

## Has the Riksbank finally had enough of SEK weakness?

Limited news in today's policy announcement, but a potentially material shift in Sweden's central bank's stance on the krona



As expected, the Riksbank left the policy rate unchanged at -0.25% and also maintained the same interest rate forecast as in December indicating a hike in the second half of 2019, and two each year after that.

However, today's statement is probably a little more on the hawkish side than expected. While the Riksbank acknowledged greater uncertainty around global growth and domestic conditions, policymakers still believe 'the picture of strong economic activity remains'. And if anything, the language on the inflation outlook has grown more confident, with the Riksbank increasingly certain that inflation will stabilise around the 2% target.

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The most notable aspect of the statement is the absence of the usual reference to avoiding excessive SEK appreciation (which has been in the statement in one form or another for years), and the decision not to renew the mandate for FX intervention (never used, but intended as a signal to limit krona appreciation).

This points to a potentially significant shift in the Riksbank's stance on the krona: for several years policymakers have been concerned that krona appreciation would undermine progress on bringing inflation back to target. Over the past year or so, this concern has appeared increasingly irrelevant, as the krona has instead depreciated by around 10% since mid-2017.

So today's shift is perhaps no more than an acknowledgment that the environment has changed. But we wonder if the situation is now actually that the Riksbank is more likely to support the krona than to talk it down. Today is arguably the third time in a year (after May and September 2018) that the Riksbank has used relatively hawkish language when the krona has been weakening above 10.50 against the euro (or above 120 on the KIX index).

On balance, today's policy announcement does little to change our outlook for rates. We still see the Riksbank hiking again towards the end of the year, though risks are skewed towards a delay as our forecast for both growth and inflation is less optimistic than the Riksbank.