ANALYSIS – How is inflation affected by geopolitical risk?

Geopolitical tensions have increased in recent years, and this can affect the economy in different ways, for instance, via prices on commodities and other input goods, and via confidence in the household and corporate sectors. One way of analysing these effects is to use measures of geopolitical risk and study empirically how changes in them affect inflation. Studies for several countries point to increased geopolitical risk leading to higher inflation. Swedish inflation is similarly affected, for instance via a weaker exchange rate. However, there is considerable uncertainty, and the effects can vary from case to case. For example, the recent strengthening of the krona can instead dampen the inflationary pressures that generally follow geopolitical risk.

The effects of increased risk are not self-evident. Research provides support for effects via both demand – where increased saving and postponed consumption reduce both growth and inflationary pressures – and supply, where reduced international trade and increased commodity costs subdue growth and increase inflation.[23] The effects on supply generally weigh heavier according to several studies, and elevated geopolitical risk tends to be linked to increased inflationary pressures and lower growth. This applies both when the global risk level has increased and when the country has been directly affected. Studies that focus specifically on the euro area and global risk also conclude that supply effects are dominant, and that European stock exchanges are negatively affected, at the same time as the euro weakens against the dollar.[24]

Although the supply effects are often dominant, this can vary between geopolitical events. Russia's invasion of Ukraine has had effects on the euro area that are similar to a supply shock with lower economic growth and increased inflationary pressures. The conflict between Hamas and Israel appears to have had a negative impact on both growth and inflation, and unlike the case of supply-dominated disruptions, the oil price does not appear to have risen.[25]

Another important distinction is between threats of a geopolitical nature and when an event has actually occurred. For the United States, global geopolitical threats that increase the risk of future negative events tend to push up inflation and increase the oil price and inflation expectations. This could be due to expected delivery disruptions

[23] See Caldara, Dario, Sarah Conlisk, Matteo Iacoviello and Maddie Penn (2024), "Do Geopolitical Risks Raise or Lower Inflation?", unpublished manuscript, Federal Reserve Board.

[24] See Dieckelmann, Daniel, Christoph Kaufmann, Chloe Larkou, Peter McQuade, Caterina Negri, Cosimo Pancaro and Denise Rößler (2024), "Turbulent times: geopolitical risk and its impact on euro area financial stability", Financial Stability Review, ECB, May 2024.

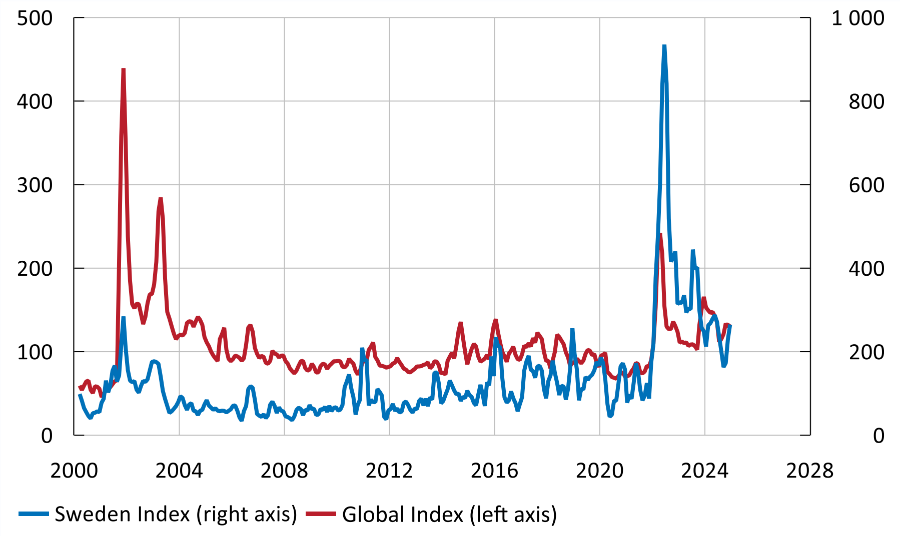
[25] See Anttonen, Jetro, and Markku Lehmus (2024), "Impact of geopolitical surprises on euro area inflation varies case by case", Bulletin, Bank of Finland, November 2024.

and cost increases for companies. The effect of actual global negative events is less clear, but tends to dampen inflationary pressures, like a negative demand shock.[26]

There is some disagreement on how geopolitical risk affects inflation and economies abroad, but the question remains of how Sweden is affected, both in the event of increased global and Swedish geopolitical risk. To analyse how a region is affected, many studies use a news article-based measure that measures the number of articles mentioning negative geopolitical situations.[27] This measure also distinguishes between geopolitical risk that is global, and that which only relates to individual countries, such as Sweden.[28] Figure 36 illustrates the development of global and Swedish geopolitical risk from 2000 to 2024, based on one such measure. Since the beginning of 2022, reporting of both negative global and Sweden-specific geopolitical situations has increased. Global and Swedish geopolitical risk covary, which indicates that Sweden-specific risk may have its origin abroad.[29]

Figure 36. Index for Swedish and global geopolitical risk

Index



Note. Index refers to 3-month moving average, period 1985 to 2019 = 100.

Source: Caldara and Iacoviello (2022).

A new Economic Commentary analyses the effects of geopolitical risk on inflation and the economy in Sweden.[30] Figure 37 illustrates the effect of increased geopolitical risk corresponding to one standard deviation in the Swedish and global indices

[26] See Brignone, Davide, Luca Gambetti and Martino Ricci (2025), “Geopolitical risk shocks: when the size matters”, Staff Working Paper no. 1118, Bank of England.

[27] For a more detailed description of the measure, see Caldara, Dario, and Matteo Iacoviello (2022), “Measuring Geopolitical Risk”, American Economic Review, 112 (4), pp. 1194-1225.

[28] For the country-specific measures, the percentage of articles mentioning negative geopolitical events and the country or one of the country's largest cities are measured.

[29] The correlation between the global and Swedish indices is around 0.34 during the period 2001 to 2024.

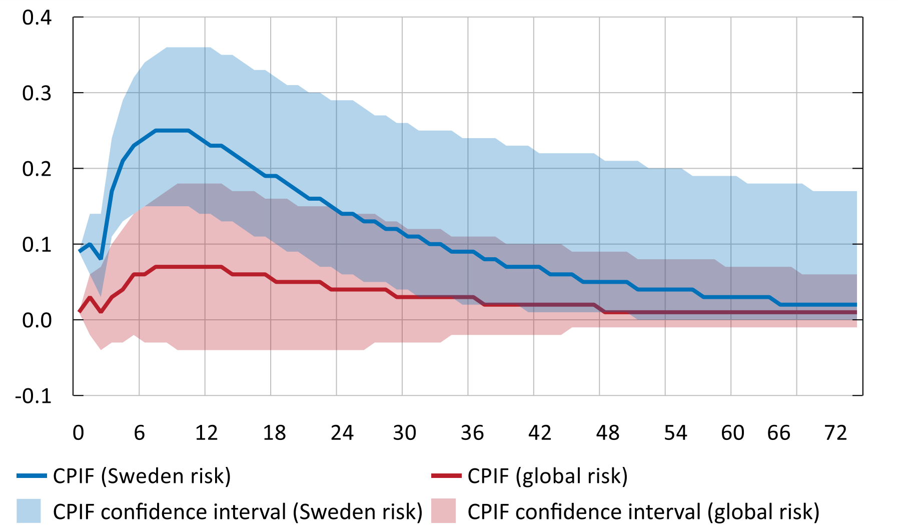
[30] See Klein, Mathias, Emanuel Skeppås and Ulf Söderström (2025), ”How is inflation affected by geopolitical risk?”, Economic Commentary no. 3, Sveriges Riksbank.

respectively, on CPIF inflation at different monthly horizons.[31] Both global and Swedish geopolitical risk tend to be inflationary, but the effect is greater after an increase in Sweden-specific than for global risk.[32] The uncertainty regarding the effect of global geopolitical risk is also very high. The fact that global and Swedish risk are inflationary in Sweden is in line with earlier studies that have analysed the effects both internationally and in the euro area.

As earlier studies show, the effect of global geopolitical risk differ between geo-political threats, which increase the risk of future negative events, and actual negative events.[33] For Sweden, global threats tend to push up inflation, while actual negative global events have a weakly negative but uncertain effect. The large uncertainty in the effect of global geopolitical risk in Figure 2 can be due to geopolitical threats and events affecting in different directions.

Figure 37. Effect on CPIF of increased geopolitical risk

Percentage points



Note. The figure shows the change in annual CPIF inflation following a typical geopolitical shock. The blue line shows how annual CPIF inflation changes as a result of Swedish geopolitical risk, and the red line how annual CPIF inflation changes as a result of global geopolitical risk. The x-axis shows the number of months after a geopolitical shock has occurred, and the y-axis shows how many percentage points the annual CPIF inflation rate changes as a result of the shock. The shaded areas refer to a 90 per cent confidence interval for the respective index. The effect is estimated using data for the period 2001 to August 2024.

Source: The Riksbank.

As a result of increased Swedish geopolitical risk, economic growth in Sweden is slightly negatively affected, which together with the higher inflationary pressures indicates that effects via supply dominate in Sweden. The krona also tends to weaken

[31] A standard deviation is a typical disruption, in May 2022 the size of the disruption was eight standard deviations.

[32] The effect on inflation is at its highest around 9 months after the disruption.

[33] Caldara, Dario, and Matteo Iacoviello (2022) have created two separate global geopolitical risk indices for events that are acts, such as an invasion, and threats, where the risk of more comprehensive future acts increases.

against the euro, which indicates that some of the inflation effect relates to the exchange rate. According to the Economic Commentary global risk tends not to systematically affect the exchange rate against the euro. The difference in how Swedish and global geopolitical risk affect the exchange rate can partly explain the clearer impact from Swedish risk on inflation. Given the generally strengthening effect that a weaker krona has on inflation in the event of increased geopolitical risk, the recent strengthening may instead dampen the inflationary pressure that usually follows on from increased geopolitical risk.

All in all, studies indicate that an increased geopolitical risk tends to increase inflation, which means that the increased tensions in recent years could have contributed to higher inflation in both Sweden and other countries. However, it is difficult to assess how much it has contributed. Even if the effect on inflation is positive on average, there are also effects on demand that can lead to dampened inflation, if the geopolitical risk were to increase going forward.