

Riksbank likely to hold but hawkish risks are growing

Sweden's central bank is likely to hold rates steady on 7 May, though we see a risk of a more hawkish tone. A rate hike in 2026 may become reality in Sweden if energy prices remain elevated for longer and if the European Central Bank hikes more than once. Our profile for EUR/SEK remains downward-sloping into year-end



The Riksbank in Stockholm, Sweden

A hold, with a hawkish tint

The Riksbank will likely keep rates unchanged at 1.75% at the 7 May meeting. The OIS curve embeds close to zero probability of a hike, and consensus appears unanimous. That said, the chances of policy tightening later this year have increased over the past month.

At the 19 March meeting, the Riksbank discussed different inflation scenarios related to the Middle East conflict. In one of them, a prolonged energy shock would warrant monetary tightening despite downside risks to growth. We are clearly moving towards that scenario.

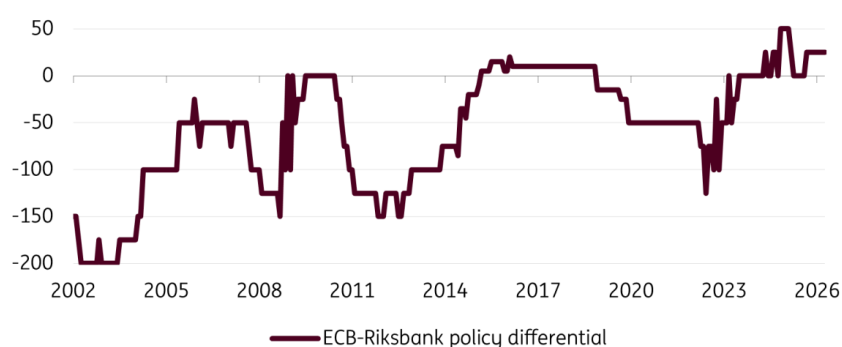
Governor Eric Thedeen said on 22 April that the “risk has risen somewhat that inflation could be

higher than we expected a few weeks ago." At the same time, he and other members have stressed that the risks of second-round effects are lower than in 2022, also thanks to a stronger krona. The starting point for inflation is also low.

There is therefore no urgency for the Riksbank to act, and a hold looks likely at this May meeting. However, we see an increasing probability of a hawkish shift in the policy message, with particular concern about risks of the de-anchoring of long-term inflation expectations.

We currently expect the next Riksbank rate hike only in the first half of next year. The longer energy prices remain elevated, the higher the chances of an insurance hike in 2026. Our Riksbank call is also partly tied to our ECB call. Our eurozone macro team currently expects only one ECB hike, but risks are rising of two increases to 2.50%. That would add pressure on the Riksbank to hike as well: the ECB-Riksbank rate gap has never been wider than +50bp.

Riksbank will keep an eye on ECB policy too



Source: ING, Macrobond

Inflation not an immediate concern

March's CPIF reading of 1.6%, down from 1.7% in February, was largely driven by a nearly 20% month on month fall in electricity prices. This reflects seasonal dynamics following the winter period, as well as a decline in package holiday prices, which helped offset increases in petrol and diesel prices of 15% and 28%, respectively, linked to the war.

Fortunately for Sweden, the economy is less exposed to fossil fuel driven inflation than many of its European peers. According to Eurostat data, around 50% of total available energy is renewable and a further 26% is nuclear, meaning that energy consumption is largely insulated from fossil fuel price movements.

We therefore expect inflation pass through to be more moderate and slower in Sweden than in the EU overall. The impact of VAT reductions on food this year should also prevent CPIF from rising as much as in the eurozone. However, the Riksbank's focus may be more on developments in longer term inflation expectations, as well as on a potentially widening gap with the ECB.

Updated EUR/SEK view

Markets are pricing zero probability of a hike at this meeting, but around a 50% implied probability of a Riksbank hike in June. This likely reflects expectations of a more hawkish tilt at this meeting than in our baseline. That said, a clearer signal of openness to tightening at a later stage could be

sufficient to keep expectations for an August–September hike alive and avoid a negative SEK reaction.

We [have recently revised](#) our EUR/SEK scenario modestly higher, driven by a wider EUR–SEK front end interest rate differential. That said, we retain a downward sloping profile for the pair, with a year end target of 10.60. The growth drag should be more pronounced in the eurozone than in Sweden, and if the ECB delivers two hikes, we would expect the Riksbank to follow with one increase.

In the near term, equity market dynamics remain key for EUR/SEK. Even in the event of renewed escalation in the Middle East, upward volatility in the pair is more likely to be driven by the reaction in global equities than by the direct impact on crude prices. Our end 2Q target remains at 10.75, which embeds a ceasefire agreement and a partial reopening of the Strait of Hormuz.

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