

## Riksbank divided and still waiting for ECB

The minutes show the committee is becoming a little less dovish and more divided. But the timing of a first rate hike remains unclear and will largely depend on the ECB's next move



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Overall, the Riksbank minutes paint a fairly optimistic picture of the economic outlook in Sweden. Growth remains solid, inflation has returned to target, and the global upswing underway should provide a tailwind for the Swedish economy in 2018. The only cloud on the horizon is the sharp fall in the housing market this autumn, and even that cloud has a silver lining in the Riksbank's view. The housing correction now, while the macroeconomic environment is benign, reduces the risk of a more damaging fall later in the economic cycle.

That means it is natural for the Riksbank to start moving towards a tighter policy stance. The decision in December to end the QE programme was the first step in that direction, although the reinvestment policy adopted means the Riksbank's balance sheet will continue to expand in 2018. But the minutes from the December meeting show the committee is becoming more divided, with policymakers falling into three camps:

- The three hawkish members (Ohlsson, Floden, and Skingsley) opposed the two QE expansions in 2017. Both Ohlsson and Floden voted against the reinvestment decision in

December as well, arguing the effect is actually to increase monetary stimulus, while Skingsley thought the reinvestment policy was the best option to improve conditions on the government bond market. Ohlsson also argued for bringing the interest rate forecast forward and signalled he would advocate rate hikes already this spring.

- On the other end of the spectrum is Deputy Governor Jansson, who has consistently taken an extremely dovish stance. The minutes show he would have preferred extending QE, and advocated pushing the interest rate forecast back. It seems unlikely he will support an interest rate hike anytime soon.
- The pivotal members of the committee are Governor Ingves and First Deputy Governor Af Jochnick. Throughout the period of unconventional policy since early 2015, they have taken a cautious approach. The key concern has been to keep policy accommodative to keep the currency from appreciating too rapidly. The minutes suggest they are guardedly becoming more positive, but will likely remain in wait-and-see mode until there is more clarity on the housing market and the timing of ECB's policy tightening.

Given that Governor Ingves holds the tie-breaking vote when the committee divides three against three, the Riksbank will most likely wait to make its next move until there is more clarity on the ECB's intentions. That is only likely to come in June. At that point, the key question becomes how far in advance of the ECB the Riksbank is willing to move.

The minutes do not provide a clear answer. But if, as we expect, the ECB extends QE beyond the current end date in September and signals a rate hike only in mid-2019, we think it will be difficult for the Riksbank to stick to its current forecast. A first full hike is expected in Q4 and a smaller probability for the first hike in Q3.

At most, it could dip a toe in the water by increasing the policy rate by 10bps to -0.40%. Should the ECB turn more hawkish by the summer, that may very well open doors for the Riksbank to start hiking sooner as well.