

# Account of Monetary Policy

2025



# Account of Monetary Policy

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The Riksbank is an authority under the Riksdag, the Swedish Parliament, with responsibility for monetary policy in Sweden. Since 1999, the Riksbank has had an independent position with regard to the Riksdag and the Government. This means that the members of the Riksbank's Executive Board decide on monetary policy issues without seeking or taking instructions. Nor may any other authority determine how the Riksbank should decide on issues concerning monetary policy.

The way in which the Riksbank carries out its task is followed up in various ways by the Riksdag. For instance, every year the Riksdag Committee on Finance examines whether the General Council of the Riksbank and the Executive Board can be discharged from liability for their administration during the past year. Every year, the Committee on Finance also examines and assesses the monetary policy conducted by the Riksbank during the preceding year. Regularly or upon request, the Riksbank shall submit a report on monetary policy operations to the Riksdag's Committee on Finance. These accounts are presented both in this Account of Monetary Policy and in the Monetary Policy Reports and Updates.

The Account of Monetary Policy is a basis for assessment – not an assessment in itself. On the other hand, this does not mean that it is a pure compilation of figures. The account also includes analyses of outcomes, forecasts and events as the Riksbank believes that those who evaluate monetary policy should have access to the Riksbank's interpretation of the material. It is then up to the Committee on Finance, and others who wish to assess the material, to concur with the Riksbank's conclusions or to make another interpretation.

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The Executive Board decided on the Account of Monetary Policy in 2025 on the 3<sup>rd</sup> of March 2026.

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# The Executive Board's commentary

This year's Account of Monetary Policy includes a comment by the Executive Board of the Riksbank for the first time. In it, we summarise and reflect on the most important events of the year, with a focus on the economy and monetary policy.

The year 2025 was a dramatic year in the world, both economically and geopolitically. The newly inaugurated US administration imposed tariffs on a scale not seen since the mid-1930s and some countries responded with countermeasures. Tariff policy and US policy in general have been volatile and unpredictable throughout the year, which has increased global uncertainty.

The United States reshaped its foreign and security policy in a way that created worrying cracks in the rule-based world order that had prevailed since the end of the Second World War. The longer-term effects of these changes on global growth and international trade patterns remain unclear. But in 2025, world trade and the global economy held up surprisingly well.

The Riksbank's monetary policy in 2025 was very much about how we would secure the inflation in line with the target that we had achieved in 2024, while supporting the economic recovery. But although we saw increasing signs that the business cycle was set to turn upward, it remained unexpectedly weak for a long time, and we gradually had to revise the timing of the recovery further into the future. GDP growth was weaker than expected in the first half of the year and unemployment was unexpectedly high. The Riksbank cut the policy rate to provide support to the recovery and to stabilise inflation close to the target beyond the near term. Towards the end of the year, it seemed clear that a recovery had begun. This was also supported by previously reported GDP outcomes in the National Accounts being revised upwards.

An important and difficult-to-assess issue that the Executive Board discussed extensively was whether the elevated inflation at the beginning of the year was temporary or whether it marked the start of a period in which inflation would once again be persistently above the target. If the latter were judged to be the case, there would be reasons to hold off on further monetary easing.

However, we assessed that the elevated inflation was largely due to transitory factors, and that the underlying inflationary pressure was in line with the target. We therefore decided to cut the policy rate three times during the year to further support the economic recovery. The assessment that the elevated inflation was due to temporary factors proved to be correct. In December, CPIF inflation, both including and excluding energy, was again close to 2 per cent. All in all, against this background, we believe that target fulfilment in 2025 was relatively good.

One question we discussed at length was how far to cut the policy rate. The closer inflation is to the target and the closer the policy rate is to its normal level, the more difficult it is in practice to determine whether the prevailing interest rate is restraining

or supporting economic activity. In such circumstances, it is natural that we may arrive at different assessments. We on the Executive Board, for example, had different views on whether or not a further cut to 1.75 per cent was needed in September. However, the differences should not be exaggerated. That we have our own individual views and express them is a good sign that the Executive Board is working as intended. In the long run, this is also a prerequisite for a well-balanced monetary policy.

The fact that Executive Board members have different backgrounds and experiences and can express different opinions openly reduces the risk of groupthink, i.e. that we as a group become too close-knit and risk overlooking dissenting views or new ways of thinking. We also use other methods to ensure that multiple perspectives are brought forward. For some time now, a senior member of staff has been assigned the explicit role of acting as a discussant, a kind of “devil's advocate”, when the staff's monetary policy proposal is presented. We also work actively to further develop our monetary policy analysis, and to refine and evaluate our forecasts and models.

One issue that received considerable attention in the international debate during the year was central bank independence. Here, too, much of the discussion has centred on developments in the United States, where the Federal Reserve came under intense political pressure to ease monetary policy substantially. Rising sovereign debt in many countries is also something that in the coming years may create political pressure on central banks to pursue a more expansionary monetary policy than would be warranted based on their mandate and responsibilities. Sweden's public finances are strong in an international perspective, and it is important for monetary policy that this remains the case in the future. We have therefore expressed some concern during the year that the path back to compliance with the fiscal framework is unclear and needs to become more concrete. The issue of central bank independence is important to follow, even though it is in no way a live issue here in Sweden. Our experience is that there is solid support – politically, legally and among the public – for the Riksbank to independently decide on monetary policy under the restrictions set by the Riksdag, the Swedish Parliament.

# 1 Target fulfilment

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After amounting to 1.9 per cent in 2024, CPIF inflation rose in 2025, averaging 2.6 per cent. However, the Riksbank judged that the rise in inflation was temporary, and in December CPIF inflation was again well in line with the target. Long-term inflation expectations remained stable at around 2 per cent over the year. The Riksbank therefore assesses that target fulfilment was relatively good in 2025.

Although the policy rate has been cut by 2.25 percentage points since spring 2024, the Swedish economy has recovered slowly. The timing of the recovery has been postponed several times. During the latter part of 2025, however, it became increasingly clear that growth was finally picking up. GDP growth reached 1.5 per cent in 2025. The labour market, which tends to improve only with some lag once economic activity picks up, developed weakly.

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## 1.1 The development of the economy in 2025

### **Inflation temporarily above target**

In both Sweden and the rest of the world, inflation had fallen to more normal levels by 2024, following the high levels recorded in the preceding years. The question in 2025 was whether inflation would come down to the target and stabilise there. It did so in the euro area, partly due to lower energy prices (see Figure 1). But in the United States, inflation levelled off slightly above target. This may be at least partly due to the fact that the new administration raised tariffs substantially during the year.<sup>1</sup>

In Sweden, inflation rose to above 2 per cent again at the beginning of 2025 and then remained above target for the rest of the year (see Figure 2). The increase was primarily due to technical factors and other transitory effects.<sup>2</sup> The Riksbank therefore judged that inflation would probably not be affected in the longer term (see Chapter 2).<sup>3</sup> In December, inflation was 2.1 per cent measured by the CPIF and 2.3 per cent measured by the CPIF excluding energy.

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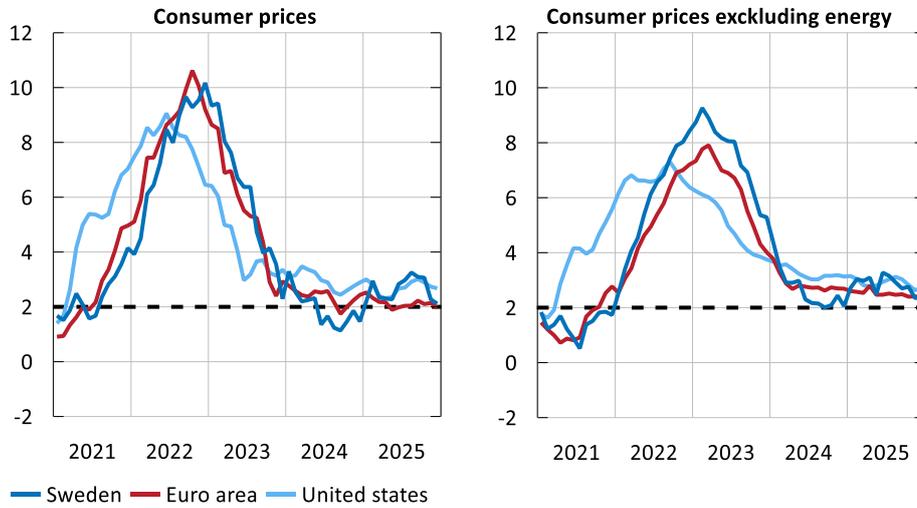
<sup>1</sup> Estimates of the role played by tariffs in keeping inflation up vary, but amount to 0.5-0.7 percentage points in some estimates; see A. Cavallo, P. Llamas and F. Vazquez (2025), "[Are Tariffs Raising U.S. Retail Prices?](#)", Econofact, Harvard Business School and M.A. Dvorkin, F. Leibovici and A.M. Santacreu (2025), "[How Tariffs Are Affecting Prices in 2025](#)", On the Economy Blog, Federal Reserve Bank of St. Louis (2025).

<sup>2</sup> One such factor was Statistics Sweden's update of the weights in the CPI.

<sup>3</sup> See the Article "[Few factors behind the rise in inflation](#)", in the Monetary Policy Report, June 2025.

**Figure 1. Consumer prices in Sweden and abroad**

Annual percentage change

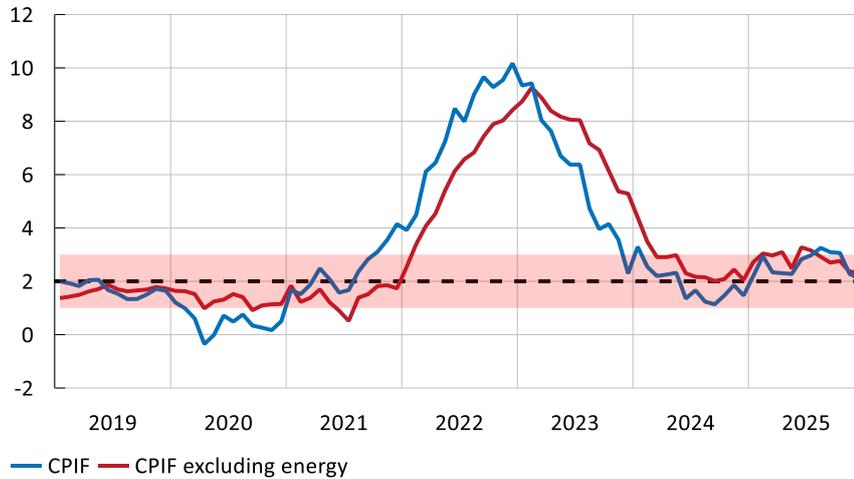


Note. Prices measured in terms of the CPIF for Sweden, the HICP for the euro area and the CPI for the United States.

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

**Figure 2. CPIF, CPIF excluding energy and variation band for CPIF**

Annual percentage change



Note. The pink area shows the Riksbank's variation band, which ranges between 1 and 3 per cent and covers about three-quarters of the CPIF outcomes since January 1995. The variation band is a means of showing whether the deviation from the inflation target is unusually large.

Source: Statistics Sweden.

**Table 1. Development of the CPIF and its components**

Annual percentage change, annual average

	Weight (per cent)	2000–2024	2024	2025	December 2025
Services	44.2	2.2	3.8	3.5	3.2
Goods	25.3	0.2	0.7	0.4	-0.7
Food	17.3	2.5	2.0	3.7	3.4
Energy	6.8	4.4	-9.5	0.1	-1.0
Capital stock	6.5	5.4	4.0	3.9	3.8
CPIF	100	2.0	1.9	2.6	2.1

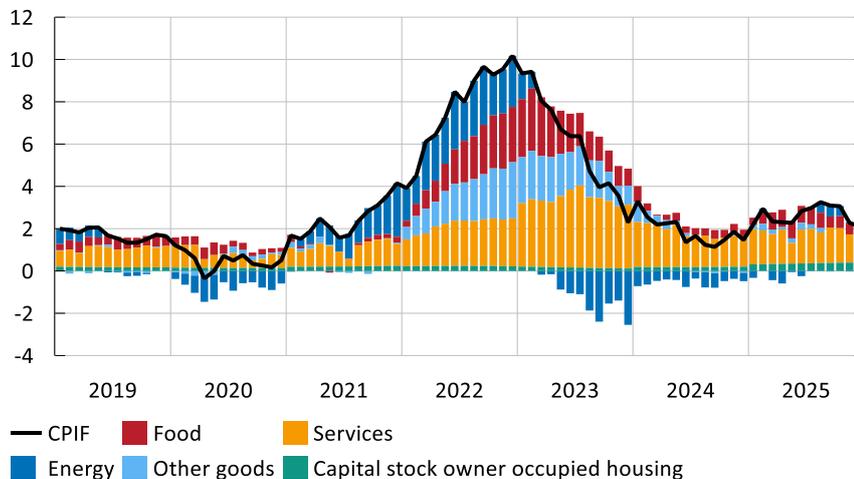
Note. The weights in the CPI are those for 2025.

Source: Statistics Sweden.

Service prices rose slightly more slowly in 2025 than in 2024, but still increased faster than the historical average (see Table 1 and Figure 3). As in the previous year, the increase was mainly driven by rents and administratively priced services linked to past cost increases. Food prices increased more in 2025 than in 2024, and more than they have historically. Lower energy prices have held down CPIF inflation for a couple of years, but the negative contribution ended in 2025.

**Figure 3. Contributions to CPIF inflation**

Annual percentage change and percentage points



Note. The bars illustrate each price group's contribution to the rate of increase in the CPIF over the past twelve months. The contributions can be interpreted as the annual rate of increase in each group multiplied by the group's weight in the CPIF. See Table 1 for the weightings of each group in 2025.

Sources: Statistics Sweden and the Riksbank.

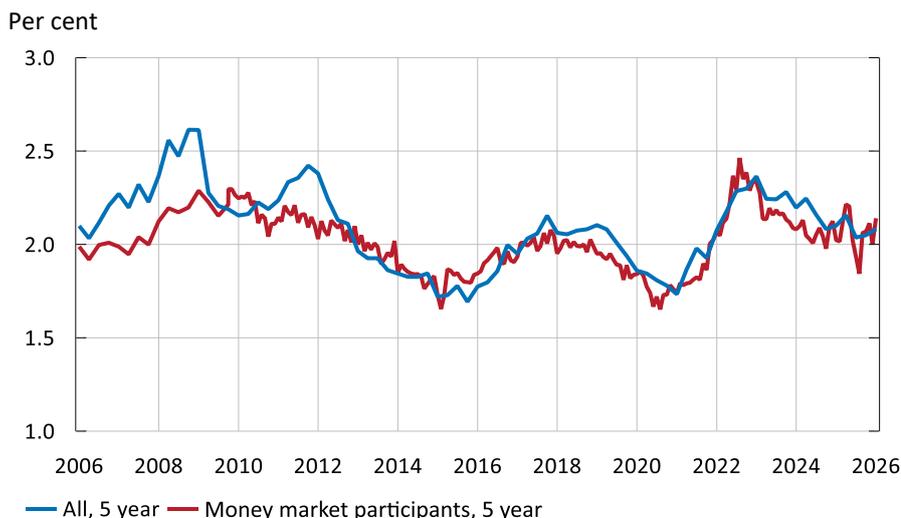
### Continued stable long-term inflation expectations

A sign that there is confidence among households and companies that the Riksbank will be able to stabilise inflation around the target is whether long-term inflation expectations are close to 2 per cent. This means that although economic agents

expect inflation to deviate from the target for short periods, they assume that the Riksbank will bring it back to the target slightly further ahead.<sup>4</sup>

Large changes in inflation can also have an impact on long-term expectations. This was the case, for example, during the period of high inflation in 2022–2023, although the increase was only moderate and did not suggest a loss of anchoring. In recent years, however, expectations have been very close to 2 per cent (see Figure 4).

**Figure 4. Long-term inflation expectations**



Note. Expectations refer to the CPI.

Source: Origo Group.

### **Moderate deviation from inflation target – relatively good target fulfilment**

After amounting to 1.9 per cent in 2024, CPIF inflation rose in 2025, averaging 2.6 per cent. Excluding energy prices, it was 2.8 per cent. However, the Riksbank assessed that this increase was temporary, which proved to be correct. The Riksbank’s overall assessment is that target fulfilment in 2025 was relatively good. In December, CPIF inflation, both including and excluding energy, was again well in line with the target.

### **Economic activity remained weak but picked up during the year**

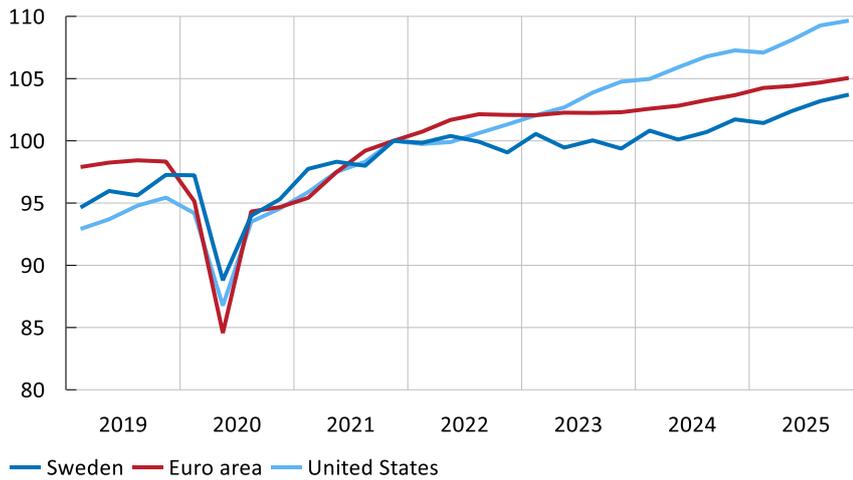
In 2025, global uncertainty was high, partly due to changes in US trade and security policies and to geopolitical tensions. This was expected to have an impact on global growth. However, despite the high level of uncertainty and increased tariffs, world trade continued to grow at a healthy pace. When the year is summarised, global growth was broadly in line with expectations. This favourable development can probably be largely attributed to extensive investment in AI.

<sup>4</sup> Household inflation expectations are often systematically higher than those of companies and analysts, for example, and tend to overestimate future inflation. The differences tend to be largest after inflation shocks like the one in 2022–2023.

Tariffs have been imposed mainly by the United States, partly to boost domestic industrial production. However, growth in the United States has been relatively good in the post-pandemic period, while it has been more modest in the euro area and even weaker in Sweden (see Figure 5).

**Figure 5. GDP in Sweden and abroad**

Index, 2021 Q4 = 100



Note. Seasonally adjusted data.

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

Since the Riksbank began cutting the policy rate in the spring of 2024, interest rates to households and companies have fallen significantly. However, the Swedish economy has recovered more slowly than expected and the timing of the turnaround has been postponed several times. But during the latter part of 2025, it became increasingly clear that growth was finally starting to pick up (see Chapter 2). GDP growth reached 1.5 per cent 2025. This compares with 0.9 per cent in 2024 and roughly unchanged GDP in 2022 and 2023.

### Continued weak labour market

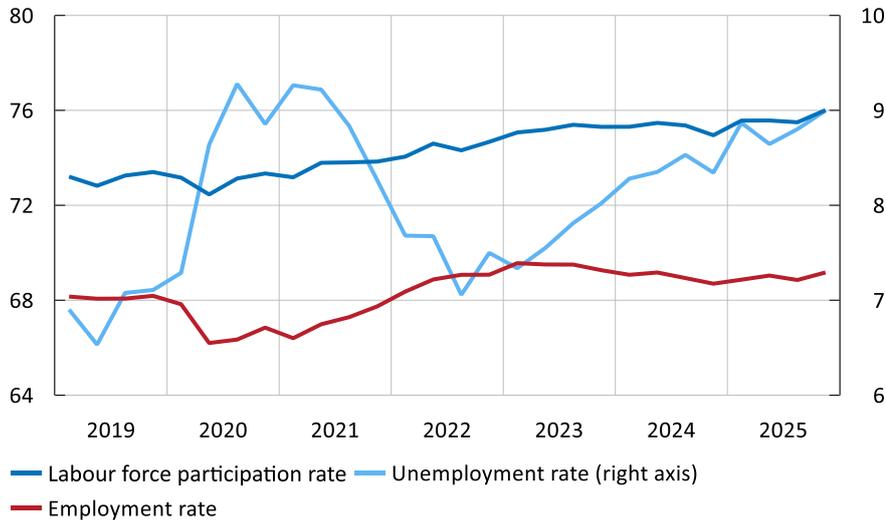
Unemployment was higher than expected in 2025. Although economic activity started to pick up in the second half of the year, the labour market situation remained weak. Despite the increase in the number of people employed, the unemployment rate also continued to rise over the year, reaching 9.1 per cent in the fourth quarter. This is because the labour force grew even more than the number of persons employed (see Figure 6).

Unemployment reflects both structural and cyclical factors. The Riksbank's assessment is that the relatively high unemployment in Sweden is largely structural. Labour force participation is high, even among groups that have difficulty finding work regardless of the economic situation, which contributes to a high measured rate of unemployment. At the same time, the deterioration that has taken place in the labour

market since 2023 is considered to be mainly cyclical and linked to the weak demand in the economy.<sup>5</sup>

**Figure 6. Labour force, employment and unemployment**

Per cent of population and of labour force, respectively



Note. Seasonally adjusted data. Refers to persons aged 15–74.

Source: Statistics Sweden.

### Plenty of spare capacity

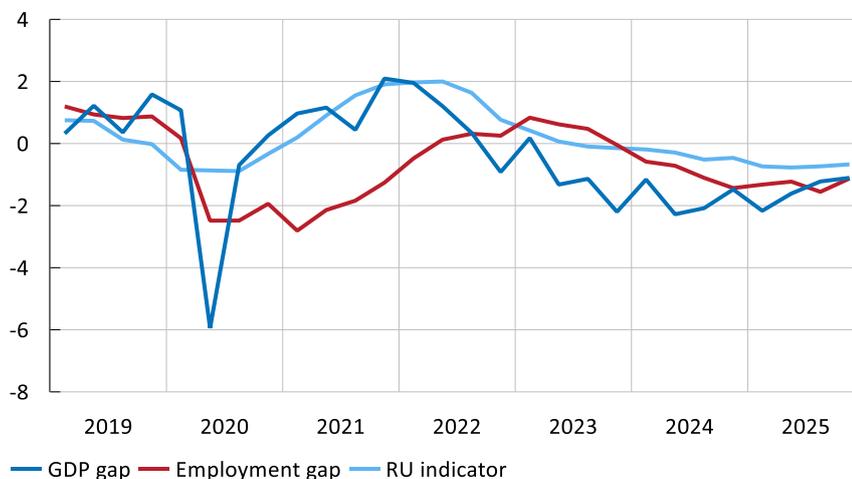
The Riksbank shall also contribute to the balanced development of production and employment in Sweden, without jeopardising the price stability objective. The level of activity in the economy is often summarised with various measures of resource utilisation. What one tries to measure is to what extent the productive resources of the economy – capital and labour – are used in relation to what is sustainable in the long term, or the economy's *potential* GDP and employment. Furthermore, resource utilisation also affects the development of wages and prices. It is therefore important that the Riksbank forms a view on this. However, resource utilisation cannot be measured precisely and therefore there is no single measure that perfectly captures its level. Instead, the Riksbank assesses resource utilisation based on a range of different indicators. Such indicators include unemployment, industrial capacity utilisation and labour shortages in the business sector.

The fact that economic activity has been weak for a couple of years is reflected in the fact that various measures of resource utilisation have been low (see Figure 7). The Riksbank assessed that there were plenty of spare capacity in the economy even in 2025. Resource utilisation, as measured by the GDP gap, started to increase, albeit from a low level. This is a sign that the economy started to improve.

<sup>5</sup> See the Article [“Plenty of slack in the labour market”](#) in Monetary Policy Report, December 2025.

**Figure 7. Measures of resource utilisation in Sweden**

Standard deviation (RU indicator) and per cent (gaps)



Note. The gaps refer to the deviation in GDP and employment from the Riksbank's assessed long term trends. The RU indicator is a statistical measure of resource utilisation. It is normalised so that the mean value is 0 and the standard deviation is 1.

Sources: Statistics Sweden and the Riksbank.

## 1.2 Monetary policy in retrospect 2023–2024

Since the effects of monetary policy are exerted with a time lag, the outcome for inflation and the real economy in 2025 was mainly affected by the monetary policy conducted during 2023–2024.<sup>6</sup> But it is also to some extent influenced by monetary policy in 2025, via particularly fast transmission channels, such as the exchange rate. However, it is difficult to provide precise numerical estimates of the effects of monetary policy on the outcome in 2025. What economic developments ultimately unfold also depends, of course, on the various shocks that occur.

The aim of this section is to provide an overview and a brief description of monetary policy in 2023–2024. The monetary policy conducted in these years has been described in more detail in previous Accounts of monetary policy and has been evaluated by the Riksdag Committee on Finance and CeMoF at Stockholm University.<sup>7</sup> An evaluation of the 2023–2024 projections for 2025 is provided in Chapter 3.

### Continued interest rate rises in 2023

By the beginning of 2023, the world economy had experienced a series of major and unexpected shocks over a few years, such as the pandemic and its economic fallout, and Russia's invasion of Ukraine. These had rapidly fuelled global inflation. In Sweden, inflation rose to levels not seen since the introduction of the inflation target, partly

<sup>6</sup> See the Article [“The interaction between monetary policy and fiscal policy”](#) in the Monetary Policy Report, September 2024.

<sup>7</sup> In January 2026 an evaluation by Morten Ravn and Carolyn Wilkins of the Riksbank's policy during the period 2015–2024 was also published. This is the fifth external evaluation of the Riksbank's monetary policy in a longer-term perspective commissioned by the Committee on Finance.

also due to the sharp depreciation of the krona. At the start of 2023, inflation amounted to just over 9 per cent, measured as the CPIF (see Figure 2).

The challenge for the Riksbank and other central banks was to bring inflation down to the target without slowing down the economy too much. It was important to prevent inflation from remaining high for so long that confidence in the inflation target began to wane. If economic agents started to expect high inflation even in the long run, there was a risk inflation would become entrenched. It would then be even more difficult to bring it down without a very sharply contractionary monetary policy, which would have major negative consequences for the economy.

The Riksbank had started to raise the policy rate by a relatively large amount in 2022, from 0 to 2.5 per cent. This contributed to inflation starting to fall back in 2023, at the same time as the effects of the supply disruptions gradually faded. CPIF inflation fell in line with the Riksbank's forecasts, but this was largely due to the volatile electricity prices falling (see Figure 2).

In the first half of 2023, the CPIF excluding energy was higher than expected, mainly because services prices continued to increase rapidly. The rapid cost increases and the strong recovery after the pandemic seemed to have created the conditions for a change in companies' pricing behaviour, compared to what had been the case for a long time before the pandemic. The continued depreciation of the krona also contributed to the uncertain inflation outlook. Both GDP and the labour market also initially developed more strongly than in the Riksbank's forecasts.

To ensure that inflation would fall, the Riksbank needed to conduct a more restrictive monetary policy than planned. The forecast for the policy rate was therefore revised upwards in the first half of the year. The policy rate was consequently also raised in 2023, albeit in more gradual steps, by a total of 1.5 percentage points to 4 per cent in September.

### **Easing in 2024 as inflation approached the target**

At the beginning of 2024, inflation had fallen, but in January it still stood at 4.4 per cent measured by the CPIF excluding energy, and 3.3 per cent by the CPIF. There were still concerns that inflation would not fall sufficiently and would remain well above the target. There were risks of a backlash if new supply disruptions were to emerge as a result of the geopolitical turmoil or if the krona continued to depreciate sharply. Uncertainty about business costs and how they would be passed on to consumer prices remained at the centre of discussions about risks for inflation. During the spring, the Riksbank therefore communicated that monetary policy needed to be adjusted cautiously, to ensure that inflation would stabilise around the target.

A natural and deliberate consequence of tightening monetary policy is that demand in the economy develops more weakly. When the policy rate was raised, households' interest costs increased, while the high inflation undermined their real incomes. At the same time, housing prices fell, which may have contributed to the weakness in

private consumption.<sup>8</sup> Lower housing prices and higher interest rates also led to a sharp decline in residential construction. In 2024, the Swedish economy was still in a recession, although the Riksbank assessed it as mild.

As it became increasingly clear that inflation would continue to fall towards the target, the need for a tight monetary policy diminished. Instead, it became increasingly important to try to strengthen the economy. A strong economy is important in its own right, but it was also assessed to be a necessary condition to stabilise inflation around 2 per cent. Between June and December, the Riksbank therefore cut the policy rate by a total of 1.5 percentage points, to 2.5 per cent and thus eased monetary policy earlier, faster and more than central banks in most other comparable countries.

### Facts: The purpose of the inflation target

According to the Sveriges Riksbank Act, the primary task of monetary policy is to maintain sustainably low and stable inflation. The current specification of the objective is an inflation rate of 2 per cent as measured by the CPIF. But it is not possible or desirable to always keep inflation at 2 per cent, as the economy is constantly changing. Inflation therefore varies in a way that cannot be predicted 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.

#### **Joint expectations contribute to favourable economic development**

The inflation target is intended to act as a so-called nominal anchor – a benchmark for price-setting and wage formation. When inflation does not vary so much and economic agents have a collective picture of how prices will develop in the future, it becomes easier for them to plan for the long term. This, in turn, improves the conditions for favourable economic development with good growth.

High inflation is harmful in several ways. What the public most often perceives as the main problem is the loss of purchasing power – that is, that they cannot buy as many goods and services if their incomes do not increase at the same pace as prices. If high inflation is built into the expectations of households and businesses, this can lead to wage-price spirals causing inflation to become entrenched at a high level. It will then be difficult to bring it down again without sharp policy tightening. When average inflation is high, it also tends to fluctuate substantially from one year to the next. This makes it more difficult to take financial decisions about the future. High and unexpected inflation also has a redistribution effect which generally favours borrowers at the expense of lenders, and generally those who can protect themselves against inflation in various ways over those who cannot. The experience of previous episodes of high inflation, such as the one in the 1970s and 1980s, shows that high inflation can be very costly for the national economy.

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<sup>8</sup> For a review of the causes of weak consumption in 2023–2024, see, for example, E. Thedéen (2026), [“Weak consumption and the housing market: causes and lessons learnt”](#), speech at the Stockholm Chamber of Commerce, 16 January.

### **An inflation target of 2 per cent creates scope to counteract recessions**

There are also good reasons why the target is 2 per cent and not lower. A certain amount of inflation acts as a kind of lubricant in the economy. Prices and wages can then change in relation to each other more easily than if normal inflation were, for example, zero per cent. Changes in relative prices and wages allow resources in the economy to be allocated appropriately.

A certain level of inflation also creates scope for the Riksbank to counteract recessions. There is a lower bound for the policy rate, although it is not obvious where it lies. If normal inflation is 2 per cent, interest rates in the economy are on average higher than if the inflation target were zero. The scope for cutting interest rates is therefore greater if the inflation target is 2 per cent than if it is zero per cent. This means that there is greater scope to make monetary policy expansionary in situations where this is required.

### **Monetary policy is conducted independently**

The Riksbank is a public authority under the Riksdag, the Swedish parliament. The Riksdag has given the Riksbank an independent status, in particular through amendments made in 1999 to the previous Sveriges Riksbank Act. There is a double ban on instructions, which means that no others may give instructions to the Riksbank, and that the Riksbank may not receive any such instructions either. At the same time, the objective of price stability was incorporated into the Act to provide a democratically anchored objective for operations. If the Riksbank wanted to change the specification of the price stability target, it would first have to consult with the Riksdag, which would then be given the opportunity to take a stance.

The decision that the Riksbank shall be responsible for monetary policy independently based on a given target has thus been taken by the Riksdag through a proper democratic process. Independence is enshrined at the EU level in the Treaty on the Functioning of the European Union (TFEU) and in the Instrument of Government.

The purpose of an independent central bank being responsible for monetary policy is that decisions that it may be necessary to make for the economy to function well in the long term are not always popular with voters. An interest rate hike raises borrowing costs for households and companies and dampens demand and employment. This may be perceived negatively by many, even if the purpose of the rate hike is to bring down inflation. The decision can be particularly difficult to take if inflation is rising at a time when economic developments are not particularly strong. Unlike a government, a central bank tasked with keeping inflation anchored to an inflation target is not driven by a desire to be popular but can more easily make decisions that may be perceived as uncomfortable.

### **Independence requires monitoring and evaluation of monetary policy**

The Riksbank's independence requires scrutiny and accountability. The General Council of the Riksbank is responsible for monitoring the work of the Executive Board on an ongoing basis. The Riksdag Committee on Finance evaluates monetary policy every year in a special report and also organises open hearings on monetary policy several times a year. The Riksbank's most important basis for the annual evaluation is this report – "Account of Monetary Policy". Some time after it has been published, the entire Executive Board participates in an open hearing at the Riksdag Committee on Finance.

## Target fulfilment

As of 2023, the Committee has commissioned the Center for Monetary Policy and Financial Stability (CeMoF) at Stockholm University to evaluate monetary policy in a written report. The authors of the report take part in the annual hearing of the Committee on Finance. As a complement to its own evaluations, the Committee on Finance has around every five years or so also commissioned two foreign experts to evaluate the Riksbank's monetary policy in a written report. The Riksbank can also be scrutinised by the Swedish National Audit Office. There are thus extensive and well-established procedures for following up and evaluating the monetary policy conducted by the Riksbank.

## 2 Monetary policy 2025

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During the year, the Riksbank had to deal with both tariff increases and geopolitical uncertainty abroad, as well as a domestic economy that was struggling with both a sluggish recovery and slightly elevated inflation.

In the spring, the Riksbank assessed that the increased US import tariffs would push up inflation and at the same time hamper growth in the United States. Europe and Sweden would be affected mainly via lower demand, which would contribute to lower inflationary pressures. But the impact was less than feared, and towards the end of the year the picture emerged of a global economy that had withstood higher tariffs and increased uncertainty unexpectedly well.

The relatively high Swedish inflation rate of around 3 per cent during parts of the year was judged to be mainly due to temporary effects. At the same time, the Swedish economy was weak. The Riksbank judged that it needed to be strengthened for inflation to stabilise around the target in the longer term.

The Riksbank therefore eased its monetary policy gradually over the year, despite slightly elevated inflation. Eventually, inflation came down and the economy started to recover. The strategy of maintaining a steady monetary policy stance thus appears to be successful.

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### 2.1 Monetary policy considerations and decisions

#### **Continued uncertainty abroad**

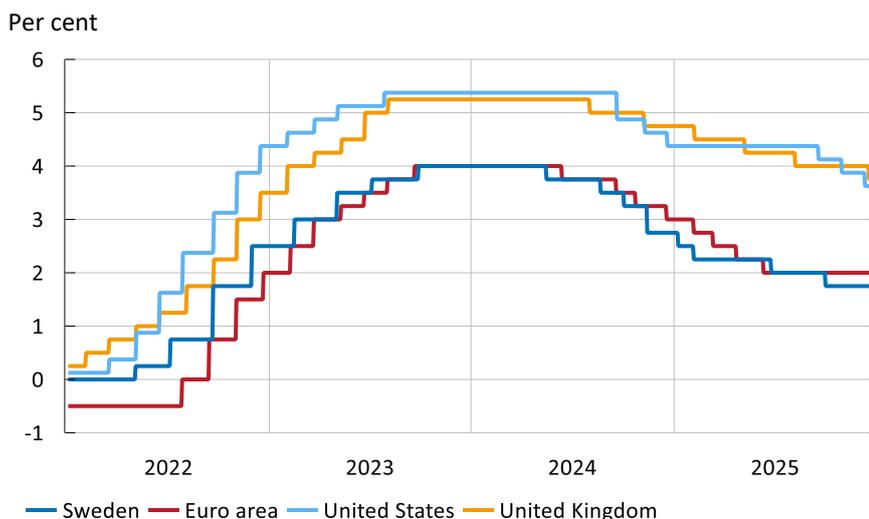
Central banks around the world continued to cut their policy rates in 2025, as they had started to do in 2024 (see Figure 8). In the euro area and Sweden, the monetary policy easing took place more slowly, and the discussion centred more on how much further the policy rate would need to be cut.

When the US administration announced higher import tariffs in early April, the Federal Reserve faced a major choice: While inflation was likely to rise as a result of the tariffs, the economy was showing clear signs of slowing down. After remaining unchanged earlier in the year, the US federal funds rate was cut three times in the autumn, primarily on the grounds that the labour market had slowed down and the impact of tariffs on inflation had become relatively limited.

The euro area economy was already struggling with structural problems and weak growth. The heightened uncertainty in the wake of the US trade policy

announcements further dampened the growth outlook. At the same time, inflation in the euro area had fallen back to close to 2 per cent. The European Central Bank (ECB) continued to cut its key interest rate in the first half of the year. However, after seven consecutive rate cuts, the policy rate was held unchanged in the second half of the year. A key statement from the ECB at the end of 2025 was that monetary policy was “in a good place”.

**Figure 8. International policy rates**



Sources: The respective central banks and the Riksbank.

### Swedish monetary policy in 2025 can be divided into three phases

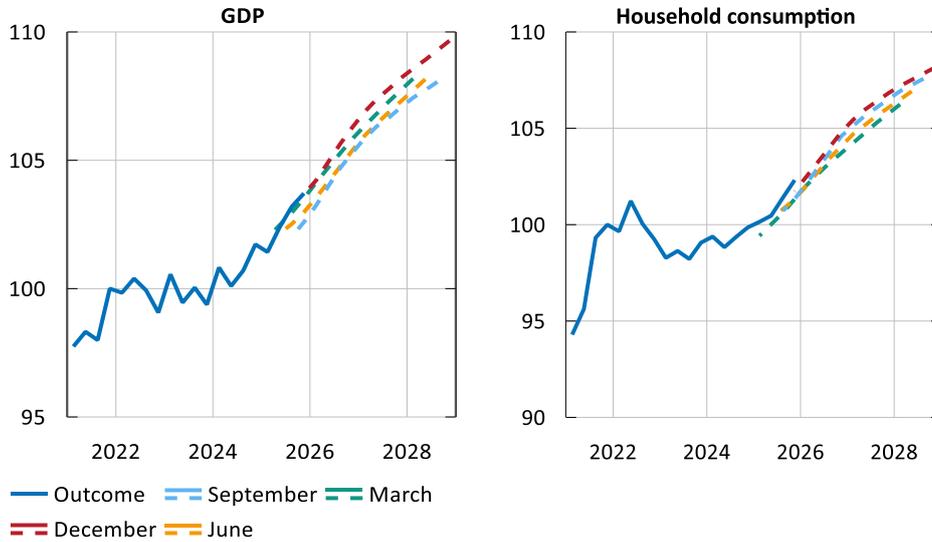
Like the major economies in the rest of the world, the policy rate in Sweden had begun to be cut in 2024, from 4 per cent down to 2.5 per cent. Looking back at the year 2025, three distinct phases in Swedish monetary policy emerge: the relatively calm start to the year, the more chaotic period immediately after the US tariff increases were announced in April and the aftermath in the autumn, when the uncertainty surrounding the tariffs had cleared somewhat. Over the year, monetary policy stayed on a steady course in an uncertain world.

#### Phase 1: Calm start to the year

Developments in the rest of the world were relatively calm at the beginning of the year. One salient feature was that the US economy grew much more strongly than the euro area, partly owing to better productivity growth. In Sweden, economic activity remained weak, although it showed some signs of recovery, and unemployment remained at a high level (see Figure 9 and 10).

**Figure 9. GDP and household consumption, forecasts 2025**

Index, 2021 Q4 = 100

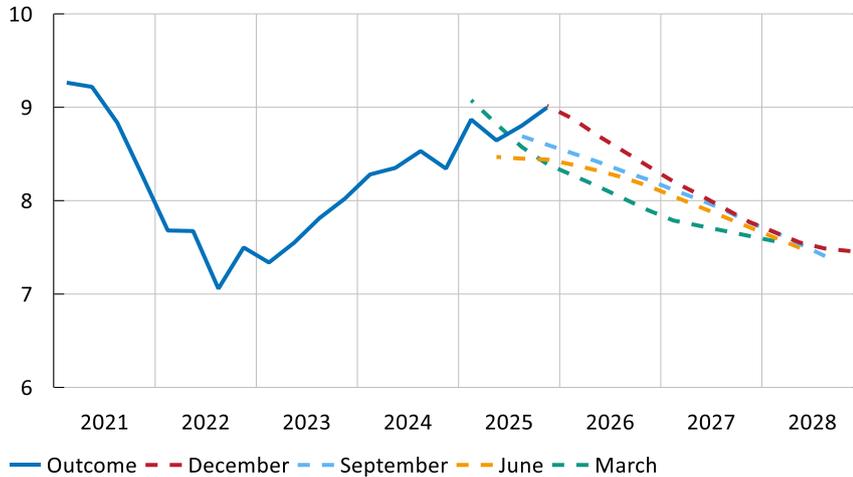


Note. Seasonally adjusted data. GDP outcomes have been revised by Statistics Sweden during the year. Solid lines refer to outcome, and dashed lines are the Riksbank’s forecasts.

Sources: Statistics Sweden and the Riksbank.

**Figure 10. Unemployment rate, 2025 forecasts**

Per cent of labour force



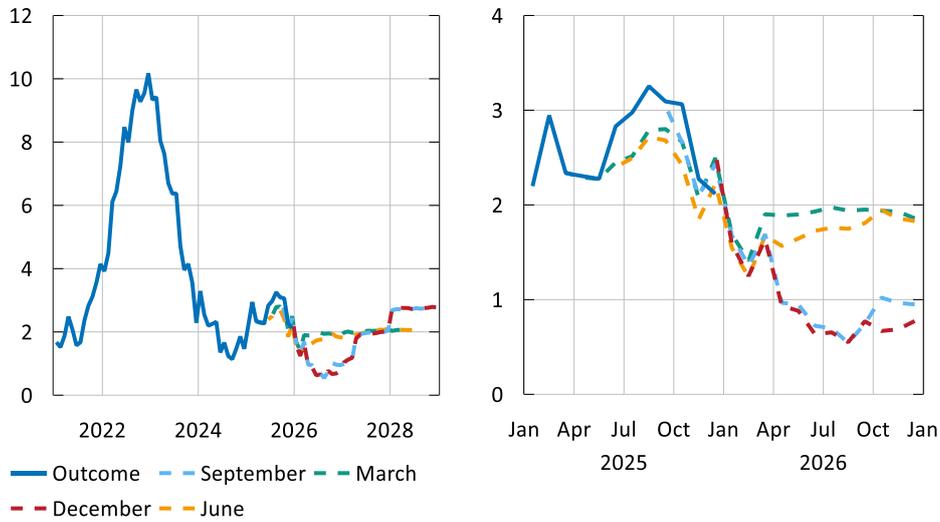
Note. Seasonally adjusted data. Refers to persons aged 15–74. Solid lines refer to outcome, and dashed lines are the Riksbank’s forecasts.

Sources: Statistics Sweden and the Riksbank.

Inflation had fallen in autumn 2024 and in December it was below 2 per cent as measured by the CPIF (see Figure 11). Given that the risk of inflation being too high was limited, at the same time as economic activity was weak, the Executive Board assessed that it was appropriate to cut the policy rate one more time at its meeting in January (see Table 2).

**Figure 11. CPIF, 2025 forecasts**

Annual percentage change

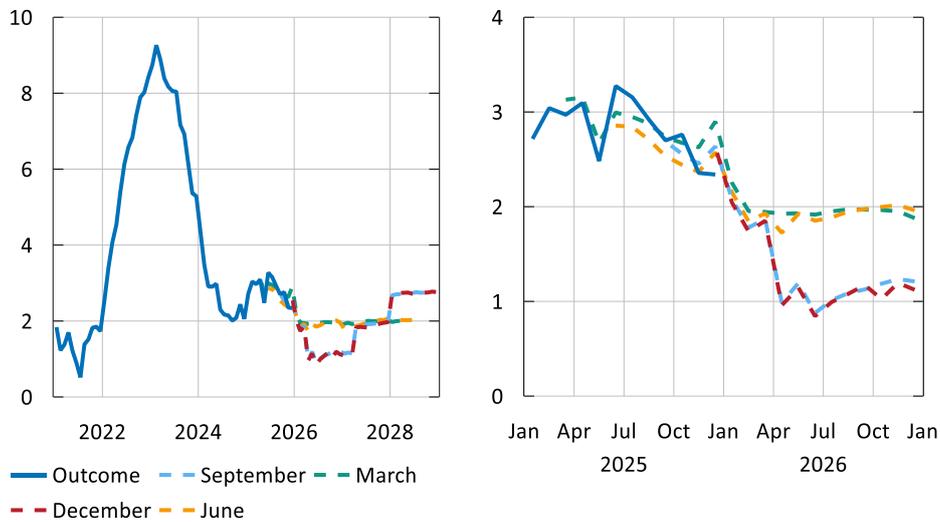


Note. Solid lines refer to outcome, and dashed lines are the Riksbank's forecasts.

Sources: Statistics Sweden and the Riksbank.

**Figure 12. CPIF excluding energy, forecasts 2025**

Annual percentage change



Note. Solid lines refer to outcome, and dashed lines are the Riksbank's forecasts.

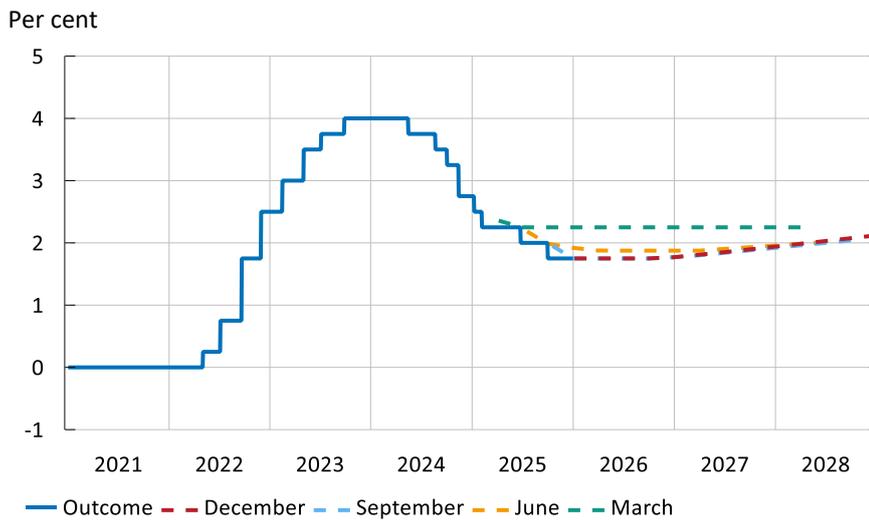
Sources: Statistics Sweden and the Riksbank.

As early as March, the Riksbank noted that developments abroad had been dramatic, although with hindsight this was only a foretaste of what was to come later in the spring. Developments had been dominated by various trade policy announcements from the new US administration and reports of major defence spending in Europe. Although these factors influenced the judgements to some extent, they were difficult to quantify. But there were signs that the US economy was slowing down. At the same time, growth in the euro area was weak.

The Riksbank assessed that the Swedish economy was in a recovery phase, although the labour market was still weak. However, inflation had started to rise again at the beginning of the year and was, excluding energy prices, significantly above the target (see Figure 11 and 12). The Riksbank attributed the increase mainly to changes in CPI weights, which were expected to affect the course of inflation throughout the year.<sup>9</sup> However, rising food prices also contributed to the increase in inflation. Nevertheless, none of these factors was assessed to have a more lasting effect on inflation. Instead, the Riksbank’s analysis indicated that it would be close to the target of 2 per cent already in 2026.

Overall, the Riksbank noted that developments were largely in line with the previous assessment and therefore held the policy rate unchanged at 2.25 per cent at the meeting in March. It was expected to remain there for some time to come (see Figure 13 and Table 2).

**Figure 13. Policy rate, forecasts 2025**



Note. Outcomes are daily rates and forecasts refer to quarterly averages. Solid lines refer to outcome, dashed lines are the Riksbank’s forecasts.

Source: The Riksbank.

As usual, the Riksbank highlighted several risks that could cause monetary policy to deviate from the plan. It was assessed that there was particular uncertainty regarding developments abroad, for instance regarding economic policy in the United States and Europe and the geopolitical tensions. However, there were also risks linked to the recovery of the Swedish economy and the krona exchange rate that could lead to inflation in the future being higher or lower than expected.

<sup>9</sup> See the Fact Box [“Inflation effects of new weights in the CPIF”](#) in Monetary Policy Report, March 2025.

**Phase 2: Tariff turbulence**

The second phase of monetary policy started with the May decision. At the beginning of April, the United States had announced a sharp increase in import tariffs. This significantly increased uncertainty in the global economy and sent shockwaves through financial markets, where stock markets fell sharply (see Figure 14). The Riksbank assessed that the tariffs were likely to increase inflation and dampen growth in the United States, while the main effect on Europe would be subdued growth in the wake of increased uncertainty, which in turn was expected to contribute to dampening inflation. An important assumption behind that assessment was that the EU would not respond with significant increases in its own import tariffs.

**Figure 14. Stock market developments in Sweden and abroad**

Index, 2 January 2025 = 100



Note. Stock exchange indices refer to OMXS for Sweden, STOXX for the euro area and S&P 500 for the United States.

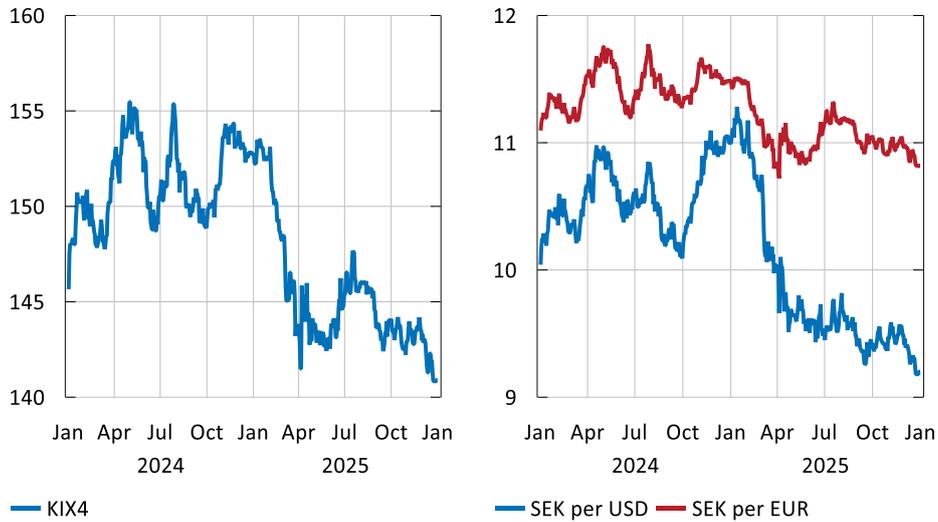
Sources: Nasdaq OMX Nordic, S&P Global and STOXX.

A reduced willingness to invest in US assets contributed to a marked weakening of the dollar. At the same time, the krona strengthened, not only against the US dollar but also against the euro and several other currencies. This deviated from the historical pattern – small currencies instead tend to depreciate in times of financial turbulence (see Figure 15).<sup>10</sup> The Riksbank highlighted a couple of conceivable explanations for this development: that Swedish companies were seen as competitive and that Swedish assets were perceived as relatively safe in the current situation, partly in light of Sweden’s strong public finances.

<sup>10</sup> The historically normal pattern is pointed out in [“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.

**Figure 15. Nominal exchange rate against KIX4, the US dollar and the euro**

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



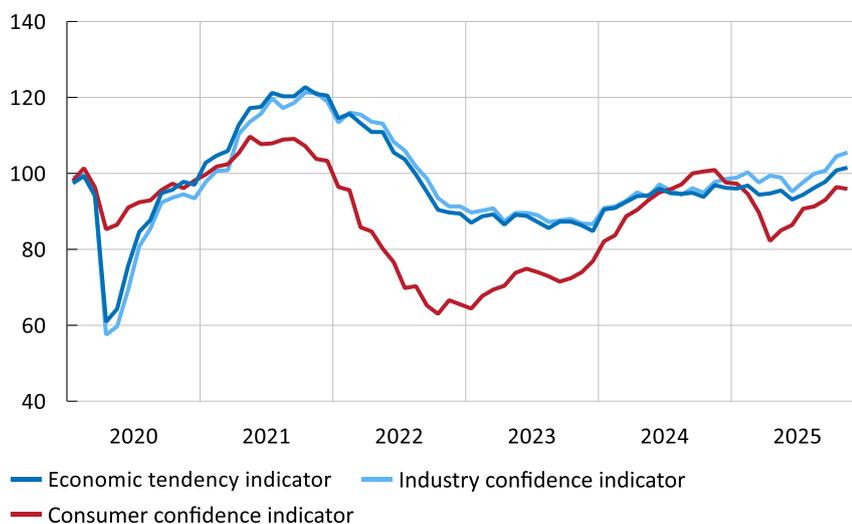
Note. A higher value indicates a weaker exchange rate. The KIX4 (krona index) is a weighted average against the US dollar, euro, pound sterling and Norwegian krone.

Sources: Macrobond Financial AB and the Riksbank.

Swedish households were directly affected by the increased uncertainty through a fall in stock prices (see Figure 14). The Riksbank also noted that consumer confidence had fallen rapidly during the spring (see Figure 16). At the same time, both the growth outlook and the labour market were expected to be negatively affected by the increased uncertainty. However, it was still too early to assess exactly how large and long-lasting the effects would be. Inflation remained somewhat above target, but the assessment remained that the higher inflation was likely to be attributable to temporary effects.

**Figure 16. Confidence indicators in the Economic Tendency Survey**

Index, mean value = 100, standard deviation = 10.



Note. Seasonally adjusted data. 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.

The Riksbank judged that monetary policy was well-balanced and that it was therefore wise to await further information to obtain a clearer picture of the outlook for economic activity and inflation. The policy rate was therefore held unchanged in May. Although there was considerable uncertainty, the Riksbank judged that it was slightly more likely that inflation would be lower than that it would be higher than in the previous forecast. And in this case it could suggest a slight easing of monetary policy going forward (see Table 2).

The heightened uncertainty affected developments up to the summer, although the turmoil on the financial markets subsided relatively quickly and stock prices started to rise again (see Figure 14). One trend that persisted, however, was the weakening of the dollar, as fewer people wanted to invest in US assets. Following a sharp appreciation in the spring, the krona exchange rate remained relatively stable in early summer (see Figure 15).

In Sweden, the National Accounts published at the end of May showed that GDP fell in the first quarter (see Figure 9). At the same time, the labour market remained weak (see Figure 10) The Riksbank concluded that the recovery in the Swedish economy was slower than expected. Inflation had come in line with expectations and was now between 2 and 2.5 per cent (see Figure 11 and 12). Other new information also supported the assessment that the elevated inflation was temporary, and the outlook for the period ahead indicated lower inflation than in the previous assessment.

In the wake of the downward revision of the outlook for economic activity and inflation, the Riksbank assessed that monetary policy needed to be eased somewhat. The policy rate was cut to 2 per cent in June, and the forecast indicated some likelihood of a further cut during the year (see Figure 13 and Table 2).

The risk outlook in the second phase of monetary policy was naturally characterised by developments abroad and the escalating trade conflict between the United States and other countries. The deteriorating security situation and geopolitical risks, including the war in Ukraine and heightened tensions in the Middle East, also contributed to the uncertainty. A further uncertainty factor in the external environment concerned the weak public finances in the United States and some European countries, among others. However, domestic risks were also highlighted, such as the possibility that the upturn in inflation could be more persistent than expected and the uncertainty regarding the strength of domestic demand.

### **Phase 3: Some greater clarity regarding US tariffs**

After the summer, there was greater clarity regarding the US import tariffs against the EU. The US economy slowed down, partly as a result of the tariffs, while the euro area economy continued to grow weakly with inflation close to the target.

At the same time, new information showed that the Swedish economy was showing weaker development than expected (see Figure 9 and 10). But inflation surprised on the upside over the summer, and was around 3 per cent (see Figure 11 and 12). However, the increase was judged to be largely due to temporary factors. In August, the policy rate was left unchanged, as the outlook remained broadly stable.

During the autumn, the picture of a prolonged recession in Sweden remained. Overall, GDP had been weak since 2021 and household consumption remained subdued, despite improved real incomes and lower interest costs. Inflation remained at unexpectedly high levels, but indicators suggested that it would fall back towards the target.

In its autumn budget, the Government had focused on providing support to household finances, in the form of tax cuts. One measure that attracted particular interest from the Riksbank was the planned halving of VAT on food from April 2026 to the end of 2027. As these goods constitute a significant part of the CPI basket, the Riksbank assessed that the direct effects on inflation would be substantial, but that inflationary pressures would not be tangibly affected. However, the assessment was uncertain and there was a risk that inflation expectations and pricing behaviour would be affected in such a way that the decline in inflation would be more persistent than expected.

In its monetary policy deliberations in September, the Riksbank noted that economic activity had again surprised on the downside. The timing of the recovery had been postponed once again, and it was uncertain how much the fiscal measures would be able to boost demand. The policy rate was therefore cut to 1.75 per cent to provide further support to the economy and stabilise inflation at the target. The forecast indicated that the policy rate would remain at that level for some time to come (see Figure 13 and Table 2).

Towards the end of the year, the picture became increasingly clear of a world economy that had withstood higher US tariffs and increased uncertainty relatively well. Recent statistics also suggested that the Swedish economy was entering a recovery phase, although it was expected to take some time to reach a normal cyclical position.

The Riksbank's analysis showed that the weak development of household consumption since 2022 was largely explained by a weak development of disposable income. As it had strengthened significantly over the year and was expected to continue to do so in 2026, there was therefore much to suggest that household consumption would continue to rise.<sup>11</sup> At the same time, the Riksbank's analysis showed that the high Swedish unemployment had mainly structural explanations, but that the deterioration in recent years was primarily due to weak economic activity.<sup>12</sup>

The inflation outlook remained unchanged. There was increasing evidence that the earlier assessment of a temporary increase in inflation was correct. The monetary policy stance was maintained, and the policy rate was left unchanged in November and December, with the assessment that the current level would contribute to a continued recovery and inflationary pressures in line with the target going forward. The forecast indicated that the policy rate would remain at 1.75 per cent for a further period (see Figure 13).

**Table 2. Policy rate decisions**

Meeting	Policy rate	Inflation and the real economy
28 January	The policy rate was cut by 0.25 percentage points to 2.25 per cent.	Inflationary pressures were in line with 2 per cent and inflation was expected to be close to target in the coming years. There were signs of a rebound in economic activity, although it remained weak.
19 March	The policy rate was left unchanged.	Inflation was expected to be between 2 and 3 per cent in 2025 and then to fall and stabilise at the target. The Swedish economy was in a recovery phase but the rebound in the labour market was expected to take a little longer.
7 May	The policy rate was left unchanged.	Inflation was slightly elevated, but was expected to fall back. The uncertainty abroad made the economic outlook appear to be somewhat weaker.
17 June	The policy rate was cut by 0.25 percentage points to 2 per cent.	Inflation had fallen back after the rise at the start of the year and was expected to be close to target in the coming years. The recovery of the Swedish economy was proceeding more slowly than expected.
19 August	The policy rate was left unchanged.	Inflation rose more than expected over the summer but was expected to fall back to 2 per cent. The recovery was sluggish, but it was assessed that there were favourable conditions for economic activity to strengthen going forward.

<sup>11</sup> See the analysis "[Consumption expected to increase at a good pace going forward](#)" in the Monetary Policy Report, December 2025.

<sup>12</sup> See the Article "[Plenty of slack in the labour market](#)" in Monetary Policy Report, December 2025.

Meeting	Policy rate	Inflation and the real economy
22 September	The policy rate was cut by 0.25 percentage points to 1.75 per cent.*	Inflation was elevated but was expected to fall back. Economic activity was weak and the turnaround on the labour market appeared to be taking longer.
4 November	The policy rate was left unchanged.**	Inflation remained elevated but had started to fall back. Economic activity was now on the verge of recovery.
17 December	The policy rate was left unchanged.**	Inflation had approached 2 per cent. The economic recovery had begun.

Note. \* Deputy Governor Anna Seim entered a reservation against the decision to cut the policy rate and instead favoured an unchanged policy rate. \*\* At the monetary policy meetings held on 4 November and 17 December, the Executive Board temporarily consisted of four members.

Source: The Riksbank.

### The Riksbank's asset holdings continued to decline

As part of the Riksbank's efforts to normalise its balance sheet, holdings of securities have been reduced rapidly in recent years (see Figure 17). This has been done through maturities and sales of Swedish government bonds.

The Riksbank continued to normalise its balance sheet in 2025, both through sales and letting bonds mature (see Figure 17). The sales of nominal government bonds have now ended, but sales of inflation-linked bonds are continuing.

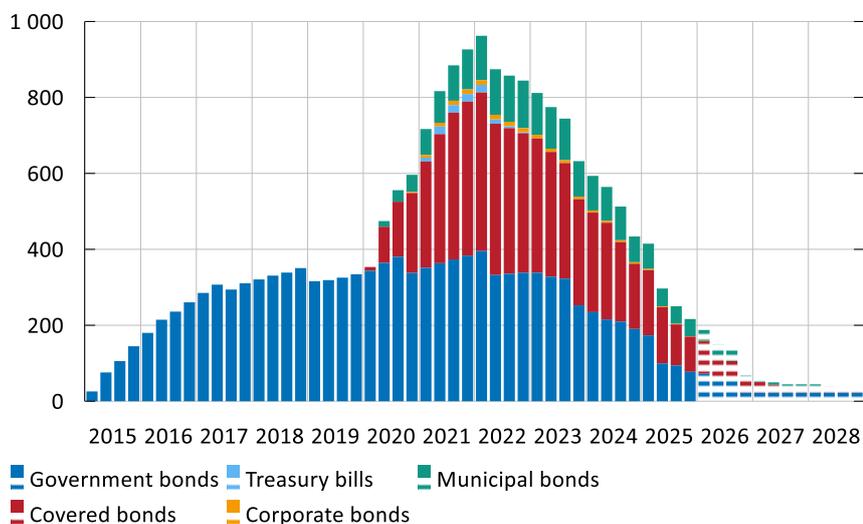
The Riksbank assesses that the sales have contributed to a better functioning bond market and have reduced the market risk on the Riksbank's balance sheet. Further, they are assessed to have had a limited effect on the exchange rate and the interest rates met by households and companies.

To maintain a good ability to trade Swedish bonds quickly, the Riksbank decided in November 2024 to establish a long-term securities portfolio of Swedish nominal government bonds to a total value of SEK 20 billion. To facilitate efficient trading in the portfolio, the Riksbank decided in September 2025 that the value of the portfolio will be allowed to fluctuate between SEK 18 and SEK 22 billion.<sup>13</sup>

<sup>13</sup> For instance in connection with reinvestment of principle payments or tender procedures, the holdings must be allowed to vary within a certain interval.

**Figure 17. The Riksbank’s asset holdings**

Nominal amounts, SEK billion



Note. The striped bars are a projection of the Riksbank's securities holdings. The projections are based on maturities and the monthly sale of inflation-linked government bonds for a nominal value of SEK 0.8 billion. The series in the figure end Q4 2028, which in December 2025 was the final quarter of the Riksbank's three-year forecast horizon.  
Source: The Riksbank.

## 2.2 The monetary policy debate and key issues

The fact that monetary policy generates interest, commitment and debate is of course positive. In addition to the discussion of the monetary policy being conducted, there is sometimes also a broader debate on overarching monetary policy issues, often at the international and academic level. This section describes the arguments put forward during the year in the debate on the Riksbank's monetary policy, as well as more long-term issues of significance for monetary policy.

### Slightly less discussion on the monetary policy conducted

While there was a fairly lively discussion about the Riksbank's monetary policy in 2024, there was less debate about it in 2025. One reason for this was probably that, at the beginning of the year, both inflation and the policy rate had returned to levels that most people regard as normal.

After the cut to 2.25 per cent in January, the Riksbank waited until June before cutting the policy rate. Some observers argued that the rate cuts should have continued earlier.<sup>14</sup> However, the debate around it was relatively limited. During the year, it was not only about whether monetary policy was perceived as slightly too tight, but also about whether the Riksbank was cutting interest rates to too low a level. Although most external analysts thought the cut was justified, it was questioned in some

<sup>14</sup> See, for example, the article "Riksbanken lämnar räntan oförändrad – får kritik: 'Senfärdigt' (Riksbank leaves interest rate unchanged – is criticised: Late to the party)", Aftonbladet, 8 May.

quarters.<sup>15</sup> Nor was the Executive Board of the Riksbank unanimous regarding the interest rate cut to 1.75 per cent in September.

Thus, during the year, various analysts have argued that the interest rate was cut too slowly and that it was cut too much. However, the policy advocated has differed only marginally from the policy actually pursued by the Riksbank. This can probably be seen as an indication that monetary policy as well as the economy and inflation have returned to more familiar and stable paths after some years of turbulence.

### **Increased focus on central bank independence**

One topic that has been much discussed during the year is central bank independence. Last year's report described a discussion in which the Riksbank's independence had been questioned.<sup>16</sup> In 2025, the issue of central bank independence also started to be increasingly discussed internationally.<sup>17</sup>

The reason for delegating monetary policy to an independent central bank is described in the box "The purpose of the inflation target" in Chapter 1. The bottom line is that central banks that make their decisions independently find it easier to keep inflation low and stable in the long run. Although independent central banks have made a big impact around the world in recent decades, there are examples of countries where governments have exerted strong political influence over monetary policy. One example is Turkey, where the politicisation of the central bank resulted in an overly expansionary monetary policy and very high inflation some years ago.<sup>18</sup>

But even in countries that have traditionally placed great emphasis on maintaining central bank independence, political pressure has become more common. Much of the debate over the past year has centred on the United States, where the administration has put the Federal Reserve under intense pressure to cut interest rates. This has been justified in various ways, such as that the US economy is performing so well that it "deserves" a lower interest rate and that a lower interest rate would reduce interest costs for homeowners and buyers, as well as the Government. How this will develop in the future is unclear, but it is evident that there is an ambition on the part of the administration to exert greater political influence over the Federal Reserve's monetary policy decisions.<sup>19</sup>

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<sup>15</sup> See, for example, the article "Kritik mot Riksbankens räntesänkning: 'Svårt att förstå' (Criticism of the Riksbank's interest rate cut: 'Difficult to understand'", *Realtid*, 23 September.

<sup>16</sup> See the section "Debate on the independence of the Riksbank" in section 4.2 of the Account of Monetary Policy 2024.

<sup>17</sup> See, for example, "Central Bank Independence in Practice – Essays based on remarks presented at a high-level conference at the Peterson Institute for International Economics", PIIE Briefing 25-3, from a conference held on 31 October 2025.

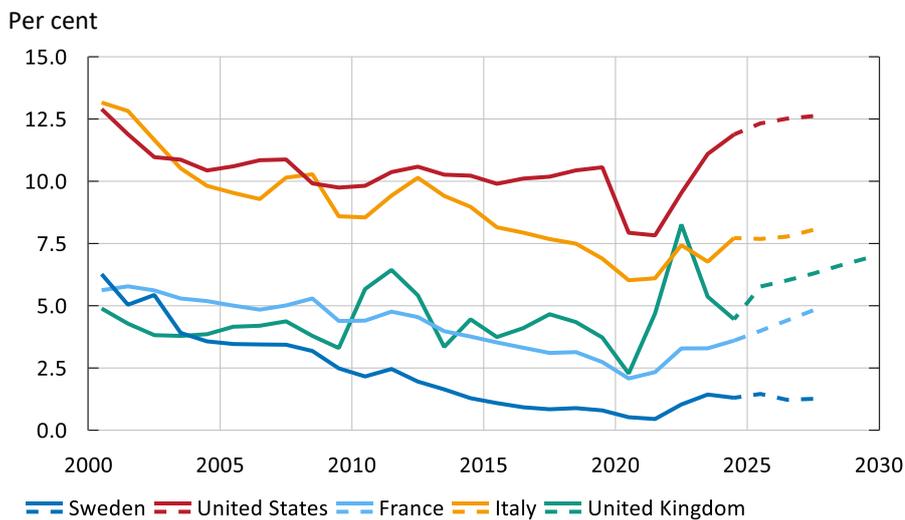
<sup>18</sup> See, for example, Refet S. Gürkaynak, Burçin Kısacikoğlu, B. and Sang Seok Lee (2023), "Exchange rate and inflation under weak monetary policy: Turkey verifies theory", *Economic Policy* Vol. 38(115), pp. 519–560.

<sup>19</sup> That the Federal Reserve also makes this interpretation is clear from a statement by Jerome Powell on 11 January 2026, see Statement from Federal Reserve Chair Jerome H. Powell, <https://www.federalreserve.gov/newsevents/speech/powell20260111a.htm>. There may also be a risk that central banks will be less transparent in their forecasts if they can be seen as politically controversial, see P. Jansson (2026), "Monetary policy communication in times of change", speech on 13 February, Sveriges Riksbank.

Central banks' independence can also be limited by a negative development of government finances. A key concept in this context is fiscal dominance. In short, this means that fiscal policy, i.e. the government's decisions on government revenue and expenditure, in practice has a decisive influence on monetary policy.<sup>20</sup> A state that has a high debt and large budget deficit can find it difficult to get the market to buy government bonds without very high yields. To prevent the government from getting into even more serious trouble, the central bank may then feel pressurised to keep the policy rate lower than needed to provide low and stable inflation.

It is therefore worrying that the trend in many countries' public finances is deteriorating – a trend that has been going on for some time and which seems to be being reinforced. In many areas, this has led to increasingly high interest costs for financing government debt (see Figure 18).

**Figure 18. Interest expenses**



Note. Interest payments on government debt as a share of total government expenditure. For the United Kingdom, it refers to net interest payments. Solid lines refer to outcomes and dashed lines to the European Commission's and the IMF's forecasts. The forecast for the United Kingdom is from the IMF and the rest are from the European Commission.

Sources: European Commission and IMF.

Higher debt burdens may increase friction between governments and central banks going forward. Again, much of the discussion has centred on developments in the United States, not least because of the importance of the US economy for the global economy as a whole.<sup>21</sup>

In Sweden there is solid support, both legally and politically, for the Riksbank to make independent decisions on monetary policy based on the framework established by

<sup>20</sup> For a description of the problems that monetary policy can face when government debt is high, see "The interaction between fiscal policy and monetary policy", Analysis in Monetary Policy Report, September 2025.

<sup>21</sup> In "The Fiscal Future", 17th Annual Martin Feldstein Lecture, *The Reporter* No. 3, 2025, NBER, N. Gregory Mankiw makes the following assessment of developments in the United States: "Over the next several years, the conflict between fiscal and monetary policymakers could well become a defining event. It is

the political system. Other frameworks have contributed to Sweden having good control over its public finances. It is important that this control is retained.

### **Reignited debate on the euro**

For a long time after the referendum in 2003, there was virtually no discussion about introducing the euro in Sweden. But recently, the issue has been revitalised.<sup>22</sup> For monetary policy, the main consequence of introducing the euro would be that the Riksbank would no longer determine the policy rate in Sweden. Instead, this would be decided by the European Central Bank (ECB), which sets the policy rate for all countries that use the euro as their currency. Whether Sweden adopts the euro or not is a political decision. The Riksbank has neither reason nor mandate to comment on this issue.

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unclear whether future Federal Reserves will have the fortitude to stand up to a demanding and belligerent president. So I wouldn't rule out the high-inflation scenario. "Mr Mankiw sees tax increases as the most likely long-term solution to the US debt problem. In "America's Coming Crash – Will Washington's Debt Addiction Spark the Next Global Crisis?", *Foreign Affairs*, September/October 2025, Kenneth S. Rogoff discusses how an unsustainable US debt situation could be resolved. He argues that "[t]here are strong reasons to assume that inflation will have a pronounced part, as it did during the 1970s".

<sup>22</sup> For example, a report entitled "Time for the euro?", compiled under the direction of Lars Calmfors on behalf of the Swedish Free Enterprise Foundation, was published on 1 December. In January this year, the Swedish Minister for Finance, Elisabeth Svantesson, said she wanted to launch an inquiry into the introduction of the euro in Sweden.

## In-depth analysis in 2025

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Over the year, the Riksbank has continued to strengthen its analytical capacity in several areas important to monetary policy. An important focus has been to increase understanding of the evolution of inflation targeting.<sup>23</sup> Various analyses highlighted, among other things, how inflation targeting has changed over three decades, how practical policy design has often preceded theoretical developments, and how institutional factors affect policy credibility.

Alternative scenarios, the attribution of individual Board members' statements and forecasts for the policy rate remain key tools in the Riksbank's communication. During the year, analyses in this area have focused on how these tools are used internationally and what lessons can be learnt for the Riksbank's own communication, based on research contributions and international presentations.

Another important theme was gathering the lessons learnt from the high inflation period of 2022–2023. Here, the Monetary Policy Department continued to analyse the underlying drivers of both supply and demand shocks, as well as the extent to which available models and data made it possible to predict developments. This analysis also provided the basis for recommendations on how to develop the forecasting work in the future, including through better utilisation of high-frequency data and micro-data.

The interaction between monetary and fiscal policy was another area that was given greater analytical attention. The increased international focus on debt developments and fiscal sustainability has highlighted the need to better understand how fiscal policy regulations work in practice and how they affect monetary policy. Analyses during the year included both long-term trends in public debt and how fiscal tightening or expansion in other countries might affect the Swedish economy.

In addition to these broad themes, a large number of studies were carried out in Economic Commentaries and Staff Memos. The studies included analyses of the effects of trade policy on inflation and growth, how geopolitical risk affects Swedish inflation, changes in the interest rate sensitivity of consumption, matching efficiency in the Swedish labour market and how banks set their mortgage rates in response to changes in the policy rate.

The Riksbank also analysed issues linked to the climate transition, including how the pricing of emissions can affect credit risks and how the green transition can affect the long-term interest rate level in the economy. The Riksbank's Working Paper Series published studies of the monetary policy transmission mechanism, including exchange rate dynamics, signalling effects of fiscal policy announcements, time lags in macroeconomic relationships and unconventional monetary policy measures, including quantitative easing in small open economies.

During the year the Monetary Policy Department published eight analysis articles in the Monetary Policy Report, seven Economic Commentaries, 13 Staff Memos, five articles in the Riksbank's Economic Review and seven research reports.

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<sup>23</sup> This work was linked to the international research conference on inflation targeting organised by the Riksbank in spring 2024.

## 3 Evaluation of the Riksbank's forecasts

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Inflation and GDP abroad developed in line with the Riksbank's forecasts for 2025. In Sweden, however, GDP was lower than forecast, while inflation was higher. The labour market was also characterised by a sluggish recovery. Although employment increased slightly, in line with the Riksbank's forecast, unemployment rose to higher levels than expected. The krona appreciated during most of 2025. Although the forecasts indicated a strengthening, it was larger than expected.

The policy rate was cut more than expected during the year, as the economic recovery was weaker than the Riksbank had anticipated, and the higher inflation was judged to be temporary.

Both models and assessments are used in the Riksbank's forecasting work. For the period 2023-2025, the Riksbank's published forecasts compare favourably with the corresponding model-based forecasts. The Riksbank's overall conclusion is that the expert assessments contribute greatly to improving the accuracy of the forecasts.

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In section 3.1, we present and discuss the forecasts the Riksbank made in 2023 and 2024 for the year 2025. Where there have been major forecast deviations, we also provide an overall explanation for this. Next, in Section 3.2, the Riksbank's published forecasts for 2023-2025 are evaluated in comparison with two model-based forecasts. The aim is to illustrate the accuracy at different forecast horizons and identify any systematic deviations during the period.

### 3.1 Evaluation of the 2023 and 2024 projections for the year 2025

When the policy rate is changed, it normally has the greatest effect on inflation one to two years later.<sup>24</sup> Monetary policy decisions should therefore be based on forecasts of future economic developments. To be able to evaluate the monetary policy conducted by the Riksbank, one thus needs to assess how accurate the Riksbank's forecasts have been – in particular the forecasts for inflation and the real economy.

Inflation forecasts are also important because they show how quickly the Riksbank intends to bring inflation back to the 2 per cent target. This is because the Riksbank does not always try to bring inflation back to target as quickly as possible, but takes

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<sup>24</sup> See the Article "[The interaction between monetary policy and fiscal policy](#)" in the Monetary Policy Report, September 2024. Monetary policy's so-called exchange rate channel can, however, work faster. This is because changes in interest rates can have a rapid impact on the value of the Swedish krona, which has a fairly direct effect on consumer prices via higher or lower import prices.

into account the impact of its policy rate decisions on the real economy. When the economy is hit by major shocks, it often takes longer to reach the target, partly because the Riksbank must also contribute to a balanced development of production and employment. It is therefore important to look at the forecasts for these variables as well when evaluating monetary policy.

However, the different variables are often influenced by events that are difficult to predict or take into account in advance, such as the pandemic and Russia's full-scale invasion of Ukraine. This is an important reason why forecasts can be wrong. Another is that some of the statistics on which the forecasts were based are revised retrospectively.

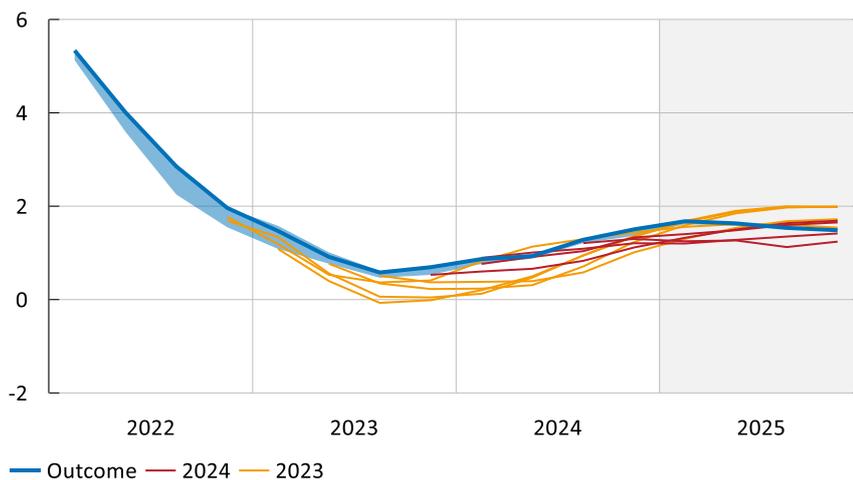
Figure 19–27 show the individual projections from 2023 and 2024 together with the outcomes for 2025 (grey shaded area), while Table 3 shows the average forecasts together with the average outcomes.

### International GDP growth and inflation in line with forecasts

The development of GDP and inflation abroad is important for Sweden as it affects the Swedish economy and monetary policy. Following the large fluctuations in connection with the pandemic, the Riksbank assessed that GDP growth abroad would be restrained due to the low potential GDP growth in the euro area. This proved to be the case, and the outcomes for international GDP growth were in line with the Riksbank's forecasts from both 2023 and 2024.

**Figure 19. International GDP growth, outcomes and forecasts**

Annual percentage change



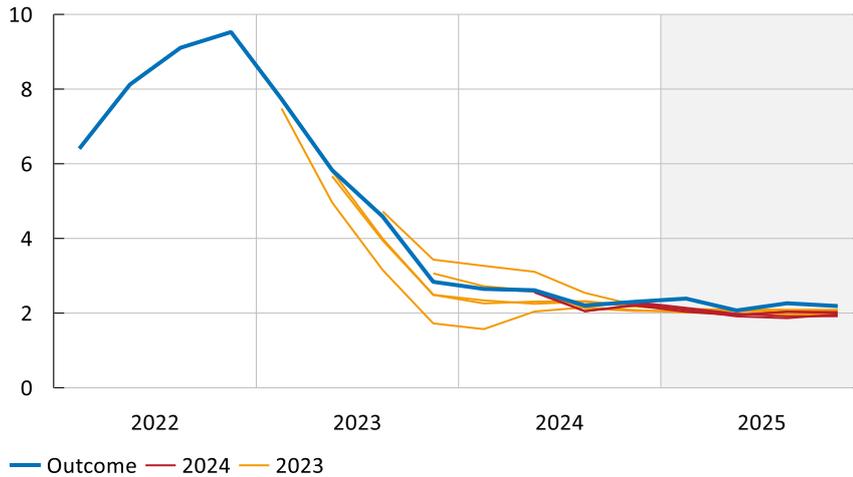
Note. The figure shows KIX2 weighted GDP growth. KIX2 is a weighted average of the euro area (83 per cent) and the United States (17 per cent). The light blue area is the range within which the outcome series has remained after various revisions to the outcomes. At a given point in time, the lower (upper) limit of the range shows the lowest (highest) value that the output series has had.

Sources: National sources and the Riksbank.

As were the outcomes for international inflation. In 2023, the Riksbank anticipated that international inflation would continue to fall as a result of a much more subdued development of goods and food prices and falling energy prices following the high inflation in 2022. The forecasts then indicated that inflation would be close to the inflation targets in the United States and euro area towards the end of 2024 and in 2025. These judgements proved to be quite accurate.

**Figure 20. International inflation, outcomes and forecasts**

Annual percentage change



Note. The figure shows KIX2-weighted inflation. KIX2 is a weighted average of the euro area (83 per cent) and the United States (17 per cent).

Sources: National sources and the Riksbank.

### Exchange rate stronger than expected

Exchange rate movements can have a rapid and direct impact on the prices of imported goods and services, thereby affecting consumer prices. However, the speed and extent of the impact may vary depending on the economic situation and other factors.

The krona appreciated during most of 2025. The forecasts from both 2023 and 2024 also indicated a strengthening, but it proved larger than expected. To produce a forecast for the exchange rate, the Riksbank assesses, among other things, the long-term level of the real exchange rate and how long it usually takes for the exchange rate to adjust to this level.<sup>25</sup> These assessments did not change in 2023 and 2024. This is a possible source of the forecasting errors for the exchange rate, but there are also other factors that may have contributed to the krona being stronger than expected.

For example, most of 2025 was characterised by higher risks related to US economic policy and increasing geopolitical uncertainty. The Riksbank did not foresee this in its forecasts. In times of global uncertainty, the krona has often weakened, but in 2025 it strengthened instead, in particular against the US dollar. This may have been due to

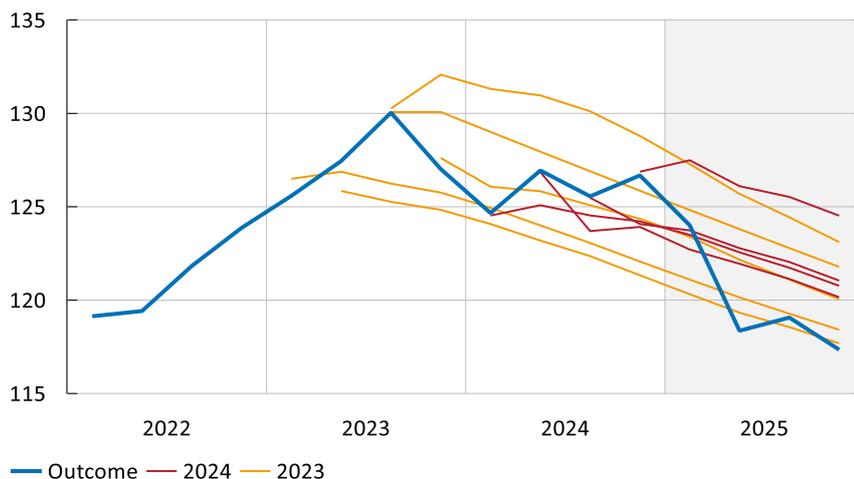
<sup>25</sup> See also the article [“The Riksbank’s exchange rate forecasts”](#), in Account of Monetary Policy 2019.

international investors reducing their dollar exposure in response to uncertainty about US economic policy – a shift that may have favoured the krona.

In 2025 the krona also appreciated against other currencies. Sweden has stable public finances and a relatively large defence industry that may have helped make Swedish assets more attractive to international investors.

**Figure 21. Nominal exchange rate, outcomes and forecasts**

Index, 18 November 1992 = 100



Note. The KIX (krona index) is a weighted average of exchange rates for currencies in 31 countries that are important for Sweden's international trade. On 28 March 2022, the Russian rouble was excluded from the index. A higher value indicates a weaker exchange rate.

Source: The Riksbank.

### Employment close to forecasts but GDP lower and unemployment higher

GDP-growth in Sweden has been lower than normal since the end of 2022. During the second half of 2024, growth picked up, but the positive trend was interrupted in the first quarter of 2025. The Riksbank's forecasts for GDP growth overestimated developments slightly in that quarter. A contributory factor was unforeseen temporary low levels of investment. The heightened global uncertainty may also have prompted households and businesses to act more cautiously than usual. GDP then recovered, but still fell short of the Riksbank's forecasts from both 2023 and 2024.

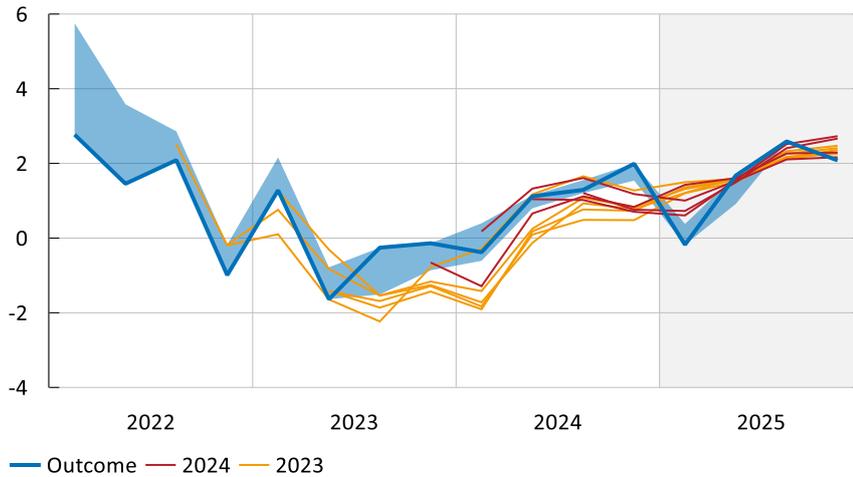
The labour market tends to follow changes in GDP with a time lag, although this relationship may vary across time periods. In 2025, the employment rate rose slightly and was just above 69 per cent at the end of the year. The 2023 projections slightly underestimated developments but the 2024 projections were well in line with the outcome. One explanation for the underestimation is that companies largely retained their staff – despite weaker demand – which kept employment up.

However, unemployment rose gradually over the year and was higher than in the forecasts from both 2023 and 2024. From a historical perspective, unemployment is at high levels. The forecasts from 2023 and 2024 overestimated how quickly the economy would recover, which can be seen in the Riksbank's assessment of how

resource utilisation would develop during the period. The reason for the deterioration in the labour market since 2023 is therefore considered to be mainly cyclical, with the deterioration driven by weak demand.<sup>26</sup> Weak demand meant that companies refrained from hiring new staff. At the same time, the labour force increased. This meant that unemployment rose despite no significant deterioration in employment. In addition, long-term unemployment increased, which may indicate growing matching problems.

**Figure 22. GDP growth, outcome and forecasts**

Annual percentage change



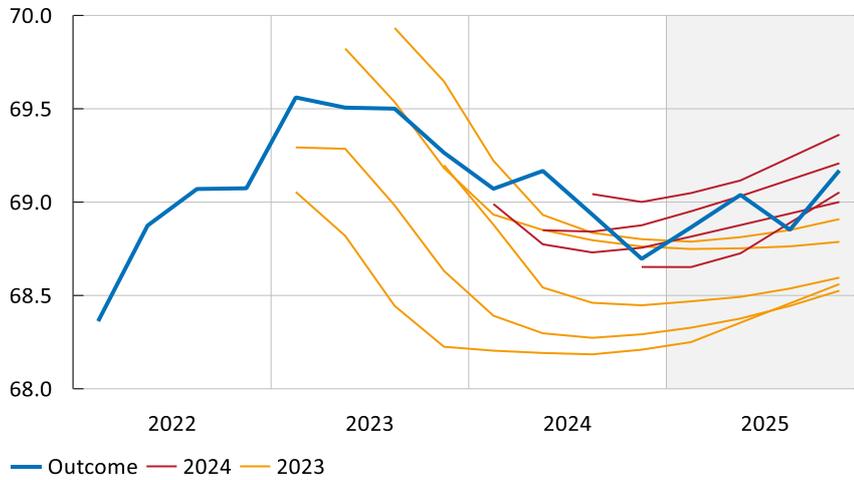
Note. GDP outcomes have been revised several times by Statistics Sweden since 2022. The light blue area is the range within which the outcome series has remained after various revisions to the outcomes. At a given point in time, the lower (upper) limit of the range shows the lowest (highest) value that the output series has had.

Sources: Statistics Sweden and the Riksbank.

<sup>26</sup> See the Article [“Plenty of slack in the labour market”](#) in Monetary Policy Report, December 2025.

**Figure 23. Employment rate, outcomes and forecasts**

Per cent of the population

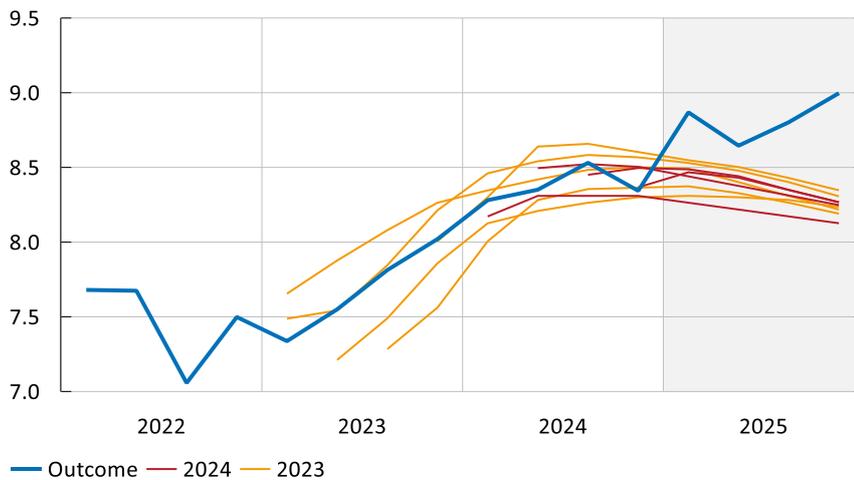


Note. Seasonally adjusted data. Refers to persons aged 15–74.

Sources: Statistics Sweden and the Riksbank.

**Figure 24. Unemployment, outcomes and forecasts**

Per cent of labour force



Note. Seasonally adjusted data. Refers to persons aged 15–74.

Sources: Statistics Sweden and the Riksbank.

### Inflation became higher than expected

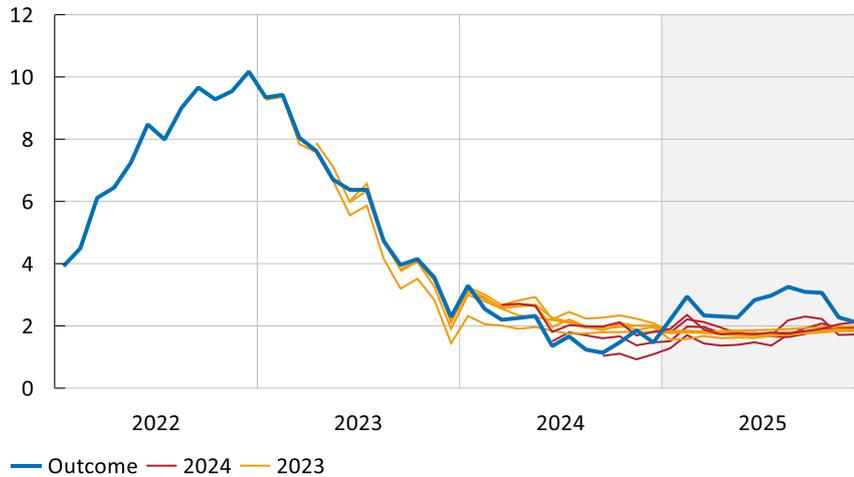
Inflation became higher than in the forecasts for 2025, both when measured using the CPIF, which is the Riksbank's target variable, and the CPIF excluding energy. This was mainly due to two factors. The first was that new weights in the CPIF had an unusual and unexpected upward effect on the inflation rate. The weights used to calculate the CPIF are updated each year when Statistics Sweden attempts to estimate how households have adjusted their consumption patterns. For example, if a good becomes more expensive, households may consume less of it in favour of another

good. Usually, these calculations contribute to a fall in the CPIF – and thus inflation – but for 2025 they instead pushed up both the CPIF and the CPIF excluding energy.<sup>27</sup>

The unexpectedly high inflation was also partly due to the rapid rise in some food prices. Some of these food prices had already risen significantly on the world market. However, the Riksbank judged that none of these factors would affect inflation for any length of time.<sup>28</sup>

**Figure 25. CPIF, outcomes and forecasts**

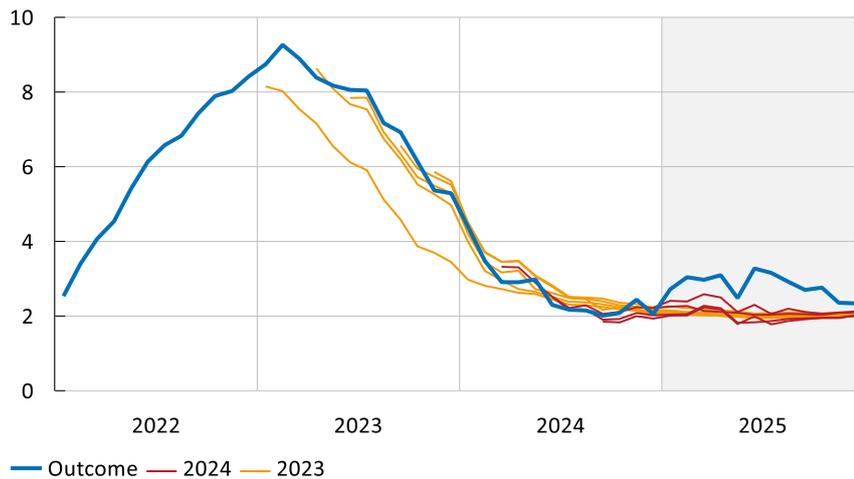
Annual percentage change



Sources: Statistics Sweden and the Riksbank.

**Figure 26. CPIF excluding energy, outcomes and forecasts**

Annual percentage change



Sources: Statistics Sweden and the Riksbank.

<sup>27</sup> See the Fact Box [“Inflation effects of new weights in the CPIF”](#) in Monetary Policy Report, March 2025.

<sup>28</sup> See the Article [“Few factors behind the rise in inflation”](#), in the Monetary Policy Report, June 2025.

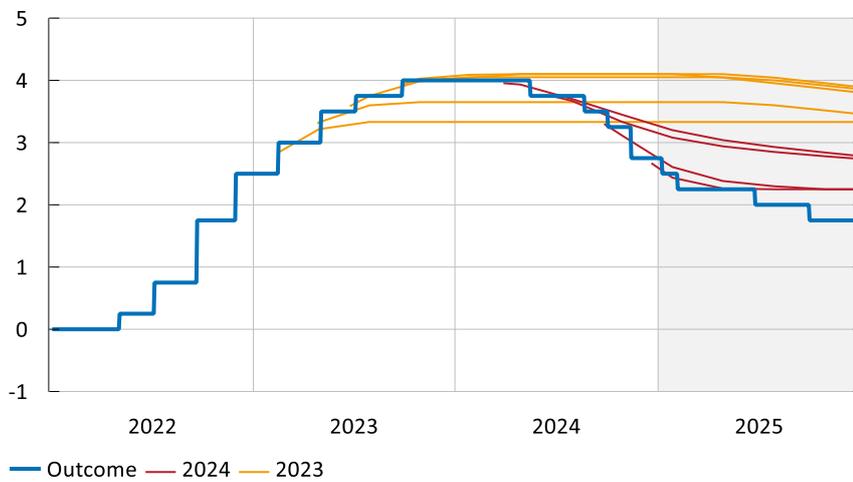
### Policy rate cut more than expected

During 2025, the policy rate was cut from 2.50 to 1.75 per cent, that is, by 0.75 percentage points. These cuts were not included in the forecasts from 2023 or 2024, although in the second half of 2024 the Riksbank forecast a cut of 0.25 percentage points in 2025.

However, the economic recovery in 2025 was weaker than expected. The policy rate was therefore gradually adjusted downwards in 2025 to strengthen economic activity and stabilise inflation over time.

**Figure 27. Policy rate, outcomes and forecasts**

Per cent



Note. Outcomes are daily rates and forecasts refer to quarterly averages.

Source: The Riksbank.

**Table 3. Forecasts and outcomes for 2025**

Annual percentage change, unless otherwise specified

	Forecasts from 2023	Forecasts from 2024	Outcomes
<b>GDP KIX2</b>	1.8	1.4	1.6
<b>CPI KIX2</b>	2.1	2.0	2.2
<b>Exchange rate, KIX, 18 Nov 1992 = 100</b>	121.8	123.0	119.7
<b>GDP</b>	1.9	1.8	1.5
<b>Employment rate, per cent of population</b>	68.6	69.0	69.0
<b>Unemployment, per cent of population</b>	8.4	8.3	8.8
<b>CPIF</b>	1.8	1.8	2.6
<b>CPIF excluding energy</b>	2.0	2.1	2.8
<b>The Riksbank's policy rate, per cent</b>	3.8	2.6	2.1

Note. The forecast figures are based on an average of the forecasts from the Monetary Policy Reports for each year.

Sources: Eurostat, national sources, Statistics Sweden and the Riksbank.

### Riksbank's forecast errors generally in line with those of other forecasters

The Riksbank's average forecasts from 2023 and 2024 for 2025 were generally in line with the corresponding forecasts from the Ministry of Finance and the National Institute of Economic Research, see Table 4. The Riksbank, like the Ministry of Finance and the National Institute of Economic Research, overestimated GDP growth, but the Riksbank's forecasts were closer to the outcome. For the policy rate, on the other hand, the Ministry of Finance's and the National Institute of Economic Research's forecasts were more accurate, especially the National Institute of Economic Research's forecasts. The Riksbank's forecasts for unemployment and the CPIF were very similar to the forecasts from both the Ministry of Finance and the National Institute of Economic Research.

**Table 4. Forecasts from other forecasters for 2025**

Annual percentage change, unless otherwise specified

	Ministry of Finance		National Institute of Economic Research		Outcomes
	2023	2024	2023	2024	
<b>GDP</b>	2.9	2.6	3.2	2.1	1.5
<b>Unemployment*</b>	8.3	8.4	8.1	8.3	8.8
<b>CPIF</b>	1.9	1.8	1.7	1.5	2.6
<b>Policy rate**</b>	2.8	2.6	2.2	2.2	2.1

Note. For the Ministry of Finance, an average of the forecasts from April (Spring Fiscal Policy Bill), June, September (Budget Bill) and December are used for each year. For the NIER, an average of the forecasts in The Swedish Economy is used for each year. \* Per cent of labour force. \*\* Per cent

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

## 3.2 Accuracy of assessment and modelling projections 2023–2025

This section evaluates the accuracy of the Riksbank's published forecasts in comparison with two model-based forecasts. The comparison is made for four key variables: inflation (CPIF), GDP growth, unemployment and the policy rate. The aim is to shed light on accuracy and identify any systematic deviations during the period.

The evaluation is based on forecasting errors for forecasts published during 2023–2025 and model forecasts at corresponding points in time, and covers forecast horizons from one to twelve quarters ahead. This makes it possible to compare the accuracy of the forecasts at different horizons and how the model-based forecasts relate to those that also include expert judgement. The analysis refers to a relatively short period and thus provides a snapshot of how the forecasts have performed in recent years – not of their characteristics over a longer period.

## Both models and assessments are used in the forecasting process

The Riksbank's forecasts in the Monetary Policy Report are produced in a process that combines modelling results with expert assessments. The forecasting process begins with an assessment of the current situation — that is, where the economy is positioned in the business cycle at present. The nowcast is informed by statistical short-term models that draw on information from a broad range of macroeconomic and financial indicators.<sup>29</sup> At short forecast horizons, these models help to improve accuracy by utilising high-frequency and continuous incoming data.

The Riksbank's forecasts extend three years ahead. Beyond the near term, macro models that describe how different parts of the economy interact are used to produce the forecast. The Riksbank mainly uses two different such models. The first is the Riksbank's structural model MAJA.<sup>30</sup> It describes how the different sectors of the economy interact based on economic theory. The second, called BVAR, exploits historical relationships in the data to generate forecasts.<sup>31</sup>

Once the current state of the economy, covering the current and next quarters, has been established, macroeconomic models can produce forecasts conditional on the assessment of the current situation together with the international outlook. Normally, the Riksbank allows the models to interpret the new information and generate a revision that answers the question of how the model wants to change its forecast given the new information.

An example can illustrate how it works: New statistics indicate stronger growth, and the models revise the GDP forecast upwards by 0.2 percentage points relative to the previous model forecast. In the next step, these revisions (changes) are added around the previously published forecast and thus show how the model changes the Riksbank's forecast. In the rest of the chapter, we will refer to this as *model forecasts*.<sup>32</sup>

Judgement plays a central role in the forecasting process and is introduced in several stages. The short-term projections represent a collective expert judgement based on all available information – not just mechanical model outputs. At later stages in the process, sector experts may also make judgemental adjustments, based on additional information, expertise, complementary analyses, or when known limitations in the models need to be addressed.

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<sup>29</sup> Over the past year, the work has also included the development and evaluation of non-parametric models, including machine learning methods such as random forest, to complement the more traditional forecasting models.

<sup>30</sup> See Corbo, V. and Strid, I., "[MAJA: A two-region DSGE model for Sweden and its main trading partners](#)", *Sveriges Riksbank Working Paper Series* No. 391, 2020 for a description of the Riksbank's structural macro-model.

<sup>31</sup> BVAR stands for Bayesian Vector Autoregression. The Riksbank's BVAR model is a statistical model of the economy that analyses several variables – such as inflation, interest rates and unemployment – simultaneously and uses historical relationships between them to make forecasts. The main BVAR model used by the Riksbank in its medium-term forecasting work has 11 variables and is described in Lof, M. and Stockhammar, P., "[Indicators for short term forecasting](#)", *Staff memo*, October 2024, Sveriges Riksbank.

<sup>32</sup> They are thus different from 'pure' forecasts from models that do not rely on any previously published forecast.

This approach implies that the forecast is far from mechanical, but rather a craft that is extensively based on judgement and expertise. Against this background, it is also important to continuously assess how the published forecasts compare with the model-based forecasts. As monetary policy is largely guided by forecasts, it is essential to examine whether expert judgements in fact leads to improved forecast performance.

### **Different ways of illustrating accuracy**

To assess the accuracy of the forecasts, we use three complementary measures. These summarise the magnitude of forecasting errors over the period and show both whether the forecasts have been too high or too low on average and how large the deviations have been.<sup>33</sup>

The first measure, mean error, indicates whether the forecasts have systematically over- or underestimated developments. A positive number means that the outcome was higher than forecast and, conversely, a negative number means that the forecast was higher than the outcome. Errors in different directions will offset each other in this measure, resulting in a small mean error, whereas errors that consistently, or more often, go in the same direction indicate the presence of systematic errors (bias).

The second measure, mean absolute error, describes the average size of the forecast errors, regardless of direction. One can see this as a measure of how far, on average, forecasts have been from outcomes. If the forecast was 1 percentage point too high in one quarter and 1 percentage point too low in another, the mean absolute error will still be 1 percentage point on average – the measure thus captures the size of the deviations rather than whether they are too high or too low.

The third measure, root mean square error, places greater weight on the largest errors. It can be thought of as a measure that particularly highlights occasional large misses: if forecasts are usually close to the outcome but sometimes deviate substantially, this measure will be affected more than the others and therefore more clearly reflect the risk of large forecast errors. Together, these measures provide a comprehensive and transparent picture of the accuracy of forecasts over different time horizons.

### **Judgements have helped improve forecasts**

Figure 28 shows the mean error, mean absolute error and root mean square error of the forecasts for CPI inflation. It can first be noted that both the published forecast and the two model forecasts display similar patterns across forecast horizons. For the nowcast, which is common to all the forecasts examined, the mean errors are close to zero and the errors remain small a little more than a year ahead. Thereafter, the

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<sup>33</sup> Some statistics, such as GDP, are often revised backwards in time. This means that a forecast made a year ago may have 'seen' a different history than the latest available statistics show. To take this into account, we use the first outcome published for each quarter to form the forecasting error.

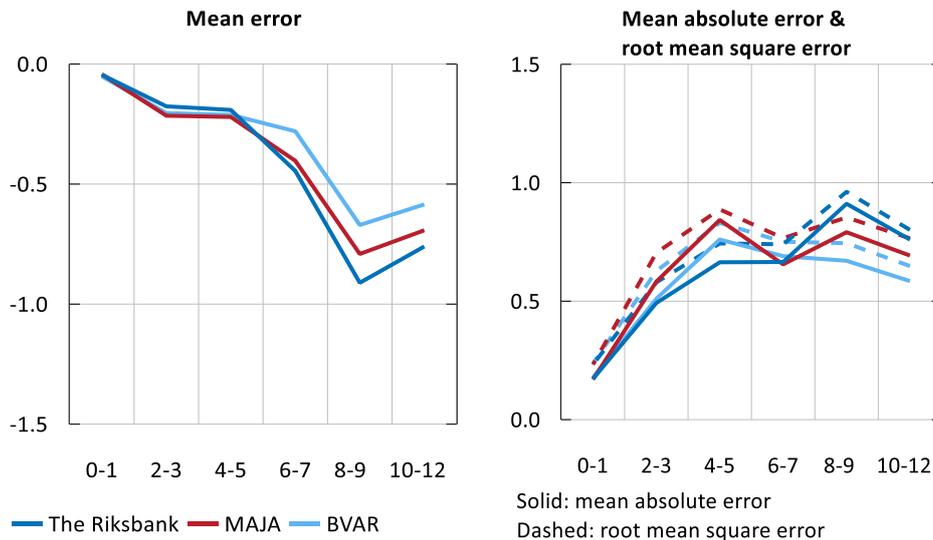
mean errors become increasingly negative. This reflects the fact that inflation turned out higher than anticipated in the 2023–2024 projections (see Figure 25).

This pattern is the same for all forecasts, but the mean errors are consistently somewhat more negative in the published forecast than in the model forecasts. This suggests that the published forecast has had slightly more systematic deviations relative to the model forecasts over the period. But the differences are relatively small. The difference between the BVAR, which had the smallest mean error, and the published forecast is just under 0.2 percentage points at the longer forecast horizons.

In contrast, in terms of mean absolute and root mean square errors, the published forecasts show smaller errors compared to the models up to the 6–7 quarter horizon, implying that the size of the errors has been smaller on average.

**Figure 28. Forecasting error for the CPIF**

Percentage points



Note. The x-axis shows the number of quarters since the start of the forecast. The 0-1 quarter is the baseline forecast and is similar in the published and model forecasts. Refers to projections from 2023–2025.

Sources: Statistics Sweden and the Riksbank.

Figure 29 shows the forecasting errors for GDP growth.<sup>34</sup> Both the published forecast and the 2023–2025 model projections have, on average, underestimated growth at shorter horizons. At horizons beyond one year, the published forecasts show a slight overestimation – reflecting that the recovery took longer than expected (see Figure 22).

In the longer term, the forecasts based on revisions from MAJA show the smallest mean error, i.e. the systematic deviation is smaller. However, as for inflation, the magnitude of the forecasting errors is smaller in the published forecast – both the

<sup>34</sup> GDP growth is expressed here in annual percentage change, quarterly data.

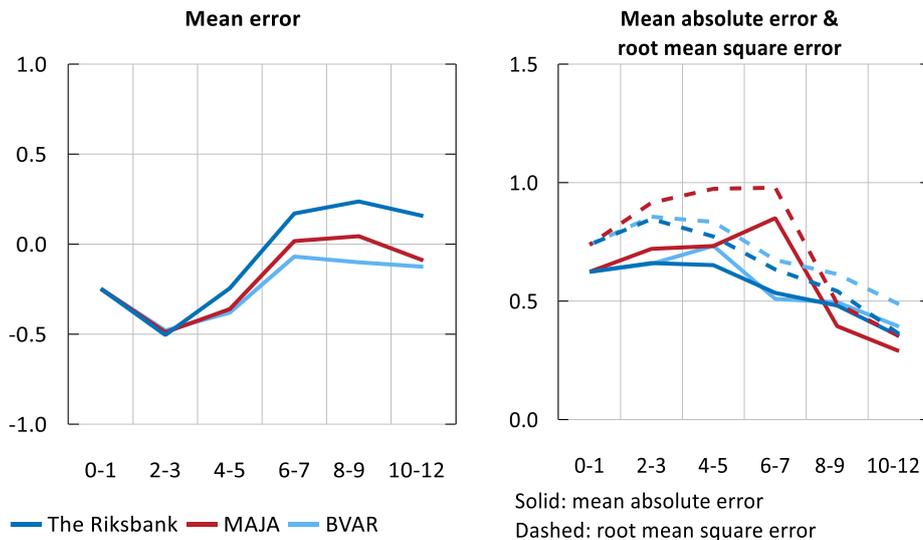
mean absolute error and the root mean square error are lower at all but the very longest horizons.

For unemployment, there is a clear systematic underestimation that becomes more pronounced in the longer-term projections. Although the published forecasts show somewhat smaller mean errors, it is clear that the Riksbank underestimated how high unemployment would become in the medium term, which is also evident in Figure 24, showing the forecasts from 2023 and 2024. The published forecasts for unemployment have been slightly better than the modelled forecasts in the first two years of the projection (see Figure 30). At the far end of the horizon, however, the difference is small.

The root mean square error increases more rapidly than the mean absolute error, indicating the presence of larger individual forecasting errors. This reinforces the view that uncertainty becomes more important the further ahead the forecast extends. For these measures as well, the published forecasts perform better during the first two years, suggesting that expert judgement has contributed to more accurate forecasts.

**Figure 29. Forecasting error for GDP**

Percentage points

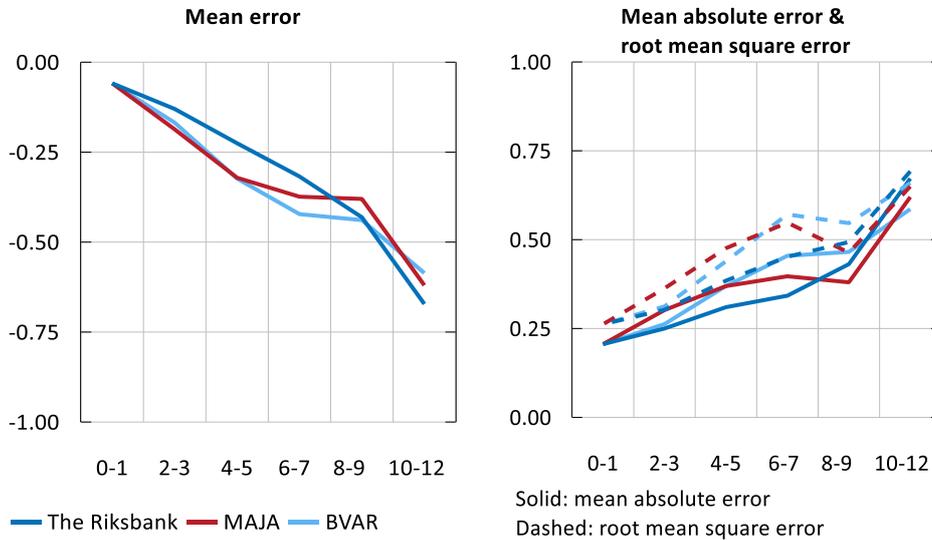


Note. The x-axis shows the number of quarters since the start of the forecast. The 0-1 quarter is the baseline forecast and is similar in the published and model forecasts. Refers to projections from 2023–2025.

Sources: Statistics Sweden and the Riksbank.

**Figure 30. Forecasting error for unemployment**

Percentage points



Note. The x-axis shows the number of quarters since the start of the forecast. The 0-1 quarter is the baseline forecast and is similar in the published and model forecasts. In the right-hand figure, solid lines refer to mean absolute error and dashed lines to root mean square error. Refers to projections from 2023–2025.

Sources: Statistics Sweden and the Riksbank.

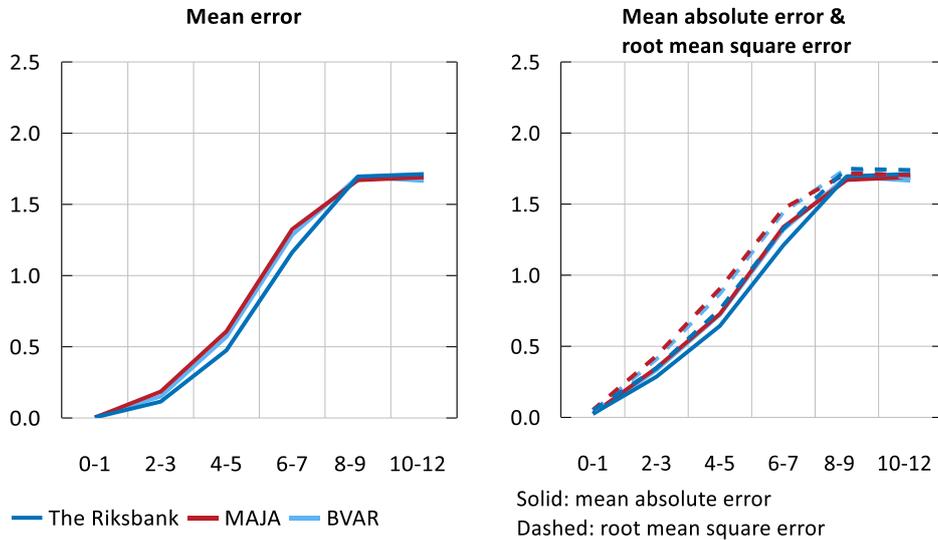
The forecasting errors for the policy rate increase clearly over the horizon (see Figure 31). Over the period studied, the mean errors are relatively small in the short term but clearly positive at longer horizons. This means that the interest rate was, on average, lower than the forecasts had anticipated (see Figure 27). The Riksbank's published forecast displays the same pattern, although the forecast errors are somewhat smaller.

The future level of the policy rate is uncertain at any horizon. However, uncertainty about developments further ahead is generally greater, as the probability that new shocks will affect the economy increases over time.

With effect from the Monetary Policy Report in March 2024, the Riksbank began communicating the forecast for the policy rate in a new way. The purpose was to clarify the difference in the uncertainty across forecast horizons. As there is more information about economic developments in the near term, the Riksbank can make a forecast about the upcoming monetary policy decisions with somewhat greater confidence than about decisions further ahead.

**Figure 31. Forecasting error for the policy rate**

Percentage points



Note. The x-axis shows the number of quarters since the start of the forecast. The 0-1 quarter is the baseline forecast and is similar in the published and model forecasts. In the right-hand figure, solid lines refer to mean absolute error and dashed lines to root mean square error. Refers to projections from 2023–2025.

Source: The Riksbank.

Overall, the evaluation suggests that expert judgement has, on average, contributed to more accurate forecasts over the period studied, particularly at horizons of one to two years. The published forecasts are generally closer to the outcomes in terms of mean absolute error and root mean squared error during the first years of the forecast horizon, indicating that judgement helped to capture information not fully reflected in the models. At the same time, the model forecasts in several cases display somewhat smaller systematic errors, suggesting that placing greater weight on them could have reduced bias. The overall picture, however, is that judgement improved the forecasts over most of the forecast horizon, while the differences between the approaches become small and more uncertain at the far end of the horizon.



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