

Erik Thedéen: Independence must be earned every day

Speech by Mr Erik Thedéen, Governor of the Sveriges Riksbank, at a seminar on central banking issues, hosted by the Sveriges Riksbank, Stockholm, 1 December 2025.

* * *

Good afternoon everyone! It is good to see that there is so much interest in these seminars on central banking issues and I would like to take this opportunity to thank SNS for excellent cooperation. This is the second year in a row that we have done this and there is a saying that twice is a habit. As far as I'm concerned, we can happily go for three times. Then we can call it a tradition.

By way of introduction, I would like to make a few points that I think are important when discussing central bank independence. To begin with, I understand that there may be scepticism about elected representatives in a democracy handing over responsibility for important economic policy decisions to civil servants. It is a natural gut feeling. In fact, it is not unusual for public authorities to be given a large degree of autonomy in their day-to-day operations. But central bank independence generally goes further and there are good arguments in favour of it.

The question of central bank independence has a long history. You could say that it was already there at the start in 1668 when the Riksbank, the world's oldest central bank, was founded. The Riksbank has belonged to the Riksdag from the start, partly because the Estates in the Realm within the Riksdag wanted to restrict the royal power's ability to use the Riksbank's funds.

Views on independence have varied, but over the last three decades it has been recognised as particularly important. This is due to the problems of economic policy in the 1970s and 1980s. At the time, many countries were trying to control stubbornly high inflation, which also varied widely from year to year, causing major problems for households and businesses when making economic decisions. It also meant an "arbitrary rearrangement of riches", to use John Maynard Keynes' expression – that is, an unpredictable redistribution of wealth between different groups, for example, depending on whether you saved or borrowed.

Despite assurances that inflation would be combated, economic policy generally became too expansionary. Economic research showed that one of the fundamental problems was a lack of credibility – there needed to be a way for the political sphere to commit to bring inflation down. The solution was to delegate responsibility to a central bank and ensure that it focussed on achieving price stability, without regard to and interference from day-to-day politics.

New Zealand was the first country to introduce an inflation target combined with operational independence for the central bank in 1989. After that, a growing number of countries followed suit. The Riksbank was one of the first inflation-targeting central banks and acted in practice independently, although it was not until 1999 that its independence became more formalised. At around the same time, inflation slowed to a

low and stable level in many countries. We experienced a period of much more stable macroeconomic performance. There are several reasons for this positive development, but the independence of central banks was an important one.

A second point I would like to make concerns the very concept of an independent central bank. This can give the impression that we are talking about something binary – either central banks are independent or they are not. And in the debate, arguments sometimes emerge that assume that central banks are separate from the rest of government and free to do what they want. This, of course, is not the case. Elected politicians have delegated responsibility to the central banks to carry out tasks independently and they decide what mandate to give to the central banks. No central bank is therefore fully independent – there is a principal who defines both the mission and the limits of independence.

It is also worth noting that independence in practice has several dimensions. How autonomously a central bank can actually carry out its tasks depends on a number of factors: how it is funded, how its governors are appointed and dismissed, how free they are to make decisions with the tools they have been delegated, and so on.

Delegation means that civil servants are given the responsibility to take important economic policy decisions. That, as I said, is the whole point. Politicians then scrutinise how the civil servants fulfil their mandates and hold them to account, and the public can form an opinion through media reporting. My third point is that scrutiny is fundamental to the democratic anchoring of independence and trust in the central bank. Therefore, the review needs to be well prepared and prioritised – by both sides. Policy makers must have sufficient resources and expert support when needed. At the same time, the central bank needs to be generous with information about its activities and open and clear about what decisions it makes and why. This is one of the main reasons why transparency has been a watchword at the Riksbank for a long time.

Nor can trust and support for independence be taken for granted. This is something the central bank has to earn every day by carrying out the tasks entrusted to it in a transparent, respectful and determined manner. Earning trust does not mean keeping the central bank popular with politicians or the public. A central bank does not always have to be liked for citizens to trust it. In fact, confidence can increase if the central bank takes decisions that are unpopular but necessary and responsible. Putting away the candy bowl is rarely popular, although everyone recognises that it can be a wise decision.

My final point concerns the link between independence and the central bank's mandate and the challenges that may be involved. At the heart of independence is monetary policy, which has a mandate based on a target for price stability. However, central banks usually have more tasks than monetary policy, such as promoting financial stability. Within these tasks, too, there are often reasons to allow the central bank to make independent decisions, but they also require more cooperation with the government and other authorities. This difference needs to be reflected in the central bank's mandate. In Sweden, the Sveriges Riksbank Act is therefore explicit about the tasks and powers of the Riksbank in various areas.

There is also a risk that independence may start to be questioned if the central bank focuses on, or is perceived to focus on, issues that are outside its mandate. This phenomenon is often referred to as 'mission creep' or 'mandate creep'. In short, this means that the central bank gradually expands its tasks or responsibilities beyond its original mandate, and without formal legislative support.

As a central bank, it is important to be vigilant and take this risk seriously, because it is easy to get carried away when new economic policy issues rise to the top of the agenda. Does this mean that the central bank should stay away from issues such as climate change, tariffs and fiscal policy initiatives? No, it does not. It all depends on the context. Climate change can be taken as an example here. Higher risks of extreme weather events imply, among other things, higher risks of recurrent supply disruptions and higher risks in the financial system. From this perspective, there are clear links to monetary policy and financial stability that are relevant for the Riksbank to discuss. However, the Riksbank should not interfere in the question of whether Sweden should invest in nuclear power or wind power, or in the size of the reduction obligation.

It is therefore important that there is a natural link to the central bank's mandate. Independence requires that the central bank stays within a well-formulated and well-defined mandate. And while an independent central bank may seem odd from a democratic perspective, it is a solution that creates good conditions for price stability and favourable economic development in the long term.