

# Fast Comment Sweden

## Out of sync with global central bank peers; March Riksbank monetary policy decision

- Policy rate kept unchanged at 4%, and guidance opens door to cut as soon as May
- Updated policy rate forecast shows 3 cuts in 2024 but then only a moderate drop to 2.6% in 2027
- In line with our forecast of 3 cuts in 2024, we stick with our view of an initial cut in June

### Policy rate kept unchanged at 4%, guidance opens door to cut as soon as May

The Riksbank left its policy rate unchanged at 4%, as fully expected by economists and priced in by the markets. The forward guidance change since the February decision was a noticeable surprise in the dovish direction, we judge. The door to a May policy rate cut – earlier than all comparable global central bank peers – is wide open, even if the wording of the press release is a cut in "May or June if inflation prospects remain favourable". By our calculation, the Riksbank's published policy rate forecast implies a 56% likelihood of a May cut, and governor Erik Thedéen stated it as both "about 50% probability (for May)" and "high probability for May (conditional on forecasts materialising)" at the press conference.

It may feel like an eternity since the last full monetary policy report back in November, and that is underscored with abundant clarity by the Riksbank's substantial forecast revisions. For 2024–25, GDP has been revised upwards, unemployment down and inflation up. All the while, the policy rate forecast has been cut substantially (as expected).

All told, the market impact was muted in terms of the 2Y bond yield and the krona reaction. Market pricing shows a somewhat higher probability for a May cut after the announcement.

### Revamped policy rate forecast shows 3 cuts 2024

The hallmarks of the 2024 central bank play book are featured in today's Riksbank statement. A new key phrase is that the Riksbank "wants further confirmation that inflation will stabilise close to the target", echoing the uncertainty expressed by other central banks. "We need to feel our way forward", said Thedéen. But in other instances, the Riksbank comes across as surprisingly confident, e.g. by stating that the "need for contractionary monetary policy declines", instead of the February communication (link in appendix below) that "contractionary monetary policy is still needed to stabilise inflation close to the target".

The Riksbank's gained confidence seems to stem from the conviction that since February the assessment "that there is less risk of inflation becoming entrenched..." is even "continuing to decline". The message is muddled, however, by the signal that the Riksbank still sees unbalanced inflation risks, with a focus on upside risks, keeping the phrase "emphasises that there are risks that could cause inflationary pressures to rise again", and mentioning the krona weakening as one such key risk. The Riksbank's conclusion from that is "policy should... be adjusted cautiously going forward, in the form of gradual cuts". How can we reconcile these two assessments with the Riksbank's new policy rate forecast showing 3 cuts fully expected in 2024? We had expected a somewhat smaller shift in the overall communication at this stage, given not least the inflation uncertainty, with a policy rate path signalling roughly two cuts in 2024.

### In line with our forecast of 3 cuts in 2024, we stick with a first cut in June

We stick to our forecast that the first cut will come in June, but the Riksbank's new policy rate forecast brings some risk to our forecast. Beyond the start of the cutting cycle, today's monetary policy announcement supports our forecast for gradual cuts during 2024–25.

The reason we still do not see a May cut as the main scenario is that ahead of the May and June Riksbank meetings, there is a range of potential sources of significant setbacks on the disinflation path. And the Riksbank's new inflation forecast is optimistic in the short term, implying high sensitivity in the Riksbank's data- and forecast-dependent decisions. Sources of potential setbacks:

- Inflation staying above monthly rates that would be consistent with sustained achievement of the 2-percent target.
- Still-weak, or weaker, krona – a risk that Thedéen focused on at the press conference, saying it would be impactful for near-term policy decisions.

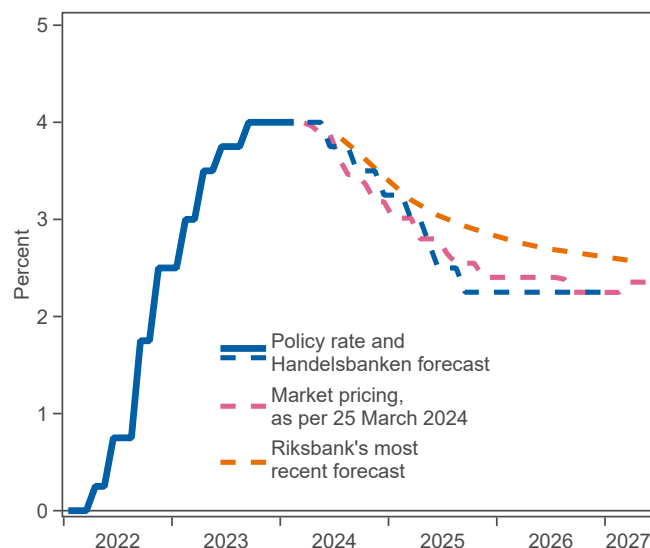
iii. – Continued reacceleration of PPI inflation on the back of the global PPI pickup, which will eventually drive consumer goods prices. Or, more generally, high global inflation, which inevitably spills into the Riksbank's inflation forecasts for Sweden, as a small open economy. The importance of global inflation was acknowledged by both Thedéen and the head of the monetary policy department, Åsa Olli Segendorf, at the press conference.

iv. – Signs of wage growth remaining fast even as we enter the second, lower year of the central agreements, i.e. implying rising wage drift in the labour market.

**Please see the full PDF version of this comment to access the full research links appendix.**

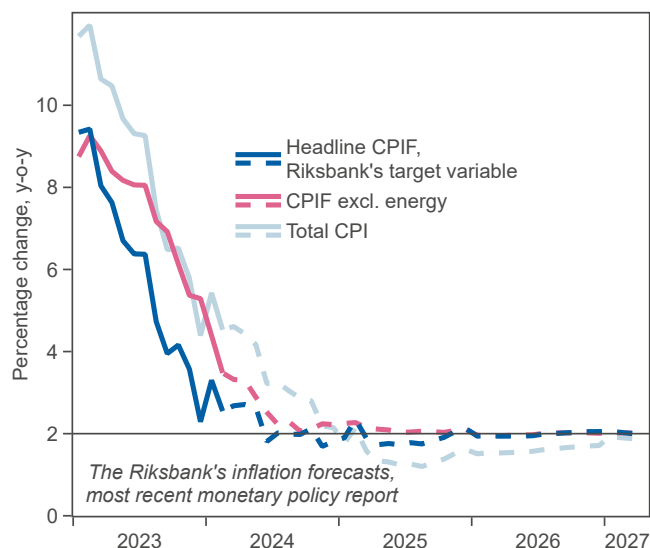
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**Riksbank's policy rate forecast**



Sources: Macrobond, Riksbank and Handelsbanken

**Riksbank's inflation forecasts**



Sources: Macrobond, Riksbank, Statistics Sweden and Handelsbanken

## Appendix: Handelsbanken research on inflation and monetary policy

The most recent  
flagship reports and key  
regular comments

- Global Macro Forecast report;  
--- ([Swedish](#) / [English with international focus](#))
- The Ins and Outs of Swedish Real Estate;  
--- ([Swedish](#) / [English summary](#))
- "Softer inflation than expected, but details remain worrisome";  
--- [February CPI report](#)
- "A large step toward rate cuts";  
--- [February Riksbank monetary policy decision](#)

Key in-depth analyses

### Inflation

- "Do not expect service price inflation to normalise and do not worry too much about it";  
--- [Macro Comment](#), December 14, 2023
- "Brave new nominal world";  
--- September 2023 ([Swedish, p. 20-23 here](#) / [English, p. 9-12 here](#))
- "The green transition will be inflationary";  
--- January 2023 ([p. 13-14 here](#))
- "What stops a new high-inflation regime";  
--- September 2022 ([p. 15-17 here](#))

### Monetary policy and interest rates

- "The Riksbank's asset purchases: Limited effect at high costs – Swedish National Audit Office";  
--- [Fast Comment](#), December 6, 2023
- "The krona's role in carry strategies";  
--- FX Pilot, Nov 17, 2023 ([English](#) / [Swedish](#))

"Fed models support the case that the "bond vigilantes" are back";  
--- [Macro Comment](#), October 6, 2023  
"A currency hedged FX reserve is no FX reserve";  
--- FX Pilot, October 5, 2023 ([English](#) / [Swedish](#))  
"Neutral interest rates on the rise again"; and  
"From QE to QT — Smooth transition or turbulent pivot?";  
--- January 2023 ([p. 7 and p. 9, respectively, here](#))  
"Time to pay the piper – The Riksbank's QE programme largesse is not a free government lunch";  
--- [Macro Comment](#) predicting that the Riksbank would need a much bigger recapitalisation from the treasury than it initially signalled, October 26, 2022

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