



Minutes of the Executive Board's Monetary Policy Meeting, No. 1

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SVERIGES RIKSBANK
SE-103 37 Stockholm
(Brunkebergstorg 11)

Tel +46 8 787 00 00
Fax +46 8 21 05 31
registrator@riksbank.se
www.riksbank.se

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

Johan Gernandt, Chairman of the
General Council (§§ 1-3)
Leif Pagrotsky, Vice Chairman of the
General Council

Sigvard Ahlzén
Claes Berg
Hans Dillén
Bul Ekici (§§ 1-3)
Heidi Elmér
Eric Frieberg
Jesper Hansson
Mia Holmfeldt (§1)
Ann-Christine Högberg
Per Jansson
Andreas Johnson
Tomas Lundberg (§§ 3-4)
Pernilla Meyersson
Marianne Nessén
Christina Nyman
David Vestin
Staffan Viotti

§ 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.

Mia Holmfeldt from the Financial Stability Department began by describing recent developments in the central banks' extraordinary measures and in government funding of budget deficits, with a focus on developments in Greece.

As the situation on the financial markets has improved, several central banks have begun to phase out the measures implemented to provide liquidity. For instance, several of the Federal Reserve's liquidity-related measures expired in February. The remaining measures will be phased out and are planned to cease during the first half of 2010. The Bank of England has announced that it will pause its asset purchase programme, but emphasises that it will maintain readiness to extend the scope of this if necessary. The ECB has reduced the maturities for its loans and plans to bring its asset purchase programme to a conclusion in summer 2010. On 8 February, the Riksbank took a further step in its exit strategy in that it held the final auction of loans with a 12-month maturity at a variable interest rate.

In Greece there is continued concern over the country's economy. At the beginning of February the EU approved the stability plan presented by the Greek government to manage its ailing public finances. Greece has a very large national debt, which is largely owned by foreign investors. Greece will have a large borrowing requirement in the coming period. However, the average maturity of the national debt is relatively long. Greece held its first new issue of the year in January, but there is still unease and Greek government bond rates have continued to rise. The unease has also spread to other euro countries with weak public finances such as Portugal and Spain, and government bond rates there have risen recently. Developments in Greece have little immediate effect on Sweden. Swedish banks have very little exposure to Greece.

Bul Ekici of the Monetary Policy Department reported on developments in the financial markets since the Executive Board Meeting on 27 January. Monetary policy expectations have been adjusted downwards slightly in both the United States and the euro area. The main reason for this is the message from the central banks that policy rates will remain low, and the fact that the macro statistics received do not motivate earlier raises. Analysts also believe that the expected effect of China's tightening of liquidity and higher requirements for banks' reserves on inflation may also have contributed to this. Another factor affecting monetary policy expectations in the euro area is the unease over several euro countries' public finances.

In Sweden, too, expectations of monetary policy have been lowered slightly. The Riksbank's communication of monetary policy issues since the previous monetary policy meeting in December is expected to have contributed to the fall in expectations since then. According to market newsletters, analysts are expecting the repo rate and the repo rate path to remain unchanged at today's meeting. Since the end of January the krona has strengthened slightly against most currencies, but has weakened a little against the US dollar and the Japanese yen. The rates on Swedish government bonds have fallen somewhat. As already mentioned, however, government rates have risen in several euro countries with poor public finances, such as Greece and Portugal. Stock markets have weakened, particularly in emerging economies. Commodity prices have also fallen.

Jesper Hansson of the Monetary Policy Department presented a summary of the background material for the Executive Board's discussion. This information had been discussed at a meeting of the Executive Board on 4 February. He noted that the economic upturn was now on firmer ground. Growth in the United States and Asia including Japan was now expected to be higher than had been anticipated in December. Growth in the euro area was expected to be slightly lower, however.

The situation in the financial markets has improved steadily. Confidence indicators have continued to rise. However, much of the outcome statistics received for both Sweden and the euro area point to a weak conclusion to 2009. For example, industrial production in Sweden was weak in October and November. However, industrial production rose by 1.8 per cent in December. There are signs of a division in the Swedish economy, where domestic demand has been maintained at the same time as exports are still weak. However, there have been positive signals from the labour market. Employment has fallen less than expected and the forecast for unemployment has been revised down compared with December.

The growth prospects for Sweden are roughly the same as they were in December. The forecast for GDP growth in 2010 has been revised down slightly, but the forecasts for 2011 and 2012 remain unchanged. The inflation forecast for 2010 has been revised upwards, but the forecasts for 2011 and 2012 remain unchanged. The recent upturn in CPI inflation is expected to be temporary and underlying inflation is expected to fall in 2010. It is suggested in the main scenario of the draft Monetary Policy Report that the repo rate should remain at 0.25 per cent and later be raised to more normal levels, starting in the summer or early autumn of 2010. Monetary policy will thus begin to normalise at a slightly faster rate. On the other hand, the repo rate will not be raised as much in the long term. The fixed interest rate loans will mature in June, August and October, which forms part of the normalisation of monetary policy.

The alternative scenarios in the draft Monetary Policy Report include both a faster and a slower development in wages, a weaker exchange rate as well as a higher long-term labour supply. Moreover, there is a description of the effects of a monetary policy where the repo rate is raised more quickly than in the forecast during 2010-2011, as well as a scenario where the repo rate is instead cut to zero and then held at 0.25 percentage points below the repo rate path in the main scenario for approximately one year.

§ 2. Economic outlook abroad

First Deputy Governor **Svante Öberg** began by making three comments. Firstly, Mr Öberg agreed with the picture of international developments presented in the draft Monetary Policy report. The recovery in the world economy is continuing. GDP growth in the world as a whole looks to be reasonably strong, with Asia as driving force. The Riksbank also expects to see good growth in the United States. However, growth looks to be weaker in Europe, which means that the aggregate GDP growth for Sweden's trading partners will be only around 1.4 per cent in 2010. Price and wage increases will be kept down by low resource utilisation, especially in Europe.

Secondly, there have been no major changes to the forecasts compared with December. The Riksbank has revised up the forecasts for world GDP growth and US GDP growth somewhat. But this has not had any impact on the aggregate GDP growth for Sweden's trading partners, as GDP growth in the euro area has been revised down marginally. The forecast for inflation abroad has also been revised down marginally.

Thirdly, the forecasts are unusually uncertain. There is still a risk that GDP growth will slow down again once the effect of the temporary stimulation from the expansionary fiscal and monetary policy wanes and the stocks cycle turns around. There is also uncertainty over

how strong the dampening effects of the financial crisis will be. The large deficits in public finances in the United States and a number of countries in Europe will have a restraining effect on growth over the coming years. The increased indebtedness among households in the United States will have a subduing effect on household consumption. The European banks' losses have not been fully brought to light and will hold back credit granting. Developments in the Baltic countries remain problematic.

Deputy Governor **Lars E.O. Svensson** declared that he also shares the view of developments abroad contained in the draft Monetary Policy Report. However, he wished to emphasise that even though the recovery of the global economy is continuing and the situation on the financial markets is normalising, there is still a need, as in December, for an expansionary monetary policy in Europe and the United States. The recovery is from a very low level and could very well be fairly slow. Resource utilisation in Europe and the United States is still very low. The risks associated with breaking off the expansionary monetary policy too early are still much greater than the risks of continuing to pursue it for too long.

Deputy Governor **Karolina Ekholm** began by stating that she shares the view of economic prospects abroad contained in the draft Monetary Policy Report. She pointed out that growth in the world economy over the coming period looked to reach a reasonable level on average, but with substantial differences between emerging economies in Asia and Latin America and the "old" industrial nations in Europe and North America. The US recession appears to have bottomed out, but it is unclear how strong growth might be in the coming period. The national debt situation and the indebtedness of US households will slow down the recovery. The Chinese economy has continued to grow relatively rapidly during in principle the whole crisis period and looks set to continue to do so. However, Ms Ekholm considered it worrying that the conflict between the United States and China regarding the large Chinese trade surplus and China's reluctance to allow the exchange rate to strengthen appears to be escalating. She thought that the world economy does not need a trade conflict between these two large economies with both sides possibly taking protectionist measures.

Furthermore, Ms Ekholm emphasised that national debt was a problem in Europe. Future need to consolidate budgets would reduce the scope for growth. As far as Sweden is concerned, however, it is mainly developments in large economies such as the United Kingdom, Germany and France that are significant. Developments in countries such as Greece and Portugal, which have been much discussed in the media recently, do not have any great significance in this respect as they only account for a minor part of the demand for Swedish exports. But the situation in these countries could nevertheless affect future developments in various ways. There is considerable uncertainty as to how they can get their public finances in balance and this uncertainty seems to be contributing to a weaker euro. This is probably not purely negative for the euro area, as it improves international competitiveness in a situation where the euro tends to be overvalued. And as stronger developments in the real economy in the euro area in principle benefit Sweden through stronger demand for Swedish exports, it probably also has some positive effects on the Swedish economy.

Ms Ekholm also envisaged a number of risks. Even if developments in Greece are such that interest and amortisation on loans can be paid, it may nevertheless be difficult to refinance the parts of the debt that fall due for payment. Market participants would then force an essentially unjustified crisis in public finances. This would require a rescue action from the other euro countries or EU countries. This may seem like a choice between two evils; accepting that the markets will force a crisis in public finances or carrying out a rescue action that weakens the member states' incentive to manage their public finances in the future. As described by Mia Holmfeldt when summarising events in Greece, this country faces rather large parts of its national debt falling to maturity during the spring, and it will therefore be important to follow what happens in the markets when these parts of the loans are to be refinanced. Falling prices for Greek government securities may also lead to problems for the banks holding these securities, so there may also be reason to follow up on where in the banking system these securities are held.

Governor **Stefan Ingves** stated that he shared the assessment of economic activity abroad described in the draft Monetary Policy Report. In Asia economic growth is good, while inflation has begun to rise. The strong demand for commodities may contribute to inflation rising further and also in other parts of the world. At the same time, it can be noted that the exchange rates in Asia are relatively inflexible. This could lead to future imbalances in these countries.

In the United States growth was surprisingly positive during the fourth quarter of 2009. However, there is still a need for adjustment, as the global imbalances remain and discussions of this are recurring. In Europe the weak public finances are expected to hamper growth further ahead, which may affect Sweden. The situation in the Baltic region is now more stable, and is expected to become more positive, although from a very low starting point. Estonia's application for EMU membership may prove an important factor. If it is accepted, then stability will increase in our immediate surroundings. However, if the application is rejected, it could lead to greater uncertainty in the region.

Mr Ingves also pointed out that world trade is continuing to grow. This is a positive thing, not least for Sweden, but the global imbalances and problems with public finances still remain. Mr Ingves also thought that it was possible to perceive an exit from the most expansionary monetary policy in other countries. This is so far a cautious exit, but the direction is clear. Mr Ingves pointed out that it is difficult to predict developments in the Swedish krona. It is therefore reasonable to base assumptions on a standard forecast where the krona slowly strengthens.

Deputy Governor **Barbro Wickman-Parak** began by highlighting the fact that the growth forecast for the United States for 2010 has been adjusted upwards again. It is often pointed out that the strengthening of the economy now taking place is a result of fiscal policy stimulation and low interest rates. And this is probably true; it is not so long ago that our main concern was to what extent the stimulation would actually have an effect. While there has been cause for some concern, but now the stimulation has certainly had an effect. The idea behind the stimulation in the United States and other countries has been to support the economy enough for it to be able to continue running on its own steam.

When one looks ahead and tries to assess the conditions for self-propelling growth, perhaps the most important factor is that the US labour market is beginning to look more hopeful.

Monthly employment figures always fluctuate and are revised often. But if one looks beyond this, the tendency is clear; a turnaround in the labour market is approaching. Stronger employment can provide more sustainable support to private consumption. This is very welcome in a situation where one cannot expect demand for consumption to be led by credit.

Ms Wickman-Parak pointed out that she believes that one can feel relatively secure with regard to growth in the United States this year. The effects of the large stimulation package will be mainly felt this year. In addition, some further stimulation measures have been notified. The uncertainty is greater further ahead, when these effects wane and it is necessary to correct budget deficits. Ms Wickman-Parak said that she certainly did not wish to trivialise the problems the US economy is now facing, but that it is nevertheless important to remember that the cyclical part of the deficit will be corrected as growth now picks up. It will be easier to implement the budget constraints that are nevertheless necessary when the economy is growing.

The growth forecast for the euro area has actually been adjusted down slightly compared with December. Although the indicators have continued to point upwards, the outcome data supports the cautious assessment. Unlike Sweden, for instance, there is no support for the idea that households might be a factor behind the upturn. At the same time, as we know several euro countries have more or less acute problems with their public finances. The upturn is fragile and the strengthening in confidence seen in several countries risks being damaged when the situation in Greece puts the euro collaboration to its severest test ever. As Mr Ingves pointed out, a weakening of growth in the euro area could have repercussions on the Swedish economy.

Ms Wickman-Parak concluded by saying that she shares the analysis of the international situation in the draft report and that she agrees with the forecasts presented.

Deputy Governor **Lars Nyberg** announced that he essentially agrees with the analysis made in the draft Monetary Policy Report. However, he would like to make some additions and distinctions.

The financial markets, dominated by New York and London, are now apparently functioning normally for the most part. A number of central banks have begun to phase out the measures to support liquidity in the markets without suffering any negative effects. This was expected. The nervousness currently prevailing in the markets is not because they are thought to be functioning poorly. It stems partly from developments in Greece and other regions in southern Europe. But it mainly arises from an uncertainty as to how the fiscal policy measures should be phased out around the world and as to how the remaining government debt stocks should be managed. It is necessary to have credible plans for this to increase security in the market pricing of debt securities. But this uncertainty should not be confused with the markets functioning more poorly or being less liquid than normal.

With regard to Greece, one must remember that the Greek economy is fairly small in relation to the rest of the EMU collective. Allowing Greece to get out of hand would probably entail higher costs than finding a solution to the problem. It would be worse if other countries in southern Europe were also to experience severe problems.

As Mr Öberg pointed out, there are probably substantial losses that have not yet been reported in a number of European banks. But the market is also aware of this and the potential for surprises has declined. One can also note that there has been considerable willingness to provide private capital in the banks. The risk of a serious problem with capital shortages in the banks during the upturn has declined.

There is still undeniably some uncertainty regarding future developments in the Baltic. But this is largely a different kind of uncertainty from that experienced last summer. Now instead there is discussion of whether Estonia will join the EMU, as Mr Ingves pointed out, and how long it may take for Latvia to restore a reasonable growth rate. Previously there was talk of whether the Baltic banking systems would collapse and whether Latvia would be forced to devalue. Much is still possible, but stability has increased.

In terms of the real economy, Mr Nyberg noted that developments had given the Riksbank reason to adjust the forecast for world growth this year up by almost half a percentage point since December. Since July 2009 the expected growth rate for 2010 has been revised up from 2.3 per cent to 3.9 per cent, that is, by 1.6 percentage points. Asia has been a driving force behind growth, but the United States has also played a role, which one would not have dared to believe last summer.

Governor **Stefan Ingves** summed up the discussion of the international economic outlook by saying that the Executive Board essentially supports the assessment presented in the draft Monetary Policy Report, but that different shades of meaning had been expressed.

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

First Deputy Governor **Svante Öberg** stated that he supports the proposal to hold the repo rate unchanged and to adjust the repo rate path in the way described in the draft Monetary Policy Report. Mr Öberg had four comments.

Firstly, Mr Öberg agreed with the picture of developments in Sweden presented in the draft Monetary Policy Report. GDP growth looks to be on average around 3 per cent a year during the forecast period, but the recovery will be from a low level. There are substantial differences between different parts of the economy. The manufacturing industry has been strongly affected by the fall in world trade, while the services sector has been maintained by expansionary fiscal and monetary policy. Resource utilisation will be low during the forecast period and will hold down inflationary pressures. The low inflationary pressures and low resource utilisation justify the Riksbank holding the interest rate at its current low level for a further period and then gradually raising it to a more normal level.

Secondly, the revisions made since December point to a slightly less expansionary monetary policy. The financial markets have continued to improve. The forecast for GDP growth remains largely the same. The forecast for this year has been revised down marginally as a result of slightly weaker developments in production and exports during the fourth quarter of last year. On the other hand, employment and unemployment developed better at the end of last year than was forecast in December. This has meant that the Riksbank is now assuming that employment will not fall as much this year and that unemployment will not increase as much as in the December forecast. In contrast to the autumn, when the inflation

forecasts were gradually revised down, the Riksbank has now also revised up the forecast for underlying inflation measured as the CPIF excluding energy. This reinforces the impression that the Riksbank ought to begin raising the interest rate at the beginning of the autumn or perhaps as early as July.

Thirdly, the forecasts are uncertain in several aspects. Forward-looking data such as the Economic Tendency Survey point to a fairly good development, while the actual figures for production and foreign trade are still weak. The inflation forecast relies amongst other things on an expected appreciation of the krona, which is genuinely uncertain. The alternative scenario with a weakening of the krona, as described in Chapter 2 of the draft Monetary Policy Report indicates that underlying inflation measured in terms of the CPIF could in this case be well over 2 per cent a year during the forecast period.

Fourthly, Mr Öberg wanted to take up one particular uncertainty factor, namely this year's central wage bargaining. There are also sensitivity calculations for these in Chapter 2. The Riksbank calculates in the main forecast that hourly wages will increase by around 2.5 per cent a year during the forecast period, given the weak labour market situation, low inflation expectations and so on. This figure does not include merely the centrally-agreed wage increases, but also wage increases over and above these. This is a very low rate of increase compared with the past 40 years.

This year's central wage bargaining will have considerable significance for wages, inflation and monetary policy during the forecast period. There are several uncertain factors prior to the wage bargaining. What will the average level of the agreed wage increases be? How will the division in the Swedish economy affect wage increases in different parts of the economy? What part of the economy will play a normative role in the wage bargaining - the manufacturing industry which more directly and tangibly notices competition with low prices and wages abroad, or the private services sector, which can to a greater extent pass through cost increases to prices? What bearing will the unusually great uncertainty regarding economic activity have on the length of the central wage agreements signed? It is important that the Riksbank closely follows what is happening in the wage bargaining rounds.

Deputy Governor **Lars E.O. Svensson** announced that he shares the view of economic developments in Sweden described in the draft Monetary Policy Report, but that he prefers a lower repo rate path than that in the main scenario. A lower interest rate path will lead to a much better outcome for inflation and resource utilisation without causing any problems to the functioning of the financial markets or to financial stability.

A flexible inflation-targeting policy involves choosing the repo rate path that best stabilises inflation around the target as well as resource utilisation around a normal level. This means choosing a repo rate path so that the corresponding forecast for inflation is as close to the target as possible and so that the corresponding forecast for resource utilisation lies as close to normal resource utilisation as possible. This is what constitutes a well-balanced monetary policy.

If a conflict should arise between stabilising inflation and stabilising resource utilisation, then a well-balanced monetary policy involves a reasonable compromise between the stability of inflation and the stability of resource utilisation. If there is no such conflict, things are much simpler. Then it is merely a question of finding the repo rate path that will best stabilise both

inflation and resource utilisation. In the current situation it can actually be claimed that there is no conflict.

It is not possible to know what repo rate path is best in a particular situation without comparing the forecasts for inflation and resource utilisation with the corresponding forecasts for alternative repo rate paths. Such a comparison can be found at the end of Chapter 2 in the draft Monetary Policy Report. Figure 2.13 on page 28 shows a red dotted curve representing the main scenario's repo rate path and blue and yellow dotted curves representing a repo rate path that is lower, and higher, respectively than the repo rate path in the main scenario. The deviations are 0.25 percentage points up or down in four quarters, then there is a smooth return to the repo rate path of the main scenario.

Figure 2.14 shows the forecast for a measure of resource utilisation, namely the labour market gap, for the three repo rate paths. Figure 2.15 shows the accompanying forecast for inflation, measured as the CPIF. These three figures summarise what today's monetary policy decision involves. What monetary policy alternative shall one choose? Which repo rate path shall one choose: the one in the main scenario, or a higher or lower repo rate path?

Mr Svensson considered that a large part of the monetary policy decision-making process and of today's discussion should centre on monetary policy alternatives such as these three, and their advantages and disadvantages. Of the report's more than 60 pages and more than 80 figures, more than two pages and three figures should concern the choice between different monetary policy alternatives. Mr Svensson feared that the decision process would fix too quickly and too uncritically on one particular alternative instead of carefully and extensively considering several alternatives and choosing the best one, and very clearly describing why one particular interest rate decision was made and not another. As the Riksdag Committee on Finance states in its report in 2007 on Giavazzi and Mishkin's review of the Riksbank's monetary policy: "A flexible monetary policy requires, in the Committee's view, a high degree of transparency and that the Riksbank is very clear about why the various repo rate decisions have been made. This is also a prerequisite for the possibility to examine and evaluate monetary policy."

It is clear from these figures that the lower repo rate path provides a much better outcome for both inflation and resource utilisation. The blue curve in Figure 2.14, which shows the labour market gap for the low repo rate path, is clearly higher than the red curve, which shows the main scenario. Resource utilisation is also lower than normal during the forecast period with the lower repo rate path, but it is higher than in the main scenario. The blue curve in Figure 2.15, which shows the inflation forecast for the low repo rate path, is much closer to the inflation target during the greater part of the forecast interval than the red curve, which represents the main scenario. It would thus appear clear that the lower repo rate path is preferable, as it provides a clearly better outcome for both inflation and resource utilisation.

One might think that if one nevertheless does not choose the low repo rate path one must have very strong reasons for this. This means that one disregards the endeavour to attain the inflation target and stabilise resource utilisation in the best way. But what can be more important than attaining the inflation target and stabilising resource utilisation?

Unfortunately it is not made clear in the draft Monetary Policy Report why it is right to

prioritise something other than the inflation target and resource utilisation in the current situation.

Given this background, Mr Svensson advocated the lower repo rate path shown in Figure 2.13, in which the repo rate is cut by 0.25 per cent to zero and lies 0.25 per cent lower than in the main scenario to the end of the fourth quarter of 2010 and then gradually returns to the main scenario's repo rate path.

Every indication is thus that the lower repo rate path is much better for stabilising inflation around the inflation target as well as resource utilisation around a normal level. If one nevertheless does not choose the lower repo rate path over that in the main scenario, one should be able to claim with a reasonable amount of certainty that the lower repo rate path would entail consequences that in this situation carry greater weight than price stability and stable resource utilisation. The burden of evidence should rest with those not wishing to choose the lower repo rate path.

What does it say in the draft Monetary Policy Report about the different monetary policy alternatives? After Figures 2.13-2.15 are presented, there is a sentence on page 38 of the draft that states "Whether or not the repo rate levels set in these scenarios would lead to a better or worse development of the economy than that portrayed in the main scenario is not a simple question to answer". What it should say instead is: "Whether or not the repo rate levels set in these scenarios would lead to a better or worse development of the economy than that portrayed in the main scenario is a very simple question to answer. The lower repo rate path provides a better development, while the higher provides a worse".

The next paragraph mentions different measures of resource utilisation and the uncertainty of these measures. In this case, however, all measures of resource utilisation give the same answer. The lower repo rate path is better, and the higher is worse. Other forecasters than the Riksbank, such as the National Institute of Economic Research, the Ministry of Finance and the OECD, have even lower estimates of resource utilisation than the Riksbank. The paragraph on resource utilisation thus provides no argument against choosing the low repo rate path.

The following paragraph states that it is difficult to know how economic agents will act and how financial markets will function when interest rates are very low. Mr Svensson said that he does not know of any information pointing to economic agents acting differently or paradoxically when interest rates are low, or why this should have such drastic consequences that it is allowed to dominate over other considerations. There have been very low interest rates in many countries for more than a year; moreover there have been much lower interest rates in several other countries than in Sweden. In Switzerland they have had policy rates of a couple of points. As pointed out in the Economic Commentary "The lower limit of the Riksbank's repo rate", which was published on the Riksbank's website last autumn, one cannot find any problems whatsoever in the financial markets that can be attributed to low interest rates.

Since then a few more months have passed. Both the Monetary Policy Department and the Financial Stability Department closely follow developments in the financial markets and have very good information about them. There are still no signs that low interest rates have entailed any problems with regard to financial stability or the functioning of the financial markets. There are no problems with the major banks' net interest income and deposits, for

instance. It is mentioned that the Bank of England has not gone lower than down to 0.5 per cent. As far as Mr Svensson knew, this is because of concern over net interest income in building societies, which is not relevant for Sweden, where four major banks dominate the financial sector.

The final paragraph on page 28 mentions risks linked to exaggerated lending and rapid increases in house prices. These risks have been closely studied in both the Riksbank's most recent Financial Stability Report and by Finansinspektionen, the Swedish financial supervisory authority. The unequivocal and certain conclusion based on very detailed data, studies and stress tests is that the housing market and credit granting do not at present entail any problem for financial stability. Lars Frisell, chief economist at Finansinspektionen, has stated clearly in Dagens Industri newspaper that the housing market and mortgages are not a problem for financial stability. If such problems were to arise at some point in the future, Finansinspektionen has very effective instruments, in the form of regulations regarding leverage, amortisation and housing cost calculations. However, the repo rate is a very blunt and unsuitable instrument for affecting potential risks of this sort. There is thus no reason to allow house prices and credit granting to affect the repo rate decision now.

Moreover, Mr Svensson pointed out that with regard to the unwarranted "zero interest rate mystery" that has been rampant and which he has commented on at earlier monetary policy meetings and in various speeches, it is in any event no longer relevant. This is partly because the financial markets have normalised and partly because the low repo rate path in Figure 2.17 entails a zero interest rate during a limited period of time, until the summer, and after this a positive interest rate.

The draft Monetary Policy Report thus does not provide any good reasons for not choosing the lower repo rate path. Is there some unspoken motive? However, unspoken motives have no place in transparent monetary policy. Anything that cannot be expressed openly cannot be a good reason.

Deputy Governor **Barbro Wickman-Parak** began by stating that she respects Mr Svensson's way of reasoning, but that one can also approach the monetary policy decision in a different way. With regard to the zero interest rate mystery, Mr Svensson had on numerous occasions claimed that one could have a negative interest rate even if there was a limit to how far one could go. Ms Wickman-Parak wanted to ask Mr Svensson why he did not advocate an interest rate path with a negative interest rate, to achieve even better target fulfilment? She went on to point out that over a fairly long period of time she has had a more positive view of growth prospects abroad and here in Sweden, and that she has also described her reasons in detail. Ms Wickman-Parak thought that as she now essentially agreed with the analysis and the forecasts presented in the draft Monetary Policy Report, she did not want to comment in greater depth on economic activity. There is a detailed description in the draft Report.

Ms Wickman-Parak nevertheless wished to highlight a couple of factors. The first one is that it has become gratifyingly clear that the labour market situation is not as gloomy as was previously predicted. At the meeting in December, Mr Wickman-Parak's view was that some reassessment of the direction of the labour market might be necessary. Employment statistics and other labour market indicators are now pointing more clearly in this direction. The Riksbank's forecast is still that employment will fall this year, but the fall is expected to

be just under one per cent. As recently as in December, the forecast was for a fall of just over 2 per cent, and if one goes back to July, the forecast was a fall of just over 3 per cent. As illustrated in the draft Monetary Policy Report, employment has not followed a historical pattern. It is difficult to predict what will happen when the economy is exposed to major shocks. But as the figures point more clearly in one particular direction, one must gradually realise that the map does not match the terrain.

One explanation for this could be that the services sector has been relatively unaffected by the crisis. Another explanation could be that companies have been confident that the abrupt decline would be of a more temporary nature. Massive economic policy measures could have contributed to this. This is in contrast to what we saw during the crisis in the 1990s. One reflection is that one should certainly learn a lesson from earlier crises, but that one must nevertheless exercise caution when making comparisons. The various elements in the sequence of the crisis differ.

The second factor that Ms Wickman-Parak wished to highlight is the risk outlook with regard to inflation, which she mentioned at several earlier monetary policy meetings. At the meeting in December Ms Wickman-Parak mentioned, for instance, the role of the forecast for the krona and the risk of giving too much weight to this particular variable; the accuracy of these forecasts is not usually very high. As shown in the draft Monetary Policy Report, there is reason to predict a stronger krona. But one cannot rule out the possibility that the krona will be weaker. One alternative scenario in the draft Report has a weaker krona exchange rate. Ms Wickman-Parak said that her assessment was not that the exchange rate would develop in the way outlined in this scenario, but that the scenario clearly shows how sensitive the inflation forecast is to what is expected to happen to the exchange rate.

When one looks at the actual outcomes for inflation recently, they have been higher than expected, despite the low level of resource utilisation. This applies to all of the underlying measures of inflation, which is illustrated in a figure in Chapter 3 of the draft Monetary Policy Report. There are good reasons to assume, as in the Riksbank's forecast, that the upturn is temporary and that the underlying inflation rate will gradually fall again. But there is a breadth in the upturn that might indicate a more permanent rise. One can never be entirely certain.

Ms Wickman-Parak went on to discuss today's decision. Resource utilisation is low and there is no imminent inflation threat, although there is reason to closely observe coming tendencies. Ms Wickman-Parak supported the proposal to hold the repo rate unchanged for a further period of time. She also supported the forecasts in the draft Monetary Policy Report and the repo rate path included in it. The Riksbank has had to manage the repercussions of a deep crisis and an extremely low repo rate has been necessary. But the intention has always been that the crisis repo rate would be abandoned when economic activity and the financial market situation begin to normalise. Ms Wickman-Parak said that she had also stated earlier that gradual increases at an earlier stage would be preferable. Household borrowing is increasing at an undiminished rate. Gradually increasing the repo rate will make it possible for households to gradually begin adapting their borrowing. Her view at the meeting in December was that an earlier adjustment could entail that the repo rate did not then need to be raised as much as the repo rate path at that time indicated.

Ms Wickman-Parak welcomed the fact that the repo rate path now indicates that the repo rate may be raised slightly earlier than was indicated by the previous path which had remained the same since July. Personally, she would have been happy to see a slightly higher probability of a raise in July, but she felt that this was not something that warranted entering a reservation. And finally; when the Riksbank gradually begins to raise the repo rate, this will nevertheless mean a low repo rate, in historical terms, over a long period of time as the forecast now looks.

Deputy Governor **Lars Nyberg** states that the draft Monetary Policy Report provides a balanced picture of how conditions have gradually improved during autumn 2009 and so far this year. Economic activity is now on firmer ground and a minor revision to the repo rate path is justified. Since July 2009 the forecast for domestic growth has been raised from 1.4 to 2.5 per cent. The assessment made in July was that unemployment would peak at 11 per cent this year. Now the Riksbank believes this figure will be 9.4 per cent. At the same time, employment has declined much less than the Riksbank was expecting then. Sweden has left the crisis behind and entered a deep, but nevertheless normal, recession.

Recently, inflation has also increased more than expected. It may be difficult to determine how much of the increase is temporary, but it covers a broader spectrum of goods and services than expected, not merely energy. This is worth pointing out and, if it continues, it is worth worrying about.

The division between the services sector and the manufacturing sector has continued. It has been possible to stimulate the domestic economy with fiscal and monetary policy, which is clearly visible in developments in the services sector. This is, of course, essentially a good thing and an important reason behind the positive growth and employment figures. The manufacturing sector, on the other hand, which is largely dependent on exports, shows a much poorer development. Mr Nyberg pointed out that, given this, he shared Mr Öberg's concerns regarding the wage bargaining rounds. It is the developments in the manufacturing industry, and above all the low level of capacity utilisation, which make it essential to hold the repo rate at a low level for a further period.

Given all of this, Mr Nyberg's assessment was that it is reasonable to hold the repo rate at 0.25 per cent now, but to adjust the repo rate path so that the upturn begins slightly earlier than planned. Mr Nyberg said that he would prefer it to be more probable that the first raise is made in July, but that this was of relatively marginal importance Mr Nyberg thus supported the proposed interest rate path. It essentially agrees with the views expressed by himself and Ms Wickman-Parak at recent monetary policy meetings. It also means that in the long term the repo rate will not be raised as much as was previously intended, and that the curve will be flatter.

The current expansionary monetary policy includes three fixed-interest rate loans, which the Riksbank has granted to the banks, and which mature in the summer and autumn. An important part of adjusting monetary policy to be less expansionary is that these loans are not renewed. The market does not appear to be expecting this either, but it is important to express ourselves clearly on this point.

Mr Nyberg then wished to change focus. The division of the economy, whereby the Riksbank has succeeded in stimulating domestic demand, also has another side. Household borrowing has continued to rise by almost 10 per cent on an annual basis. House prices

have also continued to rise in most parts of the country. Given the deep recession and the high level of unemployment, this development appears surprising. One important explanation is of course the low interest rates, so the Riksbank certainly contributes to developments.

Is this a problem? The survey recently made by Finansinspektionen (the Swedish financial supervisory authority) implies, according to the newspapers, that the households taking on loans are those that can afford to borrow. This is the same result as the Riksbank usually shows in its Financial Stability Reports. It is thus difficult to see that current developments would comprise any danger to the banks and thereby to financial stability. So this is not where the problem lies.

According to Finansinspektionen's survey, it also appears that the banks have correctly checked that loan customers will be able to manage much higher interest rates. But here Mr Nyberg nevertheless saw cause for some concern. The banks are very happy to lend to households – companies do not want their money at present – and households see an opportunity to do things which higher interest rates have previously made impossible. It is not unreasonable to believe that some households are stretching their resources more than they normally would. A low interest rate over a long period of time has been one of the Riksbank's messages. Mr Nyberg did not believe that one should be surprised if the planned interest rate increase revealed more households with payment problems than is otherwise normally noted in an upturn. This is not a problem for monetary policy in itself, but Mr Nyberg considered that the Riksbank would nevertheless be at the centre of the discussions.

One should also consider that it is not only the Riksbank's interest rate increases that households need to take into account. When the banks face new requirements for liquidity and capital adequacy, their costs will increase and these costs will probably be passed on to their customers to a great extent. It is difficult to say now what this might entail in terms of percentage points, but Mr Nyberg did not believe the figures would be negligible.

The important question for monetary policy is the following. Real house prices have risen more in Sweden over the past decade than in many other countries. It would appear possible to explain this through fundamental factors such as rising incomes and a low level of construction. But it was also possible to explain prices with fundamental factors prior to the crisis in 1992, and prices nevertheless fell in many areas by around 40 per cent. Such a development would affect the real economy and thereby also the conditions for monetary policy. It is worth taking this risk into account in today's discussion, which is marked by similar events in other parts of the world during the crisis.

Mr Nyberg thought that in this situation there is reason to indicate some concern by raising the interest rate slightly sooner than would otherwise have been the case. The Riksbank has given such indications on several previous occasions, perhaps mostly as part of its communication. Developments in household borrowing and in house prices are thus a motive for adjusting the repo rate path upwards as proposed. But monetary policy is not the most effective means to use if one wishes to slow down this development. It would be even better if, for instance, Finansinspektionen set a limit for the loan-to-value ratio for new mortgages.

First Deputy Governor **Svante Öberg** interposed here that as Mr Nyberg said, the Riksbank has revised up its forecasts for GDP growth in 2010 and 2011 since July last year. But the

forecast for inflation has been revised down. In July the Riksbank calculated that underlying inflation measured as the CPIF excluding energy would be 2.0 per cent a year during the years 2010 and 2011. Now it is expected to be below 2 per cent a year both years. This should be included when describing how the forecasts have changed since July.

Deputy Governor **Karolina Ekholm** announced that she supports the proposal to hold the repo rate unchanged and the adjustment in the repo rate path towards a slightly earlier raise, but at the same time a lower repo rate towards the end of the forecast period.

Ms Ekholm thought that the picture of how the Swedish economy is developing is rather divided. Employment has been stronger than was expected at the meeting in December. But at the same time, the outcome for the number of hours worked was slightly weaker. Inflation has been slightly higher than expected. But at the same time, the upturn is expected to be temporary and underlying inflation is expected to fall again. This is a reasonable assessment as there are several factors pointing towards low inflationary pressures in the future. Wage increases are expected to be low as a result of a weak labour market. Productivity growth is expected to be high once production picks up, and this, together with low wage increases, should lead to low growth in unit labour costs. In addition, the krona is expected to strengthen, which should hold down the rate of increase in import prices. There are thus many indications that inflationary pressures will be low in the coming period. Ms Ekholm agreed with Ms Wickman-Parak that given this it is slightly surprising that inflation has been so high recently.

Ms Ekholm also agreed with Mr Öberg and Mr Nyberg that developments appear to differ in different parts of the economy. Large parts of the services sector are doing fairly well, while the manufacturing sector is still doing poorly as a result of continued weak demand for Swedish export products. Companies are still not borrowing money to invest, at least not from the banks, while households are borrowing more.

Ms Ekholm felt that it is far from clear what direction the Swedish economy is heading in, but that all in all she considered there was reason to make a slightly more optimistic assessment of the situation now than was made in December. Like Mr Svensson, Ms Ekholm assesses that the cost of tightening monetary policy too early and of possibly breaking off a recovery would be higher than the cost of waiting too long. This justifies holding the repo rate unchanged at 0.25 per cent and holding it at this low level for some time to come. But at the same time, the risk that the recovery will be broken off appears less tangible now than before. The continued normalisation of the financial markets plays an important role in this assessment. Given this, Ms Ekholm considered it reasonable to adjust the repo rate path towards a slightly earlier increase. The fact that inflation has been unexpectedly high is a factor that points in the same direction. But there is still great uncertainty over future developments.

In conclusion, Ms Ekholm chose to comment on Mr Svensson's reasoning regarding the comparison between different interest rate paths made in the Monetary Policy Report. Ms Ekholm stated that she considered the reasoning in the Report that there may be consequences of different interest rate paths that are not captured in the analysis to be good. Different Executive Board members may have different opinions regarding the probability of these consequences and the significance they have for the outcome, but ultimately it is a question of different assessments. Ms Ekholm said that she doubts whether

one will ever be able to capture all of the different assessments of risk in a quantified analysis of the outcome for different interest rate paths.

Ms Ekholm stated two reasons why she is against cutting the repo rate. One is that she believes that there is a risk that expectations could be affected over a long time to come, if the central bank cuts the policy rate during an economic upturn, as this would be a clear breach of earlier patterns. The second is that developments in the housing market, with high growth in household credit and higher house prices mean that it is inappropriate to cut the interest rate. Ms Ekholm pointed out that she agrees with Mr Nyberg that it is not a question of developments in the housing market leading to problems of financial stability. It is not a question of the banks being threatened by this development, but that it could affect households' future actions and their scope for future consumption. Finally, Ms Ekholm emphasised that these are factors which she considers comprise a risk in the event of a repo rate cut, and here she thus makes a different assessment from Mr Svensson.

Governor **Stefan Ingves** began his contribution to the discussion by comparing current developments with the crisis in the 1990s. The crisis in the 1990s caused a sharp fall in GDP, but GDP nevertheless fell less than employment. The problems in the domestic economy were greater than the problems abroad. A large national debt, a negative current account and high inflation weakened the Swedish economy.

Developments in the Swedish economy during the crisis we are now coming out of have been very different. GDP is falling more than employment. The problems in the domestic economy are smaller than the problems abroad. Both the national debt and inflation are under control, while the current account is strong. The starting point is thus much better than during the 1990s. The world economy has now entered a global recovery, at the same time as the Swedish economy is also beginning to recover. It is thus reasonable that monetary policy should gradually become less expansionary.

Given this, and the international outlook, Mr Ingves supported the proposal to hold the repo rate unchanged at 0.25 per cent, and to revise the repo rate path. However, Mr Ingves pointed out that there is considerable uncertainty and that it was good that the assessment of potential GDP in Sweden has been adjusted downwards. Mr Ingves went on to discuss the risks for inflation. He emphasised high wage increases, rising inflation in Asia, a weak exchange rate and future overheating in the housing market as factors that could lead to higher inflation. A weak global recovery, or weak demand in Europe, could on the other hand lead to lower inflation.

Mr Ingves also pointed out that the division in the credit market, with high lending to households and low lending to companies, must be closely monitored by the Riksbank. The same applies to developments in the housing market. All of this needs to be weighed together when assessing what monetary policy is required.

In addition, Mr Ingves supported Mr Nyberg's and Ms Ekholm's arguments that one must adopt a slightly longer-term perspective to the housing market. It is therefore good that the Riksbank has decided to carry out a long-term inquiry into the risks in the Swedish housing market.

With regard to monetary policy, extraordinary measures have been taken in Sweden that are roughly equivalent to those taken in other countries, measured in relation to GDP. The

measures have to some extent been part of another construction, but the monetary policy effect has not been insignificant. Moreover, the Swedish economy has been stimulated by a substantial weakening of the exchange rate.

The financial markets are now functioning better. No new loans were decided on in December and swap agreements with foreign central banks have now expired. The Riksbank is now also concluding the 12-month loans at a variable interest rate. As far as we can now see, the fixed-interest rate loans will not be replaced by new ones as they mature. The revised repo rate path can be interpreted to mean that the probability of an interest rate increase with effect from the summer has increased. Now there will thus be a gradual return to a more normal monetary policy. Interest rates will remain low, but this is a question of a recession interest rate rather than a crisis interest rate.

Deputy Governor **Lars E.O. Svensson** then continued the monetary policy discussion by saying that he has listened with great interest to what his Executive Board colleagues have said and to whether they have any good arguments for not choosing the lower repo rate path. As the lower repo rate path gives such a clearly better outcome for inflation and resource utilisation, the burden of evidence should lie with those who do not want this path. Mr Svensson had the impression that he is the only one who considers that different monetary policy alternatives should be evaluated primarily on the basis of the outcome for inflation and resource utilisation to which they lead.

Several of his colleagues on the Executive Board have emphasised the need for a "normalisation" of monetary policy. However, Mr Svensson said he did not understand this argument; a "normalisation" did not have any value in itself. The important thing should surely be whether or not a "normalisation" led to better target achievement.

Several of his Executive Board colleagues have highlighted the risk of developments in house prices and mortgages. Mr Svensson claimed that any future problems with this would be much better managed with the excellent instruments at Finansinspektionen's disposal, such as regulations for maximum leverage, minimum amortisation, correct housing cost calculations and so on. The interest rate is a blunt and unsuitable instrument for influencing financial stability and entails substantial costs for the real economy.

Mr Svensson responded to Ms Ekholm's argument that there may be negative consequences from a low interest rate. Mr Svensson thought that if one believes this, one should be able to specify what these consist of and why these consequences would be more important than the improvement in employment. According to the discussion Mr Svensson pursued at the previous monetary policy meeting, an interest rate that is 0.25 percentage points lower over four quarters, if this is an expected cut, can save a good 16,000 jobs. If it involves surprising and unexpected cuts, it can save almost 11,000 jobs. That is quite a lot.

Mr Svensson went on to comment on Ms Ekholm's fear that cutting the repo rate to zero could have a negative effect on expectations. Mr Svensson did not consider this to be the case, as a properly motivated cut that gave rise to better target achievement for inflation and resource utilisation should rather have a positive effect on expectations, with lower repo rate expectations and with inflation expectations closer to the target.

Mr Svensson responded to Ms Ekholm's and Mr Nyberg's arguments that developments in the housing market may have a negative effect on consumption in the future. If one

believes this, one should take this into account in the forecasts for inflation and resource utilisation, and only allow it to affect monetary policy in this way. As usual, it is necessary to filter all information through the forecasts to determine whether or not it should affect monetary policy. If something does not affect the expected value of future inflation and resource utilisation, then monetary policy does not need to react to it.

Moreover, Mr Svensson also warned his colleagues against the upward adjustment of the interest rate path at the beginning of the forecast interval. The repo rate path in the main scenario has been adjusted upwards at the beginning and adjusted downwards at the end of the forecast interval. All in all, this means a slightly more expansionary monetary policy, as the downward adjustment at the end is larger than the upward adjustment at the beginning. However, the upward adjustment at the beginning is not insignificant; approximately 0.25 percentage points. Mr Svensson feared that this could lead to higher repo rate expectations and thus, all else being equal, in reality to a more contractionary monetary policy than intended. The repo rate path had a very low credibility in April and July 2009, and repo rate expectations were far above the announced repo rate path. However, by adhering to the same repo rate path since July 2009 the Riksbank has gradually succeeded in improving the credibility of the path. Repo rate expectations have gradually shifted downwards and come closer to the Riksbank's repo rate path. Mr Svensson feared that the upward shift at the beginning of the forecast interval could now be perceived as a fairly large change in monetary policy which increases the probability of future upward shifts in the repo rate path. This could result in a large upward shift in repo rate expectations, a loss of the credibility the Riksbank has struggled to attain and in reality a much more contractionary monetary policy than intended. Mr Svensson thus advised against this upward shift in the repo rate path at the beginning of the forecast interval. However, the downward shift at the end is good.

In response to Ms Wickman-Parak's question of why Mr Svensson did not argue for an even lower repo rate path with a negative repo rate, he replied that such a repo rate path could give an even better outcome than the low repo rate path he is now advocating. But the best should not become the enemy of the good. Mr Svensson considered it sensible to first lower the repo rate path to the level he advocates, and then in the new situation decide at the next monetary policy meeting whether it would be appropriate to make a further adjustment in any particular direction. Then there would also be time to gather more data and information and to decide whether any previously unforeseen problem had arisen in implementing any negative interest rates.

Deputy Governor **Karolina Ekholm** then commented on Mr Svensson's contribution where he argued that the factors which the other Executive Board members believe affect the expected outcome in different alternative actions should be incorporated into the actual forecast. Ms Ekholm agreed with this, but added that the tools required to explicitly incorporate these factors did not yet exist. However, it is important that the Riksbank constantly works on developing methods and models to succeed in incorporating them in the future. At the same time, the Executive Board must make decisions on monetary policy now, and then the members must be free to weigh in the factors they believe have relevance for future developments, even if these cannot be explicitly considered in the forecast.

First Deputy Governor **Svante Öberg** then took up the question of the zero interest rate which has been discussed earlier on repeated occasions. Mr Öberg put forward the following arguments against a zero interest rate. Firstly, monetary policy is already very expansionary through a low repo rate and extensive lending to the banks. The Riksbank's policy rate is in practice 0.15 per cent at present, not 0.25 per cent, as the banks are very liquid because of the Riksbank's extensive lending and can deposit funds in accounts with the Riksbank overnight at 0.15 per cent interest.

Secondly, the effects of a cut in the repo rate will probably be slight at the present low interest rate levels, they may not even be positive. The model calculations are made with the aid of the Ramses model, which is, like all other models, a simplification of reality. Some examples of these simplifications are that the effects are linear, that is, they are as great with a cut close to zero or even below zero as with a more normal interest rate level, that there is no developed financial sector in the model, that the model does not take into account the Riksbank's extensive lending to the banks, that there is no unemployment in the model and that employment varies in proportion to production, which goes against empirical experience. It is good to have models as aids, but one must not believe in them slavishly.

However, if one does, one can note that inflation measured as the CPI is actually further from the target with the alternative proposed by Mr Svensson. Moreover, if one examines the figure closely, one can see that CPI inflation rises above the target of 2 per cent at the end of the period with the alternative Mr Svensson proposes, while it is exactly on target with the main alternative.

Thirdly, a central bank should exercise caution with regard to cutting the policy rate to very low levels. These are unfamiliar waters. All of the central banks the Riksbank uses as benchmarks have positive policy rates.

Fourthly, one should also give some consideration to the fact that an extremely low interest rate over a long time can push up house prices to levels that may create problems for many households.

Mr Öberg thought that Ms Ekholm raised an interesting question. What would happen if the Riksbank actually decided at this meeting to cut the policy rate to zero per cent? How would this affect the Riksbank's credibility and how could one use models to describe the effects of lower credibility? Mr Svensson himself touches on the question of the decisions having effects that are not clear from the model calculations when he warns of the effects of the decision supported by the majority.

Deputy Governor **Lars Nyberg** then took up the role of asset prices for monetary policy and claimed that this is a difficult area, which has been much debated around the world. It is also far from obvious what monetary policy conclusions should be drawn by model-based forecasts that take into account different scenarios for the development of asset prices. If one assumes that an adjustment entailing that house prices fall by 45 per cent could occur with a 10 per cent probability. If the negative consequences of this risk are included in the forecasts guiding monetary policy, this would entail a more expansionary monetary policy, which would increase the risk of such a scenario!

Deputy Governor **Lars E.O. Svensson** said that he appreciates and welcomes a debate on the formulation of monetary policy. After that he took up some of the views expressed by

his colleagues on the Executive Board. With regard to Mr Öberg's claim that monetary policy is already expansionary, Mr Svensson said that it was slightly complicated to measure the stance of monetary policy. It is not sufficient to look at the nominal repo rate. It is not even enough to look at the real repo rate. The best measure of the stance of monetary policy is the interest rate gap, that is, the gap between the actual real interest rate and the neutral real interest rate. The neutral real interest rate can be defined in different ways. Probably the most practical and useful definition is the real interest rate that will close the output gap in a year or two. A neutral monetary policy is thus a monetary policy that closes the output gap in one or two years' time. As the output gap does not close during the forecast period, the actual real interest rate is higher than the neutral one and monetary policy is more contractionary than this definition of neutral monetary policy. The interest rate gap is positive and thus monetary policy is more contractionary than one might believe.

Mr Svensson further agreed with Mr Öberg that there are many aspects that are not captured in the models. This is always the case. Thus, one can never entirely rely on models; one must always use a good portion of judgement. In this case it is possible that the effects of an interest rate cut could be less than normal. However, the effect certainly goes in the right direction. One does not need any models to claim that a lower repo rate path leads to higher inflation and higher resource utilisation.

With regard to the choice between the CPI and the CPIF, Mr Svensson considered that in a situation where large repo rate changes have very large direct effects on the CPI, it is better to aim to stabilise the CPIF around the inflation target, instead of the CPI.

Mr Svensson objected strongly to "unfamiliar waters" being an argument against cutting the repo rate. It is exactly by daring to move out into unfamiliar waters, with historically low interest rates right down to a few basis points, and with large unconventional measures, that the world's central banks, including the Riksbank, have succeeded in preventing the major crisis from becoming the Great Depression mark two.

With regard to the risk to the Riksbank's credibility of lowering the repo rate path, he claimed that lowering the repo rate path with the motivation of better attaining the inflation target and better stabilising resource utilisation around a normal level should be the best means of strengthening credibility for the Riksbank and monetary policy.

Governor **Stefan Ingves** noted that the discussion on the lowest level for the repo rate was resolved last summer and 0.25 per cent has come to be the lowest repo rate since then. Mr Ingves did not consider it appropriate to revive the discussion on the lowest repo rate level in the prevailing economic climate.

Governor **Stefan Ingves** then summarised the monetary policy discussion by noting that the majority of the Executive Board essentially support the assessments presented in the draft Monetary Policy Report. Resource utilisation is still low and price and wage increases are expected to be moderate in the coming period. The repo rate needs to remain low for inflation to attain the target of 2 per cent and to support the recovery of the economy. The repo rate should therefore, according to the majority, be held unchanged at 0.25 per cent. However, the upturn in economic activity has become gradually more distinct. Inflation has been slightly higher than previously expected and developments in the labour market do not appear to be as weak as was forecast earlier. At the same time, the situation on the financial markets has steadily improved. The economic upturn is thus on firmer ground now and

there is reason to begin raising the repo rate slightly earlier than was forecast in December. According to the majority, it is expected that the Riksbank will begin to raise the repo rate with effect from the summer or early autumn.

§ 4. Monetary policy decision

The Executive Board decided after voting

- to adopt the Monetary Policy Report according to the proposal, Annex A to the minutes,
- to hold the repo rate unchanged at 0.25 per cent and that this decision would apply with effect from 17 February 2010,
- to hold the lending rate unchanged at 0.75 per cent, and the deposit rate unchanged at -0.25 per cent, with effect from 17 February 2010,
- to publish the Monetary Policy Report and other decisions at 9.30 a.m. on 11 February 2010 with the motivation and wording contained in Press Release no. 10 2010 (Annex B to the minutes), and
- to publish the minutes of today's meeting at 9.30 a.m. on Wednesday, 24 February.

Deputy Governor Lars E.O. Svensson entered a reservation against the decision and advocated cutting the repo rate to 0 per cent and a repo rate path 0.25 per cent below that in the main scenario until the end of the fourth quarter of 2010. He maintained that such a repo rate path results in a better outcome for both inflation and resource utilisation, with both higher resource utilization and CPIF inflation closer to the target. Such a repo rate path will not cause any problems for the functioning of the financial markets or for financial stability, especially since house prices and mortgages do not entail a stability problem and therefore should not affect monetary policy.

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