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Minutes of the Executive Board's monetary policy meeting, No. 2

DATE: 20 April 2009

TIME: 09.00 a.m.

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

Johan Gernandt, Chairman of the
General Council
Leif Pagrotsky, Vice Chairman of the
General Council

Sigvard Ahlzén
Meredith Beechey (§1)
Claes Berg
Sophie Degenne (§1)
Hans Dillén
Eric Frieberg
Jesper Hansson
Karolina Holmberg
Ann-Christine Högberg
Andreas Johnson
Anna Lidberg (§1)
Tomas Lundberg
Pernilla Meyersson
Marianne Nessén
Mattias Persson (§1)
Anders Vredin

§ 1. Economic developments

It was noted that Hans Dillén and Andreas Johnson would prepare draft minutes of § 1, 2 and 3 on the agenda for the meeting.

Mattias Persson, Head of the Financial Stability Department, began by reporting on the current situation with regard to financial stability. It is possible to discern some improvements in the US market, for instance, that the basis spread, which is a measure of the market's assessment of credit and liquidity risks, has fallen. However, a closer inspection shows that it is still difficult for many banks in Sweden and abroad to find funding at

reasonable prices. The traditional bank sector is experiencing significant problems and an unusually large number of banks abroad have defaulted.

In the euro area the government guarantees to the banks are very comprehensive and in Sweden, too, the funding guaranteed by the government is becoming increasingly important. In addition, the credit ratings of many companies are being downgraded, while at the same time the CDS premiums, which are a measure of how credit risks are priced in the markets, are declining. This development is probably primarily the reflection of an increased risk appetite, which the recent positive stock market development has also pointed to.

Anna Lidberg from the Monetary Policy Department reported on developments in the financial markets since the previous meeting on 3 April. The krona has shown slightly weaker development than expected. Developments in the fixed-income markets have been volatile, which is reflected for instance in the difficulties in assessing the cyclical risks in relation to the supply effects arising from increased public sector indebtedness. In the United Kingdom and the United States the yield curves had fallen recently after the central banks in these countries announced that they intended to buy government bonds, but in recent weeks the yield curves have shifted back to some extent. In Sweden interest rates have fallen since the previous monetary policy meeting, which reflects the fact that monetary policy expectations have been adjusted down. Both the pricing of financial instruments and surveys indicate that the repo rate is expected to be cut by at least 0.5 percentage points at today's 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 that the contents of the update in the form of assessments of economic developments abroad and in Sweden including alternative scenarios, the Riksbank's company interviews and an outline of developments in the financial markets and credit terms had been presented to the Executive Board at a meeting on 3 April.

The forecast for international growth in TCW-weighted terms has been revised down by 2.2 percentage points for the year 2009, which is a larger downward revision than at the previous monetary policy meeting. The gloomy international developments together with the surprisingly weak GDP outcome for the fourth quarter of 2008 mean that growth in Sweden this year has been revised down by 2.9 percentage points, to minus 4.5 per cent. Growth is also expected to be low in 2010 and unemployment is expected to rise to 11 per cent towards the end of 2010. In total, this development means that resource utilisation will be low throughout the entire forecast period.

Despite large write-downs for growth and resource utilisation, the revision to the inflation forecast is fairly small in this context, as a slightly weaker krona, slightly higher oil prices and an increase in unit labour costs to a large degree counteract the anti-inflationary effects of low resource utilisation. For 2009 CPI inflation is revised down by 0.2 of a percentage point while the forecast for CPIF inflation is revised up by 0.3 of a percentage point.

Given the gloomy economic developments the forecasts for the repo rate in the draft Monetary Policy Update are based on the assumption that it will be immediately cut to 0.5 per cent. This means that monetary policy has largely reached its lower limit. However, there still remains some probability of a further cut, but when the repo rate reaches such

low levels it is necessary to consider the fact that this could have negative effects on the functioning of the financial markets. The repo rate is expected to remain at a low level up to 2011, when it will begin rising again.

Cutting the repo rate to 0.5 per cent means that the interest rate corridor, that is the Riksbank's deposit and lending facilities, should be modified as the current corridor construction would in this case entail a negative deposit rate. Material was presented proposing a slightly narrower corridor that entails the Riksbank's lending rate and deposit rate being set at 1.0 per cent and 0.0 per cent respectively with a repo rate of 0.5 per cent.

§ 2. Economic outlook abroad

Deputy Governor **Lars E.O. Svensson** opened the discussion. He noted that the picture of developments abroad is very gloomy. Mr Svensson agreed with the view of international developments presented in the draft Monetary Policy Update. The forecasts for the real economy and inflation abroad have been revised down since the previous monetary policy meeting in February. Mr Svensson considered that many indicators of global economic developments were now showing a similar course to that at the beginning of the Great Depression, which gave cause for concern. He referred to an article on the website voxeu.org by Eichengreen and O'Rourke, who compare the current economic development with the Great Depression of the 1930s.

Deputy Governor **Lars Nyberg** essentially shared the gloomy view of international developments. World trade has continued to fall heavily. Capital inflows to most emerging economies have largely ceased. Unemployment has reached all-time highs in many countries and is expected to increase further. No positive signs can be seen in Europe. However, Mr Nyberg considered that if one looks for a ray of hope it may be possible to find one in the US housing market. Too little housing is being built and the increase in the number of households in the US economy – approximately 1.5 million a year – clearly exceeds the amount of new housing being built. If the US housing market, the place where the problems once began, has now bottomed out this could be an important signal.

Mr Nyberg went on to comment on developments in the financial markets. The current signals are mixed, which can be interpreted as an improvement on the earlier situation. When Lehman Brothers filed for bankruptcy in September last year, risk propensity among investors in credit instruments declined dramatically. There is now substantial liquidity in many funds, hedge funds and insurance companies. This liquidity is waiting to be invested. At the same time there are companies with essentially sound conditions that will survive the crisis, and these need funding. This applies to both financial and non-financial companies. When investors are willing to begin taking slightly more risk again and companies realise that they will have to pay slightly higher interest rates, the market will slowly rise back on its feet. It is therefore not unreasonable that the credit markets should come to life at the same time as the credit losses in the banks are growing and the economic downturn is continuing. Both in the United States and Europe the bond markets have shown increasing issue volumes. Companies with good credit ratings are now able to borrow. Other markets where activity has been almost non-existent since September last year have also begun to slowly come back to life. At the same time, the spreads are still high and credit flows are still small in a longer-term perspective. This situation is sensitive to shocks.

If the credit market outside of the banks can begin functioning better, despite the real economy remaining weak, it would of course provide good assistance in slowing down the negative economic developments.

Deputy Governor **Karolina Ekholm** shared the gloomy view and did not in principle envisage any rays of light. Real economic developments in the United States and Europe have been poorer than expected. Ms Ekholm agreed with Mr Nyberg that there are some signs of hope with regard to the financial markets in the United States. However, it is far from certain that this means that the lowest point has been passed. Experiences from the 1930s show that a deep recession can involve temporary upturns. In addition, the real economic downturn in the United States is continuing, with falling employment and increased unemployment.

Developments in Europe appear to be following the same patterns as in the United States, though with some time lag. A recovery in the United States is to be expected before a recovery in Europe. The problems in the German economy are troublesome for Sweden, which is strongly dependent on trade with Germany. Sweden risks facing a long period of weak demand for export goods.

First Deputy Governor **Svante Öberg** emphasised that international GDP growth has been revised down substantially since February and is now calculated in the draft Monetary Policy Update to be around minus 1 per cent in 2009 and just over 2 per cent in 2010. He considered that this is reasonable as a main scenario but his assessment was that the risk of developments being even worse despite this large downward revision still weighed heavier. Mr Öberg went on to develop his reasoning.

The International Monetary Fund (IMF) has now begun to publish its reports prior to the Spring Meetings next weekend. According to the IMF, the current financial crisis will probably result in an unusually long and deep recession as a result of the financial and global nature of the crisis. The IMF bases its analysis on earlier recessions in 21 developed countries since 1960. Its conclusion is that recessions associated with financial crises tend to be more serious and that the recoveries tend to be slower than normal. If the recessions are moreover globally synchronised, they tend to be even longer and to be followed by even weaker recoveries.

The Riksbank is now counting on a fall in GDP of between 3 and 4 per cent in 2009 for both the United States and the euro area and also weak growth in 2010. Europe normally lags behind the United States in the economic cycle and this is expected to be the case this time, too. Moreover, the recovery will be slower in the euro area. Expectations are largely in line with the average of the five large financial crises in the industrial world during the post-war period ("the big five") and moreover in line with the average for recessions associated with financial crises and synchronised recessions, according to the IMF. However, the current recession is both associated with a financial crisis and highly-synchronised between different parts of the world, and moreover unusually potent. The recession could thus result in an even larger fall in GDP.

The IMF also notes that financial crises are quickly and forcefully transferred to emerging markets through financial channels and that the reduction in the capital flows to emerging markets following a crisis can be a long drawn-out process. The emerging markets in eastern Europe are particularly vulnerable in this respect.

Mr Öberg considered that one could draw three conclusions from this. Firstly, there is a risk that the recession may even become deeper and more prolonged than predicted. Secondly, there is a tangible risk that further problems will arise in the growth economies in eastern Europe. Thirdly, a recovery will probably originate in the United States. In addition, Mr Öberg agreed with Mr Nyberg that signs of a turnaround in the US housing market would be very welcome.

Governor **Stefan Ingves** emphasised that since the previous meeting there had been a widespread downward revision to forecasts of economic activity abroad. The Riksbank is now expecting to see the weakest economic activity during peacetime since the Great Depression of the 1930s. The crisis was triggered by a turnaround in the credit cycle after a period of growing financial and global imbalances. What was initially described as an essentially financial crisis has now developed into a general, global, macroeconomic crisis but with remaining severe problems in the financial markets. Mr Ingves agreed with Mr Nyberg that the situation in the financial markets had not deteriorated, but that there still remained problems to be solved.

The authorities in different countries have taken a large number of conventional and non-conventional policy measures. One important question is whether this can reduce pessimism and infuse new confidence in the future. With all of the measures that have now been taken, the world economy is not facing a financial meltdown. The financial system is functioning tolerably, but only as the result of massive public sector support measures. The cooperation between central banks regarding supplying liquidity in foreign currency has also been extended. However, these measures do not resolve the various banks' capital problems. For this reason it is not particularly surprising that the international discussion is currently aimed more at solvency than liquidity. It would be very much appreciated if many countries could distinguish bad banks from good ones in an effective and transparent manner.

Certain real economic indicators point to the rate of downturn slowing down in the United States. Maybe developments in the United States will accelerate more quickly than in other areas. But various measures of interest rate spreads and risk premiums still indicate higher than normal levels. Moreover, there is a shortage of other real economic indications that international economic activity is on the verge of a turnaround. The downturn has worsened substantially in many eastern European countries that are important to the Swedish financial sector and the necessary adjustments have not been made. In other words, the risks in our neighbouring region are high and may thus also have a negative effect on the Swedish financial sector. However, the G20 meeting in London at the beginning of April provided positive information regarding the reinforcement of IMF resources to assist countries suffering problems.

But the risks remain in international terms with regard to self-reinforcing contagion effects between weak real economies and under-capitalised financial systems. In addition, the collapse in world trade is continuing. When trade credits are frozen, this disturbs the global supply chain of input goods needed before a product is ready for sale. In addition to declining demand, world trade is also therefore hit by supply shocks related to funding problems. Moreover, previous experiences show that the process of adjustment risks becoming long drawn-out, particularly in countries where saving has been low for a long time before the adjustment begins. Countries have different capacities and willingness to

resolve problems in the financial sector; countries have also been hit by greater or smaller declines in export demand. This should mean that when economic activity improves, it will not be in an entirely synchronised manner. In the same way as it took time before almost the entire world experienced negative growth, it will also take time before growth returns everywhere.

Deputy Governor **Barbro Wickman-Parak** considered that the downward revisions made to the international forecasts appeared reasonable. The fall in GDP in the final quarter of last year was larger than expected in most countries, and various indicators point towards the first half of this year being weaker than was assumed in the February Monetary Policy Report.

As in the previous forecast, a very modest recovery in the world economy is expected next year. The forecasts have been adjusted downwards, although not as much as for this year.

The further ahead one looks, the more uncertain the forecasts are, of course. This is always the case, but the uncertainty is particularly great on this occasion for several reasons. The effects of the expansionary fiscal policy are uncertain and it is extremely difficult to assess when the normalisation of the financial markets will begin and confidence will be restored.

Although Ms Wickman-Parak supported the forecast in the main scenario in the February Report, she considered then that there was reason to pay attention to the alternative scenario based on a more rapid recovery abroad and she also wished to highlight this possibility today. The motive for this is, as in February, that the financial system is undergoing a massive confidence crisis that has made a lasting impression on the real economy. Once confidence is restored, an upturn may be stronger than expected.

Ms Wickman-Parak did not believe that one could expect to see any positive signs from Japan or the euro area in the near future. In both cases their exports have been hard hit and industrial production has fallen very heavily. Moreover, in the euro area the banks have large exposures to the countries in eastern Europe. According to the Riksbank's forecast the upturn in the United States in 2010 is expected to exceed that in the euro area, even though it will be weak. This is a reasonable assessment.

The forecast for the United States entails the decline, once it comes to an end, having been more prolonged than previous downturns and the ensuing upturn also being slower. However, Ms Wickman-Parak considered that there is a possibility of a stronger upturn during 2010 and went on to state some reasons for this.

Ms Wickman-Parak began by discussing the housing market in the United States. One must remember that the supply-side adjustment began long before the financial crisis began. Housing investment in the United States has fallen three years in a row and the level has almost halved when compared with the highest point. Investment is now back at the same level as in the mid-1990s when house prices began to rise. At the same time, the number of households has increased by around 20 per cent since then.

The number of apartments where construction has begun and the number of building permits have not been this low since one began compiling statistics at the end of the 1950s and it is likely that the fall in housing investment will continue. However, it can at the same time be noted that the number of construction starts and building permits granted appear to have stabilised over the past three months. House sales also appear to have stabilised and

stocks of unsold housing have declined, particularly with regard to newly-built housing. However, the sales times are still long and prices are continuing to fall.

At the same time, it should also be noted that the average household's ability to buy a house has increased rapidly as house prices have fallen, mortgage rates have declined and disposable incomes have shown relatively good development. Ms Wickman-Parak explained that the balance problems in the market remain, but that the adjustment process is making good progress. There is a potential for positive contributions to growth when the upturn finally comes.

It is also important to follow inventory cycles. Inventories have been continually reduced over the past five quarters. There may remain some adjustment, but the inventories will gradually come down to levels where the demand flow, even if it is declining, must be met with increased production.

The fall in orders in industry is continuing, although it has slowed down slightly. This can be seen in the outcome figures, but even more clearly in the sub-index for orders in the purchasing managers' index. Orders have made a substantial recovery since the lowest point recorded in December. They are still below the 50 line and the sub-index is signalling continued falls but at a clearly slowed down rate.

Ms Wickman-Parak thought that the signs of stabilisation that she mentioned here may be delusive. But if they become clearer, they may have a more lasting effect on the mood on the stock market, for instance. This could in turn have a positive effect on households' undermined wealth and help push up consumption, which had fallen heavily in the last quarter of 2008 but has so far this year ceased falling. Such a positive development could gradually help the US labour market get back on its feet. Next year the fiscal policy stimulation is expected to correspond to around 3 per cent of GDP. Most of this concerns investment in the infrastructure that may provide a good help to the labour market.

Stefan Ingves noted that the members of the Executive Board shared the view of international developments expressed in the draft Monetary Policy Update. However, it is very difficult to assess when the recovery will begin and there were differences in the risk assessments of the Executive Board members. There are many indications that the recovery will be uneven and that it will begin in the United States.

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

First Deputy Governor **Svante Öberg** began the discussion by pointing out that in the draft Monetary Policy Update it is clearly shown that Sweden is in a severe recession. The Riksbank is now assuming that GDP will fall by 4.5 per cent this year and that the recovery will thereafter be fairly slow. Mr Öberg considered this reasonable as a main scenario, but as with international developments his assessment was that the risks of an even worse scenario weighed heavier.

Compared with the forecasts in the February Monetary Policy Report, the Riksbank is now predicting much weaker development in the real economy. At the same time, underlying inflation will be slightly higher than was forecast in February, although not so high; it will be close to two per cent during the forecast period. Mr Öberg considered that this motivated a

further cut in the repo rate and the repo rate path. He explained that he therefore considers that the Riksbank should cut the repo rate to 0.5 per cent. Moreover, economic developments over the coming years look to be so weak that it is appropriate to keep the repo rate at a very low level for a long period of time.

Mr Öberg went on to develop his view of the inflation forecast. CPI inflation will be negative for a large part of the year according to the current assessments. But this is primarily due to the Riksbank's own interest rate cuts. CPIF inflation, measured with a fixed mortgage rate, is a better measure of underlying inflation and will be fairly close to two per cent throughout the forecast period. The risk of deflation thus appears slight.

Inflation expectations in the slightly longer term are also stable around two per cent. Mr Öberg pointed out that he developed this reasoning at the most recent monetary policy meeting and therefore did not want to repeat it, merely noting that the most recent Prospera result confirmed that inflation expectations five years ahead are close to two per cent.

Mr Öberg considered that one could of course wonder why the inflation rate was not falling more when resource utilisation is so low. There are a number of explanations for this. Firstly, there are forces in Sweden moving in the opposite direction to the GDP gap, namely the weak krona and the fall in productivity, which has led to higher unit labour costs. Secondly, a transition to a credible inflation-stabilising monetary policy will lead to a weakening in the relationship between the GDP gap and inflation. Stable inflation expectations around the inflation target quite simply provide less scope for other variables to affect inflation.

Nor did Mr Öberg consider it necessary to be very concerned that the current massive measures to manage the financial crisis are building up a future inflation bomb. Once economic activity improves, the process is usually rapid and may entail bottleneck problems and inflation tendencies. But the current recession is associated with a financial crisis and is also on a global level. This indicates that the recovery will be slow and long drawn-out. In addition, one must expect that both fiscal policy and monetary policy will become tighter, that the support measures now aimed at the financial system will be gradually phased out and that both productivity and the krona will strengthen. This will hold inflation down.

Deputy Governor **Lars E.O. Svensson** pointed out that the forecasts for the real economy and resource utilisation in Sweden have been revised down substantially, even when based on a new, lower interest rate path. The situation has deteriorated and is very serious. Given the repo rate path and a cut in the repo rate to 0.50 per cent, as proposed in the draft Monetary Policy Update, resource utilisation is very low during the entire forecast period, while CPIF inflation is fairly close to the inflation target. Mr Svensson did not consider this to be a well-balanced monetary policy. A well-balanced monetary policy would be more expansionary, would increase resource utilisation and allow CPIF inflation to overshoot the inflation target. He was therefore unable to support the repo rate path in the draft Monetary Policy Update. Mr Svensson instead would prefer the repo rate to be cut to 0.25 per cent and to have a repo rate path where the repo rate is held at this low level for a long period of time, some quarters into 2011. Such a repo rate path would give higher inflation, higher inflation expectations, a lower real interest rate, a weaker krona and above all higher resource utilisation and lower unemployment. This would entail a better-balanced monetary policy.

Mr Svensson saw no reason why the repo rate could not now be cut to 0.25 per cent. The arguments put forward that it would entail problems for the financial markets if the repo rate were cut below 0.50 per cent are not convincing. Mr Svensson explained that he has not found any convincing analysis showing that it would be inappropriate to cut the repo rate to 0.25 per cent. His assessment was that the material presented recommended 0.25 per cent, not 0.50 per cent, as an appropriate floor for the repo rate. He considered that there are arguments in favour of little being gained by cutting the rate lower than to 0.25 per cent. But the arguments regarding problems in the financial markets in the event of a cut to 0.25 per cent instead of 0.50 per cent weighs very lightly against the advantages for the real economy and resource utilisation.

Moreover, the banks' and financial markets' expectations are set at a cut to 0.25 per cent rather than to 0.50 per cent. Mr Svensson pointed out that he does not normally attach any great importance to market expectations with regard to taking decisions on the policy rate, but in this case he wanted to state that if there were any problems for the banks and financial markets if the rate was cut to below 0.50 per cent then someone in the market ought to have detected this and warned against it. As far as Mr Svensson was aware, no such warnings had been issued. Instead, it appears as though the banks and the market are not merely expecting a cut to 0.25 per cent but would also welcome such a cut.

Monetary policy is not sufficiently expansionary, even with a repo rate of 0.25 per cent or even 0 per cent. If the zero interest rate bound had not existed, Mr Svensson would have advocated an even lower interest rate path, to obtain a better balance between stabilising resource utilisation and stabilising inflation around the inflation target. Mr Svensson considered that the binding zero lower bound for the interest rate is a new situation that turns things upside down.

Normally, the Riksbank can make its monetary policy more or less expansionary by lowering or raising the repo rate path. When the repo rate is close to zero it is no longer possible to lower the repo rate path. However, it is still possible to extend the period that the repo rate is held close to zero and thus to allow the repo rate path to be low further ahead. This means that the Riksbank is promising to conduct a more expansionary monetary policy with higher inflation further ahead. This only works if such a low interest rate path can be made credible and thus incorporated into market expectations.

With a zero interest rate there are four circumstances that determine how expansionary or contractionary monetary policy is. First, the repo rate path's position further ahead. Second, the spreads between market rates and the repo rate. These determine the market rates when the repo rate is close to zero. Third, inflation expectations, which determine the real repo rate and the real market rates. Fourth, the real exchange rate, which together with the real market rates determines how expansionary or contractionary monetary policy is.

With a zero interest rate the major risk is that monetary policy will be too contractionary. An overly expansionary monetary policy can easily be avoided by raising the repo rate above zero. The danger with a zero interest rate is thus if spreads increase, if inflation expectations fall or if the krona appreciates. This makes monetary policy more contractionary and causes resource utilisation to fall and unemployment to rise.

This shows how things are turned upside down with the zero interest rate bound, and how important it is not to become entrenched in traditional ways of thinking. It is often

excessively high inflation expectations that have earlier been a problem in monetary policy. Now it is excessively low inflation expectations that are the problem. Previously, an excessively weak currency has often been a problem in monetary policy. Now it is an overly strong currency that is a problem and can make monetary policy too contractionary, while a weak currency helps to make monetary policy more expansionary and better-balanced. These circumstances entail a formidable intellectual and educational challenge.

According to Mr Svensson, the intellectual challenge for the Riksbank is to get used to thinking along these new lines, to realise that high inflation expectations and a weak krona are good news now and make it easier for the Riksbank to stabilise the real economy. Previously, high inflation expectations and a weak krona have been a problem and made it more difficult for the Riksbank to stabilise both inflation and the real economy.

The educational challenge is to explain this new way of thinking and this new role for inflation expectations and the exchange rate to the general public and to market participants.

With a zero interest rate situation, in addition to the repo rate path further ahead, whether monetary policy is expansionary or contractionary is thus determined by the spreads, inflation expectations and the exchange rate. The spreads can decline or be kept down through credit easing, measures in the financial markets, such as new loan facilities, to ensure the financial markets function better. The spreads in Sweden, such as the TED and basis spreads, have declined from previously high levels and are lower than in the United States, the United Kingdom and the euro area. Mr Svensson considered it important that the Riksbank continues with its credit easing and helps to keep the spreads down, but he did not believe that it is possible to make monetary policy much more expansionary by these methods.

It is thus dangerous if inflation expectations fall too low, as the real interest rate will then be higher. Inflation expectations can be held up or raised with communication and convincing inflation forecasts with higher inflation further ahead. In the same way as it is the entire repo rate path that is important, and it is the average repo rate over the coming years rather than the repo rate at the present time that is important, it is the average inflation expectations over the coming years that are important to whether monetary policy is expansionary or contractionary.

Prospera's inflation expectations in January this year were 1.1 and 1.5 per cent for the first and second years respectively. The average for the two first years was thus 1.3 per cent. Now in April they have fallen so they are 0.9 and 1.5 per cent for the first and second years respectively. The average for the first two years has thus fallen from 1.3 to 1.2 per cent, not very much but moving in the wrong direction. In addition, they are below the Riksbank's own CPI forecast, which is now at 1.1 and 2.6 per cent for the first and second years respectively, that is, an average of 1.8 per cent. In addition, the residuals in a regression analysis with inflation expectations as a dependent variable and actual inflation as an independent variable are large and negative. This therefore means that inflation expectations are much lower than they should be according to historical patterns. All in all, inflation expectations are thus low and falling slightly. They thus give rise to a higher real interest rate and a more contractionary monetary policy. This is a cause for concern and must be monitored in the future.

Whether monetary policy is expansionary or contractionary is also affected very much by the exchange rate when the repo rate is close to zero and cannot be adjusted. According to an alternative scenario similar to that published in Monetary Policy Report 2008:3, the exchange rate has a very large effect on resource utilisation, employment and unemployment. A weakening of the krona by 5 per cent over the coming years compared with the Riksbank's forecast could now in round figures raise employment by 1 per cent and thereby could save approximately 50,000 jobs. Correspondingly, a strengthening of the krona by 5 per cent compared with the forecast could lead to 50,000 jobs being lost. The way the exchange rate develops in future thus has great significance for resource utilisation and unemployment when the interest rate is close to zero. As mentioned earlier, the danger here is if the krona becomes too strong, not if it becomes too weak.

Mr Svensson advocated cutting the repo rate to 0.25 per cent and to have a repo rate path where the repo rate is held at this low level for a long period of time, some quarters into 2011. Such a repo rate path entails a better balanced monetary policy, compared with the draft Monetary Policy Update, with higher resource utilisation and lower unemployment without inflation deviating too far from the target. Mr Svensson did not see any problems for banks and financial markets in cutting the repo rate to 0.25 per cent instead of 0.50 per cent. If there were any such problems they would in any case have minor significance in relation to the positive effects on the real economy, resource utilisation and unemployment.

Deputy Governor **Karolina Ekholm** considered it difficult to find any bright spots regarding economic developments in Sweden. Some positive exceptions may be that inflation and inflation expectations appear to be held up despite the weak real economic developments and that there is thus no acute risk of deflation. She noted that the weak krona has contributed to holding up inflation and from this point of view has made it easier to attain the monetary policy target, but she emphasised that a weaker krona also has negative consequences in that its purchasing power is undermined. The real economic situation looks gloomy. The curves for GDP, employment, trade and investment are pointing sharply downwards. There will be a large fall in GDP this year together with a substantial increase in unemployment and a decline in employment. Resource utilisation will thus decline significantly. The forecast in the draft Monetary Policy Update is based on a repo rate path where the rate is cut to 0.5 per cent and held there until the beginning of 2011 and this entails relatively low resource utilisation throughout the entire forecast period, despite the cut.

Ms Ekholm considered it difficult to measure resource utilisation and particularly difficult to forecast how it will develop in the future. This is linked to the fact that it is difficult to assess how production capacity is affected by the fall in production. However, it is reasonable to expect that resource utilisation will be so weak that a well-balanced monetary policy, which takes into account attaining the inflation target and resource utilisation, should actually involve a lower repo rate than 0.5 per cent. The real economic developments actually motivate cutting the repo rate to as close to zero as is possible.

However, it is difficult to assess what comprises the floor for the repo rate; if this is 0.5, 0.25 or some other level. Ms Ekholm's assessment was that the material presented led to the conclusion that 0.5 per cent was currently an appropriate floor for the repo rate. When the repo rate is very close to zero it is possible that problems may arise. For one thing the banks' margins could shrink, for another such a low repo rate may affect the liquidity in the private

repo market where there is some trade in interest rates that are currently a couple of decimals below the repo rate. Ms Ekholm considered that it would be unfortunate if the monetary policy decision were to lead to the financial markets shrinking or to impair their functioning.

Ms Ekholm explained that the repo rate should therefore not be cut lower than to 0.5 per cent. However, this repo rate should be maintained for a relatively long period of time, even if it means that inflation excluding mortgage rates is expected to slightly overshoot the target towards the end of the forecast period. The aim of maintaining a low repo rate over a relatively long period of time is to have a downward influence on interest rates at longer maturities.

Ms Ekholm also thought that one should keep the way open for a further cut of the repo rate to 0.25 per cent in the future if it appears that this can be done without having a detrimental effect on the functioning of the markets. One should moreover consider supplementing the repo rate cut further ahead with unconventional or extraordinary measures. The measures that would seem most appropriate are purchasing government bonds and housing bonds. This would also be with the aim of pushing down interest rates with longer maturities.

Deputy Governor **Barbro Wickman-Parak** pointed out that as for many countries the final quarter of last year proved a very negative surprise in Sweden. In February the Riksbank predicted that GDP would fall by around 4 per cent; the outcome was instead a fall of 9.3 per cent compared with the previous quarter and calculated as an annual rate. All of the demand components in the balance of resources were weaker than was forecast in February. The contribution from inventory investment was also much more negative than expected and this is slightly surprising given the fall in demand. It indicates that companies have been unusually quick in cutting back production.

The fall in total exports was close to 15 per cent calculated as an annual rate. The volume of exports continued to fall heavily in January and February. Calculated on an annual basis, this fall was almost 30 per cent; as recently as during the summer and the early autumn one could note a rate of increase of 8-10 per cent measured over a year. One must go back to the beginning of the 1980s, in the wake of the second oil price shock, to find an export decline of similar size and similar rapidity.

Last summer's forecast for 2008 pointed to an export market growth of 5 per cent in 2008 and 4 per cent this year. The outcome for market growth last year was around one per cent. The Riksbank's assessment is now that the Swedish export market is expected to shrink by a good 9.5 per cent in 2009 and that it will decline slightly further in 2010. Neither the Riksbank nor other analysts could predict the rapid deterioration in international economic activity.

Last year thus ended with an unusually large fall in production. This means a large negative overhang into 2009. Even if nothing had been done about the earlier quarterly forecast, that is, the one from February, GDP would have fallen by around 3 per cent this year. The downward revision for coming quarters entails the Riksbank's forecast for 2009 pointing to GDP falling by around 4.5 per cent compared with the fall of around 1.5 per cent forecast in February.

2009 will be a catastrophic year for growth and employment. The latter is expected to fall by around 2.5 per cent both in terms of hours and number of persons. The fact that households, which in addition to increased concern over unemployment, have seen their wealth undermined, are reducing their consumption expenditure and instead increasing their saving, is hardly surprising.

Ms Wickman-Parak explained that she supported the proposal to cut the repo rate by 50 basis points to 0.50 per cent. She considered that the Riksbank shall contribute as much as possible to alleviating the effects on growth and employment. Given the strained economic situation one might wonder why the Riksbank was not cutting the repo rate to 0.25 per cent or perhaps even lower. There is no experience of how an interest rate close to zero functions so there are no safe answers to this question. Ms Wickman-Parak said that the risk of complications arising in various markets made her advocate a repo rate of 0.50 per cent. Moreover, a further cut would not affect the real economy to any great extent.

Ms Wickman-Parak emphasised that, as she mentioned earlier, there is a possibility that the international economy may recover more quickly and more strongly than expected when the situation in the financial markets normalises and confidence is restored. The rapid fall in Sweden's exports could then come to a halt sooner and the recovery could be stronger. Production would be positively affected and after a time lag, so would employment. This would have an impact in the form of rising share prices and household wealth would recover. This would in turn also contribute to increased consumption in that households would reduce their high saving sooner and by more than is currently expected. A more rapid upturn in the economy could also reduce the risks of credit losses for the banks. This sequence of events would in this case occur during 2010-2011 and then one should consider the interest rate path, which shows the repo rate held unchanged until the beginning of 2011.

Ms Wickman-Parak pointed out that she had entered a reservation against the repo rate path on an earlier occasion during her time as a member of the Executive Board. This was last summer and referred to the repo rate path in the near future, that is to say the coming six months. Ms Wickman-Parak then considered the path too high bearing in mind the signs of weakness that were already visible and the downturn in inflation that could be predicted. She explained that her thoughts on the repo rate path this time were not due to monetary policy in the short-term perspective. Ms Wickman-Parak considered that she, like the other members of the Executive Board, thinks that the interest rate should be held at a low level as long as is necessary. This could very well be over the coming year. However, Ms Wickman-Parak was not averse to the possibility that as early as next summer or autumn it may be possible to see signs that motivate raising the repo rate from its extremely low level. This would not just be a case of a recovery possibly on the way; it could also mean that monetary policy is then guided to a greater extent by the assessment of economic developments during 2012 and 2013.

Although inflationary pressures are not a problem at present, things may look different then. For instance, commodity prices may have begun to increase more than expected. It may be so that the expansionary policy now conducted abroad may push up international inflation with a risk of increased imported inflation. The krona may not strengthen at the pace that is expected and even if it strengthens the earlier weakening may mean that cost pressures have built up which may be expressed in rising prices when economic activity rebounds.

Another example is that productivity may not recover as predicted. Ms Wickman-Parak explained that on this occasion she had considered entering a reservation against the repo rate path, but as the situation is uncertain and the question marks concern the repo rate far ahead, she had decided not to do so.

Governor **Stefan Ingves** emphasised that the fall in GDP this year was estimated to be of almost the same size as during the entire course of the crisis in the 1990s. At that time the crisis was domestically-generated with financial imbalances, high nominal interest rates and an overvalued currency. Then it was primarily consumption and investment that fell. This time much of the disruptions originate externally, public finances are sound, interest rates are low and Sweden will have a large current account surplus in the future. Exports are declining substantially which will have a negative effect on corporate investment. But household consumption is also affected, as the labour market will deteriorate substantially and precautionary saving will increase.

The economic downturn is expected to be unusually profound and this will affect the credit supply, which can be seen in the fact that companies have revised down their investment plans. Falling investment is due to both weak international demand and funding difficulties. Although corporate borrowing is still increasing, loan terms have been tightened, according to various surveys. There are also signs that there has been some substitution from market borrowing to bank borrowing. The larger companies are experiencing the biggest problems with funding, but they are taking a larger share of borrowing from banks, which means that smaller companies feel at a disadvantage. Moreover, there are now clear risks that increasing credit losses will subdue the banks' lending to companies. This entails further risks that small and medium-sized companies will be pushed aside.

All in all, the substantial economic downturn indicates that corporate borrowing will decline in the future, at the same time as credit quality falls and the risk of bankruptcies increases. However, so far there are few signs that companies and households will suffer a credit crunch more than is normally the case in an economic downturn. Both monetary policy and other measures have contributed to ensuring that Sweden, unlike other countries, has avoided severe credit market problems. With a bank sector that is a very important part of the transmission mechanism this development will require careful monitoring. Indirectly it also means that it is important that the Swedish banks attend to their problems in the Baltic both forcefully and quickly. This is to avoid the domestic transmission mechanism being disturbed by the international uncertainty. Here monetary policy and financial stability merge.

The weak real economy contributes a risk that inflation will undershoot the target. Resource utilisation is now assessed to be lower than normal during the entire forecast period. In addition, inflation expectations have fallen and are below two per cent two years ahead. The repo rate and the repo rate path need to be lower to counteract the weak resource utilisation and inflationary pressures. It is therefore appropriate to cut the repo rate to 0.5 per cent and to present a repo rate path with a low interest rate during a relatively long period of time.

If the economic situation were to deteriorate further it would be possible to use monetary policy easing to further stimulate the economy. But there are also some reasons for further consideration of what is an appropriate level for the repo rate. If the repo rate were to

become too low the transmission mechanism might become less effective. This is because some interest rates are lower than the repo rate. When the repo rate approaches zero, these interest rates would no longer be able to follow. A too low repo rate could also create costs in the financial sector as the result of, for instance, a reduction in the banks' margins. Purchasing government bonds can be regarded as the most natural extension of conventional monetary policy. Such purchases can reduce the long-term rate.

The Riksbank can stimulate the economy further, without cutting the repo rate to zero, if this should prove necessary. The most important measures concern ensuring that the real interest rate is sufficiently low. This can be done by influencing inflation expectations, which is made easier as the Riksbank has a numerical inflation target and publishes an interest rate path. The Riksbank can, for instance, announce that a low interest rate will be maintained for a longer period of time and demonstrate how the inflation path then approaches two per cent quicker than it would have done otherwise. This should contribute to counteracting expectations of excessively low inflation. It is also important that the Riksbank continues to facilitate the supply of credit by lending to the banks, which has expanded substantially over the past six months.

A further possibility would be for the Riksbank to contribute to pushing down the rate on government bonds, housing bonds or commercial paper by purchases in the markets. There is also a portfolio balance effect if other market participants' demand for corporate bonds, for instance, were to rise as a result of the Riksbank's purchase of government bonds. However, there is reason to await a more detailed analysis of needs and possibilities and legal issues before doing so. It will probably not arise until the Riksbank has done everything that can be done to facilitate the supply of credit with the aid of changes in terms for lending and deposits at the Riksbank.

Mr Ingves further thought that today's decision did not require anything more than cutting the repo rate as yet. What the Riksbank must consider further ahead is whether economic developments require further interest rate cuts and whether the current monetary policy then needs to be supported by more unconventional methods. It is always necessary to be prepared to be able to implement an alternative monetary policy if developments should require this, but such measures do not need to be implemented from today.

It is also important to note that monetary policy has become much more stimulative over the past six months. The real interest rate path is quite negative throughout the forecast period. This entails a powerful stimulation of the Swedish economy. Before taking more measures there is thus reason to evaluate the effects of the measures taken so far, in the light of the information received in the near future. Mr Ingves noted in conclusion that the discussion was currently dominated by the topic of how the Riksbank should manage monetary policy in the prevailing recession. As monetary policy is forward-looking, it is at the same time important not to overlook the potential inflationary impulses now being built in for the future. Price impulses from a weak krona and from high unit labour costs are two such factors.

Deputy Governor **Lars Nyberg** shared the negative view of developments in the Swedish economy presented in the draft Monetary Policy Update. Export-dependent economies are hit hard when international economic activity falls as drastically as now. The repo rate must be cut as far as possible. Some stabilisation can be noted in the financial markets. During the

first quarter of this year bond issues were as large as during the corresponding quarter in 2007, not including government-guaranteed issues. These are far from normal levels, but the credit market in Sweden is continuing to function.

With regard to economic activity, Mr Nyberg wished to point out that the Swedish economy is being relatively strongly stimulated compared with many other countries. Firstly, the weakening of the Swedish krona contributes to increasing the demand for Swedish export goods. This is no insignificant stimulation given how much the krona has depreciated. Secondly, a large share of housing finance in Sweden is at a short fixed interest period. This means that the interest rate cuts have a rapid impact on households' incomes and can contribute to holding up demand. One can see this now not least in the housing market. Thirdly, companies in Sweden are finding it easier to borrow than companies in other countries. The credit crunch has despite the problems been relatively limited. The banking system in Sweden is essentially sound, although credit losses will increase during the coming phase of the economic cycle. Fourthly, fiscal policy is expansionary, compared with other OECD countries.

Mr Nyberg took up the question of how the financial system may be affected by a repo rate level of 0.25 per cent. Is there even a risk that the functioning of the system will seriously deteriorate with such a low interest rate? This is difficult to assess, but the functioning will evidently deteriorate as the interest rate approaches zero. As it is of great importance that trading in the short-term market is maintained, it may be wise to keep at a safe distance.

Mr Nyberg also assessed, like Ms Wickman-Parak, that it was not so important in practice whether the repo rate was cut to 0.50 or 0.25 per cent. Interest changes are meant to function primarily by influencing demand in the economy. It is doubtful whether an extra quarter per cent in the current economic climate would increase either corporate investment or household consumption anything but marginally. Probably it is rather the case that the lack of demand plays a dominant role in investment decisions and uncertainty over the future has an equally prominent role in consumption decisions. Mr Nyberg considered that it would be appropriate to settle for a cut of 0.50 per cent. To reduce uncertainty over the future as far as possible, however, it is important to communicate that the repo rate will remain at this level for a long period of time, unless developments turn out much better than expected. The proposed repo rate path is therefore a particularly important part of the monetary policy message on this occasion, stated Mr Nyberg.

The Riksbank can take further measures in addition to cutting the repo rate. That which immediately comes to mind is as several members have already mentioned, to buy government bonds or housing bonds, but it is not the time to take a decision on that today. Other countries that have begun to apply such measures have experienced greater difficulty in stimulating the economy with traditional fiscal and monetary policy. If the Riksbank is to apply quantitative measures of this nature further discussions are needed. It is not clear how they would affect the Swedish economy. In Sweden the credit market outside of the banking system is relatively small, in an international comparison. The most important thing the Riksbank can do to reduce the effects of the recession, now that the repo rate approaches bottom, is probably to contribute to the banks being able to lend money at reasonable interest rates. Here the monetary policy objective coincides with the objective of promoting financial stability.

First Deputy Governor **Svante Öberg** thought that one could consider, as Mr Svensson advocates, cutting the repo rate further by one or more tenths of a per cent. There is great unity in the Executive Board that the repo rate should be cut as much as possible. But one must take into account the fact that the problems that can arise in the various markets when the repo rate comes down so low may be substantial and that it is then necessary to weigh the advantages of going further against the disadvantages. This is a question that must be studied further prior to the next monetary policy decision. Moreover, it would not make such a great difference if the repo rate were cut further a tenth of a per cent and particularly not if the cut were made next time instead of today.

What is important is that the Riksbank points out that the repo rate will be low for a long period of time and this is what today's decision is doing. It is of course difficult to determine how long the repo rate should remain low. And the further away in time, the more uncertain the assessment is. At present it is very difficult to say what the repo rate will be in 2011. This will depend on what one then expects to happen in 2012 and 2013. It is also a question of how much confidence people have in the Riksbank's interest rate forecasts. If the forecasts are not considered credible, they will not have the effects that one obtains in the economic models.

Mr Öberg also emphasised that there are limits as to what economic policy can achieve with regard to alleviating the consequences for the Swedish economy of such a severe and global economic recession as the current one. For fiscal policy the limits are set by what is considered compatible with a long-term sustainable development in public sector finances. For traditional monetary policy the limits are set by the fact that there is a floor under which the repo rate cannot be cut. It is not possible to avoid an economic downturn, but it is possible to prevent it from being too profound.

However, as some colleagues on the Executive Board have pointed out, there is the possibility to resort to unconventional measures to support the economy if developments prove to be much worse than is now being predicted. The Riksbank has already begun to extend the eligible counterparties for its monetary policy operations. What immediately comes to mind following this is to further extend the loan contracts in the short-term lending to the banks and using various means to also bring down long-term rates in different sub-markets.

It should be emphasised that a thorough analysis of this is needed before any decisions can be made regarding unconventional measures. It requires research into the advantages and disadvantages of these kinds of measure. In addition, one should analyse the experiences of other countries that have already begun to apply such measures. Moreover, one needs to consider in which cases it is the Riksbank that is best suited to implement the measures and where this might instead be a task for an authority under the Government, as is the case with regard to purchases of commercial paper in Norway. When monetary policy approaches unconventional measures it merges with both fiscal policy and measures to safeguard financial stability.

Deputy Governor **Barbro Wickman-Parak** emphasised that one should not exaggerate the opportunity to influence expectations of the future repo rate through the repo rate path. She also agreed with Mr Öberg that monetary policy has limitations. It cannot prevent a profound and rapid economic downturn in the world around us from hitting Sweden, but it

can alleviate the effects. If the international downturn is long drawn-out, monetary policy's possibilities eventually become exhausted. Everything cannot depend on monetary policy.

With regard to carrying out unconventional measures, many market participants and analysts are wondering what the Riksbank will do now that the repo rate is approaching zero. Ms Wickman-Parak wished to underline in this context that the Riksbank is already taking extensive measures by providing the bank system with liquidity. These measures will continue as long as is necessary. Slightly further ahead it may be necessary to implement other measures if this is necessary. As Mr Öberg has already mentioned, one can learn from the countries that have already begun to implement these types of measures, such as the United States and the United Kingdom. However, these countries are in a different situation than Sweden. For example, they have much larger budget deficits than Sweden. The companies in these countries are also more dependent on market financing, while in Sweden the banks are the most important source of funding.

Deputy Governor **Lars E.O. Svensson** emphasised again the importance of ensuring that a low repo rate path has credibility. If the general public and other economic agents believe in the repo rate path this will improve the ability to influence the economy through changes in the repo rate path. Using existing methods to estimate interest rate expectations with the aid of forward rates and with the new RIBA contract (Riksbank repo rate futures) one can obtain good information on whether or not the markets believe in the repo rate path.

What can one do to create credibility for a repo rate path with a low interest rate over an extended period of time? One wants to create credibility for a more expansionary monetary policy further ahead. How can one do this? Well, the Riksbank needs to commit itself to conducting a policy further ahead that will lead to higher inflation, overshooting the target, and to convince the general public and the market that the Riksbank will really tolerate inflation overshooting the target. This is part of the educational challenge mentioned earlier by Mr Svensson.

Deputy Governor **Karolina Ekholm** also commented on the question of the repo rate path's credibility. She highlighted the fact that this is a communications issue and that it is important to formulate oneself precisely. If the economic situation improves, it is important that a higher repo rate path is justified by the assessment that economic developments will be better than is now being forecast. In connection with the question of monetary policy's possible limitations, she emphasised that fiscal policy also provides stimulation to the economy and therefore provides assistance to monetary policy. Ms Ekholm agreed with Mr Nyberg that fiscal policy is more expansionary in Sweden than in many other countries thanks to larger automatic stabilisers and pointed out that a better initial public finance situation could also contribute to fiscal policy having a greater effect. She considered that it was not the right time now to decide on alternative monetary policy measures, but that it is of course important to be prepared to do so in the future if the situation so requires.

Deputy Governor **Barbro Wickman-Parak** had views on Mr Svensson's comments that it is currently a question of bringing inflation expectations up to levels above the inflation target. It is doubtful whether the Riksbank can affect inflation expectations in the way that it considers desirable in all situations. If inflation expectations nevertheless rise to these levels, which thus exceed the inflation target, it could lead to problems further ahead. If one assumes that inflation expectations are a good way above the target over a couple of years

and that inflation also overshoots the target. Is it so certain that inflation expectations would after this be once again anchored around 2 per cent? There would be a risk that much of the confidence in the inflation target that was laboriously established in the 1990s would be undermined.

Stefan Ingves concluded by noting that the discussion on alternative measures reflects the fact that financial stability and monetary policy appear to have merged during the financial crisis. It is not always up to the Riksbank to manage the alternative measures that improve the functioning of the financial markets. It is important in this situation to think through the financial structure in Sweden and how one wishes this to look in the future. The measures will to some extent govern the structure of the financial sector when Sweden comes out of the crisis. Mr Ingves shared Mr Öberg's view that one should carefully consider who does what in the public sector and that it is not self-evident that the Riksbank should take on all tasks related to the supply of credit. Finally, Mr Ingves' assessment was that measures to try to affect the exchange rate, over and above normal monetary policy, are not appropriate at present as Sweden has a floating exchange rate.

Stefan Ingves then summarised the monetary policy discussion. The deterioration in global economic activity has hit Sweden hard. Exports fell substantially towards the end of last year. The situation in the labour market has deteriorated rapidly and household consumption is weak. The outcomes and confidence indicators published in recent months point to the economic downturn being even deeper than the Riksbank had forecast in February.

A lower repo rate and repo rate path are needed to counteract production and employment being too weak and to attain the inflation target of 2 per cent. The repo rate is expected to remain at a low level until the beginning of 2011. But now that the repo rate is so low, one must consider that this could have negative effects on the way the financial markets function. If economic activity deteriorates more than expected in the future, the Riksbank has the possibility to take other measures.

As the functioning of the global financial system begins to improve demand from abroad and in Sweden will increase. The low repo rate and the fiscal policy measures taken will also contribute to the recovery. At the same time, the weak krona stimulates the economy. GDP growth is expected to be positive but low in 2010. The labour market will lag behind and employment will not begin to rise until 2011.

Inflation measured in terms of the CPI (consumer price index) will fall very rapidly in 2009. This is largely due to the Riksbank's rapid interest rate cuts at the end of 2008 and the beginning of 2009. If the effects of unchanged mortgage rates are excluded, inflation will develop in a more stable manner and be close to the target of 2 per cent for most of the forecast period. Inflation is largely being kept up by low productivity and the weak krona.

The future direction for monetary policy will depend on how new information on economic developments abroad and in Sweden will affect the prospects for inflation and economic activity in Sweden.

§ 4. Monetary policy decision

The Chairman noted that there was a proposal to cut the repo rate by 0.50 percentage points and a proposal to cut the repo rate by 0.75 percentage points.

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 Tuesday 21 April at 09.30 a.m.,

to cut the repo rate by 0.50 percentage points to 0.50 per cent and that this decision would apply from 22 April 2009,

to cut the lending rate to 1.00 per cent and the deposit rate to 0.00 per cent, with effect from Tuesday 22 April 2009,

to announce the decision at 9.30 a.m. on Wednesday 21 April 2009 with the motivation and wording contained in Press Release no. 42 2009, Annex B to the minutes, and

to publish the minutes of today's meeting at 9.30 a.m. on Tuesday, 5 May at 9.30 a.m.

Lars E.O. Svensson entered a reservation against the decision and advocated cutting the repo rate to 0.25 per cent and having a repo rate path where the repo rate is held at this low level for a long period of time, some quarters into 2011. Such a repo rate path entails a better balanced monetary policy, with higher resource utilisation and lower unemployment without inflation deviating too far from the target.

This paragraph was confirmed immediately.

Minutes by

Ann-Christine Högberg

Checked by:

Karolina Ekholm

Stefan Ingves

Lars Nyberg

Lars E.O. Svensson

Barbro Wickman-Parak

Svante Öberg