Minutes of the Monetary Policy Meeting

August 2025

MONETARY POLICY MINUTES

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PRESENT:	Erik Thedéen, Chair Anna Breman Per Jansson Aino Bunge Anna Seim --- Bo Broman, Chair, General Council of the Riksbank --- Jakob Almerud Lena Arfalk Charlotta Edler Mattias Erlandsson Anders Gånge Ellen Kockum Anders Kvist Björn Lagerwall Erik Lenntorp David Lööv Hilkka Nyberg Åsa Olli Segendorf Annica Sandberg Emma Sandberg Olof Sandstedt Viking Waldén Anne-Catherine Worth --- Buster Carlsen (§1–3a)

It was noted that David Lööv and Viking Waldén would prepare the draft minutes of the monetary policy meeting.

§3 a. 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 June.

Since the Riksbank's last monetary policy decision, broad stock market indices have risen at the same time as credit spreads have decreased in both US dollars and euros. This development has taken place in parallel with intensive negotiations between the United States and the rest of the world over trade agreements. The reporting season in July strengthened the narrative of US dominance in the tech sector. This has contributed to the US stock market index recently breaking several new records, after the downturn that followed on from the US announcement of tariffs on 2 April.

The dollar has varied more than usual during the period, affected both by the administration's criticism of the Federal Reserve's interest rate policy and by the expectations of changes within the Federal Open Market Committee (FOMC), which is expected to entail a softer monetary policy stance. Inflation expectations have risen at times, which has also had some significance in this context.

US macro data has challenged the wait-and-see message from the Federal Reserve at its meeting in July. Lower than expected employment in June, along with significant downward revisions for April and May, have contributed to falling US treasury yields and a distinct repricing of expectations of interest rate cuts. Outcomes for consumer prices and producer prices for July exceeded the analysts' expectations, but have for the most part not altered market belief that the Federal Reserve will cut its policy rate in September. At present, market pricing indicates an expectation of just over two cuts this year. On the other hand, the European Central Bank's message that the policy rate is approaching a neutral level has contributed to somewhat declining expectations of further monetary policy easing in the euro area.

Fiscal policy is continuing to be in focus for fixed-income markets in both Europe and the United States. In Europe, prospects of expansionary fiscal policy have contributed to long-term government bond yields having risen. In the United States, the widely discussed budget that has passed through Congress and been signed by the President has led market participants to expect an increased budget deficit.

Since mid-June, oil prices have fallen distinctly, partly due to decreased geopolitical tension but also due to an expected large supply on the market going forward. Against the backdrop of trade agreement negotiations, high price volatility for metals such as copper and gold was also noted during the period.

Analysts and the market are expecting the Riksbank to hold the policy rate unchanged in August. Furthermore, futures contracts indicate the possibility that the Riksbank may cut the policy rate once more during the remainder of the year. Measured using the KIX index, the Swedish krona has had a slightly weaker development relative to its level following the Riksbank's last monetary policy decision in June.

Financial stability – current situation and risks

Olof Sandstedt, Head of the Financial Stability Department, described the situation in the financial system.

The risks to financial stability remain elevated. During the summer, stock markets have risen and volatility has declined, partly driven by expectations of interest rate cuts and as a result of uncertainty over US trade policy declining. At the same time, underlying vulnerabilities remain. New announcements on tariffs and geopolitical tensions can change market conditions rapidly. In addition, weaker growth, partly due to higher tariff rates, and increased defence expenditure, may place further pressure on public finances, with potential effects on the market's risk perception and financing conditions. Taken together, this means that even what appear to be limited shocks could have broader spillover effects in a globally interlinked financial system, which underlines the need to safeguard resilience both nationally and internationally.

In Sweden, the major banks remain highly profitable and have sound margins in relation to the applicable capital and liquidity requirements, giving them a good capacity to maintain the credit supply even if the market environment were to deteriorate. The financial conditions are currently relatively favourable. Risk premiums have fallen for both covered bonds and commercial property bonds, and there have been net inflows to corporate bond funds.

Lending by the banks to households and companies is increasing but the growth rate remains low from a historical perspective. Housing prices have fallen slightly over the summer – by more than is normal for the season – but may rise again if economic and geopolitical uncertainty abate, growth prospects improve or if there is an easing of borrower-based macroprudential measures such as amortisation requirements and mortgage caps. In such a scenario, it will be particularly important that potential easing of macroprudential measures is well balanced, so that rising prices and debt do not exacerbate existing vulnerabilities and increase the risks to financial stability.

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 assesses will gain majority support in the Executive Board at today's meeting.

The data on which today's decision is based was discussed with the Executive Board at the drafting meeting on 11 August. The draft Monetary Policy Update was discussed at the drafting meeting on 14 August.

In June, the Riksbank cut the policy rate by 0.25 percentage points to 2 per cent to support the weak economic activity and thereby contribute to stabilising inflation at the target. It was also noted that the economy could come to need further support and the policy rate path therefore included a some probability of a further rate cut this year.

Inflation rose more than expected over the summer months and was higher than the Riksbank's forecast from June. The Riksbank's assessment in June was that the high inflation this year is temporary and a central question in the monetary policy drafting process has been whether this view still holds in light of the surprisingly high inflation seen in the summer or whether the unexpectedly high inflation is a sign of more lasting higher inflationary pressures. Another central question has been whether the outlook for economic activity in the period ahead has changed, particularly considering that the economy has had a slightly weaker development than expected in the first six months of the year.

In July, CPIF inflation was 3 per cent and CPIF excluding energy was 3.2 per cent. According to the Riksbank's forecast in June, inflation was going to rise over the summer, partly due to the annual update of weights in the CPI. But the outcomes for both June and July were higher than expected. Much of the surprise can be explained by prices that usually vary significantly, such as for foreign travel and rental cars, while prices for other services and goods all in all increased in line with the forecast made in June. This indicates that the unexpectedly high inflation is temporary.

The Riksbank's compilation of a broader set of indicators points to inflationary pressures in line with the target and that inflation expectations remain well anchored. In all, this points to inflation prospects in line with the inflation target. However, price plans among companies are a little higher than normal. It can also be noted that the exchange rate has weakened slightly over the summer, but compared to the beginning of this year the krona exchange rate is still considerably stronger.

The Swedish economy has developed more weakly than expected over the first six months of the year. This is visible not least in Statistics Sweden's GDP indicator, which shows weak GDP development in the second quarter of the year. There are, however, indicators that point to a better performance regarding, for instance, production in the business sector. Broadly speaking, the prospects for the Swedish economy still stand since June and, looking forward, the conditions are favourable for a recovery later this year. Interest expenditure for households and companies has fallen and real wages are continuing to rise. According to the Economic Tendency Survey, households have become less pessimistic recently, which may indicate that confidence is beginning to return. Confidence among businesses is close to normal levels, according to the Economic Tendency Survey and Purchasing Managers' Index, although this differs between sectors.

Internationally, there is now somewhat more clarity regarding the US import tariffs faced by the EU. But the levels of around 15 per cent are significantly higher than previously. Overall, developments have been in line with the assumptions made by the Riksbank in the June forecast. US growth has slowed down, while inflation is slightly elevated. Market participants expect slightly more than two rate cuts this year from the Federal Reserve. In Europe, growth remains weak, although it differs from country to country. Inflation in the euro area in July was 2 per cent, measured as the HICP. Both market participants' expectations and communication from the ECB indicate that the cycle of interest rate cuts is reaching an end.

Finally, it should be mentioned that international uncertainty remains high. US trade policy has been marked by unpredictability under the new administration and could also change unexpectedly going forward. A further uncertainty factor concerns the sustainability of government finances in several large countries. One example is the United States, where the government debt has increased over a long period of time and where the budget decided on this summer is expected to result in continued large deficits. The war in Ukraine and developments in the Middle East are also continuing to contribute to uncertainty regarding growth and inflation abroad.

The proposal for a monetary policy decision that the Monetary Policy Department assesses will gain a majority in the Executive Board at today's meeting is described in Annex A to the minutes. The proposal entails holding the policy rate unchanged at 2 per cent. Furthermore, the draft Update notes that the economy may need more support, and that there remains some probability that the policy rate will be cut once again this year.

§3b. The economic situation and monetary policy

First Deputy Governor Anna Breman

I support the proposal to leave the policy rate unchanged, and I support the assessments presented in the draft Monetary Policy Update.

Economic activity in Sweden is still weak (see Figures 2, 4 and 5 in the draft Update). Industrial production and exports are continuing to develop well, despite the global turbulence. It is positive that Swedish industry is showing resilience, but this is not enough to boost the Swedish economy when the service sector is developing weakly and households are cautious. Nor is the labour market showing any clear sign of improvement. The sluggishness of the economic recovery indicates that monetary policy needs to be eased further.

The argument against cutting the interest rate at today's meeting is that inflation has risen more than expected, according to the most recent outcomes for June and July (see Figure 6). The upturn is assessed to be due to temporary factors, primarily related to the so-called CPI basket effect (see Figure 9). Forward-looking indicators still support the view that inflation will fall back towards 2 per cent (see Figures 7, 8, 10 and 11). However, the CPI basket effect was known when we made our most recent forecasts, and inflation was nevertheless higher than expected. This calls for vigilance.

I therefore support the proposal to leave the policy rate unchanged at today's meeting. And at the same time, I would like to emphasise that there is still some probability of a further interest rate cut this year, in line with the June forecast. Today I shall focus on what I see as important information for guiding monetary policy at our coming meetings.

Firstly, the interest-rate path in June indicates that the probability of the interest rate being unchanged is roughly equal to the probability that it will be cut one more time this year. If inflation does not fall and economic activity clearly accelerates, the policy rate may be held unchanged at our coming meetings. The conditions are favourable for stronger economic activity. The policy rate has been cut from 4 to 2 per cent since May 2024, which supports both companies and households. Households' purchasing power has moreover been strengthened by lower inflation and our interest rate cuts. The best inflation measure for capturing developments in households' cost of living, the CPI, was 0.8 per cent as an annual rate in the most recent outcome. With wage increases at around 3.5 per cent on an annual rate, this indicates a substantial increase in real wages.

Secondly, if inflation falls back and economic activity remains weak, monetary policy should provide support to economic activity. It is important in itself that economic activity picks up, but weak demand could also lead to inflation falling below the target in the medium term. In that case, one or more further interest rate cuts might be necessary during the autumn.

Thirdly, there is still considerable uncertainty regarding the global outlook. The tense geopolitical situation remains. During the summer we have received some further information regarding tariffs, for instance, between the EU and the United States, but there are no formal written agreements. The situation on the financial markets, which stabilised over the summer, could quickly change. This can affect the transmission of monetary policy, for instance, through market rates and the krona exchange rate. In addition, financial conditions affect sentiment among households and businesses, and ultimately the outlook for economic activity and inflation.

Before I sum up, with reference to the international situation, I would like to highlight two aspects that will affect monetary policy going forward.

The first is that both the fall in inflation and the monetary policy easing have differed significantly between countries (unlike the rise in inflation, which was more synchronised). In the United States and United Kingdom, the policy rate is still above 4 per cent, while the ECB and the Riksbank have cut policy rates to 2 per cent. The Swiss central bank, SNB, has cut its policy rate to 0 per cent, while the Norwegian central bank has a policy rate of 4.25 per cent. These substantial differences illustrate the fact that the inflation dynamic and the effect of monetary policy (e.g., sensitivity to interest rates) make it difficult to forecast inflation.

I am highlighting this as historical correlations can provide poor guidance of where inflation and the economy are heading. The forecasting work should be characterised by openness and humility with regard to our assumptions of important variables such as potential GDP, the neutral interest rate and the long-term real exchange rate. The policy rate may deviate substantially from our communicated interest-rate path. Our regular use of alternative scenarios provides good support in illustrating this.[1]

The second aspect is that both the global and Swedish economies are affected by normal business cycle fluctuations as well as substantial structural changes. It is difficult to distinguish whether the weak growth in Sweden is part of the aftermath of the pandemic and the high inflation, or whether it also reflects, for instance, lower potential productivity.

[1] See my speech at the Bank of England, "Daring to think differently – on the Riksbank's monetary policy communication", published on 25 June 2025.

Factors that we need to take into account in addition to normal business cycle fluctuations include geopolitical tensions, increased trade barriers, ageing populations, lower birth rates, climate change and new technology such as AI. These factors, with the exception of AI, risk slowing down productivity and growth. This means that economic policy in the EU and Sweden will also be important during the autumn. A reform agenda that focuses on strengthening productivity in Sweden and Europe could contribute to higher growth. And higher productivity contributes, all else equal, to lower inflationary pressures.[2]

Let me summarise. I support the proposal to leave the policy rate unchanged at 2 per cent. And I share the assessment that there is still some probability of a further interest rate cut this year, in line with the June forecast. However, it is important to be prepared for the policy rate to become considerably higher or considerably lower than in our interest-rate path. In turbulent times it is important that monetary policy contributes to the stability of the economy by maintaining confidence in the inflation target and contributing to stronger economic activity.

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 leave the policy rate unchanged at 2 per cent, but that I still see an opportunity for a further cut at one of our coming meetings this year. In my contribution to the meeting today I would like to discuss in a little more depth what the preconditions are for this opportunity and under what circumstances we might begin to find ourselves in a situation where our monetary policy plan needs to be revised.

On this occasion, I will not directly comment on international developments. But of course this does not mean they are unimportant, and I support what is being said in the draft Update. I also stand by what I have said earlier about the situation abroad at our meetings in May and June.

Since our most recent monetary policy meeting in June, we have received two new inflation outcomes, for June and July. At the June meeting I expressed a fairly high degree of optimism regarding the inflation picture. Although inflation was somewhat elevated, it was following our forecast paths well, which strengthened the view that the unexpected upturn at the beginning of the year was temporary. At that time I also considered that a more in-depth analysis of underlying

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[2] For further information on Swedish productivity and reforms that can strengthen productivity, see my speech at Norrbotten Chamber of Commerce, "How trade barriers affect the Swedish economy and inflation" published on 20 February 2025.

inflationary pressures and various indicators of inflation rather pointed to a price development that would eventually risk being too weak.

However, the new outcomes since our previous meeting have unfortunately been quite substantially higher than expected. The negative surprise actually came as early as June, when inflation both including and excluding energy prices exceeded our forecast by around 0.4 percentage points. In July, the forecast error remained at roughly the same level, resulting in an outcome for CPIF inflation of 3 per cent and for CPIF inflation excluding energy prices of 3.2 per cent. Naturally, it is not a desirable development that an already too high inflation rate became even higher in this way.

However, as in June, closer examination reveals several aspects indicating that this year's increase in inflation is still temporary. One aspect, which is of considerable overall importance for inflation outcomes during all months so far this year, is Statistics Sweden's annual update of the weights in the consumer price index. As Figure 9 in the draft Update clearly illustrates, inflation this year is much lower if calculated using the same weights as in 2024. Although the unexpectedly high inflation outcomes in June and July are not due to the changes in weights, it is clear that the entire inflation picture in Sweden would be significantly different if this effect were ignored.

Another important aspect, which more directly gives perspectives on the forecast deviations in June and July, is the development of various measures of underlying inflation. I concluded at the meeting in June that an underlying measure that excludes energy prices, food prices, international travel prices and administratively set prices from inflation – that is, various product categories whose prices are often very volatile or relatively insensitive to changes in the demand situation – shows price increases that are consistently below 2 per cent, both in terms of annual percentage change and at one-, three- or six-month rates. This is still the case when the outcomes for June and July are added, which thus indicates that even the unexpected upturn in inflation during the summer is temporary.

It is also reassuring that in a comparison of CPIF inflation excluding energy prices with a large number of measures of underlying inflation, it becomes clear that in most cases it is in fact CPIF inflation excluding energy prices that is particularly high. And this applies both to developments in terms of annual percentage change and to more short-term price changes. This, too, indicates that much of the upturn in CPIF inflation excluding energy over the summer ought to be temporary.

A third aspect, which also more directly concerns how one should regard the high outcomes during the summer months, relates to our indicators of inflation. Here, one can compare Figure 10 in the draft Update with Figure 16 in the June Monetary Policy Report. It then becomes clear that the red field both below and above the most recent outcome for CPIF inflation excluding energy has shrunk somewhat, but that this applies to a slightly higher degree to the field above the most recent outcome. The interpretation is that the dispersion of inflation indicators in general has declined slightly, and that there is still a development whereby the indicators point to a lesser extent than before to higher inflation.

Looking at the new information received on economic activity, the picture remains divided and difficult to interpret. Statistics Sweden's monthly indicator point to GDP growth during the second quarter being poorer than in our June forecast. Household consumption continues to be sluggish. However, other indicators of GDP growth point to a slightly better development, for instance, production in the business sector. According to the Economic Tendency Survey, sentiment in the household sector has also improved considerably and data on card transactions indicate a rise in consumption at the beginning of the third quarter. Many labour market indicators are subdued, however, including companies' recruitment plans. Overall, I share the view expressed in the draft Update that the recovery is progressing slowly. If one only looks at economic activity, then it would probably be desirable to have an interest-rate cut right now, at today's meeting.

This leads me to my thoughts on monetary policy. From what I have said here today, it should be clear that I still find the analysis of this year's inflation upturn as temporary to be convincing. But of course, it is not good to face a further unexpected increase in inflation in a situation where price rises are already too high. There are mechanisms that can cause even inflation shocks that are initially entirely temporary to gradually become more lasting. This can happen if these shocks, despite the fact that they should not do so, begin to affect more fundamental factors in the inflation process, such as more long-term inflation expectations, companies' pricing behaviour or wage increases.

Given this background, it is very important that inflation now begins to fall in the coming months. If it does not fall, we could relatively rapidly find ourselves in a rather significantly different monetary policy situation. Experiences from both Sweden and other countries show that it is a bad idea in monetary policy to try to attain short-term improvements in economic activity, putting the credibility of the inflation target at stake. Delegating the task of combating inflation to an independent central bank was specifically to avoid this kind of thinking. And our own Sveriges Riksbank Act makes it very clear that the inflation target takes precedence over other tasks the Riksbank should strive to fulfil. My priority in a situation where inflation does not fall back going forward is thus very clear.

But everything I have said now does not mean, of course, that there is no scope to conduct monetary policy flexibly. Inflation does not need to be exactly at target for us to dare to cut the interest rate one more time. What is needed is that it begins to fall roughly as expected and for us to become secure in the knowledge that our inflation analysis is essentially correct. As I mentioned earlier, it is probably desirable even at this stage to give a little more support to economic activity and we should of course not wait longer than necessary to contribute to this.

Deputy Governor Aino Bunge

I support both the proposal to leave the policy rate unchanged at 2 per cent at this meeting, and the assessments made in the draft Monetary Policy Update.

This means that I share the assessment in the draft Update that our monetary policy message from the meeting in June still stands. But having said this, there are a number of questions regarding both international factors and Sweden that have arisen during the summer which require further monitoring, and which could mean that the monetary policy plan needs to be adjusted going forward.

Let me begin with some reasoning regarding prospects abroad.

Compared with the chaotic situation at the beginning of April there is now greater clarity with regard to the future tariffs on US imports. Companies have also overall shown a remarkable ability to adapt to the new conditions.

With regard to Sweden, the agreement between the EU and the United States is of central importance. It entails higher tariffs for European companies exporting to the United States, but at the same time no retaliation measures of significance from the EU, which was a topic discussed a lot at an earlier stage. This supports the assessment that we made back in the spring, namely that the tariffs will probably push up inflation in the United States, but rather dampen inflation in Europe, due to weaker demand. However, we know that conditions can change rapidly, and we are now seeing substantial effects on international trade. This can be seen not least in the abrupt shifts in imports to the United States during the first half of the year. There are many aspects that we will need to monitor in the coming period, and to name just two of them: How will the costs of import tariffs to the United States ultimately be borne by exporters, importers and consumers? And what will happen to supply chains and flows of goods in the rest of the world, including China?

The theme during the spring, with a focus on the US economy with its budget deficit, tariffs and trade will most probably continue during the autumn, as the fluctuations in policies are so substantial. The initial turbulence with different decisions during the spring led to a weaker US dollar and reduced willingness to invest in US assets. The global financial markets have received the announcements during the summer positively, with reduced volatility, rising stock markets and lower credit spreads. The expression ‘priced to perfection’ feels rather appropriate for the current situation. Another change is that expectations of future policy rates in the United States have declined (see Figure 3 in the draft Update). However, there is no shortage of uncertainty factors that can change developments in the US economy going forward. This applies to both the political discussion on central bank independence and the large and growing budget deficit. If we see further signs of lower growth and higher inflation in the world's largest economy, it will also affect the rest of the world.

Added to the uncertainty regarding the US economy and the financial markets are the geopolitical risks, where for instance the meetings in recent days regarding Ukraine illustrate how tense the situation is.

After this international outlook, I intend to move on to talk about Sweden. Part of the new information we have received during the summer consists of two inflation outcomes for June and July, which both proved to be higher than our forecast and further from the inflation target. We are not making a new forecast on this occasion, but a premise for the forecast for the policy rate in June was that the higher inflation we were seeing then was temporary. It is neither possible nor desirable to avoid temporary deviations from the target, and this can apply to both the effects of variations in individual prices and changes in statistical methods of measurement. At present we can see examples of both of these factors: The deviation from the inflation target is affected to a large degree by individual prices, such as car rentals, and changed methods of measurement in the form of adjustments in weighting, what is known as the basket effect.

But, as described in the draft Update, the unexpectedly high inflation nevertheless gives cause for vigilance and is one reason why I currently believe it is a well balanced decision to leave the policy rate unchanged. There should be no doubt that the target is two per cent, and that the assessment is that inflation will be close to the target within what the economic agents also perceive to be a reasonable time horizon. Otherwise, there could be effects on inflation expectations and the credibility of the target.

Based on forward-looking indicators, I still do consider that the conditions are favourable for an inflation rate close to the target within a reasonable period of time. The basket effect has impacted inflation especially much over the summer, and is expected to instead bring it down after the end of the year.[3] If inflation is

[3] See also the FACT BOX “Inflation effects of new weights in the CPIF” in the Monetary Policy Report, March 2025.

calculated with unchanged weights, it is relatively close to the target (see Figure 9 in the draft Update). Although the krona has weakened somewhat over the summer, this has come after a long period of strengthening. This strengthening should have an impact on import prices during the autumn.

But not least the weak economic activity entails a low level of demand, which limits the possibilities for companies to raise their prices and in time creates downside risks for inflation. Many of my considerations prior to this meeting have concerned economic activity still being weak, which indicates that a lower policy rate might be needed. Above all, Swedish households are still cautious with regard to spending. The conditions for a recovery are in place. Real wages are continuing to increase, and consumer confidence has also recovered according to the most recent measurement, albeit from a low level (see Figure 5 in the draft Update). But the effects of the earlier high inflation on purchasing power still remain. And households perceive prices to be high, which is why their view of inflation in the National Institute of Economic Research's Economic Tendency Survey is so different from the official CPI figures. For households living in rented property, the effects have taken longer to make an impact as rent increases have occurred.

As a result of the weak growth, it looks as though the recovery in the labour market will take longer. The situation on the labour market can also in turn affect the need to save for economic buffers and households' views on their own finances, and these may in turn have a negative effect on growth prospects. A further reflection on the weak economic activity and households' cautiousness concerns developments in the housing market. Since the start of the year, housing prices in Sweden have fallen by around 2.5 per cent when seasonally-adjusted, according to HOX statistics.

But if we look ahead, there are also other indicators – as described in the draft – that point to a more positive development in economic activity, such as production in the business sector and card data on household consumption from the end of the summer. But what is clear is that we have not yet really seen the turnaround that we have been expecting for some period of time.

All in all, I think that it is a well-balanced decision to hold the policy rate unchanged at this meeting, but it looks as though further monetary policy easing may be needed this year. A decisive factor will be whether we see clearer signs of a turnaround in economic activity and that we retain the forecast that the elevated inflation rate is temporary.

Deputy Governor Anna Seim

I support the proposal to leave the policy rate unchanged at 2 per cent. I also support the deliberations imparted in the draft Monetary Policy Update.

As we note in the draft, economic activity remains weak at the same time as inflation has been elevated throughout the entire first six months and was unexpectedly high during the summer. Our analysis shows that the elevated inflation is largely due to temporary factors and we expect it to fall back towards 2 per cent when the effects of these ease off.

We have cut the policy rate by 2 percentage points over the course of just over one year and have not yet seen the full effects of this monetary policy. Consequently, there is good reason to believe that economic activity will pick up going forward as the rate cuts reach full effect and real wages rise. However, the global uncertainty has hampered the recovery and, naturally, we are monitoring the development of the real economy very carefully.

As regards the outlook for inflation and economic activity, the range of possible outcomes remains broad. Even though uncertainty over trade policy has eased slightly since the June meeting, incoming data is noisy and there are few reliable signals. However, as policy rate adjustments impact the economy with significant lags, we must be able to be forward-looking even when uncertainty is high.

It is important to be vigilant when inflation is above target. Even if I share the assessment that inflation is temporarily high, I fear that it may surprise us on the upside. As I have highlighted in previous meetings, the trade barriers now being implemented may trigger goods shortages and disrupt value chains, and the inflation that is likely to materialise in the United States during the autumn may spread to other countries. One risk that I see as immediate is that companies that cannot raise prices in the US market will instead do so in other countries. In our May business survey, there were companies that mentioned such pricing to market as a possible strategy to maintain profitability.[4] In addition, inflation is high even though the Swedish krona has strengthened. Over the year, we have seen the political and economic landscape change very rapidly and, if the krona were suddenly to weaken, inflation could rise further.

One channel to which I have given much thought ahead of today’s meeting is the risk of self-fulfilling inflation expectations. Last week, new data on money market participants’ inflation expectations in both the short and long term were in line with the target, but slightly higher than previously. Research shows that expectations can be self-fulfilling. If companies’ inflation expectations rise, this may affect their behaviour and result in both actual inflation and lower

[4] The Riksbank’s Business Survey, May 2025, p. 11.

employment.[5] Companies' pricing plans *are* elevated and have been for some time. And this is despite our not having seen clear cost increases in the data. The elevated pricing plans raise questions about pricing behaviour and may reflect a general view that it is possible to raise prices in an inflationary environment.

As regards the nature of inflation, my assessment is that inflation risks can primarily be found on the economy's supply side. As economic activity is weak and has been for so long, it is presently difficult to imagine us getting any demand-driven inflation to speak of. We should be aware, however, that it is very difficult to estimate potential GDP in turbulent times.[6] If potential GDP is unusually low, for example due to supply chain disruptions, the actual GDP gap may be significantly less negative than the data suggests, possibly even positive, which could give rise to inflation.

If more lasting inflation arises in an environment with weak growth and, ultimately, rising unemployment, we will be facing a stagflation scenario. If such a more serious such scenario arises, achieving the right mix of fiscal and monetary policy will be crucial, so that the overall stabilisation policy becomes effective. There is a lot to be said about this but today I will simply note that I am looking forward to the international research conference on fiscal and monetary policy that our Research Unit will be hosting in October.

As for monetary policy going forward, we will return with forecasts and scenarios at the meeting in September. There is some probability of a further cut this year if the outlook for inflation and economic activity remains the same. But for this to be possible, I would like to feel confident that the inflation risks I have mentioned here will not be realised.

Governor Erik Thedéen

I support the proposal to leave the policy rate unchanged at 2 per cent at today's meeting, and I support the assessments made in the draft Monetary Policy Update.

International developments are still largely impacted by the ongoing conflicts in Ukraine and the Middle East, and by the United States' new trade policy. Despite considerable uncertainty, one can now hope from an economic perspective that we are seeing the beginnings of stability on the question of which import tariffs European companies will face when exporting to the United States. It also appears

[5] For estimates of causal effects, see, for example, Coibion, O., Gorodnichenko, Y. and T. Ropele (2020), "Inflation Expectations and Firm Decisions: New Causal Evidence", *Quarterly Journal of Economics*, 165-219.

[6] See Calmfors, L., Hassler J. and A. Seim (2022), Samspel för stabilitet – en ESO-rapport om rollfördelningen mellan finans- och penningpolitik, (*Stability in the Balance – A Report on the Roles of Fiscal and Monetary Policy to the Expert Group on Public Economics*), report to the Expert Group for Public Economic Studies 2022:3, section 2.1 for a discussion.

the EU will not implement retaliation measures, or at least only limited ones, which reduces the risk that such measures will push up prices in Sweden and other European countries. In the United States, underlying inflation rose in July, but it is still too soon to determine how large an effect the new tariffs will ultimately have on US consumer prices. Moreover, it is important to analyse the possible spread of tariff-related inflation from the United States to the EU and Sweden.

In Sweden, inflation has risen more than we had expected during the summer, and unfortunately this contributes to some increased uncertainty with regard to the forecast we made in June, that assumed inflation would fall back in the autumn. The fact that inflation is currently around 3 per cent also entails a risk that future inflation may end up further away from the target, if we are surprised by more unexpected price increases. It is important to carefully analyse the reasons behind price developments, given that the economic recovery may need more support from monetary policy. We need to ask ourselves the question: is there a risk that the high inflation over the summer may become more lasting?

In June, inflation rose more than expected and this was largely due to surprises in prices of among other things, clothing and rental cars. These are volatile prices and their development probably does not entail very much forward-looking information. This year, inflation is also affected more than usual by changes in the weights that Statistics Sweden uses to construct the consumer price index. There is thus reason to believe that the rate of inflation measured to some extent overestimates the underlying rate of price increase. This picture is confirmed if one compares this year's inflation outcome with the underlying rate of price increase measured in terms of last year's weights. Measured in this way, the price increases are somewhat over 2 per cent, but do not show any tendencies to rise (see Figure 9 in the draft Update). These circumstances indicate that CPIF inflation is temporarily high and that it will fall back again during the autumn. However, it is still too early to draw this conclusion with certainty.

One factor that dampens cost pressures is the strengthening of the krona that took place earlier this year. Despite some fluctuations on the foreign exchange market over the summer, the krona has strengthened against the US dollar by more than 10 per cent since the start of the year. The krona is also a couple of per cent stronger against the euro.

During the summer we have received some new, and partly hard-to-interpret, information about economic activity in Sweden. When measured using the GDP indicator, growth during the second quarter was just under 1 per cent, compared with the same period in the previous year. Although some other statistics indicate a slightly higher growth, there is at present probably more spare capacity in the economy than we had assessed in June. This conclusion is also supported by new statistics on the situation on the labour market, where the number of people registered as unemployed at the Swedish Public Employment Service is growing, measured as a percentage of the labour force, and where the number of redundancy notices remains relatively high. The upturn in economic activity that we were expecting has once again been delayed.

At the same time, there are reasons to expect that growth will rise going forward. One such reason is that real wages are now increasing at a good pace, which benefits groups with relatively high propensity to consume. Moreover, we have begun to see that households' optimism is increasing, albeit from low levels. This indicates that household consumption should nevertheless begin to strengthen and thus contribute more to economic activity. In addition, there are reports of improved growth prospects in the business sector and an assessment that the uncertainty regarding future tariffs has declined somewhat.

What then are the conclusions for monetary policy? Based on the information currently available, I perceive the probability of lastingly high inflation to be low. Most indications are that inflation has risen as a result of temporary factors, including changes in the product basket used to calculate the price index. But the high inflation is still a risk, as possible further negative surprises could have an unfavourable impact on the credibility of the inflation target. The wording regarding vigilance used in the draft Update is therefore justified.

At the same time, it is difficult to currently assess how quickly economic activity will strengthen. Although several circumstances indicate that economic activity will soon rise, there is still considerable uncertainty. There is thus reason to leave the door ajar to one further cut in the interest rate – given that the inflation outlook remains favourable.

Overall, I assess that it is appropriate to leave the policy rate unchanged today and to retain the same signalling as at the previous monetary policy meeting: that there is some probability of an interest-rate cut during the second half of the year.

§4. Monetary policy decision

The Executive Board decided

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

This paragraph was confirmed immediately.

Minutes taken by

David Lööv	Viking Waldén

Verified by

Erik Thedéen	Anna Breman	Per Jansson
Aino Bunge	Anna Seim	

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