Fast Comment Sweden

Tame current inflation allows for more rate cuts; Changed Riksbank forecast

- Surprisingly low inflation in June allows Riksbank to dial back restrictiveness faster
- We add one rate cut to H2 2024 forecast, in August
- Sticking to view of gradual cutting cycle, not going below neutral policy rate, 2.25%

Tame current inflation allows for more rate cuts

The surprisingly low inflation in June, albeit on the back of a stronger May print, allows the Riksbank to dial back the restrictiveness of its policy faster than previously forecast. Unlike the eurozone, the UK and Norway – where wage pressures are more worrisome – and the US – where the economy is generally strong – the Riksbank has had few reasons apart from inflation to hold off the initial rate cuts. And now inflation is looking rather tame.

We change our Riksbank forecast, and add an August rate cut to H2 2024, after previously having forecast cuts in only September and December. The Riksbank's confident June communication about a more dovish policy rate path (two to three cuts in 2024) implies that a setback would likely have been required for the Riksbank to settle for two cuts in 2024. Our inflation forecast pointed to exactly such a setback, but that changed with today's CPI report.

However, we are sticking to the view of an overall gradual cutting cycle. Inflation will pick up again (see analysis on today's CPI), the economy is already turning around and strengthening – and will quickly be further bolstered by the initial Riksbank rate cut as Sweden is an interest rate sensitive economy (see link to May macro report in appendix) – and the Riksbank's policy actions are happening in a vacuum, with the market's lower policy rate expectations weakening the krona through the interest rate differential channel, feeding back to somewhat higher Swedish inflation ahead (the krona weakened on impact after CPI today).

As we are not forecasting too-low inflation, nor a significant weakening of the economy, we do not expect the Riksbank rate cuts to go as far as below the neutral policy rate level, merely remove the restrictiveness. In Q3 2025, we forecast the policy rate to reach our assumed neutral rate level for 2025–26, of 2.25%, and stay there. Please read more in our Macro comment about the neutral rate, "Rising r* revisited – Phoenix or Icarus?".

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

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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)
"Unexpectedly large rebound after surprisingly high May inflation";
--- June CPI report
"The Riksbank indicates two or three more rate cuts this year";
--- June Riksbank 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, 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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