Monetary Policy Update

January 2025

Monetary Policy Update

The Executive Board normally holds eight monetary policy meetings a year. At four of the meetings, a Monetary Policy Report is published, describing economic developments and containing forecasts extending three years ahead. At the other four meetings, a shorter update is published, which describes macroeconomic developments in relation to the Riksbank's most recent forecast, the monetary policy decision and the deliberations the Executive Board made with regard to what is a suitable monetary policy.

Through the Monetary Policy Updates and Reports, the Riksbank also informs the general public about monetary policy, which makes it easier for external parties to follow, understand and evaluate the Riksbank's actions.

Regularly or upon request, the Riksbank shall submit an account of monetary policy operations to the Riksdag's Committee on Finance (Chapter 11, Section 1, Sveriges Riksbank Act [2022:1568]). These accounts are presented both in specific material for assessing monetary policy and in the Monetary Policy Reports and Updates.

The Executive Board made a decision on the Monetary Policy Update on 28 January 2025. The Update can be downloaded in PDF format from the Riksbank's website www.riksbank.se, where more information about the Riksbank can also be found.

No new forecasts are produced for the Monetary Policy Updates. Monetary Policy Report no. 1 2025 will be published on 20 March 2025.

Monetary policy considerations

For some time, inflationary pressures are deemed consistent with inflation of around two per cent. There are signs that an economic rebound is on the way, but activity remains weak. Last year's interest rate cuts have had a positive impact on households' and companies' finances. But they have yet to reach full impact on interest expenses and demand in the economy. New information since December indicates that the outlook for inflation and economic activity remains largely the same.

In December, the Executive Board assessed that the policy rate could be cut once again during the first half of this year. Given that the risk of inflation becoming too high is limited, at the same time as economic activity is weak, the Executive Board assesses that it is appropriate to cut the policy rate now. A stronger economy is important in its own right, but it is also a necessary condition for inflation to stabilise close to the target going forward.

The Executive Board has therefore decided to cut the policy rate by 0.25 percentage points to 2.25 per cent. This means that the policy rate has been cut by a total of 1.75 percentage points since May. The lower interest rate will gradually provide an increasingly positive contribution to demand in the Swedish economy. The Executive Board assesses that the forecast for the policy rate made in December essentially holds, but is prepared to act if the outlook for inflation and economic activity changes.

Monetary policy is forward-looking and guided by a tentative approach. The Riksbank will carefully evaluate the need for future interest rate adjustments, in light of the effects of earlier cuts and other information relevant to the outlook for inflation and economic activity.

There are several factors that could affect economic developments and thereby also the policy rate going forward. There is particular uncertainty regarding developments abroad, for instance with regard to economic policy in the United States and Europe and the geopolitical tensions. There are also risks linked to the recovery in the Swedish economy and the krona exchange rate.

International developments

Overall, the global economy has developed largely as expected, but there are large differences between regions. The US economy is performing strongly, while the euro area shows clear signs of weakness. At the same time, developments are very uncertain, not least with regard to economic policy in the United States.

The US economy is still performing well. Confidence indicators for the household and corporate sectors have risen in recent months, which is reflected, for instance, in the continued strong consumption and labour market. At the same time, inflation has risen somewhat and amounted to 2.9 per cent in December, measured in terms of the CPI. However, underlying inflation has remained relatively unchanged at just over 3 per cent since the middle of last year (see Figure 1).

Growth in the euro area is weak. Confidence in both the household and corporate sectors is still weak, which indicates continuing low growth. At the same time, the labour market is still showing resilience with regard to the weak growth, and according to new statistics unemployment remained at a historically low level in November. Inflation has risen somewhat in recent months, and in December it amounted to 2.4 per cent in terms of the HICP. Underlying inflation, on the other hand, as in the United States, has been relatively unchanged for some time and amounted to 2.7 per cent in December (see Figure 1).

Long-term interest rates have fluctuated considerably, but have overall risen since December. Interest rates in the United States have been affected by economic policy statements and pushed up by the expectation of continuing strong performance by the US economy. This has also contributed to a global rise in bond yields. However, the expectations of the Federal Reserve and the ECB for the coming year have not changed very much (see Figure 2).

There is considerable uncertainty about economic developments abroad. There are many question marks regarding the formulation of economic policy in Europe and the United States, which helps create considerable uncertainty over the outlook for inflation and economic activity abroad. Increased trade barriers, tendencies towards geoeconomic fragmentation and question marks regarding the sustainability of public finances could all 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.

Developments in Sweden

There are signs that an economic rebound is on the way, but activity remains weak. Household consumption grew relatively strongly in November, according to Statistics Sweden’s monthly indicator (see Figure 3). Transaction turnover data imply that developments were still good in December. After a prolonged period of growth, household sentiment fell, according to the National Institute of Economic Research's Economic Tendency Survey in December, while sentiment among retail trade companies continued to improve. Orders to export companies remain at a low level. All in all, the indicators point to growth in the fourth quarter being in line with the forecast in December and support the assessment that growth will be higher this year (see Figure 4).

The labour market will not rebound until later in the year. The number of redundancy notices remains at an elevated level, but declined during the autumn. Unemployment has remained at around 8.5 per cent, although recruitment plans in the business sector have increased (see Figure 4 and 5). This development has been in line with the forecast in December.

Wage growth slowed down in 2024, but real wages rose as inflation fell. The slowdown in wage growth reflects the profile in the existing agreements. For some time now, wage growth has been higher than inflation, which has meant that households' real wages have risen. The Riksbank's assessment is that real wages will continue to rise by around 2 per cent this year (see Figure 6).

Energy prices dampened CPIF inflation at the end of last year. Measured in terms of the CPIF, inflation amounted to 1.5 per cent in December, which was lower than the Riksbank's forecast in December. This is partly explained by energy prices falling more than expected. However, CPIF inflation excluding energy was also lower than expected in December and amounted to 2 per cent (see Figure 7). The deviation from the forecast was due to somewhat lower price increases than expected in several different product categories such as goods, food and services.

Indicators suggest inflationary pressures in line with the target. The rate of increase in the CPIF excluding energy, measured in a shorter term than the usual twelve-month change, has been close to 2 per cent for the past year (see Figure 8). Since December, commodity prices on the world market have increased somewhat, at the same time as Swedish producer prices have risen slightly faster. According to the National Institute of Economic Research's Economic Tendency Survey, companies' pricing plans are close to their historical averages, although some upturn can be noted in recent months (see Figure 9). Long-term inflation expectations remain firmly anchored around 2 per cent (see Figure 10).

The krona exchange rate is at about the same level as in December. Similar to many other currencies, the krona has continued to lose value against the US dollar since the autumn (see Figure 11). However this has recently been compensated for by the krona strengthening somewhat against the pound sterling. At the same time, the exchange rate against the euro has remained stable. The Riksbank assesses that the krona will strengthen in the coming years. However, if it remains weak, or weakens further, this could mean that inflation will be higher than expected.

Policy rate cut by 0.25 percentage points to 2.25 per cent

Last year's interest rate cuts have had a clear impact on households' and companies' finances. Variable mortgage rates on new loans to households have fallen around as much as the policy rate. Interest expenditure for mortgage holders as a whole has also fallen and will fall further during the spring, as the fixed-rate mortgage periods expire.

New information since December indicates that the outlook for inflation and economic activity remains largely the same. In December, the Executive Board communicated that the policy rate could be cut once again during the first half of this year. Given that the risk of inflation becoming too high is limited, at the same time as economic activity is weak, the Executive Board assesses that it is appropriate to cut the policy rate now.

A stronger economy is important in its own right, but it is also a necessary condition for inflation to stabilise close to the target going forward. This also makes the Swedish economy more resilient in a situation where several important export markets are weak. The conditions for a recovery in economic activity are good. Indicators point to household consumption being on the verge of a rebound.

The Executive Board has decided to cut the policy rate by 0.25 percentage points to 2.25 per cent. This means that the policy rate has been cut by a total of 1.75 percentage points since May. The lower interest rate will gradually provide an increasingly positive contribution to demand in the Swedish economy. The Executive Board assesses that the forecast for the policy rate made in December essentially holds, but is prepared to act if the outlook for inflation and economic activity changes.

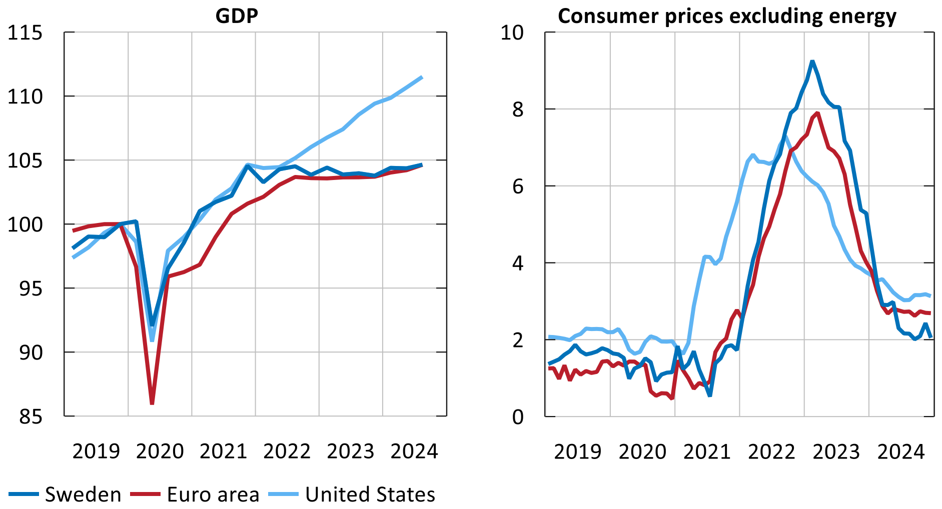
Monetary policy is forward-looking and guided by a tentative approach. The Riksbank will carefully evaluate the need for future interest rate adjustments, in light of the effects of earlier cuts and other information relevant to the outlook for inflation and economic activity.

There are several factors that could affect the outlook for inflation and economic activity and thereby also the policy rate going forward. Increased trade barriers and tendencies towards geoeconomic fragmentation could contribute to both lower growth and higher inflation going forward. Moreover, there is still uncertainty with regard to fiscal policy in Europe and, above all, the United States, which can cause major fluctuations in bond yields going forward. The war in Ukraine and the continued tensions in the Middle East still comprise significant risks. There are also risks linked to the recovery in the Swedish economy and the krona exchange rate.

Figures

Diagram 1. GDP and consumer prices excluding energy

Index, 2019 Q4 = 100 (left), and annual percentage change (right)

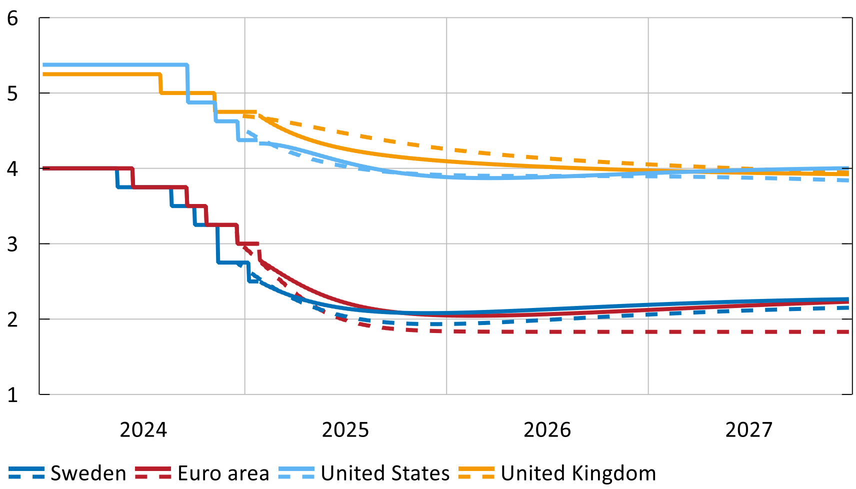


Note. Right-hand figure refers to CPIF excluding energy for Sweden, HICP excluding energy for the euro area and CPI excluding energy for the United States.

Sources: Eurostat, US Bureau of Labor Statistics and Statistics Sweden.

Diagram 2. Policy rates and policy rate expectations according to market pricing

Per cent

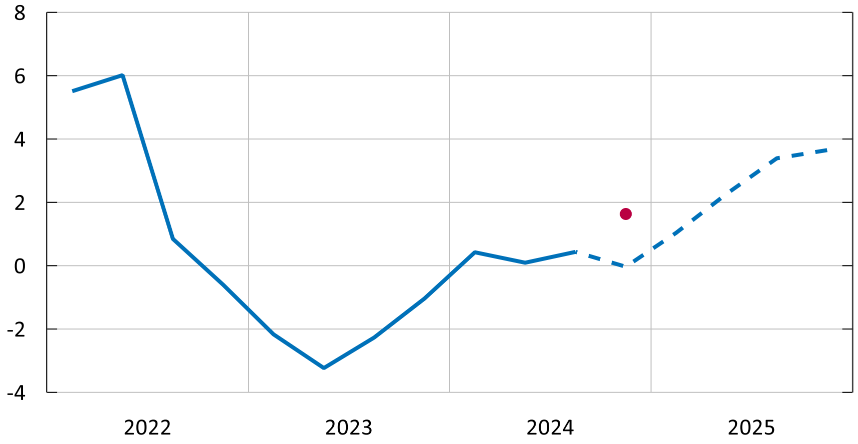


Note. The figure shows policy rates and market-based expectations of future policy rates. Solid lines represent expectations on 27 January 2025. Dashed lines represent expectations immediately prior to the monetary policy meeting in December.

Sources: National central banks and the Riksbank.

Diagram 3. Household consumption in Sweden

Annual percentage change



Monetary Policy Report December

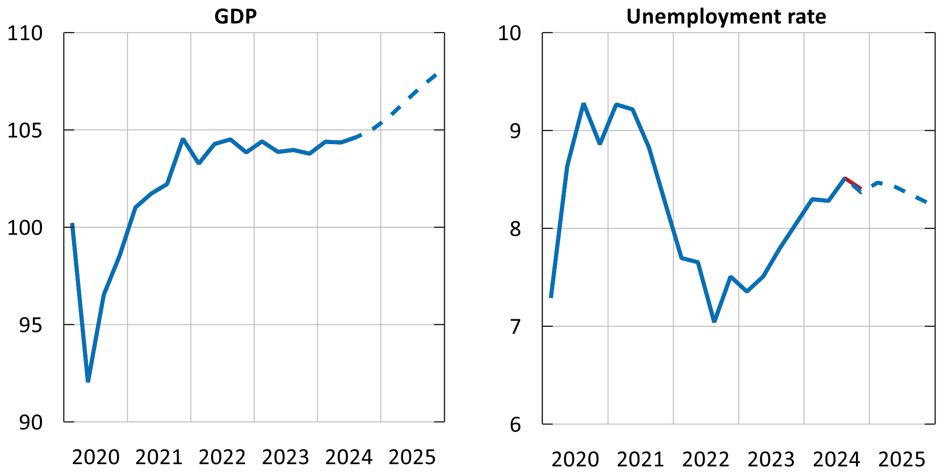
Monthly indicator of consumption for November

Note. Solid and dashed blue line refer to outcome and forecast respectively at the December monetary policy meeting. The dot refers to the outcome for Statistics Sweden's monthly indicator of household consumption for November 2024.

Sources: Statistics Sweden and the Riksbank.

Diagram 4. GDP and unemployment in Sweden

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



Monetary Policy Report December

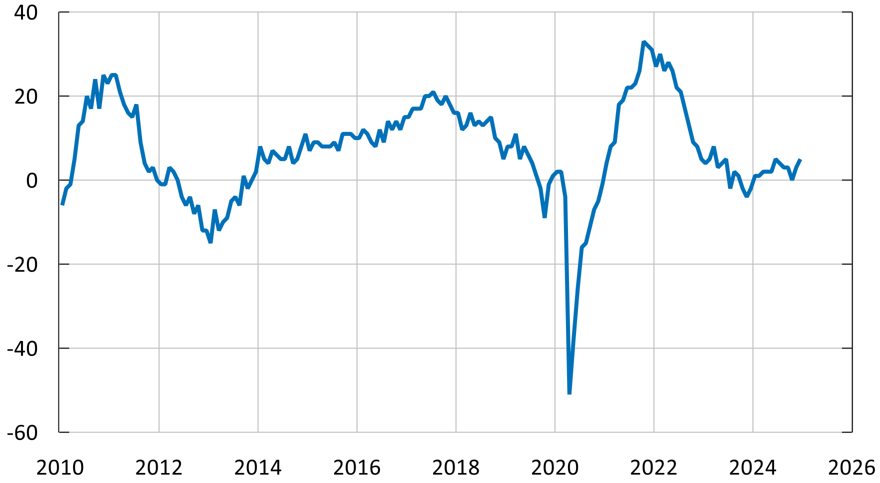
New outcomes

Note. Seasonally adjusted data. Solid and dashed blue line refer to outcome and forecast respectively at the December monetary policy meeting. Red line refers to new outcomes since then.

Sources: Statistics Sweden and the Riksbank.

Diagram 5. Business sector recruitment plans

Net figures

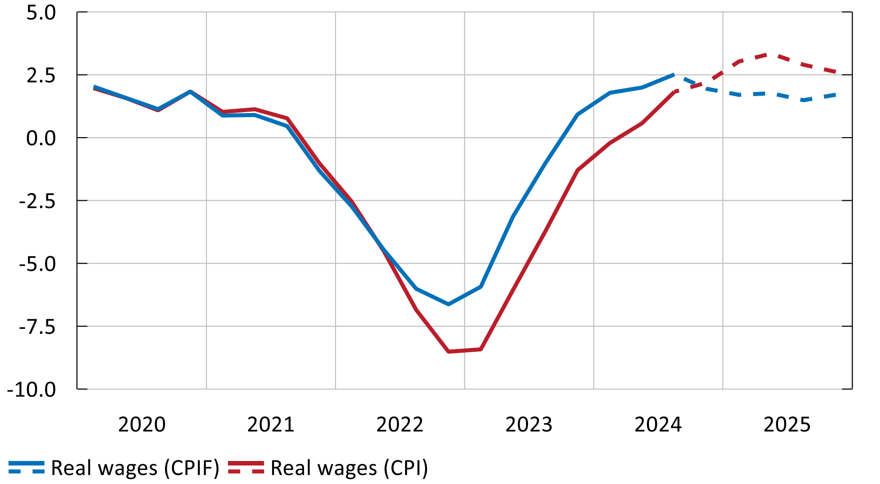


Note. The figure shows the net balances for the number of companies responding that they plan to increase the number of employees, compared with the number planning to reduce the number of employees in the coming three months. Seasonally adjusted data.

Source: National Institute of Economic Research.

Diagram 6. Real wages

Annual percentage change

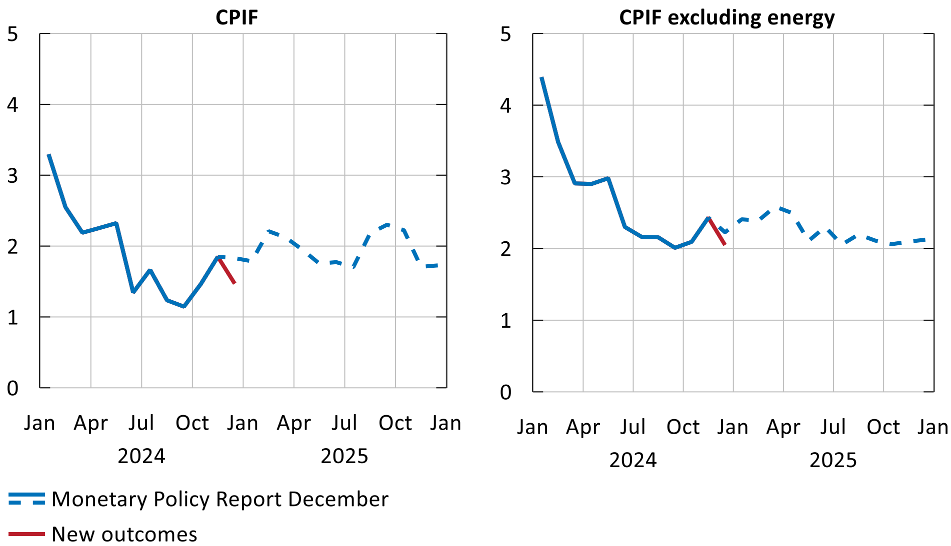


Note. Real wages are calculated as the difference between the rate of wage growth and the annual percentage change in the CPI and CPIF. Data on the rate of wage growth is preliminary and refers to the National Mediation Office's forecasts of the final outcomes. Solid and dashed line refer to outcome and forecast respectively at the December monetary policy meeting.

Sources: Statistics Sweden, the National Mediation Office and the Riksbank.

Diagram 7. CPIF and CPIF excluding energy

Annual percentage change

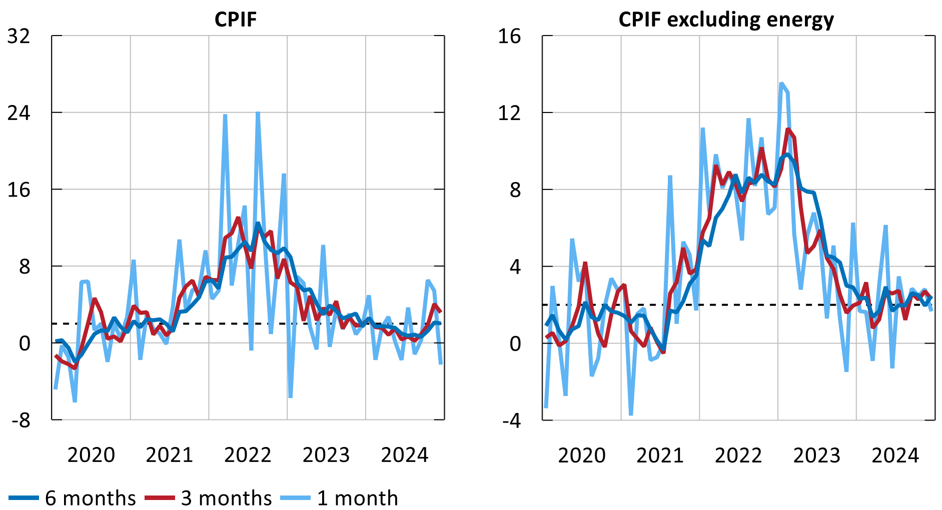


Note. Solid and dashed blue line refer to outcome and forecast respectively at the December monetary policy meeting. Red line refers to new outcomes since then.

Sources: Statistics Sweden and the Riksbank.

Diagram 8. CPIF and CPIF excluding energy, short-term rates of change

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

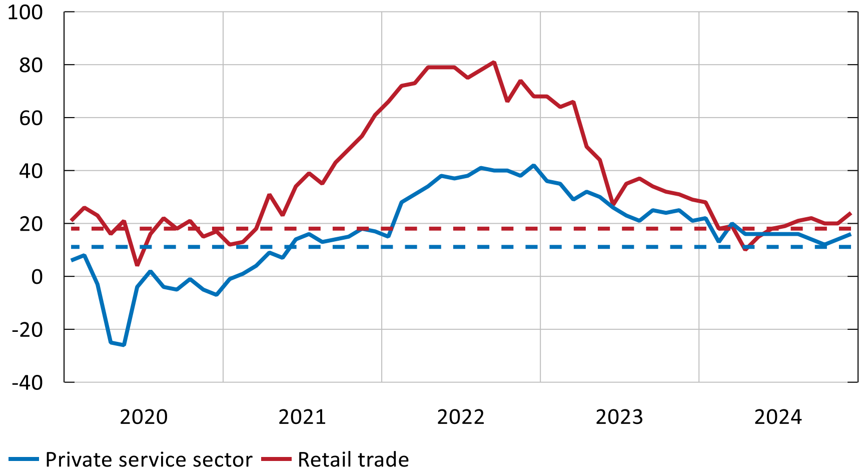


Note. Seasonally adjusted data. Black dashed line marks 2 per cent.

Sources: Statistics Sweden and the Riksbank.

Diagram 9. Price plans in Economic Tendency Survey

Net figures

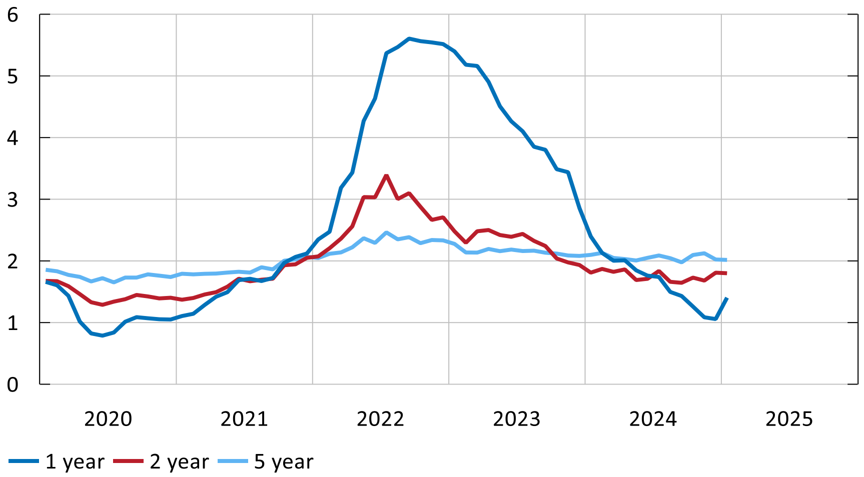


Note. The figure shows net balances of how many businesses responded that they plan to increase their prices compared with how many plan to reduce them in the coming three months. Seasonally adjusted data. The dashed lines represent the average for the period 2000-2024.

Source: National Institute of Economic Research.

Diagram 10. Inflation expectations

Per cent

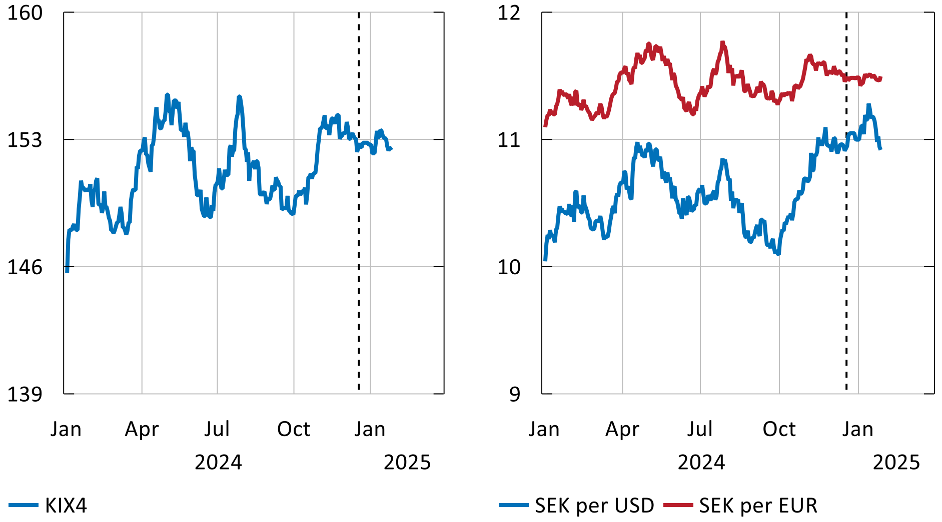


Note. Expectations refer to the CPI. Money market agents.

Source: Origo Group.

Diagram 11. Nominal exchange rate for the Swedish krona against KIX4 and the dollar and euro

Index, 18 November 1992 = 100 (left), and SEK (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 vertical line marks the date of the monetary policy meeting in December.

Source: The Riksbank.

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