

Economics

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Sweden

Minutes In Line With MPR

- At the July 4 policy meeting, a majority of the Riksbank board members voted for a 25bp hike to 2.0% and a pretty much unchanged rate path suggesting rates should continue up over the coming years. Two of the six board members (Svensson and Ekholm), however, voted against the hike, and preferred a rate path which keeps the policy rate on hold for longer before rates rise quicker to reach the same level (3.8%) at the end of the forecast period as in the published rate path. Svensson has now been voting for a different rate path than the published one at all meetings since mid-2009. We still expect two more 25bp hikes this year, putting the key policy rate at 2.50% year-end, in line with the Riksbank's current rate path.
- Overall, the minutes from the July 4 meeting paint pretty much the same picture as the minutes from the last meeting (in April). At the margin, Barbro Wickman-Parak now seems to be slightly more dovish, as she expresses concerns of weaker domestic consumption, although she clearly agrees with the current rate path. Mr. Öberg is still the most hawkish board member, stating that he would prefer a rate path suggesting hikes at every meeting this year, in line with what he said back in April. Öberg also mentioned that, according to a Taylor rule, the policy rate should be around 3.0-3.5% at present and that he does see some upside risks to inflation in 2012 and 2013. Lars Nyberg also has a bit of a hawkish stance, stating that the most important alternative scenario in the Monetary Policy Reports (MPR) is the one related to higher wage growth leading to higher rates. Governor Ingves comments are overall fairly neutral to the current rate path.
- As expected, both Svensson and Ekholm use pretty much the same arguments as in recent meetings, arguing that the assumptions for global rates are too high and that the MPR makes some questionable assumptions when estimating the output gap. Svensson argues that the output gap rather should be measured as the "unemployment gap" rather than using a GDP-based output gap, and he believes that on this measure there is considerably more slack in the Swedish economy than implied by the overall MPR.

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With thanks to

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