Sweden’s Riksbank likely done with rate cuts as economy bounces back

Sweden's economy is benefitting more than most from lower interest rates – and with growth rebounding faster than expected, the Riksbank is poised to keep rates on hold for the foreseeable future

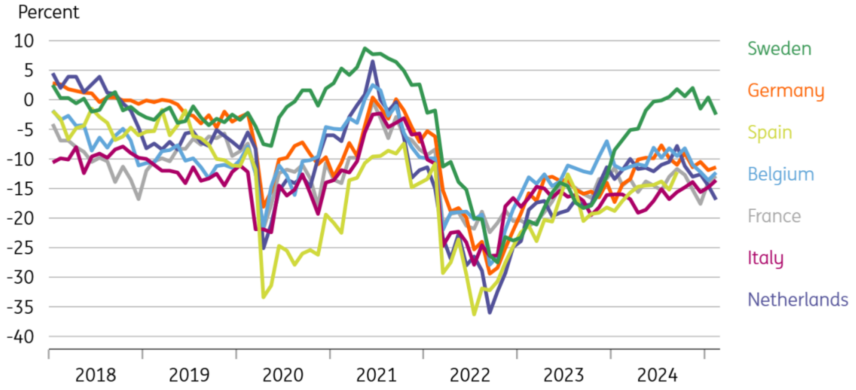
Riksbank Governor Erik Thedeen

Following 175bp worth of rate cuts, it looks like Sweden’s Riksbank is finally done with easing. We don’t expect any change to the policy rate, currently 2.25%, at the 20 March meeting and we no longer expect any further changes later this year. That’s what the Riksbank signalled back in December and there’s not much in the recent data that challenges that thinking.

Remember that Sweden is more sensitive to changes in interest rates than most economies on account of its larger share of variable rate mortgage lending. Demand was crippled more acutely when rates went up. But the flip side is that the aggressive series of rate cuts is bearing fruit more quickly.

Sweden's consumers are more confident than other Europeans

Consumer confidence (Net balance, European Commission survey)

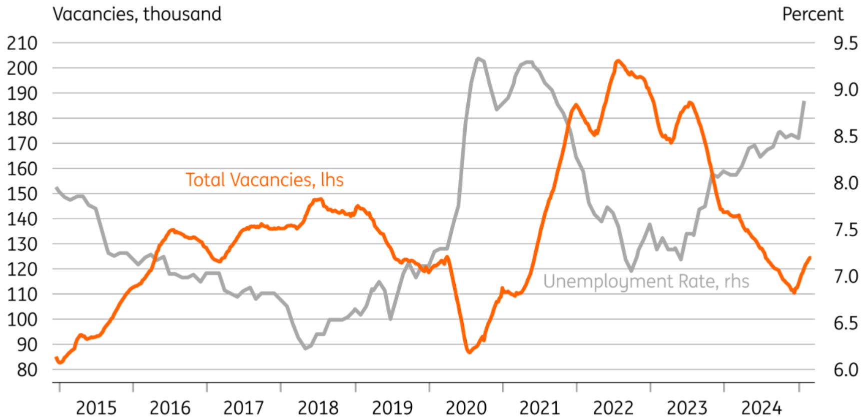


Source: ING, Macrobond

The Riksbank's central call is that the economy is set for a decent rebound this year. And the latest GDP data generally shows that this has begun more quickly than expected. Consumer confidence is up, much more so than in the rest of Europe. Retail sales are growing, albeit not explosively. Housing market transactions have rebounded and prices are rising again. Vacancies, having fallen right back to pre-Covid levels, have started rising once more.

Admittedly, that latter point is hard to square against the surprise surge in the unemployment rate during January. It hit 9.7%, more than a percentage point above the prior reading and much higher than the 8-8.5% readings recorded through much of 2024. We're sceptical that this spike will last, and January's rise said as much about higher labour supply as it did about falling employment.

Vacancies and unemployment have both ticked up



Source: ING, Macrobond

That unexpected spike in unemployment is set against an equally surprising pick-up in core inflation. CPIF excluding energy hit 3% last month, more than half a percentage point above the Riksbank's most recent forecasts. Again though, there are mitigating factors.

Higher food prices explain some of the move. Services inflation – arguably a more relevant benchmark for monetary policy – fell. The stronger krona will act as a downward force on inflation too. And the bigger picture story is that inflation expectations are much more contained than they were a couple of years ago, which should translate into more muted wage settlements.

There are still plenty of unknowns, not least US President Donald Trump's tariff strategy, which we expect to heat up in April. And the extent to which higher fiscal spending across Europe will feed through to higher growth this year. That aside, we think the Riksbank will be content with keeping rates where they are for the foreseeable future, particularly given our call for the European Central Bank to cut just once more this year.

FX: Krona remains expensive

Our model returns a short-term fair value for EUR/SEK around 11.25-11.30. This means that despite the correction from the recent highs, the krona continues to price in a good deal of positives.

Our baseline for the second quarter is that negative tariff news will take over fiscal enthusiasm as the main driver for European currencies. Since EUR/SEK has an inverse correlation with European risk sentiment, we forecast a return to the 11.20 area in the second quarter. Also supporting the pair could be a hawkish repricing in ECB rate expectations, as markets are still pricing in two cuts and we expect only one.

Markets are not pricing in any additional easing by the Riksbank, so should policymakers signal they are keeping the door open for easing if needed, SEK may accelerate its correction after the rate announcement.

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