

# Monetary Policy Report

December 2024



Rectification 20 december 2024

Figure 41 now includes 2027.

# Monetary Policy Report

---

Regularly or upon request, the Riksbank shall submit an account of monetary policy operations to the Riksdag Committee on Finance (Chapter 11, Section 1, Sveriges Riksbank Act [2022:1568]). These accounts are presented both in specific material for assessing monetary policy and in the Monetary Policy Reports and Updates.

The Riksbank's Monetary Policy Report is published four times a year. The purpose of the report is to summarise the basis for the monetary policy decisions and the assessments made by the Executive Board of the Riksbank. The report describes the deliberations made by the Executive Board when deciding on an appropriate monetary policy<sup>1</sup>. The report includes a description of the future prospects for inflation and economic activity based on the monetary policy that the Executive Board currently considers to be well-balanced.

Through the Monetary Policy Reports, the Riksbank also informs the general public about monetary policy, which makes it easier for external parties to follow, understand and evaluate the Riksbank's actions.

---

The Executive Board made a decision on the Monetary Policy Report on 18 December 2024.

---

<sup>1</sup> See "Monetary policy in Sweden – The Riksbank's strategy" on the next page for a description of the monetary policy strategy and what can be regarded as an appropriate monetary policy.

## Monetary policy in Sweden – the Riksbank's strategy

---

- According to the Sveriges Riksbank Act, the overriding objective of monetary policy is to maintain sustainably low and stable inflation. The Riksbank has defined the objective as a target of 2 per cent for the annual change in the consumer price index with a fixed interest rate (the CPIF). The inflation target should function as a benchmark for price- and wage-setting in the economy.
- Without neglecting the inflation target, the Riksbank shall moreover contribute to a balanced development of production and employment. The Riksbank thus conducts a policy of flexible inflation targeting. In connection with each monetary policy decision, the Executive Board assesses which monetary policy is well-balanced. If inflation deviates from the inflation target, it is normally a question of finding a balance between how rapidly it shall be brought back to target and the effects on real economic developments.
- It is neither possible nor desirable to conduct a monetary policy that always keeps inflation at exactly 2 per cent. Changes occur constantly in the economy that make inflation vary in a way that cannot be predicted with sufficient precision, 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.
- As it takes a long time before monetary policy has a full impact on inflation and the real economy, monetary policy is guided by forecasts of economic development. There is no general answer to the question of how quickly the Riksbank aims to bring inflation back to 2 per cent if it deviates from the target. Too rapid a return may in some situations have very negative effects on production and employment, while too slow a return may weaken the credibility of the inflation target.
- The Riksbank can weigh risks linked to developments in the financial markets into its monetary policy decisions as long as confidence in the inflation target is clearly anchored, and expected and overall target achievement regarding inflation, production and employment is improved when viewed over a longer horizon. With regard to preventing an unbalanced development of asset prices and indebtedness, however, it is of prime importance that there is an efficient financial regulatory framework and effective supervision.
- The Riksbank's main monetary policy tool is the policy rate. When necessary, this can be supplemented with other measures, including purchases or sales of government securities, for example to ensure that monetary policy impacts effectively on the interest rates faced by households and companies. The Riksbank can buy and sell assets other than government securities if there are exceptional grounds. Such exceptional grounds may arise during times of financial turmoil or crisis, for example.
- The Riksbank strives for open and clear communication. This makes it easier for economic agents to make sound economic decisions and monetary policy will also be easier to evaluate. The Riksdag Committee on Finance, the National Audit Office and the General Council of the Riksbank monitor and evaluate the conducted monetary policy in different ways within their respective remits.
- The Executive Board normally holds eight monetary policy meetings a year. After four of these meetings, a Monetary Policy Report with forecasts will be published. At the other four meetings, the Executive Board's assessments and motives for its monetary policy decisions are described in a shorter document, a Monetary Policy Update. Just under a week after each monetary policy meeting, minutes from the meeting are published, which set forth the reasoning of the different Executive Board members.

# Table of contents

	Monetary policy considerations	5
1	The economic situation	10
1.1	Real economy and inflation abroad	10
	FACT BOX – Fiscal policy abroad	16
1.2	Financial conditions	17
1.3	Swedish real economy	25
1.4	Swedish inflation	28
	ANALYSIS – Macroeconomic effects of higher US import tariffs	33
2	The economic outlook for the coming years	37
2.1	The economic outlook abroad	38
2.2	The economic outlook in Sweden	39
	FACT BOX – Balance target for public net lending	41
2.3	Inflation outlook in Sweden	44
	FACT BOX – The CPIF under various assumptions for energy prices	49
	FACT BOX – Eased mortgage restrictions	51
3	Monetary policy analysis	54
3.1	Monetary policy in Sweden	55
3.2	Uncertainty, risks and alternative scenarios	59
	ANALYSIS – The Riksbank’s assessment of the long-term neutral interest rate	65
	Forecast tables	70

## Monetary policy considerations

---

Over the course of the year, inflation has fallen and inflationary pressures have stabilised in line with the target. At the same time, growth has been weak. The Riksbank has cut the policy rate gradually, but at a rapid pace. Lower inflation and lower interest rates contribute to stronger purchasing power for households and support economic activity.

Despite some signs that economic activity is on its way to recovery, it remains weak. A stronger economy is important in its own right, but it is also a necessary condition for inflation to stabilise close to the target. The policy rate was cut in a large step in November and the Executive Board assess that it is appropriate to cut the rate further to support the economic recovery.

The Executive Board has therefore decided to cut the policy rate by 0.25 percentage points to 2.5 per cent. This means that the policy rate has been cut by a total of 1.5 percentage points since May.

The interest rate has been reduced rapidly and monetary policy affects the economy with a lag. This argues for a more tentative approach when monetary policy is formulated going forward. The Riksbank will therefore carefully evaluate the need for future interest rate adjustments, in light of the effect of earlier cuts and shifts in the risk profile regarding the outlook for inflation and the economic activity. If the outlook remains unchanged, the policy rate may be cut once again during the first half of 2025.

The outlook for inflation and economic activity is still uncertain. There are several factors that could lead to a different economic development and monetary policy than those reflected in the Riksbank's forecast. There is particular uncertainty regarding developments abroad, for instance with regard to the geopolitical tensions, lack of clarity regarding trade policy and the governmental crises arising in Europe. There are also risks linked to the recovery in the Swedish economy and the krona exchange rate. New information, and how it is expected to affect the economic and inflation outlook, will be decisive in determining how monetary policy is formulated.

---

## International developments

**The global economy has developed largely as expected, but the differences between various regions have increased.** The US economy remains strong, while other important export markets for Sweden, such as the euro area and China, are showing clear signs of weakness. Compared with the Monetary Policy Report in September, the forecast for GDP in the United States has been revised up, especially for 2025, while there has been some downward revision with regard to growth in the euro area.

**The US economy is performing well.** Household consumption has continued to grow strongly. But there is considerable uncertainty regarding the economic policy that will be conducted going forward. Inflation has fallen since the beginning of the year. PCE inflation, which is the measure on which the Federal Reserve focuses the most, amounted to 2.3 per cent on an annual rate in October.

**Euro area growth is moderate.** The economic recovery in the euro area is taking time, despite households' real wages having risen. Confidence indicators are still at a lower level than normal, and have recently fallen somewhat, not least in Germany. At the same time, the labour market is still resilient to the weak growth, although there are differences between countries. Inflation is showing signs of stabilising around the ECB's inflation target. When measured in terms of the HICP, inflation was 2.3 per cent in November.

**Central banks around the world have continued to cut their policy rates.** In November, the Federal Reserve cut the target interval for its policy rate by 0.25 percentage points to 4.5-4.75 per cent. The ECB cut its policy rate for the third time in a row at its most recent meeting in December, by 0.25 percentage points to 3 per cent.

**The differences in the expectations of the central banks' monetary policy have increased.** Compared with September, market participants are expecting fewer interest rate cuts from the Federal Reserve up to the middle of next year. This is likely linked to both strong data on economic developments and expectations of a more expansionary fiscal policy. The ECB is expected to cut its rate further in relation to September, which is due to the weaker economic outlook, among other factors. The ECB is now expected to cut its policy rate around 0.5 percentage points more than the Federal Reserve, up to the middle of next year.

**There is considerable uncertainty about economic developments abroad.** The lack of clarity regarding economic policy in the United States are still substantial following the presidential election, primarily due to the talk of introducing higher import tariffs.<sup>2</sup> This also contributes to increased uncertainty regarding GDP growth in large parts of the world. In Europe, the government crises that have arisen in Germany and France have led to an increased risk of the economic outlook worsening. The geo-political risks remain large, not least due to the wars in Ukraine and the Middle East.

---

<sup>2</sup> See the analysis "Macroeconomic effects of higher import tariffs" in this report.

## Developments in Sweden

**The Swedish economy is in a mild economic recession.** GDP increased by 0.3 per cent during the third quarter compared with the previous quarter, which was in line with the Riksbank's forecast. Household consumption was almost unchanged during the same quarter, and their savings remained at a high level. At the same time, the demand for exports slowed down. GDP growth in Sweden is expected to remain somewhat lower than normal during the final quarter of this year.

**The labour market is weak, but showing tendencies to improve.** Unemployment has risen somewhat, but the number of redundancy notices has declined during the autumn and is approaching normal levels. Employment plans have also improved, particularly in retail trade and the manufacturing industry. However, we do not expect the labour market to turn a corner until sometime into next year.

**There are some signs that economic activity is beginning to recover.** The National Institute of Economic Research's confidence indicator for households has continued to rise, and is now above its historical average. Moreover, the turnover on the housing market has increased, which can also indicate that households have an increasingly positive view of the future. The purchasing managers' index and the Economic Tendency Survey are now also showing increased optimism among companies.

**Economic activity is expected to improve next year.** Stronger domestic demand is the driving force behind the expected economic recovery in Sweden. Household consumption is expected to grow more quickly next year, as real wages rise, interest rates fall and fiscal policy becomes more expansionary. This picture is also supported by the fact that households are no longer increasing their saving. Investment is also expected to gradually strengthen. As a result of the increase in demand, unemployment is expected to begin falling next year.

**Inflation outcomes have been somewhat higher than expected, but close to the target.** When measured in terms of the CPIF, inflation amounted to 1.8 per cent in November. This was higher than the Riksbank's forecast in September, but means that CPIF inflation is approaching the target of 2 per cent a little faster than expected. CPIF inflation excluding energy amounted to 2.4 per cent in November, which was also higher than expected. However, the deviation was relatively small and is assessed to be partly linked to temporary factors, such as unexpectedly high food and goods prices. Administrative prices, which reflect earlier cost increases, will also continue to contributing a little more than usual to inflation.

**Inflation is expected to be close to the target in the coming years.** Indicators of inflationary pressures, such as companies' pricing plans, various measures of underlying inflation and inflation expectations imply that the conditions are good for stable inflation close to the target. CPIF inflation is expected to be close to the target in the coming years, but can vary temporarily, not least due to fluctuations in energy prices.<sup>3</sup> When energy is excluded, inflation is expected to briefly be somewhat higher than

---

<sup>3</sup> See also the fact box "The CPIF under alternative assumptions for energy prices" in this report.



2 per cent at the beginning of next year, and thereafter to fall back and be close to 2 per cent for the remainder of the forecast period.

**Real wages are expected to continue rising in the years ahead.** Wage growth has slowed down, in line with the agreements negotiated at the start of 2023. But as inflation has fallen and is expected to be in line with the inflation target going forward, this nevertheless entails a clear rise in real wages. This will encourage household consumption. The Riksbank's forecast is that wages will rise by around 3.5 per cent per year in the coming years.

**Like many other currencies, the Swedish krona has weakened against the US dollar.** The stronger dollar is linked to higher growth prospects and rising interest rates in the United States. The Riksbank assesses that the krona is undervalued and will strengthen in the coming years. However, if it remains weak, or weakens further, this could mean that inflation will be higher than expected.

**There is considerable uncertainty regarding the outlook for inflation and the economy.** There are risks stemming from abroad, for instance, to geopolitical tensions, the lack of clarity regarding trade policy and the government crises that have arisen in Europe. There are also risks linked to the recovery in the Swedish economy and the krona exchange rate.

### **Policy rate cut by 0.25 percentage points to 2.5 per cent**

**Over the year, the Riksbank has cut the policy rate gradually but at a rapid pace.** The interest rate cuts have contributed to lower interest rates for households and companies. Variable mortgage rates on new loans to households have fallen by around as much as the policy rate. For mortgage-holders as a whole, interest expenditure will fall as the fixed interest periods expire, which will take a little longer.

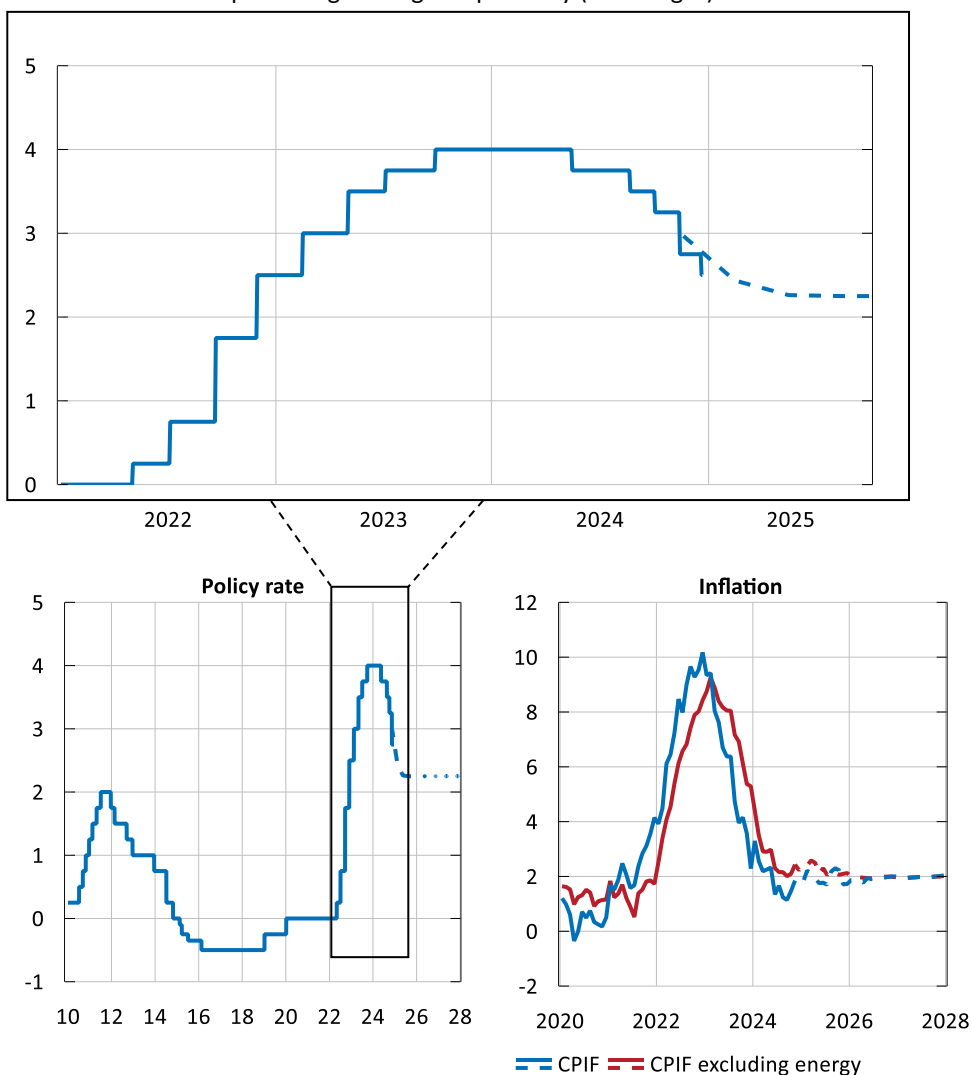
**Economic activity is still weak, despite some signs of a recovery.** A stronger economy is important in its own right, but also a necessary condition for inflation to stabilise close to the target. This makes the Swedish economy more resilient in a situation where several important export markets are weak. The policy rate was cut in a larger step of 0.5 percentage points in November, and the Executive Board assesses that it is appropriate to cut the policy rate further.

**The Executive Board has therefore decided to cut the policy rate by 0.25 percentage points to 2.5 per cent.** This means that the policy rate has been cut by a total of 1.5 percentage points since May. The lower interest rate will provide an increasingly evident positive contribution to demand in the Swedish economy next year.

**Going forward, monetary policy should be conducted with a more tentative approach.** It will take some time before the implemented cuts have their full effect on the economy, and at the same time the effects are uncertain. The Riksbank will therefore carefully evaluate the need for future interest rate adjustments, in light of the effect of earlier cuts and shifts in the risk profile regarding the outlook for inflation and economic activity. If the outlook remains unchanged, the policy rate may be cut once again during the first half of 2025 (see Figure 1).

**However, the outlook for inflation and economic activity is uncertain.** There are several factors that could lead to a different economic outcome and monetary policy than are reflected in the forecast. There is particular uncertainty regarding developments abroad, for instance with regard to the geopolitical tensions, lack of clarity regarding trade policy and the government crises arising in Europe. There are also risks linked to the recovery in the Swedish economy and the krona exchange rate. New information, and how it is expected to affect the economic and inflation outlook, will be decisive in determining how monetary policy is formulated.

**Figure 1. Swedish policy rate and inflation**  
Per cent and annual percentage change respectively (lower right)



Note. Solid line refers to outcome, dashed/dotted lines represent the Riksbank's forecast. Outcomes for the policy rate are daily data and the forecasts refer to quarterly averages. The upper image shows the forecast for the policy rate in the short run and is based on the long-term policy rate path in the lower left figure. The dashed line illustrates the fact that the forecast for the policy rate in the longer run is very uncertain, which is discussed further in Chapter 3. The inflation forecast is deemed to be compatible with the forecast for the policy rate.

Sources: Statistics Sweden and the Riksbank.

# 1 The economic situation

---

Inflation has fallen abroad even though services prices are still increasing at a relatively fast pace. The ECB, the Federal Reserve and many other central banks have cut their policy rates several times and further cuts are expected. At the same time, the global economy has recently been marked by increased unease regarding trade barriers and geopolitical tensions. GDP in the euro area increased somewhat over the course of the year, but indicators point to a weak development in the near term. In the United States, GDP growth has continued to be strong, which has led to the differences between the euro area and the United States increasing. This has also left its mark on market participants' expectations of monetary policy. Compared with September, more cuts are expected from the ECB and fewer from the Federal Reserve next year.

In Sweden, CPIF inflation was 1.8 per cent on an annual rate in November, and the CPIF excluding energy was 2.4 per cent. Companies' pricing plans and other indicators of inflationary pressures indicate that inflation will be close to 2 per cent going forward. Long-term inflation expectations are also close to the inflation target. Swedish GDP increased during the third quarter, and indicators for growth have risen. The labour market is weaker than normal, but there are clear signs that economic activity will soon improve.

---

## 1.1 Real economy and inflation abroad

### **Global economy defies increased uncertainty**

Despite considerable geopolitical tensions, the global economy has continued to grow, albeit at a pace that is somewhat slower than the historical average.<sup>4</sup> Global trade has risen over the year, despite several signs of weak industrial activity and protectionist tendencies. The uncertainty over trade policy abroad has increased following the US presidential elections (see Figure 2), which may dampen investment in the short term.

Governments in several countries in the euro area have not succeeded in getting their budgets for next year approved and there is uncertainty over future fiscal policy. Despite of the tensions in the Middle East, the price of oil and other commodities has

---

<sup>4</sup> This refers to growth in terms of the KIX, which is a weighted average against 32 countries that are important for Sweden's trade. Growth in Q3 2024 was preliminary 1.8 per cent at an annual rate and, since 2010, the average percentage change has been 2.1 per cent.

been stable. The global market price of agricultural products has risen somewhat, however.

**Figure 2. Trade policy uncertainty index**



Note. Trade Policy Uncertainty. Normalised index of number of news articles in the United States mentioning trade uncertainty. 100 means that 1 per cent of the articles concern trade policy uncertainty.

Source: Economic Policy Uncertainty.

### Divergence between United States and euro area continuing

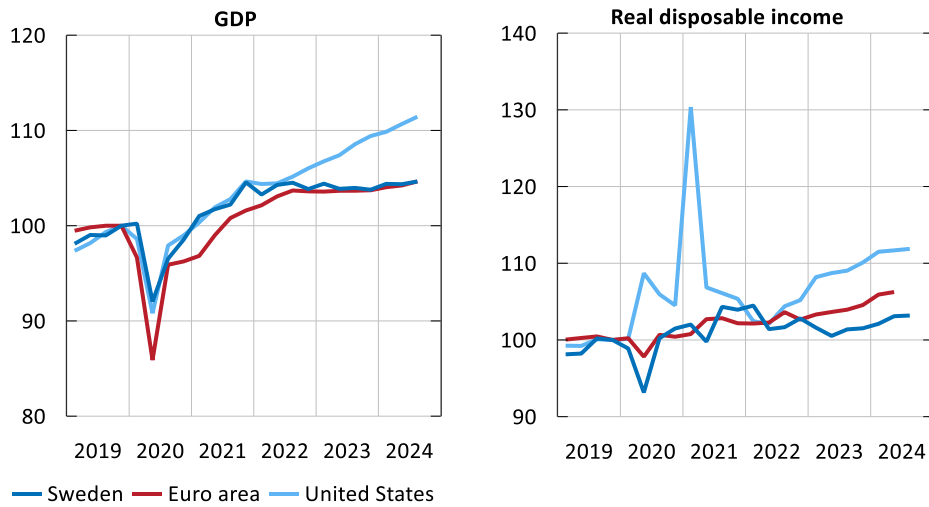
Developments in the global economy during the third quarter have been a continuation of the trends seen in the past two years. The US economy grew at a faster pace than that in the euro area and confidence indicators are still more positive in the United States than in the euro area.<sup>5</sup> The divergence is partly due to differences in productivity growth, where productivity in the United States has been increasing faster than that in the euro area over a long time. Moreover, a more expansionary fiscal policy in the United States has contributed to the differences increasing (see Fact box “Fiscal policy abroad” in this report). It has also led to real disposable incomes and household consumption having developed more strongly in the United States than in the euro area (see Figure 3).<sup>6</sup>

<sup>5</sup> In the euro area, the purchasing managers’ index fell unexpectedly, which could be a sign that the uncertainty in the global economy has affected sentiment in the euro area to a greater extent than in the United States.

<sup>6</sup> Since the September Monetary Policy Report, the statistics on households’ disposable incomes in the United States have been revised up to a higher level.

**Figure 3. GDP and real disposable income in various countries and regions**

Index, 2019 Q4 = 100



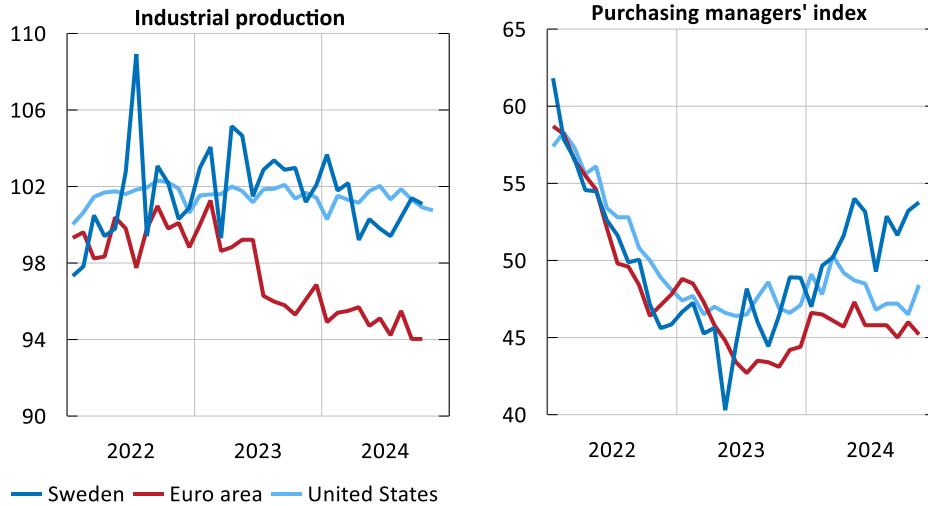
Note. Seasonally adjusted data. Calendar adjusted data (left). Disposable income deflated using the household consumption deflator (right).

Sources: Eurostat, ECB, Statistics Sweden, US Bureau of Economic Analysis and the Riksbank.

Industrial activity, on the other hand, is weak in both areas (see Figure 4). Confidence indicators for the manufacturing industry in the United States and the euro area have been at low levels since 2022, and are still at levels indicating a downturn in industrial activity. The industrial sector in the euro area was harder hit than the United States by the energy crisis following on from Russia's invasion of Ukraine. But despite energy prices now being lower, industrial production is still weak. Germany in particular is struggling with a weak manufacturing industry, related to several structural problems. For instance, the motor vehicle industry has faced stiff competition from Chinese manufacturers and may also be negatively affected if import tariffs are raised in the United States.

**Figure 4. Industrial production and purchasing managers' index in manufacturing industries**

Index, 2021 Q4 = 100 (left) and index (right)



Note. Seasonally adjusted data. The purchasing managers' index is an indicator of economic activity where an index figure above 50 indicates growth, while a figure below 50 indicates a downturn (right).

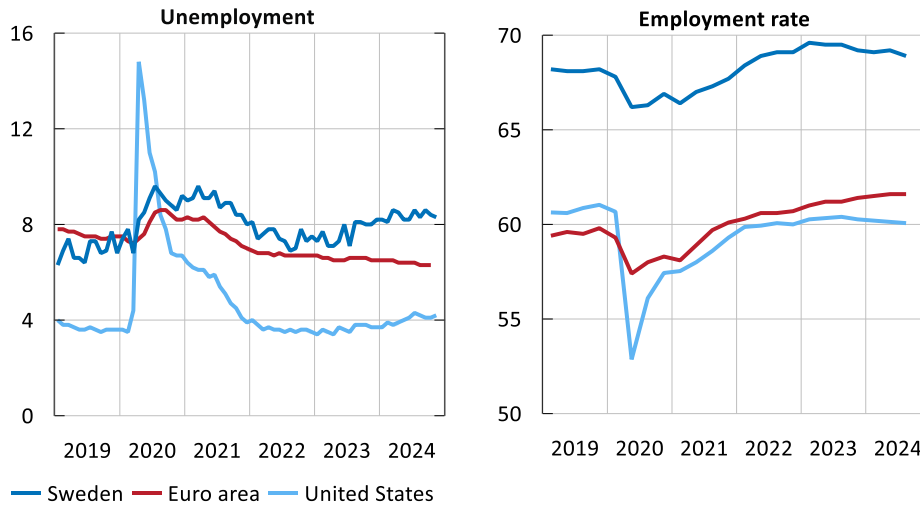
Sources: Eurostat, Federal Reserve, Institute for Supply Management, Statistics Sweden, S&P Global and Swedbank.

So far this year, the Chinese economy has grown somewhat more slowly than the country's growth target of around 5 per cent. During the autumn, the Government has launched several stimulation packages and monetary policy has been made more expansionary. Indicators are now pointing to a somewhat faster growth towards the end of the year.

### Labour markets around the world are still strong

The labour markets in both the United States and the euro area are still strong (see Figure 5). Employment has continued to increase during the autumn. However, there are signs in both regions that labour market developments have slowed down somewhat. In the United States the employment rate has fallen, albeit only marginally. The number of new job vacancies and voluntary resignations points to a continuing normalisation. In the euro area, companies' recruitment plans have continued to slacken.

**Figure 5. Unemployment and employment rate in various countries and regions**  
 Percentage of the labour force (left) and percentage of the population (right)



Note. Seasonally adjusted data. Unemployment and the employment rate among those aged 15-74 in Sweden and the euro area, and those aged 16 and older for the United States.

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

### Inflation is close to 2 per cent in the euro area and the United States

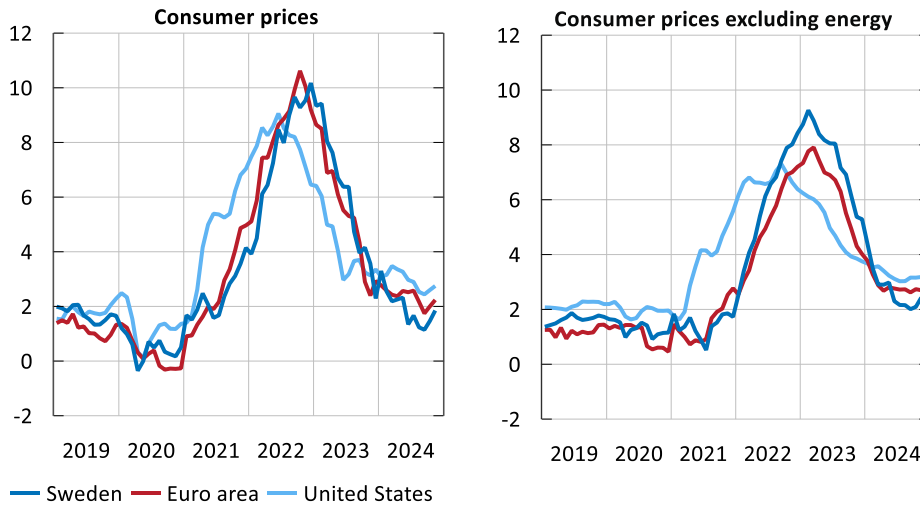
Since the summer, HICP inflation in the euro area has been around 2 per cent. The fact that inflation is now close to 2 per cent can to some extent be explained by energy prices being lower than in the previous year and inflation excluding energy is thereby being a little higher (see Figure 6). The rate of price increase on food and services has indeed slowed down, but services prices are still increasing by around 4 per cent as an annual rate (see Figure 7). Wage growth in the euro area is also still higher than normal, but this can to some extent be explained by one-off payments in Germany. Other indicators, such as job vacancy advertisements and union agreements, indicate that wage growth in the euro area is on the way down.

In the United States, the decline in CPI inflation has come to a halt during the autumn and when energy prices are excluded, the rate of increase has been just over 3 per cent. This is largely explained by higher service prices, with rents in particular having continued to increase quickly. However, the Federal Reserve’s preferred measure, PCE inflation, has been closer to 2 per cent since the end of the summer.<sup>7</sup> Wage growth has slowed down over the past year, but is still somewhat higher than normal.

<sup>7</sup> CPI inflation has historically been a little higher than PCE inflation, see the Fact box “The difference between the CPI and PCE measures in the United States”, *Monetary Policy Report*, March 2024. One difference is that rents have a lower weighting in the PCE than in the CPI.

**Figure 6. Consumer prices in various countries and regions**

Annual percentage change

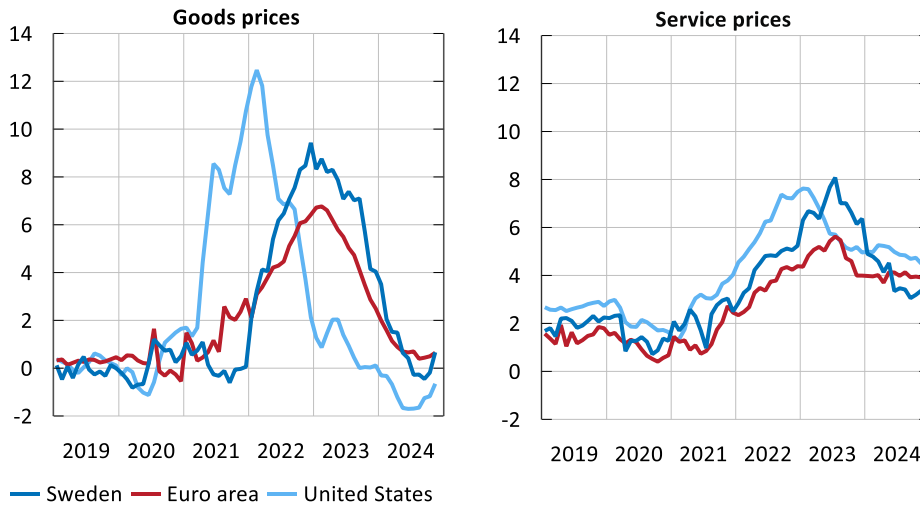


Note. Refers to the CPI for Sweden, the HICP for the euro area and the CPI for the United States.

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

**Figure 7. Prices of goods and services in various countries and regions**

Annual percentage change



Note. Refers to the CPI for Sweden, the HICP for the euro area and the CPI for the United States.

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

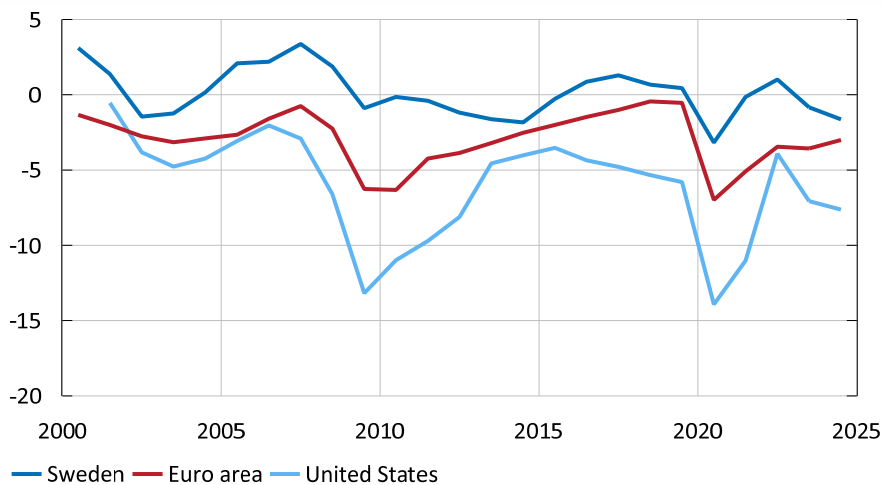


## FACT BOX – Fiscal policy abroad

The United States has conducted a more expansionary fiscal policy than the euro area over a longer period of time (see Figure 8). This difference is one of the explanations for GDP growth being higher in the United States than in the euro area. In the United States, fiscal policy is expected to be expansionary in the coming years, while in the euro area it is expected to be more or less neutral and not to provide any tangible contribution to GDP growth.

**Figure 8. General government net lending in Sweden and abroad**

Per cent of GDP



Sources: European Commission, International Monetary Fund, Statistics Sweden and the Riksbank.

The EU regulations regarding member state's fiscal policy mean that the scope for fiscal expansion in the euro area currently is limited.<sup>8</sup> Both the International Monetary Fund's and the European Commission's latest forecasts assume that fiscal policy will be neutral in the coming years. However, the political uncertainty that has arisen in Germany and France, for instance, makes it difficult to assess the degree of fiscal policy expansion on the basis of the budget plans presented.

Germany usually follows its fiscal policy framework fairly strictly and the structural budget deficit is limited to a maximum of 0.35 per cent of GDP. The imminent early elections mean that there is no budget for next year, but the framework that has been laid implies that fiscal policy will be neutral next year. In France, too, there is uncertainty over the direction for fiscal policy next year. The French Government had proposed a budget consolidation in 2025 but has failed to get the budget savings through Parliament and has subsequently resigned. The Italian Government has announced a plan for improving public finances, and the budget deficit is expected to

<sup>8</sup> The fiscal policy framework in the EU has been reworked and is part of the EU framework for economic governance. The regulations state for instance that member states shall observe two budget policy limits. One is that general government net lending may not fall below -3 per cent of GDP, the other is that the public sector's consolidated gross debt (the so-called Maastricht debt) may not exceed 60 per cent of GDP. If the member states are in breach of these regulations the Commission will issue reference paths for net expenditure to stabilise the debt ratio in the medium term.

fall to below 3 per cent of GDP in 2026. Fiscal policy is predicted to be contractionary in Italy in the coming years.

Newly elected US President Donald Trump has been clear during his election campaign that he intends to extend the tax cuts introduced in 2017, and which largely expires in 2025. In addition, he has proposed other tax cuts, including lower corporate tax and the abolition of tax on pensions and tips. At the same time, there will be a comprehensive overview of public expenditure. It is proposed that higher import duties will finance the lower taxes.<sup>9</sup> But it is very uncertain what duties will be implemented, when they will be implemented and whether they will be adjusted over time. The forecast from Congress's budget office is that the deficit will amount to around 6 per cent a year up to 2027. This only includes measures already decided on, which means that new, unfinanced tax cuts would entail a larger deficit.

All in all, fiscal policy appears set to remain more expansionary in the United States than in the euro area in the coming years, and will contribute to GDP growth being higher in the United States. At the same time, public debt has increased to high levels in both the United States and the euro area. Interest expenditure for the debt in the United States amounts to just over 4 per cent of GDP, in the euro area it amounts to almost 2 per cent and in Sweden to just over 0.5 per cent. If the budget deficit increases too much, the sustainability of public finances may be questioned in countries with excessive debt.<sup>10</sup>

## 1.2 Financial conditions

Central banks around the world are continuing to gradually ease their monetary policy, albeit at different paces (see Figure 9). Compared with earlier in the autumn, the differences between the central banks' expected future monetary policy directions have increased somewhat (see Figure 10). At its most recent meeting on 6–7 November, the Federal Reserve lowered the target interval for the Federal Funds rate by 0.25 percentage points to an interval of 4.50–4.75 per cent. The European Central Bank (ECB) also cut its deposit rate by 0.25 points to 3.00 per cent at its meeting on 12 December.

The Federal Reserve's communication indicates that there is scope for further cuts, but that these depend on how incoming data affects the economic outlook and risks. The ECB departed from its earlier communication regarding maintaining a tight monetary policy as long as necessary, but repeated that decisions on the interest rate path would be taken one meeting at a time.

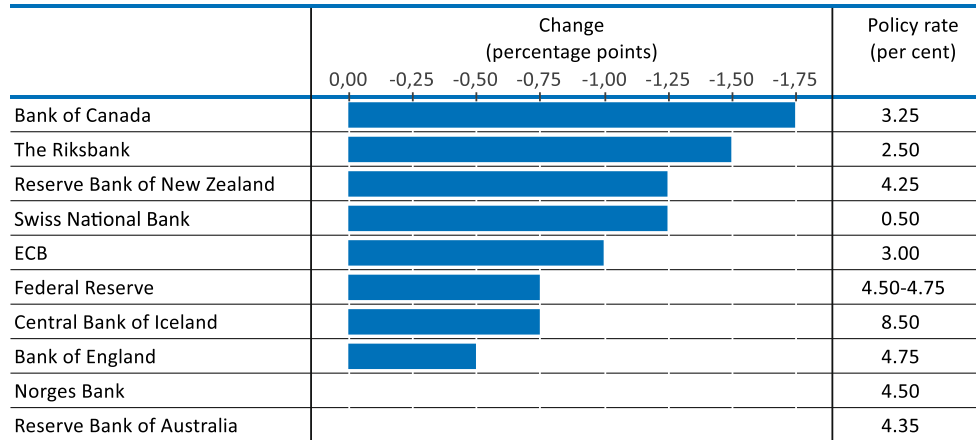
---

<sup>9</sup> Although customs duties are expected to contribute to higher income for the state, they can also have a negative impact on the economy, read more in the analysis "Macroeconomic effects of higher US import duties" in this report.

<sup>10</sup> For instance, in the Federal Reserve's Financial Stability Report from November this year, the results of a survey show that an increasing number of respondents say that the public debt is one of the main risks to financial stability in the United States.

**Figure 9. Policy rate changes abroad in 2024**

Percentage points and per cent respectively



Note. The figure shows the total change in the policy rate from 1 January to 17 December 2024. The Riksbank's policy rate includes the level decided on at the monetary policy meeting on 18 December. Other policy rates refer to policy rates as of 17 December 2024.

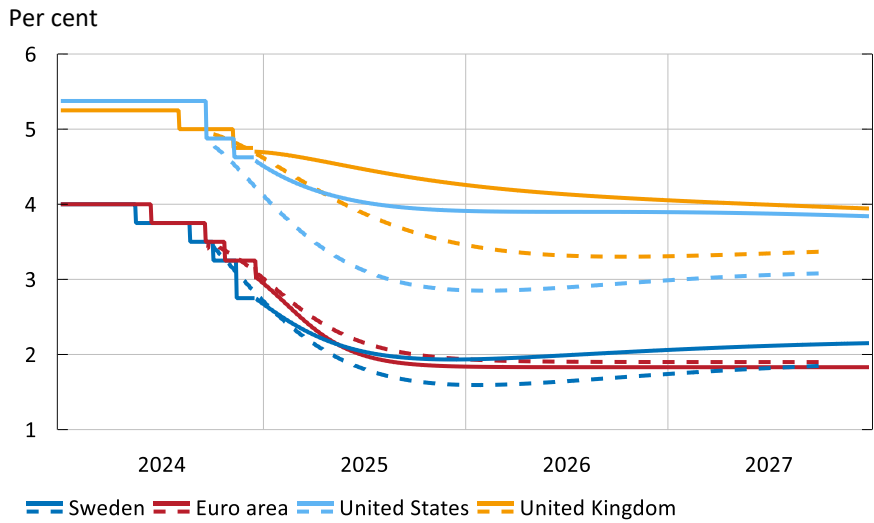
Sources: National central banks and the Riksbank.

**Market expectations of the policy rate have shifted upwards with regard to the Federal Reserve and shifted downwards with regard to the ECB**

The expectations of the larger central banks' policy rates have varied substantially over the year, especially with regard to the Federal Reserve. Compared with September, market participants are expecting fewer interest rate cuts in the United States up to the middle of next year. This is connected to economic activity having been higher than expected, signals of a more expansionary fiscal policy and possibly expectations of increased tariffs. Expectations have clearly shifted upwards since the September Monetary Policy Report (see Figure 10). According to market pricing, the Federal Reserve is now expected to cut its rate by a good 0.5 percentage points during the first half of 2025 and at the end of 2027 the market is counting on a policy rate of around 3.8 per cent.

Market expectations of the ECB's deposit rate have shifted somewhat downwards since September, as a result of weaker growth prospects. They now indicate an expectation of approximately four further cuts of 0.25 percentage points up to the end of June 2025, which corresponds to a deposit rate of around 2 per cent. At the end of 2027, the policy rate is expected to be around 1.8 per cent.

**Figure 10. Market expectations of policy rates in the future**



Note. The figure shows policy rates and market-based expectations according to forward pricing (Nelson-Siegel-Svensson). Solid lines represent expectations on 17 December 2024. Dashed lines represent expectations immediately prior to the September Monetary Policy Report.

Sources: National central banks and the Riksbank.

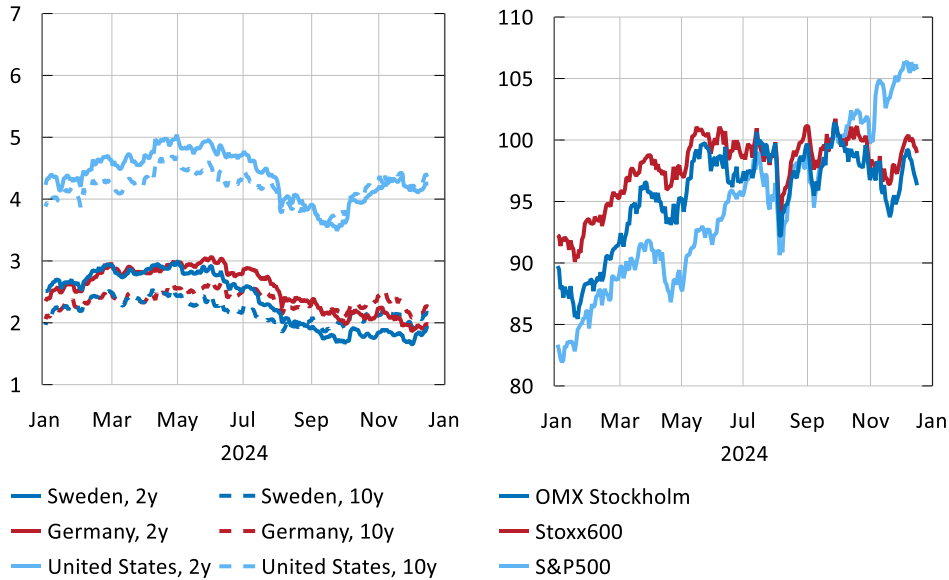
### Higher market rates in the United States and stronger US stock market

The shift in the expectations of the Federal Reserve and stronger economic developments since the September Monetary Policy Report have contributed to an upturn in both short-term and long-term government bond yields in the United States (see Figure 11). These yields have been stable since the November Monetary Policy Update. At the same time, interest rates have been falling in Europe since September, which is largely due to poorer economic activity, lower than expected inflation and signals from the ECB that they will cut their policy rate further at the coming meetings.

During the summer and early autumn, the stock markets in the United States and Europe developed relatively similarly, since then they have diverged, with weak development in Europe and continued upturns in the United States (see Figure 11). The volatility index for the US and European stock exchanges is at low levels, which indicates a low market uncertainty. The news-based Economic Policy Uncertainty Index rose markedly in connection with the US presidential election, but has since fallen back somewhat.

**Figure 11. Government bond yields and stock market movements in Sweden and abroad**

Per cent (left) and index, 25 September 2024 = 100 (right)



Note. The left-hand figure refers to zero coupon rates for Sweden and Germany, as well as benchmark rates for the United States. OMXS, S&P500 and Stoxx600 are broad indices for the Swedish, American and European stock exchanges, respectively.

Sources: Macrobond Financial AB and the Riksbank.

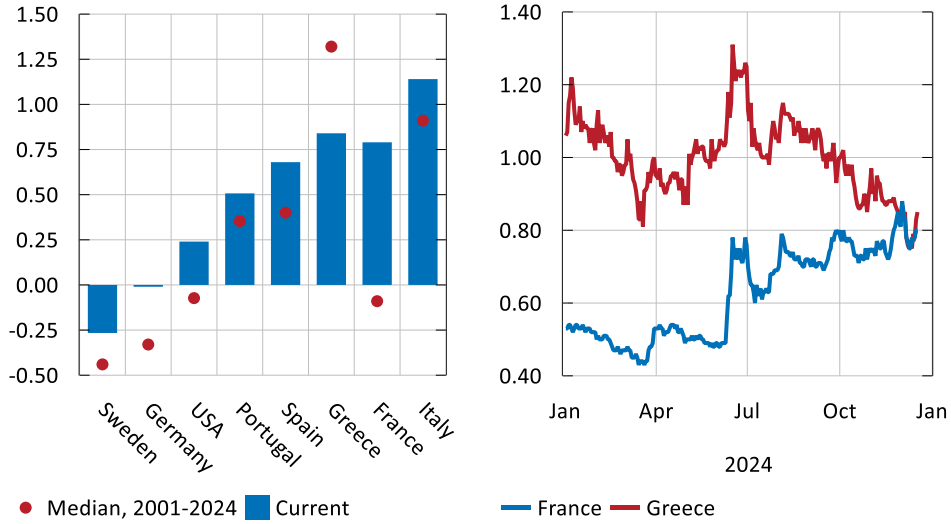
### Turbulent development for government bonds in Europe

Government bond yields have risen in relation to swap rates in a number of European countries (see Figure 12). Swap rates reflect market expectations of future policy rates (including a certain credit risk premium). It is worth noting that French government bonds are now above the rate levels in countries such as Spain, Portugal and Greece, which have historically had much higher funding costs than France. The deterioration in the financing situation can be primarily attributed to weak public finances and political turbulence. As a result of extensive economic reforms and improved public finances, Greece's financing costs have on the one hand constantly declined, although they are still at high levels. In comparison, Swedish government bonds trade around 25 basis points below the swap rate, which is low in an international perspective. This can be partly explained by Sweden's strong public finances, but also by a lower supply.

So far, developments in the government bond market in Europe have had limited impact on the other credit markets. Companies and banks have been able to continue to issue debt at favourable terms in relation to the most recent five-year period. However, a prolonged period of poorer public finances and higher government rates could lead to generally tighter credit terms in time.

**Figure 12. Differential between government bond yields and swap rates and the differential between French and Greek government bond yields in relation to German ones**

Percentage points

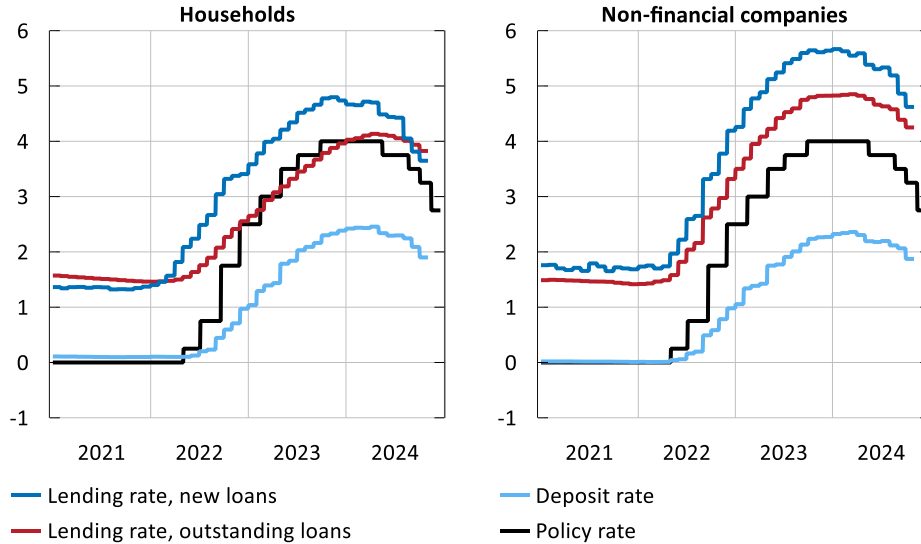


Note. Government bond yields and swap rates refer to a maturity of 10 years. Benchmark rates for all 10-year government bonds. The blue columns refer to the difference between government bond yields and swap rates on 17 December 2024. The right-hand figure shows developments since the start of the year.

Sources: Federal Reserve, Macrobond Financial AB and the Riksbank.

**Figure 13. Average lending and deposit rates to households and companies and the Riksbank's policy rate**

Per cent



Note. Volume-weighted averages of lending and deposit rates at all maturities. For households, this refers to interest rates on loans from monetary financial institutions, housing credit institutions and alternative investment funds. Household lending rate refers to loans for housing purposes. For companies, this refers to loans from monetary financial institutions. New loans also includes renegotiated loans. The last outcome for lending and deposit rates refer to October 2024.

Sources: Statistics Sweden and the Riksbank.

### Deposit and lending rates for households and companies will decline as the policy rate is cut

As the Riksbank has cut its policy rate, the interest rates faced by households and companies have also fallen (see Figure 13). Since the start of the year, mortgage rates on new loans have fallen in line with the banks' funding costs.<sup>11</sup> Interest rates on new mortgages with somewhat longer maturity, like market rates, have fallen more than interest rates with a three-month maturity (see Figure 14). The average interest rate on outstanding loans will change with some time lag when loans expire and are renewed and when new loans are taken. For instance, the interest rate on outstanding mortgages with a three-month fixed period is a weighted average of the interest rate on new mortgages over the past three months.

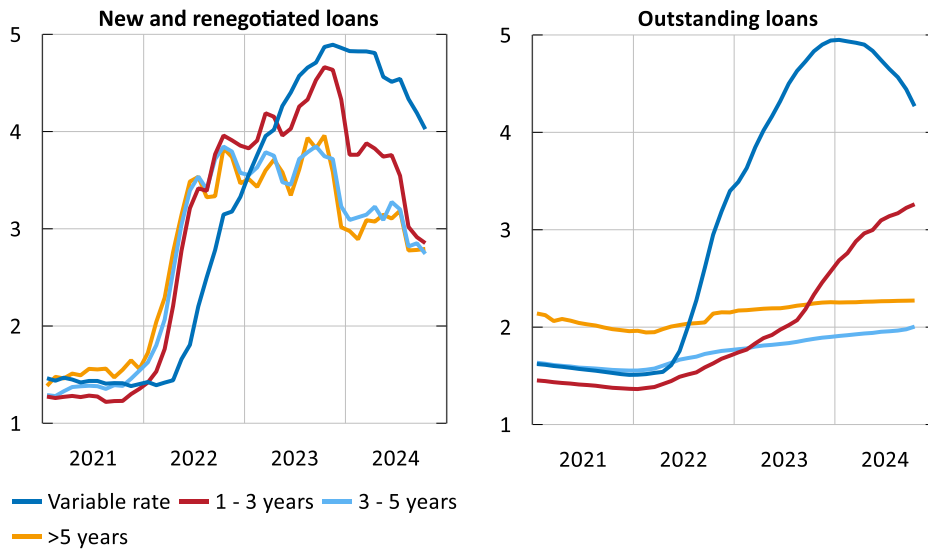
Companies also face a lower interest rate on their outstanding bank loans (see Figure 13). Since the first interest rate cut in May, companies' short-term financing costs have fallen in line with the policy rate. The monetary policy transmission to companies' interest rates follows historical patterns and appears to be functioning well.

<sup>11</sup> The banks' financing cost refers to the cost the banks have for financing borrowing with the aid of various interest rate instruments, such as covered bonds and other bonds, as well as bank deposits.

The banks' deposit rates have also fallen. Since the first interest rate cut in May, deposit rates have fallen by around 0.5 per cent. It is important to follow how the banks' deposit and lending rates develop going forward, and the relationship between them.

**Figure 14. Average mortgage rates to households for various fixed terms**

Per cent



Note. Refers to mortgage rates from monetary financial institutions, housing credit institutions and alternative investment funds. The last outcome refers to October 2024.

Source: Statistics Sweden.

### Low credit growth and slowly rising housing prices

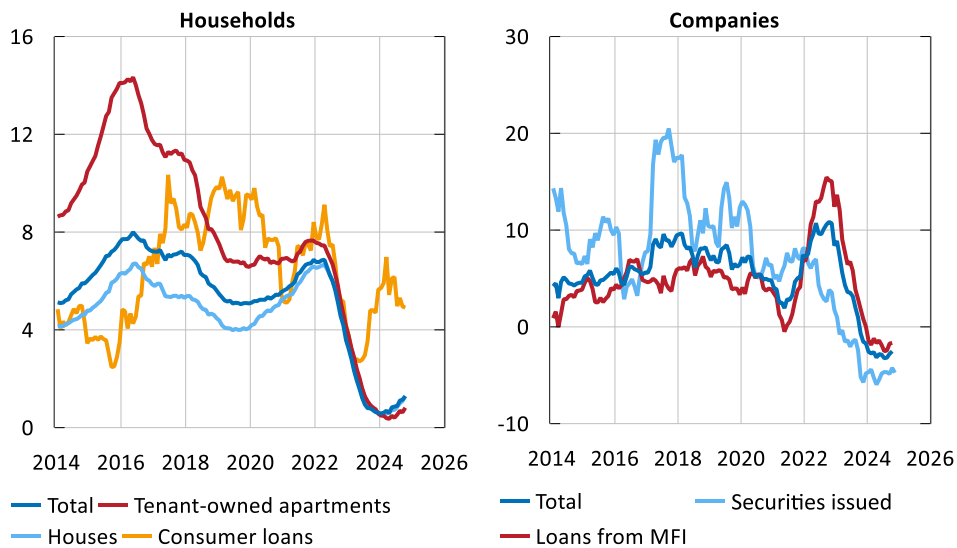
Despite lower lending rates, new lending to households and companies remains on low levels (see Figure 15). With regard to households, the growth rate for mortgages has gradually increased since the start of the year, supported by a growing turnover and rising prices on the housing market (see section 1.3). Lending to companies has instead continued to decline.<sup>12</sup> This should be seen in the light of monetary policy having an impact with a time lag, and of companies being able to use alternative financing sources, such as retained earnings.

<sup>12</sup> Corporate borrowing can take place via bank loans or by the issuance of securities on the bond market. Even if total credit growth is negative, there are some signs that lending via the bond market in Swedish kronor is increasing slightly due to increased risk appetite and lower risk premiums.



**Figure 15. Household and corporate borrowing**

Annual percentage change



Note. Lending by monetary financial institutions (MFIs) to households and non-financial corporations adjusted for reclassifications and bought and sold loans. Securities issued by non-financial companies have been adjusted for currency impact. Loans from MFIs constitute about two thirds of total lending to companies, while securities issues constitute around a third.

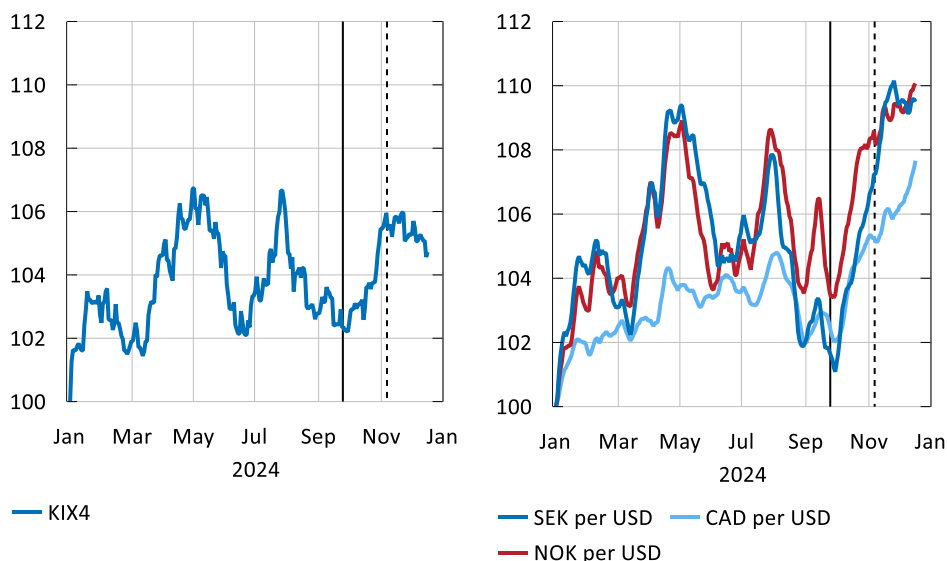
Source: Statistics Sweden.

### Higher US interest rates strengthen the dollar against smaller currencies

Following the Monetary Policy Update in November, the krona exchange rate has been stable against KIX4, but it has continued to weaken against the US dollar (see Figure 16). It seems to be primarily news about the US economy that has affected the value of the krona, while news about the Swedish economy has had less significance. During the autumn, the US dollar has strengthened against almost all currencies, a trend that was moreover reinforced after the US presidential election.

**Figure 16. Nominal exchange rate against KIX4 and a number of smaller currencies against the dollar**

Index, 01 January 2024 = 100



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. The solid lines mark the date of the Monetary Policy Report in September and the dashed lines mark the date of the Monetary Policy Update in November.

Sources: Macrobond Financial AB and the Riksbank.

## 1.3 Swedish real economy

### Weak growth and unchanged consumption during the third quarter

Swedish GDP grew by 0.3 per cent during the third quarter of this year, compared with the previous quarter. The upturn was primarily driven by changes in inventories, while net exports had a negative contribution as a result of increased imports. Household consumption is still weaker than normal, and was unchanged in the third quarter in relation to the previous quarter. Consumption was also weak in October, according to the consumption indicator. However, the turnover in retail trade increased in October in relation to the previous month, particularly in the durable goods segment.

There are several reasons why household consumption has been weak over the year. Households' real disposable incomes have increased. It is largely higher capital incomes that explain the increase, although real wages have increased as well.<sup>13</sup> Moreover, households responding to the National Institute of Economic Research's Consumer Tendency Survey have expressed that it currently is a good time to save, and they have also increased their savings (see Figure 17). However, in the third

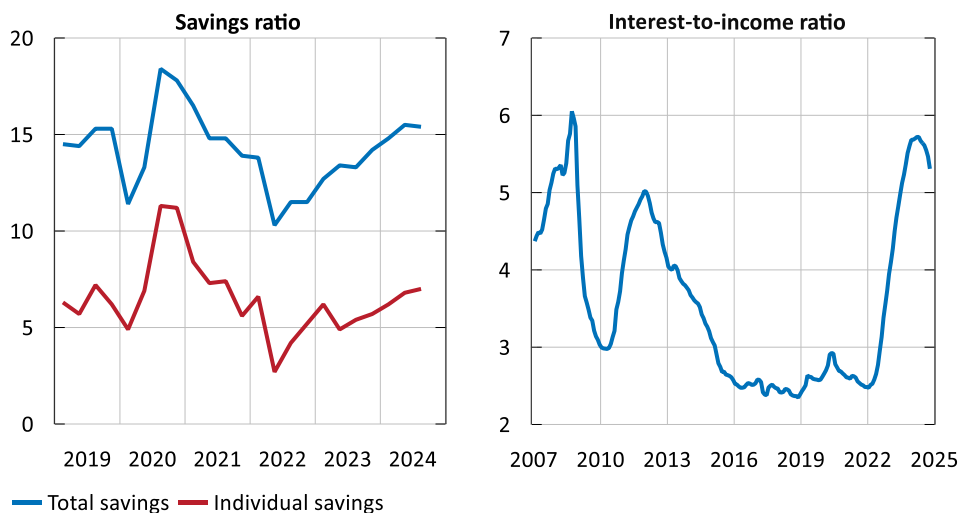
<sup>13</sup> Capital revenue is an income that is unevenly distributed in relation to other types of income. See also "[Svenskarnas kapitalinkomster ojämnt fördelade](#)" (Swedes' capital revenue unevenly distributed), Statistics Sweden, June 2022.

quarter of this year, household saving was unchanged in relation to the second quarter, which could indicate that household saving will not rise further.

In addition, households have spent a large share of their incomes on interest expenditure, and the so-called interest-to-income ratio is high in a historical perspective. In recent months, however, the interest-to-income ratio has fallen, as the interest rate cuts have gradually reached households (see Figure 17).

**Figure 17. Household savings ratio and interest-to-income ratio**

Percentage of disposable income



Note. Seasonally-adjusted data. Total saving including collective pension saving schemes. Saving ratio refers to households and households' non-profit institutions (HIO) (left). Interest-to-income ratio refers to monthly data and includes a 30-per cent tax relief. The outcome for July-October is based on the average interest rate on household loans and a forecast of household debt and disposable income (right).

Sources: Statistics Sweden and the Riksbank.

Despite cautious households, indicators are still pointing to some increase in GDP growth going forward. The National Institute of Economic Research's Economic Tendency Survey, which includes both households and companies, rose on a broad front in November and reached its highest level since August 2022. The strongest signals come from the retail trade and support the picture of consumption accelerating at the beginning of next year. The purchasing managers' index has risen to levels consistent with growth. This applies to the purchasing managers' index for both the industrial and service sectors.

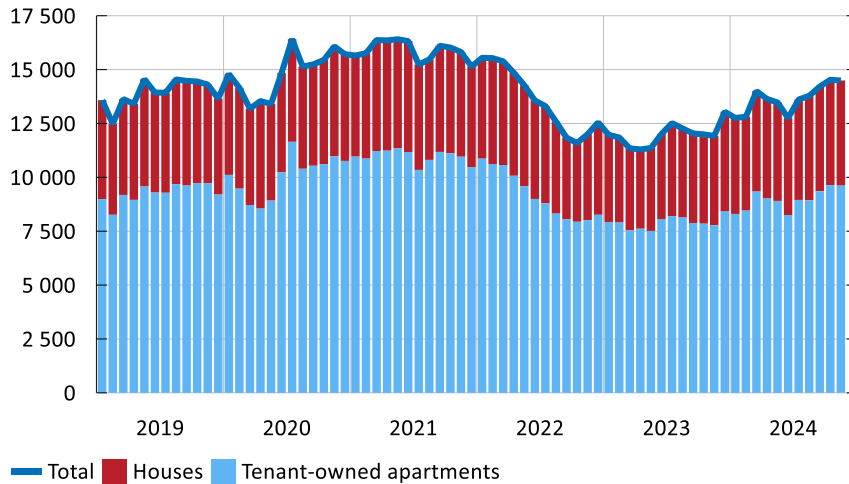
### Activity and prices on the housing market have already increased

Interest-sensitive parts of the economy are still weaker than normal, but recently there have been signs that these parts of the economy are beginning to recover. The turnover in houses and tenant-owned apartments has increased over the course of the year and is now at roughly the same levels as in the years prior to the pandemic (see Figure 18). Both the actual housing prices and household expectations of future

price rises have increased over the year, which has probably contributed to housing construction having ceased falling after heavy falls in 2023.

**Figure 18. Turnover on the housing market**

Number of transactions per month



Note. Seasonally adjusted data.

Sources: Svensk Mäklarstatistik and the Riksbank.

### Subdued development on the labour market

Both the labour force and employment fell during the third quarter of this year. The fall in employment was larger than the fall in the labour force, however, which meant that unemployment rose. Employment has continued to decrease in October and November. Employment has declined in several sectors over the past year, including construction, retail trade, and IT and corporate services. Weak demand in the economy indicates that it may take time before there is a turnaround. However, the number of redundancy notices has declines in recent months, although they are still at a somewhat elevated level. Recruitment plans in the business sector are slightly positive in all sectors, apart from the construction sector.

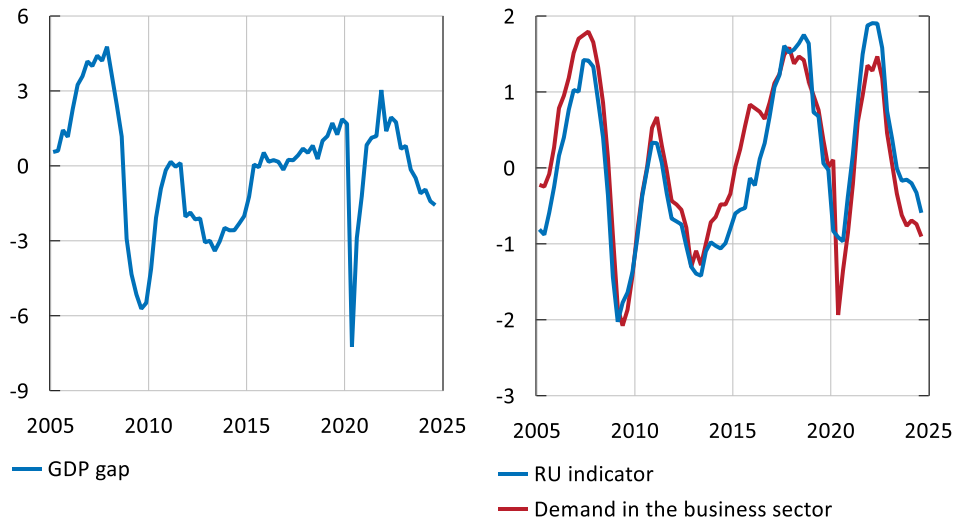
### Economic activity is assessed to be close to a turning point

Sweden's economy is in a mild recession and resource utilisation is now assessed to be lower than normal. The GDP gap remains negative (see Figure 19).<sup>14</sup> The Riksbank's resource indicator (the RU indicator) weighs together different indicators, and it also indicates that resource utilisation is lower than normal. However, as mentioned above, various indicators of demand have risen over the year and are starting to approach levels consistent with normal growth.

<sup>14</sup> The GDP gap is the difference between actual and potential levels of GDP. Potential GDP is defined as the level of production that could be achieved through long-term sustainable utilisation of the available production factors, labour and capital.

**Figure 19. GDP gap and demand in the business sector**

Per cent (left), standard deviation (right)



Note. GDP gap refers to the deviation from the Riksbank’s assessed long-term trend. The RU indicator is a statistical measure of resource utilisation. The RU indicator and demand situation in the business sector are both normalised so that the mean value is 0 and the standard deviation is 1.

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

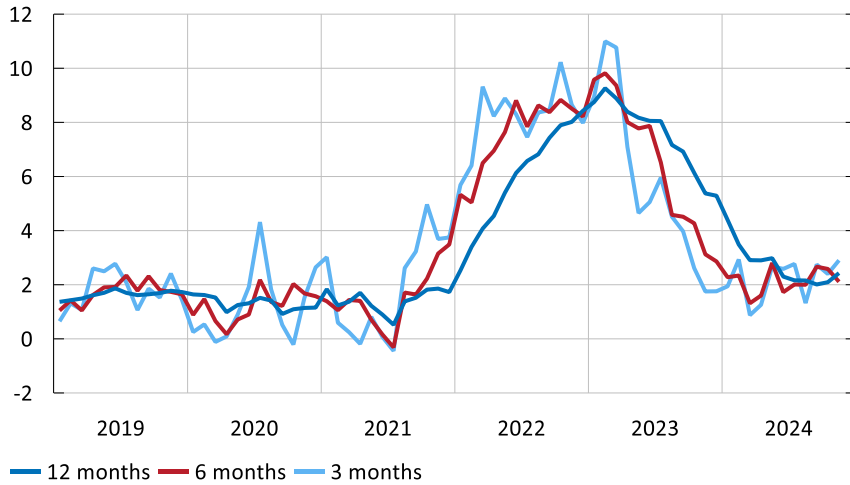
## 1.4 Swedish inflation

### Inflation to stabilise around 2 per cent

The most recent outcomes for CPIF inflation have been close to or slightly below 2 per cent. The fact that CPIF inflation has been below 2 per cent is mainly due to energy prices having fallen at an annual rate during the autumn (see the Fact box “The CPIF under alternative assumptions for energy prices” in this report). CPIF inflation excluding energy amounted to 2.4 per cent in November, which was higher than expected. However, the deviation was relatively small and is assessed to be partly linked to temporary factors, such as unexpectedly high food and goods prices. Measured as a seasonally adjusted three or six-month change and annualised, inflation has been close to 2 per cent since the beginning of 2024 (see Figure 20). Service prices are increasing faster than their historical average, but at a rate deemed consistent with inflation of 2 per cent (see Figure 21).

**Figure 20. CPIF excluding energy**

Annual percentage change and three and six-month change calculated in annualised terms

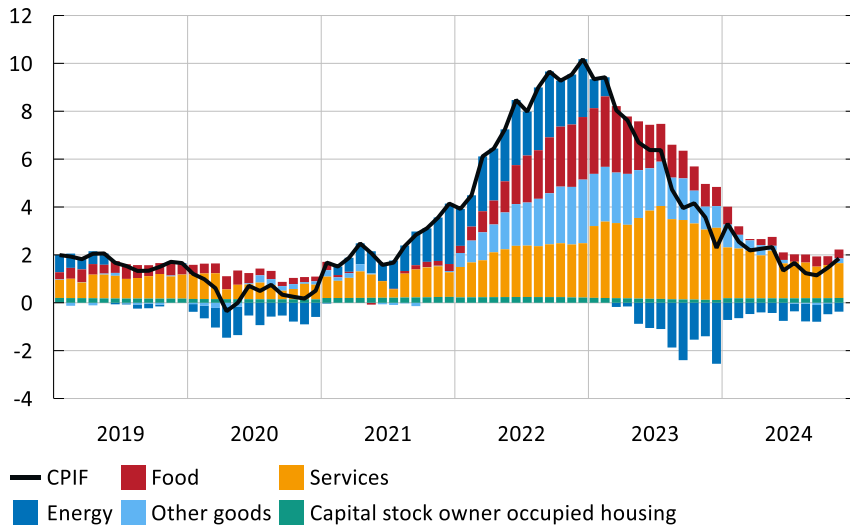


Note. Seasonally adjusted data.

Sources: Statistics Sweden and the Riksbank.

**Figure 21. Contributions to CPIF inflation**

Annual percentage change and percentage points



Sources: Statistics Sweden and the Riksbank.

**The indicators are consistent with an inflation close to 2 per cent**

Individual monthly outcomes for inflation may be affected by prices that vary substantially. Various measures of underlying inflation, which use different methods to exclude or reduce the effect of individual prices, have fallen clearly, but are still somewhat over 2 per cent.<sup>15</sup> One factor that contributes to maintaining various measures of underlying inflation is prices that change more rarely and to some extent reflect

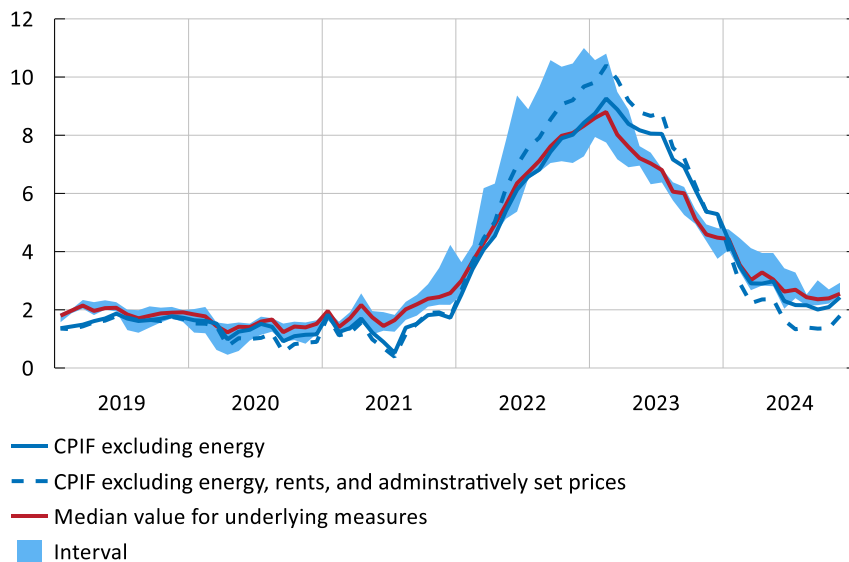
<sup>15</sup> For more information on different measures of underlying inflation, see the Riksbank’s website: <https://www.riksbank.se/en-gb/statistics/macro-indicators/underlying-inflation/>.

earlier cost increases, such as rents and administrative prices. When adjusted for this, underlying inflation has been slightly below 2 per cent (see Figure 22). All in all, the analysis of underlying inflation gives a picture of inflationary pressures in line with the target.

Other indicators that are important for inflation going forward also point to an inflation that is close to 2 per cent. According to the National Institute of Economic Research's Economic Tendency Survey, companies' pricing plans are close to their historical averages and have been so since the beginning of the year (see Figure 23). In addition, producer prices are developing at a moderate pace and the long-term inflation expectations of money market participants are well anchored around the target (see Figure 24). This is creating good conditions for inflation close to 2 per cent going forward.

**Figure 22. Different measures of underlying inflation**

Annual percentage change

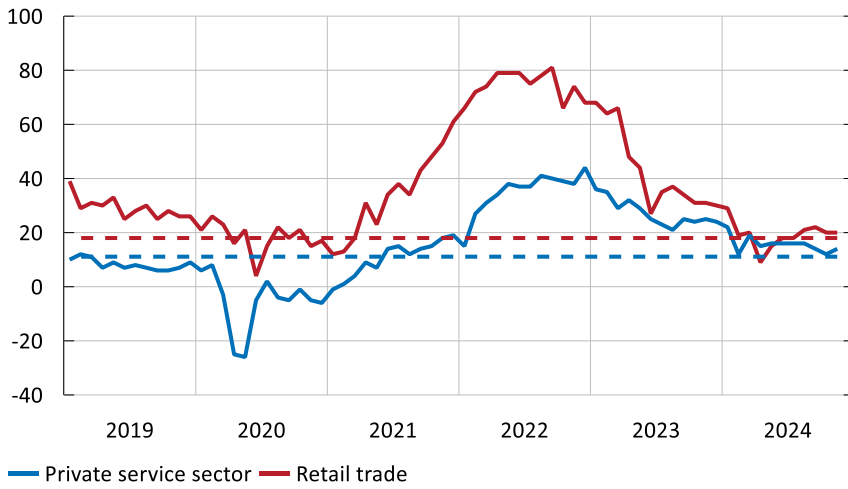


Note. The interval shows the highest and lowest outcome among 5 measures of underlying inflation: UND24, Trim85, persistence-weighted inflation (KPIFPV), factors from principal component analysis (KPIFPC) and weighted mean inflation (Trim1).

Sources: Statistics Sweden and the Riksbank.

**Figure 23. Price plans in Economic Tendency Survey**

Net figures

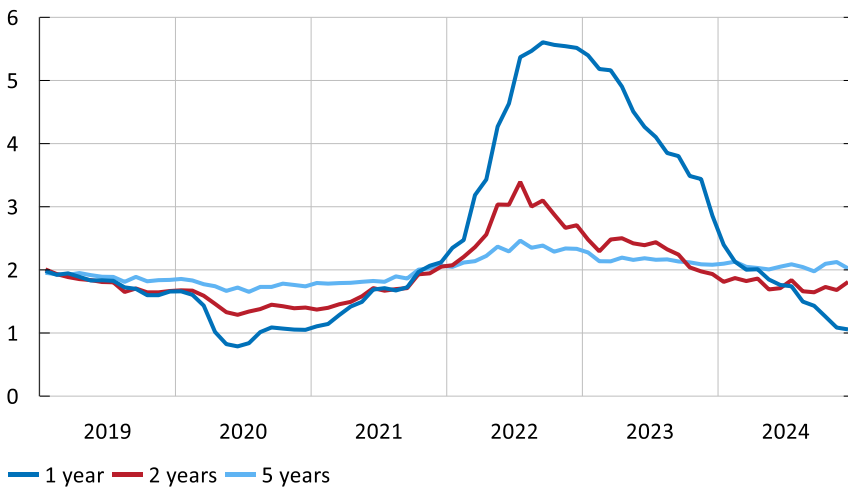


Note. Seasonally adjusted data. The figure shows net balances of how many businesses responded that they plan to increase their prices compared with how many plan to reduce them in the coming three months. The dashed lines represent the average for the period 2000-2024.

Source: National Institute of Economic Research.

**Figure 24. Inflation expectations**

Per cent



Note. Expectations of the CPI. Money market agents.

Source: Kantar Prospera.

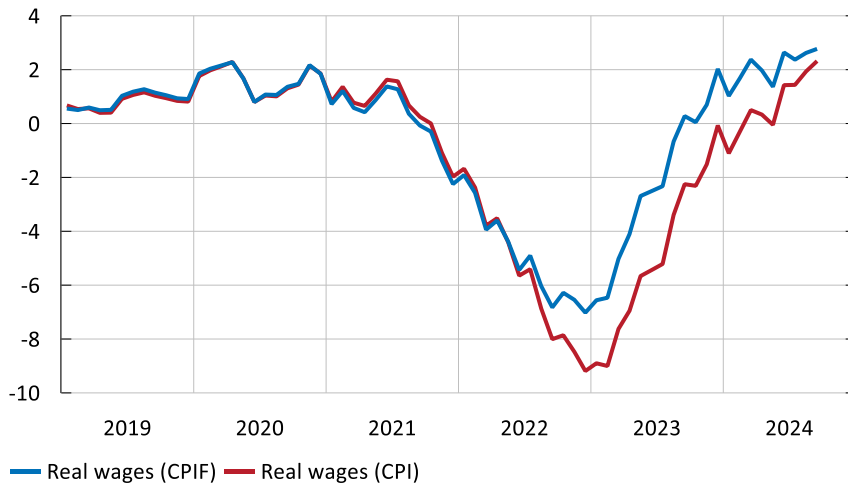


### Real wages increasing rapidly

Wage growth has increased somewhat during the second half of 2024, but is nevertheless in line with what was negotiated at the start of 2023. The more rapid wage growth and the lower inflation mean that real wages have begun to rise again (see Figure 25).<sup>16</sup> Wage growth is expected to slow down somewhat in the near term, in line with the agreement from last year.

**Figure 25. Real wages**

Annual percentage change



Note. Real wages are calculated as the difference between the rate of wage growth and the annual percentage change in the CPI and CPIF. Data on the rate of wage growth is preliminary and refers to the National Mediation Office's forecasts of the final outcomes. The final observation is for September.

Sources: Statistics Sweden, the National Mediation Office and the Riksbank.

<sup>16</sup> Real wages have risen by an average of 1.1 per cent a year since 2000, measured as both the CPI and the CPIF.

## ANALYSIS – Macroeconomic effects of higher US import tariffs

---

The incoming president of the United States, Donald Trump, has said that he wants to raise import tariffs from other countries, especially on goods from China. If they are raised, GDP growth in both the United States and China would probably be dampened. Inflation in the United States would be higher in the short term. Swedish GDP would probably slow down somewhat, while the effect on inflation in Sweden is uncertain.

---

During the 1990s and early 2000s, global trade was deregulated. Import tariffs were reduced and trade barriers removed. This led to a rapid increase in global trading. However, over the past ten years, protectionism has increased and an increasing number of new trade barriers have been introduced. Trade barriers for Swedish export companies have increased significantly since 2019, especially for various goods such as motor vehicles, iron and steel.<sup>17</sup> The increased protectionism has often been motivated by an increased focus on national security or protecting domestic industries from competition. One example is the trade conflict between the United States and China in 2018 and 2019, when the United States began by raising import tariffs and China responded by raising tariffs on US goods. Over the past year, both the United States and the EU have raised import tariffs on certain Chinese goods.

The next president of the United States, Donald Trump, has said that he wants to raise import tariffs on goods from all foreign countries. One proposal is to raise import tariffs on Chinese goods to 60 per cent and on all other countries' goods to 10 per cent. The idea is that the higher import tariffs will protect domestic industries from foreign competition and encourage the purchase of domestically produced goods. There is also a hope that the higher import tariffs will reduce the US trade deficit. The purpose of this article is to discuss what macroeconomic effects the import tariffs might have.

Raised import tariffs in the United States can affect both the domestic and the global economy. Compared with the import tariffs introduced during the previous Trump administration, the current proposal entails much higher tariffs and covers more countries. This indicates that the effects of higher import tariffs will have greater effect this time. However, there is considerable uncertainty over how much the import tariffs will be raised.

US companies may benefit in the short term from reduced foreign competition, with positive effects on production and employment. Additionally, more Americans may purchase domestically-produced goods rather than imported goods to a greater extent. In addition, increased income from tariffs can be used to stimulate the economy or improve public finances. However, there are also a number of negative

---

<sup>17</sup> The trade barriers included both raised tariffs and other trade barriers. See Global Trade Alert, [https://www.globaltradealert.org/global\\_dynamics](https://www.globaltradealert.org/global_dynamics)

effects. US companies that are dependent on imported input goods will experience higher costs, which will make these companies less competitive.

The experiences from earlier episodes of raised import tariffs show that the shift from foreign to domestic production tends to result in a counteracting exchange rate strengthening.<sup>18</sup> A stronger dollar will hamper exports, but make imports cheaper. Higher import tariffs can also lead to disruptions in global value chains.<sup>19</sup> For instance, higher costs for companies affected by higher import tariffs will also lead to higher costs for both domestic and foreign companies, as they are dependent on input goods from the companies facing higher import tariffs. Increased uncertainty regarding trading can also hamper both imports and investment.

Higher import tariffs lead to higher consumer prices for US households. When companies' costs increase as a result of the imported input goods becoming more expensive, the companies pass on at least some of their cost increases to consumers. A study found that US consumer prices became 0.3 per cent higher as a result of the higher import tariffs in 2018 and 2019.<sup>20</sup> Several studies show that the price impact on the consumer segment of the higher US import tariffs on Chinese goods differed substantially between products.<sup>21</sup> One explanation for this was that some companies took the opportunity to raise their prices as a result of their improved competitive situation. Other companies, on the other hand, were more likely to reduce their profit margins.

Higher consumer prices mean that households' purchasing power declines, which reduces their opportunities to consume other goods and services, which in turn has negative effects on growth. The higher inflation can also affect households' and companies' inflation expectations and affect the US central bank's policy rate. Both model analyses and empirical studies show that higher import tariffs lead to lower GDP in both the short and long term and higher inflation in the short term in the country raising tariffs. Studies that have analysed the effects of the United States' raised import tariffs in 2018 and 2019 reach similar conclusions.

Studies that have analysed the effects of Trump's proposal regarding higher import tariffs being implemented show that GDP growth in the United States would slow

---

<sup>18</sup> See, for example, L. Boer and M. Rieth (2024), "The Macroeconomic Consequences of Import tariffs and Trade Policy Uncertainty", *IMF Working paper* 24/13 and M. Obstfeld (2016), "Tariffs Do More Harm Than Good at Home", IMF Blog, International Monetary Fund.

<sup>19</sup> A global value chain is a process that describes the different steps required to produce a product or service, where each step is spread across different countries or regions in the world. This covers everything from product development, design, manufacturing and distribution to marketing and sales.

<sup>20</sup> See M. Amity, S.J. Redding and D.E. Weinstein (2019), "The Impact of the 2018 Tariffs on Prices and Welfare", *Journal of International Perspectives* 33(4):187-210.

<sup>21</sup> See, for instance, A. Cavallo, G. Gopinath, B. Neiman and J. Tang (2021), "Tariff Pass-Through at the Border and at the Store: Evidence from US Trade Policy", *American Economic Review: Insights* 3(1):19-34 and A. Flaaen and J.R. Pierce (2019), "Disentangling the Effects of the 2018-2019 Tariffs on Globally Connected U.S. Manufacturing Sector", *Working Paper*, Finance Economic Discussion Series 2019-086, Board of Governors Federal Reserve System, Washington DC.

down in both the short and long term. Inflation in the United States could be 1 percentage point higher during at least one year after the tariffs were raised.<sup>22</sup> The negative effects on GDP and inflation would be much greater if other countries choose to respond by raising import tariffs on US goods.

The Swedish economy would also be affected. Higher US import tariffs on goods from all foreign countries would slow down global economic activity and have negative effects on the Swedish economy. The size of the negative effects on the Swedish economy would depend, for instance, on the scope of the trade with the United States, and on whether or not the EU chose to raise import tariffs on US goods. A recent study shows that the negative effects would be greatest for the United States' neighbouring countries Mexico and Canada, which export a lot to the States, while the negative effects on Europe would be moderate.<sup>23</sup>

The Swedish economy has become increasingly dependent on exports abroad. The United States is one of Sweden's most important trading partners, and exports of goods to the States comprised 9 per cent of total goods exports in 2023. Exports of services to the United States have grown rapidly and currently account for 43 per cent of total exports to the United States. With regard to employment, the United States is the country where Swedish exports employ most people.<sup>24</sup> Higher import tariffs on Swedish goods would also to some extent entail lower exports of services to the United States but mainly impact Swedish exports of goods. Import tariffs would make Swedish goods more expensive in the United States and affect their competitiveness in relation to goods produced in the States. Reduced demand for Swedish goods would lead to lower export income in industries with large exports to the United States, such as motor vehicles, machines and pharmaceuticals. The effect on the Swedish economy also depends on how households and companies are affected by the higher import tariffs. Increased uncertainty and pessimism could hold back both household consumption and corporate investment.

It is uncertain what effect higher US import tariffs would have on Swedish inflation. There are factors indicating both lower and higher inflation. Lower resource utilisation resulting from lower Swedish and global GDP indicates lower inflationary pressures. Weaker global demand could also dampen inflation via lower world market prices for commodities. If the United States raises import tariffs substantially on Chinese goods, China may instead try to export more to Europe. This could lead to China cutting prices on its export goods, which could slow down inflation in Sweden. Whether or not the EU would take measures to prevent lower Chinese import prices is uncertain. What points to higher inflation is that higher US import tariffs lead to increased costs

---

<sup>22</sup> See, for instance, W. McKibbin, M. Hogan and M. Noland (2024), "The International Economic Implications of a Second Trump Presidency", Peterson Institute for International Economics, *Working Paper* 24-20. In the scenario it is assumed that the United States raises import tariffs on Chinese goods by 60 percentage points and tariffs on all goods from other countries by ten percentage points. It is further assumed that all countries raise their import tariffs on US goods by the same amount as the United States has raised tariffs.

<sup>23</sup> See footnote 22.

<sup>24</sup> See report from the Stockholm Chamber of Commerce (2024), "Sverige och USA - starka band i en orolig tid" (Sweden and the United States - strong ties in uneasy times). During 2020, 135,000 people were employed in producing goods and services that were exported to the United States. This corresponds to a share of total employment of 3 per cent.

on imported input goods for US companies. This will probably lead to Swedish imports of US goods becoming more expensive. Imports from other countries where US input goods are used may also become more expensive. The extent to which import prices rise will also depend on how the krona develops. If the demand for Swedish exports falls significantly, the krona could weaken. Increased global uncertainty could weaken the krona further.

To summarise, increased trade barriers hamper global economic activity. This leads to higher costs for households and companies, especially in the country that has raised import tariffs. Trade barriers hamper trade and limit competition, the pace of innovation and the opportunities to benefit from economies of scale. This ultimately leads to lower productivity and GDP than would otherwise have been the case.

## 2 The economic outlook for the coming years

---

Inflation has fallen in both the euro area and the United States over the year and is now close to the inflation targets of the central banks. GDP growth in the euro area has remained weak this year but is expected to increase slightly in the coming years as monetary policy becomes less contractionary and real incomes continue to improve. Growth has been good in the United States but is expected to slow down slightly going forward. All in all, growth abroad is expected to be modest during the forecast period.

In early 2025, growth is expected to increase gradually and, after a certain delay, the labour market will also strengthen. After this, growth is expected to increase gradually and, after a certain delay, the labour market will also strengthen. Various indicators of inflationary pressures indicate CPIF inflation in line with the target over the forecast period. CPIF inflation excluding energy is expected temporarily to be above 2 per cent in 2025 before then increasing by 2 per cent as of 2026.

---

### Key assessments and assumptions in the forecast

---

These are the Riksbank's most important assessments as regards the forecast of the Swedish economy.

- Effects of possible tariffs and trade barriers have only been considered to the extent that they affect the indicators that are significant for economic confidence and expectations. The forecast does not make any explicit assumptions regarding future tariffs as it is currently difficult to assess matters such as the scope and timing of their introduction.
- The forecasts for the Swedish real economy and inflation are based on the assessment that growth in the euro area will increase somewhat in 2025. In the United States, growth is expected to slow down somewhat and grow in line with potential GDP over the forecast period.
- Energy prices are assumed to follow forward pricing.
- Resource utilisation in the Swedish economy is now deemed to be weaker than normal.
- Swedish fiscal policy is expected to be mildly expansionary in 2025 and then to be adjusted as normal according to the level of net lending and the economic situation.

- The Riksbank's assessment is that the long-term neutral policy rate is between 1.5 and 3 per cent.
- The forecast period stretches until the end of the fourth quarter of 2027.

**Forecast for monetary policy:** The forecast means that the policy rate will be cut so that it reaches 2.25 per cent by the middle of next year.

## 2.1 The economic outlook abroad

### Moderate global growth over the next few years

More expansionary monetary policy, lower inflation and rising real incomes will contribute to increased consumption and GDP growth in the euro area as of 2025.

In the United States, GDP growth is expected to be relatively good during the forecast period, even if it is now gradually falling towards potential growth at the same time as the labour market normalises. Gradually lower interest rates and further falls in inflation will help stimulate demand. Despite high indebtedness, the public sector deficit in the United States is expected to remain high, which will also support demand. At the same time, however, it poses a risk for economic stability in the longer run.

A more expansionary monetary policy and a degree of fiscal stimulus are expected to boost GDP growth in China going forward.<sup>25</sup> Even if global growth will increase slightly faster over the next few years, it is expected to be modest from a historical perspective.

### Inflation is continuing to slow down abroad

Inflation in the euro area is expected to remain close to 2 per cent over the forecast period, as higher energy prices will compensate for a gradually lower rate of increase in services prices. A weaker labour market and lower wage growth going forward are expected to restrain the growth of services prices. Towards the end of the forecast period, wage growth in the euro area is expected to fall to around 3 per cent.

Going forward, the rate of price increase for rental charges is expected to slow down in the United States, which will contribute to a slower rate of increase for services prices and to CPI inflation slowing down slightly more before stabilising at just over 2 per cent as of the second six months of 2025.<sup>26</sup>

---

<sup>25</sup> A stimulus package containing both fiscal and monetary policy was adopted during the autumn. It is expected to have an effect over the next two quarters.

<sup>26</sup> The level of CPI inflation is judged to correspond with PCE inflation of 2 per cent. PCE inflation is a measure of consumer price changes calculated by the Bureau of Economic Analysis (BEA). It is particularly important because it is used by the US Federal Reserve as a central measure to monitor price stability and take decisions on monetary policy.

**Table 1. International key performance indicators**

Annual percentage change, unless otherwise specified. The figures in brackets refer to the forecast from the previous Monetary Policy Report.

	2023	2024	2025	2026	2027
<b>GDP, euro area</b>	0.5 (0.5)	0.8 (0.8)	1.0 (1.3)	1.3 (1.3)	1.2
<b>GDP, United States</b>	2.9 (2.5)	2.7 (2.6)	2.2 (1.5)	2.1 (1.9)	1.9
<b>HICP, euro area</b>	5.4 (5.4)	2.3 (2.4)	2.0 (2.0)	1.8 (2.0)	2.0
<b>CPI, United States</b>	4.1 (4.1)	2.9 (2.8)	2.4 (2.0)	2.2 (2.2)	2.3

Sources: Eurostat, US Bureau of Economic Analysis, US Bureau of Labour Statistics and the Riksbank.

## 2.2 The economic outlook in Sweden

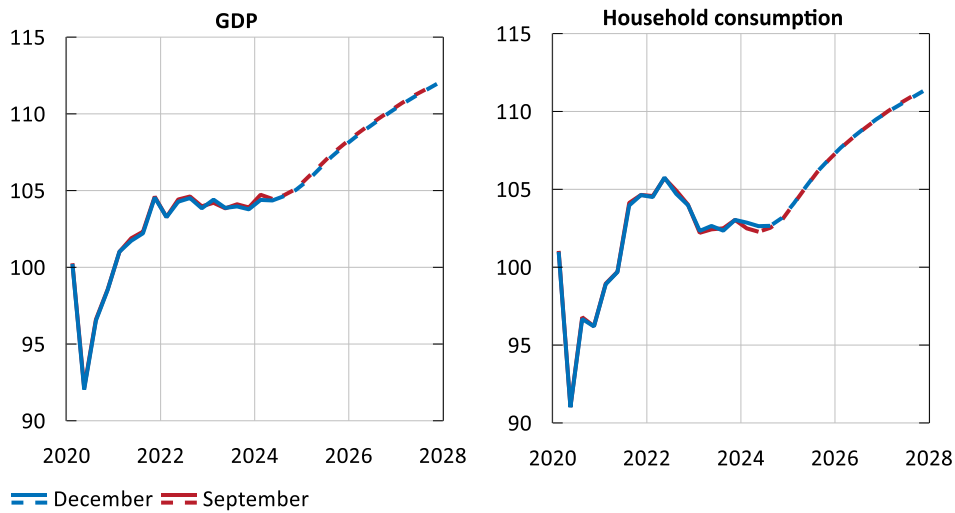
### Growth is expected to pick up in 2025

Next year, a clear recovery is expected to start in the Swedish economy (see Figure 26). This will largely be driven by domestic demand, while internal demand is expected to remain relatively weak over the next year. Household consumption is expected to rise now that inflation has fallen back and the policy rate has been cut, meaning that real disposable household income will continue to increase gradually. Monetary policy has a delayed effect and the rate cuts already implemented have not yet fully reached households and companies. In 2024, the interest-to-income ratio (household interest as a percentage of disposable income) started to fall and, in 2025, it is expected to fall back further (see Figure 27). Various surveys also indicate that households are optimistic about the future, which is an indication that consumption may pick up speed. Above all in 2025, fiscal policy is also expected to make a positive contribution to GDP growth, which is expected to rise by 1.8 per cent in 2025, 2.6 per cent in 2026 and 2.1 per cent in 2027.



**Figure 26. GDP and consumption in Sweden**

Index, 2019 Q4 = 100

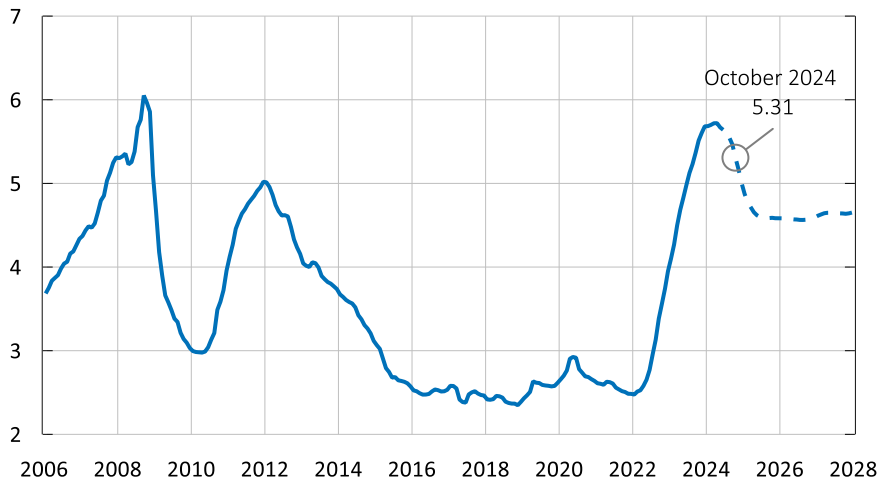


Note. Seasonally adjusted data. Solid line refers to outcome, dashed line represents the Riksbank's forecast.

Sources: Statistics Sweden and the Riksbank.

**Figure 27. Interest-to-income ratio**

Percentage of disposable income



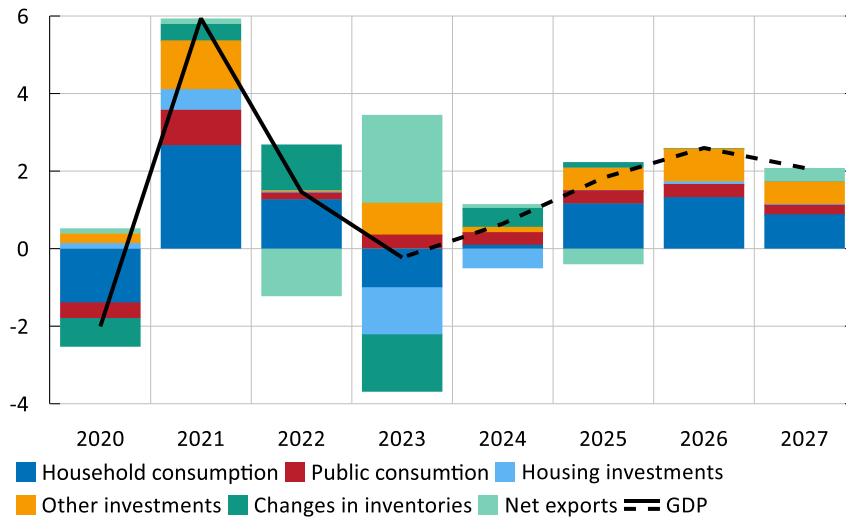
Note. Solid line refers to outcome, dashed line represents the Riksbank's forecast. The dot indicates an assessment of the current situation. Disposable income has been seasonally adjusted. Refers to household interest expenditure, including tax relief of 30 per cent.

Sources: Statistics Sweden and the Riksbank.

Housing investment has been weak since last year but is now expected to strengthen gradually as lower interest rates contribute to higher demand for housing. However, the upturn in housing investment is expected to be relatively modest, partly because slower population growth in the future will mean that not as many new homes will be needed. The business sector's other investments are expected to grow slightly faster when growth in consumption and exports rises (see Figure 28). Public sector investment is also expected to increase in 2025.

**Figure 28. Contribution to GDP**

Per cent (GDP) and percentage points (contribution)



Note. Contribution to annual percentage change in GDP in fixed prices.

Sources: Statistics Sweden and the Riksbank.

## FACT BOX – Balance target for public net lending

Since the Monetary Policy Update in November, the inquiry into the level of the target for general government net lending has been published.<sup>27</sup> The most important proposal in the report concerns a transition from the current target for a surplus in general government net lending of one-third of a per cent of GDP to a balance target in which income and expenditure are, on average, the same size over an economic cycle. The new target level is proposed to apply from 1 January 2027 but will be reviewed during the following mandate period, 2030–2034.

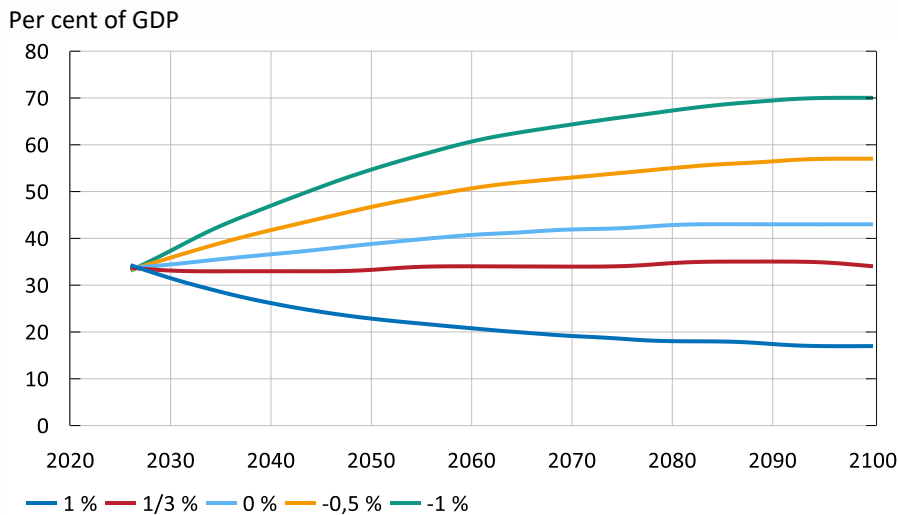
Figure 29 shows a long-term projection of the so-called Maastricht debt as a share of GDP, under various assumptions of public net lending.<sup>28</sup> The red and light blue curves show the current surplus target and the proposed balance target respectively. With the current target, long-term debt would remain more or less at today's level, while it would increase slightly with the proposed balance target.<sup>29</sup>

<sup>27</sup> See SOU 2024:76, "Från överskottsmål till balansmål" [From surplus target to balance target].

<sup>28</sup> If public net lending is kept constant, the gross debt will converge to a constant proportion of GDP in the long run.

<sup>29</sup> It could be asked why debt increases slightly under a balance target. The explanation is that savings in the local government sector and the pension system, which are positive, are not affected by the level of the surplus target. In contrast, a balance target for total general government net lending indirectly leads to a demand for a deficit in net lending in the central government sector. Public debt is a large part of the public sector's consolidated gross debt and thus contributes to debt increasing slightly.

**Figure 29. Public sector consolidated gross debt, 2025–2100 given various assumptions of public net lending**



Source: SOU 2024:76.

The report also includes a number of other proposals, including the inclusion of stabilisation policy principles for fiscal policy in the Government’s written communication to the Riksdag on the fiscal policy framework. During normal cyclical variations, it is deemed reasonable for monetary policy, together with the automatic stabilisers, to have responsibility for stabilisation policy. However, when the policy rate reaches its effective lower bound, the committee considers that fiscal policy may need to play a more active role in stabilisation policy.

The report committee draws the conclusion that the change from surplus to balance target will create scope for increased public expenditure or lower taxes throughout a longer transition period. This scope corresponds to one-third of a per cent of GDP or about SEK 25 billion per year. It could increase economic growth, depending on how this extra scope is used. Perhaps the most important consequence of the report’s proposals for the Riksbank is the suggestion that fiscal policy should play a more active role when the policy rate is close to its lower bound. This is something that the Riksbank has advocated on several occasions.<sup>30</sup>

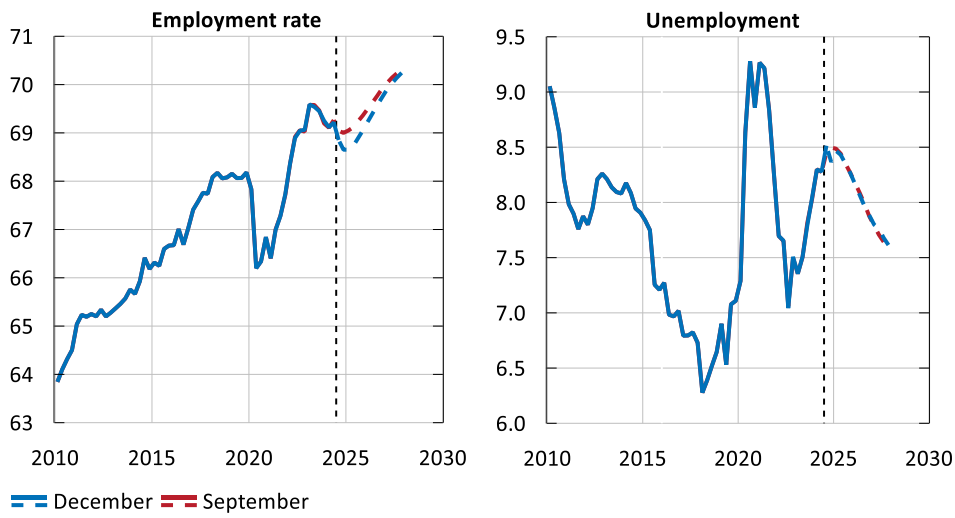
<sup>30</sup> See, for example, A. Breman (2021), “Monetary policy after corona – we need to think along new lines”, speech published 23 February 2021, and Per Jansson (2021), “Is it time for a more active fiscal policy?”, speech published 8 December 2021. For background, see B. Lagerwall (2019), “Fiscal policy in a monetary policy perspective”, Economic Commentaries No. 5, Sveriges Riksbank.

## The labour market will strengthen towards the end of 2025

Various labour market indicators and the ongoing relatively subdued demand in the economy suggest the labour market will develop weakly in the near future. In the Riksbank’s forecast, the employment rate and unemployment remain on relatively weak levels over the first six months of 2025 (see Figure 30).

**Figure 30. Employment rate and unemployment in Sweden**

Percentage of population (left) and percentage of labour force (right)



Note. Seasonally adjusted data. Refers to persons aged 15–74. Solid line refers to outcome, dashed line refers to the Riksbank’s forecast. The black dashed line marks the time of the monetary policy meeting in September.

Sources: Statistics Sweden and the Riksbank.

**Table 2. Key performance indicators for Sweden**

Annual percentage change unless otherwise specified. Figures in brackets refer to the forecast from the previous Monetary Policy Report.

	2023	2024	2025	2026	2027
<b>GDP</b>	-0.2 (-0.3)	0.6 (0.8)	1.8 (1.9)	2.6 (2.5)	2.1
<b>Employed persons</b>	1.4 (1.4)	-0.6 (-0.4)	0.1 (0.4)	1.3 (1.0)	1.2
<b>Unemployment*</b>	7.7 (7.7)	8.4 (8.4)	8.4 (8.4)	8.0 (8.0)	7.7
<b>GDP gap**</b>	-0.2 (-0.2)	-1.4 (-1.2)	-1.0 (-0.8)	-0.3 (-0.1)	0.0
<b>General government net lending, per cent of GDP</b>	-0.8 (-0.6)	-1.6 (-1.6)	-1.3 (-1.1)	-0.8 (-0.6)	-0.5

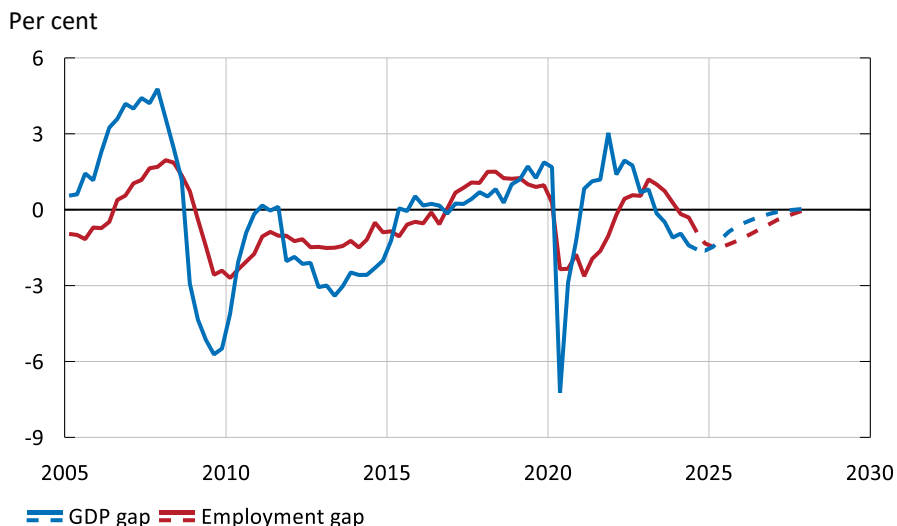
\* Per cent of labour force. \*\* Percentage deviation from the Riksbank’s assessed potential levels.

Sources: Statistics Sweden and the Riksbank.

### Resource utilisation is lower than normal but is expected to rise in 2025

When the economy starts to grow faster again, the amount of spare capacity will decrease and resource utilisation will rise. The gradually higher resource utilisation during the forecast period will contribute to inflation in line with the target. Economic activity is expected to be balanced in 2027 (see Figure 31).

**Figure 31. Measures of resource utilisation in Sweden**



Note. The gaps refer to the deviation in GDP and employment from the long-term trend assessed by the Riksbank. Solid line refers to outcome, dashed line refers to the Riksbank's forecast.

Sources: Statistics Sweden and the Riksbank.

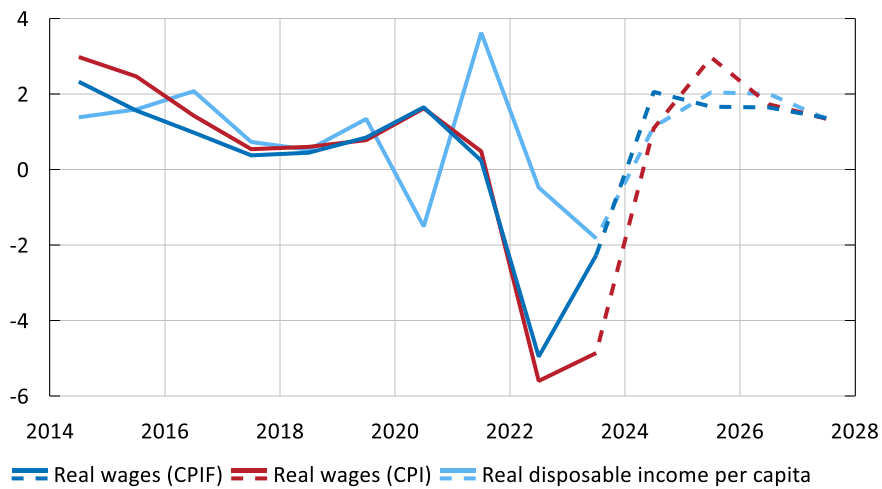
## 2.3 Inflation outlook in Sweden

### Real wages are expected to increase more quickly going forward

Wage growth will slow down in the near future in line with the profile of the agreements. After this, wages are expected to increase by about 3.5 per cent per year, an assumption that may need to be adjusted depending on how negotiations turn out. Real wages will rise relatively quickly as an annual percentage change going forward and, by 2026, are expected to return to the same level as before the rise in inflation. Real disposable household income per capita is also expected to increase going forward, after having fallen two years in a row (see Figure 32). Real disposable incomes have not decreased as much as real wages, primarily because capital revenue increased.

**Figure 32. Real wages and real disposable income per capita**

Annual percentage change



Note. Dark blue and red lines refer to real wages calculated as the difference between wage growth and the rate of increase in the CPIF and CPI respectively. Real disposable income is calculated using the deflator for households' consumption expenditure, which usually increases at the same rate as the CPIF. Solid line refers to outcome, dashed line represents the Riksbank's forecast.

Sources: National Mediation Office, Statistics Sweden and the Riksbank.

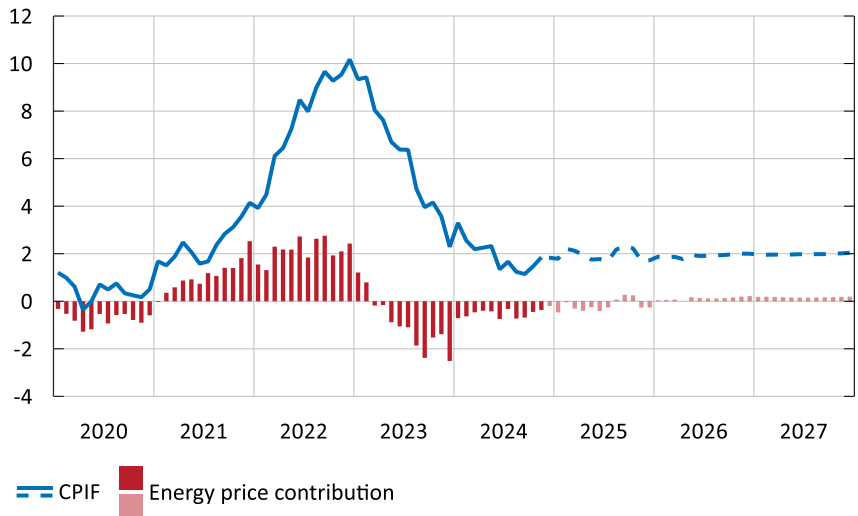
### **Inflation is expected to be close to target over the entire forecast period**

Several indicators suggest that inflation can now stabilise around the inflation target, including companies' pricing plans, expected wage growth and long-term expectations of inflation. The rate of increase in services prices remains slightly above the historic average, largely due to the unusually high rate of increase in rents and administrative prices. This, in turn, is assumed primarily to be due to the consequences of recent years' high inflation and not to present demand. To a certain extent, the rate of increase in services prices over the forecast period will also be sustained by slightly higher wage growth. Rents and administrative prices are expected to continue to increase slightly faster than normal for a few more years but their contribution to inflation is expected to fall gradually.

Energy prices are lower than they were one year ago and continue to make a negative contribution to CPIF inflation. As the lower fuel prices fall out of the 12-month figures at the same time as electricity prices are expected to increase over the winter, the negative contribution made by energy prices and CPIF inflation will decrease further over 2025 (see Figure 33).

**Figure 33. CPIF and energy price contribution**

Annual percentage change (CPIF) and percentage points (energy price contribution)



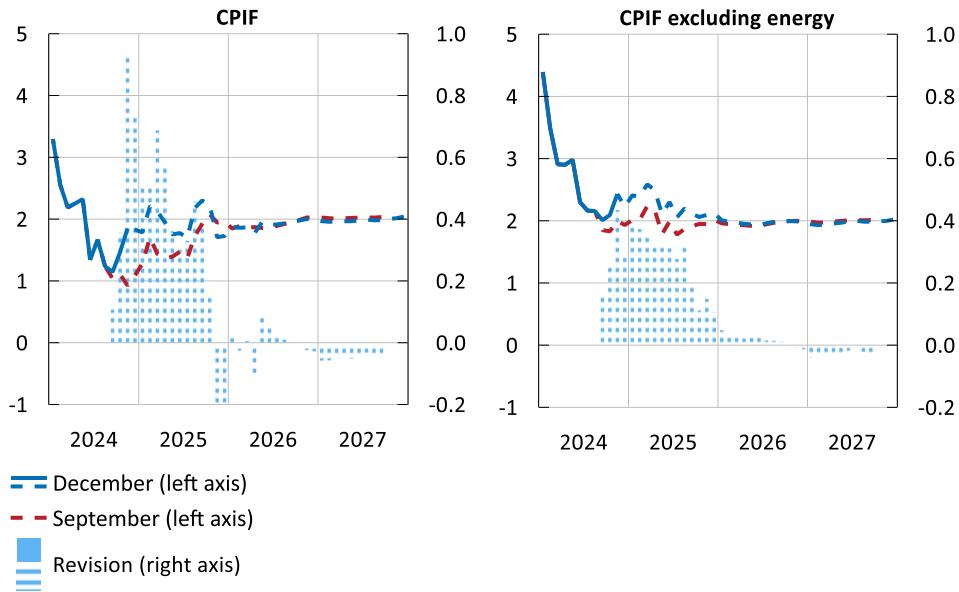
Note. Solid lines refers to outcomes. The dashed line and light red bars represent the Riksbank's forecasts.

Sources: Statistics Sweden and the Riksbank.

CPIF inflation has been revised upwards compared with the assessment made in September and is now expected to stabilise relatively quickly at levels close to 2 per cent (see Figure 34). Like CPIF inflation, the rate of increase of the CPIF excluding energy will now temporarily be slightly higher over the next year, partly due to higher food and goods prices. In turn, this can partly be explained by the expectation that the Swedish krona will be weaker, contributing to higher import prices. As of 2026, inflation excluding energy is expected to increase by almost 2 per cent per year. CPI inflation is expected to fall temporarily to close to 0 per cent in mid-2025 due to the rate cuts. After this it is expected to rise gradually towards 2 per cent (see Figure 35).

**Figure 34. CPIF and CPIF excluding energy with forecast revision**

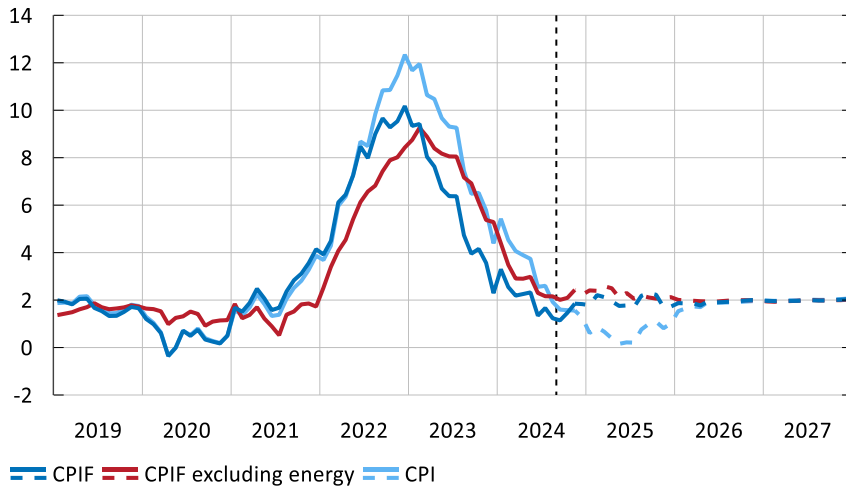
Annual percentage change and percentage points



Sources: Statistics Sweden and the Riksbank.

**Figure 35. CPIF, CPIF excluding energy and CPI**

Annual percentage change



Note. Solid line refers to outcome, dashed line refers to the Riksbank's forecast. The black dashed line marks the time of the monetary policy meeting in September.

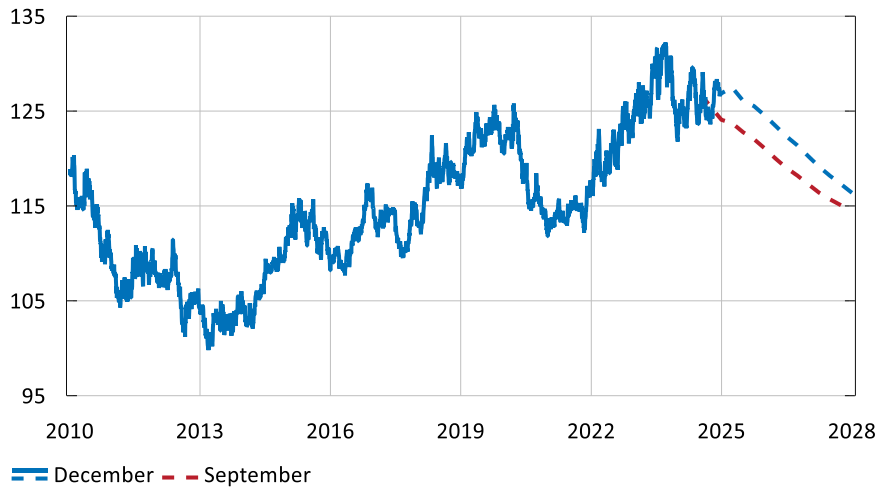
Sources: Statistics Sweden and the Riksbank.

Overall, services prices are expected to increase faster than prices for food and other goods going forward, although still at a rate deemed consistent with inflation of 2 per cent. At the same time, the krona is expected to strengthen (see Figure 36). This leads to more subdued inflationary pressures via lower import prices. Gradually rising resource utilisation will have a counteracting effect and will contribute to inflation in line with the target as of the middle of next year.



**Figure 36. Nominal exchange rate**

Index, 18 November 1992 = 100



Note. The KIX (krona index) is a weighted average of the currencies in 32 countries that are important for Sweden’s international trade. Since 28 March 2022, the index has been calculated against 31 countries following the exclusion of the Russian rouble. A higher value indicates a weaker exchange rate. The solid line represents the Riksbank’s forecast.

Source: The Riksbank.

**Table 3. Key performance indicators for inflation**

The table shows an annual average of the annual percentage change. The figures in brackets refer to the forecasts from the previous Monetary Policy Report.

	2023	2024	2025	2026	2027
<b>CPIF</b>	6.0 (6.0)	1.9 (1.7)	2.0 (1.6)	1.9 (1.9)	2.0
<b>CPIF excluding energy</b>	7.5 (7.5)	2.7 (2.6)	2.2 (2.0)	2.0 (2.0)	2.0
<b>CPI</b>	8.5 (8.5)	2.9 (2.7)	0.6 (0.4)	1.8 (1.7)	2.0
<b>Wages, NMO</b>	3.8 (3.8)	4.0 (3.9)	3.6 (3.6)	3.6 (3.6)	3.4

Note. NMO refers to the short-term wage statistics.

Sources: Statistics Sweden and the Riksbank.

## FACT BOX – The CPIF under various assumptions for energy prices

---

Energy prices have clearly risen in relation to the forecast from the Monetary Policy Report in September. This illustrates the great uncertainty surrounding energy prices and was emphasised in the Monetary Policy Report in September.<sup>31</sup>

Forecasts for energy prices are very uncertain, as these prices are often affected by unpredictable factors such as weather and geopolitical developments. This particularly applies during the winter, when electricity prices can be very volatile. The Riksbank's forecast method for energy prices means that the forecasts are based on daily outcomes of prices on the spot market for electricity (Nordpool) and fuel prices at the pump. The prices are then projected on the basis of prices from the electricity and oil futures markets.

As a way of illustrating how sensitive the forecast for CPIF inflation is for different energy price forecasts, we have constructed two scenarios for the CPIF based on two alternative assumptions of the development of energy prices. Over the winter, these largely correspond with the scenarios from the September MPR. In the scenario with higher energy prices, spot prices for electricity rise to about SEK 1/kWh in the winter, at the same time as diesel and petrol rise to SEK 20/litre. In the scenario with lower energy prices, winter electricity prices are instead assumed to amount to around SEK 0.40/kWh, at the same time as fuel prices fall towards SEK 15/litre. From April and onward, fuel prices are assumed here to remain at the same levels in both scenarios, while spot prices for electricity are assumed to be 20 per cent higher or lower respectively than in the main scenario.

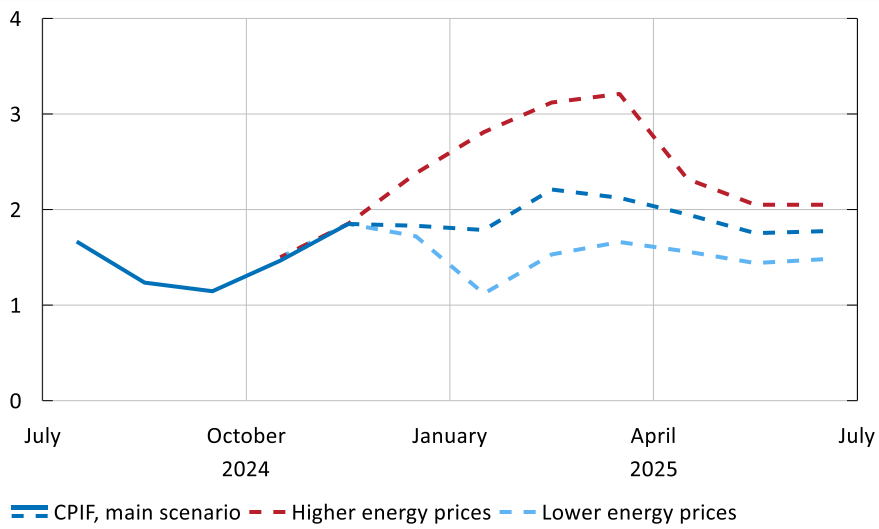
In the scenario with higher energy prices, CPIF inflation rises to slightly above 3 per cent at the start of 2025 before falling back to close to 2 per cent by the summer. In the scenario with lower prices, CPIF inflation falls back again to around 1.5 per cent in the first half of 2025 (see Figure 37). The risk outlook surrounding energy prices is more balanced now than in September.

---

<sup>31</sup> See the fact box "The CPIF under alternative assumptions for energy prices" in the *Monetary Policy Report*, September 2024.

**Figure 37. Development of CPIF under different assumptions of energy prices**

Annual percentage change



Sources: Statistics Sweden and the Riksbank.

## FACT BOX – Eased mortgage restrictions

Since the Monetary Policy Update in November, an inquiry into borrower-based macroprudential measures has presented its inquiry.<sup>32</sup> The committee behind the inquiry has reviewed the current macroprudential measures aimed at mortgagors. The following measures exist at present:

- A loan-to-value limit for new mortgages of 85 per cent of the home's value, introduced in 2010.
- An initial amortisation requirement that was introduced in 2016, stipulating that new mortgages with loan-to-value ratio of between 50 and 70 per cent are to be amortised by 1 per cent per year, while loans with a loan-to-value ratio of over 70 per cent are to be amortised by 2 per cent per year.
- A second, stricter amortisation requirement that was introduced in 2018, stipulating that new mortgages exceeding 450 per cent of gross income (a debt-to-income ratio of over 450 per cent) are to be amortised by a further 1 per cent per year, over and above the initial requirement.

Table 4 shows the proportion of new loans intended for housing purchases (excluding equity withdrawals and bank switching) affected by the present amortisation requirements. This shows that about 85 per cent of loans are covered by some type of amortisation requirement. The first figure in the brackets shows the amortisation rate under the current rules. As an example, almost 5 per cent of loans have a loan-to-value ratio of over 70 per cent and a debt-to-income ratio of over 450 per cent and thus must be amortised by 3 per cent per year.

**Table 4. Share of mortgages with various amortisation requirements**

Per cent

Debt-to-income ratio	Loan-to-value ratio			Total
	0–50	50–70	>70	
0–450	15.4	23.1 (1/1)	51.1 (2/1)	89.6
>450	1.6 (1/0)	4 (2/1)	4.8 (3/1)	10.4
<b>Total</b>	17	27.1	55.9	100

Note. SOU 2024:76.

Source: Statens offentliga utredningar (SOU 2024:71).

Table 4 also shows that 56 per cent of new loans have a loan-to-value ratio of above 70 per cent. About one-third of this group has a loan-to-value ratio equal to or just below 85 per cent and can therefore be assumed to be subject to the loan-to-value limit.

<sup>32</sup> See SOU 2024:71, "Reglering av hushållens skulder" [Regulation of household debts].

The inquiry proposes three different changes to the current regulatory framework:

- Raising the loan-to-value limit to 90 per cent.
- Abolishing the stricter amortisation requirement for loans with high debt-to-income ratios in favour of a debt-to-income limit of 550 per cent of gross income.<sup>33</sup>
- Abolishing the amortisation requirement of 2 per cent for loans exceeding 70 of the value of the home in favour of a general amortisation requirement of 1 per cent for all loans exceeding 50 per cent of the value of the home.

The committee proposes that the easing of amortisation be applied not just to new mortgages but to existing ones too.<sup>34</sup> It proposes that the introduction of a debt-to-income limit only be applied to new loans. Table 4 indicates that over 60 per cent of new mortgages would see amortisation eased by at least one percentage point. For 5 per cent of loans, those with a loan-to-value ratio over 70 per cent and a debt-to-income ratio over 450 per cent, easing would amount to 2 percentage points.

One-third of new mortgages have a loan-to-value ratio close to the loan-to-value limit and could thus be affected by the proposed increase from 85 to 90 per cent. Households would be able to take new mortgages (either for housing purchases or in the form of equity withdrawals) up to the higher limit, subject to credit assessment by the banks.

To reduce the risks associated with rapid deregulation, the committee is of the opinion that the changes should be introduced gradually and be evaluated along the way. The measures in the first two points above are considered to have highest priority and should be implemented first, as they are deemed to provide the greatest positive welfare gains by making first-time housing purchases easier.<sup>35</sup> The third measure can be introduced a little later, although the committee emphasises that all three stages should be implemented.

When it comes to the macroeconomic consequences of the proposals, the committee assesses that mortgages as a whole would increase by up to 10 per cent, depending on the assumptions made. An increase of just over 5 per cent in housing prices is considered possible. The Riksbank has previously stated that macroprudential measures safeguard household resilience. Without these measures, households would not have been as resilient and the systemic risks associated with household mortgages would have been greater. Improving the functioning of the housing market will primarily require fiscal and structural policy measures. However, in the absence of

---

<sup>33</sup> A flexibility quota, letting the banks exempt 10 per cent of the loans, is also introduced.

<sup>34</sup> In practice, an agreement would have to be made to change the conditions for existing loans but the banks can be assumed to accept this, as mortgagors would otherwise switch bank.

<sup>35</sup> The committee also considers that the Government's proposal to phase out tax relief on interest payments for unsecured loans strengthens the argument for raising the loan-to-value limit. See Ministry of Finance (2024), "Avtrappat ränteavdrag för vissa lån" [Phasing out of tax relief on interest payments for certain loans], memorandum FI2024/00174.

such measures, it is particularly important to have appropriate macroprudential measures in place to counteract unhealthy developments in the future.<sup>36</sup>

From a monetary policy perspective, it is important to consider that the proposals may increase demand in the economy, partly by increasing household consumption of housing and partly because increased scope for borrowing may stimulate consumption of other goods and services. In the longer term, the supply of housing could increase due to the measures. However, this effect is likely to be limited and needs to be weighed against the increased risks of higher indebtedness. The Government has communicated that it will present its proposals in the spring regarding the measures it intends to implement. This also provides the Riksbank with an opportunity to make more exact assessments of the effects on the macroeconomy.

---

<sup>36</sup> See *Financial Stability Report*, 2024:2, Sveriges Riksbank.

### 3 Monetary policy analysis

---

For some time, inflationary pressures have been consistent with inflation close to the target and indicators suggest this will also be the case moving forward. Despite some signs that economic activity is on its way to recovery, it remains weak. To support the economy further and keep inflation close to the target going forward, the policy rate needs to be cut.

The Executive Board has decided to cut the policy rate by 0.25 percentage points to 2.5 per cent. The lower policy rate is expected to help improve economic activity, which contributes to inflationary pressures that are consistent with inflation on target over the entire forecast period.

Recently, the policy rate has been cut rapidly from a contractionary level. However, monetary policy affects the economy with a lag and the rate cuts already implemented have not yet fully reached households and companies. The lower policy rate level and its lagged impact on the economy suggest a more tentative approach when monetary policy is formulated going forward. If the outlook for inflation and economic activity remains unchanged, the policy rate may be cut once again during the first half of 2025. The forecast involves holding the policy rate unchanged at 2.25 per cent in 2026 and 2027, but uncertainty is high.

---

#### Monetary policy is forward-looking

---

Monetary policy affects the economy with a lag. It therefore needs to be based on forecasts of future economic developments. Forecasts are in turn influenced by the assumptions made about monetary policy, i.e. assumptions about how the policy rate and the Riksbank's other monetary policy tools will evolve. This chapter discusses the assumptions about monetary policy that, in the Riksbank's assessment, will provide a desirable target fulfilment for inflation that takes account of effects on real economic developments.

A basic condition for inflation to be close to the target over time, however, is that households and companies have confidence in any deviations from the target not lasting too long. It is easier to make long-term plans when inflation is stable and economic agents all have a common picture of how prices will develop in the future. This in turn creates good conditions for favourable economic growth over time.

### 3.1 Monetary policy in Sweden

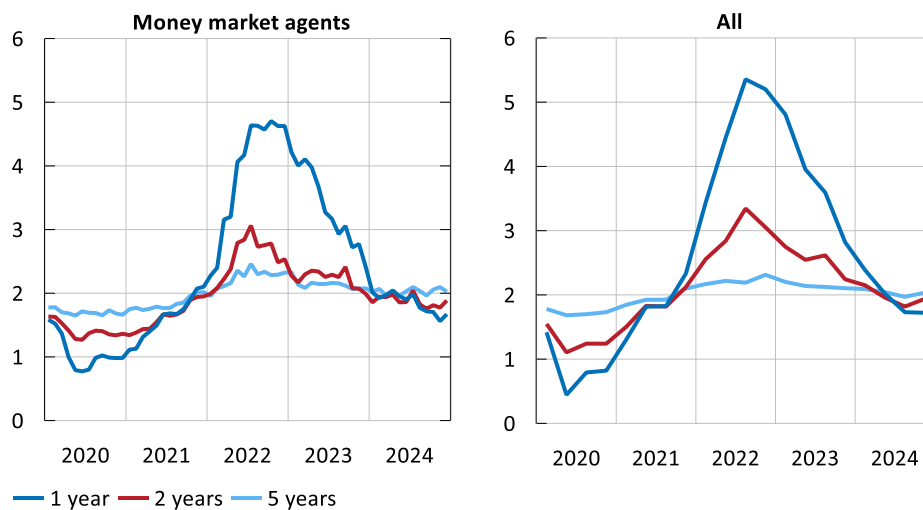
The Riksbank has cut the policy rate over the year as the inflation outlook has gradually improved. The first cut was made in May. The Riksbank has cut the policy rate at every meeting in the second half of the year, most recently by 0.5 per cent in November. In conjunction with the November decision, the Executive Board communicated that the policy rate could continue to be cut in December and the first half of 2025 if there is no change in the prospects for inflation and economic activity.

#### The economic situation implies cutting the policy rate from its current level

Inflationary pressures are consistent with inflation of 2 per cent and CPIF inflation is close to the target. Inflation expectations are firmly anchored at 2 per cent, particularly in the longer term (see Figure 38). CPIF inflation excluding the volatile energy prices remains close to 2 per cent, despite a certain upswing in November. Furthermore, forward-looking indicators, such as companies' price plans and producer prices, also indicate inflationary pressures that will be consistent with inflation of close to 2 per cent in the future too.

**Figure 38. Inflation expectations**

Per cent



Note. Refers to CPIF. Monthly data (left) and quarterly data (right). The lines in the figure show various participants' expectations at the time of measurement of what inflation will be in 1, 2 and 5 years.

Source: Kantar Prospera.

Sweden remains in a mild recession. Some signs of a recovery in the economy are now becoming visible, at the same time as inflationary pressures continue to indicate inflation in line with the target. New information indicates that the economy has largely developed as expected. This implies further policy rate cuts in line with our communication from November, in order to contribute to the recovery of the Swedish economy.

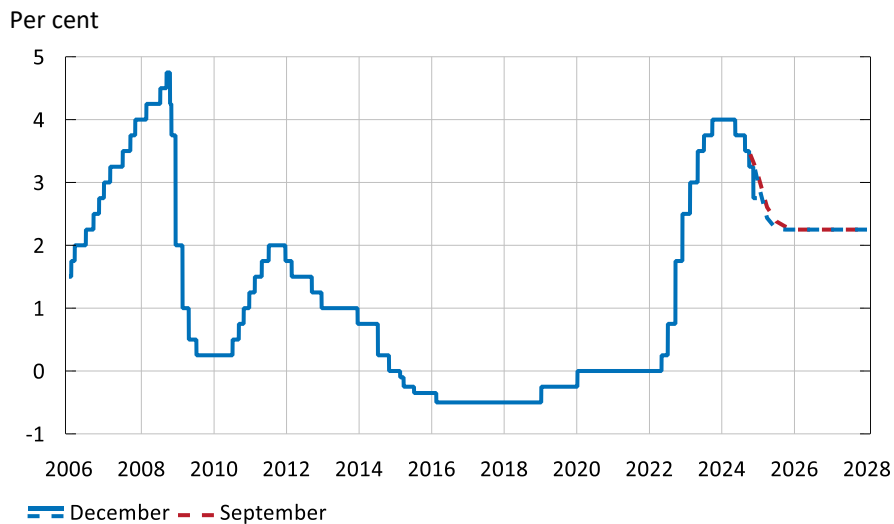


Overall, international growth has developed more or less as expected and is expected to do so going forward too. However, the prospects for the United States seem stronger than for Europe. As the euro area is our largest trading partner, Swedish exports are being negatively affected by the low level of demand from Europe. The strong development of the US economy has resulted in an upwards shift in market expectations of the future policy rate in the United States, while the opposite is true for the policy rate in the euro area. Higher interest rates in the United States could lead to tighter global financial conditions, which could dampen global resource utilisation and inflation. This could argue for a slightly more expansionary monetary policy in Sweden. However, it would have to be balanced against the possibility that a lower policy rate, all else being equal, could weaken the krona exchange rate and lead to higher inflationary pressures.

### The forecast for the policy rate entails one more cut by the end of June 2025

The Executive Board has decided to cut the policy rate by 0.25 percentage points to 2.5 per cent. If the outlook for inflation and economic activity remains the same, the policy rate may be cut once again during the first half of 2025. Together with the forecast for the policy rate, the decision entails monetary policy that is more or less in line with our communication from November, but in which the policy rate is reduced slightly faster than in the assessment from September (see Figure 39).

**Figure 39. Policy rate forecast**



Note. Solid line refers to outcome, dashed line refers to the Riksbank's forecast. Outcomes are daily rates and the forecasts refer to quarterly averages.

Source: The Riksbank.

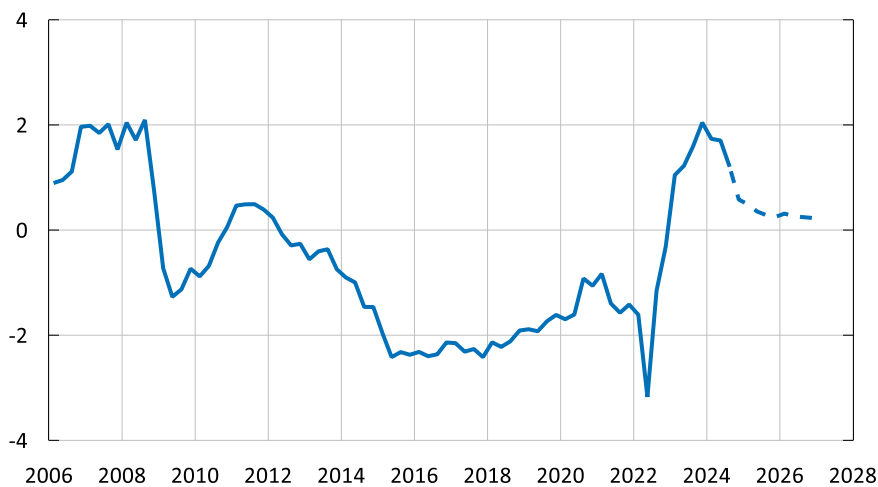
Recently, the policy rate has been reduced relatively rapidly from a contractionary level. Monetary policy affects the economy with a lag and the rate cuts previously implemented have not yet fully reached households and companies. In addition, the size of the effects is uncertain. This implies a more tentative approach going forward. The Riksbank will carefully evaluate the need for future interest rate adjustments, in

light of the effect of earlier cuts and shifts in the risk profile regarding the outlook for inflation and economic activity. In the forecast, the policy rate levels off at 2.25 per cent over the first six months of 2025.

The lower policy rate causes the real policy rate to fall clearly in 2025 (see Figure 40). This helps economic activity to recover over the forecast period due to stronger domestic demand. The recovery means that resource utilisation will return to being close to normal at the end of the forecast period. In turn, this helps maintain CPIF inflation close to the target over the entire forecast period.

**Figure 40. Forecast for the real policy rate**

Per cent



Note. The real policy rate is calculated as a quarterly average of the Riksbank’s forecast for the policy rate one year ahead minus the forecast for CPIF inflation for the corresponding period. The forecast therefore only extends to 2026 Q4. As the real policy rate is forward-looking, outcomes are calculated using the latest published forecasts at the time.

Source: The Riksbank.

Monetary policy contributes to inflation expectations remaining firmly anchored at 2 per cent. The upcoming wage bargaining rounds are expected to take place in an environment where inflation is close to 2 per cent and wages are expected to increase by about 3.5 percent per year in 2025–2027. At the same time, the krona is expected to appreciate gradually over time. All in all, the rate of increase in companies’ costs is consistent with a rate of inflation close to 2 per cent.

Estimates of the long-term neutral interest rate provide the Riksbank with information on the likely level of interest rates in the longer term. Accordingly, they provide some guidance in assessing what the policy rate could be expected to be in a number of years.<sup>37</sup> However, this level is uncertain and the assessment is therefore presented in the form of an interval. The economy is continually affected by shocks and the assessment refers to a situation in which the effect of these shocks has eased off which is to say a situation in which the economy is in a cyclical balance.

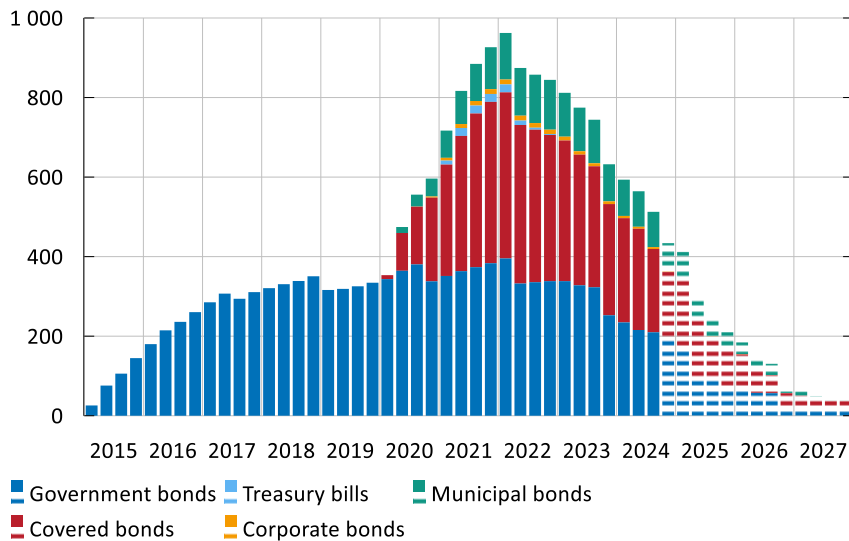
<sup>37</sup> See the analysis “Assessment of the long-term neutral interest rate” in this report.

### The Riksbank’s securities holdings will continue to decrease over the forecast period

The Riksbank’s securities holdings in Swedish kronor have almost halved since the start of 2022 and amounted to about SEK 510 billion in the third quarter of the year (see Figure 41). The reduced holdings can primarily be explained by bonds having matured but also by the Riksbank having sold government bonds. The normalisation of the Riksbank’s balance sheet will continue according to the decision at the monetary policy meeting in January 2024. The Riksbank’s sales are not expected to make it more difficult to attain the monetary policy target because the continued normalisation of the balance sheet is expected to have a limited effect on the krona exchange rate and the interest rates charged to households and companies. According to the Riksbank’s Financial Markets Survey, the normalisation has coincided with an improvement in market liquidity on the secondary market for government bonds. The Executive Board’s decision in November to maintain a long-term holding of nominal government bonds of SEK 20 billion means that the ongoing sales of nominal government bonds are expected to cease at the end of 2025.<sup>38</sup>

**Figure 41. The Riksbank’s asset holdings**

Nominal amounts, SEK billion



Note. The striped bars are a projection of the Riksbank’s securities holdings based on an assumption that sales of nominal government bonds will continue until December 2025 and then be concluded, as well as on a technical assumption regarding the sale of various issues of nominal government bonds. These assumptions may be adjusted to some extent in 2025. The series in the figure end Q4 2027, which is the final quarter of the Riksbank’s three-year forecast horizon.

Source: The Riksbank.

<sup>38</sup> See “Decision on trade in Swedish nominal government bonds”, Annex B to the minutes, Dnr 2024–01249, 6 November 2024, Sveriges Riksbank.

## 3.2 Uncertainty, risks and alternative scenarios

The economy is continually exposed to shocks that change the conditions for monetary policy. The effects of monetary policy on inflation and the real economy can also change over time. There is therefore considerable uncertainty surrounding the forecast for the policy rate, and the policy rate may be either higher or lower. Consequently, households and companies need to plan their finances based on the possibility of the policy rate deviating from the Riksbank's forecast.

The risk that inflation will again pick up and become excessively high remains relatively small but there is reason for caution. Uncertainty over economic developments in general is significant, particularly concerning risks stemming from abroad. Uncertainty over economic policy abroad persists, which also has consequences for the Swedish economy. The section below discusses this and other risk factors deemed important for Sweden's inflation outlook and monetary policy.

### **Uncertainty over US politics and global geopolitical developments is high**

Although the US election is over, the uncertainty over policy remains high. Several of the proposals presented have direct or indirect consequences for the Swedish economy, for example the introduction of new import tariffs against Europe. Such tariffs would have a negative effect on the Swedish economy but would not necessarily lead to higher inflation.<sup>39</sup> However, the likelihood of Swedish inflation rising will increase if Europe responds with new tariffs on US goods. Whether it does so will depend on the exact formulation of the tariffs and their effects in general. A pair of alternative scenarios below describe how the Swedish economy could be affected by a trade conflict between the United States and the rest of the world, as well as how this could affect monetary policy going forward.

New US tariffs against China could also affect the Swedish economy. Expanded US tariffs against China could lead to Chinese goods being sold to a greater extent to other countries, including European ones. This could lead to lower inflation in Europe and Sweden.

Geopolitical risks, with the associated risk of global supply disruptions, remain high, partly due to Russia's war of invasion against Ukraine and tensions and war in the Middle East. The rapid takeover of power in Syria provides a further example of the uncertain geopolitical situation in the region. A widespread global trade conflict could also increase geopolitical tensions worldwide. This could ultimately entail major supply shocks, with higher inflation as a consequence.

National debt has risen in the United States, the euro area and China in recent years. In the United States, the public sector deficits after the pandemic have been huge, and the federal debt is just under 100 per cent of GDP. The US economy is also expected to be stimulated by tax cuts, which indicates that the deficit may also be

---

<sup>39</sup> See the analysis "Macroeconomic effects of higher US import tariffs" in this report.

significant in the future. If deficits continue to be high internationally, the sustainability of public finances in a number of countries may be called into question by market participants.<sup>40</sup> This could lead to higher government bond yields, which could, in turn, require significant fiscal policy tightening that would impede growth in the affected economies.<sup>41</sup> Significantly lower demand from these countries would contribute to weaker Swedish economic activity and to lower inflation.

Another risk of a more general nature is that the international recovery is proceeding slowly. Europe is continuing to show signs of weakness and there are question marks over the recovery that is nonetheless expected. The political turbulence in several European countries is also contributing to the uncertainty over the development of their economies. If the euro area does not recover as expected, Swedish exports will be affected negatively. There may also be spillover effects that weaken domestic demand in Sweden, with lower inflation as a consequence. The Chinese economy is also developing weakly and, although there are some bright spots, it is not certain that the stimulus package launched will make the economy grow as rapidly as forecast. The property market continues to be a cause for concern, and a slump could spread to the Chinese economy and lead to a weaker development. Weaker growth in China could spread to other countries and lead to lower inflation in Sweden too.

Since the Monetary Policy Report was published in September, the Swedish krona has weakened against the US dollar in particular. If the krona remains weak or depreciates further, it could entail higher inflation than in the forecast, particularly if its impact on inflation is as strong as during the inflationary upturn in 2022. However, the krona could also move in the other direction and appreciate faster than expected. In turn, the effect on inflation in Sweden of a krona depreciation or appreciation depends on the cause of the change in the krona exchange rate. The Riksbank will carefully monitor the development of the krona going forward.

### **There are also domestic risks that could affect inflation and resource utilisation**

Although the Swedish labour market is weak, it has nevertheless withstood the economic recession relatively well. However, any further delay in the recovery could lead companies to start to reduce their workforces at a relatively fast rate. In turn, this could risk dampening demand further and ultimately also lead to lower inflation. It could also have negative repercussions for the housing market and mean that both household consumption and housing investment are weaker than forecast.

Over the last year, the level of the policy rate has been at its highest point than in over a decade. This high level could lead households to change their behaviour over the long term. As a consequence, they could increase their precautionary saving and want to build up larger buffers than previously. In turn, this could lead to it taking

---

<sup>40</sup> For more information on international fiscal policy, see the fact box “Fiscal policy abroad” in this report.

<sup>41</sup> There are already indications that risk premiums on government bonds have started to rise in certain European countries.

longer than expected until the recovery picks up speed, which could have a negative effect on inflation.

In previous reports, the Riksbank has noted that the recovery is proceeding a little more sluggishly than expected. This could be a sign that it takes longer for the real economy to be affected by rate cuts than the Riksbank has counted on. If this is the case, a more expansionary monetary policy is not necessarily needed, as the economic recovery for a given policy rate will occur, only at a later point. But it could also be a sign that the policy rate level that neither tightens nor stimulates the economy is lower than the Riksbank's assessment. In this case, the economy will continue to develop more weakly than expected going forward and the Riksbank will have to cut the policy rate more than in the forecast.

Growth could also be stronger than expected going forward. This would instead be sign that monetary policy is more expansionary than the Riksbank's assessment. This could lead to a higher policy rate in the future.

Two alternative scenarios are described below. The scenarios illustrate how a few of the risks mentioned above could affect the Swedish economy and the forecast for the policy rate.<sup>42</sup>

### **Scenario: trade barriers and increased geopolitical tension lead to higher inflation in Sweden**

One of the risks mentioned in this section is that the United States introduces tariffs against Europe and the rest of the world and that the rest of the world, in turn, responds with tariffs against the United States. It is likely that the United States will introduce tariffs of some kind but it remains highly uncertain which countries and sectors will be affected, how large the tariffs will be and their exact formulation. The main scenario does not make any explicit assumptions about the imposition of tariffs. However, an alternative scenario assumes that the United States introduces tariffs of 20 per cent on all imports and that the rest of the world responds with import tariffs of the same magnitude on all US goods. Researchers at the Peterson Institute for International Economics (PIIE), together with co-authors, have calculated how a similar scenario would affect various countries' GDP and inflation.<sup>43</sup> These calculations show that such a policy would be worse for the United States than for Europe. We rely on the results of this study in the alternative scenario.

The tariffs lead to an inefficient allocation of resources, making productivity and ultimately GDP lower. However, they also lead to higher import prices, further restraining demand in the economy. The higher import prices directly affect Swedish inflation but also lead to Swedish companies facing higher input prices. In the wake of

---

<sup>42</sup> The scenarios are based on simulations in the Riksbank's macroeconomic model, MAJA. The scenarios also used estimated effects of monetary policy, like those reported in the analysis "Effects of monetary policy" in *Monetary Policy Report*, September 2024.

<sup>43</sup> See W.J. McKibbin, M. Hogan, M. Noland (2024), "The international economic implications of a second Trump presidency", *Working paper* 24-20, Peterson Institute for International Economics. However, we adjust the time scale in comparison with the PIIE study, as we assume that the tariffs will not be implemented until the second quarter of 2025.

higher prices for direct imports, company's higher costs for input goods and lower productivity, Swedish inflation rises (see the light blue line in Figure 42).

A conceivable monetary policy response is illustrated by the light blue line in Figure 43. In the scenario, the policy rate only rises moderately. The higher inflation is of a temporary nature and must be balanced against weaker real economic growth and lower inflationary pressures further in the future. It is also uncertain whether meeting the imposition of tariffs with a more contractionary monetary policy is optimal. The academic literature includes studies arguing that an optimal monetary policy response would be a lower policy rate rather than a higher one, depending on the circumstances.<sup>44</sup>

In the scenario, the effects on Sweden's real economy and inflation are relatively restrained, despite the relatively high tariff increase. This is because it does not assume any indirect shocks as a consequence of the trade conflict. It is not particularly likely that the tariffs would have no such secondary effects, but this makes it easier to clarify the direct macroeconomic effects of the tariffs. A supplementary alternative scenario assumes that the trade conflict also has spillover effects in the form of exacerbated geopolitical tensions. Such increased geopolitical tension could, in turn, lead to rising commodity prices and even more protectionism, for example by countries retaining their strategic goods rather than trading them.<sup>45</sup> Such a scenario would risk further rises in inflation, at the same time as the real economy would develop even more weakly (see the yellow lines in Figure 42). The tendencies towards secondary effects increase when inflation is markedly above the target and uncertainty over how long inflation will remain high also becomes greater. This can lead to the high inflation also affecting inflation expectations in the longer term.

A conceivable monetary policy response is illustrated by the yellow line in Figure 43. In the scenario, the policy rate is raised to help bring inflation back on target and to counteract the tendencies towards secondary effects. In this supplementary scenario, the policy rate is raised significantly more than in the scenario in which the tariffs are raised but does not affect the geopolitical situation in general. The response involves raising the policy rate in 2025, which helps inflation to gradually return back to the target in 2026 and 2027.

### **Scenario: lower demand leads to lower inflation**

In the second alternative scenario, demand is lower than in the forecast, with lower inflation as a consequence.

Both domestic risks and risks coming from abroad could lead to economic developments resembling those in the scenario. If the global economy develops more weakly, Swedish exports would be negatively affected. This could spread to domestic demand, partly through confidence channels and partly through higher unemployment

---

<sup>44</sup> See P.R. Bergin and G. Corsetti (2023), "The Macroeconomic Stabilization of Tariff Shocks: What is the Optimal Monetary Response?", *Journal of International Economics*. Vol 143, July.

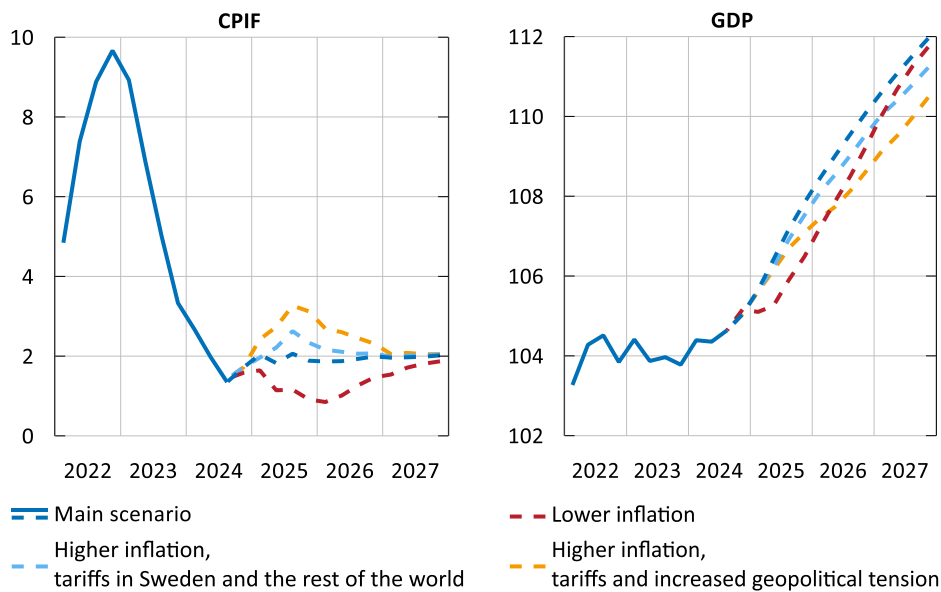
<sup>45</sup> If the decision on tariffs is communicated as early as the first quarter of 2025, the geopolitical tensions could affect the economy even before the new tariff policy is implemented. This is just what the supplementary alternative scenario assumes will happen.

resulting in lower domestic demand. If the weaker demand were instead essentially domestic, the channel would go through lower demand to higher unemployment, resulting in even lower demand. In both cases, inflation and GDP would be lower than in the forecast (see red line in Figure 42).

A possible monetary policy response is shown in the red line in Figure 43. In the scenario, the Riksbank cuts the policy rate significantly more and faster than in the forecast to reverse developments and stabilise inflation close to the target. The lower policy rate would stimulate domestic demand. Consumption and investment would recover and the upturn in unemployment would be dampened. This in turn would contribute to inflation once again rising towards the target, and being back at 2 per cent towards the end of the forecast period (see the red line in Figure 42). The scenario also shows the importance of looking forward in monetary policy. In the scenario, CPIF inflation remains relatively close to 2 per cent in the first six months of 2025. However, incoming economic data and indicators of future inflation show weaknesses in the economy going forward, and monetary policy then reacts relatively rapidly to these.

**Figure 42. Forecast and alternative scenarios for CPIF and GDP**

Annual percentage change (left) and index respectively, 2019 Q4 = 100 (right)



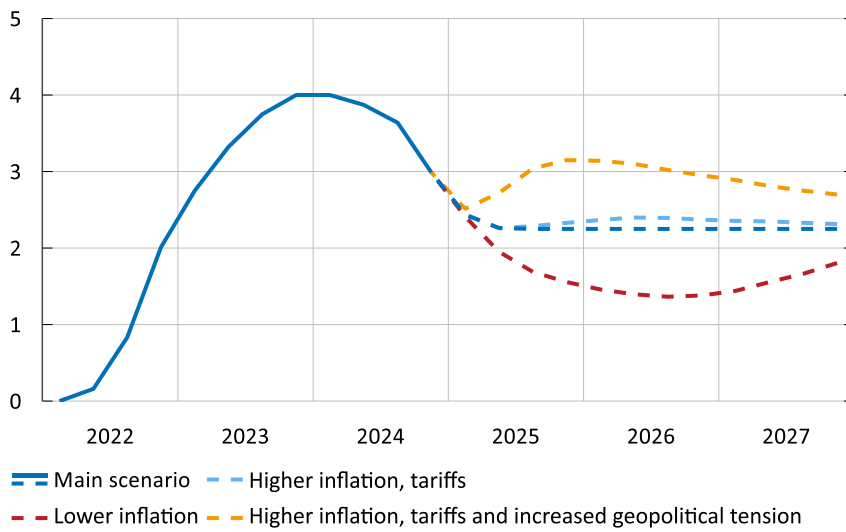
Note. Solid line refers to outcome, dashed lines to forecasts and scenarios. Quarterly averages. Seasonally-adjusted data (right).

Sources: Statistics Sweden and the Riksbank.



**Figure 43. Forecast and alternative scenarios for the policy rate**

Per cent



Note. Solid line refers to outcome, dashed lines to forecasts and scenarios. The deviations from the forecast in the alternative scenarios are not symmetrical as they illustrate the monetary policy response to specific shocks to the economy. The asymmetry shall therefore not necessarily be interpreted as the Riksbank seeing the risk surrounding the forecasts for the policy rate as unbalanced.

Source: The Riksbank.

## ANALYSIS – The Riksbank’s assessment of the long-term neutral interest rate<sup>46</sup>

---

The term neutral interest rate refers to the policy rate that has neither an expansionary nor a tightening effect on the economy. When the interest rate is neutral, balance is achieved in the real economy and, inflation will eventually stabilise at the target. The neutral interest rate cannot be observed; instead, various types of information must be used in an attempt to assess where it lies. The uncertainty of these assessments limits their usefulness in practical policy. The Riksbank’s assessment is that the long-run neutral interest rate is in the interval 1.5 to 3 per cent.

---

The neutral policy rate is governed by factors over which central banks have no influence, in the long term primarily global saving and investment patterns. These are, in turn, affected by various structural driving forces, such as demographic changes. The neutral interest rate varies over time and cannot be read off any statistics; one must try to assess where it lies by estimating models and by using other relevant information. Assessments of the neutral interest rate are therefore associated with a significant degree of uncertainty.

The neutral interest rate is a theoretical reference value that indicates whether monetary policy is expansionary or contractionary. The gap between the policy rate and the neutral interest rate indicates how expansionary or contractionary the policy is. However, there are limits when it comes to how useful the neutral interest rate is in practical policy. Estimates of the neutral interest rate often refer to the long-term neutral interest rate or the trend of the neutral interest rate. This also applies to the assessment presented in this article. The assessment thus primarily provides information on the Riksbank’s expectations of the level of interest rates in the long term. Even if this is highly influenced by relatively sluggish global factors, it is inherently uncertain.

In addition, over the short term, the economy is affected by various factors that can make the neutral interest rate higher or lower than the long-term one over a number of years. For example, a country’s fiscal policy may be expansionary for a period, causing demand and inflation to rise. All else being equal, the normal policy rate, the neutral interest rate in the short term, will be on a higher level for a period. In such a situation, the gap between the policy rate and the long-term neutral interest rate is not an appropriate measure of how expansionary or contractionary monetary policy

---

<sup>46</sup> For more detailed discussions and analyses of the Riksbank’s view of the neutral interest rate, see A. Seim (2024), “Neutral rate – significance, limitations and assessment”, speech at Sveriges Riksbank, 26 November, C. Flodberg (2024) “Structural factors determine interest rates in the longer run”, *Economic Commentaries* No. 5, Sveriges Riksbank, H. Lundvall, I. Strid and D. Vestin, “The neutral rate of interest – theory and evidence for Sweden”, forthcoming *Staff Memo*, Sveriges Riksbank, and V. Corbo and I. Strid, “Forecasts and narrative for the policy rate in a macroeconomic model with a real interest rate trend”, forthcoming *Staff Memo*, Sveriges Riksbank.

is. These more short-term changes in the neutral interest rate are genuinely difficult to estimate. At each policy decision, the central bank must thus assess the monetary policy that needs to be conducted so that the economy develops in line with the forecasts, that is the desired development of inflation and the real economy. It also needs to regularly monitor and assess the effects of monetary policy on the economy to evaluate whether the policy is as expansionary or contractionary as expected.

### **The long-term level of the neutral interest rate**

The neutral interest rate has had a downward trend from about the middle of the 1990s and reached historically low levels at the start of the 2020s. This downturn mainly reflects trends and structural changes in global saving and investment patterns. Different studies highlight different explanations for this development.<sup>47</sup>

The downward trend in the neutral interest rate has affected the conditions for monetary policy. For monetary policy to keep inflation on target, policy rates around the world have had to be reduced to lower and lower levels with each economic cycle. This explains why many central banks, including the Riksbank, set their policy rates at zero or negative values before the period of higher inflation in recent years.

There is an ongoing international discussion about the likely development of the long-term neutral interest rate in the future. Some analysts consider that the driving forces that contributed to lower the neutral rate have not eased off and that it will therefore remain low. Others argue that the long-term neutral rate has risen slightly, or will do so in the future. Examples of causes for this include expectations that major structural investments will be needed to cope with the climate transition and that defence spending will need to be increased in an increasingly uncertain world. However, researchers and other analysts are relatively unanimous, at least at present, that the neutral interest rate will not rise sharply and return to the levels that prevailed a few decades ago.<sup>48</sup>

Over the years, the Riksbank has commented on the neutral interest rate in speeches and reports. This communication has mostly concerned the trend decline in the neutral interest rate and its implications for monetary policy. A quantified assessment was most recently made in an article in the Monetary Policy Report for February 2017. The conclusion was that the policy rate could be expected in the long run to be between 2.5 and 4 per cent.<sup>49</sup> This assessment was a downward revision from previous estimates and reflected the fact that Swedish domestic interest rates are largely influenced by international events and that interest rates had trended downwards around the world. The Riksbank then communicated in 2019 and 2022 that the

<sup>47</sup> For an examination of the forces behind this downward trend, see H. Lundvall (2023), "Driving forces behind global trends in the neutral interest rate", Annex 2 to *Long-Term Survey 2023*, SOU 2023:87.

<sup>48</sup> However, it should be noted that, a few decades ago, few analysts predicted the long downward trend in the neutral interest rate.

<sup>49</sup> See the article "The repo rate in the long run" in the *Monetary Policy Report*, February 2017, Sveriges Riksbank.

level was probably in the lower part of, or slightly below, the range from 2017, that is, that the long-term neutral interest rate had continued to fall since then.

Over the past year, the Riksbank has reviewed international studies, assessments from other central banks, information from financial markets – both from the pricing of financial instruments and from surveys – and has used Swedish data to estimate leading models in the literature on the neutral interest rate.<sup>50</sup>

Based on this analysis, the Riksbank assesses that the long-term neutral interest rate, and thus the long-term normal policy rate, is probably between 1.5 and 3 per cent. This is one percentage point lower than the range the Riksbank published in 2017 and consistent with the communication from 2019 and 2022. Figure 44 shows how the assessment compares with the assessments made by Norges Bank, the Bank of Canada and the US Federal Reserve.<sup>51</sup>

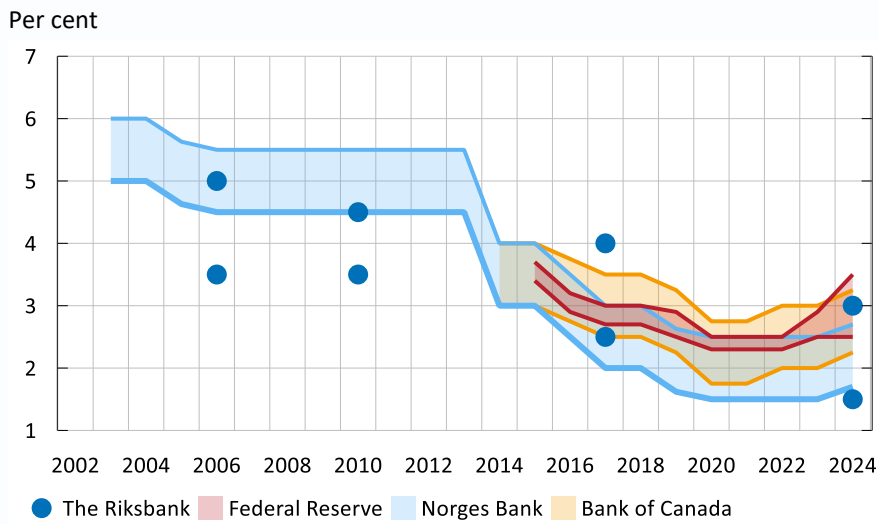
The assessments are reasonably in line with each other. As the assessments for the other countries have been made more continuously, it appears that they reached their lowest level in the early 2020s in the context of the pandemic. There is a tendency for the assessments to have risen slightly since then, but the change is comparatively minor.

---

<sup>50</sup> A more detailed review can be found in H. Lundvall, I. Strid and D. Vestin, "The neutral rate of interest – theory and evidence for Sweden", forthcoming *Staff Memo*, Sveriges Riksbank.

<sup>51</sup> The assessment for Norges Bank is from the article "Anslag på nøytral realrente" (Estimates of the neutral real interest rate)", in the *Monetary Policy Report 2/2023*. For the Bank of Canada, the estimates come from the publications "Potential output and the neutral rate in Canada", "The neutral rate in Canada" and "Monetary Policy Report". For the Federal Reserve, the range is calculated as the difference between the highest and lowest assessments of the long-term policy rate made by the members of the Federal Open Market Committee (the so-called dot plots), with the three highest and the three lowest assessments excluded. The Riksbank's earlier estimates come from the articles "What is a normal level for the repo rate?" in *Inflation Report*, 2006:2, "What is a normal level for the repo rate?" in *Monetary Policy Report*, February 2010, and "The repo rate in the long run" in *Monetary Policy Report*, February 2017, Sveriges Riksbank.

**Figure 44. The Riksbank's and other central banks' assessments of neutral interest rates**



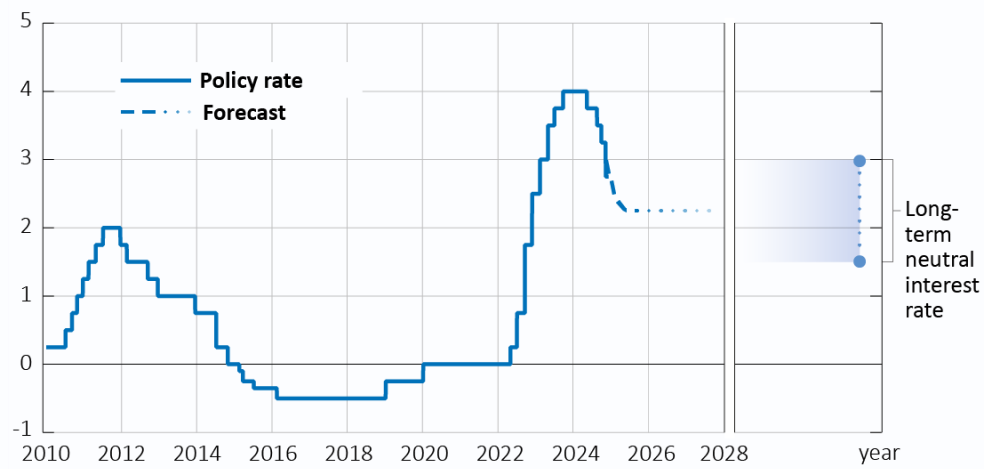
Sources: National central banks and the Riksbank.

The interval reflects the uncertainty existing in estimates of the long-term neutral interest rate. One should be aware that the policy rate can be both significantly higher and significantly lower than the interval. For example, with an interval of 1.5–3 per cent, it cannot be ruled out that the policy rate at times will have to be cut to levels around zero. In the event of an economic slowdown or deep recession, when inflation is far below the target, a policy rate cut by 1.5 to 3 percentage points would not be particularly exceptional. Similarly, the policy rate may, at times, have to be raised significantly above 3 per cent to be sufficiently contractionary when this is necessary.

Figure 45 illustrates the thinking behind the interval for the long-term neutral interest rate. This is an assessment of what a normal policy rate will be in the long term. The interval illustrates the uncertainty in the assessment.

**Figure 45. The interval for the long-term neutral interest rate**

Per cent



Note. The solid line refers to outcomes, the dashed/dotted line refers to the Riksbank's forecast and the dotted vertical line and the shaded area show the uncertainty surrounding the forecast for the policy rate in the longer run.

Source: Sveriges Riksbank.

# Forecast tables

The assessment in the previous Monetary Policy Report is shown in brackets.

**Table 1. Policy rate forecast**

Per cent, quarterly averages

	2024Q3	2024Q4	2025Q1	2025kv4	2026kv4	2027kv4
<b>Policy rate</b>	3.64 (3.64)	2.99 (3.11)	2.44 (2.61)	2.25 (2.25)	2.25 (2.25)	2.25

Source: Sveriges Riksbank.

**Table 2. Inflation**

Annual percentage change, annual average

	2023	2024	2025	2026	2027
<b>CPIF</b>	6.0 (6.0)	1.9 (1.7)	2.0 (1.6)	1.9 (1.9)	2.0
<b>CPIF excl. energy</b>	7.5 (7.5)	2.7 (2.6)	2.2 (2.0)	2.0 (2.0)	2.0
<b>CPI</b>	8.5 (8.5)	2.9 (2.7)	0.6 (0.4)	1.8 (1.7)	2.0
<b>HICP</b>	5.9 (5.9)	2.0 (1.8)	2.0 (1.5)	1.9 (1.9)	2.0

Note. The HICP is an EU-harmonised index for consumer prices.

Sources: Statistics Sweden and the Riksbank.

**Table 3. GDP and demand**

Annual percentage change unless otherwise specified

	2023	2024	2025	2026	2027
<b>Household consumption</b>	-2.2 (-2.3)	0.2 (0.1)	2.6 (2.8)	2.9 (2.9)	2.0
<b>Public consumption</b>	1.4 (0.7)	1.2 (1.2)	1.3 (1.3)	1.3 (1.3)	0.9
<b>Gross fixed capital formation</b>	-1.5 (-1.4)	-1.5 (-2.2)	2.4 (1.8)	3.7 (3.6)	2.4
<b>Stock investments*</b>	-1.5 (-1.4)	0.5 (0.1)	0.1 (-0.2)	0.0 (0.0)	0.0
<b>Exports</b>	3.2 (3.2)	2.0 (2.0)	2.3 (2.3)	3.7 (3.6)	3.8
<b>Imports</b>	-1.1 (-1.1)	2.0 (0.4)	3.3 (2.5)	4.0 (4.0)	3.4
<b>GDP</b>	-0.2 (-0.3)	0.6 (0.8)	1.8 (1.9)	2.6 (2.5)	2.1
<b>GDP, calendar-adjusted</b>	0.0 (-0.1)	0.6 (0.8)	2.1 (2.1)	2.4 (2.3)	1.8
<b>Final domestic demand*</b>	-1.0 (-1.2)	0.1 (-0.2)	2.1 (2.0)	2.6 (2.5)	1.7
<b>Net exports*</b>	2.3 (2.3)	0.1 (0.9)	-0.4 (0.0)	0.0 (0.0)	0.3
<b>Current account (NA), percentage of GDP</b>	6.7 (6.2)	6.8 (7.4)	6.5 (7.9)	6.9 (8.3)	7.5

\* Contribution to GDP growth, percentage points

Note. The figures show actual growth rates that have not been calendar-adjusted, unless otherwise stated. NA is the National Accounts.

Sources: Statistics Sweden and the Riksbank.

**Table 4. Production and employment**

Annual percentage change unless otherwise specified

	2023	2024	2025	2026	2027
<b>Population, aged 15-74</b>	0.5 (0.5)	0.1 (0.1)	0.3 (0.3)	0.3 (0.3)	0.3
<b>Potential employment</b>	0.9 (0.9)	0.9 (0.9)	0.8 (0.8)	0.7 (0.7)	0.6
<b>Potential hours worked</b>	1.0 (1.0)	1.0 (1.0)	0.9 (0.9)	0.8 (0.8)	0.6
<b>Potential GDP</b>	1.7 (1.7)	1.7 (1.7)	1.7 (1.7)	1.6 (1.6)	1.5
<b>GDP, calendar-adjusted</b>	0.0 (-0.1)	0.6 (0.8)	2.1 (2.1)	2.4 (2.3)	1.8
<b>Hours worked, calendar-adjusted</b>	1.4 (1.4)	-0.4 (-0.1)	0.4 (0.6)	1.4 (1.2)	1.1
<b>Employed persons</b>	1.4 (1.4)	-0.6 (-0.4)	0.1 (0.4)	1.3 (1.0)	1.2
<b>Labour force</b>	1.6 (1.6)	0.1 (0.3)	0.1 (0.4)	0.9 (0.7)	0.8
<b>Unemployment*</b>	7.7 (7.7)	8.4 (8.4)	8.4 (8.4)	8.0 (8.0)	7.7
<b>Employment gap**</b>	0.8 (0.8)	-0.7 (-0.5)	-1.4 (-0.9)	-0.8 (-0.6)	-0.2
<b>Hours gap**</b>	0.7 (0.6)	-0.7 (-0.5)	-1.2 (-0.7)	-0.6 (-0.3)	-0.1
<b>GDP gap**</b>	-0.2 (-0.2)	-1.4 (-1.2)	-1.0 (-0.8)	-0.3 (-0.1)	0.0

\*Per cent of labour force

\*\*Percentage deviation from the Riksbank's assessed potential levels

Note. Potential hours worked, potential employment and potential GDP refer to the long-run sustainable level according to the Riksbank's assessment.

Sources: Statistics Sweden and the Riksbank.

**Table 5. Wages and labour costs for the economy as a whole**

Annual percentage change, calendar-adjusted unless otherwise specified

	2023	2024	2025	2026	2027
<b>Hourly wage, NMO</b>	3.8 (3.8)	4.0 (3.9)	3.6 (3.6)	3.6 (3.6)	3.4
<b>Hourly wage, NA</b>	3.8 (3.8)	4.0 (4.1)	3.6 (3.6)	3.6 (3.6)	3.3
<b>Hourly labour cost, NA</b>	5.3 (5.4)	4.5 (4.2)	3.6 (3.6)	3.6 (3.6)	3.3
<b>Productivity</b>	-1.4 (-1.5)	1.1 (0.9)	1.7 (1.4)	1.0 (1.1)	0.7
<b>Unit labour cost</b>	6.9 (7.1)	3.5 (3.3)	2.0 (2.1)	2.6 (2.4)	2.6

Note. NMO is the National Mediation Office's short-term wage statistics and NA is the National Accounts. Labour cost per hour is defined as the sum of wages, employers social contributions and payroll taxes (labour cost sum) divided by the number of hours worked by employees. Unit labour cost is defined as labour cost sum divided by GDP in constant prices.

Sources: National Mediation Office, Statistics Sweden and the Riksbank.



**Table 6. International forecasts**

Annual percentage change unless otherwise specified

GDP	PPP weights	KIX weights	2023	2024	2025	2026	2027
<b>Euro area</b>	0.11	0.46	0.5 (0.5)	0.8 (0.8)	1.0 (1.3)	1.3 (1.3)	1.2
<b>United States</b>	0.16	0.08	2.9 (2.5)	2.7 (2.6)	2.2 (1.5)	2.1 (1.9)	1.9
<b>China</b>	0.19	0.10	5.5 (5.6)	4.6 (4.8)	4.4 (4.3)	4.2 (4.1)	3.9
<b>KIX weighted</b>	0.75	1.00	1.6 (1.5)	1.8 (1.7)	1.9 (1.9)	2.0 (2.0)	2.0
<b>The World (PPP-</b>	1.00	—	3.3 (3.2)	3.2 (3.2)	3.2 (3.2)	3.3 (3.2)	3.2

Note. Calendar-adjusted growth rates, PPP weights refer to purchasing-power adjusted GDP weights in the world for 2024, according to the IMF, KIX weights refer to weights in the Riksbank's krona index (KIX) for 2024. The forecast for GDP in the world is based on the IMF's forecasts for PPP weights. The forecast for KIX-weighted GDP is based on an assumption that the KIX weights will develop in line with the trend during the latest five years.

CPI	2023	2024	2025	2026	2027
<b>Euro area (HICP)</b>	5.4 (5.4)	2.3 (2.4)	2.0 (2.0)	1.8 (2.0)	2.0
<b>United States</b>	4.1 (4.1)	2.9 (2.8)	2.4 (2.0)	2.2 (2.2)	2.3
<b>KIX weighted</b>	5.6 (5.6)	3.1 (3.1)	2.6 (2.6)	2.4 (2.4)	2.4

	2023	2024	2025	2026	2027
<b>International policy rate, per cent</b>	3.6 (3.6)	4.1 (4.1)	2.7 (3.1)	2.4 (2.7)	2.4
<b>Crude oil price, USD/barrel Brent</b>	82.1 (82.1)	79.6 (80.0)	71.6 (71.7)	69.7 (70.4)	68.8
<b>Swedish export market</b>	0.5 (1.0)	1.2 (0.7)	3.1 (3.3)	3.3 (3.3)	3.3

Note. The policy rate abroad is an aggregate of rates in the US, the euro area, Norway and the United Kingdom.

Sources: Eurostat, IMF, Intercontinental Exchange, national sources, OECD and the Riksbank.

**Table 7. Summary of financial forecasts**

Per cent unless otherwise stated, annual average

	2023	2024	2025	2026	2027
<b>The Riksbank's policy rate</b>	3.5 (3.5)	3.6 (3.7)	2.3 (2.4)	2.3 (2.3)	2.3
<b>10-year rate</b>	2.5 (2.5)	2.2 (2.2)	2.0 (2.0)	1.9 (1.9)	1.9
<b>Exchange rate, KIX, 18 Nov 1992 = 100</b>	127.5 (127.5)	126.0 (125.3)	125.9 (122.4)	121.8 (118.6)	117.8
<b>General government net lending, per cent of GDP</b>	-0.8 (-0.6)	-1.6 (-1.6)	-1.3 (-1.1)	-0.8 (-0.6)	-0.5

Sources: Statistics Sweden and the Riksbank.



**SVERIGES RIKSBANK**

Tel +46 8 - 787 00 00

[registratorn@riksbank.se](mailto:registratorn@riksbank.se)

[www.riksbank.se](http://www.riksbank.se)

PRODUCTION SVERIGES RIKSBANK

