Minutes of the Monetary Policy Meeting

May 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 --- Lena Arfalk Therese Asplund Charlotta Edler Heidi Elmér Mattias Erlandsson Susanna Grufman Peter Gustafsson Jesper Johansson Anders Kvist Mika Lindgren Björn Lagerwall David Lööv Ann-Leena Mikiver Hilkka Nyberg Åsa Olli Segendorf Annica Sandberg Emma Sandberg Olof Sandstedt --- Joel Birging (§1–3a) Maria Johansson (§1–3a)

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

§ 3a. Economic developments

Market developments since the last monetary policy meeting

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

During this period, the financial markets have been characterised by substantial volatility, and it is primarily US trade policy that has been the triggering factor. The US President’s announcement regarding tariffs on 2 April led to clear stock market falls and higher risk premiums in credit markets. In recent weeks the situation has calmed, and there are expectations that the US tariffs will be lower than was announced at the beginning of April. Pricing on commodities markets is sending more negative signals regarding the [economic] outlook, with the price of gold at new record levels and large falls in the oil price.

Many analysts expect trade policy to contribute to both lower growth and higher inflation in the US economy. Market rates are indicating that the Fed will cut the policy rate later in the year. The ECB is expected to continue with its policy rate cuts and most analysts take the view that the tariffs primarily entail risks on the downside for both growth and inflation in the euro area.

The US dollar has weakened, and the broad dollar index has fallen to the lowest levels in recent years. Two factors contributing to the weakening are that investors are reallocating to other markets after a longer period during which US assets have performed well, and expectations that the US economy will be hit particularly hard by the tariffs.

The Swedish krona has strengthened by almost 2 per cent in KIX-weighted terms since the Riksbank’s policy rate decision in March, but developments during April have been mixed. The krona is one of the currencies that has strengthened the most against the dollar, but it has weakened against the Japanese yen and the Swiss franc. The Riksbank is expected to hold the policy rate unchanged today, but market rates indicate that there will be at least one rate cut this year.

Financial stability – current situation and risks

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

There is an unusually high level of uncertainty abroad, as a result of the abrupt shifts in global trade policy and security policy. There have been periods of very high volatility on the financial markets and the financial conditions have changed rapidly, which has meant that the scope for what might happen in the real economy has increased significantly. Developments could entail unexpected events that will test the resilience of the financial system, both in Sweden and globally.

Several large and important economies currently have strained public finances with high levels of public debt and large budget deficits. This applies in particular to the United States, where government bond yields have risen, and the US dollar is declining in value against other countries' currencies. If this development reflects declining confidence in the US economy and the decline continues, it may have substantial consequences for global market liquidity and market prices, for instance.

So far, the Swedish financial system has proved resilient, and the financial markets have functioned satisfactorily. The financial turbulence at the beginning of April led to the intraday requirements regarding margin collateral at the Nasdaq Clearing central counterparty rose to levels that were last seen in spring 2020 and in connection with the banking turmoil in spring 2023. However, market participants have been able to meet the higher requirements. At the same time, both the major Swedish banks and non-financial companies are facing higher risk premiums for their market funding. But although the cost is somewhat higher, the banks have had access to both short-term and long-term market funding in both Swedish kronor and foreign currencies.

Fund unit holders have sold funds with North America exposures and instead bought funds with European assets. Overall, the net outflows from Swedish funds during the turbulence have been limited and, so far, mainly concentrated on equity funds. Corporate bond funds, which have become increasingly important for company financing, have historically high net assets and are still vulnerable to large withdrawals by their shareholders. Large withdrawals would have a particularly negative effect on commercial property companies, which would then face renewed problems in refinancing bond loans and the cost of these would at the same time become much higher. It would lead to an unfavourable development, particularly as the rental market for offices is weak and vacancies are continuing to increase.

The current monetary policy drafting process

Peter Gustafsson, 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 judged would 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 meetings on 28 April. The basis for the draft Monetary Policy Update was discussed with the Executive Board at a drafting meeting on 30 April.

In March, the Riksbank held the policy rate unchanged at 2.25 per cent. The unexpectedly large rise in inflation at the beginning of the year was assessed to be due to temporary factors to a large degree. The assessment was still that an economic recovery was required to stabilise inflation close to the target. The Riksbank's important task of maintaining confidence in the inflation target was also emphasised, not least in light of the dramatic developments abroad, and the fact that monetary policy would be adapted if the outlook for inflation and economic activity so required.

Central issues in the preparations for today's meeting have included how the effects of the new US trade policy and increased uncertainty would affect the outlook for economic activity and inflation. Another question has been how monetary policy in general should relate to the very uncertain situation in the global economy.

Inflation is slightly elevated, but new information supports the forecast from March that the higher inflation this year will be temporary. In March and April, inflation was roughly in line with the March assessment. According to Statistics Sweden's preliminary calculations, CPIF inflation was 2.3 per cent in April and measured in CPIF inflation excluding energy, inflation was 3.1 per cent.

According to the National Institute of Economic Research's Economic Tendency Survey, companies' price plans remain elevated, especially in the retail trade. At the same time, the Purchasing Managers' Index indicates that input prices in both manufacturing and service companies have increased at a more normal pace in recent months. Moreover, the krona has continued to strengthen, and more high frequency data indicates that the rise in food prices, which contributed to inflation rising at the beginning of the year, has slowed down recently. The wage bargaining rounds resulted in wage increases that are assessed as compatible with the inflation forecast in the March Monetary Policy Report and the inflation expectations are firmly anchored, according to surveys by Origo Group.

New information indicates a slightly weaker development in GDP, but slightly lower unemployment during the first quarter, in relation to the March forecast. The elevated uncertainty as a result of developments abroad is expected to contribute to households and companies in both Sweden and among important trading partners postponing consumption and investment to some extent. This means that the recovery in the Swedish economy will probably be further delayed, which will in this case contribute to dampening inflation prospects beyond the near term in relation to the assessment in March. At the same time, there are factors that could contribute to higher inflation. These include disruptions in supply chains and a more substantial European reprisal in the form of higher import tariffs against the United States. The uncertainty regarding the assessment of the inflation outlook is greater than usual, and there is still only a limited amount of data showing how economic activity has developed so far during the second quarter.

Growth prospects in the United States have deteriorated due to increased tariffs and greater uncertainty. Expectations of higher inflation have contributed to households becoming much more pessimistic since March, but confidence among companies has so far not fallen as much. Although inflation was somewhat lower than expected in March, the increased tariffs on imports to the United States mean rising costs for many businesses, and probably contribute to higher inflation, primarily in the short term.

In the euro area, growth was still low, despite GDP growing somewhat faster in the first quarter in relation to the previous quarter. Households and companies are also continuing to be pessimistic about economic developments. The uncertainty surrounding the shaping of the new US trade policy is expected to weaken economic prospects, but the effects are less than in the United States. HICP inflation remained unchanged at 2.2 per cent in April, while the growth rate in HICP excluding energy rose slightly to 2.8 per cent. Wage growth has slowed, however, while the euro has strengthened, which contributes to lower inflationary pressures. The negative effects of the uncertainty on demand may burden the outlook for inflation, but developments are difficult to assess.

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 holding the policy rate unchanged at 2.25 per cent. Inflation is already slightly elevated, but new information supports the forecast from March that the higher inflation is temporary. The fact that the economic outlook has weakened indicates lower inflation beyond the near term, but there are at the same time factors that could lead to inflation being higher than expected. There is considerable uncertainty, but on the whole, it is assessed to be somewhat more probable that inflation will be lower than that it will be higher than in the March forecast. This could suggest a slight easing of monetary policy going forward.

§ 3b. The economic situation and monetary policy

Deputy Governor Anna Seim

I support the decision to leave the policy rate unchanged at 2.25 per cent and I support the considerations presented in the draft Monetary Policy Update. Although today's inflation outcome was in line with our forecast, I share the assessment that inflation going forward could be lower than we thought in March. But there are also factors that could push it higher. At today's meeting, I want to discuss some aspects that there is no scope for in a monetary policy update and (i) comment on how we can navigate in an environment in which it is difficult to look ahead, and (ii) highlight factors that I see as key to developments going forward.

As it takes time before changes to the policy rate have an impact on the economy, our decisions must largely be guided by forecasts. As shocks constantly hit the economy, this is a challenge in normal times, but it is undeniably even more difficult when the world is characterised by what has been called *Radical Uncertainty* – a condition where there is hardly any point in trying to quantify uncertainty, where relationships become unstable and economic structures can fundamentally change.[1]

The world is always characterised by uncertainty about, for example, the functioning of the economy and developments in financial markets. A feature of economic developments since the transfer of power in the White House in January is, however, that the uncertainty that has arisen has primarily been caused by the implemented and signalled economic policy. Measures of trade policy and economic policy uncertainty, which have been generally stable at lower levels over the last 30 years, are now sharply elevated.[2]

In more normal times, where signals about economic policy are fixed, we can draw on, for example, empirical research on fiscal policy multipliers or relationships between exchange rates and import prices, to estimate how key outcomes are affected by policies abroad. But when the goalposts are moved from one day to the next, when decisions are revoked or tested in the courts, when established truths and principles are challenged, it creates a volatility that we cannot rely on empirical studies to understand. Furthermore, when several dimensions of uncertainty interact, there is a risk of amplification mechanisms that render estimations based on historical data unreliable.

[1] See, for example, King, Mervyn (2022), "Monetary Policy in a World of Radical Uncertainty", SUERF Policy Note, No. 263, January 2022.

[2] See Londono, Juan M., Ma, Sai and Anne Wilson (2025), "Costs of Rising Uncertainty", FEDS Notes, April 2025. Economic policy uncertainty was also very high during the pandemic.

In times of uncertainty, economic theory can help us at least with qualitative assertions about where we are heading. This may sound insufficient but gives us some guidance. We can use trade theory to draw the conclusion that tariffs create inflation primarily in the country that introduces them, but global general equilibrium effects depend on how other countries respond. Trade models can also highlight how countries move production or choose new trading partners when trade barriers are introduced. Theories on pricing behaviour help us to understand how profit-maximising companies act when certain markets are no longer an option. The effects on inflation and employment depend on which mechanisms dominate.

My interpretation of the current situation is that there are two main tracks. One is that the trade conflict and uncertainty will make households and businesses so cautious that higher saving and lower investment will lead to declining demand and significantly lower growth. Another alternative is that shocks to the supply side of the economy will lead to fractures in global value chains and a shortage of input and consumption goods in different parts of the world. Whether inflation falls or rises going forward will then depend on which of these forces dominates. In addition, behind the scenes there are factors such as effects of increased defence spending, a possible influx of Chinese goods into the European market, effects on the neutral interest rate of changes in saving and investment, and sudden shifts in financial flows.

After the announcement on 2 April that the United States would introduce comprehensive import tariffs on a majority of the world’s countries, I was convinced that the first main track above would dominate and envisioned significantly lower global growth. Since then, however, the signals have been mixed and we still do not know what will actually materialise. As we describe in the draft update, the price plans of Swedish companies remain high and there is a risk that the pricing behaviours that arose during the surge in inflation in 2022–23 are still present. A general perception that there is a risk of supply shocks can lead to price rises even if actual cost increases do not materialise. When we return with a complete forecasting round in June, it will therefore be especially important to analyse changes in underlying inflationary pressures to be able to counter any price rises at an early stage. But we are also very alert to signs of weakness in domestic economic activity and are monitoring not least developments in the labour market closely.

In this unpredictable environment, I once again wish to emphasise how important it is to pursue a robust monetary policy – that we make interest-rate decisions that give rise to acceptable outcomes even in alternative scenarios. As I pointed out at the last meeting, in the current situation a reasonable strategy is to constantly test the extent to which incoming data can be interpreted as reliable signals and act accordingly. This should not in any way be interpreted as an unwillingness to act. We will adjust the policy rate if the outlook for inflation and economic activity indicates that this is justified. The neutral interest rate level we are starting from provides us with favourable conditions to navigate the uncertain road ahead.

First Deputy Governor Anna Breman

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

Since the previous monetary policy meeting, the outlook for the global economy has worsened, primarily due to the US trade policy. The outlook for inflation is more difficult to assess, with both upside and downside risks to inflation. It is possible that the EU and other countries will succeed in negotiating with the United States and that import tariffs will not be high. But independent of the outcome of trade negotiations, US economic policy will remain unpredictable.

At today's meeting I would therefore like to focus on the outlook for economic activity and inflation, given the new information since the previous meeting and the permanent unpredictability of US policy, and then go on to discuss what this means for the monetary policy deliberations at this meeting.

Economic activity in Sweden is likely to slow down in the near term. The labour market is showing signs of weakness, especially in the services sector, and unemployment has risen (see Figure 7 in the draft Update). According to the National Institute of Economic Research’s Economic Tendency Survey, household sector confidence has fallen significantly, while business sector confidence is relatively unchanged so far. However, anecdotal information points to increased pessimism also among companies, and to their exercising caution with regard to investment decisions while reviewing their strategies.

There is research on how uncertainty affects macroeconomic developments.[3] This research indicates that it leads to a poorer development in the real economy. If uncertainty persists for a long time, the negative effects on the economy can be significantly greater than if it quickly returns to normal levels. As I have already pointed out, it is likely that US politics will be characterised by unpredictability for several years to come, which risks dampening global growth.

Most studies also indicate that uncertainty leads to lower inflation, but these results are less unequivocal. A negative effect on inflation can arise due to a

[3] See a forthcoming Economic Commentary by Hans Dellmo for an overview of the academic research in this area.

decline in demand. At the same time, a certain type of uncertainty, for example a trade conflict, can create disruptions in supply chains that can push up prices, what is known as a supply shock. The effects on inflation are therefore due to whether the demand or supply effect dominate. This is a highly relevant question for monetary policy in the current situation.

In the United States, inflation is expected to rise as a result of the tariffs and associated problems with supply chains, at the same time as demand slows down. But the outlook for inflation in Europe and Sweden may actually be lower, as the effect of weak demand is expected to dominate. It will therefore be important to see how potential European retaliatory measures to the US tariffs are formulated. At present, the EU is exercising caution with regard to retaliation. The EU, however, is prepared to introduce extensive tariffs on US goods and services if the United States introduces the reciprocal tariffs at high levels.

The inflation outlook in Sweden also needs to take domestic factors into account. We have received two new inflation outcomes since the previous meeting. The outcomes for inflation in March and April indicate that inflation is in line with our most recent forecast.

In addition to the recent inflation figures, we have also received more forward-looking information. With regard to this information, only the price plans in the National Institute of Economic Research's Economic Tendency Survey, and primarily price plans for non-durable goods (mainly food), point to high price increases going forward. Rising food prices are problematic, as they tend to affect households' inflation expectations and to displace other consumption,[4] but in historical terms price plans have not always been a reliable forward-looking indicator for the overall price level. Other information, including producer prices, prices of input goods in the PMI, developments in service prices, the krona exchange rate and low energy prices (both electricity and fuels) all indicate somewhat lower inflationary pressures than in our previous forecast.

A further important piece of the puzzle that has been received since the previous meeting is the industrial wage agreement, which is the benchmark for all other sectors in the Swedish economy. The parties of the labour market have once again shown considerable responsibility in a difficult situation. A two-year collective wage agreement creates clarity in an uncertain world and provides good conditions for a continued rise in real wages for households. A well-functioning wage formation process and firmly anchored inflation expectations provide strong support to an inflation rate in line with the target, in both the short and long term.

[4] See also my discussion in the minutes of the monetary policy meeting in March.

Overall, I share the assessment in the draft Monetary Policy Update, that it is probable we will see lower growth and somewhat lower inflation than in our most recent forecast. This indicates a lower policy rate at coming meetings, if this forecast holds. This leads me on to the monetary policy deliberations at today's meeting. A key question for my part is, how can we act at coming meetings if developments differ from our current assessment? We do not publish any alternative scenarios in the Monetary Policy Update, but allow me to provide two examples that illustrate how I think.

Firstly, let us assume that we cut the policy rate now, but that trade barriers lead to unexpectedly high inflation. With hindsight, the cut appears to be wrong, and we need to reverse the decision by raising the policy rate to avoid lastingly high inflation. This creates sharp shifts for households and companies and can damage confidence in the central bank.

Secondly, let us instead assume that growth slows down sharply, and inflation falls more than expected. Then, with hindsight, we should have cut the policy rate sooner. However, in such a scenario we have the possibility to cut the rate rapidly and substantially. With eight meetings a year, there is a short period of time between the meetings and plenty of opportunity to act. The decisive factor for the Swedish economy will not be an individual meeting, but the overall monetary policy conducted in the coming months.

The weak point in this reasoning is that the inflation outlook may be just as difficult to assess at the next meeting. New information can provide contradicting signals and economic policy in the United States may be as difficult to interpret then as it is now. We must nevertheless make a decision on monetary policy. The decision may afterwards prove to be wrong, with hindsight.[5] But uncertainty and willingness to await new information should not become an excuse not to act at coming meetings.

Before I conclude, I would like to emphasise that the economic policy pursued in the EU and the fiscal policy pursued in Sweden will be important to the Swedish economy in both the short and the long run. Investments in defence will provide some support to economic activity. If the EU and Sweden also invest in reforms that strengthen growth and competition, this will counteract the negative effects of tariffs. A reform agenda that focuses on strengthening productivity in Sweden and Europe could contribute to higher growth and enable real wage growth. And

[5] This is why it is so important that decisions are evaluated on the basis of the information and statistics that were available at the time of the meeting.

higher productivity also contributes, all else equal, to lower inflationary pressures.[6]

Let me summarise. During turbulent times it is important that monetary policy contributes to the stability of the economy by maintaining confidence in the inflation target. If inflation were to accelerate again, it would be harmful to already vulnerable households and companies who have just got through several tough years. I therefore support the proposal to leave the policy rate unchanged. But, if the outlook for inflation and economic activity changes, we will take action. And with the current information, it is more likely that the next stage will be a cut, than that it will be a raise.

Deputy Governor Aino Bunge

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

As already mentioned several times, the various announcements from the US administration regarding trade and security policies have created very high uncertainty since our last monetary policy meeting (see Figure 1 in the draft Update). The abrupt realignment of global trade policy is a negative shock to global growth. As a small, trade-dependent economy, Sweden will be affected by both the uncertainty and the weaker growth prospects among our trading partners. The contradictory policy decisions have also caused large fluctuations on the financial markets. In this period of increased volatility, we can note that the dollar has weakened, reflecting a reduced willingness to invest in US assets.

Volatility peaked on the financial markets in conjunction with the dramatic tariff decisions of 2 April, reflected not least by the VIX index (see Figure 1 in the draft Update). But even in markets that are vital for financial stability, such as the market for US government bonds, there was strong turbulence, and risk premia rose. These tariffs have now been paused, and the turbulence in the financial markets has eased, but it remains unclear how a longer-term scenario for trade policy would look. We can expect continued volatility.

At the same time, it is very hard to assess how the economy will develop in the period ahead. The risks of weaker economic activity are also clear in Sweden, with subdued demand and lower inflation as a result. But there are also risks for a renewed escalating trade war and global supply shocks, for example due to supply chain problems. This could instead result in higher inflation in Sweden.

[6] In my speech "How trade barriers affect the Swedish economy and inflation", published on 20 February this year, I discuss productivity in Sweden, among other things, and the reforms that could strengthen it.

With the uncertainty prevailing around developments, it is helpful to refer to various alternative scenarios and the effect they could have on inflation and growth in the Swedish economy. No forecasts and no alternative scenarios are published in the Monetary Policy Updates. As far as I am concerned, this is instead a matter of weighing up factors pointing in different directions compared with our assessment in March. Let me elaborate on this reasoning a little.

To begin with, it is worth noting that we are starting from a position in which inflation in Sweden is slightly elevated. We received the latest outcome for inflation as recently as today. Since this is a flash estimate, we have no knowledge of the development of the various components but outcomes since the Monetary Policy Report in March are in line with our forecast. This strengthens our assessment that the upturn in inflation at the start of the year is temporary and is partly linked to technical factors such as the basket effect.

We also have a new industrial agreement in place, creating stability in wage formation and indicating confidence in the inflation target. Getting a two-year agreement on a relatively restrained level improves the conditions for keeping inflation at the target in the coming years.

In March, our assessment was that a recovery was on the way in Sweden's economy. This assessment was partly based on real wages rising and being expected to continue to do so and partly on the positive effects of previous policy rate cuts. The indicators we saw at the end of last year and start of this year also supported our view of the economic outlook.

In more current data, we now see how household confidence is again falling heavily. The uncertainty may lead to continued saving and caution as regards consumption. One example of this is provided by the ongoing signs of weakness in the housing market. Economic policy risk and uncertainty are also affecting companies' investment decisions, even if we cannot see any clear effects in published surveys yet. However, anecdotal information such as interviews with companies indicates increased pessimism among them too. The Purchasing Managers' Index (PMI) has also shifted downwards for the service sector, with service businesses signalling a reduced number of employees. In turn, this is not a positive signal to the labour market and households.

I consider that the real economic prospects suggest that a slightly more expansionary monetary policy is needed going forward. This is based on the assumption that the negative effect on demand of the economic policy uncertainty will be stronger than the risk of tariff-related price rises and will therefore subdue inflation both in Sweden and the rest of Europe. This is a reasonable assumption as long as Europe's response to the tariffs does not become too wide-ranging. Lower rates of increase in producer prices and the stronger krona are further factors that suggest moderate price rises in the period ahead and a risk of lower inflation than in our last forecast.

But there is also a risk of higher inflation than we envisaged in March. The latest Economic Tendency Survey from the National Institute of Economic Research shows that price plans remain elevated (see Figure 9 in the draft Update). It is essential that we do not see a return to a pricing behaviour, which is influenced by the high inflation in recent years'. And this will particularly apply if the global trade disruption results in supply shocks that raise costs for Swedish companies. I consider it important to carefully follow the development of companies' price plans – not just in the Economic Tendency Survey but also in our own Business Survey.

Overall, therefore, my view is that the economic outlook looks weaker than in March and that the risks have increased for lower inflation going forward than in our most recent forecast. However, in the prevailing environment, I consider it reasonable for us to continue to act gradually with a degree of caution and to try to avoid sudden shifts in monetary policy – so as not to fuel further uncertainty. Given the cuts we have already made, the policy rate is at a level that currently seems well-balanced. In light of this, I support the decision to hold the policy rate unchanged today.

But, as has already been said, caution and uncertainty in the period ahead must not lead to passivity in monetary policy. The information we have received since the last meeting indicates a heightened probability that the policy rate will need to be cut more. We should follow developments closely and be prepared to take action if necessary.

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 proposed decision to leave the policy rate unchanged at 2.25 per cent. In my contribution here today, I would like to supplement the description and analysis in the draft update with a few personal reflections on the inflation situation and the conditions for monetary policy going forward.

Since our last monetary policy meeting in March, we have received two new inflation outcomes, for March and April. The April outcome, published this morning, is a so-called Flash CPI without information on the development of the sub-groups of consumer prices. The outcomes show that inflation remains elevated, especially if the volatile energy prices are excluded. In April, CPIF inflation was 2.3 per cent, while inflation excluding energy prices came in at 3.1 per cent.

Although inflation has developed roughly as expected over the past two months, it is of course not entirely optimal that we are now facing a future that is very uncertain and difficult to assess, with price increases that are too high at the outset. However, in line with the description in the draft update, I remain firmly convinced that the increase in inflation at the beginning of the year is temporary. It was largely due to certain prices that change infrequently still being affected by earlier cost increases, to some food prices having risen much more than usual in the light of, among other things, unfavourable weather effects, and to Statistics Sweden, in January, making its annual update of the weighting system for Swedish consumer prices. Provided that these types of factors do not give rise to second-round effects in pricing or push up inflation expectations in the slightly longer term, it is, as I see it, fairly obvious that they will not affect inflation in a more persistent way and should therefore also be seen through in monetary policy.

But the major development since our meeting in March is of course the policy changes that have taken place in the United States, not least in the area of trade policy. For a period of time in early April, it looked like we were heading into a trade war on an unprecedented scale. The market reactions were violent and in the US, critical voices were raised by several who had previously expressed support for White House tariff policy. This seems to have had an impact on the Trump administration, which in recent weeks has adopted a more cautious approach. Whether this is a permanent change in strategy and will lead to a reduction in, or even perhaps a complete elimination of, already-imposed tariffs is, of course, impossible to know. But I am nevertheless cautiously optimistic and also believe that the EU will do everything in its power not to contribute to an escalation of the conflict.

If this more positive development materialises, the direct negative effects of the tariffs on growth and inflation need not be very large or very long-lasting, especially not for the EU. However, one problem that is harder to solve is the uncertainty created by the abrupt policy shifts. Even if the US administration starts to pursue more reasonable and predictable policies going forward, it is likely to take quite some time before uncertainty returns to more normal levels. As long as this has not happened, there is a high risk that both consumption and investment will be held back. But the major advantage of this scenario compared to a scenario where there is no de-escalation of the trade conflict is that the risks of stagflation will be significantly reduced. Increased uncertainty can certainly lead to lower growth, but this will probably happen primarily via a reduction in aggregate demand, leading to falling, not rising, inflation. This is, of course, a development that is easier to manage in monetary policy, especially if inflation is already elevated at the outset.

Like the draft update, I am currently leaning towards the view that European inflation will ultimately be dominated by negative demand effects from the increased uncertainty. A key assumption for this to happen is that the EU largely refrains from imposing tariffs on goods imported from abroad. One factor amplifying the negative inflation effects for many European countries, including Sweden, is the exchange-rate appreciation that has followed in the wake of the reduced willingness to invest in US assets. Since shortly after our interest-rate decision in March, the Swedish krona has strengthened by just over 5 per cent against the US dollar and around 1 per cent against the euro. If this reflects a decline in confidence in US politics, and by extension the US economy, and there is a lot of evidence to actually suggest this, the appreciation of the krona and some other currencies against the dollar may very well continue for some time and ultimately be very large.

Another factor that could add to the downward pressure on European and Swedish inflation is if the trade conflict turns into more of a bilateral tariff war between the US and China. This could result in some of the Chinese exports that previously went to the US economy being redirected to Europe, which could then lead to lower inflation via an increased supply of goods.

My overall conclusion for Swedish inflation at present is thus that there is much to indicate that it will fall and that this may well happen faster than we assumed in the March forecast. That said, I still share the view in the draft update that the uncertainty in this assessment is very high. Instead, if the trade conflict escalates and involves response measures from a large number of countries, including the EU, the risk of higher-than-expected inflation will increase rapidly. In such a scenario, the rise in inflation could be amplified by companies not affected by the tariffs also taking the opportunity to raise their prices. In this context, the fact that companies' price plans remain at unusually high levels according to the National Institute of Economic Research’s surveys does not exactly reduce the concern felt about such pricing behaviour.

Against this background, I think it is wise to now leave the policy rate unchanged and await more information to obtain a clearer picture of the outlook for economic activity and inflation. With the relatively rapid interest-rate cuts we made between May last year and up to and including January this year, from 4 to 2.25 per cent, the policy rate is currently at a good level for us to be able to manage economic and inflation surprises both upwards and downwards going forward.

Governor Erik Thedéen

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

In recent months, the US president has taken decisions leading to the economic outlook and inflation prospects being unusually uncertain at present. It is thus unusually difficult to provide guidance on how the Riksbank's policy rate will develop over the coming year.

Using the information currently available as a starting point, our view is that economic activity abroad and in Sweden will probably become weaker, possibly significantly weaker, compared with the forecast made in the MPR for March. Such a weakening would have a restraining effect on the rate of price increase. At present, it is difficult to assess the strength of the inflationary impulses in Europe and Sweden that will arise from the trade conflicts. One fairly likely outcome is that the impulses will be relatively minor. In this case, given the other conditions for the development of inflation, this would suggest that Swedish inflation in the medium run will fall below the target of 2 per cent if the policy rate is not cut below its current level. But it is also possible that the trade conflicts will create disruptions in global supply chains leading to higher costs for companies or that their pricing behaviour will be affected in some other way. The uncertainty is so great that I consider it wise to leave the policy rate unchanged at 2.25 per cent for the time being.

The uncertainty currently affecting developments has several different dimensions. A central one is, of course, the question of what tariffs and other international economic rules will look like in the long run. It is conceivable that certain decisions on tariffs in particular will be made relatively soon but, unfortunately, we may also have to wait quite long for more clarity.

Another important dimension regards the question of how the uncertainty itself is affecting household and corporate behaviour, both in Sweden and abroad. We assess that the uncertainty will inhibit corporate investment and private consumption. So far, however, there is a limited amount of data on which to base analyses, in addition to which the signals are partly contradictory. For example, on one hand, companies in the NIER's Economic Tendency Survey indicate a fairly limited impact from the policy uncertainty that has arisen; their optimism is relatively stable. On the other hand, households indicate sharply falling economic optimism. At the same time, retail sales remain relatively stable despite the increased uncertainty. There is thus both uncertainty over how the new situation is affecting sentiment among households and companies and uncertainty over how the new sentiment will then affect household consumption and corporate investment.

Even if the most likely outcome is that growth in Sweden weakens, it is easy to imagine scenarios in which the negative effects on economic activity are smaller. There is reason to believe that, in a few months' time, we will know a little more about how consumption and investment are being affected.

In the prevailing situation, it is also particularly difficult to determine how inflation in Sweden will be affected. The trade conflicts will probably give rise to inflationary impulses in Europe and Sweden, but the direct effects will probably be limited. However, this assessment is based on several uncertain assumptions, such as possible EU countermeasures against the United States and – more generally – the consequences of the trade conflicts on companies' global supply chains and thus on the development of costs for shipping, raw materials and other input goods. Even if, as I have said, it is likely to take some time until we get clarity on the tariff question, there is still reason to believe that, over the next few months, we will receive some significant information on how negotiations between the United States and the EU are proceeding. The same applies for the link between tariffs and companies' costs, where we now intend to carefully follow both how companies are trying to manage their supply chains and how they are setting prices for their customers. Initially, it will be important to study pricing dynamics on the US consumer market.

The starting point for our current view of the inflation outlook is that CPIF inflation is close to the target of 2 per cent, at the same time as the underlying rate of price increase, measured as the CPIF excluding energy, remains somewhat high. In the March MPR, we discussed the reasons behind our assessment that underlying inflation will also eventually subside towards our target. Such a development still seems likely and the new information that has emerged since the last monetary policy meeting primarily concerns the risk outlook around our inflation forecast, rather than the main scenario. It involves, for example, tariff negotiations between the United States and the EU, in which the EU decision on possible countermeasures may be particularly important for the rate of price increase in Sweden. If the outcome of the negotiations means that our tariffs on imports from the United States are raised considerably for many product categories, we will risk entering a situation with both a higher rate of price increase and lower growth.[7] In such a situation, it may be more difficult for the Riksbank to fulfil its objective of stabilising inflation while also contributing to the balanced development of the real economy. If the price impulses from the tariffs were then to spread, with indirect effects and effects on inflation expectations that entail risks to the credibility of the inflation target, we would have to choose a more restrictive monetary policy, potentially with negative effects on unemployment and employment.

Of course, the inflation outlook is affected by several other factors in addition to the effects directly linked to tariffs. One important such factor is the two-year wage agreements concluded in this year's wage bargaining rounds. It is welcome

[7] See, for example, Auclert, Rognlie and Straub (2025), "The Macroeconomics of Tariff Shocks", NBER, Working Paper No. 33726, April 2025, and the references cited.

and important that the contract negotiations have adopted the Riksbank's inflation target of 2 per cent as a starting point. The agreements contribute predictability and stability to companies' cost developments, reducing the risk that possible price impulses will lead to unwelcome secondary effects on inflation.

Another significant factor is the krona exchange rate, which has seen a welcome strengthening in recent months, primarily against the US dollar. It seems reasonable that this development is also linked to the decisions and announcements coming from the White House but here, as usual, the causal link is quite difficult to identify. It is clear, however, that in itself the strengthening of the krona reduces the risk that inflation will land above target. Pointing in the other direction is the fact that some price plans in the corporate sector continue to indicate an ambition to raise prices.

To sum up, I am now forced to conclude that some of the risks I touched on in my contribution to the last monetary policy meeting now seem to be materialising. The tariffs announced by the United States are also higher than I feared. The risk that global growth prospects will deteriorate substantially has therefore increased. In this uncertain situation, monetary policy contributes to stability at first hand by keeping inflation lastingly low and stable. This should not be taken to mean that the Riksbank can steer individual inflationary outcomes with precision nor that individual inflationary outcomes steer monetary policy. Instead, inflation targeting is a matter of adjusting the policy rate today so as to stabilise inflation at the target in a couple of years' time. When economic agents feel confidence in the Riksbank's determination and ability to meet the price stability target, we have both a reason and an opportunity to design monetary policy so that it can contribute to the balanced development of production and employment. A policy rate of 2.25 per cent gives us the scope to act as necessary to reach our targets. The current assessment is somewhat in favour of our next step being a policy rate cut but this is far from certain. For the time being, we will maintain course and speed.

§ 4. Monetary policy decision

The Executive Board decided

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

This paragraph was confirmed immediately.

Minutes taken by

Jesper Johansson Mika Lindgren

Verified by

Erik Thedéen Anna Breman Per Jansson

Aino Bunge Anna Seim

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