

# Sweden

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The Riksbank has focus on inflation and hiked its key rate to 4.25% in February. However much seems to indicate that it overestimates inflation and underestimates the significance of the prospects of a marked slowdown in global economy. Therefore we forecast that the Riksbank's signals will gradually become more dovish, which will contribute to weakening SEK.

*Dovish stance ahead*

□ Economic growth dropped to 2.6% in 2007 and February's weak consumer and producer confidence indicators suggest a further growth decline in the coming year. However the fear of rising inflation prompted the Riksbank to lift its key rate from 4.00% to 4.25% on 13 February. The hike came as a big surprise and we believe that the central bank underestimates the risks associated with a reduced global growth outlook.

*Riksbank's rhetoric surprisingly hawkish*

□ Underlying inflation (consumer prices excl indirect taxes and interest rate costs) rose significantly at end-2007. The surge is mainly due to rising energy and food prices and consequently it can be argued that the increase will be temporary. However there is a risk of higher production costs due to the expectations of wage rises as well as of slowing productivity growth which may result in continued inflation and which requires the interest rate weapon. Nonetheless we believe that the central bank overestimates inflation, which is supported by an inflation rate of 0.3-0.4% below the Riksbank's forecasts for January.

*Inflation in January significantly below forecasts*

□ The unexpected interest rate decision by the Riksbank boosted SEK. However the upward trend was reversed following the release of poor consumer and producer confidence data on 27 February. As a result of weak growth prospects for Sweden we anticipate that the central bank will gradually ease its hawkish rhetoric and cut interest rates by 25bp to 4.00% – probably in 2H – which may well contribute to a SEK depreciation. We expect SEK will trade at EUR 945 at end-2008.

*Interest rate cut in 2H*

## Economic indicator forecast (YoY) prepared on 5 March 2008

	2007	2008f		2009f		Most recent
		Sydbank	Riksbanken	Sydbank	Riksbanken	
GDP	2.6%	1.9%	2.1%	2.0%	2.0%	2.8% (Q4)
Inflation <sup>1</sup>	1.2%	2.0%	2.5%	1.8%	2.2%	2.1% (Jan)

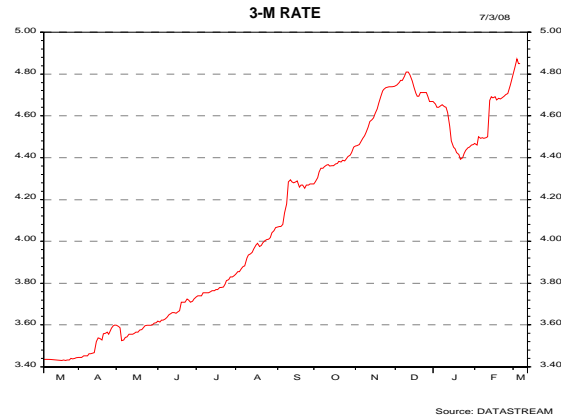
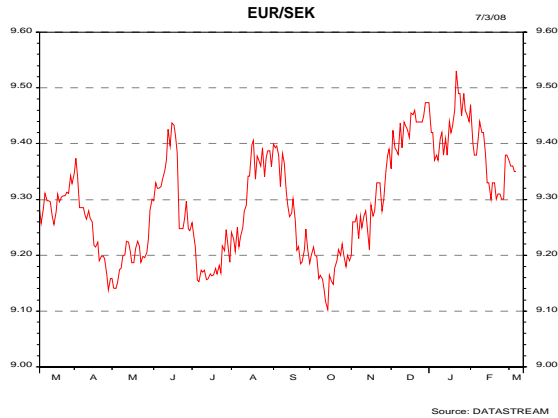
<sup>1</sup>CPIX (consumer prices excl indirect taxes and interest rate costs)

## Currency and interest rate outlook prepared on 5 March 2008

Time horizon	Currency outlook EUR/SEK	Forward exch. rate	Interest rate outlook Key rate	Market outlook
Spot	936 (941)	-	4.25% (4.00%)	-
3-m	940 (950)	937	4.25% (-)	4.25%
6-m	945 (945)	938	4.00% (-)	4.25%
12-m	945 (945)	939	4.00% (-)	4.25%

Figures in parenthesis represent the estimates of the most recent edition of Currency Outlook.

## Currency and interest rate developments



## Selected economic indicators

