SVERIGES RIKSBANK

Minutes of the Monetary Policy Meeting

December 2025

SVERIGES RIKSBANK

SVERIGES RIKSBANK

MONETARY POLICY MINUTES

Executive Board, No. 8

DATE:	17 December 2025
TIME:	09:00 Monetary policy minutes for meeting 35 2025
INFORMATION CLASS:	RB PUBLIC
PRESENT:	Erik Thedéen, Chair Aino Bunge Per Jansson Anna Seim --- Bo Broman, Chair, General Council of the Riksbank --- Jakob Almerud Irina Andone Rosén Lena Arfalk Charlotta Edler Mattias Erlandsson Susanna Grufman Peter Gustafsson Jesper Johansson Ellen Kockum Björn Lagerwall David Lööv Åsa Olli Segendorf Annica Sandberg Olof Sandstedt Daniel Wallemo --- Robin Ahlén (§1–3a) Maria Johansson (§1–3a)

It was noted that Irina Andone Rosén, Jesper Johansson and David Lööv would prepare the minutes of monetary policy meeting.

§3 Monetary policy review

§3a Economic developments

Market developments since the last monetary policy meeting

Robin Ahlén, senior economist at the Markets Department, began by presenting developments in the financial markets since the previous monetary policy meeting in November.

The period since the last monetary policy meeting has been characterised by rising government bond yields, partly due to expectations of tighter monetary policy. This is explained by a stronger economic outlook alongside more hawkish communication from some central banks. Developments differ across countries however, with the market now expecting interest rate hikes in Canada, Australia, Sweden and New Zealand next year. In the United States, where interest rates were cut for the third consecutive meeting last week, the market is expecting a couple more rate cuts, even as communication from the Federal Reserve implies that this may happen at a slower pace than previously expected. At the same time, purchases of short-term government securities are being initiated to stabilise money market rates. In Sweden and Germany, long-term government bond yields have also risen, driven in part by an increased supply of government bonds as a result of more expansionary fiscal policy.

Rising profit expectations have contributed to a generally high risk appetite in the markets, with stock markets close to previous record levels. However, the high valuations and large investments in the AI sector have led to some nervousness. But although some companies have been negatively affected during the autumn, there is no evidence of broader concerns in credit markets. Recently, volatility in fixed income and equity markets has increased somewhat on occasion, but expected volatility is still at relatively low levels despite concerns.

The Riksbank is expected to leave the policy rate unchanged at today's meeting. Most forecasters also expect the policy rate to remain unchanged next year, while market pricing indicates a rate increase towards the end of 2026. The improved economic outlook means that the need for rate cuts is assessed to have diminished, but at the same time, inflation is expected to be low next year and unemployment to be high, which means that the Riksbank is not expected to be in any hurry to raise rates. Most analysts expect the Riksbank's forecast for the policy rate to shift upwards slightly, but to remain unchanged for most of 2026. The Swedish krona has appreciated in KIX terms since the previous monetary policy meeting.

Financial stability – current situation and risks

Olof Sandstedt, Head of the Financial Stability Department, described the situation in the financial system.

In an uncertain world, the risks to financial stability in Sweden remain in place. Global uncertainty persists as the security situation remains serious. In addition, there is considerable uncertainty related to global economic policies, and public debt in several major economies continues to grow. In an environment of high risk appetite and high asset prices, and with a globally interconnected financial system, unexpected events and sudden changes in market sentiment can have widespread repercussions. Moreover, an increasingly large non-bank sector can amplify these effects, including through its credit intermediation activities.

At the same time, the major Swedish banks are resilient, due to good profitability and high margins in relation to applicable capital and liquidity requirements. The major banks' net interest income has continued to decline, but commission earnings, reversals of previous loan loss provisions and cost-cutting measures have helped to maintain profitability. This continues to give them the prerequisites to maintain the supply of credit to the real economy, even if market conditions were to deteriorate.

Money market pricing, mainly for foreign exchange derivative transactions, has indicated elevated interest rates on a number of occasions during the year. A better ability and willingness of monetary policy counterparties to use the overnight market for transactions with each other, and use the Riksbank's lending facilities, would promote the balancing of liquidity between banks as well as reduce volatility in short-term market rates.

Banks' lending rates to both households and firms have continued to fall. At the same time, lending rate margins are being squeezed by the corporate bond market, partly because continued fund inflows are increasing credit supply. Bank lending is now growing slightly faster than earlier in the autumn, but from low levels. However, the build-up of cyclical systemic risks associated with household and corporate indebtedness is currently assessed to be low. At the same time, several significant vulnerabilities remain. One such vulnerability in particular is the short interest-rate fixation period among highly indebted households and commercial real estate companies. A combination of rising vacancy rates in some segments, particularly offices, and a continued reliance on corporate bond funds means that many property companies remain vulnerable.

First Deputy Governor **Aino Bunge** commented that the non-banking sector is very heterogeneous, with large differences between different types of companies. In some cases, that can also help to reduce risks, and it is essential to try to capture what the systemic risks look like and how they can spread, for example

through leverage and links to the banking sector, when continuing to analyse these issues.

The current monetary policy drafting process – new data and forecasts

Peter Gustafsson, Adviser at the Monetary Policy Department, presented the current assessment of macroeconomic developments and the proposal for a monetary policy decision that the Monetary Policy Department assesses would gain majority support in the Executive Board at today's meeting.

The background material for today's policy-rate decision has been discussed with the Executive Board on 2, 3 and 5 December. The draft Monetary Policy Report was discussed at the drafting meeting on 10 December.

At the monetary policy meeting in November, the Riksbank left the policy rate unchanged at 1.75 per cent. The Executive Board maintained its assessment that the elevated inflation was transitory, noting that new information supported the view that the economy was on the way to recovery and did not motivate any clear changes in the inflation and economic outlook. It therefore followed the previous plan to leave the policy rate unchanged.

Key issues in the current policy round have included the assessment of near-term inflationary pressures in the Swedish economy, the speed of the economic recovery and the assessment of the amount of spare capacity, particularly in light of recent GDP and labour market statistics.

The draft report notes that global financial conditions remain expansionary, with high stock prices and favourable conditions for borrowers. At the same time, global developments are uncertain against a backdrop of geopolitical tensions, high asset valuations and weak public finances in several countries.

In the draft forecast, global growth is slightly below its historical average in the coming years. The US economy is showing signs of slowing down, but inflation is expected to remain elevated in the near term, gradually falling back towards the target sometime next year. This is assessed to be consistent with the Federal Reserve cutting the federal funds rate a couple more times in 2026. In the euro area, growth varies markedly across countries, but overall developments are close to historical trends and inflation remains close to target, consistent with an unchanged policy rate for some time to come.

New information suggests that the Swedish economy is in a recovery phase. According to the national accounts, GDP grew rapidly in the third quarter and growth was also slightly revised upwards in previous quarters. Although the growth rate going forward is expected to be slightly lower than it was in the third quarter, the economy is nevertheless projected to continue growing at a good

pace. The situation in the labour market remains weak, but despite higher-than-expected unemployment in October and November, indicators increasingly suggest that a turnaround is forthcoming. Unemployment falls therefore in 2026 in the forecast, and the employment rate rises. Resource utilisation measured as an output gap is expected to return to normal at the beginning of 2027, slightly earlier than in the September forecast. It will be a while yet before the labour market is back in balance.

Inflation is still slightly elevated but fell back in November with an outcome well in line with the Riksbank's earlier forecast. Subdued domestic cost pressures, a stronger krona and a normal effect of CPI weight changes are expected to contribute to a further decline in inflation in 2026, even excluding the direct effects of the government's proposed VAT changes. As described in the draft report, indicators suggest that the more underlying inflation will be close to the target in the period ahead. Monetary policy is supporting the economic recovery so that inflation stabilises around 2 per cent in the medium term.

The economic and inflation outlooks are uncertain, and in addition to the aforementioned international risks, domestic factors may also contribute to a different development than in the Riksbank's forecasts. These may include unexpected inflationary effects of the more expansionary fiscal policy, an inaccurate assessment of households' consumption behaviour, AI-related corrections of financial conditions or the occurrence of supply bottlenecks during the economic recovery phase. Chapter 3 of the draft report presents the most important risks surrounding the forecast, as well as alternative scenarios.

The proposed forecast is based on the monetary policy proposal that the Monetary Policy Department assesses will be supported by a majority of the Executive Board at today's meeting, and which is described in Annex A to the minutes. The proposal means that the policy rate is left unchanged at 1.75 per cent and remains at this level for some time to come.

§3b The economic situation and monetary policy

Deputy Governor Per Jansson

I support the forecasts and the monetary policy assumptions in the draft Monetary Policy Report. This means that I support the proposed decision to leave the policy rate unchanged at 1.75 per cent and that, provided the outlook for inflation and the economy stays unchanged, I envisage the rate remaining at this level for some time to come.

Inspired by the ECB, I described at our last monetary policy meeting on 4 November the monetary policy situation in Sweden with the words "we are in a

good place". Since then, it has become increasingly clear that the Swedish economy has started to recover. New National Accounts outcomes for the second and third quarters confirm the picture of accelerating and unexpectedly rapid growth painted by more preliminary data and indicators ahead of our November meeting. Monthly data suggest that the favourable development has continued in the fourth quarter, but that it is not so strong and fast as to raise concerns about overheating tendencies. At the same time, after a period of several surprisingly high outcomes, inflation has now started to fall substantially, and excluding energy prices, the outcome for November, at 2.4 per cent, was even slightly lower than expected.

So we are undoubtedly still "in a good place" and, in fact, it is hard not to conclude that we are currently even "in a better place" than in November. However, it is important to emphasise that this applies specifically to the present moment. As we all know, new, unexpected events and shocks can quickly change things, so it is important not to become complacent.

In my contribution to today's meeting, I intend to build on the thoughts on the risk picture for future inflation that I raised at our meeting in November. Although my discussion is not of immediate relevance to our monetary policy, it may well become significant later on next year. It also gives me the opportunity to make some personal refinements to the content of the draft report on a more general level.

At our November meeting, in my discussion of inflation risks, I concluded that for the more underlying inflation rate and inflationary pressures, there were a limited number of upside risks, while the downside risks going forward were gradually becoming more significant. I stand by this conclusion and believe that the risks of inflationary pressures becoming too low a little further ahead have now even become somewhat greater. I will come back to this in a moment, but first I would like to raise an aspect related to the temporary reduction of VAT on food that will take place in April next year.

In my reasoning at the November meeting, I was careful to point out that the downside risks I envisaged were not linked to the temporary VAT cut on food. It was expected to have a full and significant impact on measured inflation but not to affect the more underlying inflation rate. This assessment is also reflected in the proposed forecast contained in today's draft report.

But there is of course a risk that the VAT cut will not have its full impact on food prices or will have indirect effects on the wider inflation process. My judgement is that the conditions for a full impact are favourable. This is partly because the Government has commissioned the Swedish Consumer Agency and the National Institute of Economic Research to set up a food-price commission to continuously

monitor and analyse food-price developments. A first report will be due as early as 1 March 2026, one month before the VAT reduction enters into force.

Of course, we at the Riksbank and many others who regularly undertake inflation analyses will also follow developments very closely. Of importance is also the fact that food is a very significant item in Swedish household budgets and that price awareness in this area is therefore very high. So, while it may become increasingly difficult to control for other factors affecting prices over time, I am quite hopeful that the VAT cut will have a strong impact on food prices.

A risk that worries me more is that there will be indirect effects that affect the wider inflation process. This could happen if, for example, longer-term inflation expectations start to be depressed and/or future wage growth is subdued as a result of temporary unexpectedly high real wage increases. In 2028, when the VAT is raised again, the inflation process may also be affected by indirect effects, but then of course in the opposite direction. Against this background, it will be important for us at the Riksbank to closely monitor and analyse the more underlying development of inflation. This is, of course, a task that is always high on the agenda of a central bank, but in the current situation, when changes in food VAT will have a strong impact on consumer prices for several years, we should now examine whether it is not possible to use more customised measures of underlying inflation and indicators of the economy’s more fundamental inflation propensity.

Here, it will be important that the analysis is not simply based on surveys of inflation expectations from relatively small samples. Hopefully, the analytical advances we have made in our AI work can, in this context, provide us with some support, both in terms of data and modelling tools. I look very much forward to following the work of the Monetary Policy Department in this area.

Having said all this, I still support the assumption that the effects of the change in food VAT will be limited to direct effects on food prices. And so I now turn to my arguments about the increasing risks of lower inflationary pressures going forward that are not related to the VAT cut.

As I have already mentioned, inflation fell sharply in November. Compared with our last forecast in September, CPIF inflation was still a couple of tenths of a percentage point higher than expected – 2.3 per cent, compared with a forecast of 2.1 per cent – but it fell by as much as 0.8 percentage points from October to November. The decline in CPIF inflation excluding energy prices was also substantial, from 2.8 to 2.4 per cent. And here, as I said, the outcome was even slightly lower than expected.

We do expect inflation, both with and without energy prices, to be pushed up by a few tenths of a percentage point by base effects in December. But after that, as I have pointed out on many occasions this year, there are a number of factors that will exert significant downward pressure on price increases. These include updated, more normal weight changes in the index construction for consumer prices, the fact that many of our inflation indicators point to weak inflationary pressures, that various measures of underlying inflation are low, and that price increases over a horizon of less than twelve months, that is, measures of inflation and inflationary pressures in the here and now, are subdued.

Comparing the indicators and the various price measures to before our November meeting, it is clear that downside inflation risks have now increased significantly. During the period of high inflation, when early identification of changes in price increases was important, I started to regularly update and track a wide range of measures of underlying inflation at one-, three- and six-month rates. Many of these measures vary quite a lot over time and therefore need to be interpreted with caution. Nevertheless, it can be noted that, since inflation started to rise in early 2022, these measures have never conveyed such a unanimous picture as they do now of below-target inflationary pressures going forward.

So, to summarise, my concern about the risks to inflationary pressures going forward continues to be that they rather will be too low than too high. And I think developments since November have, if anything, reinforced this tendency. However, as I said at the beginning, I believe that we are in a favourable position at the moment and I see conditions for this prevailing for some time to come. But we need to be prepared to quickly reconsider our stance if necessary and, if that were to happen, for my part, I believe for the time being that it would involve cutting the policy rate further rather than raising it.

Deputy Governor Anna Seim

I support the proposal to leave the policy rate unchanged at 1.75 per cent. I also support the forecasts and deliberations communicated in the draft Monetary Policy Report.

Current developments in inflation and economic activity are described in detail in the draft report. Instead of repeating what is written there, I would like to identify elements I consider to be particularly prominent in the risk outlook and to comment on factors and principles I think will be important for monetary policy going forward.

At the meeting in September this year I expressed concern about upside inflation risks next year. The reasons I provided then were the expansionary fiscal policy, combined with strains in global supply which I suspect has low resilience to

shocks. At the November meeting, I further pointed out that there is a risk that the cut in the VAT on food in April next year, because it has been communicated so far in advance, might lead to anticipatory price increases, which could give rise to higher food prices before April. I am pleased that since then the Government has launched the commission that will monitor price-setting, and I assess that the risk of such price increases has thereby declined. In this context, however, one should be aware that it is very difficult to determine what is reasonable pricing in a sector where the production process is complex, and costs vary substantially. We will continue to follow this development closely by means of microdata analysis.

I often think about the upturn in inflation 2021/22 and see certain similarities between it and what is happening today. Inflation is stubbornly somewhat elevated in several countries and probably about to rise in the United States. One can also imagine that there is some pent-up demand following the tightening and restraint of recent years. Moreover, electricity prices have periodically been higher during the autumn, and we are on the cusp of fiscal policy expansion both in Sweden and abroad. As I have often returned to during the year, the risk of supply shocks is also elevated because of widespread geopolitical tensions and the stress to which the global trade network was exposed in 2025.

But there are also things that are different today. Although electricity prices have, as I mentioned, been somewhat higher during parts of the autumn, they have not risen to the same levels as three years ago. Nor do Swedish households have the same savings buffers as what they had accumulated during the pandemic – in recent years they have on average had a higher propensity to save than before. This is probably one reason why it is only now that we are seeing stronger signs that consumption is reacting to the expansionary economic policy. In relation to, for instance, the euro and especially the dollar, the Swedish krona has also strengthened since 2023, which is restraining inflationary pressures. Another important difference is that the policy rate is higher, and closer to a neutral level now. When inflation began to rise four years ago, the policy rate was initially zero.

Although I see upside risks for inflation, forward-looking data does not yet indicate that my fears are about to be realised. I therefore support the assessment we make in the draft report, that inflationary pressures next year are compatible with an inflation rate of two per cent, if one disregards the direct effects of the cut in the VAT that will make inflation artificially low when it is introduced in April. But with the reasoning above, I would like to reiterate that there are a number of factors that merit vigilance. A sequence of events I have given considerable thought to is one in which stronger demand effects of fiscal policy, combined with supply shocks, create more powerful inflationary pressures than in our forecast. If this were to happen, I would argue in favour of an

adjustment of our monetary policy more or less in line with what we described in our alternative scenario with higher inflation.

As it is December now, it feels natural to make a kind of year-end closure. I note that the global economy has so far overall been resilient to the sharp shifts over the past year. But there are a number of factors that can lead to either stronger or weaker developments abroad and affect a small open economy like ours. In addition to the factors we have constantly returned to during the year, it will hopefully become increasingly relevant to think of the effects of an end to Russia's war of aggression in Ukraine, but also of the real economic effects of a potential US stock market correction and structural, more long-term effects of the changed trade policy. Hoping that uncertainty will decline in 2026 would appear to be wishful thinking As a central bank, the best we can do in uncertain times is to use economic theory and common sense as a basis for closely monitoring forward-looking indicators to assess where we are heading. We should then conduct a robust monetary policy that gives rise to acceptable outcomes, even if the economy does not develop as we had anticipated.

First Deputy Governor Aino Bunge

I support both the proposal to leave the policy rate unchanged at 1.75 per cent at this meeting, and the assessments made in the draft Monetary Policy Report.

We are approaching the end of the year and, as always, this provides an opportunity for reflection. As we look towards 2026, my assessment is that the Swedish economy is in a good position. We have inflation that is approaching the target after being elevated over the year and a real economy that is now recovering after a longer period of weak growth.

But we cannot ignore that we are leaving another dramatic year behind us, the consequences of which will likely echo for some time to come. It remains to be seen what effects the major shifts in geopolitics, particularly US trade and foreign policy, will have on global economic development and thus also on the Swedish economy.

The sudden shift in US trade policy in the spring was a negative shock for global growth but, as the draft report describes, in many respects trade seems to have found new ways forward (see Figure 2 in the draft report). Growth in both the United States and Europe has been somewhat better than expected and it has been possible to avoid a more general trade war. But we can expect continued unpredictable developments and cannot dismiss the risk of supply shocks connected to geopolitical conflicts in the period ahead. At the same time, there are also hopes for peace in Ukraine and a reconstruction of the economy there.

Turmoil in financial markets peaked in conjunction with the US tariff decisions in April. However, alongside increasing clarity over tariffs, we now find ourselves in another, calmer situation with new stock market records, high risk appetite and low credit spreads. Financial markets are now fully focused on AI initiatives and their effects on investment and growth. Expectations are very high, which is reflected in the valuations of AI companies. But, apart from the risk of an AI bubble, there is of course another kind of unease, which is due to the high concentration of tech companies in the United States. This could lead to difficulties and dependence for us in Europe if we fail to achieve similar initiatives and innovations.

The year's drama continues to have a significant effect on the foreign exchange market, where the dollar has weakened. The Swedish krona has also performed strongly against other currencies and, compared with the start of the year, it is almost 5 per cent stronger against the euro and more than 15 per cent stronger against the dollar (see Figure 9 in the draft report). We can already see an effect of the krona appreciation on inflation via import prices and our forecast suggests some further strengthening and a cooling effect on consumer prices next year.

One important precondition for monetary policy in the period ahead is the stability of other economic policies. In this regard, Sweden remains in a very good position, with strong public finances and the possibility of planning for the long-term. It is very important to continue safeguarding this in the future, for instance when historic defence investments must be managed. The situation in Sweden stands in stark contrast to several other countries, including the United States, which are struggling with high and growing debt. Moreover, Sweden has during the year once again succeeded in getting the industry wage agreement into place. That creates stability in wage formation and strengthens the conditions for keeping inflation on target. Inflation expectations are also stable and in line with the target.

Following this retrospective, I would now instead like to look forward to next year. And, as I mentioned initially, I think that the prospects look good. Ahead of us, we see a recovery in the Swedish economy at the same time as inflation continues to move downwards. Let me begin with inflation.

In the latest outcome for November, inflation measured by CPIF fell to 2.3 per cent and to 2.4 per cent measured by the CPIF excluding energy. Getting this confirmation was encouraging. If we look at the "momentum" of inflation, measured as price movements over a term shorter than the normal 12 months, the measures are now close to or below 2 per cent (see Figure 15 in the draft report). The compilation of forward-looking indicators instead points to a bias towards lower inflation (see Figure 18 in the draft report). The stronger krona is one factor contributing to this.

At the same time, however, it is clear that we are starting from a stronger economic situation, and it is now more likely that we will get an economic recovery that stabilises inflation in the medium term. GDP rose by 1.1 per cent in the third quarter compared with the previous quarter, which was significantly higher than our forecast in September. As described in the draft report, the high growth in the third quarter had some temporary elements but was nevertheless broad. Household consumption rose in line with disposable incomes and the savings ratio remained high.

How households choose to divide their increased incomes between savings and consumption has been one of the central questions of our monetary policy decisions in recent years. As early as the end of last year, we thought we could see signs of a recovery and that consumption would pick up. But it has taken some time for consumption to begin its recovery, and we have tried to take a consolidated approach to the question in an in-depth analysis in the draft report (see "Consumption expected to increase at a good pace going forward"). The assessment made in the analysis – which I share – is that consumption has likely mainly been held back by weak income growth. Our forecast is now that it will rise in line with real incomes. But household confidence is some way from optimism, and we must carefully monitor its development going forward (see Figure 12 in the draft report). Our understanding of consumption in Sweden is also limited by the poor access to data across different households. The differences between different households are probably large, as well as being important for the understanding of overall consumption.[1]

The continuing low confidence among households is probably partly due to the continuing weakness of the labour market. Even though it is normal for the labour market to improve with a lag in relation to growth, I still feel some concern about developments. It is important that the indicators that now point to a turnaround also result in better outcomes in the spring. Our second in-depth analysis in the draft report examines the Swedish labour market more closely. Three important conclusions emerge. First: A large part of the high level of unemployment depends on structural factors. Second: The weakening of the labour market in recent years is largely connected with weak economic activity. Third: It is reasonable to believe that there is still plenty of spare capacity in the labour market, and thus a lower risk for significantly stronger inflationary pressures now that the economic situation is improving (see "Ample spare capacity in the labour market" in the draft report).

Allow me now to go over to the monetary policy conclusions of what I have said so far. I think that one important overall conclusion is that we must continue to

[1] See, for example, M. Gulbrandsen, S. Nilsen and E. Njølstad (2025), "Revisiting imputed consumption expenditure during the recent tightening cycle in Norway", *Staff Memo*, November, Norges Bank.

try to be forward-looking. One example concerns the reduction of VAT on food planned for next year. As our alternative scenarios in the draft report illustrate, it is vital to "see through" this temporary effect in order to reach a situation this time next year where inflation is close to its target even in the medium term.

It is difficult to assess which policy rate level that stimulates the recovery while also keeping inflation at the target going forward. The trade-offs that we have made over the year have led us to cut the policy rate three more times. Our best assessment now is that the policy rate will remain at its current level for some time to come, before slowly starting to rise. This is the same assessment that we made in September, except for a few marginal adjustments over the slightly longer term. Personally, I feel somewhat more assured now that we have cut the policy rate enough for this interest rate cycle, very much due to the improved economic outlook. But if there is something we have learned this year, it is that it is "better not to promise".

Governor Erik Thedéen

I support the proposal to leave the policy rate unchanged at 1.75 per cent today, and the forecasts and assessments made in the draft Monetary Policy Report. Both real household income and GDP grew at a good rate in the third quarter, and several indicators, such as the purchasing managers' index, point to a continued strengthening of the economy. We are also seeing increasingly clear signs that demand for labour will soon start to rise, and next year household purchasing power will also be strengthened by a more expansionary fiscal policy. According to the forecast proposal in the draft report, Swedish GDP will grow by just over 4 per cent over the next two years and unemployment will then fall by just over one percentage point.

While growth has picked up, inflation has fallen back and was close to our 2-percent target in November. Seasonally adjusted data point to a gradual deceleration in inflation this year and several factors, such as producer price statistics and the appreciation of the krona, point to subdued cost pressures going forward. There are thus many indications that the rate of price increases at the beginning of next year will continue to fall and be just below 2 per cent. Of course, this forecast is subject to a degree of uncertainty; for example, the krona exchange rate could weaken again and in some sectors price plans are still quite high. But, as I said, the overall picture points to continued subdued cost pressures and falling inflation.

As in the September forecast, our current forecast means that the policy rate is expected to remain at 1.75 per cent next year and that we will then begin slow increases. As the economy appears to be strengthening a little more than we had previously expected, we have adjusted our forecast for the policy rate slightly

upwards from the first quarter of 2027 onwards. But the changes in the policy-rate forecast are small and the inflation outlook is assessed to be essentially the same as in September.

We are coming out of a period of turbulent macroeconomic development and heightened uncertainty, but despite this, Sweden's economy is now, by all accounts, in a relatively favourable position. My assessment is that our monetary policy framework has helped the Swedish economy to cope with this difficult period fairly well, despite the challenges. Confidence in the inflation target has helped us to bring down and stabilise the rate of price increases after the strong inflationary impulses in 2021 and 2022. A relevant comparison is the developments in the 1970s and 1980s, when the world economy and Sweden were also hit by repeated supply shocks. The economic policy pursued in Sweden at the time had obvious problems in managing these shocks and, if anything, increased the volatility. Inflation targeting has instead in recent years, in my view, reduced fluctuations and helped to create the conditions for a sustainable economic recovery, so that households and businesses can now benefit from rising real wages and demand.

As I said, after a few years of turbulence, I feel that the Swedish economy is now in a more stable situation, despite the uncertainty that still prevails in the world. Our interpretation of the current economic situation, and the forecasts that this interpretation generates, is therefore also somewhat more stable. Today, my own sensitivity to short-term variations in the behaviour of individual variables has decreased; confidence in the forecasts has simply increased. Going forward, this allows us to feel slightly more confident about our chosen course. In this sense, monetary policy becomes less data-dependent and more forward-looking.

That said, we will, as always, adjust monetary policy if the outlook for inflation and the economy changes in any significant way. I would therefore also like to briefly discuss some of the risks that in the future may affect the way we formulate monetary policy.

In addition to uncertainty about the outlook for foreign growth and inflation, which strongly affects the Swedish outlook, there is also uncertainty about Swedish households' choice between consumption and savings going forward. There is thus reason to consider how monetary policy may need to respond if developments are different from those we currently expect.

As there are plenty of spare economic resources in Sweden, it is difficult to see that we would raise the policy rate in the near term even if the recovery were to be unexpectedly rapid, given that inflation risks remain subdued. However, it would then probably be justified to change the forecast for the policy rate by increasing the probability of increases further ahead. In such a situation, it

becomes particularly important to carefully assess labour market developments and our analysis of potential GDP. If demand rises rapidly, especially in some sectors where supply is comparatively inelastic, there may be rapid price increases. It was precisely such supply constraints that contributed to the surge in inflation after the COVID-19 crisis when demand picked up again.

Under what conditions could we conceivably cut the policy rate next year? As I see it today, such a measure may be particularly relevant if *both* the economy and inflationary pressures next year are unexpectedly weak. This could leave us in a situation where measured inflation is low, while our forecasts point to even lower inflationary pressures going forward. In such a situation, the natural course of action is to ease monetary policy.

If, on the other hand, the economy continues to strengthen in much the same way as we and other forecasters expect, then it is more difficult to see circumstances that would justify cuts in the policy rate. This is because our forecasts for the longer-term determinants of inflation, such as resource utilisation, business cost pressures and inflation expectations, will then probably still point to inflation stabilising at 2 per cent in the medium term. In a situation of strong demand and low inflation, which may also have been unusually low due to temporary factors, it is wise to be clearly forward-looking and to focus on inflation likely increasing towards the 2-percent target again in the slightly longer term.

Of course, the appropriate policy rate in a given situation also depends on developments in other financial conditions, such as exchange rates, asset valuations and various risk premiums. In the second half of this year, when the policy rate was cut by 0.25 percentage points, the krona exchange rate has been stable, while the yield on 10-year government bonds has risen by just over 0.5 percentage points. This is a relatively large increase, partly driven by the increasingly large bond issues announced by the Swedish National Debt Office. The rise in interest rates also reflects the fact that global financial markets have started to price in interest rate hikes in Japan, for example, but also in Canada and Australia. The higher Swedish bond yields will affect the government's interest costs and budget balance, and are an important reason why some mortgage institutions have recently raised their fixed interest rates. But the rise also has implications for interest rates on other loans and on investment calculations, which can affect expectations and decision-making across the economy. The steeper yield curve is something we need to monitor closely going forward, both its causes and its implications for monetary policy.

To summarise, our main scenario implies that the Swedish economy will grow by just over 4 per cent in total over the next two years, that unemployment will fall back and that inflation, adjusted for the direct effects of VAT changes, will be close to 2 per cent. Since the inflation outlook is favourable and there is plenty of

spare capacity, it is appropriate, despite strong growth, to leave the policy rate at its current level for some time to come. Monetary policy will continue to be forward-looking; just as we have looked through the factors that have temporarily pushed up inflation this year, I believe we have good reason to see through the temporary factors that will push inflation down next year. The main strength of inflation targeting is that we can stabilise the rate of price increases at the target of 2 per cent over a couple of years, and thereby create stability and predictability for Swedish households and businesses.

Thus, there are many indications that the starting position prior to 2026 is favourable. But as always, the economic outlook is surrounded by uncertainty. There are a number of factors that could change the seemingly stable situation ahead of 2026. As I said at the November meeting, monetary policy does not run on autopilot. The course may seem very straightforward, but may need to be adjusted if necessary. Our vigilance should remain high.

§3c Discussion

There was no ensuing discussion.

§4 Monetary policy decision

The Executive Board decided

- in accordance with Annex A to the minutes Policy rate decision (including the annex Monetary Policy Report).

This paragraph was confirmed immediately.

Minutes taken by

Irina Andone Rosén Jesper Johansson David Lööv

Verified by

Erik Thedéen Per Jansson

Aino Bunge Anna Seim

SVERIGES RIKSBANK
SE-103 37 Stockholm
(Brunkebergstorg 11)

Tel +46 8 - 787 00 00
Fax +46 8 - 21 05 31
registratorn@riksbank.se
www.riksbank.se