



## DECISION

DATE: 20 September 2023  
DEPARTMENT: Monetary Policy Department  
DNR: 2023-00993  
INFORMATION CLASS: OPEN

# Policy rate decision

## The Riksbank's decision

1. The Riksbank is raising the policy rate by 0.25 percentage points to 4 per cent. The new level of the policy rate shall apply as from 27 September 2023.
2. The Riksbank adopts the Monetary Policy Report, annex Monetary Policy Report.
3. This decision will be published at 09:30 on 21 September 2023.
4. The minutes of the monetary policy meeting on 20 September 2023 will be published at 09:30 on 2 October 2023.

## Background

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 price stability objective, the Riksbank shall contribute to a balanced development of production and employment (consideration for the real economy). The Riksbank has defined the price stability objective as a target of 2 per cent for the annual increase in the consumer price index with a fixed interest rate (the CPIF).

The target should function as a benchmark for price- and wage-setting in the economy. It is important that households and companies have confidence in that deviations from the target, especially when they are substantial, will not be too prolonged and affect their expectations of what will be a normal level of inflation in the economy. A common view among economic agents of how prices will develop in the future reduces uncertainty and makes it easier to plan for the long term.

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

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The Riksbank's main monetary policy tool for achieving the price stability objective is the policy rate. According to Chapter 2, Section 4, second paragraph of the Sveriges Riksbank Act, the Riksbank shall determine the policy rate for its deposits, credits and repurchase agreements in financial instruments.

## Grounds for the decision

Low and stable inflation is a necessary condition for good economic development. The current high inflation is problematic for the economy as a whole and affects in particular households with small margins. Since April 2022, the Riksbank has raised the policy rate from 0 per cent to 3.75 per cent in June 2023, and the tighter monetary policy has contributed to a fall in inflation. However, even if developments are moving in the right direction, inflation remains far above the target of 2 per cent. In August 2023, CPIF inflation was 4.7 per cent, and underlying inflation, measured in terms of the CPIF excluding energy, was 7.2 per cent.

The Riksbank's analysis of the economic situation in Sweden and abroad (see *Monetary Policy Report*) indicates that monetary policy needs to continue to be tightened somewhat to ensure that inflation continues to fall and stabilises around the target of 2 per cent within a reasonable time. Inflation in Sweden is falling but inflationary pressures are still too high. The rate of increase in energy and food prices has slowed down substantially but service prices continue to increase rapidly, which, along with the unjustifiably weak krona, contributes to hold inflation up and increases the risk that it will not continue to fall and stabilise around the target fast enough.

The Riksbank is therefore raising the policy rate by 0.25 percentage points to 4 per cent. This new policy rate shall apply as from 27 September 2023. The policy rate rise and the planned monetary policy described in the Riksbank's forecast (see Section 1.2 of the *Monetary Policy Report*) are expected to help inflation continue to fall back and stabilise close to 2 per cent in 2024.

The policy rate affects inflation via several channels, such as demand, exchange rate and expectations. The higher policy rate is expected to lead to somewhat lower economic activity in the short run and somewhat higher unemployment compared to an unchanged or lower policy rate. However, the Riksbank assesses that the monetary policy tightening is necessary to bring down inflation and thus contribute to good economic development in the medium term. If inflation is persistently high, the negative consequences for Swedish growth and the labour market will be much greater.

The Riksbank assesses that the increase in the policy rate can be assumed to lead to the intended result, that is, tighten monetary policy and contribute to bringing inflation back to the target within a reasonable time, and the measure is not assessed to be more far-reaching than is necessary to attain the price stability target. The intended result of a higher policy rate is considered to be in reasonable proportion to the costs and risks that the measure entails for the finances of the Riksbank and the State. The Riksbank therefore considers that the measure to raise the policy rate is compatible with the principle of proportionality in Chapter 1, Section 8 of the Sveriges Riksbank Act.

The decision has been taken by the Executive Board (Governor Erik Thedéen, First Deputy Governor Anna Breman and Deputy Governors Aino Bunge, Martin Flodén and Per Jansson) following a presentation by Peter Gustafsson, advisor at the Monetary Policy Strategy Division, Monetary Policy Department.