



Annex A to the minutes

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DEPARTMENT: Monetary Policy Department

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Policy rate decision

The Riksbank's decision

1. The Riksbank is raising the policy rate by 0.5 percentage points to 3.5 per cent. The new level of the policy rate shall apply as from 03 May 2023.
2. The Riksbank adopts the Monetary Policy Report, annex Monetary Policy Report.
3. This decision will be published at 09.30 on 26 April 2023.
4. The minutes of the monetary policy meeting on 25 April 2023 will be published at 09.30 on 9 May 2023.

Background

Under Chapter 2, Section 1 of the Sveriges Riksbank Act (2022:1568), the overriding objective of the Riksbank is to maintain sustainably low and stable inflation (the price stability objective). Without neglecting the price stability objective, 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.

Inflation has exceeded the price stability target since autumn 2021 and in March 2023, CPIF inflation was 8.0 per cent. The very high inflation affects in particular households that have small margins to begin with, but the development is negative for the whole

economy. Low and stable inflation is a necessary condition for good economic development and real wage increases. Since April 2022, the Riksbank has raised the policy rate at every monetary policy meeting, from zero per cent to 3.0 per cent in February 2023, to bring down inflation and thereby prevent it from being persistently too high.

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.

Grounds for the decision

CPIF inflation has fallen in recent months, but this is explained by falling energy prices. At the same time, prices of other goods and services have continued to increase faster than expected during the first months of the year (see Sections 1.1, 1.2 and the article "How quickly will inflation fall?" in the *Monetary Policy Report*). The Riksbank's analysis of the economic situation in Sweden and abroad (see Section 1.1, 1.4 and Chapter 3 in the *Monetary Policy Report*) indicates that monetary policy needs to be further tightened to ensure that inflation returns to the target of 2 per cent within a reasonable time.

The Riksbank therefore judges that the policy rate needs to be raised by 0.5 percentage points to 3.5 per cent. This policy rate shall apply as from 03 May 2023. 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 this year and stabilise close to the target in 2024.

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 medium term. If inflation is persistently high, the negative consequences for Swedish growth and the labour market will be much greater.

The Riksbank assesses that the increase in the policy rate can be assumed to lead to the intended result, that is, 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 measure does not entail greater risks for the Riksbank's finances and financial stability than other possible measures and is therefore assessed to be in reasonable proportion to the costs and risks the rate increase entails for the Riksbank and state finances. The Riksbank therefore considers that the measure to raise the policy rate 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 Per Jansson, Martin Flodén and



Aino Bunge) following a presentation by Henrik Lundvall, advisor at the Monetary Policy Strategy Division, Monetary Policy Department.

Anna Breman and Martin Flodén have entered reservations against the decision.

Reservations

First Deputy Governor Anna Breman and Deputy Governor Martin Flodén entered reservations against the decision to raise the policy rate by 0.5 percentage points and against the forecast for the policy rate. They advocated an increase in the policy rate of 0.25 percentage points and an interest rate path that indicates a high probability of further increases in June and/or September. Against the backdrop of well-anchored inflation expectations, the moderate wage increases and the weak and downward-revised forecast for domestic demand, they argued that the monetary policy tightening should now proceed gradually to keep the door open for alternative courses of action later in the year, including a return to larger increases if inflationary pressures do not slow down sufficiently quickly.