Sweden's Riksbank expands bond-purchasing as it struggles with disinflationary pressure

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Sweden’s Riksbank has expanded its bond-purchase plan for a fourth time since February as it battles below target inflation and the uncertain outlook of its trading partners.

Sweden's economic recovery has supported the Swedish krona this year. However, as a raw material importer, currency appreciation has become a "worrisome" disinflationary pressure, US bases R-Squared Macro said in a report about the Swedish comment.

“Given its negative interest rates and expansive asset purchase program, the Riksbank doesn't have much leeway to depreciate its currency. Therefore, easing from the Riksbank will depend on careful timing relative to the Fed and European Central Bank (ECB) decisions”, it said.

“Because interest rates are so low, Swedish consumer debt has increased to unsustainable levels. In particular, and similar to the challenge in New Zealand, housing prices have increased due to greater demand for low cost mortgages. Undoubtedly, the Riksbank will be hesitant to cut interest rates if the housing bubble isn't stemmed”, the report said.

It added that the Riksbank has less capacity to ease than the Eurozone. Therefore, any easing that the Riksbank enacts to depreciate its currency relative to the euro will likely be trounced by the ECB. Sweden will likely remain on hold, wanting to reserve its final policy bullets until it sees how the Fed and ECB proceed.

The latest quantitative easing program was raised by 65 billion kronor ($7.6 billion), Bloomberg said. It left its negative interest rate steady at -0.35 percent.

“There is still considerable uncertainty regarding the strength of the global economy and central banks abroad are expected to pursue an expansionary monetary policy for a longer time,” the Riksbank said in a statement on Wednesday. “An initial raise in the rate will be deferred by approximately six months compared with the previous assessment.”