

On risk, uncertainty and geoeconomic fragmentation

Handelsbanken, Stockholm
16 May 2025

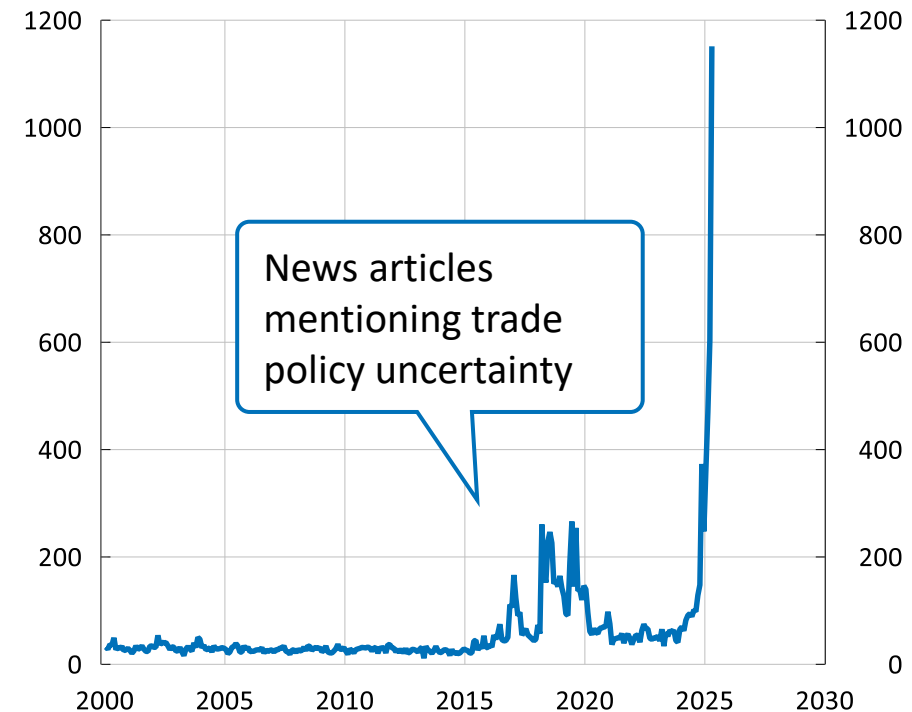
Erik Thedéen
Governor of the Riksbank

Monetary policy, May 2025

- Policy rate **unchanged** at 2.25 per cent
- Monetary policy is currently assessed as **well-balanced**
- It is somewhat more probable that inflation will be lower rather than higher than in the March forecast
- **More information** is needed to gain a clearer view of the outlook

Significantly higher uncertainty since the last monetary policy meeting

- Sharp shifts in US trade policy, geopolitical uncertainty
- Large movements in the equity and fixed-income markets
- Clear weakening of the dollar



Trade Policy Uncertainty Index.

Source: Economic Policy Uncertainty.

The difference between risk and uncertainty

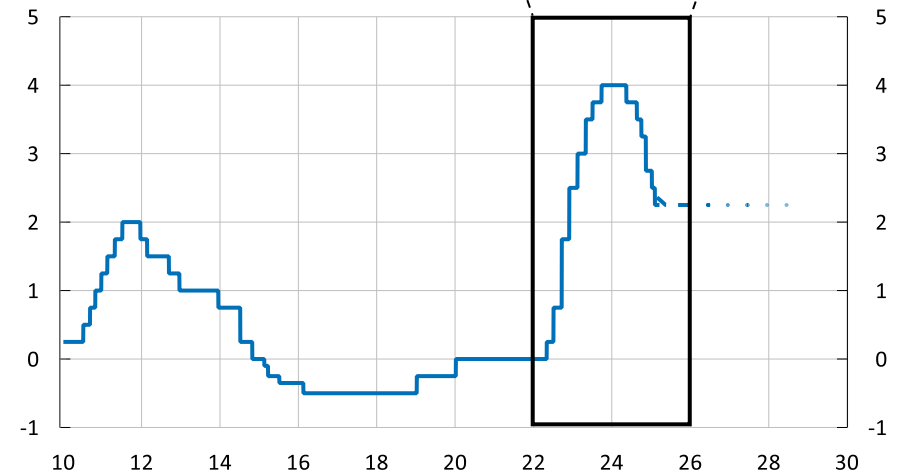
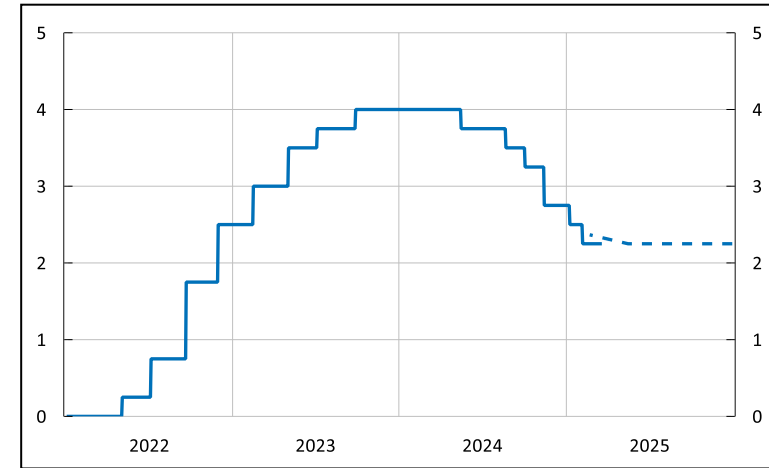
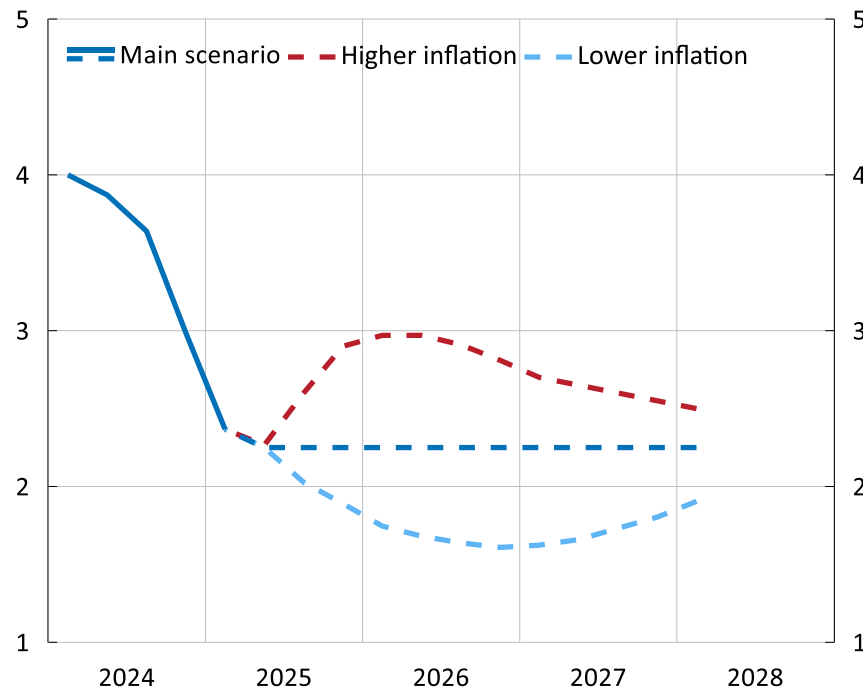


Different ways to take account of uncertainty

- Act cautiously, forcefully or completely disregard uncertainty
- Depends on economic and financial conditions in Sweden and globally
- The current economic situation favours the *conservatism principle*



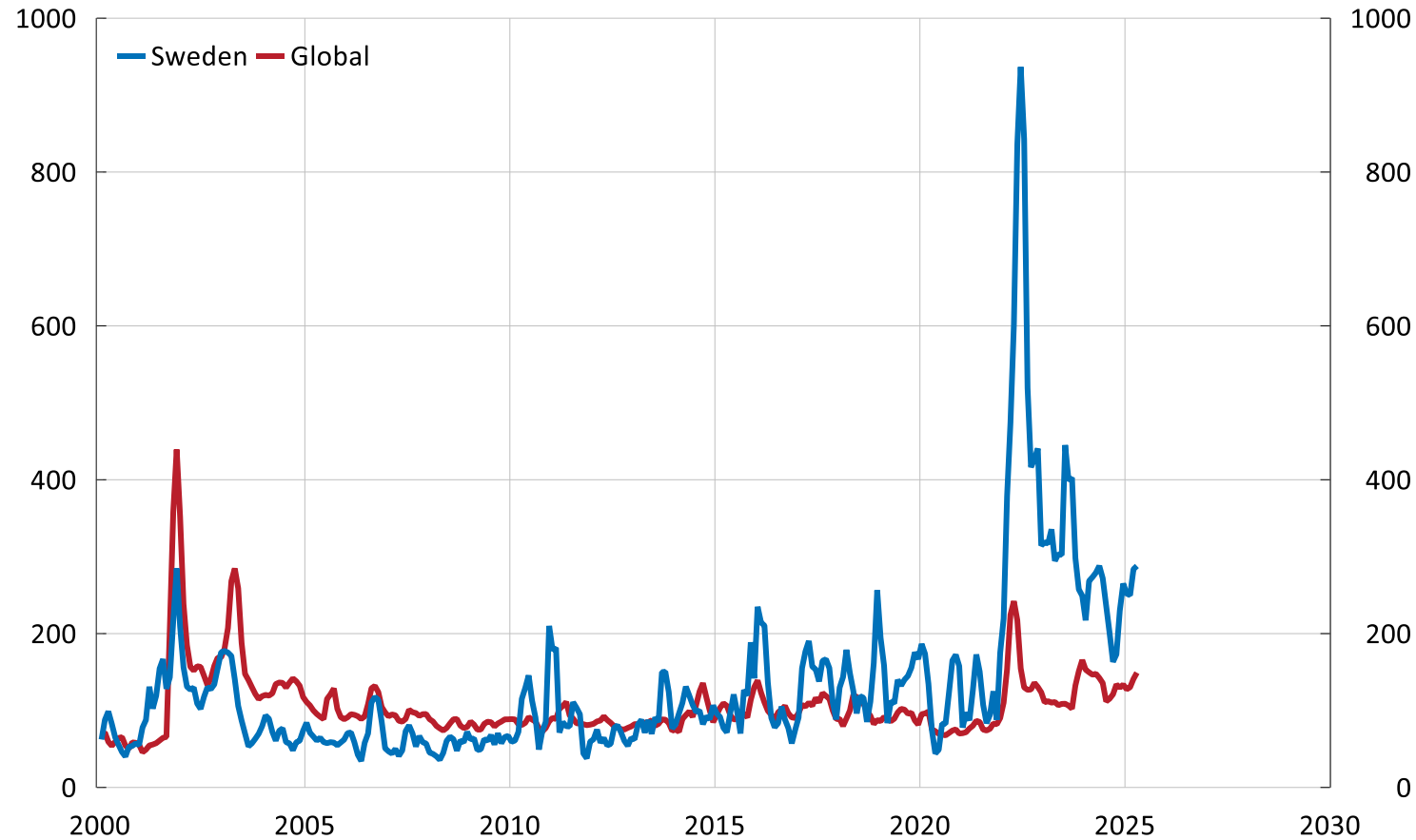
How do we deal with risk and uncertainty?



Alternative scenarios from the Monetary Policy Report (MPR) in March 2025 (left).
Short and long horizons for the policy rate path from the MPR in March 2025
(right). Solid lines refer to outcomes and dashed lines to scenarios and forecasts.

Source: The Riksbank.

Increased geopolitical tensions

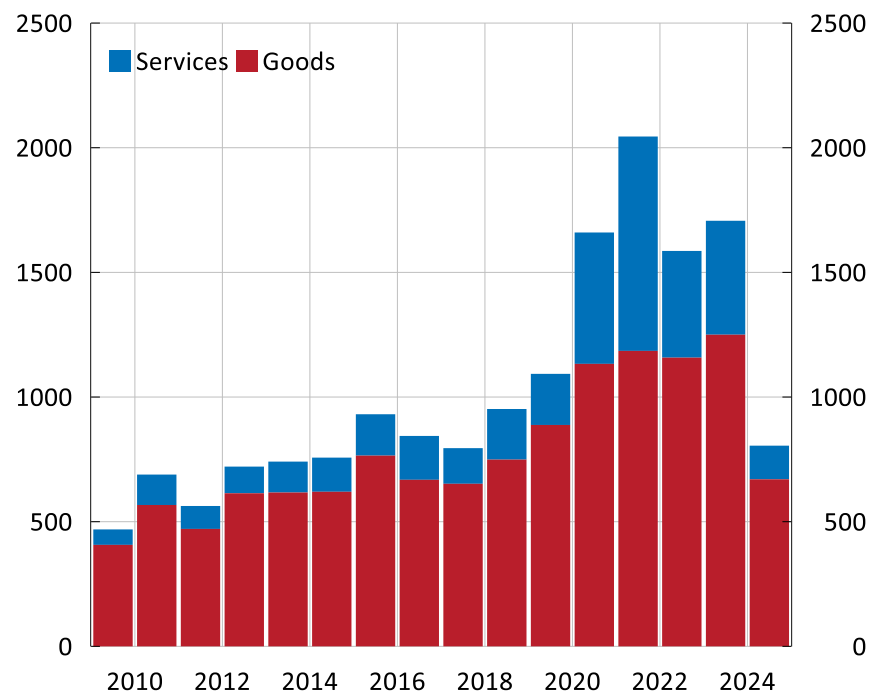


Geopolitical risk index, average in 1985–2019 = 100.
Three-month moving average.

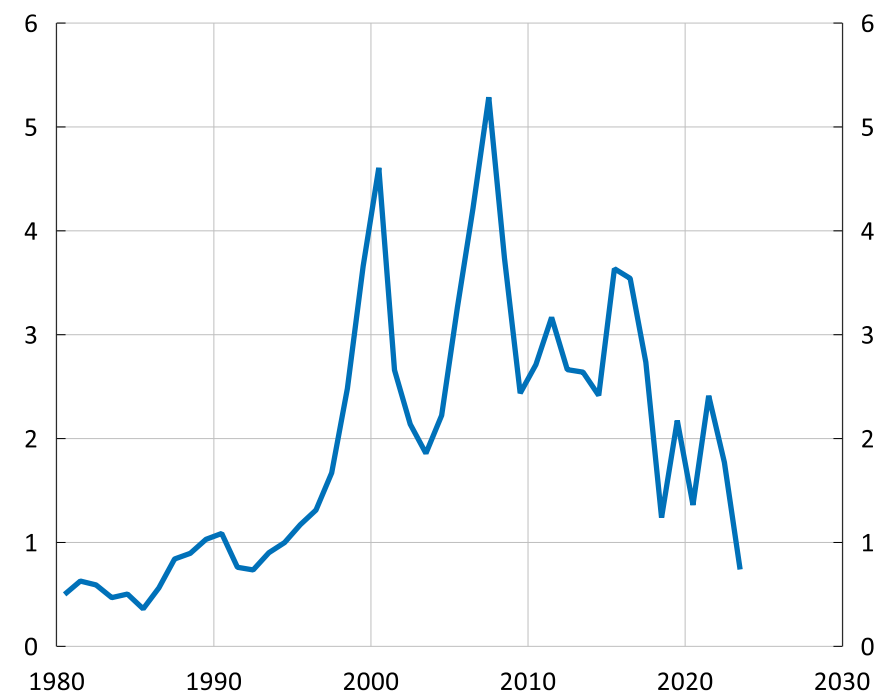
Source: D. Caldara and M. Iacoviello “Measuring geopolitical risk”,
American Economic Review, 112, 2022.

Signs of geoeconomic fragmentation

Increased trade barriers



Decreased foreign direct investment



Number of implemented trade barriers worldwide. Includes the two most common trade barriers: import tariffs and financial subsidies (left). Per cent. Net inflow of foreign direct investment as a share of global GDP (right).

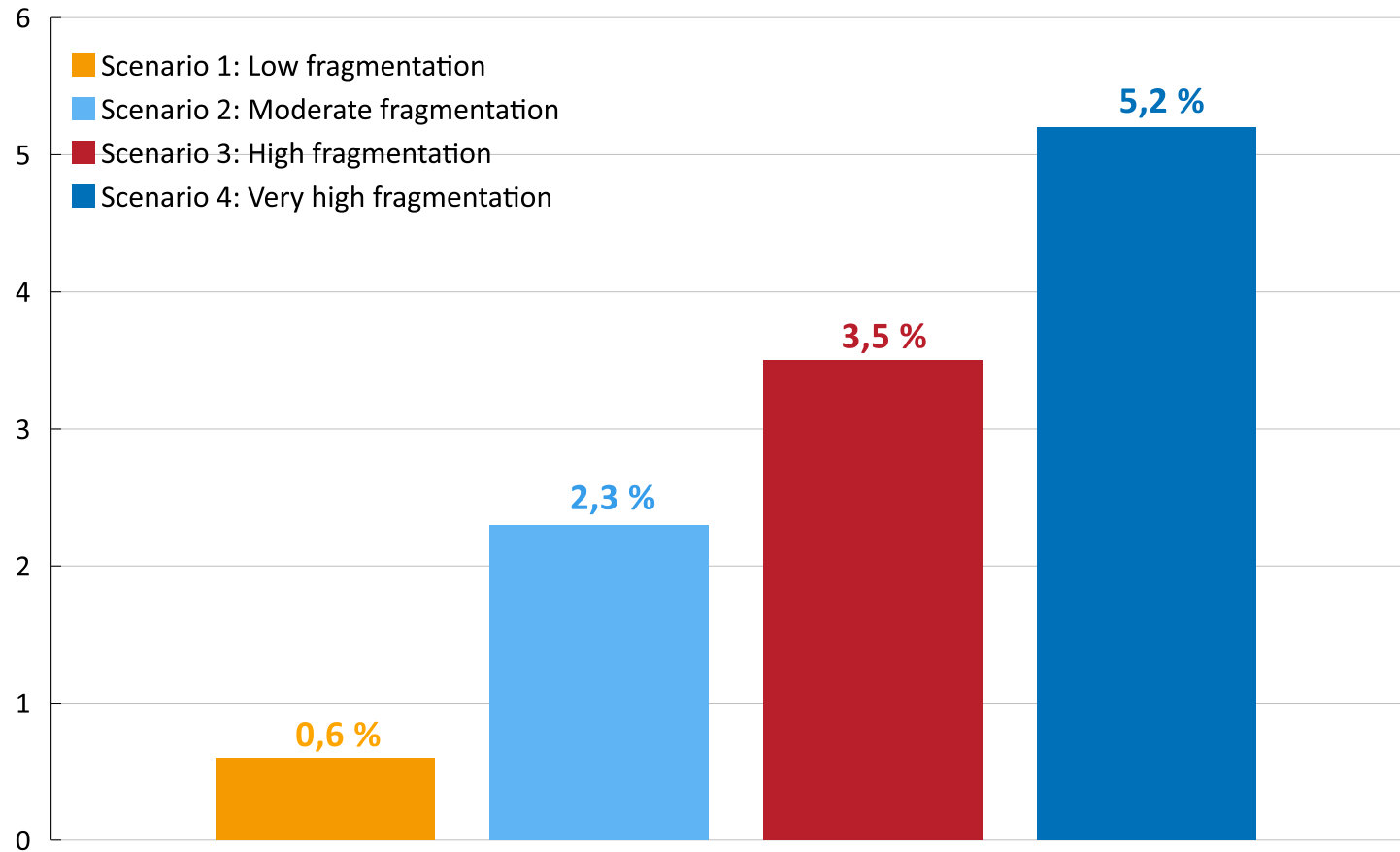
Sources: Global Trade Alert and the World Bank.

The costs of geoeconomic fragmentation can be high...

- IMF report: loss to global GDP from 0.2 per cent up to 7 per cent
- WEF report: approximately up to 5 per cent of global GDP
- But too much specialisation can be risky



... for global inflation too



Deviation from main scenario in percentage points.

Source: World Economic Forum.

Supply shocks

- Temporary or long-term?
- Central banks need to spend more time analysing supply shocks
- Forward-looking monetary policy



Concluding comments

- Monetary policy analysis is constantly evolving
- Scenarios, reports and minutes are valuable for discussing and communicating uncertainty and risk
- In a more fragmented and divided world, central banks need to continue speaking the truth



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