Minutes of Monetary Policy Meeting

November 2024

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

MONETARY POLICY MINUTES

Executive Board, No. 7

DATE:	06 November 2024
TIME:	09:00
INFORMATION CLASS:	OPEN
PRESENT:	Erik Thedéen, Chair Anna Breman Per Jansson Aino Bunge Anna Seim --- Bo Broman, Chair, General Council of the Riksbank Tomas Eneroth, Vice Chair, General Council of the Riksbank --- Lena Arfalk Carolina Backert Charlotta Edler Heidi Elmér Mattias Erlandsson Susanna Grufman Marie Hesselman Christina Håkanson Matilda Kilström Björn Lagerwall Tomas Lundberg Ann-Leena Mikiver Olof Sandstedt Maria Sjödin Åsa Olli Segendorf Liza Tchibalina --- Joel Birging (§1–3a)

It was noted that Maria Sjödin and Liza Tchibalina would prepare the draft monetary policy minutes.

§3 a. Economic developments

Market developments since the last monetary policy meeting

Joel Birging, senior market economist at the Markets Department, began by presenting developments in the financial markets since the previous monetary policy meeting in September. US economic outcomes have on the whole been better than expected, which has contributed to the dollar strengthening broadly and to rising government bond yields. Another factor behind the dollar strengthening and the rise in yields is the expectation that Republican candidate Donald Trump would win the US presidential election. These movements have continued during last night as votes were counted. In the euro area, data has been weaker, but gradually improved and the GDP outcome for the third quarter of the year was, for instance, higher than expected. Government bond yields have also risen in Germany and Sweden during the period, but the movements have been less than in the United States. Moreover, the preliminary election result led to falling European yields this morning.

Fiscal policy, and in particular budget deficits, is a theme that has become increasingly important in the fixed-income market. Ten-year government bond yields in many countries have increased more than swap rates with corresponding maturities, which can be seen as an indication of investors expecting a larger supply of government bonds going forward. On the other hand, developments in the credit market have gone in the opposite direction and the spread between yields on corporate bonds with high credit ratings and swap rates has decreased.

The S&P 500 index has reached a new record-high while developments for European large-cap indices have been weaker. Earnings growth has been better in the United States than in Europe. If Trump wins the election, earnings of US companies are expected at least initially to strengthen further. Prior to the election, measures of expected volatility have increased for both the equity and fixed-income market, indicating that investors expect increasing uncertainty. The krona has depreciated against the euro and, in particular, the dollar since the meeting in September.

Prior to the Riksbank's decision, most analysts expect the policy rate to be cut by 50 basis points. Analysts highlight weaker growth as a reason for the Riksbank seeing a need for a larger cut. The market is similarly inclined but sees a slightly greater probability than analysts for a 25 basis point cut.

Financial stability – current situation and risks

Olof Sandstedt, Head of the Financial Stability Department, described the situation in the Swedish financial system. The risks in the Swedish financial system have decreased in the short term as a result of policy rates being cut and short-term market rates in particular have declined. However, this comes after a long period of risk build-up, and systemic risks are still considerable. Lower inflation and interest rates have made the situation easier for the capital-intensive parts of the economy. In addition, continued optimism about an economic soft landing have led to greater risk-taking in financial markets. This has contributed to strong developments on the asset markets. Periods characterised by optimism, low pricing of risk and growing asset markets may lead to a build-up of risks in the financial system going forward. At the same time, there is considerable uncertainty abroad and unexpected events can lead to large movements in financial markets.

The financial situation of property companies has improved and they have continued to issue more new bonds. It is Swedish funds that have been the largest buyers of these bonds. The funds have low liquidity and are thereby vulnerable. Therefore, the risk still remains that major redemptions from fund unit holders could substantially impair the functioning of the corporate bond market, similarly to what happened in both 2020 and 2022. In addition, the weak rental market for commercial premises still poses a risk to property companies. Higher vacancies and lower rents can for example affect the value of companies' properties.

The major Swedish banks have ample margins down to the regulatory requirements for capital and liquidity. However, their external dependency and large exposures to commercial properties still constitutes a vulnerability. In contrast to the major banks, consumer credit banks are experiencing a high level of loan losses and lower profitability. The fact that households with small margins have taken out consumer loans that have exceeded their debt-servicing ability has contributed to the high levels of loan losses among consumer credit banks.

The current monetary policy drafting process

Mattias Erlandsson, senior adviser 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 basis for today's decision has been discussed with the Executive Board at meetings on 14 and 29 October. The draft Monetary Policy Update was discussed at a drafting meeting on 31 October.

The assessment in the September Monetary Policy Report was that there had been a clear shift in the risk outlook during the year. The risk of too high inflation was assessed to have decreased, while the reverse applied to the risk of weaker economic developments. It was also assessed that the recovery in the Swedish economy was somewhat slower than expected. The Executive Board decided to cut the policy rate by 0.25 percentage points, and envisaged that conditions would be right to also cut the rate in November and December. The forecast for the policy rate reflected that a cut of 0.5 percentage points could be possible.

The main question in the drafting process for today's meeting has been whether the policy rate should be cut by 0.25 or 0.5 percentage points. The focus in the drafting process has been on how new information has affected the outlook for inflation and the economy and how the risk outlook for economic developments has changed.

In September, falling inflation dampened CPIF inflation, which was 1.1 per cent. Measured as the CPIF excluding energy, inflation was 2.0 per cent. Both measures were slightly higher than in the forecast from the Monetary Policy Report in September. An important explanation for this was a higher rate of increase in food prices. Indicators suggest inflationary pressures in line with the target. The krona exchange rate has indeed weakened since the previous monetary policy meeting, but the effect on inflation is deemed to be relatively limited. However, if the weakening continues the inflation effects could become significant for monetary policy.

The Swedish economy is still in a mild recession, and there are as of yet few clear signs of a recovery. According to preliminary statistics, GDP declined by 0.1 per cent in the third quarter, and was thus weaker than expected. Domestic demand is still low, at the same time as manufacturing activity appears to be weakening. Developments in the labour market have also been somewhat weaker than expected, and unemployment rose to 8.5 per cent in the third quarter. However, economic activity is expected to improve next year, which also creates the conditions for a recovery in the labour market.

At the same time, there is considerable uncertainty surrounding the outlook for inflation and economic activity. Economic developments in Sweden, and even more so those abroad, are difficult to assess at present. In Sweden, the upside and downside risks for inflation are now deemed as relatively balanced. However, the uncertainty regarding global developments is greater than normal, which can also affect the outlook for Swedish inflation and the Swedish economy.

Economic policy in the United States should be mentioned in particular. There are many indications that Donald Trump will become the new president of the United States. On the other hand, it is more difficult to predict the composition of Congress. The economic effects in the United States and globally, of the probable change of US president will depend on which election promises will be implemented, for example in trade policy. The Riksbank is following developments and updating its assessments of the outlook for inflation and the economy as more information becomes available.

Central banks around the world have continued to cut their policy rates. The ECB cut its policy rate by 0.25 percentage points to 3.25 per cent in October. At the same time, unexpectedly strong economic outcomes have caused long rates to rise, especially in the United States. Compared with September, market participants now expect fewer rate cuts by the Federal Reserve. Market expectations regarding the Riksbank and the ECB have not risen as much.

The proposal for a monetary policy decision that the Monetary Policy Department judges will gain a majority in the Executive Board at today's meeting is described in Annex A to the minutes. The proposal entails cutting the policy rate by 0.5 percentage points to 2.75 per cent at today's meeting. If the outlook for inflation and economic activity remains the same, the policy rate may be cut further at the next monetary policy meeting in December and during the first half of 2025, in line with what was communicated in September. New detailed forecasts will be presented in the Monetary Policy Report in December.

At today's meeting, it is proposed that the Executive Board also takes a decision on trading in Swedish nominal government bonds to maintain a holding of SEK 20 billion, in accordance with Annex B to the minutes. The reason for this proposal is to maintain high operational capability to execute monetary policy decisions about the purchase of government bonds at short notice. Market participants' awareness that the Riksbank has this capability increases confidence in the Riksbank, thereby improving the Riksbank's prerequisites for maintaining sustainably low and stable inflation, even in normal times. According to the proposal, the ongoing sale of Swedish nominal government bonds will be concluded towards the end of 2025.

§3b. The economic situation and monetary policy

Deputy Governor Aino Bunge:

I support both the proposal to cut the policy rate by 0.5 percentage points to 2.75 per cent at this meeting and the assessments made in the draft Monetary Policy Update.

A meeting in the midst of global uncertainty, but the starting point with regard to the Swedish economy is that inflationary pressures in general are in line with the target, and that the recovery we want to see will take longer than expected. Hence, there is no doubt that we shall continue to ease our monetary policy in line with our earlier communication. In my opinion, the deliberations this time concern whether we should cut the policy rate by 0.25 or 0.5 percentage points.

With regard to inflation in Sweden, the statistics since the previous meeting have been, overall, fairly in line with the earlier forecast. Energy prices are still contributing to holding back CPIF inflation, which was 1.1 per cent in September. And there are many indications that it will remain below 2 per cent in the coming months. However, as illustrated in the September Monetary Policy Report, this is assessed as temporary and energy prices can change quickly, for instance because of the effects of weather conditions on electricity prices in the coming winter. Excluding energy, inflation is close to the target. As described in the draft update, we have very recently seen some increase in food prices, which there is reason to continue monitoring. But having said that: There are several factors that have meant that the risks of inflation being too high in Sweden have declined significantly during the course of the year. Wage increases are and are expected to continue to be moderate, at the same time as companies' pricing plans are close to their average levels. Long-term inflation expectations are stable and close to 2 per cent. This is in a situation where economic activity is still weak.

With regard to economic activity, our earlier forecasts are based on consumption among Swedish households accelerating now, and domestic demand paving the way for a recovery. Recent statistics present a mixed picture: Households continue to have a more optimistic view of the future, but their actual consumption is still cautious. It is clear from our Business Survey that companies perceive that households are cautious and have not increased their consumption as expected.

At the previous meeting in September, I emphasised that a relatively good growth in exports is also needed for the Swedish economy to return to normal economic conditions and for unemployment not to increase further. Given the considerable current uncertainty, both with regard to demand on important export markets and the effects of a potential increase in trade barriers, I think that it is even more important that domestic demand picks up. As described in the draft update, strong economic activity is important in itself but also a necessary condition for stabilising inflation close to the target. I think that it motivates a somewhat larger cut in the policy rate now than was described in the main scenario in September, that is, 0.5 instead of 0.25 percentage points at today's meeting.

A contradicting factor is that the krona exchange rate is now clearly weaker than at the previous monetary policy meeting, which risks leading to higher inflation. However, there are several indications that it is primarily news about the US economy and election that has affected the development of the krona recently. On the whole, I think we must look at the development of the krona over a longer time horizon and not individual days or months. A monetary policy that leads to positive development in the Swedish economy should also indicate a stronger exchange rate going forward.

I think it is important to highlight the fact that a cut of 0.5 percentage points does not mean a lower level for the policy rate in the long run. At the previous meeting, we made a relatively large change in the policy rate path towards a more expansionary monetary policy. Now it is instead a question of easing monetary policy in a more "front-loaded" way, bringing it down a little faster. The reason is that households and companies need the relief sooner rather than later, so that the wheels of the Swedish economy begin to turn. Domestic demand and household consumption should then accelerate next year as real wages rise, interest rates fall and fiscal policy becomes more expansionary.

The fact that we are nevertheless proceeding gradually with easing our monetary policy gives us the possibility to manage a different development than expected if this should prove necessary. There are many factors of uncertainty, including geopolitical tensions and economic policy abroad, which create both upside and downside risks for inflation. One such uncertainty factor is that we are now awaiting the final results of the US election and we need more time to analyse the possible consequences for the Swedish economy of the policies that may follow the election outcome. However, I also think that the uncertainty should not prevent us from easing our monetary policy today to support a recovery. In uncertain times, it is essential that the Swedish economy has the best possible starting position.

I also support the proposal for a decision in Annex B to the minutes for the Riksbank to trade in nominal government bonds to maintain a long-term holding of SEK 20 billion. The fact that we thus have an operational preparedness strengthens confidence in the Riksbank and thereby improves the conditions for monetary policy also in normal times. As described in the draft decision, the holdings of private securities will continue to decline as they mature.

Deputy Governor Per Jansson:

I support the economic and monetary policy assessments presented in the draft Monetary Policy Update. This means that I support the proposal to now cut the policy rate from 3.25 to 2.75 per cent and the plan to continue to cut the rate at the next monetary policy meeting in December and during the first half of 2025, in line with what was communicated in September, provided that the outlook for inflation and the economy remains the same. I also support the proposal for a decision to trade in nominal government bonds so as to maintain a long-term holding of SEK 20 billion.

The main question prior to this meeting has been whether the policy rate should be cut by 0.25 or 0.5 percentage points. I would therefore like to focus my comments today on this question in particular and why I concluded that the larger rate cut is the preferred option.

The economic recovery is sluggish and overall slightly slower than expected. There are certainly some green shoots. For example, our policy rate cuts so far this year and our communication on further cuts, together with a fiscal policy that will have an expansionary emphasis going forward, have notably improved sentiment in the household sector. The National Institute of Economic Research's confidence indicator for households is now above normal for the first time since December 2021. In addition, household consumption indicators, such as SCB's monthly indicator of development in consumption and retail trade, point to consumption growth in the third quarter that may have been slightly higher than we expected. Turnover in the housing market has also increased and price developments have been a little stronger.

But there are also quite a few dark clouds. Closer scrutiny of the retail trade statistics reveals that the outcome for September was weaker than previous months during the third quarter, which poses a risk of setbacks in the fourth quarter. Neither do banks' card transaction statistics indicate any near-term increase in consumption. And in our own business survey, retailers report a cautious attitude among households.

Added to this, industrial activity according to the National Institute of Economic Research's Economic Tendency Survey is showing clear signs of weakness, especially regarding new orders, while companies in the services sector have also become more pessimistic. That this is most likely connected to German industry's struggle with significant structural problems is obviously not something that gives us less cause for concern. Furthermore, the so-called GDP indicator suggests that the slightly declining trajectory in production in the second quarter has continued during the third quarter. Although it is sensible to interpret this indicator with caution, there is definitely no sign in these data of a surprisingly strong development.

Summarising the picture of the real economy, there are all in all no major shifts compared to our forecast in September. But it is, as I see it, still enough to tip the balance in favour of the larger rate cut. Our forceful monetary policy plan, signalling several policy rate cuts going forward, has certainly had an impact on developments, but it does not look like it is quite enough. It then becomes natural for me to, so to speak, move from words to action, by here and now cutting the rate a bit more than planned.

I wish to emphasise that "moving from words to action" does not necessarily mean that I have changed my forecast for the number of rate cuts going forward. For me, the wording "in line with what was communicated in September" leaves it open whether it is the number of rate cuts or the level of the interest rate after the cuts that we expect to be "in line" with the communication in September.

Given the current uncertainty especially surrounding global economic developments, I think it is sensible to keep this open at the present time.

In fact, there is of course not just uncertainty with regard to exactly how being "in line with what was communicated in September" should be interpreted. The rate plan communicated in September is conditional on the outlook for inflation and the economy remaining the same but it is by no means certain that this will be the case. And if it is not the case, considerably larger changes to the monetary policy plan going forward could of course become necessary. Our next new detailed quantified interest rate forecast will be published on 19 December.

A very important aspect for me to feel secure today in favouring a cut of 0.5 percentage points is that the risks of too high inflation have decreased significantly during the year. The analyses in the draft update suggest, if anything, that it is now downside risks to inflation that dominate, at least on the demand side of the Swedish economy. Just as in September, the sentence "[i]t is important in itself that economic activity strengthens, but it is also a necessary condition for inflation to stabilise close to the target" continues to be absolutely central. But the significant decrease in upside risks does not of course mean that there are no risks for higher inflation at all. I would like to round off my comments by mentioning two upside risks that worry me somewhat, one of them actually quite a lot: the krona exchange rate and developments in food prices.

In the latest inflation outcome for September, the seasonally adjusted monthly change in food prices was the highest since the extreme rates of increase at the beginning of 2023. Individual monthly figures must of course be interpreted with considerable caution but the very significant increase is nevertheless a little concerning and worth paying attention to, not least as it is difficult to find a clear explanation for it. Of importance here is that the rates of increase in food prices measured in three- and six-monthly changes have gone up quite considerably as well.

What is particularly concerning about higher food prices is that food is an everyday essential and makes up a particularly large share of the budget for less well-off households. After the very tough period that households have been forced to go through, fresh major price increases for particular goods that they are completely dependent on is naturally not at all welcome. There would of course be very little understanding and acceptance among the Swedish people for such pricing behaviour and it is the Riksbank's task to closely monitor whether such a behavioural change is once again about to happen and if so to call attention to it. In a bad scenario, such changes may delay future rate cuts or, in the worst case, require the rate to be increased again for a period. This is of course not where we are today but it is important to draw attention to it in time.

The other upside risk, which worries me even more, has to do with the recent significant depreciation of the krona exchange rate. The depreciation has been particularly sizeable against the US dollar, around 7 per cent compared to immediately after our latest monetary policy meeting, but also significant against the euro, approximately 3 per cent during the same period. Just as is noted in the draft update, it seems to a large extent to be news abroad rather than in Sweden, primarily about the US economy, that is driving this. But the large movements are nevertheless not entirely easy to understand.

My starting point continues to be that the Riksbank's monetary policy should not be a factor of major importance in the context, at least not as long as we conduct policy in a comprehensible and predictable way. The relatively small market reactions in connection with our decisions and our monetary policy communication during the year indicate that this is indeed a reasonable starting point. But if the trend of a weaker krona continues, it will nevertheless sooner or later become a factor that clearly affects inflation and thereby our monetary policy. Let us hope this will not be the case. But as is well-known, the uncertainty is considerable, not least concerning economic policy in the United States.

First Deputy Governor Anna Breman:

I support the proposal to cut the policy rate by 0.5 percentage points from 3.25 to 2.75 per cent, and I support the assessments presented in the draft Monetary Policy Update. I also support the proposal in Annex B to the minutes. This means that we will continue to reduce the holdings of government bonds through sales and maturities, that private securities are expected to be phased out in full as they mature and that we will maintain long-term holdings of nominal government bonds of SEK 20 billion.

I would like to begin by commenting on the actual timing of the meeting today. We always take our decisions under uncertain conditions, and there is always a possibility of unexpected information arising that means we need to change the direction of our monetary policy stance. However, the timing of this meeting is unusual because of the large amount of new information just before and after the meeting.

Yesterday was election day in the United States of America, and the results are not yet completely final, but indicate a victory for the Republican presidential candidate, Donald Trump. Our decision will be communicated tomorrow, Thursday 7 November, and on the same day the inflation outcomes for October will be published, what is known as the "preliminary CPI". Moreover, several other central banks will also present their decisions tomorrow; the Federal Reserve, the Bank of England and Norges Bank.

How does all this affect the monetary policy deliberations at today's meeting, and the decision of whether to cut the rate by 0.25 or 0.5 percentage points?

Uncertainty can be a justification for proceeding cautiously when adjusting monetary policy.[1] This could motivate that we should cut by 0.25 percentage points and await new information. However, I think that a cut of 0.5 percentage points at today's meeting comprises well-balanced monetary policy – and for three main reasons.

Firstly, monetary policy should be forward looking. An overall assessment of where inflation is heading in the long run is more important than an individual monthly outcome, and forward-looking indicators point to a stable inflation outlook, which I will discuss in more detail later on. This also applies to the uncertainty surrounding the US election and the turbulence on the financial markets that we have had in recent weeks. We should not take into account temporary turbulence; it is only if more lasting trends arise that the monetary policy could be affected. Global fixed-income and foreign exchange markets in particular can have some effect on the transmission of monetary policy in Sweden, too (see Figures 2 and 9 in the draft update). Bond rates have risen, particularly the two-year and ten-year US bonds, while Swedish market rates have not risen as much. The dollar has strengthened against many currencies, including the Swedish krona. However, if it does not lead to lasting trends, it does not need to affect the Swedish economy and inflation outlook.

Still, the weakening of the Swedish krona is problematic and entails an upside risk for Swedish inflation. The pass-through from the exchange rate to inflation was high when inflation was high, but the pass-through tends to be lower when inflation is low and stable. This brings me on to my second point – the inflation outlook.

Secondly, as I have already mentioned, the inflation outlook is favourable. Monetary policy has contributed to inflation in Sweden falling and stabilising close to the target, and the conditions for inflation to be close to the target going forward are good. We have a well-functioning wage formation, inflation expectations are firmly anchored at the target, and companies' pricing plans are in line with low and stable inflation (see Figure 7 and 8 in the draft update). In this environment, when the risks of inflation becoming too high have declined, monetary policy should be eased further. And proceeding at a slightly faster pace with a cut of 0.5 instead of 0.25 percentage points is particularly justified when the real economy remains weak. This brings me on to my third point.

[1] See the Fact box "The policy rate is often adjusted gradually" in the September 2024 Monetary Policy Report and my contribution to the debate at the monetary policy meeting in September 2024.

Thirdly, there are still few clear signs of recovery in the Swedish economy (see Figure 3 in the draft update). Industrial activity is declining, and household consumption has not yet picked up. We can also see weaker economic activity on important export markets, not least in Europe, which can have a negative effect on production and employment in Sweden going forward. The number of persons employed is still at the same level as at the end of 2022, but unemployment is high. It is important that we see a recovery in the Swedish economy in the near term. With the high level of uncertainty about the global economy, this creates resilience and contributes to continued low and stable inflation in Sweden.

All in all, this means that I support the proposal to cut the policy rate by 0.5 percentage points. This entails four policy rate cuts totalling 1.25 percentage points within the course of six months. Lower interest rates and low and stable inflation facilitate corporate investment, and will also contribute to a significant increase in household purchasing power this year and next year (see Figures 4 and 5 in the draft update). Stronger domestic demand will in turn lead to higher growth and a stronger labour market in the coming years.

With regard to the future policy rate, my assessment is that the rate path from September still holds, with an expected policy rate around 2.25 per cent towards the middle of next year. In line with the communication in September, this probably entails a further cut this year and one or two during the first half of 2025. In practice this implies two further cuts of 0.25 percentage points, but I want to emphasise the considerable uncertainty regarding the policy rate going forward. The policy rate is a forecast and we are not bound by earlier communication and we can always act on new information.

This leads me to risks and the effects of an uncertain world on monetary policy in Sweden. The election in the United States is important as it can have considerable impact on the global economy and the financial markets. With regard to Sweden, I would like to emphasise the geopolitical aspects and the risk of increased protectionism. The effects on Sweden and Europe of a strained geopolitical situation and increased trade barriers from the United States will depend on how potential tariffs are designed and how China and Europe respond to them, and where companies choose to locate their production. In general, trade barriers tend to lead to higher inflation and weaker growth in small, export-dependent countries like Sweden. However, the effects on inflation are complex. Weaker growth can lead to lower inflationary pressure, and China could choose to sell goods at low prices in Europe. Analysing trade policy and its effects on the Swedish economy will continue to be important.

All in all, I think that we should be vigilant of both upside and downside risks for inflation going forward. Important factors ahead of our next meeting in December will be the geopolitical situation, potential trade barriers, energy prices, the krona exchange rate and companies' price-setting behaviour. In the latest Swedish inflation outcome for September food prices rose more than expected, and data from price monitoring company Matpriskollen indicate that the upturn in food prices continued in October. Rising food prices are an upside risk for our inflation forecast. Moreover, they hit all households hard and risk crowding out other consumption.

Prior to the meeting in December, monitoring the transmission of monetary policy will continue to be important. It concerns the effects of trends on global financial markets, for instance a continued krona weakening could be problematic. However, the analysis of the transmission also includes observing to what extent our rate cuts lead to households and companies facing lower lending rates. If the Riksbank's policy rate cuts do not translate fully into lower borrowing costs for households and companies, this could hamper the necessary recovery in the Swedish economy.

Let me summarise. A stable inflation outlook and weak economic activity lead me to support a rate cut of 0.5 percentage points at today's meeting. I still see further rate cuts ahead, in line with the communication from September as the main scenario. However, if the outlook for inflation changes, monetary policy will be adjusted.

Deputy Governor Anna Seim:

I support the proposal to cut the policy rate by 0.5 percentage points to 2.75 per cent. I also share the assessments made in the draft Monetary Policy Update and envisage a policy rate path in line with the one communicated in conjunction with the monetary policy decision in September.

I also support the proposal in Annex B to establish, through trade, a long-term holding of SEK 20 billion of nominal government bonds. My assessment is that this holding will allow us to maintain high operational capacity to act in the event that more substantial balance sheet operations for monetary policy purposes should be warranted.

My decision on the policy rate is motivated by the deliberations in the draft update. At today's meeting, I would like to briefly comment on (i) the economic situation in light of our task under the Sveriges Riksbank Act, (ii) the policy rate in relation to a probable level of the neutral interest rate and (iii) principles for monetary policy decisions in an uncertain world.

According to the Sveriges Riksbank Act, our overriding objective is to maintain sustainably low and stable inflation (the price stability objective). Without neglecting the price stability objective, the Riksbank shall also contribute to a balanced development of production and employment (consideration for the real economy). We present no new forecasts in the draft update but the assessments we made in September indicate that the policy rate path we foresee is compatible with the price stability objective of 2 per cent. In addition, incoming data in recent months has painted an increasingly clear picture of underlying inflationary pressures in line with the objective. In this situation, when the risk of inflation becoming too high has convincingly subsided, we can give consideration to the real economy and ease monetary policy to support the economic recovery. In September, we launched a downward revision of the policy rate path but, with today's cut, we would like to give further support to consumption and aggregate demand. Today's measure was entailed in the policy rate path from September, which I, as stated above, still consider well-balanced. It is worth noting that, by supporting economic activity, we are simultaneously paving the way for price stability as higher resource utilisation in the prevailing situation is a prerequisite for preventing inflation becoming too low going forward.

I note that today's cut brings us closer to what could be assumed to be a policy rate that is neither contractionary nor expansionary, which is to say a neutral interest rate level that is compatible with inflation at the target and full resource utilisation. My assessment is that we may still be slightly above this level, a view that is consistent with the further policy rate cuts that we foresee. Even if the neutral interest rate - just like other non-observable variables - is difficult to estimate, I am convinced that there is a lot to be learned from discussing its determinants and probable development in the long run. As you know, I will return to my view of the neutral interest rate at a seminar at the Riksbank on 26 November.

In the draft update, we make the assessment that the risk of inflation deviating from 2 per cent is balanced – meaning that the magnitude of the risk is about the same on the upside as on the downside. We also note that global uncertainty is substantial at present. In addition to the world's conflicts and geopolitical tensions, the outcome of the US presidential election has presently not been determined. It is clear that the outcome may have far-reaching effects on global trade flows, long-term interest rates, inflation and exchange rates. It is likely that the result will have effects on financial markets that could be either transitory or more persistent.

So how should we conduct monetary policy under such uncertainty? There are a few principles we can adhere to in this matter. If the probability that a certain outcome will be realised is affected by the policy rate, we should internalise that probability in our decisions if we believe that the outcome could affect inflation in Sweden. However, exogenous events beyond our control, such as the US election, are not something we can take into account. Throughout the round of interest rate cuts initiated in May, we have repeatedly advocated that monetary policy easing should be *gradual*. In a situation where we assess that the interest rate has to be cut but are uncertain, for example, about the strength of the monetary policy transmission, a gradual adjustment is reasonable. An immediate adaptation to what we believe is a long-run equilibrium would be preferable to gradual adjustments if there were no uncertainty in the world. But given that there is, adapting too quickly could give rise to unintended effects that would make the economy vulnerable.

This reasoning shows that the concept of gradualism is related to the view that a well-balanced monetary policy should be *robust* to various shocks. Even if the economy does not develop as we foresee in our main scenario, the policy conducted should lead to an acceptable development for key outcomes such as inflation and employment. My assessment is that today's cut meets these criteria. Even if the US election were to give rise to an inflationary impulse, for example due to a weakening of the krona, I find it unlikely that today's decision would decisively exacerbate such a development and cause welfare losses. Stronger growth and optimism for the future could even strengthen the krona even if the interest rate spread against the United States were to increase.

My overall assessment is that, with today's decision, we are strengthening the Swedish economy and making it more resilient to future shocks. We will thus continue on the chosen path towards a lower level of interest rates if the inflationary outlook remains the same. But let me emphasise that, as always, we stand prepared to adjust monetary policy going forward if new information suggests that doing so is justified.

Governor Erik Thedéen:

Consumer prices are continuing to develop in line with our forecasts and we see few concrete signs of new inflationary impulses. At the same time, the outlook for international industrial activity continues to weaken, and in Sweden domestic demand is still low. Growth is not as strong as we and other analysts had expected, although households still expect the situation will improve. I therefore support the proposal to cut the policy rate by half a percentage point, to 2.75 per cent, and I support the assessments made in the draft Monetary Policy Update.

I also support the proposal and motives for a decision described in Annex B to the minutes to trade in nominal government bonds to maintain a long-term holding of SEK 20 billion.

The recovery in private consumption is taking its time and, as I said, the outlook for global industrial activity continues to worsen. Many Swedish export companies specialise in industrial products and the weakening international economic outlook could weaken demand for Swedish exports fairly substantially, and thereby dampen domestic economic growth. The weak outlook for the industrial sector in Germany comprises a particular downside risk for many Swedish companies. It is therefore important that domestic demand begins to rise, and that demand for labour also rises. Otherwise we may find ourselves in a scenario with a more prolonged recession. I do not see this as a probable outcome, but the risks have recently increased somewhat. It is therefore appropriate, at present, to cut the policy rate by half a percentage point. Today's decision thus means that we are lowering the policy rate at a slightly faster pace than we had forecast in the September Monetary Policy Report. This is important, as it leads to lower interest rates for households and companies sooner than if we had chosen a somewhat slower pace. But I cannot now see any strong reasons to otherwise revise the interest rate path, although the uncertainty surrounding the path has increased. We made the assessment in September that the policy rate could probably be cut next year down to a level just above 2 per cent. This plan still appears reasonable.

Price developments, inflation expectations and several indicators still support our forecast that inflation will remain close to the target. Moreover, our recent inflation forecasts have held up well. This gives us to the confidence to continue cutting the policy rate, without the risk that prices will once again begin to rise too quickly.

At the same time, we have other risks to consider, including those related to economic policy abroad. Yesterday's US election was of course particularly important, not least with regard to the consequences for US trade policy. It is conceivable that various factors abroad could interact in a negative way going forward. For instance, the prices of many import goods could rise, at the same time as the krona depreciates considerably from its already weak level. One question we have had to consider is whether this risk is an argument against a policy rate cut of half a percentage point at today's meeting. Should we instead have cut the rate by a quarter of a percentage point?

My view is that we should act on the information we have at hand here and now, which speaks in favour of a continued, but somewhat faster normalisation of monetary policy. When inflation risks are balanced and economic developments are weaker than we had previously assessed, it is reasonable to cut the policy rate slightly faster. Existing risks, including those linked to the US election, do not clearly indicate higher inflation; if the United States and other countries change their economic policies, the consequence could also be lower inflation. To put it another way: uncertainty has increased, but the risk-adjusted inflation forecast has not necessarily changed very much. It is therefore reasonable, at present, to focus on the weaker economic outlook and to adjust monetary policy accordingly. It also means, however, that we need to stay vigilant and be prepared to take action in the event of radically different scenarios. The continued development of the krona is particularly important here.

Many Swedish households have a couple of tough financial years behind them, and there are few concrete signs of improvement so far. However, the conditions for sustainable growth with low and stable inflation are now relatively good. In the coming quarters, several factors – including rising real wages and falling interest rates – are expected to contribute to increased purchasing power among households and to rising consumption. Higher demand from households is in turn expected to increase income for many companies, increase the incentives to invest, for instance in residential construction, and to also contribute to demand for labour rising. Today's decision will accelerate this process.

To summarise my assessment, I think that it is wise in this situation to continue to reduce the tightening effect of monetary policy, so that demand increases and resource utilisation rises. In this way, monetary policy will contribute to a balanced development of production and employment, and to inflation stabilising at the target also in the longer run.

§4. Monetary policy decisions

The Executive Board decided

- in accordance with Annex A to the minutes Policy rate decision (including the enclosure Monetary Policy Update) and
- in accordance with Annex B to the minutes Decision on trading in Swedish nominal government bonds.

This paragraph was confirmed immediately.

Minutes taken by

Maria Sjödin Liza Tchibalina

Verified by

Erik Thedéen Anna Breman Per Jansson

Aino Bunge Anna Seim

SVERIGES RIKSBANK
SE-103 37 Stockholm
(Brunkebergstorg 11)

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