

## Swedish Riksbank adds stimulus but it's no SEK game changer

The Riksbank has expanded its quantitative easing programme, serving as a reminder that the Swedish economy is not immune to the Covid-19 impact, despite the country's more relaxed lockdown measures. But despite the new stimulus, the overall risk environment will remain a bigger driver for the krona. We're looking for EUR/SEK to head to 10.00 by year-end



The Governor of the central bank of Sweden, Stefan Ingves

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### More QE and easier lending conditions from the Riksbank

The Riksbank has taken markets slightly by surprise by announcing a raft of new measures to support the economic recovery. The major change is that the central bank will increase the overall size of its QE programme from SEK300 to 500 billion, which it expects to complete by this time next year.

While the timing is a little unexpected, the fact that the Riksbank has expanded QE is perhaps not that surprising - and mirrors the recent decisions at the European Central Bank. While lockdown restrictions have been much less onerous in Sweden relative to elsewhere, the country is

encountering many of the same issues others are facing as the world moves to the next phase of the crisis.

For instance, unemployment appears to be rising, reflecting the fact that demand is still below normal levels, and that social distancing rules mean consumer habits have changed. And while Sweden is less affected by the difficulties facing tourism-reliant economies, it is heavily exposed to the ongoing issues in global supply chains - an issue that is likely to persist as local flare-ups in the virus continue to appear.

So despite these latest measures, the Riksbank will remain under pressure to maintain the current level of stimulus. However, while policymakers have said that the repo rate could be taken back into negative territory, we're still not convinced this will happen. Instead, policymakers have today opted to cheapen the lending conditions offered to banks - and we suspect this may remain the preferred way of lowering rates for the time being.

That said, it's clear that rates won't be rising for the foreseeable future, and in contrast to Norges Bank, the Riksbank downgraded its interest rate forecast modestly. It now has rates flat throughout the forecast horizon, having previously pencilled in a partial rate hike for the end of 2022.

## Risk environment more important for SEK

We don't see today's decision as a game changer for Sweden's krona, and so far the impact on the currency has been fairly limited. The bar for a rate cut is high, the extension of QE is not a complete surprise (the timing of the decision may be, but not the extension itself) and the prime driver of SEK should continue to be the general risk environment, which we expect be constructive in the second half of the year.

We therefore look for EUR/SEK to move towards 10.00 by the year end. However, what we can take away from the July meeting is that the Riksbank won't be actively providing any impetus for SEK strength in the near future.

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