

DECISION

DATE: 07 May 2024
DEPARTMENT: Monetary Policy Department
DNR: 2024-00585
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Policy rate decision

The Riksbank's decision

1. The Riksbank sets the policy rate at 3.75 per cent, which means that it is cut by 0.25 percentage points.
2. The Riksbank adopts the Monetary Policy Update, Annex B.
3. This decision will be published at 09:30 on 08 May 2024.
4. The minutes of the monetary policy meeting on 07 May 2024 will be published at 09:30 on 15 May 2024.

Grounds for the decision

Legal basis

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 inflation target, the Riksbank shall moreover contribute to a balanced development of production and employment. 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 Riksbank's main monetary policy tool for achieving the price stability objective is the policy rate. The Riksbank shall determine the policy rate for its deposits, its credits and its repurchase agreements in financial instruments (Chapter 2, Section 4, second paragraph of the Sveriges Riksbank Act).

Policy rate cut by 0.25 percentage points to 3.75 per cent

Low and stable inflation is a necessary condition for good economic development.

The policy rate has been held unchanged at 4 per cent since the monetary policy meeting in September 2023, and the outlook for inflation has gradually improved.

In March 2024, CPIF inflation fell to 2.2 per cent, close to the inflation target of 2 per cent. Inflation excluding energy prices is also falling but it is slightly higher, just below 3 per cent. Moreover, forward-looking indicators point to inflation remaining close to the target even in the longer term. When inflation approaches the target at the same time as economic activity is weak, monetary policy can be eased. The Riksbank therefore decides to cut the policy rate by 0.25 percentage points to 3.75 per cent.

If the outlook still holds, the policy rate is expected to be cut two more times during the second half of the year, in line with the forecast in March 2024. However, the inflation outlook is uncertain and the adjustment of monetary policy needs to be characterised by caution. There are a number of risk factors that can cause inflation in Sweden to rise again, primarily linked to international developments and the krona exchange rate. Moreover, rapid and large rate cuts could lead to a sharp increase in demand and reignite inflation.

Assessment of proportionality

The Riksbank assesses that a policy rate of 3.75 per cent will contribute to inflation stabilising close to the target within a reasonable period of time. Under the prevailing circumstances and taking into account the consequences for the real economy and the functioning of the financial markets, the Riksbank assesses that the decision to cut the policy rate by 0.25 percentage points is a well-balanced measure. The effects of the change 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 decision is therefore assessed to be compatible with the principle of proportionality in Chapter 1, Section 8 of the Sveriges Riksbank Act.

This 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 Deputy Head of Department Mattias Erlandsson. Head of Department Åsa Olli Segendorf and General Counsel Ulrika Söderberg took part in the final processing work.