



Monetary Policy Update

August 2025

Monetary Policy Update

The Executive Board normally holds eight monetary policy meetings a year. At four of the meetings, a Monetary Policy Report is published, describing economic developments and containing forecasts extending three years ahead. At the other four meetings, a shorter update is published, which describes macroeconomic developments in relation to the Riksbank's most recent forecast, the monetary policy decision and the deliberations the Executive Board made with regard to what is a suitable monetary policy.

Through the Monetary Policy Updates and 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.

Regularly or upon request, the Riksbank shall submit an account of monetary policy operations to the Riksdag's 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 Executive Board made a decision on the Monetary Policy Update on 19 August 2025. The Update can be downloaded in PDF format from the Riksbank's website www.riksbank.se, where more information about the Riksbank can also be found.

No new forecasts are produced for the Monetary Policy Updates. Monetary Policy Report no. 3 2025 will be published on 23 September 2025.

Monetary policy considerations

During the summer, international developments have been marked by continued geopolitical tension and negotiations with the United States on tariff levels. Economic developments have been largely as expected.

Inflation in Sweden has risen more than expected, according to recent outcomes, and is somewhat above the target. However, the upturn is assessed to be due to temporary factors, and several indicators still support the view that inflation will fall back to 2 per cent going forward. At the same time, economic activity is weak. New information indicates that growth is still low. Households are still cautious with regard to their spending and the labour market is not yet showing any clear sign of improving.

There are favourable conditions for stronger economic activity going forward, partly due to the Riksbank's interest rate cuts and to rising real wages for households. In addition, business confidence is close to normal levels. But the recovery is sluggish. At the same time, the unexpectedly high inflation calls for vigilance.

The Executive Board has decided to leave the policy rate unchanged at 2 per cent. Although developments in inflation and economic activity during the summer have deviated somewhat from the forecast in June, the Executive Board assesses that the outlook remains largely the same. There is thus still some probability of a further interest rate cut this year, in line with the June forecast.

However, new information can affect both the outlook for inflation and economic activity, as well as monetary policy going forward. There are risks regarding, for instance, the recovery in the Swedish economy, companies' price-setting behaviour and how long inflation will remain elevated. Uncertainty regarding international developments also remains high, not least given US economic policy, the war in Ukraine and developments in the Middle East.

International developments

The new tariff agreements are in line with the assumptions made by the Riksbank in June. There is now somewhat more clarity regarding the US import tariffs faced by the EU. Most goods exported from the EU to the United States will be subjected to a tariff of 15 per cent, which is a historically high level. Last spring, the Riksbank

assessed that higher import tariffs in the United States would dampen growth and push up inflation there, while the main effect in Europe would be somewhat lower growth. Developments since then have provided some support for this assessment, although the effects are so far rather small. Measures of economic uncertainty have declined but are still elevated (see figure 1). Overall, developments abroad have been in line with the forecast in June.

Growth in the United States has slowed. It has varied substantially during the first half of this year, as a result of fluctuations in imports, but has on average been lower than before. Developments in the labour market have also slowed down, but so far unemployment has been relatively stable. Inflation was unchanged at 2.7 per cent in July, measured in terms of the CPI, but when energy is excluded it rose somewhat to 3.0 per cent (see figure 2). Prices on certain goods have begun to rise faster during the summer, which indicates that the import tariffs have now begun to affect inflation. However, there is still uncertainty, for instance with regard to how the costs from tariffs will be allocated between exporters, importers and consumers.

Growth in the euro area is still weak. Having risen relatively substantially during the first quarter, GDP in the euro area was largely unchanged during the second quarter. But there is a considerable difference between countries, and for instance growth is much higher in Spain than in Germany. Inflation in the euro area has recently been stable at close to 2 per cent. Measured in terms of the HICP it was unchanged at 2.0 per cent in July, but the HICP excluding energy was somewhat higher (see figure 2).

Market participants are expecting further interest rate cuts in the United States. The US Federal Reserve held the policy rate unchanged at its meeting in July. Signs of a weaker labour market and the so far limited effects of the tariffs on consumer prices have meant that market participants are now expecting just over two policy rate cuts before the end of the year. The European Central Bank (ECB) also held its policy rate unchanged in July, having cut it at each of the previous seven meetings (see figure 3). Both market participants' expectations and communication from the ECB indicate that the cycle of interest rate cuts is reaching its end.

Market rates have risen in Europe in total, but fallen in the United States. In Europe, market rates are higher than in June, as a result of an increased supply of bonds in the wake of the increased investments in defence. US interest rates have instead fallen back in total, partly as a result of weak labour market data. However, the US dollar has recovered to some extent during the summer. This could be linked to the US stock market index having risen significantly as a result of strong company reports, for instance. European stock market indices have also risen, but to a lesser extent.

There is still considerable uncertainty abroad, despite somewhat greater clarity concerning US import tariffs. US trade policy has been marked by unpredictability under the new administration and could also change unexpectedly going forward. A further uncertainty factor concerns the sustainability of government finances in several large countries. One example is the United States, where the government debt has increased over a long period of time and where the budget decided on this

summer is not expected to reduce the deficit. The war in Ukraine and developments in the Middle East are also continuing to contribute to uncertainty regarding the outlook for growth and inflation abroad.

Developments in Sweden

Growth has been somewhat weaker than expected. GDP declined somewhat during the first quarter and Statistics Sweden's monthly indicator points to growth during the second quarter having been lower than in the Riksbank's forecast in June (see figure 4). Other indicators of GDP growth point to a slightly better performance regarding, for instance, production in the business sector. Statistics Sweden's monthly indicator for household consumption at the same time points to households are still cautious with regard to their spending during the second quarter.

However, there are good conditions for a rebound in the Swedish economy later this year. Interest expenditure for households and companies has fallen and real wages are continuing to rise. According to the Economic Tendency Survey, households have become significantly less pessimistic recently, which may indicate that confidence is beginning to return (see figure 5). There are also some signs that consumption has risen at the beginning of the third quarter, for example data on card transactions. Business confidence is close to normal levels, according to the Economic Tendency Survey and Purchasing Managers' Index, although this differs between sectors.

It will take time before the labour market improves. Although unemployment fell somewhat during the second quarter, to just above 8.5 per cent, indicators such as redundancy notices and job vacancies point to a continued weak development in the near term (see figure 4). The low growth in the economy is contributing to it taking longer until labour market conditions improves.

Inflation has been higher than expected over the summer. In July, CPIF inflation was 3.0 per cent and CPIF excluding energy was 3.2 per cent. According to the Riksbank's forecast in June, inflation was going to rise over the summer, partly due to the annual update of weights in the CPI.¹ But the outcomes for both June and July were higher than expected (see figure 6). Much of this can be explained by prices that usually vary significantly, such as for foreign travel and rental cars, while prices for other services and goods overall increased in line with the forecast in June. This indicates that the unexpectedly high inflation is temporary.

The indicators are not pointing to any lastingly elevated inflationary pressures. According to the National Institute of Economic Research's Economic Tendency Survey, companies' pricing plans are still a little higher than normal (see figure 7). Rates of price increase for less than 12 months fell in July, but are still somewhat over 2 per cent (see figure 8). The changes in weights in the CPI are affecting inflation more than usual this year. If inflation is instead calculated using fixed weights, it is much

¹ An important reason why the measured rate of inflation rose in June and July was that the weight for the index for foreign travel increased this year. See also the fact box "Inflation effects of new weights in the CPIF" in Monetary Policy Report, March 2025.

lower (see figure 9). The Riksbank's compilation of a broader set of indicators points to inflationary pressures in line with the target (see figure 10). Inflation expectations have risen somewhat, but are still firmly anchored around the inflation target (see figure 11).

Households' purchasing power is continuing to improve. The rate of wage increase is higher than inflation and real wages are rising. According to the National Mediation Office's statistics, wage increases amounted to 3.5 per cent in May, measured as an annual percentage change. This development is in line with the Riksbank's forecast in June.

The krona has weakened somewhat since June. The krona has weakened primarily against the euro (see figure 12). However, this has followed a long period of strengthening, and compared with the beginning of the year, the krona is still much stronger. Despite some weakening during the summer, the development of the krona is expected to have a dampening effect on inflation.

Policy rate held unchanged at 2 per cent

Economic activity has been weak over a long period of time. Moreover, new information since June points to GDP growth having been somewhat lower than expected, at the same time as unemployment remains high. There are favourable conditions for stronger economic activity going forward. But the recovery is sluggish.

At the same time, the high inflation outcomes during the summer call for vigilance. Inflation has been somewhat above the target since the beginning of the year and it was unexpectedly high in June and July. The Riksbank still assesses that the higher inflation this year is temporary, and it is important that it soon begins to fall back. Otherwise, there is a risk that the elevated inflation will affect inflation expectations and companies' price-setting behaviour, so that inflation becomes persistently high.

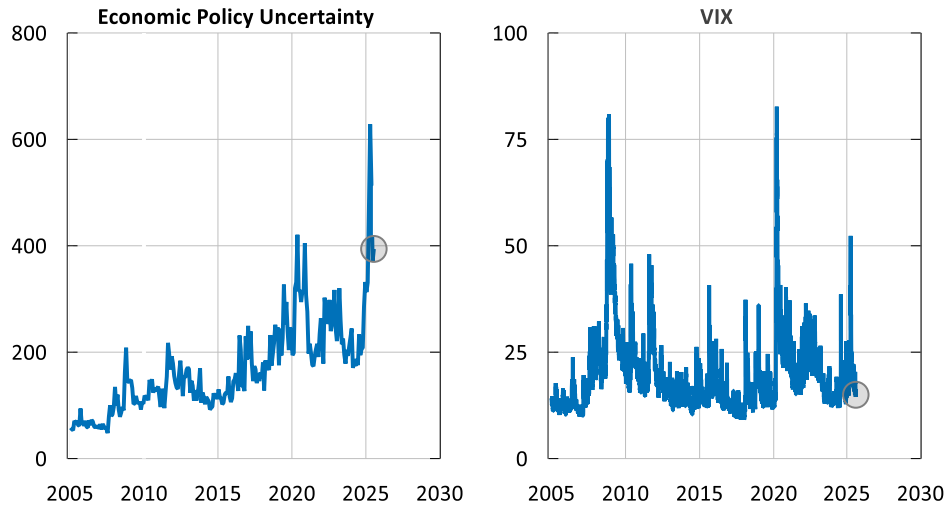
The Executive Board has decided to leave the policy rate unchanged at 2 per cent. Although developments in inflation and economic activity during the summer have deviated somewhat from the forecast in June, the Executive Board assesses that the outlook remains largely the same. There is thus still some probability of a further interest rate cut this year, in line with the June forecast.

However, new information can affect both the outlook for inflation and economic activity, as well as monetary policy going forward. There are risks regarding, for instance, the rebound in the Swedish economy, companies' price-setting behaviour and how long inflation will remain elevated. Uncertainty regarding international developments also remains high, not least given US economic policy, the war in Ukraine and developments in the Middle East.

Figures

Figure 1. Economic policy uncertainty index and VIX

Index

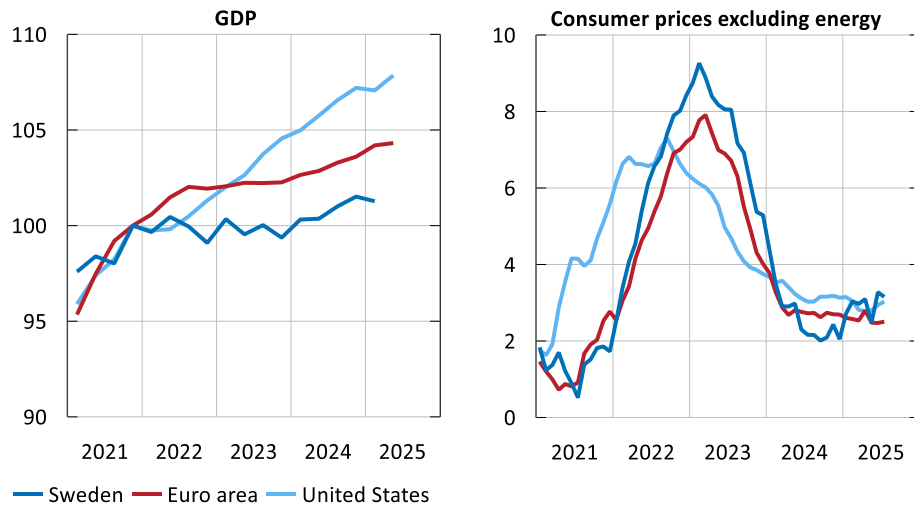


Note. Economic Policy Uncertainty is a normalised, GDP weighted index of the number of news articles mentioning economic policy uncertainty in 20 different countries. VIX is an index showing the expected volatility in the US stock market, the S&P500. The grey circle marks the latest outcome.

Sources: Chicago Board Options Exchange and Economic Policy Uncertainty.

Figure 2. GDP and consumer prices excluding energy

Index, 2021 Q4 = 100 (left), and annual percentage change (right)

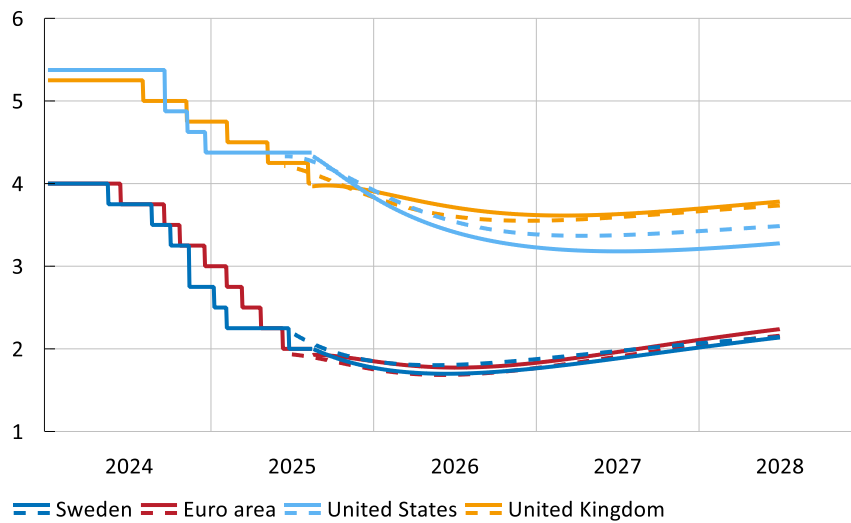


Note. Seasonally adjusted data (left). Refers to CPIF excluding energy for Sweden, HICP excluding energy for the euro area and CPI excluding energy for the USA (right).

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

Figure 3. Market expectations of future policy rates

Per cent

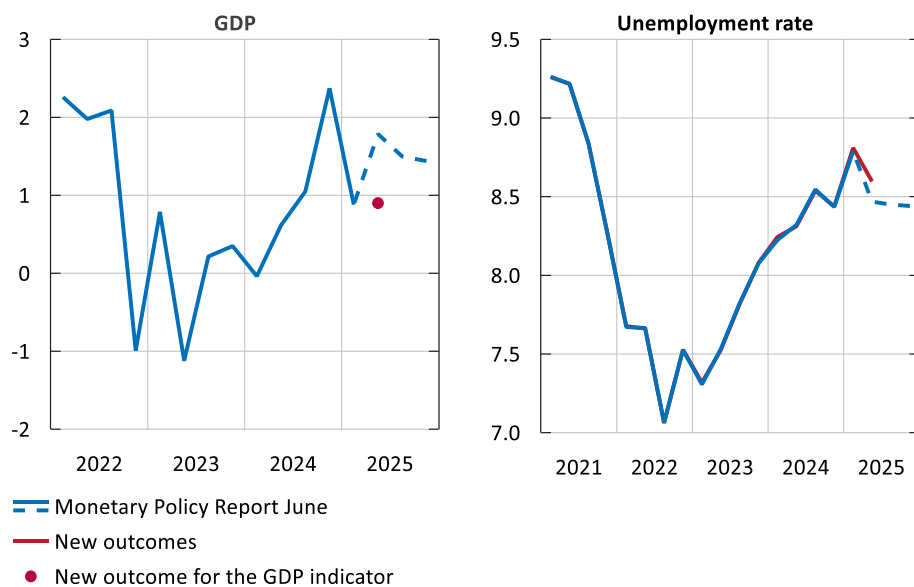


Note. The figure shows policy rates and market-based expectations according to forward pricing. Solid lines represent expectations on 18 August 2025. Dashed lines represent expectations immediately prior to the monetary policy meeting in June.

Sources: National central banks and the Riksbank.

Figure 4. GDP and unemployment in Sweden

Annual percentage change (left) and percentage of labour force, 15–74 years (right)

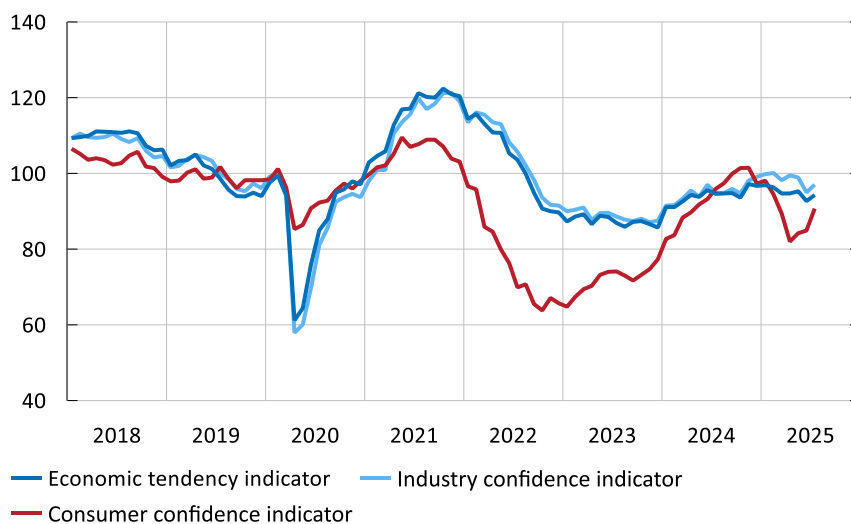


Note. Calendar adjusted data (left) and seasonally-adjusted data (right). Solid and dashed blue lines refer to outcome and forecast respectively at the monetary policy meeting in June. Red refers to new outcomes since then.

Sources: Statistics Sweden and the Riksbank.

Figure 5. Confidence indicators in the Economic Tendency Survey

Index, average = 100, standard deviation = 10

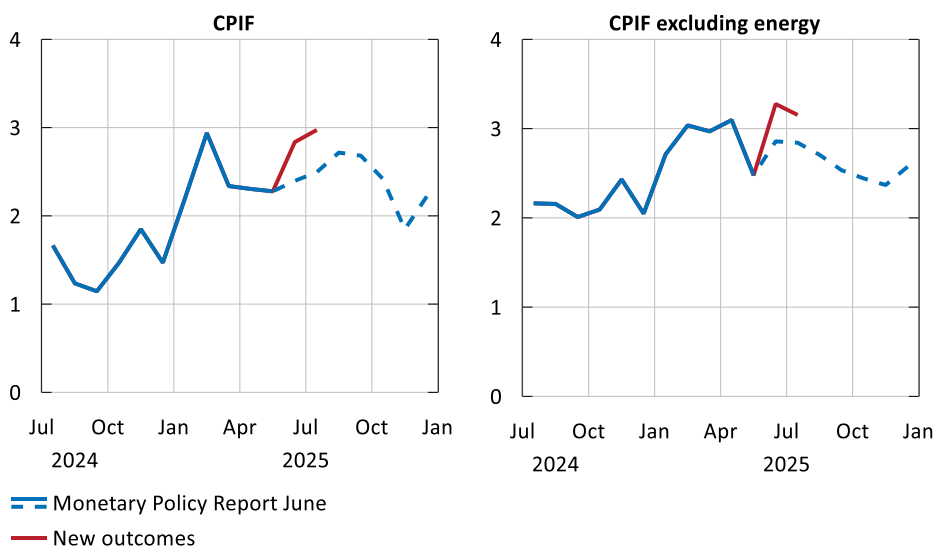


Note. The confidence indicators are calculated as the mean value of net figures for a number of questions concerning the current economic situation and future prospects.

Source: National Institute of Economic Research.

Figure 6. CPIF and CPIF excluding energy

Annual percentage change

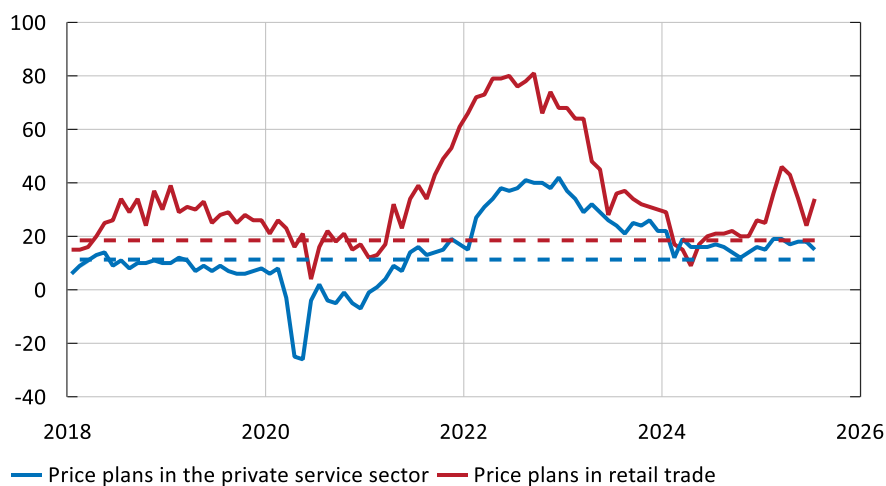


Note. Solid and dashed blue lines refer to outcome and forecast respectively at the monetary policy meeting in June. The red line refers to outcomes since then.

Sources: Statistics Sweden and the Riksbank.

Figure 7. Price plans in Economic Tendency Survey

Net figures

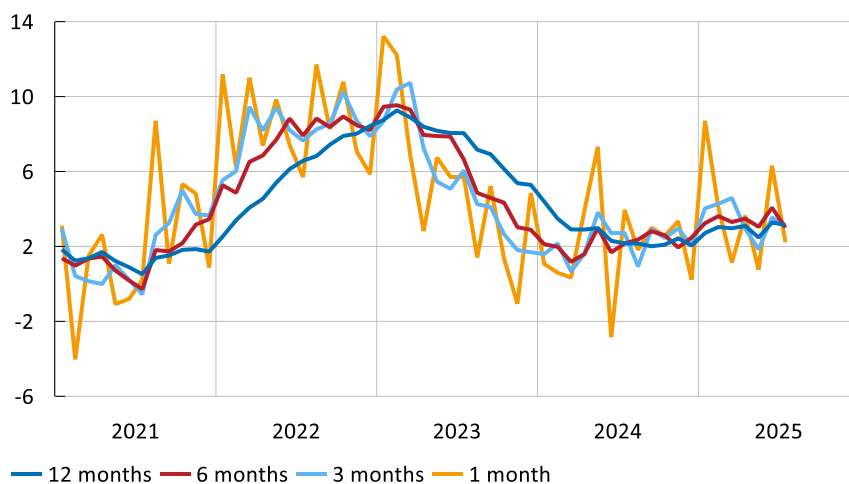


Note. The figure shows net balances of how many firms responded that they plan to increase their prices compared with how many plan to reduce them in the coming three months. Seasonally adjusted data. The dashed lines represent the average for the period 2000-2025.

Source: National Institute of Economic Research.

Figure 8. CPIF excluding energy

Annual percentage change and one-, three- and six-month changes, annualised in percent

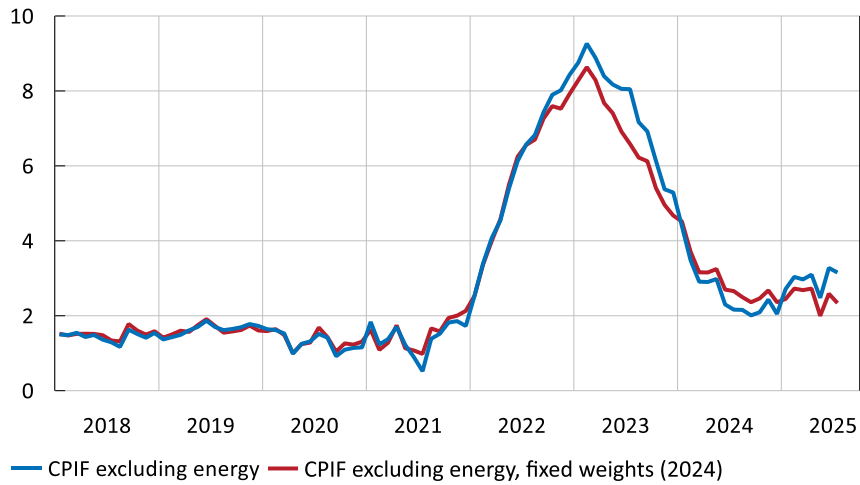


Note. Seasonally adjusted data.

Sources: Statistics Sweden and the Riksbank.

Figure 9. CPIF excluding energy and CPIF excluding energy with fixed weights

Annual percentage change

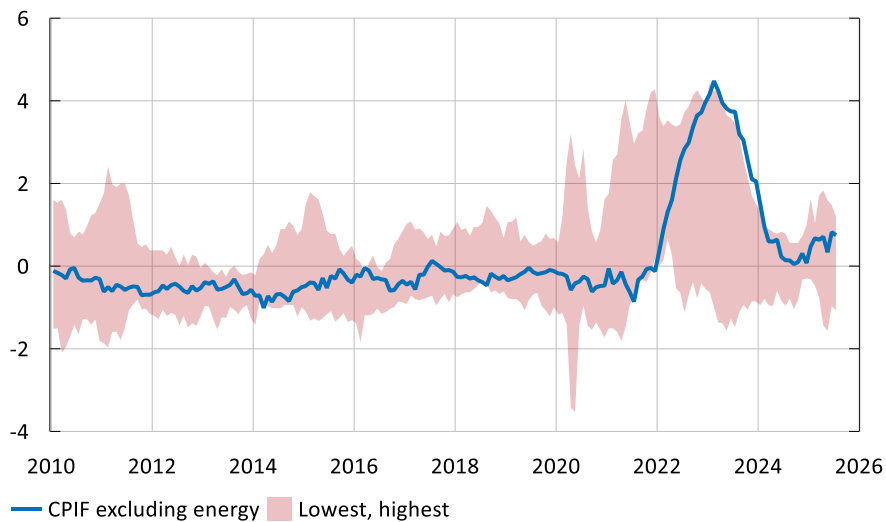


Note. In the series for fixed weights, the logged index levels with the base year of 2024 have been weighed together with the weights from the CPIF from 2024.

Sources: Statistics Sweden and the Riksbank.

Figure 10. CPIF excluding energy with indicators

Standardised values

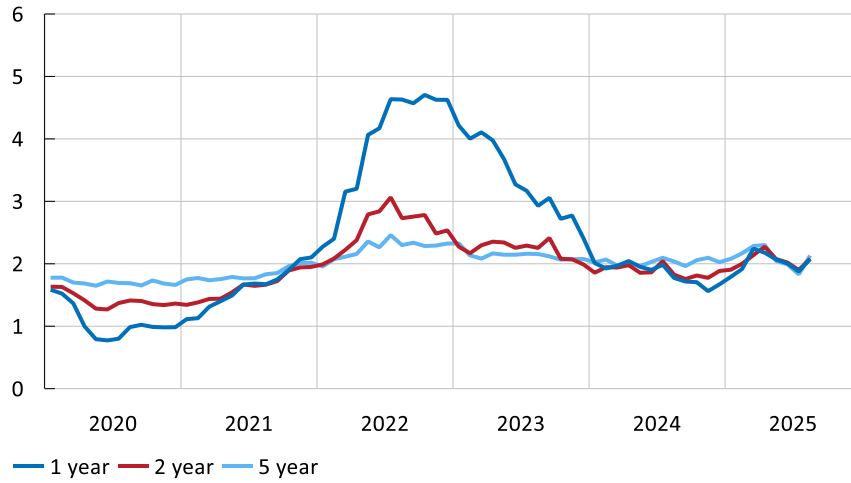


Note. The red field shows the range between the highest and lowest standardised value for the following indicators: households' inflation expectations, price plans in the retail trade, consumer goods sector and services sector, Purchasing Managers' Index for the services sector and manufacturing sector, 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. Price index expressed as annual percentage change.

Sources: The Economist, Eurostat, Federal Reserve, NIER, Statistics Sweden, Swedbank, US Bureau of Labor Statistics and the Riksbank.

Figure 11. Inflation expectations

Per cent

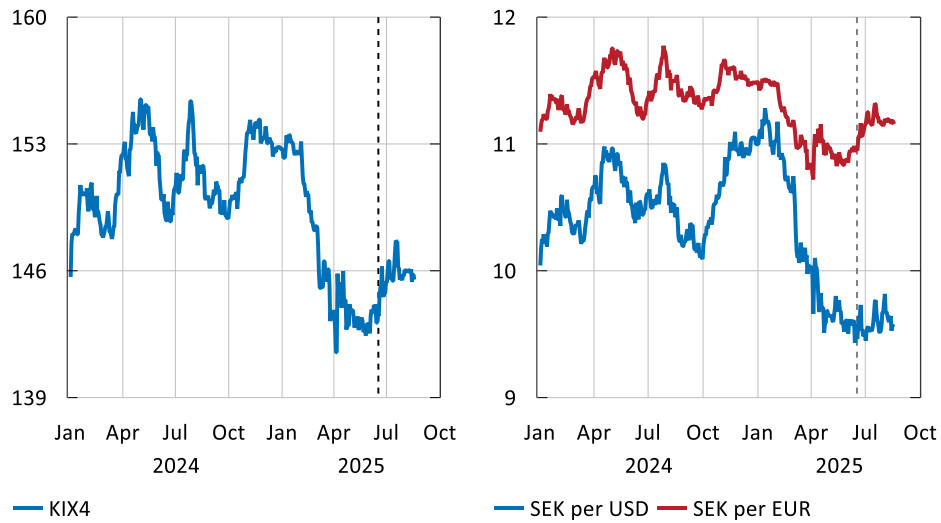


Note. Expectations refer to the CPIF. Money market agents.

Source: Origo Group.

Figure 12. Nominal exchange rate for the Swedish krona against KIX4 and the dollar and euro

Index, 18 November 1992 = 100 (left) and kronor (right)



Note. The KIX4 (krona index) is a weighted average against the US dollar, euro, pound sterling and Norwegian krone. A higher value indicates a weaker exchange rate. The dashed vertical line marks the date of the monetary policy meeting in June.

Source: The Riksbank.



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