Monetary Policy Report

March 2025

Rectification March 24, 2025

Page 21: clarification of footnote 8.
Page 25: clarification of note to figure 14.

Monetary Policy Report

Regularly or upon request, the Riksbank shall submit an account of monetary policy operations to the Riksdag Committee on Finance (Chapter 11, Section 1, Sveriges Riksbank Act [2022:1568]). These accounts are presented both in specific material for assessing monetary policy and in the Monetary Policy Reports and Updates.

The Riksbank's Monetary Policy Report is published four times a year. The purpose of the report is to summarise the basis for the monetary policy decisions and the assessments made by the Executive Board of the Riksbank. The report describes the deliberations made by the Executive Board when deciding on an appropriate monetary policy[1]. The report includes a description of the future prospects for inflation and economic activity based on the monetary policy that the Executive Board currently considers to be well-balanced.

Through the Monetary Policy Reports, the Riksbank also informs the general public about monetary policy, which makes it easier for external parties to follow, understand and evaluate the Riksbank's actions.

The Executive Board made a decision on the Monetary Policy Report on 19 March 2025.

[1] See "Monetary policy in Sweden – The Riksbank's strategy" on the next page for a description of the monetary policy strategy and what can be regarded as an appropriate monetary policy.

Monetary policy in Sweden – the Riksbank's strategy

- According to the Sveriges Riksbank Act, the overriding objective of monetary policy is to maintain sustainably low and stable inflation. The Riksbank has defined the objective as a target of 2 per cent for the annual change in the consumer price index with a fixed interest rate (the CPIF). The inflation target should function as a benchmark for price- and wage-setting in the economy.
- Without neglecting the inflation target, the Riksbank shall moreover contribute to a balanced development of production and employment. The Riksbank thus conducts a policy of flexible inflation targeting. In connection with each monetary policy decision, the Executive Board assesses which monetary policy is well-balanced. If inflation deviates from the inflation target, it is normally a question of finding a balance between how rapidly it shall be brought back to target and the effects on real economic developments.
- It is neither possible nor desirable to conduct a monetary policy that always keeps inflation at exactly 2 per cent. Changes occur constantly in the economy that make inflation vary in a way that cannot be predicted with sufficient precision, or counteracted in the short term. The important thing is that households and companies have confidence in the target. Prolonged deviations from the target risk affecting expectations of the normal level of inflation in the economy.
- As it takes a long time before monetary policy has a full impact on inflation and the real economy, monetary policy is guided by forecasts of economic development. There is no general answer to the question of how quickly the Riksbank aims to bring inflation back to 2 per cent if it deviates from the target. Too rapid a return may in some situations have very negative effects on production and employment, while too slow a return may weaken the credibility of the inflation target.
- The Riksbank can weigh risks linked to developments in the financial markets into its monetary policy decisions as long as confidence in the inflation target is clearly anchored, and expected and overall target achievement regarding inflation, production and employment is improved when viewed over a longer horizon. With regard to preventing an unbalanced development of asset prices and indebtedness, however, it is of prime importance that there is an efficient financial regulatory framework and effective supervision.
- The Riksbank's main monetary policy tool is the policy rate. When necessary, this can be supplemented with other measures, including purchases or sales of government securities, for example to ensure that monetary policy impacts effectively on the interest rates faced by households and companies. The Riksbank can buy and sell assets other than government securities if there are exceptional grounds. Such exceptional grounds may arise during times of financial turmoil or crisis, for example.
- The Riksbank strives for open and clear communication. This makes it easier for economic agents to make sound economic decisions Monetary policy will also be easier to evaluate. The Riksdag Committee on Finance, the National Audit Office and the General Council of the Riksbank monitor and evaluate the monetary policy conducted in different ways within their respective remits.
- The Executive Board normally holds eight monetary policy meetings a year. After four of these meetings, a Monetary Policy Report with forecasts will be published. At the other four meetings, the Executive Board's assessments and motives for its monetary policy decisions are described in a shorter document, a Monetary Policy Update. Just under a week after each monetary policy meeting, minutes from the meeting are published, which set forth the reasoning of the different Executive Board members.

Contents

Monetary policy considerations

Global developments since the monetary policy meeting in January have been dramatic. It is primarily the reshaping of trade policy and the strong increase in defence expenditure in Europe in the wake of the changed security situation that are significant to economic developments. This turn of events has some impact on the Riksbank's forecasts, but there is considerable uncertainty.

CPIF inflation has become higher than expected and is assessed to be between 2 and 3 per cent for the rest of the year. This is mainly due to an unusually large contribution from the so-called basket effect and because certain food prices have risen rapidly. A more normal basket effect, lower price increases on food, a stronger krona and stable inflation expectations will contribute to inflation next year stabilising close to 2 per cent. The Swedish economy is in a recovery phase, but the rebound in the labour market will take a little longer. Overall, the outlook for inflation and economic activity remains largely intact. This suggests following the previously communicated monetary policy plan.

The Executive Board has therefore decided to leave the policy rate unchanged at 2.25 per cent. The forecast for the policy rate is unchanged since December, which means that the policy rate is expected to remain at the current level.

Several factors could affect the outlook for inflation and economic activity and thereby also monetary policy going forward. There are risks that could result in inflation becoming higher or lower than expected. The upturn in inflation at the beginning of the year is assessed to be temporary. However, the Executive Board is vigilant regarding contagion effects that could lead to inflation not falling back as expected.

Uncertainty abroad is unusually high due to the escalating trade conflict between the United States and several countries, and the rapidly changing security situation in Europe. There is also significant uncertainty surrounding domestic demand, including household consumption, corporate investment and the impact on the economy of increased defence spending.

The Riksbank contributes to economic stability by holding inflation close to 2 per cent and maintaining confidence in the inflation target. This is not least important in turbulent times and supports a sound real economic development in Sweden. Monetary policy is forward-looking, but guided by a tentative approach. The Riksbank monitors develop-ments closely and will act if the outlook for inflation and economic activity so requires.

International developments

The conditions for international economic development have changed dramatically since the monetary policy meeting in January. In particular, the reshaping of trade policy and sharply increased defence spending in Europe may affect economic developments in Sweden and abroad. This has been taken into account in the Riksbank's forecasts, but there is considerable uncertainty.

Growth in the US economy is showing signs of a slowdown. Household consumption continued to grow strongly and contribute to growth at the end of last year. But indicators as retail sales and household confidence point to weaker developments at the start of this year. Increased import tariffs on several countries and greater un-certainty in the economy are expected to dampen growth somewhat in the period ahead compared with the previous assessment.

Growth in the euro area remains weak, but is expected to gradually increase going forward. US tariffs on European goods and reciprocal European tariffs on US goods increase uncertainty and are expected to dampen growth somewhat this year. How-ever, a more expansionary fiscal policy with increased defence spending is expected to boost growth in the coming years. Unemployment is expected to remain low in the coming years.

Inflation abroad has remained somewhat above central bank targets. In the euro area, HCIP inflation was 2.4 per cent in February, somewhat lower than the previous month. In the same month, CPI inflation in the United States fell to 2.8 per cent. Inflation excluding energy has been slightly above 2.5 per cent in the euro area and around 3 per cent in the United States for some time. Compared with the forecast in December, the Riksbank assesses that inflation in the United States will be higher this year, which is partly explained by increased tariffs.

Weaker growth outlook has led to lower expected policy rates in the United States. This follows a period since early autumn when expectations generally rose. The Federal Reserve has so far communicated that it is in no hurry to adjust its monetary policy stance. The ECB cut its key interest rate by 0.25 percentage points at its March meeting, communicating at the same time that there is considerable uncertainty about future economic developments. Compared with the end of January, market participants now expect roughly the same number of interest rate cuts from the ECB over the course of the year, but more from the Federal Reserve.

The difference in long-term interest rates between the United States and Europe has narrowed significantly. This partly reflects changed expectations regarding policy rates, but also a clear rise in European long-term interest rates, due to expectations of more expansionary fiscal policy in the wake of defence spending in several countries, not least Germany.

European stock markets have started this year much stronger than their US counterparts. In particular, shares in companies and sectors linked to the military build up process in Europe and a future reconstruction of Ukraine have performed strongly. The comparatively weaker developments in the United States can probably be explained by increasing signs of a slowdown in the economy and uncertainty about the design of trade policy. At the same time, the euro has strengthened significantly against the dollar.

Unusually large uncertainty about economic developments abroad. Large increases in tariffs and other trade barriers could change the inflation and economic outlook going forward. The rapidly changing security situation in Europe, linked to the war in Ukraine, has led to plans for sharply increased defence spending in many countries, including Sweden. In the Riksbank's forecast, this is expected to contribute to slightly higher growth abroad in the coming years. But exactly how the defence spending shall be designed and funded and what the economic impact will ultimately be is very uncertain.

Developments in Sweden

Growth was higher than expected in the second half of 2024, but seems to be somewhat lower at the beginning of this year. The upturn in growth in the fourth quarter is partly explained by increased investment and slightly faster growth in household consumption. Indicators of companies' confidence are at roughly normal levels. But the monthly statistics for GDP and household consumption indicate that growth is now slowing down somewhat. This picture is confirmed by the Riksbank's own business survey and by some decline in household confidence in the National Institute of Economic Research's Economic Tendency Survey.[2]

The Swedish economy is in a recovery phase. Household consumption is supported by lower interest expenditure and rising real wages. A more expansionary fiscal policy will also contribute to the rise in consumption. Lower interest rates are also expected to contribute to faster growth in housing investment. An increased need for defence investment also contributes to other investments being expected to grow more rapidly. GDP growth is expected to be around 2 per cent per year in the coming years.

The rebound in the labour market is still some time away. Employment has developed largely as expected. Unemployment was just below 8.5 per cent in the fourth quarter and rose slightly at the beginning of this year. However, over the forecast period, the stronger economic situation is expected to strengthen the labour market. Unemployment is expected to turn downwards before the summer and continue to fall to around 7.5 per cent in the coming years.

[2] See also the Fact Box "The Riksbank's Business Survey, February 2025" in this report.

Inflation has been higher than expected at the beginning of this year. Measured by the CPIF, inflation amounted to 2.9 per cent in February, which was higher than the Riksbank's latest forecast. CPIF inflation excluding energy amounted to 3.0 per cent in February, which was also higher than expected (see Figure 1). The pick-up in inflation at the beginning of the year is partly explained by factors related to the annual update of the weights in the CPI, the so-called basket effect, but also by the rapid increase in food prices. Calculated using unchanged weights, inflation rose less from December to January (see Figure 16 in Chapter 1 of this report).

Inflation is expected to be above 2 percent this year. The basket effect is expected to contribute to keeping inflation above 2 per cent for the rest of the year. But in the Riksbank's forecast, it is assumed to be normal from 2026, which will contribute to inflation falling back.[3] A further factor that raises inflation in the short term is that prices of certain foods have risen rapidly. However, the upturn in prices on the global market has slowed down, and food prices are not expected to increase as rapidly going forward. The slowdown is accentuated by the relatively large appreciation in the krona exchange rate recently.

Some indicators also point to a somewhat higher inflation rate in the short run. The rates of increase in prices over shorter periods than twelve months have risen recently. Companies' pricing plans, according to the National Institute of Economic Research's Economic Tendency Survey and the Riksbank's Business Survey, also signal faster price increases in the near future.[4] Both short- and long-term inflation expectations remain close to the inflation target, indicating strong confidence in the inflation target and monetary policy. But the relatively high inflation outcomes and signals from companies regarding faster price increases mean that pricing behaviour needs to be followed closely. It is essential that the higher price increases at the start of the year do not spread further in the economy.

The krona has appreciated sharply recently. Since January, the krona has appreciated significantly against both the dollar and the euro, despite smaller currencies like the krona tending to weaken in times of global uncertainty.[5] The krona exchange rate is now expected to be significantly stronger than in the December forecast, contributes to dampening inflationary pressures going forward.

The inflation outlook in the slightly longer term is largely unchanged. Inflation outcomes have been higher than expected and are expected to be above target for the rest of the year. A more normal basket effect, a stronger krona and stable inflation expectations will contribute to inflation stabilising close to 2 per cent next year. All in all, this means that the inflation forecast in the slightly longer run is more or less unchanged since December (see Figure 1).

[3] A more detailed description is given in the Fact Box “Inflation effects of new weights in the CPIF” in this report.

[4] See also the Fact Box "The Riksbank's Business Survey, February 2025” in this report.

[5] See, for example, “Why has the krona weakened this year?”, article in *Monetary Policy Report*, November 2022 and "The krona will strengthen in the medium term", article in *Monetary Policy Report*, September 2023.

Policy rate held unchanged at 2.25 per cent

The outlook for inflation and economic remains largely the same, which suggests following the monetary policy plan. Inflation is expected to be above target for the rest of the year, but next year it is expected to stabilise again close to 2 per cent. Although there is considerable uncertainty about developments abroad, the outlook for inflation and economic activity in the Swedish economy is assessed to be in line with the earlier forecast. The Riksbank therefore considers it appropriate to follow the previously communicated plan for monetary policy.

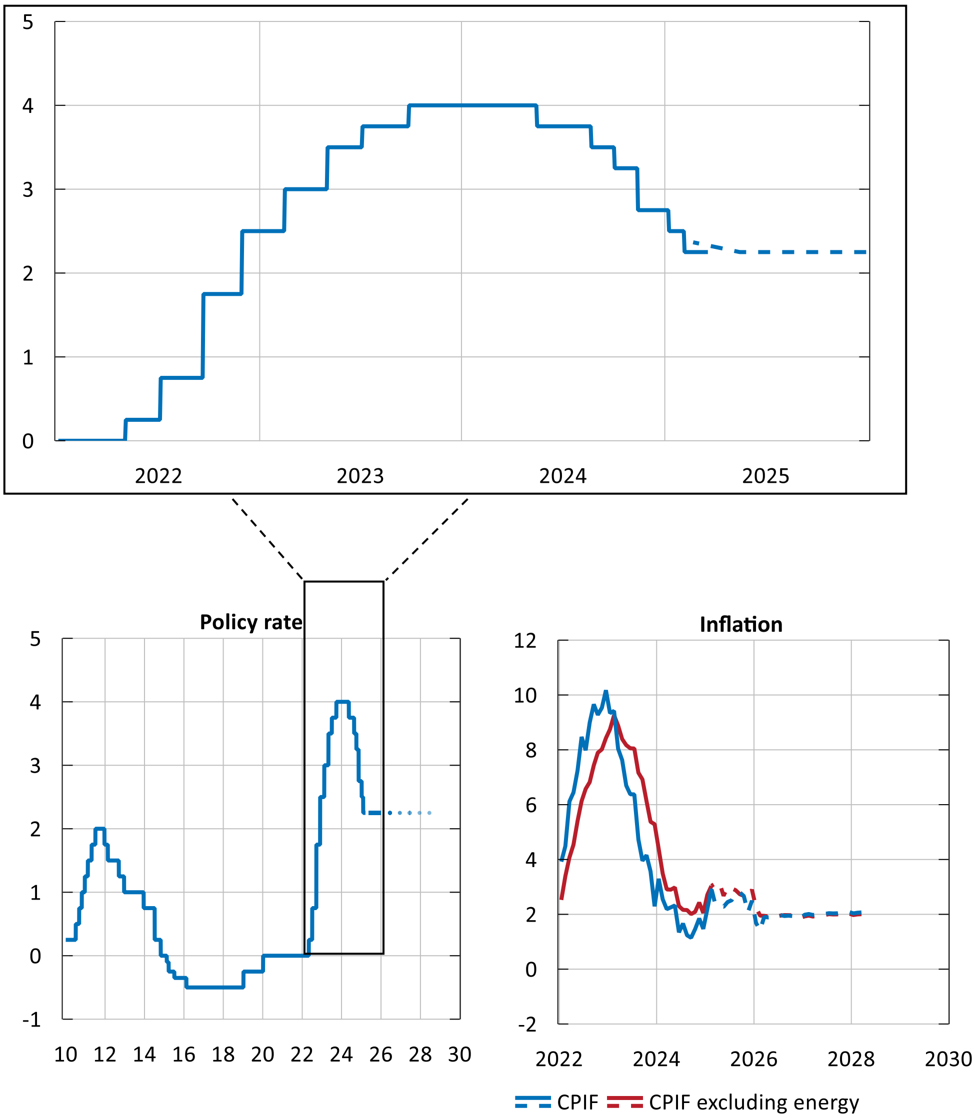
The Executive Board has therefore decided to leave the policy rate unchanged at 2.25 per cent. The forecast for the policy rate remains unchanged since December, which means it is expected to remain at the current level going forward (see Figure 1).

Several factors could affect the outlook for inflation and economic activity and thereby also the monetary policy going forward. There are risks linked to developments abroad as well as to Swedish economic activity and the krona exchange rate, which could lead to inflation being higher or lower than expected. The upturn in inflation at the beginning of the year is assessed to be temporary. However, the Executive Board is vigilant regarding contagion effects that could lead to inflation not falling back as expected. Uncertainty abroad is unusually high due to the escalating trade conflict between the United States and several countries and the rapidly changing security situation in Europe. There is also significant uncertainty surrounding domestic demand, including household consumption, corporate investment and the impact on the economy of increased defence spending.

The Riksbank is closely monitoring developments and will adjust monetary policy if necessary. By holding inflation close to 2 per cent and ensuring confidence in maintaining the inflation target, the Riksbank contributes to stability in the economy. This is not least important in turbulent times and supports a sound real economic development in Sweden. Monetary policy is forward-looking, but guided by a tentative approach. The Riksbank monitors developments closely and will act if the outlook for inflation and economic activity so requires.

Figure 1. Swedish policy rate and inflation

Per cent and annual percentage change respectively (lower right)



Note. Solid line refers to outcome and dashed/dotted lines represent the Riksbank's forecast. Outcomes for the policy rate are daily data and the forecasts refer to quarterly averages. The upper image shows the forecast for the policy rate in the short run and is based on the long-term policy rate path in the lower left figure. The dotted line illustrates the fact that the forecast for the policy rate in the longer run is very uncertain, which is discussed further in Chapter 3. The inflation forecast is assessed to be consistent with the forecast for the policy rate.

Sources: Statistics Sweden and the Riksbank.

1 The economic situation

After a long period of strong development in the United States, growth slowed down towards the end of last year and there are increasing signs of a slowdown. In the euro area, the pace of growth also slowed in the fourth quarter and indicators point to continued weak development in the near term. Inflation has fallen markedly from the record high levels of 2022. However, it remains unusually high in both the euro area and the United States, partly because services prices and wages continue to rise at a relatively fast pace.

Market expectations of future US policy rates have fallen recently, while in Europe the expectations are fever rate cuts which can primarily be explained by announcements of increased defence expenditure.

Swedish economic activity is still weak even though it strengthened in the second half of this year. GDP increased relatively strongly in the fourth quarter, partly due to increased growth in consumption and investment. However, indicators point to more muted growth at the start of the year. Labour market developments remain weak and unemployment is high.

Inflation has risen clearly this year, partly due to a positive contribution from the basket effect, which is unusual. But in addition to this, food prices among others have increased unexpectedly rapidly. In February, CPIF inflation was 2.9 per cent and CPIF excluding energy was 3.0 per cent. Indicators of inflationary pressures have risen slightly in recent months. Altogether, the latest outcomes and indicators point to inflation somewhat over 2 per cent in the short term.

1.1 The real economy and inflation abroad

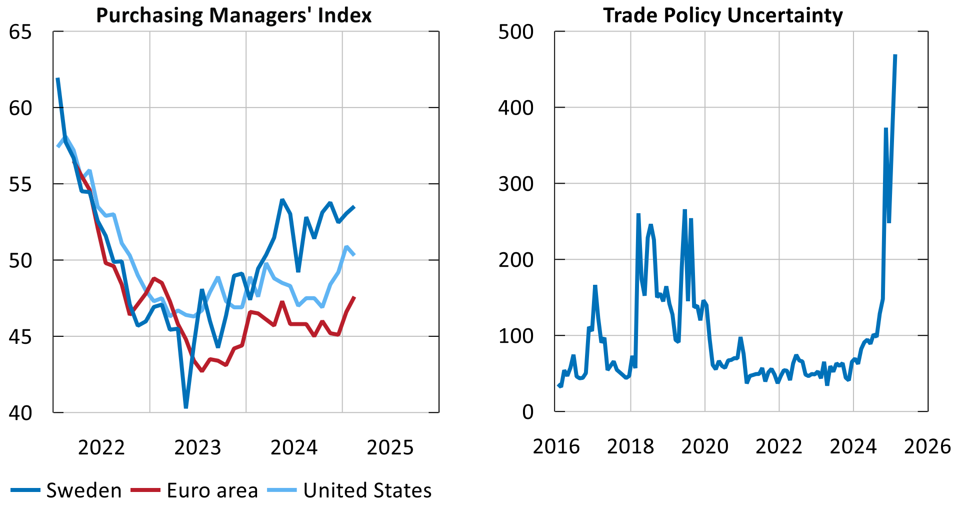
Increased uncertainty around trade and security policy

The period since the January monetary policy meeting has been dramatic. The United States has made several statements on tariffs and uncertainty over trade policy has risen (see Figure 2). So far, the United States has increased tariffs on steel and aluminium and on imports from Canada, Mexico and China.

Several countries have retaliated with higher import tariffs against the United States. Statements by the US administration suggest that more increases targeting several countries are to be expected. There have also been significant shifts in the security landscape, prompting many European countries to raise their defence ambitions. The increased uncertainty around trade and security policy has so far had little effect on confidence indicators in the economy. For example, the heightened tensions have not been reflected in any large declines in the Purchasing Managers' Index (see Figure 2). However, consumer confidence in the United States fell at the beginning of the year.

Figure 2. Purchasing Managers' Index in the manufacturing sector and Trade Policy Uncertainty

Index



Note. The Purchasing Managers' Index is an indicator of economic activity where an index above 50 indicates growth, while an index below 50 indicates a downturn. Seasonally adjusted data (left). Trade Policy Uncertainty is a normalised index of the number of news articles in the United States mentioning trade uncertainty. 100 refers to that 1 per cent of the articles concern trade policy uncertainty (right).

Sources: Economic Policy Uncertainty, Institute for Supply Management, S&P Global and Swedbank.

Growth has slowed down in the United States and euro area

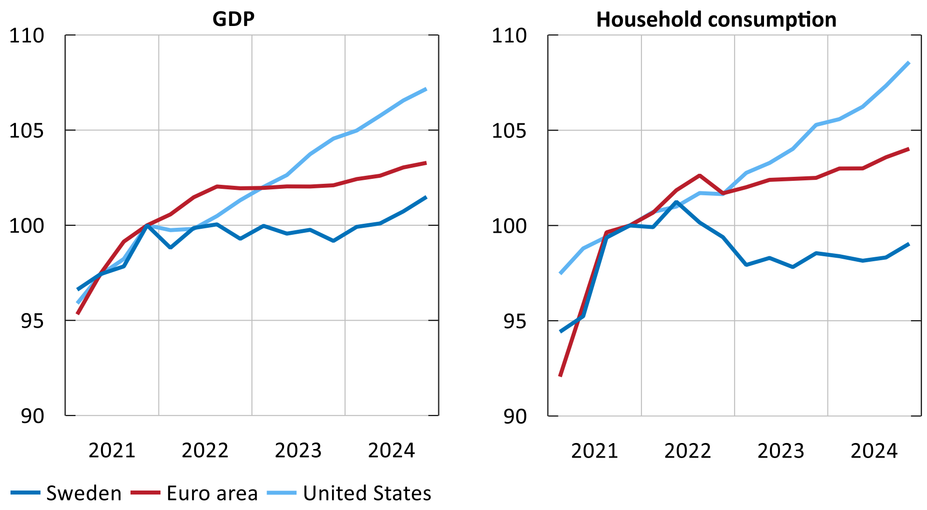
In the United States, GDP continued to grow in the fourth quarter, albeit at a slower rate than in previous quarters. Household consumption continued to grow strongly but signs of a slowdown appeared at the start of this year. In the euro area, GDP growth remained weak at the end of last year (see Figure 3). Despite increased real incomes, euro area households remain cautious about spending.

In both the euro area and United States, the services sector contributed to sustaining growth in the fourth quarter, but exports weakened in both regions. Industrial production continued to shrink in the euro area, particularly in certain export-dependent economies such as Germany. Industrial production fell in the United States too, although there have been signs of an improvement in recent months.

China’s GDP growth increased somewhat at the end of 2024. Domestic demand remained subdued, but strong exports supported manufacturing output. In Canada, growth was strong in the fourth quarter. However, surveys suggest that the escalating trade conflict with the United States has led to households and companies becoming pessimistic and expecting lower growth going forward.

Figure 3. GDP and consumption abroad

Index, 2021 Q4 = 100



Note. Seasonally adjusted and calendar adjusted data.

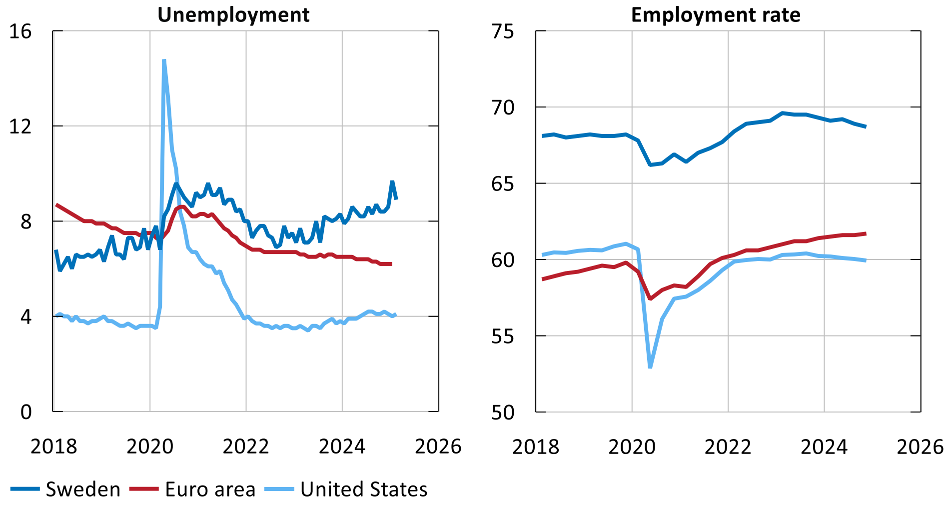
Sources: Eurostat, Statistics Sweden, and US Bureau of Economic Analysis.

The labour market remains stable but shows signs of slowing down

Unemployment remains low in both the United States and the euro area (see Figure 4). In the United States, however, unemployment has risen slightly, the employment rate has fallen compared with 2023 and an increasing number of indicators point to a slightly cooling labour market. Both the number of job vacancies and new recruitment have decreased, confirming the picture of a certain slowdown.

Figure 4. Unemployment and the employment rate abroad

Percentage of the labour force (left) and percentage of the population (right)



Note. Seasonally adjusted data. Unemployment and the employment rate among those aged 15-74 in Sweden and the euro area, and those aged 16 and older for the United States.

Sources: Eurostat, Statistics Sweden and US Bureau of Labor Statistics.

The euro area labour market has shown unexpectedly strong resilience despite a longer period of weak economic growth. There are signs that companies are continuing to keep their employees despite the weaker development in demand, as this is seen as less costly than new recruitment when growth picks up. This has raised the employment rate but has also pushed down labour productivity growth. In December, unemployment remained at 6.3 per cent, but companies' need for labour has fallen and the number of job openings decreased at the end of last year.

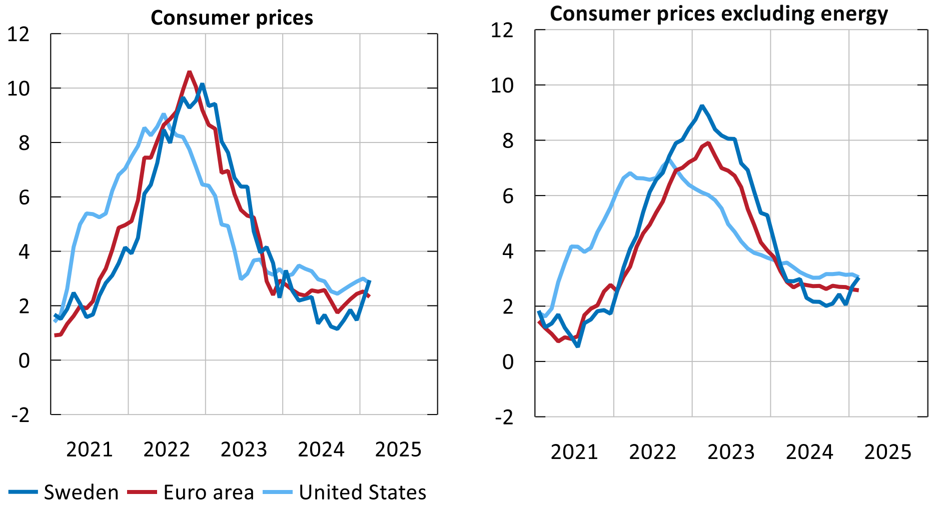
Inflation remains above the 2 per cent target with an elevated rate of price increase for services

Although inflation fell noticeably from the record levels of 2022, the rate of price increase remains unusually high in the euro area and the United States (see Figure 5). In the United States, PCE inflation fell slightly in January, as did CPI inflation in February. In the euro area, HICP inflation fell marginally in February according to preliminary figures, but there is a clear divergence across euro area countries.

The fact that inflation remains above central bank targets is largely due to core inflation being unusually high. Inflation excluding energy prices has essentially been unchanged since September, at 2.6 per cent in the euro area and 3.1 per cent in the United States. The rate of price increase for services in the United States remains elevated. It is primarily rents that have continued to increase rapidly. The rate of price increase for services also remains on a high level on the euro area, primarily driven by wage rises. Services prices are rising particularly rapidly in Germany where companies' price plans have also risen.

Figure 5. Consumer prices abroad

Annual percentage change



Note. Prices are measured using the CPIF for Sweden, the HICP for the euro area and the CPI for the United States.

Sources: Statistics Sweden, Eurostat and US Bureau of Labor Statistics.

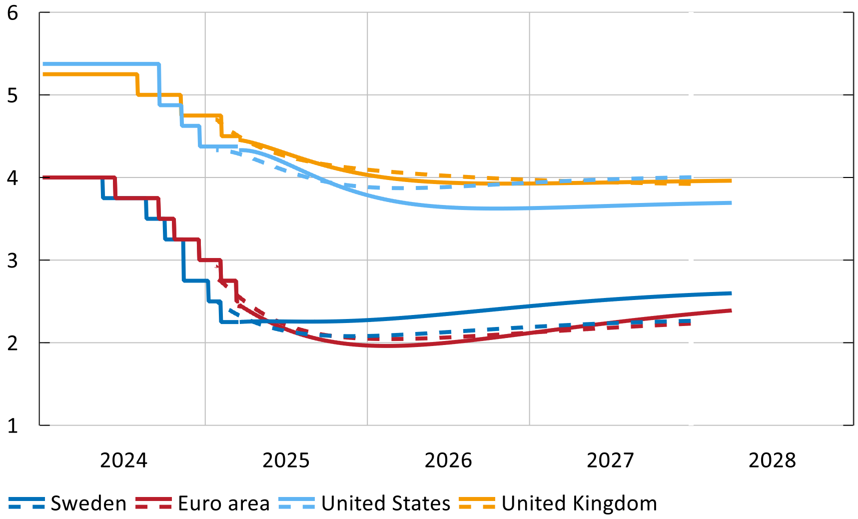
1.2 Financial conditions

On 29 January, the Federal Reserve decided to keep the policy rate unchanged in the interval 4.25–4.50 percent and communicated in conjunction with the decision a more cautious stance and that there was no hurry to adjust the policy rate. Market expectations of the Federal Reserve's policy rate have fluctuated since the beginning of the year. Initially, expectations rose on the back of surprisingly high inflation. However, recent signs of a slowdown in US growth have led the market to now expect at least two cuts of 0.25 percentage points during the year. The policy rate is also expected to stabilise at a lower level that was expected in December.

The ECB cut its deposit rate by 0.25 per cent to 2.5 per cent at its last meeting in March. This was the fifth meeting in a row where the rate was cut. ECB communication made clear that monetary policy is now assessed to be less contractionary. Currently, the market expects the ECB to cut the deposit rate once or twice more during the year, to around 2 per cent, which is fewer cuts than at the beginning of the year but in line with expectations at the time of the Monetary Policy Update at the end of January (see Figure 6).

Figure 6. Market expectations of policy rates in the future

Per cent



Note. The figure shows policy rates and market-based expectations according to forward pricing. Solid lines represent expectations on 18 March 2025. Dashed lines represent expectations immediately prior to the monetary policy meeting in January.

Sources: National central banks and the Riksbank.

Higher inflation expectations in the United States and stronger European stock market

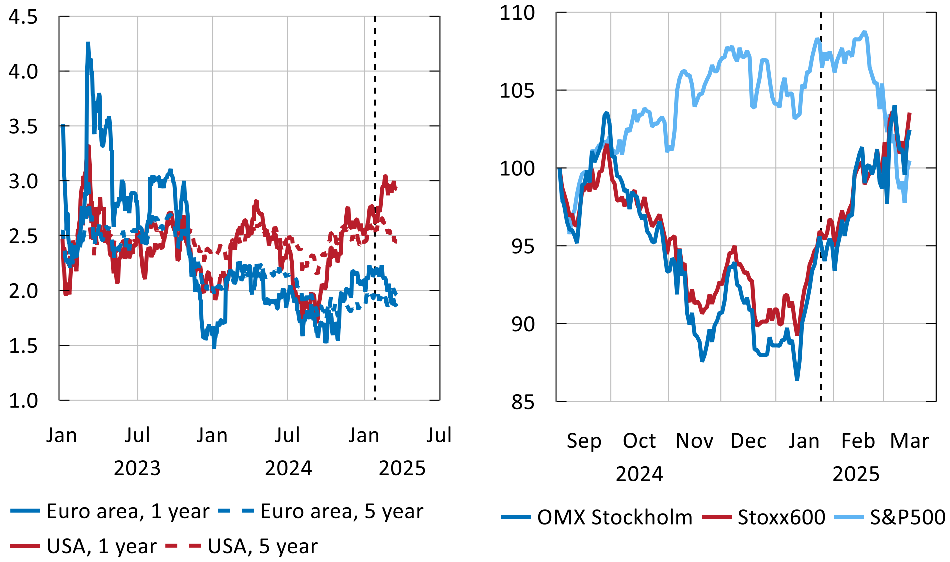
The persistent inflation in the United States can also be seen in market-based measures of inflation expectations.[6] It is primarily inflation expectations in the short term that have risen. These are at about 3 per cent, the highest level since the start of 2023 (see Figure 7). In addition to the inflation outcomes, the rise could be explained to a certain extent by concern that tariffs may increase inflation in the short term. In Europe, corresponding measures have moved sideways or shifted marginally downwards since December. Inflation expectations in the longer term for both the United States and Europe are close to levels that are consistent with the central banks' inflation targets.

After a longer period of relatively weak development, the European stock exchanges have risen noticeably since the start of the year (see Figure 7). The upswing has been broad, but companies and sectors exposed to military activities and the future reconstructing of Ukraine have seen particularly strong development. US stock markets have fallen significantly over the same period, narrowing the gap between US and European stock prices.

[6] Inflation expectations are based on inflation swaps. An inflation swap is a financial contract whereby two parties exchange payments over a set period of time. One party pays a fixed percentage (representing expected average inflation over the period), while the other party pays the actual inflation realised over the period. The principle resembles a normal interest rate swap as described in the *Monetary Policy Report*, February 2023, with the difference that the payments are based on an inflation index rather than an interest rate.

Figure 7. Inflation swaps and stock market movements abroad

Per cent (left) and index, 2 September 2024 = 100 (right)



Note. The inflation expectations in the left-hand figure are based on 1-year and 5-year inflation swaps linked to the euro area HICP and the US CPI. The right-hand figure shows OMXS, S&P 500 and Stoxx600, which are broad indices of the Swedish, US and European stock exchanges respectively. The dashed line marks the time immediately prior to the monetary policy meeting in January.

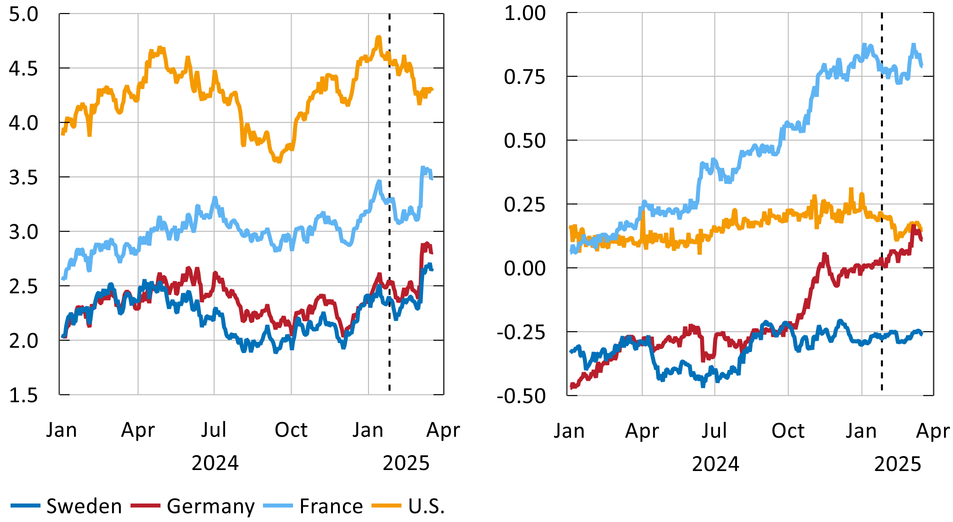
Sources: Bloomberg, Nasdaq OMX Nordic, S&P Global and STOXX.

European government bond yields rising on expectations of increased defence spending

European government bond yields with long maturities have risen markedly. These yields have also increased relative to swap rates with the same maturity, which is an effect of increased risk premiums (see Figure 8). The development relative to swap rates can be explained, at least partly, by announced defence investments that are expected to increase government debt, entailing both a greater supply of bonds and higher credit risk. A similar development has not been seen in Sweden, where one possible explanation is Sweden's strong public finances. At the same time, US government bond yields have fallen, which could reflect the increased uncertainty over-growth in the US economy.

Figure 8. Government bond yields and the differential between government bond yields and swap rates

Per cent (left) and percentage points (right)



Note. Government bond yields and swap rates refer to a maturity of 10 years. Benchmark rates for all 10-year government bonds. The dashed line marks the time immediately prior to the monetary policy meeting in January.

Sources: Macrobond Financial AB and U.S. Department of Treasury.

Lower deposit and lending rates for Swedish households and companies as the policy rate has been cut

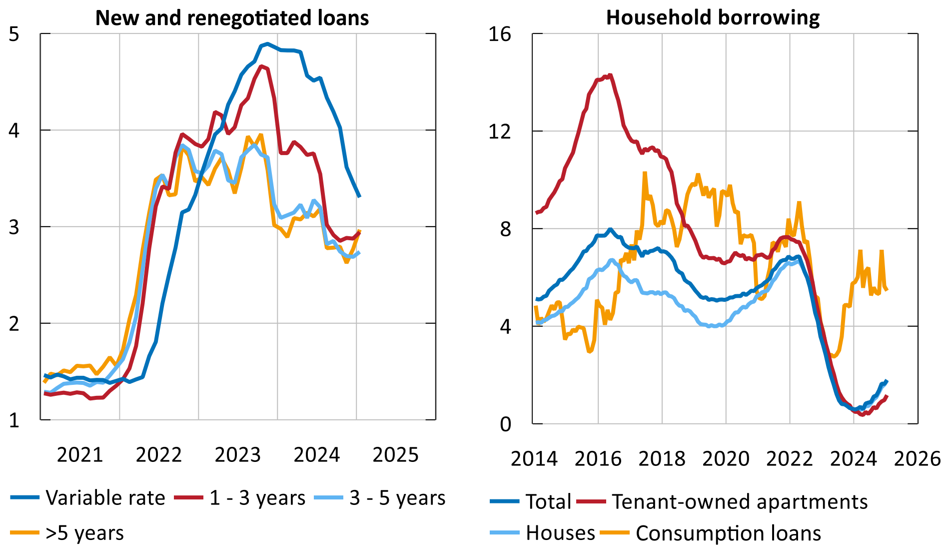
As the Riksbank has cut its policy rate, the interest rates faced by households and companies have also fallen (see Figure 9). The average interest rate on outstanding loans will change with some time lag when loans expire and are renewed and when new loans are taken. After a period of decline it is now levelling off.[7] Companies also face a lower interest rate on their loans. The transmission of monetary policy to the interest rates faced by households and companies follows historical patterns.

New lending remains at low levels but growth in household loans is rising in step with the lower lending rates (see Figure 9). Lending growth is weak in spite of increases in both turnover and housing prices, which usually lead to a higher rate of increase in the loan-to-value ratio. One possible explanation is that households are adapting to the higher level of interest rates in comparison with the period before 2022. Lending to companies is also weak and, over the last twelve months, it decreased by about 2 per cent. However, this should be seen in the light of monetary policy having an impact with a time lag, and of companies being able to use alternative financing sources, such as earnings.

[7] Swedish households are continuing primarily to sign very short-term loans. About 3/4 of the mortgage stock is made up of loans with maturities of less than three months.

Figure 9. Average mortgage rates for different fixed periods and household borrowing

Per cent (left) and annual percentage change (right)



Note. The left-hand diagram refers to mortgage rates from monetary financial institutions (MFIs), housing credit institutions and alternative investment funds. The final outcome refers to January 2025. The diagram on the right refers to lending by monetary financial institutions to households adjusted for reclassifications and bought and sold loans.

Source: Statistics Sweden.

Some optimism on the housing market

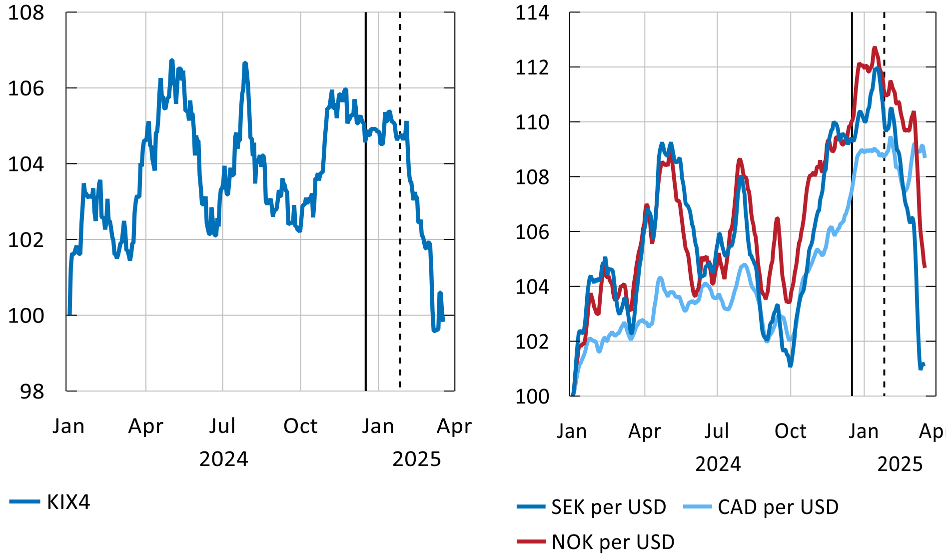
Housing prices rose by around 5 per cent last year but are still about 10 per cent below their peak three years ago. However, turnover in the housing market has recovered and more households now expect housing prices to rise. But the supply of housing remains high and the number of new homes is growing faster than the number of completed deals. The high supply could partly be a result of households wishing to sell before they buy a new home, but it may also be due to sellers and buyers finding it more difficult to agree, with homes thus being up for sale for longer.

Significantly stronger krona since the turn of the year

Since the Monetary Policy Report was published in December, the krona has strengthened clearly against the dollar and euro (see Figure 10). Other smaller currencies have also seen similar trends, but the krona is one of the currencies that has strengthened the most. There are several possible factors that could explain the recent strengthening, including growth prospects, which look better in Sweden than in many comparable countries, at the same time as there is a greater focus on strong public finances. Discussions of the reconstruction of Ukraine have also strongly affected Nordic equities. Furthermore, stock market growth has probably created currency flows that have strengthened the Swedish krona. Overall, the year's initial strengthening of the krona is probably due to a combination of the above factors.

Figure 10. Nominal exchange rate against KIX4 and a number of smaller currencies against the dollar

Index, 1 January 2024 = 100



Note. A higher value indicates a weaker exchange rate. KIX4 (krona index) is a weighted average against the US dollar, euro, pound sterling and Norwegian krone. The solid line marks the time immediately prior to the monetary policy meeting in December. The dashed line marks the time immediately prior to the monetary policy meeting in January.

Sources: Macrobond Financial AB and the Riksbank.

1.3 Swedish real economy

Weaker start to the year after strong finish to 2024

The economic recovery started in the second half of last year. GDP increased by 0.8 per cent during the fourth quarter compared with the previous quarter. The interest-rate sensitive parts of the economy such as household consumption and housing investment increased for the second quarter in a row after two years of weak development. Exports also increased in the fourth quarter while imports decreased.

Indicators suggest that developments have slowed down at the beginning of the year. The GDP indicator, retail trade and the monthly indicator of household consumption decreased slightly in January after growing strongly in December. In addition, consumer confidence weakened further in February and households' view of their own finances and the Swedish economy is now weaker than normal. Card purchase data also indicates that consumption slowed down somewhat in February.

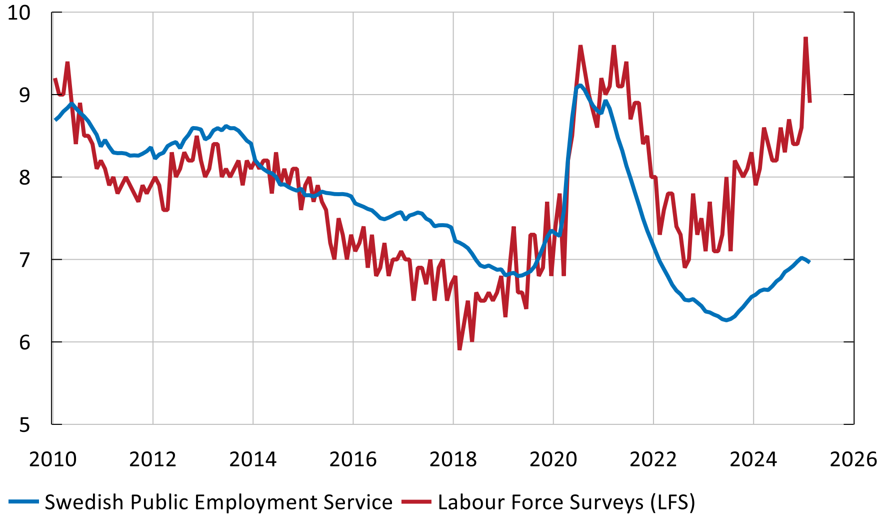
Export companies give slightly inconsistent signals on future developments in various surveys. According to the Economic Tendency Survey, export orders have improved and are now close to a normal level. On the other hand, they are weaker than normal according to the Purchasing Managers' Index. Expected exports sales are also weak according to Business Sweden. However, monthly statistics for trade in goods indicate an upswing for goods exports and goods imports in January. Overall, the indicators suggest continued growth over the next period.

The labour market is still weak

Employment continued to decline towards the end of last year and unemployment amounted to 8.4 per cent in the fourth quarter. Employment continued to decline slightly at the start of the year. At the same time, the number of people in the labour force increased surprisingly sharply, causing unemployment to rise significantly according to the LFS. However, statistics from the Swedish Public Employment Service give the impression that unemployment has been unchanged in recent months (see Figure 11).[8]

Figure 11. Unemployment

Per cent of labour force



Note. Seasonally adjusted data. The LFS refers to persons aged 15-74 and the Swedish Public Employment Service refers to 16-65 years.

Sources: Swedish Public Employment Service and Statistics Sweden.

The number of bankruptcies and redundancies is higher than normal, as it usually is in recessions. It is also not uncommon for them to rise slightly further after the employment rate has started to increase. There is also a risk that bankruptcies will continue to be high when many companies that were granted tax relief need to start repaying it. The number of bankruptcies is high and the number of new vacancies fell slightly in February. However, according to the Economic Tendency Survey, more companies report that they plan to increase rather than cut their workforces in the months ahead.

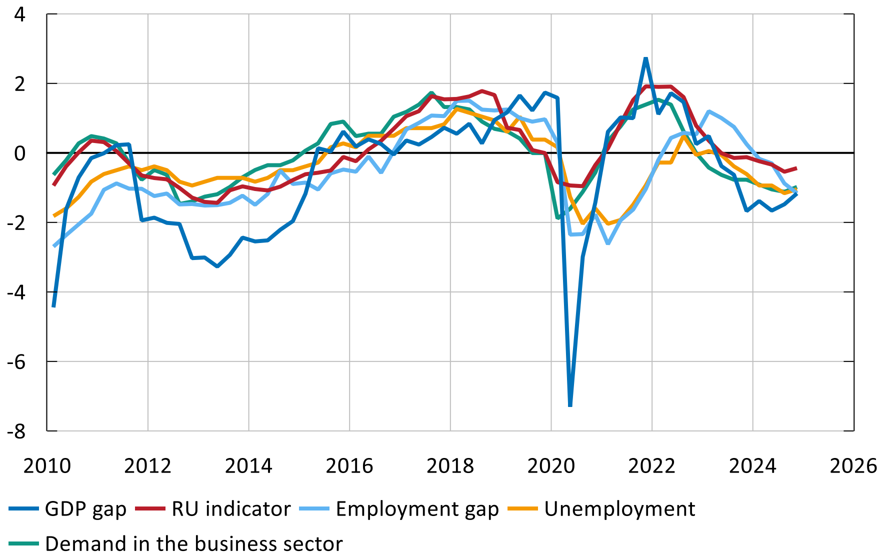
[8] There are several differences between unemployment according to the LFS and according to the Swedish Public Employment Service. One difference is that young people do not have an incentive to register with the Swedish Public Employment Service, which means that unemployment among young people is higher according to the LFS. In addition, the LFS reformulated the unemployment question in 2021 and the Riksbank assesses that the LFS now captures more young unemployed people than before, which has created a greater difference between the two measures.

Resource utilisation has begun to rise

The Riksbank judges that the Swedish economy is in a mild recession, but that resource utilisation has started to rise. Resource utilisation cannot be measured directly but must be estimated using various indicators. One summary measure of various indicators for resource utilisation in companies is the Riksbank's resource utilisation indicator (RU indicator). The RU indicator is lower than normal, but rose marginally during the fourth quarter. Other indicators that measure spare capacity and labour market tightness are also generally weaker than normal, although several of them have started to rise (see Figure 12).

Figure 12. Different measures of resource utilisation

Per cent (GDP gap) and standard deviation (other measures) respectively



Note. The GDP gap refers to the deviation of GDP from the Riksbank's assessed trend. Other measures are standardised so that the mean value is 0 and the standard deviation is 1. Unemployment refers to the Labour Force Survey (LFS), which shows unemployment among people aged 15–74. The RU indicator is a statistical measure of resource utilisation.

Sources: National Institute of Economic Research, Statistics Sweden and the Riksbank.

FACT BOX – The Riksbank's Business Survey, February 2025

The economic situation is seen as largely unchanged compared with the previous survey in September. Most perceive the economy as weak and, as before, general demand is not meeting companies' expectations. Some companies see a gradual improvement in sales and order intake. However, the improvements are small and from low levels and, overall, are not interpreted as a sign of stronger economic activity. The quotation "There is no strong wind in our sails now, we are moving forward, but with no speed" summarises the situation well.

The grocery trade is experiencing stable sales growth. It can be seen that households are continuing to upgrade their shopping basket and are increasingly buying higher quality goods. However, sales growth in the durable goods and hospitality sectors remains sluggish and promotional offers are commonly used to attract buyers. The vast majority believe in a slow recovery in consumption. Sales volumes are expected to increase marginally in the spring, but a more noticeable increase is not expected until autumn 2025.

Demand is weak in large parts of the manufacturing industry, which is partly linked to challenges in the European motor vehicle industry. Some markets and business areas are performing strongly, but the economic situation is described as challenging. There are now more respondents who believe that the economic situation will improve in six months' time than there were in September. At the same time, these companies point out that the rebound will neither be strong nor fast, and that it is only towards the end of the year that an improvement will be seen.

The construction sector remains divided, with weak demand for new housing and strong demand for facilities and infrastructure. The very strong order intake in civil engineering and infrastructure has fuelled investment needs, including new machinery. In addition, several mention the need to buy land for investment in housing projects under their own management.

Companies focusing on cost control and efficiency improvements

In the business-facing services sector, staff reductions are planned. Some companies in other sectors, that have already adapted their workforces, are holding off on further downsizing, to be able to adjust quickly when demand increases. However, if this does not happen, further staff reductions may be necessary.

Grocery retailers and restaurants are increasing their selling prices, due to higher raw material costs. However, the relatively weak demand makes it more difficult for companies in the durable goods segment and other sectors to raise their prices. Although there are plans to increase prices in the longer term, this will largely depend on how demand develops. However, most companies that sell to households, and that plan to raise prices, are not planning for price increases that are larger or more frequent than normal.

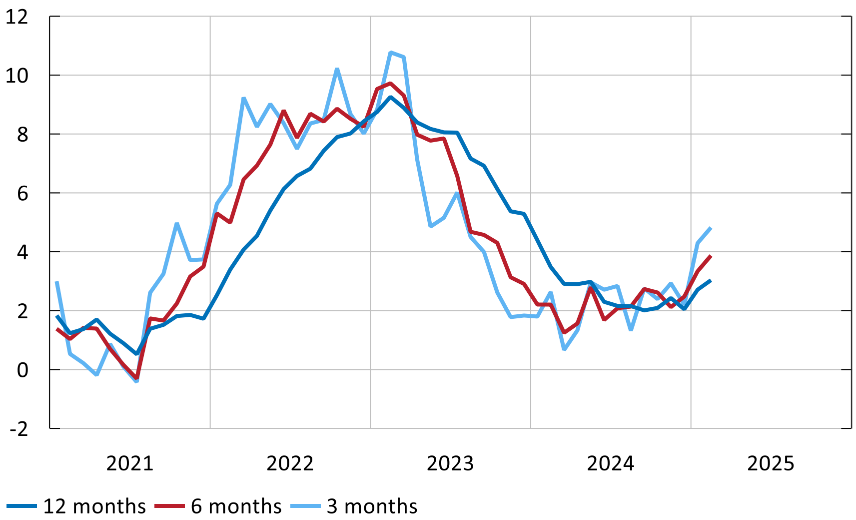
1.4 Swedish inflation

Higher inflation partly due to the basket effect

Last year, inflation fell and adjusted for energy prices, it was close to 2 per cent in the second half of the year. However, in January inflation rose significantly and in both January and February inflation was higher than expected. Measured as the CPIF, inflation was 2.9 per cent and, measured as the CPIF excluding energy, it was 3.0 per cent in February. The surprise is partly due to the basket effect, which makes the inflation statistics particularly difficult to interpret at present (see the box "Inflationary effects of new weights in the CPIF" in this report). The unusually large basket effect also affects price changes measured over shorter time horizons such as the seasonally adjusted three or six-month change calculated as an annual rate (see Figure 13).

Figure 13. CPIF excluding energy

Annual percentage change and three and six-month change calculated in annualised terms



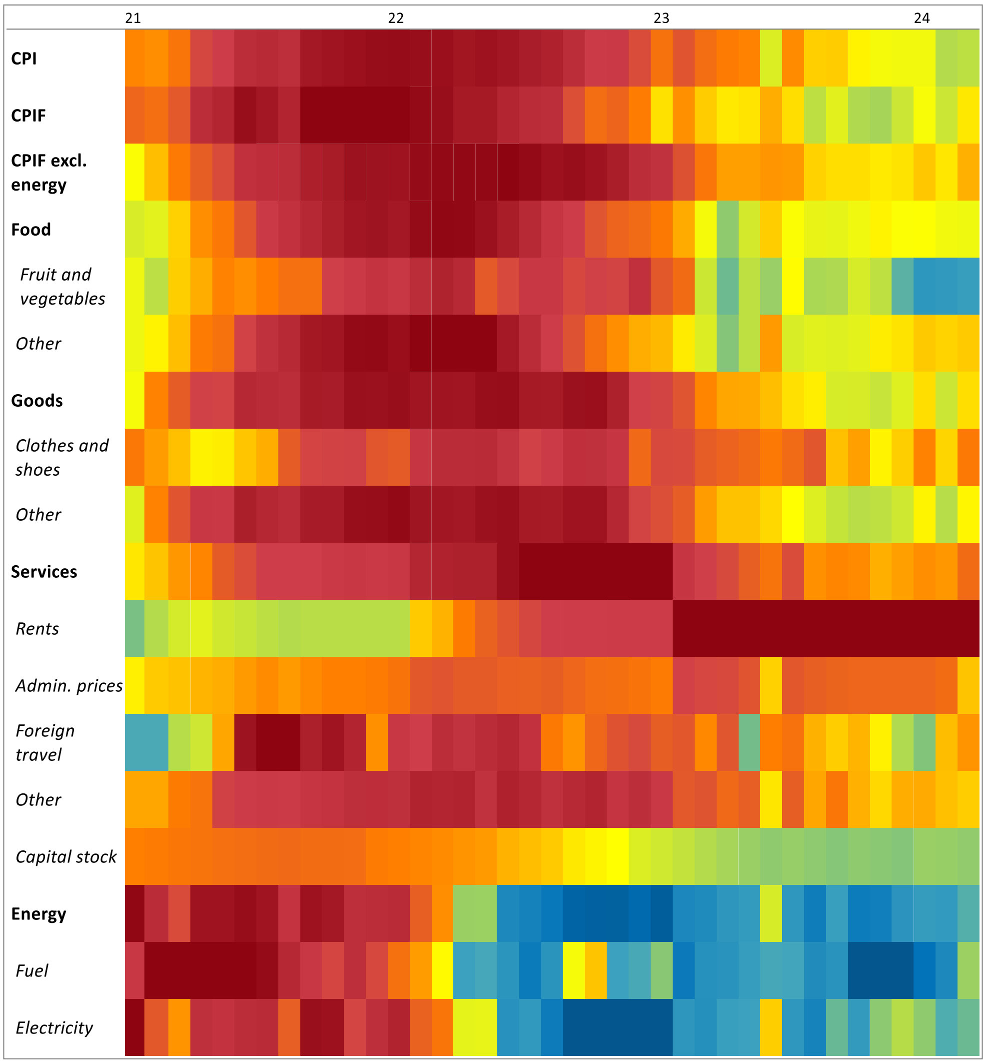
Note. Seasonally adjusted data.

Sources: Statistics Sweden and the Riksbank.

But even if the basket effect is disregarded, inflation increased faster than expected at the start of the year. Both prices for food and for other goods increased faster than expected in February. The Riksbank's analysis of various sub-indices of inflation indicates that the rise in inflation in recent months does not reflect a broad upturn in inflation. The higher rates of price increase in recent months concerns prices for some food, foreign travel and clothes and shoes. Also rents and administered prices, that is highly dependent on earlier cost increases, is still rising at an unusually rapid pace (see Figure 14). Among food, particularly prices for cocoa, coffee, fats and dairy products have increased rapidly (see Figure 15). In recent weeks, however, prices for many foods have fallen slightly on the world market, which suggests that the high rate of increase in food prices is passing. The rising price growth in foreign travel is partly due to the weights in this component having changed so that prices for charter holidays have a significantly greater weight.

Figure 14. Heat map CPIF

Standardised values

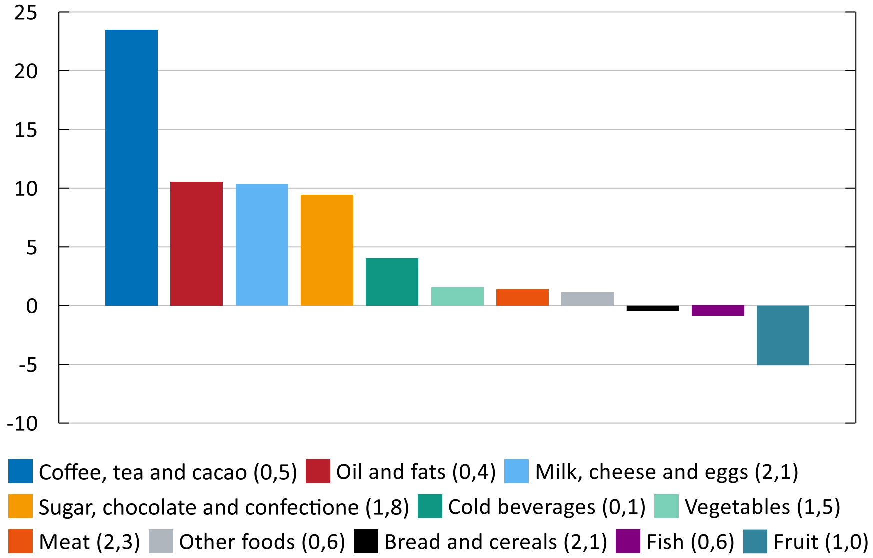


Note. The heat map shows standardised values based on annual percentage change for the different sub-indices between 1995 and 2025. The map shows deviations during the period December 2021 to February 2025. Green indicates that the annual percentage change is close to its historical average. Red indicates that the rate of increase has been higher than its historical average and blue that it has been lower. The stronger the red (blue) colour is, the higher (lower) the rate of increase has been.

Sources: Statistics Sweden and the Riksbank.

Figure 15. Food prices in the CPI for February 2025

Annual percentage change



Note. CPI weights as a percentage are given in brackets.

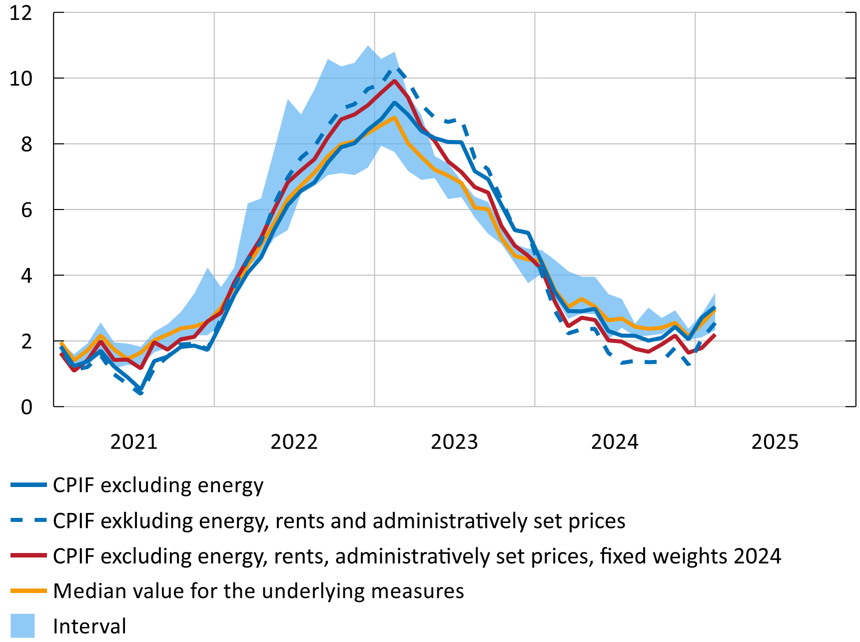
Sources: Statistics Sweden and the Riksbank.

Temporary factors also affect underlying inflation

Various methods can be used to exclude or reduce the effect of individual or volatile prices and thereby attempt to estimate underlying inflation. The Riksbank's ordinary statistical measure of underlying inflation rose in January and was unusually high in February too. However, there are a few factors that the statistical method finds difficult to adjust for at the moment. One of these factors is that prices that change less frequently and that, to an extent, reflect earlier cost increases are rising faster than they have done historically. Examples of this include rents and administered prices (see Figure 14). If we adjust for these factors and the basket effect, underlying inflation is lower and just above 2 per cent (see Figure 16).

Figure 16. Different measures of underlying inflation

Annual percentage change



Note. The light blue interval shows the highest and lowest outcome among 5 different measures of underlying inflation: UND24, Trim85, persistence-weighted inflation (KPIFPV), factors from principal component analysis (KPIFPC) and weighted mean inflation (Trim1). In the series for fixed weights, the logarithmised index levels with the base year of 2024 have been weighed together with the weights from the CPIF from 2024.

Sources: Statistics Sweden and the Riksbank.

Some signs of rising inflationary pressures

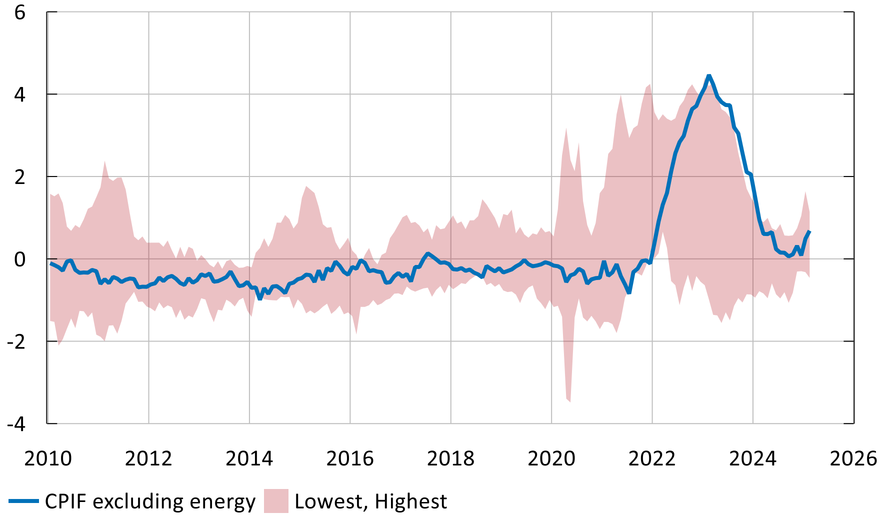
Recently, some of the indicators that have previously coincided with increased inflation have risen slightly (see Figure 17). Among other things, have price plans in the retail trade risen. However, the indicators are still far from being as high as they were in 2021 and 2022. The current situation also differs considerably from the situation three years ago. For example, there are no signs of comprehensive disruptions in global supply chains or any strong upturn in freight prices. Energy and commodity prices have not risen substantially, even if world market prices for some foods have increased. Neither is demand in the global economy as strong as it was after the pandemic.

During the period of high inflation, there were indications that corporate pricing behaviour had changed. Companies were raising their prices considerably more often than usual. No similar upturn in price setting frequency can currently be seen.

Households and companies are expecting slightly higher inflation in the coming period, but long-term inflation expectations remain well-anchored around the inflation target. Neither do the businesses regularly interviewed by the Riksbank paint a picture of broad price rises, even if the non-durable goods segment reports higher prices due to rising cost pressures (see “The Riksbank’s Business Survey, February 2025” in this report). Overall, the latest inflation outcomes and indicators suggest elevated inflation for some time to come. But the upturn is partly a result of a positive basket effect that is temporarily pushing up inflation as measured in the statistics. In addition, there are tendencies towards slightly higher inflationary pressures but so far these are largely a result of price increases for a few individual goods and services.

Figure 17. CPIF excluding energy with indicators

Standardised values



Note. The red field shows the range between the highest and lowest standardised value for the following indicators: households’ inflation expectations, price plans in the retail trade sector, consumer goods sector and services sector, Purchasing Managers’ Index for the services sector and manufacturing sector, producer price index for consumer goods (ITPI, IMPI and HMPI), the CPI excluding energy in the United States, the HICP excluding energy in the euro area, the KIX, the Economist’s commodity index and the Global Supply Chain Pressure Index. The price index is expressed as an annual percentage change.

Sources: The Economist, Eurostat, Federal Reserve, National Institute of Economic Research, Statistics Sweden, Swedbank, US Bureau of Labor Statistics and the Riksbank.

FACT BOX – Inflation effects of new weights in the CPIF

The CPIF is a cost-of-living index that aims to measure how households' costs of maintaining the same standard of consumption development. Calculation of the index therefore needs to take into account changes in both prices and household consumption patterns. Technically, this is achieved through an index construction that tries to estimate how consumers adapt to changes in relative prices. The index construction means that the index level changes in January every year when the consumption weights are updated with more up-to-date data. Normally, the updating of the weights would contribute to the index falling, as households tend to replace products that have become more expensive with products that have become cheaper. This is what Statistics Sweden calls the basket effect. The purpose of this adjustment is for the CPIF to be 'right' in the long run.

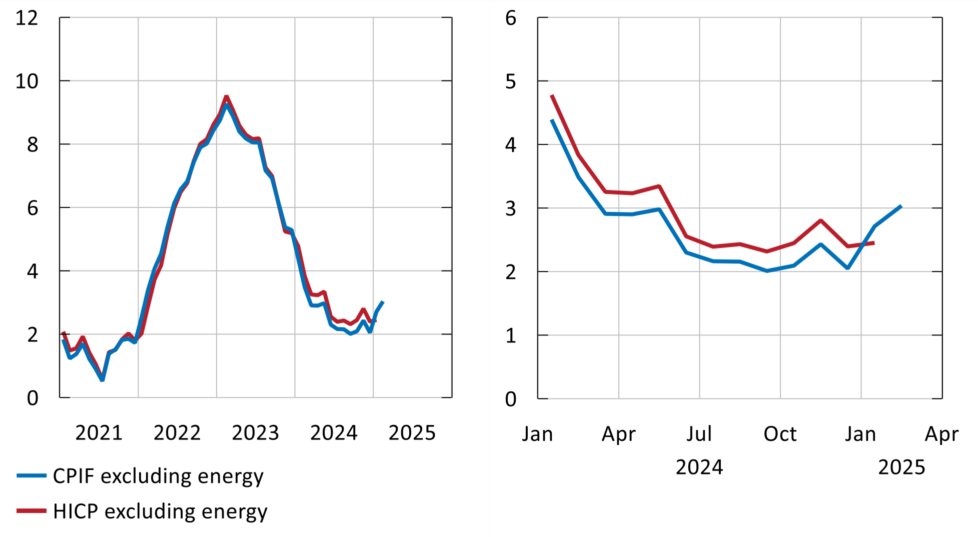
According to Statistics Sweden's usual methods, the weights are mainly based on how household consumption was distributed two years earlier. In recent years, however, the weights have instead been based on household consumption in the previous year. This was introduced during the pandemic to capture changes in consumption patterns more quickly but has the disadvantage that the weights are calculated on an incomplete basis as consumption data is published later than the CPI. As of this year, Statistics Sweden is reverting to its regular methodology and the weights used in 2025 are based on the distribution of consumption in 2023. This means that the weights this year are based on the same period of consumption as they were last year. All else equal, this should mean that the basket effect is very small.[9]

The basket effect usually helps to push down the monthly change in the CPIF in January by -0.1 to -0.2 percentage points. This year, it instead helped to push up the monthly rate by around 0.1 percentage point. This is a major reversal from last year when it was instead more negative than usual and helped push down the monthly rate in the CPIF by almost 0.4 percentage points. This reversal therefore helped to push up the annual percentage change in the CPIF and the CPIF excluding energy quite substantially in January this year compared with December last year. This can be seen clearly when compared with the growth rate of the EU-harmonised HICP excluding energy, which has a different index construction where changing weights do not have an impact in the same way. The growth rate of this measure was at about the same level in January this year as it was in December last year. At the same time, the rate of increase in the CPIF excluding energy rose from 2.0 per cent in December to 2.7 per cent in January (see Figure 18).

[9] The weights may also change, for example, as a result of revisions to household consumption data in the National Accounts. Please refer to the document "Korgeffekten 2025" [the Basket Effect 2025] on the Statistics Sweden website.

Figure 18. CPIF and HICP excluding energy

Annual percentage change



Note. The HICP is an EU-harmonised index for consumer prices.

Sources: Eurostat, Statistics Sweden and the Riksbank.

The January basket effect affects the measured inflation rate over the year, which will therefore be higher every month this year than it would be if the basket effect had been normal. Moreover, the higher weight of the volatile international travel component will lead to a change in the development of inflation over the year, with higher price increases in the summer, lower in the autumn and higher again in December than would otherwise have been the case. However, the basket effect is expected to make only a temporary contribution to the annual percentage change in the CPIF and the CPIF excluding energy this year. Given a normal basket effect in January 2026, the measured inflation rate will then fall by around 0.3 percentage points.

2 The economic outlook for the coming years

Several factors are contributing to great uncertainty over developments both abroad and in Sweden. The Riksbank's main scenario expects international growth to remain slightly below its historical average. GDP growth in the euro area is weak but is expected to increase slightly in the coming years as monetary policy becomes less contractionary and fiscal stimulus increase. Growth has been good in the United States but is expected to slow down going forward. In both the euro area and United States, inflation is expected to remain above the central bank inflation target this year, after which it will gradually fall and stabilise at close to 2 per cent.

The Swedish economy is in a recovery phase after a couple of years of weak growth. Household consumption and corporate investment are expected to contribute to strengthening economic activity. After a certain delay, growth will also reach the labour market and resource utilisation is expected to become normalised in the next few years. Inflation is expected to be over 2 per cent this year but the development of cost pressures and demand are expected to be consistent with inflation close to the target from 2026.

Key assessments and assumptions in the forecast

- Growth abroad is assessed to increase gradually, but expected to be moderate in a historical perspective.
- The United States is expected to introduce more tariffs against several other countries that, in turn, will respond with tariffs against the United States but the increase in average tariffs is expected to be moderate.
- Increased defence investments across the entire EU and infrastructure investments in Germany are expected to boost GDP in the euro area by about 1 per cent by the end of the forecast period.
- Energy prices are assumed to follow forward pricing.
- Resource utilisation in the Swedish economy is assessed to be lower than normal to begin with.
- Swedish fiscal policy is expected to be mildly expansionary in 2025 and 2026 with increased defence spending. Following this, it is expected to be adjusted as normal according to the level of net lending and the economic situation.
- The Riksbank assesses that the neutral policy rate over the long term will be between 1.5 and 3 per cent.

- The forecast period stretches until the end of the first quarter of 2028.

Forecast for monetary policy: The forecast implies that the policy rate is expected to be unchanged at 2.25 per cent over the forecast period.

2.1 The economic outlook abroad

Significant uncertainty characterises the outlook in the coming years

The global economy is characterised by a number of events that could substantially affect the outlook and there is therefore significant uncertainty. The forecast assumes that tariffs will be raised slightly more but larger increases could lead to higher inflation and lower growth. Defence spending is expected to rise in Europe, but the extent is unclear and the effect on the economy will partly depend on how these initiatives are designed and funded. A clearly expansionary fiscal policy shift in Europe may also lead to higher interest rates in general going forward.

The Riksbank's current forecast is based on the premise that the economic effects linked to the war in Ukraine will not change much in the near term. A future rebuilding of Ukraine would stimulate exports and growth in Europe. At the same time, any easing of sanctions and increased trade could lead to lower global prices.

Technological developments, particularly within AI and automation, may push up productivity growth but may also entail changes to the labour market and create new challenges within education and skills supply.

International growth will be slightly slower than its historical average

Growth in the euro area is expected to be restrained in 2025 but subsequently to pick up speed gradually. Lower inflation and rising real incomes will help strengthen household consumption. While the manufacturing sector and investment are under pressure from increased uncertainty, the security situation in Europe will lead to more expansionary fiscal policy in the form of higher defence spending and increased investment in the euro area. For example, the European Commission has recently approved an action plan that could mobilise EUR 800 billion, around 4.5 per cent of the EU's GDP, to strengthen European security.

The US economy is expected to grow at a slightly slower pace than in previous years. Income growth is expected to remain favourable due to an expansionary fiscal policy and strong labour market. US growth will therefore largely continue to be driven by household consumption but also be supported by rising investment. However, increased import tariffs against several countries and greater uncertainty in the economy will dampen growth somewhat.

Inflation falling slowly abroad

In the euro area, inflation is expected to decline but continue to be slightly above the target of 2 per cent in 2025. After this, inflation is expected to fall gradually and stabilise close to the target. Lower wage growth in the period ahead will restrain the development of services prices, which has maintained inflation in the euro area for some time. In the United States, inflation is expected to remain close to 3 per cent in 2025 before declining to just over 2 per cent. In the period ahead, the rate of increase in rents is expected to fall, contributing to slower growth in services prices. On the other hand, the introduction of tariffs is expected to raise prices for many products in the United States and thereby increase inflation in the short term.

Table 1. International key performance indicators

Annual percentage change, unless otherwise specified. The figures in brackets refer to the forecast from the previous Monetary Policy Report.

	2024	2025	2026	2027
GDP, Euro area	0.8 (0.8)	1.0 (1.0)	1.5 (1.3)	1.5 (1.2)
GDP, United States	2.8 (2.7)	2.0 (2.2)	1.9 (2.1)	1.8 (1.9)
HICP, Euro area	2.4 (2.3)	2.2 (2.0)	1.9 (1.8)	2.0 (2.0)
CPI, United States	3.0 (2.9)	2.9 (2.4)	2.4 (2.2)	2.3 (2.3)

Sources: Eurostat, US Bureau of Economic Analysis, US Bureau of Labor Statistics and the Riksbank.

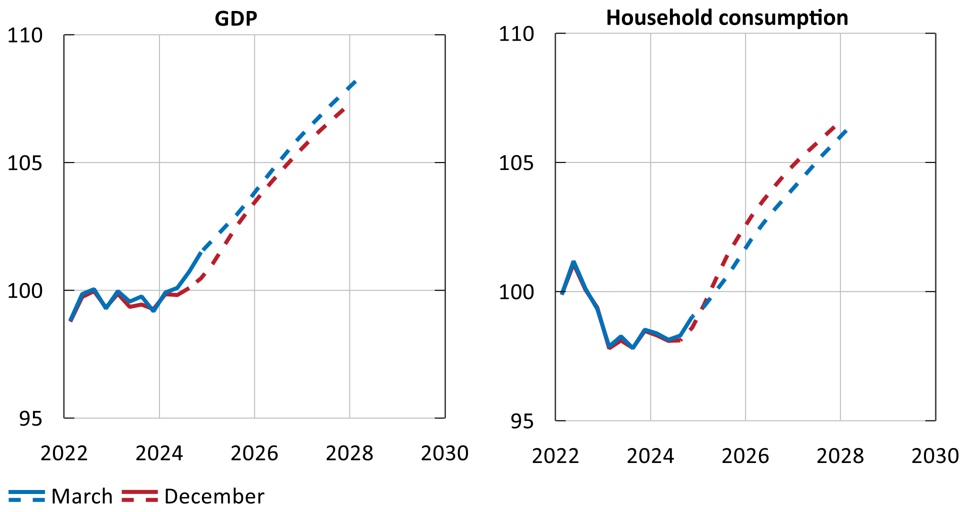
2.2 The economic outlook in Sweden

Growth will increase in the period ahead

The Swedish economy is in a recovery phase after a couple of years of weak growth. The uncertainty linked to trade policy and geopolitical developments is expected to restrain growth and the recovery will therefore proceed slowly over the next few quarters. Growth is expected to pick up at the end of the year when both consumption and investment are expected to grow more rapidly as demand for Swedish exports is stimulated by a more expansionary fiscal policy in Europe. GDP is expected to grow by about 2 per cent per year over the next few years, which is a clear upswing compared with recent years (see Figure 19).

Figure 19. GDP and consumption in Sweden

Index, 2021 Q4 = 100



Note. Seasonally adjusted data. Solid line refers to outcome and dashed line refers to the Riksbank's forecast.

Sources: Statistics Sweden and the Riksbank.

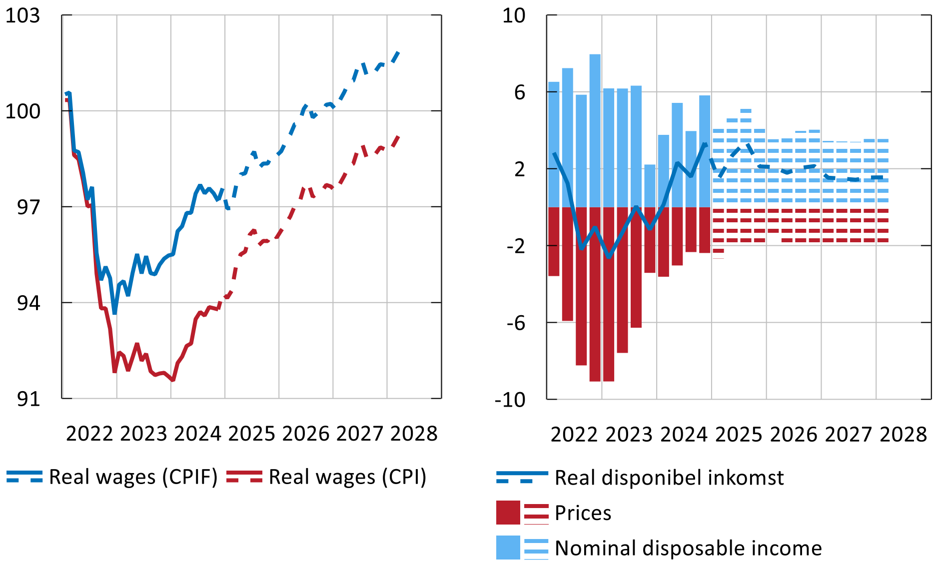
Rising real wages are providing scope for higher consumption among households

The rapid wage growth and the lower inflation meant that real wages started to rise last year. Wages are expected to increase by around 3.5 per cent per year in the coming years, slightly higher than the average since 2000. This means that real wages will rise relatively rapidly going forward. If the CPIF is used to adjust for price developments, real wages will return to the same level as before the rise in inflation in 2027. If the CPI, which includes interest rate adjustments, is used instead, it will take a little more time for real wages to recover (see Figure 20).

The rising real wages have increased household purchasing power. Neither have real disposable household incomes fallen as much as real wages. This is partly because capital revenue has increased and changes in taxes and transfers have helped maintain incomes. Real disposable incomes will continue to increase at a good pace in the years ahead due to real wage increases and inflation of around 2 per cent (see Figure 20). This year, lower interest expenditure will help households' disposable incomes increase faster. Household consumption is projected to increase more rapidly when real incomes rise and is thereby expected to contribute to the rising GDP growth going forward (see Figure 21). However, the increased uncertainty is expected to lead to households continuing to save a large part of their incomes this year and to growth in consumption slowing down. As of next year, households are expected to cut down gradually on saving.

Figure 20. Real wages and real disposable income

Index, December 2021 = 100 (left), and contribution and annual percentage change (right)



Note. Real wages are calculated as the ratio between the wage index and the CPI and CPIF respectively. Seasonally adjusted data (left). Real disposable income is income adjusted for developments in the deflator for households' consumption expenditure, which usually increases at the same rate as the CPIF (right). Solid line and bars refer to outcome and dashed line and bars represent the Riksbank's forecast.

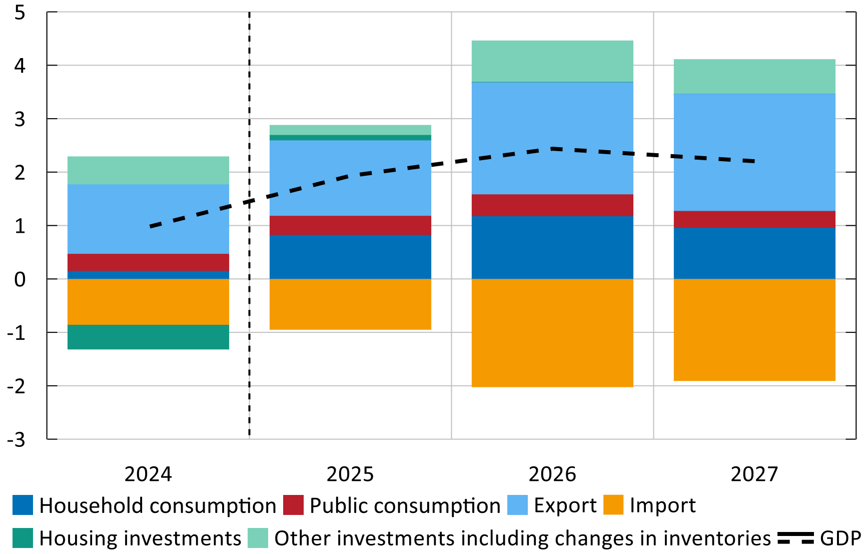
Sources: National Mediation Office, Statistics Sweden and the Riksbank.

Investment and exports will also contribute to growth in the period ahead

Growth will also be supported by fiscal policy and investment is expected to increase faster (see Figure 21). Increased defence investment will help public sector investment grow relatively rapidly in the coming years. Business sector investment is also expected to increase further next year. Housing investment will continue to increase after having fallen in 2023 and 2024. However, demand for housing will be slowed down by the slower growth of the population going forward.

Figure 21. Contribution to GDP growth

Per cent (GDP) and percentage points (GDP contribution)



Note. Contribution to annual percentage change in GDP in fixed prices. Vertical dashed line marks the start of the Riksbank's forecast.

Sources: Statistics Sweden and the Riksbank.

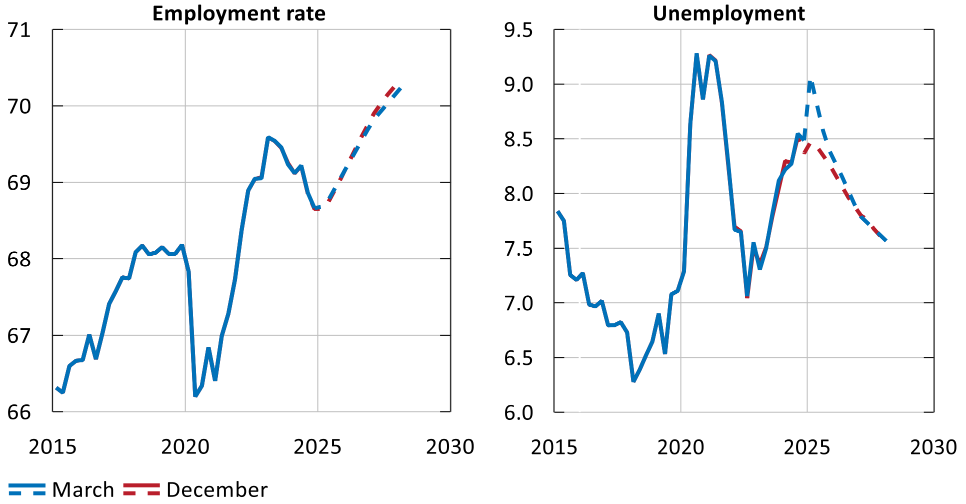
The export sector is expected to increase from 2026, supported by defence initiatives. The effect on Sweden of higher tariffs is expected to be limited, which is supported by our analysis of the Riksbank's Business Survey (see "The Riksbank's Business Survey, February 2025" in this report). The effect on the export sector is also expected to be limited as Swedish exports consist, to a growing extent, of services exports that will be affected less by trade barriers than goods exports.

Resource utilisation set to normalise in the years ahead

Different labour market indicators suggest a small improvement of the labour market going forward, even if developments in the period ahead are expected to be weak. According to the Riksbank's forecast, the employment rate will start to increase slightly this year before then increasing more rapidly as demand rises in the economy. Unemployment has continued to rise during the first quarter but is expected to gradually decrease towards 7.5 percent. (see Figure 22).

Figure 22. Employment rate and unemployment in Sweden

Percentage of population (left) and percentage of labour force (right)



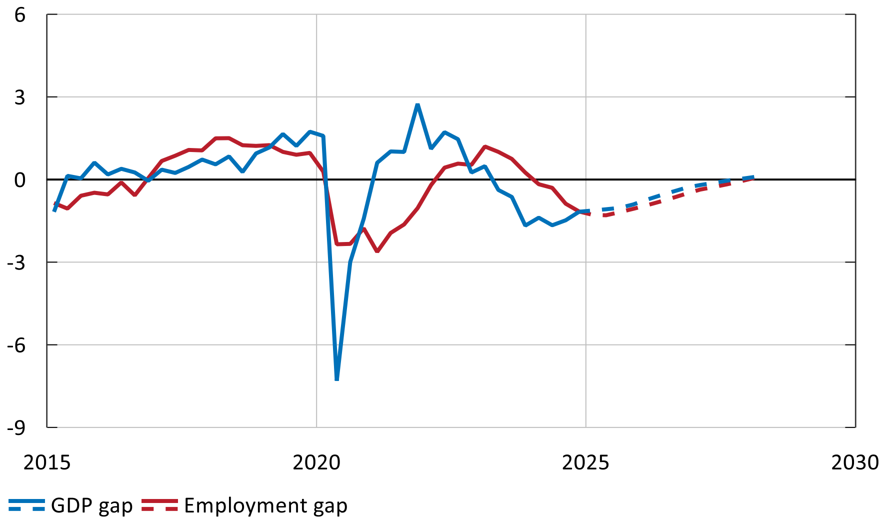
Note. Seasonally adjusted data. Refers to persons aged 15–74. Solid line refers to outcome and dashed line refers to the Riksbank's forecast.

Sources: Statistics Sweden and the Riksbank.

The gradually higher demand and the stronger labour market will lead to increasing resource utilisation and falling spare capacity in the economy. Economic activity is expected to strengthen over the next few years and be in balance in 2027, which is illustrated by the GDP and employment gap being close to zero at that point (see Figure 23). The increasing resource utilisation will also contribute to stabilising inflation in line with the target.

Figure 23. Measures of resource utilisation

Per cent



Note. The gaps refer to the deviation in GDP and employment from the long-term trend assessed by the Riksbank. Solid line refers to outcome and dashed line refers to the Riksbank's forecast.

Sources: Statistics Sweden and the Riksbank.

Table 2. Key performance indicators for Sweden

Annual percentage change, unless otherwise specified. The figures in brackets refer to the forecast from the previous Monetary Policy Report.

	2024	2025	2026	2027
GDP	1.0 (0.6)	1.9 (1.8)	2.4 (2.6)	2.2 (2.1)
Employed persons	-0.6 (-0.6)	0.2 (0.1)	1.2 (1.3)	1.1 (1.2)
Unemployment*	8.4 (8.4)	8.7 (8.4)	8.1 (8.0)	7.7 (7.7)
GDP gap**	-1.4 (-1.4)	-1.0 (-1.0)	-0.5 (-0.3)	-0.1 (-0.0)
General government net lending, per cent of GDP	-1.5 (-1.6)	-1.3 (-1.3)	-1.1 (-0.8)	-0.9 (-0.5)

* Per cent of labour force. **Percentage deviation from the Riksbank's assessed potential levels.

Sources: Statistics Sweden and the Riksbank.

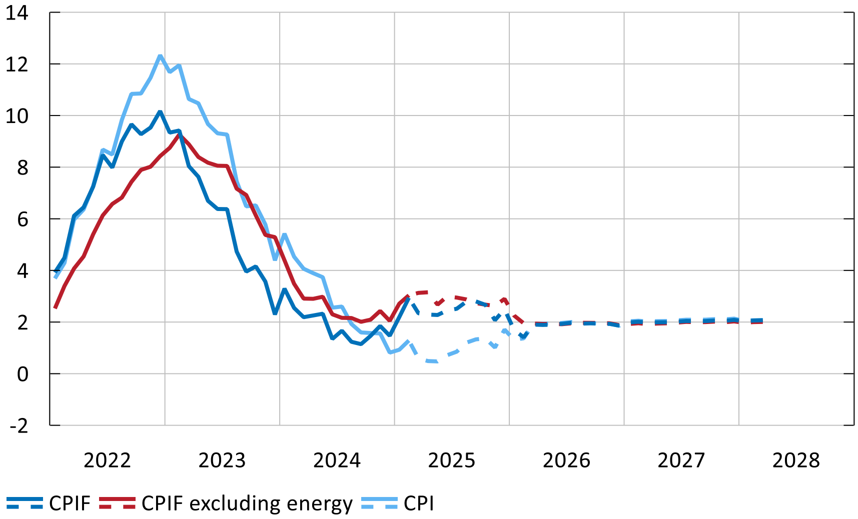
2.3 Inflation outlook in Sweden

Inflation close to 2 per cent at the start of 2026

After a period of rapidly rising prices, inflation fell to close to, or even slightly below, the target last year. This year, inflation will temporarily be above 2 per cent. This is partly because the rate of increase in food prices and administered prices, along with rents, is unusually high and partly because of the basket effect that is pushing up the measured inflation rate this year (see "Inflation effects of new weights in the CPIF" in this report). The underlying inflationary pressures are assessed to be consistent in the long term with the inflation target and, from 2026, inflation is expected to be stable around the target. CPI inflation will temporarily fall below 1 per cent this year due to previous interest rate cuts but is then expected to rise gradually to 2 per cent (see Figure 24).

Figure 24. CPIF, CPIF excluding energy and CPI

Annual percentage change



Note. Solid line refers to outcome and dashed line refers to the Riksbank's forecast.

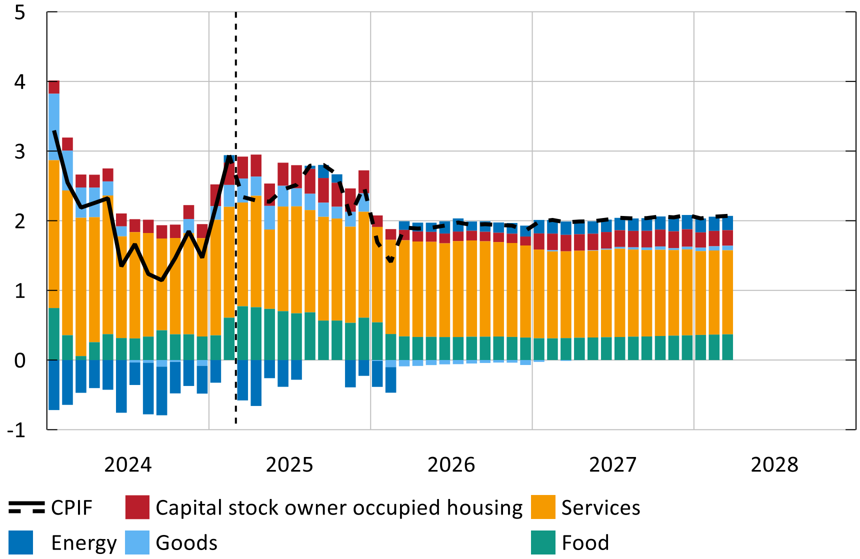
Sources: Statistics Sweden and the Riksbank.

Driving forces behind inflation will shift

Prices for food have increased on the global market and are expected to contribute to higher food prices also in the consumer channel in Sweden over the coming months (see Figure 25). The price rises are partly linked to weather effects and are therefore assessed temporary. The pass-through to Swedish consumer prices will be counter-acted to some extent by a stronger krona. Having pushed down inflation last year, energy prices are expected to start gradually making a marginal positive contribution to CPIF inflation next year (see Figure 25).

Figure 25. Contributions to CPIF inflation

Annual percentage change (CPIF) and percentage points (contribution)



Note. The last outcome refers to February 2025. Vertical dashed line marks the start of the Riksbank's forecast.

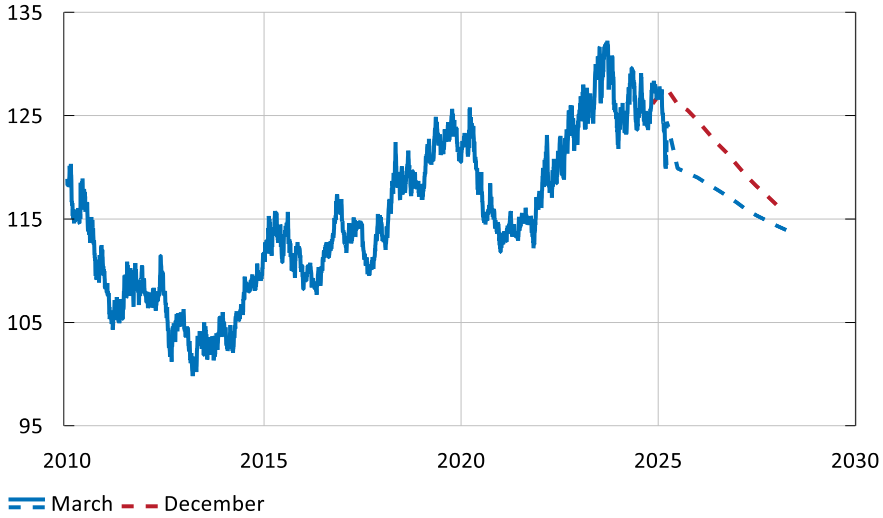
Sources: Statistics Sweden and the Riksbank.

The rate of increase in services prices will continue to be a little higher than its historical average for some time to come. This is largely due to rents and administered prices continuing to increase at an unusually rapid pace. This is assumed to be mostly due to the consequences of the high inflation in recent years, and to a lesser extent to the current demand situation. The rate of increase of these prices is expected to remain unusually high this year but is nevertheless expected to slow down. The rate of increase for services prices, which are affected by the demand situation and wage developments to a greater extent, has slowed down but is expected to increase as resource utilisation rises. Overall, the rate of increase in services prices is expected to fall slightly next year.

The effects of the temporary factors that are pushing up measured inflation this year will mostly disappear next year. As the economy recovers to a greater extent, inflation in Sweden will be driven by rising demand from next year onwards. Rising resource utilisation will lead to increasing inflationary pressures, but this will be partly counteracted by the krona appreciation (see Figure 26). Over the coming years, wages and productivity in Sweden are expected to increase at a rate that is consistent with inflation of 2 per cent. Together with long-term inflation expectations being well anchored around 2 per cent, these factors are contributing to the Riksbank's assessment that inflation will be close to 2 per cent as of next year.

Figure 26. Nominal exchange rate

Index, 18 November 1992 = 100



Note. KIX (krona index) is a weighted average of the currencies in 32 countries that are important for Sweden's international trade. Since 28 March 2022, the index has been calculated against 31 countries following the exclusion of the Russian rouble. A higher value indicates a weaker exchange rate. Solid line refers to outcome and dashed line refers to the Riksbank's forecast.

Source: The Riksbank.

Table 3. Key performance indicators for inflation

Annual percentage change, unless otherwise specified. The figures in brackets refer to the forecast from the previous Monetary Policy Report.

	2024	2025	2026	2027
CPIF	1.9 (1.9)	2.5 (2.0)	1.9 (1.9)	2.0 (2.0)
CPIF excluding energy	2.6 (2.7)	2.9 (2.2)	2.0 (2.0)	2.0 (2.0)
CPI	2.8 (2.9)	1.0 (0.6)	1.8 (1.8)	2.1 (2.0)
Wages, NMO	4.0 (4.0)	3.6 (3.6)	3.6 (3.6)	3.4 (3.4)

Note. KL refers to the short-term wage statistics.

Sources: Statistics Sweden and the Riksbank.

ANALYSIS – Effects of trade tariffs on Swedish companies

When Donald Trump took office as president for a second term, one of his election pledges was to introduce or raise import tariffs on goods from other countries. There is considerable uncertainty over which tariffs will be realised, which will remain for longer, how they will be designed and how the countries and regions concerned will respond to the tariffs. Sweden is an export-dependent country, and the Riksbank's Business Survey shows that many companies are worried about the developments. At the same time, most companies responding to the survey say they only expect there to be a small impact. The effects that US import tariffs may have on the Swedish economy are uncertain, but probably modest. The situation may worsen, however, if an escalated trade conflict arises.

Motives and design for the tariffs vary

The Trump administration's arguments for the tariffs vary. They state that the United States has long been disadvantaged in its trade relations and that increased import tariffs can strengthen US industry. Tariffs of up to 25 per cent have, for instance, been announced against the EU, which has retaliated. Domestic security has also been used as a motive for import tariffs, as in the case against Canada, Mexico and China. The tariffs can also apply to specific products – for example, 25 per cent has been put on steel and aluminium. Other products like motor vehicles and pharmaceuticals have been highlighted as products that may be subject to tariffs.

Swedish exports that can be affected

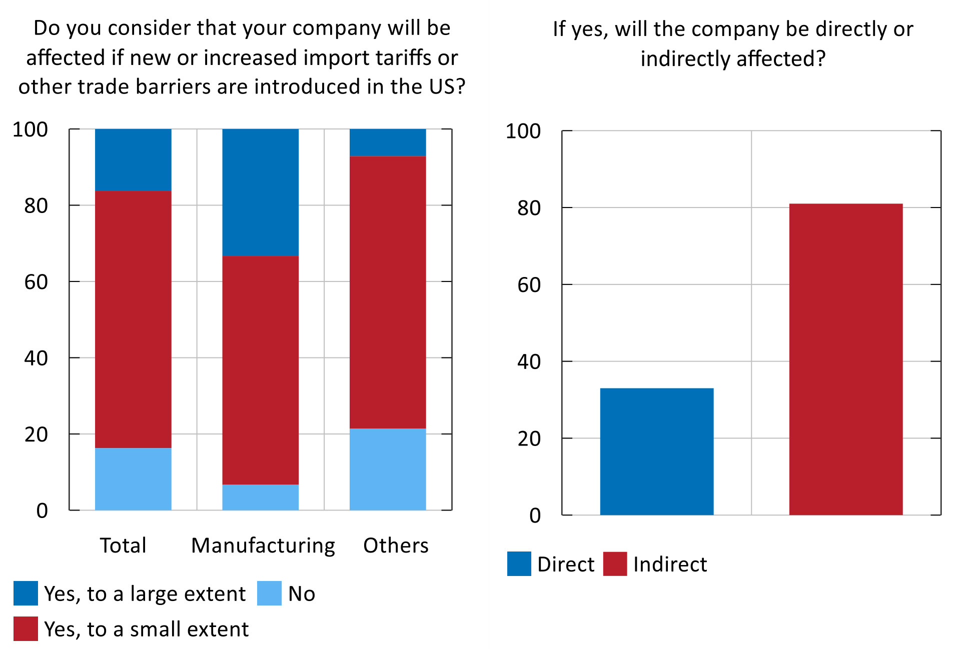
Sweden is an export-dependent country where exports corresponded to around 55 per cent of GDP in 2024. The greater part of the exports are goods and some of Sweden's most important export goods are road vehicles and machinery, pharmaceuticals, paper products and iron, steel and iron ore. Most Swedish exports go to other Nordic or European countries, but the United States is the third largest single export country.

A tariff measure that could affect Sweden is the one mentioned above on steel and aluminium, where exports to the United States account for 3.5 per cent of total Swedish exports. In turn, this makes up around 0.1 per cent of Swedish GDP. The discussions of tariffs against the EU have mentioned motor vehicles as a product to be affected. Swedish exports of cars and other light motor vehicles account for 22 per cent of total Swedish exports to the United States (around 0.7 per cent of GDP). An increasing share of Swedish exports consists of services and the tariffs announced and introduced by the United States have so far been focused on imports of goods, not services.[10]

The Riksbank's Business Survey – tariffs: "No one knows what will happen"

The February Business Survey included questions about import tariffs and their impact on companies' operations.[11] More than 80 per cent of companies believe that their business would be affected to some extent if import tariffs were imposed in the United States (see Figure 27). In most cases they would be affected to a minor extent and especially through indirect effects. Companies highlight in particular the fact that the statements on tariffs create uncertainty and many see this as a risk to the economic rebound. Most consider that it is difficult to assess the effects, given the great uncertainty about which countries and goods will be subject to tariffs and how the tariffs will be designed.

Figure 27. Companies' responses to questions on import tariffs and trade barriers
Per cent



Note. The question of to what extent companies are affected was answered by all 43 companies. The question on direct and indirect impact was answered by 36 of the companies that assess that they will be affected by possible import tariffs. The bars in the right-hand figure do not add up to 100 as several companies have stated both alternatives.

Source: The Riksbank's Business Survey, February 2025.

It is mainly manufacturing companies, whose operations are often divided into global value chains, that anticipate being affected to a large degree by the tariffs. What they have in common is that they have manufacturing in both the United States and

[10]However, a not insignificant share of the services exported is connected to goods, which sometimes makes it complicated to distinguish goods export from services exports.

[11] The interviews were held in the period 31 January - 7 February.

countries that may be affected by import tariffs, such as Mexico, Canada and China. In some cases, the components cross country borders several times for processing in various production plants before being assembled into an end product and sold to customers in the United States. “There could be tariffs on tariffs on tariffs,” says one respondent. Manufacturing companies that have production in the United States, but buy input goods from US sub-contractors, instead assess that they may benefit from the import tariffs. “We have a large local production in the United States and I know that many other Swedish companies do too, so this means we should do quite well,” explains one business leader.

Companies state that they are closely monitoring developments in the United States and are prepared to take action, but that they are not making any changes proactively. If the import tariffs come into force, it is in many cases the Swedish companies that have to pay import tariffs, in that they import goods to their US production facilities or sales companies. Companies expect that they will have to charge higher selling prices to US customers to compensate for the import tariffs. “There is no other way”, says one respondent. In the longer run, more are considering reviewing their global value chains and moving production to the United States or from countries that may be covered by import tariffs.

Among companies that do not have sales to the United States, many say they could be indirectly affected. In particular, they see risks to pricing, in that the exchange rate may affect purchases priced in US dollars and that global market commodity prices may rise. Several also express concern for a slowdown in industrial activity, which can affect economic developments in general. If import tariffs against the EU and European retaliations were introduced, the assessment is that they will be affected to a greater extent. One business leader says: “If there is a further escalation of trade barriers then there will be greater challenges for us.”

Effects on Swedish economy depend on the design and scope of the tariffs

Several factors determine how much of an effect increased tariffs would have on Swedish growth and inflation. The effect on growth depends primarily on which products from the EU the United States imposes tariffs on, and how Swedish exports to the United States decrease as a result of them. But growth in Sweden can also be affected via other channels. The effect on Swedish inflation instead depends on how the EU would retaliate with tariffs on products from the United States.

The effect on inflation also depends on which US products are subjected to tariffs. If it is largely consumer goods, the pass-through will be faster, while it will take longer to affect inflation if various types of input goods are subjected to tariffs. Ultimately, the effect on inflation will also depend on the extent and speed at which importers pass on costs to consumers, which in turn is affected by the level of demand in the economy, among other factors.[12]

[12] See the analysis “Macroeconomic effects of higher US import tariffs” in Monetary Policy Report, December 2024, for a more comprehensive review of how the economy is affected by tariffs via various channels.

The forecast assumes that import tariffs between the United States and EU will be raised. However, the increase is assumed to be relatively modest – on average, tariffs are raised by a magnitude of 2 percentage points. The effects on the Swedish economy are thereby not expected to be particularly large. There is, however, major uncertainty over how large the tariffs will ultimately be and how long they may remain. A significantly greater increase in tariff rates would have greater consequences on the Swedish economy in the form of lower growth and, at least in the short term, higher inflation. The Riksbank is following developments closely and adapting its forecasts as more information becomes available.

3 Monetary policy analysis

Inflation has been higher than expected and is expected to be between 2 and 3 per cent for the rest of the year, but several factors indicate that the upturn is not a lasting one. The upturn is partly explained by how the price index is constructed, as the basket effect provides an unusually large positive contribution to inflation this year. Another contributing factor is that prices are rising faster on certain foods, although further ahead the price increases are expected to gradually decline. A substantially stronger krona also contributes to dampening inflationary pressures. Inflation expectations are assessed to be firmly anchored close to 2 per cent.

At the same time, economic activity in Sweden is still weak, but a recovery has begun, although the rebound in the labour market will take some time. All in all, the outlook for inflation and economic activity still holds. The inflation outlook is thus also still well in line with the inflation target in the coming years. This development is consistent with the policy rate being held unchanged at 2.25 per cent and remaining at this level in in line with the forecast in December.

Monetary policy is guided by a tentative approach, given that the effects of the policy cuts already made are uncertain. The reshaping of in global trade policy and the ambition to substantially increase the European defence capacity has affected the forecast, but the uncertainty around global developments and the domestic recovery are contributing to considerable uncertainty and complicating the monetary policy assessment. The Riksbank monitors developments closely and will act if the outlook for inflation and economic activity so requires.

Monetary policy is forward-looking

Monetary policy acts with a lag and therefore needs to be based on forecasts of future economic developments. The forecasts are in turn influenced by the assumptions made about monetary policy, i.e. how one assumes that the policy rate and the Riksbank's other monetary policy tools will be developed. This chapter discusses the assumptions about monetary policy that, in the Riksbank's assessment, will provide a desirable target fulfilment for inflation that takes account of the effects on real economic developments.

A basic condition for inflation to be close to the target over time, however, is that households and companies have confidence in any deviations from the target not lasting too long. It is easier to make long-term plans when inflation is stable and economic agents all have a common picture of how prices will develop in the future. This in turn creates good conditions for favourable economic growth over time.

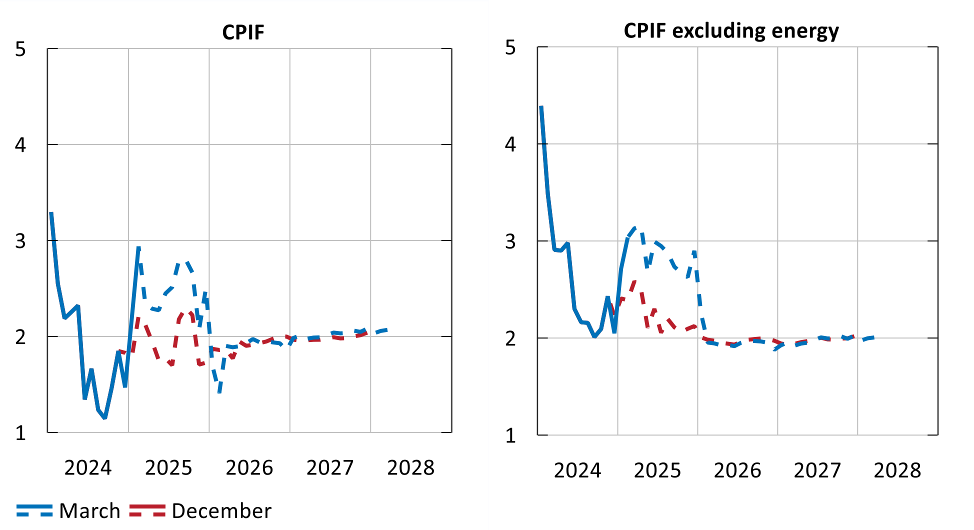
ANALYSIS - How the Riksbank's forecasts have changed since the previous report

Between Monetary Policy Reports, the Riksbank receives new information that is used to update its view of the economic situation and inflation. When the Riksbank conducts monetary policy, new information as well as new analyses of economic links and trends in the economy are important pieces of the puzzle. Figure 28 and Figure 29 describe how key forecasts have changed since the previous Monetary Policy Report in December.

Inflation rose unexpectedly fast in January and February. This is partly due to the so-called basket effect (see the Fact Box "Inflation effects of new weights in the CPIF" in this report) and by the fact that prices of certain foods in particular have increased rapidly, partly for weather-related reasons. As a result, inflation forecasts have been revised upwards in 2025, but they remain broadly unchanged in the coming years.

The Riksbank assesses that resource utilisation in the economy, measured according to the GDP gap, is somewhat higher to begin with due to the stronger GDP development last year. Indicators point to growth being somewhat lower at the beginning of the year, but a more expansionary fiscal policy with large defence investments contributes to higher GDP growth in the coming years. The forecast for unemployment has been adjusted upwards this year, due to that the labour supply increasing quickly at the start of the year. The turnaround in the labour market is still some time away, in line with the previous forecast. All in all, the outlook for inflation and economic activity remains largely intact.

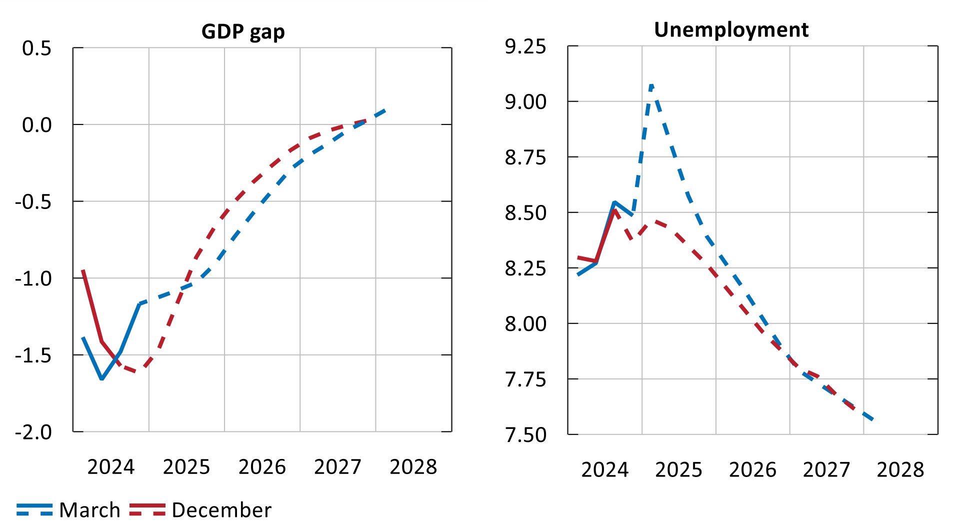
Figure 28. Forecasts for inflation
Annual percentage change



Note. Solid line refers to outcome and dashed line represents the Riksbank's forecast.

Sources: Statistics Sweden and the Riksbank.

Figure 29. Forecasts for the real economy
Per cent



Note. GDP gap refers to the deviation from the Riksbank's assessed long-term trend. Unemployment refers to persons aged 15–74. Seasonally adjusted data (right). Solid line refers to outcome and dashed line represents the Riksbank's forecast.

Sources: Statistics Sweden and the Riksbank.

3.1 Monetary policy in Sweden

To contribute to sustainable inflationary pressures in line with the inflation target, the Riksbank began a series of policy rate cuts from 4 per cent in May 2024 to 2.25 per cent in January this year. In connection with the decision in January, the Executive Board assessed that the forecast for the policy rate from December remained essentially held. It was therefore assessed that the policy rate does not need to be cut further as long as the outlook for inflation and economic activity does not change.

Higher inflation in the coming year, but inflationary pressures are then consistent with an inflation rate close to 2 per cent

Economic activity abroad is assessed to weaken somewhat in the near term, although the larger economies have different starting situations. Inflation is currently over 2 per cent in both the United States and the euro area, but is expected to decline and stabilise close to the inflation target in the coming years.

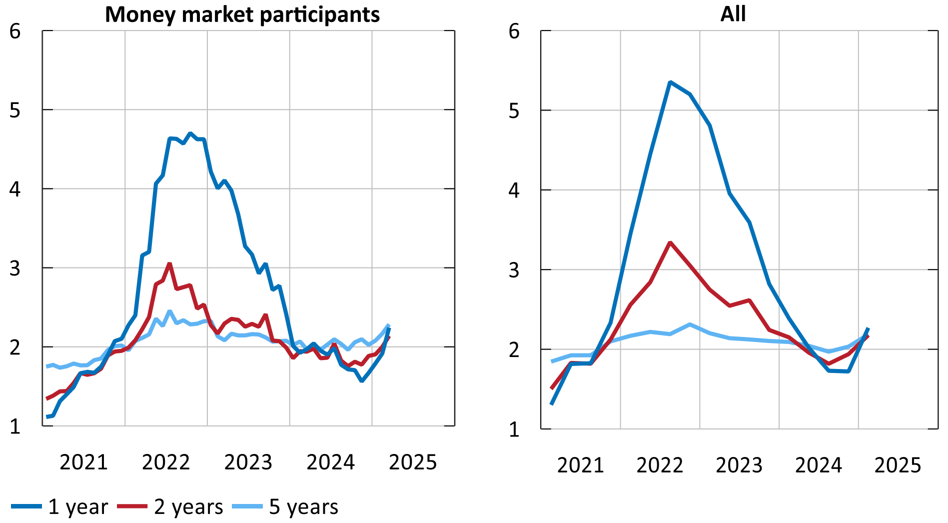
The US central bank has communicated a more wait-and-see stance and that there is no hurry to adjust the policy rate. The ECB has communicated that monetary policy is not expected to be as tight as a result of the rate cuts. Given this, and that the uncertainty has increased, decisions on monetary policy are based on incoming data. Market participants' perceptions of future policy rates have varied substantially at the beginning of the year. In the United States, signs of a slowdown in growth have led to a lower expected policy rate. In the euro area, on the other hand, expectations of large increases in defence spending have contributed to fewer policy rate cuts being expected.

In Sweden, inflation has increased faster at the beginning of the year than in the Riksbank's forecast from December. Measured as the CPIF and the CPIF excluding energy, it amounted to 2.9 and 3.0 per cent in February. However, several factors indicate that the upturn is temporary. The unexpectedly high inflation is partly explained by the basket effect (see the Fact Box "Inflation effect of new weights in the CPIF" in this report). With a more normal basket effect next year, this factor will no longer provide a positive contribution to inflation this year. Prices of in particular some foods have also increased faster than in the Riksbank's previous assessment, but the upturn in prices on the world market has slowed down and prices are not expected to increase as quickly going forward. Inflation expectations are assessed to remain firmly anchored close to the target, which has considerable significance for wage formation (see Figure 30).

Indicators such as companies' pricing plans currently indicate a somewhat higher inflation in the short term. However, some of the movements are probably explained by the upturn in food prices. A substantially stronger krona also contributes to dampening inflationary pressures. Although the rebound in the Swedish economy has begun, economic activity is weak, which is expected to limit companies' opportunities to pass on rising costs to consumers. The outlook for inflation beyond the coming year also looks to be in line with the inflation target (see the Analysis "How have the Riksbank's forecasts have changed since the previous report?" in this report).

Figure 30. Inflation expectations

Per cent



Note. Refers to CPIF. Monthly data (left) and quarterly data (right). The lines in the figure show various participants' expectations at the time of measurement of what inflation will be in 1, 2 and 5 years.

Source: Origo Group.

Unchanged policy rate going forward, but level of interest rates uncertain in the longer run

The Riksbank assesses that the outlook for economic activity and inflation is consistent with an unchanged policy rate of 2.25 per cent, in line with the forecast in December. The policy rate is within the Riksbank's estimated interval for the neutral policy rate in the long terms (see Figure 31).[13] However, the forecast is uncertain and will be regularly reconsidered when new information is received that may change the view of which policy will stabilise inflation close to the target.

Monetary policy is based on forecasts. At the same time, the Riksbank has cut the policy rate relatively quickly and it is uncertain how large the effects of the rate cuts are on the economy and inflation and when they will attain a full impact. Given this, the effects of monetary policy need to be evaluated carefully as we receive new information on how the economy is affected.

In the current situation, monetary policy also needs to relate to and analyse how the inflation outlook is affected by the extensive changes abroad. The reshaping of global trade policy and the ambition to substantially increase the European defence capacity have affected the forecast, but global developments are very uncertain. The Riksbank

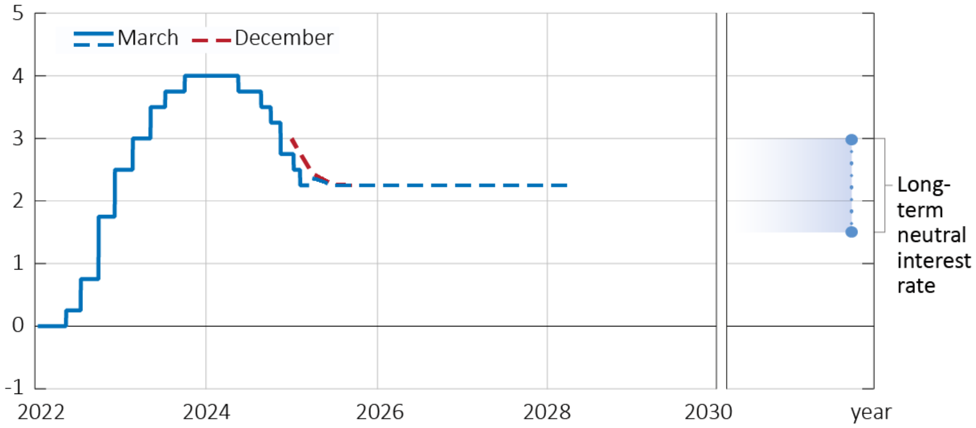
[13] Different estimates of the neutral interest rate in the longer run give the Riksbank guidance on what the policy rate needs to be to stabilise inflation at 2 per cent in a fictitious state where the economy is in balance and not subjected to any disruptions. In reality, however, the economy is regularly subjected to various types of disruptions, but as it is not possible to predict future disruptions, this type of estimate can nevertheless function as an "anchor" for the policy rate forecast towards the end of the forecast period. At the same time, the estimates of the policy rate in the longer run are uncertain. The Riksbank currently assesses that it is in the interval 1.5-3 per cent, see the analysis "The Riksbank's assessment of the long-term neutral interest rate" in the *Monetary Policy Report*, December 2024.

monitors developments closely and will act if the outlook for inflation and economic activity so requires.

By holding inflation close to 2 per cent and maintaining confidence in the inflation target, the Riksbank contributes to stability in the economy. This is especially important in turbulent times and promotes a good real economic development in Sweden.

Figure 31. Policy rate forecast

Per cent

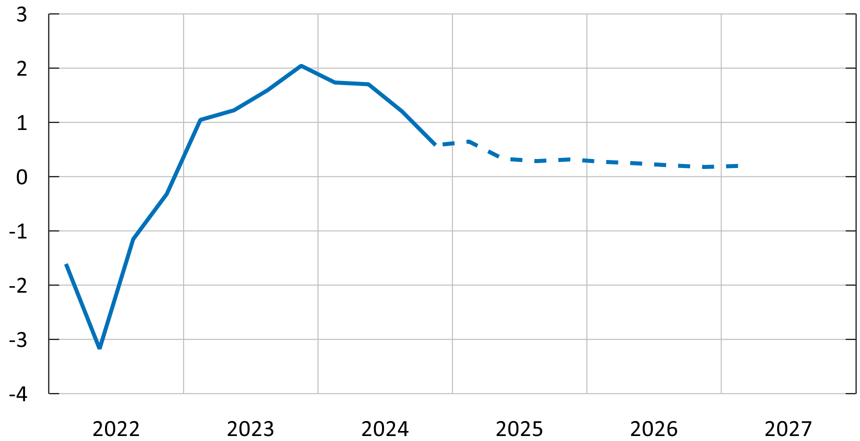


Note. Solid line refers to outcome and dashed line refers to the Riksbank's forecast. The shaded area shows the uncertainty surrounding the forecast for the policy rate in the longer run. Outcomes are daily rates and the forecasts refer to quarterly averages.

Source: The Riksbank.

Figure 32. Forecast for the real policy rate

Per cent



Note. The real policy rate is calculated as a quarterly average of the Riksbank's forecast for the policy rate one year ahead, minus the forecast for CPIF inflation for the corresponding period. The forecast therefore only extends to 2027 Q1. As the real policy rate is forward-looking, outcomes are calculated using the latest published forecasts at the time.

Source: The Riksbank.

An unchanged nominal policy rate means, together with the inflation outlook, that the real policy rate will fall somewhat further in 2025 (see Figure 32). Monetary policy is consistent with a continued recovery in domestic demand and with economic activity normalising. The fact that wages are expected to increase by around 3.5 per cent a year in 2025-2027 at the same time as the krona gradually strengthens, contributes to companies' costs increasing at a pace that is considered consistent with an inflation rate close to 2 per cent.

Normalisation of the Riksbank's balance sheet continues

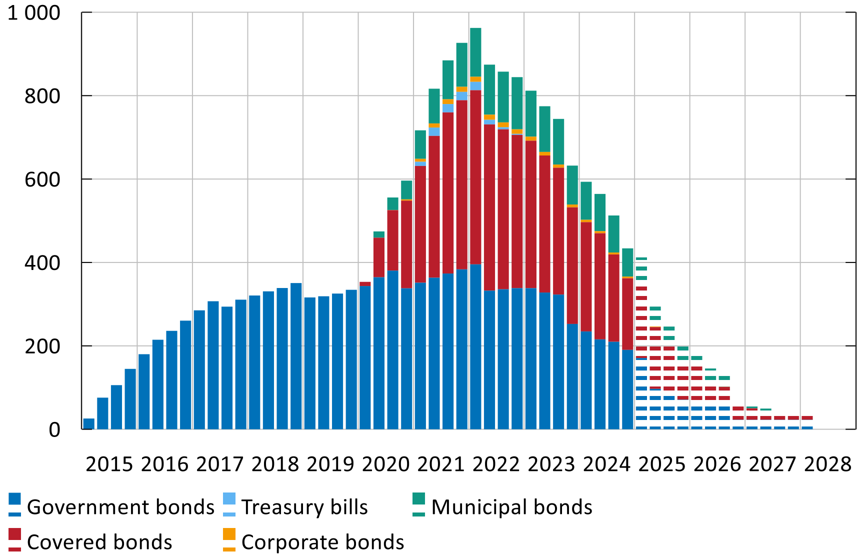
Maturing bonds and sales of government bonds imply a normalisation of the Riksbank's balance sheet. The Riksbank's securities holdings in Swedish kronor have more than halved since the beginning of 2022 (see Figure 33). This is assessed to have contributed to improved market liquidity on the secondary market for government bonds.

The Riksbank's sales are continuing pursuant to the decision in January 2024 and are assessed to have a limited impact on the development of the krona and the interest rates paid by households and companies. The Executive Board decided in November last year to maintain a long-term holding of nominal government bonds to a value of SEK 20 billion. The decision means that the ongoing sales of nominal government bonds are expected to be concluded at the end of this year.[14]

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

Figure 33. The Riksbank's asset holdings

Nominal amounts, SEK billion



Note. The striped bars are a projection of the Riksbank's securities holdings based on an assumption that sales of nominal government bonds will continue until December 2025 and then be concluded, as well as on a technical assumption regarding the sale of various issues of nominal government bonds. These assumptions may be adjusted to some extent during 2025. The series in the figure end in the first quarter of 2028, which is the final quarter of the Riksbank's three-year forecast horizon.

Source: The Riksbank.

3.2 Uncertainty, risks and alternative scenarios

The economy is regularly exposed to shocks that change the conditions for monetary policy. The effects of monetary policy on inflation and the real economy can also change over time. Households and companies therefore need to plan their finances on the basis that the policy rate can be either higher or lower than in the Riksbank's forecast.

The risks that surround the Riksbank's forecasts for real economic developments and inflation have increased substantially in a short time, and are unusually large. This makes the monetary policy assessment difficult, but the risks are currently assessed to be largely balanced, in other words, it is equally probable that the forecasts will be too high as that they will be too low.

Even with a balanced risk outlook, the Riksbank may need to give special consideration to such risks as, if they materialise could reduce confidence in the inflation target. The risk that the rising inflation at the beginning of the year will have a more lasting effect on inflation expectations is currently considered to be limited. But given the experiences of the period when inflation rose rapidly, there is reason to be particularly vigilant regarding the outlook for inflation.

The section below discusses the main risks surrounding the outlook for inflation, which thus affect the forecasts and the conduct of monetary policy.

Unusually uncertain international situation

At present there is greater uncertainty than usual regarding developments from both an international security and an economic policy perspective. Depending on how the situation develops, this could give rise to different disruptions, with global inflationary pressure increasing. This could be in the form of, for example, a further escalation and expansion of trade conflicts and significant and cost-driven changes in global value chains, which would probably increase the geopolitical tensions further and reduce economic growth.[15] Monetary policy would in this case need to be directed towards counteracting risks of secondary effects on inflation at the cost of weaker economic activity. The alternative would be to allow inflation expectations to clearly exceed 2 per cent, which would eventually risk leading to even higher interest rates and a deeper and more prolonged recession. Large defence spending, among other things, both in Sweden and abroad could also contribute to more demand-driven, higher inflationary pressures than in the Riksbank's forecast. Monetary policy would then need to be adjusted to dampen economic activity and thereby ensure that the inflation outlook is consistent with the inflation target. However, it is difficult to predict what effects such spending will have on the real economy and inflation.

One explanation for the upturn in inflation at the beginning of the year is that global food prices have risen rapidly. The upturn appears to be concentrated to certain specific foods, for instance, in the wake of droughts that have led to poor harvests. The rate of price increase on these foods has slowed down recently and is assumed to gradually contribute less to inflation going forward. Climate change could at the same time contribute to a more lasting increase in costs related to food production. If the price upturn instead were to be more extensive or to spread to several different types of food, inflation could become higher both in Sweden and abroad.

Another risk to the forecast is that demand abroad will develop weaker than in the forecast. Forward-looking indicators have developed unfavourably at the start of the year. It cannot be ruled out that the extensive uncertainty regarding trade policy and how the international security situation evolves will have a more powerful negative impact on demand. This could happen if households increase their precautionary saving and companies postpone their investments. As Sweden is a small, open economy, the consequences for the demand for Swedish goods and services could be substantial and ultimately contribute to lower inflation.

There are uncertainties regarding the sustainability of public finances in the United States and some euro area countries. Discussions are now under way in the US Congress on the budgets for the coming years. According to some analysts, the Republican party's proposals could lead to even larger deficits, which could in turn lead to failing confidence in public finances. If market participants begin to question the sustainability of the concerned countries' public finances, it could lead to rising

[15] A discussion of how Sweden might be affected by the introduction of possible trade barriers can be found in the Analysis "Effects of trade tariffs on Swedish companies" in this report. The effects of higher US import tariffs were also discussed in the Analysis "Macroeconomic effects of higher US import tariffs" in the *Monetary Policy Report* in December 2024.

interest rates. This could force substantial fiscal policy tightenings that would hamper growth and ultimately also economic activity and inflation in Sweden.[16] [17]

For a long time, the Riksbank has assessed that the krona is weaker than an analysis of its fundamental determinants indicates, and we therefore expect it to strengthen. Since the Monetary Policy Report was published in December, the krona has strengthened significantly, but it is nevertheless relatively weak. If the krona remains at the current levels, or weakens in the coming years, it could lead to higher inflation than in the forecast. In the case that the krona instead becomes stronger than forecast, inflation could become lower. Several of the risks discussed in this section can, if they are realised, affect the development of the krona. Depending on which risks are realised, the krona can under certain circumstances contribute to amplifying changes in inflationary pressures in the Swedish economy.

Continued uncertainty regarding the rebound in the Swedish economy

The Swedish economy is in a mild recession, and growth has been weak for a long period of time. Stabilising resource utilisation is a necessary condition for inflation to stabilise at the target of 2 per cent in the long run. Although new information indicates that the rebound began during the second half of last year, forward-looking indicators point to the recovery going slowly at the beginning of the year. This could be a sign that it takes longer for the real economy to be affected by rate cuts than the Riksbank has counted on. This could also be a sign that the current interest rate level is too high to stabilise resource utilisation in the economy, particularly if the elevated global uncertainty contributed to significantly negative confidence effects among households and companies.

In the first case, it will take a little longer to stabilise inflation close to the target, but the interest rate does not necessarily need to be cut. In the second case, on the other hand, the economy will continue to be weaker than expected going forward, which could require the Riksbank to cut the policy rate further to stabilise resource utilisation. One explanation could be that households have adapted their behaviour to lower interest rates, in line with what they were in the decade prior to the sharp rise in inflation. In this case, this could lead to households wanting to increase their precautionary saving more lastingly and to build up larger buffers prior to the next phase of rate hikes.

There are also risks related to the recovery progressing slowly. The situation on the Swedish labour market is weak, although it has so far withstood the decline in economic activity relatively well. If demand in the Swedish economy recovers more slowly than companies have assumed, they may need to reduce their workforces. In turn, this could risk dampening demand further and ultimately also contribute to lower inflation. It could also have negative repercussions for the housing market,

[16] The development of public finances in the United States and the euro area was discussed in the Fact Box "Fiscal policy abroad" in the *Monetary Policy Report* in December 2024.

[17] The Republican party's majority in Congress and the Senate means that they can use so-called *Budget Reconciliation* to set the framework for economic policy in the coming ten years. Their plan entails large tax cuts and unfinanced investments in the military that could lead to increased budget deficits going forward.

which could contribute to and mean that both household consumption and housing investment growing slower than in the Riksbank's forecast.

Inflation in Sweden could also become lower going forward if the volume of spare capacity among companies is larger than in the Riksbank's forecast. Companies have withstood from reducing their workforces during the decline in economic activity. If companies can meet the recovery in demand by using existing staff, this will reduce cost pressures and the companies' need to raise prices.

Two alternative scenarios are described below. The scenarios illustrate how a few of the risks mentioned in this section could affect the Swedish economy and the forecast for the policy rate.

Scenario: new trade barriers lead to lower productivity and higher inflation

The import tariffs introduced and notified by the new US government entail, if they remain in place, a substantial change in the conditions for international trade. The tariff increases are large, both compared with the existing, average levels and compared with the increases made during Donald Trump's first period in office 2017–2021.[18] Moreover, they entail a clear departure from the rule-based, multilateral system for international trade that was build up during the post-war period within the frameworks of GATT and the WTO.[19] [20]

How new potential trade barriers between the United States and the European Union would affect the Swedish economy will depend on several different factors, such as the scope of the measures, their duration and which sector they are aimed at. It is difficult to quantify the consequences, not least because in modern times there is a lack of experience of such extensive changes in tariff rates as those now being discussed. After several decades of gradual trade liberalisation, almost all companies and operations in developed economies now rely, directly or indirectly, on international, integrated value chains. Comparative advantages and economies of scale mean that, thanks to these value chains, companies are able to offer their customers

[18] The new US administration has taken several decisions on raising import tariffs and on temporary exemptions from these raises. Moreover, it has notified that more tariff increases can be expected, including imports from the EU. Based on these decisions and statements, the US think tank Tax Foundation has made calculations indicating that the average import tariff on US imports could rise from around 2.5 per cent in 2024 to more than 13 per cent. This could mean that the average import tariff rises to the highest level since the 1930s, when decisions on increased tariffs in the US Congress became the starting point for an international trade war.

[19] For a discussion, see Petros C. Mavroidis, "Reciprocal tariffs: what's in a word?", analysis published by Bruegel on 27 February 2025. The General Agreement on Tariffs and Trade (GATT) is a multilateral agreement that regulated international trade in goods. The first version of the agreement came into force in 1948, and it has since been modified on several occasions. The World Trade Organisation, WTO, was formed in 1995 and then replaced GATT. The WTO aims to simplify international trade in goods, services and intellectual property rights.

[20] Canada, China and the EU have responded to the United States' increases in import tariffs by increasing some of their own import tariffs on imports from the United States. But there have also been repeated negotiations between these countries that have led to temporary deferments. The European Commission has, as a result of the United States' new trade policy, announced that the EU is intending to react quickly and determinedly to potential new, unjustified trade barriers, such as increased in import tariffs. See the European Commission's statement from 14 February 2025. But it is possible that the European Commission would also primarily seek to negotiate if the United States decides on new trade barriers.

better products at lower prices than would otherwise have been possible. The international trade exchange is complex and new significant barriers could, in a bad scenario, possibly lead to extensive disruptions.

It is assumed in the scenario with new trade barriers that during the spring the United States raises its import tariffs against the EU substantially, and that the EU responds with similar retaliatory measures. The tone of the diplomatic discussion will deteriorate and a solution appears far off; companies and households brace themselves for the higher import tariffs remaining in place for several years. This development quickly leads to hoarding of imported goods on both sides of the Atlantic and to rapid price increases. Moreover, most of the larger companies begin to change their supply chains and production as quickly as possible. The consequence of this is an unexpectedly rapid and significant deterioration of resource allocation in the business sector, with negative effects on productivity.[21]

Hoarding and expectations of higher prices on input goods affects consumer prices as early as the second quarter of this year (see Figure 34). There are significant price increases for producers, too, and in a turbulent environment an increasing number of companies in the services sector soon begin to talk about rising costs and the need to adjust their prices upwards. After just a few months, various measures of expected inflation begin to rise, both in the short and long term, at the same time as both growth and growth prospects remain subdued.

Monetary policy cannot prevent productivity from becoming lower and households' real incomes thus also becoming lower. However, monetary policy can affect to what extent the lower real incomes arise via higher inflation or lower nominal incomes. The central bank faces a trade-off between the threat to the credibility of the inflation target if inflation is allowed to rise too high and the real economic losses that can arise in the short and medium term if monetary policy is tightened significantly.

CPIF inflation is already somewhat high to begin with, and this means an elevated risk that rising inflation expectations will feed back into price-setting and wage formation. In this scenario, at the beginning of the summer, an increasing number of indicators point to inflation becoming persistently higher, compared with the forecast in the main scenario. At the monetary policy meeting in June the policy rate is therefore raised by 0.25 percentage points to 2.5 per cent. Inflation and the inflation outlook continue to deteriorate over the summer and the Riksbank therefore continues to raise the policy rate during the second half of the year (Figure 34 and Figure 35).

In this scenario, households face higher prices and interest rates and this subdues demand. The Riksbank's adjustment of monetary policy also sends clear signals that the inflation target is prioritised, despite growth being lower. Taken together, this leads to cost pressures being dampened and to inflation expectations no longer rising.

[21] This scenario is constructed using the Riksbank's macroeconomic model MAJA, primarily using general supply shocks. Here the estimated effects of monetary policy are also used, like those reported in the analysis "Effects of monetary policy" in the *Monetary Policy Report* in September 2024. The purpose of the scenario is to illustrate the uncertainty regarding the overall consequences for the Swedish economy of potential new, extensive trade barriers and to show how monetary policy might react if there is a significant, lasting rise in the rate of price increase.

During the first half of 2026, the more high-frequency measures of the rate of price increase fall back, although the annual percentage change in prices remains relatively high.

The improved inflation outlook means that the policy rate can be cut again during the second half of 2026 (Figure 35). How economic activity is affected in the long run by increased trade barriers is largely due to companies' ability to find new suppliers and business partners outside of the United States. An important question here will then be whether the EU manages to maintain good trade relations with other countries and regions in the world. It is assumed in the scenario that one succeeds in avoiding a full-scale trade war and the long-term effects on GDP are therefore limited. From 2027, growth is higher again and inflation will approach the 2 per cent target. The Riksbank can then continue to cut the policy rate to facilitate the economic recovery.

Scenario: uncertainty about international economic developments lead to weak demand and a lower policy rate

Just as it is difficult to assess the effects of new trade barriers on the economy's output capacity, it is also difficult to determine how households and companies will react to the unusually large uncertainty that prevails. In addition to the US administration's various statements on trade policy issues, the United States' new foreign and security policies have led to intensive discussions in Europe about the need for new defence investments and how these should be funded. Several measures of geopolitical and economic policy uncertainty have risen substantially at the beginning of this year (see for example Figure 2 in Chapter 1).[22]

In uncertain times, the value of safe assets often increases, and it becomes more difficult to assess the value of risky investments, especially those where the expected yield lies several years in the future. Many households may find it natural to increase their precautionary saving and there is a risk that companies will reduce their investments. If many households and companies change their behaviour in this way at the same time, total demand may be significantly dampened.

It is assumed in the scenario that the rising uncertainty will gradually lead to increasingly large falls in confidence among households and companies, both in Sweden and abroad. In a turbulent and uncertain economic environment, it is initially difficult to determine how sharp the slowdown will be, and it is not until during the summer that it becomes clear that growth has slowed down. The lower demand will eventually also lead to lower incentives for companies to increase prices and to inflation being lower than in the Riksbank's forecast (Figure 34). After the summer, the Riksbank begins a new cycle of interest rate cuts (Figure 35).

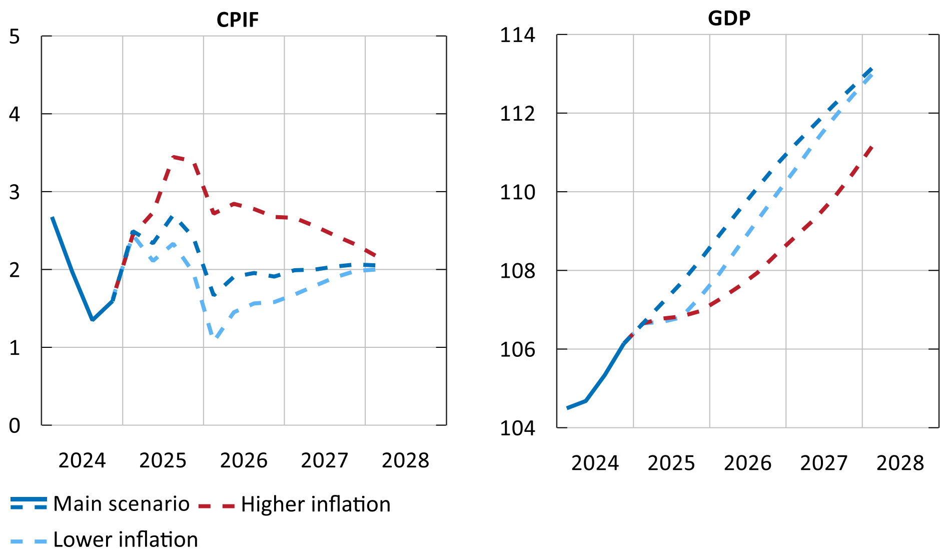
At the same time, it is assumed in this scenario that the economic policy uncertainty persists for a long period of time and thus the risk of new inflationary impulses from abroad remains. As inflation is somewhat higher than the target of 2 per cent to start

[22] There are several different ways to measure economic policy uncertainty. See, for instance, Davis, Steven J. (2016), "An Index of Global Economic Policy Uncertainty" NBER working paper No. 22740, *National Bureau of Economic Research*.

with, monetary policy cannot entirely disregard these risks. In this scenario, the Riksbank therefore chooses a strategy of gradual interest rate cuts and it is not until sometime into 2026 that resource utilisation begins to rise clearly again. The higher demand will gradually contribute to a rising of price increases and towards the end of the forecast period, when resource utilisation has normalised, inflation will once again be 2 per cent.

Figure 34. Forecast and alternative scenarios for CPIF and GDP

Annual percentage change (left) and index respectively, 2019 Q4 = 100 (right)

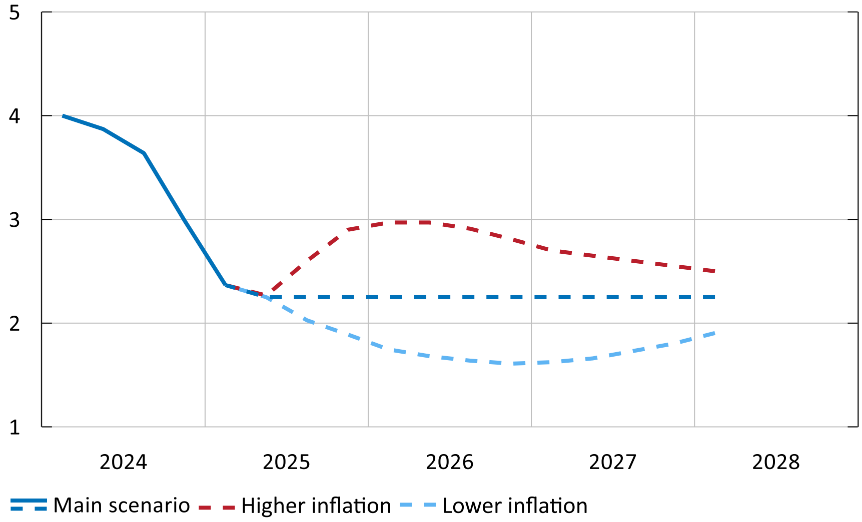


Note. Quarterly averages. Seasonally adjusted data (right). Solid line refers to outcome and dashed lines to forecasts and scenarios.

Sources: Statistics Sweden and the Riksbank.

Figure 35. Forecast and alternative scenarios for the policy rate

Per cent



Note. Solid line refers to outcome and dashed lines to forecasts and scenarios. The deviations from the forecast in the alternative scenarios are not symmetrical as they illustrate the monetary policy response to specific shocks to the economy. The asymmetry shall therefore not necessarily be interpreted as the Riksbank seeing the risk surrounding the forecasts for the policy rate as unbalanced.

Source: The Riksbank.

ANALYSIS – How is inflation affected by geopolitical risk?

Geopolitical tensions have increased in recent years, and this can affect the economy in different ways, for instance, via prices on commodities and other input goods, and via confidence in the household and corporate sectors. One way of analysing these effects is to use measures of geopolitical risk and study empirically how changes in them affect inflation. Studies for several countries point to increased geopolitical risk leading to higher inflation. Swedish inflation is similarly affected, for instance via a weaker exchange rate. However, there is considerable uncertainty, and the effects can vary from case to case. For example, the recent strengthening of the krona can instead dampen the inflationary pressures that generally follow geopolitical risk.

The effects of increased risk are not self-evident. Research provides support for effects via both demand – where increased saving and postponed consumption reduce both growth and inflationary pressures – and supply, where reduced international trade and increased commodity costs subdue growth and increase inflation.[23] The effects on supply generally weigh heavier according to several studies, and elevated geopolitical risk tends to be linked to increased inflationary pressures and lower growth. This applies both when the global risk level has increased and when the country has been directly affected. Studies that focus specifically on the euro area and global risk also conclude that supply effects are dominant, and that European stock exchanges are negatively affected, at the same time as the euro weakens against the dollar.[24]

Although the supply effects are often dominant, this can vary between geopolitical events. Russia's invasion of Ukraine has had effects on the euro area that are similar to a supply shock with lower economic growth and increased inflationary pressures. The conflict between Hamas and Israel appears to have had a negative impact on both growth and inflation, and unlike the case of supply-dominated disruptions, the oil price does not appear to have risen.[25]

Another important distinction is between threats of a geopolitical nature and when an event has actually occurred. For the United States, global geopolitical threats that increase the risk of future negative events tend to push up inflation and increase the oil price and inflation expectations. This could be due to expected delivery disruptions

[23] See Caldara, Dario, Sarah Conlisk, Matteo Iacoviello and Maddie Penn (2024), "Do Geopolitical Risks Raise or Lower Inflation?", unpublished manuscript, Federal Reserve Board.

[24] See Dieckelmann, Daniel, Christoph Kaufmann, Chloe Larkou, Peter McQuade, Caterina Negri, Cosimo Pancaro and Denise Rößler (2024), "Turbulent times: geopolitical risk and its impact on euro area financial stability", Financial Stability Review, ECB, May 2024.

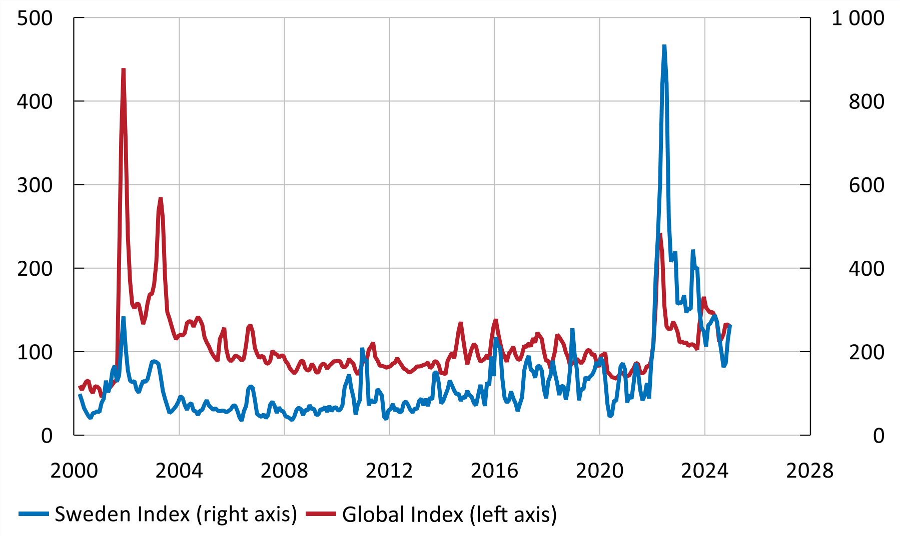
[25] See Anttonen, Jetro, and Markku Lehmus (2024), "Impact of geopolitical surprises on euro area inflation varies case by case", Bulletin, Bank of Finland, November 2024.

and cost increases for companies. The effect of actual global negative events is less clear, but tends to dampen inflationary pressures, like a negative demand shock.[26]

There is some disagreement on how geopolitical risk affects inflation and economies abroad, but the question remains of how Sweden is affected, both in the event of increased global and Swedish geopolitical risk. To analyse how a region is affected, many studies use a news article-based measure that measures the number of articles mentioning negative geopolitical situations.[27] This measure also distinguishes between geopolitical risk that is global, and that which only relates to individual countries, such as Sweden.[28] Figure 36 illustrates the development of global and Swedish geopolitical risk from 2000 to 2024, based on one such measure. Since the beginning of 2022, reporting of both negative global and Sweden-specific geopolitical situations has increased. Global and Swedish geopolitical risk covary, which indicates that Sweden-specific risk may have its origin abroad.[29]

Figure 36. Index for Swedish and global geopolitical risk

Index



Note. Index refers to 3-month moving average, period 1985 to 2019 = 100.

Source: Caldara and Iacoviello (2022).

A new Economic Commentary analyses the effects of geopolitical risk on inflation and the economy in Sweden.[30] Figure 37 illustrates the effect of increased geopolitical risk corresponding to one standard deviation in the Swedish and global indices

[26] See Brignone, Davide, Luca Gambetti and Martino Ricci (2025), "Geopolitical risk shocks: when the size matters", Staff Working Paper no. 1118, Bank of England.

[27] For a more detailed description of the measure, see Caldara, Dario, and Matteo Iacoviello (2022), "Measuring Geopolitical Risk", American Economic Review, 112 (4), pp. 1194-1225.

[28] For the country-specific measures, the percentage of articles mentioning negative geopolitical events and the country or one of the country's largest cities are measured.

[29] The correlation between the global and Swedish indices is around 0.34 during the period 2001 to 2024.

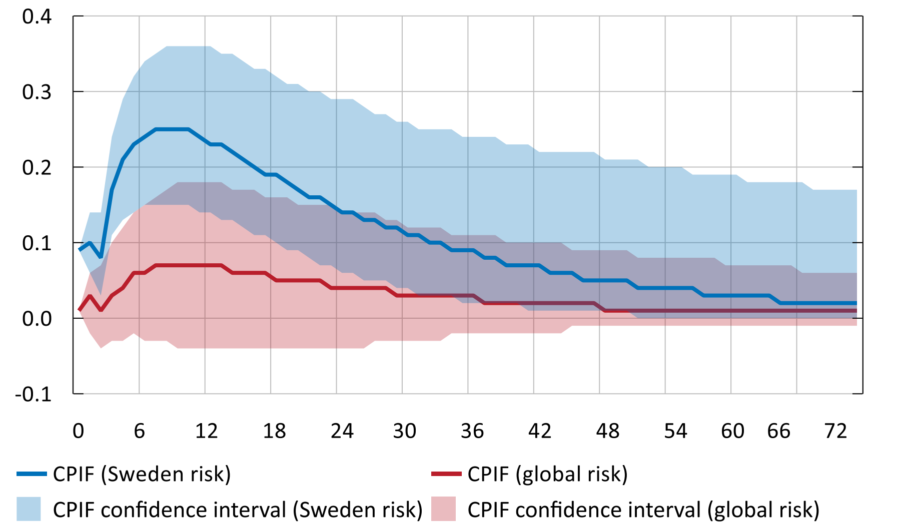
[30] See Klein, Mathias, Emanuel Skeppås and Ulf Söderström (2025), "How is inflation affected by geopolitical risk?", Economic Commentary no. 3, Sveriges Riksbank.

respectively, on CPIF inflation at different monthly horizons.[31] Both global and Swedish geopolitical risk tend to be inflationary, but the effect is greater after an increase in Sweden-specific than for global risk.[32] The uncertainty regarding the effect of global geopolitical risk is also very high. The fact that global and Swedish risk are inflationary in Sweden is in line with earlier studies that have analysed the effects both internationally and in the euro area.

As earlier studies show, the effect of global geopolitical risk differ between geo-political threats, which increase the risk of future negative events, and actual negative events.[33] For Sweden, global threats tend to push up inflation, while actual negative global events have a weakly negative but uncertain effect. The large uncertainty in the effect of global geopolitical risk in Figure 2 can be due to geopolitical threats and events affecting in different directions.

Figure 37. Effect on CPIF of increased geopolitical risk

Percentage points



Note. The figure shows the change in annual CPIF inflation following a typical geopolitical shock. The blue line shows how annual CPIF inflation changes as a result of Swedish geopolitical risk, and the red line how annual CPIF inflation changes as a result of global geopolitical risk. The x-axis shows the number of months after a geopolitical shock has occurred, and the y-axis shows how many percentage points the annual CPIF inflation rate changes as a result of the shock. The shaded areas refer to a 90 per cent confidence interval for the respective index. The effect is estimated using data for the period 2001 to August 2024.

Source: The Riksbank.

As a result of increased Swedish geopolitical risk, economic growth in Sweden is slightly negatively affected, which together with the higher inflationary pressures indicates that effects via supply dominate in Sweden. The krona also tends to weaken

[31] A standard deviation is a typical disruption, in May 2022 the size of the disruption was eight standard deviations.

[32] The effect on inflation is at its highest around 9 months after the disruption.

[33] Caldara, Dario, and Matteo Iacoviello (2022) have created two separate global geopolitical risk indices for events that are acts, such as an invasion, and threats, where the risk of more comprehensive future acts increases.

against the euro, which indicates that some of the inflation effect relates to the exchange rate. According to the Economic Commentary global risk tends not to systematically affect the exchange rate against the euro. The difference in how Swedish and global geopolitical risk affect the exchange rate can partly explain the clearer impact from Swedish risk on inflation. Given the generally strengthening effect that a weaker krona has on inflation in the event of increased geopolitical risk, the recent strengthening may instead dampen the inflationary pressure that usually follows on from increased geopolitical risk.

All in all, studies indicate that an increased geopolitical risk tends to increase inflation, which means that the increased tensions in recent years could have contributed to higher inflation in both Sweden and other countries. However, it is difficult to assess how much it has contributed. Even if the effect on inflation is positive on average, there are also effects on demand that can lead to dampened inflation, if the geopolitical risk were to increase going forward.

Forecast tables

The assessment in the previous Monetary Policy Report is given in brackets.

Table 1. Policy rate forecast

Per cent, quarterly averages

	2024Q4	2025Q1	2025Q2	2026Q1	2027Q1	2028kv1
Policy rate	2.99 (2.99)	2.37 (2.44)	2.25 (2.26)	2.25 (2.25)	2.25 (2.25)	2.25

Source: The Riksbank.

Table 2. Inflation

Annual percentage change, annual average

	2024	2025	2026	2027
CPIF	1.9 (1.9)	2.5 (2.0)	1.9 (1.9)	2.0 (2.0)
CPIF excl. energy	2.6 (2.7)	2.9 (2.2)	2.0 (2.0)	2.0 (2.0)
CPI	2.8 (2.9)	1.0 (0.6)	1.8 (1.8)	2.1 (2.0)
HICP	2.0 (2.0)	2.3 (1.9)	1.9 (1.9)	2.0 (2.0)

Note. The HICP is an EU-harmonised index for consumer prices.

Sources: Statistics Sweden and the Riksbank.

Table 3. GDP and demand

Annual percentage change unless otherwise specified

	2024	2025	2026	2027
Household consumption	0.3 (0.2)	1.8 (2.6)	2.6 (2.9)	2.1 (2.0)
Public consumption	1.2 (1.2)	1.4 (1.3)	1.6 (1.3)	1.2 (0.9)
Gross fixed capital formation	-1.1 (-1.5)	2.0 (2.4)	3.2 (3.7)	2.6 (2.4)
Stock investments*	0.3 (0.5)	-0.2 (0.1)	-0.0 (0.0)	-0.0 (0.0)
Exports	2.3 (2.0)	2.5 (2.3)	3.7 (3.7)	3.8 (3.8)
Imports	1.7 (2.0)	1.8 (3.3)	3.9 (4.0)	3.6 (3.4)
GDP	1.0 (0.6)	1.9 (1.8)	2.4 (2.6)	2.2 (2.1)
GDP, calendar-adjusted	1.0 (0.6)	2.2 (2.1)	2.2 (2.4)	2.0 (1.8)
Final domestic demand*	0.2 (0.1)	1.7 (2.1)	2.4 (2.6)	1.9 (1.7)
Net exports*	0.4 (0.1)	0.5 (-0.4)	0.1 (0.0)	0.3 (0.3)
Current account (NA), percentage of GDP	7.0 (6.8)	7.7 (6.5)	7.8 (6.9)	7.9 (7.5)

* Contribution to GDP growth, percentage points

Note. The figures show actual growth rates that have not been calendar-adjusted, unless otherwise stated. NA is the National Accounts.

Sources: Statistics Sweden and the Riksbank.

Table 4. Production and employment

Annual percentage change unless otherwise specified

	2024	2025	2026	2027
Population, aged 15-74	0.2 (0.1)	0.4 (0.3)	0.3 (0.3)	0.3 (0.3)
Potential employment	0.9 (0.9)	0.8 (0.8)	0.7 (0.7)	0.6 (0.6)
Potential hours worked	1.0 (1.0)	0.9 (0.9)	0.8 (0.8)	0.6 (0.6)
Potential GDP	1.8 (1.7)	1.8 (1.7)	1.7 (1.6)	1.5 (1.5)
GDP, calendar-adjusted	1.0 (0.6)	2.2 (2.1)	2.2 (2.4)	2.0 (1.8)
Hours worked, calendar-adjusted	-0.3 (-0.4)	0.5 (0.4)	1.1 (1.4)	1.0 (1.1)
Employed persons	-0.6 (-0.6)	0.2 (0.1)	1.2 (1.3)	1.1 (1.2)
Labour force	0.2 (0.1)	0.6 (0.1)	0.5 (0.9)	0.6 (0.8)
Unemployment*	8.4 (8.4)	8.7 (8.4)	8.1 (8.0)	7.7 (7.7)
Employment gap**	-0.6 (-0.7)	-1.2 (-1.4)	-0.7 (-0.8)	-0.2 (-0.2)
Hours gap**	-0.6 (-0.7)	-0.9 (-1.2)	-0.6 (-0.6)	-0.2 (-0.1)
GDP gap**	-1.4 (-1.4)	-1.0 (-1.0)	-0.5 (-0.3)	-0.1 (-0.0)

* Per cent of labour force
**Percentage deviation from the Riksbank's assessed potential levels

Note. Potential hours worked, potential employment and potential GDP refer to the long-run sustainable level according to the Riksbank's assessment.

Sources: Statistics Sweden and the Riksbank.

Table 5. Wages and labour costs for the economy as a whole

Annual percentage change, calendar-adjusted unless otherwise specified

	2024	2025	2026	2027
Hourly wage, NMO	4.0 (4.0)	3.6 (3.6)	3.6 (3.6)	3.4 (3.4)
Hourly wage, NA	4.2 (4.0)	3.7 (3.6)	3.6 (3.6)	3.3 (3.3)
Hourly labour cost, NA	4.7 (4.5)	3.7 (3.6)	3.6 (3.6)	3.3 (3.3)
Productivity	1.3 (1.1)	1.6 (1.7)	1.1 (1.0)	0.9 (0.7)
Unit labour cost	3.4 (3.5)	2.0 (2.0)	2.5 (2.6)	2.4 (2.6)

Note. NMO is the National Mediation Office's short-term wage statistics and NA is the National Accounts. Labour cost per hour is defined as the sum of actual wages, social-security charges and wage taxes (labour cost sum) divided by the number of hours worked by employees. Unit labour cost is defined as labour cost sum divided by GDP in fixed prices.

Sources: National Mediation Office, Statistics Sweden and the Riksbank.

Table 6. International forecasts

Annual percentage change unless otherwise specified

GDP	PPP weights	KIX weights	2024	2025	2026	2027
Euro area	0.11	0.46	0.8 (0.8)	1.0 (1.0)	1.5 (1.3)	1.5 (1.2)
United States	0.15	0.08	2.8 (2.7)	2.0 (2.2)	1.9 (2.1)	1.8 (1.9)
China	0.19	0.11	5.0 (4.6)	4.6 (4.4)	4.2 (4.2)	4.0 (3.9)
KIX weighted	0.75	1.00	1.8 (1.8)	1.9 (1.9)	2.0 (2.0)	2.0 (2.0)
The World (PPP-weighted)	1.00	—	3.3 (3.2)	3.2 (3.2)	3.3 (3.3)	3.2 (3.2)

Note. Calendar-adjusted growth rates, PPP weights refer to purchasing-power adjusted GDP weights in the world for 2025, according to the IMF, KIX weights refer to weights in the Riksbank's krona index (KIX) for 2025. The forecast for GDP in the world is based on the IMF's forecasts for PPP weights. The forecast for KIX-weighted GDP is based on an assumption that the KIX weights will develop in line with the trend during the latest five years.

CPI	2024	2025	2026	2027
Euro area (HICP)	2.4 (2.3)	2.2 (2.0)	1.9 (1.8)	2.0 (2.0)
United States	3.0 (2.9)	2.9 (2.4)	2.4 (2.2)	2.3 (2.3)
KIX weighted	3.0 (3.1)	2.7 (2.6)	2.3 (2.4)	2.3 (2.4)

	2024	2025	2026	2027
International policy rate, per cent	4.1 (4.1)	2.8 (2.7)	2.5 (2.4)	2.5 (2.4)
Crude oil price, USD/barrel Brent	79.7 (79.6)	73.7 (71.6)	70.0 (69.7)	68.6 (68.8)
Swedish export market	1.1 (1.2)	2.4 (3.1)	3.2 (3.3)	3.3 (3.3)

Note. The policy rate abroad is an aggregate of rates in the US, the euro area, Norway and the United Kingdom.

Sources: Eurostat, IMF, Intercontinental Exchange, national sources, OECD and the Riksbank.

Table 7. Summary of financial forecasts

Per cent unless otherwise stated, annual average

	2024	2025	2026	2027
The Riksbank's policy rate	3.6 (3.6)	2.3 (2.3)	2.3 (2.3)	2.3 (2.3)
10-year rate	2.2 (2.2)	2.1 (2.0)	2.0 (1.9)	1.9 (1.9)
Exchange rate, KIX, 18 Nov 1992 = 100	126.0 (126.0)	120.6 (125.9)	117.5 (121.8)	115.1 (117.8)
General government net lending, per cent of GDP	-1.5 (-1.6)	-1.3 (-1.3)	-1.1 (-0.8)	-0.9 (-0.5)

Sources: Statistics Sweden and the Riksbank.

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