

SPEECH

DATE: 27 November 2025
SPEAKER: Erik Thedéen
VENUE: Monetary Policy in Emerging Markets – Online
Workshop of the National Bank of Ukraine
DOCUMENT CLASSIFICATION: RB PUBLIC

Inflation targeting in Sweden: lessons and challenges

I would like to begin by thanking you for the invitation to speak here today. The Riksbank and the National Bank of Ukraine (NBU) have had an important and close cooperation for many years, which has only deepened and spread to an increasing number of areas since Russia's full-scale invasion. Last year I had the opportunity to invite Governor Pyshnyy to Sweden to follow our monetary policy process and share some of NBU's experiences of financial and civil preparedness, and I am pleased to have the opportunity today to discuss the Riksbank's long experience of inflation targeting. We look forward to more opportunities like this to share experiences and further deepen our close relationship.

Wednesday 16 September 1992 was a dramatic day in the Riksbank's long history. In an attempt to defend the krona's fixed exchange rate against the ECU, the Riksbank decided to raise its policy rate to 500 per cent. But this extreme rate hike was not enough, and just a few weeks later the exchange rate target was abandoned and the krona started to float freely. The Riksbank suddenly found itself without a clear strategy for conducting monetary policy, but soon settled on a new target: to keep inflation around 2 per cent a year.

In the thirty years since then, the new monetary policy strategy has remained largely unchanged and has made an important contribution to macroeconomic stability in Sweden. At the same time, it has often encountered new challenges that have taught us important lessons and encouraged us to adapt. Today I will briefly describe various periods during which Swedish monetary policy has faced such challenges. I would also like to highlight a number of challenges that we are still grappling with, and to which there is not necessarily a clear-cut answer. Monetary policy can never run on auto-pilot; central banks must make a number of choices and dare to change their minds when conditions change.

S V E R I G E S R I K S B A N K

The background to inflation targeting

However, I will start by explaining why the inflation target was introduced in Sweden.¹ After the collapse of the Bretton Woods system, Swedish monetary policy still had an exchange rate target in relation to the currencies of our trading partners. But economic policies were not designed to be consistent with the exchange rate target. The stabilisation policy agenda was set by fiscal policy, which aimed to keep unemployment low. The tools used to achieve this goal contributed to recurrent budget deficits that fuelled demand, inflation and wages. Inflation was often higher than in the rest of the world and repeated devaluations became necessary in the 1970s and 1980s.

During the 1980s, it became increasingly clear that the trend was not sustainable. Inflation reached 15 per cent, the current account was mostly in deficit and the government debt-to-GDP ratio had tripled in ten years. Several Swedish economists began to highlight the need for a new stabilisation policy regime with a focus on price stability.² Some steps in this direction were actually taken, but the process was affected by the outbreak of a banking and currency crisis in the early 1990s.³ The price level had once again been rising faster in Sweden than in the rest of the world, and the krona was considered overvalued and became subjected to speculative attacks. The Riksbank was forced to try to defend the exchange rate with an increasingly high interest rate, which exacerbated the banking crisis and contributed to further devaluation speculation.⁴ Eventually, the Riksbank was forced to abandon the exchange rate target and formulate a new target.

As price stability had already begun to be increasingly emphasised, the Riksbank and the Riksdag soon decided that an inflation target should replace the exchange rate target.⁵ After the crisis, several other reforms were also launched in the Swedish economy that were crucial to achieving the new target. The social partners agreed on a new wage formation structure that reduced the risk of price and wage spirals, and Parliament agreed on a fiscal framework to strengthen public finances. The budget process adopted a top-down perspective, government expenditure was regulated and a surplus target was introduced for net lending.⁶ The main objective of the reforms was not to achieve the inflation target, but to

¹ For a detailed review of the development of Swedish monetary policy 1973–2022, see Bylund et al (2024).

² For example, Lars Jonung, Johan Myhrman and other members of the SNS Economic Council.

³ Direct political influence over the Riksbank was reduced in 1988. In 1991, the government declared that low inflation was the objective of stabilisation policy and Sweden applied for EU membership. Sweden's membership in the EU means that the Riksbank is a part of the European central banking system (ECBS), for which the main target is to maintain price stability.

⁴ For detailed descriptions of the Swedish banking crisis in the early 1990s, see Englund (1999, 2015).

⁵ Inspiration was drawn from New Zealand and Canada, which began inflation targeting in 1990 and 1991.

⁶ Over time, a municipal budget balance requirement and a debt anchor were also added. For a general comparison of fiscal policy rules in Sweden and some other countries, see Lindgren and Nilsson (2025).

create stability in wage formation and to counteract the tendencies towards increasing public debt. However, the changes economic policy more coherent than under the previous regime, putting inflation targeting in a better position.

The implementation of inflation targeting

The inflation target was thus born out of a crisis in the Swedish economy where inflation had reached double figures, and monetary policy was therefore initially characterised by the challenge of creating credibility for the target. The Riksbank gradually developed three important tools in this work. First, **clear communication** became a way of signalling that the Riksbank intended to meet the target. The Executive Board therefore placed great emphasis on inflation in its rhetoric and little or no emphasis on stabilising the economy. Second, **new analytical and forecasting methods** became important for the Riksbank to fulfil and instil confidence in the target, not least because an inflation target placed higher demands on the ability to be forward-looking. Finally, the Riksbank also endeavoured to **increase its transparency**. This was needed, among other things, to explain how the Riksbank would reach the target, which in turn would help to maintain confidence even if the target was missed.⁷ I will return later to the tools we use today to be transparent.

Until the end of the 2000s, inflation targeting, other reforms in the Swedish economy and a calmer global economy ("the Great Moderation") then contributed to a generally greater macroeconomic stability in Sweden. Inflation and inflation expectations declined and stabilised, real growth picked up significantly and government debt fell from its peak of around 70 per cent of GDP to only 37 per cent in 2008.⁸ The positive developments, particularly in inflation expectations, enabled the Riksbank to conduct a more flexible monetary policy that also took the business cycle into account.⁹

The period of macroeconomic stability then came to an abrupt end with the global financial crisis. For the first time since the inflation target was introduced, the Riksbank was forced to make a rapid and substantial shift in monetary policy, but the real challenge was that the Bank's tools for achieving the target were insufficient. Until now, the Riksbank had only used the policy rate to stabilise inflation and output. However, due to financial instability, the normal channels of monetary policy (the so-called transmission mechanism) no longer functioned as

⁷ For a description of how the Riksbank's communication developed, see Apel and Vredin (2007).

⁸ On the other hand, unemployment remained at a consistently higher level after the 1990s crisis.

⁹ Lars E O Svensson made a major contribution to the analytical foundations of inflation targeting, see, for example, Svensson (1998). When the Riksbank's strategy became officially more flexible, this was first communicated by Heikensten (1999).

required for the monetary policy strategy to work. The Riksbank therefore chose to dramatically increase its lending to banks to stabilise the economy again.

After the global financial crisis, the next big challenge for inflation targeting – not only in Sweden – was that inflation consistently fell below target. This was not expected when inflation targets were introduced after a couple of decades of high inflation. The fact that inflation was lower than target could in some ways be perceived as something of a luxury problem in a historical perspective. On the other hand, the problem of below-target inflation persisted despite the steady reduction in policy rates, which eventually approached zero. Confidence in the inflation target thus became a cause for concern again. The Riksbank, as well as many other central banks, then started to take so-called "unconventional measures" by introducing negative interest rates and asset purchases. The Riksbank used both tools between 2015 and 2019 while inflation slowly returned to target, and continued with extensive asset purchases during the pandemic.¹⁰

These unconventional measures have become a subject of discussion in Sweden and in many other countries. This is perhaps particularly true of the securities purchases. Criticism of them was also later intensified by the fact that the Riksbank, like many other central banks, made large losses on the purchases when interest rates rose sharply after the pandemic. My assessment is that asset purchases are primarily effective in countering financial crises. When financial markets are functioning normally, the effects of these purchases are more uncertain, and they also risk disrupting the functioning of the markets. This applies in particular to the purchase of private securities. Large-scale purchases of securities to safeguard the inflation target may be justified, but the threshold should be high and the Riksbank should then primarily buy government securities. Another important lesson is that the Riksbank should report the costs, financial risks and side effects of the purchases more clearly if they become relevant again.

The Riksbank's most recent challenging phase has been fighting high inflation after the pandemic. It is the first time that inflation targeting has seriously been tested on the upside, and so there are many lessons to be learnt from this period. I think a particularly important observation is that the rise in inflation could be reversed relatively quickly, and inflation targeting is an important part of the reason why. Inflation expectations in Sweden remained stable and the social partners have avoided entering into a price and wage spiral, which is good news for the regime and a big difference from when geopolitical factors created inflationary shocks in the 1970s.

¹⁰ For discussions of the Riksbank's experience of purchasing securities, see, for example, Andersson et al. (2022), Kolasa et al. (2025) and Riksbank (2025).

Challenges for inflation targeting

However, the fact that the recent rise in inflation could be reversed relatively quickly does not mean that we should take low and stable inflation for granted. Inflation targeting is constantly exposed to new challenges that can result in either higher or lower inflation and that the central bank must address. There are also many challenges for monetary policy that central banks have to face on a regular basis. I would like to highlight three of these that I have experienced myself and often think about.¹¹

1. What consideration should monetary policy give to financial stability?

Of course, monetary policy has a direct impact on financial stability that is impossible to ignore in policy-making. In addition, the Riksbank and many other central banks are required by law to contribute to financial stability, although in the Riksbank's case it is the inflation target that guides monetary policy.¹² However, since financial imbalances constitute a threat to price stability, situations can arise where it is reasonable that monetary policy should attempt to counteract these within the bounds of the inflation target. The central bank may then be forced to make a trade-off between attempting to achieve the inflation target in the nearer term or the longer term. For example, the Riksbank faced such a trade-off in the years between the financial crisis and the pandemic, when low inflation required an increasingly expansionary monetary policy in a situation where private debt was already at a high level. The Riksbank initially chose not to cut the policy rate further, but later changed its strategy when inflation became too low and confidence in the inflation target was considered to be under threat. But it is not clear how we should act if a similar situation were to arise again.¹³ The first and most important line of defence against financial instability is effective macroprudential regulations, and other authorities have the main responsibility for these measures in Sweden. However, having followed the financial crises in Sweden closely, I personally do not dare to rule out that monetary policy may also need to counteract the risks in the future.

2. What consideration should monetary policy give to exchange rates?

When you have an inflation target, the exchange rate should be allowed to float freely. In practice, however, it is so important to firms and households

¹¹ For previous reviews of challenges linked to the Riksbank's experience, see, for example, Ingves (2022), Laséen et al. (2025) and Jonsson and Vredin (2025).

¹² For theoretical discussions on whether monetary policy should take financial stability into account, see, for example, Rajan (2005), Woodford (2012) and Svensson (2012). Smets (2013) provides an overview of the literature at the time.

¹³ Some argue that central banks should have countered the risks to financial stability before the global financial crisis, see Borio and Lowe (2002) and Rajan (2005).

that central banks often find it hard to ignore.¹⁴ The Riksbank also sometimes chooses to comment on the development of the krona, usually in connection with its effects on inflation, but also occasionally when its value has clearly deviated from what we consider to be a reasonable level in the slightly longer term. Sometimes, however, inflation-targeting central banks go further, for example by intervening in foreign exchange markets to counteract substantial changes in the exchange rate in the short term. The Riksbank also did this in 2001. My position is that such measures may be justified in exceptional circumstances. But in normal times, central banks should try not to worry too much about short-term fluctuations, partly because they are notoriously difficult to understand and forecast. That said, however, we must endeavour to understand these developments as far as possible to be able to understand whether and how they should be taken into account in monetary policy.

3. Central bank independence cannot be taken for granted

Central bank independence is an important part of inflation targeting. Delegating responsibility for monetary policy to independent officials makes it easier to take unpopular but necessary decisions, and ultimately increases confidence in the inflation target. But of course, independence does not mean that the central bank is disconnected from politics and free to do what it wants. Monetary policy must be democratically anchored, so it is up to elected politicians to decide on the degree of independence of the central bank, what its mandate should be, who should lead it, how it should be financed and much, much more. It also means that independence cannot be taken for granted, but must be constantly earned. The central bank must consistently demonstrate that it has done what it could to fulfil its mandate. It must also not begin taking actions beyond its mandate (so-called "mission creep"), which is perhaps especially likely to happen when new economic and political issues turn up in the public debate. Of course, in many cases it is reasonable that the central bank should pay some attention to these issues. But it is important that the central bank does not reflexively engage in all parts of them, but carefully consider which aspects are connected to the mandate and in what way.

Personally, I think the Swedish experience suggests that transparency is a necessary condition for credibility, which in turn is necessary for independence. I am therefore proud that the Riksbank has been recognised as one of the most transparent central banks in the world on several occasions.¹⁵ We publish Monetary Policy Reports with detailed forecast information,

¹⁴ Se Ilzetzki et al. (2019).

¹⁵ See, for example, Dincer et al (2022), where the Riksbank is named the most transparent central bank in terms of monetary policy.

including forecasts for the policy rate, we publish minutes of monetary policy meetings, hold press briefings on our decisions, report annually on monetary policy to the Riksdag, and are also called to account during parliamentary hearings. We are regularly evaluated by independent experts and give over one hundred presentations a year to stakeholders around the country.¹⁶ The work on transparency can of course be demanding, but it has served us well by maintaining strong support for our independence and for our inflation targeting policy as a whole. However, it is only natural – and important – that the forms of our communication and transparency change over time. In this endeavour, central banks have much to learn from one another's experiences.

¹⁶ Unlike most other central banks, the Riksbank is not an authority under the Government but under the Riksdag, the Swedish Parliament. See Wetterberg (2009) for a historical description.

References

- Andersson, Björn, Meredith Beechey Österholm and Peter Gustafsson (2022), "The Riksbank's asset purchases 2015–2022", Riksbank Study, no. 2 2022.
- Apel, Mikael and Anders Vredin (2007), "Monetary Policy Communication: The Experience of the Swedish Riksbank", Czech Journal of Economics and Finance, 57, no. 11-12, 499–519.
- Borio, Claudio and Philip W. Lowe (2002), "Financial and monetary stability: Exploring the nexus", Working paper no. 114, Bank for International Settlements.
- Bylund, Emma, Jens Iversen and Anders Vredin (2024), "Monetary policy in Sweden after the end of Bretton Woods", Comparative Economic Studies, vol. 66, pp. 535–590.
- Dincer, Nergiz, Barry Eichengreen and Petra Geraats (2022), "Trends in monetary policy transparency: further updates", International Journal of Central Banking, vol. 18.
- Englund, Peter (1999), "The Swedish banking crisis: roots and consequences", Oxford Bulletin of Economic Policy, vol. 15, no. 3, 80–97.
- Englund, Peter (2015), "The Swedish 1990s banking crisis. A revisit in the light of recent experience", presented at the Riksbank Macroprudential Conference, Stockholm 23 – 24 June, 2015.
- Heikensten, Lars, (1999), "The Riksbank's inflation target – clarifications and evaluation, Sveriges Riksbank Quarterly Review, no. 1, 1999, Sveriges Riksbank, pp. 5–17.
- Ilzetzki, Ethan, Carmen M. Reinhart and Kenneth S. Rogoff (2019), "Exchange rate arrangements entering the twenty-first century: Which anchor will hold?", Quarterly Journal of Economics, vol. 134, pp. 599–646.
- Ingves, Stefan (2022), "Inflation targeting for nearly 30 years – a robust framework for all times?" speech at the Swedish Economic Association, 31 May 2022.
- Jonsson, Magnus and Anders Vredin (2025), "30 years of inflation targeting: from simple to complex", Sveriges Riksbank Economic Review, no. 1, 2025, Sveriges Riksbank, pp. 41–71.
- Kolasa, Marcin, Stefan Laséen and Jesper Lindé (2025), "Unconventional monetary policy in small open economies", Working Paper no. 450, Sveriges Riksbank.

Laséen, Stefan, Marianne Nessén and Ulf Söderström (2025), "The pursuit of nominal stability: lessons from three decades of inflation targeting", Sveriges Riksbank Economic Review, no. 1, 2025, Sveriges Riksbank, 5–21.

Lindgren, Mika and Charlie Nilsson (2025), "Fiscal rules and debt in the 2000s: a brief overview", Sveriges Riksbank Economic Review, no. 2, 2025, Sveriges Riksbank, 55–92.

Rajan, Raghuram G. (2005), "Has financial development made the world riskier?", in *The Greenspan Era: Lessons for the Future*, Proceedings from the Jackson Hole Economic Policy Symposium, Federal Reserve Bank of Kansas City, pp. 313–369.

Riksbank (2025), "The Riksbank's response to the Swedish National Audit Office's audit of the Riksbank's asset purchases".

Smets, Frank (2013), "Financial stability and monetary policy: How Closely Interlinked?", *Economic Review* No. 3 2013, Sveriges Riksbank pp. 121–160. Also available in the *International Journal of Central Banking*, Vol. 35, pp. 263–300.

Svensson, Lars E.O. (1998), "Inflation targeting in an open economy: Strict or flexible inflation targeting?", *Victoria Economic Commentaries* 15–1, March 1998.

Svensson, Lars E.O. Woodford, Michael (2012), "Inflation targeting and financial stability", *Economic Review*, 1, 2012, Sveriges Riksbank, pp. 33–39.

Wetterberg, Gunnar (2009), *Money and power* Sveriges Riksbank and Atlantis.

Woodford, Michael (2012), "Inflation targeting and financial stability", *Economic Review*, no 1, 2012, Sveriges Riksbank, pp. 7–32.