

# Monetary policy in a changing world

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# Agenda

The economy is changing

How large is the monetary policy toolbox?

Can the Riksbank contribute towards more sustainable development?

# The economy is changing

Globalisation has taken a step back

China is increasingly important

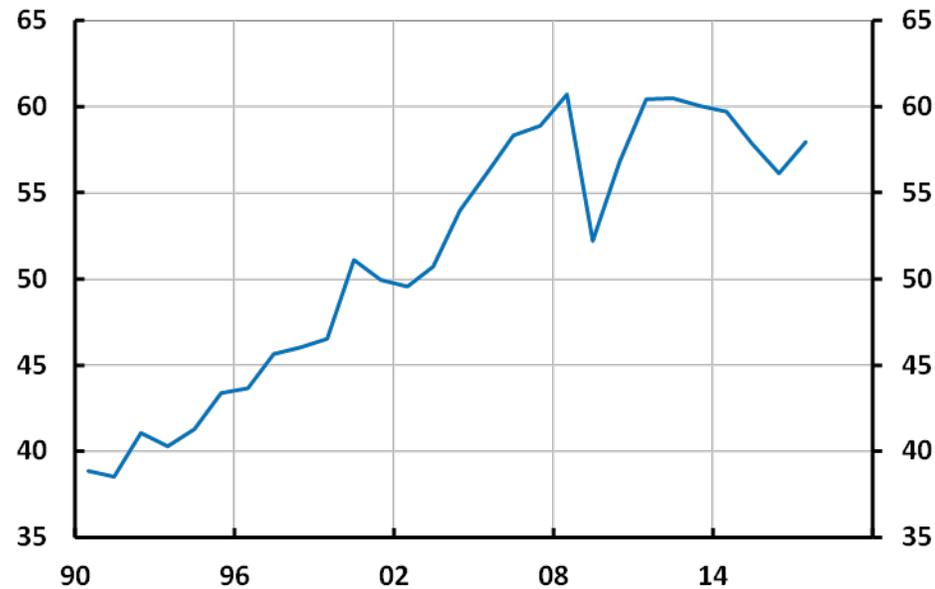
Ageing population, lower population growth

Digitalisation

Climate change

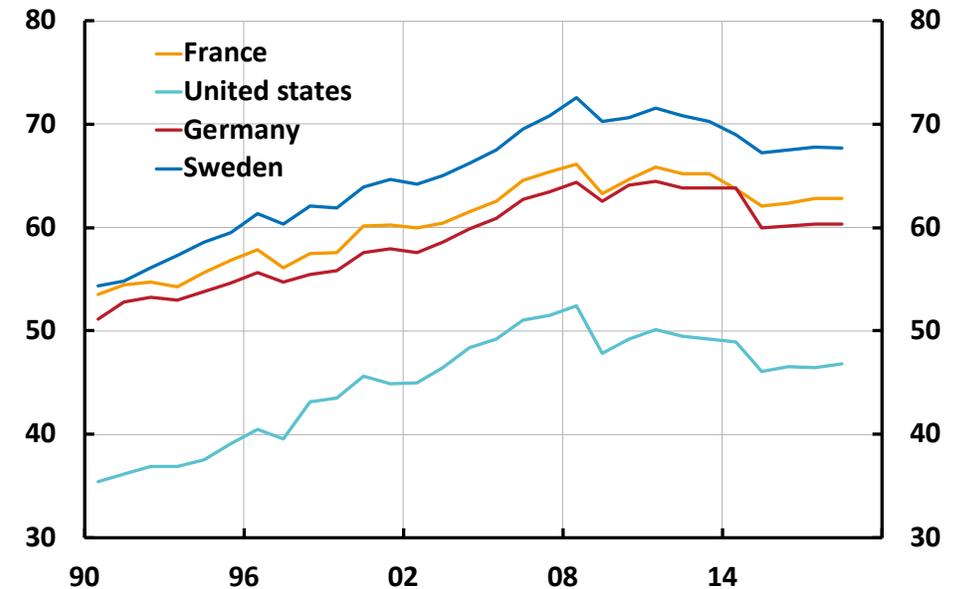
# Globalisation has taken a step back

World trade is not growing like before



Exports and imports as a proportion of global GDP, per cent, and proportion of exports linked to global value chains, per cent, respectively.

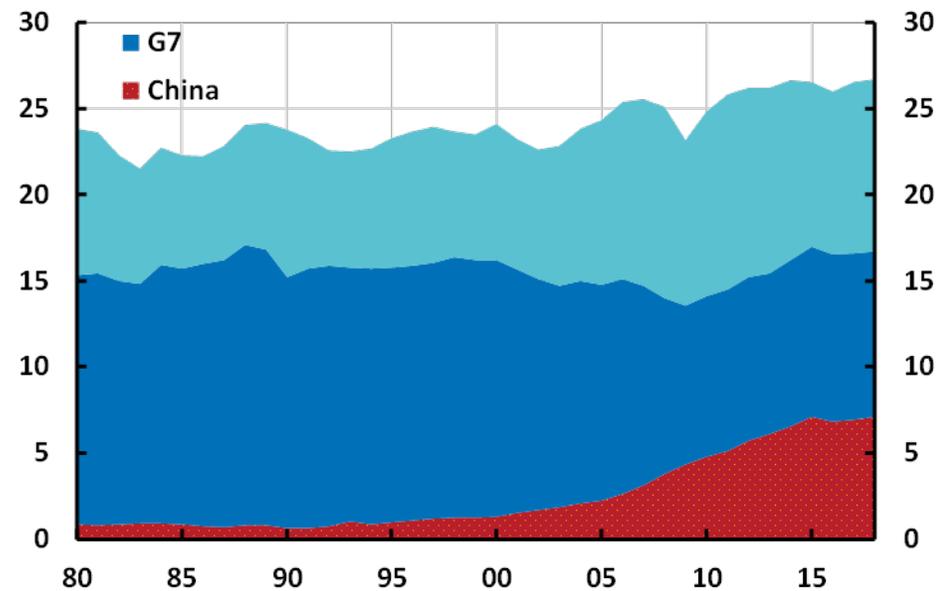
Global value chains are breaking up



Sources: World Bank, OECD, IMF, Riksbank and UNCTAD-Eora.

# China is increasingly important

China is contributing to higher global saving



Global saving ratio, per cent of GDP, and contributions from China and the G7 countries, respectively.

## China:

- Share of global GDP increased from 3 to 16 per cent between 1980 and 2018
- Saving ratio increased from 32 to 45 per cent

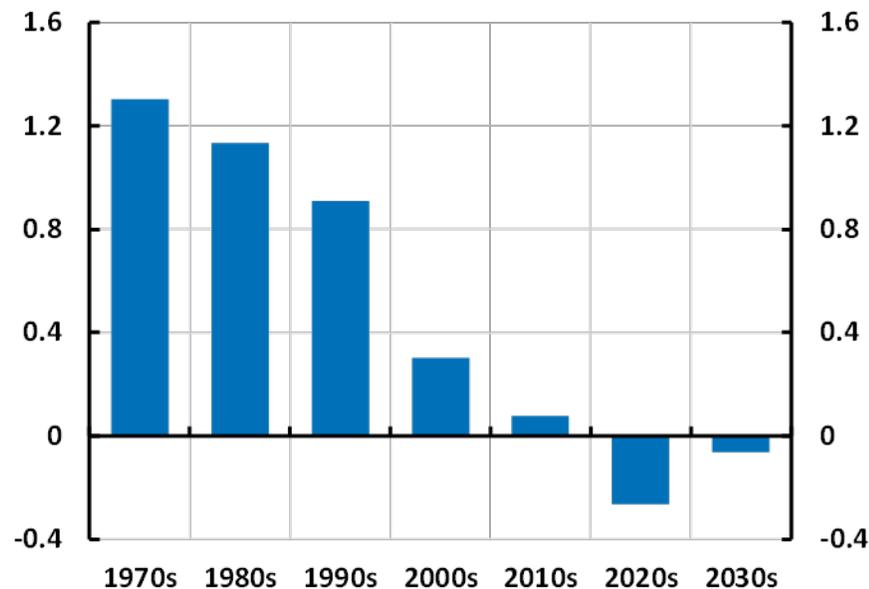
## G7 countries:

- Saving ratio decreased from 23 to 21 per cent

Source: IMF WEO.

# Demography entails lower interest rates and growth

Lower population growth



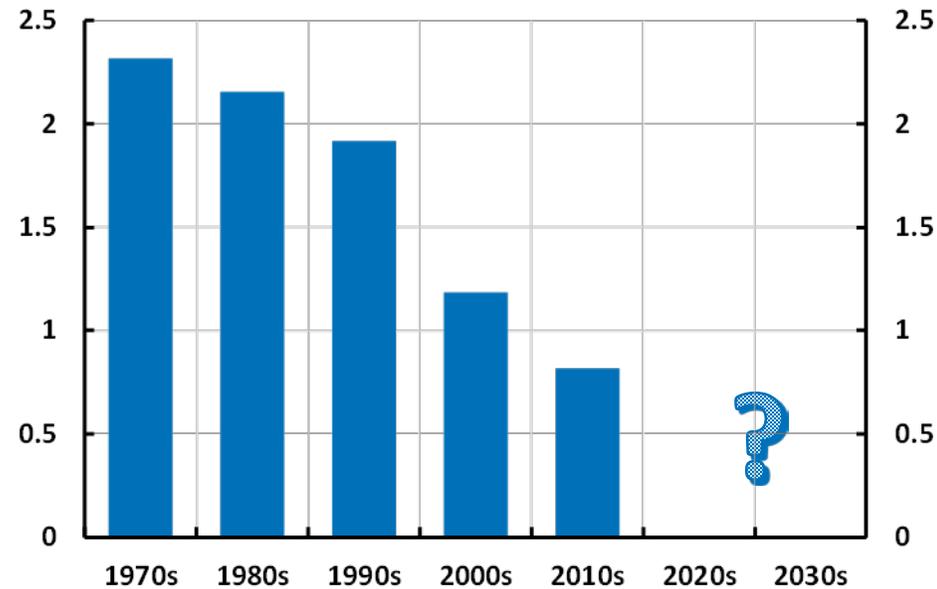
- Lower population growth
  - ... lower willingness to invest
  - ... lower GDP growth
- We are living longer
  - ... want to save more for our retirements
  - ... increased dependency ratio

Growth in G7 countries' population, 25–29 years, annual percentage.

Source: UN.

# Productivity has grown more slowly

Lower productivity growth



- ... lower willingness to invest
- ... lower GDP growth
- ... lower interest rates

Growth in OECD countries' labour productivity, annual percentage.

Source: OECD EO.

# The economy is changing

Willingness to  
invest ↓

Need to save ↑

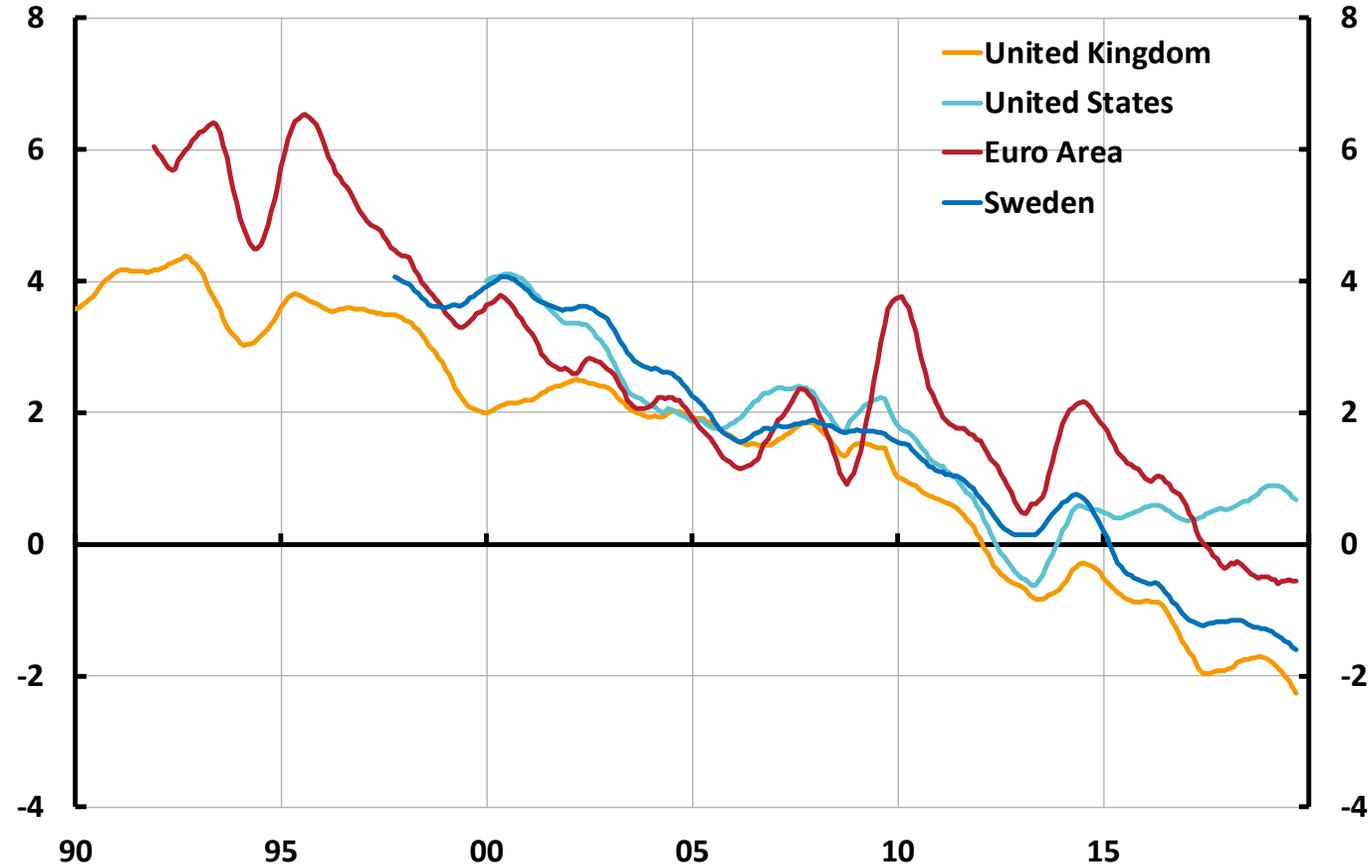
Lower  
productivity  
growth?

Lower  
inflationary  
pressures?

Low interest  
rates

Low growth

# Many indications of continuing low real interest rates



Yield on 10-year real government bonds, per cent, 12 month moving average.

Sources: Bank of England, ECB, Federal Reserve and the Riksbank.

# How large is the monetary policy toolbox?

# The Riksbank's toolbox

## The interest rate can be cut

- But the interest rate is close to its *effective* lower bound

## Purchase more Swedish government bonds?

- Term premiums are already very low
- No credit risk for Swedish government securities
- The Riksbank already owns a large share

## 'Unconventional' monetary policy

- Other asset purchases, helicopter money, ...
- Could work but is *fiscal policy*
- Sweden's public finances are strong; it is the Government's task to conduct fiscal policy

# **Can the Riksbank contribute towards more sustainable development?**

# Climate change affects the economy

## New risks

- Physical risk & transition risk
- Adequate supervision and regulation are needed
- Primarily Finansinspektionen's responsibility, but also the Riksbank's

## The functioning of the economy is changing

- Economic relationships are changing
- More noise in the data?

## Can the Riksbank contribute to better sustainability?

- Asset purchases (QE)?
- Managing the foreign exchange reserve?

# Can the Riksbank contribute to better sustainability?

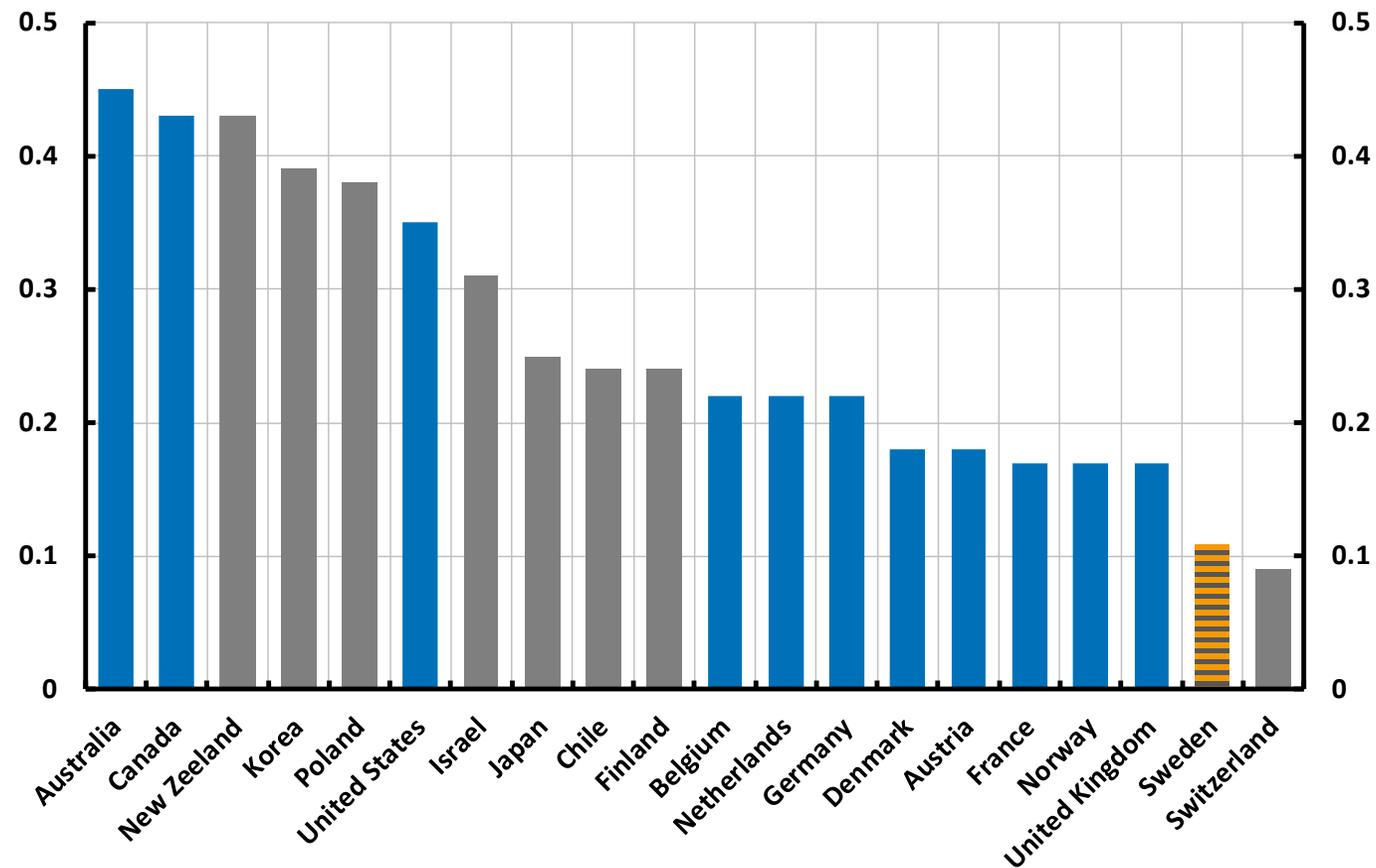
## Asset purchases

- Swedish government bonds
- The central government is the Riksbank's principal
- Not appropriate for the Riksbank to attempt to affect the Government's climate work
- The Riksbank should not select among government bonds

## Managing the foreign exchange reserve

- The reserve must consist of safe and liquid assets
- There is some scope for considering climate change
- New risk and investment policy

# Greenhouse gas emissions



In the foreign  
exchange reserves

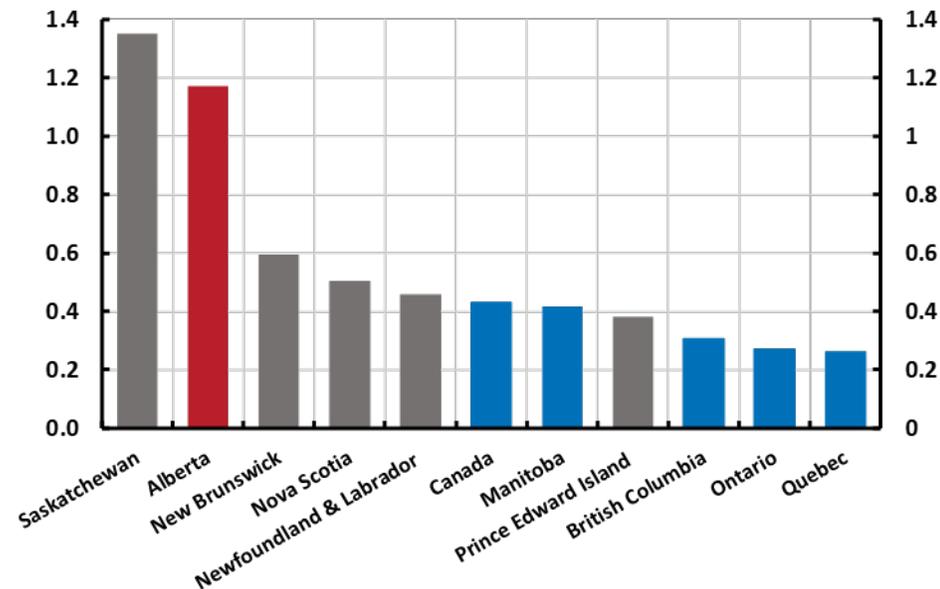
Potential holdings

Direct greenhouse gas emissions, excluding uptake and emission of greenhouse gases from land use, GHG (kt CO<sub>2</sub>e)/GDP (mn USD).

Sources: UNFCCC, OECD, Climate watch.

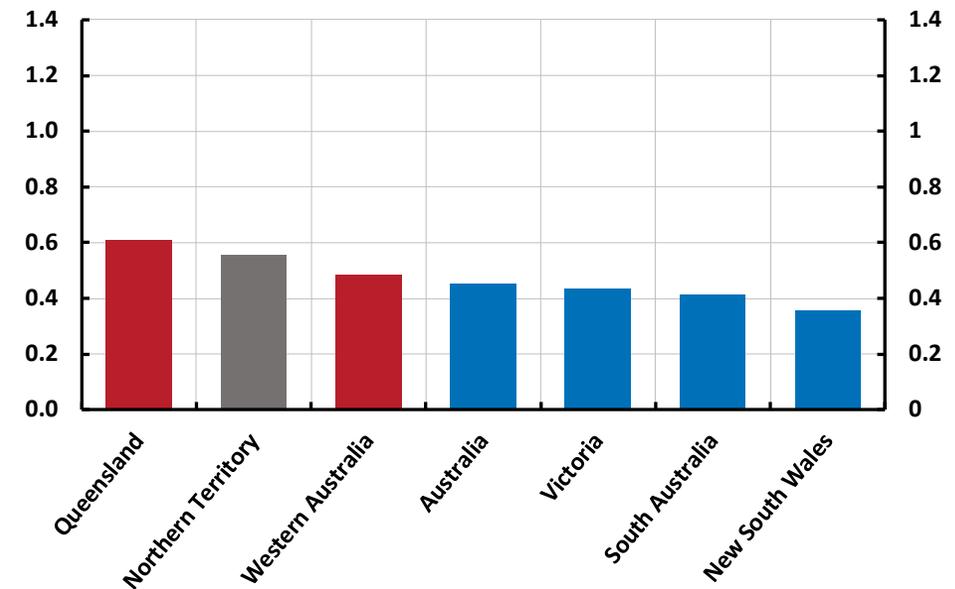
# The Riksbank rejects issuers with a large climate footprint

Canada and provinces



Direct greenhouse gas emissions, excluding uptake and emission of greenhouse gases from land use, GHG (kt CO<sub>2</sub>e)/GDP (mn USD).

Australia and states



Sources: Australian Bureau of Statistics, Bloomberg, Government of Australia, Government of Canada, UNFCCC and Statistics Canada.

Holdings  
Sold

The economy is changing

- What will normal levels be for interest rates and productivity and GDP growth in the period ahead?

The Riksbank must understand structural changes

- Economic correlations are changing, new risks are emerging
- However, monetary policy has little ability to *affect* these structural changes

Fiscal policy is playing a larger role in stabilisation policy

- The policy rate is close to its effective lower bound
- Fiscal policy can be made more expansionary if necessary

The Riksbank shall not conduct fiscal or climate policy

- But the Riksbank can take some consideration of climate change in its management of the foreign exchange reserves

**Thank you!**