

# *Flash comment Riksbank – March 2024 Minutes*

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## Riksbank Minutes:

- **Breman:** Breman takes a quite cautious approach to monetary policy easing going forward. She argues the forecast is based on a stronger SEK, stable global supply chains and energy costs. And the Riksbank also must consider the action from other central banks and how these might impact Swedish conditions. The risk picture is complex, and the mentioned factors can interact and amplify each other. In her view, this suggests that a well-balanced policy would be to start the easing cycle with a repo rate cut in May or June. The costs associated with unexpectedly higher inflation, however, is deemed higher than the opposite. Hence, she argues for a data-dependent approach where the pace and long-term level of the repo rate will gradually have to be evaluated.
  - **Bunge:** discusses that the Riksbank is very much affected by what happens abroad and therefore other countries' monetary policy and exchange rates matter. Therefore, the development of the SEK remains a risk and will affect their monetary policy decisions ahead. They expect the SEK to strengthen but she wants more confirmation that service inflation is heading the right way before cutting rates. Bunge explains that she wants to put higher significance on the development on the real economy ahead when conducting monetary policy. Therefore, it is of high importance to move cautiously ahead with future rate cuts to not stimulate too much demand causing inflation to rise again. Although Bunge explicitly says that the conditions appear good for a cut in May or June, she still sees a lot of risks that need to decrease. Given the SEK's depreciation since the meeting, foreign central banks matter and as such it rather looks likely now that she's favoring a cut in June.
  - **Jansson:** He starts by motivating why he did not vote for a cut in March - as he previously did open for that as a possibility. He says that premature rate cuts can make the last mile long and difficult, but at the same time emphasizes that they need to cut before inflation has reached target. It is not primarily the inflation developments that led him to the conclusion that it is better to wait a little longer before cutting rates, but rather what other central banks do. In this respect he is especially concerned by the risk of serious delays in the Fed easing cycle, not least since that may have a bearing on the ECB. He is also explicitly concerned about the unfavorable SEK developments. The major threat to be able to cut in May comes not from inflation, but from possible delays by other central banks and the risk for further SEK weakness. He concludes by saying that the Fed meeting on 1 May (one week before the Riksbank's Maty decision) is very important.
  - **Flodén:** Inflation and forward-looking indicators, such as companies' price plans, have continued to develop favorably. The February services inflation uptick is not concerning, as it was largely driven by one-offs. Inflationary pressures are approaching normal levels and as such a policy-rate cut can be justified at one of the next monetary policy meetings. Inflation risks are mainly related to external factors; geopolitics and global macroeconomic developments. Expectations of US monetary policy (and ensuing USD strength) has had a 'particularly large impact' on the SEK recently. If recent Krona depreciation continues, import prices risk starting to rise again and, in that case, monetary policy may have to remain contractionary for longer. An "early" rate cut by the Riksbank needn't have a major impact on the SEK, at least not in a scenario where it is "sufficiently clear" that other central banks are also close to start cutting. He expects that the Riksbank's rate cuts will be smaller and slower than peers. Explicitly mentions SEK-risks to an "early" cut: "If [...] the Krona depreciates simply on the expectation of an early rate cut, an early rate cut will become inappropriate".
  - **Thedéen:** Inflation is on the right path and forecasts have become more accurate, allowing a more forward-looking stance. Large uncertainties remain: geopolitical tensions, service prices (mainly concerns developments abroad) and economic developments abroad (strong US economy and subsequent risk for inflationary pressures). Major central bank policy rates matter and will impact the SEK, but the SEK is not a target itself. The current rate forecast for the remainder of the year (implying three cuts) is a good summary of the current view. "My assessment at present is that there is some probability of a cut in May, on condition that inflation prospects, including the development of the krona, do not deteriorate significantly." Argues though that already cutting in May might allow for a more "gradual" cutting cycle. Largest worry for cuts is a possible strong economic reaction with a large increase in demand that could impact inflation.
- Conclusion:** Everyone is clearly more comfortable about the current inflation and forecast allowing a first cut in near-term. Those risks that are lifted are mainly related to foreign developments such as the strong US economy, geopolitical risk and rate decisions of the major central banks, which subsequently might impact the SEK. We argue that this would favour to keep rates on hold in May to get more clarity on the actions of the FED (1 May & 12 June) as well as ECB (6 June) ahead of the June meeting of the Riksbank.

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