Monetary policy minutes

June 2024

MONETARY POLICY MINUTES

Executive Board, No. 4

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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 Charlotta Edler Mattias Erlandsson Susanna Grufman Peter Gustafsson Anders Gånge Iida Häkkinen Skans Jens Iversen Jesper Johansson Anders Kvist David Lööv Pernilla Meyersson Marianne Nessén Olof Sandstedt Åsa Olli Segendorf Maria Sjödin Ulrika Söderberg Gary Watson --- National Bank of Ukraine: Andriy Pyshnyy Sergiy Nikolaychuk Sergiy Khudiyash Mariia Chebanova Inha Shevchuk --- Joel Birging (§1–3a) Maria Johansson (§1–3a)

It was noted that Iida Häkkinen Skans and Maria Sjödin would prepare the draft minutes of the monetary policy meeting.

Governor Erik Thedéen:

Let me begin by expressing the Executive Board's strong support for the impressive work being done by the National Bank of Ukraine under the difficult conditions they have to endure since Russia's full-scale and illegal invasion. For a few days during our monetary policy process we have had the honour of having Governor Andriy Pyshnyy and his colleagues visiting us here at the Riksbank. The idea is to give them the opportunity to study the work of the Riksbank before, during and after a monetary policy decision. The Executive Board and the Riksbank also have the opportunity to learn from Ukraine's experiences carrying out their tasks under extremely difficult conditions. These experiences are also relevant for the Riksbank now that we are working on strengthening our own resilience and that of the payments system. The Executive Board wants to continue to develop the Riksbank´s close cooperation with the National Bank of Ukraine even further going forward.

§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 May. The fixed-income markets have been affected by central bank communication that emphasises the importance of caution, now that policy rate cuts have begun. During this period, for instance, both the Bank of Canada and the European Central Bank (ECB) have cut their respective policy rates, but they have both indicated that one should not necessarily expect a rapid pace in the cuts going forward. The Federal Reserve says that it is still too early to begin cutting rates, and the market is assuming that the first cut will be made in the autumn. The relatively high interest rates in the United States give support to the dollar and the dollar index has risen to the strongest levels this year.

Risk propensity is generally good among investors and broad stock market indices are trading at around the highest levels this year. In recent weeks, stock market developments in Europe and the United States have differed, with US technology shares contributing to new stock market records in the United States. Political uncertainty in connection with the parliamentary elections in France has affected euro assets and it has become more expensive for credit investors to protect themselves against default.

Analysts and the market are expecting the Riksbank to hold the policy rate unchanged at the June meeting. Forward rates are leaning towards the next cut taking place in August. The krona has strengthened since the meeting in May and in effective terms (KIX) it is at around the same level as in March.

Financial stability - current situation and risks

Olof Sandstedt, Head of the Financial Stability Department, described the situation in the Swedish financial system. The risks to financial stability have declined in the near term, but there is considerable uncertainty because of the high pressure on both households and companies. If interest rates remain high for a long time, the challenges for various markets and the financial system may increase.

The major banks' large exposure to the highly-indebted real estate companies is still a vulnerability, but the situation for real estate companies has recently improved somewhat. Financing conditions on the bond market are more advantageous and more real estate companies have been able to issue bonds. However, there are risks linked to real estate companies' operations. For instance, the vacancies in office properties are at elevated levels and have continued to rise. All in all, many real estate companies need to continue reducing their risks.

The major Swedish banks are assessed to have a good starting situation and they have margins above the capital requirements. Company bankruptcies have continued to increase, especially in construction, retail, restaurants and household services, but so far this has had a limited impact on the major banks' loan losses. Resilience among mortgagors has been high on the whole, but the personal finances of many households are strained and the number of payment injunctions is rising. This is particularly true for households with loans for consumption. The risks are therefore assessed to be greater for consumer credit banks, where loan losses are already elevated.

The current monetary policy drafting process – new data and forecasts

Mattias Erlandsson, senior advisor 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 11, 12 and 14 June. The draft Monetary Policy Report was discussed and tabled at a meeting of the Executive Board on 18 June.

The policy rate was cut in May, and further interest rate cuts are expected going forward. One question in the preparations for this decision was to analyse early signs of effects of monetary policy now being in an easing phase. Other central questions discussed were the analysis of inflationary pressures in the Swedish economy and the risks to the inflation forecast presented in the draft Monetary Policy Report. Among the risks discussed were international developments, including the effects of substantial geopolitical tension, the krona exchange rate, the recovery in the Swedish economy and companies' price-setting behaviour. We illustrate some of these risks in more detail in two alternative scenarios in the draft report.

Moving on to the assessments and forecasts presented in the draft report. The US economy has been stronger than expected for some time. However, there are now signs of some slowdown, and the quarterly growth is expected to be lower this year than last year. In the euro area, GDP rose at the beginning of the year, after remaining unchanged for just over a year, and it is expected to continue to rise. The labour markets have been strong in both the euro area and the United States. All in all, the forecast means that the KIX-weighted growth will rise in coming years and that demand for Swedish exports will then strengthen.

Inflation in both the euro area and the United States is much lower than in 2022 and 2023, but the downturn has come to a halt in recent months. It is primarily service prices that are holding up inflation, which is due to wages continuing to rise relatively quickly, among other things. In the United States, a continued high rate of increase in housing costs is also providing a considerable contribution to inflation. Going forward, however, inflation is expected to fall and stabilise in both the euro area and the United States, in line with the central banks' targets, during the first half of 2025. In June, the ECB cut its policy rate to 3.75 per cent, while the Federal Reserve decided to leave the target range for its policy rate unchanged at 5.25 to 5.50 per cent. According to market pricing, both central banks are expected to cut their rates on one or two occasions during the second half of the year.

In Sweden, economic activity has continued to slow down. The slowdown is still mainly driven by household consumption and housing investment. Data from the National Accounts shows that growth in the first quarter was higher than expected, but monthly outcomes for production and consumption as well as indicators of household and corporate confidence imply in total a weak growth during the second quarter. Activity in the housing market has increased, possibly partly as a consequence of monetary policy easing having begun, but high frequency indicators of household consumption do not show any rapid increase in growth recently.

GDP growth is expected to rise gradually during the second half of the year. Household consumption is expected to strengthen as real wages increase and interest rates fall and there are signs of an upturn in housing investment. During

2025 and 2026, GDP is expected to grow by around 2 per cent a year, similar to the forecast in March.

Recent developments indicate that the labour market will continue to weaken. Redundancy notices were at a high level in May and the number of bankruptcies is also high. Unemployment is expected to rise further somewhat going forward, and to peak at 8.5 per cent this year. Next year a recovery is expected to begin in the labour market.

With regard to inflation in Sweden, the recent outcomes have been somewhat lower than expected, as a result of the unexpectedly low energy prices. CPIF inflation was 2.3 per cent in May. CPIF inflation excluding energy was instead marginally higher than expected and amounted to 3.0 per cent. It was primarily prices of services that rose unusually fast in May. To some extent the increase can be due to temporary effects, but it nevertheless illustrates that prices can still be unusually sensitive to stronger demand. Price changes in the short term are on the whole somewhat higher than before, but still close to 2 per cent.

The forecast assumes that both the CPIF and the CPIF excluding energy will fall in the short term. Companies pricing plans have fallen, according to the Economic Tendency Survey, and producer prices are rising at a moderate rate. The krona has strengthened since the May Monetary Policy Update. Wage increases rose somewhat at the beginning of the year, in relation to last year, but in the forecast wage increases are expected to slow down, in line with the profile in the wage agreements signed last year.

Lower energy prices than last year contribute to CPIF inflation being somewhat below 2 per cent in the coming period, while CPIF inflation excluding energy is predicted to be close to 2 per cent from the second half of this year. Economic activity will strengthen in the coming years, which will contribute to inflation stabilising around 2 per cent. The forecast for inflation has been adjusted down somewhat for this year, compared to the assessment in March, but is largely unchanged in the longer run.

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 is that the policy rate is held unchanged at 3.75 per cent at today’s meeting. Further, it is assumed that the policy rate will be cut gradually over the year. The proposed forecast implies two to three cuts of 0.25 percentage points during the second half of this year. At the same time, 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

First Deputy Governor Anna Breman:

I support the proposal to leave the policy rate unchanged. I also support the interest rate path and the monetary policy assessments presented in the draft Monetary Policy Report.

Monetary policy has contributed to inflation falling and approaching the target. Now that inflation has fallen, real wages are rising for the first time in around two years (see Figure 23 in the draft report) and households' purchasing power is strengthened. New information implies that inflationary pressures will be mainly as expected going forward, but underlying inflation was somewhat higher than expected. I therefore support the policy rate being held unchanged at 3.75 per cent, in line with the forecast in March, and the communication in the May Monetary Policy Update.

At today's meeting I would like to comment in more detail on the forecast for the policy rate. The new interest rate path has been revised down, and it entails the interest rate possibly being cut two or three times during the second half of the year. I have two main reasons for supporting this. The first is that inflation prospects are favourable in the medium term. Inflation expectations are firmly anchored, wage formation is functioning well and companies' pricing plans are in line with low and stable inflation in the long run. The second reason is that economic activity in Sweden has continued to slow down. Monetary policy should not be tighter than what is necessary for inflation to be sustainably low and stable.

I would like to highlight three factors that I intend follow to determine how I view the timing and scope for further interest rate cuts; inflation prospects, the real economy and the risk outlook.

Firstly, new information indicates that inflation prospects are largely as expected. But different measures of inflation paint slightly different pictures. The CPIF was 2.3 per cent on an annual rate in the most recent outcome for May. However, the CPIF excluding energy was higher and amounted to 3.0 per cent for the corresponding period, which was also marginally higher than expected. This was because prices of services rose more than usual. This can perhaps be explained by temporary factors, but it can also be connected to some service prices still being sensitive to stronger demand, especially in so-called high-contact service sectors, such as hotels, leisure and entertainment.

Households' behaviour following the pandemic, with higher demand for travel, leisure, entertainment and culture, may be long-lived, and we have seen a similar trend with unexpectedly high service prices in many countries. During the coming months, it will therefore be important to follow the rate of increase in service prices. In the most recent outcomes, it was energy prices that fell further than expected and contributed to unexpectedly low outcomes for the CPIF. Our forecast is based on energy prices not continuing to fall and on the rates of increase in service prices beginning to stabilise at levels compatible with the inflation target in the long run. *If* we see a clear downturn in the CPIF excluding energy in the coming months, at the same time as the long-term inflation outlook remains favourable, the probability of three cuts rather than two in the second half of the year will increase, with the next cut probably being in August.

Secondly, new statistics indicate that economic activity in Sweden is somewhat weaker than expected. This applies especially to the interest-rate sensitive parts of the Swedish economy and the labour market (for further details, see Chapter 2 in the draft report). If we see that economic activity continues to be weak, at the same time as inflation prospects in the longer run are still in line with the target, the probability of three rather than two cuts during the second half of the year increases. Moreover, if weak economic activity leads to a risk of inflation lastingly undershooting the target, we may need more interest rate cuts than in our main scenario (see Figures 32 and 33 in the draft report). This would also increase the probability that the next rate cut is in August.

Having said this, let me stress that when I say inflation below the target, I do not mean individual months in which it is a few tenths below two per cent, but rather a lasting trend and falling inflation expectations. The current forecast involves, for instance, the CPIF being expected to be around 1.5 for several months in the coming six-month period. I consider this to be fully in line with the inflation target, as long as the inflation outlook is close to two per cent and inflation expectations are firmly anchored. It is not individual monthly outcomes that determine the direction of monetary policy; instead it is an assessment of where inflation is heading.

Thirdly, the risk outlook is balanced and inflation can, as always, be either higher or lower than in our forecast. The alternative scenarios provide an important complement to the interest rate path to illustrate the fact that we are always prepared to adapt monetary policy to new information (see Figure 33 in the draft report). We must not let our hands be tied by earlier communication regarding the interest rate path. If new information clearly changes the conditions for inflation, we need to be able to make different decisions than those indicated by the interest rate path, even in the short term. The risk outlook and alternative scenarios are described well in the draft report, but let me nevertheless discuss two risks in a little more detail, namely the exchange rate and political risks.

The exchange rate is always a risk factor. The krona has strengthened in recent weeks. This is good, and I see no significant risk that a further strengthening would lead to inflation being too low. One reason for this is the uncertainty over companies' price-setting behaviour. There are signs that the impact of the krona tends to be asymmetrical, that is, companies raise their prices when the krona weakens, but they do not reduce them as much when the krona strengthens (with the exception of some very volatile price categories such as fuel and fruit and vegetables).[1] I therefore see a weaker krona as a greater risk to inflation than if the krona strengthens more than expected. With the geopolitical risks in the world around us, the trend towards a stronger krona may break. This leads me on to my final comment – political uncertainty.

Political risks and geopolitics are difficult to assess and often have relatively little effect on monetary policy, but sometimes they can be an important reason for major changes, not just in the short term. One example is Russia's illegal invasion of Ukraine, which is still going on not far from us, with terrible human suffering and negative effects on the global economy as consequences. It is important for the Swedish economy and inflation to follow geopolitical developments, with a more fragmented world and important elections coming up in the near term. One consequence can be increased protectionism, and this tends to lead to higher inflation.

Let me summarise. I support the proposal to hold the policy rate unchanged, and at the same time revise down the forecast for the policy rate during the second half of the year. Inflation is approaching the target and the conditions are favourable for low and stable inflation also in the medium term. However, the risk of setbacks remains. If the outlook for inflation changes, monetary policy will be adjusted. We have made considerable progress towards inflation being sustainably low and stable, but a smooth return to low and stable inflation cannot be taken for granted.

Deputy Governor Anna Seim:

I support the proposal to leave the policy rate unchanged at 3.75 per cent. I also support the interest rate path, forecasts and assessments made in the draft Monetary Policy Report.

The draft report summarises various factors that I have taken into account. I will not repeat the details of the analysis here, but would instead like to highlight some principles that I consider to be of particular importance when determining monetary policy, and which will guide me in my decisions. These principles are (i)

[1] For further information on the impact of the exchange rate, see M. Almgren and D. Stoyko (2024), "Is there state-dependence in the exchange rate pass-through to inflation in Sweden", Staff memo, April, Sveriges Riksbank.

that monetary policy must be forward-looking and not governed too much by the most recent inflation outcomes, (ii) that our forecasts for inflation and the policy rate must be viewed in the light of what can plausibly be considered to be a neutral real interest rate, and (iii) that the interest rate path, combined with assessments of various scenarios, is the most important tool in our communication of monetary policy. Allow me to briefly elaborate on these points and comment on how they have affected my decision today.

Monetary policy must be forward-looking. It takes time, in some cases several years, for policy rate adjustments to have an impact on the economy, and we must therefore make decisions on the policy rate based on our expectations of future inflation and future economic activity. The fact that inflation is now close to the target, that our forecasts suggest that the target will be attained also in the long run and weak economic activity paired with rising unemployment have all caused me to consider whether we should cut the rate at today's meeting. It is clear that monetary policy needs to be less restrictive, and if we are slow to react there is a risk that inflation will be too low. However, a number of factors suggest that the policy rate should be adjusted gradually. The interest-rate sensitivity of the Swedish economy implies that if rate is cut too fast, it might have unexpectedly strong effects on pent-up demand that are amplified by lower inflation strengthening purchasing power. Moreover, it is possible that the price-setting behaviours established during the upturn in inflation will persist and dampen the decline in inflation. If inflation abroad does not decline, higher interest rates in the United States and the euro area could potentially contribute to a weaker krona, resulting in imported inflation. In addition, aggregate demand may be strengthened by the fiscal policy measures recently indicated. Even if one should not focus too much on the latest inflation statistics, they contain information on where the economy is heading, and the inflation figures for May came in somewhat higher than I had expected. The road ahead is thus paved with uncertainty, which calls for caution and a gradual adjustment to a more neutral monetary policy. Our interest rate path now contains two to three interest rate cuts during the second half of the year. My assessment is that, by cutting the interest rate during the second half of the year, we will be able to attain similar macroeconomic outcomes as if we were to cut the rate today, but in a controlled manner that will also give us access to further data before acting.

With regard to the second principle, our forecasts for inflation and the policy rate must be consistent with what we think of as a long-term equilibrium. As inflation is now approaching the target, and monetary policy can be made less restrictive, the question arises of what can be considered a neutral monetary policy stance. What interest rate level can be assumed to be neither contractionary nor expansionary? What is a plausible level for the policy rate in the long run? The so-called neutral real interest rate is not observable and difficult to estimate. As we wrote in the Monetary Policy Report in March, we know that it was trending downwards prior to the pandemic, as a result of structural factors in the global economy. There is currently an intensive discussion in the research community on the likely future development of the neutral real interest rate. I will not comment on that debate here, but my assessment is that our forecasts for inflation and the policy rate are reasonable from this perspective, too.

Finally, I would like to highlight the important role played by the policy rate path in the communication of monetary policy. If we are to create predictability and give households and companies the possibility to make well-informed decisions, it is important that we publish forecasts for the policy rate and communicate how we are likely to react to various events. I am therefore very positive to how we work with scenarios in the monetary policy process. Of course, the policy rate path is only a forecast, and I believe that there is an understanding of the fact that our decisions can deviate from this path if economic conditions change. In the short run, we can be slightly more confident in our forecast for the policy rate, while the long-run forecast is more uncertain. In the Monetary Policy Report published in March, and also in this draft report, this distinction has been made very clear in that it is only the short-term interest rate path that is presented in the monetary policy considerations, while the entire path is published at the end of the report. But to know what policy the inflation forecasts are based on, the reader must be able to form an opinion of which interest rate our estimates are based on and they should thus be presented over the same time horizon. My view is that the entire interest rate path, with its inherent uncertainty, should be presented in the monetary policy considerations. I am convinced that there is some way of graphically illustrating the fact that forecasts beyond a certain horizon are particularly uncertain and I advocate that we make an effort to communicate this in future reports.

To summarise, I support the decision to hold the policy rate unchanged at 3.75 per cent, but envisage two to three interest rate cuts during the second half of the year, given that inflation and the economic outlook in general are in line with our forecasts.

Deputy Governor Aino Bunge:

I support the proposal to leave the policy rate unchanged at 3.75 per cent at this meeting, and the forecasts and assessments made in the draft Monetary Policy Report.

Inflation is now close to the target, and inflation prospects are favourable going forward. Expectations of inflation among economic agents are close to the inflation target both in the short term and the long term, which implies strong confidence in the target as an anchor for financial decisions. Households are an exception and expect inflation to overshoot the target, but this is probably because they feel that prices are still very high. There are also risks to inflation going forward. The most recent inflation outcome for the CPIF was close to the target, but if energy is excluded, inflation is still higher and the increase in service prices gives some cause for concern, but I will return to this. I nevertheless believe that inflation can now be held by the target, which is very positive.

Two factors that form a base for this belief are that supply shocks have declined and that economic activity and demand have slowed down as a result of our earlier interest rate hikes. The Swedish economy is currently in a mild economic recession. We have revised up our forecast for this year´s growth, but as described, this is mainly due to a temporary stock effect in the first quarter. If anything, the economy and the labour market look a little weaker going forward since our previous meeting. All in all, we are in a macroeconomic situation where monetary policy needs to be eased and made less tight. There are good reasons to believe that the economy will show an upturn when households' purchasing power returns. The monetary policy considerations essentially concern this being able to happen without demand increasing too much and inflation accelerating again.

I intend to comment in more detail on three specific questions today: firstly, the rising optimism among households and companies regarding future interest rate cuts, secondly the continued risks linked to price-setting behaviour and worrying developments abroad, and thirdly our asset holdings in Swedish kronor.

Although Sweden is thus in a mild recession, forward-looking indicators point to rising optimism among households and companies. This optimism is in turn based on expectations of future interest rate cuts. Figure 8 in the draft report shows that the average interest rate households pay on their outstanding loans has largely peaked. Another thing shown in Figure 8 is the difference towards many other countries with longer fixed-interest periods, where households and companies can experience further tightening in the form of higher lending rates, even after policy rate cuts have begun.

We at the Riksbank have on many occasions pointed out Swedish households' high sensitivity to interest rates, which meant that consumption weakened when we raised the policy rate. This rapid transmission should correspondingly also apply when the interest rate is cut, and mean that household consumption accelerates again. Households not only have more in their wallets in the form of lower interest payments, they also experience an increase in real wages now that inflation has fallen. However, it is uncertain exactly how the effect of rising real wages is perceived among households – as I mentioned earlier, prices are still perceived to be very high after the upturn in inflation.

The fact that households have nevertheless shown resilience is probably because the labour market has been relatively strong and savings buffers were build up during the pandemic. Now the labour market is weakening, which could create uncertainty, but we are not expecting a large fall in employment, and households can look forward to better times ahead. According to our forecast, savings will still be high. At the previous monetary policy meeting, I noted that so far there did not seem to be any "spring fever" with regard to household consumption, and I stand by that assessment. But the way that households now react to an easing of monetary policy is important to monitor and a reason to proceed gradually.

When it comes to companies, many of them also have a more positive outlook on the future, especially in the retail trade. However, in several sectors, including the construction industry, the improvements are taking place from a weak starting position. In our most recent Business Survey, companies selling to households respond that they have not raised their sales prices recently as much as their costs have increased.[2] However, if demand increases, they are planning to raise their prices to compensate for the earlier cost increases. At the same time, the companies themselves describe the price increases as moderate and in line with the inflation target. How companies' price-setting behaviour is affected by possible cost increases and by demand rising, is something we need to continue monitoring. The recent inflation outcome with regard to service prices is not so worrying yet, in my opinion, but it may nevertheless indicate a risk that prices will be raised more when demand rises going forward.

Despite the essentially favourable prospects for Swedish inflation and economic activity, there are still risks linked to international developments. Geopolitics are creating protectionist trends and risks of new supply shocks. Most recently, the elections in France have surfaced as a new uncertainty factor in Europe. There are fundamental problems regarding many countries' high indebtedness, which can affect confidence in the capacity to manage public finances, not least among financial market participants. Although Sweden is well equipped in the form of very strong public finances, our economy is strongly dependent on developments abroad. The forecast in the draft Monetary Policy Report is based on a recovery among our trading partners, too, and on inflation and interest rates also falling in other countries. The Swedish krona has shown a strong development since our previous monetary policy meeting, but going forward it could be affected by, for instance, unease on the financial markets and developments in interest rates and inflation abroad. Our forecast is based on the krona strengthening going forward, but it is, as always, very uncertain. As illustrated in our alternative scenarios, it is conceivable that inflation could be either higher or lower than in our forecast. I

[2] See The Riksbank's Business Survey: Retail sector: "I really think we are on the way up now" | Sveriges Riksbank.

share the overall assessment that the risk outlook with regard to the inflation forecast is fairly balanced.

Today I would also like to take the opportunity to comment on the Riksbank's asset holdings in Swedish kronor. As shown in Figure 31, the Riksbank's asset holdings are continuing to shrink at a relatively rapid pace. This is mainly due to securities gradually maturing, but also to our active sales of securities. We intend to return in the autumn with an assessment of what we consider to be a reasonable long-term level for the securities holdings, and the possible need of a strategic portfolio, for instance, for contingency purposes. But I think it is clear that a continued normalisation of the balance sheet is very desirable. The draft report contains an analysis of the monetary policy transmission via the money market. The Riksbank's tapering of the securities holdings means that the banking system’s liquidity surplus will decline going forward. However, the banking system is expected to continue to have a substantial surplus of liquidity, and I share the assessment that this part of the transmission should work well even if the entire securities holdings were wound up. The situation in Sweden stands out in that it has more been a problem that the supply of government bonds has been too small and limited by the Riksbank’s holdings. In our own survey, participants in the Swedish fixed-income market now say that liquidity has improved as a result of the Riksbank's sales of government bonds.[3]

In conclusion: When I take an overall view of my impressions, I agree with the assessment in the draft report that it is a well-balanced decision to hold the policy rate unchanged at this meeting, and that the gradual easing of monetary policy should continue with a further two or three interest rate cuts during the second half of the year. Monetary policy needs to be characterised going forward by a trial and error approach on the way towards a neutral interest rate level, where we are prepared to adjust our plan if necessary.

Deputy Governor Per Jansson:

I support the forecasts and the monetary policy assumptions in the draft Monetary Policy Report. The new inflation outcomes we have received since our last monetary policy meeting in May, which are for April and May, have offered both positive and slightly less encouraging surprises. The reading for April, excluding the volatile energy prices, was 2.9 per cent, which was 0.4 percentage points lower than our most recent forecast from the March Monetary Policy Report. The April figure was the sixth consecutive lower-than-expected outcome for inflation excluding energy prices.

[3] See The Riksbank's Financial Markets Survey: Fixed income and foreign exchange markets have improved since last autumn | Sveriges Riksbank.

However, the May reading was a setback. Stripped of energy prices, inflation for this month was 3.0 per cent, compared with a forecast of 2.9 per cent. Thus, in a single month, the entire relatively large overestimate turned into an underestimate. To find an equally large monthly increase in prices excluding energy, we have to go back as far as September last year, in other words before we had started cutting the policy rate.[4] Looking at the major sub-groups of consumer prices, it can be seen that the surprisingly large price increases are entirely due to unexpectedly rapid increases in services prices.

Although the May inflation outcome is slightly worrying, it is too early to speak of a trend reversal in the decline in inflationary pressures. There are strong indications that a number of transitory factors were responsible for pushing up many services prices. For example, prices for accommodation and transport were probably affected by many events taking place in May. In addition, although the more short-term price increases for various inflation measures have turned upwards in many cases, they are generally still fairly close to the inflation target of 2 per cent in annualised terms. This is particularly true if they are adjusted for presumed temporary effects.

So my view on the development of inflation remains fundamentally quite optimistic. But the May outcome nonetheless means that I no longer feel as confident that companies have now returned to normal pricing behaviour, at least not fully. Perhaps we have been a little overawed by the rapid decline in inflation since last year and the large fall in companies pricing plans that occurred approximately in parallel. On a few occasions in the past, I have compared the changes in pricing behaviour to a car engine overheating – if it has happened once, there is an increased risk that it will happen again. The consequences of a pricing behaviour that continues to be more aggressive than before should not be underestimated. This means that the inflation target functions less well as an anchor for price-setting and leads to monetary policy needing to be tighter than usual for a period of time – in the worst case, quite a long time – in order to restore confidence in the target. It is important that companies recognise that continued unusually large price increases will also increase their interest costs and carefully consider whether it would not, against this background, be better to hold back on price increases from the outset. I will return to this in a moment when I summarise my conclusions for monetary policy.

The timing of interest rate cuts by major central banks abroad is a factor that has had a major impact on my monetary policy considerations so far this year. Compared with the situation at our May monetary policy meeting, there have been no major changes in the monetary policy plans of the Federal Reserve and

[4] The comparison refers to seasonally adjusted monthly rates.

the ECB. According to current market pricing, both central banks are expected to cut interest rates once or, perhaps more likely, twice in the second half of the year, which is roughly in line with the situation in May. However, this has not prevented the krona exchange rate from strengthening quite considerably over the period, against both the US dollar and the euro. This is of course welcome and positive. As usual, it is not easy to understand the krona's movements, but the fact that the ECB took action and cut interest rates on 6 June at the same time as inflation in the United States in May developed a little better than expected has probably had some significance.

It is also conceivable that the Riksbank's somewhat clearer and a little bolder communication on how we view the krona exchange rate at a general level may have contributed to the slightly more favourable development. I am thinking here of the fact that we have, without too much fear of being perceived as having a target for the krona, clearly communicated that a weaker exchange rate is not desirable from an inflation perspective and is directly relevant in our monetary policy considerations. In fact, I myself have recently even gone a little further and pointed out that a sharply fluctuating exchange rate can pose a problem for the economy more generally. High exchange rate volatility creates uncertainty, making it harder for companies to plan for the future. Against this background, trying to prevent monetary policy from being a source of large fluctuations in the krona may be wise.

With that, I turn to my more direct comments on monetary policy. As I have already stated, I support the draft report, so my basic perspectives on the current situation, forecasts, risks and conclusions for monetary policy are very much in line with the draft. I will therefore limit myself here to some more personal reflections in the light of what I have just said.

Two important reasons for me not to support a cut in the interest rate at today's meeting are the question marks raised by the inflation outcome for May regarding inflationary pressures and the uncertainties that continue to surround the Federal Reserve's and the ECB's monetary policy plans. While these factors do not now affect my view of the direction of development for the future policy rate, I think they emphasise the importance of conducting monetary policy gradually. One hope, as I have mentioned, is also that a gradual, and thus generally more predictable, adjustment of policy will be able to contribute to a somewhat more stable development of the krona exchange rate. This is most likely not a big contribution, but when circumstances allow, I think it is good that we take the opportunity to do what we can to reduce the volatility of the krona.

Although I now want to wait before cutting the interest rate, I support a certain downward revision of the interest rate path. This may at first sight seem a little contradictory – but holds because I basically still have an optimistic view of the inflation outlook and in my main scenario expect the setback in May to be mainly temporary. Up to April, there has been a clear and surprisingly strong downward trend in Swedish inflationary pressures for some time and several of the more fundamental determinants of inflation are developing favourably. These include the economic situation, wage increases, the krona exchange rate and inflation expectations. Provided that our inflation outlook is consistent with it, nor do I really see any major problem with us cutting interest rates this year one or two times more than the Federal Reserve and the ECB. The fact that the krona has strengthened somewhat recently is of course no disadvantage in this context. And despite a slightly lower interest rate path in the short term, our monetary policy plan continues to be based on a gradual adjustment of the interest rate, which I have made clear that I think is good.

Having said this, I still think it is worth buying what I consider to be relatively cheap insurance against a more negative development by refraining from cutting the interest rates at today's meeting. This gives our companies a little more time to return to more normal pricing behaviour and highlights the important link between large price increases and higher interest costs. If pricing behaviour continues to be too aggressive going forward, I stand ready to support further revisions to our interest rate plan in a tighter direction, including substantial revisions if necessary. Of course, I am also ready to support a more expansionary plan if needed. But regardless of the direction in which we revise our interest rate plan, I will try to stick to the principle that monetary policy should be conducted gradually.[5]

Governor Erik Thedéen

I support the proposal to leave the policy rate unchanged at 3.75 per cent, and I support the forecasts and assessments in the draft Monetary Policy Report. Thanks to inflation falling towards the target over the past six months, which is partly due to the monetary policy conducted, we have since May been able to enter a phase of gradual easing of monetary policy. In May, the Executive Board cut the policy rate from 4 to 3.75 per cent. Developments in general since then have been relatively close to our forecasts, but there are signs of some weakening, for instance on the labour market. It is therefore desirable to increase the pace of the monetary policy easing somewhat to contribute to a low and stable inflation rate and a balanced development of the real economy. I see ahead of me, in line with the proposal in the draft report, somewhat more cuts in the policy rate during the second half of the year than we communicated in the Monetary Policy Update in May; the policy rate could be cut two or three times during the rest of the year if inflation prospects remain the same. The adjustment

[5] See also my discussion at the May monetary policy meeting.

should nevertheless be gradual, as the development of inflation is uncertain, both in Sweden and abroad. To regularly and during a certain period monitor economic developments in a broader sense and then make decisions on monetary policy is a wise strategy that reduces the risk of sudden changes in monetary policy. This favours a balanced development of the economy. And it should also benefit the development of the krona when monetary policy is characterised by a certain degree of predictability.

The geopolitical uncertainty remains, and will probably do so for several years to come. Russia's illegal and full-scale invasion of Ukraine can continue to lead to disruptions that may have an impact on the Swedish economy. In addition, there are increasing elements of protectionism, such as increased trade barriers. A new source of uncertainty is the elections to the French parliament, which will be held at the end of June and the beginning of July. The uncertainty over the composition of France's future government has led to some concern on the financial markets, which is based on questions regarding the country's fiscal policy and its implications for the EU's overall economic policy. The financial markets' reactions to the political uncertainty in France, with falling stock market prices and rising yields on French government bonds, illustrate the risks when a country does not have stable public finances - the French national debt rose between 2007 and 2023 from around 65 per cent of GDP to around 110 per cent. In the United States, too, public finances have long been on a long-term unsustainable path according to most economists. Interest payments are now the single largest expenditure item on the US government budget.

With countries in the EU having weak public finances and high public debt, the risk increases that political unease could have a negative effect on economic developments. Such a course of events could lead to rising risk premiums on the financial markets and could ultimately create real economic shocks. Weak public finances and high national debt in countries important to Sweden could thus comprise a risk to stable economic developments in the coming years. An important lesson is that the economic resilience to political and economic shocks is lower in countries with high debts.

Economic growth in the United States has been surprisingly strong for some time, which the Riksbank pointed out at the monetary policy decision in May. However, there are now signs that economic activity is slowing down, even if the picture is not clear-cut. It will be important to monitor the US economy, and especially the US labour market which is now showing tendencies to weakening, although the picture is fragmented. In the euro area, growth looks slightly stronger. GDP increased during the first quarter of this year, after having been in principle unchanged since 2022, but leading indicators, such as the purchasing managers index, point to the upturn being fragile.

Inflation has fallen in both the United States and the euro area, but this has been slower than expected. This could affect the Swedish economy in several ways. Firstly, a somewhat higher rate of inflation abroad risks spilling over to higher inflationary pressures in Sweden. Secondly, higher inflation abroad means that interest rates abroad may be higher than would otherwise have been the case, which could lead to a weaker krona. The somewhat weaker decline in inflation in the large currency areas illustrates that the path towards an inflation rate in line with the targets may be somewhat uneven.

In Sweden, there are signs of somewhat weaker growth than we had expected earlier. Although GDP growth during the first quarter was stronger than expected, it was primarily driven by changes in stocks. Monthly outcomes for production and consumption in April and confidence indicators point to a weaker development in the second quarter. The whole year figure for 2024 has been revised up somewhat, largely due to the stronger first quarter, but for 2025 we are revising down our growth forecast. The labour market also looks weaker, for instance, notices of redundancy show an upward trend. Employment, which has increased strongly in recent years, is now falling. In our forecast unemployment rises to 8.5 per cent this year, somewhat higher than in the forecast from the March Monetary Policy Report. The weaker developments in the real economy should lead to somewhat lower inflationary pressures and therefore increase the need to make monetary policy less tight. However, the picture is not clear-cut. For instance, households state in various surveys that they have a more positive view of future economic developments, albeit from low levels. Households' increasing optimism is probably due in part to expectations of lower interest rates.

And moving on to developments in Swedish inflation. Our target variable, the CPIF, has fallen from just over 10 per cent 1.5 years ago to 2.3 per cent now, most recently in May. This is a rapid fall, and largely in line with our recent inflation forecasts. However, the CPIFxe is somewhat higher than we had assumed, which shows that some of the decline in the CPIF is related to volatile energy prices.

The outcomes of recent months are analysed in detail in the draft report. Something that I consider worth noting is the recent short-term inflation dynamic. If one looks at Figure 17 in the draft report, it is not as clear as before that the inflation trend, here measured as the CPIFxe, is pointing downwards. Rather, the momentum in the most recent outcomes varies around 2 per cent, with a small upward tendency over the past month. Although there are indications that the increase in the most recent outcomes can be partly temporary, it can also be the case that it has become somewhat easier for companies to raise their prices when demand allows for it.

A risk factor for inflation going forward is therefore how companies set their prices. Price-setting plans as expressed in the NIER's Economic Tendency Survey and our own Business Survey are assessed in the draft report to now be in line with an inflation rate of 2 per cent. I share this assessment, but there is a risk that companies might be finding it easier to pass on their cost increases to consumers now than before the upturn in inflation. One cannot rule out the possibility that the threshold for raising prices has been lowered. In this case, it could mean that inflationary pressures in Sweden could change faster than we have assumed if global inflation is higher than in our forecasts, or if economic activity in Sweden is stronger than we are now assuming.

The krona has clearly strengthened since the monetary policy meeting in May, which is positive for inflation prospects. But it is also clear that the krona is volatile: the krona exchange rate is now largely unchanged in trade-weighted terms, compared with our meeting in March. It is difficult to find explanations for the short-term volatility. I still assess that the krona is undervalued, and that it will strengthen going forward, in line with our forecast, but there is considerable uncertainty.

I would now like to move on to my monetary policy considerations.

As I said, inflation has shown a favourable development over the past six months. My assessment is that we now have an inflation largely in line with the target. We are therefore in a period where we can and should reduce the monetary policy tightening. If the prospects for inflation and economic activity stand the test of time, the policy rate could be cut two or three times during the second half of the year. The somewhat weaker development in the labour market is one reason why I believe that we should proceed somewhat faster with the rate cuts. Moreover, the inflation risks on the upside appear somewhat lower now. My assessment is that it is somewhat more probable that we will cut the policy rate three times, than twice, during the second half of the year.

However, the development of inflation is characterised by volatility and single monthly figures can deviate from the trend, both upwards and downwards. This indicates that we should not give too much weight to individual outcomes when determining our monetary policy. The signals regarding economic developments, both in Sweden and abroad, also vary somewhat. To be able to sort out the white noise from the more lasting changes in economic activity and inflation requires time. This also means that monetary policy should be adjusted gradually so that households, companies and financial markets have stable conditions when making financial decisions.

To sum up: Our forecasts indicate that we are on the way towards a sustainably low and stable inflation rate of 2 per cent. Monetary policy therefore can and should be made less tight. However, given the uncertainty that remains, the policy rate cuts should be made gradually so that we can attain a long-term lower interest rate in a stable and orderly manner, something that will also benefit the Swedish krona.

Thanks to the monetary policy conducted, responsible wage bargaining rounds and waning effects of supply shocks, inflation has come down towards the target and is expected to develop in line with the target going forward. After three years of excessively high inflation, the CPIF has in recent months been around 2 per cent. The fact that we have reached this level means that wage earners in Sweden can now have real wage increases once again and increased purchasing power. This is proof of the importance of actively safeguarding price stability. In the slightly longer run, a low and stable inflation will also contribute to better conditions for rising investment and a long-term stable development of the economy.

First Deputy Governor Anna Breman:

Let me just add here that I think that Anna Seim's reasoning on graphic illustration of the difference in the accuracy of interest rate paths in the short and long term is good. However, for me it is very important to emphasise that the policy rate path is also uncertain in the short term. It is important that the interest rate path is complemented with alternative scenarios to show that we can also adapt monetary policy in the short term to new information and new conditions.

§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 3.75 per cent, which means that it is held unchanged.
- 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 a.m. on Thursday 27 June 2024,
- to publish the minutes from today's meeting at 9.30 a.m. on Wednesday 3 July 2024.

This paragraph was confirmed immediately.

Minutes taken by

Iida Häkkinen Skans	Maria Sjödin

Verified by

Erik Thedéen	Anna Breman	Per Jansson
Aino Bunge	Anna Seim	

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