

Fast Comment Sweden

Full delivery; August Riksbank monetary policy decision

- The Riksbank cuts the policy rate by 25bp, to 3.5 percent, as expected...
- ...And delivers somewhat dovish forward guidance, in line with current market pricing
- We change our short-term policy rate forecast to three additional cuts in 2024

The Riksbank cuts the policy rate by 25bp, to 3.5 percent...

The Riksbank cut its policy rate by 25bp to 3.5 percent, as fully expected by economists and priced in by the markets. Domestic economic developments have been in line with the Riksbank's forecasts, so this monetary policy update meeting was always unlikely to dramatically rock the boat (next full Riksbank announcement with fresh forecasts 25 September). However, the effect of more time passing and additional inflation outcomes confirming the Riksbank's baseline scenario is that the Executive Board can again point out that upside inflation risks are declining. Time is our friend, in a sense.

...And delivers dovish forward guidance, in line with market pricing

This inflation picture, combined with some new worries on the growth outlook, has led the Riksbank not only to cut the policy rate today, but also to keep signalling "two to three more" cuts in 2024, i.e. an overall more dovish guidance *increasing* the total potential cuts this year to four or five – "somewhat faster" than assessed in June, states the Riksbank. The likelihood of bigger 50bp rate cuts remains low, with the Riksbank again using the word "gradual" to describe the policy outlook.

Overall, the delivered Riksbank decision is neutral to markets, in our view. Markets have already been pricing roughly one 25bp cut at each of the remaining 2024 meetings, and today got confirmation of that path.

We change our short-term policy rate forecast to three additional cuts in 2024

We make another change to our 2024 Riksbank forecast, from a year-end forecast of 3.0 percent to 2.75 percent, i.e. three additional cuts from hereon instead of the previously expected two. In the very short space of time over this autumn, we see no likely data outcomes that would materially alter the Riksbank's new forward guidance. Most notably, inflation currently looks tame and appears unlikely to cause any headaches for the Riksbank's Executive Board.

Turning to the weaker-than-normal state of the real economy, there are downside risks that could trigger alternative scenarios with more aggressive cuts from the Riksbank. On the other hand, the economy is already turning around and gradually strengthening, and will quickly be further bolstered by the initial Riksbank rate cuts as Sweden is an interest rate sensitive economy. We analyse the household channels of this optimistic outlook in our new macro comment "[After inflation misery – households once again equipped to support the recovery](#)" (for more on interest rate sensitivity, see also link to May macro report in appendix).

Looking further ahead into 2025, the inflation outlook is still uncertain, with several pieces of the global disinflation puzzle yet to fall into place. Given that, the Riksbank could have chosen an even more gradual cutting path than the one now signalled. On 11 September we will publish our next Global Macro Forecast, with more analysis on the medium-term outlook.

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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](#))
"Clear skies – the Riksbank will stay on course for multiple cuts";
--- [July CPI report Sweden](#)
"Tame current inflation allows for more rate cuts";
--- [Changed Riksbank forecast](#)

Key in-depth analyses

Inflation

"Do not expect service price inflation to normalise and do not worry too much about it";
--- [Macro Comment](#), 14 December 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

"Rising r^* revisited – Phoenix or Icarus?" about the rise in the neutral interest rate;
--- [Macro Comment](#), 5 June 2024
"The Riksbank's asset purchases: Limited effect at high costs – Swedish National Audit Office";
--- [Fast Comment](#), 6 December 2023
"The krona's role in carry strategies";
--- FX Pilot, 17 November 2023 ([English](#) / [Swedish](#))
"Fed models support the case that the "bond vigilantes" are back";
--- [Macro Comment](#), 6 October 2023
"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, 26 October 2022

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