Minutes of the Monetary Policy Meeting

August 2026

MINUTES OF THE MONETARY POLICY MEETING

Executive Board, No. 5

DATE:	19 August 2026
TIME:	09:00
	Monetary policy minutes for meeting 22 2026
INFORMATION CLASS:	RB PUBLIC
PRESENT:	Erik Thedéen, Chair Aino Bunge Per Jansson Anna Seim Göran Hjelm --- Bo Broman, Chair, General Council of the Riksbank Tomas Eneroth, Vice Chair, General Council of the Riksbank --- Jakob Almerud Lena Arfalk Alexander Czarnota Charlotta Edler Mattias Erlandsson Caroline Flodberg Susanna Grufman Matilda Kilström Ellen Kockum Henrik Lundvall David Lööv Hilkka Nyberg Åsa Olli Segendorf Annica Sandberg Olof Sandstedt Anna Sjulander Frida Widholm Anne-Catherine Worth --- Buster Carlsen (§1-3a) Maria Johansson (§1-3a)

It was noted that Alexander Czarnota, David Lööv and Frida Widholm would prepare the minutes of the monetary policy meeting.

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§3 Monetary policy review

§3a Economic developments

Market developments since the last monetary policy meeting

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

The geopolitical situation continues to be a dominant theme on the financial markets. Passage through the Strait of Hormuz is once again limited, but not entirely blocked, following the initial relief that resulted from the Memorandum of Understanding signed in June. The oil price has risen since the monetary policy meeting in June, and futures prices are now at around the same level as when the Riksbank made its forecasts in June. Limited access and refinery capacity, partly due to the elimination of and damage to Russian plants, have also contributed to rising prices on refined oil products. Further, the extreme drought in Europe has created supply shocks, partly through the lower water levels in the Rhine River, which has led to major consequences for barge traffic.

At the same time, there are several factors that have limited the price increase of crude oil. In addition to redirected exports, in particular to Saudi Arabia, China's reduced crude oil imports have also been a contributing factor.

Global government bond yields with longer maturities have risen, with a particularly clear steepening of the US yield curve. This development is primarily explained by an unease regarding many countries' public indebtedness, combined with continued large issue volumes, which means that there is a large supply of government securities. The growing supply of corporate bonds in both the United States and Europe, partly to fund the widespread AI expansion, is also a contributing factor. The Federal Reserve's decision to leave its policy rate unchanged in July, combined with continued subdued inflation outcomes, has caused the market to question whether there will be any rate increases in the United States in the near term.

The Japanese Yen strengthened significantly after the United States and Japan carried out a coordinated currency intervention for the first time in 15 years. The market read this as an attempt by the United States to prevent Japan from selling US government securities to finance interventions. Apart from the large fluctuations in the Japanese currency, volatility on the foreign exchange market has generally been low during the summer.

Broad share indices have noted new record levels during the summer in both the United States and Europe. However, renewed concern regarding the scope of AI investments, for instance following China’s launch of a new language model, and fears related to the funding of the increased capital investments have contributed to equity prices varying considerably within sectors related to AI. The South Korean market index (KOSPI), which is an important indicator of global AI trade, has fallen substantially during the summer. This has led to local authorities introducing measures to limit trade in leverage products for private investors.

Analysts and the market are expecting an unchanged policy rate at today's monetary policy meeting. However, market pricing has shifted upwards since the decision in June and is now pricing just over one rate increase of a quarter of a percentage point towards the end of 2026. The krona, measured in terms of the KIX index, has weakened somewhat since the decision in June. Several analysts point out that a continued weakening of the krona, combined with the ECB being expected to continue raising its policy rate, could be a reason for the Riksbank to conduct a tighter monetary policy going forward.

Financial stability – current situation and risks

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

The risks to financial stability in Sweden have been elevated for a long time. This is connected to the uncertain global situation, and not least the US administration's unpredictable trade and foreign policy, as well as the war in the Middle East. New attacks against ships passing through the Strait of Hormuz and on infrastructure have led to continued supply shocks and volatile energy prices. The Swedish financial system has so far shown resilience, and key funding markets and infrastructure have functioned well. At the same time, the continued risk outlook is affected to a large degree by how the conflict develops and how long-lasting the effects of the supply shocks are expected to be.

Government bond yields with long maturities have continued to rise over the summer and are at high levels in several countries, partly due to poorer fiscal outlook. In several countries, public interest expenditure is at historically high levels as a percentage of GDP and is further increasing budget deficits. At the same time, risk-taking on financial markets is still high. Risk premia on several financial assets have declined and are at low levels, which increases the risk of rapid and broad corrections in asset prices and increased volatility in financial markets. Given the prevailing high asset valuations, several major AI-related companies have chosen to take in new capital on the global financing markets, primarily through increased debt financing, which has further increased market concentration to these companies.

Despite the unease during the summer, the assessment is that Sweden is well-equipped to manage a deterioration in economic conditions, and that the Swedish financial system as a whole has favourable conditions to withstand and manage disruptions. The major Swedish banks are profitable and have ample margins down to the requirements for capital and liquidity, and thus the prerequisites to maintain lending to the real economy even in the event of a shock. On the other hand, the threats related to cyberattacks have increased in light of the rapid technological advances and the uncertain geopolitical situation. This underlines the need for strengthened operational preparedness among all key participants in the financial system.

The current monetary policy drafting process

Jakob Almerud, senior economist at the Monetary Policy Department, presented the current assessment of macroeconomic developments and the proposal for a monetary policy decision that the Monetary Policy Department judges will gain majority support in the Executive Board at today's meeting.

The basis for today's policy rate decision has been discussed by the Executive Board at drafting meetings on 10 and 11 August. The draft Monetary Policy Update was discussed at the drafting meeting on 13 August.

At the monetary policy meeting in June, the Riksbank left the policy rate unchanged at 1.75 per cent. The monetary policy drafting process was then strongly impacted by the war in the Middle East. The Riksbank assessed that the risk of inflation becoming too high had increased, but as inflation was low and economic activity was weak in the initial situation, there was some scope to await a clearer picture of how the war would develop and its effects on the Swedish economy.

In the drafting process prior to today's monetary policy decision, key questions have concerned whether the outlook for Swedish inflation and economic activity from June still stands, and whether the risk outlook has shifted in any particular direction. Focus has been on both the effects of the supply shocks stemming from the war and the development of the domestic economy.

Despite the Memorandum of Understanding between the United States and Iran in June, the war in the Middle East has continued over the summer. Information received since then, including the Global Supply Chain Pressure Index and price developments on oil, urea and aluminium, indicates that the economic effects of the war have so far been less than was initially feared. But as the war is still going on, the fundamental reason for the supply disruptions remains and there is still a risk of inflation becoming too high.

On the financial markets, long-term interest rates have risen over the summer. In Europe, developments have been mainly driven by expectations of higher short-term interest rates. In the United States, this is probably mainly due to higher term premiums, which can partly reflect an increased uncertainty regarding inflation and weak public finances. The krona, measured in terms of the KIX index, is somewhat weaker than at the monetary policy meeting in June.

Regarding developments in the domestic economy, preliminary statistics show that the economy has performed more strongly than expected during the second quarter. Further, the Economic Tendency Survey shows that both household sector and corporate sector confidence has risen. Orders to the manufacturing sector have also increased during the summer. Overall, this indicates a somewhat stronger domestic economy, both in the initial situation and going forward. However, this picture is not yet reflected in the labour market, which has shown somewhat weaker development over the summer than expected.

Inflation, measured in terms of the CPIF and the CPIF excluding energy, was 0.2 and 0.3 percentage points higher, respectively, than in the June forecast. A large part of the forecast error was due to unexpectedly rapidly rising prices on travel-related services. It is not unusual for prices of these services to vary substantially. The measured rate of inflation is low, but this is mainly due to the direct effects of temporary fiscal policy measures. Excluding these measures, CPIF inflation was 2.2 per cent, while CPIF inflation excluding energy was 1.6 per cent. Companies' pricing plans according to the Economic Tendency Survey have somewhat dampened but are still at an elevated level.

Overall, the outlook for inflation and economic activity remains largely unchanged. However, there is still considerable uncertainty surrounding the outlook. In addition to the war in the Middle East, there are also other risks that could affect the outlook for inflation and economic activity. The possibility that the effects of the war can be reinforced by other more underlying vulnerabilities in the global economy cannot be ruled out.

The monetary policy proposal that the Monetary Policy Department judges will gain majority support in the Executive Board at today's meeting is set out in Annex A to the minutes. The proposal entails leaving the policy rate unchanged at 1.75 per cent. The probability that the policy rate will be raised this year remains.

§3b The economic situation and monetary policy

Deputy Governor Anna Seim

I support the proposal to leave the policy rate unchanged at 1.75 per cent. I also support the assessments in the draft Monetary Policy Update.

The war in the Middle East has now been in progress for almost six months and given rise to increased global cost pressures through higher energy, commodity and freight prices. Swedish media convey a picture of very low Swedish inflation, but the fact is that, adjusted for the direct effects of the temporary fiscal policy measures, which are aimed, amongst other things, to compensate households for the above-mentioned supply shocks and which we have consistently communicated we will see through, inflation in terms of our target variable, the CPIF, is 2.2 per cent and in terms of the CPIF excluding energy 1.6 per cent. Further, inflation has increased rapidly since the war broke out. Data on the more underlying inflation during the past three and six months, as shown in Figure 11 in the draft Update, indicating a clear upward momentum.

As apparent, I am still concerned that inflation might become too high. It is difficult to imagine a lasting solution to the war in the Middle East in the near term. Negotiations on a peace agreement sometimes appear to be ongoing, but the events during the summer have confirmed something that we also discussed at the monetary policy meeting in June – that the situation is fragile and the process has been characterised by many setbacks. Moreover, there are a further number of international factors that risk increasing inflationary pressures going forward, for instance, the extreme weather in parts of Europe and Russia's war of aggression in Ukraine.

Despite this, I am today advocating an unchanged policy rate. The oil price and some commodity prices have fallen back during the summer, despite the traffic through the Strait of Hormuz having been limited. The global economy has thus, as when the tariffs were initially raised, proved to be remarkably resilient. There are two dimensions to this resilience. One is that the oil inventories used during the crisis are not inexhaustible and their use is therefore a form of life support that is not sustainable in the long term. But the other is that companies appear to have adjusted to the situation and thus made global value chains more robust. It is difficult to assess how extensive and elastic this adaptability is, and whether it occurs at the cost of something else. But it does give some hope that the global economy has approached an equilibrium where dependence on the Strait of Hormuz is somewhat smaller. If this is the case, the cost-driven inflationary impulses could decline going forward, even if the war in the Middle East continues.

One circumstance that instead indicates that Swedish inflation may accelerate going forward is that the supply shocks are now interacting with much stronger economic activity than before. At our meeting in June, I argued that the strength of demand is crucial for the inflation effects of a supply shock as it determines to what extent costs can be passed on to consumers. And if, in the wake of a series of cost shocks, companies raise their prices more often, the Phillips curve becomes steeper, so that a given increase in economic activity can have greater effects on inflation. Preliminary statistics now indicate that GDP has been much stronger than expected in the second quarter, at the same time as household confidence indicators have strengthened and consumption is growing steadily. That we are now approaching normal resource utilisation, which with fiscal policy as a catalyst may strengthen further, is a decisive difference from before.

My assessment is therefore that it may be necessary to raise the policy rate during the autumn. At our meeting in May, I argued that a tightening at the right time could reduce the risk of needing to make a larger increase later on, and, of course I stand by this statement.

As always, we need to be forward-looking in our decisions. Given that we are now facing opaque fiscal policy consequences of the general election in Sweden, as well as an American midterm election in November, and we also need to manage the consequences of the serious global situation, this is no easy task. When we return with complete forecasts and a Monetary Policy Report in September, we will also continue to work with carefully-designed scenarios that describe possible ways forward through this large range of potential outcomes.

As always, we have a high level of preparedness to adjust our monetary policy if this should prove warranted.

First Deputy Governor Aino Bunge

I support both the proposal to leave the policy rate unchanged at 1.75 per cent at this meeting, and the assessments presented in the draft Monetary Policy Update.

It has been a summer with continued focus on the Middle East and the war that unfortunately has not yet approached a long-term sustainable solution. But as described in the draft Update, the economic consequences of the war and the ensuing supply shocks have so far been less than feared. The most recent monthly report on the oil market from the International Energy Agency (IEA) points to the higher prices not only creating strong incentives to adjust the supply but also having led to demand declining more than was previously estimated.[1] The use of oil inventories, increased production in other countries, alternative transport routes and a significantly reduced demand from China, among others, have had a restraining effect on the oil price. At the same time, there are still risks both that the conflict will escalate and that the indirect effects will be more widespread than we have assumed.

Even though we are still living in a world marked by the war and with very uncertain geopolitical conditions, companies have shown an almost surprisingly

[1] See Oil Market Report - August 2026 – Analysis - IEA.

good ability to adapt, as was the case during last year's tariff turbulence. We can also see that indicators of the disruptions in global supply chains have fallen (see Figure 2 in the draft Update). Overall, this leads me to the following conclusion: while the monetary policy discussion at the end of the spring was, in principle, entirely aimed at the continued course of the conflict and its economic effects, we now need to focus our attention more on domestic economic developments and other factors. There are several other global factors bubbling beneath the surface and to which I will return soon.

But let me begin with inflation in Sweden. And there I think that the outlook going forward is 'divided', with factors that point in different directions. During the summer, we have seen inflation outcomes that have been higher than expected. But just as during last summer, it seems to be connected to travel and holiday-related services, which have a very dynamic pricing by nature. We have also seen rising prices on electronic products, which can probably be connected to the high demand for semiconductors. At the same time, food prices have fallen, but here there are, on the other hand, signs that weather and climate-related factors may push them up going forward.

The measured rate of CPIF inflation is now being reduced by as much as 1.5 percentage points by temporary tax cuts. Excluding these effects – and energy prices – inflation is 1.6 per cent. I think that this measure currently gives the best picture of underlying inflation. And this is at present slightly below our target of 2 per cent. Having that said, it will be important to obtain confirmation during the autumn that it is the more temporary, summer-related factors that have recently surprised on the upside. Companies' pricing plans have fallen (see Figure 13 in the draft Update), but continued supply shocks can rapidly change this picture in a situation where domestic demand picks up.

This leads me to the development of the economic activity in Sweden. The recovery in the economy is continuing, and we are probably approaching a normal level of economic activity. I said at the previous meeting in June that I had a somewhat more positive picture of the economic situation, and this view has been reinforced during the summer. The Swedish manufacturing industry has solid orders. Following a few weak months, household consumption has picked up. This is also reflected in the Economic Tendency Survey, where household sentiment is now close to a normal level. This, in itself, is a reason why the policy rate should be raised from a somewhat stimulating to a more neutral level, regardless of the effects of supply shocks. I believe that this is essentially a positive development, given the prolonged downturn we have gone through.

But my view is that we are not there yet, as there is still spare capacity in the economy, not least in the labour market. There, the recovery is lagging behind slightly more than expected. The labour market should strengthen now when we see a clearer recovery in demand. One factor that is important to follow, and which I have discussed recently in a speech, is that an increased use of AI can affect companies' recruitment plans.[2] The investments made in IT infrastructure for the purpose of increasing use of AI can also make companies less inclined to recruit staff – all in order to keep costs under control in a situation where productivity has not yet increased significantly. In our Business Survey in the spring, many companies were not yet seeing very large effects on their operations from AI, but they nevertheless expected larger effects in a five-year perspective.[3] At the same time, the effects differ between sectors. It is quite clear that an extensive structural transformation is required in many areas if the enormous AI-related investments now being made around the world are to be profitable.

The uncertainty regarding the effects of AI has led to unease and fluctuations on global stock markets during the summer, and the overall development of stock market indices is being increasingly linked to AI-related companies. Risk appetite has generally been high on the financial markets, which is expressed, for instance, in low credit spreads. Financial conditions have also been affected by upturns in long-term rates and expectations of tighter monetary policy abroad. The krona exchange rate is now somewhat weaker than at the time of our previous monetary policy meeting, but it can be affected substantially by investors' risk appetite and monetary policy abroad going forward.

Overall, I think that it is reasonable to wait before adjusting the policy rate and to communicate today that the probability of a rate increase still stands since June. At that time, our interest-rate path indicated an approximately 50-per cent probability of a rate increase during the autumn. But as was the case in June, the inflation risks are largely on the upside. Increased contagion effects from supply shocks and domestic demand picking up more than expected, and in particular the combination of these, could open up for unexpectedly large price increases in Sweden. If we see signs of a broader upturn in inflation, we should be prepared to tighten monetary policy earlier than expected. But in my opinion, we are not there yet.

Deputy Governor Göran Hjelm

I support the proposal to leave the policy rate unchanged at 1.75 per cent and the assessments presented in the draft Monetary Policy Update.

I would like to begin by commenting on the economic consequences of the war in the Middle East and then move on to developments in economic activity and

[2] I discussed AI and its effects on the economy and monetary policy in greater depth in my speech in May. See Bunge: AI is now everywhere, but how does it affect monetary policy? | Sveriges Riksbank

[3] See The Riksbank's Business Survey.

inflation in Sweden. I will conclude with an assessment of the risk outlook and the monetary policy trade-offs.

Since the decision in June, the war and its effects have given off both negative and positive economic signals. Regarding the former, the dominant impression is that the conflict appears to be far from a sustainable solution. Given earlier events in the conflict, and that the parties appear to stand a long way from one another in the fundamental points of dispute, I see two risks that are significant for monetary policy. One is the risk of escalation, with significant damage to production and distribution from the area, and the other is the risk of a more lasting, low-intensity conflict that leads to limited deliveries of goods. Compared with when we made our decision in June, when the Memorandum of Understanding between the parties had recently been signed, I assess these two risks to be greater now.

Developments in recent months have also entailed several positive signals for monetary policy. The overall picture is that the effects of the war have become clearly less pronounced than the statistics and indicators showed during the spring, and than several analysts feared. Prices of several commodities have fallen, although in several cases the level is still elevated. As a result of this, Swedish import prices fell in May and June by a total of around 2 per cent after having increased by almost 9 per cent in March and April.[4] With regard to indicators, companies' pricing plans for input goods have fallen from almost two standard deviations above the normal to clearly below one standard deviation, according to several sources.[5] There has also been a corresponding downturn in the Global Supply Chain Pressure Index (see Figure 2 in the draft Update), a measure I have mentioned in earlier meeting minutes. This is particularly positive as substantial upturns in this type of measure have proved not only to entail significant indirect effects but also second-round effects for inflation.[6]

When it comes to the risk of second-round effects more generally, I would assess it as limited based on developments so far. Inflation expectations are anchored around the target, wage formation is expected to be based on the inflation target, and, given the design of the fiscal policy framework, there is no scope for broad, demand-stimulating measures in coming years.

Moving on to economic activity and inflation in Sweden. Economic activity in Sweden has continued to strengthen and various measures of resource utilisation are approaching normal levels. In addition, Indicators suggest that a further

[4] According to the import price index from PPI (Price index in the producer and import channels, Statistics Sweden).

[5] Economic Tendency Survey (Pricing plans, input goods) and the PMI (Pricing plans, input goods within the manufacturing industry).

[6] See Baslandze, S and S Fuchs (2026), "The price of delay: Supply chain disruptions and pricing dynamics", *Journal of International Economics*, to be published.

strengthening in the near term is likely. The economic upturn over the past year has also been broad, so far with some exception for the construction sector, but several of the forward-looking indicators for that sector are now positive. Regarding the labour market, companies are experiencing less of a labour shortage than normal. In addition, unemployment is elevated even among groups that are relatively close to the labour market. Overall, this indicates that there is scope for a further increase in resource utilisation by means of the labour market responding to a continued increase in demand for goods and services.

Regarding the outlook for inflation, outcomes and indicators since the June meeting are giving a relatively multifaceted picture. The short story is that inflation has become higher than forecasted, while several forward-looking indicators have dampened, in line with the effects of the conflict being smaller than expected. I would particularly like to emphasise the importance of the way the inflation outcomes are interpreted. When the credibility of the inflation target is high, monetary policy has the freedom of action to disregard temporary variations in inflation in the short term, for the purpose of attaining a more stable development in the real economy and avoiding volatility in the policy rate. This is the reason why we normally disregard variations in energy prices and at present also disregard the effects of temporary fiscal policy measures. This underlying measure now amounts to 1.6 per cent on an annual rate, that is, below but fairly close to 2 per cent. What could be more worrying is that developments in this measure over the past three months come to almost 4.5 per cent in annualised terms, that is, the sign of a strong so-called momentum for inflation. However, it is the case that the vast majority of this price increase, including the Riksbank's forecast errors, is due to unusually large price increases on travel-related services, which can be expected to dampen in the coming months in line with how things have been in recent years. When travel-related services are excluded, the three-month rate only amounts to nearly 1.5 per cent, which compared with 4.5 per cent gives a completely different picture of the ‘momentum’. This does not mean that one should lightly choose to disregard certain components in the measured rate of inflation. At the same time, it is important to form an opinion of what the most recent price developments could indicate for inflationary pressures going forward. In this analysis, I think one cannot entirely disregard the major price increases in travel-related services, partly because I assess that they to some extent are due to indirect effects of increased energy prices.

Moving on to the risk outlook. I think that it is still asymmetrical, with the risk of inflation becoming too high being dominant. This is essentially due to the war in the Middle East and the risk of substantial price increases in the event of an escalation, as I described above. I also assess that there is a risk that the indirect effects this year and next year of the disruptions the war has entailed so far will become larger than we have expected, especially if resource utilisation were to rise a lot more than was assumed in the June forecast. Going forward, it will therefore be important to analyse how large part of the inflation, both with regard to outcome and forecast, can be due to direct and indirect effects of supply shocks.

What does this mean overall for monetary policy? Given the most recent developments in the Middle East, I think it is appropriate to begin thinking about monetary policy in a scenario where the conflict becomes long-lasting and low-intensive and where consideration for possible future escalation is no longer reasonable. For some time now, the path for the policy rate has been slowly adjusting to the middle point of the Riksbank's estimated interval for the neutral policy rate in the longer term. I think this is a reasonable starting point, but it is important to emphasise two circumstances. The first is that the policy rate level that is suitable in the short term to attain nominal and real stability may differ from the assessed neutral level in the longer term, especially if factors that are exogenous to monetary policy temporarily deviate from the normal, for instance regarding international demand, the direction of fiscal policy or larger exchange rate movement that are not due to relative monetary policy. The other circumstance is that the assessment of the interval for the neutral policy rate in the longer run, and especially its middle point, are surrounded by considerable uncertainty. These two circumstances meant that it is no easy task to assess whether or not the current policy rate level has an expansionary effect on the economy. One indication is that resource utilisation has increased, not least since the current interest rate level was decided in September 2025. At the same time, it is reasonable that the rapid interest rate decline from 4 to 1.75 per cent *in itself* has clearly contributed through several channels to the upturn in economic activity. Having said this, my albeit uncertain assessment is that the current policy rate level is slightly expansionary, for instance because households, who on average are highly sensitive to interest rates, have continued to increase their consumption at a relatively good pace and because the interest-sensitive construction sector appears likely to develop relatively strongly going forward. But even if future developments gradually align with the forecast in the June, we have a challenging period ahead of us with regard to monetary policy. By this, I mean that we need to test our way forward and carefully analyse what effect the current policy rate and policy-rate path essentially have on the development of the economy.

Linked to the current situation, I think it is appropriate that the policy rate remains slightly expansionary, which I assess the level of 1.75 per cent to be. Thanks primarily to spare capacity in the labour market, there is an opportunity to expand the economy further without resource utilisation comprising any significant risk for overly high demand-driven inflation. However, higher resource utilisation than in the June forecast would increase the risk of higher supply-driven inflation in the form of larger indirect effects from Middle East-related disruptions. As I mentioned earlier, however, the latter do not necessarily require a tighter monetary policy, as it is appropriate to see through some supply-driven inflation when circumstances in general allow it. As in June, I consider that the risk of an escalation of the war, resulting in substantial price increases, justifies a probability of rate increases over the year. I see the increase in the policy-rate path in June as a response in terms of expectations, based on the probability that an escalation would occur multiplied by the effects it might have. If an escalation were to be realised and to lead to major price effects, it could entail much larger policy rate increases than the policy-rate path from June implies, which was illustrated in a scenario in our June report.

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 1.75 per cent, and the communication regarding future monetary policy in the draft **U**pdate.

At our monetary policy meeting in June I described the Swedish inflation picture as favourable and expressed scepticism with regard to what are known as insurance hikes to the policy rate, which I only saw a need for if one feared the inflation target had credibility problems. The background to my optimistic view of the inflation picture in Sweden was a good initial position with regard to prevailing inflation and inflationary pressures, that relatively weak economic activity meant that there was little risk of a rapidly and substantially rising demand-driven inflation and that supply shocks at the time of our meeting in June had not entailed any remarkably large effects on inflation. Additionally, some progress could be noted in the peace negotiations between the United States and Iran immediately prior to our meeting. In my contribution today, I intend to update my view of these various aspects and circumstances.

Since the June meeting, we have received two new inflation outcomes, for June and July. The outcomes for both of these months were higher than expected, both including and excluding energy prices. The largest forecasting error concerned inflation excluding energy prices in July, where our forecast amounted to 0.2 per cent, but the outcome was 0.6 per cent. The July outcome for inflation including energy prices was 0.7 per cent, compared with a forecast of 0.5 per cent. Adjusted for the direct effects of temporary fiscal policy measures, which we endeavour to see through in monetary policy, the corresponding figures for inflation including and excluding energy prices were 2.2 and 1.6 per cent. For me, this continues overall to be a fairly good initial position.

One circumstance that tends to somewhat cloud the picture of a favourable initial situation for Swedish inflation is that various measures of price changes in the shorter run have increased significantly in June and July. In July, for instance, price increases excluding energy prices and temporary fiscal policy measures amounted in annualised terms over the past six months to just over 2 per cent. If one looks at developments in the past three months, the corresponding price increases were almost 4.5 per cent. As noted, this should be compared with 1.6 per cent according to the normal twelve-monthly change.

That the upturn in the measures of price changes in the shorter term is largely a consequence of rising prices on travel-related services may indicate that it is temporary. These prices usually vary substantially, and in this case it appears to be certain services prices that usually increase quite a lot during the summer months that have risen particularly rapidly this year. However, nor can one rule out the possibility that at least some of the upturn in these price increases is linked to unexpectedly large indirect effects of supply shocks, for instance as a result of sharply rising prices for aviation fuels. If this is the case, it is possible that the upturn will prove to be more lasting.

With this, I will move on to economic activity and the risk of rapidly and substantially rising demand-driven inflation. According to new monthly statistics from Statistics Sweden, GDP increased much faster than expected during the second quarter, both in relation to the first quarter and compared with the second quarter of last year. Measured as seasonally adjusted quarterly growth, the increase in GDP was 1.4 per cent, compared to a forecast of 0.9 per cent in the Monetary Policy Report from June. Several indicators now point to the economy operating close to normal levels and to economic activity continuing to strengthen going forward.

However, it is hardly the case that one needs to worry now that the economy will soon overheat. For one thing, growth does not appear likely to become unhealthily rapid, and, for another, developments in the labour market are rather sluggish. Nevertheless, at the margin, it is difficult not to draw the conclusion that the risk of a slightly faster demand-driven inflation has now increased. One factor that contributes here is that fiscal policy is unusually expansionary and that, in light of the election promises made recently, there is a risk that it may become even more expansionary in the near future. That so many of the measures that have been implemented and announced concern short-term support to households rather than efforts to raise the long-term growth potential of the economy is no advantage in this context, either.

With regard to supply shocks, it can be noted that the progress in the peace negotiations between the United States and Iran immediately prior to our monetary policy meeting in June has not lasted. Some form of dialogue appears to remain between the parties, but the formal ceasefire came to an end on Monday and the Memorandum of Understanding signed on 17 June must unfortunately be regarded, at least at present, as overturned.

Despite this, the effects on the oil market during the summer months have been limited. It is clear that the ability to adapt with regard to both supply and demand has been greater than was previously thought. The loss of oil exports through the Strait of Hormuz has been compensated for through the use of stocks, increased production elsewhere, alternative transport routes and a clear decline in demand, especially from China.

The increased ability to adapt has at present meant that the impact of supply shocks on global value chains has declined notably. But it is important to emphasise that this is a temporary snapshot and that some of the factors that have enabled markets and companies to adapt will not last forever. This applies perhaps most of all to the use of stocks, and to China's large cutbacks in oil imports.

The fact that it is not currently possible at all to see how to find a path to sustainable peace, with conditions acceptable to both the parties involved and the world at large, is deeply worrying in this context. Of course, the situation is not made any better by the fact that there are serious supply shocks in other areas than the Middle East, for instance in Russia and Ukraine, as well as countries that have been affected by extreme weather conditions, with resulting droughts and wildfires.

Let me summarise the conclusions I draw for the inflation picture and monetary policy on this occasion. With regard to the new inflation outcomes since our previous meeting, my conclusion is that our initial position is still largely good, but that there has been some shift in a more negative direction. The same applies to the risk that we will have higher, demand-driven inflation. With regard to supply shocks, there are both positive and negative aspects to report. But what concerns me the most at the moment is that it is not possible to see any way forward towards sustainable peace.

Overall, my assessment given this is that the inflation picture now is somewhat poorer than in June. But it deserves to be emphasised that the shifts are small. As I perceive it, they currently have more of an impact on how we communicate future inflation risks than a direct quantitative effect on our monetary policy plan, in line with the text in the draft **U**pdate.

That I remain sceptical to insurance hikes in the policy rate is also of some importance in this context. There is strong confidence in our inflation target, well illustrated by both longer-term inflation expectations and how the social partners conduct wage formation. We therefore have scope to wait before adjusting our monetary policy, even if there are some risks of elevated inflation going forward. On the other hand, we should, just as we are doing now, clearly communicate in advance that we will not hesitate to act if it becomes clear that a major inflation problem is about to arise. If conducting monetary policy in this way were to mean that we fell behind the curve a little, I am confidently hopeful that we could, with a few early rate increases in larger steps than the usual 0.25 percentage points, relatively quickly bring monetary policy in line with developments again.

Governor Erik Thedéen

I support the proposal to leave the policy rate unchanged at 1.75 per cent today, and I support the assessments presented in the draft Monetary Policy Update.

During the summer, the upturn in economic activity has strengthened and at the same time we have noted unexpectedly high inflation outcomes. Swedish companies state that demand and profitability have risen recently and we have also received reports during the summer of strong orders in the manufacturing industry. I am becoming increasingly convinced that the upturn in economic activity is now on firmer ground.

There are also more positive growth signals from the euro area, and on the financial markets interest rates on both foreign and Swedish loans with long maturities have risen noticeably. This can be interpreted as market participants expecting higher future policy rates as a result of stronger growth prospects. US long-term rates have also risen, but a possible explanation there is that large public sector deficits and some uncertainty over how the Federal Reserve will act may have contributed. The US yield curve has also become markedly steeper, which reinforces this type of interpretation.

The low inflation that has been observed in Sweden during the summer is receiving considerable attention, but the downturn was in fact less than what we and other forecasters had expected. Several temporary fiscal policy measures, such as the reduced VAT on food, are currently contributing to holding back the measured rate of price increase. It is, therefore, worth emphasising once again how important it is to now exclude the effects of these measures to attain a more accurate picture of the underlying inflationary pressures. Measured in this way, CPIF inflation in July was 2.2 per cent, and the same measure excluding energy noted 1.6 per cent. And this is clearly higher than our forecasts from June. It is worth noticing, however, that one explanation for the higher inflation outcomes is high travel costs, which tend to vary substantially between individual months.

The assessment of the strength in the underlying inflationary pressures is difficult and made more so in general because the global economy has suffered several severe supply shocks in recent years, most recently linked to the war in the Persian Gulf. The effects of the shocks on companies' costs, household demand and consumer prices are unclear. When inflation develops in an unexpected manner, as has now been the case during some summer months, it is often difficult to quickly determine to what extent this is due to temporary disruptions, to more lasting changes in supply or to higher demand.

When I have pondered the inflation risks going forward, I have tried to see similarities and differences compared to the situation about a year ago. In the spring of 2025, the United States had announced substantial tariff increases against the EU and a number of other countries, and moreover growth had slowed down, both in Sweden and abroad. We also worried then about high inflation outcomes and it was not clear to what extent we were looking at temporary or more lasting upturns in the rate of price increase. But we made the call that the upturn was probably temporary and that it would fairly soon fall back again. Our assessment was that the economic recovery needed support and we chose, on the basis of our strategy of forward-looking monetary policy, to lower the policy rate by half a percentage point, in total. The cost increases that the supply shocks caused did not lead to any broad price increases. A reasonable interpretation is that the comparatively low demand from households was one of several factors that contributed to the inflationary impulses not spreading.

Today, there is a similar uncertainty regarding what effect different supply shocks have on consumer prices. So far, we do not see any clear signs of a lasting, broad upturn in inflation, not in Sweden and not among our most important trading partners. Several measures of price pressures and supply shocks also indicate that the effects of the war in the Middle East have so far been milder than one might have feared in the spring.

But the conflict in the Persian Gulf is continuing, albeit with varying intensity. Some temporary measures, such as China's reduced import of petroleum products, have contributed to subduing the upturn in the price of oil. At the same time, limits remain in the capacity to refine crude oil and in Europe the price of natural gas is still roughly twice as high as it was at the start of the year. Global market prices of diesel and petrol are also high. The supply disruptions on the oil- and gas-related markets thus remain an inflation risk. Moreover, the extreme heat in parts of Europe over the summer has created problems, hindering both river transports through Europe and the cooling of several nuclear reactors.

In brief, there is still a risk of upward pressure on companies' costs. The inflation outcomes have been higher, and one cannot rule out the possibility that some of the upturn is due to a combination of rising energy prices *and* a relatively solid demand resulting from stronger economic activity.

The Swedish economy is now moving at a relatively rapid pace towards a state of normal resource utilisation. This means that the supply shocks that we are now experiencing are occurring in an economy that is characterised by robust demand. I, therefore, assess that there is now a greater risk that inflationary impulses from war, drought and temporary bottlenecks will give rise to secondary effects in the form of broader price upturns. The stronger growth also means that last year's arguments in favour of a lower interest rate – which largely concerned the weak economic activity – no longer apply.

My conclusion is that the level of vigilance with regard to rising inflation must be high. However, the risks of higher inflation are far from clear-cut. There is still spare capacity in the economy, and it may be the case that economic growth picks up without making a clear impression on the labour market in the near term. If this situation lasts, productivity rises and growth can be high for a long period of time without inflation risks increasing.

However, the traditional pattern in an economic upturn is that demand for labour increases with a time lag, which through various channels can gradually lead to inflation risks increasing. When growth picks up, it is usually uncertain how long the time lag on the labour market will be and what the final effect on inflation will be. Here there is considerable uncertainty, and we need to follow developments closely. Today, the uncertainty is accentuated by the growing use of AI, which could entail entirely new patterns in the otherwise relatively stable correlations, over the business cycle, between growth and demand for labour.

How, then, are my monetary policy considerations affected by the new information we have received during the summer? The increasingly positive economic signals entail an increased risk that high energy costs, caused by the war and by weather-related disruptions, can take hold and lead to a broader increase in inflation.

Given this, I assess that our next change in the policy rate needs to be a raise. It will be important to continuously analyse the further effects of the high energy prices, the strength of the various driving forces that affect growth and how companies' demand for labour develops. The wind has picked up and the speed has increased, and this also increases the risks somewhat. The next step will be to reduce the sail area but the timing of this is still uncertain.

§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 annex Monetary Policy Update).

This paragraph was confirmed immediately.

Minutes taken by

Alexander Czarnota	David Lööv	Frida Widholm

Verified by

Erik Thedéen	Aino Bunge	Per Jansson
Anna Seim	Göran Hjelm	

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