Separate minutes of the Executive Board, No 15

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DATE: 18 December 2007
TIME: 09:00 a.m.

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

Johan Gernandt, Chairman of the General Council

Claes Berg
Mårten Bjellerup
Kurt Gustavsson
Kerstin Hallsten
Jesper Hansson
Ann-Christine Högberg
Gustav Karlsson (§1)
Pernilla Meyersson
Britta von Schoultz
Åsa Sydén
Staffan Viotti
Anders Vredin

§ 1. New information on economic developments

It was noted that Mårten Bjellerup and Kurt Gustavsson would prepare draft minutes of paragraphs 1, 2 and 3 on the agenda for the meeting. The discussion was based on the new data and analyses presented by the Monetary Policy Department.

The Monetary Policy Department reported on developments in the financial markets since the previous Executive Board meeting on 12 December.

Interest rate changes for bonds with both shorter and longer durations have been relatively small both in Sweden and abroad. The value of the krona in relation to the euro and the US dollar has not shown any great change either, at the same time as prices have fallen slightly on most of the world's stock exchanges over the past few days. The so-called TED spreads, that is, the differences between the 3-month interbank rates and the 3-month Treasury bill rates, have fallen somewhat in Sweden, the United States and the United Kingdom. In contrast, they have risen slightly in the euro area. Swedish forward rates for 1-2 year contracts have risen marginally since 12 December. Forward interest rates in the United States have changed in a similar manner. As regards short-term monetary policy expectations in Sweden, the proportion of analysts who believe in a higher repo rate in February has increased since data on consumer prices in November was published. In the longer term, the assessments are less consistent and range from 3.50 to 4.75 per cent at the end of 2008.

§ 2. Economic outlook abroad

First Deputy Governor **Irma Rosenberg** opened the discussion. Her opinion was that the uncertainty regarding international developments has increased since October. This applies particularly to the United States. Growth in the US economy in the third quarter was stronger than anticipated, but the information available about developments in the fourth quarter indicates a distinct slowdown. Household demand in particular appears to be slackening. Both household consumption and confidence, as reflected in household surveys, are weakening. The problems in the housing market have not yet culminated. Housing prices are falling and a large number of houses are unsold. Housing investment continues to contribute negatively to growth.

Uncertainty over developments in the US housing market has, if anything, increased, as has uncertainty in the financial markets. The price of risk has risen again, which is reflected in the increased differences between interbank rates and government bond rates. This has led to increased loan costs for companies and households. This, together with the general uncertainty in itself, appears to be subduing economic activity.

Growth was robust in the euro area too during the third quarter. Ms Rosenberg considered that there are a number of positive factors that indicate this. Employment has risen, unemployment has continued to fall and capacity utilisation is assessed to be fairly high. However, many forward-looking indicators signal a weakening. Consequently slightly weaker growth than was forecast in October can be expected in the future.

Oil prices have also risen further. This contributes to subduing economic activity, particularly in the United States but probably in the euro area also. Growth in the global economy as a whole can be expected to be slightly weaker in the future, but this nonetheless still signifies continued healthy growth.

Deputy Governor **Lars Nyberg** shared Ms Rosenberg's view that there had been a change for the worse and that growth has been weaker than anticipated, particularly in the United States and the United Kingdom. The uncertainty has also increased, primarily as the turmoil in the financial markets has worsened once again instead of subsiding. Mr Nyberg did point out however that the credit losses are limited and found it remarkable that such relatively limited losses combined with the start of a weakening in economic activity in the United States could send such shock waves through the financial system, not just in the United States but in large part of Europe too. Far more serious credit risks have occurred without such a major imparct. What is it in the development in the financial system in the United States and western Europe that has meant that normal fluctuations in economic activity combined with relatively limited credit losses cannot be managed?

What we are now experiencing is far more than a crisis in the mortgage market. It is a confidence crisis with an ensuing liquidity crisis in the international bank market. It has much more to do with the way in which the financial markets are built up and how they function than it has with the mortgage market. One reason is that the financial instruments which were created in the past decade, and where the volumes have exploded in the past four years, have proven to be overly complicated and difficult to evaluate in terms of credit. The write down needs of the banks will therefore be far greater than is motivated by the underlying housing credits.

Since the crisis stems from the way in which the financial markets function, the shortcomings in the market's function must be addressed before confidence can be fully restored. Among other things, this involves the return of substantial credit volumes from the markets to the banks, which places considerable demands on the supply of venture capital. This process is in full swing, but may take some time. For that reason, it is likely that the costs of bank financing may remain high for a longer period than previously assumed, perhaps for a large part of 2008.

Mr Nyberg also said that the lack of capital, for the time being at least, reduces the borrowing capacity in the banking system. This can have consequences for the real economy, beyond those related to the mortgage market. It is too soon to say if this will lead to a capacity shortage of the type that is usually known as a "credit crunch".

Mr Nyberg's conclusion was that there is a risk the crisis will intensify and be more prolonged than the Executive Board had previously thought. This means there is a risk that it will, sooner than expected, reinforce the economic downturn that we are seeing in the United States and to an increasing extent in the United Kingdom also.

Deputy Governor **Barbro Wickman-Parak** considered that there has not been any improvement in the US housing market since the monetary policy decision in October. Building permit and new construction project statistics indicate that housing investment will continue to fall for several quarters. The construction of commercial property continued to increase in the third quarter, but fell in October and this could be a sign that the tightening of the credit market has also affected this sector. The Federal Reserve's October survey shows that half of the credit institutions questioned state they have tightened the conditions on loans for commercial property. This is a marked upturn compared with the corresponding survey in July. Unsurprisingly, the survey also shows that conditions for other types of corporate credits have also become tighter. Orders to the capital goods industry also indicate that investment is slowing down. Questions can therefore be raised regarding the development in corporate investments in general.

Household consumption in the United States showed fairly healthy growth up to and including the third quarter, but at the end of the quarter consumption growth weakened and consumption declined in October. In addition, consumer confidence continued to wane during the autumn. Further, a clear slowdown of employment growth is seen at the same time as household surveys indicate that households have become more pessimistic about the labour market. In addition, rising energy prices will reduce households' purchasing power. Ms Wickman-Parak considered that there is reason therefore to raise questions about the continued development in household consumption. Ms Wickman-Parak considered there to be good cause to revise down the assessment of growth in the Untied States, in the way that has been done in the Monetary Policy Update, and that there is still a risk that the outcome could be even worse.

With regard to the euro area, Ms Wickman-Parak agreed with Ms Rosenberg's description but wished to add that European households appear to keeping their money in their pockets. Consumption has only increased moderately up to and including the third quarter. Retail trade statistics do not indicate any strengthening and household confidence indicators have fallen quite steeply during the autumn.

Riksbank Governor **Stefan Ingves** considered it reasonable to assume that developments abroad will be slightly worse compared with the assessment in October. Mr ingves shared Mr Nyberg's view that tougher criteria for lending lead to a weakening, which can be prolonged. Sooner or later it is probable that a debate will arise as to whether there is credit rationing. Higher lending rates from banks and other credit institutions over a longer period, compared with how the Executive Board previously thought, indicate that it is reasonable to revise down the forecast. Mr Ingves said it is uncertain the extent to which the deterioration in the United States will affect Europe.

Deputy Governor **Svante Öberg** shared the view that growth abroad appears to be weaker. The turmoil in the financial markets will probably lead to a slackening in growth in the United States and Europe next year. Further, it is more likely that there will be a weker development than stronger one, compared with the current forecast. The risk of a recession in the United States with falling growth two quarters in a row has increased and developments in the United States have great significance for other parts of the world.

Mr Öberg did however see the weak demand in growth in the United States and the weaker dollar as part of an adjustment of the global imbalances. The slowdown in the United States and western Europe is also balanced by the strong growth of economies in other parts of the world, such as Asia and eastern Europe. Moreover, the increase in risk premiums has occurred from an abnormally low level.

Mr Öberg shared the concern that the problems in the financial markets can be more extensive and prolonged and have more of a subduing effect than we anticipate at present. The Swedish banks are strongly dependent on international developments and it is exceedingly difficult to predict what could occur in the financial markets abroad. So far, the Swedish banks have fared well, without the Riksbank needing to take any specific measures of the kind that have taken place in some other countries. If the development should be far worse than that outlined in the Monetary Policy Update, then a new situation arises and there is then reason to reconsider the view of the direction of monetary policy.

Deputy Governor **Lars E.O. Svensson** mainly shared the view depicted earlier and at this point in time refrained from expanding his view further.

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

First Deputy Governor **Irma Rosenberg** opened the discussion by observing that the assessment in the October Monetary Policy Report was that GDP growth in the Swedish economy would continue at a good pace, although it had slowed down somewhat compared with last year.

The most recent statistics from the National Accounts, which were received after the October Monetary Policy Report, indicate that growth will be lower than expected. Growth from the second to the third quarter was lower than was assumed and, moreover, outcomes for previous quarters in 2007 were revised downwards. All in all, growth in the first three quarters of 2007 was therefore considerably lower than forecast in October. There is also new information to indicate that growth in the fourth quarter will be lower than in the October forecast. The consumer tendency survey, the retail trade turnover, industrial production and new orders in industry are among the indicators pointing in this direction. There is therefore reason to revise down the assessment of growth in the Swedish economy in 2007.

There is also reason to revise down the forecast for GDP growth for 2008. This is due to weaker developments abroad and increased uncertainty as a result of the financial market unrest. An increased price for risk has meant that loan costs for households and companies have risen over and above what is justified by monetary policy and the uncertainty in itself also contributes to subduing consumption and companies' investment plans. All in all, Swedish growth is nevertheless expected to be relatively good, some 2½ per cent both in 2007 and 2008.

At the same time Ms Rosenberg observed that cost pressures are rising. The labour market has continued to tighten since October but employment growth has been somewhat weaker and unemployment has been slightly higher than expected. Resource utilisation can therefore have become somewhat lower compared with the assessment in October. Labour shortage figures are however relatively high in many parts of the economy and resource utilisation is assessed to be fairly high on the whole. This should be included in the picture. So far wages have risen more slowly than expected, but in many sectors wages based on this year's agreements have not yet begun to be paid. Hourly wages will increase much faster at the end of the year and at the beginning of next year when the new wage agreements begin to paid.

Productivity growth, which is one of the most uncertain components of the forecast, has already earlier this year become more subdued than was assumed in October. This also applied to the third quarter.

Inflation has been higher than expected in the past few months. This is mainly because of rising energy prices. The oil price has risen by approximately 10 dollars, or almost 15 per cent, since mid-October. Food prices have also risen faster than expected in the past few months. This is partly explained by the rapid and probably temporary fruit and vegetable price increases.

Energy prices are expected to push up inflation above the target in the coming year. This effect will subside in a year or two if oil prices do not continue to rise at the same pace in the next few years. However, this does not mean that the high inflation can be ignored. There exists an underlying cost pressure in the Swedish economy which is contributing to a rise in inflation. Price increases on the world market for food commodities are also expected to have an impact on Swedish inflation in the future. There is also a risk that it will affect inflation expectations, which have already been pushed up to some extent.

Ms Rosenberg considered that the Executive Board's decision-making problems are approximately the same as in October. On the one hand, growth in the Swedish economy appears to be slowing down faster than expected and uncertainty about developments abroad has increased. On the other hand, however, cost pressures remain high and inflation will be higher than previously expected. Ms Rosenberg's proposal was that the policy rate should be left unchanged. The assessment was however that it will be necessary to raise the policy rate slightly further in the first half of 2008 so that inflation is in line with the target, at the same time as production and employment develop in a balanced manner. The interest rate path proposed was virtually the same as that presented in October, only marginally lower.

Deputy Governor **Lars E.O. Svensson** agreed with Irma Rosenberg's proposal. The situation continues to be difficult to assess with forces pulling in different directions. Economic activity continues to be good in Sweden although there are several signs of a slowdown. At the same time cost pressures and inflation expectations are increasing. This should be weighed against weaker international developments, which will, of course, have repercussions on the Swedish economy. The same applies to the financial unrest and uncertainty about both these developments and these consequences. There is much uncertainty as to whether there will be a moderate or considerable slackening in economic activity.

If one just looks at inflation developments then the interest rate path should be raised slightly compared with October. If one just looks at the real development, the interest rate path should instead be lowered slightly. When I weigh together inflation and real economy developments, I consider the interest rate path from the October Monetary Policy Report is still appropriate. The forecasts for inflation and resource utilisation still look fairly good with that path.

Deputy Governor **Barbro Wickman-Parak** also agreed with Irma Rosenberg's proposal and gave several reasons for this. The financial turmoil has increased in strength and uncertainty over international economic activity is now greater than at the October meeting. At the same time the past six months have led to an increase in the repo rate of 0.75 percentage points. In addition, there will be a further tightening since the difference between the repo rate and the interbank rates is greater than normal. The proposal to leave the policy rate unchanged therefore seems natural.

Ms Wickman-Parak considered the interest rate path to be a far more complicated question. The international picture appears troublesome, although at present it does not appear as though there will be a recession in the United States. Growth in Sweden has also slowed down but it still expected to be relatively good. Sweden differs from the euro area, for instance, in that Swedish household consumption is fairly stable. Swedish consumers therefore act as a kind of shock absorber in the economy and keep growth up. But the overall assessment is still that if one just takes the real economic development into account this could justify a downward shift in the interest rate path compared with October.

However significant weight must be attached to cost pressures and inflation assessments in the total balancing of monetary policy, considered Ms Wickman-Parak. The first is that resource utilisation is at a level that is higher than normal and that cost pressures are rising. In addition, several factors in the inflation assessments are uncertain. For example, we currently do not have sufficient knowledge about the impact of the spring's collective wage agreements. Uncertainty is unusually great given that it has taken a long time for the payments based on the new agreements to come into effect. In addition, there is a good deal of uncertainty surrounding productivity development. Even if slightly fewer companies in the National Institute of Economic Research's business confidence survey now state that there is a shortage of labour, the level is still high which in itself constitutes an increased risk of wage drift. The inflation rate has become higher than expected mainly as a result of rising energy and food prices and the inflation forecast for 2008 has been revised upwards compared with the October Monetary Policy Report. Furthermore, inflation expectations have risen. To a large extent temporary effects are pushing up the rate of inflation. They are expected to subside and, combined with a slowdown in economic activity, this will result in the inflation forecast approaching the target in 2009. However, just how much of the upturn is temporary is difficult to determine with any certainty. A more prolonged period with a higher inflation rate can affect inflation expectations in more of a lasting manner. Thus, the Riksbank must keep an eye on Inflation expectations. If they are confirmed, they risk becoming self-fulfilling prophecies.

Even if Swedish cost developments could justify a higher path for the repo rate, Ms Wickman-Parak considered that the great uncertainty prevailing abroad speaks against this. She supported the interest rate path presented in the Monetary Policy Update. It indicates that the repo rate may need to be adjusted upwards slightly next year. The need for interest rate adjustments thereafter is most uncertain and the time for a larger revision of the interest rate path is not ripe. Some time into next year we will have reason to reassess how the balance between inflation and economic prospects has changed.

Deputy Governor **Svante Öberg** did not agree with the proposal but advocated that the policy rate be increased by 0.25 percentage points at today's meeting. Inflation has increased more than expected and the forecasts are above the target of 2 per cent. Moreover, Mr Öberg's assessment was that the Monetary Policy Update underestimates inflationary pressures.

It is difficult to envisage any good reason for delaying an interest rate increase to the first half of 2008. The earlier the Riksbank takes action the better. Inflation is higher than the 2008 inflation target and capacity utilisation is higher than normal. Thereafter, both inflation and capacity utilisation will fall back according to the forecasts. This points to a comparatively high policy rate in 2008.

Mr Öberg's assessment was that the labour market is stronger and that inflationary pressures are rising more compared with the forecasts in the Monetary Policy Update. In light of this, this reinforces the conclusion that the policy rate should be comparatively high in 2008. It would also provide greater opportunity to support the economic development if it is weaker in the future and inflationary pressures are lower.

Two issues were central to Mr Öberg's stance; developments in the labour market and inflation. The labour market will show a stronger development than that presented in the Monetary Policy Update. Forecasts for the labour market mean that the positive developments in the labour market would be broken after the first quarter of 2008, when the upswing in employment would stagnate and unemployment would cease to fall.

Of course, it cannot be ruled out that this may be the case. The policy rate has already been raised in 10 stages, from 1.5 to 4 per cent. Moreover, the turmoil in the financial markets has both raised lending rates and curbed growth. Indeed, we have had such an abrupt slowdown before, after the IT bubble in 2000.

However, the economic slowdown after the IT bubble was far more pronounced. It then fluctuated from strong growth to zero growth three quarters in a row, from the fourth quarter of 2000. That is not what we forecast now. The forecasts now signify growth of around 2 per cent or just over at an annual rate in the coming years.

Neither are there any indications in the labour market statistics that an abrupt slowdown is imminent, except perhaps in industry. A slowdown in industry is in itself consistent with the fact that exports have shown poorer growth this year than previously. Confidence indicators for industry have declined somewhat from August to November, but not as sharply as after the IT bubble. For other areas of the business sector, there are no signs of an abrupt slowdown.

Mr Öberg's assessment was also that inflation will be higher than reported. CPI inflation rose to 3.3 per cent in November This was more than had been forecast in the October Monetary Policy Report and inflation is now above the Riksbank's tolerance band. The forecasts indicate that inflation will be around 3.4 - 4 per cent for much of next year.

It is a problem if CPI inflation is so high. The CPI is the most commonly used measure of inflation and the CPI is also the best measure with regard to inflation's importance to growth in household real income. CPI developments thus affect inflation expectations and can cause problems in wage formation. Inflation expectations have also risen and are now above the inflation target one, two and five years ahead.

However the CPI is, among other things, affected by the Riksbank's interest rate decision and by sharply fluctuating energy prices. It is therefore better to look at underlying inflation with regard to assessing future inflation. CPIX inflation excluding energy shows more stable development and the forecasts for inflation measured in this way have been more accurate recently. CPIX excluding energy has increased gradually and steadily over two years, from approximately zero per cent at the beginning of last year to barely 2 per cent in November this year. The forecasts suggests that it will be around 2 – 2.5 per cent in 2008.

Underlying inflation depends on cost developments and wage costs play a major role here. Mr Öberg's assessment was that wage development will be higher than stated in the Monetary Policy Update. Local negotiations after the national wage agreements of the spring are now being implemented gradually. In October one can calculate that approximately 80 per cent of the local agreements are settled and there will be a clearer picture as to how much the local agreements have given at the beginning of next year.

However, the Riksbank cannot do so much about the inflation rate in the coming months. Monetary policy has an effect on economic development with a time lag which means that decisions taken today mainly affect inflation in 2009 and 2010. Mr Öberg's assessment was that CPIX inflation excluding energy will more likely be higher than lower than the forecasts in the Monetary Policy Update. In turn, this motivates higher interest rates this year.

In connection with this, **Riksbank Governor Stefan Ingves** wondered how Mr Öberg envisaged the interest rate path and if it would shift upwards in his opinion. **Svante Öberg** said that he envisaged relatively high interest rates in 2008, but with a gradual cut further ahead if this proved feasible.

Deputy Governor **Lars Nyberg** observed that the Swedish banks have not seen much of the crisis other than in the form of higher financing costs. The increment over and above the government bond rates for three-month bank financing, the so-called TED spread, is in round figures half a percentage point larger than normal. This increased financing cost is transferred by the banks to their customers, which means that the customers pay higher interest rates that they would otherwise have done. One can say that in this way we have indirectly obtained a tightening of monetary policy over and above the increases in the repo rate made by the Riksbank during the autumn. This effect will not subside until the international TED spreads fall. And this can take more time than we had expected previously.

The Swedish economic outlook remains strong, but is undoubtedly somewhat weaker than we expected at our last meeting. This is partly a result of slightly weaker international development and of the increase in the cost of credit as a result of the unrest in the financial markets. Credit growth remains high however, both for households and companies. In the case of households, it has levelled off at around twelve per cent in the past year, which is significantly higher than the growth in disposable income. This is roughly as much as house prices have risen in the past 12-month period. However, it appears as though both prices and activity on the housing market is about to fold, particularly in metropolitan areas. According to estate agent statistics, the price of tenant-owned apartments in central Stockholm has fallen by 8-9 per cent since August. Price expectations have also fallen considerably.

Further, Mr Nyberg observed that the labour market has continued to show strong growth, albeit slightly weaker than expected. Capacity utilisation is still high and cost pressures likewise. There is a marked labour shortage in several sectors. Mr Nyberg agreed with Mr Öberg that there is reason for concern with regard to costs next years, particularly with regard to wage drift.

Despite the slightly weaker economic outlook, both internationally and in Sweden, inflation appears to be higher than we have previously anticipated. This is because of higher energy prices, but also because the long expected increases in food prices are starting to be seen. How much of this is temporary and how much is more permanent remains to be seen. In any case, inflation expectations have been revised upwards slightly above the inflation target, both in the short and the longer-term (5 years). This is a development we have reason to monitor closely.

All in all, Mr Nyberg considered that the marginal downward adjustment of the yield curve in the proposed forecast is well-balanced. This means that the repo rate should be kept unchanged at today's meeting. The forecast also indicates that we should raise the rate some time in the winter. However, uncertainty regarding the course of developments, both abroad and in Sweden, has increased since the last monetary policy meeting.

Governor **Stefan Ingves** observed that growth is now expected to be lower, both in Sweden and abroad. This means that cost pressures are expected to increase at a slightly lower rate than in October. But at the same time there are several risks of higher inflation which are worth noting; those on the downside have already been commented upon.

One such risk is productivity which has been surprisingly low so far this year. If this trend continues this means that cost pressures in the economy will increase even more. The new wage agreements also give rise to some uncertainty. This partly concerns the agreements' final impact on wages, partly whether cancellations of the third year will occur. If this were to be the case, there is a risk that inflation expectations will continue to rise. A further risk concerns the extent to which the recent energy and food price increases are temporary. Current forecasts assume that the increases in energy prices will subside in the coming year, but there is genuine uncertainty about this. The oil market is notoriously difficult to assess. Rapid growth in ethanol production means that it is also difficult to make forecasts about food prices at present. Should price increases for these products be slightly more long-lasting than we now assume, the result will be that inflation will be above the target for a more prolonged period. The final upside risk for inflation pressure derives from the development in lending and the money supply, both of which show a high rate of increase. At the same time a general interest rate increase has taken place via the financial turmoil. This has in turn a tightening effect on demand in the future.

In a weighted consideration, Mr Ingves envisaged this as though subdued economic activity abroad is set against tangible inflations risks in Sweden. But what does this mean for monetary policy? The reason why the proposed interest rate path is today very similar to the October path is not the lack of news, but that the different forces are pulling in different directions to roughly the same extent.

The upside risks for inflation speak in favour of a higher interest rate path and without the financial turmoil monetary policy would probably have needed to be tighter. The financial turmoil involves a tightening in itself and Mr Ingves therefore agreed that the repo rate should be left unchanged at today's meeting.

The picture may change in the future, for instance, if one of the two main forces becomes stronger than the other. It will be particularly important to follow inflation expectations in Sweden, among other things because they can affect inflation more directly than resource utilisation, for example. With rising inflation expectations the need to further raise the interest rate remains. Cost pressures and the financial aggregates point in the same direction.

All in all, the assessment is that if the interest rate path is approximately the same as in October then inflation is expected to be in line with the target, at the same time as production and employment develop healthily. This is a view that is reasonable at present, but at the same time the upside risks for inflation are significant and can lead to a reappraisal further ahead.

Mr Ingves then summarised the monetary policy discussion. Economic activity in Sweden is good and employment is rising. However, activity in the economy has recently slowed down more than expected. Growth in Sweden is expected to be weaker than the Riksbank assumed in the October Monetary Policy Report. The weaker developments in Sweden are partly due to the turmoil in the international financial markets and to weaker developments abroad. Borrowing costs for both companies and households have risen more than is motivated by expectations of future policy rates. This development is expected to subdue demand abroad and in Sweden. The financial turmoil also creates general uncertainty regarding economic developments, which can affect plans for investment and consumption.

At the same time, cost pressures and inflation expectations are continuing to rise. Inflation has also risen more than expected. This is primarily due to an unexpectedly large rise in energy and food prices. The annual rate of increase in the CPI and the CPIX was 3.3 per cent and 1.9 per cent respectively in November. Over the coming year inflation is expected to continue to rise as a result of high energy prices and increased cost pressures. The assessment is that inflation will be higher in 2008 than was previously expected, but the main scenario is that it will then fall back and be in line with the October forecast.

The view of how the repo rate will develop in the future is largely the same as in October. The fact that the picture remains largely the same is due to different factors pulling in different directions. Higher inflationary pressures indicate that the repo rate could need to be raised slightly more in the future, but signals of weaker economic activity in Sweden and abroad together with the continued turmoil in the international financial markets point in the opposite direction. There is always considerable uncertainty regarding future economic events. It is therefore also uncertain how the repo rate will develop in the future. The Riksbank may, for instance, need to raise the repo rate more if cost pressures are higher than in the main scenario. However, if the financial unrest persists and international economic activity is weaker than expected, the interest rate may instead need to be lower.

§4. Monetary policy decision[1]

The Chairman found that there was one proposal to keep the repo rate unchanged and another to raise it by 0.25 percentage points to 4.25 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 19 December 2007 at 9.30 a.m.
- that the repo rate be kept unchanged at 4.00 per cent and that this decision would apply from Thursday 20 December 2007,
- that the lending rate be kept unchanged at 4.75 per cent, and that the deposit rate be kept unchanged at 3.25 per cent, with effect from Thursday 20 December 2007,
- to announce the decision at 9.30 a.m. on Wednesday 19 December with the motivation and wording contained in Press Release no. 47 2007 (Annex B to the minutes) and

[1] Board members who are present and do not enter a reservation have participated in and agreed with the Board's decision

- to publish the minutes of today's meeting on Tuesday 8 January at 9.30 a.m. Deputy Governor Svante Öberg entered a reservation against the decision to keep the policy rate unchanged at today's meeting and against the Monetary Policy Update December 2007 and the interest rate path reported there. The policy rate should be raised by 0.25 percentage points today. Mr Öberg's assessment was that developments in the labour market will be stronger and inflationary pressures higher than in the Monetary Policy Update. Therefore, there will be a greater need to raise the policy rate.

In Mr Öberg's assessment the economic outlook indicated a relatively high policy rate in 2008, with a gradual cut further ahead if economic developments weakened and inflationary pressures were subdued. If the development should be significantly worse than we now assume, for instance if the problems in the financial markets intensify and become more prolonged and if they have a more subduing effect than we anticipate at present, then Mr Öberg was prepared to reconsider his view on the monetary policy direction.

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.