
# Monetary Policy Update

February 2024

SVERIGES RIKSBANK

# Monetary policy considerations

Monetary policy has contributed to lower inflationary pressures and firmly anchored inflation expectations. In November and December, inflation continued to fall, and when measured in terms of the CPIF excluding energy, it was lower than expected. Indicators point to inflationary pressures continuing to decline going forward. Inflation prospects abroad have also improved.

The Executive Board has decided to leave the policy rate unchanged at 4 per cent. 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.

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 forecast. If the prospects for inflation remain favourable, the possibility of the policy rate being cut during the first half of the year cannot be ruled out.

There is a risk of setbacks that could cause inflation to rise again, for example renewed supply shocks resulting from the geopolitical unease, company pricing behaviour or that the krona weakens substantially once again. The adaptation of monetary policy must be cautious, to ensure that inflation is stabilised sustainably close to the target. New information and how it is expected to affect the prospects for the economy and inflation is decisive in determining monetary policy.

### Economic developments

**The economic slowdown abroad is continuing, in line with the forecast in the November Monetary Policy Report.** Fourth quarter GDP growth in the euro area was weak, but largely as expected. In the United States, developments are stronger and fourth quarter GDP growth was stronger than expected. The labour markets in both regions have developed somewhat more strongly than expected, but there are signs of a slowdown ahead.

**Inflation prospects abroad have improved.** In December, HICP inflation in the euro area was 2.9 per cent and inflation measured as HICP excluding energy and food was 3.4 per cent. Both outcomes were slightly lower than expected. Inflation in the United States was instead somewhat higher than expected, 3.4 per cent for the CPI and 3.9 per cent for CPI excluding energy and food. However, it is being held up by a few components, in particular rents. PCE inflation, which is the Federal Reserve's target variable, and has a lower weighting for rents, amounted to 2.6 per cent in December.

**War in Europe and increased geopolitical tensions in the Middle East create uncertainty over energy prices, food prices and freight prices going forward**. Various measures of financial uncertainty have not changed significantly since November, but the upturn is not very large so far. European gas and electricity prices have fallen somewhat, but the oil price is roughly unchanged since November. Global food prices have also fallen somewhat, while other commodity prices have remained more or less unchanged.

**Critical transport routes around the Red Sea have been affected by the conflict in the Middle East.** As a result of the significant decline in traffic through the Suez Canal, freight prices between Asia and Europe have risen. Short term changes in freight prices usually have a limited impact on most goods' sales prices. If more tangible and sustained supply disruptions were to arise, it could have a greater effect on prices.

**Expectations of future policy rates abroad have clearly declined.** This change applies to both market pricing and forecasts by analysts. According to market pricing, the ECB and the Federal Reserve are expected to cut their policy rates by more than one percentage point this year (see figure 1 1). Analysts are expecting slightly smaller cuts than are priced in the market, but they also believe there will be a considerable fall in interest rates this year.

**Communication from several central banks abroad has changed since last autumn.** After previously holding the door open for continued rate increases, many central banks are now saying that the interest rate has probably peaked. Announcements by both the Federal Reserve and the ECB indicate that rate cuts could begin in the summer.

**Market rates in Sweden and abroad have fallen significantly since last autumn.** The global downturn in interest rates has occurred in light of the falling policy rate expectations, but other factors may also have contributed, including a reduction in term premiums.

**Swedish households and companies are facing lower rates for loans with longer interest-rate fixation periods.** Several Swedish mortgage institutions have lowered their interest rates on lending at longer fixed-interest periods. A similar development can be seen with regard to interest rates on corporate loans. Lending rates for loans with short fixed-interest periods are continuing to follow the policy rate. Growth in corporate credits has weakened further, and household borrowing is still at a historically low growth rate.

**The Swedish krona exchange rate is largely unchanged compared to November, but it has varied considerably.** The krona strengthened substantially during November and December, in the wake of beneficial inflation outcomes and the global fall in policy rate expectations. But since the start of the new year, the krona has weakened again (see Figure 2).

**The economic slowdown in the Swedish economy is continuing, roughly in line with the most recent forecast.** The slowdown is largely driven by the interest-sensitive parts of the economy, such as household consumption and housing investment. At the same time, the development of investment in other areas of the business sector has been surprisingly strong. The GDP indicator points to a somewhat more positive development than expected, while confidence indicators, such as the purchasing managers' index and the National Institute of Economic Research's Economic Tendency Survey, remain weaker than normal.

**The labour market is weakening in line with the November forecast.** Employment continued to decline during the fourth quarter and unemployment rose to 8 per cent (see Figure 3). Indicators suggests that the labour market will continue to weaken in the period ahead. The number of vacancies have declined, at the same time as the number of redundancy notices are higher than normal. The number of bankruptcies has also continued to increase, as has the number of employees affected by them.

**The risk outlook for Swedish economic prospects is similar to that in November.** There is still uncertainty regarding Swedish households' consumption and saving. Developments on the labour market are also uncertain, with many companies so far having chosen to retain their staff, despite the economic downturn. A more prolonged economic slowdown could lead to greater adjustments among both households and companies.

**In November and December, inflation continued to fall, and when measured in terms of the CPIF excluding energy, it was lower than expected.** CPIF inflation, on the other hand, was somewhat higher than forecast. In December, inflation measured in terms of the CPIF and the CPIF excluding energy amounted to 2.3 and 5.3 per cent respectively (see Figure 4). Goods prices increased more slowly than expected, while electricity prices instead increased surprisingly rapidly.

**Forward-looking indicators point to a continued fall in inflation.** Price changes in the short term have fallen, and are now in general close to 2 per cent, calculated as an annual rate (see Figure 5). According to the NIER Economic Tendency Survey, companies' pricing plans have also come down and are assessed to be in line with price increases of 2 per cent. Long-term inflation expectations are still firmly anchored close to the target, at the same time as expectations in the short term have continued to fall at the same pace as the measured rate of inflation (see Figure 6).

**Wage growth has risen in recent months, approximately in line with the assessment in November.** The most recent outcome, for November, was 4.3 per cent. Wage increases over and above central agreements have remained very low in a historical perspective.

**In addition to the geopolitical unease, the risk outlook for inflation is affected by the krona exchange rate and uncertainty over company pricing behaviour.** The development of the krona exchange rate is an uncertainty factor. If the krona weakens substantially once again, companies' import costs will rise. Another source of uncertainty is how companies adapt their prices in an environment where inflation is falling. During the period with high inflation, companies have passed on increased costs to consumer prices at a faster rate than normal. If companies' pricing behaviour fails to normalise, the effect on inflation of new cost increases could be considerable.

## Policy rate held unchanged at 4 per cent

**Monetary policy has contributed to lower inflationary pressures and firmly anchored inflation expectations.** Forward-looking indicators point to inflationary pressures continuing to decline. At the same time, there is a risk of setbacks going forward that could cause inflation to rise again, for example renewed supply shocks resulting from the geopolitical unease, or that the krona is again weakening substantially.

**The Executive Board has decided to leave the policy rate unchanged at 4 per cent.** 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.

**At the same time, the Executive Board assesses that the risk of inflation becoming entrenched at levels that are too high has declined.** Therefore, monetary policy going forward will probably not need to be as contractionary to stabilise inflation close to the target. Following a longer period during which inflation was much higher than expected, inflation has recently fallen in line with the Riksbank's forecasts (see Figure 7). Activity in the Swedish economy has slowed down, and inflation has fallen substantially, both in Sweden and abroad. In addition, inflation expectations are close to the target and wages are increasing moderately.

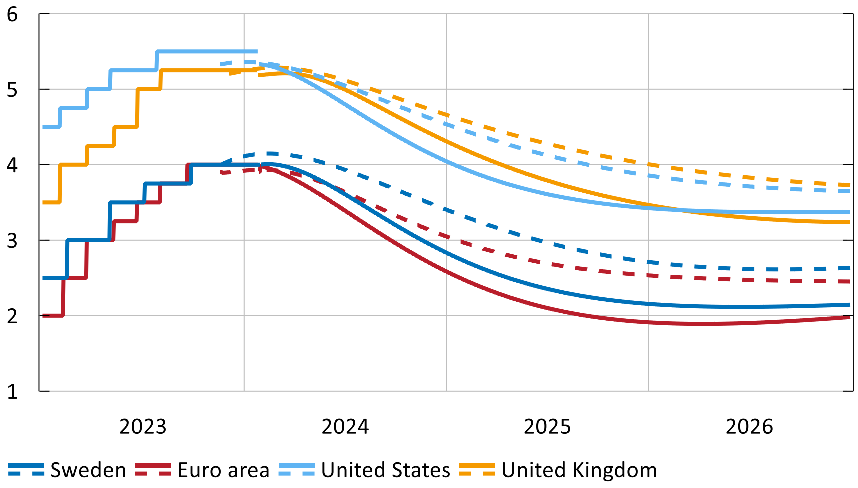
**The Executive Board assesses that the policy rate probably can be cut sooner than was indicated in the November forecast.** If the prospects for inflation remain favourable, the possibility of the policy rate being cut during the first half of the year cannot be ruled out. However, the adaptation of monetary policy must be cautious, to ensure that inflation is stabilised sustainably close to the target. New information and how it is expected to affect the prospects for the economy and inflation is decisive in determining monetary policy.

**As part of the normalisation of the Riksbank's balance sheet, the Executive Board has decided to expand the sales of government bonds.** The pace of the sales is being increased, from SEK 5 billion to 6.5 billion per month, with effect from February this year. The increase only refers to nominal government bonds. The Riksbank has no plans to begin selling its holdings of non-government bonds. Figure 8 shows an updated projection of the Riksbank's securities holdings.

# Figures

**Figure 1. Policy rates and policy rate expectations according to market pricing**

Per cent

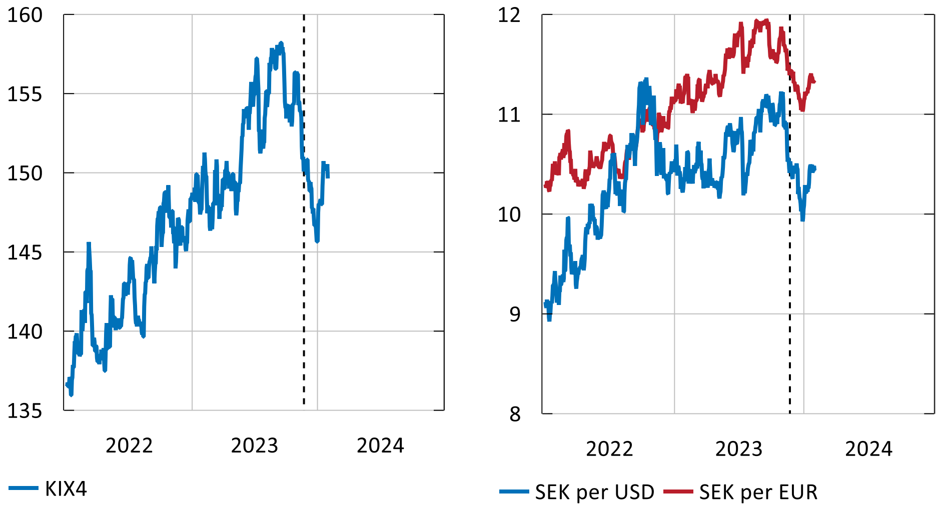



Note. The figure shows policy rates and market-based expectations of future policy rates. Solid lines represent expectations 30-01-2024. Dashed lines represent expectations immediately prior to the monetary policy meeting in November

Source: National central banks and the Riksbank.

**Figure 2. Nominal exchange rate against KIX4, as well as against the US dollar and euro**

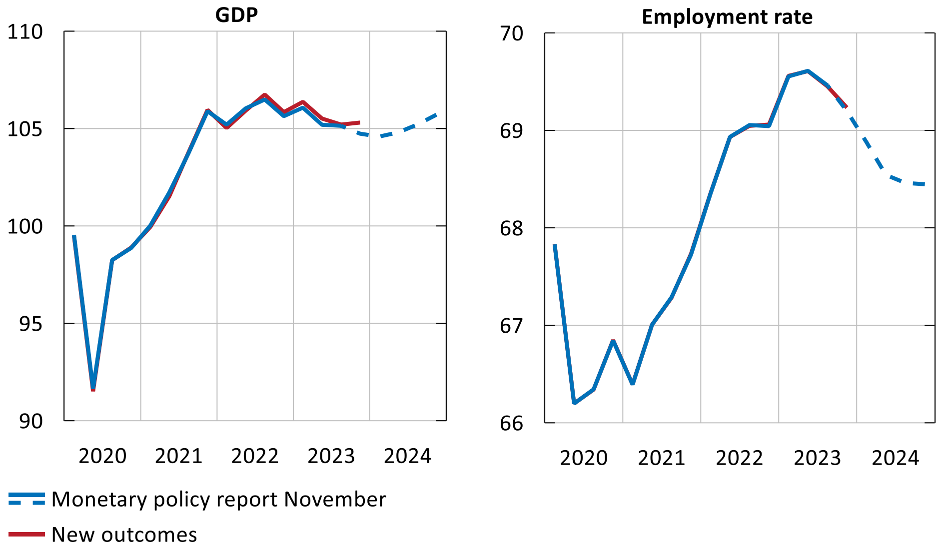
Index, 18 November 1992 = 100 (left), and daily listings (right)




Note. The KIX4 (krona index) is a weighted average against the US dollar, euro, pound sterling and Norwegian krone. A higher value indicates a weaker exchange rate. The dashed line marks the date of the monetary policy meeting in November.
Sources: Macrobond Financial AB and the Riksbank.

**Figure 3. GDP and the employment rate**

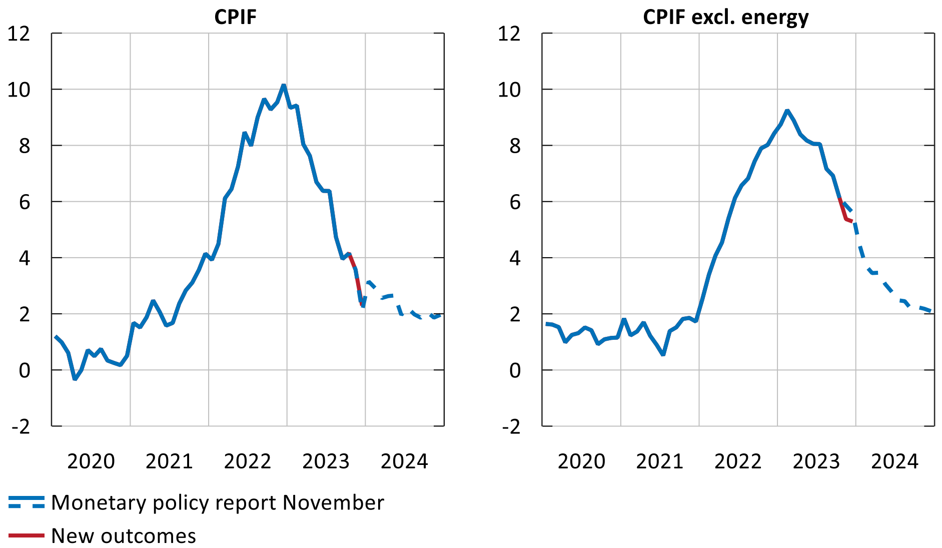
Index, 2019 Q4= 100 (left) respective percentage of population aged 15–74 years (right)




Note. Seasonally adjusted data. Solid lines represent outcomes, dashed lines represent the Riksbank's forecast at the monetary policy decision in November 2023 and red lines represent new outcomes since then.
Sources: Statistics Sweden and the Riksbank.

**Figure 4. The CPIF and the CPIF excluding energy**

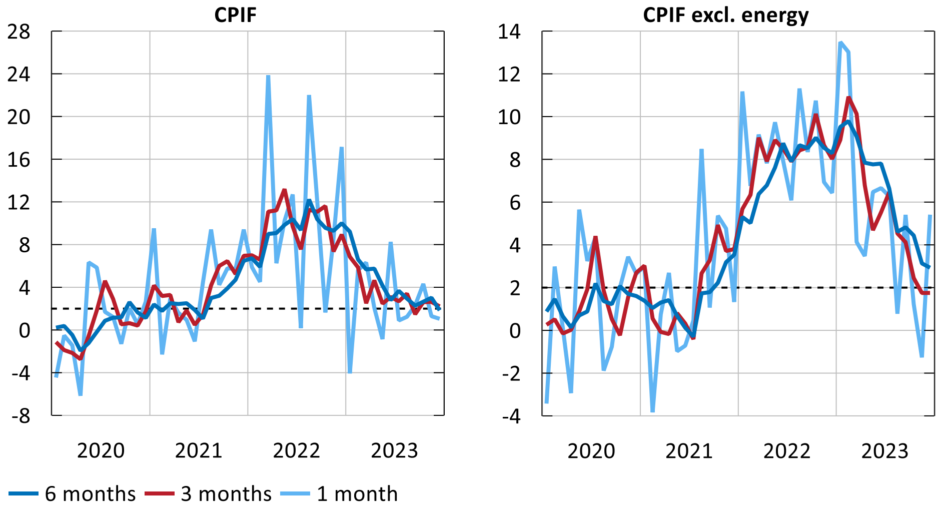
Annual percentage change




Note. Solid lines represent outcomes, dashed lines represent the Riksbank's forecast at the monetary policy decision in November 2023 and red lines represent new outcomes since then.
Sources: Statistics Sweden and the Riksbank.

**Figure 5. CPIF and CPIF excl. energy, short-term rates of change**

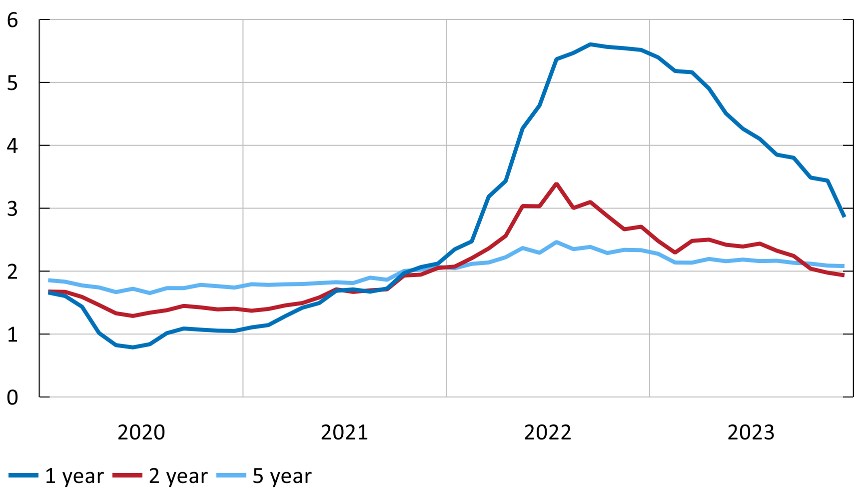
1, 3 and 6-month changes, calculated as an annual rate




Note. Seasonally adjusted data. Dashed line marks 2 per cent.
Sources: Statistics Sweden and the Riksbank.

**Figure 6. Inflation expectations**

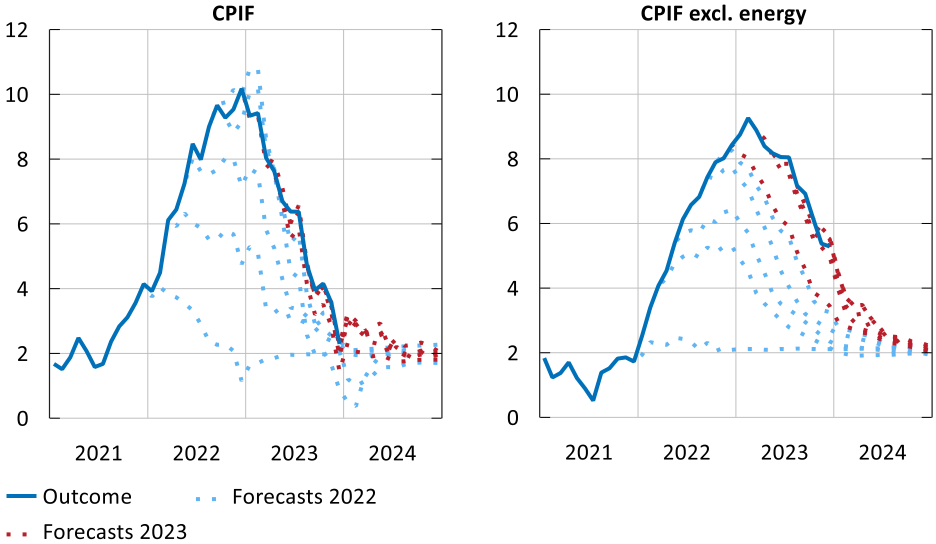
Per cent




Note. Expectations refer to the CPI. Money market agents.
Source: Kantar Prospera.

**Figure 7. CPIF and CPIF excluding energy, forecasts**

Annual percentage change

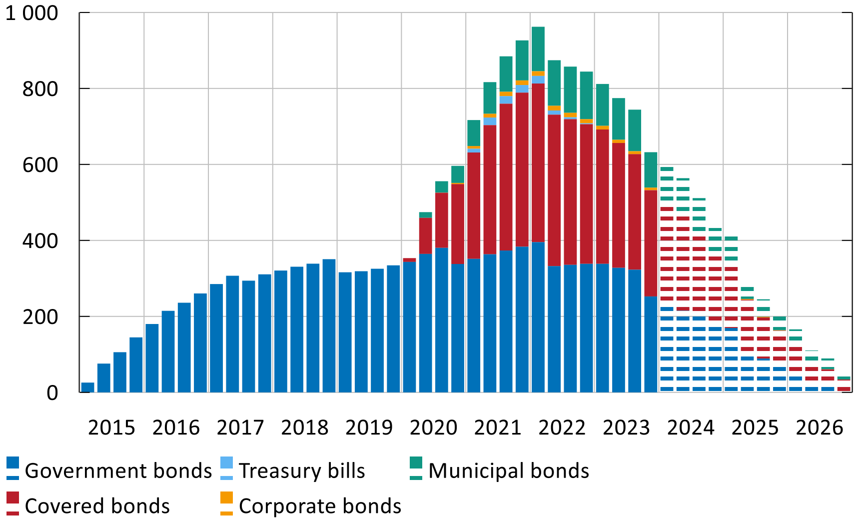



Note. Solid lines represent outcomes, dotted lines represent the Riksbank's forecasts since 2022.

Sources: Statistics Sweden and the Riksbank.

**Figure 8. The Riksbank's asset holdings**

Nominal amounts, SEK billion




Note. The striped bars represent a projection of the Riksbank's asset holdings based on maturities and decisions that no asset purchases will be made after 2022 and that government bonds will be sold at a nominal value of SEK 6.5 billion per month.

Source: The Riksbank.

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