Economic Commentary

Same objectives, but different trade-offs? Norges Bank and the Riksbank after the post-pandemic inflation surge

Jakob Almerud and Anna Seim

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Summary

After the recent inflation surge 2022-2023, inflation rates in Sweden and Norway have diverged. Despite a higher policy rate in Norway, Norwegian inflation remains above target, while Swedish inflation was below in early 2026. In this Economic Commentary, we discuss possible explanations for this development.[1]

First, we note that the policy rate has been higher in Norway than in Sweden, but that Norwegian monetary policy has not necessarily been tighter. The fact that the performance of the real economy in Norway has been stronger than that of the real economy in Sweden rather indicates that monetary policy has been less tight in Norway. This may be an indication that the neutral interest rate is higher in Norway than in Sweden. Further, the two central banks' own forecasts indicate that Norges Bank has placed greater emphasis than the Riksbank on stabilising the real economy.

We then discuss possible reasons why Norges Bank and the Riksbank seem to have made different choices in the trade-off between meeting the inflation target and the development of the real economy. We do not find support in the data for the hypothesis that different slopes of the Phillips curve would make it more costly to bring inflation down to target in Norway. We also reflect on whether exchange-rate concerns and differences in monetary policy mandates have played a role for the different strategies of the two central banks.

Authors: Jakob Almerud and Anna Seim. Jakob Almerud works at the Monetary Policy Department. Anna Seim is Deputy Governor of the Riksbank. The commentary is based on a speech Anna Seim gave at the Conference on the Monetary Policy Provision, Norges Bank on 2 March 2026. The purpose of the commentary is to highlight developments in recent years using a descriptive approach. The text is not an opinion piece or a review of the conducted monetary policy.[2]

[1] 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.

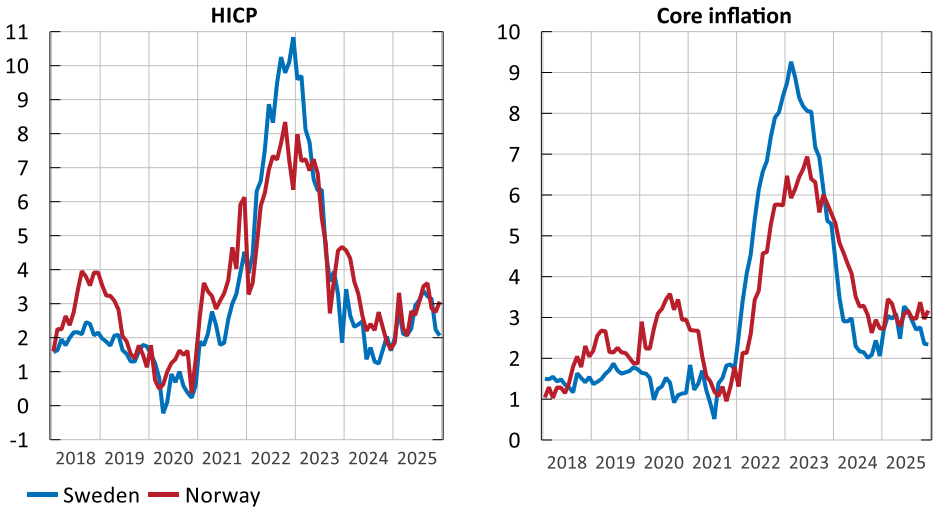
[2] The authors would like to thank Carl Andreas Claussen, Charlotta Edler, Marie Hesselman and Matilda Kilström for insightful comments and suggestions. A special thanks also to Norges Bank for providing data.

Economic developments in Sweden and Norway after the post-pandemic inflation surge

Following the sharp rise in inflation in 2022, developments in Sweden and Norway have diverged in several aspects. Figure 1 shows Swedish and Norwegian inflation over the period 2018–2025. The Harmonised Index of Consumer Prices, HICP, shown in the left-hand panel, is suitable for cross-country comparisons as it is calculated in a similar way. The right-hand panel shows measures of core inflation that are more closely linked to the countries' actual inflation targets. The figure indicates that it has taken longer to reach the 2 per cent target in Norway than in Sweden.[3]

Figure 1. Inflation developments in Sweden and Norway

Per cent



Note: The left-hand figure shows harmonised consumer prices. The right-hand figure shows the CPIF excluding energy for Sweden and the CPI excluding energy with constant taxes for Norway.

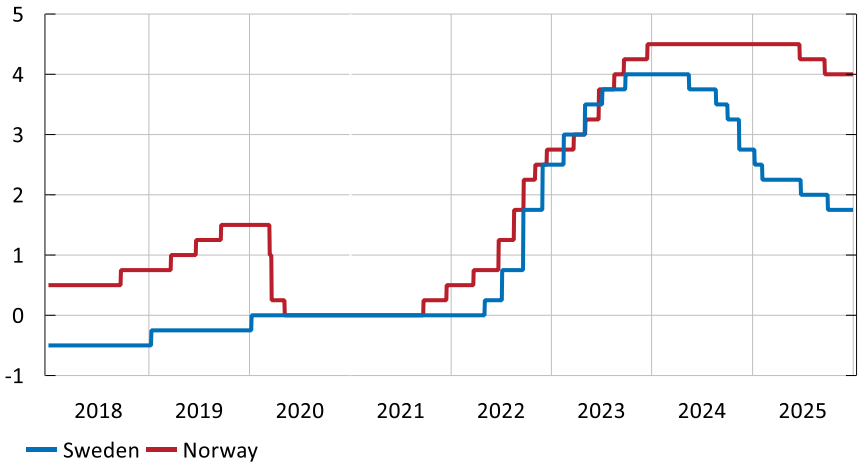
Sources: Statistics Sweden and Statistics Norway.

Norwegian inflation has been higher despite the fact that the Norwegian policy rate has been higher than the Swedish rate in nominal terms, after inflation in both countries fell back from the very highest levels. While the Riksbank has cut its policy rate by 2.25 percentage points, Norges Bank's policy rate has remained steadily above 4 per cent since the summer of 2023 (see Figure 2).

[3] The countries' target variables are the CPI for Norway and the CPIF for Sweden. These are volatile due to large movements in energy prices. The inflation measures we have chosen here provide a clearer picture of underlying movements.

Figure 2. Policy rates in Sweden and Norway

Per cent



Sources: Norges Bank and the Riksbank.

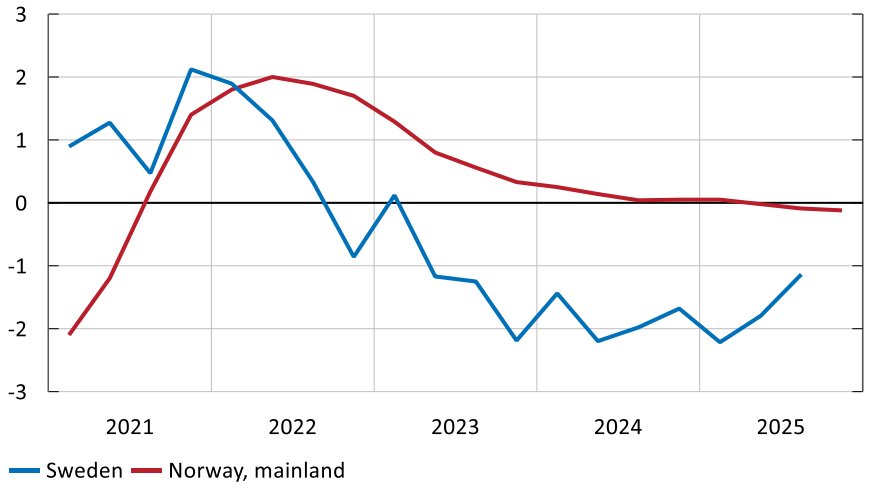
However, a higher policy rate in nominal terms does not necessarily mean that monetary policy is tighter. To determine the extent to which monetary policy is expansionary, we can study the development of the real economy. Figure 3 displays the GDP gap, i.e. the difference between actual GDP and potential GDP, which can be used as a measure of resource utilisation in the economy. Despite a lower policy rate in Sweden than in Norway, Sweden's GDP gap has been negative since 2023, while Norway's GDP gap remained positive in 2024.[4] This indicates that monetary policy has been less tight in Norway than in Sweden. The fact that a given level of the policy rate may be more expansionary in Norway than in Sweden is supported to some extent by estimates of the long-term neutral rate, i.e. the policy rate that is compatible with inflation on target and balanced resource utilisation in the long term. There is reason to believe that it is somewhat higher in Norway than in Sweden. Norges Bank estimate that their long-term nominal neutral rate lies within the range of 2.25-3.5 per cent. The Riksbank estimate of the corresponding range for Sweden is 1.5-3.0 per cent.[5]

[4] The measures of the GDP gaps are Norges Bank's and the Riksbank's own assessments.

[5] For the Norwegian estimate of the neutral interest rate, see Almlid and Asshoff (2025). For the Riksbank's assessment, see Seim (2024).

Figure 3. GDP gaps in Sweden and Norway

Per cent

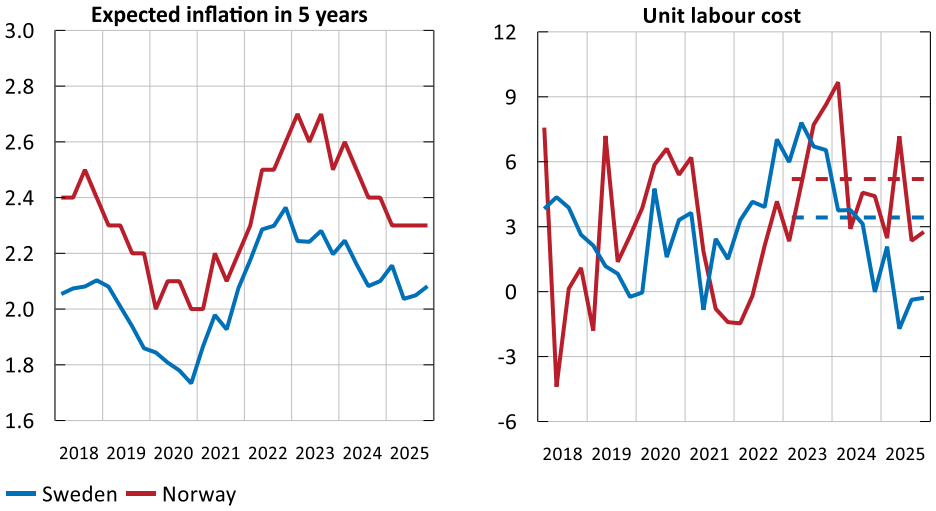


Sources: Norges Bank and the Riksbank.

That the nominal interest rate that stabilises inflation at the target over time is higher in Norway than in Sweden is also supported by developments in long-term inflation expectations and unit labour costs, both of which have been higher in Norway than in Sweden (see figure 4). Both measures indicate that inflationary pressures have been higher in Norway than in Sweden. The higher inflation expectations imply that, for a given nominal interest rate, the real interest rate, which according to economic theory is what matters for economic developments, has been lower in Norway than in Sweden.

We can only speculate whether the higher inflation expectations in Figure 4 have had an impact on inflation and wage dynamics in Norway. Both countries have relatively similar wage formation systems. The fact that unit labour costs have been higher on average in Norway after the high-inflation period could indicate that the inflation target acts as a stronger nominal anchor in Sweden than in Norway. Examining this hypothesis in more depth is beyond the scope of this commentary and something we leave to others.

Figure 4. Inflation expectations and unit labour costs in Sweden and Norway
Per cent (left) and annual percentage change (right)



Note: Inflation expectations refer to the expected annual percentage change in the CPI in five years' time. The Norwegian inflation expectations are economists' judgements, while the Swedish ones refer to all analysts. Average unit labour costs (dashed lines) are calculated over the period 2023-2025.

Sources: Norges Bank, Origo Group, Statistics Sweden, Statistics Norway and the Riksbank.

Have Norges Bank and the Riksbank made different trade-offs?

According to their mandates, both Norges Bank and the Riksbank should strive to achieve both price stability and a balanced economic development. Tighter monetary policy dampens both inflation and real economic growth, and there may exist a trade-off between stabilising inflation and promoting economic activity.

The emphasis placed on the development of inflation relative to the real economy is a choice made by the central bank, and different central banks may make different trade-offs for good reasons. Higher inflation combined with stronger resource utilisation in Norway is consistent with Norges Bank putting greater emphasis on stabilising the real economy than the Riksbank. But to examine whether this is actually the case, it is not enough to look at actual developments, as they may have been affected by factors that the central banks did not foresee. Instead, we need to examine their forecasts over the period.

Both central banks publish forecasts of inflation and real economic developments four times a year. These forecasts, in turn, are conditional on monetary policy.[6] By comparing the forecasts for inflation with the forecasts for the output gap, we can calculate

[6] In addition, both Norges Bank and the Riksbank publish their forecasts for the policy rate, i.e. interest rate paths. Both central banks publish forecasts at every other monetary policy meeting, i.e. in conjunction with 4 of the 8 regular policy meetings held each year.

the implicit weights the two central banks attach to stabilising the real economy relative to stabilising inflation at target.[7]

The relative importance that the central bank attaches to the real economy is usually labelled λ. If $\lambda = 0$, the central bank only cares about stabilising inflation. If $\lambda = 1$, the central bank attaches as much importance to stabilisation of the real economy as to price stability. If $\lambda > 1$, the central bank attaches greater importance to real economic stabilisation than to price stability.

In a static world, where the central bank influences inflation and GDP instantaneously through changes in the policy rate, λ can be calculated as

$$\lambda = -\frac{(inflation - 2) \cdot effect_{inflation}}{GDPgap \cdot effect_{GDPgap}}.$$

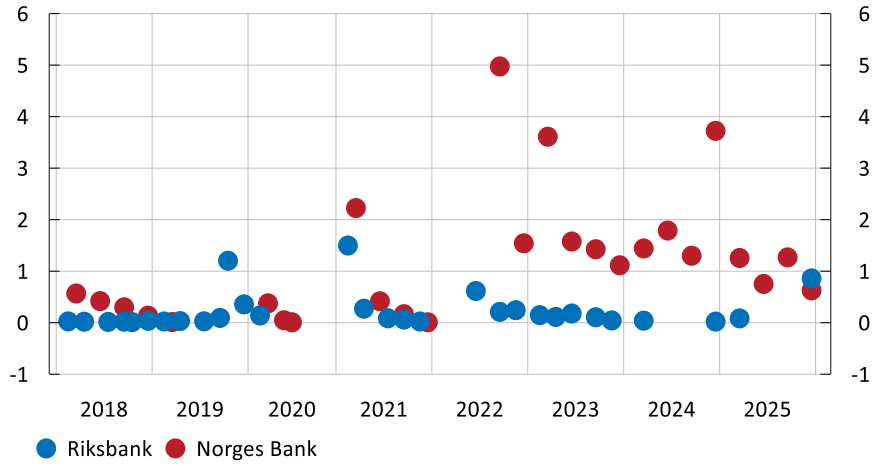
This expression shows that not only the inflation deviation and the GDP gap determine this weight, but also the effects of monetary policy on these two variables. If monetary tightening has a smaller effect on inflation than on the output gap, it may be more difficult to achieve inflation at target through monetary policy. This is taken into account in our calculations. Another way of expressing it is that if the impact of monetary policy on inflation is very small, but inflation is still close to target, this is an indication that the central bank attaches great importance to inflation.

Figure 5 shows the implicit λ resulting from the two central banks' forecasts and estimated effects of monetary policy.[8] Several simplifying assumptions have been made in the calculation. Among other things, it assumes that the two central banks only aim to stabilise inflation and the output gap. The figure shows that the Riksbank and Norges Bank appear to have placed roughly the same emphasis on the real economy from 2018 to mid-2022. Thereafter, Norges Bank's λ is higher, suggesting that the emphasis on stabilising the real economy has increased. The results should be interpreted with caution but are also valid if effects from the Riksbank's macro model MAJA are used instead of the Riksbank's estimated effects of monetary policy.

[7] See Almerud et al. (2026) for details. The method is based on simulations of optimal monetary policy as described in Barnichon and Mesters (2023).

[8] The effects of monetary policy are based on Norges Bank's macroeconomic model NEMO (Motzfeldt and Mirir, 2019) and the estimated effects of monetary policy for Sweden (Andersson and Lundvall, 2023).

Figure 5. Implied λ calculated for the Riksbank and Norges Bank



Note: λ captures the weight attached to stabilising the output gap relative to price stability for a specific loss function that considers only these two variables. The calculations are based on the Riksbank's and Norges Bank's forecasts, the macroeconomic model NEMO for Norway and the estimated effects of the Riksbank's monetary policy presented in Andersson and Lundvall (2024). Negative values would imply that there was no trade-off between the variables at the time of the decision and have therefore been removed, see Almerud et al. (2026) for a discussion.

Sources: Norges Bank, the Riksbank and own calculations.

There may be several reasons why the central banks have chosen different strategies

A natural question, based on the results above, is why Norges Bank has placed a greater emphasis on the real economy than the Riksbank has after 2022.We briefly discuss some possible explanations below.

It does not seem to be more costly to bring down inflation in Norway

One hypothesis is that it would be more costly to stabilise inflation in Norway than in Sweden, in terms of GDP. According to basic economic theory, this would be the case if the Phillips curve, which in a common variant captures the relationship between inflation and the GDP gap, is flatter. To examine whether this is the case, one can calculate a so-called *Sacrifice Ratio*, which calculates how much it costs in terms of lower GDP to bring down inflation by one percentage point. If it is more costly to suppress inflation, there is a case for placing greater emphasis on stabilising the real economy.[9]

Both the Riksbank and Norges Bank use macroeconomic models to make simulations and forecasts. Table 1 presents *Sacrifice Ratios* for Norges Bank's macro model NEMO, for the Riksbank's macro model MAJA and for the estimated effects of

[9] For a discussion of this in a simple macroeconomic model, see Chapter 5 of Galí (2015).

monetary policy that are often used in the Riksbank's scenario work.[10] The table shows that MAJA implies a *Sacrifice Ratio* of 2.1. This means that it costs 2.1 percentage points of deterioration in the output gap to drive down inflation by one percentage point. In NEMO, the corresponding cost is 1.8. This indicates that the cost of fighting inflation in terms of GDP is not higher in Norway than in Sweden, but rather lower. The hypothesis that Norges Bank would attach greater importance to stabilising the real economy because it is more costly to bring down inflation in Norway is thus not supported by the results from this simple exercise.

Table 1. *Sacrifice ratios* in different models

Model	*Sacrifice ratio*
Estimated effects of monetary policy (Sweden)	3.4
MAJA (Sweden)	2.1
NEMO (Norway)	1.8

Note. The *Sacrifice Ratio* indicates how much lower the GDP gap needs to be for inflation to fall by one percentage point. A *Sacrifice Ratio* of 2 means that the GDP gap needs to be two percentage points lower for inflation to fall by one percentage point.

Sources: Norges Bank, the Riksbank and own calculations.

Which role might the exchange rate have played?

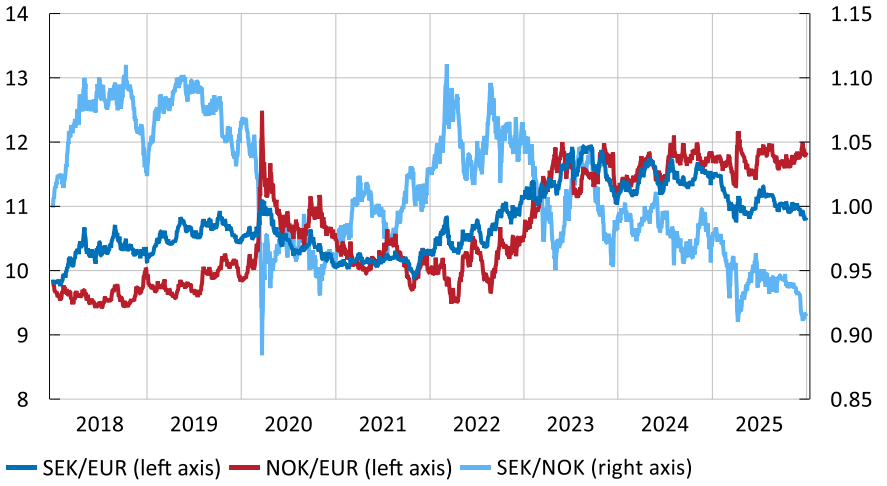
As the exchange rate affects, among other things, import prices and inflation, it is an important variable that central banks monitor closely.[11] All else being equal, a high policy rate may attract foreign capital and contribute to a stronger exchange rate, which in turn may dampen inflation. The exchange rate is influenced by interest rate differentials between countries rather than by their monetary policy stance. The higher policy rate in Norway could therefore indicate an endeavour to strengthen the Norwegian krone against other currencies.

However, as shown in Figure 6, the Norwegian krone depreciated against the Swedish krona between 2022 and 2025. All else being equal, this would suggest that, if Norges Bank wanted to strengthen the Norwegian krone, the policy rate would have to be even higher.

[10] For a description of NEMO, see Motzfeldt Kravik and Mirir (2019). MAJA is described in detail in Corbo and Strid (2020).

[11] See, for example, Rosén and Vredin (2025) and Seim (2025) for a discussion of factors affecting the development of exchange rates.

Figure 6. Exchange rates, Sweden and Norway



Note: For SEK/EUR and NOK/EUR, a lower value indicates a stronger krona. For SEK/NOK, a lower value indicates a stronger SEK.

Source: Macrobond Financial AB.

The monetary policy mandate may have played a role

Another reason why the two central banks' chose different trade-offs could be differences in the monetary policy mandate. The mandates influence each central bank's monetary policy strategy and, in turn, inflation dynamics and real economic activity. The pieces of legislation defining the monetary policy mandates of the two central banks have many similarities but differ in some respects.

In both countries, the inflation target is 2 per cent.[12] Both central banks have a high degree of independence. But Sweden has a double instruction ban, while the government can give instructions to Norges Bank in extraordinary circumstances. In Norway, the inflation target is formally set by the government and not by the central bank (the parliament must, however, endorse the choice in Sweden).

Another difference is how the monetary policy objectives are described in the legal texts of the two countries. In Sweden, the law is more lexicographical than in Norway. The Swedish legal act states, in the first paragraph of Chapter 2, that the primary objective is price stability and in the following paragraph that the Riksbank *shall, without prejudice to the objective of price stability*, contribute to a balanced development of output and employment.

Price stability is also mentioned first in Norwegian law. Thereafter, it is stated that the objective for monetary policy is that the annual percentage change in the CPI shall be 2 per cent, and that monetary policy shall be forward-looking and flexible so that it can contribute to high and stable output and employment, and to preventing the build-up of financial imbalances.

[12] In Sweden, the target level has remained the same since its introduction in 1995. In Norway, the target level was cut from 2.5 to 2 per cent in 2018.

There are thus two notable differences between the legal texts. First, the lexicographical formulation makes the price stability objective more clearly paramount in the Swedish legal text. Second, the consideration of financial stability in monetary policy is more prominent in Norwegian law than in Swedish law. It is, however, unclear how much these differences matter in practice. Norges Bank's monetary policy strategy paper from October 2024 states that price stability is the primary objective, which suggests a lexicographical interpretation of the Norwegian legal text as well.[13] The document does however also state that Norges Bank will always emphasise stabilising the real economy in its monetary policy, expressed as high and stable output and employment. Real economic stabilisation is more toned down in the Riksbank's strategy document, which can be found in the Riksbank's Monetary Policy Reports.[14] The fact that Norges Bank has attached greater importance to stabilising the real economy may thus be an indication that how the law is formulated matters to some extent. The fact that financial stability concerns are included as a monetary policy objective may also have contributed to Norges Bank not raising the interest rate more than it did during the period studied here.

Concluding comments

Our analysis indicates that Norges Bank, despite a higher nominal policy rate, has pursued a less contractionary monetary policy than the Riksbank and attached greater importance to stabilising the real economy than the Riksbank after the rise in inflation in 2022. This may have contributed to Norwegian inflation and inflation expectations being higher than those in Sweden. At the same time, the Norwegian economy has grown more rapidly than the Swedish economy.

We put forward several possible explanations as to why Norges Bank seems to have made a different monetary policy trade-off than the Riksbank. The hypothesis that it would be more costly to combat inflation in Norway than in Sweden is not supported by our simple calculations. We note that if Norges Bank wanted to strengthen the Norwegian krone, the policy rate could have been raised even more. We recognise that the design of the monetary policy mandate may have played some role. However, trying to identify actual drivers of the differences in monetary policy requires deeper analysis than this commentary allows.

[13] See Norges Bank's monetary policy strategy statement (23 October 2024).

[14] See, for example, the Riksbank (2026).

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