

## Riksbank preview: Krona upside ahead despite central bank caution

We expect the Swedish central bank to continue signalling that interest rates will stay flat for years to come, despite the latest wave of Covid-19 proving to be less economically damaging than first thought. Still, prospects of improved global growth bode well for the krona in the coming months



Stefan Ingves is the Governor of the Swedish Central Bank

The Riksbank will announce its latest decision on Tuesday 27 April at 9:30 CET.

### Riksbank to signal flat rates out to 2024

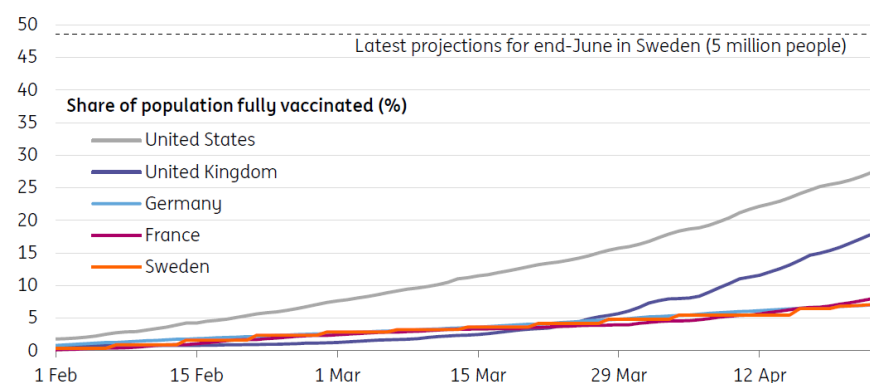
"Flat as a pancake" is probably the most accurate way to describe the Riksbank's interest rate projection from February, and there's little to suggest this central message of supportive policy is likely to change at its meeting this week. We expect the central bank to reiterate its expectation that rates will stay unchanged out to 2024, and we also don't anticipate any major changes on

quantitative easing - aside from a possible signal that the remaining purchase envelope could be slightly more front-loaded during the second half of the year.

That being said, the Covid-19 backdrop to this week's meeting remains fairly difficult. Case numbers are high and that's forced the phased reopening plan to be put on hold, at least until 3 May. At present, bars/restaurants are required to close after 8:30pm, while there are limits on indoor gatherings. The plan is to phase these measures out in three steps over coming months.

At the same time, the government's earlier plan to have vaccinated all adults in the first half of 2021 has been pushed back, with the [prediction](#) now being for five million people to have received both doses by 30 June, and a further 2-2.5 million to have received one dose. This vaccine schedule is aligned with most of Europe, and remains behind that of the US and UK, but has stepped up a gear over recent weeks as supply has improved.

## Share of population fully vaccinated from Covid-19 (%)



Source: Macrobond, ING

Fully vaccinated = received all required doses of the vaccine

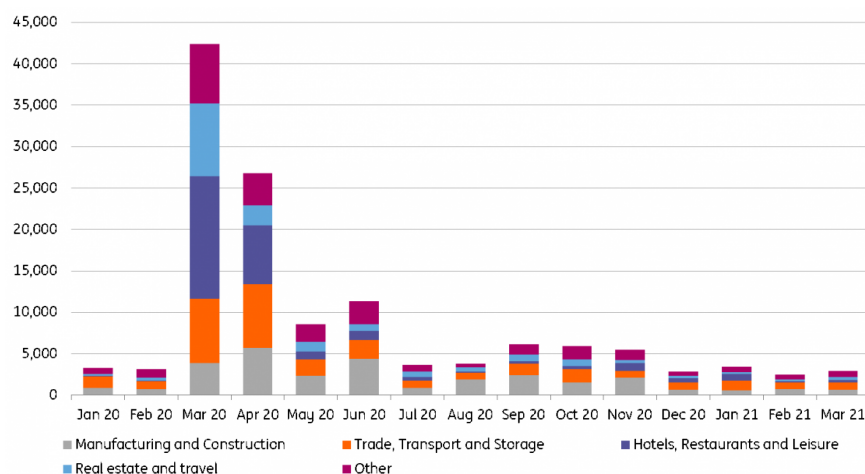
## 2H21 spending recovery expected

Despite all of that, the economic backdrop has proved more resilient than the Riksbank was anticipating in its last set of forecasts. Retail sales have seen a bit of an improvement after a December low, mirroring the rising levels of mobility, according to Google, albeit below levels seen last summer.

As a result, first-quarter GDP is likely to record a modest increase, as opposed to the contraction the Riksbank had previously been anticipating. Second quarter numbers are unlikely to be significantly improved, but clearly there's scope for a gradual improvement as restrictions are lifted. It's worth remembering that, as of the fourth quarter, Swedish GDP was 'only' around 2% below pre-virus levels.

The jobs market has also proved more resilient through this latest Covid wave. Redundancy notices have remained relatively low, helped by continued labour market support from the Swedish government. The short-time work allowance will continue to offer support until at least 30 June 2021, providing subsidies for employees working reduced hours.

## Swedish redundancy notices by industry



Source: Macrobond

## Inflation expected to remain below target until 2023

A resilient economic backdrop suggests little imminent need to add extra support to the recovery on top of what the Riksbank has already announced. We still think a renewed foray into negative rates is unlikely while as things stand, a further expansion in the QE package probably won't be needed. The Riksbank is due to stop actively expanding the size of the balance sheet by the end of the year. Equally though, the pressure to start tightening is clearly low.

Sweden, like other countries, will see rising inflation in the near term. The latest CPIF reading stands at 1.9% and will edge above 2% in coming months. Like elsewhere, much of this is down to energy prices and the comparison to subdued levels at the height of the pandemic last year, while supply disruption is clearly also a factor.

But beyond 2021, the story is likely to be more benign. Wage growth is fairly modest, following a negotiated outcome last November that kept annual wage increases broadly in line with the three-year deal previously agreed in 2017 (albeit without providing catch-up for the months when negotiations were delayed by the pandemic).

This means that wage growth will likely remain fairly stable even if the reopening is relatively smooth, which will keep a lid on long-term inflation pressures. As things stand, the Riksbank is likely to be towards the back of the line when it comes to global central bank tightening over the next few years.

### SEK: No help from the Riksbank, though upside lies ahead

The April Riksbank meeting should be a non-event for Sweden's krona. As we noted above, the Riksbank is set to remain cautious and look through the temporary increase in CPI in coming months, reiterating no change in interest rates over the monetary policy horizon. All of this is expected and should have a negligible impact on SEK.

Although the Riksbank won't be acting as a tailwind for the currency (unlike the Norges Bank in relation to Norway's krone), we remain constructive on the krona and expect EUR/SEK to push below 10.00 level by summer this year. As the eurozone economy

continues its recovery and starts to catch up with the US, the subsequent, more synchronised, global recovery in the second half of the year should benefit SEK (as the Swedish economy is levered to global growth).

We also note that EUR/SEK above 10.00 means that the krona remains undervalued vs the euro, suggesting some upside for the currency in coming months.

## Author

### James Smith

Developed Markets Economist, UK

[james.smith@ing.com](mailto:james.smith@ing.com)

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