

## The Riksbank delivers an extremely dovish hike

The ultra-dovish Swedish central bank finally raised interest rates, but signals further hikes are some way off. With a worsening economic outlook, we may have to wait a long time for the next rate hike



**-0.25%** Riksbank policy rate

Higher than expected

Today's Riksbank decision to raise interest rates for the first time since 2011 looks to have been a close call. Because while the policy rate increased by 25bps to -0.25%, the policy statement and accompanying forecast point to an even more cautious stance. It looks to us as though policymakers felt compelled to deliver a rate hike after a long series of delays rather than disappoint again, but are unsure about the path forward.

The new interest rate forecast anticipates the next rate hike will come in Q3 next year (at either

the July or September meeting). Further out, the path shows two hikes in 2020 and 2021 respectively. This amounts to removing a full rate hike compared to the previous forecast.

---

*It looks to us as though policymakers felt compelled to deliver a hike after a long series of delays rather than disappoint again, but are unsure about the path forward*

---

The policy statement has also become more ambiguous about further rate hikes: “the pacing of rate rises in the period ahead will be adjusted according to the development of the economic outlook and inflation prospects” indicates the Riksbank will become more data dependent (similar to the shift in the Fed’s policy stance yesterday), and could easily delay rate hikes further.

Unsurprisingly, deputy governor Jansson - the most dovish MPC member, voted against raising rates, referring to the uncertain outlook for inflation.

The forecast for both GDP and inflation was revised down following a poor run of data over the autumn. GDP growth in 2019 was cut to 1.5% from 1.9%, and inflation to 1.9% from 2.1%. Most of the downside in inflation is due to the fall in oil prices; core inflation nudged down only slightly.

To us, the Riksbank’s core inflation forecast remains on the optimistic side, and we see a strong probability that further weakness in price pressure in the first half in 2019 prompts yet another downward revisions next year, which would point to a later rate hike.

With downside risk to inflation and a worsening outlook for both the domestic and global economy, it would not be surprising to see the next rate hike pushed into Q4 next year or even 2020. And there is a decent chance that this turns into a ‘one and done’ scenario.