Monetary policy minutes

November 2023

Summary

Monetary policy has reduced demand in the Swedish economy and contributed to an easing of inflationary pressures. The Executive Board assesses that monetary policy needs to remain contractionary, however, it is now appropriate to leave the policy rate unchanged. At its monetary policy meeting on 22 November, the Executive Board decided to keep the policy rate at 4 per cent. The Executive Board is prepared to increase the policy rate further if the outlook for inflation deteriorates.

The board members noted that economic developments since the meeting in September have largely been in line with the Riksbank's forecasts. Inflation remains too high but is falling. The policy rate increases have reduced demand in the Swedish economy and are helping to ease inflationary pressures. The labour market is slowing down from a strong initial position. Forward-looking indicators, such as companies' price plans, also point to inflation continuing to fall.

The members stressed that, as before, there are risks that may prevent inflation from continuing to fall towards the target. Services prices are still increasing at a rapid pace and although the krona has appreciated since September, it is still assessed to be unjustifiably weak.

The Executive Board emphasised their preparedness to raise the policy rate further if the outlook for inflation deteriorates, which is also reflected in the forecast for the policy rate. The board members underlined that monetary policy needs to remain contractionary for inflation to not only fall but also stabilise at the target. New information and how it is expected to affect the outlook for the economy and inflation will be decisive in determining the monetary policy stance.

The Board members also think there is reason to consider expanding the government bond sales at the next monetary policy meeting. Next year, eight monetary policy meetings are planned and this will make it easier for the Executive Board to make new assessments of monetary policy more frequently.

MONETARY POLICY MINUTES

Executive Board, No. 5

DATE:	22 November 2023
TIME:	09:00
INFORMATION CLASS:	RB PUBLIC
PRESENT:	Erik Thedéen, chair Anna Breman Per Jansson Martin Flodén Aino Bunge --- Bo Broman, chair, General Council of the Riksbank Tomas Eneroth, vice chair, General Council of the Riksbank --- Lena Arfalk Hanna Armelius Charlotta Edler Mattias Erlandsson Susanna Grufman Anders Gånge Maria Hesselmar Christina Håkanson Jens Iversen Magnus Jonsson Sofia Kåhre David Lööv Pernilla Meyersson Ann-Leena Mikiver Åsa Olli Segendorf Olof Sandstedt Maria Sjödin Ulrika Söderberg Liza Tchibalina David Vestin --- Joel Birging (§1–3a) Anders Kvist (§1–3b)

It was noted that Magnus Jonsson and Liza Tchibalina would prepare the draft monetary policy minutes.

§3a. Economic developments

Market developments since the last monetary policy meeting

Joel Birging from the Markets Department began by presenting the latest developments in the financial markets. Since the monetary policy meeting in September, developments on the fixed-income market can be divided into two phases. Expectations that policy rates will remain at high levels over a longer period of time helped push up long rates to high levels in October. Central banks' ongoing reduction of their bond holdings and continuing budget deficits next year, especially in the United States, meant that the discussion on rising term premiums had greater prominence. However, the trend changed at the end of October, and long-term interest rates declined significantly. The ECB and Federal Reserve chose to leave their policy rates unchanged, which together with slightly weaker data outcomes caused the market to expect more rate cuts next year.

The US dollar has had a similar development to interest rates and the dollar has fallen recently. Hamas' attack on Israel caused a temporary upturn in oil prices, but the market shifted focus fairly rapidly indicating that demand had begun to decline and the price of Brent crude has fallen to around 80 dollars per barrel.

During November, equity markets have received support from lower bond yields and expectations that the Federal Reserve has finished raising the policy rate. US indices are still outperforming European ones, thanks to a relatively stronger annual report season and the technology sector. Chinese equities have been weak, despite further fiscal policy stimulus to the economy and measures targeted at the property market.

The krona has appreciated since the monetary policy meeting in September. Declining interest rates and generally positive sentiment have contributed to the strengthening. Prior to the Riksbank's decision, the market is leaning towards the policy rate being left unchanged, while a majority of analysts predict a 25 basis points hike.

Financial stability - current status and risks

Olof Sandstedt, Head of the Financial Stability Department, described the situation in the Swedish financial system and referred to the recently published Financial Stability Report. The high inflation and higher interest rates are challenging the stability of the global financial system. The Swedish financial system is working well overall but the risks are elevated.

Swedish banks are assessed as having a healthy initial position. They have been able to increase interest rates on their assets faster than on their debts, which has contributed to greater profitability. At the same time, the banks' loan losses are low. However, the banks should take into account the uncertain economic situation and should for the time being aim to have a margin above the formal capital requirements that is not less than the upper limit set by the banks themselves for their management buffers.

The higher interest rates are posing a challenge to the ability of property companies to service their debt and also contributing to a decline in property values. Even if a few property companies have issued bonds during the autumn, many continue to finance loan maturities primarily through increased bank loans from Nordic banks, combined with, for instance, property sales. To reduce the risk of a negative sequence of events in the property sector, property companies need to take several measures to reduce their financial risk. In addition, the banks continue to have an important role to play by maintaining credit supply to robust companies and demanding that measures are taken.

The high costs are squeezing households' margins, which can be seen in the reduction in consumption. Short interest-rate fixation periods make households sensitive to changes in interest rates. Just over two-thirds of the total expected increase in mortgage rates has so far reached households. The vast majority of mortgagors are expected to be able to fulfil their debt payments, but individual households may have problems. Overall, housing prices have fallen by just over 12 per cent since the peak in February 2022. In individual months, however, housing prices have increased.

The current monetary policy drafting process – new data and forecasts

Mattias Erlandsson, Deputy Head of the Monetary Policy Department, presented in brief the current assessment of macroeconomic developments as described in the draft Monetary Policy Report. The basis for today's decision has been discussed by the Executive Board at meetings on 9, 10 and 14 November. The draft monetary policy report was discussed and tabled at a meeting of the Executive Board on 16 November.

The central questions in the drafting process prior to today's meeting have been the underlying inflationary pressures in the Swedish economy, developments in the labour market, the effects on inflation of the significant depreciation of the krona in recent years and geopolitical risks.

Regarding the assessments of economic developments, it can be noted that inflation abroad has continued to fall. Much of this is due to lower energy prices, but recently the decline in underlying inflation has also become clearer, particularly in the euro area. Growth in the euro area is low, and the forecast is that economic activity will not begin to recover until the middle of next year.

Developments have been stronger in the United States, although growth is now assessed to be slowing down there as well.

The major central banks have chosen at their most recent meetings to leave policy rates unchanged, but are keeping the doors open for further increases if this were to be required to bring inflation in line with inflation targets more sustainably.

The geopolitical risks are assessed to have increased since September. The uncertain global situation means, from a monetary policy perspective, that there are risks for new supply stocks and a new upturn in global inflation, which could pose challenges for monetary policy and put pressure on economies.

Developments in Sweden have been largely in line with the assessment in September. Growth in Sweden is low, due largely to demand falling in parts of the economy that are sensitive to interest rates, such as household consumption and housing investment. The forecast assumes that GDP growth will remain low in the coming period, but that a recovery will begin during the second half of 2024, when households' real incomes rise and demand from abroad strengthens. Employment has continued to rise at a good pace over the past year. However, there are increasing signs that the economic downturn is having an impact on the Swedish labour market and unemployment has begun to rise. Several indicators, such as recruitment plans and redundancy statistics, point to some continued upturn in unemployment in the coming period.

Inflation in Sweden continues to fall. The outcome for CPIF inflation in October was 4.2 per cent and 6.1 per cent for CPIF inflation excluding energy. The outcome for both measures was higher than the forecast in September. At the same time, there are several indications that inflationary pressures have eased significantly: Month-on-month and quarter-on-quarter price increases are much lower than before, and companies have made downward adjustments to their plans for price increases. Moreover, demand in the Swedish economy is lower and the labour market is slowing down. The draft forecast has a slight upward adjustment to inflation in the coming months, approximately in line with the outcomes, but in 2024 and 2025 inflation is instead somewhat lower than in the earlier forecast. The revisions are on the whole moderate, and inflation will stabilise close to the target during the second half of 2024.

However, risks remain that inflation will not fall fast enough in the period ahead. For instance, prices for services are increasing at a rapid pace and the krona is weak. Since September, however, the krona exchange rate has strengthened somewhat although it is still very weak in a historical perspective. During the period of high inflation, companies are assessed to have passed on their cost increases, for instance from electricity and input goods, to consumer prices faster than before. This probably also applies to costs for imported goods related to the weak krona. There is still considerable uncertainty over the krona exchange rate and its effect on inflation going forward.

The draft forecast in the Monetary Policy Report is based on the proposal for monetary policy described in detail 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 4 per cent at today's meeting. The draft forecast is for the policy rate to remain at a level somewhat over 4 per cent for a while and that cuts will begin once underlying inflation has fallen back and been close to the target for a time. At the same time, the Riksbank's asset holdings will continue to decrease through maturities and the sales of government bonds decided on in June.

§3b. The economic situation and monetary policy

First Deputy Governor Anna Breman:

I support the proposal to leave the policy rate unchanged at 4 per cent. I also support the proposed policy-rate path and the forecasts in the draft Monetary Policy Report.

Monetary policy tightening has reduced demand and contributed to the continued fall in inflation. In addition, forward-looking indicators suggest that inflation will continue to fall. It is important, however, to emphasise that this will not happen by itself. To reach sustainably low and stable inflation, monetary policy needs to remain contractionary.

The difficult question at today's meeting is the same as at our last meeting, that is, should the policy rate remain unchanged at its current level or does it need to be further increased? My assessment is that it is a well-balanced monetary policy to leave the policy rate unchanged and at the same time be prepared to raise it in the near term if the outlook for inflation were to deteriorate.

At today's meeting, I will focus my comments on the monetary policy trade-offs. Regarding details about inflation outcomes and economic activity, I refer to the draft Monetary Policy Report.[1]

I consider there to be two factors – better inflation prospects and increasingly weak economic activity – that argue in favour of leaving the policy rate unchanged while a weak krona and the possible effects of this on inflation are arguments in

[1] Since the publication of the last Monetary Policy Report, we have received two new inflation outcomes for September and October. In previous minutes, I have usually mentioned these new outcomes to highlight new information available at the meeting as regards inflation. Going forward, I plan to tone this down as long as it does not lead to misunderstanding about the new information available at the meeting.

favour of a rate hike. The first two factors combined weigh more heavily, which means that I support the proposal to leave the policy rate unchanged.[2] Let me explain this reasoning.

The most important reason for leaving the policy rate unchanged is the improvement in the outlook for inflation. Inflationary pressures are gradually easing and this is now visible in more price categories than just energy prices. One way of analysing this is to study price developments for shorter periods than 12 months. For example, if we measure inflation as the CPIF excluding energy and foreign travel as a three-month change or six-month change adjusted to an annual rate, the reduction has been significantly more substantial than the twelve-month rate (see Figure 28, and similar measures in Figures 5, 29 and 30 in the draft report).

Furthermore, according to the latest outcomes, it is primarily volatile components such as fruit and vegetables and foreign travel that are responsible for inflation not having fallen even further. Different measures of underlying inflation – where the volatile components have been removed – are all now lower than the CPIF excluding energy (See Figure 30 in the draft report). This, in combination with long-term inflation expectations being well anchored close to 2 per cent and companies now having quite clearly adjusted their price plans downwards (see Figures 6 and 7 in the draft report), is a sign that inflation will continue to fall.

Economic activity also supports the picture of falling inflation. We are seeing a clear weakening of demand in Sweden and abroad and a slowdown in the labour market. At our last meeting, I highlighted the labour market as an important factor at future meetings. I assess the two-year wage agreement to be in line with a return to low and stable inflation within a reasonable period of time. We are now seeing a slowdown in employment from high levels and restrained wage drift. The weaker economic outlook and the slowdown in the labour market therefore also provide justification for leaving the policy rate unchanged at this meeting.

An argument in favour of a rate hike is the continued weak level of the krona, which could counteract a continued fall in inflation. The krona has indeed appreciated somewhat since the last meeting and this is welcome. But it is a fragile trend. In particular because there are many factors over and above monetary policy that influence the development of the krona, such as geopolitical tension, flows of capital and positions in financial markets (see the article in the Monetary Policy Report in September). The trend towards a stronger krona could, for example, be broken by increased geopolitical tensions abroad. A more

[2] The fact that we will have eight monetary policy meetings per year from now on and that the next meeting is already in January facilitates this stance.

sustained appreciation of the krona is needed to provide decisive support for a further fall in inflation.

I would also like to mention that there are signs that the pass-through of the exchange rate to inflation has been unusually strong this past year, but now, when demand is expected to weaken and inflation is lower, the exchange rate pass-through will probably decrease (see the article “The pass-through of the krona to inflation appears to be larger than usual” in the draft Monetary Policy Report). In my overall monetary policy assessment, the prospects for inflation and economic activity weigh more heavily than the continued weak krona.

In connection with the krona, I would like to briefly mention that our sales of government bonds have worked well. Liquidity has improved and this makes it easier for foreign investors to return to the Swedish market. This can provide some marginal support to the krona. I am positive that we may come to decision at our next monetary policy meeting to further expand the sales of government bonds.

Before summarising, I would like to comment on the policy-rate path and the risk picture and what it means for future decisions. The path is a forecast and forecasts are more reliable in the near term and more uncertain the further away in time we come. In the near term, the policy-rate path shows that a further policy rate hike is possible at the meeting in January or in March and that the policy rate is then expected to remain at a contractionary level for some time to come. It is important, however, that we are also prepared for a scenario in which inflation may fall faster than in the forecast (the second alternative scenario in the draft Monetary Policy Report). My assessment is, however, that the risks are still asymmetrical and that upside risks to inflation dominate.

Geopolitical tension and several ongoing conflicts characterise the risk picture. Effects of this are well described in the risk section in the first chapter of the draft report. In addition to this, I wish to highlight that there is a need in Sweden and several other countries for military armament, that many countries have started to move production closer to home (known as “near-shoring” or “friend-shoring”) and that companies need to invest to meet the green transition. These are all factors that require new investment. This contributes to growth and employment, but can also lead to a shortage of input goods and commodities, which could contribute to higher inflationary pressures in the next few years. We are also facing major demographic changes that may create labour and skills shortages, which could drive up wages in the longer term. These structural changes can interact with the needs for new investment and other supply shocks that together create inflationary pressures or major fluctuations in inflation. We therefore need to continue our efforts to improve our forecasting methods, but also gain access to more detailed data and better real-time data to be able to predict changes in inflationary pressures more rapidly. It is important to emphasise that a smooth return to low and stable inflation cannot be taken for granted.

Allow me to summarise. Monetary policy tightening is reducing demand and this contributes to inflation falling. The inflation outlook has recently improved, but this is depends on monetary policy remaining contractionary. I therefore support an unchanged policy rate and a policy-rate path indicating that we are prepared for a further hike in the near term.

Deputy Governor Martin Flodén:

I support the proposal to leave the policy rate unchanged at 4 per cent and I also support the forecasts in the draft Monetary Policy Report, including the forecast for the policy rate.

Economic developments abroad after the monetary policy meeting in September have been in line with our forecast. The monetary policy tightening is gradually having a greater impact, which among other things, is starting to result in rising unemployment in many economies. Inflation has continued to fall in both the euro area and the United States.

In recent months, developments in international financial markets have been characterised by rapid movements in US long-term interest rates, first upwards and then downwards. The causes of the interest rate movements are much discussed, but a contributory factor to the recent fall in rates seems to be the downward shift in expectations of both US and European policy rates in the near-term. And this in turn is due to increasingly clear signs of a further easing in inflationary pressures.

Economic developments in Sweden after the September meeting have also been in line with our forecast. I would like to comment, one by one, on the pass-through of monetary policy to interest rates faced by households and companies, economic developments, how I interpret the latest inflation outcomes, and how I assess other indicators of inflationary pressures going forward. My comments will be brief apart from those about my interpretation of the latest inflation outcomes.

First, the pass-through, or transmission, of monetary policy. The short interest-rate fixation periods in the Swedish economy mean that most of the monetary policy tightening has already had an impact on the cash flows of both households and companies. For example, Figure 42 in the draft report shows that the average interest expenditure of households as a share of disposable income has risen from 2.5 per cent at the beginning of 2022 to 5.7 per cent today according to our assessment. We have therefore dealt with almost 85 per cent of the total increase in expenditure that we assess to be a consequence of our forecast for the policy rate.

In addition, the monetary policy tightening has led to a considerable slowdown in lending to households and companies. Loan volumes continue to increase somewhat in nominal terms, but, for example, household debt in relation to their disposable income is decreasing.

Earlier in the year, we have been repeatedly surprised by the continued strength of the economy despite the rate increases, and this has applied in particular to the labour market where employment has been at record-high levels. But the most recent outcomes and indicators suggest a slightly greater slowdown than was projected in our forecast in September.

This weaker economic activity, most of which is a consequence of the Riksbank's and other central banks' monetary policy tightening, will help to further ease inflationary pressures going forward.

Let me now comment on the most recent inflation outcomes. The purpose of this review, which sometimes becomes detailed, is to illustrate that the same inflation outcome can be presented and interpreted in different ways, and that the figures must be interpreted with both caution and humility. It is therefore possible to paint quite different pictures of the inflation figures, depending primarily on the length of the time period being reviewed, how the prices are adjusted for seasonal patterns and how the large changes in households' consumption baskets during and after the pandemic are considered.

Inflation in September was considerably higher than our forecast. Although CPIF inflation continued to fall, both including and excluding energy, the price increases were greater than expected both for goods and services and for food. A review of the outcome in relation to our forecast for monthly price changes as they were presented in Figure 32 in the Monetary Policy Report in September looked really bad. Goods, services and food prices increased by 8.2, 7.6 and 6.3 per cent adjusted upwards to an annual rate compared with our forecast of 3.8, 3.7 and 0.9 per cent respectively!

Another way of looking at the same inflation outcome is to compare the price increases in September this year with how prices normally increase in September, but without using any specific method for seasonal adjustment. Then we see that goods, services and food prices increased at a fairly normal rate in September this year. For example, goods prices increased more rapidly than this year in 16 out of the 23 previous Septembers this century. The corresponding development for services and food prices is that they increased more rapidly than this year in 10 and 8 of the previous Septembers respectively. Looking at it this way, the price increases in September this year could therefore be said to indicate a development completely in line with what was normal during the long period of low inflation we experienced until recently.

Inflation in October looked on the surface much better than in September, and was much closer to our forecast. Digging deeper into the figures, I still think it continues to look promising. Goods and services prices increased at a slower rate than they normally do in October. Among the prices contributing to unusually high inflation in October were those for food, especially fruit and vegetables, and foreign travel. These prices are often volatile and therefore do not necessarily say that much about the underlying inflationary pressures. But they are also prices in which the exchange rate can be suspected of playing a major role. It could in that case indicate that the weak krona has had a greater pass-through to prices than we have expected, something which we also present more indicators of in an article in the draft report.

I mentioned that we also need to consider the effect of changed consumption patterns in the inflation figures, which we showed in our last report. I note that service price inflation is still being considerably affected by the modified weights in the consumption basket. This applies in particular to the weight given to foreign travel, which is three times higher this year than last year. Figure 35 in the draft report shows that the reported annual change in services prices is raised by one whole percentage point because of the modified weight. So it is prices that rose more than a year ago that continue to push up the reported services prices when the weight in the basket has become greater. This needs to be especially borne in mind when assessing service price inflation specifically, for example in an international comparison like the one in Figure 31 in the draft report. On the other hand, the aggregate effect on CPIF inflation due to the weight effects is now fairly small.

The time period over which price changes are reviewed also affects the picture. Underlying inflation began rising later in Sweden than in many other countries. And it also started to fall later. The twelve-monthly figure for underlying inflation is therefore currently higher in Sweden than in, for example, the euro area or the United States. But not only is it clear that inflation is now falling in Sweden, but inflation measures over shorter time periods also indicate that the price changes in recent months are closer to those abroad (See Figures 28 to 30 in the draft report).

The picture of inflation I have now painted is optimistic. Inflation has clearly moved in the right direction in recent months and there is a great deal to indicate that the inflationary pressures will also continue to ease as a result of the policy rates cooling economic activity. But I wish to emphasise two things. First, this optimistic picture must be seen in relation to an inflation picture that has been very problematic and concerning. According to this optimistic picture, there is still some way left before the inflationary pressures have normalised. Even if we measure inflation over shorter time periods, prices continue to rise at a rate that is a little higher than what is compatible with the inflation target. And this in an environment where demand is already being cooled by the contractionary monetary policy. Inflationary pressures therefore need to continue to fall.

Second, the optimistic inflation picture is based on a small number of inflation outcomes, where we know that fluctuations from month to month can be considerable, and where it is also possible, as I have explained, to interpret the figures slightly differently.

I would also like to comment briefly on three other factors that are important for the assessment of the outlook for inflation going forward. The first is the krona. It is still unjustifiably weak but has nevertheless appreciated quite considerably in recent months. This is of course a welcome development that makes it at least marginally easier for inflation to continue to fall towards the target.

The second factor is companies' price plans. They are still a little high according to the National Institute of Economic Research's Economic Tendency Survey but they have moved in the right direction. In our own Business Survey, however, the price plans have fallen considerably and many companies now say that they are planning to cut their prices to consumers.

The third, and perhaps most important, factor is wages. Although the wage agreements concluded earlier this year mean that wages are increasing a little faster than what has been historically normal, the rate of increase is moderate in relation to the high inflation over the past year. This is an important point of departure for our monetary policy and reduces the risk that a problematic wage-price spiral will develop. In light of the high inflation in combination with a continued strong labour market, there has nevertheless been a risk of wages starting to rise rapidly over and above the increases specified in the agreements, but the latest wage statistics give no such indications at all. Figure 43 in the draft report indicates, if anything, that wage increases over and above the agreements are unusually small.

Let me now move on to my view on today's monetary policy decision. Inflation has come in a little higher than our forecast in September, but the deviation is minor. After a closer review of the details behind the latest inflation outcomes in combination with the factors I have just mentioned – the krona, price plans and wage developments – I also think that the inflation prospects overall have brightened somewhat.

In light of this, I assess it to be rather likely that monetary policy is now sufficiently contractionary for inflation to continue to fall so that it is soon close to the target. I therefore consider it appropriate to leave the policy rate unchanged at 4 per cent today, in line with what we indicated to be most probable at our meeting in September. But I have also pointed out that there is considerable uncertainty associated with this assessment. In the near term, it is easy to imagine that the fall in inflation will encounter setbacks, and in that case, monetary policy may need to be tightened further. I therefore support the rate path proposed in the draft report, which indicates that it is not improbable that the rate will need to be increased at the beginning of next year.

Deputy Governor Aino Bunge:

I stand behind the assessments and forecasts made in the draft Monetary Policy Report, and I support the proposal to leave the policy rate unchanged today, as well as the policy rate path.

At our last meeting, I endorsed the message that monetary policy is working and inflation is on its way down. Although inflation has deviated marginally upwards from our assessment in September, developments since then have largely been in line with our forecast. The upward deviations from the September forecast come from normally volatile parts of the consumer price index, such as prices for fruit and vegetables and foreign travel. However, as Figure 1 of the draft report shows, the level of underlying inflation, excluding energy, remains higher in Sweden than in both the euro area and the United States.

A positive aspect of the development of inflation is that shorter-term measures indicate that inflationary pressures are on the way down on a broad basis, see for example Figure 28 in the draft report. However, the figure also shows that changes across periods shorter than one year vary greatly, partly reflecting the difficulties in adjusting the outcomes for seasonal patterns. Assessing the development of inflation and how well monetary policy is working will require us to continue monitoring a broad set of inflation indicators as well as the economic outlook.

As regards economic development in particular, there are clear signs that monetary policy is now having a contractionary effect and demand is falling in the Swedish economy. Due to the short interest-rate fixation periods, households are already paying significantly higher interest on their loans. And all Swedish households, with or without loans, are seeing their purchasing power being reduced by inflation. The labour market is slowing down and employment is falling, albeit from historically high levels. Housing investment is under great pressure from higher costs, decreased demand and higher interest rates. Since our meeting in September, there are more signs that other sectors are also slowing down. The slowdown of activity in the real economy suggests reduced inflationary pressures going forward. But there remains considerable uncertainty that is largely connected to the economic outlook abroad, as Sweden is a small, open economy. As mentioned in Section 1.3 of the draft report, there is presently an elevated risk of supply shocks worldwide, not least as a consequence of increased geopolitical tension.

To illustrate the uncertainty of the development of inflation and monetary policy in the medium term, we use scenarios. One risk illustrated in the first scenario in the draft report is linked to companies' pricing behaviour. The signals we have received indicate that the falling demand has made it more difficult to raise prices, thus restraining price plans.[3] However, it is vital that these plans also continue to be confirmed by the actual development of prices. Returning inflation to 2 per cent will require all economic agents to act in line with our inflation target. This can be seen in the wage agreements by the social partners and the parity around this in the form of very low wage drift, see Figure 43 in the draft report. The first scenario in the draft report illustrates a situation in which companies instead try to increase their margins, with the possible consequence that interest rates need to be raised further to ensure that inflation approaches the target during the forecast period.

Another scenario that could lead to a need for tighter monetary policy is a weak krona and a stronger pass-through of this to price formation. We illustrated this in the Monetary Policy Report in June. There are many indications that the pass-through of the exchange rate has been historically high during the most recent sharp rise in inflation.[4] The krona has appreciated somewhat recently but this has been from weak levels and our forecast is that the krona will strengthen further. However, if this does not happen, monetary policy may need to be tightened more than in the main scenario so that inflation reaches the target within a reasonable period of time.

There are also risks to inflation on the downside, as illustrated by the second scenario in the draft report. Not least, less favourable than expected labour market developments could affect demand, both directly via reduced household incomes and indirectly via increased precautionary saving and effects on the housing market. Households' assessment of the risk of unemployment may have a significant impact on their behaviour and thus the development of the economy. If conditions change, monetary policy must react but, as the scenario shows, it is

[3] See, for example, "Sharper competition putting pressure on prices", Business Survey, September 2023, Sveriges Riksbank.

[4] For example, see the article "The pass-through of the krona to inflation appears to be larger than usual" in the draft report.

not likely that we would immediately cut the policy rate in the event of a lower-than-expected inflationary outcome.

My overall assessment of monetary policy is still that it needs to be contractionary for a relatively long period. Many factors indicate a continued fall in inflation towards the target and it is clear that monetary policy is slowing the Swedish economy down, not least in interest-rate sensitive sectors such as household consumption and housing investment. This means that I support holding the policy rate unchanged at this meeting. However, as the policy rate path suggests, it is important that we remain prepared to raise the policy rate further if any of the upside risks materialise. It is too early to say whether we have finished raising the policy rate. Inflation must go all the way down to the target and we must live up to the strong level of confidence economic agents have in the inflation target.

I would also like to take the opportunity to comment on our asset holdings. No changes have been made to this as part of this decision; instead the holdings are decreasing in line with the plan we agreed on earlier. At the same time, the draft report makes clear that we consider that the reduction of our balance sheet is working well and that we may return in January with a decision to increase the rate of sale. I think this is positive.

Next year, our new practice of holding eight meetings a year will be launched. I am positive towards this change, partly because it will give us the opportunity to return soon with a new assessment of monetary policy. Our next meeting will be held as soon as 31 January and by then we will have two new inflationary outcomes and further data on labour market developments.

Deputy Governor Per Jansson:

From the beginning of next year, we will increase the number of monetary policy meetings from five to eight. So this gives us a good opportunity to review, and, where possible, streamline the information we publish in connection with our meetings. And naturally this also includes our own contributions at the meetings.

In light of this, I will arrange my contribution slightly differently starting at today's meeting. My intention is that my reasoning shall focus slightly more specifically on my view of monetary policy. For example, this means that I will only discuss forecasts and risks to the extent my opinion deviates from the draft Monetary Policy Report, or where they are directly relevant to my monetary policy considerations. In order to, so to speak, achieve a smooth transition, I will implement this new structure already at today's meeting, which then also will give me an opportunity to undertake a small evaluation of it before our first meeting next year.

A good way to start then is by summarising my view of monetary policy at our last meeting on 20 September. At that meeting, I supported all the monetary policy proposals put forward in the draft report at the monetary policy meeting. In more concrete terms, these were to raise the policy rate by 0.25 percentage points to 4 per cent and adjust the policy-rate path upwards so that it peaked at 4.10 per cent instead of 4.05 per cent, as was the case earlier. The path started to indicate cuts to the policy rate during the second half of 2025 and at the end of the forecast period, which was the third quarter of 2026, the policy rate was projected to be just under 3.7 per cent as a quarterly average.

Although I supported this monetary policy, I pointed out that I saw a risk that our monetary policy plan would gradually prove to be too soft. In essence, this was a question of the inflationary pressures in our forecasts continuing to be higher than before even after having taken the more contractionary monetary policy into account. A particularly worrying circumstance was that inflation excluding energy prices was falling slowly and that, even when measured over shorter periods, for example as a three-month change calculated at an annual rate, it was several percentage points above our inflation target of 2 per cent.

Over the last two months, however, my view of the monetary policy situation has changed somewhat, and maybe not just somewhat but actually quite considerably. There are primarily three factors that have led to this.

First, and most important, the outcomes for inflation give clear reason for optimism. It is certainly the case that inflation stripped of energy prices according to the most recent outcome, for October, is a few tenths of a percentage point above our forecast in September. And it is also true that one should be very cautious about drawing far-reaching conclusions based on individual monthly outcomes. But it is nevertheless undeniable that the October outcome contains a large number of changes in the price picture clearly indicating that inflationary pressures are now easing.

Just as before, an important indicator is the rate of price increase over shorter periods than the usual twelve months. Studying the development over such higher-frequency periods – regardless of whether it is over the last month, the last three months or the last six months – the inflation outcome for October paints a significantly brighter picture than previously. This is true both in the aggregate for inflation excluding energy prices and various other measures of underlying inflation and for important sub-components such as services, goods and food.

Depending on the way we measure it, there are certainly some exceptions where the development is not as positive, for example for services prices over the last six months or food prices over the last month.[5] But the overall picture is nevertheless that inflationary pressures are clearly easing. It would be very surprising if all these signs were just temporary and mostly some sort of statistical noise – something I at least find very difficult to believe. I also note that these positive elements in the inflation picture mean that the upward adjustment of the inflation forecast made in the draft report as a result of the underestimation of inflation in October rapidly fades, to provide an updated forecast that, already in a few months' time, is back on the previous forecast trajectory and thereafter even undershoots it slightly.

The now brighter inflation picture is also supported by indicators other than the inflation outcome in October, including companies' price plans that continue to be adjusted downwards, in particular according to the Riksbank's Business Survey. In addition, the rate of increase in producer prices for consumer goods has continued to slow down. Abroad, where inflation has also exhibited a positive development recently, similar trends in price plans and producer prices can be noted.

Second, it is now becoming increasingly clear that the Swedish economy is currently cooling down. That unemployment is rising is obviously nothing in itself to be pleased about. But in this context, it means that the risks of inflation becoming entrenched at too high a level going forward will be smaller. And in that case it will mean that the policy rate will be lower than it otherwise would have needed to be. And this is in turn positive for the real economy in a slightly longer perspective. I have emphasised many times that the worst thing that can happen for the real economy is inflation remaining high for such a long time that confidence in the inflation target is lost. The policy rate would then have to be raised even more, and most likely much more, and despite this, it would probably take even longer before inflation was back in line with the target. The positive aspect of a slightly weaker economy in the short term is that this risk decreases. That said, it is worth stressing that there is of course absolutely no point in tightening monetary policy more than necessary. The intention of the policy conducted is that it is tight enough to bring down inflation to the inflation target within a reasonable time perspective, so as not to jeopardise confidence in the target.

Third, recent developments in the krona exchange rate mean that the risk of cumbersome inflation impulses from a weak krona has decreased. Since the monetary policy meeting in September, the krona has appreciated quite considerably, by more than 5 per cent against the US dollar and a little less against

[5]The inflation measures over higher-frequency periods are based on data that have been seasonally adjusted by the Riksbank. Not all these series are presented in the draft Monetary Policy Report. It is of course possible to contact the Riksbank to access these.

the euro. It seems as though the krona is currently more sensitive to news abroad than in Sweden, well-illustrated by the rapid appreciation of the krona that occurred in connection with the publication of the most recent inflation outcome in the United States, which was only marginally lower than expected. The market's opinion that both the Federal Reserve and the ECB have reached their policy-rate peaks and that their policy rates will start to be cut relatively soon seems in general to create a more krona-friendly environment. Although one should be cautious about assuming that this positive development will now just continue, this does in any case temporarily create some breathing space as regards the concerns about a further depreciation of the krona. Communicating today that we will in January consider taking a decision to further increase the pace of government bond sales may also help to reduce the risk of the krona again starting to develop unfavourably.

Let me conclude. I support the forecasts in the draft report. The clearly brighter inflation picture also means that I support the monetary policy assumptions made therein. These are that the policy rate is left unchanged at 4 per cent at today's meeting and that the policy-rate path starts to go down slightly faster than in our assessment in September. My reasoning here today regarding the development of inflation going forward is clearly more optimistic than for quite some time. An important circumstance for this is the major improvements emanating from the October outcome for inflation. I am aware that it is dangerous to draw firm conclusions based on a single outcome. But there are so many positive signs in the outcome that it is very difficult to believe everything is just noise and will soon be reversed. The development of inflation can surely deteriorate again but for this to happen, it looks as though new unfavourable economic shocks will be required, which are of course not possible to predict in advance.

Conducting monetary policy is always a balancing act between waiting for more information to be able to draw more reliable conclusions and acting reasonably promptly so as not to end up "behind the curve". I think that there is now sufficient information to not raise the policy rate further. That the policy-rate path continues to rise somewhat at the beginning of next year indicates, however, that we are fully prepared to do more if it proves necessary. Hopefully, we will not need to although of course you never can tell.

Governor Erik Thedéen:

I would like to begin by saying that I support the proposal to allow the policy rate to remain unchanged at four per cent, and that I support the forecasts in the draft Monetary Policy Report, including the policy-rate path.

At the previous monetary policy meeting in September, we were expecting a slowdown in economic activity and a continued downturn in inflation. I note that the recent outcomes are largely in line with what we believed then. It is therefore my view that the situation for monetary policy, and thus the inflation outlook, remain largely unchanged. This means that monetary policy is, and needs to remain, contractionary. It also means that, as I said at the meeting in September, further policy rate increases may become necessary, but that a decision on such increases need not necessarily be made now in November. We are leaving the policy rate unchanged today, but are prepared to raise it at future meetings. The policy-rate path reflects well my view that monetary policy will need to be contractionary for the foreseeable future. This is necessary for inflation to continue falling and then stabilise around the target of two per cent during 2024.

The picture described in the draft Monetary Policy Report is that we are now entering an economic slowdown. During the first half of 2023, the Swedish economy showed surprisingly good resilience, given the high inflation and rising interest rates in Sweden and globally. There are of course important exceptions to this development, and I am thinking mainly of housing investment, which has been very weak. Parts of household consumption have also been weak. However, we are now seeing clearer signs of a slowdown even in other parts of economic activity, including industrial production. The labour market, which has been strong with record-high employment, is now weakening somewhat. Unemployment is rising and employment is slowing down, which is indicated by forward-looking data such as redundancy notices and companies' recruitment plans. The dampened activity in the Swedish economy, which has been affected by the Riksbank's policy rate increases, among other things, makes it difficult for companies to raise their prices. Hence, the dampened activity thus supports our forecast that inflation will fall towards the target in 2024.

Let me go a little deeper into the development of inflation and the recent inflation dynamic. In October, the 12-month change in the CPIF was 4.2 per cent, marginally higher than our previous forecast. The CPIF excluding energy was also marginally above our forecast and was noted at 6.1 per cent. Inflation is thus still too high. However, there are a number of indicators that developments are now moving in the right direction. One of these is the positive development in the more short-term inflation dynamic (see Figure 28 in the draft report). This shows that underlying inflation, adjusted for energy and the volatile foreign travel, has been around 4 per cent during the last 3 months and 6 months, that is, somewhat below inflation when calculated as a 12-month change. Looking at the 1-month change, these prices have in principle stood still, which gives a very low rate of inflation when expressed as an annual rate. However, caution should be exercised when interpreting these figures, as outcomes for individual months can vary considerably, as was the case for instance in March this year, when the variation in the 1-month change was unusually large. These figures nevertheless provide some support to the forecast that inflation is moving towards the inflation target and that the momentum for inflationary pressures appears to be clearly downward. Another indicator of a positive development is our measures of underlying inflation, where the most recent outcomes reinforce the picture of more subdued inflationary pressures (see Figure 30 in the draft report). Moreover, companies' price plans have been adjusted downwards significantly compared to the levels at the start of the year, which gives further support to our inflation forecast.

At the same time, there are risks that can make it difficult to attain the inflation target. Developments in goods and services prices are still too high. The Swedish krona is weak and the impact from the weak krona may be greater than we have previously assumed, which is described in an article in the draft Monetary Policy Report. Swedish and Norwegian goods prices are increasing more than those in the euro area and other European countries (see Figure 46 in the draft report). This is likely connected to the weak krona exchange rates for both Norway and Sweden.

Since the previous monetary policy meeting, the krona exchange rate has appreciated, which should contribute to dampening inflation somewhat going forward. However, the krona exchange rate remains weak, and it is still very uncertain whether the earlier depreciation of the krona has passed through fully to the inflation figures. In addition, it is far from certain that the krona's impact on inflation is symmetrical. It could be the case that further appreciation of the krona does not dampen inflation to the same extent as it has so far driven inflation upwards. If the krona were to weaken going forward, this could jeopardise a development of inflation that is compatible with the inflation target, which would then affect monetary policy.

I also see risks from the increasingly difficult geopolitical situation abroad. Russia's full-scale and illegal invasion of Ukraine has now been followed by the tragic developments in the Middle East. So far, the war in the Middle East has not entailed any major impact on economic variables such as the price of oil, but there are unfortunately several conceivable scenarios for the ongoing conflicts, which could ultimately entail substantial negative disruptions to the international economy and also have a negative impact on inflation.

In conclusion, we have gradually raised the policy rate to a level that means monetary policy is contractionary. The tight policy has had an effect and inflation is now falling – in accordance with our previous forecasts – towards the inflation target. Long-term inflation expectations and outcomes in this year's collective wage bargaining rounds indicate continued high confidence in the inflation target.

It is now a question of ensuring that inflation will come all the way down to the target of two per cent and that it will stabilise there. It may, as shown by the policy-rate path, become necessary to raise the policy rate further to reach the inflation target. But for the meantime, a well-balanced strategy is to leave the policy rate unchanged at four per cent and await new information that can provide a clearer picture of how underlying inflationary pressures are developing. However, it would be wrong to perceive this as meaning that we have finished raising the policy rate. Quite simply, we do not know whether this is the case, and since inflation began rising almost two years ago we have been forced to revise our inflation forecasts upwards on many occasions. It is important to bear this in mind at the same time as we can now note that recent developments appear to be heading in the right direction. But if new data is received that indicates inflation is not continuing its downward trend towards the target, we have plenty of opportunity to take action at coming meetings. In this context, I see it as an advantage that we will have eight monetary policy meeting a year with effect from next year, as it will give us greater flexibility to react to incoming data on a continuous basis.

Monetary policy at present also includes selling government bonds from the asset portfolio built up during the period 2015-2021. There are no longer any monetary policy reasons for holding these bonds, and it is therefore appropriate that the Riksbank's balance sheet continues to decline and normalise. The sales have so far worked well, and they help the market for government securities to function better in that a larger share of the outstanding bond stock becomes available for trading. I think there are good reasons for considering extending these sales. As shown in the draft Monetary Policy Report, it is appropriate that the question of a possible increase in the sales volumes is raised at the next monetary policy meeting.

§4. Monetary policy decisions

The Executive Board decided

- on monetary policy measures in accordance with what is specified in the draft Annex A to the minutes, Policy rate decision. The Riksbank sets the policy rate at 4 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 on Thursday 23 November 2023,
- to publish the minutes from today's meeting at 09.30 on Monday 4 December 2023.

This paragraph was confirmed immediately.

Minutes taken by

Magnus Jonsson Liza Tchibalina

Verified by

Erik Thedéen Anna Breman Per Jansson

Martin Flodén Aino Bunge

SVERIGES RIKSBANK
SE-103 37 Stockholm
(Brunkebergstorg 11)

Tel +46 8 - 787 00 00
Fax +46 8 - 21 05 31
registratorn@riksbank.se
www.riksbank.se