pointed out that the Swedish banks, which have not suffered any loan losses worth mentioning as a result of the subprime crisis, have faced declining interest from investors and experienced rising borrowing costs. The banks now have to pay around 100 basis points above the government bond rate to be able to invest their secured mortgage bonds. This is between four and five times the margin compared with the situation prior to the crisis. The differences in credit risk cannot explain such price differences – secured mortgage bonds are as close to government bonds as one can get with regard to credit risk. Mr Nyberg's opinion was that it is nevertheless not improbable that the margins will endure for the remainder of the year, given the conditions in the international markets.

Mr Nyberg also noted that in Sweden there is additional concern regarding developments in the Baltic countries. His assessment was that the news from these economies would gradually worsen during the autumn and winter. This could contribute to higher borrowing costs for all of the Swedish banks, but of course primarily for the banks with operations there. This tendency has been clearly visible in the market in recent weeks.

Mr Nyberg considered that this could have significance for monetary policy. One natural consequence is that mortgage rates and other lending rates will continue to rise. When borrowing costs rise, Swedish banks will want to compensate themselves for this by charging customers higher lending rates. Mr Nyberg’s assessment was that in this way the banks would contribute to combating inflation over and above what the Riksbank does with the repo rate.

A lot more than usual has happened with regard to economic activity since the monetary policy meeting in July. At that time the dominant factor was concern over inflation as a result of rapidly rising prices, mainly oil, commodity and food prices, and weaker economic activity was expected during the autumn. At the moment, the price increases on these products have come to a halt and the economic downswing has appeared more quickly than expected, both in Sweden and abroad. Mr Nyberg considered that this feels more like the beginning of a traditional economic slowdown.

In addition, Mr Nyberg felt that the assessment of rapidly declining economic activity is illustrated most clearly in the National Institute of Economic Research's economic tendency survey. The overall confidence indicator shows the lowest reading since July 2003 and all sectors of industry are contributing to the negative picture. Orders are falling rapidly, both in the domestic market and the export market. The labour shortage has declined significantly. Households remain strongly pessimistic with regard to the country’s economy and their own finances and retail trade is showing a poor sales development.

The preliminary GDP figures indicate that growth in the economy came to a halt during the second quarter. In the labour market the number of new vacancies reported is declining, while redundancy notices are increasing. The housing market has slowed down somewhat sooner than expected. Mr Nyberg emphasised that he shared the basic view of developments described in more detail by Irma Rosenberg. He felt that the assessment of an economy suddenly slowing down that could be suspected in July and which led him to enter a reservation against the repo rate path presented then and which entailed more repo rate increases during the autumn, has now become much more evident.

In July the Executive Board was very concerned that resource utilisation would continue to be so high that it would substantially contribute to inflationary pressures. Mr Nyberg considered that this risk is much smaller now. For instance, it is difficult to believe that employees would want to terminate existing wage agreements for renegotiation with the current economic prospects. It is true that productivity has continued to fall and contributed to maintaining cost pressures, but Mr Nyberg's assessment was that the sudden slowdown in the economy more than neutralises this. Moreover, the forecast is for productivity to begin rising again. Mr Nyberg also considered that the concern that increases in oil, commodity and food prices would spread throughout the economy had declined significantly as prices had begun to fall. If one adjusts CPI inflation for these prices and for the increased housing costs which are the result of the Riksbank's own interest rate raises, then inflation is below one per cent. Even without making this adjustment, inflation will rapidly fall towards two per cent at the beginning of 2009.

Mr Nyberg emphasised that he, like his Executive Board colleagues, was concerned over the high inflation figures. But with the current assessment of economic activity he did not consider that the repo rate needed to be raised to achieve the inflation target. The developments in the real economy will push inflation down, possibly with the aid of higher bank rates. Nor did Mr Nyberg consider it necessary to wait and see whether inflation would really fall. He considered that there was sufficient support for this in the forecasts. Inflation expectations have already begun to fall and it would be surprising if they do not continue to do so. Nor did Mr Nyberg consider that the repo rate needed to be raised to maintain confidence in the inflation target.

With regard to the interest rate path, which is a signal of how monetary policy should act in the future, given what we know today, Mr Nyberg felt there was very little probability that any more interest rate increases would be needed during the autumn. Mr Nyberg concluded by noting that if economic activity were to pick up again and inflationary pressures were to increase instead of falling, then he would not find it difficult to change his mind on that point.

Deputy Governor **Barbro Wickman-Parak** began by noting that she, like Lars Nyberg, did not share Svante Öberg's opinion that one should wait until the inflation rate falls before easing monetary policy. Monetary policy should be guided by inflation forecasts. Ms Wickman-Parak then went on to comment on the economic situation and future prospects. She said that she had seen clear signs of a slowdown as early as the meeting in July and since then her opinion had been reinforced. The figures received since the July meeting, such as the preliminary GDP figure for the second quarter, industrial production and orders, all point in the same direction, that is, towards much weaker economic activity. The downswing in the Swedish economy has come sooner and been more pronounced than was expected only two months ago.

The GDP figures for the first two quarters are preliminary and may be revised upwards. However, the assessment of weaker growth will most probably still remain even after an upward revision. Almost all of the indicators support the picture of weak growth and point to a broad slowdown in the manufacturing industry, service industries and the retail trade, with the exception of the food trade. Households' views of the Swedish economy and the labour market have rapidly become more pessimistic. As an example Ms Wickman-Parak pointed out that, according to the National Institute of Economic Research's economic tendency survey, at the end of 2007 a large share of households believed that unemployment would be lower one year ahead. Now there is instead a clear majority of households that believes unemployment will be higher one year ahead.

Ms Wickman-Parak commented that the deterioration in households' confidence in the economy has been accompanied by slower growth in consumption. This applies mainly to capital goods, which is common at the beginning of an economic downswing. Sales in the durable consumer goods trade have been much weaker than companies had expected in the business tendency survey. Looking ahead, one can also see from the consumer tendency survey that plans for purchases of capital goods have been reduced considerably.

Ms Wickman-Parak further said that it is not only private consumption that has declined; investment and exports have also weakened. GDP growth has had to be revised down both for 2008 and 2009. The forecast anticipates a recovery in 2009 in line with the rest of the world, with Swedish exports as an important driving force. However, she referred to her earlier comments in the discussion regarding the international outlook, where she argued that an international economic upswing is dependent on a recovery in the United States and is therefore far from certain.

The Executive Board has at earlier monetary policy meetings pointed out that labour market indicators such as the number of redundancies, new vacancies and employment plans have pointed towards a cooling in the labour market. Since the July monetary policy meeting the labour market indicators have continued to point in the same direction.

The assessment of resource utilisation made with the aid of various measures shows that this is higher than normal, but that it is falling at a rapid rate. According to Statistics Sweden and the National Institute of Economic Research, capacity utilisation is still at a high level, but falling. This picture is enhanced by the share of companies responding "yes" to the question of whether a shortage of machinery and plant capacity is the primary obstacle to increased production having declined from around 30 per cent one year ago to 20 per cent today.

Moreover, Ms Wickman-Parak said that it is unusual that in principle all indicators so unanimously show that the Swedish economy is rapidly deteriorating on a broad front. High energy prices, a slowdown in international economic activity and financial turbulence have all contributed to the decline. The Riksbank's increases in the interest rate to dampen demand and inflationary pressures have also contributed to this. Ms Wickman-Parak agreed with Irma Rosenberg that the effect of interest rate increases had not yet made full impact.

Ms Wickman-Parak said that inflation is moving towards the target in line with the forecast in the Monetary Policy Update even without an increase in the repo rate. She also considered that it is difficult to see that domestically-generated inflationary pressures would risk upsetting this assessment.

It is difficult to find a good explanation for the fall in productivity indicated by the preliminary productivity figures. One possible explanation could be that companies have not had time to adjust their workforces to the declining demand. Ms Wickman-Parak explained that she had previously been concerned over productivity but that this was during a period when demand and the pressures in the labour market looked quite different. Wage outcomes have also continued to be lower than expected. Although the preliminary figures might still stand and the weak productivity lead to an increase in cost pressures, Ms Wickman-Parak was not worried over such a development, saying that in the current economic situation it should be difficult for companies to pass cost increases through to consumers.

Ms Wickman-Parak also said that the outcomes for inflation did not indicate that the increases in oil and other commodity prices had spread to other prices. If these components and the effect of higher interest rates are excluded, the inflation rate is under one per cent in July. She considered that the repo rate increase in July was a measure to ensure that contagion effects do not arise. The oil price and other commodity prices have fallen, which reduces the risks of contagion effects on underlying inflation. She also thought there was reason to be observant of the way inflation expectations develop but that these should fall when the actual inflation rate decreases.

To summarise, Ms Wickman-Parak said that the repo rate should be held unchanged. An increase risks reinforcing the economic downswing and the full effect of earlier raises has not yet had a full impact. She also pointed out that the strengthening in Swedish growth expected during 2009 is dependent on an international recovery that cannot be taken for granted.

Ms Wickman-Parak did not support the repo rate path proposed in the draft Monetary Policy Update. She pointed out that the repo rate path presented opened the way for cutting the interest rate in 2009. However, she argued that the force of the economic downswing might make it necessary to cut the interest rate more than indicated by the repo rate path. Ms Wickman-Parak further noted that there could nevertheless be some probability of an increase in the repo rate later in the autumn. This could be triggered by a development where commodity prices once again rise quickly. However, she pointed out that such a scenario need not automatically result in an increase in the repo rate, as the effects on economic activity and domestic inflationary pressures would then also have to be taken into account.

Deputy Governor **Lars E.O. Svensson** explained that with a flexible inflation-targeting policy the task for the Executive Board is to determine a repo rate path at each meeting so that monetary policy is well balanced. A well-balanced policy means that the forecasts for inflation and resource utilisation look good in the sense that inflation is approaching the target and resource utilisation is approaching a normal level at an appropriate pace. The time horizon over which inflation and resource utilisation will reach the target and a normal level cannot be specified in advance but varies depending on the state of the economy when the forecast is made and the shocks to which it is believed the economy is subjected. The balance maintained between stabilising inflation and resource utilisation can be seen in the forecast presented in the Monetary Policy Update.

The new and lower repo rate path presented in the draft Monetary Policy Update leads to an inflation forecast by which inflation will initially be high but then fairly quickly approach the target and be close to the target at the beginning of 2010. Mr Svensson emphasised that he considered this forecast to be the best one, but that it is also rather optimistic as it predicts that the high inflation rate will fall quickly.

Mr Svensson went on to discuss resource utilisation. The forecast for resource utilisation entailed in the repo rate path is shown in Figure 12 in the Monetary Policy Update. There is some difference between the GDP gap and the gap of hours worked. The GDP gap, that is, the difference between actual and potential production, has fallen substantially from its highest level. According to the forecast, the gap is expected to become negative, that is, production will be below its potential level, at the end of 2008 and will bottom out at a level of minus one per cent during the latter half of 2009. The GDP gap will approach a normal level at the end of the forecast period. According to the GDP gap forecast, Sweden is fairly rapidly approaching an economic slowdown with a clearly negative GDP gap. This raises the question of whether monetary policy is too tight.

However, Mr Svensson pointed out that this GDP gap is the gap between GDP and potential GDP estimated with the aid of what is known as an HP trend. An HP trend is a very inadequate measure of potential output, as it does not give sufficient consideration to temporary changes in productivity. A better measure of potential GDP takes into account changes in productivity and therefore falls when productivity falls. When productivity is low, a more correct GDP gap is larger than the HP gap for GDP. Mr Svensson asserted that in a situation with temporary changes in productivity, the gap of hours worked is a better measure of resource utilisation. The gap of hours worked shown in Figure 12 indicates that resource utilisation is currently high, but that it will fall rapidly and be close to a normal level at the beginning of 2010. When the gap of hours worked is used as a measure of resource utilisation, the forecast for inflation and resource utilisation looks good in the sense that it provides a reasonable compromise between stabilising both inflation around the inflation target and resource utilisation around a normal level. Mr Svensson pointed out that, as he had said at earlier monetary policy meetings, there is considerable room for improvement in the Riksbank's calculations of the measures for potential output and resource utilisation.

Further, Mr Svensson noted that the new repo rate path is lower than that presented in July, which is justified by the lower oil and commodity prices and the fact that growth has slowed down more than expected. Inflation expectations appear to have stabilised or even fallen slightly but are still at a high level. This could be a result both of new information regarding economic developments and of the monetary policy conducted.

Mr Svensson emphasised that it is the real and not the nominal repo rate path that is important in monetary policy. The real repo rate path shown in Figure 10 is slightly higher than that presented in the July Monetary Policy Report. However, the real repo rate is at present significantly below its long-term average. The real repo rate path in Figure 10 is calculated on the assumption that inflation expectations for the coming quarter are given in the forecast for inflation four quarters ahead. As the forecast for inflation four quarters ahead is falling relatively quickly, the real repo rate path will be relatively high and peak at 2.75 per cent before falling back towards 2.25 per cent. One can discuss which assumptions regarding inflation expectations are the most reasonable. If one instead assumes that inflation expectations are given by the forecast for inflation one quarter ahead instead of four, the real repo rate path will be much lower. The real repo rate path will first fall to 0.5 per cent and then peak at 2.5 per cent. This indicates a still expansionary monetary policy.

Mr Svensson emphasised that regardless of how the real repo rate is calculated, it is currently far below its long-term average. He therefore considered it justified to raise the repo rate now and to allow the new repo rate path to be lower than the old one, which according to his earlier arguments results in a reasonable compromise between stabilising inflation around the inflation target and stabilising resource utilisation around a normal level. To summarise, Mr Svensson thought that the forecasts for inflation and the real economy look good with the new repo rate path and expressed his support for the repo rate path in the Monetary Policy Update and for raising the repo rate by 0.25 percentage points.

Mr Svensson pointed out that there appears to be a situation where Mr Ingves' casting vote must determine the outcome. Some analysts might react to the fact that the Executive Board is not entirely unanimous in the decision on the repo rate and the repo rate path. However, if monetary policy is well balanced, it does not matter that the vote stands at three-three. If one regards the repo rate decision as minimising a U-shaped loss function of the repo rate, the value of the loss varies very little around the actual minimum. This means one can easily reach different conclusions as to where this minimum lies.

Lars Nyberg agreed with Mr Svensson's comment that the disagreement was not in itself a problem. On the contrary, it increases the credibility of the monetary policy conducted. **Irma Rosenberg** agreed and pointed out that in a monetary policy committee like the Riksbank's Executive Board, which consists of members with individual responsibility, it is unavoidable that there will sometimes be disagreement regarding the decisions. This was assumed in the legislation on the Riksbank and this is the way things have worked since 1999.

Governor **Stefan Ingves** began by agreeing with the analysis in the draft Monetary Policy Update with regard to general economic developments. Mr Ingves also noted that at the monetary policy meeting in July there was a clear upward revision made to the inflation forecasts for 2008 and 2009. This upward revision was the result of higher energy and food prices and of rising underlying inflationary pressures, related to a high level of resource utilisation in the Swedish economy in recent years. In July there was also a risk that inflation expectations would rise substantially. The Executive Board pointed out that they were prepared for the necessity of continued repo rate increases to ensure that the price rises did not spread to other parts of the economy and contribute to higher inflation expectations and a general increase in prices. Since the meeting in July, there have been indications of weaker international economic activity, at the same time as inflation remains high in the United States and the euro area. In Sweden, too, the outcome for CPI inflation has been slightly higher than the Riksbank had assumed, while the outcomes for GDP growth have been weaker than expected. Productivity has been weaker than expected, which has contributed to rising unit labour costs. Weak productivity over a longer period of time risks leading to increased cost pressures. It is difficult to reach any unequivocal conclusions in the short term, but the period with insignificant increases in unit labour costs seems to be over.

Resource utilisation in Sweden measured in terms of the number of hours worked is higher than normal to start with, but is expected to dampen in the future. Stefan Ingves noted that the forecast for CPI inflation has been revised down slightly but that it is still significantly higher than the target until the end of 2009. A lower oil price path and weaker economic activity contribute to the lower inflation forecast.

Inflation expectations were above the target at the time of the monetary policy meeting in July and were the highest they have been for a long time. Most recently, however, inflation expectations have declined somewhat. The Riksbank's repo rate increase in July and the higher repo rate path could have contributed to greater confidence that the inflation target will be met and thus to lower inflation expectations. Falling commodity and food prices may also have contributed. However, Mr Ingves pointed out that it is important to note that inflation expectations are still above the target. Commodity prices remain volatile and global developments are uncertain. It is therefore not possible to assume that the danger has passed with regard to inflation expectations and to future inflation. On the contrary, it is important to conduct a monetary policy that contributes to long-term inflation expectations approaching the inflation target.

To summarise, Mr Ingves said that it is appropriate to raise the repo rate by 0.25 percentage points. An increase will make it clear that the Riksbank takes its inflation target very seriously. Mr Ingves pointed out that he wants to see a reduction in inflation and inflation expectations before easing monetary policy. A higher repo rate could also provide some support to the krona, which is important with regard to dampening external inflationary impulses.

Mr Ingves further said that the overall assessment of the new information implied a slightly flatter interest rate path than the assessment made in July. When the assessments of both the international and the domestic economies are so uncertain it is natural to have a flat interest rate path. This indicates a "wait and see" situation, which is natural when there is considerable uncertainty regarding both inflation expectations and a slowdown in economic activity. Mr Ingves pointed out that the real repo rate is not particularly high seen in a long-term perspective, and it is thus difficult to claim that monetary policy is too tight, especially since inflation is at the same time high above the inflation target. The high level of resource utilisation, the good government finances and the surplus on the current account meant that there was a good starting point for managing a limited economic slowdown with growth roughly at trend level towards the end of the forecast horizon at the same time as attaining the inflation target.

Mr Ingves went on to take up an entirely different issue. At present, the press release published the day following the repo rate decision does not contain information on how the Executive Board members have voted. Mr Ingves thought that the Board members should consider introducing this to further increase transparency.

Lars Nyberg agreed with Mr Ingves that it could be a good idea to publish in the press release how the different Executive Board members have voted. It ought to be possible to reflect the monetary policy nuances found in the minutes to some extent in the press release. This could increase transparency towards the markets and contribute to greater confidence in monetary policy.

All of the other members were positive to looking into this question more closely.

Irma Rosenberg responded to Mr Svensson's comments regarding the Riksbank's calculations of resource utilisation and the real interest rate. Ms Rosenberg agreed that there were problems with the three gaps calculated with the aid of HP trend and used to estimate resource utilisation, but she considered that they also applied to the gap of hours worked. She therefore considered that the Riksbank must look at a number of different indicators of resource utilisation, such as shortages, employment plans, capacity utilisation and labour supply to gain a good idea of how resource utilisation is developing. Ms Rosenberg pointed out that she believed that the economic slowdown has come further than is indicated by the HP gap. With regard to the real interest rate, Ms Rosenberg said that it does not at present provide much guidance for the monetary policy decisions to merely talk in terms of the level of the real interest rate. Inflation has been pushed up to a high level during a short period of time by means of temporary effects that will quickly wane. For this reason alone, the real interest rate has first fallen and then risen very quickly. There are different methods of measuring the real interest rate and in such a situation they provide very different results. Moreover, it is almost impossible to predict what effects such fluctuations in the real interest rate might have. In addition, to reach a well-balanced monetary policy, one must take into account how demand and supply in the economy, and thereby inflation, are affected by other factors than the repo rate, for instance, how international demand develops, how various risk premiums in the financial markets change and how the exchange rates develop.

Lars E.O. Svensson agreed with Ms Rosenberg that none of the gaps is perfect but considered that the gap of hours worked is now better than the GDP gap. The Riksbank must make forecasts of resource utilisation even if this is complicated. Before Sweden and other countries introduced inflation targets, there were those who argued against inflation targeting as it is so difficult to forecast inflation. But inflation targeting has been a huge success. With regard to resource utilisation, it is a question of finding the best measures available. The Riksbank must of course study different indicators and weight them together. With regard to the real interest rate, it is a question of finding the most appropriate measure of inflation expectations when calculating it. This is not an insurmountable problem and is something the Riksbank should continue to work on.

Barbro Wickman-Parak agreed that the Riksbank must work on developing the best possible measures of resource utilisation. She considered that the gaps calculated today can be used as guidance but that other indicators must also be looked at. The need to use different measures of resource utilisation will probably remain as long as we can foresee.

Stefan Ingves summarised the monetary policy discussion based on his interpretation of the decision situation for the Executive Board.

Inflation has risen substantially and is at its highest level since the mid-1990s. The main reason for the high inflation is that energy and food prices in the world market have increased so much. These prices have recently fallen. Inflation expectations have also been dampened but are still high. At the same time, productivity growth has been unexpectedly weak, which has increased cost pressures.

Growth has fallen more than anticipated, both in Sweden and abroad. One reason for this is the international financial turbulence we have been experiencing since last year. It is still not possible to say when the situation on the financial markets will return to normal. Economic activity will continue to slow down and the labour market situation will slacken. The Riksbank's assessment is that resource utilisation, for instance measured as capacity utilisation in industry or the labour shortage, is still slightly higher than normal but will fall during the forecast period.

Inflation has continued to rise in Sweden, inflation expectations are still high and cost pressures have increased. It is necessary to raise the repo rate now to prevent the increases in energy and food prices from spreading to other areas. A higher repo rate will mean that inflation will decline and be close to the target of 2 per cent within a couple of years.

Compared with the assessment made in July, the future repo rate path has been lowered. This is partly because the oil price and other commodity prices have fallen. Moreover, growth has slowed down more than expected both in Sweden and abroad.

There is as usual uncertainty over future economic developments and thus there is also uncertainty as to how the repo rate will develop in the future. For instance, the repo rate could be higher if cost pressures become higher than expected. However, if the economic developments in Sweden and abroad continue to be weaker than expected, the interest rate may instead need to be lower.

§ 4. Monetary policy decision

The Chairman found that there was one proposal to raise the repo rate by 0.25 percentage points to 4.75 per cent, and another to keep it unchanged at 4.5 per cent.

The Executive Board decided after voting

- to adopt the Monetary Policy Update according to the proposal, Annex A to the minutes.
- to publish the Monetary Policy Update on Thursday, 4 September 2008 at 9.30 a.m.,
- to raise the repo rate by 0.25 percentage points to 4.75 per cent and that this decision would apply from Wednesday, 10 September 2008,
- to raise the lending rate to 5.50 per cent and the deposit rate to 4.00 per cent, with effect from Wednesday, 10 September 2008,
- to announce the decision at 9.30 a.m. on Thursday, 4 September 2008 with the motivation and wording contained in Press Release no. 31 2008 (Annex B to the minutes), and
- to publish the minutes of today's meeting at 9.30 a.m. on Wednesday, 17 September at 9.30 a.m.

Executive Board members Lars Nyberg, Irma Rosenberg and Barbro Wickman-Parak entered reservations against the decision to raise the repo rate by 0.25 percentage points and considered that the repo rate should be held unchanged. They also entered reservations against the repo rate path included in the Monetary Policy Update and advocated a lower repo rate path. Their assessment was that the slowdown now taking place in the economy risks becoming more pronounced than indicated in the forecast in the Monetary Policy Update and that inflationary pressures will be dampened more than is predicted in the Update. Their opinion was that it is not necessary to raise the repo rate at present, either to maintain confidence in monetary policy or to attain the inflation target.

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 and Svante Öberg