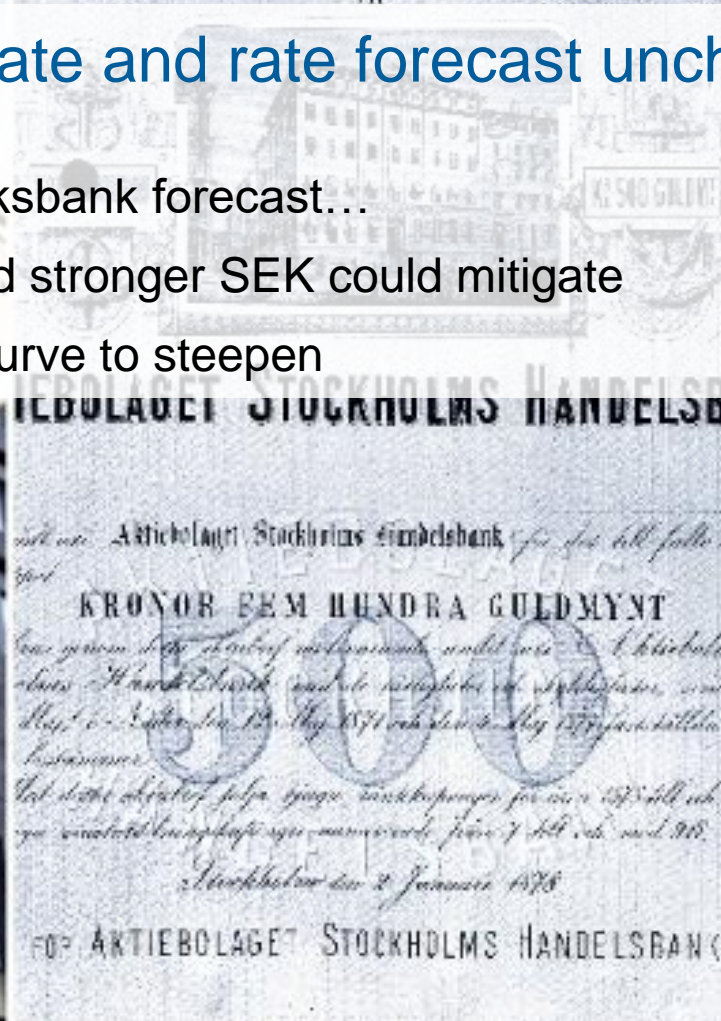
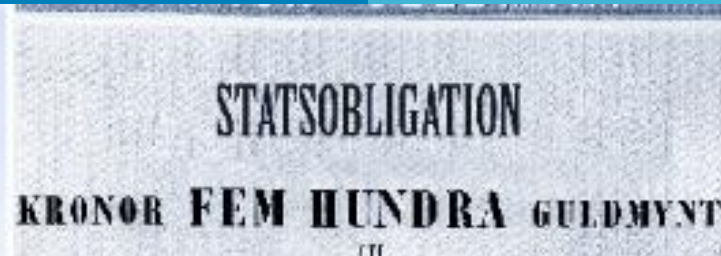
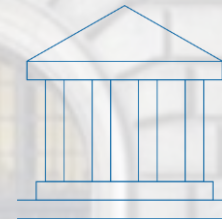


Swedish Rate Wrap

Riksbank to leave rate and rate forecast unchanged

- Inflation exceeds Riksbank forecast...
- ...but uncertainty and stronger SEK could mitigate
- Time for the entire curve to steepen



Riksbank to leave rate and rate forecast unchanged

We continue to believe that the Riksbank has completed its rate cuts in this cycle. The February inflation outcome reinforces this view.

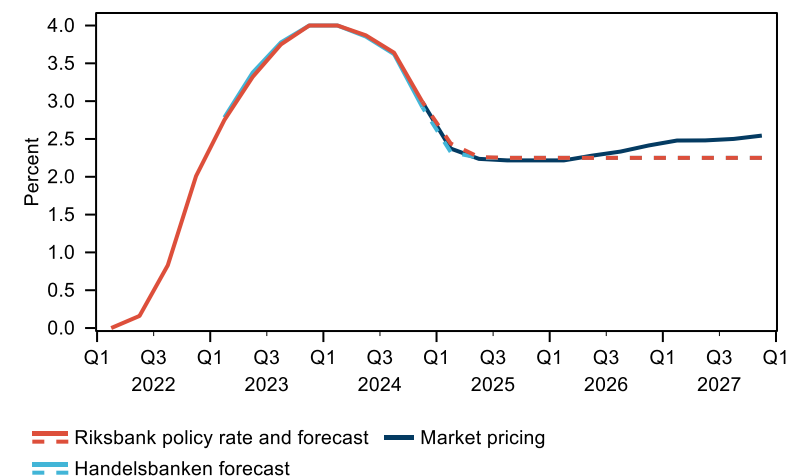
In connection with the interest rate announcement to be made on 20 March, we expect the Riksbank to leave its rate forecast unchanged, implying that the policy rate remains at 2.25 percent for the coming years. Risks exist in both directions, but our assessment is that the Riksbank will view them as balanced from the perspective of its rate forecast.

Even before the February outcome, concerns about excessively high inflation were growing among some board members, and that concern has likely intensified. Additionally, recent data has strengthened the picture of an ongoing Swedish economic recovery, with stronger-than-expected GDP growth at the end of 2024. Increased public investments in Germany and possibly other European countries may provide more support from exports than previously assumed.

Countering this is greater uncertainty regarding global trade and geopolitical developments, particularly their effects on households and businesses. This uncertainty risks dampening investment decisions, causing households to postpone major purchases. Rising European interest rates have pushed up Swedish rates and could contribute to a more subdued economic outlook. Furthermore, the Swedish krona has appreciated significantly in recent times, partially offsetting inflation risks and weighing on export growth.

Given this uncertainty, the Riksbank is unlikely to see a reason to adjust its rate forecast in either direction. The Riksbank will continue to emphasise a "cautious approach" to monetary policy going forward.

Figure 1: Riksbank policy rate and forecasts



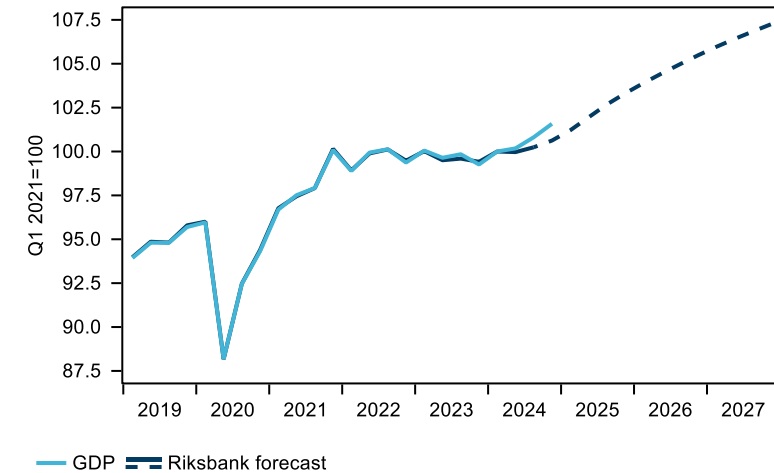
Sources: Handelsbanken, Macrobond, Riksbank

Green shoots in the economy

Since the Riksbank's last forecast in connection with the December meeting, incoming data has indicated that the Swedish economy is recovering faster than expected. The GDP outcome for the fourth quarter clearly exceeded the Riksbank's forecast (Figure 1), with a broad-based increase in demand. Despite an increase in household consumption, the saving rate also rose, raising the question whether households feel secure enough to translate rising disposable incomes into correspondingly higher consumption.

At the same time, global uncertainty factors are mounting, which may have dampened household confidence in the future (Figure 2). However, the stronger economic performance suggests that the Riksbank will revise its growth forecast for 2025 upwards.

Figure 1: GDP and Riksbank forecast



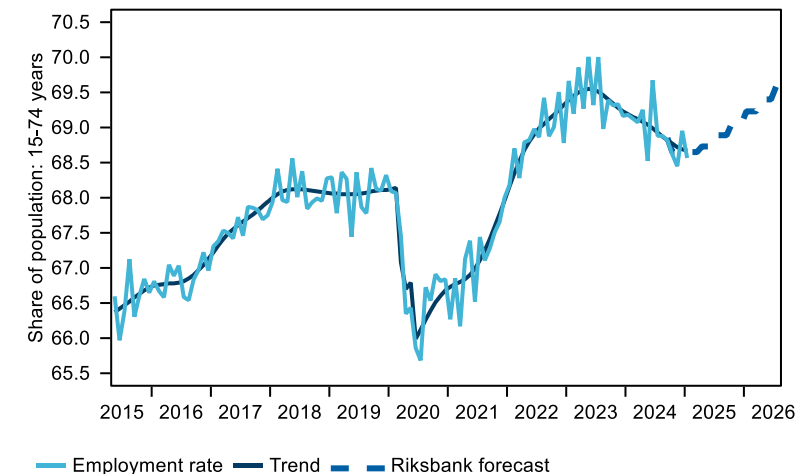
Sources: Riksbank, Macrobond

Figure 2: Consumer confidence



Source: Macrobond

Figure 3: Employment and Riksbank forecast



Sources: Riksbank, Macrobond

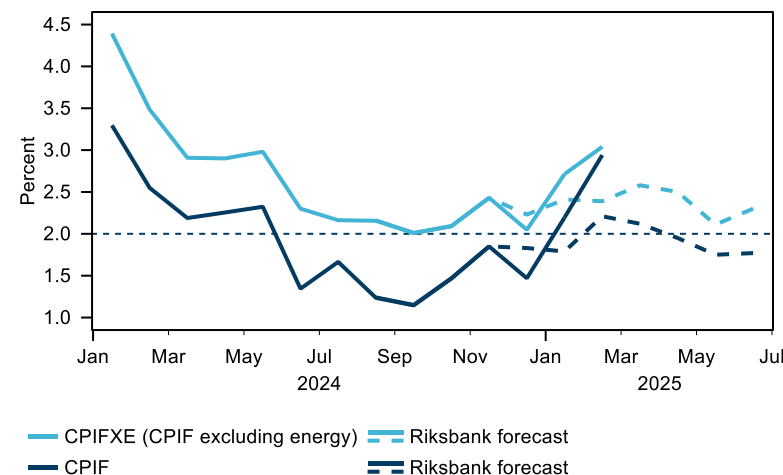
Inflation exceeds Riksbank forecast

The February inflation data, according to the preliminary CPI, showed that CPIF inflation rose to 2.9 percent, up from 2.2 percent in January, bringing CPIF inflation closer to CPIF excluding energy (CPIFXE), which was recorded at 3.0 percent. CPIFXE inflation is 0.65 percentage points above the Riksbank's December forecast, marking the largest deviation since March 2023.

Part of the deviation from the Riksbank's expectations can be attributed to the so-called basket effect and higher energy prices, but a larger portion is due to underlying inflation, indicating that inflationary pressures in the economy remain high.

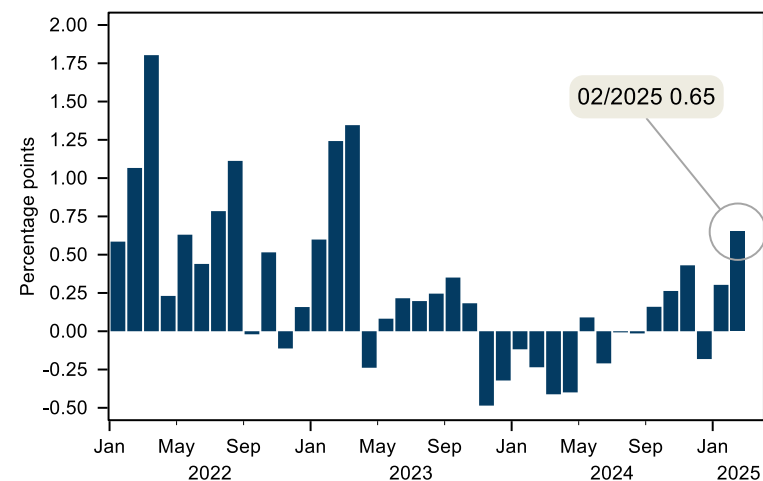
At the same time, global risks are increasing, including rising trade tensions and a sharply increasing defence budget in Europe, which could generate new inflationary impulses. Tariff hikes act as negative supply shocks, while higher public expenditure drives up demand—both of which could lead to more persistent inflation than previous forecasts have suggested.

Figure 1: Inflation and Riksbank forecasts



Källor: Riksbanken, Macrobond

Figure 2: CPIFXE: Actual compared to Riksbank's latest forecast



Sources: Riksbank, Macrobond, Handelsbanken

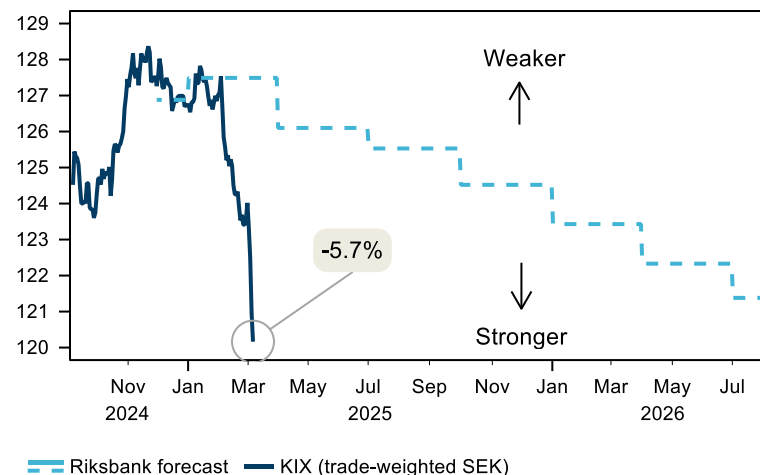
Significantly stronger krona

The Swedish krona is significantly stronger than the Riksbank had projected as the average for the first quarter and is now approximately 6 percent stronger than the Riksbank's latest forecast from December (Figure 1).

According to the Riksbank's rule of thumb, this could lower the inflation forecast by around 0.3–0.6 percentage points at full effect over a 1–2-year horizon. However, the Riksbank is unlikely to revise its krona forecast to fully reflect the recent appreciation. Still, the strong krona should partly mitigate concerns arising from the high inflation outcomes since the January meeting.

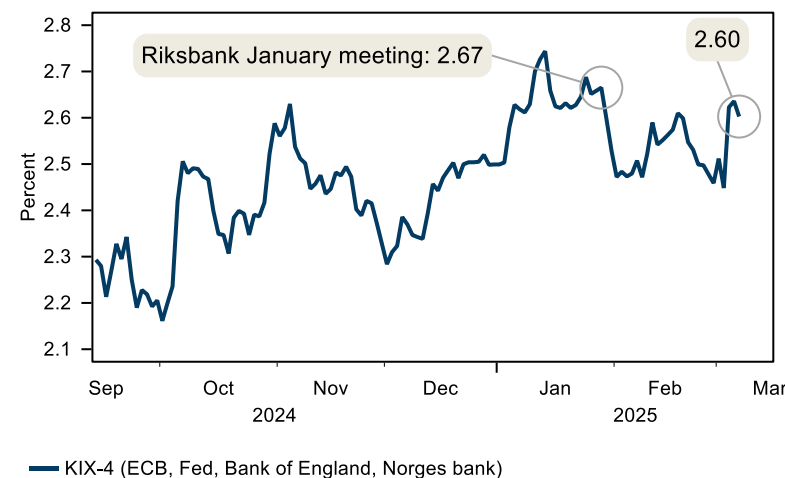
Market expectations for foreign central banks have moved only marginally lower since the Riksbank's January meeting. Figure 2 shows expectations for the implied average policy rate around the turn of the year 2025/26 for the proxy the Riksbank uses for foreign central bank rates, KIX-4 (ECB, Fed, Bank of England, Norges Bank), with the ECB carrying the most weight.

Figure 1: KIX and Riksbank forecast



Sources: Bloomberg, Macrobond

Figure 2: Expected average policy rate from KIX4 at yearend 2025



Sources: Bloomberg, Macrobond

Time for the entire curve to steepen

The short end of the Swedish yield curve (2-year – policy rate) remains historically flat, assuming our view is correct that the bottom of the Riksbank's policy cycle was reached in January (Figure 2).

With the market continuing to downplay the likelihood of an additional rate cut following higher inflation and an increased focus on European fiscal policy, attention is now shifting to how much probability of a rate hike needs to be priced in over the next 12–18 months.

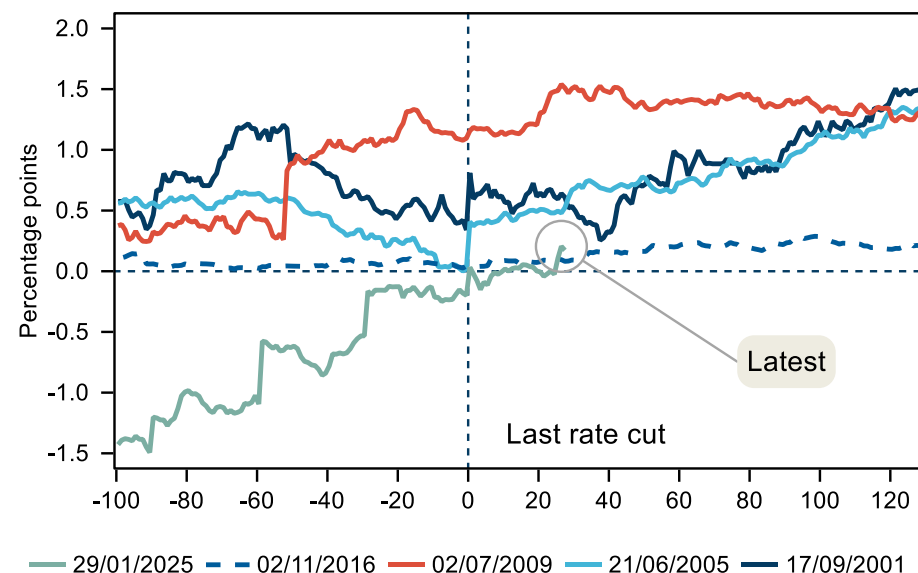
We expect the market to price in a higher probability of a rate hike than a rate cut by the end of the year, leading to an upward-sloping yield curve throughout the year.

Figure 1: Riksbank forecast

Announcement	Handelsbanken	RB Dec-24	Market
20/03/2025	2.25	2.37	2.25
08/05/2025	2.25	2.28	2.22
18/06/2025	2.25	2.25	2.22
20/08/2025	2.25	2.25	2.22
23/09/2025	2.25	2.25	2.22
05/11/2025	2.25	2.25	2.22
18/12/2025	2.25	2.25	2.22
29/01/2026	2.25	2.25	2.22
19/03/2026	2.25	2.25	2.22

Sources: Riksbanken, Handelsbanken, Bloomberg

Figure 2: 2y swap rate vs policy rate around policy rate troughs



Sources: Bloomberg, Macrobond

Market pricing of central banks

ECB: 2.5			Fed: 4.375			Bank of England: 4.5			Riksbank: 2.25		
Decision release	Rate change per meeting	Rate level	Decision release	Rate change per meeting	Rate level	Decision release	Rate change per meeting	Rate level	Decision release	Rate change per meeting	Rate level
17/04/2025	-0.25	2.25	19/03/2025	0.00	4.38	20/03/2025	0.00	4.50	20/03/2025	0.00	2.25
05/06/2025	-0.13	2.13	07/05/2025	-0.11	4.27	08/05/2025	-0.19	4.31	08/05/2025	-0.04	2.22
24/07/2025	-0.16	1.97	18/06/2025	-0.19	4.08	19/06/2025	-0.06	4.25	18/06/2025	0.00	2.22
11/09/2025	-0.05	1.92	30/07/2025	-0.12	3.96	07/08/2025	-0.14	4.11	21/08/2025	0.00	2.22
30/10/2025	-0.07	1.85	17/09/2025	-0.17	3.79	18/09/2025	-0.04	4.07	23/09/2025	0.00	2.22
18/12/2025	-0.02	1.83	29/10/2025	-0.09	3.70	06/11/2025	-0.09	3.98	05/11/2025	0.00	2.22

Sources: Bloomberg, Handelsbanken

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