



## DECISION

DATE: 22 November 2023  
DEPARTMENT: Monetary Policy Department  
DNR: 2023-01234  
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# Policy rate decision

## 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 adopts the Monetary Policy Report, annex Monetary Policy Report.
3. This decision will be published at 09:30 on 23 November 2023.
4. The minutes of the monetary policy meeting on 22 November 2023 will be published at 09:30 on 4 December 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 collective picture 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. The policy rate affects inflation via several channels, such as demand, exchange rate and expectations. 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.

## Grounds for the decision

Low and stable inflation is a necessary condition for good economic development. The current high inflation has a negative effect on the whole economy, but is particularly problematic for households with small margins. Since April 2022, the Riksbank has raised the policy rate from 0 per cent to 4 per cent in September 2023, and the tighter monetary policy has contributed to CPIF inflation falling from around 10 per cent to 4.2 per cent in October 2023. Demand in the Swedish economy has been subdued and the labour market is now slowing down.

Although inflation is heading in the right direction, it is still too high and there are still risks that it will not fall fast enough going forward. Prices for services are increasing at a rapid pace and contributing significantly to total inflation. In addition, the krona is still unjustifiably weak, which is holding up the rate of price increase for goods.

Holding the policy rate unchanged 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 continue to fall back and stabilise close to 2 per cent in 2024. The Riksbank assesses that continued contractionary monetary policy is necessary to bring down inflation and thus contribute to good economic development in the medium term. If inflation remains high, the negative consequences for Swedish growth and the labour market will be much greater.

Although raising the policy rate further could contribute to a faster decline in inflation, there would then be a greater risk that inflation would eventually fall below the target level and the negative effect on the real economy could be unnecessarily large. To instead lower the policy rate would probably lead to somewhat higher economic activity in the short term, but at the same time lead to inflation being above the target for a longer period of time.

Given this and the Riksbank's analysis of the economic situation in Sweden and abroad (see *Monetary Policy Report*), the Executive Board assesses that monetary policy needs to remain contractionary to ensure that inflation continues to fall and stabilises around the target of 2 per cent within a reasonable time, but that it is appropriate to now hold the policy rate unchanged. The Executive Board has

therefore decided to allow the policy rate to remain at 4 per cent, but is prepared to raise it further if the prospects for inflation deteriorate.

The Riksbank assesses that the decision to hold the policy rate unchanged can be assumed to lead to the intended result, that is bring inflation back to the target within a reasonable time and the measure is not assessed to be more far-reaching than is necessary to attain the price stability target. The effects of an unchanged policy rate are also 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 measure to hold the policy rate unchanged is 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 Aino Bunge, Martin Flodén and Per Jansson) following a presentation by Mattias Erlandsson, Deputy Head of the Monetary Policy Department.