

## Riksbank tightening some way off despite latest cautious optimism

The Swedish Riksbank has again signalled it will keep its main interest rate at zero for the foreseeable future, as a muted outlook for wage growth dominates the prospects for economic recovery later this year. Still, an improving global outlook should give the krona a lift over coming months



Stefan Ingves is the Governor of the Swedish Central Bank

### Riksbank probably done with easing, but tightening is some way off

In many ways the Swedish Riksbank finds itself in a similar position to that of other central banks across Europe. The economy has grown more resilient to Covid-19 restrictions, and indeed a more robust winter performance than expected has enabled the Riksbank to upgrade its forecasts slightly for this year, though the overall profile beyond 2021 is virtually unchanged for both growth and inflation.

*We suspect the Riksbank will be one of the latter developed market central banks to begin the monetary tightening process*

---

That implies little need to add further stimulus. Along with keeping its key policy measures on hold, the Riksbank also signalled it will gradually taper the pace of purchases through the rest of the year (or front-load the remaining portion of its SEK700bn purchase envelope, to put it another way). We also continue to think that a renewed foray into negative rates, which the Riksbank has thus far opted against during the pandemic, remains unlikely.

But again, like other European countries, inflation is likely to be a benign story beyond 2021 – at least compared to the likes of the US, where we expect CPI to remain sticky above the Fed's target for some time. Barring a brief above-target spurt over the next couple of months, Swedish CPIF is likely to average below 2% across the medium-term. Wage growth, which is heavily influenced by a recent negotiated settlement that was largely similar to previous years, suggests price pressures are unlikely to come from the labour market.

As a result, we suspect the Riksbank will be one of the latter developed market central banks to begin the monetary tightening process over the next few years.

## **SEK: Gradual upside ahead despite limited help coming from Riksbank**

As expected, the Riksbank meeting delivered few surprises and it was a non-event for the currency, with EUR/SEK by and large stable in response to the meeting.

Like the European Central Bank, the Riksbank acknowledged the improving economic outlook (upgrading GDP and CPI forecasts for this year) but remains cautious, signalling no change in interest rates over the policy horizon. The quantitative easing programme also continues.

In contrast to Norway's krone and the Norges Bank, the Riksbank won't provide any tailwinds to SEK this year. Yet, we still expect EUR/SEK to move below the 10.00 level this summer as the currency will benefit from the improving eurozone economy and a more synchronised global economic recovery in the second half. Recall that Sweden is a small open economy levered to global growth, which SEK should in turn benefit from, even if the Riksbank remains cautious and keeps rates at zero this year and next.

We also note that EUR/SEK above 10.00 is modestly overvalued based on our BEER model.

### **Author**

**James Smith**

Developed Markets Economist, UK

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

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).