SVERIGES RIKSBANK

Minutes of the Monetary Policy Meeting

September 2025

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MONETARY POLICY MINUTES

Executive Board, No. 6

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	Anna Breman
	Per Jansson
	Aino Bunge
	Anna Seim

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	Tomas Eneroth, Vice Chair, General Council of the Riksbank

	Jakob Almerud
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	David Lööv
	Hilkka Nyberg
	Åsa Olli Segendorf
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	Viking Waldén
	Anne-Catherine Worth

	Joel Birging (§1–3a)

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

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§3 Monetary policy review

§3 a. Economic developments

Market developments since the last monetary policy meeting

Joel Birging, senior economist at the Markets Department, began by presenting developments in the financial markets since the previous monetary policy meeting in August.

Since the August monetary policy announcement, signs of a slowdown in the US labour market have been an important theme in financial markets, with, among other things, weaker development in monthly employment statistics than most analysts had expected. These developments have contributed to a fall in yields on longer-term US Treasuries, with the 10-year yield hovering around its lowest levels of the year. The US central bank, the Federal Reserve, also cut its policy rate by 0.25 percentage points in September in response to the weaker labour market data, and market rates indicate a belief that there will be two more cuts this year. The European Central Bank (ECB) has signalled that the policy rate will remain at 2 per cent for some time to come, which has also been reflected in market pricing.

There is a positive mood among equity and credit investors. This has resulted in broad equity indices around this year's highest levels and corporate bonds trading at historically low yield spreads against, for example, government bond yields. Reasons contributing to the positive sentiment are expansionary fiscal policies in several parts of the world, and expectations that the Federal Reserve will continue to cut the policy rate. At the same time, initiatives to build AI and defence are expected to continue to lead to increased investment, providing support to financial asset prices.

Broad dollar indices have fallen to their lowest levels of the year, with a key reason being expectations of lower interest rates in the US. At the same time, the price of gold has reached new record levels, receiving continued support from a strong demand for physical gold from central banks and private investors.

Prior to the Riksbank's September announcement, opinions are divided as to whether the policy rate will be left unchanged or cut by 0.25 percentage points. Analysts are divided, weighing high inflation outcomes against growth that has not really picked up. Expectations according to market rates also indicate uncertainty but lean more towards the policy rate being left unchanged.

Financial stability – current situation and risks

David Forsman, Head of the Banking Division at the Financial Stability Department, described the situation in the financial system.

The risks to financial stability remain elevated. Uncertainty around the world has gradually decreased as tariffs have been fixed in new trade agreements. This has also contributed to greater risk appetite in financial markets with higher asset prices as a result. At the same time, challenges and underlying vulnerabilities remain, not least due to rising public expenditure that challenges the sustainability of public finances in several large countries. The continuing geopolitical tensions in the world also emphasise the importance of strengthening preparedness for maintaining critical functions against cyberattacks. Unexpected negative outcomes in this regard can quickly change current market conditions and have broad spillover effects in a globally interconnected financial system.

In Sweden, the major banks continue to show high profitability and have good margins in relation to current capital and liquidity requirements. This gives them ample capacity to maintain the supply of credit to the real economy, even if market conditions were to deteriorate. However, monetary policy counterparties need to strengthen their operational capacity to actively manage their liquidity and at the same time see the Riksbank's lending facilities as a natural tool in the event of temporary liquidity deficits. This would contribute positively to the functioning of the money market.

Financing conditions are currently favourable, with good credit availability and risk premia for both covered bonds and commercial real estate bonds having fallen to a low level. Although credit to households and businesses has increased slightly, the growth rate remains relatively low. The faster growth in incomes and the economy means that the build-up of cyclical systemic risks is currently low. The rental market for office properties is weak, with increased vacancies, but this has so far had a limited impact on rent levels and the debt-servicing capacity of real estate companies. If the geopolitical uncertainty decreases and growth prospects improve, household and corporate borrowing may increase more rapidly. An easing of borrower-based macro-prudential measures may also contribute to this. But if such measures are eased, it will be particularly important for them to be well balanced so that rising housing prices and debt do not exacerbate existing vulnerabilities and increase the risks to financial stability.

The current monetary policy drafting process – new data and forecasts

Mattias Erlandsson, senior adviser 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.

The background material for today's interest-rate decision has been discussed by the Executive Board at meetings on 9, 10 and 12 September. The draft Monetary Policy Report was discussed and tabled at a meeting of the Executive Board on 16 September.

At the monetary policy meeting in August, the Riksbank left the policy rate unchanged at 2 per cent. The Executive Board noted that the recovery was sluggish, while unexpectedly high inflation over the summer called for vigilance. The economy could need more support, and therefore there remained some probability of a rate cut later this year, in line with the June forecast.

Central questions in this drafting process have been how confident the Riksbank can be in its assessment that the elevated inflation is transitory and whether more support is needed for economic activity to recover. Another important issue has been how the conditions for monetary policy are affected by the fiscal stimulus measures announced by the government.

Inflation has been higher than expected over the summer. Rising electricity prices contributed to CPIF inflation of 3.2 per cent in August. At the same time, however, the outcome for CPIF inflation excluding energy came closer to the June forecast. Other new information has also strengthened the Riksbank's assessment that the elevated inflation is transitory, for example companies' price plans have fallen. Long-term inflation expectations are well anchored around 2 per cent, CPIF inflation excluding energy and adjusted for Statistics Sweden's annual weight changes was 2.3 per cent in August and various indicators suggest inflationary pressures close to 2 per cent.

At the same time, economic activity is weak, and the expected recovery has been gradually moved forward. GDP was somewhat weaker than expected during the first half of the year. Household consumption has risen so far this year, but the rate of increase is relatively modest, and the level of consumption is still lower than at the beginning of 2022 when inflation began to rise sharply.

However, as described in the draft Report, the conditions are in place for economic activity to recover in the period ahead and the summer statistics indicate relatively good growth overall in the third quarter. Rising real wages, lower interest rates and an expansionary fiscal policy will help GDP to grow by 2.7 per cent in 2026, and in 2027 resource utilisation in the draft forecast will be close to normal. Inflationary pressures over the forecast period are judged to be in line with underlying inflation close to the target.[1] The forecasts for inflation and the real economy in the draft Report are conditional on the proposed policy rate path.

[1] See the draft Monetary Policy Report for more details on the forecast.

The Government has announced several tax relief measures aimed at households, including a temporary halving of VAT on food from April next year and until the end of 2027. The VAT reduction is expected to have a significant impact on inflation, but underlying inflationary pressures are not expected to be affected to any great extent.[2] According to the forecasts in the draft Report, CPIF inflation will be close to 1 per cent in the middle of next year. At the end of the forecast period, CPIF inflation is expected to instead be 2.5 per cent, but once the direct effects of the change in VAT on foods fall out at the beginning of 2029, it will fall back towards 2 per cent. Inflation excluding the direct effects of the VAT change on food is 2 per cent already at the end of the forecast period.

Developments abroad have been broadly as expected and the forecasts ahead are also broadly in line with the June forecast. In the United States, growth has slowed and the labour market has weakened, contributing to a lower policy rate. Market participants expect more rate cuts going forward from the US Federal Reserve than they did in August. In Europe, the economic situation is roughly normal and inflation is close to 2 per cent. The market expects the euro area policy rate to remain unchanged in the near term.

Uncertainty surrounding the inflation and economic outlook remains high and Chapter 3 of the draft Report outlines the main risks surrounding the forecast and alternative scenarios.

The proposal for a monetary policy decision that the Monetary Policy Department judges will gain a majority in the Executive Board at today's meeting is described in Annex A to the minutes. The proposal entails cutting the policy rate by 0.25 percentage points to 1.75 per cent. The forecast for the policy rate is that it will remain unchanged at 1.75 per cent for some time to come.

The Riksbank has previously decided to establish a long-term holding of Swedish nominal government bonds.[3] To ensure efficient trading, it is proposed that at today's meeting, the Executive Board, in accordance with Annex B to the minutes, supplement the previous decision with a decision to allow the holding to vary between SEK 18 and 22 billion, and a decision to allow repurchase agreements to be entered into within the framework of the securities portfolio in Swedish kronor. It is also proposed that the Executive Board decide on the details that shall apply to trading in the securities portfolio according to the draft Regulation for the Riksbank's securities holdings in Swedish kronor.

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[2] See the Fact Box “Direct effects of tax changes on the rate of inflation” in the draft Monetary Policy Report.

[3] See Decision on trade in Swedish nominal government bonds, Annex B to the minutes, Ref. no. 2024–01249, published on 6 November 2024.

§3b. The economic situation and monetary policy

First Deputy Governor Anna Breman

I support the proposal to cut the policy rate to 1.75 per cent, and I also support the rate path and the monetary policy assessments presented in the draft Monetary Policy Report.

During the summer months, inflation was somewhat elevated. However, a thorough analysis of the details in inflation outcomes and forward-looking data indicate that inflation will fall back towards the target (see, for example, pages 23 to 28 in the draft Report). For instance, companies' pricing plans have fallen and the krona has strengthened. In addition, long-term inflation expectations are well anchored and wage formation is functioning well. At the same time, economic activity in Sweden is weak and unemployment remains too high (see Figures 4 and 20 in the draft Report). I therefore assess that a well-balanced monetary policy is to cut the policy rate by 0.25 percentage points.

Having said this, I would like to focus my comments on how I see the outlook for inflation and the policy rate going forward, based on three factors that have been important to this decision: fiscal policy, the financial markets and the risk outlook.

Firstly, the budget bill for 2026 entails fiscal policy becoming expansionary in 2026 (see the Fact Box on page 35 of the draft Report). The budget will probably contribute to strengthening economic activity, although it is uncertain by how much.[4] An important question is whether expansionary fiscal policy, and at the same time a lower policy rate, risks leading to overly high inflation. I see no significant risk of this, as we are starting out from a position with weak growth over several years. The labour market shows few signs of improving, and resource utilisation is weak. On the contrary, my assessment is that there is a risk that inflation could fall below the target going forward, unless demand strengthens.

Secondly, developments on the financial markets are important for the transmission of monetary policy. Despite turbulence on the financial markets during the spring, my assessment is that the transmission of monetary policy has functioned well. The Riksbank's seven interest rate cuts since May 2024 have had an impact on short market rates for both households and companies (see Figure 8 in the draft Report). Moreover, the stock exchange has recovered and credit

[4] In this context, I would like to highlight the fact that the budget contains many temporary reforms, such as a cut in VAT on food and lower employer contributions for young people, which will strengthen economic activity in short run. However, higher long-term growth requires structural reforms that strengthen the productivity growth. This is what makes real wage increases possible, and higher productivity, all else being equal, will also contribute to lower inflationary pressures (see my speech at Norrbotten Chamber of Commerce, "How trade barriers affect the Swedish economy and inflation", published on 20 February 2025).

spreads are low, which makes it easier for companies to gain access to funding. At the same time, the trend with a stronger Swedish krona has continued, especially against the dollar. Although this has a negative impact on export companies' profit margins, it also reduces the price of imports, which can lead to lower inflationary pressures going forward. The overall picture is that financial conditions have eased somewhat and provide support for economic activity.

Thirdly, there are substantial risks both regarding developments in Sweden and abroad that can affect both economic activity and inflation in Sweden (see Chapter 3 in the draft Report for a thorough review of risks and alternative scenarios). I share the assessment in the draft Report that the risk outlook is relatively balanced. For some time now, I have regarded further rate cuts as more probably than a rate increase, but after this meeting I assess that the probability of further cuts or raises is more balanced. It is therefore reasonable that the interest rate path shows an unchanged policy rate for some time to come.

Before I conclude, I would like to highlight the fact that the Riksbank's bond holdings have declined significantly. Sales of government bonds have functioned very well and contributed to better liquidity in the market. The sales will conclude towards the end of the year, when we are expected to have attained a long-term holding of nominal government bonds amounting to SEK 20 billion (see pages 45-46 in the draft Report for more detailed information).

It is important that the bond purchases remain the monetary policy toolbox, but the threshold for bond purchases should be high. I entered reservations against the bond purchases on two occasions.[5] I still consider that it would have been desirable to have less extensive purchases and that the gradual reduction should have begun earlier. Given this, it is positive that the reduction in the holding has functioned so well and that the balance sheet is now much smaller.

Let me summarise. For inflation to be sustainably close to the target and for economic activity to gain momentum, I support the proposal to cut the policy rate by 0.25 percentage points. In turbulent times it is important that monetary policy contributes to the stability of the economy by maintaining confidence in the inflation target and providing support to economic activity.

Deputy Governor Aino Bunge

I support both the proposal to cut the policy rate to 1.75 per cent at this meeting and the forecasts and assessments made in the draft Monetary Policy Report.

[5] I entered a reservation against the increase in bond purchases in November 2020 and in February 2022 as I wanted to see a faster reduction in the holdings.

At our last meeting, we held the policy rate unchanged, which I supported, while at the same time noting that there was some probability of a further cut this year. I argued then that the decisive factors should be whether we could see clear signs of a turnaround in economic activity and whether the forecast that the elevated inflation was transitory still held.

Let me start with my assessment of inflation. It has been elevated over the summer, but we noted at the meeting in August that it is largely linked both to price developments for individual product categories and to changed measuring methods in the form of adjustments in weighting, the so-called basket effect. The inflationary outcome for August was also slightly higher than expected, although CPIF inflation excluding energy approached our forecast from June. As the draft Report describes, the rapid price rises for certain products that have pushed up inflation over the year have not reflected broad inflationary pressures (see Figure 15 in the draft Report). Forward-looking indicators also point to inflation close to the target (see Figure 16 in the draft Report). For example, these include pricing plans, unit labour costs and the development of the krona exchange rate. But they also include demand pressures in the economy, which I will return to shortly.

Although forward-looking indicators point to inflation pressures close to the target, our inflation forecast shows that measured CPIF inflation will vary strongly in the coming years. To a certain extent, this reflects the effect of the weight changes we discussed earlier in the year. Above all, however, there is a downward effect on inflation of no less than 0.7 percentage points next year due to tax changes announced by the Government, not least the halving of VAT on food. The tax effects on inflation are described in a fact box in the draft Report.

As the fact box on page 40 of the draft Report also describes, the direct effect on inflation of the reduced VAT on food is temporary. I also share the assessment in the draft Report that its effect on underlying inflationary pressures should be limited. My basic view is that the VAT cut will not change the picture of inflation beyond the short term and is therefore something we should ‘see through’. However, having said that, there is significant uncertainty, and this is becoming a central question to which we will return in the future, from the perspectives of both communication and analysis. Above all, it is becoming important to monitor how inflation expectations and household and corporate behaviour is being affected. In addition, indirect effects on inflation will also arise going forward, for example from the indexation of rents and administratively set prices. A further question linked to this is whether it will be difficult to return to higher VAT rates for food once the planned day for this arrives.

Even though there is a certain focus on taxes and, above all, VAT on food, we must not forget that we are still in a turbulent global environment. We emphasise several risks in the draft Report, and I intend to discuss a few of these now.

I think it is interesting to note that the global financial markets have continued to take the economic policy uncertainty with considerable calm. There is strong optimism regarding the future, as reflected by rising stock prices and reduced credit spreads. As so much of the uncertainty is coming from the abrupt shifts in economic policy in the United States, it may be particularly noteworthy that the stock markets there have developed so strongly recently. In my contribution in August, I used the term “priced to perfection” regarding the financial markets. But we know that things can turn rapidly and risk aversion can rise.

One risk in focus that can affect risk sentiment concerns the sustainability of public finances in several countries, for example France and the United States. The draft Report also includes an analysis box that describes how weakened public finances can also have consequences for monetary policy. In this context, it is important, as the draft Report describes, to safeguard the strong public finances we have and preserve our fiscal policy framework.

Political decisions will continue to leave a heavy mark on the world economy, not least via US trade policy. However, I would again like to emphasise that, for Sweden, it is the agreement on tariffs between the EU and United States that is central, along with the fact that we are not seeing any significant retaliation measures from the EU. Developments are not moving towards the full-scale trade war we feared during the spring. This means that the effect on inflation in Sweden should rather be dampening due to reduced demand. When it comes to the indirect effect on trade from China, we recently published a Staff Memo that indicates minor effects but nevertheless increased competition for Swedish companies.[6] This too, however, is something to be monitored carefully as we go forward.

The risk of supply shocks due to geopolitics also remains but, in my opinion, we should not allow them to affect monetary policy in advance but should try to manage them as best we can if they actually arise.

The turbulent international situation and the uncertainty it entails lead me to economic activity here at home and the question of whether we can now see the turnaround in the Swedish economy we have long been discussing. Again, we can note that the conditions for a recovery are in place, not least in the form of rising real wages and increased purchasing power for households. Fiscal policy will also make further contributions next year. But we can also note that, as the draft Report describes, the recovery is proceeding more slowly than expected.

[6] See José Camacho, Caroline Flodberg, Mårten Löf and Bengt Petersson, “Increased import tariffs in the United States: How extensive are Swedish exports to the United States and which sectors could be most affected?”, Staff Memo, May 2025, Sveriges Riksbank.

I am concerned over the continuing pessimism among households expressed in surveys and confirmed by companies (see Figure 10 of the draft Report). The weak consumer confidence is also reflected by the development of the housing market. After the small upturn last year, housing prices have shown weak development this year. And the price level is far below its peak at the start of 2022. There seems to be a continued willingness to save and create buffers among households, rather than to take major investment and purchase decisions. The most recent financial accounts show that households are continuing to increase their liquid savings.[7] Household confidence will also probably be affected by the labour market situation, which continues to develop weakly. Forward-looking indicators such as redundancy notices and job vacancies also indicate that it will take some time before unemployment decreases more substantially.

In light of the weak economic situation, I consider it reasonable to act now and, through an easing of monetary policy, provide further support to economic activity and thereby also stabilise inflation around the target beyond the near term. I also consider that we have enough information to move ahead with a further policy rate cut. But this has not been an entirely simple call to make. One complicating factor is that we are acting with a looser monetary policy, even though inflation is currently elevated. However, my argument is that we should base monetary policy decisions on a forward-looking approach, as otherwise we will continually risk falling behind the curve, as it is usually called on the financial markets. And I am now more secure in the assessment that inflation will fall back.

However, there are several factors that could lead to a different economic development and monetary policy in the future than in our forecast. We must maintain great vigilance over both economic activity and inflation in the period ahead and have the same preparedness to act if they develop differently to what we currently see ahead of us. I think our alternative scenarios capture this well. Overall, I think that the risks in the period ahead are balanced, with which the published policy rate path agrees. Apart from international events, one key issue for the development of the Swedish economy in the period ahead concerns how households react to the further strengthening of purchasing power that will now benefit them.

Deputy Governor Anna Seim

Inflation is still elevated and according to our target variable, the CPIF, it was 3.2 per cent in August. Although our analysis shows that the elevated inflation is primarily due to temporary factors, my assessment is that a vulnerable supply side, together with an expansionary fiscal policy in 2026, will mean that inflation could surprise upward. I agree with much of the analysis presented in the draft

[7] See ”Households continue to save”, statistical news from Statistics Sweden, published 18 September.

Monetary Policy Report, but I consider the probability of inflation overshooting the target going forward to be higher than we express in the main scenario.

I therefore do not support the proposal to cut the policy rate by 0.25 percentage points at today's meeting. I advocate that we instead hold the policy rate unchanged at 2 per cent and communicate an interest rate path that signals some probability of a further cut during the year. My assessment is that this policy is more robust than a rate cut now.

The Government's budget is presented in its entirety today, 22 September. The way that the system is constructed means that the main elements of fiscal policy are put forward annually in the autumn budget bill (and to some extent in the spring budget bill and amending budgets). As we make monetary policy decisions eight times a year, we become a type of *follower* in a game theoretic sense. The Government knows our reaction function and takes it into account when deciding on the budget, while we take fiscal policy as given and adapt monetary policy accordingly in our flexible inflation targeting. We always make assumptions about fiscal policy in our analysis and take into account how we believe it will affect inflation and economic activity. A well-balanced stabilisation policy *is* a joint project and it is important to have effective interaction. When inflation was high in 2022 and 2023, fiscal policy was an important part of combating inflation and the fact that inflation fell back was partly due to fiscal policy also contributing. Without commenting on the content of the fiscal policy now being proposed, I note that we must be particularly thorough in the current situation. One reason for this is that the budget for 2026 is more expansionary than normal and that the reduction in VAT on food to be implemented in April 2026 will have both direct and indirect effects on inflation and economic activity. Moreover, the total policy mix is particularly important in certain situations, for instance if there is a risk of stagflation, that is, high inflation combined with a stagnating real economy and rising unemployment.

At today's meeting I would like to comment, for this reason, on (i) the outlook for economic activity, (ii) inflationary pressures, and (iii) principles for overall stabilisation policy.

Economic activity has developed weakly since 2021. We saw signs of a beginning recovery at the end of last year, but since then the extensive uncertainty has made companies and households more cautious. Despite the fact that we have cut the policy rate by 2 percentage points within the course of just over a year before today's meeting, the recovery seems to be on the back-burner and I have therefore wondered whether fiscal policy stimulation is what households actually need. Fiscal policy can be more accurate than monetary policy as it can be aimed at specific groups and problems. Unemployment is high, for instance, but is largely structurally so and this part must be met with other measures than monetary policy. The budget now being presented is explicitly aimed at stimulating household consumption and my assessment is that it will have the intended effect. For example, the VAT reduction will release purchasing power. Demand for food is *inelastic*, which means it is largely unaffected by changes in prices. This means that the VAT reduction frees up resources that households can use for other consumption or for saving. In addition, a reduction in VAT on food affects not only households with lower incomes and high marginal propensity to consume, but also individuals with greater resources, higher up in the income distribution. There are of course questions regarding households' propensity to save. A large part of the buffers that households had built up during the pandemic were used during the upturn in inflation, and since then there have been signs of precautionary saving. However, it is possible that households have to some extent restored their buffers and are saving less now that the uncertainty has declined somewhat. Depending on which horizon is taken into account, real interest rates are now close to zero or negative, which reduces the incentive to save. The easing of the mortgage-based macro-prudential measures that is proposed to be introduced in April next year will probably also reduce amortisation and thus saving ratios, which will strengthen households' cash flows. If they in addition affect price-setting on the housing market, they can also have wealth effects and in this way further stimulate consumption.

Let me now comment on inflationary pressures. If the economy does not suffer any further shocks, I see before us an economy that will recover next year, potentially more strongly than we state in the draft Report. As I mentioned at our meeting in August, it is also possible that we are currently overestimating potential GDP as a result of weaknesses in the supply side of the economy. The tendency towards increased protectionism, changes in trade flows and the risk of shortages of intermediate goods in the wake of the trade conflict could potentially break value chains and decimate production capacity. If this is the case, the GDP-gaps in our analysis may be underestimated and combined with an increasingly strong domestic demand it could give rise to inflationary pressures. As we point out in the draft Report, we do not as yet see any clear signs of supply shocks in the data, but this does not mean that they will not materialise as import tariffs are introduced and have general equilibrium effects.

According to the inflation forecast presented in the draft Report, inflation will be low next year. This is both because of the weighting effects that have contributed to inflation being temporarily high this year fall out and because the reduction in VAT on food that comes into force in April next year will have an almost mechanical impact on inflation, which will then be reversed in January 2028, when the VAT rate is restored.[8] As we describe in the draft Report, it is reasonable

[8] The academic literature contains question markets about the extent to which a temporary reduction in VAT will have an impact on consumer prices, but new studies indicated that it is considerable, see for

that we as a central bank see through this type of temporary effect as long as inflation expectations are anchored around the target, which they are. I share the view that inflation will largely follow the pattern in Figure 22 of the draft Report, but I envisage a higher rate of inflation throughout, due to stronger effects from fiscal policy than those in our main forecast and because of risks on the supply side of the economy. The development I see as more probable is closer to that described in the alternative scenario with higher inflation, which is summarised in Figure 31 in the draft Report.

Let me conclude by briefly commenting on the overall stabilisation policy. In normal cases, it is reasonable for fiscal policy and monetary policy to pull in the same direction to stabilise the economy, that is to say they are *congruent* instead of *divergent*. Data indicate that this has been the case historically and this is a good order.[9] But while it is easy to express *qualitatively* that both policy areas should pull in the same direction, it is difficult to express *quantitatively* what the optimum policy mix should be, that is to state in figures what the optimal monetary stance should be given the fiscal stance implied by the budget. It is very difficult to assess the current situation and it is possible that the cut of 0.25 percentage points advocated by a majority of the Executive Board is well balanced. However, my assessment is that the overall stabilisation policy at present will become too expansionary and that this, combined with a weak development in potential GDP and an elevated risk of supply shocks, can mean that inflation might become higher than expected. If we see signs that this will be the case, we are, as always, prepared to adjust our monetary policy to ensure that inflation stabilises at the target of 2 per cent in the medium term.

Deputy Governor Per Jansson

The key question at today's meeting is whether we should leave the policy rate unchanged or cut it by a quarter of a percentage point. Looking at the expectations of the market, banks and investors, it is a decision that is in the balance. About the same number of observers expect us to cut the interest rate as expect us to leave it unchanged. Let me begin by saying that the divided expectations, as I see it, do not reflect a failure of communication on the part of the Riksbank, but that the decision at today's meeting is genuinely difficult. Clear

instance, Fuest, C., Neumeier, F. and D. Stöhlker (2024), "The pass-through of temporary VAT cuts: evidence from German supermarket retail", *International Tax and Public Finance*, Vol. 32 and Bernardino, T., Gabriel, R.D., Quelhas, J. and Márcia Silva-Pereira (2025), "The full, persistent, and symmetric pass-through of a temporary VAT cut", *Journal of Public Economics*, Vol. 248.

[9] The measures of fiscal policy and monetary policy used affect whether the policy can be said to have been congruent, 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, Stockholm: Ministry of Finance.

communication is not about economic actors always being able to predict exactly what interest-rate decision will be taken, but for them to understand what, at a fundamental level, the determinants of our decisions are. Thus, it may well prove to be difficult to decide which interest-rate decision will be taken, even though the communication has been as clear as possible. That is, as I understand it, roughly the situation we are now in.

At today's meeting, I would like to elaborate on the respective arguments I think there are in favour of leaving the policy rate unchanged at 2 per cent and in favour of cutting it slightly further, to 1.75 per cent. Let me start with the arguments in favour of an unchanged rate.

At our most recent monetary policy meeting on 19 August, the policy rate was left unchanged at 2 per cent. However, with the exception of the meetings in March and May, and in June last year, this meeting was preceded by seven meetings at which the policy rate was cut. As a result, the policy rate has been cut from 4 per cent in March last year to the current level of 2 per cent, a reduction of a full 2 percentage points in just over a year. This large monetary stimulus is not yet fully impacting the economy. It has, to a fairly large extent, found its way into borrowing rates for households and companies, but it will take some more time before it has a full impact on economic activity and, ultimately, inflation. This is an important factor to bear in mind when discussing in the current situation the need for further interest-rate cuts.

Another important factor in this context is that inflation has now been above the inflation target every month of this year. In fact, excluding energy prices, inflation has not been below 2 per cent since December 2021. We think we have good explanations for why price increases are temporarily too high, but there is no getting away from the fact that this is a fairly long period with inflation above our target level. And in our forecast, the deviation is expected to persist for a number of months more.

As I just said, we are quite confident that inflation will fall going forward, which I will come back to in a moment when I go through the arguments in favour of a rate cut. However, over the course of the year, there have been elements of different temporary effects stacking up on each other, well illustrated by the weight-related rise in inflation at the beginning of the year being followed during the summer by unexpected price increases in some specific goods and services that tend to vary a lot in price. At our meeting in August, I discussed circumstances under which such effects could become more persistent by starting to influence more fundamental factors in the inflation process, such as longer-term inflation expectations, companies' pricing behaviour or wage growth.

If we were to experience new disruptions of this kind going forward, the risk of such a process being triggered would obviously increase. At an inflation rate close to 3 per cent, new unfavourable shocks could quickly bring us to inflation levels that are uncomfortably high and require us to start discussing policy-rate increases. We are not there yet, but this is an aspect that needs to be taken into account when now considering cutting the rate yet another notch. If the concerns about such a development are sufficiently strong, this would be an argument against voting in favour of another rate cut at today's meeting.

Another argument against cutting the rate now is that the economy has begun to show some fairly clear signs of improvement. GDP growth picked up quite significantly in the second quarter and the July GDP indicator points to continued favourable development at the beginning of the third quarter. An important aspect here is that household consumption according to Statistics Sweden's monthly statistics increased by almost 2.5 per cent at an annual rate in July, which is more than in our forecast from June. Data on card transactions and retail-sales statistics also indicate continued relatively strong development in durable goods. And confidence among companies in the business sector and manufacturing has increased and is now close to normal levels. In addition, household sentiment has improved quite considerably recently, a development that may be reinforced by the fairly substantial support that households will receive thanks to a more expansionary fiscal policy next year.

Overall, there are therefore quite a few arguments suggesting that monetary policy is well-balanced at present and that there is thus no need for any further policy-rate cuts. So what is then the case for cutting the interest rate? Here, too, there are, as I see it, several good arguments.

As I have already mentioned, although inflation is currently elevated, there are many indications that the excessive price increases are transitory. Most of the elevated inflation disappears if it is instead calculated with unchanged weights from 2024. Of course, this does not mean that an inflation measure with unchanged weights is our new target variable, but it does provide perspective on the rise in the measured inflation rate over the year. There is, of course, a big difference between inflation rising because of genuine price increases and inflation being driven up by more technical aspects of the index construction used to measure it.

The fact that a broad set of inflation indicators, most of our measures of core inflation and rates of price increases over a period of less than twelve months all paint a fairly consistent picture of inflationary pressures quite close to 2 per cent also reinforces the assessment that the current excessive inflation is temporary. I went through this in some detail at our meeting in August and the picture has not changed much since then. If anything, things currently look perhaps even a little better than they did then, driven largely by the fact that inflation excluding energy prices in August eased and came closer to our June forecast. Since June, the forecast error for inflation excluding energy prices has roughly halved, from 0.4 to 0.2 percentage points.

There are also cyclical arguments in favour of cutting the interest rate at today's meeting. Looking at overall GDP growth in the first half of the year, it was not particularly impressive and the improvement in growth in the second quarter was not sufficient to match the June forecast. Consumption has started to increase, but at a relatively slow pace and the level is still lower than at the beginning of 2022. Despite some improvement in confidence, households remain pessimistic, and the more expansionary fiscal policy next year is unlikely to change this to any great extent in the near term. According to the Economic Tendency Survey, companies perceive the demand situation as weaker than normal and this is confirmed by higher unemployment, which is now also to a fairly large extent affecting groups with a relatively strong position in the labour market. The housing market has also been weak so far this year, with further falls in the SEB Housing Price Indicator in the September survey.

Weighing up the arguments for and against cutting the policy rate once again at today's meeting, I conclude, after some deliberation, that the arguments in favour of a cut are more convincing than those against. There are strong reasons to believe that the currently elevated inflation rate is transitory. And, overall, the economy still remains weak and shaky.

With this picture, it is possible to provide some additional interest-rate support to the economy without taking too great a risk regarding inflation. And if one believes that the economy needs a little more support, it is appropriate to give it as soon as possible, that is, already at the meeting here today. If a situation arises where monetary policy suddenly has to change course, for example because we have misjudged the persistence of the elevated inflation rate, then it can of course become both awkward and difficult. But if that were to be the case, I would not hesitate to support such a shift. Fortunately, in my judgement, the likelihood of this happening is very low. Against this backdrop, I support the forecasts and the monetary policy assumptions in the draft Monetary Policy Report.

I would like to conclude by commenting on two issues that I have not directly touched on in my comments today but which we will certainly have reason to return to a number of times in the future, namely fiscal policy and the krona exchange rate.

As far as fiscal policy is concerned, I am not particularly worried that the measures in the budget bill for 2026 will boost economic activity and inflation too much.

However, the direct inflationary effects of various tax changes, especially the temporary reduction in VAT on food, risk creating some concerns for us in monetary policy. The main question here, of course, is whether it will be possible to “see through” temporary inflationary fluctuations that last for about three years. Another very important question is how fiscal policy will be adjusted going forward, now that it is becoming more expansionary and deviating from the fiscal framework, with defence spending and support for Ukraine to be excluded from it. It will then be crucial that public net lending is gradually strengthened in the coming years and that deviations from the framework do not become the rule but are indeed the exception. The situation in several countries today illustrates well how problematic it is to try to deal with large budget deficits and excessive public debt. It is therefore important to avoid such problems.

After having strengthened significantly during the spring, the krona has been quite stable over the summer. Since the last monetary policy meeting in August, however, it has appreciated somewhat again, by about 2 per cent against the US dollar and 1 per cent against the euro. In level terms, the krona is still not impressively strong, but it can change quickly, as the trend in the spring clearly shows. The movements risk being particularly large if US assets suffer further confidence problems. How monetary policy should best deal with such a development is by no means obvious, but it is a question that must definitely be on our radar.

Governor Erik Thedéen

I support the proposal to cut the policy rate today by 0.25 percentage points to 1.75 per cent, and I endorse the assessments made in the draft Monetary Policy Report.

In August, CPIF inflation rose to 3.2 per cent, while the rate of price increase measured as the CPIF excluding energy fell back below 3 per cent. The downturn in underlying inflation was welcome after a number of months with an elevated rate of price increases. This signifies a decrease in the deviation between the outcomes and our forecast from June. Several indicators support the proposed forecast in the draft Report that implies that CPIF inflation will fall during the autumn. Examples of such indicators include the purchasing managers’ assessment of how prices for input goods have changed and inflation expectations among companies, which suggest inflation below 2 per cent over the next year. Corporate pricing plans and rates of price increases over a period of less than twelve months also indicate falling inflation. New information received since the monetary policy meeting in August essentially supports the assessment we made then, that CPIF inflation is temporarily high and that it will fall back over the autumn. To this can be added the strengthening of the krona exchange rate that has taken place since the start of the year and that should help dampen costs for imports and restrain price rises.

However, there remains some uncertainty over the forces driving inflation. The scattered surprises in consumer prices that we interpret as temporary could instead be signs of higher cost pressures or an increased propensity among companies to defend their margins. This calls for continued vigilance concerning coming inflationary outcomes and various leading indicators. At the same time, these risks must not be overemphasised.

Since our monetary policy meeting in August, some new information has been published that indicates somewhat increased growth in the Swedish economy. The GDP indicator, although volatile, was relatively strong for July, and household consumption has continued to rise over the summer. The measures announced by the Government in the autumn budget also mean that households will gain additional purchasing power compared to what we had assumed in our June forecast.

But over the last year, economic activity in Sweden has surprised negatively and resource utilisation has therefore remained low. In September last year, the Riksbank judged that GDP would rise by almost 2 per cent this year; now, we make the assessment that GDP growth will instead be just below 1 per cent. Economic activity has been restrained by a high level of household saving and relatively low investment, not least a low level of residential construction. One possible cause is uncertain international developments that have presumably contributed towards dampening household and corporate future outlooks and thereby the propensity to consume or invest. Another possible cause could be grounded in the previous rapid accumulation of private debt, which happened before the rise in inflation, when interest rates where very low. The debt burden is higher under current interest rate levels, which may have led a number of households to restrain their consumption and increase their saving. This is leading to a kind of ‘hangover’, in which households may aim at lower indebtedness in the future, requiring saving to be higher for a period.

As in August, it is difficult to determine how strong growth will be over the next few quarters. However, the picture of economic activity at present is fairly clear: most measures indicate that there is spare capacity. For example, unemployment is high in groups that usually have a strong position in the labour market. My assessment is that the economic recovery needs a certain amount of increased support to gain a foothold. The announced tax cuts and other initiatives in the Budget Bill for 2026 will probably have a positive impact but it will take time for them to become effective. At the same time, as I just mentioned, our analysis that inflation is temporarily elevated has been strengthened. Even though some risks remain, the arguments in favour of lowering the interest rate and thereby providing further stimulus to demand in the economy outweigh the counterarguments. As I now judge the situation, this will probably be the last cut in this interest rate cycle.

One risk of today's rate cut is that it could certainly turn out, some way into next year, that a policy rate of 1.75 per cent is too low, given the growth potential in the Swedish economy. It is conceivable that there may be an unexpectedly rapid upswing and that demand, quite simply, will become so high as to entail upward pressure on prices.

If demand were to become unexpectedly strong next year, and this were to threaten price stability, we will have to start rate rises earlier than we currently plan and have expressed in the policy rate path. My assessment is, however, that there is a fairly low probability of such a development.

My overall assessment is thus that today's cut will achieve a reasonable balance between the different risks I have discussed. Our monetary policy strategy means that we are making forward-looking decisions based on our forecasts and we are choosing to see through the temporary factors that have pushed up inflation in recent months. If implemented, the Government's proposed VAT cut for food will lead to CPIF inflation instead being pushed down next year. Then too, we will see through the temporary effects on CPIF inflation and take our decisions on the basis of a forward-looking analysis of the outlook for inflation and economic activity.

Finally, I would like to point out that Sweden, despite the challenges we face, is now in a relatively favourable position. In many countries, weak public finances mean that interest rates for government borrowing may rise even if policy rates are cut. France is an example of such a country. Weak public finances may mean that the government's borrowing costs risk pushing other public investment aside. In Sweden, there is broad political agreement over our economic policy framework, which has contributed to our low public debt and high credibility for the long-term sustainability of public finances. I consider it highly important that we safeguard this framework, which gives us room for manoeuvre when we are facing major challenges. One important cornerstone of this is the target for general government net lending, which is planned to be a balance target as of 2027. There may be reasonable grounds to finance a rapid increase of defence spending by borrowing for a few years, but this approach is not without risk. In effect, a decision on loan financing may lead to a new practice in which other expenditure is also removed from the agreed framework. It is important that fiscal policy is guided by the agreed balance target so that confidence in the fiscal policy framework can be maintained. The long-term perspective in fiscal policy is also a precondition for the Riksbank to be remain able to efficiently fulfil its main task of safeguarding price stability.

To sum up, in my opinion, it is a well-balanced decision to cut the policy rate today by 0.25 percentage points and simultaneously signal that our best assessment is that the policy rate has now bottomed out for this interest rate cycle.

§3c. Discussion

There was no ensuing discussion.

§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).
- in accordance with Annex B The Riksbank's security portfolio in Swedish krona.

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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