

DECISION

DATE: 31 January 2024
DEPARTMENT: Monetary Policy Department
DNR: 2024-00138
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Decision on the policy rate and government bond sales

The Riksbank's decision

1. The Riksbank sets the policy rate at 4 per cent, which means that it is held unchanged.
2. The Riksbank decides to amend its decisions of 8 February 2023 (ref. 2023-00140) and 28 June 2023 (ref. 2023-00746) to, with effect from February 2024, each calendar month with the exception of July and August
 - a. offer sales of Swedish nominal government bonds to a total nominal amount of SEK 5.7 billion per month, and
 - b. continue to offer sales of Swedish inflation-linked government bonds to a total nominal amount of SEK 800 million per month.
 - c. Otherwise, the Riksbank's decision from 8 February 2023 with regard to sales of government bonds will still apply.
3. The Riksbank adopts the Monetary Policy Update, annex 1.
4. This decision will be published at 09:30 on 01 February 2024.
5. The minutes of the monetary policy meeting on 31 January 2024 will be published at 09:30 on 7 February 2024.

Grounds for the decision

Legal basis

Under Chapter 2, Section 1 of the Sveriges Riksbank Act (2022:1568), the overriding objective of the Riksbank is to maintain low and stable inflation (the price stability objective). Without neglecting the inflation target, the Riksbank shall moreover contribute to a balanced development of production and employment. The Riksbank has defined the price stability objective as a target of 2

per cent for the annual increase in the consumer price index with a fixed interest rate (the CPIF).

The Riksbank's main monetary policy tool for achieving the price stability objective is the policy rate. The Riksbank shall determine the policy rate for its deposits, its credits and its repurchase agreements in financial instruments (Chapter 2, Section 4, second paragraph of the Sveriges Riksbank Act). In addition to this and as one of its monetary policy powers, the Riksbank may, in relation to financial companies¹, trade government securities in the secondary market (see Chapter 2, Section 4, first paragraph Section 5 of the Sveriges Riksbank Act and Government Bill 2021/22:41, p. 214).

Unchanged policy rate but likely that rate can be cut sooner than indicated in the November 2023 forecast

Low and stable inflation is a necessary condition for good economic development. Since April 2022, the Riksbank has raised the policy rate from 0 per cent to 4 per cent and held the policy rate unchanged at the monetary policy meeting in November 2023. The more contractionary monetary policy has contributed to CPIF inflation falling from a peak of around 10 per cent to 2.3 per cent in December 2023.

Indicators point to inflationary pressures continuing to decline going forward, but a contractionary monetary policy is still considered necessary for inflation to stabilise close to the target and thus contribute to a long-term positive development of the economy. The Executive Board therefore decides to leave the policy rate unchanged at 4 per cent. At the same time, the Executive Board assesses that the risk of inflation becoming entrenched at levels that are too high has declined. The policy rate can therefore probably be cut sooner than was indicated in the November 2023 forecast. However, there is a risk of setbacks that could mean inflation rises again, for example renewed supply shocks resulting from the geopolitical unease, company pricing behaviour or that the krona weakening substantially once again. The adaptation of monetary policy must therefore proceed with caution, to ensure that inflation is stabilised sustainably close to the target.

Increased sales of government bonds

As a result of earlier monetary policy measures during the years 2015-2022, the Riksbank has a substantial holding of securities in Swedish krona (see Figure 8 in the Monetary Policy Update).² The Riksbank decided in February 2023 to initiate

¹ Financial companies are defined in Chapter 1, Section 2 of the Riksbank Act.

² As of 31 December 2023, the nominal value of the Riksbank's holdings of Swedish government bonds amounted to SEK 252.5 billion. Around 84 per cent is comprised of nominal government bonds and the

sales of nominal and real government bonds (ref. 2023-00140) and decided in June 2023 to increase the pace of the sales (ref. 2023-00746). The Riksbank's sales of government bonds have so far functioned well, with high demand at the Riksbank's auctions. The interest spread between Swedish government bonds and the expected policy rate has declined significantly in the second half of 2023 and beginning of 2024, and it is no longer evidently large in a historical perspective. Market participants are also signalling that the sales have contributed to better market liquidity (see for example, Financial Markets Survey, Sveriges Riksbank, autumn 2023).

An extension of sales of nominal bonds to a total of SEK 5.7 billion per month is assessed to contribute to markets functioning even better and to lower financial risks on the Riksbank's balance sheet, without counteracting the stabilisation of inflation close to 2 per cent. While increased sales can contribute to a slight rise in government bond yields, the impact on deposit and lending rates to households and non-financial companies is assessed as very limited. The measure will also increase the amount of safe and easily marketable assets in the Swedish market somewhat. The Riksbank assesses that this can further facilitate foreign investors wishing to invest in Swedish assets and thereby contribute to strengthening the krona exchange rate somewhat.

Maintaining the pace of sales at SEK 800 million per calendar month with regard to real government bonds is assessed as appropriate with reference to the prevailing market conditions.

Assessment of proportionality

The Riksbank assesses that an unchanged policy rate and extended sales of government bonds will contribute to inflation stabilising close to the target within a reasonable period of time. Taking into account the consequences for the real economy, the functioning of the financial markets and the risks for public finances, the Riksbank assesses that the measures are not further reaching than is required, and the effects are also assessed to be in reasonable proportion to the costs and risks they entail for the finances of the Riksbank and the State. The Riksbank therefore considers that the measures of holding the policy rate unchanged and increasing the sales of government bonds are compatible with the principle of proportionality in Chapter 1, Section 8 of the Sveriges Riksbank Act.

remainder of real government bonds. The nominal value of the Riksbank's total securities holding amounted at the same time to SEK 632.2 billion.

The decision has been taken by the Executive Board (Governor Erik Thedéen, First Deputy Governor Anna Breman and Deputy Governors Per Jansson, Martin Flodén and Aino Bunge) following a presentation by Carl-Andreas Claussen, senior advisor at the Monetary Policy Department.