Monetary policy minutes

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S V E R I G E S R I K S B A N K

MONETARY POLICY MINUTES

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PRESENT:	Erik Thedéen, Chair Anna Breman Per Jansson Aino Bunge Anna Seim --- Bo Broman, Chair, General Council of the Riksbank --- Jakob Almerud Björn Andersson Lena Arfalk Carolina Backert Charlotta Edler Heidi Elmér Mattias Erlandsson Susanna Grufman Marie Hesselman Anders Kvist Björn Lagerwall Stefan Laséen Tomas Lundberg Charlie Nilsson Olof Sandstedt Åsa Olli Segendorf --- Robin Ahlén (§1-3a) Maria Johansson (§1-3a)

It was noted that Björn Andersson and Charlie Nilsson would prepare the draft minutes of the monetary policy meeting.

§3 a. Economic developments

Market developments since the last monetary policy meeting

Robin Ahlén, senior market economist at the Markets Department, began by presenting the latest developments on the financial markets. The period since the previous monetary policy meeting has generally been characterised by falling government bond yields driven by lower policy rate expectations, particularly in the United States. There have also been occasional concerns about economic developments, but a soft landing remains the main scenario among market participants. In recent days, interest rates have been pushed down further in Europe as a result of weak results for purchasing managers' indices in Germany and France.

On the central bank side, Sweden, Canada and the United States, among others, are expected to move a little faster with interest rate cuts this year than Norway, the euro area and the United Kingdom, for example. The US Federal Reserve, whose focus has increasingly shifted from fighting inflation to supporting the labour market, cut its policy rate by 0.5 percentage points in September and is indicating that more cuts are to be expected. The European Central Bank (ECB) cut its deposit rate by 0.25 percentage points in September, but remains more focused on inflation risks. As before, the ECB flagged that incoming data will guide future interest rate decisions. The Bank of England left its policy rate unchanged in September and was quite cautious in its communication. For its part, Norges Bank indicated a first cut early next year at its latest meeting in September.

Stock markets are trading at or near record levels, supported by lower interest rates and hopes of a soft landing that could support earnings growth, but stock markets have fluctuated somewhat due to an uncertain economic outlook. Credit spreads have increased slightly, but remain at relatively low levels. The oil price fell in early September due to concerns about weaker demand in China, where economic data continues to point to weaker growth and there are some questions about whether China will meet its 5 per cent growth target. However, oil prices have recovered to some extent, which is linked to expectations of stronger global demand. China has also announced a series of new stimulus measures to boost demand.

The trend in recent months has been for the US dollar to weaken against a number of currencies, including the Swedish krona, fuelled by, among other things, expectations of future rate cuts by the Federal Reserve. However, the krona has shown relatively small changes against the dollar and the euro since the previous monetary policy announcement.

Ahead of the monetary policy decision in September, analysts expect the Riksbank to cut the policy rate by 0.25 percentage points and most also expect further cuts of the same size in the future. Analysts expect the policy rate to be cut to 2.75 per cent by the end of the year and to around 2.0-2.5 per cent in 2025. However, market pricing indicates more rate cuts and implies some probability of a larger cut at this meeting. Towards the end of 2025, market pricing indicates a policy rate of around 1.5-1.75 per cent.

Financial stability – current situation and risks

Olof Sandstedt, Head of the Financial Stability Department, described the situation in the Swedish financial system. The financial system is functioning well but there is still considerable uncertainty as interest rates are putting pressure on households and companies. The overall stability assessment from the previous monetary policy decision on 19 August remains unchanged.

The major banks' large exposures to the highly-indebted property companies are still a vulnerability, but the situation for property companies has improved. Financing conditions in the bond market are more favourable in both Swedish kronor and euros, and property companies continue to issue new bonds in increasing numbers. However, these have mainly been purchased by Swedish funds, which have low liquidity. This may make them sensitive to large outflows, which can in turn create stress on the asset markets in which they invest. At the same time, banks' lending to property companies is growing slowly, which means that concentration risk in the banking system is no longer increasing.

Corporate bankruptcies are expected to remain at a high level in the near term, posing an elevated risk that banks' loan loss provisions may increase. Despite the high growth rate in consumer credit, total lending to households remains significantly lower than normal. However, there has been a tendency for mortgages to start increasing at a slightly faster rate. The major Swedish banks are considered to be in a good position to manage higher loan losses, as their profitability is high and they have a good margin down to the capital requirements. However, consumer credit banks are experiencing a higher level of loan losses as a result of the challenging household sector situation.

The current monetary policy drafting process – new data and forecasts

Jakob Almerud, senior economist at the Monetary Policy Department, presented the current assessment of macroeconomic developments and the proposal for a monetary policy decision that the Monetary Policy Department judges will gain majority support in the Executive Board at today's meeting. The background material for today's decision has been discussed by the Executive Board at meetings on 10, 11 and 13 September. The draft Monetary Policy Report was discussed and tabled at a meeting of the Executive Board on 18 September.

In August, the policy rate was cut by 0.25 percentage points and the assessment was that the rate could be cut two to three more times during the year. A central question in the drafting process has been how new information affects the forecasts, and whether a faster cut in the policy rate than previously indicated is needed to achieve inflation close to the target within the forecast period.

Another important question has been whether the risk outlook for inflation has changed and how this affects the prospects for monetary policy. The risk profile has shifted so that the risk of inflation becoming too high once again has been further reduced. Among the risks discussed were weaker economic developments in Sweden and abroad, and how such developments would affect the inflation outlook. Geopolitical risks and their implications for inflation were also discussed. The potential impact of these risks on monetary policy is illustrated in more detail in a number of alternative scenarios in the draft report.

Developments since the June Monetary Policy Report suggest that inflationary pressures are compatible with inflation close to 2 per cent. Although CPIF inflation was 1.2 per cent in August, which was 0.5 percentage points lower than in the June forecast, the forecast error was mainly due to surprisingly low energy prices. The CPIF excluding energy was fully in line with the June forecast of 2.2 per cent. Even if energy prices are expected to restrain inflation for a few more months, the effect is expected to be temporary and to gradually wear off.

Forward-looking indicators also point to inflationary pressures that are compatible with the inflation target. Long-term inflation expectations are well anchored to the target and companies’ pricing plans are close to their historical averages, according to the NIER’s Economic Tendency Survey. Companies' pricing behaviour is now estimated to have largely normalised, as analysed in more detail in the draft report. Nor does the krona contribute to any major change in inflationary pressures. It is largely unchanged compared with what it was at the monetary policy meeting in August.

Sweden is still in a mild recession, and the recovery of the Swedish economy looks set to take slightly longer than expected. Even though disposable household income and real wages are increasing and optimism has strengthened clearly during the year, consumption has continued to be weak. Labour market developments also remain subdued, with unemployment expected to rise slightly over the remainder of 2024.

Weaker economic outcomes are also a theme abroad. The US labour market shows clear signs of slowing down and inflation is falling. The Federal Reserve cut its policy rate by 0.5 percentage points in September and signalled further cuts in the near term. Inflation in the euro area has also fallen in recent months. At the same time, unemployment in the euro area remains low despite weak GDP growth. The ECB cut its policy rate by 0.25 percentage points in September, but signalled some caution about future rate cuts. Compared with June, market participants expect more rate cuts from both the ECB and the Federal Reserve.

In the forecast, the Swedish economy improves in 2025. With the proposed monetary policy stance, domestic demand is expected to be the driving force behind the recovery. GDP is expected to grow by about 2 per cent in 2025 and 2.5 per cent in 2026. Unemployment is expected to turn downwards again next year, reaching 7.6 per cent by the end of the forecast period.

The forecast for wage growth is also consistent with 2 per cent inflation, and the recovery in the economy is helping to keep inflation at 2 per cent going forward.

The proposed forecast in the draft Monetary Policy Report is based on the proposal for monetary policy described in Annex A to the minutes and which the Monetary Policy Department judges will gain a majority in the Executive Board at today's meeting. The proposal entails cutting the policy rate by 0.25 percentage points to 3.25 per cent at today's meeting. If the outlook for inflation and economic activity remains the same, the policy rate may also be cut at the two remaining meetings this year. The forecast for the policy rate reflects that a cut of 0.5 percentage points at one of the coming meetings is possible. It also indicates that one or two further cuts may be made during the first half of next year. The Riksbank's asset holdings will continue to decrease through maturities and the sales of government bonds decided on in January.

§3b. The economic situation and monetary policy

Deputy Governor Per Jansson:

I support the forecasts and the monetary policy assumptions in the draft Monetary Policy Report. Although the draft report's proposal for monetary policy continues to imply a gradual adjustment of the policy rate towards lower levels, the changes in policy compared with what we communicated in June and August together nevertheless constitute a relatively large shift in a more expansionary direction. I would therefore like to focus my comments today on the reasons why I think these changes are now justified.

To begin with, it can be noted that it is not unexpectedly low inflationary pressures that are behind the shift. Inflation excluding energy prices has remained in line with our forecast and very close to the inflation target. Regarding the development of inflation, what, in my opinion, opens the door to being able to cut the policy rate a little more and more quickly than we have previously thought is that, with each new inflation outcome, it becomes increasingly clear that the Swedish economy's inflation propensity is back in line with the two-percent target. Excluding volatile energy prices, shorter-term price increases over three and six months have already shown good and stable convergence towards the target for some time. This has now also led to corresponding price increases over the past twelve months beginning to stabilise at levels close to 2 per cent during the summer. These developments suggest that the risks of inflation becoming too high have diminished quite significantly and give us greater confidence to proceed a little more decisively with our monetary policy easing.

An important question is how to view the low growth rates for inflation including energy prices, that is, the entire CPIF, which is after all our target variable. Since June, CPIF inflation has been below target and amounted to 1.2 per cent in August.

My view here is clear: As long as the low rate of increase does not affect confidence in the inflation target, it is not meaningful to use monetary policy to try to counteract temporary fluctuations in inflation resulting from large and rapid changes in energy prices. This would lead to a sharply varying policy rate, both upwards and downwards, and would certainly not promote stability more generally. The issue will thus be to monitor closely whether the relatively large negative contributions to inflation from energy prices that we expect until around the summer of next year start to feed through to broader price-setting and affect longer-term inflation expectations. Our assumption is that this will not happen and that inflation both with and without energy prices will be close to target from around the middle of next year. But, as I said, we need to be vigilant about these developments.

It is also worth pointing out that a monetary policy that sometimes focuses on steering inflation excluding energy prices does not at all mean that the target variable has been changed, as some critics now and then claim. Chasing sharp temporary fluctuations in energy prices with the policy rate is simply not a sensible way to conduct policy, and CPIF inflation excluding energy prices is not a "new target variable" but still about 92 per cent the same as CPIF inflation.[1]

It is also important to note that the Riksbank is not just trying to "see through" very low energy price increases in order, as is sometimes claimed, to avoid cutting the interest rate, but that we are endeavouring to act symmetrically, that is, to also allow very large temporary increases in energy prices to pass through. One example of this is the monetary policy meeting in February 2022, when we chose not to raise the rate despite the most recent outcome for CPIF inflation available

[1] The weight of energy prices in the CPIF is around 8 per cent.

to us at the time being the highest since the inflation target was introduced, 4.1 per cent. The reason for leaving the rate unchanged was that the upturn in inflation was judged to be temporary, caused precisely by sharply rising energy prices that were not expected to continue to increase in 2022. The latest outcome for CPIF inflation excluding energy prices was 1.7 per cent, down from the previous month. As we all know, it turned out afterwards that the assessment that inflation would soon fall back was not correct, but the point here is to clarify a principle, namely that we endeavour to act symmetrically.

In addition to the favourable development of inflation, developments in the real economy also play a major role in why I believe that it is now appropriate to opt for a slightly greater easing in monetary policy. Concerns we had that the recovery could be very rapid as households and businesses incorporate a larger number of interest rate cuts into their expectations for the future have not proved justified. On the contrary, the recovery is slower than expected, both for household consumption and business investment. Now that the Swedish economy's inflation propensity has normalised again and the upside risks to inflation are clearly smaller than before, it is a good time to try to stimulate the real economy. Or as it is well expressed in the draft report: It is important in itself that economic activity strengthens, but it is also a necessary condition for inflation to stabilise close to the target.

My hope is that our bolder monetary policy plan will contribute to greater optimism and confidence among households and businesses. If we carry out our plan, which of course we hope we will be able to do, there are prospects that, by about this time next year, a three-month mortgage rate will be around 1 percentage point, or even a little more than that, below its current level. Also for businesses, which generally face slightly higher borrowing rates than households, a decline in interest rates of roughly the same magnitude can be expected. All in all, this is thus a fairly large stimulus, which should therefore help to increase activity in the Swedish economy quite considerably.

I would like to conclude with some thoughts on the krona exchange rate. We are now shifting our monetary policy in a more expansionary direction in several ways. Unlike several other central banks, we are quite clear about our expectations for the development of the policy rate in the coming quarters. In fact, we are now also further increasing our clarity compared to how we have previously communicated. Increased confidence against the background of inflationary pressures showing increasingly clear signs of being stable in line with the inflation target is behind this. In addition, the risks of inflation becoming too high have decreased quite significantly. At the same time, the recovery of the real economy is sluggish. In such an environment, it cannot be ruled out that interest rate differentials against several of our neighbouring countries will widen going forward. An important question is, of course, how this will affect the krona exchange rate, which is still at a relatively weak level. Needless to say, we need to be aware of this. My starting point, however, is that the krona can develop fairly well even in this environment, provided that our monetary policy measures are perceived as reasonable and are in line with the outlook for inflation and economic developments in general. If so, our actions should already be largely reflected in the pricing of the krona, and I interpret the prevailing market expectations as meaning that this is precisely the case. But as I said, it's still something we need to keep an eye on.

Deputy Governor Aino Bunge:

I support the proposal to cut the policy rate to 3.25 per cent at this meeting, and the forecasts and assessments made in the draft Monetary Policy Report.

In the draft report we note that inflationary pressures are now assessed to be compatible with an inflation rate of around 2 per cent. There is more confidence than before that we have left the period of high inflation behind us for this time. CPIF inflation was 1.2 per cent in August and is expected to remain somewhat below 2 per cent in the near future. The very low energy prices are expected to dampen inflation for a number of months to come. We need to be prepared for short-term fluctuations, partly depending on the development of electricity prices this winter (see Figure 30 in the draft report). The rate of increase in the CPIF excluding energy is more stable and was 2.2 per cent in August. Measured as annualised three or six-month changes, it has been close to 2 per cent for a number of months.

Other indicators also point to inflation remaining low and close to the target. Our own analysis of microdata, as well as our earlier Business Surveys, points to a more normalised pricing behaviour among companies; this is illustrated well in an analysis box in the draft report. The krona remains an uncertainty factor to be considered in the assessment of inflation. International monetary policy could influence developments here. And, especially after the US Federal Reserve's decision last week, it is clear that most central banks around the world are now easing monetary policy.

Long-term inflation expectations are well anchored to the target, as illustrated in Figure 20 of the draft report. In the shorter term, they are lower but still close to 2 per cent. My overall assessment of inflation here and now is that it gives us scope to focus to a greater extent than before on the real economy and a recovery in Swedish growth.

And that brings me to the current recession. It can still be characterised as mild by historical standards and our forecast is that demand will pick up and that a recovery in the economy is on the way. It is important in itself that economic activity strengthens but, as the draft report points out, it is also a necessary condition for inflation to stabilise around the target in accordance with our forecast. Today, I would like to comment in more detail on two issues in this context: first, interest-rate sensitive households and consumption and, second, international developments and exports.

A slowdown in demand was necessary to tackle high inflation but, similarly, a recovery in demand is now needed to stabilise inflation going forward. Forward-looking indicators have been showing rising optimism among households for some time now and, historically, this tends to lead to an increase in consumption. This time, however, that effect has not been particularly evident yet. It is clear that there is still caution among households, following the very sharp tightening brought about by soaring prices and interest rates. In Sweden, as we know, the impact of rising interest rates was particularly pronounced, due to the high level of household debt and short interest rate fixation periods. It is clear to me that the strong impact of monetary policy on the household sector is not always an advantage. In Norway, the situation is similar, as Ida Wolden Bache pointed out in a recent speech at Jackson Hole.[2] I think that the great effect of monetary policy on household finances is an important factor to bear in mind when discussing the need for measures aimed at the mortgage market in the future.

The latest Financial Accounts show that households are continuing to save but that borrowing is starting to pick up after a long period of weak growth.[3] Many factors are now pointing in the right direction for households, with lower inflation, rising real wages, lower interest rates, high savings and also a slightly more expansionary fiscal policy. One explanation for the cautious attitude of households so far may be that price levels are still perceived as high. However, as the prices observed by households are not rising as much, the change will be felt in everyday life, which should boost demand. But it is also important that the labour market is not weakened too much. Although we see a few more months of weakening ahead of us, our forecast is that unemployment is on the way down. But it will be important to monitor forward-looking indicators such as redundancies and bankruptcies going forward.

The economic recovery we see ahead is thus being driven by an increase in domestic demand. Figure 23 in the draft report shows the contributions to GDP growth in our forecast. It is clear that household consumption is the engine of the recovery but investment is also expected to contribute in the coming years. What

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[2] See "The cash-flow channel of monetary policy – micro evidence and macro outcomes", speech at Jackson Hole, 24 August 2024, Norges Bank.

[3] See Statistics Sweden, "Households continued to save while the growth rate of mortgage loans increased", Statistical news 19 September 2024.

is not quite clear from the figure is that a relatively good development of exports is also needed for the Swedish economy to return to a normal economic situation and for unemployment not to increase further. The forecasts are based on the assessment that the recession in the euro area has bottomed out and that growth will increase in 2025. One concern here is that indicators such as the Purchasing Managers' Index are weak, not least in Germany, an important trading partner.

There is thus a risk of weaker demand, linked to both household demand in Sweden and demand for Swedish exports abroad. As described in Chapter 3 of the draft report, weaker demand could lead to lower inflation in Sweden and a more expansionary monetary policy. However, as discussed in Chapter 3, there are also upside risks to inflation, including geopolitical risks. These could lead to new cost push shocks for companies, which could then start raising prices at a faster pace again.

So, as usual, there are risks in both directions for economic activity and inflation going forward. However, one key factor in the monetary policy assessment is the clear shift in the risk outlook for inflation and economic activity that has occurred since the spring. The risk that inflation could accelerate once again and become much too high has declined further, while the risk that the recovery in the Swedish economy will take longer than expected has increased. This is an important reason for the more expansionary monetary policy that we now see before us.

Today's decision and the interest rate forecast described in the draft report imply a relatively substantial easing of monetary policy. I believe that continuing the gradual easing of monetary policy and cutting the policy rate by 0.25 percentage points at this meeting is well balanced. Looking ahead, we should also be able to accelerate the pace of interest rate cuts compared with our previous assessment by cutting rates at the two remaining meetings this year and once or twice more in the first half of next year.

The forecast also includes a certain probability of a cut of 0.5 percentage points at one of the coming meetings. For my part, I would very much like to minimise the significance of a possible cut of 0.5 percentage points at a specific meeting. A holistic view should be taken of monetary policy, with the most important thing being that we change the policy rate and the policy rate path based on an overall assessment of what is required to stabilise inflation close to two per cent without an excessive cost to the real economy. The policy rate path indicates that we will reach a policy rate level of just over two per cent by next summer. Our forecast is that the Swedish economy will then recover and households and companies can feel confident about both future low and stable inflation and the economic situation. However, it bears repeating that we need to take a step-by-step approach in which we are prepared to change our plan if necessary.

First Deputy Governor Anna Breman:

I support the proposal to cut the policy rate from 3.50 to 3.25 per cent. I also support the proposed new policy rate path and the monetary policy assessments presented in the draft Monetary Policy Report.

Monetary policy has contributed to inflation falling and now being well on the way to stabilising sustainably around the target. The risk of inflation becoming too high has diminished further and the recovery looks set to take somewhat longer than expected. This means that I support the proposal for a rate cut at today's meeting, the third cut this year, and that the policy rate path is revised downwards and now reflects that a cut of 0.5 percentage points is possible at one of the coming meetings.

These rate cuts will lead to a clear improvement in household purchasing power this year and next year (see Figure 26 in the draft report). Low and stable inflation and lower interest rates will also facilitate corporate investment. This will contribute to stronger demand, higher growth and a stronger labour market going forward.

The draft report provides a good description of the prospects for inflation, the risk outlook and alternative scenarios. I continue to see further gradual interest rate cuts as a well-balanced monetary policy and I do not wish to repeat what I said last time about this.[4] At today's meeting, I would like to focus on the policy rate path and the transmission of monetary policy, before briefly discussing energy prices and household consumption, which are important for the near-term outlook.

First, we have revised the way the policy rate path is presented. The graphic illustration aims to reinforce the message that the policy rate path is a forecast even in the short term and that uncertainty increases the further ahead in time we get (see Figure 1 and the box "Forecast for the policy rate" on p. 10 of the draft report). With a prolonged war in Europe, a difficult situation in the Middle East and a US presidential election before the next monetary policy meeting, it is important that we are able to act on new information without being constrained by previous communications. Monetary policy will be adjusted if the inflation outlook changes. But this does not mean that the policy rate path does not matter.

The policy rate path is an important part of monetary policy. It reflects the current and future policy rate that we judge to be consistent with low and stable inflation over the medium term. A fundamental condition for this assessment is that the

[4] See the Minutes of the Monetary Policy Meeting held on 19 August 2024 and the box "The policy rate is often adjusted gradually" in the draft report.

transmission of monetary policy works well, so that interest rate cuts included in the policy rate path support the recovery. It is therefore important to monitor the transmission from our policy rate cuts to the interest rates paid by households and companies (see Chapter 1.2 of the draft report).

When the Riksbank raised the policy rate to counter high inflation in 2022-23, the banks raised mortgage rates quickly and substantially, while savings account rates took longer to rise, and bank profit margins increased. Now that we are cutting the policy rate, it is reasonable for the banks to cut short-term lending rates to households and companies by the same amount as the policy rate in order for transmission to function normally. If poor competition on the banking market and difficulties in changing banks mean that the banks do not reduce lending rates to households and companies as much as the policy rate, the Riksbank's interest rate cuts will not fully benefit households and companies. This could delay the recovery of the Swedish economy. It is therefore extremely important that we monitor this closely.

Having said that, I would like briefly to discuss two more factors that are important for inflation and the recovery of the Swedish economy in the near term: energy prices and household consumption.

Energy prices in Sweden have fallen and are now lower than they were in August 2021. As a result, our target CPIF is below two per cent, which is significantly lower than the CPIF excluding energy, and we expect this discrepancy to persist for some time to come. However, as I have discussed previously, it is not individual monthly outcomes that determine the direction of monetary policy; instead it is always an assessment of where inflation is heading in the longer run. The CPIF is our target variable, but to analyse the drivers of inflation over time we always need to look at several different measures of inflation, including the CPIF excluding energy.

Energy prices are also the most volatile price category. And the CPIF is directly and rapidly affected by changes in energy prices, as is well described in the box "The CPIF under alternative assumptions for energy prices".

We also need to analyse any secondary effects of changes in energy prices on other price categories. As inflation surged in 2022, rising energy prices contributed to higher prices for energy-intensive goods and services. However, companies' pricing behaviour tends to be asymmetric, meaning that companies tend to raise prices when costs rise but do not lower prices as much when costs fall. My assessment is that low energy prices do not currently risk producing inflation that is lastingly below the target.

This asymmetry in pricing behaviour may also be important for the effects of the exchange rate on inflation. I therefore see a weaker krona as a greater risk to inflation than a further appreciation of the krona.[5] However, it is important to continue to analyse companies' pricing behaviour and it is positive that we now have access to better data for this (see the article "Microdata gives insights into how companies adjust their prices").

Before I conclude, I would like to comment on household consumption. The recovery of the Swedish economy looks to be somewhat delayed. This is mainly due to weak household consumption, but business investment and exports are also slowing as a result of the global economic slowdown.

Expectations of future interest rate cuts could have had a positive effect on household consumption and corporate investment but we see no signs of this yet. Instead, household saving is increasing (see Figure 14 in the draft report). One reason for this may be that the turmoil abroad is contributing to high levels of precautionary saving by households and to companies holding back on investment. Low-income households with small margins need interest rate cuts and a period of higher real wages/real disposable income if they are to increase their consumption. It is therefore positive that low and stable inflation is already contributing to this (see Figure 26 in the draft report). A high Swedish employment rate is also contributing to favourable conditions for a strong recovery in household consumption (see Figure 4 in the draft report). It is important that the labour market develops positively going forward.

Let me summarise. The risk of inflation becoming too high has declined even more. I therefore support a rate cut at today's meeting and a clear downward revision of the policy rate path, with some likelihood of a 0.5 percentage point cut at future meetings. If the outlook for inflation changes, monetary policy will be adjusted.

Deputy Governor Anna Seim:

I support the proposal to cut the policy rate to 3.25 per cent and I support the interest rate path, forecasts and considerations in the draft Monetary Policy Report. My assessment is based on the overall picture conveyed in the draft report.

Our forecasts show that inflation will stabilise at the target over time, but that it will remain below 2 per cent for some time when measured in terms of our target variable, the CPIF. I would therefore like to take the opportunity to discuss whether this is a problem. Specifically, I choose to comment on (i) the role of

[5] For more information, see my contribution to the Minutes of the Monetary Policy Meeting held on 26 June 2024.

energy prices, (ii) lagged effects and monetary policy transmission, (iii) inflation versus price levels and (iv) the risk of persistently low inflation.

The fact that CPIF inflation was 1.2 per cent in August is largely due to low energy prices. Excluding energy, inflation in the same month was 2.2 per cent. Energy prices are volatile and beyond our control. As our analysis in section 2.3 of the draft report shows, the development of the CPIF is very sensitive to the development of energy prices. Moreover, it is more likely that electricity prices will be higher than that they will be lower going forward, which would quickly bring CPIF inflation close to 2 per cent. What matters for our decisions is a perception of the underlying inflationary pressures in the economy, and my assessment is that they have stabilised at the target.

As discussed in Section 3 of the draft report, it takes time for policy rate changes to have a full impact on the economy. Monetary policy must therefore be forward-looking and our task is to steer towards an inflation rate of 2 per cent in the long term. The inflation outcomes we observe here and now depend on the economic situation and past shocks, but also on the economic policies already implemented. Although there are some effects of policy rate changes that are relatively rapid, such as mortgage costs for households with variable interest rates being affected, other mechanisms are activated with a considerable time lag. It is therefore neither possible nor desirable to try to rectify limited deviations from 2 per cent by fine-tuning monetary policy.

A natural question in this context is whether lower inflation is not a good thing after the sharp price increases of recent years? It is, of course, beneficial that inflation has come down so that real incomes can now start to rise. If inflation is a few tenths of a percentage point lower than 2 per cent, prices will rise at a slower pace, which in principle means an easing for households that have long been burdened by high prices. However, since we are pursuing neither price level targeting nor average inflation targeting, it would be wrong to think that the lower the inflation rate, the better. Our task is to steer the economy towards a stable inflation rate of 2 per cent in the long term, thus providing the economy with a nominal anchor that economic agents can take into account in their decisions. Here too, the time horizon is crucial. For wage formation, for example, the key issue is to ensure that the inflation target is attained in the long term - it is less important if inflation in terms of the CPIF is a few tenths below 2 per cent in single months.

The issue that I have been thinking about the most in light of the latest inflation outcomes is the risks of inflation being persistently lower going forward. Are there any structural factors that suggest we will return to an environment similar to that before the pandemic where inflationary pressures were weak? Many attempts have been made to explain the low inflation that prevailed at the time, for instance within the research literature on structurally weak demand, so-called secular stagnation. One explanation that I find plausible is that the weak inflationary pressures were to some extent due to positive supply shocks that pushed prices down. Examples of such shocks include increased globalisation and technological progress that have helped to reduce companies' costs. At present, however, we rather perceive elevated risks of negative supply shocks that would increase prices. The US election, with the impact its outcome might have on world trade, and global geopolitical risks contribute to this picture. Another factor contributing to the persistently low inflation in Sweden in the 2010s was moderate wage pressures and limited wage drift. Given the weak development of real wages in recent years, I believe that we cannot rule out some element of compensatory wage demands in the next round of wage negotiations, or wage increases outside the central agreements. My overall assessment is thus that there are factors that dampen the risk of persistently lower inflation in Sweden at present, but this is something we should monitor carefully.

To summarise, the key to the inflation target functioning as a benchmark for households, companies and the social partners is inflation stabilising at 2 per cent in the long term, as our forecasts indicate. Therefore, to ensure that we achieve this while supporting the recovery of the real economy, instead of reacting to temporary deviations, we should steer the economy towards lower interest rates in a measured and predictable manner.

Governor Erik Thedéen:

Inflation in Sweden has stabilised close to the target of 2 per cent and the risk outlook for inflation has continued to improve. I therefore support the proposal to cut the policy rate to 3.25 per cent today and the proposed forecast for further gradual but nevertheless rapid cuts at the coming meetings this year and in the spring of next year. I also support the other assessments made in the draft Monetary Policy Report. The easing of monetary policy will contribute to the recovery in the Swedish economy gaining momentum, so that resource utilisation rises and inflation stabilises around the target also in the long term.

The gradual approach we have chosen also allows for the possibility of a 0.5 percentage point cut at one of the two remaining meetings this year, in line with what is set out in the draft report. The fact that we explicitly state in the draft report that we may make cuts in larger steps is a clear indication that, given the favourable inflation outlook, this is now part of our gradual monetary policy strategy.

The policy rate forecast in our main scenario means that we are rapidly easing up on the monetary policy brake. One might ask if it should be even faster. The economy is currently weak and, as yet, there are few concrete signs of a recovery in household consumption. Moreover, our target variable, CPIF inflation, was only 1.2 per cent in August. These circumstances could be arguments in favour of faster interest rate cuts.

However, we have good reason to expect growth to pick up soon. Indicators point to decent growth in the second half of the year and households are optimistic about the outlook. The financial conditions for rising consumption are also in place: real wages are rising and many households have high savings. In addition, the ongoing easing of monetary policy will contribute to significantly higher demand. Moreover, the economy will receive more support from fiscal policy next year.

But we want economic activity to pick up in a controlled manner and thus we are reserving some room to adjust the pace of interest rate cuts if necessary. While we have recently seen our forecasts broadly materialise, we should stay humble; things can change quickly. With the easing we have implemented and are now accelerating, we have a clear direction. At the same time, we are retaining some leeway should the situation change. I consider this to be well balanced.

As is well known, the fact that CPIF inflation is low, a little below 2 per cent, is due to electricity and fuel prices currently being considerably lower than a year ago. Forecasts of continued low energy prices, based on forward prices, are also contributing to the expectation that CPIF inflation will remain low for the rest of the year. But CPIF inflation excluding energy was 2.2 per cent in August, in line with our previous forecasts, and it is expected to remain close to 2 per cent.

It is true that, a couple of years ago, we saw how rapidly rising energy prices spread, with some delay, to a wide range of consumer prices. But we have good reason to expect that the impact of low energy prices on business costs will be more limited this time round. It would therefore be wrong to react to the fact that the outcomes for the CPIF are somewhat below 2 per cent. Monetary policy needs to be forward-looking and aligned with our assessment of the inflation and economic outlook one to two years ahead.

Several indicators, such as long-term inflation expectations, producer prices and companies' future price plans, support the assessment that price increases excluding energy will remain in line with the 2 per cent target. In addition, as I previously mentioned, the conditions are good for growth to pick up and thus for the utilisation of the economy's resources to normalise gradually. In the longer term, normal resource utilisation is an important condition for stable inflation close to the target.

The Riksbank designs monetary policy to suit Swedish economic conditions but our international dependence is high and the forecast for the Swedish economy is greatly affected by the international inflation and growth outlooks. Among several of our major trading partners, economic activity is moderate or even weak and, in the euro area and China, growth indicators have deteriorated in recent months. If the international growth outlook were to deteriorate more markedly, there would also be consequences for demand for Swedish exports and thus for the recovery of the Swedish economy. In such a scenario, monetary policy would likely need to be adjusted to provide more support to economic activity. At the same time, there may then be a risk of large movements on the international financial markets, which could affect the krona exchange rate and thereby complicate the monetary policy deliberations. In this context, it is worth recalling that we are facing a presidential election in the world's largest economy, the United States, which could have a significant impact on global economic developments, both in the short and long term.

Inflation abroad continues to develop favourably overall, although wages and services prices are continuing to rise rather rapidly in some European countries. At present, there are no signs of strong inflationary impulses coming from abroad, although there remain significant risks related to global trade policy and the threatening geopolitical situation.

I have just discussed currency risks but let me add a few words about the krona. The exchange rate has recently developed in a comparatively stable manner. This is welcome. In our judgement, the krona remains undervalued and our inflation forecast is based on the assumption of a gradual appreciation of the exchange rate.

Our main scenario is for demand in the Swedish economy to strengthen gradually. Yet there are also, obviously, significant domestic sources of uncertainty. One example is the uncertainty surrounding how much and how quickly households will increase their consumption in the next few quarters.

Notwithstanding these risks, our forecast paints a fairly bright economic picture for the coming years. Inflation is stabilising in line with the target, confidence in the inflation target is strong and there is now scope for monetary policy to provide more support to economic activity. At the last meeting, I described the situation as the fog having lifted. Now the view has become even clearer. It is therefore possible to accelerate even more, although vigilance is still required. Conditions are favourable for the economic recovery to start soon and for inflation to remain in line with the 2 per cent target.

§4. Monetary policy decisions

The Executive Board decided

- on monetary policy measures in accordance with the provisions of the draft Annex A to the minutes, Policy rate decision. The Riksbank sets the policy rate at 3.25 per cent, which means that it is cut by 0.25 percentage points. The new level of the policy rate shall apply as from Wednesday, 02 October 2024,
- to establish the Monetary Policy Report according to the proposal, Annex B to the minutes Monetary Policy Report,
- to publish the monetary policy decision with the reasons for it in a press release at 09:30 on Wednesday, 25 September 2024,
- to publish the minutes from today's meeting at 09:30 on Tuesday, 1 October 2024.

This paragraph was confirmed immediately.

Minutes taken by

Björn Andersson	Charlie Nilsson

Verified by

Erik Thedéen	Anna Breman	Per Jansson
Aino Bunge	Anna Seim	

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