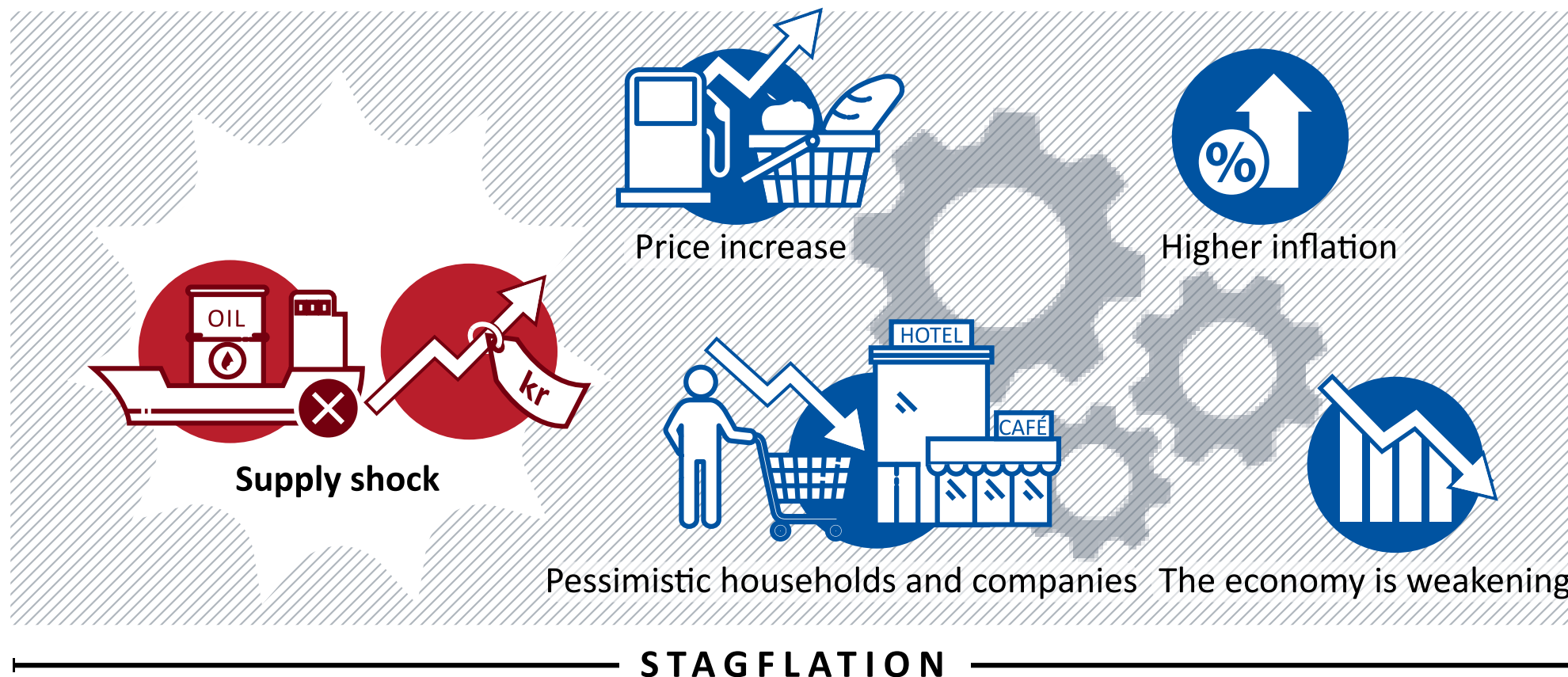


Monetary policy trade-offs and economic policy interactions in the face of supply shocks

Sveriges Riksbank, 22 May 2026

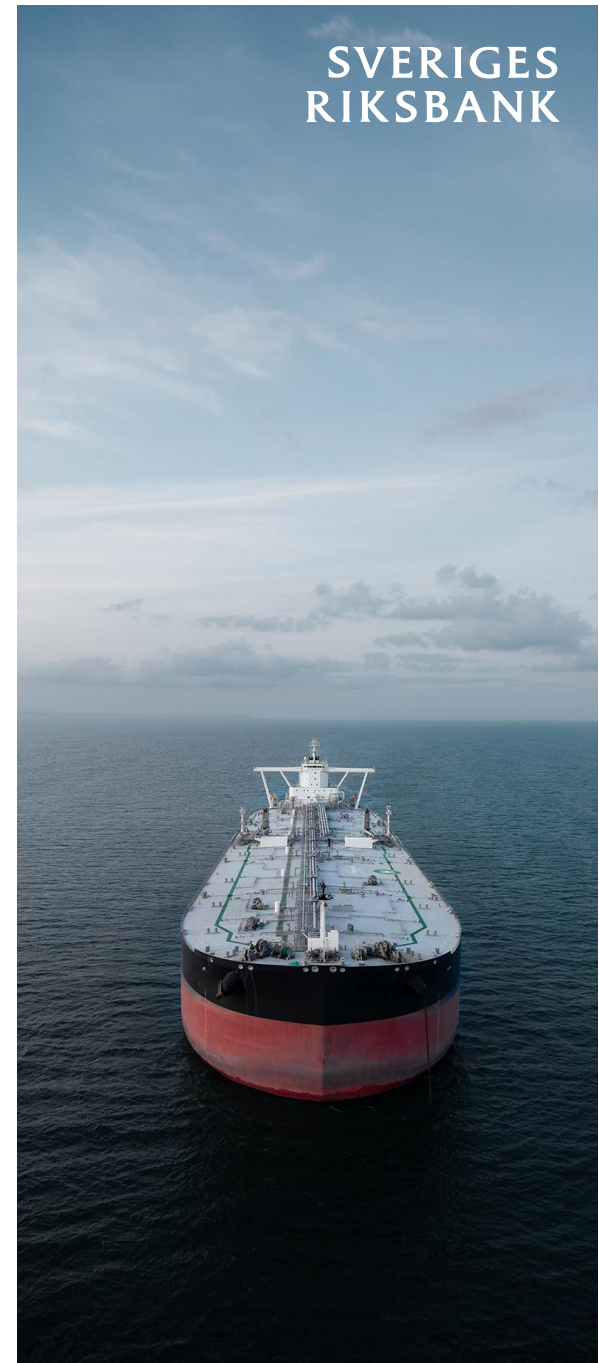
Göran Hjelm, Deputy Governor

Supply disruptions increasingly common in a troubled world



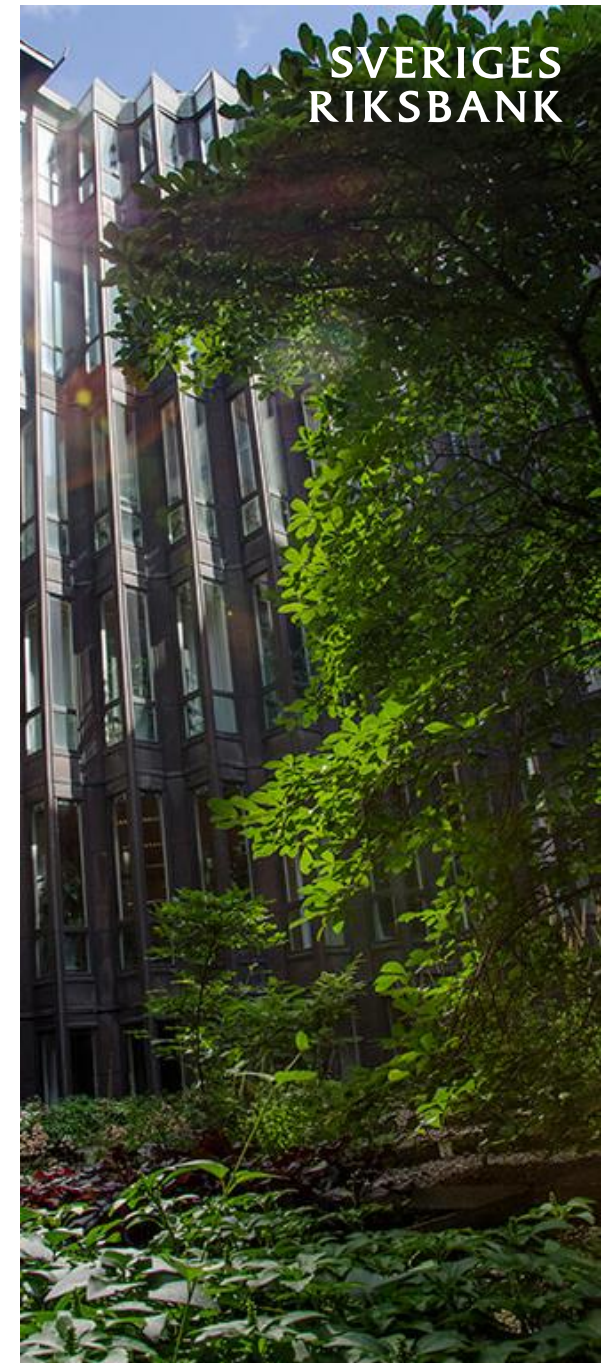
Often appropriate to react less to supply-driven inflation

1. Target variables are moving in different directions
 - However, taking into account the extent to which the economy's potential is expected to be affected over the forecast horizon
 2. Monetary policy works mainly through demand
 3. Supply shocks are often reversed after a time
- Fully or partly 'see through' supply-driven inflation



‘Seeing through’ supply-driven inflation requires clear communication

- Explain why higher inflation is accepted
 - Describe the reaction function
 - Counterbalance rising inflation expectations
- Explain how fiscal policy and wage formation affect monetary policy trade-offs



The impact of disruptions on the different components of inflation central part of the communication



- Recurring mantra:

‘Maintain the credibility of the inflation target while limiting the costs to the real economy’

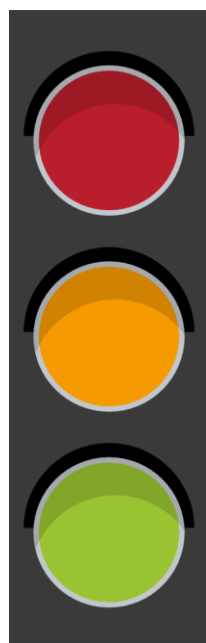
- Important to distinguish between changes in relative prices and a broad increase in inflation
 1. Direct effects
 2. Indirect effects
 3. Secondary effects

A 'see through' strategy also requires economic policy interaction



- Expansionary fiscal policy risks a broad upturn in inflation.
- Wage formation without the inflation target as an anchor risks a lasting deviation from 2 per cent.
- The Riksbank has a particular responsibility for effective interaction.

Monetary policy considerations depend on several factors



- Large shocks
- Monetary policy tightening



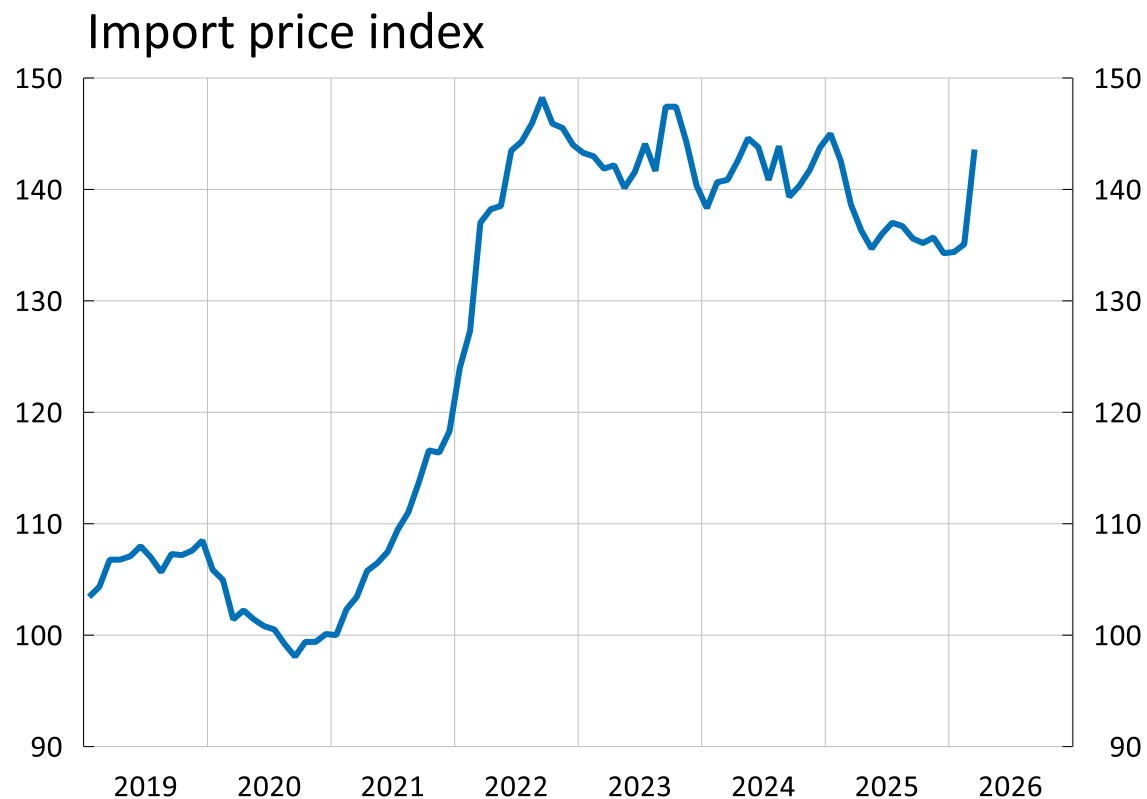
-
- Medium-sized shocks
 - Monetary policy tightening?



-
- Small/short-lived shocks
 - No monetary policy tightening

- Credibility of the target
- Inflation
- Resource utilisation
- Interest rates
- Expected fiscal policy and wage developments
- Other central banks

Significant supply disruptions in 2021–2022 justified clear tightening

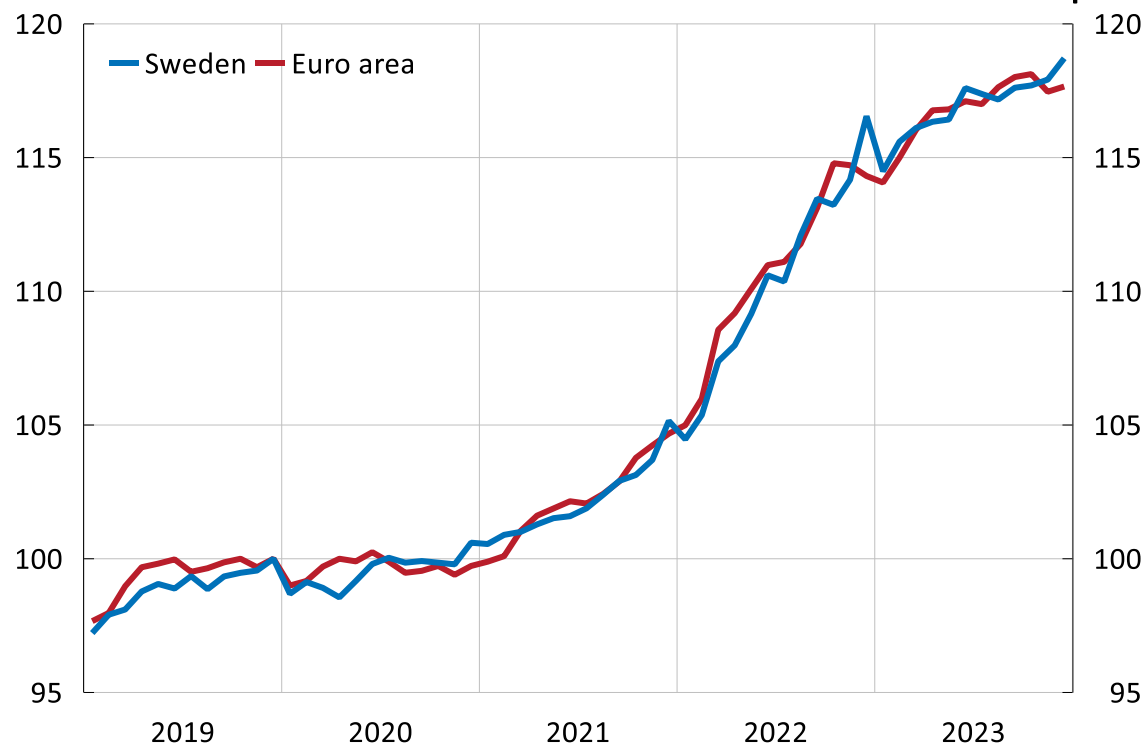


Note. Index, January 2021 =100. The import price index measures price trends on products imported to Sweden. Latest outcome refers to March 2026. Source: Statistics Sweden.

- Import prices rose by 40 per cent.
- Risk of amplification
 - High resource utilisation
 - Expansionary monetary policy
 - Weakening of the exchange rate
 - Uncertainty about fiscal policy and wage formation
- Reasonable to clearly tighten monetary policy
- The Riksbank's communication
 - Avoid broad-based support for demand
 - Important that wage formation is based on the inflation target

Reasonable with large impact on prices from sharply increased costs

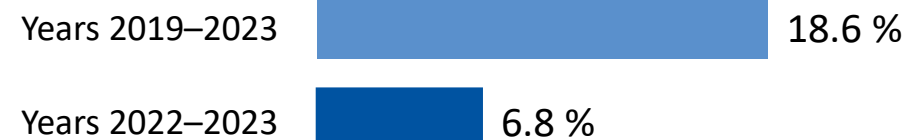
Price levels rose as much in Sweden as in Europe



Note. Index, December 2019 = 100. Refers to HICP. Sources: Eurostat and Statistics Sweden.



Cost increase in the business sector:

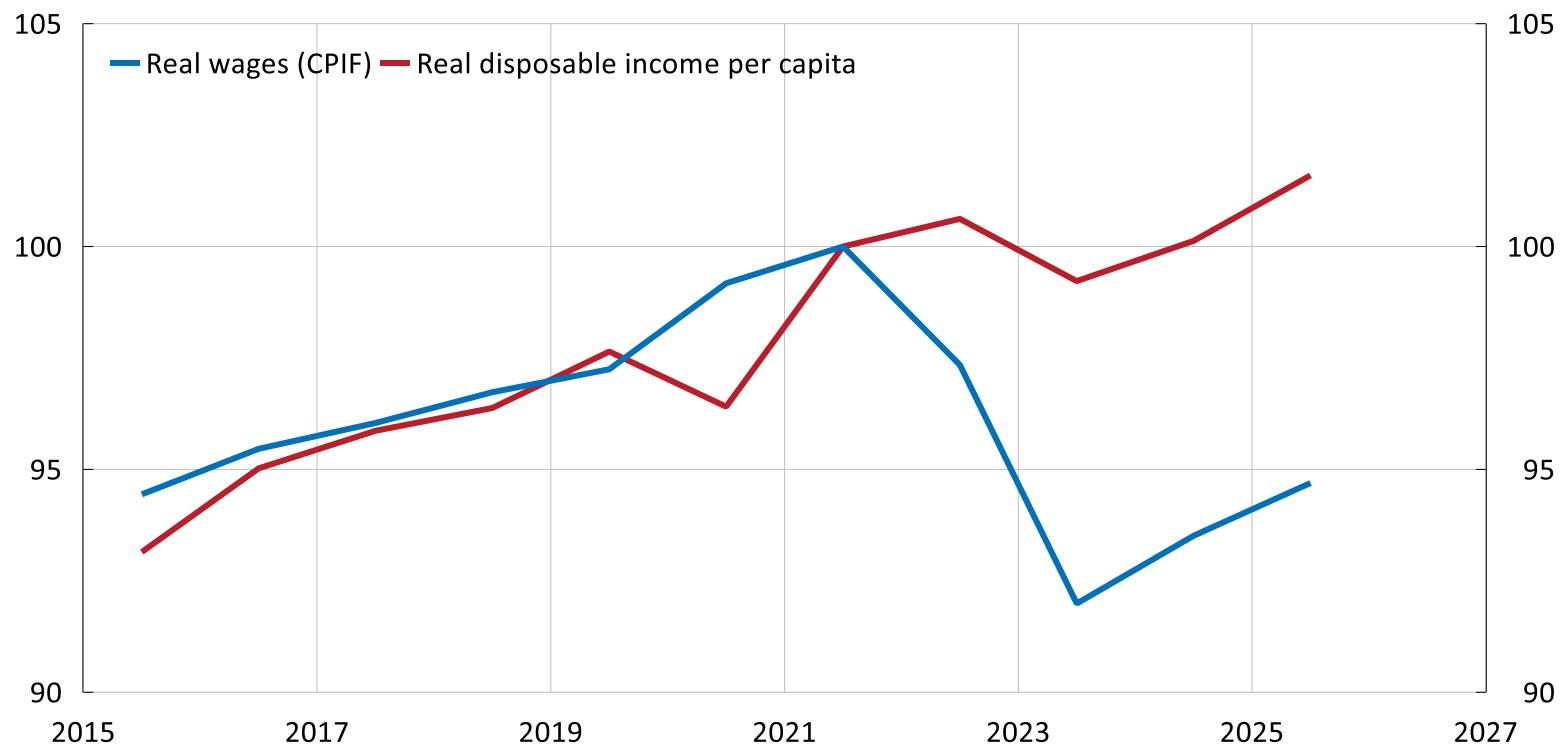


Price increase CPIF:



Predictable and responsible fiscal policy when inflation was high

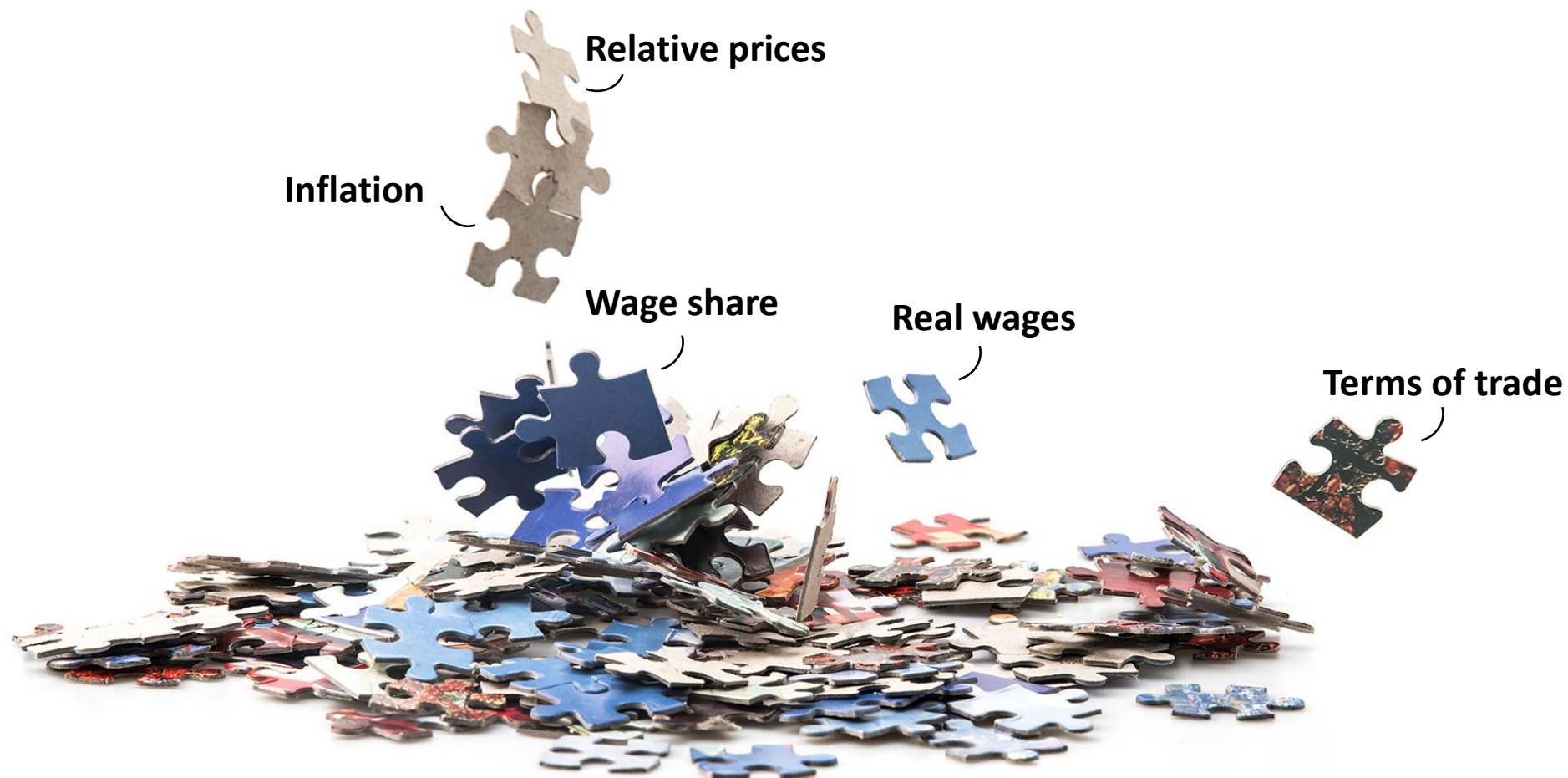
Real disposable income per capita increased slightly while real wages fell



- Clear communication in the budget bills
 - Not making things difficult for monetary policy
- Neutral fiscal policy 2023–2025
- Support to households' disposable incomes

Note. Index, 2021 = 100. Real disposable income per capita is calculated as the ratio between disposable income per capita and the deflator of household consumption expenditure, which usually increases at the same rate as the CPIF. Real wages are calculated as the ratio between the nominal wage level and the CPIF. Refers to annual data. Sources: National Mediation Office, Statistics Sweden and the Riksbank.

Supply disruptions are reshaping the wage formation puzzle



Responsible wage formation when inflation was high

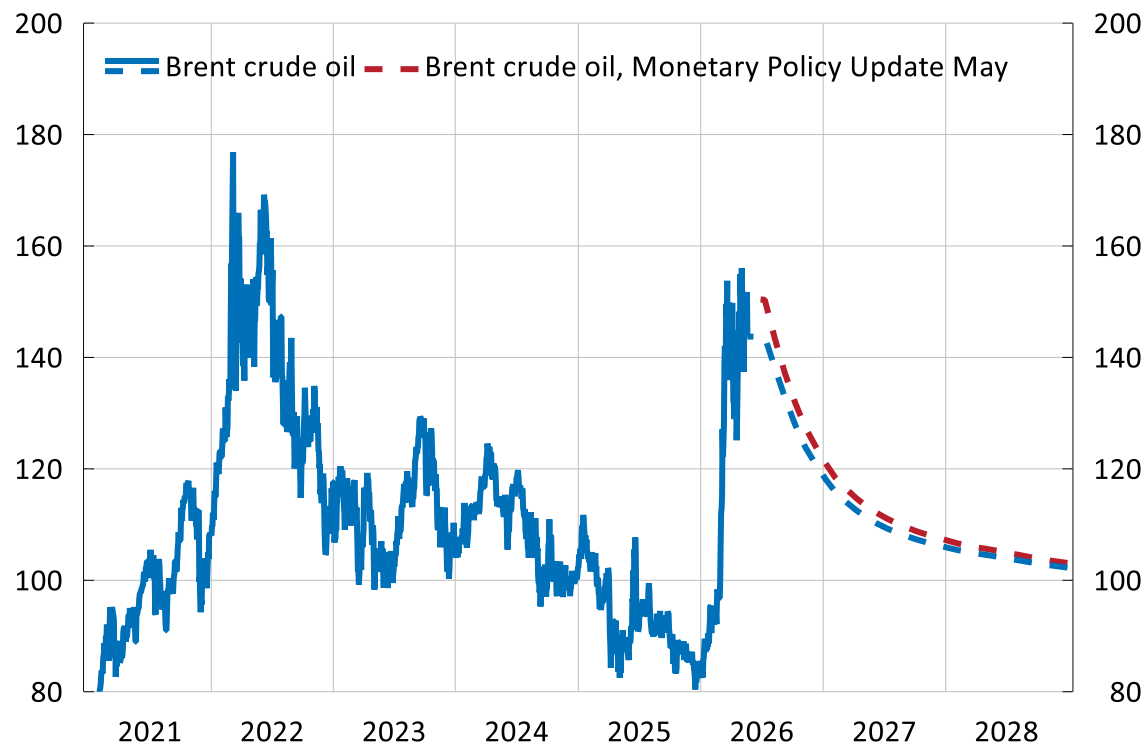
Increase in labour costs

	2010–2022	2023–2026	Benchmark in the long term (NIER)
Contractual labour costs	2.1 per cent	3.4 per cent	
Labour cost developments	2.9 per cent	3.9 per cent	3.5 per cent

Note. Per cent. Refers to average percentage development for the period 2010–2022 and 2023–2026, respectively. The labour cost for 2026 refers to the Riksbank's forecast.
Sources: National Institute of Economic Research (NIER), Statistics Sweden and the Riksbank.

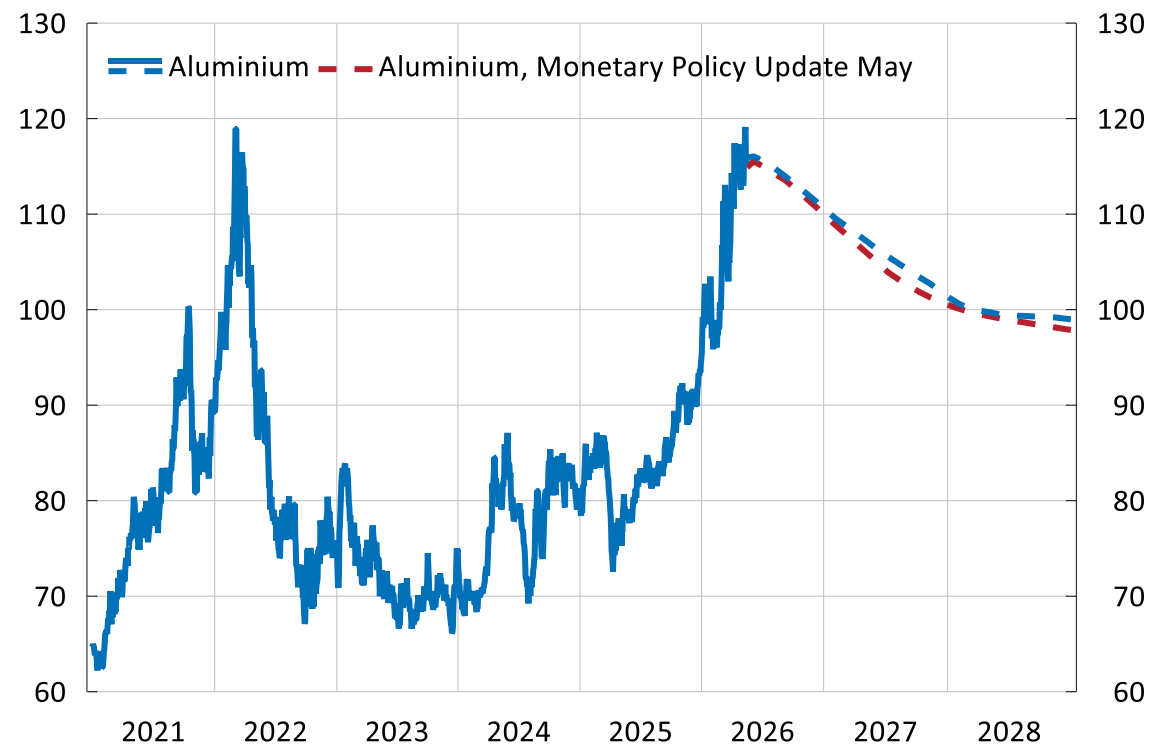
The war in the Middle East has caused significant supply disruptions

The price of oil



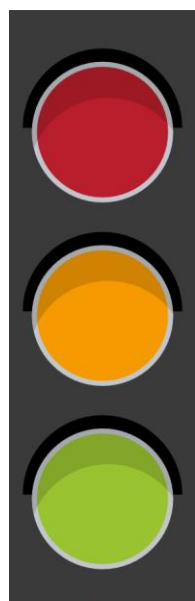
Note. Index, 27 February 2026 = 100. Solid lines show outcomes as of May 20 while the dashed blue lines refer to futures prices on the same day. Red dashed lines refer to futures prices at the time of the monetary policy meeting in May. Source: Intercontinental Exchange.

The price of aluminium



Note. Index, 27 February 2026 = 100. Solid lines show outcomes as of May 20 while the dashed blue lines refer to futures prices on the same day. Red dashed lines refer to futures prices at the time of the monetary policy meeting in May. Source: London Metal Exchange.

The Riksbank can await further information on the effects of the war on the economy



- Medium-sized shock
- Monetary policy tightening?

To follow:

- Inflation expectations
- Futures prices
- Producer prices
- (and so on)
- Price plans
- Production plans
- Global value chains

- Credibility of the target
- Inflation
- Resource utilisation
- Interest rates
- Expected fiscal policy and wage developments
- Other central banks

Economic policy frameworks facilitate interaction

2%

SVERIGES RIKSBANK ACT

- Transparent central bank – a prerequisite for interaction
- Forecasts, scenarios and communication

FISCAL POLICY FRAMEWORK

- Monetary policy has the main responsibility for stabilisation policy.
- Fiscal policy may need to contribute more when monetary policy is constrained.
- Fiscal policy should not impede monetary policy in the event of supply shocks.

INDUSTRIAL AGREEMENT

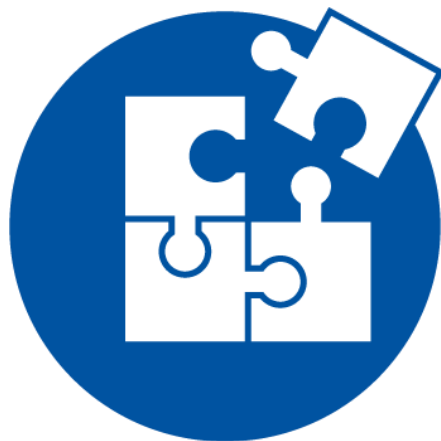
- Facilitates communication between wage formation and monetary policy
- Multi-year agreements provide predictability.

The Riksbank's communication can be strengthened



- Regularly describe how different driving forces affect the conditions for economic agents
- Deepen the analysis of cost and price dispersion in complex value chains
- Alternative scenarios with trade-offs between nominal and real stability

Summing up: communication and interaction give the Riksbank greater room for manoeuvre



- Clear communication can reduce the need for tightening in the face of supply-driven inflation.
- Fiscal policy and wage formation can help monetary policy to take the real economy into account.
- Economic policy frameworks facilitate interaction and give monetary policy more room for manoeuvre.
- Large supply shocks require monetary policy to be tightened.
- Permanently low and stable inflation is a cornerstone of good economic development.

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