Sweden: Riksbank back on autopilot with muted inflation backdrop

The backdrop of falling Covid-19 cases has allowed a hint of optimism to creep into the Riksbank's latest statement. But with the inflation outlook still looking fairly muted, the central message is that rates are likely to be on hold for multiple years. The Riksbank will be towards the back of the pack when it comes to central bank tightening

The Swedish Riksbank has kept rates on hold at its latest meeting, and there's a very 'autopilot' feeling to the overall statement and interest rate projection.

Admittedly the growth situation is looking a little brighter, with Covid-19 having receded in Sweden over recent weeks. Google mobility data is back to pre-virus levels, and GDP likely will be too by the time the third quarter rolls around.

But 'big picture', nothing much has changed in the eyes of the Riksbank since April. Its forecast for the path of GDP in level terms is virtually the same as it was last time. And despite some near-term volatility in the CPIF numbers, the overriding story is that the central bank now only expects inflation to be at or above 2% for one month out of the next 33.

This is linked to the fairly modest outlook for wage growth, which is heavily influenced by multi-year negotiations, the latest of which, from last winter, resulted in roughly 2% increases per year. The next set of negotiations won't come until early 2023, when the Riksbank suggests a more robust jobs market may prompt a higher outcome.

Nevertheless, the fairly muted outlook for inflation means the Riksbank is likely to be towards the back of the pack when it comes to G10 central bank tightening. The central bank's own rate projection has no rate rises penciled in until 3Q 2024, though in practice that may be a little over cautious. On the QE front, the current balance sheet expansion will conclude at the end of this year, and the Riksbank has signalled it won't look to shrink its holdings before the end of 2022 - though as with rate hikes, the reality is that this will probably be a much later story.

Author

James Smith
Developed Markets Economist, UK
james.smith@ing.com

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