Monetary Policy Update

May 2025

Monetary Policy Update

The Executive Board normally holds eight monetary policy meetings a year. At four of the meetings, a Monetary Policy Report is published, describing economic developments and containing forecasts extending three years ahead. At the other four meetings, a shorter update is published, which describes macroeconomic developments in relation to the Riksbank's most recent forecast, the monetary policy decision and the deliberations the Executive Board made with regard to what is a suitable monetary policy.

Through the Monetary Policy Updates and 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.

Regularly or upon request, the Riksbank shall submit an account of monetary policy operations to the Riksdag's 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 Executive Board made a decision on the Monetary Policy Update on 7 May 2025. The Update can be downloaded in PDF format from the Riksbank's website www.riksbank.se, where more information about the Riksbank can also be found.

No new forecasts are produced for the Monetary Policy Updates. Monetary Policy Report no. 2 2025 will be published on 18 June 2025.

Monetary policy considerations

Uncertainty in the global economy has increased significantly since the change of US president, not least as a result of the new US trade policy. The increased uncertainty has caused large movements in financial markets. Growth prospects have deteriorated in both the United States and Europe. In the US economy, increased tariffs are expected to lead to higher inflation, while in Europe lower demand may put downward pressure on inflation. However, developments are very hard to assess.

Developments abroad implies that the economic outlook in Sweden looks slightly weaker than in the March forecast. According to surveys, household confidence has fallen significantly, while business confidence is relatively unchanged so far. However, anecdotal information suggests increased pessimism among companies too. Overall, it is still too early to determine the extent and duration of the effects on economic activity.

Inflation is already slightly elevated to start with and, in April, was 2.3 per cent measured as the CPIF and 3.1 per cent measured as the CPIF excluding energy. But new information supports the forecast made in March that the higher inflation this year will be temporary. The weaker economic outlook indicates lower inflation beyond the near term. But there is considerable uncertainty. For example, as is the case for other European countries, potential disruptions in supply chains or a generally more protectionist trade policy could instead lead to higher inflation than expected.

The Executive Board assess that monetary policy is currently well-balanced and that it is wise to await further information to obtain a clearer picture of the outlook for economic activity and inflation. The Executive Board has therefore decided to leave the policy rate unchanged at 2.25 per cent. At the same time, even though uncertainty is significant, the Executive Board assesses that it is somewhat more probable that inflation will be lower than that it will be higher than in the March forecast. This could suggest a slight easing of monetary policy going forward.

International developments

Since the change in US president, uncertainty in the global economy has increased sharply. Not least, this is due to the new trade policy. The tariffs announced by the US administration in early April were more wide-ranging and higher than expected. The period since then has been characterised by new announcements on tariffs, countermeasures and negotiations. The departures from the previous trade regime have led to a sharp increase in economic uncertainty (see Figure 1). Whether the announced tariffs are maintained or adjusted, there is much to suggest that the increased uncertainty will slow global growth.[1]

The increased uncertainty has also caused large movements in financial markets. The stock markets have fluctuated considerably and fell steeply in conjunction with the announcement of higher tariffs but have since risen again (see Figure 2). US government bond yields have also varied appreciably, which is probably connected both to rapid changes in expectations of how the economy will develop and to increasing apprehension over the sustainability of public finances. In addition, a reduced willingness to invest in US assets has contributed to a clear weakening of the dollar.

Growth prospects in the United States have deteriorated due to increased tariffs and greater uncertainty. During the first quarter, US GDP fell slightly, which can primarily be explained by high imports that lowered net exports and slightly weaker consumption (see Figure 3). Indicators also point to increased pessimism. Apprehension over the development of the economy and expectations of higher inflation have contributed to a heavy fall in consumer confidence since March (see Figure 4). This suggests continued weak growth in the period ahead. Confidence has also declined among businesses, but to a much lesser extent. The increased uncertainty in the economy ultimately risks weighing on investment.

The growth prospects for the euro area also appear weaker. Growth has been low for some time, even though it rose to 0.4 per cent in the first quarter (see Figure 3). Confidence among households and businesses is still lower than normal. The new US trade policy and the uncertainty that surrounds it risk weakening growth prospects in the euro area in the period ahead, even though there is much to suggest that the effect will be smaller than in the United States. Just as in March, a more expansionary fiscal policy with increased defence expenditure is expected to contribute to growth over the coming years.

Increased tariffs are expected to contribute to higher US inflation than in the March forecast. Although inflation in March was slightly lower than expected, at 2.4 per cent measured as the CPI and 2.8 per cent measured as the CPI excluding energy (see Figure 3). But the tariff hikes on US imports mean rising costs for many businesses and are likely to contribute to higher inflation, primarily in the short and medium terms. This is also reflected in household inflation expectations, which have risen sharply recently (see Figure 5).

Inflation in the euro area has been relatively unchanged. HICP inflation remained at 2.2 per cent in April, while the HICP excluding energy rose slightly to 2.8 per cent (see Figure 3). Wage growth has slowed, while the euro has strengthened, also contributing to lower inflationary pressures.

[1] See for example, IMF (2025*), World Economic Outlook April.*

The uncertainty resulting from the new US trade policy may put downward pressure on inflation in Europe, but developments are hard to predict. Weaker demand may put downward pressure on inflation. This effect could be amplified by the redirection of exports intended for the United States, for example from China to Europe, increasing supply and leading to lower inflation. At the same time, disruptions in supply chains may lead to higher inflationary pressures. Inflation could also increase if global companies choose to raise prices in Europe in response to higher tariffs in the United States or if the EU's tariff response measures become more extensive.

Inflation expectations are increasingly diverging between Europe and the United States. The expectation that higher import tariffs in the United States will affect inflation in different directions in the United States and Europe is also reflected in pricing in the financial markets (see Figure 5). Short-term inflation expectations have risen in the United States, while they have fallen in the euro area.

Since March, the ECB has cut its policy rate by 0.25 percentage points. The announcement in mid-April was the sixth in a row at which the interest rate was cut. The Bank of Canada left its policy rate unchanged in April, emphasising the need for more clarity on what tariffs the United States will impose and how they can be expected to affect the economy. In general, market expectations of policy rates abroad have fallen considerably since the monetary policy meeting in March. The market now expects three cuts of 0.25 percentage points over the year from the Federal Reserve and at least two cuts of 0.25 percentage points from the ECB (see Figure 6).

Uncertainty about economic policy developments abroad is unusually high. The new US trade policy has significantly increased uncertainty, in particular as regards developments in the US economy. It also remains uncertain how European defence spending will be structured and what impact it will have on the economy. In addition, the development of the war in Ukraine remains an uncertainty factor for the economic development of Europe.

Developments in Sweden

Developments abroad mean that the economic outlook looks slightly weaker than in the March forecast. But it is not possible at this stage to determine the extent and speed of the slowdown. The GDP indicator points to growth in the first quarter having been somewhat weaker than assumed in the March forecast (see Figure 7). According to surveys, household confidence has fallen significantly, while business confidence is relatively unchanged so far. However, anecdotal information, including interviews with businesses, suggests increased pessimism among businesses too. The generally increased uncertainty is also expected to contribute to lower exports and investment.

Developments in the labour market were slightly stronger than expected in the first quarter. Rising employment contributed to a decline in unemployment from 8.9 per cent in February to 8.1 per cent in March and amounted to an average of 8.8 per cent in the first quarter, which was slightly lower than expected. However, the weaker growth prospects risk leading to slightly higher unemployment in the period ahead than was in the March forecast (see Figure 7).

Inflation rose at the beginning of the year and has since developed broadly as expected. Since the Riksbank's forecast in March, Statistics Sweden has published two monthly outcomes for inflation, which were both in line with the forecast. According to the flash estimate for April, CPIF inflation was 2.3 per cent and CPIF inflation excluding energy was 3.1 per cent (see Figure 8). Inflation thereby remains somewhat elevated. In March, the Riksbank identified a number of factors that are expected to mean that inflation will be above 2 per cent this year before falling back.

New information supports the view that inflation is temporarily elevated this year. Since March, inflation has developed approximately as expected. In April, corporate price plans remained at slightly elevated levels according to the National Institute of Economic Research's Economic Tendency Survey, while the rate of increase in producer prices has slowed down (see Figures 9 and 10). Inflation expectations remain anchored close to 2 per cent (see Figure 11). The increased deduction on home repair and maintenance (ROT) that is expected to apply with effect from May until December, is assumed to contribute to temporarily slightly lower inflation. The inflation prospects for the rest of the year from the March report are largely expected to remain unchanged.

New agreements suggest wage increases broadly in line with the previous assessment. A new industrial agreement came into force on 1 April, providing wage increases totalling 6.4 per cent over two years, divided into 3.4 per cent the first year and 3 per cent the second year. This is not assessed to change the inflation outlook to any great extent compared with the forecast from March. A two-year agreement at this level creates clarity in an uncertain world and good conditions for rising real wages for households, at the same time as it contributes to inflation in line with the target.

The Swedish krona has continued to strengthen in line with the forecast in March. A reduced willingness to invest in US assets has led to a general weakening of the dollar. But the krona has also overall strengthened slightly against the euro and many other currencies (see Figure 12). Small currencies otherwise tend to weaken in turbulent times. Some conceivable explanations for the strengthening of the krona are that Swedish companies are seen as competitive and that Swedish assets are perceived as relatively safe in the current situation, partly in light of the strong public finances.

The inflation outlook may weaken, but there is considerable uncertainty. The trade conflict and the increased uncertainty it brings are expected to lead to weaker demand, which itself will contribute to lower inflation. However, like the rest of Europe, there are also factors that could contribute to inflation becoming higher.

Policy rate held unchanged at 2.25 per cent

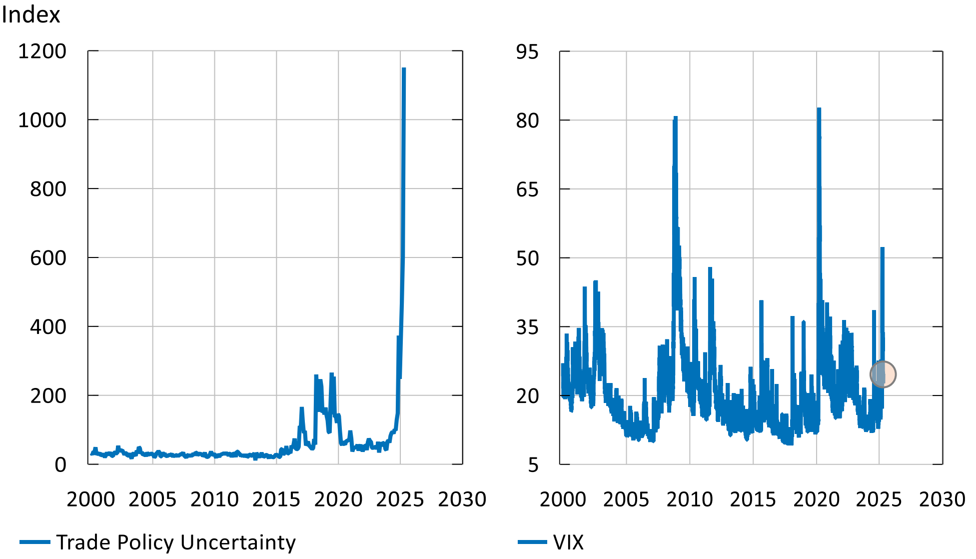
The economic outlook looks slightly weaker than in March. The new US trade policy and the unpredictability it brings to households and businesses are expected to weigh on demand in Sweden. Household confidence has fallen significantly, while business confidence has remained relatively unchanged so far. Overall, it is still too early to determine the extent and duration of the effects.

Weaker demand could also result in a more subdued inflation outlook. Inflation is somewhat elevated to begin with. But new information supports the forecast from March that the higher inflation this year will be transitory. The weaker economic outlook indicates lower inflation beyond the near term. But there is considerable uncertainty. For example, as is the case for other European countries, potential disruptions in supply chains or a generally more protectionist trade policy could instead lead to higher inflation than expected.

The Executive Board has decided to leave the policy rate unchanged at 2.25 per cent. The Executive Board assess that monetary policy is currently well-balanced and that it is therefore wise to now await further information to obtain a clearer picture of the outlook for economic activity and inflation. At the same time, even though uncertainty is significant, the Executive Board assesses that it is somewhat more probable that inflation will be lower than that it will be higher than in the March forecast. This could suggest a slight easing of monetary policy going forward.

Figures

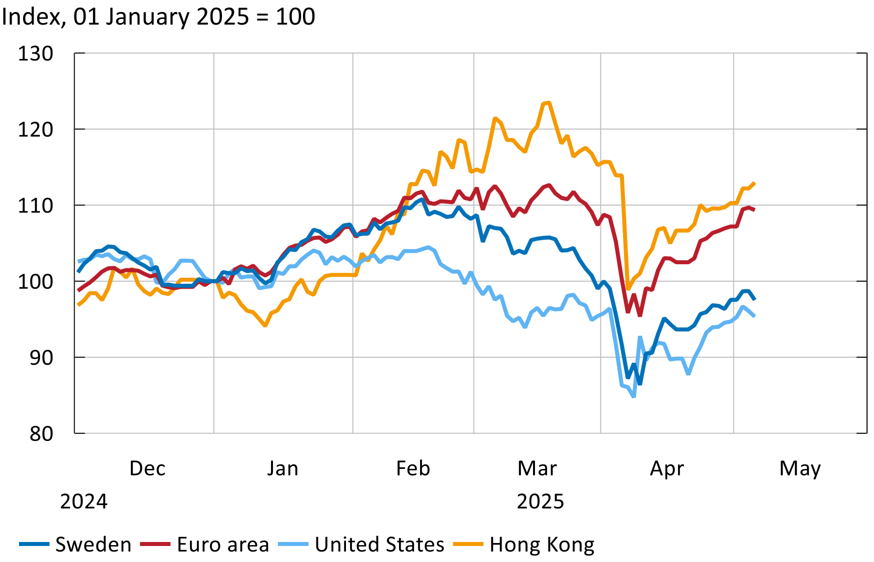
Figure 1. Trade policy uncertainty index and VIX



Note. Trade Policy Uncertainty is a normalised index of the number of news articles in the United States mentioning trade policy uncertainty. 100 means that 1 per cent of the articles concern trade policy uncertainty. Latest outcome refers to April 2025 (left). VIX is an index showing the expected volatility in the US stock market, S&P500. The grey circle marks the latest outcome from 6 May 2025 (right).

Sources: Chicago Board Options Exchange and Economic Policy Uncertainty.

Figure 2. Stock market movements

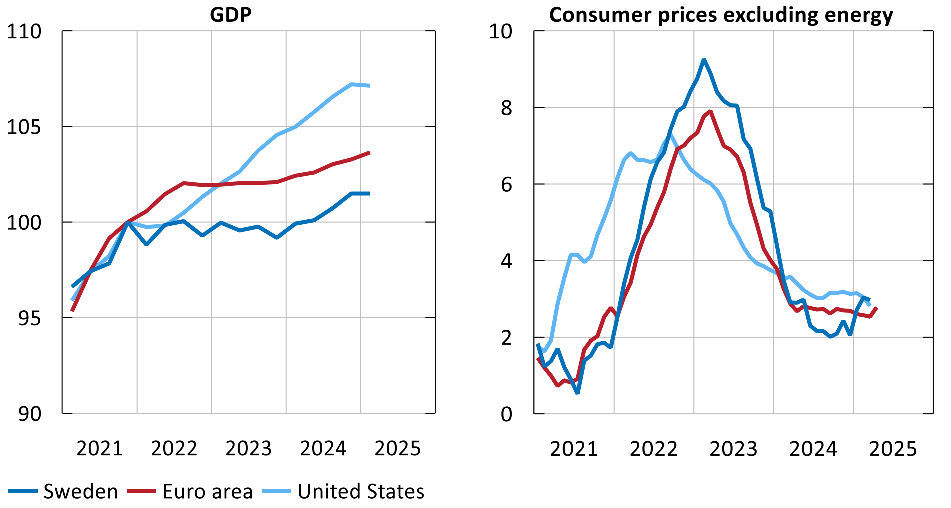


Note. Stock market indices refer to OMXS for Sweden, STOXX for the euro area, S&P 500 for the United States and Hang Seng for Hong Kong.

Sources: Hang Seng Indexes Company, Nasdaq OMX Nordic, S&P Global and STOXX.

Figure 3. GDP and consumer prices excluding energy

Index, 2021 Q4 = 100 (left), and annual percentage change (right)

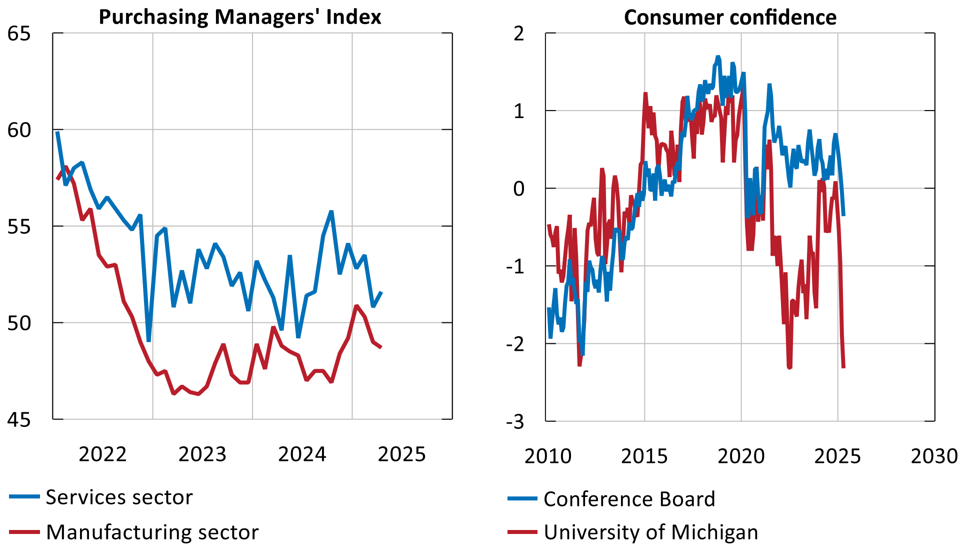


Note. Seasonally adjusted data (left). Refers to CPIF excluding energy for Sweden, HICP excluding energy for the euro area and CPI excluding energy for the USA (right).

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

Figure 4. Purchasing Managers' Index and consumer confidence in the United States

Index (Purchasing Managers' Index) and standardised values (consumer confidence)

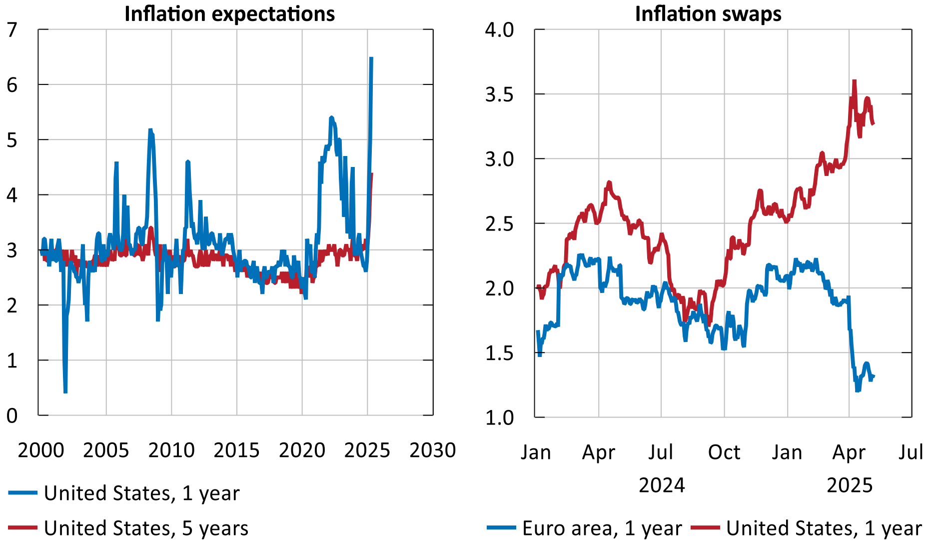


Note. The Purchasing Managers’ Index is an economic indicator where an index figure above 50 indicates growth and below 50 indicates a downturn. Seasonally adjusted data (left). The right-hand figure shows US household confidence based on surveys of business and labour market conditions and economic expectations. Both confidence measures are normalised from the year 2000 so that the mean value is 0 and the standard deviation is 1. The Conference Board’s confidence measure refers to seasonally adjusted data.

Sources: Conference Board, Institute for Supply Management, University of Michigan and the Riksbank.

Figure 5. Inflation expectations in the United States and inflation swaps

Per cent

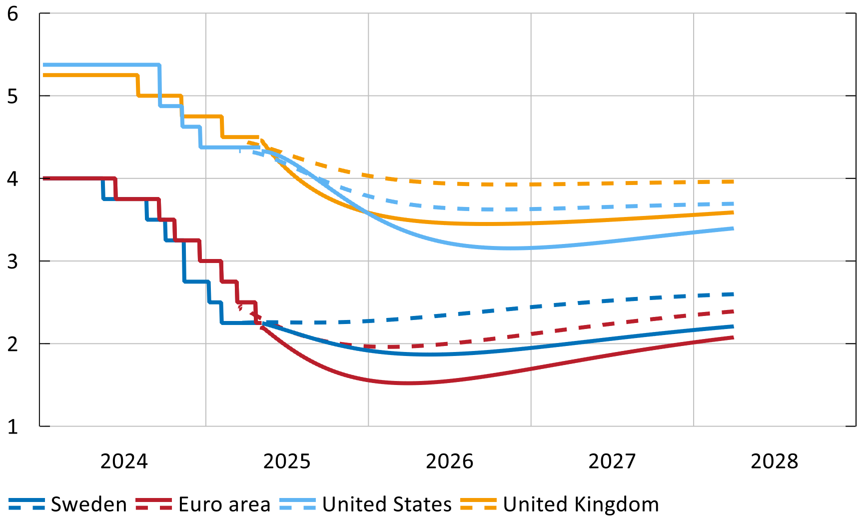


Note. Inflation expectations refer to survey responses from the University of Michigan's Surveys of Consumers, with the latest outcome referring to April 2025 (left). The right-hand figure shows 1-year inflation swaps linked to the euro area HICP and the US CPI. An inflation swap is a financial contract whereby two parties exchange payments over a set period of time. One party pays a fixed percentage (representing expected average inflation over the period), while the other party pays the actual inflation realised over the period.

Sources: Bloomberg and University of Michigan.

Figure 6. Market expectations of policy rates in the future

Per cent

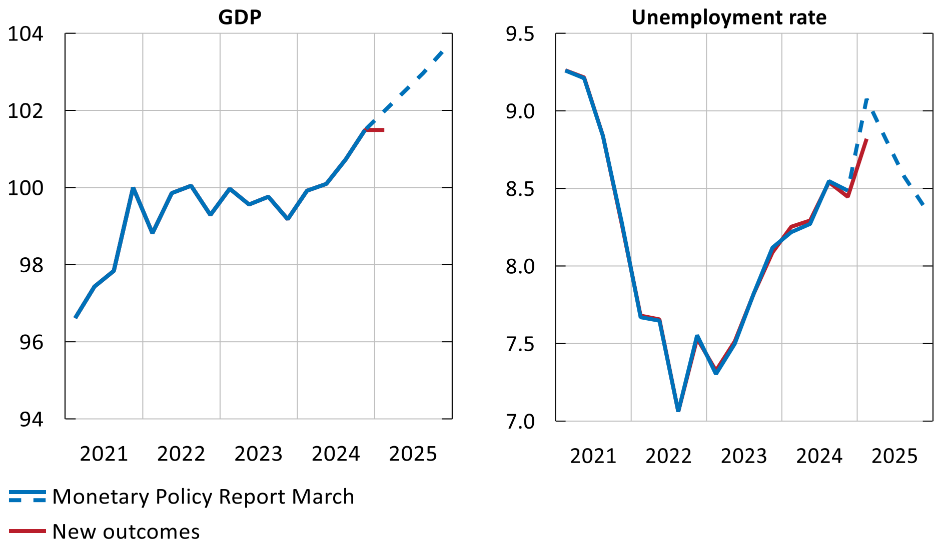


Note. The figure shows policy rates and market-based expectations according to forward pricing. Solid lines represent expectations on 6 May 2025. Dashed lines represent expectations immediately prior to the monetary policy meeting in March.

Sources: National central banks and the Riksbank.

Figure 7. GDP and unemployment in Sweden

Index, 2021 Q4= 100 (left) respective percentage of labour force aged 15–74 years (right)

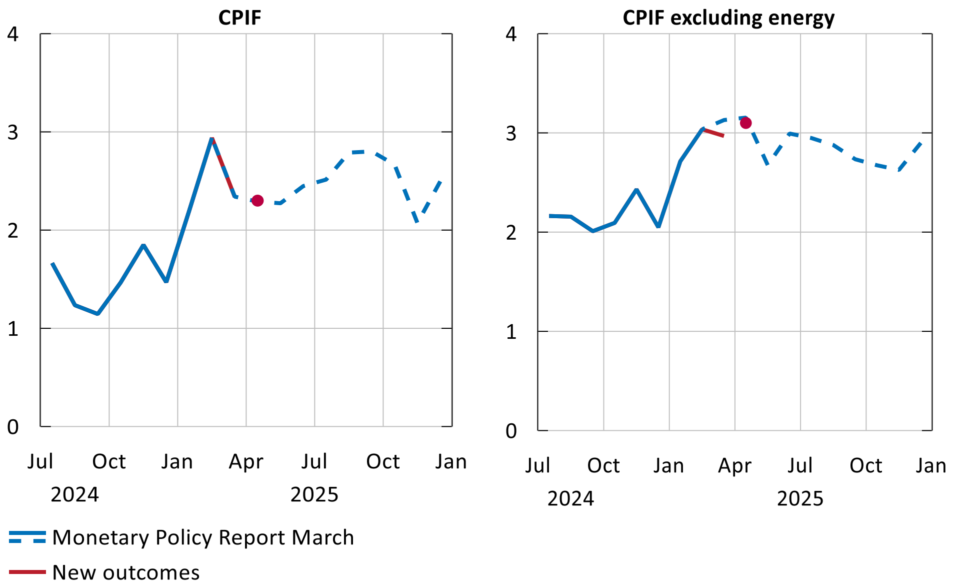


Note. Seasonally adjusted data. Solid and dashed blue lines refer to outcome and forecast respectively at the monetary policy meeting in March. Red line refers to new outcomes since then. The latest outcome for GDP refers to the GDP indicator, while the blue line refers to GDP according to the regular National Accounts.

Sources: Statistics Sweden and the Riksbank.

Figure 8. CPIF and CPIF excluding energy

Annual percentage change

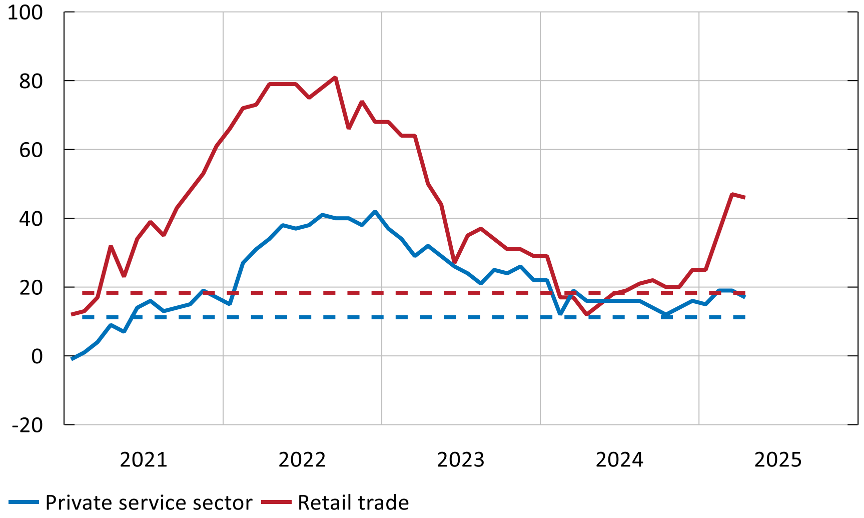


Note. Solid and dashed blue lines refer to outcome and forecast respectively at the monetary policy meeting in March. Red line refers to outcome for March. Red dot refers to preliminary outcome for April.

Sources: Statistics Sweden and the Riksbank.

Figure 9. Price plans in Economic Tendency Survey

Net figures

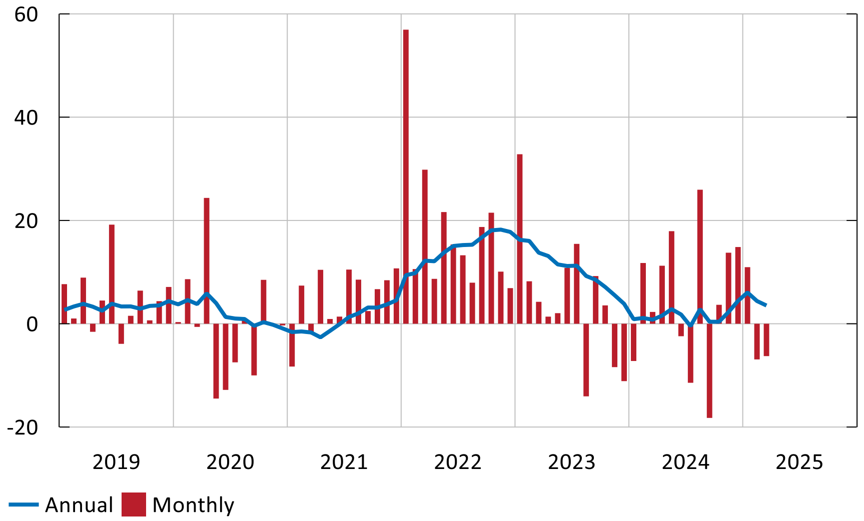


Note. The figure shows net figures of how many businesses responded that they plan to increase their prices compared with how many plan to reduce them in the coming three months. Seasonally adjusted data. The dashed lines represent the average for the period 2000–2025.

Source: National Institute of Economic Research.

Figure 10. Producer prices

Percentage change

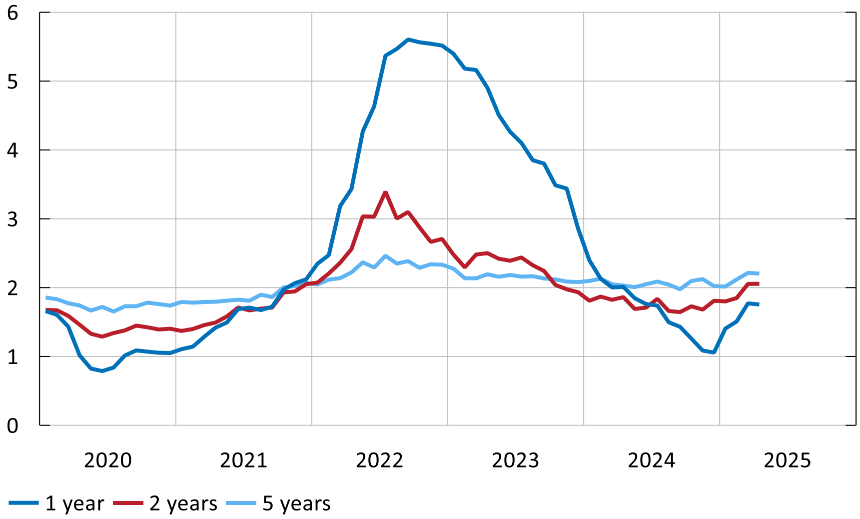


Note. Refers to the rate of consumer goods price increase for the Price Index for Domestic Supply (ITPI).

Source: Statistics Sweden.

Figure 11. Inflation expectations

Per cent

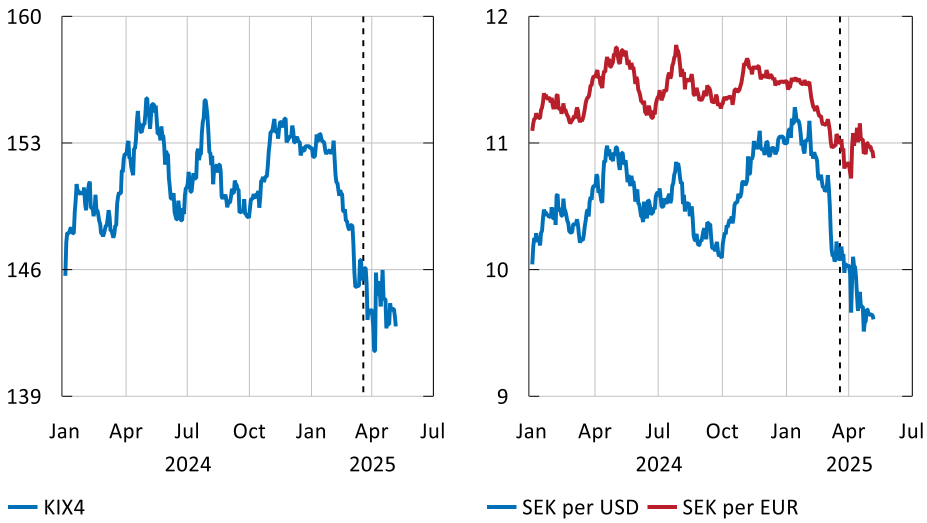


Note. Refers to CPI. The lines in the figure show money market participants' expectations at the time of measurement of what inflation will be in 1, 2 and 5 years.

Source: Origo Group.

Figure 12. Nominal exchange rate for the Swedish krona against KIX4 and the dollar and euro

Index, 18 November 1992 = 100 (left), and SEK (right)



Note. The KIX4 (krona index) is a weighted average of the Swedish krona exchange rate against the US dollar, euro, pound sterling and Norwegian krone. A higher value indicates a weaker exchange rate. The dashed line marks the date of the monetary policy meeting in March.

Source: The Riksbank.

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