



Economic Commentary

# Are fiscal and monetary policy pulling in the same direction?

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## Summary

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In this Commentary, we examine how fiscal and monetary policy have been conducted in Sweden between 2006 and 2025.<sup>1</sup> In the analysis, we use *ex ante* measures of fiscal and monetary policy in the form of forecasts for the coming year at the same point in time. We assess the policy stances on the basis of deviations from the estimated level of the long-term neutral interest rate and the surplus target, respectively.

Monetary policy has been expansionary when inflation forecasts have been below target, and contractionary when they have been above target. However, we find no clear relationship with the economy's resource utilization. Overall, this suggests that monetary policy has responded to deviations from the inflation target to a greater extent than to the business cycle. Fiscal policy has generally been countercyclical, that is, expansionary when forecasts have indicated weak resource utilization and low inflation, and contractionary when they have indicated the opposite.

The analysis indicates that fiscal and monetary policy have largely pulled in the same direction; that is, both have either been expansionary or contractionary at the same time. This should have reduced business cycle fluctuations. One explanation for the results could be that severe negative supply shocks were uncommon during most of the period under study. This has led to few serious conflicts between fiscal and monetary policy objectives.

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## Introduction

It is generally easier to stabilise the business cycle and inflation if fiscal and monetary policy do not run counter to one another.<sup>3</sup> In this Commentary, we examine the fiscal and monetary policy stances between 2006 and 2025. We follow Calmfors et al.

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<sup>1</sup> Economic Commentaries are brief analyses of issues with relevance for the Riksbank. They may be written by individual members of the Executive Board or by Riksbank staff. Staff commentaries are approved by the relevant head of department, while Executive Board members are themselves responsible for the content of the commentaries they write.

<sup>2</sup> The authors would like to thank Hugo Sparrman for his help with the charts and their colleagues at the Riksbank for their valuable comments during a seminar.

<sup>3</sup> See Walentin (2023) for the theoretical arguments as to why fiscal and monetary policy should pull in the same direction, and what this implies for stabilisation policy in Sweden. See also Bergholt et al. (2025) for an alternative theory suggesting that fiscal and monetary policy should pull in different directions in the event of inflation and exchange rate shocks.

(2022) and analyse how fiscal and monetary policy have related to the inflation target, whether they have been pro- or countercyclical, and whether they have pulled in the same direction.<sup>4</sup> Our contribution to earlier literature is that we use forecasts, the Riksbank's estimate of the neutral interest rate, and a time period that also encompasses the post-pandemic inflation surge. We base our analysis on the forecasts made for the coming year when the Government and the Riksbank took their decisions.<sup>5</sup> We use a measure of the neutral interest rate which we believe reflects the Riksbank's perception of its level at the time of its decisions.

## Monetary policy has been expansionary when inflation has been low

The Riksbank's most important monetary policy tool for affecting inflation is the policy rate.<sup>6</sup> In order to assess whether monetary policy is expansionary or contractionary, one must first have an understanding of what level of interest rate is 'neutral', that is, consistent with normal resource utilisation.<sup>7</sup> We therefore base our analysis on the estimated intervals for the long-term neutral interest rate published by the Riksbank at somewhat irregular intervals since 2006. We consider this to be a good approximation of how the Riksbank perceived the neutral interest rate was in real time, and we disregard the fact that temporary disruptions may cause the neutral interest rate to be higher or lower than its long-term level in the short run. To capture the fact that the neutral interest rate has changed continuously, while the Riksbank has published its assessments less frequently, we have chosen to interpolate the mid-points of the published intervals (see Figure 1).<sup>8</sup>

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<sup>4</sup> Previous studies examining the stabilisation policy stance in Sweden over recent decades have found that fiscal policy and monetary policy have generally pulled in the same direction. See, for example, Calmfors et al. (2022) and the Swedish Fiscal Policy Council (2023).

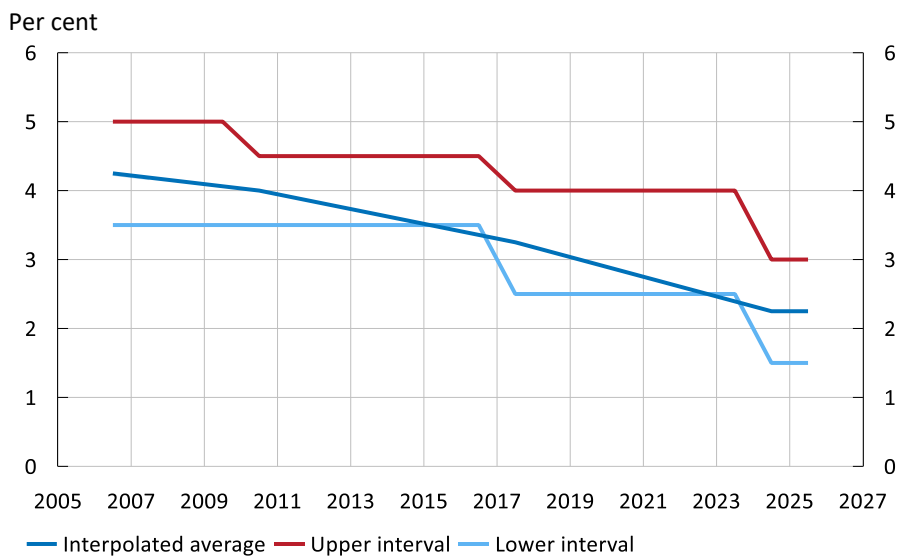
<sup>5</sup> In the assessment of fiscal policy, we have based our analysis on the forecasts set out in the Budget Bills and the surplus target in force at the time. In order to make the information pool as comparable as possible, we have based our assessment of monetary policy on the forecasts made at the monetary policy meeting closest to the publication of the Budget Bill. One exception is 2008, when the forecasts changed significantly following the collapse of Lehman Brothers; in that case, we have based our analysis on the Monetary Policy Report published in October.

<sup>6</sup> In this study, we disregard supplementary monetary policy measures such as the purchase and sale of securities.

<sup>7</sup> See, for example, Flodberg (2024), Lundvall et al. (2025) and Seim (2024).

<sup>8</sup> The interpolation is relatively consistent with the assessments made at the time the updates were published. In 2019 and 2022, for example, it was noted that the long-term interest rate was likely to be in the lower part of the interval, or below. This reinforces the reasonableness of our measure of the neutral interest rate because the blue line in Figure 1 lies closer to the lower bound of the interval.

**Figure 1. The Riksbank's assessment of the long-term neutral interest rate, 2006–2025**



Note. The red and light blue lines represent the Riksbank's historical assessment of the upper and lower interval of the long-term neutral interest rate. The intervals were updated in 2010, 2017 and 2024. The blue line represents the interpolated average of the estimated neutral interest rate.

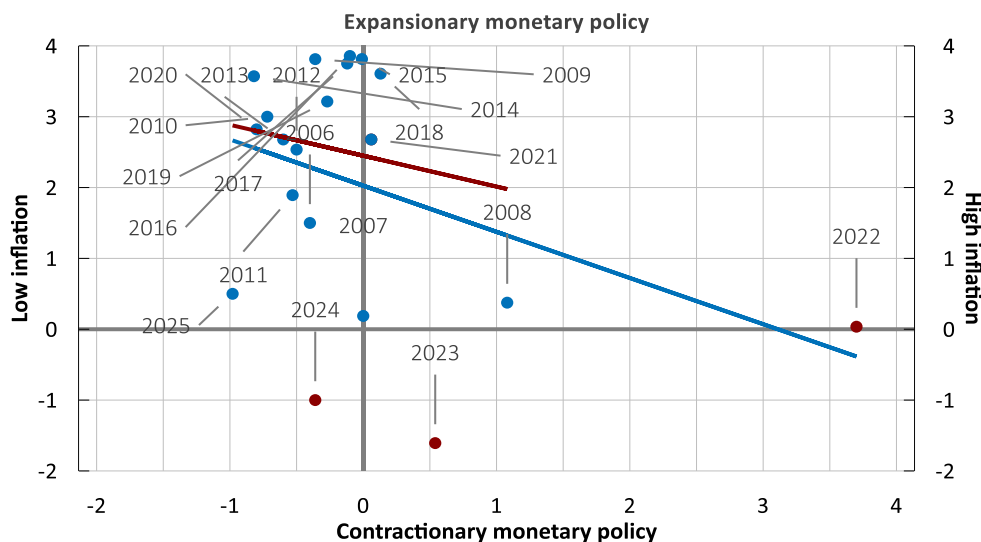
Source: Sveriges Riksbank.

We classify monetary policy as expansionary when the policy rate is lower than the long-term neutral interest rate. Figure 2 illustrates monetary policy according to this measure on the y-axis, plotted against the deviation from the inflation target on the x-axis. A positive value on the y-axis indicates that monetary policy has been expansionary, while a negative value indicates that it has been contractionary. The deviation from the inflation target is calculated as the Riksbank's forecast for average CPIF inflation over the coming year minus 2 per cent. A positive value therefore indicates inflation is expected to be above the target and a negative value indicates that it is expected to be below the target. We expect a negative relationship; that is to say, monetary policy has been tight when the forecast has suggested that inflation will be above the target, and vice versa.

Most of the observations are located in the top-left quadrant. This means that it has been more common for the inflation forecast for the coming year to be below 2 per cent and for monetary policy to have been expansionary. In 2023, the situation was the opposite; the inflation forecast was 0.5 percentage points above target, while monetary policy was tight, with the policy rate 1.6 percentage points above the neutral rate. There are a few isolated years that deviate from this pattern, that is, when monetary policy was contractionary even though inflation forecasts were below the target for the following year, or vice versa. Overall, however, monetary policy has been conducted in a way that is consistent with the inflation forecasts deviations from target. This is confirmed by the estimated regression line, which is illustrated by the blue line in the figure. It shows a negative relationship between the monetary policy stance and the inflation deviation. An inflation forecast above target has, on average, been associated with a policy rate above the neutral rate, and vice versa. Monetary

policy was clearly contractionary in 2023 and 2024, and the negative relationship between the monetary policy stance and the inflation deviation becomes weaker if the years of high inflation are excluded, which is illustrated by the red line.

**Figure 2. The monetary policy stance and deviation from the inflation target**  
Percentage points



Note. The x-axis shows the Riksbank's forecast for CPI inflation one year ahead, minus the inflation target. The y-axis shows the neutral interest rate minus the policy rate at the time the inflation forecast was made. The dots represent the observations for each year, and the blue line represents the estimated regression line. The red line represents the estimated regression line, excluding the years 2022, 2023 and 2024, which are marked in red.

Source: Sveriges Riksbank.

The negative relationship is slightly stronger than that found in previous studies. As noted above, the years of high inflation have contributed to the slope becoming steeper, but the fact that we are using ex ante estimates is also likely to play a role.<sup>9</sup> Monetary policy is also classified as being expansionary to a greater extent.

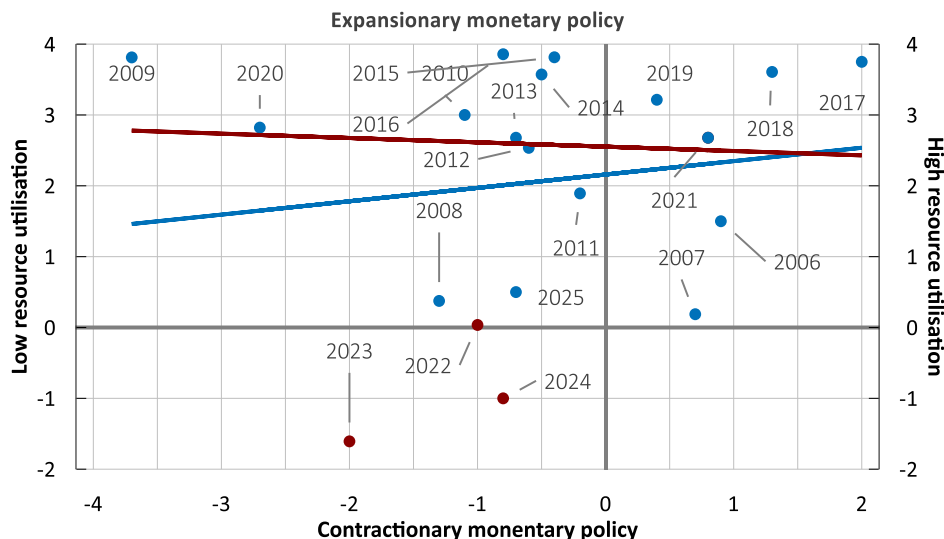
It is rare for the economy's total output capacity to be fully utilised. More often, actual output is either above or below potential output. It can also be described as the GDP gap being negative or positive, or the economy being in a recession or a boom. It is not necessarily the case that monetary policy should be conducted in a countercyclical manner, partly because the GDP gap may be negative while inflation is high. Figure 3 also shows that the relationship between the monetary policy stance and resource utilisation is weak. The blue line, which shows the estimated regression line, even shows that the relationship is weakly procyclical. This suggests that monetary policy has been contractionary when the Riksbank's forecast for the GDP gap next year is negative, and vice versa. However, the red line shows that the relationship becomes slightly countercyclical when we exclude the years of high inflation – 2022, 2023 and 2024, which are marked in red in the figure. The red dots can be seen as an

<sup>9</sup> Calmfors et al. (2022), for example, find that the relationship is only significantly different from 0 when based on ex ante estimates.

illustration of the Riksbank having given highest priority to the inflation target during the period 2022–2024.

**Figure 3. The monetary policy stance and resource utilisation**

Percentage points



Note. The x-axis shows the Riksbank's forecast for the GDP gap one year ahead. The y-axis shows the neutral interest rate minus the policy rate at the time the GDP gap forecast was made. The dots represent the observations for each year, and the blue line represents the estimated regression line. The red line represents the estimated regression line, excluding the years 2022, 2023 and 2024, which are marked in red.

Source: Sveriges Riksbank.

As the Riksbank's stated interval refers to the nominal neutral interest rate, we have chosen to analyse the monetary policy stance in nominal terms. In economic theory, however, it is the real neutral interest rate that influences supply and demand in the economy. In Appendix B, we therefore also analyse the monetary policy stance in real terms. The results show that the relationships are even weaker when we use the real interest rate measure, even though the two measures of the monetary policy stance track each other closely over time.

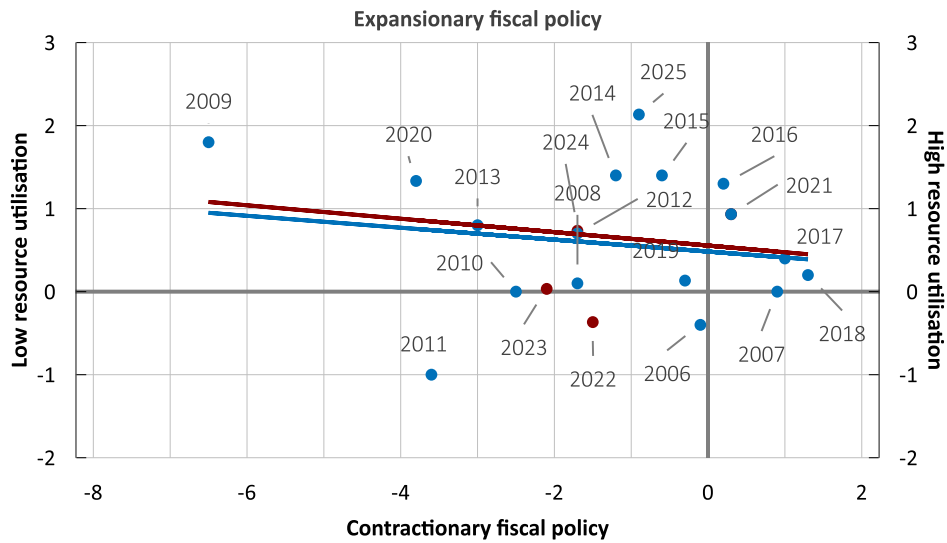
## Fiscal policy is usually expansionary during recessions

By pursuing expansionary fiscal policy during recessions and contractionary policy during booms, policymakers can help to reduce business cycle fluctuations. A significant part of the impact of fiscal policy on the economic cycle occurs automatically, as, for example, tax revenues fall when economic activity declines, while certain expenditures rise. If one wishes to analyse the extent to which fiscal policy has actively sought to influence the economic cycle – that is, discretionary fiscal policy – it is therefore

better to examine structural net lending, which filters out cyclical effects.<sup>10</sup> At the same time, it should be borne in mind that the fiscal framework stipulates, amongst other things, that periods of deficit must be followed by periods of surplus so that the balance target is achieved over the business cycle. Since a deviation does not automatically lead to the surplus target being restored, active discretionary measures are required, which in turn affects the measure of the discretionary fiscal policy stance.<sup>11</sup>

**Figure 4. Structural net lending and resource utilisation**

Percentage points



Note. The x-axis shows the Government's forecast for the GDP gap one year ahead. The y-axis shows the surplus target minus the Government's forecast for structural net lending one year ahead. The dots represent the observations for each year, and the blue line represents the estimated regression line. The red line represents the estimated regression line, excluding the years 2022, 2023 and 2024, which are marked in red.

Source: Ministry of Finance.

Figure 4 shows the fiscal policy stance on the y-axis and the Government's assessment of resource utilisation on the x-axis. Overall, fiscal policy has been expansionary, as reflected in the fact that most of the points are located in the top two quadrants. In the majority of cases, this coincides with low resource utilisation. Policy has therefore been countercyclical. However, there are also several examples of fiscal policy being procyclical in some years, as shown in the upper-right and lower-left quadrants. Many of these points lie relatively close to the x- or y-axis, which means that fiscal policy has been close to neutral or that resource utilisation has been normal. However, this does not apply to 2011, when fiscal policy was contractionary even though resource

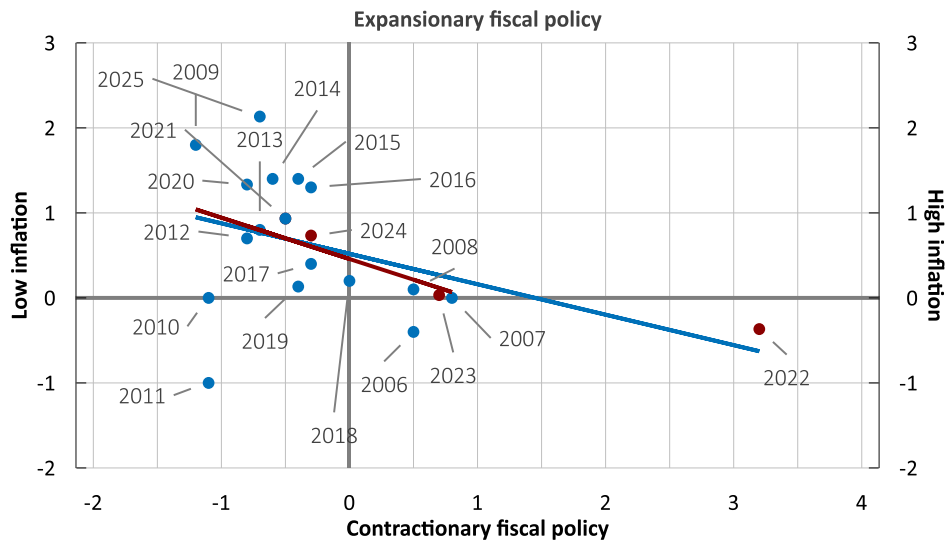
<sup>10</sup> Appendix A shows how financial net lending – which also includes the automatic stabilisers – covaries with the economic cycle, inflation deviations and monetary policy. Unsurprisingly, the relationship with the economic cycle and inflation deviations appears as expected stronger when measured in this way, while the relationship with monetary policy appears similar.

<sup>11</sup> Fiscal policy is influenced by targets within the fiscal policy framework, such as the balance target for local authorities and regions and the target for the public sector debt level (the debt anchor). We are also aware that not all fiscal policy measures are captured by our measure (a recent example is the electricity price subsidy, which affected the economy but had no impact on the budget balance).

utilisation was assessed to be very low. Fiscal policy has more often been countercyclical, as reflected in a weak negative relationship. This relationship is not significantly affected by whether or not the years of high inflation are included. Excluding years that fall one year before a general election does not affect the relationship either, even though some years stand out. Fiscal policy was, for example, unusually expansionary in 2009 and 2025. Furthermore, it was expansionary in 2017 and 2021, even though the forecasts indicated that resource utilisation was expected to be higher than normal.

In Figure 5, we can see a negative relationship between the fiscal policy stance and the deviation of inflation from the target. The relationship is negative, which means that fiscal policy has been more expansionary the lower inflation was expected to be, and vice versa. One argument for pursuing a tight fiscal policy despite low resource utilisation could be that inflation is high. There are, however, relatively few years where the Government has expected inflation to exceed the target. Like most others, the Government was taken by surprise by the inflation surge in 2022. The forecasts made in 2021 suggested that inflation would be below 2 per cent and that fiscal policy would be expansionary. Fiscal policy was adjusted in a mildly contractionary direction in autumn 2022, while the Government predicted that inflation would be just over 5 per cent in 2023. The fiscal policy announced in 2023 was close to neutral, while inflation was expected to exceed 2 per cent. The fiscal policy announced for 2024 and 2025 was more expansionary, while inflation forecasts indicated that inflation would fall below 2 per cent. It is not clear that fiscal policy has taken inflation into account to a greater extent than before, judging by the estimated regression lines. If one excludes the years of high inflation, the negative relationship is actually even slightly stronger, which is illustrated by the red line.

**Figure 5. Structural net lending and deviation from the inflation target**  
Percentage points



Note. The x-axis shows the Government's forecast for CPIF inflation one year ahead, minus the inflation target. The y-axis shows the surplus target minus the Government's forecast for structural net lending one year ahead. The dots represent the observations for each year, and the blue line represents the estimated regression line. The red line represents the estimated regression line, excluding the years 2022, 2023 and 2024, which are marked in red.

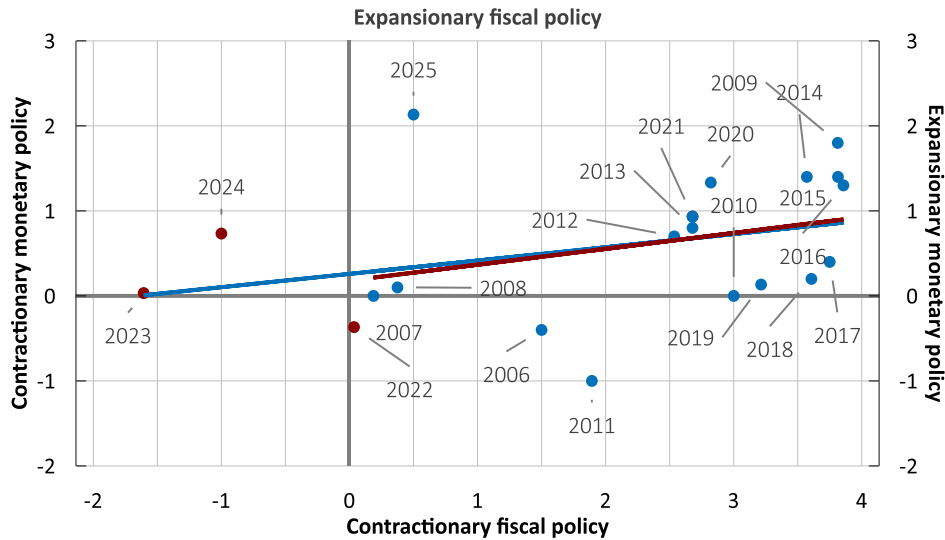
Source: Ministry of Finance.

## Fiscal and monetary policy have pulled in the same direction

In summary, fiscal policy has often been conducted countercyclically, but this is less clear for monetary policy. However, fiscal and monetary policy have generally pulled in the same direction and have thus reinforced each other. Both policy areas have generally been expansionary at the same time, whilst only monetary policy was contractionary was contractionary in the autumn of 2024. The relationship does not change substantially when the high-inflation years are excluded.

**Figure 6. The stabilisation policy stance**

Percentage points



Note. The x-axis shows the neutral interest rate minus the policy rate at the time the decision was taken. The y-axis shows the surplus target minus the Government's forecast for structural net lending one year ahead. The dots represent the observations for each year, and the blue line represents the estimated regression line. The red line represents the estimated regression line, excluding the years 2022, 2023 and 2024, which are marked in red.

Sources: Ministry of Finance and the Riksbank.

One explanation for the fact that fiscal and monetary policy have pulled in the same direction is that, in most years, there has been no conflict between their objectives. Inflation has mostly been below target, and resource utilisation weaker than normal. Economic policy has therefore been able to focus on stabilising both inflation and resource utilisation. The fact that resource utilisation has been lower than normal for several years despite the expansionary economic policy could reflect the fact that large negative demand shocks were common during the period under study.

At the same time, it should be borne in mind that we are studying a particular period characterised by prolonged low inflation and recurring major shocks. The economic policy trade-off is more difficult if the economy is hit by a negative supply shock, resulting in high inflation and weak demand. If fiscal policy stimulates the economy in such a situation, there is a risk that the policy rate will need to be raised to prevent inflation from becoming too high.<sup>12</sup>

## Concluding discussion

Our analysis shows that fiscal policy has generally been expansionary when economic activity has been low. We do not find any such pattern in monetary policy. However, we find that monetary policy has been expansionary when forecasts have indicated

<sup>12</sup> In times of high inflation, a common recommendation is that fiscal policy should prioritise mitigating the effects of high inflation on the most economically vulnerable and, where possible, take measures that improve the supply side of the economy relatively quickly.

that inflation would be below target. This indicates that monetary policy primarily have responded to deviations from the inflation target.

Our analysis shows that fiscal and monetary policy have largely pulled in the same direction between 2006 and 2025. This is a period characterised, amongst other things, by low inflation and a policy rate close to the lower bound, but also by complex supply and demand dynamics and high inflation in the wake of the pandemic. If negative supply shocks become more frequent in the future, for example as a result of geopolitical instability and climate change, conflicts may arise between fiscal and monetary policy objectives. In such situations, it is important that fiscal and monetary policy do not counteract one another. We look forward to further research relevant to this issue.<sup>13</sup>

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<sup>13</sup> An example of such research is Czarnota and Stockhammar (2026), who estimate the inflationary effects of individual fiscal policy measures – known as inflation multipliers – using Swedish data.

## References

Calmfors, Lars, John Hassler and Anna Seim (2022), "Samspel för stabilitet – en ESO-rapport om rollfördelningen mellan finans- och penningpolitik, (Interaction for stability – an ESO report on the division of roles between financial and monetary policy)", report to the Expert Group for Public Economic Studies 2022:3, Ministry of Finance.

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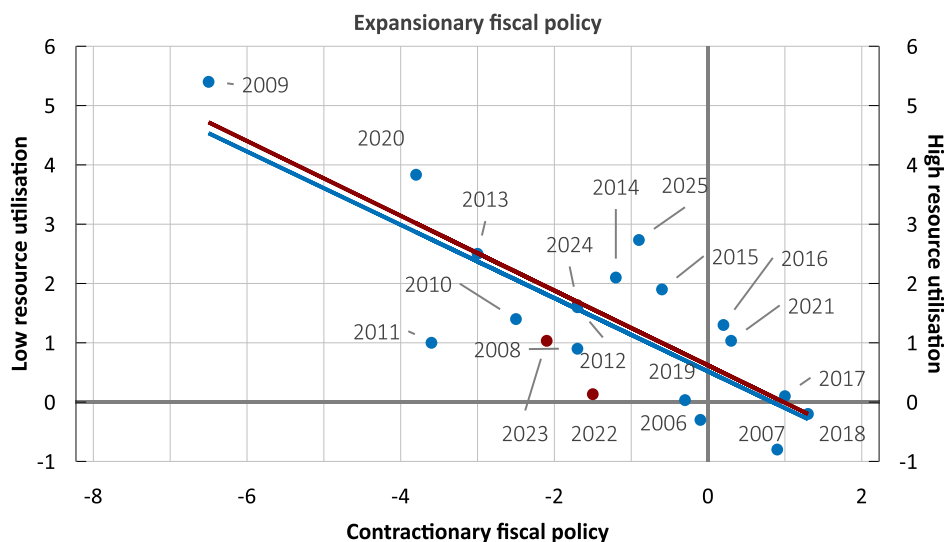
## APPENDIX A – The fiscal policy stance measured by financial net lending

In the main text, we used structural net lending to analyse how fiscal policy has been conducted in relation to the GDP gap, inflation and monetary policy. In this appendix, we carry out the same analysis using financial net lending – which also includes automatic stabilisers.

Figure 7 shows that the relationship between fiscal policy and resource utilisation is stronger when we use the forecast for financial net lending. Given that the automatic stabilisers covary with resource utilisation, this is in line with expectations.

**Figure 7. Financial net lending and resource utilisation**

Percentage points



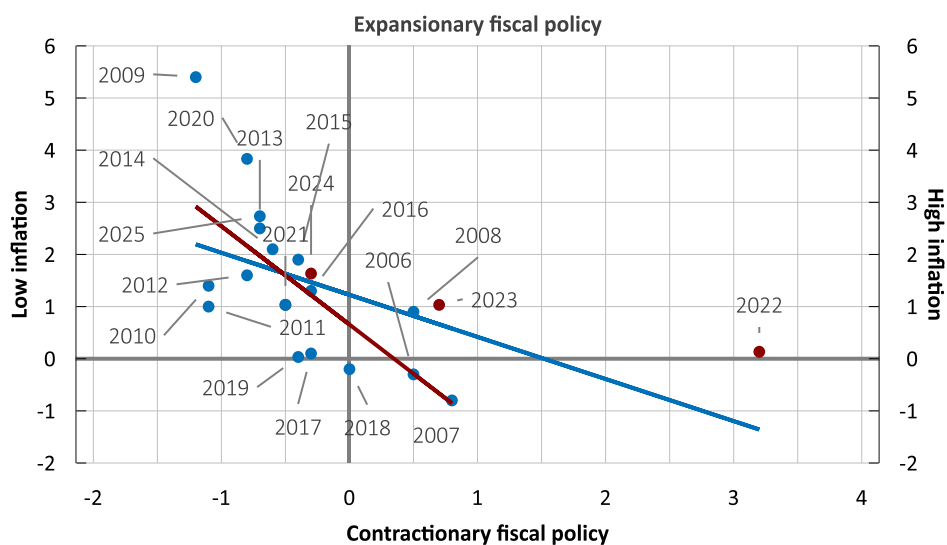
Note. The x-axis shows the Government's forecast for the GDP gap one year ahead. The y-axis shows the surplus target minus the Government's forecast for financial net lending one year ahead. The dots represent the observations for each year, and the blue line represents the estimated regression line. The red line represents the estimated regression line, excluding the years 2022, 2023 and 2024, which are marked in red.

Source: Ministry of Finance.

Figure 8 shows that the relationship between fiscal policy and inflation is stronger when we use the forecast for financial net lending. Given that inflation forecasts have been positively correlated with forecasts for resource utilisation – and thus also with the automatic stabilisers – this too is in line with what expectations.

**Figure 8. Net lending and deviation from the inflation target**

Percentage points



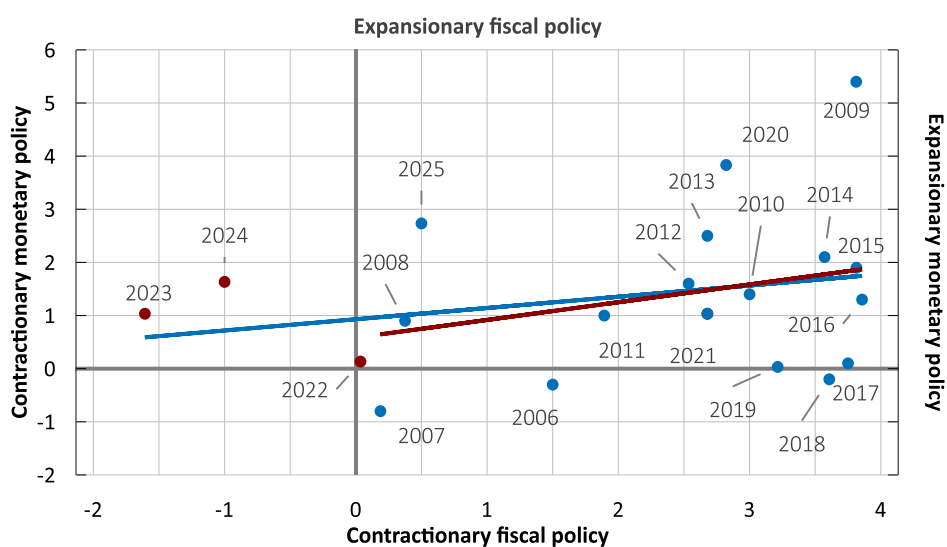
Note. The x-axis shows the Government's forecast for CPIF inflation one year ahead, minus the inflation target. The y-axis shows the surplus target minus the Government's forecast for structural net lending one year ahead. The dots represent the observations for each year, and the blue line represents the estimated regression line. The red line represents the estimated regression line, excluding the years 2022, 2023 and 2024, which are marked in red.

Source: Ministry of Finance.

In conclusion, Figure 9 shows that fiscal and monetary policy have generally been working in the same direction when we use the forecast for financial net lending rather than structural net lending. The slope of the estimated regression line is similar to that in Figure 6, which indicates that the conclusion that fiscal and monetary policy have been pulling in the same direction holds true regardless of whether we use the forecast for structural net lending or financial net lending as a measure of fiscal policy.

**Figure 9. The stabilisation policy stance**

Percentage points



Note. The x-axis shows the neutral interest rate minus the policy rate at the time the decision was taken. The y-axis shows the surplus target minus the Government's forecast for financial net lending one year ahead. The dots represent the observations for each year, and the blue line represents the estimated regression line. The red line represents the estimated regression line, excluding the years 2022, 2023 and 2024, which are marked in red.

Sources: Ministry of Finance and the Riksbank.

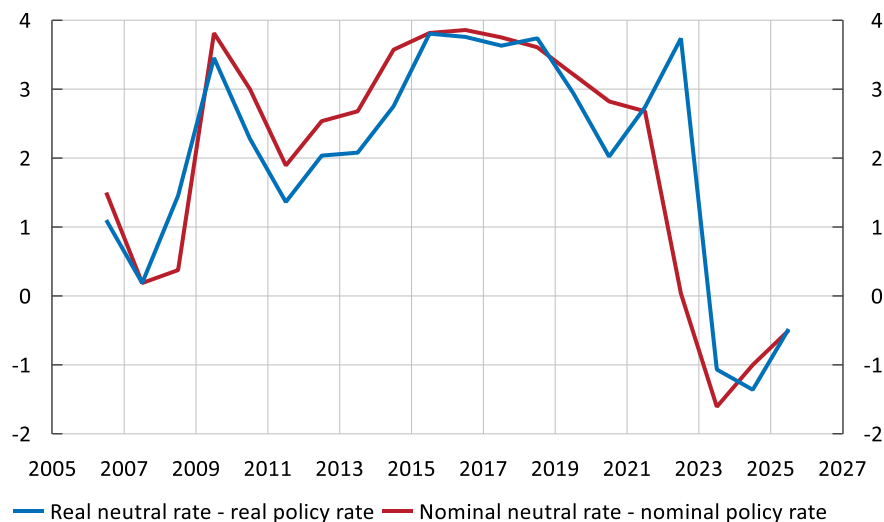
## Appendix B – The monetary policy stance, measured as the deviation from the real neutral interest rate

In the main text, we used the difference between the nominal neutral interest rate and the nominal policy rate to gauge the monetary policy stance and the relationship between inflation, the GDP gap and the fiscal policy stance. In this appendix, we use real interest rate deviations as a measure of the monetary policy stance. We define the real neutral interest rate as the nominal neutral interest rate minus the inflation target, and the real policy rate as the nominal policy rate minus the Riksbank's inflation forecast one year ahead.

Figure 10 shows the monetary policy stance over time in nominal terms (red line) and in real terms (blue line). The figure shows that the two measures correlate closely (the correlation is 0.82), but that there are some differences. One year that stands out is 2022, when the nominal deviation was close to zero whilst the real deviation was close to four – in other words, strongly expansionary.

**Figure 10. The monetary policy stance over time in nominal and real terms**

Percentage points



Note. The red line represents the difference between the long-term nominal neutral interest rate and the nominal policy rate. The blue line represents the difference between the long-term real neutral interest rate (defined as the long-term nominal neutral interest rate minus the Riksbank's for CPIF inflation one year ahead) and the real policy rate (defined as the policy rate minus the Riksbank's forecast for CPIF inflation one year ahead).

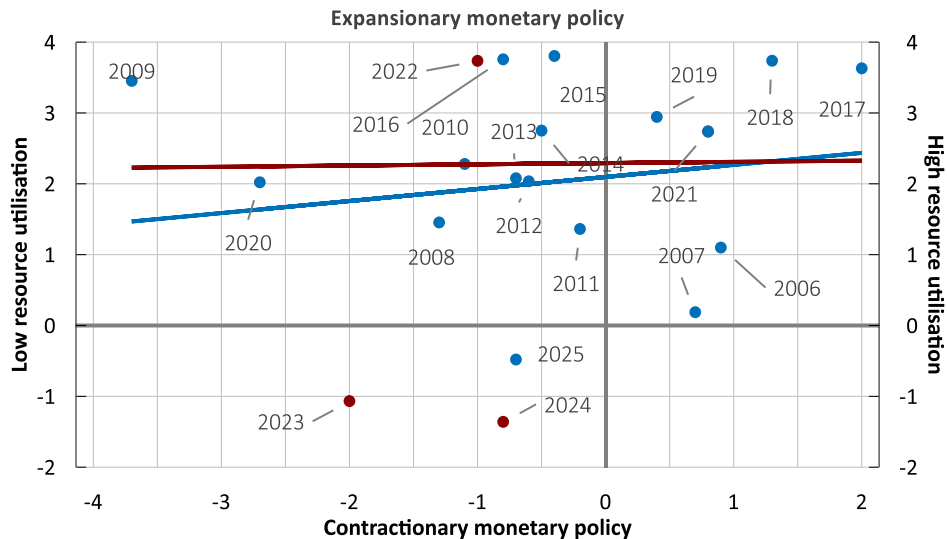
Source: Sveriges Riksbank.

Figure 11 shows the relationship between the monetary policy stance in real terms and the Riksbank's forecast for the GDP gap one year ahead. The relationship is weakly positive when the entire sample period is included, which is illustrated by the blue line. That is, monetary policy has been expansionary when resource utilisation has been high, and vice versa. The red line shows that the relationship disappears

when the period of high inflation is excluded. That is, the monetary policy stance has been independent of resource utilisation.

**Figure 11. The monetary policy stance in real terms and resource utilisation**

Percentage points



Note. The x-axis shows the Riksbank's forecast for the GDP gap one year ahead. The y-axis shows the real neutral interest rate minus the real policy rate at the time the GDP gap forecast was made. The dots represent the observations for each year, and the blue line represents the estimated regression line. The red line represents the estimated regression line, excluding the years 2022, 2023 and 2024, which are marked in red.

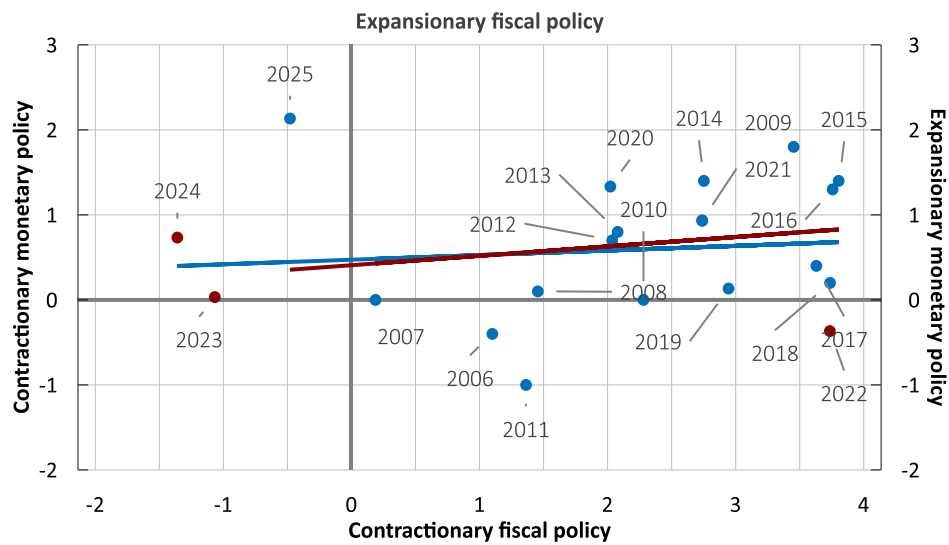
Source: Sveriges Riksbank.

Figure 12 shows the relationship between the monetary policy stance in real terms and the fiscal policy stance. The relationship is weakly positive; in other words, fiscal and monetary policy have, on average, been expansionary or contractionary at the same time. The relationship is weaker than when we use the nominal measure of the monetary policy stance.

In summary, we find that fiscal and monetary policy have pulled in the same direction, even when we use a real measure of the monetary policy stance. Measures of the monetary policy stance risk being misleading when major changes occur – for example, when inflation rises rapidly – as it is relatively common to assume that central banks wish to smooth out interest rate changes over time.

**Figure 12. The stabilisation policy stance**

Percentage points



Note. The x-axis shows the real neutral interest rate minus the real policy rate at the time the decision was taken. The y-axis shows the surplus target minus the Government's forecast for structural net lending one year ahead. The dots represent the observations for each year, and the blue line represents the estimated regression line. The red line represents the estimated regression line, excluding the years 2022, 2023 and 2024, which are marked in red.

Sources: Ministry of Finance and the Riksbank.



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