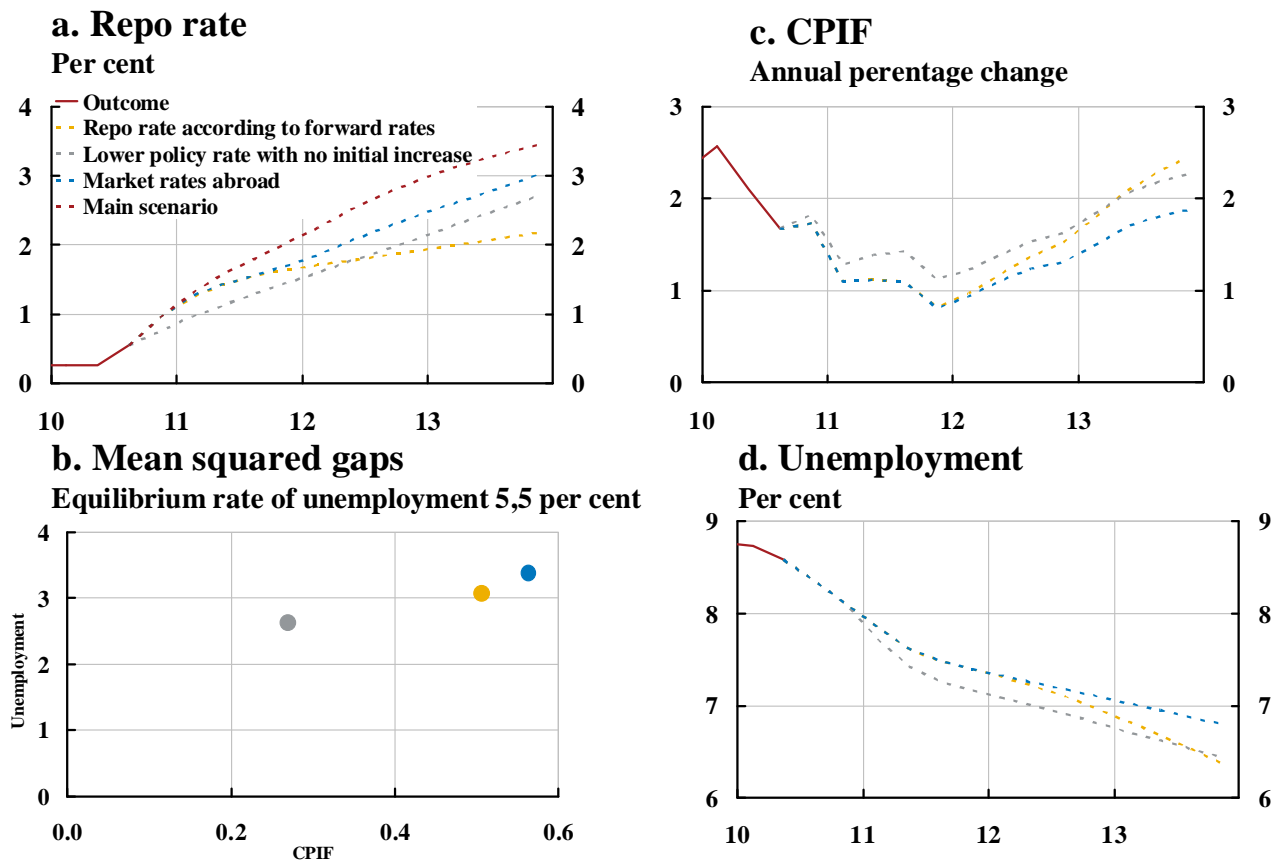


Monetary Policy Alternatives, October, 2010



Sources: Statistics Sweden and the Riksbank

Note: Panel a shows various repo rate paths. The red dashed curve is the main scenario's repo rate path. The blue dashed curve, designated "Market rates abroad" shows the interest rate path produced by the Riksbank's historical reaction function if foreign market interest rates are assumed to be as they are now. The yellow dashed curve, designated "Repo rate according to forward rates", shows current market expectations for the repo rate. The grey dashed curve designated "Lower policy rate with no initial increase" shows an interest rate path with an unchanged repo rate now and thereafter a gradual increase up to approximately 2.7 per cent at the end of the forecast period, that is, the interest rate path preferred by Ms Ekholm and Mr Svensson. Panels c and d use the same colours to show the corresponding forecasts for the CPIF and unemployment respectively. However, the main scenario's forecasts are not presented here, as they are based on another assumption about foreign long-term interest rates. Panel b shows with the same colours the corresponding mean squared gaps for CPIF and unemployment, where the unemployment gap is calculated for an equilibrium rate of unemployment equal to 5.5 per cent.