

# The monetary policy toolbox

Swedish Economics Association  
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S V E R I G E S R I K S B A N K

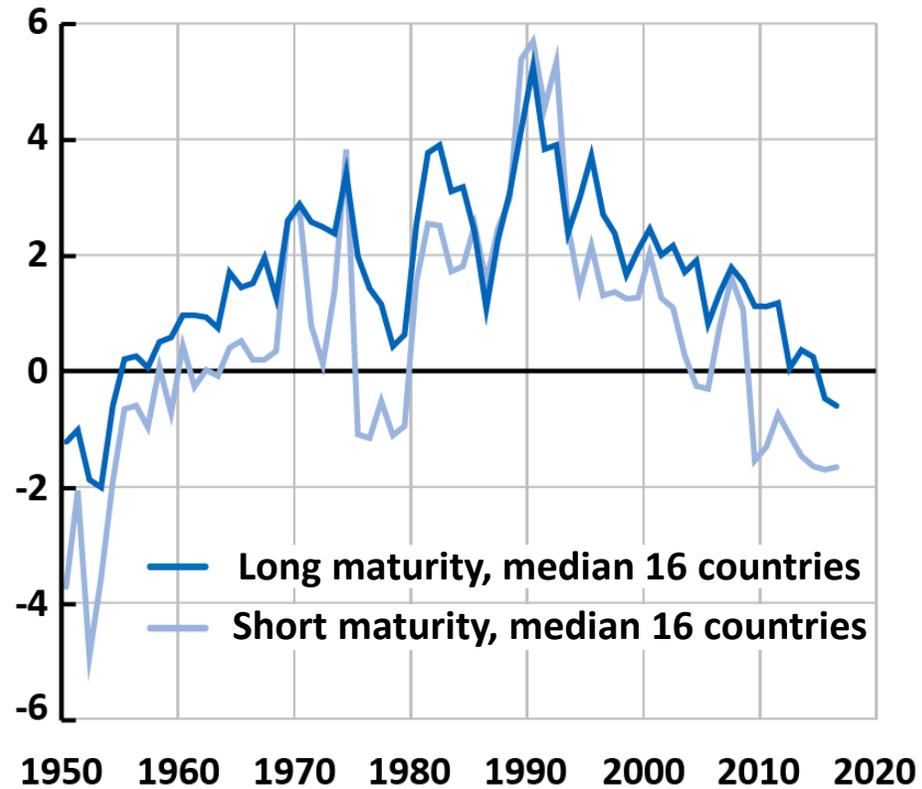
Stefan Ingves

Governor of the Riksbank

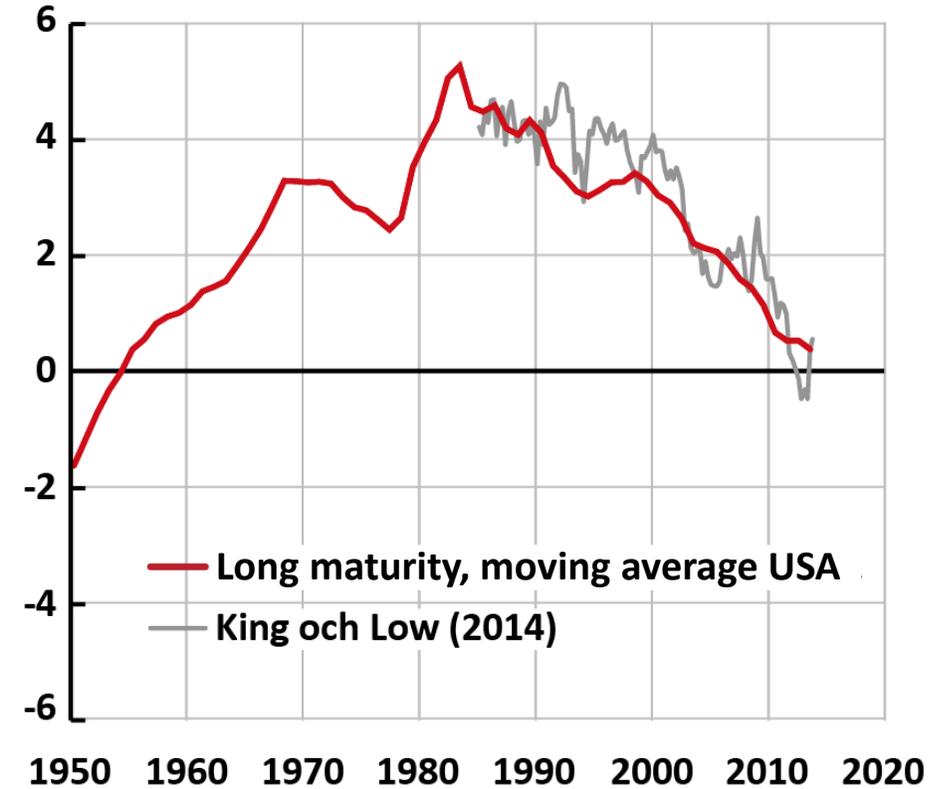
# The monetary policy toolbox

- Low global real interest rates affect Sweden
- “Unconventional” monetary policy measures increasingly common
- These measures have consequences for the Riksbank's balance sheet
- Uncertain future – therefore important not to limit the Riksbank

# Low real interest rates limit the monetary policy scope for action



Note. Per cent.

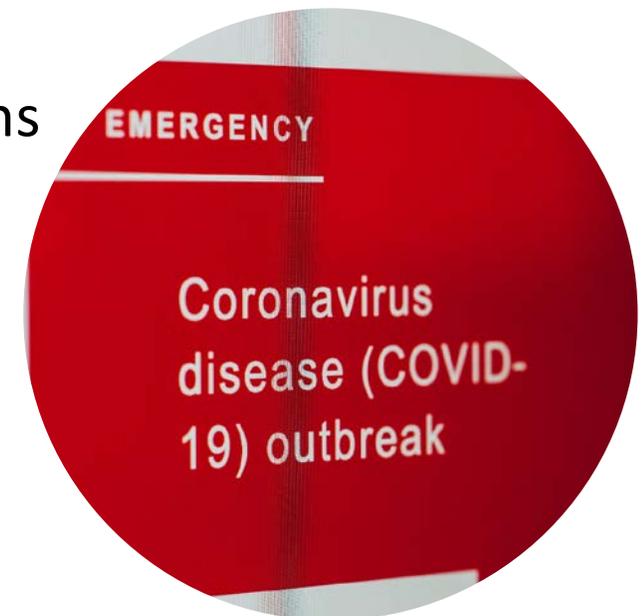


Source: Lundvall (2020)

# Global synchronised crisis

Restrictions to dampen the spread of the coronavirus have severely slowed down activity in the global economy

- Restrictions and uncertainty over how long the restrictions will last
- Both production and demand are falling
- The entire world is affected simultaneously

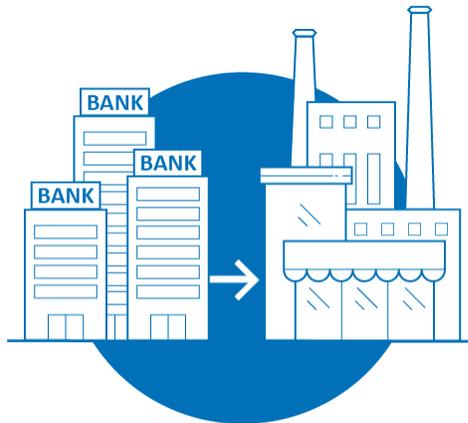


# The crisis will worsen if the financial markets do not function

- Uncertainty over the crisis has led to substantial fluctuations on the financial markets
- More difficult and more expensive to obtain funding on financial markets
- Credit tightening risks exacerbating the crisis



# Extensive measures to hold down interest rates and facilitate credit supply



The banks can borrow from the Riksbank for onward lending to companies

**SEK 500 billion**

Utilised:

**SEK 158 billion**

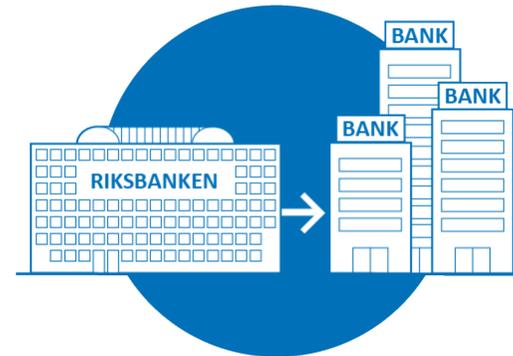


Purchases of government, mortgage, municipal bonds and commercial paper

**SEK 300 billion**

Utilised:

**SEK 116.3 billion**

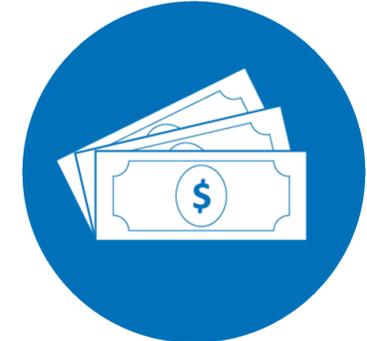


Increased access to safe and liquid assets

**Unlimited**

Utilised:

**SEK 25.7 billion**



Loans  
In US dollars

**USD 60 billion**

Utilised:

**USD 2 billion**

# Measures planned so far in 2020

## Loans

Week: 24 26 28 30 32 34 36 38 40 42 44 46 48 50 52

Companies via banks



SEK, 3 month



USD



## Asset purchases

Government bonds



Covered bonds



Commercial paper

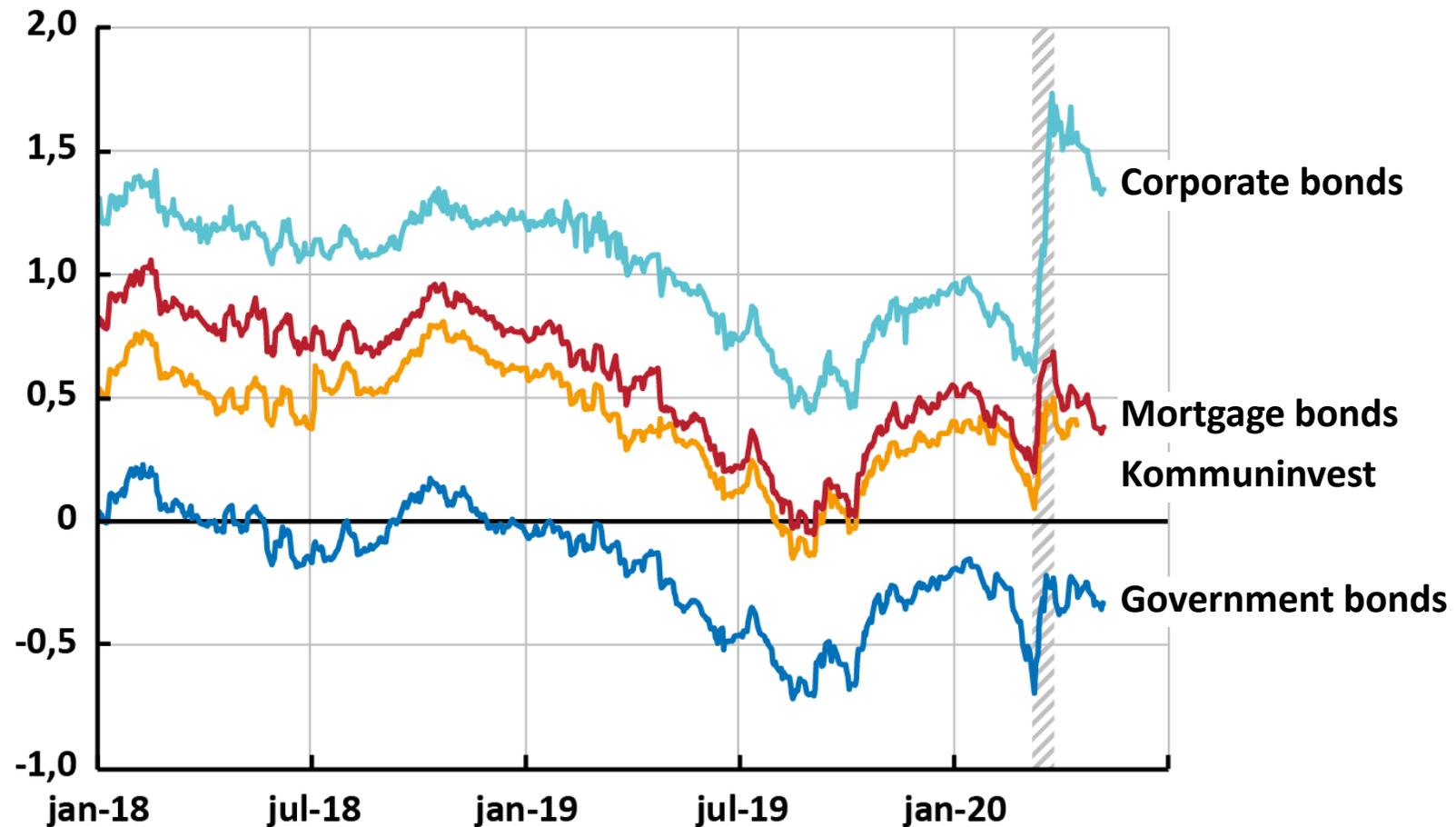


Municipal bonds



 Planned market operations

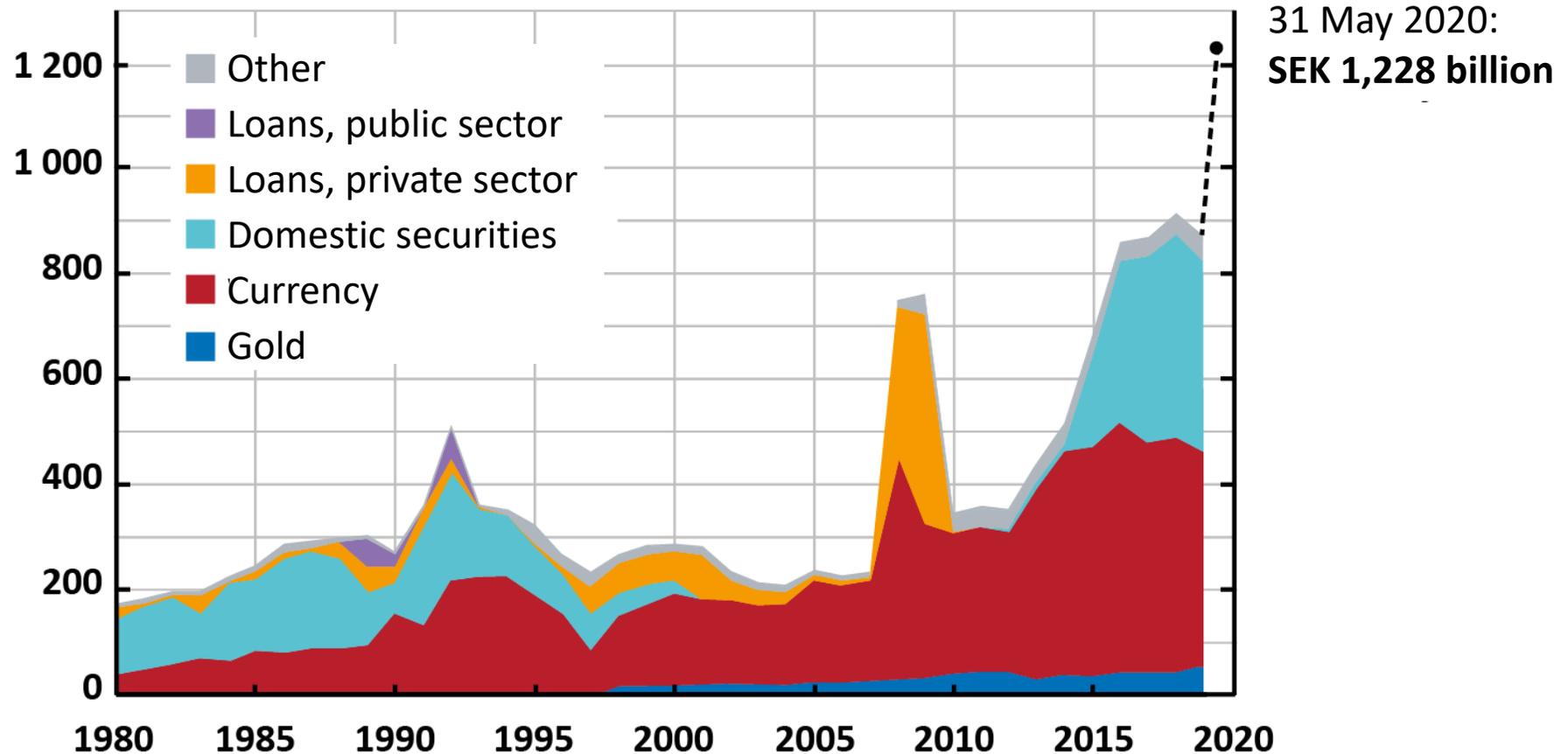
# Interest rate rise has been slowed down



Note. Yields on 5-year bonds, per cent.

Sources: Macrobond and the Riksbank

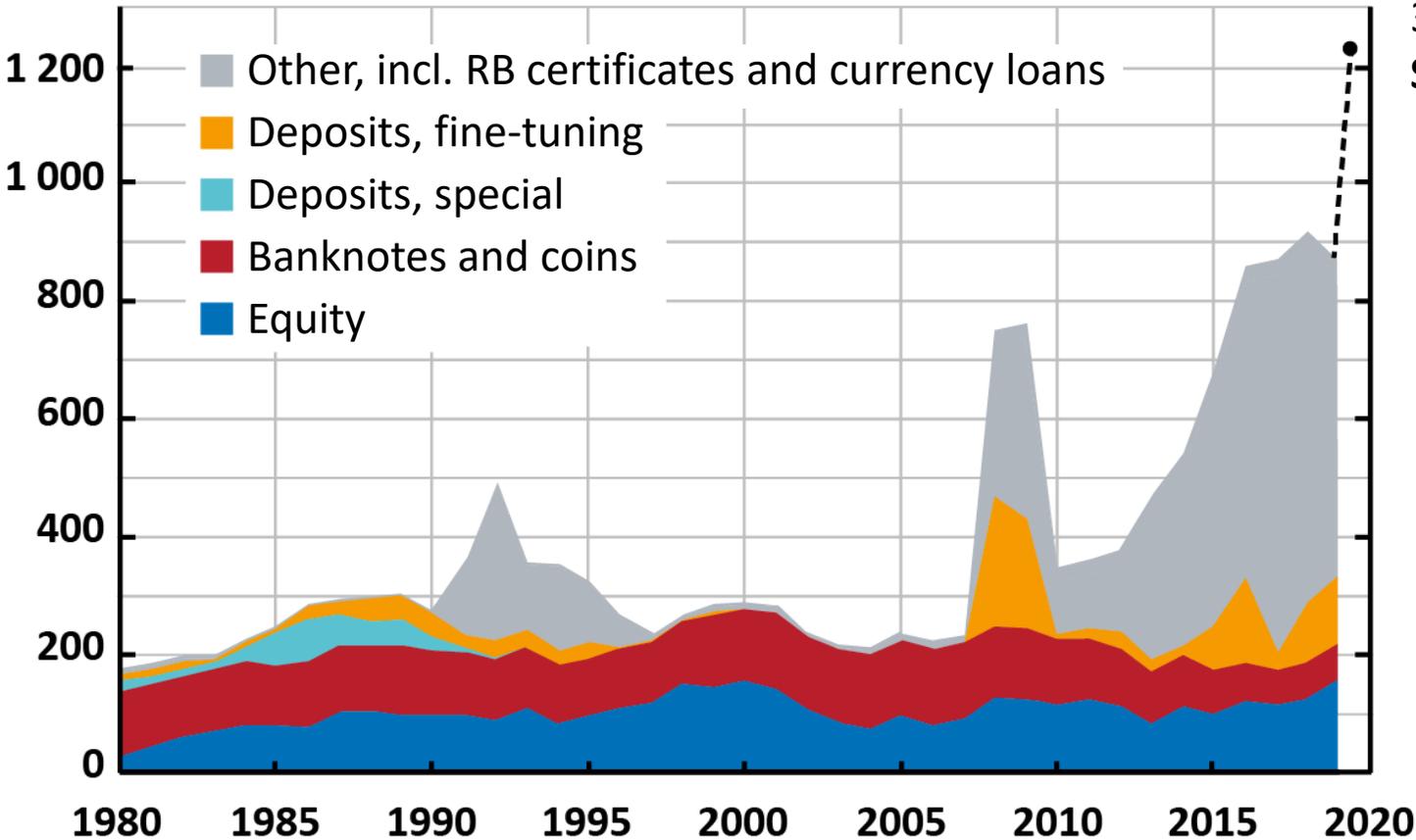
# Assets on the Riksbank's balance sheet 1980-2019



Note. SEK billion. Annual data where the final observation is 2019. The broken line indicates corona-related measures.

Source: The Riksbank

# Liabilities on the Riksbank's balance sheet 1980-2019



31 May 2020:  
**SEK 1,228 billion**

Note. SEK billion. Annual data where the final observation is 2019. The broken line indicates corona-related measures.

Source: The Riksbank

# The international monetary policy discussion

Tried & tested monetary policy measures

Raised inflation target for  
greater monetary policy  
scope for action

Quantitative easing as  
a permanent part of the  
monetary policy toolbox

Make-up strategies for better  
“automatic stabilisation”  
of shocks

Forward guidance to influence  
expectations of future interest  
rates

# The international monetary policy discussion

## More innovative monetary policy measures

Coordination with fiscal policy under special circumstances

Fiscal policy stimulation funded with central bank money, so-called helicopter money

Abolish the lower bound by getting rid of cash entirely or introducing an exchange rate for reserves of cash

Accept low inflation

# Interaction between fiscal and monetary policy at the lower bound

- Always: Lower interest rates increase the fiscal policy room for manoeuvre, but more expansionary fiscal policy affects monetary policy objectives
- But especially at the lower bound, large “fiscal multipliers”:
  - Normally interest rates rise after a fiscal policy expansion
  - At the lower bound (including quantitative easing) the inflation forecast does not reach the target – more expansionary fiscal policy is not met with a higher interest rate

# Interaction between fiscal and monetary policy at the lower bound

How to create coordination in practice?

- **Mild form:** Clear communication, the Riksbank uses for instance alternative scenarios in the Monetary Policy Report with more expansionary fiscal policy
- **More direct:** The Riksbank communicates that it would be desirable to have more expansionary fiscal policy – comparable to what has been expressed in the other direction

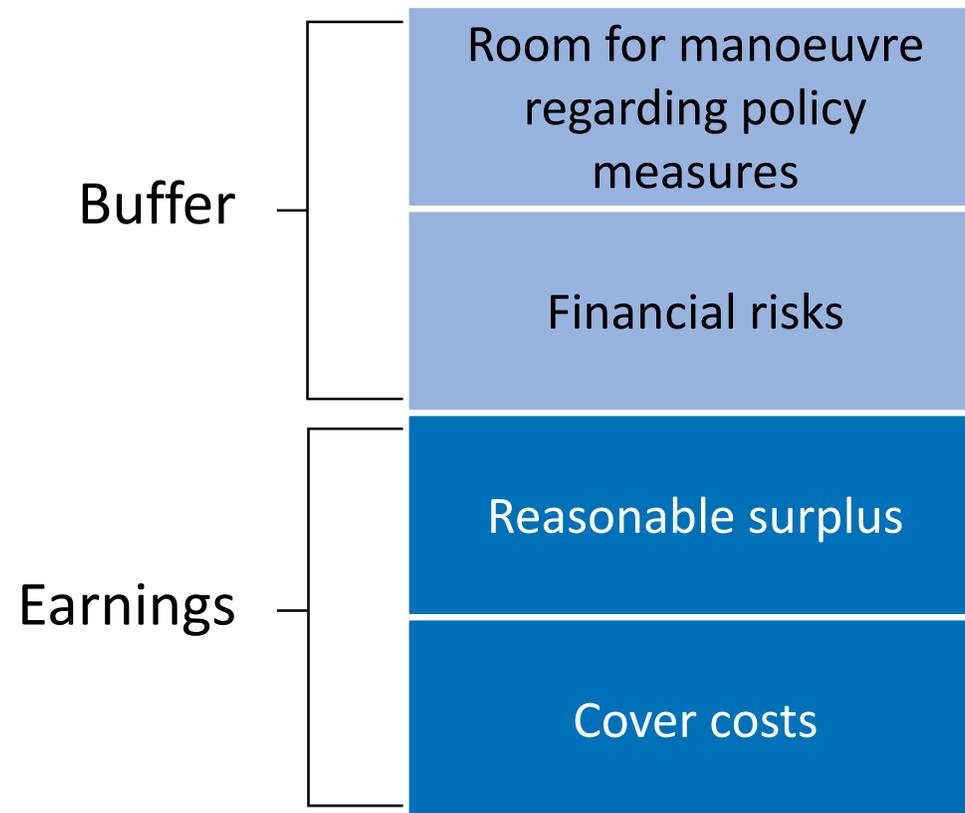
# The Riksbank Inquiry – opportunities and limitations

- Important that the Riksbank's capacity to conduct monetary policy is *not limited*
- Financial independence: size of the balance sheet dependent on time as are risks; requires more flexible framework regarding equity
- Not useful to divide different instruments into “financial stability purposes” and “monetary policy purposes”
- Important that measures can not only be taken in a “crisis”

# The Riksbank Inquiry – opportunities and limitations

- The foreign currency reserve needs to reflect changed conditions on financial markets and in the banking system
- Difficult to make forecasts, the law must function in many different scenarios going forward, which makes it inappropriate to quantify the size of the foreign currency reserves in the act
- A foreign currency *reserve* is something one has in reserve – difficult to borrow quickly in a crisis
- The Riksbank should also be able to continue to borrow foreign currency on its own behalf

# Four reasons for holding equity capital

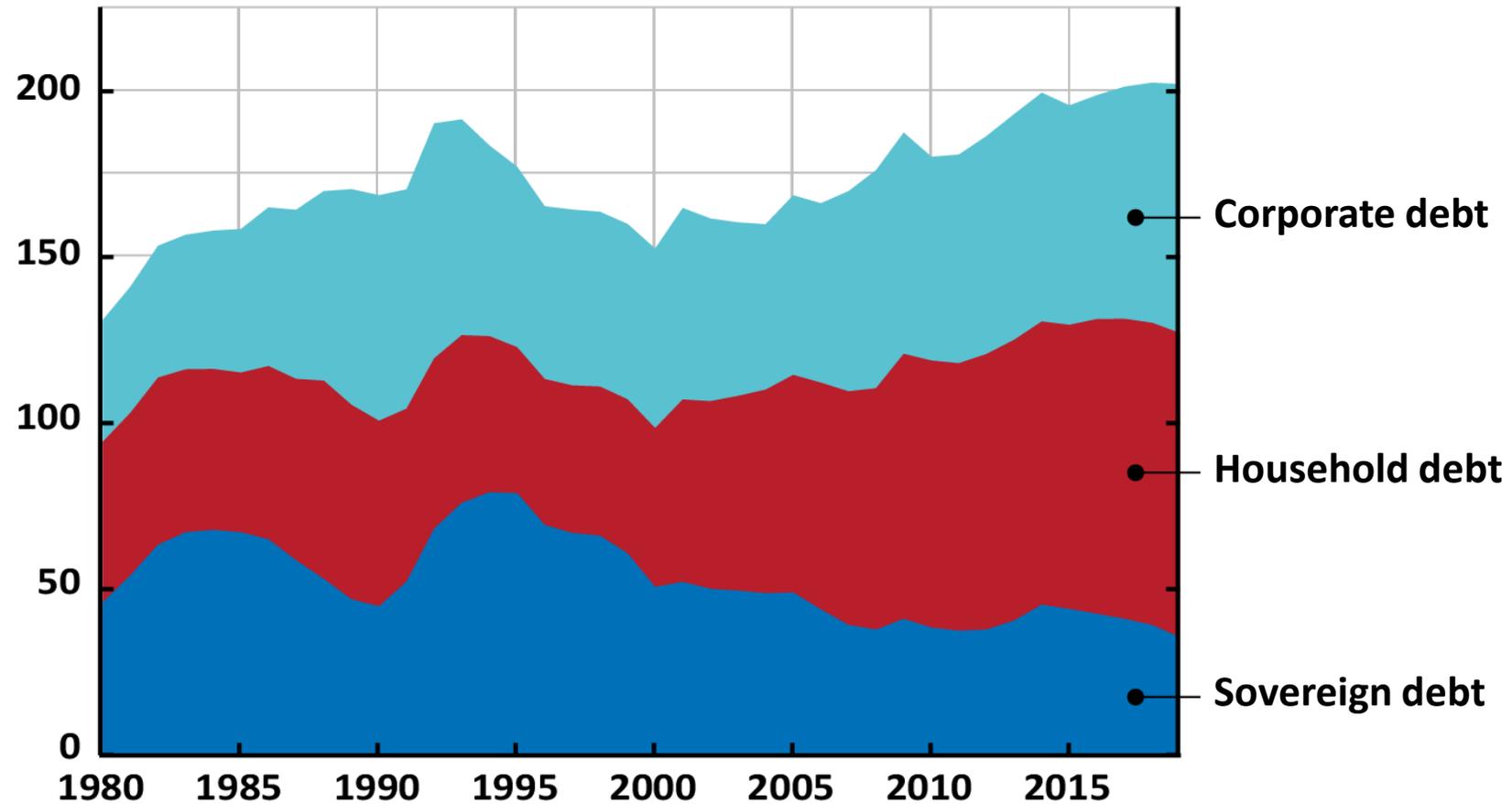


# A central bank must be able to use its balance sheet

- Global development with lower interest rates – new monetary policy measures
- The measures taken have major consequences for the central banks' balance sheets
- Monetary policy is more than the repo rate, the Riksbank's balance sheet is also part of the monetary policy toolbox
- Difficult to predict which toolbox will be the most appropriate going forward
- Important that the legislation does not limit the Riksbank's capacity to conduct monetary policy

**THANK YOU!**

# Household debt has increased



Note. Per cent of GDP.

Sources: Statistics Sweden