Minutes of the Monetary Policy Meeting

March 2025

MONETARY POLICY MINUTES

Executive Board, No. 2

DATE:	19 March 2025
TIME:	9:00
INFORMATION CLASS:	Open
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 --- Lena Arfalk Charlotta Edler Mattias Erlandsson Susanna Grufman Peter Gustafsson Anders Gånge Jesper Johansson Matilda Kilström Anders Kvist Björn Lagerwall David Lööv Stefania Mammos Ann-Leena Mikiver Annica Sandberg Olof Sandstedt Åsa Olli Segendorf --- Buster Carlsen (§ 1–3a) Maria Johansson (§ 1–3a)

It was noted that Jesper Johansson and Stefania Mammos would prepare the draft minutes of the monetary policy meeting.

§ 3a. Economic developments

Market developments since the last monetary policy meeting

Buster Carlsen, economist at the Markets Department, began by presenting developments in the financial markets since the previous monetary policy meeting in January.

The US dollar has clearly weakened as market participants have begun to question whether the previously strong economic performance of the US relative to the rest of the world will continue. Contributing to the less positive view of the US growth outlook is the uncertainty surrounding the administration's trade policy. This is also reflected in confidence indicators. Survey-based inflation expectations have increased, while some sentiment indicators from both businesses and consumers have weakened. Growth concerns have contributed to falling US treasury yields and fuelled expectations of interest rate cuts by the Federal Reserve this year.

The new administration's rhetoric on a quick solution to the war in Ukraine, combined with a more restrained US role in Europe, has prompted European countries to accelerate their defence rearmament plans. Germany's planned debt reform and investments, together with the EU's defence initiatives, have led to significant market movements. Expectations of more expansionary fiscal policies, with large investments in defence and infrastructure, have led to a rise in European government bond yields, especially at longer maturities, and also relative to swap rates with the same maturity. The euro has also strengthened significantly against the dollar in a short period of time.

A more uncertain economic outlook in the US has led to large outflows from US assets and significant declines in US stock indices. Meanwhile, investors have turned their focus to Europe's equity markets, lured by more attractive valuations and a brighter growth outlook, partly fuelled by the extensive fiscal policy initiatives.

The krona has strengthened significantly since the Riksbank's last monetary policy decision, partly driven by financial flows from the US. Analysts and economists agree that the Riksbank will leave the policy rate unchanged at today's meeting. The higher inflation outcomes in January and February have led a majority of analysts to conclude that the Riksbank has reached the end of the current rate-cutting cycle. In addition, since the last monetary policy meeting, futures pricing has shifted up and currently indicates that the policy rate will remain unchanged in 2025.

Financial stability – current situation and risks

Olof Sandstedt, Head of the Financial Stability Department, described the situation in the Swedish financial system. Uncertainty is high, and resilience may be tested in the new global situation. Although the Swedish financial system is functioning well and the situation for the most highly leveraged actors in the economy has improved somewhat, systemic risks remain high.

There is an unusually high level of uncertainty abroad, as a result of trade policy and geopolitical developments. While it is difficult to predict how households and businesses will be affected, these developments may lead them to postpone consumption and investment decisions. However, banks' exposures to the major goods-exporting companies directly affected by greater trade barriers are relatively small.

Lower interest rates have a positive impact on the debt-servicing ability of both households and businesses. However, longer market rates have risen recently, which may affect the interest expenses of households and businesses in the longer term and also have a negative impact on the value of financial assets and real estate. Real estate companies still therefore face challenges. So far, the situation has had a limited impact on the difference between bank and corporate borrowing costs and on risk-free interest rates, which, despite rising somewhat, remain at historically low levels.

Swedish pension and insurance companies and funds as a collective have a high proportion of equities in their asset portfolios, a substantial share of which are in US dollars. For some time now, investors have shown less interest in investing in US equities and have instead increased their holdings of European assets, including Swedish ones. At the international level, modified financial flows have contributed to a weakening of the US dollar and to the outperformance of European equity indices over US indices. As financial flows are important for the krona exchange rate, the Riksbank is monitoring this development closely.

The current monetary policy drafting process – new data and forecasts

Matilda Kilström, 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.

Matilda began by informing about new outcomes. The latest inflation expectations for March were published this morning in the larger quarterly survey of all participants. Average CPIF inflation expectations rose from 1.7 per cent to 2.3 per cent one year ahead and from 1.9 per cent to 2.2 per cent two years ahead. Expectations five years ahead have also risen somewhat, from 2.0 per cent to 2.2 per cent. For money market participants responding on a monthly basis, CPIF expectations five years ahead rose slightly further from 2.2 per cent to 2.3 per cent. Their shorter-term expectations also rose, but they are lower than five-year expectations.

The briefing material for today's decision has been discussed with the Executive Board on 5, 6 and 10 March. The draft Monetary Policy Report was discussed and tabled at a meeting of the Executive Board on 13 March.

In January, the policy rate was lowered by 0.25 percentage points to 2.25 per cent and the assessment was then that the policy rate forecast from December was essentially unchanged, but that there was preparedness to act if the inflation and economic outlook changes. Key issues in this drafting process have been how the rising inflation at the beginning of the year affects the inflation outlook and what the conditions are for a continued recovery of the Swedish economy. Since the monetary policy meeting in January, international developments have been dramatic. Other key issues have therefore been the impact on the inflation and economic outlook of the shift in trade policy in the US and the sharply increased defence spending in Europe. These factors have affected the Riksbank's forecasts to some extent, but it is very uncertain what the effects will be.

Inflation has been higher than expected in the early part of the year. CPIF inflation was 2.9 per cent in February and CPIF inflation excluding energy was 3.0 per cent. In both cases, the outcome was just over 0.6 percentage points higher than the forecast in the December Monetary Policy Report. The increase is partly due to Statistics Sweden's update of the consumption weights, the so-called basket effect, which makes an unusually large contribution to inflation this year, but also to rapid increase in the prices of certain foods. Some indicators of the development of inflation in the short term have also risen slightly, such as companies' price plans according to the National Institute of Economic Research's Economic Tendency Survey and the price-related questions in the Riksbank's Business Survey. At the same time, the rates of increase in prices over shorter periods than twelve months have also risen recently, although this is partly explained by the basket effect. However, both short- and long-term inflation expectations are still close to the inflation target.

The Swedish economy is in a recovery phase. Growth was higher than expected in the second half of 2024, with GDP increasing by 0.8 per cent in the fourth quarter compared with the previous quarter. The interest-rate sensitive parts of the economy such as household consumption and housing investment thereby increased for the second quarter in a row after having seen weak development for two years. Exports also increased in the fourth quarter while imports decreased. However, monthly GDP and household consumption data suggest that growth will slow somewhat in the early part of this year.

After a long period of strong development, growth in the US economy is now showing signs of slowing down. Growth in the euro area remains weak but is expected to gradually increase going forward. However, there is considerable uncertainty regarding the outlook abroad. In the US, increased import tariffs on several countries and greater uncertainty in the economy are expected to dampen growth and increase inflation somewhat in the period ahead compared with the previous assessment. A more expansionary fiscal policy with increased defence spending is expected to help boost growth in the euro area in the coming years. Expectations of a more expansionary fiscal policy have also led to a marked rise in European long rates and contributed to a sharp narrowing in the spread between long rates in the US and Europe. But it also reflects changes in policy-rate expectations among market participants, where a weaker growth outlook has led to a lower expected policy rate in the US.

In the proposed forecast in the draft report, growth is expected to pick up at the end of the year when both consumption and investment are expected to grow more rapidly as demand for Swedish exports is stimulated by a more expansionary fiscal policy in Europe. An increased need for defence spending will contribute to expectations of more rapid growth in investment. GDP growth is expected to be just under 2 per cent in 2025 and 2.4 per cent in 2026. The rebound in the labour market will take some time yet, but the stronger economic situation is predicted to strengthen the labour market over the forecast period. Unemployment is expected to turn downwards before the summer and continue to fall to around 7.5 per cent in the coming years.

Inflation is expected to return to close to 2 per cent next year. This reflects an expected more normal basket effect, lower food price increases, a stronger krona and still well-anchored inflation expectations. In the slightly longer term, therefore, the inflation outlook is largely unchanged. This is in light of important drivers of inflation, such as resource utilisation, wage growth and the krona exchange rate, developing in a way that is compatible with inflation close to 2 per cent.

The proposed forecast is based on the proposal for monetary policy described in Annex A to the minutes and which the Monetary Policy Department judges will gain a majority in the Executive Board at today’s meeting. The proposal is that the policy rate be left unchanged at 2.25 per cent at today’s meeting. The forecast for the policy rate is unchanged since December, which means it is expected to remain at the current level.

§ 3b. The economic situation and monetary policy

Deputy Governor Per Jansson:

Since our last monetary policy meeting in January, developments abroad have been dramatic. On the economic front, among other things, a tariff war between the United States and several other countries has begun and major European defence spending has been announced, not least by Germany. The proposed forecast in the draft Monetary Policy Report has, as far as possible, tried to take events into account, but the great uncertainty surrounding future developments means that the assumptions at this juncture must of necessity be cautious.

It is now clear that tariffs are not just a bargaining chip for the US president, but how extensive they will be is still uncertain, and a deterioration in the US economy could dampen the president's enthusiasm for continuing to escalate the trade war. The forecasts will need to be updated as more information on the various measures becomes available, but it is likely that the uncertainty will remain significantly elevated for quite some time. The risks of further deteriorating public finances in the United States are also contributing to the unusually high level of uncertainty. In a bad scenario where confidence in US government finances is seriously shaken, both long-term interest rates and inflation could be pushed up sharply, primarily in the United States but also in other countries.

Despite the high level of uncertainty, a scenario has been included in the draft report in order to shed some light on the possible effects of a wider trade war.[1] One conclusion is that such a scenario is associated with an increased risk of stagflation, that is a risk of the real economy stagnating while inflation rises. The biggest stagflation risk would probably be in the US economy. But as the scenario shows, even a country like Sweden would run the risk of being adversely affected by such a development.

An escalated tariff war could thus present many central banks, including the Riksbank, with very difficult trade-offs. In this context, deteriorating confidence in US public finances would of course only exacerbate the problems. In general, the best thing central banks can do in such an environment is to be as predictable as possible and not contribute to further uncertainty. I believe this is best done by having a clear focus on maintaining confidence in the inflation target. Temporary deviations from the target can be seen through, but great care must be taken to ensure that such deviations do not become more permanent and thus the spark that triggers a more general inflationary process. A development like the one in

[1] See the scenario "Scenario: new trade barriers lead to lower productivity and higher inflation" in Chapter 3 of the draft report.

the first half of 2022 must not be repeated. We also know from experience that a monetary policy geared towards maintaining the credibility of the inflation target over the long term is our best contribution to favourable economic developments.

Against this backdrop, I would like to clarify in my comments at today's meeting how I view the recent unexpected and relatively large increase in inflation, and how I believe monetary policy should best respond to it at this present time.

The fact that inflation has risen above both our forecasts and the target is of course generally not a welcome development. But it is particularly problematic at a time when, as I have just mentioned, risks of stagflation are looming from abroad. Since our meeting in January, we have received two new inflation outcomes, for February and January. After already rising unexpectedly fast in January, inflation surprised even more on the upside in February, both with and without energy prices. The forecast error for both measures of inflation increased from 0.3–0.4 percentage points to around double that. The outcome for CPIF inflation in February was 2.9 per cent, compared to a forecast of 2.2 per cent in the Monetary Policy Report from December. Stripped of energy prices, the outcome was 3 per cent and the forecast was 2.4 per cent.

Our measures of core inflation and inflation momentum, as reflected in shorter-term price increases, have also taken a worrying turn. Since our January meeting, the median for the measures of core inflation has risen by almost a full percentage point, from 2.1 per cent in December to 3 per cent in February. At the same time, shorter-term price increases, in one-, three- or six-month changes, are now above the usual increase in annual percentage change for a wide range of different inflation measures and most of the important sub-groups of consumer prices. The hope I had at our last meeting that inflation might surprise a little on the downside in the near term has thus not been fulfilled at all.

While this development is of course concerning, there are, just as described in the draft report, strong reasons to believe that much of the increase in inflation in recent months is temporary. One important reason for this is the so-called basket effect, which this year is pushing up rather than, as it usually does, down the measured inflation rate.[2] The effect impacts the weighting system for consumer prices in a broad and complex way, making even measures of core inflation and price changes over shorter time horizons difficult to interpret.

For our most common measures of inflation in terms of annual percentage change, CPIF inflation and CPIF inflation excluding energy prices, the basket effect will impact developments in all remaining months of the year. Thus, under the reasonable assumption that the effect next year will be more normal, it is only

[2] See "FACT BOX - Inflation effects of new weights in the CPIF" in Chapter 1 of the draft report.

from January 2026 onwards that this year's basket effect will fall out of the measured inflation figures. The effect is therefore temporary but will take a full year to disappear.

Another reason to believe that the rise in inflation is mainly temporary is that the rate of increase in food prices and some prices that are changed less frequently, and which now still reflect previous, unusually large cost increases, is very likely to slow down. Clearly, grocery stores have come under great public pressure to hold back on their price increases. With many global commodity prices falling substantially, the Swedish krona appreciating significantly, and the global situation being very shaky, it is in every way a good time for the stores to take this responsibility. And I certainly assume that they will. Indeed, with the current development of global market prices and the exchange rate of the krona, it should even be conceivable that one or the other food price is lowered in the future.

At the same time, the stronger krona should also help to dampen the rate of increase in non-food consumer goods prices. So, overall, I am very hopeful that inflation will start falling this year and be back in line with the inflation target next year, just as the forecast proposal in the draft report suggests. This reasoning certainly assumes that no new major inflationary impulses will come from abroad, but as I noted at the beginning, it is difficult in a forecast at present to assume anything other than this.

Let me round off with my conclusions for monetary policy. Inflation has risen quite considerably since our last monetary policy meeting. There are, however, strong reasons to believe that the increase will not be persistent. It is well established that monetary policy should see through temporary fluctuations in inflation, both upwards and downwards. But in the current situation, where the economic recovery still needs as much monetary policy support as possible and there are major risks that the Swedish economy will also be affected by significantly unfavourable changes from abroad, it is particularly important not to create any unnecessary expectations that a tightening of monetary policy is imminent. Therefore, my view is not that the policy rate, as some are now speculating, will soon need to be raised. It is only if confidence in the inflation target starts to be threatened that I think such expectations are justified. But if such a situation were to arise, which, as I have said, I do not consider likely at present, it is important to act quickly and decisively in monetary policy. I don't want to see a repeat of what happened in the first half of 2022.

With this, I support the forecasts and the monetary policy assumptions in the draft report.

First Deputy Governor Anna Breman:

I support the proposal to leave the policy rate unchanged at 2.25 per cent, and I also support the proposed policy rate path and the monetary policy assessments presented in the draft Monetary Policy Report.

The task of monetary policy is to contribute to economic stability by holding inflation close to 2 per cent and maintaining confidence in the inflation target. This is important not least in turbulent times and supports a sound real economic development in Sweden, competitive companies and rising real wages for households.

Let me begin by saying that the monetary policy considerations at today's meeting are genuinely difficult. The dramatic developments abroad, with an escalated trade conflict and worsened geopolitical situation could lead to higher inflation and lower growth. However, inflationary pressures could at the same time be dampened by weaker demand, tighter financial conditions,[3] lower energy prices and a stronger krona (see Figures 10 and 26 in the draft Report). Lower growth is counteracted by the already implemented Riksbank rate cuts and by real wage growth (see Figure 20 in the draft Report) as well as extensive investments in stronger defence in Europe.

Our overall assessment, which I support, is that inflation will be somewhat elevated over the year, but in line with the target during 2026 and 2027. Growth is weak at present, but will pick up again during the year, and the labour market will strengthen. Overall, the outlook for inflation and economic activity still holds. This means that I support an unchanged policy rate at today's meeting.

During the remainder of my contribution to the meeting today I would like to start by commenting on the most recent outcomes for inflation, and then develop my view of the policy rate path and the monetary policy strategy, given the high global uncertainty and the many varying announcements about trade policy abroad.

Inflation has been higher than expected in the past two months. The upturn is explained by factors that monetary policy would normally disregard; new weights in the CPI basket,[4] rents and administrative prices which to a great extent reflect earlier price increases, and food prices that often vary a lot. But, it is problematic that inflation was higher than expected in the most recent outcomes, as we are now on a higher price level, and I assess that the risks to inflation in the near term are on the upside. Further surprises on the upside could lead to higher inflation

[3] This is partly the result of long-term market rates rising in Europe, see Figures 6, 7, and 8 in the draft Report.

[4] For more details, see the Fact Box" Inflation effects of new weights in the CPIF" in Chapter 1 of the draft report.

expectations and result in inflationary pressures above the target level. We need to be extremely vigilant and prepared to act if forward-looking indicators point to inflation being lastingly above the target.

Having said this, I would like to comment in a little more detail on first food prices and then trade barriers and their effects on the outlook for inflation and economic activity.

Food prices are the price category for which the price level has risen the most in recent years. Since 2021, food prices have risen by 27 per cent, which can be compared with services prices rising by 18 per cent, goods prices by 15 per cent and energy prices by 16 per cent.[5] The price level in terms of the CPIF has risen by 19 per cent during the same period. Moreover, food is a necessity, which means that households cannot reduce their consumption to any great extent when prices rise. Demand is therefore relatively insensitive to higher prices.

Additionally, rising food prices hit households with small financial margins particularly hard. There are several explanations for this. First: Households with lower incomes already tend to buy the cheapest products and therefore cannot change to relatively cheaper goods or products. Second: Households with lower incomes tend to spend a relatively larger share of their incomes on food than other households. This means that rising food prices displace other consumption for households with small margins.

Research also shows that food prices have considerable importance for households' inflation expectations, and this applies in a broad sense and not only to households with small margins.[6] Household expectations have risen in Sweden and are at a high level. However, other measures of inflation expectations are firmly anchored close to the target, both in the short and the long run (see Figure 30 in the draft Report). Nevertheless, high inflation expectations among households can dampen their optimism and increase their precautionary saving.[7] Rising food prices can thus both displace other consumption and dampen households' willingness to consume and thereby delay the recovery in the Swedish economy.

---

[5] Energy prices peaked in December 2022 with an upturn of around 60 per cent but have since fallen back so that the change in price levels for energy since 2021 is now around 16 per cent. The price level is calculated in relation to the average for 2021.

[6] See A. Breman and B. Lagerwall (2024), "Monetary policy and behavioural economics", Economic Commentary No. 6, and A. Breman (2024), "The psychology of inflation", speech at Danske Bank, 12 April, for overviews of the research in this field.

[7] Theoretically, higher inflation expectations should lead to higher consumption in the near term, as households expect a lower real interest rate and reduce their savings, but empirical research rather implies that higher inflation expectations mean that many households are expecting a poorer development in the economy and therefore save more and consume less, see A. Breman (2024), "The psychology of inflation", speech at Danske Bank, 12 April, and S. Stancheva (2024) https://www.brookings.edu/articles/why-do-we-dislike-inflation/, BPEA, Spring.

Forward-looking indicators imply that food prices ought not to continue to rise at the same pace going forward. Global prices for the categories that have risen the most, such as coffee and cacao, are on the way down (see Figure 15 in the draft Report). The krona has moreover strengthened against both the dollar and the euro, which should dampen prices on imported foods going forward. However, the risk outlook contains a continuing rapid rise in food prices, not least because these prices will continue to be affected by more frequent extreme weather, geopolitical unease and increased trade barriers.[8]

This leads me in to the effect of escalating trade barriers. Trade barriers tend to lead to both lower growth and higher inflation. The effects, however, are complex, and we need to also take into account slower demand and effects via financial markets, including the exchange rate. This is described in more detail in the speech I held in February.[9] It is as yet extremely uncertain what the scope of the trade barriers will be and how long they will be in place. Overall, however, it is more probable now than at our previous monetary policy meeting that import tariffs will lead to higher inflation, particularly in the United States. This could have an effect on global inflation. What was in the risk scenario then, is now partly included in our main scenario.

The forecast in the main scenario takes into account the events of recent months, and this is aptly described in the draft Report. I will therefore not discuss the forecast in more detail. Instead, I would like to conclude by discussing the policy rate path and monetary policy going forward.

There are three things I would like to highlight in relation to the policy rate path: forecast precision in the short term, how the risk outlook affects the path and the alternative scenarios.

First: The policy rate path is always more relevant and has better forecasting ability in the short term.[10] With the sharp shifts abroad that we are currently experiencing, there is considerable uncertainty even in the short term. The policy rate path signals that the policy rate is expected to remain unchanged in the near term. Still, it is important to act if the outlook for inflation and economic activity requires that we do so. Monetary policy is forward-looking, and if events occur that risk leading to inflation that is lastingly too high or too low, it is important that we act quickly and raise or cut the policy rate.

---

[8] See also my comments at the ECB Forum in Sintra on 29 September 2021, "Monetary policy and climate policies: implications for Europe", for a discussion of climate change, volatility in food prices and the effects on inflation expectations.

[9] See A. Breman (2025), "How trade barriers affect the Swedish economy and inflation", speech at the Norrbotten Chamber of Commerce, 20 February.

[10] This is illustrated in the draft Report in the lower left-hand image in Figure 1 by the dashed line becoming increasingly weak over time.

Second: The policy rate path signals that the policy rate is assessed to remain unchanged, even in the longer run. But I would like to emphasise that this should rather be seen as a reflection of the risk outlook than a forecast that the policy rate will remain unchanged throughout the forecast period of three years. The policy rate path shows what policy rate is consistent with an inflation in line with the target in the medium term, given the information currently available. However, as we are constantly receiving new information about the driving forces behind inflation, it is likely that the policy rate path will also change. The current policy rate path reflects the fact that the risk outlook is roughly balanced and that the probability of the policy rate being raised is around the same as the probability it will be cut during the forecast horizon (see Section 3.2 in the draft Report for further details regarding the risk outlook).

Third: The alternative scenarios are an important complement to the policy rate path, as they illustrate a readiness to act. They also show how monetary policy can act in different scenarios. It would be ideal to have even more scenarios for each Monetary Policy Report, as there are always more possibilities than those presented. At the same time, it is important to remember that regardless of how many scenarios we were to choose, situations can always arise that we are unable to predict. In addition, even if inflation approaches the figures in one scenario, many other things can happen to cause the monetary policy response to be different from what is shown in the scenario.

Allow me to summarise. I support the proposal to leave the policy rate and policy rate path unchanged. However, if the outlook for inflation and economic activity changes, we will take action. Despite the unease abroad, I make an overall assessment that the outlook for inflation and economic activity in Sweden is good.

Deputy Governor Anna Seim:

I support the proposal to leave the policy rate unchanged at 2.25 per cent. I also support the forecasts and assessments conveyed in the draft Monetary Policy Report.

The draft report describes a global economy in which sharp shifts are generating significant uncertainty and are putting decision-makers around the world to the test. Allow me therefore to start by noting that we in Sweden are well-positioned to manage this erratic environment. We have a stable starting position that many other countries lack due to Swedish inflation having been close to the target for some time, long-term inflation expectations being anchored close to 2 per cent, economic activity having shown increasingly clear signs of a recovery at the end of 2024, our strong public finances and the cutting of the policy rate over the last year to what can be considered a neutral level.

As we describe in the draft report, we expect CPIF inflation to be slightly higher than 2 per cent this year. This is partly due to the annual adjustment of the weights in the CPI and rapid increases in certain food prices. However, given the global situation, I have given considerable thought to whether the latest outcomes reflect underlying inflationary pressures that need to be managed. Just as at the meeting in January, my assessment is that the risk of supply shocks is elevated and that a number of interacting factors could quickly create inflationary impulses. The outlook for economic activity is difficult to assess, given the fiscal policy initiatives that have been discussed, but also because the comprehensive uncertainty prevailing risks throwing a wet blanket over the world economy. Even though domestic economic activity developed more strongly at the end of 2024, going forward we therefore cannot rule out a stagflation scenario, similar to the one that started to unravel three years ago.

I would therefore like to take the opportunity to discuss (i) my assessment of how today's situation differs from the inflationary upturn that started in the winter of 2021/22 and (ii) the prospects of conducting a predictable monetary policy in this uncertain situation.

There is a lot to say about the inflationary upturn in the spring of 2022 but allow me to focus on why I believe that this time is different. Four factors that led to sharply rising inflation then were (i) persistent effects of pandemic-related supply shocks; (ii) Russia's illegal invasion of Ukraine; (iii) pent-up demand in the wake of the pandemic; (iv) the accumulation of strong purchasing power by many households due to a high level of saving during the pandemic. We have seen higher food prices recently, partly as a result of poor harvests, but even though conflicts and uncertainty are making a mark on the world economy, there are currently no clear signs of global supply-chain disturbances or higher transport costs. There is no doubt that households and companies are longing for better times after a period of high inflation and weak economic activity, but this is not a matter of pent-up demand amplified by accumulated buffer savings.

One way of quantifying the differences between the spring of 2022 and the spring of 2025 is to study the heat map in Figure 14 in the draft report. The figure shows that, even though inflation started to rise in the winter of 21/22, high prices for electricity and fuel contributed in a different way to what we see now. However, what is decisive for the controlled development of inflation in the medium term is that the shocks affecting the economy do not become entrenched and persistent. Figure 14 is consistent with the view that the increased cost pressures caused by electricity and fuel prices spread more broadly in the economy in 2022 and affected some prices with a significant lag. One such example is provided by rents, which have been deep red in the heat map for just over a year and have thus affected households two years after the initial shock.

Another indicator of the imminent inflationary surge in 2022 was provided by the relatively broad rise in inflation in other countries in the winter of 2021/22. Figure 5 does not show any corresponding inflationary upturn in the United States or euro area at present. As we note in the draft report, inflation instead fell both in the United States and the euro area from January to February. Furthermore, Figure 17 of various inflation indicators reveals that, even though there are tendencies for stronger inflationary pressures, these are not in the vicinity of the levels that preceded the steep price rises of 2021/22. However, the trade and fiscal policies signalled both in other countries and in Sweden call for vigilance as regards inflationary pressures going forward.

Finally, allow me to comment on the conditions existing for a predictable monetary policy in a time when the road ahead is highly uncertain. As I previously emphasised, the policy rate path, complemented by alternative scenarios, is our most important communication tool as it conveys our reaction function. The forecast that we convey in our draft report is that the policy rate will remain unchanged at 2.25 over the horizon covered by the path. The primary reason that I support the policy rate path is of course that, given the information available today, it is compatible with inflation at target within the forecast horizon. Additionally, however, an unchanged policy rate and a flat path are attractive in an environment where uncertainty is so comprehensive that a substantial share of the information reaching us is noise. In such an environment, a flat path is an expression of a robust strategy that gives rise to acceptable outcomes even if the developments we see as most probable were not to materialise. This should not be interpreted as us being unwilling to adjust the policy rate if actual signals suggest that this is justified. When uncertainty is as comprehensive as it is at present, the scenarios we develop become crucial for the predictability of monetary policy. They describe in a stylised way how we might react if an alternative course of events were to materialise instead of our main scenario in which the policy rate is left unchanged. The key to a predictable monetary policy is therefore carefully crafted scenarios that illustrate conceivable reactions.

In turbulent times in which the range of outcomes quickly has expanded markedly, the Riksbank shall contribute with stability by reducing uncertainty every way we can. We do this best by ensuring that inflation stabilises at 2 per cent in the medium term by pursuing a robust, well-balanced and predictable policy. We are in strong position to do so.

Deputy Governor Aino Bunge:

I support both the proposal to leave the policy rate unchanged at 2.25 per cent at this meeting, and the forecasts and assessments made in the draft Monetary Policy Report.

The period since the January monetary policy meeting has undoubtedly been dramatic. For instance, we have seen a number of statements from the new US administration regarding security policy and defence, as well as import tariffs and other trade barriers.

The proposal on the table does not entail making any changes to the monetary policy plan communicated earlier, which I consider to be reasonable. Having said this, a lot has changed since our previous meeting, not least with regard to the risk outlook. The uncertainty regarding future outcomes has without doubt increased further.

Inflation was much higher in January and February than we had forecast earlier. This applies to CPIF inflation both including and excluding energy. But as described in the draft Report, our monetary policy strategy means that it is neither possible nor desirable to conduct a monetary policy that always keeps inflation at exactly 2 per cent. In the same way as when inflation was below the target during the summer and autumn, we should now focus not only on the most recent outcomes but also look forward and at inflation during the period we can affect with our monetary policy.

But at the same time when we look at the upturn in inflation at the beginning of the year, the inflation shock of recent years is fresh in our minds. One important question prior to this meeting has therefore been to analyse the reasons for the upturn and whether they are assessed to also affect inflation in the longer run.

One of the important reasons for the upturn in inflation is due to technical factors and linked to the annual update in the weights in the CPI and the so-called CPI basked effect.[11] On condition that the basket effect becomes more normal next year, the upward pressure on inflation will cease and therefore this factor should not in itself give reason for any change in the monetary policy plan. But as mentioned, we have also seen a rapid rise in food prices, which rose by a good 1.5 per cent last month, and just over 3.5 per cent on annual rate. We know that rapidly rising food prices have the largest effect on households with small margins. Moreover, these prices have a large impact on households' inflation expectations.

But as shown in Figure 15 of the draft Report, it is individual food groups, not least coffee and cocoa, that have increased a lot. What points to a calmer situation going forward is that world market prices are no longer showing the same increases as before, and the stronger krona should have a dampening impact on the development of food prices going forward.

---

[11] See the Fact Box" Inflation effects of new weights in the CPIF" in Chapter 1 of the draft report.

At present I consider the assessment in the draft Report to be reasonable: The deviation of inflation from the target is temporary, and the forecast is for inflation to be at the target next year. But we are following developments with great vigilance, especially with regard to pricing behaviour: Possible signals from companies regarding large or more frequent price increases must be carefully monitored.

At the same time, I think that there is an important difference in the attitude to the situation following the pandemic, when inflation rose substantially, which is also significant to the assessment of inflation going forward: Demand is much more subdued this time, and this applies to both Sweden and Europe. The low demand reduced companies' capacity to transfer rising costs to the consumer channel, which is also reflected in our most recent Business Survey.[12]

Swedish GDP growth was certainly stronger than expected at the end of last year, and a recovery has begun. However, developments at the start of this year have shown signs of weakness, both with regard to household demand and the labour market, where we cannot yet see any rebound. The forecast for unemployment has been revised up in the short term, with a peak of just over 9 per cent in the first quarter (see Figure 22 in the draft Report).

The uncertainty regarding trade policy in the United States risks not only affecting the US economy, but also Swedish and European households and companies. Companies' investments and households' consumption require confidence and optimism. Figure 2 in the draft Report shows that we cannot yet see that uncertainty has spread to indicators such as the purchasing managers' index in the manufacturing sector, but this could change going forward. Here in Sweden, however, we can note a downturn in consumer confidence in the recent Economic Tendency Survey.

Something that could have a major impact on the European economy is the large shift in fiscal policy, with substantial investments in defence and, in the case of Germany, infrastructure. But as described in the draft Report, the effects on the economy will depend on how the investments are designed and financed. The effects taken into the forecast are shrouded in considerable uncertainty and should be regarded as an initial estimate.

A further theme for developments since our previous meeting is the convergence of financial markets between Europe and the United States. Lower expectations of growth in the United States and expectations of increased investments in defence in Europe have led to the difference in both short and long-term interest rates having declined between the regions. We have also seen that the European stock

[12] See "No strong wind in our sails", the Riksbank's Business Survey, February 2025, Sveriges Riksbank.

markets have been stronger than those in the United States and that the dollar has weakened against the euro. The krona is around 8 per cent stronger against the dollar than at our previous meeting but has also strengthened by around 4 per cent against the euro. In KIX-weighted terms, the krona is about 5 per cent stronger.

We at the Riksbank have been pointing out for a long time that fundamental factors point to an appreciation of the krona. We have also emphasised that once such an appreciation begins it can proceed relatively quickly. The rapid krona appreciation since January is clearly shown in Figure 10 in the draft Report. As I mentioned earlier, the stronger krona contributes to slowing down inflation going forward.

To summarise, I am still worried that the strength of the domestic recovery is insufficient, but the risks to an excessively high inflation have on the other hand become clearer since January, not least because of risks linked to a trade war. The inflation target is our overriding objective, and it is essential that we do not see a return to a more “volatile” pricing behaviour.

In conclusion, allow me to point out that I think we are in a good starting position to manage a development that can look very different in relation to our main scenario. We have implemented a number of relatively rapid cuts in the policy rate and the economy is on the way to recovery, although it is still weak. Inflation has been close to 2 per cent for some time, and inflation expectations in the long run are close to the target. This shows a confidence that we need to maintain.

Governor Erik Thedéen:

I support the proposal to leave the policy rate unchanged at 2.25 per cent and I support the forecasts and assessments described in the draft Monetary Policy Report.

The many comments and decisions in recent weeks about higher US import tariffs are creating significant uncertainty. The realignment of US foreign and security policy is adding to the uncertainty and has also led to discussions in Europe of considerable increases to defence allocations. A great deal has happened in a short time, and we remain in the middle of an intensive course of events, the ultimate outcome and consequences of which are still uncertain. There is reason to expect substantially widened scope for very different economic outcomes, even though our forecasts for the Swedish and international economies have not changed substantially since our assessments in December.

Despite the drama, the growth prospects in Sweden remain positive – the recovery got started at the end of last year, investment grew at a good rate and households’ purchasing power is rising. Even though uncertainty over our forecasts has increased, most circumstances continue to suggest a relatively favourable economic development this year and the coming years, with continued rising real incomes, high employment and, eventually, falling unemployment.

Inflation has been unexpectedly high in recent months and rose in February to 2.9 per cent, as measured by the CPIF. Part of the surprise can be explained by changes in the weights for the various product groups included in the CPIF, known as the ‘basket effect’. The rate of inflation calculated with fixed weights did not rise as much at the start of the year. The upturn in inflation was also driven by unexpectedly rapid price rises for certain foodstuffs, such as cocoa and coffee. In recent weeks, however, world market prices for several foodstuffs have fallen somewhat, in addition to which the krona exchange rate has strengthened, which is having a restraining effect on inflation.

There is therefore reason to believe that the recent upturn in inflation is temporary. Despite this, developments call for vigilance. It cannot be ruled out that the price rises are a sign of a new dynamic in pricing behaviour among companies. When the rate of price increase accelerates, there is always a risk that inflation expectations will be affected and that these expectations of higher future prices will start to affect today’s prices.

However, confidence in the inflation target remains strong among the public, reducing the risk that higher inflation expectations will start to affect how companies set their prices. Consequently, we have some scope to see through upturns in inflation if we judge that they are temporary. This is actually one of the pillars of a flexible inflation-targeting policy.

Economic agents know that the Riksbank will tighten monetary policy if inflationary pressures pick up. We continually monitor the development of the rate of price increase and various inflation indicators, in addition to which we carefully supervise inflation expectations. We are always prepared to act using the policy rate if and when justified but presently our analysis suggests that monetary policy targets are best achieved with an unchanged policy rate.

There is a risk that the United States will further raise its tariffs on imports from the EU, following the tariffs on steel and aluminium that have already come into effect, and that the EU will then respond with similar countermeasures. Such a development would probably have a fairly severe effect on some individual companies in Sweden. I am primarily thinking of companies who have substantial revenues from exports to the US market, as well as those who import important input goods from the United States. Such a development would entail increased costs for imports and thereby bring a risk of rising inflation. But Sweden’s trade in goods with the United States is, despite everything, limited as a share of GDP and the overall effects on growth and prices would therefore probably be fairly small.

Another risk, associated with the new US trade and security policies, is related to negative effects on economic expectations and on confidence among Swedish households and companies. Based on earlier episodes of high uncertainty, we have reason to fear that a number of households and companies may cut back on consumption and investment respectively. In Canada, whose foreign trade is dominated by the United States, we are already seeing examples of such a negative development. The risk is illustrated in an alternative scenario in the draft report and, should it materialise, would mean both growth and inflation becoming lower than in our main scenario. However, should demand become so weak as to lead to resource utilisation falling back, we have the preparedness and latitude to act using monetary policy.

It is clear that there is now a political will in Europe to boost defence capacity and increase public investment. It will certainly be some time until such plans can be realised. But the clear change we are now experiencing in peoples´ view of the need for greater expenditure is already affecting expectations and thus contributing to improving growth prospects in Europe and Sweden. And this has already led to significant upturns in long-term interest rates in the euro area, as well as in Sweden.

How much and how rapidly defence expenditure will increase is a political issue beyond the scope of monetary policy. But how this expenditure will be funded is an issue that ultimately also has a bearing on monetary policy, not least because the amounts now being discussed are large. Within the EU, the fiscal conditions vary from Member State to Member State. In some countries, it will probably be difficult to increase public borrowing significantly without the risk of this leading to notably rising credit risk premiums for government bonds. If borrowing instead takes place jointly within the EU, the effect on long-term interest rates may be dampened somewhat in countries with weak public finances.

As we know, increased defence spending is also being discussed in our country. Unlike many other countries in the EU, Sweden's public finances are in good order. So there are possibilities here for increasing public borrowing, if the Government and Riksdag find it appropriate. However, if they choose to do so, it will be important that there is a sustainable plan for the long-term funding of the expenditure; permanent increases in defence expenditure must be met in the longer run, either with increased tax revenues or with cuts to other expenditure areas, or with a combination of the two. This question touches on the cornerstones of our economic policy framework: confidence that the Riksdag and Government are safeguarding the long-term sustainability of public finances and confidence that the Riksbank will stabilise inflation at 2 per cent. There exists a mutual interdependence between the aims of fiscal policy and monetary policy inasmuch as confidence in one of these goals depends on confidence in the other. When there is confidence for both fiscal policy and monetary policy, this increases the state's room for manoeuvre. We now find ourselves in such a situation, as it is considered justified, for a time, to increase public expenditure and fund parts of this with borrowing. The security policy crisis that Sweden and many other countries are now experiencing is an example of the value of strong public finances: our powder is dry so we can act resolutely. And it argues clearly for safeguarding the high level of credibility of the fiscal framework.

To sum up, we are now living through intensive developments, the economic consequences of which are as yet unclear. The task of monetary policy in the current situation is the same as ever: to contribute to economic stability primarily by ensuring that inflation is kept low and stable. And to do this in a transparent and clear way. We have used words such as gradual and tentative to describe our approach. The new conditions for the economic outlook created by the recent rapid change in the direction of US economic policy and security policy show that this strategy has been wise. It has made it possible for us to properly assess the situation and has given us latitude to act. My assessment is that this will also be a good direction for our policy in the period ahead.

In the main scenario, we assess that inflation will stabilise around the target with no need for major policy rate adjustments. But the possible range of outcomes has become considerably wider. The risks have increased for alternative scenarios with outcomes that deviate significantly, on the upside or downside, as regards growth and inflation. If we see signs of a lasting and broad rise in the rate of price increase, we will not hesitate to act so that inflation stabilises again at 2 per cent. Conversely, we have the preparedness and leeway to provide further support to the recovery by cutting the policy rate if need be. We have set a course we intend to follow but are prepared to swerve if that course faces obstacles.

Closing comments

Finally, the meeting was concluded with a special thank you from Erik Thedéen, on behalf of the whole Executive Board, to the Monetary Policy Department for its solid background materials, rewarding discussions and well-written texts in this difficult situation.

§ 4. Monetary policy decision

The Executive Board decided

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

This paragraph was confirmed immediately.

Minutes taken by

Jesper Johansson 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