

The need for innovation and new thinking in monetary policy

Swedbank
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Main takeaways from today

- The monetary policy toolbox may need to grow to increase the room for manoeuvre.
- Fiscal policy will play a greater role in stabilising the economy going forward, both in the short and the long term.
- If more monetary policy stimulus were to be required in the short term, the tools I see closest to hand are a negative repo rate and increased quantitative easing – but none of the tools I discuss today shall be ruled out as long as their use is lawful.



Central bank tasks and boundary between monetary and fiscal policy

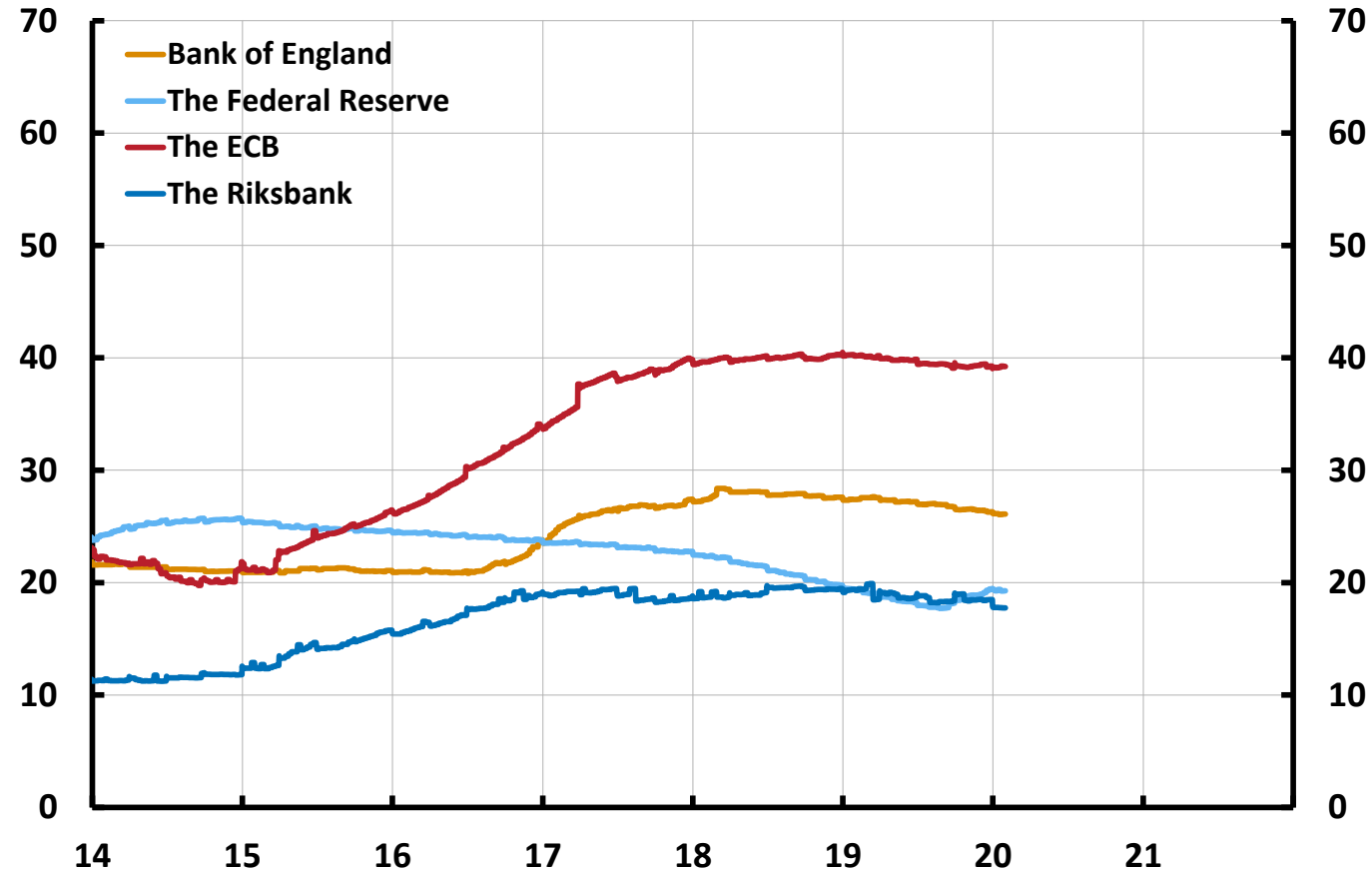


The objective of the Riksbank's activities shall be to maintain price stability. The Riksbank shall also promote a safe and efficient payment system.

The purpose of fiscal policy is to levy taxes and charges to finance various types of public activities and transfer payments. This reflects political preferences.

Low interest rates and maintained credit supply contribute to price stability

Central bank balance sheets

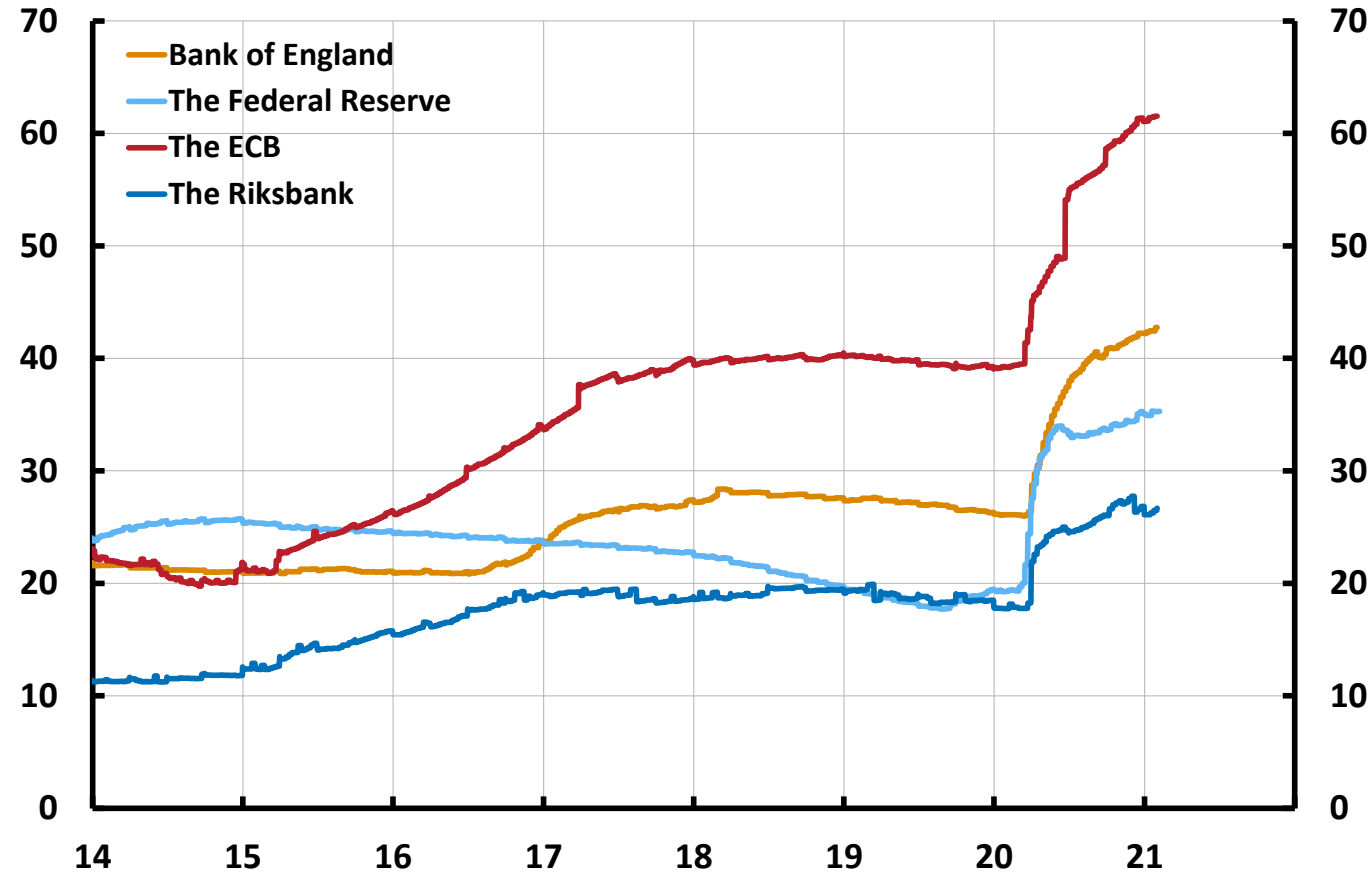


Note. Per cent of GDP

Source: National central banks and the Riksbank

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Central bank balance sheets

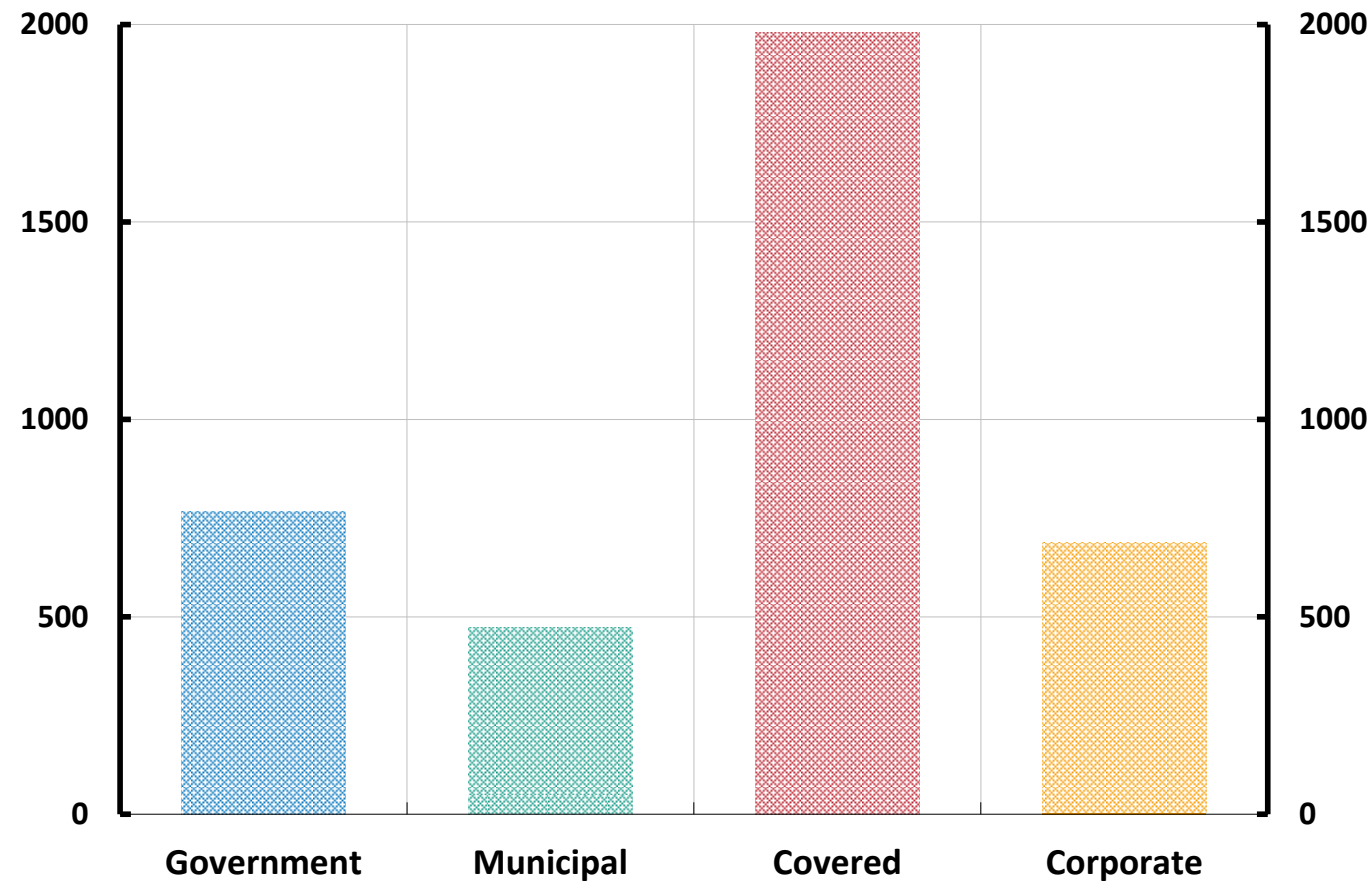


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Source: National central banks and the Riksbank

The Riksbank has purchased new types of securities during the corona crisis

Outstanding stock of bonds

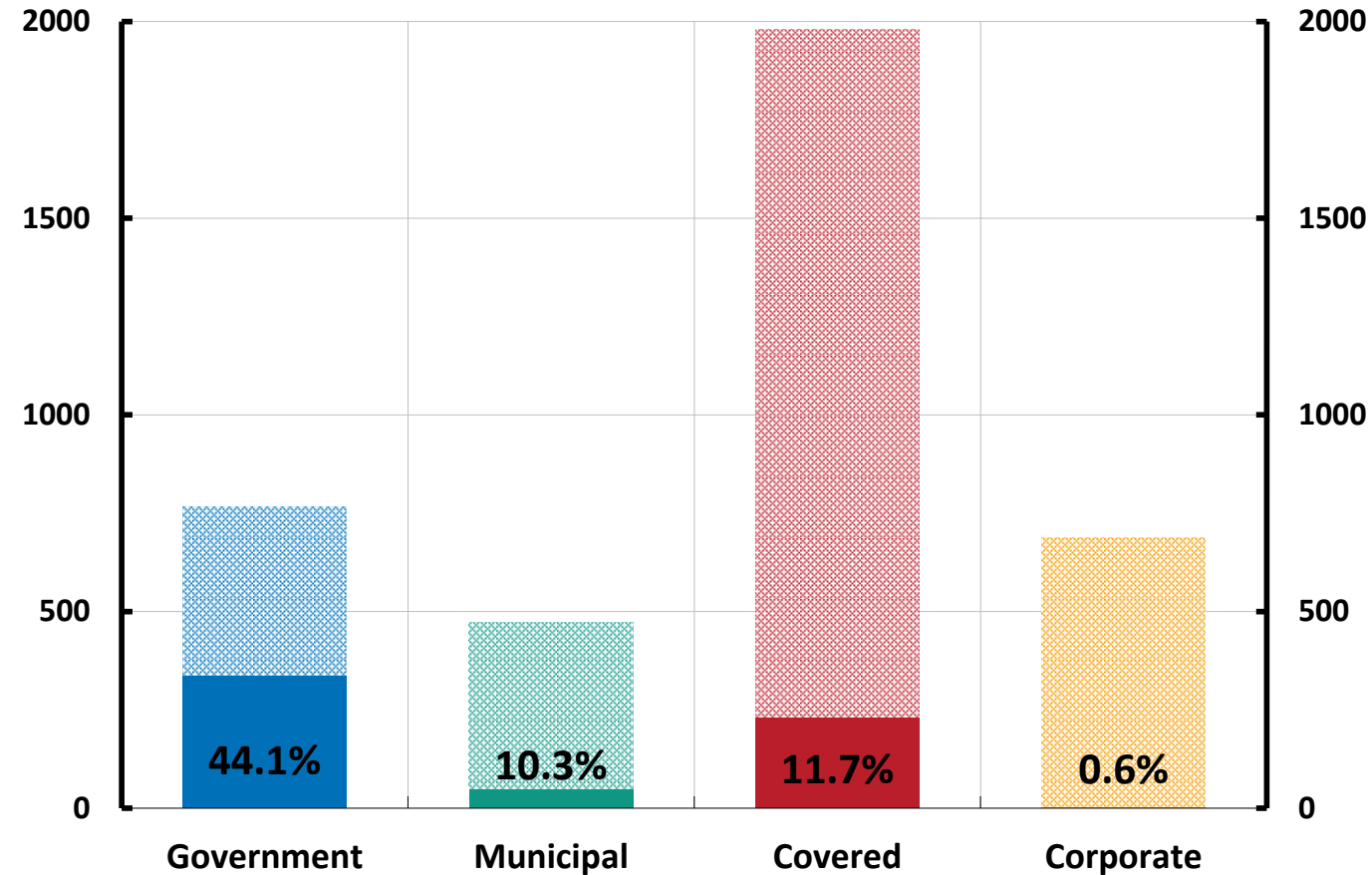


Note. Nominal amounts, SEK billion, 31 January 2021. Solid part depicts the Riksbank's holdings, shaded part depicts remaining total outstanding stock.

Sources: Swedish National Debt Office, the Riksbank and Statistics Sweden.

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The Riksbank's holdings in relation to outstanding stock



Note. Nominal amounts, SEK billion, 31 January 2021. Solid part depicts the Riksbank's holdings, shaded part depicts remaining total outstanding stock.

Sources: Swedish National Debt Office, the Riksbank and Statistics Sweden.

Every crisis leads to a rethink

1990s crisis

The financial crisis

The corona crisis

How can we increase the room for manoeuvre?

Change the
framework

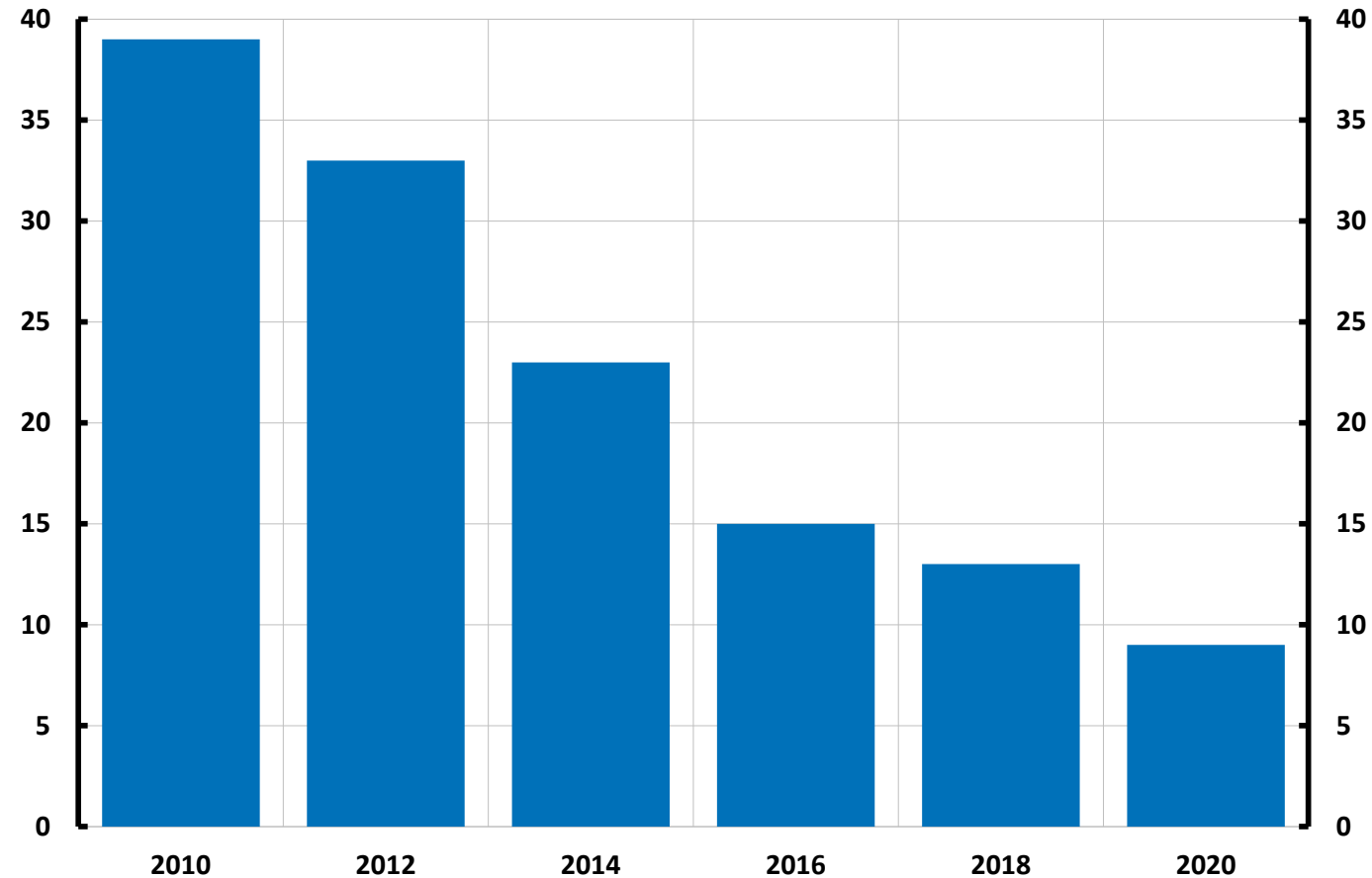
Expand the toolbox

Possible new tools

**Deeply negative
interest rates**

Deeply negative rates – reduced cash use affects the lower bound

Percentage of people paying for their most recent purchase in cash



Source: The Riksbank

Possible new tools

Deeply negative
interest rates

Dual interest rates

Dual interest rates – lower lending rate to banks

The Riksbank's operational framework: deposit rate $<$ lending rate to prevent arbitrage for banks

“Dual interest rates”: Stipulate lending rate $<$ deposit rate conditional on lending to companies

Possible new tools

Deeply negative
interest rates

Dual interest rates

Yield curve control

Yield curve control – focus on interest rate level instead of quantities

QE: Purchases of government bonds for a specific amount, i.e. *quantities*

Yield curve control: Purchases of government bonds to reach a specific *rate level*

Possible new tools

Deeply negative
interest rates

Dual interest rates

Yield curve control

Helicopter money

Helicopter money – close to fiscal policy

People's QE

Fiscal policy financed by the central bank

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Thank you!