



DECISION

DATE: 28 June 2023
DEPARTMENT: Monetary Policy Department, Markets Department and Financial Stability Department
DNR: 2023-00746
INFORMATION CLASS: OPEN

Decision on the policy rate and government bond sales

The Riksbank's decision

1. The Riksbank is raising the policy rate by 0.25 percentage points to 3.75 per cent. The new level of the policy rate shall apply as from 5 July 2023.
2. By amending the Riksbank's decision of 8 February 2023 (ref.no. 2023-00140) with regard to sales of government bonds, the Riksbank is increasing, with effect from September 2023, the pace of the sales of Swedish nominal government bonds for a nominal amount of SEK 4.2 billion per calendar month, and sales of Swedish inflation-linked government bonds for a nominal amount of SEK 800 million per calendar month. Otherwise, the Riksbank's decision from 8 February with regard to sales of government bonds will still apply.
3. The Riksbank adopts the Monetary Policy Report, annex Monetary Policy Report.
4. This decision will be published at 09.30 on 29 June 2023.
5. The minutes of the monetary policy meeting on 28 June 2023 will be published at 09.30 on 10 July 2023.

Background

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 price stability target, the Riksbank shall contribute to a balanced development of production and employment (consideration for the real economy). 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 target should function as a benchmark for price- and wage-setting in the economy. It is important that households and companies have confidence in that deviations from the target, especially when they are substantial, will not be too prolonged and affect their expectations of what will be a normal level of inflation in the economy. A common view among economic agents of how prices will develop in the future reduces uncertainty and makes it easier to plan for the long term.

The Riksbank's main monetary policy tool for achieving the price stability objective is the policy rate. According to Chapter 2, Section 4, second paragraph of the Sveriges Riksbank Act, the Riksbank shall determine the policy rate for its deposits, credits and repurchase agreements in financial instruments.

In addition and as part of its monetary policy powers, the Riksbank may, in relation to financial companies¹, trade Swedish 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).

Grounds for the decision

Riksbank raises policy rate and increases sales of government bonds

The Riksbank's analysis of the economic situation in Sweden and abroad (see *Monetary Policy Report*) indicates that monetary policy needs to be further tightened to ensure that inflation continues to fall and stabilises around the target of 2 per cent within a reasonable time.

The Riksbank therefore judges that the interest rate needs to be raised by 0.25 percentage points to 3.75 per cent. To make the design of monetary policy more appropriate, the policy rate increase needs to be supplemented by an increase in the sales of government bonds. The measures and the planned monetary policy described in the Riksbank's forecast (see Section 1.2 of the *Monetary Policy Report*) are expected to help inflation to fall back this year and stabilise close to 2 per cent in 2024. The more detailed motives for each measure are described below.

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

Policy rate increase

Inflation has exceeded the price stability target for over a year and, although it is falling, it remains far too high. In May 2023, CPIF inflation was 6.7 per cent. Adjusted for energy prices, inflation is falling slowly, which is connected to service prices increasing unexpectedly swiftly. The CPIF excluding energy was 8.2 per cent in May. This development may indicate that inflationary pressures in parts of the Swedish economy remain high. The weak krona is also contributing to keeping inflation up and there is a risk that, in the present situation with high inflation, it is having a greater impact on price increases (see FACTBOX – “Pass-through of the exchange rate when inflation is high” in the *Monetary Policy Report*).

The high inflation is particularly felt by households with small margins. Low and stable inflation is a necessary condition for good economic development. Since April 2022, the Riksbank has raised the policy rate at every monetary policy meeting, from zero per cent to 3.5 per cent in April 2023, and judges that it now needs to be raised further to ensure that inflation continues to fall and stabilises around the target within a reasonable period of time.

The policy rate affects inflation via several channels, such as demand, exchange rate and expectations. The higher policy rate is expected to lead to lower economic activity and higher unemployment compared to an unchanged or lower policy rate. However, the Riksbank assesses that the monetary policy tightening is necessary to bring down inflation and thus contribute to good economic development in the near term. If inflation is persistently high, the negative consequences for Swedish growth and the labour market will be much greater.

The Riksbank is therefore raising the policy rate by 0.25 percentage points to 3.75 per cent. This policy rate shall apply as from 05 July 2023.

Increased sales of government bonds

During a period that started in February 2015, the Riksbank purchases government bonds for monetary policy purposes. These purchases came to an end at the end of 2022/start of 2023. On 8 February 2023 (ref.no. 2023-00140), the Riksbank decided to begin selling government bonds with effect from April 2023, until the Riksbank decides otherwise, and to offer each calendar month, with the exception of July and August, sales of Swedish nominal and inflation-linked government bonds. It was stated in the decision that Swedish nominal government bonds shall be offered for a nominal amount of 3 billion kronor per calendar month, and Swedish inflation-linked government bonds for a nominal amount of 500 million kronor per calendar month.

The Riksbank's sales of government bonds as initiated in April 2023 have functioned well and there has been good demand from the market, and the

Riksbank judges it is appropriate to increase the sales. Yields on Swedish government bonds are still unusually low in relation to the expected policy rate, and the Riksbank assesses that increased sales of government bonds will contribute to yields on government bonds rising somewhat, but to the impact on deposit and lending rates to households and non-financial companies being limited. The measure will also increase the amount of safe and easily marketable assets in the Swedish market. This may make it easier for foreign agents to invest in Swedish assets and also improve the functionality of the financial markets. All in all, this can contribute to a stronger krona and improve the Riksbank's possibilities to reduce inflation.

The Riksbank therefore assesses it is appropriate to increase the pace of the sales of Swedish nominal government bonds to a nominal value of SEK 4.2 billion and Swedish inflation-linked government bonds to a nominal value of SEK 800 million every calendar month. Otherwise, the Riksbank's earlier decision with regard to sales of government bonds will still apply. The increased pace of the sales should be applied from September 2023.

The principle of proportionality

The Riksbank assesses that the increase in the policy rate and the increase in the sales of government bonds can be assumed to lead to the intended result, that is to tighten monetary policy and contribute to bringing inflation back to the target within a reasonable time, and the increase is not assessed to be more far-reaching than is necessary to attain the price stability target. The measures do not entail greater risks for the Riksbank's finances and for financial stability than other possible measures. Sales of government bonds reduce the interest rate risk on the balance sheet somewhat faster than if the entire government bond holdings were to be held until maturity. However, the measures are not expected to change to any great extent the effects on profit/loss associated with the holdings of government bonds, compared to if the Riksbank were instead to hold the bonds to maturity. The intended result is considered to be in reasonable proportion to the costs and risks that the measures entail for the finances of the Riksbank and the State. The Riksbank therefore considers that the measures to raise the policy rate and increase the sales of government bonds are compatible with the principle of proportionality in Chapter 1, Section 8 of the Sveriges Riksbank Act.

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 Åsa Olli Segendorf, Deputy Head of the Monetary Policy Department.