Separate minutes of the Executive Board, No.12

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DATE: 29 October 2007

TIME: 9 a.m.

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

Leif Pagrotsky, Vice Chairman of the General Council

Claes Berg
Mårten Bjellerup
Kerstin Hallsten
Karolina Holmberg (§1)
Per Håkansson
Ann-Christine Högberg
Gustav Karlsson §1
Björn Lagerwall
Pernilla Meyersson
Bengt Pettersson
Britta von Schoultz
Staffan Viotti
Anders Vredin

§ 1. Economic developments

It was noted that Mårten Bjellerup and Bengt Pettersson would prepare draft minutes of paragraphs 1 and 2 on the agenda for the meeting. The discussion was based on the draft Monetary Policy Report, which was discussed and tabled at the Executive Board meeting on

24 October, and on the new statistics and analyses presented by the Monetary Policy Department.

1. Recent data regarding economic developments

The Monetary Policy Department reported on new data received since the Executive Board meeting on 24 October.

In Germany the IFO index, which measures confidence in the German manufacturing industry, continued to fall in October. Consumer confidence has also continued to fall, but here the most recent figures are from September. Confidence in the French manufacturing industry also fell in October according to the so-called INSEE index.

In the United States, sales of existing homes have continued to fall in September, and the same applies to the median price. The number of months that houses have been up for sale has risen to a new record level. Sales of new homes rose slightly in September, while the average price for new homes continued to fall. The number of months that new homes were up for sale fell slightly. The number of vacant houses in the United States rose in the third quarter. Consumer confidence fell in October, according to the University of Michigan's index.

In Sweden, producer prices rose in September by 0.6 per cent on a monthly rate and 5.0 per cent on an annual rate. The seasonally-adjusted trade surplus fell from SEK 8.1 billion in August to SEK 7.8 billion in September. The money supply, measured as M3, rose by 16.3 per cent on an annual rate in September. Lending to companies rose by just over 13 per cent on an annual rate in September.

Interest rates in the United States, the euro area and Sweden have risen slightly over the past few days. Monetary policy expectations in terms of implied forward rates have fallen somewhat in the euro area, while they have risen marginally in the United States in the longer term. The krona has strengthened against both the euro and the dollar. Stock market prices have risen in Sweden as well as the United States and the euro area.

2. The economic outlook and inflation prospects

First Deputy Governor **Irma Rosenberg** presented the draft Monetary Policy Report 2007:3, Annex A to the minutes. This Monetary Policy Report reproduces the main features of the presentations and discussions at the Executive Board meetings on 16 and 24 October.

The Swedish economy is continuing to grow at a good pace and employment is rising. Lending and house prices have increased rapidly. As inflation has increased, companies and households have revised up their inflation expectations for the coming year. Underlying inflation is still low, but cost pressures are increasing and are expected to continue to do so. This is because productivity growth has slowed down. It is also due to the fact that wages are expected to rise more quickly as a result of the new wage agreements and a tighter labour market. Food and energy prices will also contribute to inflation rising.

However, there have been international signals of weaker economic growth in the United States and the euro area, among others. This is largely balanced by the fact that growth is relatively strong in other parts of the world. The weaker growth in the United States and the anxiety that has arisen in the financial markets is linked to the problems in the US housing and mortgage markets. The slowdown in the United States and other countries, together with the recent unease in the financial markets, is expected to contribute to slowing down growth in Sweden somewhat.

§ 2. Monetary policy discussion

Irma Rosenberg presented the proposal for the monetary policy decision.

Growth in the Swedish economy has continued at a good pace, although it has been slowed down somewhat compared with last year, roughly as we expected in June. Both employment and the supply of labour have increased slightly more quickly than expected. Unemployment has fallen slightly more than expected in our June forecast. The indicators for the labour market are also strong. This applies to newly-registered and remaining vacancies as well as recruitment plans and labour shortages in the business sector according to the National Institute of Economic Research's Economic Tendency Survey. The labour market is thus continuing to tighten, but short-term wage statistics still show very modest increases. This is because the wages based on the new agreements have not begun to be paid yet. When this occurs, it will be visible in the short-term wage statistics in the form of an accelerating rate of increase. But I see no indications that the wage increases for the year as a whole would be greater than we have estimated. This nevertheless means that wages are rising faster than last year and the tight labour market will probably lead to a further rise in the rate of increase next year.

Developments in cost pressures are also determined by productivity growth. This has slowed down substantially this year. We had expected this, but the slowdown has been greater than expected. We were able to note as early as in June that productivity had increased much less than expected during the first quarter. It actually fell during the second quarter. There are many indications that this is a temporary effect, partly as a result of a low number of people taking holiday during the second quarter, and that productivity will therefore rise again. But there are nevertheless reasons to revise down the forecast for this year and next year. This means in turn that cost pressures are rising more than we predicted in June. But there is considerable uncertainty. There is a risk that productivity will show weaker growth than assumed in our forecast and this will also increase cost pressures. This is one of the key issues as we look ahead.

Inflation will probably also be fuelled by food prices rising more quickly in the future. This is largely due to a substantial rise in world market prices on various food commodities. This is partly connected with increased consumption demand in rapidly-growing countries and partly linked to increased demand for production of bio fuels. To some extent we have already seen the effects of this on consumer prices, but there will probably be a greater impact to come. This Indicates that inflation will rise. Measured in terms of CPI inflation is now just over 2 per cent, while UND1X, where for instance the effects of our interest rate increases are excluded, shows an inflation rate of 1 per cent.

The uncertainty regarding developments abroad has increased compared to June. Growth in the United States looks to be weaker than we had earlier counted on, primarily as a result of problems in the housing market. This of course affects the rest of the world both directly through a decline in demand from the United States, and indirectly through repercussions from the financial turbulence that followed in the wake of the US mortgage crisis. Growth in the euro area was already lower than we had expected during the second quarter, and the financial unrest means that a slightly weaker performance can also be expected in the future. With regard to growth in the world as a whole, the slowdown in the United States and the euro area is largely counteracted by the fact that growth seems to become stronger in other parts of the world. But growth in the Swedish export markets as a whole must nevertheless, as I see it, be revised down somewhat. The effects of the financial turbulence in the form of higher interest rates can also be seen in the Swedish economy. Moreover, the recent sharp rise in the oil price may have negative effects on the Swedish economy if the price rise is mainly due to a reduction in supply. In this case the price risks remain at a high level even if demand in the global economy falls.

When one regards the overall picture, my conclusion is that the slightly weaker developments abroad and the dampening effects of the financial turbulence are not sufficient to counteract the strong domestic cost pressures. To ensure that inflation does not rise too quickly but is in line with the target, we must raise the interest rate today, and my proposal is an increase of 0.25 percentage points, to 4 per cent. My assessment is that the repo rate also needs to be raised slightly further during the coming year, approximately as we estimated in June.

Deputy Governor **Svante Öberg** agreed with the proposal to raise the repo rate by 0.25 percentage points. The Swedish economy is growing strongly and inflationary pressures are rising. This justifies continued increases in the policy rate. However, Mr Öberg entered a reservation against the Monetary Policy Report as he considered that the risk of higher inflation outweighs other considerations and that the policy rate therefore probably needs to be raised more in future than was forecast in the report.

Mr Öberg agreed with the assessment of international developments. The recent turbulence in the financial markets will probably lead to growth in the United States and Europe being lower than we expected prior to the summer. In addition, the risks with regard to forecasts for the international economy are greater on the downside. It is therefore more likely that developments will be weaker than forecast than that they will be stronger. There is considerable uncertainty regarding developments in the US economy, which is important, given the significance of the US economy for other countries.

At the same time, one should bear in mind that the weaker demand in the United States and the ever weaker dollar are part of the adjustment in global imbalances. In addition, risk premiums have been very low for a period and the increase during the summer this year can be regarded as an adjustment to a more normal level. Furthermore, the slowdown in the United States and western Europe is balanced by strong growth in Asia and eastern Europe, among others.

Mr Öberg largely agreed with the picture of economic developments in Sweden presented in the Monetary Policy Report. Despite the turbulence in the financial markets in recent months, the development in the Swedish real economy remains strong. GDP growth this year and next year is expected to be around 3 per cent. The forces influencing the Swedish economy in a positive way are also still strong. Global growth is unusually high and is expected to remain high even after the forecasts have been revised down. Swedish fiscal policy also remains expansionary, although less so than we had previously expected. Household incomes will increase strongly as a result of rising employment, high wage increases and reduced income tax. Monetary policy has become less and less expansionary, but affects the economy with a time lag. The interest rate is still relatively low.

Inflation is on its way up and the strong real growth will continue to push up inflation. Measured in terms of CPI, inflation rose to just over 2 per cent in September and the forecasts in the report imply that it will be around 3 per cent next year. Underlying inflation in terms of UND1X excluding energy is lower, but has increased steadily since the beginning of 2006 and has in recent months remained at scarcely 1.5 per cent. The forecasts in the report imply that underlying inflation will be above 2 per cent next year. At the same time, inflation expectations are now at levels above 2 per cent. An important question now and in the near future is thus how much the interest rate needs to be raised to keep down inflation at 2 per cent. This is an essentially different problem than the situation in recent years when inflation has been below 2 per cent.

Mr Öberg pointed out that his assessment differed from that in the report with regard to developments in the labour market and in wages. This in turn has consequences for the view of inflationary pressures and the future interest rate path.

The labour market has developed strongly. The labour market surveys (AKU) for the third quarter showed a continued strong increase in employment and falling unemployment. In the third quarter employment increased by around 110,000 persons in comparison with the same quarter last year, and unemployment fell by nearly one percentage point during the same period.

One problem in this context is that our ability to make forecasts for the labour market has not been so good over the past year. One year ago it was predicted in the Inflation Report that unemployment would be 5.4 per cent in 2007. Now the assessment is 4.6 per cent. One year ago it was forecast that employment would increase by just over 1 per cent in 2007. Now this assessment is revised to just over 2.5 per cent. However, the assessments of GDP growth have been relatively stable. The underestimation of the pressure in the labour market is therefore not due to underestimating GDP growth.

The forecasts in the Monetary Policy Report for the labour market over the coming years imply that employment will almost entirely cease to increase after the fourth quarter of 2007 and that unemployment will decline to 4.3 per cent in the fourth quarter of this year and then largely remain at this level over the coming three years. It is difficult to believe that the increase in employment will slow down as quickly as predicted in the report and that unemployment will cease declining after the end of this year. Both companies' recruitment plans according to the National Institute of Economic Research's Economic Tendency Survey and other statistics indicate a continued strong increase in employment. Mr Öberg's assessment was that the increase in employment will subside more gradually, that unemployment will continue to fall below 4 per cent in seasonally-adjusted terms and that pressures in the labour market would therefore be higher than assumed in the report.

Mr Öberg pointed out that if this was the only point he disagreed with, he could refrain from entering a reservation. But he did not believe that wage increases would be as moderate as assumed in the Monetary Policy Report. Mr Öberg's assessment was that the wage agreements signed in the spring will lead to a rate of wage increase of 4.5 to 5 per cent a year during the three years the agreements cover. One problem in this context is that it will take some time before the wage increases are visible in the wage statistics. The spring wage agreements and the ever higher pressure in the labour market will lead to significantly higher cost increases than in recent years. In addition, cyclical factors indicate that productivity will increase more slowly over the coming three years than in recent years. This also pushes up cost pressures.

Mr Öberg also pointed out that in the Monetary Policy Report there is an alternative where wages are expected to rise more and productivity to be lower than in the main scenario. In this alternative the policy rate rises to over 5 per cent during the forecast period. He considered that these types of scenario should be regarded as illustrations and that one should not pay too much notice to the individual assumptions. But the scenario nevertheless illustrates the fact that higher interest rates may be needed to hold inflation down around 2 per cent if cost pressures are higher than in the main scenario of the report.

Mr Öberg's overall assessment was that the risk in the forecast for Swedish inflation was divided into two parts. International developments comprised a downside risk, while the Swedish economy comprised an upside risk, and the latter weighed heavier.

Deputy Governor **Lars E.O. Svensson** also considered that the situation was difficult to assess, as domestic and international developments were pulling in different directions. Domestic developments remain strong and the labour market is stronger than expected. Productivity is weaker than expected and inflationary pressures are growing. At the same time, the uncertainty has increased with regard to real developments in the United States and the euro area and thereby also Swedish exports. This is partly connected to the financial unrest. The effects of the weak housing market in the United States remain and the uncertainty has increased. This can be seen, for instance, in risk premiums, which have however risen to a level that can be regarded as more normal than previously. The effects of the problems behind the financial turbulence will probably linger and only fade away slowly. The assessment in the Monetary Policy Report, which is shared by other experienced forecasters, is that international growth will slow down. Some of the large listed companies' reports may possibly be interpreted as an indication that economic activity may be about to turn around. However, it is recognised as being very difficult to predict cyclical turnarounds and it is not unusual for forecasters to be taken by surprise.

All in all, Mr Svensson agreed with Ms Rosenberg's proposal to raise the repo rate by 0.25 percentage points and with the proposal for the repo rate path. The forecasts for inflation and resource utilisation look good in relation to the monetary policy objective. In future, developments in Sweden could, as in Mr Öberg's assessment, be stronger than the report is predicting, which would result in rising inflation. But economic activity in Sweden could also slow down as a result of weaker developments in the United States and euro area. At the next monetary policy meeting in seven weeks' time there may be better information available regarding whether one of these alternatives dominates, which could mean that the interest rate path needs to be revised.

Deputy Governor **Barbro Wickman-Parak** expressed understanding of Mr Öberg's risk assessment, but supported the proposal to raise the repo rate by 0.25 percentage points and also the proposed interest rate path. Underlying inflation remains low, but resource utilisation is above the normal level and is still rising. Labour costs are rising and productivity growth has slowed down.

Unit labour costs are rising rapidly and the forecast has been revised up compared with June. The rising costs entail a clear change from the developments of the past three years, when they have largely stood still. This is important, as developments in unit labour costs are a fundamental factor in inflation. There has also been an upward shift in the rate of increase in the price index for what is referred to in the producer price statistics as domestic supply of consumer goods, that is, an aggregate of domestic producers' prices and import prices for consumer goods. These have risen over the year and are now increasing at an annual rate of almost three per cent. However, companies have good margins and can choose to absorb rising costs and not to allow them to pass through to their customers. Although producers are raising their prices, this may be wholly or partly absorbed by wholesalers or retailers. But all in all the risks of rising prices for consumers have nevertheless increased. In addition, energy and food prices will push up inflation in the future.

As Mr Öberg pointed out, monetary policy is about managing risks and there are upside risks with regard to costs and inflation. For example, it is uncertain whether productivity growth will recover, and if so by how much, and there is also a risk that wage drift may be greater than we are expecting. The fact that companies are reporting labour shortages indicates that this could be the case. Even if international economic activity were to decline more drastically than we predict, it will probably take some time before this has more tangible effects on the Swedish economy. It is therefore appropriate to raise the repo rate today.

In a slightly longer perspective, Ms Wickman-Parak considered that the situation was much more difficult to assess. International events and the unrest in the financial markets will then play a larger role. We have substantially revised the growth forecast for the United States downwards and there is a possibility that developments will be even weaker. For example, there are no signs that the problems in the housing market will ease and orders to the capital goods industry raise some questions with regard to corporate investment.

The oil price has risen to record high levels recently. If it rises further or becomes permanent established at the current level, there is a risk of negative repercussions in an already sensitive situation. This applies in particular in the United States. It may also be the case that the credit unrest holds back growth in Europe more than we are assuming. In principle all analyses predict that growth in other parts of the world will remain strong. However, it is far from certain that, for instance China, India and other Asia countries will continue to grow, largely unaffected by what is happening in the rest of the world. Swedish exports may be further subdued and in the long term a global slowdown may counterbalance the rapid increase in domestic costs in Sweden.

In an overall assessment of the risks, Ms Wickman-Parak considered that the interest rate path presented in the Monetary Policy Report comprised well balanced monetary policy.

Governor **Stefan Ingves** observed that the financial turbulence has been much discussed recently. As these developments can be said in several ways to have originated in the United States, it is logical and reasonable to also revise down the forecasts for US growth. One important reason for this is that we have revised the view of how long the weak developments in the US housing market might be expected to continue. Mr Ingves' assessment was that it would take more time than many people realise for the financial system to manage the bad mortgages. The fact that this process takes time is not exceptional and to merely describe it as a question of a correction in market prices is to oversimplify. Growth in the United States will probably be weaker over a longer period of time than many people have earlier assumed. And this will of course have effects on, for example, the euro area, which is important not least from a Swedish point of view. At the same time, it is important to remember that things are going well in other parts of the world and that growth in the world as a whole remains strong.

Mr Ingves foresaw continued strong developments in Sweden, not least from households' perspective, with higher employment and disposable incomes. After the wage bargaining rounds in the spring one can expect to see a higher rate of wage increase, although this has not yet become evident in the statistics. However, it is probably only a matter of time. But the fact that domestic economic developments will remain good does not mean that they are entirely unaffected by international developments. Productivity has been lower than expected during the first half of the year, which has made us revised our forecasts for this year and the coming years. Inflation expectations are above the monetary policy target, while cost pressures are rising, which is partly a consequence of the weaker productivity growth. Moreover, prices of different foods in the global market have risen substantially, and it is reasonable to expect that they will also rise in Sweden eventually.

Mr Ingves observed that the financial side of the Swedish economy was continuing to grow at rapid rate and that this applied more or less from a general point of view. Both lending to companies and households and various measures of the money supply show high rates of increase. The same applies to the housing market, where it is difficult to determine whether prices have really dampened recently. One relevant question in this context is when the interest rate increases will begin to have an effect. Mr Ingves' assessment was that the effects should reasonably be visible now, given that the interest rate has been raised by more than two percentage points in less than two years. The recent statistics moreover indicate that households' precautionary saving has increased slightly. With regard to public sector saving, the forecasts in the autumn budget indicate a slightly larger surplus in the coming years than was previously forecast.

All in all, Mr Ingves saw on the one hand stronger economic developments and higher cost pressures in Sweden than in June. On the other hand, international developments indicated a weaker picture than in June. These two areas point in different directions and there is, if anything, greater uncertainty now than before.

How does this affect Swedish monetary policy? Developments over the past two years have meant that the repo rate has been raised from 1.5 per cent to 3.75 per cent. This has been necessary to attain the inflation target and at the same time maintain a balance in the economy. With regard to today's decision, the strong developments in Sweden weigh the heaviest, which means that the interest rate should be raised by 0.25 percentage points. When it comes to forecasts for the repo rate, the interest rate path from June still entails well balanced monetary policy. However, it is important here that we remind ourselves that although the path remains largely the same, a lot has happened. Two powerful forces – one domestic and one international – are pulling in different directions. At present the changes since June balance one another, which means that the interest rate path should remain around the same as in June. But the uncertainty is greater now, which means that there is more reason than usual to point out that the interest rate path is a forecast, not a promise.

The alternative scenarios for economic developments contained in the Monetary Policy Report function well as illustrations of what considerations we may need to make at future meetings. All in all, Mr Ingves agreed with Irma Rosenberg's proposal but wished to emphasise the uncertainty of the current situation.

Deputy Governor **Lars Nyberg** agreed with Stefan Ingves that we were now, as at the previous monetary policy meeting, facing on the one hand growing uncertainty over developments in the international economy, and there primarily the US economy, and on the other hand continued strong growth in Sweden. However, the uncertainty seems more tangible on this occasion.

Mr Nyberg agreed on the whole with the arguments put forward in earlier contributions to the debate, but wanted to highlight some further aspects of current developments.

One consequence of the financial unrest is that the price of risk has increased. This applies both to the long and short term markets. Borrowers with poorer credit ratings have met with both higher interest rates and poorer liquidity. But this does not involve any general credit crunch. Borrowers with good credit ratings still find it easy to borrow on the international capital market, where there are substantial resources. This applies, for instance, to many developing countries and new industrial nations, which have continued to grow at a rapid rate. It also applies to industrial borrowers with high credit ratings.

In the United States economic activity has shown a downswing and there are questions regarding how developments in the housing market will affect the real economy, both with regard to the size of the effects and how quickly they will occur. The US central bank has cut its policy rate, at the same time as short-term interbank rates have risen. This means that US banks have to pay roughly the same as before for their short-term market borrowing. The increased risk premium has been compensated by the lower policy rate. The euro area is also experiencing a slowdown, but the ECB has chosen to hold its policy rate unchanged. As the risk premium has also increased for European banks, the cost of their market borrowing has risen – for three-month borrowing by around one half a percentage point. This means that the interest rate they can offer their loan customers has also risen. In practice, one can thus claim that the economic slowdown in Europe has been reinforced by tighter monetary policy.

Mr Nyberg also observed that the financial markets have gradually begun to function more efficiently. The market for short-term securities, which is used to finance mortgages of poorer quality has ceased dwindling, as it has been possible to identify which portfolios were infected and which ones were not. The largest banks can currently finance themselves at interest rates close to the June rates for short durations. But for small and medium-sized banks, interest rates are still higher than before and it is difficult to borrow larger volumes without the interest rate being affected – that is, liquidity is poor. Liquidity on the interbank market is very much a question of confidence between the banks and the coming months will show whether this confidence can be gradually restored. It may take much longer to analyse all of the loan losses that are hidden in the many complicatedly packaged credit portfolios forming the actual core of the crisis.

Although liquidity will gradually return to the market, there are at least two dangers. One is that developments in the US housing market will be poorer than expected and that new bad mortgages will thus crop up in credit portfolios in the market and in the banks. Several people have pointed to this risk in today's discussion. The other danger is that some entirely different shock will affect the market and create uncertainty in a sensitive situation where the market has not yet recovered. For instance, it is not unreasonable to imagine that the confidence crisis affecting the Icelandic banks last year could have had more serious consequences if it had occurred today.

The unrest in the financial markets is often attributed to the bad credit culture on the US sub-prime market. And of course this was a triggering factor, in Mr Nyberg's opinion. But long before the events of the summer the Riksbank and other analysts had pointed out that the price of risk on certain markets was unreasonably low in a historical context and that the spreads should increase – it was only a question of when. And as the price of risk had been low for a long time the adjustment could be rapid. Macroeconomic factors – the incipient US economic downswing – could reasonably have achieved an adjustment in risk premiums even if credit granting in the US housing market had been managed more responsibly.

In Sweden we have not yet seen much effect of the financial unrest, other than slightly higher borrowing costs for the banks and larger stock market movements, continued Mr Nyberg. The stock market fluctuations probably mirror not only events in the credit market, but also uncertainty over profits in US and Swedish companies, that is, uncertainty over the underlying economic activity in the longer term. Households have increased their precautionary saving and moved money from the stock market to savings accounts with the banks.

In Stockholm there are signs that the housing market is cooling slightly. Estate agents are reporting fewer visits to open viewings of apartments and reduced bidding activity. However, none of this is visible in the public statistics yet. Household borrowing is also continuing to grow at a high rate. However, Mr Nyberg pointed out that a reduction in the rate of increase in house prices and borrowing could be expected as an effect of rising interest rates.

Even if earlier interest rate raises were perhaps beginning to have an effect on parts of the housing market, Mr Nyberg agreed with other Executive Board members that economic developments in Sweden remained strong. Capacity shortages in certain industries had become more evident since the June meeting and unemployment was falling. Productivity growth was still low, lower than expected. This could be temporary, as pointed out earlier, but gave some cause for concern. In any case, cost pressures had risen more than expected. Wage developments could also be stronger than anticipated if wage drift resulting from the capacity shortages was higher. There is an upside risk for inflation that can be attributed to the labour market in the way, if not the scope, that Svante Öberg pointed out. But there is also a downside risk above all in the uncertain US developments, both in the financial markets and the real economy.

All in all, Mr Nyberg considered that the repo rate should be raised by 0.25 percentage points at the present meeting and he also supported the interest rate path proposed in the Monetary Policy Report.

Governor **Stefan Ingves** summarised the discussion. Although the international slowdown is expected to lead to some slackening in growth in Sweden, it is not sufficient to check the increased cost pressures. The interest rate therefore needs to be raised by 0.25 percentage points. It is also probable that the interest rate will need to be raised slightly further over the coming year. By raising the interest rate the Riksbank is contributing to ensuring that underlying inflation is in line with the target from next year onwards, while production and employment are in balance.

The Riksbank holds largely the same view of how the repo rate will develop in the future as was held in June. The fact that the picture remains largely the same is due to different factors counteracting one another. While domestic cost pressures indicate that that repo rate could need to be raised somewhat further in the future, the financial unrest and international developments 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. The future direction for monetary policy will depend, as usual, on how new information on economic developments abroad and in Sweden will affect the prospects for economic activity and inflation in Sweden.

§ 3. Monetary policy decision

Chairman Stefan Ingves found that there was only one proposal: To raise the repo rate by 0.25 percentage points to 4 per cent.

The Executive Board decided

- to adopt the Monetary Policy Report as presented (Annex A to the minutes),
- to publish the Monetary Policy Report on 30 October at 9.30 a.m.,
- to raise the repo rate to 4 per cent and that this decision would apply from Wednesday, 31 October 2007,
- to raise the lending rate to 4.75 per cent and the deposit rate to 3.25 per cent, with effect from Wednesday, 31 October 2007,
- to announce the decision at 9.30 a.m. on Tuesday 30 October 2007 with the motivation and wording contained in Press Release no. 40 2007 (Annex B to the minutes) and
- to publish the minutes of today's meeting on 13 November 2007 at 9.30 a.m.

Executive Board member Svante Öberg entered a reservation against the Monetary Policy Report. Mr Öberg's assessment was that developments in the labour market will be stronger and wage increases higher than the assessment in the report. This means that inflationary pressures will be higher and there will be a greater need to raise the repo rate. Mr Öberg was therefore more inclined to support the interest rate path reported in the alternative scenario where wages rise more and productivity is lower than in the interest rate path in the main scenario of the report.

This paragraph was confirmed immediately.

Minutes by:

Ann-Christine Högberg

Checked by:

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