Separate minutes of the Executive Board, No. 3

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DATE: 14 February 2007

TIME 9 a.m.

PRESENT: Stefan Ingves, Chairman
Lars Nyberg
Kristina Persson
Irma Rosenberg
Eva Srejber
Svante Öberg

Leif Pagrotsky, Vice Chairman of the General Council

Claes Berg
Mårten Bjellerup
Kerstin Hallsten
Jyry Hokkanen
Ann-Christine Högberg
Pernilla Meyersson
Marianne Nessén
Bengt Pettersson
Johan Rydelius (§1)
Staffan Viotti
Anders Vredin

§ 1. Economic developments

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

1. Recent data regarding economic developments

The Monetary Policy Department reported on new data received since the Executive Board meeting on 8 February.

GDP growth in the euro area was 3.3 per cent for the fourth quarter of 2006 compared with the same period last year, according to statistics from Eurostat. All in all, this means that GDP growth for 2006 as a whole was 2.7 per cent, which is only slightly higher than the forecast in the October Inflation Report. The ZEW index for the euro area, where financial market agents are asked their opinion on future economic prospects, rose from -1.8 in January to 6.8 in February. The ZEW index for the current economic situation rose during the same period from 66.1 to 66.7.

In Sweden, Statistics Sweden's figures for house prices showed that during the period November to January prices had risen 9 per cent, compared with the same period last year. SEB's house price indicator rose from 27 in January to 43 in February. Statistics Sweden's activity index, which aims to measure economic activity, showed an increase in the underlying trend of 6.4 per cent between December 2005 and December 2006.

Both short-term and long-term bond rates have risen in both the United States and the euro area. Monetary policy expectations, measured from implied forward rates, have also increased in both the United States and the euro area, while Swedish implied forward rates have fallen slightly in the shorter end of the yield curve. The krona has weakened slightly against both the euro and the US dollar, while stock market indices in Sweden, Germany and the United States have fallen.

2. The economic outlook and inflation prospects

Deputy Governor Irma Rosenberg presented the draft Monetary Policy Report 2007:1, Annex A to the minutes. This Monetary Policy Report reproduces the main features of the presentations and discussions of the Executive Board meetings on 31 January and 8 February.

It is observed in the draft Monetary Policy Report that inflation is currently low. At the same time, there has been strong growth in economic activity, both in Sweden and abroad. Resource utilisation in Sweden is increasing, but is not currently considered to be strained. The high GDP growth in recent years has been driven by strong advances in productivity and high international demand. The strong economic growth has led to lending and house prices continuing to increase at a rapid rate, although some slowdown took place during the second half of 2006. Moreover, stock market indices have risen substantially since summer 2006.

The assessment in the report is that GDP growth in Sweden will slow down during the period 2007-2009, when productivity growth declines and the international business cycle enters a somewhat calmer phase. Swedish GDP growth will nevertheless be relatively high in 2007 as a result of rising employment and a rapid increase in consumption. Cost pressures will rise as employment increases and wages rise more quickly. Productivity growth will not hold back costs to the same extent as before. Inflation is therefore expected to rise.

However, several factors will contribute to keeping inflation at a relatively moderate level. Abroad, the price pressures of recent years are expected to remain. Combined with the stronger krona exchange rate, this will contribute to low import prices. Moreover, cost pressures are expected to be comparatively modest, although they will rise. One reason is that not only employment, but also the labour supply will increase. Falling energy prices will also lead to a temporary fall in inflation during 2007.

Prior to the monetary policy discussion the Executive Board discussed in what way the new working method of producing the Bank's own forecast for the repo rate affected the structure of the meeting. All members agreed to wait until after the monetary policy discussion before deciding whether to adopt the Monetary Policy Report, including the forecasts for the repo rate.

§ 2. Monetary policy discussion

Deputy Governor Irma Rosenberg presented a proposal for the monetary policy decision.

Over the past three years, growth in the world economy has been high from an historical perspective, approximately 5 per cent on average. This has provided good impetus to the Swedish economy. The prospects for the coming years also look favourable. Globally, growth will probably remain high, though slightly lower than in recent years. Although prospects have varied somewhat as more statistics have been received, the assessment is roughly the same as in October and December. However, the Swedish economy has shown slightly stronger development than was forecast in October, and been roughly in line with the assessment made in December. GDP growth is still expected to slow down slightly over the coming years, although the forecast has been revised upwards for 2006, 2007 and the coming two years. Employment has also increased more than expected and the forecast for the current year has been revised up, with a small upward revision for the coming two years.

When growth in production and employment is this strong, it is reasonable to assume that cost pressures will rise. This is because wage increases become larger and productivity growth slows down once employment accelerates. The forecast is therefore that inflation adjusted for temporary fluctuations in energy prices will rise over the coming years, and the repo rate will thus need to be raised further. However, the amount and pace at which it will be increased will depend mainly on the strength of the inflationary pressures. At present, it appears that opinions on this differ substantially from one analyst to the next.

The assessment reported in the draft Monetary Policy Report is that inflationary pressures will be fairly modest over the coming years, despite the good growth. Cost pressures are very low at present. The downward revision of the outcomes in the National Accounts for 2004 and 2005 published in November indicates that labour costs per produced unit will have remained unchanged on average over the past three years. Over the coming years a modest increase is expected in cost pressures. The increased demand for labour is largely matched by an increased labour supply and although productivity growth will slow down, it is expected to be relatively good. This reduces the risks of bottlenecks and overheating. Weak growth in import prices resulting from continued price pressures abroad and a slightly stronger krona is also contributing to the low inflationary pressure. During 2007 the rate of price increase will probably be held down when lower energy prices make an impact on consumer prices. However, this effect will be mainly temporary. Developments in energy prices are, as usual, very uncertain. Energy prices have fluctuated substantially in recent years and it is in practice impossible to predict these fluctuations.

The fact that inflationary pressures are expected to be relatively low means that the repo rate increases need not be so large-scale. The assessment in the report's main scenario entails the repo rate being raised a couple of times over the coming six months, but then a pause before it is raised again. The interest rate path reaches 3.75 per cent during the forecast period. This leads to the expectation that inflation will stabilise close to the target within a two-year period, while the real economy will develop in a balanced manner. My opinion is therefore that constitutes a well-balanced monetary policy.

The view of economic activity and inflation prospects remains largely the same as in December. Although new information has been received that leads to changes in some forecasts, the implications for monetary policy are considered to be slight. Consequently, the interest rate path in the main scenario lies close to market expectations as they were the weeks before the monetary policy meeting in December, and which the Executive Board then considered reasonable.

Given this, my proposal is that we should today decide to raise the repo rate by 0.25 percentage points. It is important to remember that the interest rate path for the coming three years given in the Monetary Policy Report is merely a forecast. It will need to be reconsidered in the light of new information and how this affects our views of the prospects for economic activity and inflation.

One member began by observing that the policy rate has been raised systematically since January 2006 and that there has been good reason for conducting monetary policy in a less expansionary direction. The low interest rates that applied a year ago would not have been sustainable, given the strong growth in the Swedish economy. At present, resource utilisation is fairly normal and inflation is relatively subdued. Although domestic demand is growing and growth is good, supply is also growing. Global price competition is stiff and the krona has strengthened. All in all, this means that inflation will rise slowly. Further steps are needed to reduce the stimulation from monetary policy. The member therefore supported the decision to raise the repo rate by 0.25 percentage points.

It is not particularly surprising that the situation is different now from when the interest rate increases began. The question of how long the interest rate should be raised at the same pace must be asked sooner or later. The answer to this question can be found in the Monetary Policy Report. The forecast is that if the repo rate is raised by 0.25 percentage points now and then a further twice during the forecast period, this will give an inflation rate in line with the target and a balanced development in the real economy.

The forecast is uncertain. There is a risk of higher inflation than anticipated in the strong domestic demand and the uncertainty over whether this can be met by the increasing supply. Although house prices and lending are growing at a slightly slower rate than before, there are still risks of imbalances in this area and severe fluctuations in the economy. It is therefore still important to take into account in the analysis not only the real economy, but also financial developments.

However, the decisive factor is probably developments in the labour market. At present, the assessment is that the wage increases will be moderate and that the labour supply will grow at roughly the same rate as the demand. However, there are risks in several areas. The wage negotiations may result in higher wage increases than expected, but it is also possible that the labour supply will grow at an even faster rate than the Riksbank is predicting.

Another member began by pointing out that inflation forecasts, while necessary for monetary policy, were very uncertain. In the long run, the forecasts approached the trend level or the assumed long-term development. It is against this background an improvement that the Monetary Policy Report includes uncertainty bands for GDP and inflation forecasts, which are based on the Riksbank's historical forecasting errors. At the beginning of the Monetary Policy Report it is made clear that it the probability is approximately 75 per cent that inflation two to three years ahead will be between one and three per cent, and the probability is roughly 25 per cent that inflation will be outside of this interval.

The member drew the conclusion from the uncertainty in the inflation forecasts that one should not pay too much attention to minor differences of tenths of percentage points between the forecast and the inflation target 2-3 years ahead and that the present situation was also important in the assessment of a future direction for monetary policy. The latter applies in particular to the risk assessment. It may be interesting to note in this context that the original "Taylor rule" from 1993, which could well describe how monetary policy in the United States had been conducted, only took into account what had already happened. The inflation rate observed over the past year was used as a proxy for expected inflation.

The member considered that there was justification for commenting in more detail on the risk picture, given that this is the first time the Executive Board reports its own interest rate path as a base for the forecasts. When assessing the risks, the member took into account a large number of factors such as GDP growth, the GDP and labour market gaps, credit growth, etcetera and noted that there were both upside and downside risks. The downside risks are the fact that inflation is still low and looks to remain so over the coming year, and the possibility that productivity and import prices may continue to hold down inflation also in the longer term.

Inflation is still below the inflation target. Energy prices are varying so substantially that the UND1X price index excluding energy should now be given greater weight in the monetary policy considerations. Using this measure, average inflation was only 0.5 per cent in 2006. The forecast indicates that it will be 1.2 per cent in 2007, 1.7 per cent in 2008 and 2.0 per cent in 2009. The low inflation rate initially and since the beginning of the forecast period indicates that the policy rate should still be relatively low.

Over the past 10-15 years, productivity has risen both more quickly than before and more quickly than in most other industrial nations. Roughly speaking, the productivity increase in the business sector rose from around 2 per cent a year during the 1980s to around 3 per cent a year at the beginning of the 1990s. There are three main factors that have driven this development: The deregulation of product markets in the 1980s and early 1990s, globalisation and large-scale IT investments. The increase in productivity will probably slow down this year for cyclical reasons. However, the important question is what will happen in the longer term. If productivity increases were to remain high, this would continue to hold back inflation. The work we are doing now to better understand the factors behind the rapid productivity growth is important.

The upside risks mainly apply to the strong real growth and the spring wage bargaining rounds. Growth is very high and employment is increasing at a rapid rate. Resource utilisation has not yet reached the level of earlier economic upturns, but it is increasing rapidly and is very high in certain industries, such as the construction industry.

One experience of the past 10-15 years is that the developments in the real economy do not have the same impact on inflation as before. The short-term Phillips curve has become flatter. This is partly connected to the fact that monetary policy has gained greater credibility. Inflation expectations are close to the target of 2 per cent, which in turn affects price setting and wage formation. The fluctuations in inflation are also much less than before. However, this does not rule out the possibility that the strong developments in the real economy will finally bring increased inflation. The most likely is that in this case it will occur through wage costs beginning to rise at a faster rate.

The decisive factor for future inflation and monetary policy is therefore how the strong developments in the real economy affect the spring wage bargaining rounds. The most likely outcome is that the negotiations will result in agreements within a reasonable time, at levels compatible with the inflation target and without major conflicts. This assessment is based on four factors: Capacity utilisation is not so high, the labour reserves are substantial, wage formation has worked well in recent years and monetary policy has increasingly gained credibility.

Although the most likely outcome is that the wage negotiations will be successful, the risks are on the upside. Despite good previous experiences, these negotiations may prove more difficult than on earlier occasions. Market forces may also push up the rate of wage increase to higher levels. If this were to occur, there is reason to reconsider the suitable direction for monetary policy.

The member agreed with the proposal to raise the repo rate by 0.25 percentage points today and that the rate of the increases should be lower in future than during last year. Inflation is low to begin with and there are forces working in the long term, in particular the high productivity growth and the low increases in import prices, which may hold down inflationary pressures even in the slightly longer term. Given this, it is reasonable that the repo rate should a few years ahead be in the lower part of the interval of 3.5-5 per cent, which the Riksbank has stated in an earlier Inflation Report as normal for the repo rate in the longer term. The effects of the Government's measures to increase the labour supply are also an important factor in this context.

To summarise, the member considered that a decisive factor for future monetary policy would be what impact the strong real development would have on the labour market and wage formation. The most likely outcome is that the spring wage negotiations will conclude well, but there is an upside risk.

A third member also supported the proposal to raise the repo rate by 0.25 percentage points and agreed that Sweden is currently in a favourable economic situation. Growth is high, unemployment is falling, disposable incomes and private consumption are expected to increase significantly. These are all signs of a very good economic upturn. Normally, this should have put upward pressure on wages and prices. However, good productivity growth and competition from abroad have contributed to holding back nominal wages and inflation – real wages have nevertheless developed positively.

This combination of strong growth and low inflation is of course something to be grateful for. It has allowed slower increases in the repo rate than would otherwise have been possible. As the forecasts in the Monetary Policy Report show, the future increases do not need to be made at a rapid pace, either. The assessment in the main scenario is that the risk of overheating is limited and the calculations indicate that rising inflation can be managed without the large interest rate increases that have previously been common, both in Sweden and in other countries. One reason is that there is still capacity available in many sectors of the economy, another is that the labour supply is increasing steadily. Moreover, the inflation target has credibility and is well-anchored.

The market believes in a slightly greater need for interest rate increases than is predicted in the draft Monetary Policy Report. This may be due to a different assessment of the strength of the economic upturn, but also to a different assessment of how the improved economic activity will affect inflation. However, the difference from the forecast in the report should not be exaggerated. Compared with this, the market’s view is well within every reasonably calculated error margin.

One should remember that at one to two years ahead, both the Riksbank's and the market's forecasts are rather uncertain. If implied forward rates are used as a forecast for the future repo rate, various studies show that forecasting errors one year ahead are on average around one percentage point.

With regard to the risks, the member considered that the repo rate is still at such a level that the credit stock is growing much more quickly than the economy as a whole. While there are signs that credit growth is declining, it is still high and the slowdown may in addition be temporary. The money supply is also increasingly strongly, but it is uncertain whether this indicates anything other than what we are already seeing in credit growth.

It is wise to be cautious in drawing conclusions from the way the monetary variables develop. Now, however, growth in the credit stock and money supply have been strong for a long period of time and one cannot disregard the fact that this may have affected growth and inflation. Unfortunately, the macro economic models that normally form the base of both the main scenario and various simulations do not provide much guidance with regard to the effects of the financial variables, as the analyses of the so-called credit channel are often not particularly sophisticated. Here, there is a substantial need to make a deeper analysis. For the moment it is difficult to disregard the possibility that financial developments may constitute an upside risk in the inflation assessment.

In countries that are ahead of Sweden in the economic and credit cycle, such as the United Kingdom and Australia, but also the United States, interest rates have risen significantly more than they, according to the report, are expected to rise in Sweden. Moreover, in the United Kingdom it currently appears as though credit growth, and in connection with this also house prices, have accelerated again. There may be good reasons why developments will be different in Sweden. Above all, resource utilisation does not appear as strained and productivity growth has been stronger than in most other areas. Nevertheless, events in some other industrial nations that are ahead of us in the interest rate cycle have undeniably been a surprise, not least for the central banks.

Another member supported the proposal to raise the repo rate by 0.25 percentage points and emphasised that the Swedish and global economies are in a favourable situation. Growth is very high and inflation is still low, similar to developments in the 1960s. The economic slowdown in the United States appears mild, and in China and India growth is strong. In recent years, growth in the euro area has also begun to accelerate. The factors that have given rise to low inflation in Sweden could be about to have effects in the remainder of Europe. One factor indicating this is an improvement in the structural conditions in the labour market in Europe. While unemployment there remains high, there are signs of increased flexibility that should lead to more efficient resource utilisation. However, there are some risks that developments will be less favourable than expected. One cannot rule out the possibility that the slowdown in the housing market in the United States will be more dramatic, which could have more negative effects on private consumption than we have seen so far. There are also signs that the labour supply in the United States is growing more slowly, which may mean that potential growth has declined. If this leads to higher inflation and higher interest rates, it could reinforce the downturn in the housing market.

The very strong developments in China are not sustainable in the long term, in particular with regard to the undeveloped financial sector. Both resource allocation and the possibilities for stabilisation policy are made difficult by the existing structure. Moreover, the authorities have failed to tighten economic policy sufficiently. A downturn in the United States could lead to poorer economic developments in China and on the whole have negative effects on the world economy in general. The greatest risks to economic activity are political unrest, an escalation of the acts of war in the Middle East and acts of terrorism. These factors could contribute to a rapid increase in the oil price.

Looking at domestic risks, one should bear in mind that employment is rising rapidly and that purchasing power is expected to increase by 5 per cent this year. Although the employability of those entering the labour market appears to be high and the risk of bottlenecks in production appears low, cost pressures may rise more quickly than expected when productivity growth slows down. All in all, the global risks appear mainly to be on the downside, while in Sweden the risks are mainly on the upside. However, as the main scenario in the report illustrates, the most likely outcome is that inflation will be in line with the target two to three years ahead, on condition that the repo rate is raised in accordance with the forecast.

One member supported the proposal to raise the repo rate by 0.25 percentage points and agreed with what the speaker before last had said. In addition, the member observed that the statistics that had been received indicated that growth in the United States and Europe, including Sweden, had recently been higher than most analysts predicted last autumn. This has led to a number of analysts revising their forecasts for growth upwards, at least in the short term. It can be added that with regard to Sweden, the increase in households' purchasing power in 2006 was higher than stated in the National Accounts. The reason for this is that capital gains are not included in disposable income, while taxation of capital gains is deducted from it. This does not usually have much significance, but last year the capital gains were unusually high, due to rising asset prices.

Various calculations indicate that resource utilisation in total is neither abnormally low nor abnormally high in Sweden, but that the tendency is upwards. There are reserves in the labour market in the form of both unemployed persons and latent job-seekers, while the Government's reforms are aimed at increasing the labour supply. It is assumed in the Monetary Policy Report that the supply will rise roughly at the same rate as the increase in demand for labour. It is also assumed that it is the same type of labour that is in demand and in supply. If this matching does not work as anticipated, however, bottlenecks will arise, which could lead to higher wage increases. This could happen even if the wage bargaining rounds in themselves are unproblematic, seen from a central bank perspective. If one looks at the present situation, there are high reported labour shortages in some industries, despite the generally good access to labour. The shortages in the construction industry are over 60 per cent, much higher than during the most recent economic upturn. For the private service sector the shortages are on a par with the situation in 1997-98. The number of new vacancies is similar to the situation in the 1980s, which also applies to the number of unfilled vacancies. All in all, these constitute upside risks for inflation. The downside risks have been described in detail by earlier speakers and do not need to be repeated.

Monetary policy is now facing the same considerations as it has done over the past 2-3 years and at the end of the 1990s. If the supply effects hold down inflation on goods, the question is whether the interest rate should be kept low so that demand increases substantially and inflation on services is pushed up, or whether the interest rate should be raised so that inflation can instead return to the target more slowly than within two years.

There are two factors against the alternative of continuing to conduct very expansionary monetary policy to push up inflation on services, when inflation on goods is very low due to favourable supply effects. Firstly, there is a risk that inflation on services will be pushed up to a level above that which is in the long term compatible with the 2 per cent target for CPI, and then it will be difficult to bring it down when the supply effects holding down inflation on goods disappear or weaken. Secondly, there is a risk that the low interest rate will not only push up inflation on services, but also push up asset prices and credit growth above the rate of increase that would apply if the interest rate were at a more normal level. This in turn risks creating unrealistic expectations of growth in asset prices and credit, which increases the risk of abrupt adjustments downwards and thereby low inflation as a result of declining demand.

The choice is therefore between holding demand a little lower or a little higher over the coming years. If demand is kept a little lower, inflation will return to 2 per cent beyond the 2-year horizon, but the risks of larger losses in production and employment further ahead decline. If demand is instead kept higher, there is a risk that inflation will become entrenched above 2 per cent further ahead. Finally, it is interesting to note that no member is currently talking about making monetary policy contractionary; only about making it less expansionary. This in a situation where fiscal policy is expansionary, at least this year. Given this, it is reasonable to continue raising the repo rate.

One member wanted to emphasise that the subduing effect on inflation from energy prices would mainly apply over the coming six months, but that the monetary policy target horizon is much longer than this. With regard to the international situation, a number of different factors have contributed to low and sometimes falling import prices in Sweden. However, there is a risk that these factors will not have the same affect in the future. In this field, one cause for concern is the future exchange rate policy in China, but if changes occur this will have to be considered then. The Riksbank and others have discussed which interval the repo rate should normally lie within in the long-term perspective. The Riksbank has earlier estimated this interval at 3.5 to 5 per cent. Here it is important to emphasise that the repo rate should not always lie in the mid-point of the interval at the end of the forecast period. The economic conditions may be such that the repo rate comes at the edge of, or even outside of, this interval. The current situation with several years of high productivity growth is one example of this. The economy and the way it functions mean that it may take a long time before the interest rate returns to a situation considered normal. At the same time, it is important to point out that the view of what is a suitable pace for adjustment may be different in the future. The member also considered that it was worth noting that the risk outlook given in the Monetary Policy Report does not contain any great drama. Economic developments are relatively well-balanced in all scenarios.

Another member wanted to draw attention to two things. The first is the reserves in the labour market. Labour force surveys show that employment during the fourth quarter of 2006 increased by around 100,000 persons compared with the same quarter during the previous year. At the same time, the supply of labour increased by just over 60,000 persons, while the latent job-seekers were around 180,000, which is only marginally lower than in the previous year. Increased demand for labour brings with it an increased supply. In addition to this comes the Government's labour market policy, which according to the National Institute of Economic Research's calculations will lead to a long-term employment rate approximately 1.5 per cent higher than it would have been without the reforms.

The second item to which the member wished to draw attention is the value of the Riksbank now publishing its own forecast for the repo rate. At the moment, there are large forecasting differences between different analysts in the financial markets. The publication of the Riksbank's forecast for the repo rate can then contribute to reducing uncertainty. In addition, the forecast for the repo rate in the Monetary Policy Report differs from the development outlined by implied forward rates. It would not have been good to base the forecasts in the Monetary Policy Report on a development of the repo rate that the Riksbank did not consider to be the most likely.

One member agreed with the positive comments on publishing the Riksbank's own forecast for the repo rate. But the advantage of the Riksbank's own forecast for the repo rate was not that the Bank would necessarily be better at making forecasts, but that the monetary policy decisions can then be justified and explained more clearly. At the same time, it is important to point out that the Riksbank is not committing itself to a future path for the repo rate. This will need to be reconsidered as new information on economic developments is received.

Another member commented on the risks linked to the forecast for the repo rate in the report. Many of the factors that have held down inflation globally will continue to have an impact in the future. It is not very likely that inflation targeting will be abandoned or that globalisation, which has been reinforced by developments in technology, will come to a standstill. These factors have contributed to flattening the Phillips curve, that is, that the relationship between the development of the real economy and inflation has become weaker. The risks are instead related to the build-up of unstable relationships between the large trade zones. An example of a factor that can contribute to increased balance is a change in China's exchange rate policy. This could also facilitate a transition from export-driven to consumption-driven growth in China. In general, a greater policy focus on distribution of income is needed in both the United States and China. The major risk to inflation is that the oil price will increase substantially as a result of the geopolitical developments in the Middle East.

Another member observed in summary that all of the members agreed on the advantages of the Riksbank publishing its own forecast for the repo rate. This will make communication simpler and clearer. It is important to emphasise that the forecast for the repo rate is exactly that - a forecast. It will need to be reconsidered as new information on economic developments is received.

All of the members also agree that an increase in the repo rate of 0.25 percentage points is the most reasonable decision in the current situation, as a result of the continued good economic activity and rising inflation. The Executive Board's discussion leads to the conclusion that it is reasonable to assume that the repo rate will need to be raised further, in line with the forecast presented in the Monetary Policy Report. The future direction for monetary policy will depend as usual on new information on economic developments in Sweden and abroad and the effects this may have on the prospects for inflation and economic activity.

§ 3. Monetary policy decision

The Chairman found that there was only one proposal: To raise the repo rate by 0.25 percentage points to 3.25 per cent.

The Executive Board decided unanimously

- to adopt the Monetary Policy Report as presented, (Annex A to the minutes),
- to publish the Monetary Policy Report on 15 February at 9.30 a.m.,
- to raise the repo rate to 3.25 per cent and that this decision would apply from Wednesday, 21 February 2007,
- to raise the lending rate to 4.00 per cent and the deposit rate to 2.50 per cent, with effect from Wednesday, 21 February 2007,
- to announce the decision at 9.30 a.m. on 15 February with the motivation and wording contained in Press Release no. 7 2007 (Annex B to the minutes) and
- to publish the minutes of today's meeting on Wednesday, 28 February 2007 at 9.30 a.m.

This paragraph was confirmed immediately.

Minutes by:

Ann-Christine Högberg

Checked by:

Stefan Ingves, Eva Srejber, Lars Nyberg, Kristina Persson, Irma Rosenberg, Svante Öberg