

Sweden's Riksbank still likely to cut rates

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Dow Jones said policy makers at Sweden's central bank will be heartened to see the country's economic prospects improving but the better data is unlikely to stop the Riksbank cutting interest rates next month as inflation remains low.

Sweden's statistics agency said last week that industrial production in April rose 3.0% on the month, better than the 1.8% rise expected by analysts in a Wall Street Journal poll.

Sweden's Riksbank, the world's oldest central bank, has an inflation target of 2% and the inflation rate in April was zero. Pressure has been rising on the bank to respond. Critics like the U.S.-based economist Paul Krugman have said the Riksbank is flirting with a potentially damaging bout of deflation.

Deputy Governor Per Jansson told Bloomberg last week that Sweden's central bank faces a "pretty serious problem" in tackling below-target inflation. "It's worrisome that we have such low inflation," Jansson said. "Should long-term inflation expectations deviate" from the target, "it will be too late," he said.

The debate among banks' analysts here is whether one rate cut in July to 0.5% will be enough, Dow Jones said. Nordea's analysts think it will.

"Although the domestic economy is showing healthy growth, the Riksbank remains in easing mode," they said. "Rates were cut in December 2013, and the Riksbank's signals coupled with surprisingly low inflation strongly suggest a rate cut in July," they said.

Analysts at rival SEB bank see a further cut to the benchmark rate to 0.25% later this year.