

Same Target, Different Trade-Offs? Norges Bank and the Riksbank After the Inflation Surge

Norges Bank, 2 March 2026

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Introduction

- Sweden and Norway: many similarities but also key differences
- Our experiences from combatting inflation 2022 onwards differ. Why?
- Do the loss functions of the Riksbank and Norges Bank differ?
- Different weights on the real economy relative to that of price stability could be justified by differences in
 - I. Sacrifice ratios
 - II. The strength of key transmission mechanisms
 - III. The monetary mandates



Sweden and Norway: a comparison

The structure of our two economies

Similarities

- Small, open economies
- Flexible inflation targeting and floating exchange rates for 25+ years
- Pattern bargaining with tradable sector setting the wage norm

Differences

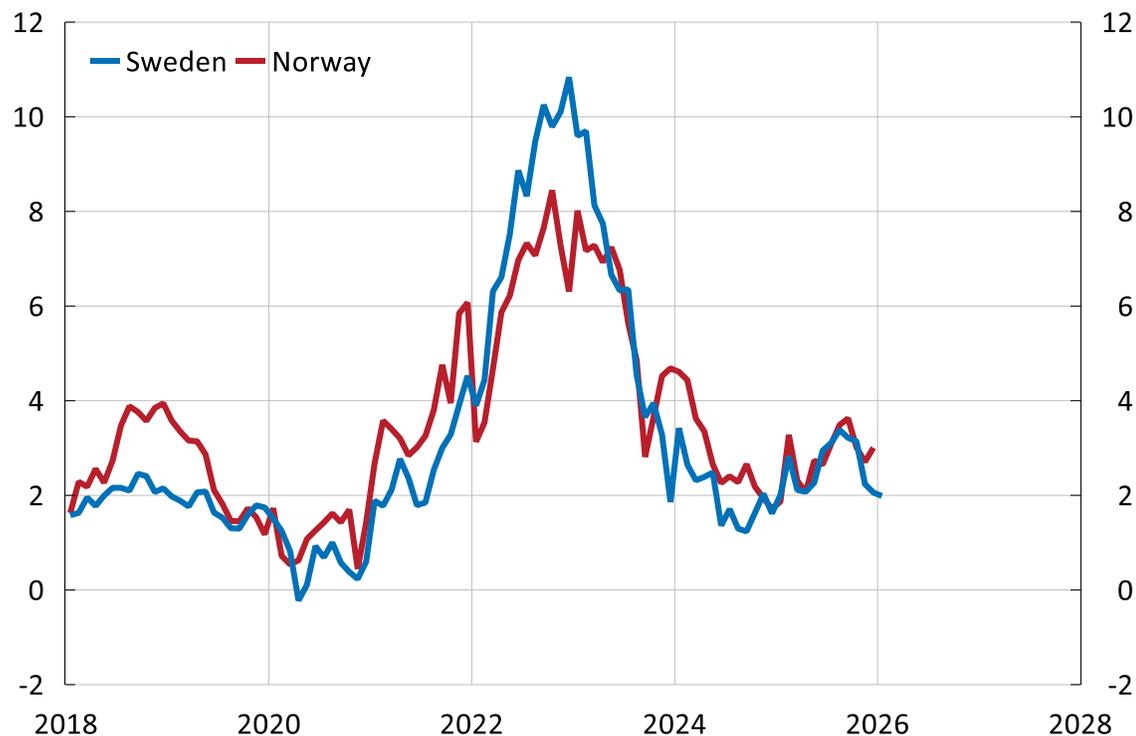
- Natural resources (Norwegian oil and gas, Swedish iron ore and forests)
- Norway outside the EU



Experiences from combatting inflation 2022 onwards

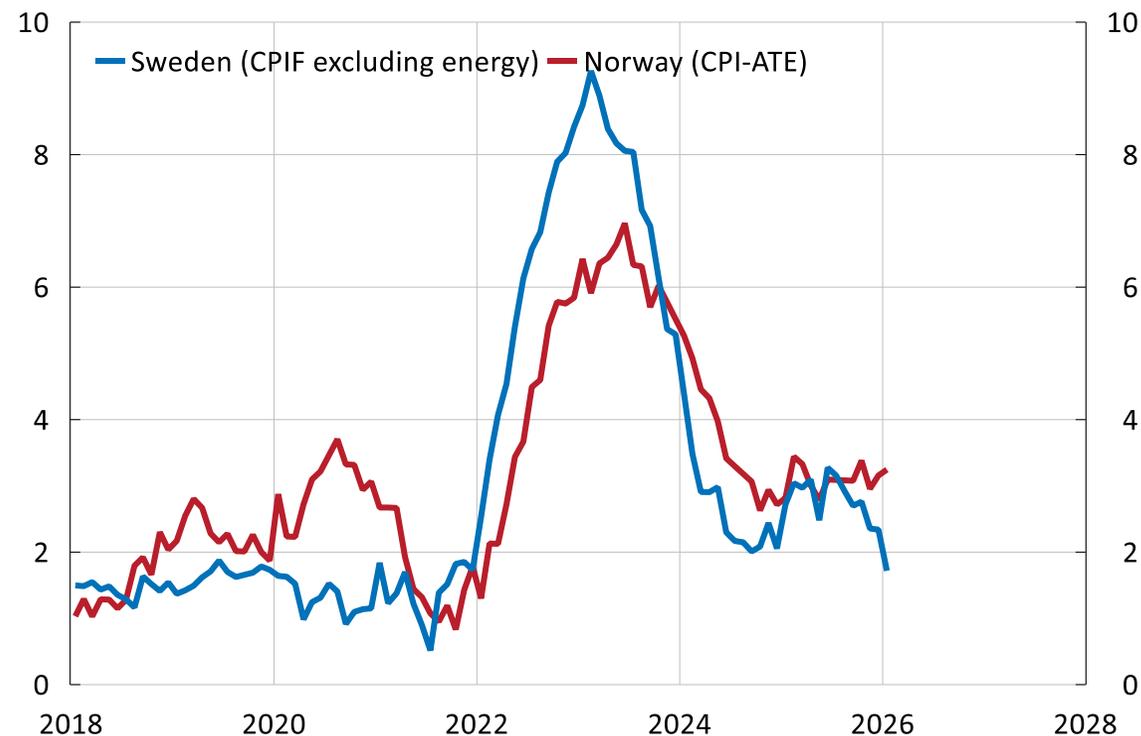
Inflation peaked higher in Sweden but fell back more rapidly

HICP inflation



Note. Annual percentage change.
Sources: Statistics Norway and Statistics Sweden.

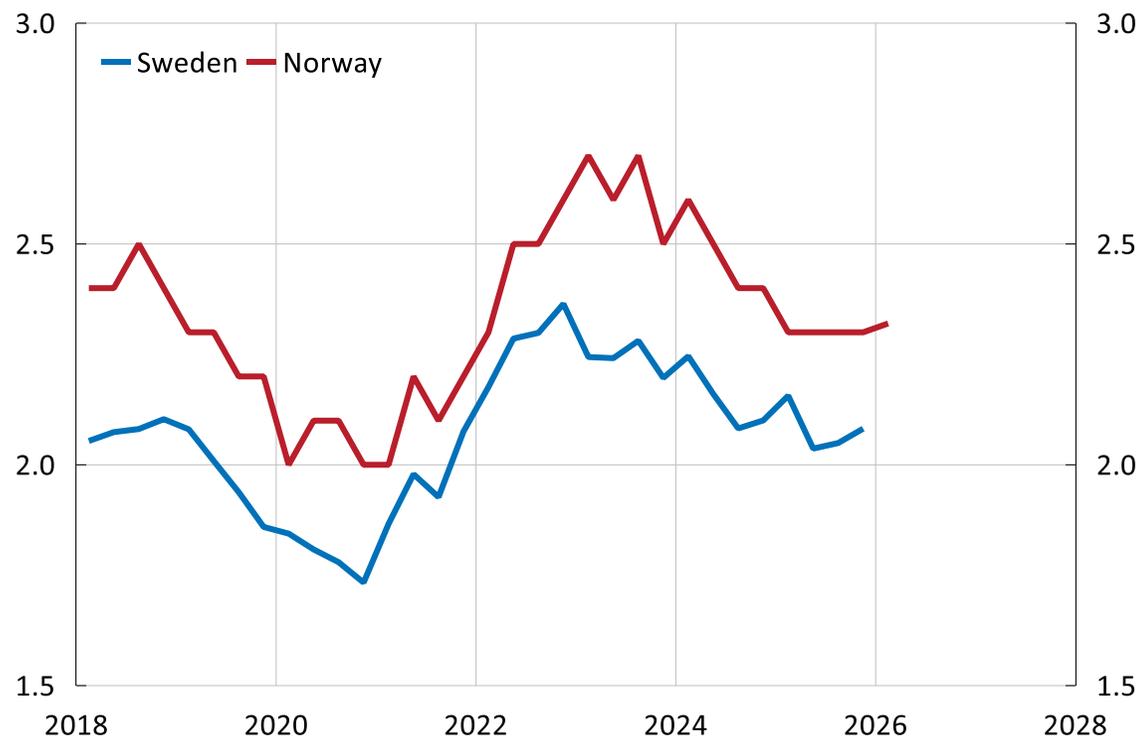
Core inflation



Note. Annual percentage change.
Sources: Statistics Norway and Statistics Sweden.

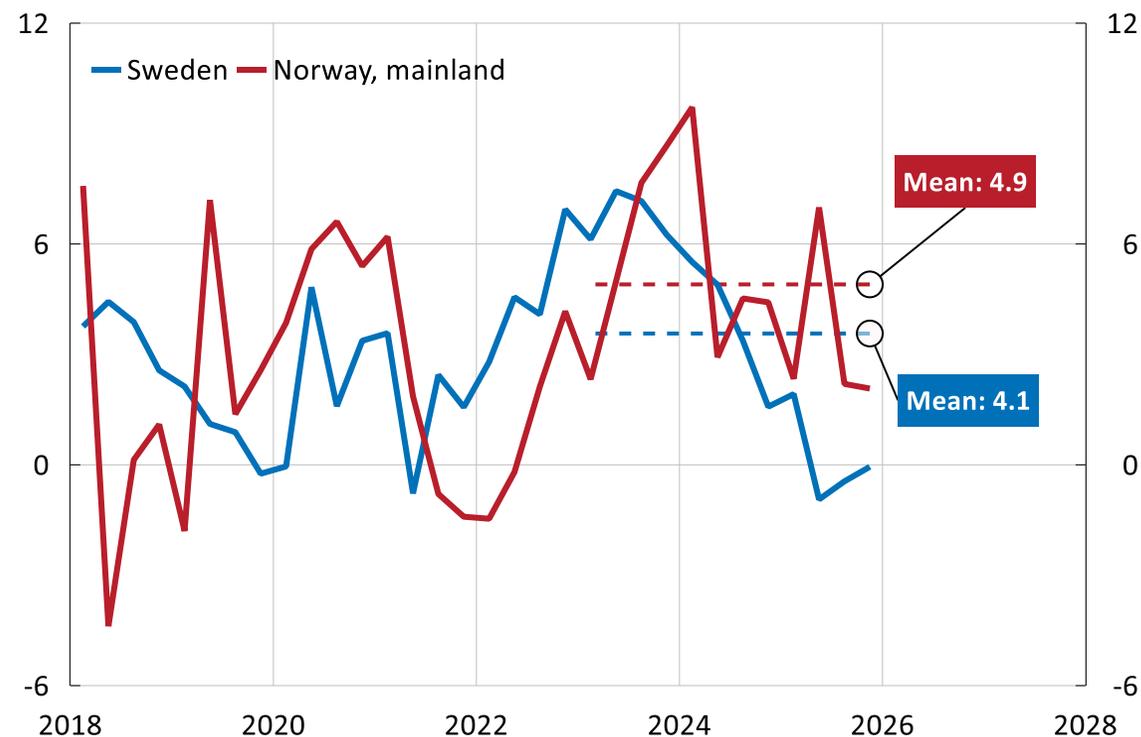
Inflation expectations higher in Norway

Expected inflation in 5 years



Note. Measured by annual changes in CPI. The Norwegian data presents economists' inflation expectations. The Swedish data presents purchasing managers and labour market parties' inflation expectations. Sources: Norges Bank and Origo Group.

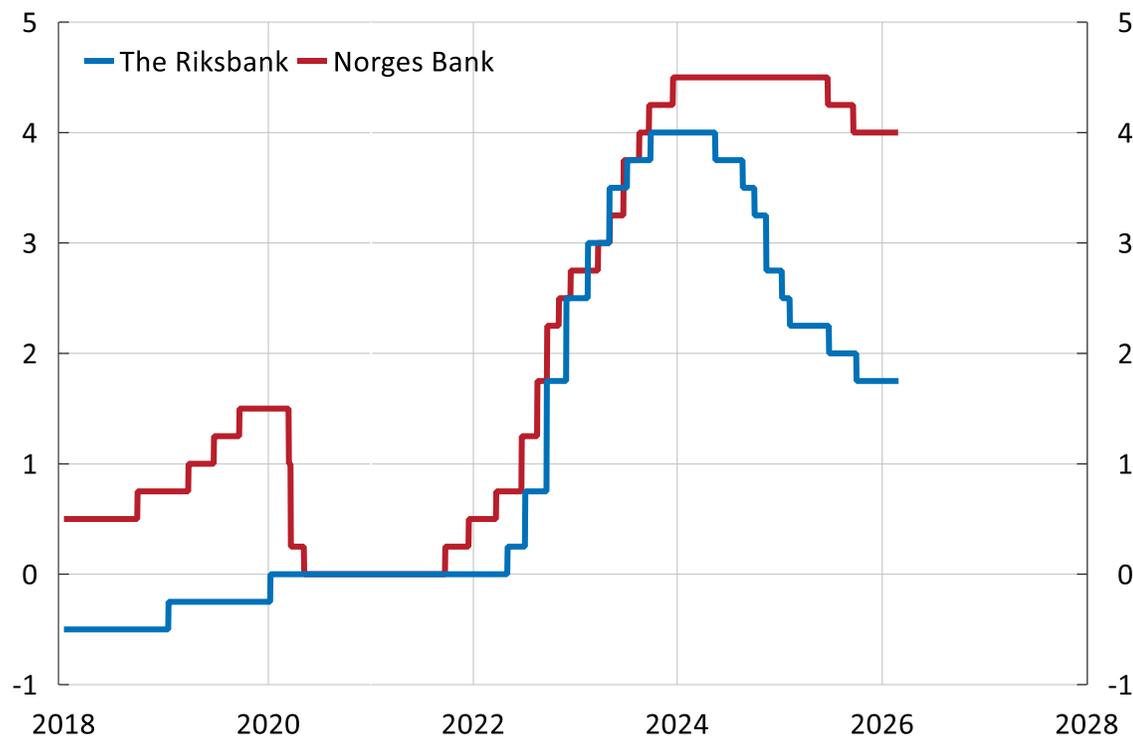
Unit labour cost



Note. Annual percentage change. Averages for the period 2023-2025. Sources: Statistics Norway and The Riksbank.

Divergence in policy rates

Policy rates



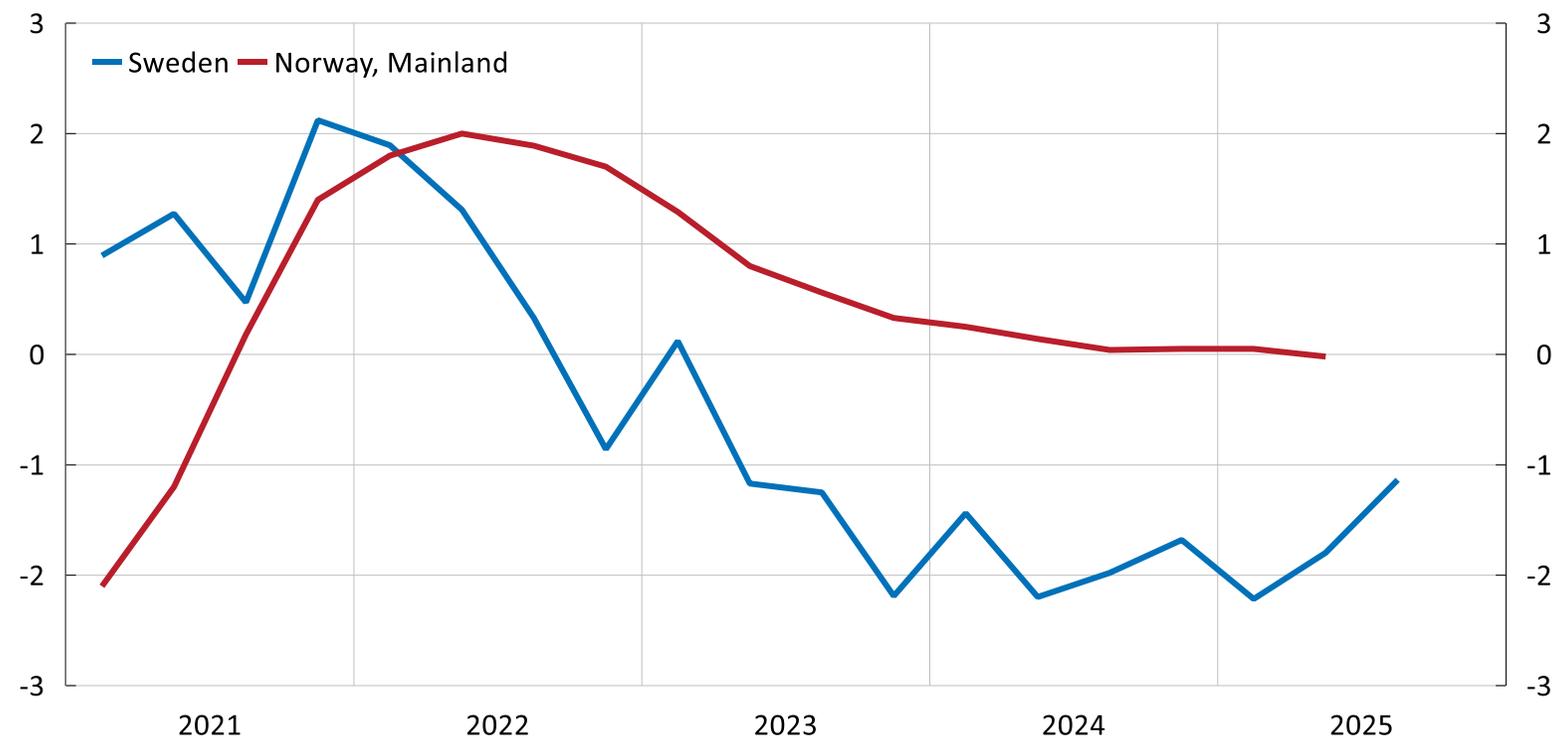
Note. Per cent.
Sources: Norges Bank and the Riksbank.

Estimated neutral interest rates

Norges Bank (per cent)	The Riksbank (per cent)
2.25–3.5	1.5–3

Stronger economic growth in Norway

Output gaps



Note. Per cent. The output gaps refer to the deviations from the central banks' assessed long-term trends.
Sources: Norges Bank and the Riksbank.

Do the loss functions of the Riksbank and Norges Bank differ?

A standard central bank loss function

$$L_t = \sum_{i=0}^{\infty} \beta^i (\pi_{t+i} - 2)^2 + \lambda \sum_{i=0}^{\infty} \beta^i y_{t+i}^2$$

- λ reflects the weight placed on the real economy relative to inflation in the loss function
- Let $\mathcal{R}_t^x, x \in \{\pi, y\}$, denote the impulse responses, λ can be expressed as

$$\lambda = - \frac{\sum_{i=0}^{\infty} \beta^i \mathcal{R}_t^{\pi} (\pi_{t+i} - 2)^2}{\sum_{i=0}^{\infty} \beta^i \mathcal{R}_t^y y_{t+i}^2}$$

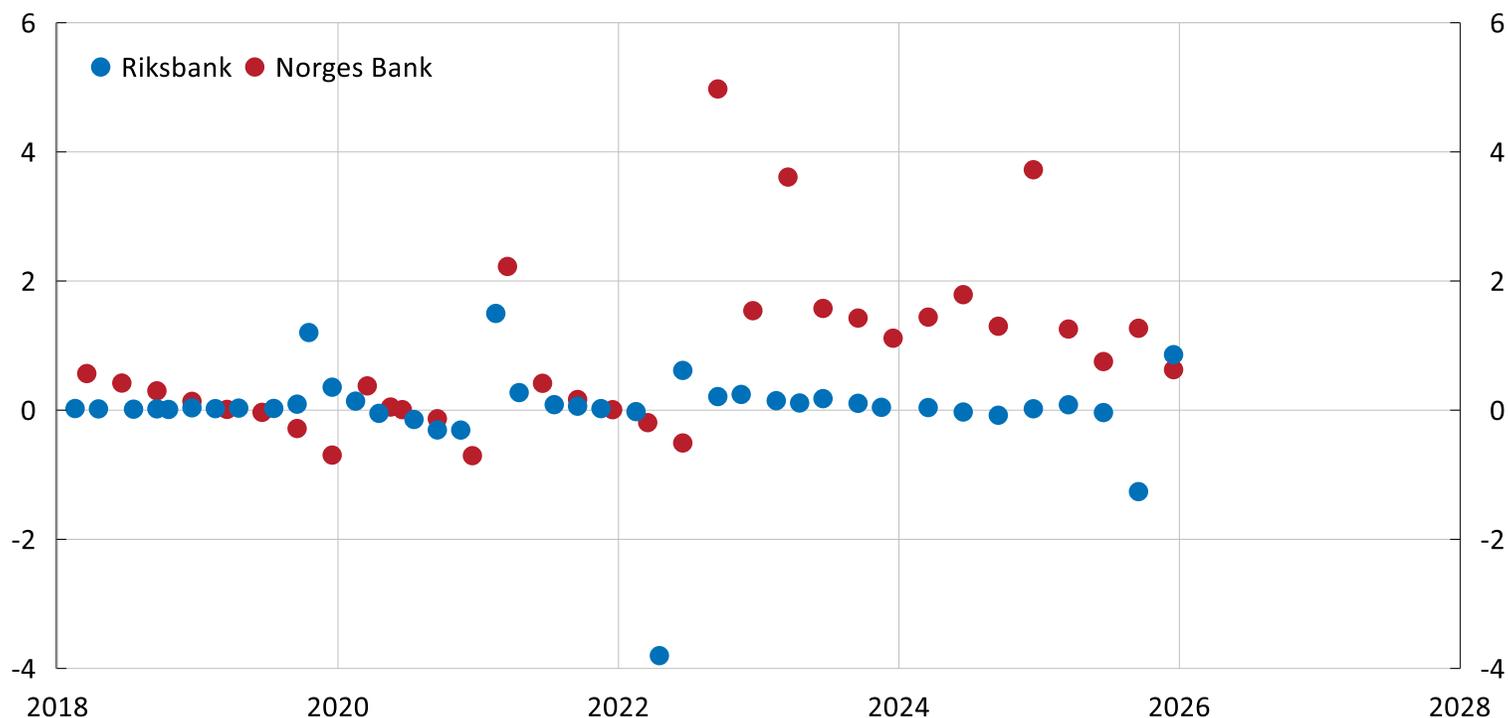
- Using the inflation and GDP gap forecasts of Norges Bank and the Riksbank, implicit λ : s can be calculated

$(\pi_t - 2)$: inflation deviation from the 2% target in period t . Measured using CPI_ATE for Norway and CPIX_XE for Sweden

y_t : resource utilisation in period t . Measured by the GDP gap

Implicit lambdas of the Riksbank and Norges Bank

Implicit lambdas



- Similar priorities 2018-2022
- Divergence after the inflation surge, larger weight on the real economy in Norway 2022 onwards

Note. The implicit lambda reflects the weight assigned to the real economy relative to inflation, under the assumption that the monetary policy decision involved a trade-off solely between inflation and real economic activity.

Sources: Norges Bank and the Riksbank.

Why do the implicit lambdas of the Riksbank and Norges Bank differ?

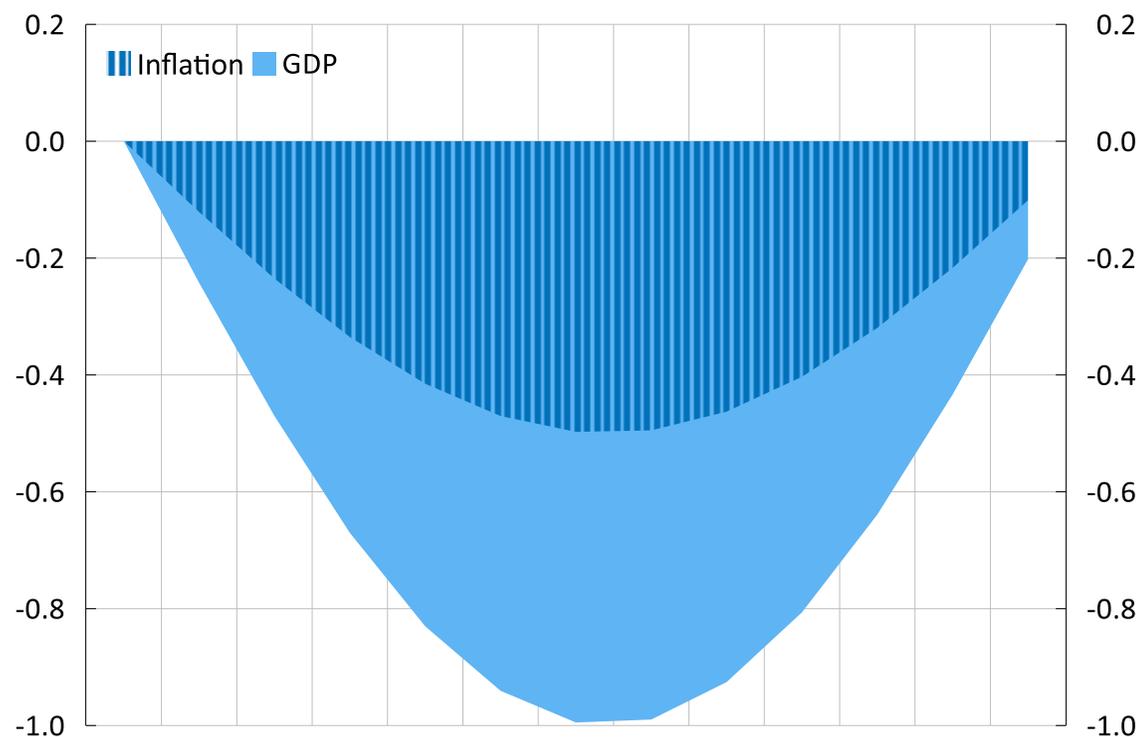
Potential rationales:

- I. Sacrifice ratios
- II. The strength of key transmission mechanisms
- III. The monetary mandate

I. Sacrifice ratios

Larger sacrifice ratio in Sweden

Graphic illustration of sacrifice ratio



Source: The Riksbank.

$$\text{sacrifice ratio} = \frac{\text{Effect on GDP}}{\text{Effect on inflation}}$$

**Higher sacrifice ratio:
more costly to reduce inflation**

Source	Value
Estimated effects (Sweden)	3.42
MAJA (Sweden)	2.10
NEMO (Norway)	1.76

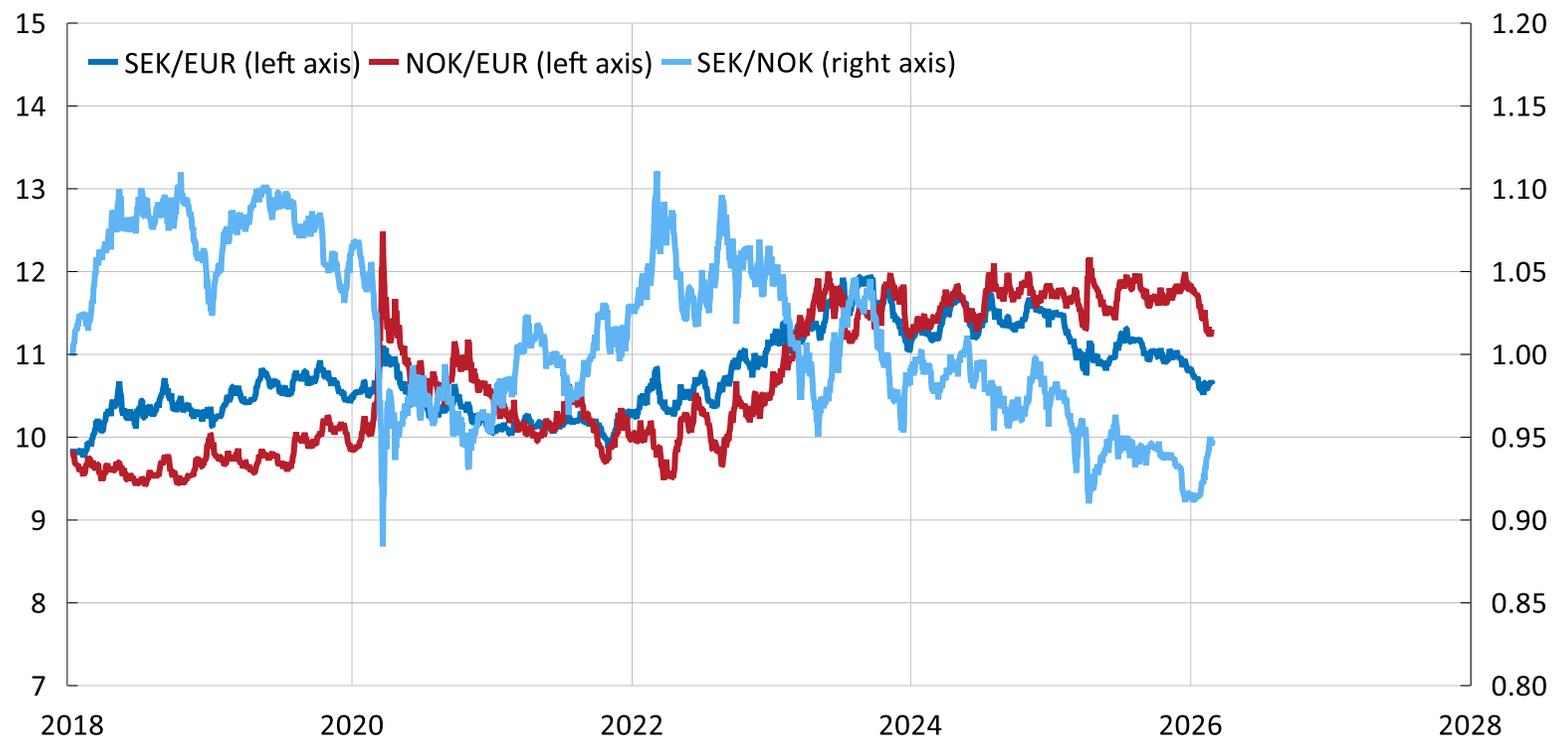
II. The strength of key transmission mechanisms

The cash-flow and exchange-rate channels

- Strong cash-flow channels in both economies
 - High share of floating mortgage rates in both economies
 - Larger share of home ownership in Norway than in Sweden
 - Interest-rate sensitivity possibly even higher in Norway than in Sweden
- The exchange rate channel
 - If exchange-rate pass-through is higher in Norway, it might make sense to combat inflation by trying to strengthen the NOK
 - But link from the policy rate to the exchange rate may be weak
 - The SEK has appreciated during the monetary easing cycle
- Non-linearities and trade-offs involved

NOK has depreciated against the SEK

Nominal exchange rates



- The Swedish krona has appreciated against the Norwegian krone 2022 onwards

Note. A lower value indicates a stronger exchange rate.
Source: Macrobond Financial AB.

III. The monetary mandates

The monetary mandates: do the differences matter in practice?



- A separate legal entity under the Swedish parliament
- Double instruction ban
- Level of the inflation target set by the Riksbank
- Without neglecting the inflation target, the Riksbank shall contribute to a balanced development of output and employment

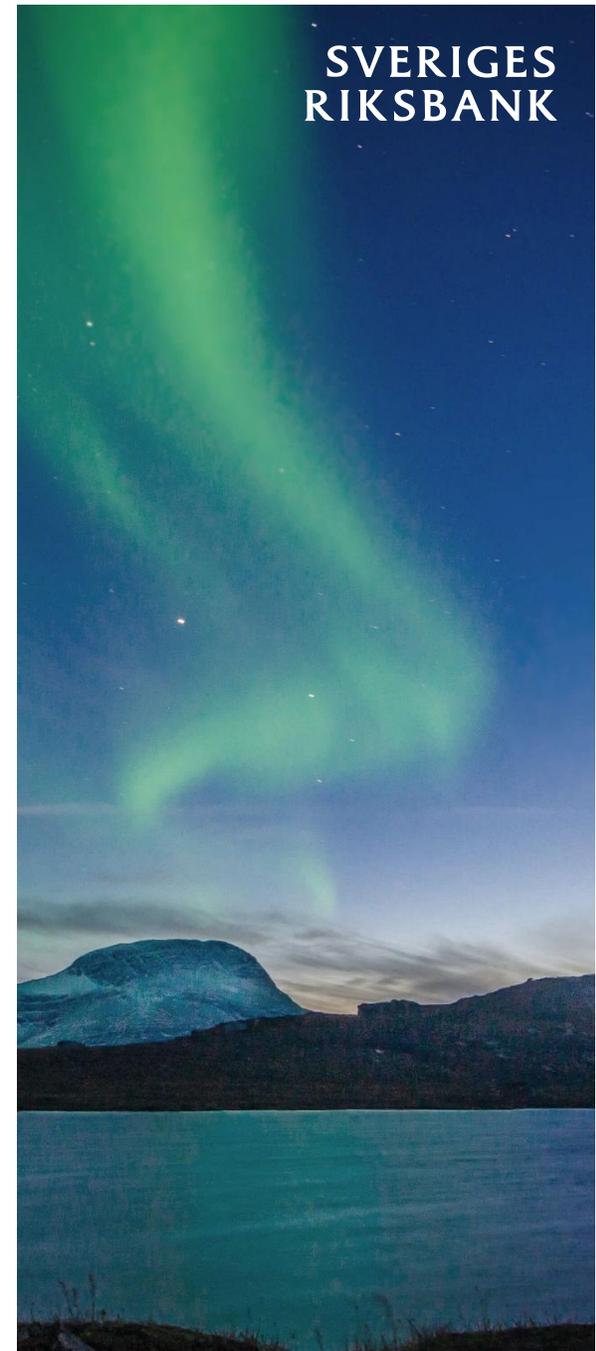


- A separate legal entity under the central government
- The central government can provide instructions in extraordinary circumstances
- Level of the inflation target set by the central government
- Contribute to high and stable output and employment (an independent paragraph in the central bank act)

Lessons learned?

Conclusions

- Implicit lambdas suggest that Norges Bank might attach a slightly larger weight to the real economy than the Riksbank
- Not consistent with simple sacrifice ratios, which suggest that fighting inflation is slightly more costly in Sweden than in Norway
- Higher policy rate in Norway than in Sweden but positive GDP-gaps and estimates suggest long-term neutral rate may be higher in Norway
- Cash-flow channel might be even stronger in Norway than in Sweden
- Long-term inflation expectations closer to target in Sweden: conducive to wage restraint during the inflation surge
- To what extent do the details of the monetary mandate matter?



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