Minutes of the Monetary Policy Meeting

January 2025

S V E R I G E S R I K S B A N K

MONETARY POLICY MINUTES

Executive Board, No. 1

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PRESENT:	Erik Thedéen, Chair Anna Breman Per Jansson Aino Bunge Anna Seim --- Bo Broman, Chair, General Council of the Riksbank Tomas Eneroth, Vice Chair, General Council of the Riksbank --- Jakob Almerud Lena Arfalk Carl-Johan Belfrage Charlotta Edler Heidi Elmér Mattias Erlandsson Susanna Grufman Marie Hesselman Anders Kvist Björn Lagerwall Tomas Lundberg Stefania Mammos Annica Sandberg Emma Sandberg Olof Sandstedt Åsa Olli Segendorf --- Robin Ahlén (§1–3a) Maria Johansson (§1–3a)

It was noted that Carl-Johan Belfrage and Stefania Mammos would prepare the draft minutes of the monetary policy meeting.

§3a. Economic developments

Market developments since the last monetary policy meeting

Robin Ahlén, senior market economist at the Markets Department, began by presenting developments in the financial markets since the previous monetary policy meeting in December.

The trend in recent months has been higher government bond yields. This has been driven by expectations of fewer policy rate cuts after inflation stopped falling in the autumn, at the same time as expectations of future growth increased in the United States. Moreover, term premiums rose as a result of greater uncertainty surrounding inflation and expectations of expansionary fiscal policy in several countries, potentially resulting in an increase in the supply of bonds. At the same time, central bank balance sheets have continued to decrease. On the other hand, interest rates fell back somewhat at the start of the year, after inflation in the United States and United Kingdom had come in a little lower than expected, and yesterday investors were seeking safer assets following the news that a new Chinese AI company may challenge the US AI dominance. Swedish government bond yields have also, in general, been slightly elevated since the previous monetary policy meeting.

The markets are significantly affected by expectations of the policies that President Trump will conduct and there has been some easing on the markets since he took up office. This is because Mr Trump has not directly introduced any tariffs and has taken a less aggressive stance against China than was feared, causing the dollar to weaken slightly at the beginning of the year. The Swedish krona remains relatively unchanged in KIX terms since the meeting in December.

Although there is considerable uncertainty over US trade policy, risky assets have reacted positively to the initially softer stance. Stock markets in Europe and the United States are close to or above their record levels and credit spreads are low. However, the market has begun to question the valuations of many large technology companies following the launch of the new Chinese AI model. The oil price has risen after the United States introduced further sanctions against the Russian oil industry and market-based measures of long-term inflation expectations in the United States and Europe are slightly higher.

Most central banks among the G10 countries are expected to have completed their rate cuts later this year. At its meeting in December, the Federal Reserve communicated that it will proceed more cautiously with rate cuts. The new forecasts indicate two additional rate cuts this year and the market is not pricing a full cut until towards the summer. The European Central Bank (ECB) is expected to cut its policy rate this week from 3 to 2.75 per cent and market pricing suggests further cuts to 2 per cent.

With regard to the Riksbank, analysts are expecting a cut from 2.5 to 2.25 per cent and market pricing is also leaning towards a cut. Market pricing indicates that the final point for the policy rate is just above 2 per cent, and most Swedish bank analysts are expecting the policy rate to be cut one more time during the first half of the year.

Financial stability – current situation and risks

Olof Sandstedt, Head of the Financial Stability Department, described the situation in the Swedish financial system. The risks in the Swedish financial system have declined in the short term, as a result of lower policy rates that gradually ease the situation for the most capital-intensive parts of the economy. However, systemic risks remain high.

There are several uncertainty factors that can lead to worse developments on the financial markets. This applies, for instance, to economic policy in the United States and parts of Europe, as well as geopolitical unease. Although longer-term market rates have risen since the beginning of December, yield spreads between different types of bonds and government bonds have remained relatively unchanged at low levels.

At times, some elevated volatility has been noted in interest rates on the shortest maturities in the banks' liquidity management. This is particularly true in periods after the Riksbank's certificate auctions, when the amount of central bank reserves has been smaller than usual. It is important that the banks have an operational readiness and take their responsibility for maintaining the functions of the interbank market.

There was once again a clear year-end effect in SWESTR and the spread in the transaction dataset was larger than previous year-ends. This may imply more uncertainty over how much the banks' costs for bank tax and resolution fees would affect SWESTR over the year-end this time.

The current monetary policy drafting process

Jakob Almerud, senior economist at the Monetary Policy Department, presented the current assessment of macroeconomic developments and the proposal for a monetary policy decision that the Monetary Policy Department judges will gain majority support in the Executive Board at today's meeting. The basis for today's decision has been discussed with the Executive Board at drafting meetings on 20 and 21 January. The basis for the draft Monetary Policy Update has been discussed with the Executive Board at a drafting meeting on 23 January.

In December the policy rate was cut by 0.25 percentage points to 2.5 per cent, with the motivation of supporting the economic recovery and thereby improving the conditions for an inflation rate close to target during the forecast period. The Executive Board also communicated that the policy rate could be cut once more during the first half of 2025, if the outlook for inflation and economic activity held.

A central question in the drafting of today's decision has been how new information has affected the outlook for the Swedish economy and inflation, and thereby the conditions for monetary policy. Another has been whether the risk outlook has changed and whether this has consequences for monetary policy. The preparations have also included a discussion of how the divergence in economic activity and monetary policy between the United States and Europe affects Swedish monetary policy.

Inflation was lower in December than the Riksbank was expecting. CPIF inflation was 1.5 per cent, compared to a forecast of 1.8 per cent in the Monetary Policy Report in December. Inflation measured as the CPIF excluding the volatile energy prices was 0.2 percentage points lower than expected and amounted to 2.0 per cent. This is as a result of somewhat lower price increases than expected in several different product categories such as goods, food and services. At the same time, long-term inflation expectations are still firmly anchored around 2 per cent, and companies' pricing plans are close to their historical average, according to the National Institute of Economic Research's Economic Tendency Survey. Producer prices have risen a little faster in December, while the krona exchange rate has been largely as expected. Overall, the conditions for inflation to be close to 2 per cent going forward are considered favourable.

Real economic developments have been largely in line with the Riksbank's forecast in December. GDP has performed largely as expected, and economic activity in Sweden is still weak. However, there are signs of a rebound on the way. Household consumption grew relatively strongly in November, according to Statistics Sweden's monthly indicator. Card purchase data also indicates somewhat stronger consumption at the end of 2024. However, the National Institute of Economic Research's Consumer Tendency Survey indicates that sentiment among households fell in December. Unemployment was 8.4 per cent in the fourth quarter of 2024, and is not expected to begin to fall until later this year.

As in December, there is still considerable uncertainty regarding developments abroad. There are many question marks regarding the formulation of economic policy in Europe and the United States, which helps create uncertainty over international growth prospects. Increased trade barriers and greater tendencies towards geoeconomic fragmentation could contribute to both lower growth and higher inflation going forward. Moreover, geopolitical risks remain substantial, not least due to the war in Ukraine and the continued tensions in the Middle East.

The economy in the euro area remains weak, while the US economy is all the stronger. This affects market participants' views of monetary policy in these economies, and the ECB's policy rate is expected to fall significantly during 2025, while the reduction of the US rate is expected to be much smaller. Developments in monetary policy abroad are not expected to affect today's decision to any great extent, but it is important to continue to monitor developments.

The proposal for a monetary policy decision that the Monetary Policy Department judges will gain a majority in the Executive Board at today's meeting is described in Annex A to the minutes. The proposal entails cutting the policy rate by 0.25 percentage points to 2.25 per cent. The forecast for the policy rate made in December is assessed to essentially still hold. However, the need for future interest rate adjustments should be carefully evaluated, in light of the effects of earlier cuts and other information significant to the outlook for inflation and economic activity.

§3b. The economic situation and monetary policy

Deputy Governor Aino Bunge:

I support both the proposal to cut the policy rate by 0.25 percentage points to 2.25 per cent at this meeting and the assessments made in the draft Monetary Policy Update.

As described in the draft, inflationary pressures remain compatible with our inflation target of 2 per cent and we see signs that economic activity is about to turn the corner. However, economic activity in Sweden remains weak and a clear turnaround is now needed for growth to follow our forecast from December. The questions facing this meeting have therefore been whether we should implement a further cut of the policy rate right now, as announced in December, and whether, in turn, this would be enough to kick-start the economy and thereby stabilise inflation in the longer term.

My assessment in December leaned towards the argument that it was better to implement cuts in the near future than to wait. Two things to bear in mind for this meeting are, first, that we are not making any new forecasts and, second, that the amount of new information is limited. Having said that, I think in general that the picture of inflation, economic activity and the risk outlook still holds. Let me discuss these factors in a little more detail.

As regards inflation, on the whole, I share the assessment of the draft update that the upside risks are limited and do not inherently form an obstacle to cutting the rate. As the draft update also describes, the latest inflation outcome for December was lower than our forecast, measured using the CPIF both including and excluding energy. One way of gaining a view of the 'momentum' of inflation is by examining the rate of change of the CPIF excluding energy over a horizon of less than twelve months (see Figure 8 in the draft update). This shows that the rate of increase has been close to 2 per cent over the past year. Forward-looking indicators such as companies' price plans and long-term inflation expectations also remain stable and suggest inflation close to the target. The upside risks that are nevertheless present are, this time too, mainly linked to international developments, which I will return to.

As regards economic activity, during the autumn, we emphasised that a recovery is needed in domestic demand for inflation to continue to stay close to the target in the period ahead. And the largest component in domestic demand is household consumption. There are now signs that indicate an upturn, for example in Statistics Sweden's monthly indicator (see Figure 3 in the draft update). Activity in the housing market has also continued to be high, showing economic confidence among households considering what a major transaction a housing purchase is for them. But there are also signs of weakness in the economy and it is important that we see the positive development of growth as a whole, not least for the labour market. Exports are a concern here, considering the weak development of important trading partners. Uncertainty over demand for Swedish exports may delay investment and ultimately lead to increased precautionary saving.

This brings me to the risk outlook. This time too, a large part of the uncertainty comes from abroad. For obvious reasons, there was great focus last autumn on the US elections and the effects of whichever policy might be implemented. Even now, some time after the election, it is clear that a lack of clarity exists, for example surrounding the United States' future trade policy and position in in important foreign policy issues. Since the last meeting, we have seen major fluctuations in both global interest rate levels and the dollar exchange rate. At the same time, the divergence continues between the strong US economy and the European one, which is showing continued signs of weakness. Overall, however, the Swedish krona has performed better against other currencies than the US dollar and is, in trade-weighted terms, largely on the same level as it was the last time we met in December (see Figure 11 in the draft update).

A weaker krona, supply shocks, increased producer prices and a return to more 'volatile' pricing behaviour when demand rises are upside risks for inflation. However, as I have mentioned, the uncertain global outlook is a downside risk for the recovery of the Swedish economy. The Monetary Policy Report from

December described various alternative scenarios linked to the rest of the world and these show that monetary policy may need to be changed significantly if they occur. So far, however, I consider it difficult to assess the likelihood of different scenarios and also, when it comes to trade barriers, what their effect will be on inflation. One remaining downside risk for domestic demand is that improved household economies are not being converted into increased consumption in the way we envisage. Even though there are some bright spots, the level of consumption remains weak. It is particularly important for domestic demand to pick up when there are question marks over exports. At all events, this means that the focus of our monetary policy here and now must be on economic activity in Sweden.

All in all, I consider cutting the policy rate further at this meeting to be well balanced. Economic activity shows signs of rebounding but remains weak and needs support from monetary policy. Even if households and companies in Sweden are interest rate sensitive, it takes time for cuts to have an effect, which argues for a more tentative approach in the period ahead and that the policy rate path from December for the most part still holds. Just counting the three meetings in November, December and now in January, the cuts total one percentage point. As the draft update describes, we now have to look forward and carefully evaluate the need for coming policy rate adjustments on the basis of the effects of those already implemented. However, I consider that one additional part of the puzzle of monetary policy deliberations is the risk that monetary policy is too contractionary.

Let me therefore finish by looking forward to the spring and our next meeting in March: for me, it is important that, until then, we see continued signs of economic recovery that confirm our earlier forecast (see Figure 4 in the draft update). In addition to new outcome data, I look forward to the new business survey that will then be on our desks.

Deputy Governor Per Jansson:

I support the economic and monetary policy assessments presented in the draft Monetary Policy Update. This means that I support the proposal for a decision to now cut the policy rate from 2.5 to 2.25 per cent and the assessment that the policy rate forecast from December still seems to hold reasonably well.

At our last meeting in December, I judged that the deteriorations that had occurred in the inflation picture were not large enough to provide an argument against a policy rate cut at that time nor a further rate cut at the beginning of this year. In addition to the after all still relatively favourable inflation situation in Sweden, it was important for this assessment that there were as yet only a few concrete signs of improvement in the Swedish economy and, above all, that this coincided with significant economic challenges at the international level, including a deterioration in growth prospects for our closest neighbours. In what follows, I would like to give an update on how I currently view these circumstances.

I will start with Swedish inflation. Here we have had one new outcome, for December, which was lower than expected for inflation both including and excluding energy prices. As there are no signs that the volatile energy prices are having secondary effects on other prices or are affecting confidence in the inflation target, my focus continues to be on inflation excluding energy prices.

Our forecast from December for CPIF inflation excluding energy prices was 2.2 per cent. The outcome was two-tenths of a percentage point lower, at 2 per cent. The largest contribution to the forecast error came from goods and food. As it was precisely these product categories that were largely behind the unexpectedly high inflation outcomes stripped of energy prices in October and November, it is somewhat reassuring that both of these categories are now contributing to a forecast deviation in the other direction.

One concern I expressed in December was that the weak development of the krona exchange rate could explain the surprisingly large inflation contribution of both goods prices and food prices. However, closer scrutiny of the December outcome does not only show unexpectedly low inflation contributions from these product categories. It also shows that the contributions from these categories themselves fell somewhat compared to October and November. For those who have been concerned about more persistent, trend effects from the krona depreciation on these krona-sensitive components of consumer prices, this is good news at present.

Further bright spots in the inflation picture can be found when studying our various measures of underlying inflation and inflation momentum as manifested in shorter-term price increases. The median for the measures of underlying inflation fell from 2.6 per cent in November to 2.1 per cent in December. In addition, the somewhat worrying tendency in the development and level of short-term price increases measured in one-, three- or six-month changes has been clearly reversed. The overall picture is now again that price increases are well in line with the inflation target.

However, not all changes in the inflation picture are in a positive direction. According to the Tendency Survey of the National Institute of Economic Research, companies' price plans have risen a little further relative to their historical averages. It is difficult, however, to draw any unambiguous conclusion from this. On the one hand, as an historical average, the price plans of companies have been consistent with an inflation rate slightly below the target. But on the other, there is now a greater risk than previously of overly aggressive price-setting behaviour.

And it is important to identify early on if changes in behaviour are taking place, otherwise it may take quite substantial rate increases to overcome the problems. This is something one obviously wants to avoid. In any event, the increase in price plans so far is not particularly dramatic, but of course something we need to keep an eye on going forward.

A factor I find more worrying is the development of prices at the producer stage. Here, there have been quite large price increases over the last two to three months and the figures for December were no exception. The upturn is particularly rapid in import prices at the producer stage, where the increase in December was also the highest. This development concerns me quite considerably, not least in view of the international environment looking as though it is becoming more inflationary. We of course know that prices at the producer stage fluctuate much more than consumer prices. Thus, far from all of these price changes affect inflation measured in terms of consumer prices. But, of course, there is still a connection and if producer prices increase sufficiently and for a long enough time period, it will also feed through to consumer prices.

My overall impression with regard to various inflation indicators is that they may indicate slightly increasing inflationary pressures that may also be a little higher than normal. On the other hand, the inflation outcome in December surprised somewhat on the downside and conveys a picture of price increases very much in line with the inflation target. When considering the development of various indicators, we must also not forget that, going forward, slightly higher underlying inflationary pressures will probably be required to compensate for the fact that prices that currently still reflect previous cost increases will rise at a slower pace. Overall, I see the inflation picture as fairly unchanged compared to December, possibly with slightly higher risks on the downside over the next few months. Beyond spring, the reverse may be true, with risks on the upside having increased slightly.[1]

With this I turn to my comments on the economic situation. At our meeting in December, I expressed a fairly strong conviction that a recovery in the Swedish economy was imminent. Fortunately, we can now note that there are signs that this recovery already appears to have started at the end of last year, at least regarding consumption. According to Statistics Sweden's monthly indicator HUKO, household consumption grew relatively strongly in November. This coincided with a relatively large decline in household lending rates, which strengthens the impression that improvements in household purchasing power through enhancements in their cash flows are of great importance for boosting consumption. Data on card purchases are difficult to interpret, but nevertheless

[1] The forecast in December predicted CPIF inflation excluding energy prices until May to range from 2.4 to 2.6 per cent. From May onwards, the deviations from target were generally small.

indicate that the favourable development also continued in December. During the first half of the current year, the Riksbank's monetary policy easing will reduce household borrowing costs a great deal further while fiscal policy will also provide tax relief, among other things.

That consumption now appears to be increasing is of course positive and important. But Sweden is a small open economy that is very much affected by international developments. As I mentioned at our last meeting and as is noted in the draft update, there are significant risks to economic developments abroad.

It is not very difficult to paint a number of scenarios where international growth is worse than expected. A factor of importance here is that economic activity in the euro area is already weak at the outset. For Sweden, it is particularly worrying that Germany, which is one of our most important export markets, is facing significant problems in a number of areas. The negative impact that this has on Swedish industry and exports is already evident in the statistics on our foreign trade and on the order intakes of export companies. The point I want to make is that in spite of the bright spots regarding the development of consumption, there is hardly a need to worry just now that the recovery in the Swedish economy will be excessively rapid and, ultimately, create large inflationary pressures from the demand side.

My conclusion for monetary policy from my reasoning regarding inflation and economic activity is that it is reasonable and the right thing to now give further support to the Swedish economy by lowering the policy rate at today's meeting. The development of inflation does not currently stand in the way of this. The apparent pick-up in consumption at the end of last year and inflation indicators suggesting that slightly higher inflationary pressures are being built up reinforce the conclusion I already reached at the December meeting, namely that timing-wise, it is best to implement the rate cut at today's meeting and not to wait to implement it later in the spring.

As I pointed out at the outset, I support the assessment that the forecast for the policy rate from December still seems to hold reasonably well. This forecast means that the interest rate after the cut at today's meeting will remain unchanged at 2.25 per cent for the meantime. One important reason why I think that this interest rate path is still a good starting point is that we have reduced the policy rate very significantly over a relatively short period of time and that I would therefore like to await more information on the effects on inflation and economic activity of this large and fairly rapid change in monetary policy. Having said that, I would like to emphasise that I fully share the view in the draft update that we need to be prepared to adjust our monetary policy plan if the outlook for inflation and the economy changes.

First Deputy Governor Anna Breman:

I support the proposal to cut the policy rate from 2.50 to 2.25 per cent. I also support the monetary policy assessments presented in the draft Monetary Policy Update.

Inflation is low and stable and the prospects for keeping inflation in line with the target are favourable. Since our last meeting in December, inflation has come in slightly lower than expected, and this is driven by a decline in several product categories, including services, goods and food. Companies' price plans, inflation expectations and wage growth are all in line with close-to-target inflation even in the medium term (see Figures 6, 7, 8, 9 and 10 in the draft update).

The risk for too high inflation is limited while economic activity remains weak. My assessment is therefore that a cut of 0.25 percentage points at today's meeting is a well-balanced monetary policy to give support to the economy and maintain low and stable inflation.

At today's meeting, I would like to comment on how I view economic activity, inflation and the policy rate going forward, given the high level of uncertainty regarding economic policy in the rest of the world.

We will likely continue to receive contradictory statements from the United States regarding economic policy, contributing to volatility in financial markets and general uncertainty regarding the economic outlook, not least concerning trade policy which may have a major effect on the Swedish economy. There is also great uncertainty about geopolitics and energy and climate policy, and the response and policies enacted in Europe. This uncertainty can cause Swedish households and companies to be cautious, and the risk outlook therefore includes slower economic growth going forward.

The Riksbank has both the preparedness and the tools to act if the outlook changes. In addition, Sweden has strong public finances and the possibility to use fiscal policy to provide support in the event of an economic slowdown.

Despite the uncertainty surrounding global developments, my assessment is that our forecast from December still largely holds, and that economic activity will pick up in 2025.

An important aspect of this is that we know that monetary policy works with a lag. Today's decision means that we have made six rate cuts totalling 1.75 percentage points. This increases household purchasing power and lowers companies' financing costs. The cuts have already had an effect on the rates faced by households and companies, and they will have an increasingly pronounced impact at the beginning of 2025. Low and stable inflation also means that real wages are increasing at a robust rate.

The Swedish economy is also showing signs of strengthening. Household consumption picked up at the end of last year (see Figure 3 in the draft update) and forward-looking indicators suggest the labour market will improve (see Figures 4 and 5 in the draft update).

In other words, it is important to have patience to see the effects of the rate cuts. But it is also important that we see positive indicators being followed by stronger growth and higher employment. And, with a normal pass-through from monetary policy, these positive effects should start to emerge in the near future. At the meetings in March and May, it will therefore be important that we will have received statistics confirming that growth in the Swedish economy is truly picking up.

This leads me into the forecast for the policy rate going forward. As I began by emphasising, the development of inflation and forward-looking indicators for inflation have strengthened my view that the outlook for inflation in Sweden is in line with the target also in the medium term. My assessment is that the risks to inflation are now more balanced while the downside risks to economic activity persist.

All in all, this means that I assess that the forecast for the policy rate from December still largely holds, but that it is important to be prepared to both cut and raise the policy rate if the outlook changes. However, my assessment is that the probability of the next step being a further rate cut is greater than the next step being a rate hike.

Before I conclude, I would like to briefly comment on the volatility we have seen in financial markets in recent months. This has, among other things, affected long-term bond yields in many countries and the Swedish krona has both depreciated and then appreciated against the US dollar (see Figure 11 in the draft update). It is likely that we will continue to see significant volatility in financial markets during the year. Monetary policy should not act based on this type of short-term volatility.

In this context, I would like to emphasize that the longer inflation is low and stable, the more leeway monetary policy has to see through temporary shocks. CPIF inflation has now been close to target for almost a year (see Figure 7 in the draft update). This is also important for the social partners' wage negotiations and for companies' pricing behaviour. For example, it should make it easier for companies to also see through temporary fluctuations in cost pressures, i.e. the pass-through from temporary fluctuations in energy prices or the exchange rate to consumer prices should be muted. It is important that we continue to analyse companies' pricing behaviour and it is positive that we now have more microdata enabling this.

Let me summarise. My assessment is that a cut of 0.25 percentage points at today's meeting is a well-balanced monetary policy to give support to economic activity, while keeping inflation in line with the target. Despite an uncertain global outlook, the outlook for inflation and growth in Sweden is favourable.

Deputy Governor Anna Seim:

I support the decision to cut the policy rate by 0.25 percentage points to 2.25 per cent. I also support the deliberations conveyed in the draft Monetary Policy Update and therefore make the assessment that no information has been added that significantly changes the picture we conveyed in the December Monetary Policy Report.

In the last few months, we have been forced to think hard about how best to make monetary policy decisions under great uncertainty. As I noted at the monetary policy meetings in November and December, we pay constant attention to various outcomes we think may materialise and act accordingly. The lagged effects of monetary policy themselves add an element of uncertainty as we must act based on forecasts that by definition can be wrong. In this uncertain world, we have argued that it is sensible to make gradual adjustments to monetary policy and adopt a tentative approach. One advantage of this is that we can use incoming data indicating whether monetary policy is well balanced or not. But this is not so simple, as we cannot fully observe the effects of monetary policy until after 1-2 years, sometimes longer. As economic activity is still weak, it is easy to think that we must cut the interest rate more to provide support to the recovery of the real economy. But too myopic a view risks leading to wrong decisions. If economic activity is weak, it is rather ex post a sign that economic policy was too contractionary 1-2 years ago, for example because the economy has been hit by shocks that could not be predicted in those decisions, not that monetary policy is too contractionary at present.

The forecasts we presented in December, and which I deem essentially still hold, indicate that the policy pursued will stabilise inflation at 2 per cent in both the short and long term and simultaneously contribute to the economic recovery. This suggests that the monetary policy we now see before us is well balanced. In a situation like this, it is important for us as policy makers to have the self-confidence to trust that the measures we have already taken, together with today's cut, will have the effects on the economy that our analyses indicate.

But the way forward is paved with uncertainty and a sensible monetary policy must therefore be *robust*. If the economy does not develop as we expect, the decisions we take must still give rise to acceptable outcomes for inflation and employment. With today's decision, the policy rate will be 2.25 per cent, which happens to be in the middle of the range for a probable long-term neutral interest rate which we communicated at the end of last year. In my view, we are now conducting a virtually neutral monetary policy which will eventually close the inflation and GDP gaps. This means that we are also well placed to be able to adjust monetary policy when shocks hit the economy. A recurring theme in our monetary policy reports has been political changes abroad and substantial geopolitical uncertainty. With last week's inauguration of new American president Donald Trump, one could argue that the uncertainty has decreased somewhat as some of the speculation preceding it is now over. But it is still unclear what responses his policies will give rise to. It is a tense situation globally and a spark somewhere could easily ignite a powder keg. My assessment is that changes in trade flows in the wake of US economic policy, for example, imply that the risk of supply shocks is elevated. This can surprise and affect Swedish inflation.

There is also the risk that the domestic economy does not recover as we expect and in such a scenario, we are also prepared to cut the interest rate further. At the meeting in March, we will return with a complete forecast and will then have an even clearer picture of the outlook for economic activity and inflation. We have now cut the policy rate by 1.75 percentage points in 9 months and thus moved to a neutral interest rate level which looks to be consistent with both short- and long-term target attainment. I assess that, by doing this, we are well positioned to cope with future challenges. This is true regardless of whether domestic consumption and growth turn out to be unexpectedly weak, or whether 2025 entails supply shocks that create inflationary impulses in the Swedish economy.

Governor Erik Thedéen:

I support the proposal to cut the policy rate by a further 0.25 percentage points to 2.25 per cent. I also support the judgements made in the draft Monetary Policy Update.

In December, we made the assessment that private consumption and investment would pick up in 2025. Over the year, many households will benefit from rising real wages, enacted fiscal policy measures and falling mortgage rates. This will create conditions that support private consumption and that, in turn, will translate into higher demand for Swedish firms. In combination with falling interest rates for corporate loans, this should also benefit investment in Sweden.

Our most recently published interest rate path, from December, was based on the assumption that the policy rate would very likely be cut to 2.25 per cent, either now in January or at our next meeting in March. In other words, today's decision is in line with our communication from December and, seen over a longer perspective, means that we are continuing the process of normalising the policy rate that we started in May last year.

My assessment is that, with today's decision, the policy rate has probably been lowered sufficiently. The upturn in economic activity towards the end of 2024 supports this assessment and the forecasts we published in December.

With today's decision, the policy rate has been lowered by fully 1.75 percentage points in less than 9 months. In a fairly short time, we have therefore implemented a considerable readjustment of monetary policy. The backdrop is the change in the risk outlook that became increasingly clear last year, when inflation fell and the risk of lastingly high inflation gradually eased. Risks are now more balanced and there is good reason to believe that the monetary policy being conducted will lead to an economic recovery without any significant risk that inflation will deviate from target. In this situation, I consider it wise not to be in too much hurry – that is, to have a certain degree of patience – when it comes to any further policy rate adjustments. One reason for this is that we have still not seen the full effects of the readjustment of monetary policy we have implemented. And we know that monetary policy functions with a lag. As always, we must carefully monitor the data regularly becoming available and evaluate its effect on the outlook for both economic activity and inflation. It is now particularly important to judge whether incoming information confirms our assessment that growth is accelerating and that the inflation outlook will remain unchanged.

At present, CPIF inflation is being affected by fairly large fluctuations in energy prices. However, inflation excluding energy is 2 per cent and most indicators suggest that, going forward, consumer prices will continue to rise at a rate that is compatible with the target. It is true that, in recent months, some indicators of cost pressures have risen noticeably, including producer prices and world market prices for foodstuffs. This calls for vigilance but does not presently change the assessment that a policy rate in line with our policy rate path is compatible with continued low and stable inflation.

The recovery in Sweden is also dependent on the growth prospects of our most important trading partners, with the economic development of the euro area being a source of significant unease. As we know, uncertainty over the design of US trade and security policy is also great and the stakes are high. In addition, these circumstances are leading to major fluctuations in interest rates and exchange rates that also affect Sweden. If the conclusion is that the United States is growing faster with increasing inflation risks and rising long-term interest rates as a consequence, this will also affect the risk outlook in Sweden.

International uncertainty – not least as regards the circumstances and conditions of our important international trade – is affecting the business climate and may also weigh into the savings and consumption decisions of Swedish households, as well as into firms' investment plans. Unfortunately, it also entails increased risk of further inflationary impulses. In this situation, it is important that monetary policy contributes towards reducing overall uncertainty. We can achieve this by being clear with how we analyse and assess incoming information and how it affects our forecasts and decisions. Predictability becomes important. And here, as I touched on initially, patience and a forward-looking approach become decisive for how we should act.

To sum up, monetary policy now aims to support the economic recovery and simultaneously ensure that inflation remains low and stable. In my assessment, the forecast for the policy rate from December is holding up well. But we are continually monitoring and evaluating how new information affects the economic outlook. Uncertainty regarding the strength of economic activity justifies some degree of patience but we stand prepared to act if developments so require.

§4. Monetary policy decisions

The Executive Board decided

- in accordance with Annex A to the minutes Policy rate decision (including the enclosure Monetary Policy Update).

This paragraph was confirmed immediately.

Minutes taken by

Carl-Johan Belfrage Stefania Mammos

Verified by

Erik Thedéen Anna Breman Per Jansson

Aino Bunge Anna Seim

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