

My thoughts on the Riksbank's asset purchases

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What I intend to talk about

Experiences after eight years of quantitative easing

The Riksbank's earnings capacity and financial independence

Does the Riksbank need capital injections?

Should we sell assets now?

Summary

Experiences after eight years of quantitative easing

Minor effects in normal times, significant effects during the pandemic

The Riksbank's earnings capacity and financial independence

Can become a problem when we are now making losses

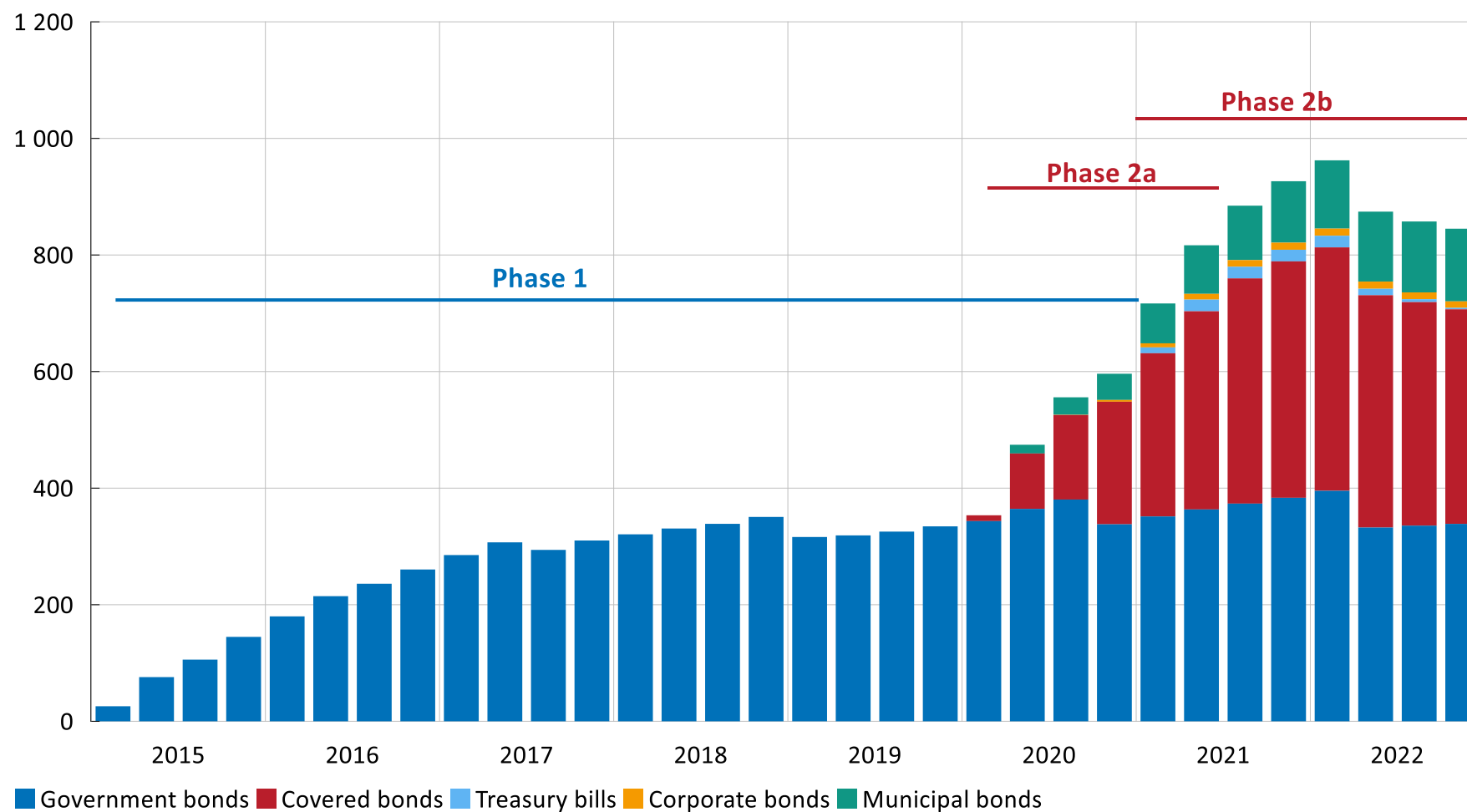
Does the Riksbank need capital injections?

No, hardly in the near term

Should we sell assets now?

The arguments for passive strategy appear stronger

The Riksbank's monetary policy holdings



SEK billion

Experiences after eight years of quantitative easing

Has QE worked?



QE [has] proved an effective tool for [...] providing **economic stimulus when short rates are at their lower bound**. The effectiveness of QE does not depend on its being deployed during a period of market turbulence. (Ben Bernanke, 2020)

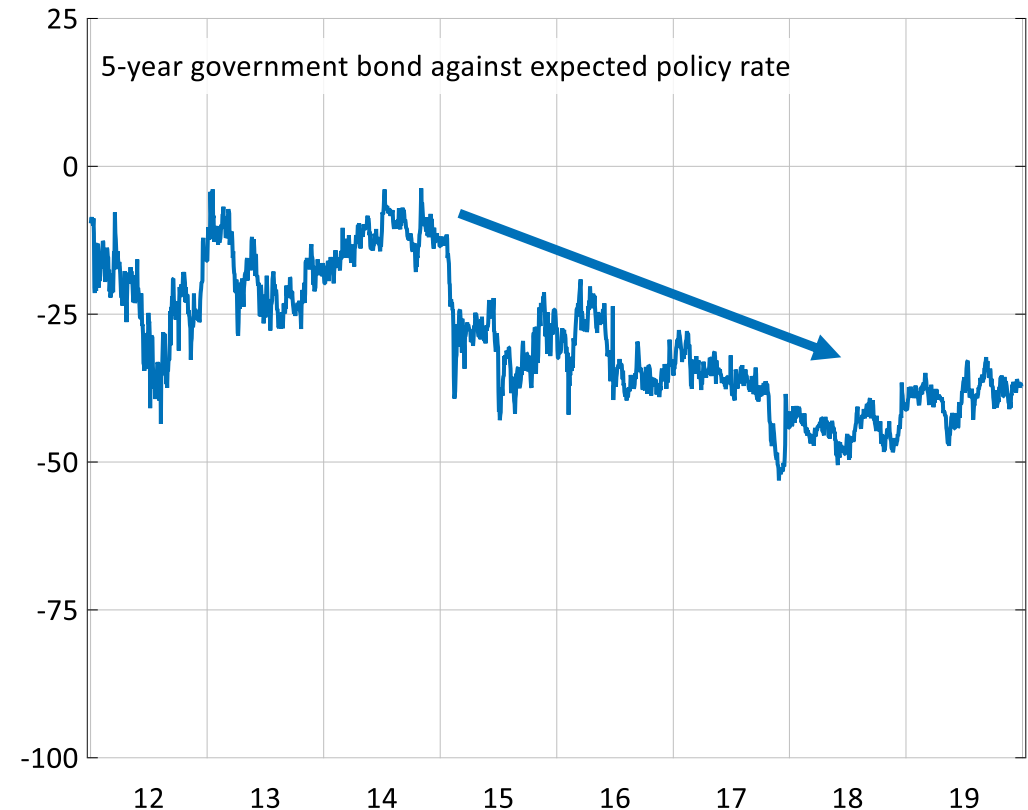
Two principal channels: by reducing the net supply of longer-term assets, which increases their prices and lower their **yields**; and by **signalling** policymakers' intention to keep short rates low for an extended period. (Ben Bernanke, 2020)

My view: QE has also had an effect in Sweden under normal market conditions, but not obvious that the effects have been *important*

Rates on government bonds were slightly lower

- Perhaps 30 basis points lower interest spread in 2018 than in 2014
- Who benefits from lower rates on government securities?

Lower rates on government bonds after 2015

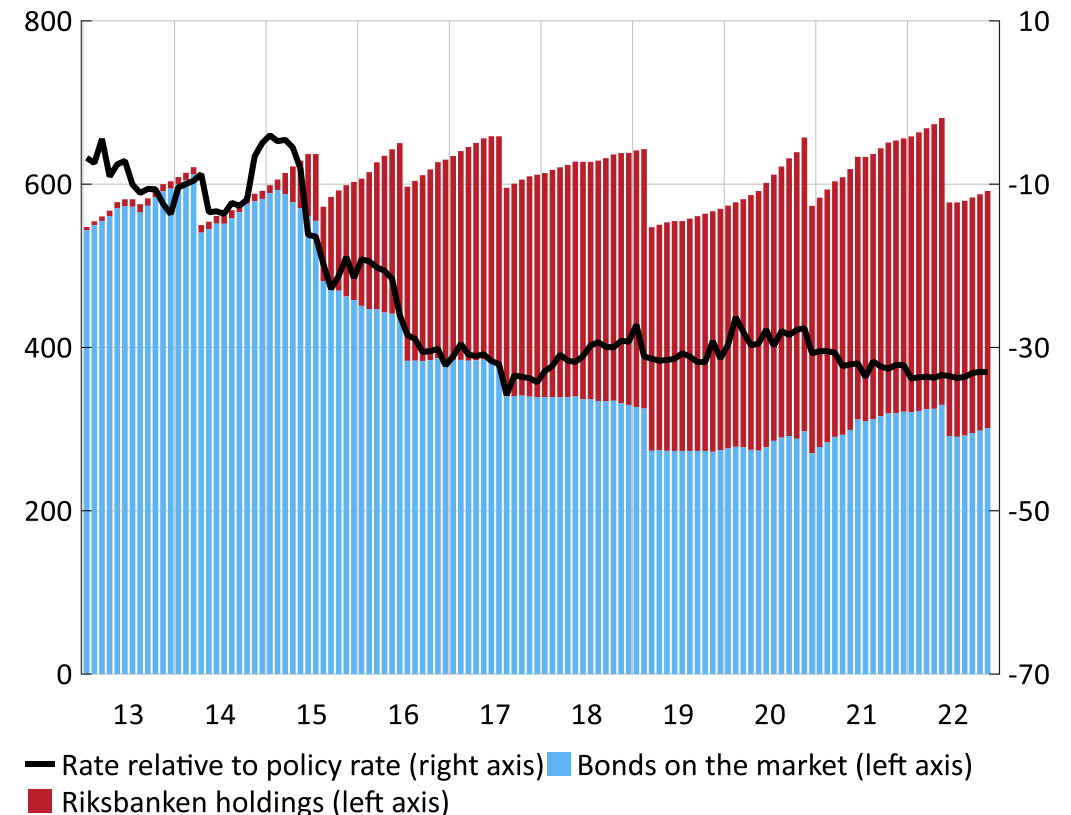


Basis points. Rate on 5-year government bond relative to expected average policy rate 5 years ahead.

The rate on *short* government securities fell

- Lower *liquidity* premiums on government securities
- Difficult to see effect on *term* premiums
- Difficult to see spread to other securities

Short-term government rates fell as the Riksbank's purchases expanded

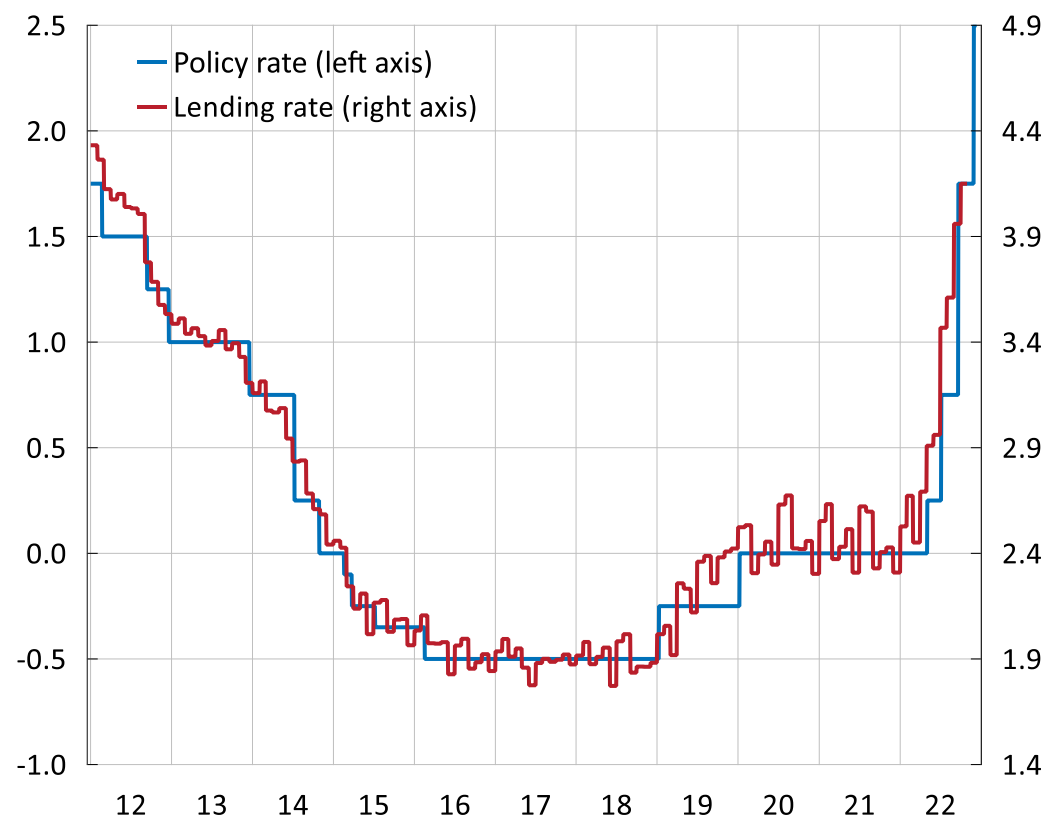


SEK billion (left axis) and basis points (right axis). Interest on repo transactions for nominal government bonds relative to the policy rate.

No effect on lending rates

- The policy rate had an impact
- No evidence of further impact from the government bond purchases
- (Perhaps little effect during the pandemic)

Loan rates have followed the policy rate



Per cent. The Riksbank's policy rate and the average lending rate from MFIs to households and companies, new agreements, all interest-fixation periods.

Signalling?

A way to tie yourself to the mast?

Central banks make losses if they raise the policy rate more than expected

Central banks have not communicated this way!
And they are now raising policy rates despite losses.

Another way to tie yourself to the mast?

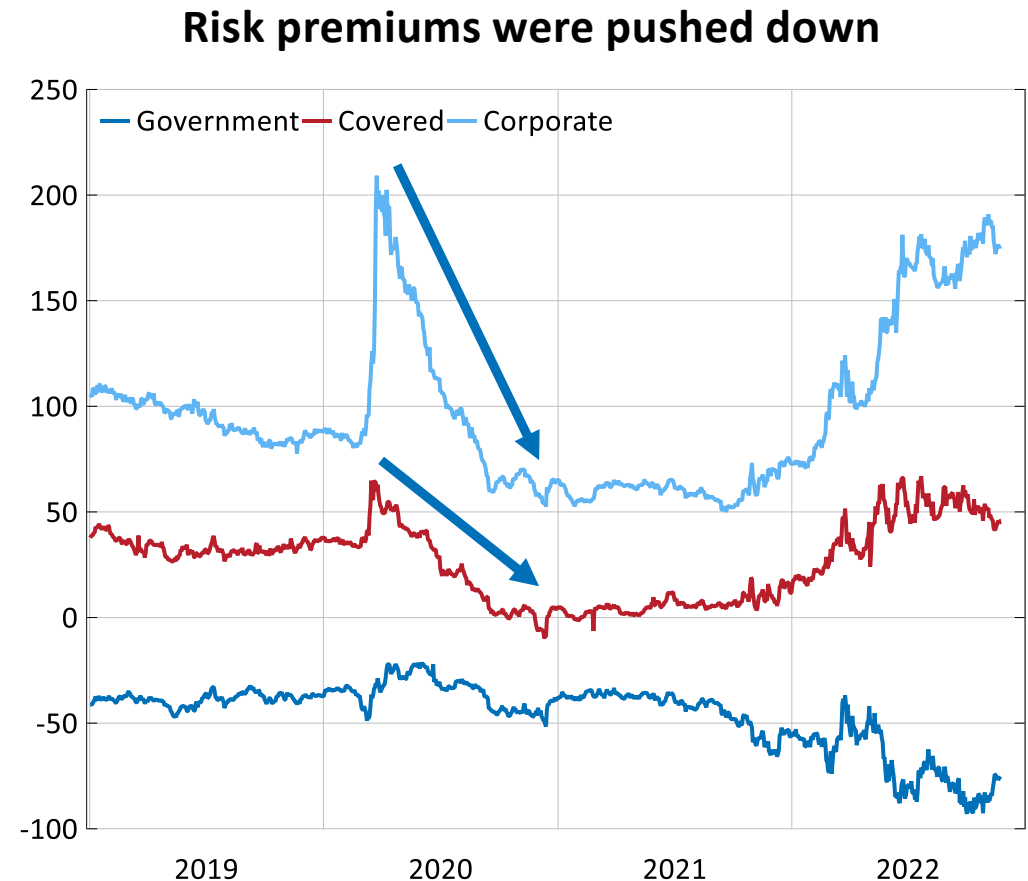
Bernanke (2020): "Market participants are typically confident that central banks will not raise short-term interest rates so long as asset purchases are continuing."

The argument is not convincing.
But perhaps important in practice...

Signalling was probably also important for the Riksbank: The Riksbank showed we were prepared to use all tools to get inflation back to the target. But QE *was not* a way of tying ourselves to the mast.

Clear effect of purchases during the pandemic

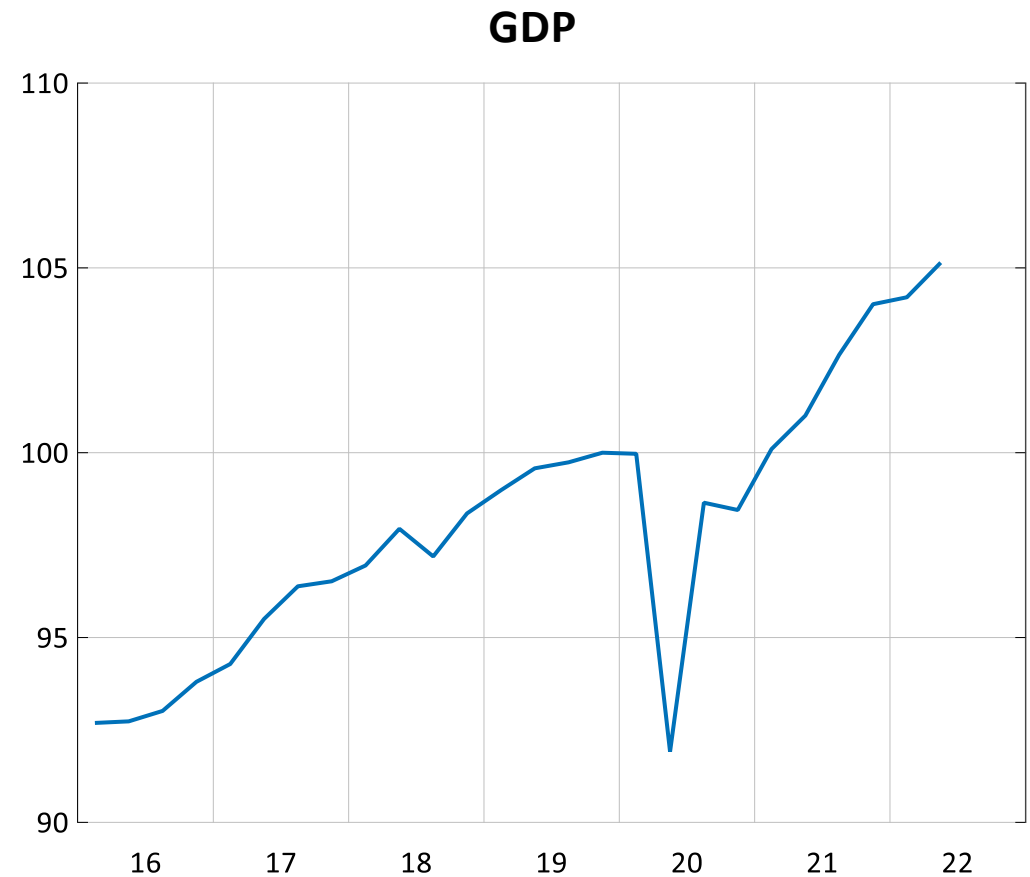
- Purchases of private securities had a clear impact on rates
- Risk premiums were *lower* than before the pandemic
- Probably contributed to low mortgage rates
- And favourable conditions for corporate financing



Basis points. Bonds with 5-year maturities. Spread against expected policy rate.

Rapid recovery

- Deep but brief recession
- Unusual with such a rapid recovery
- The major support programmes in Sweden and abroad worked

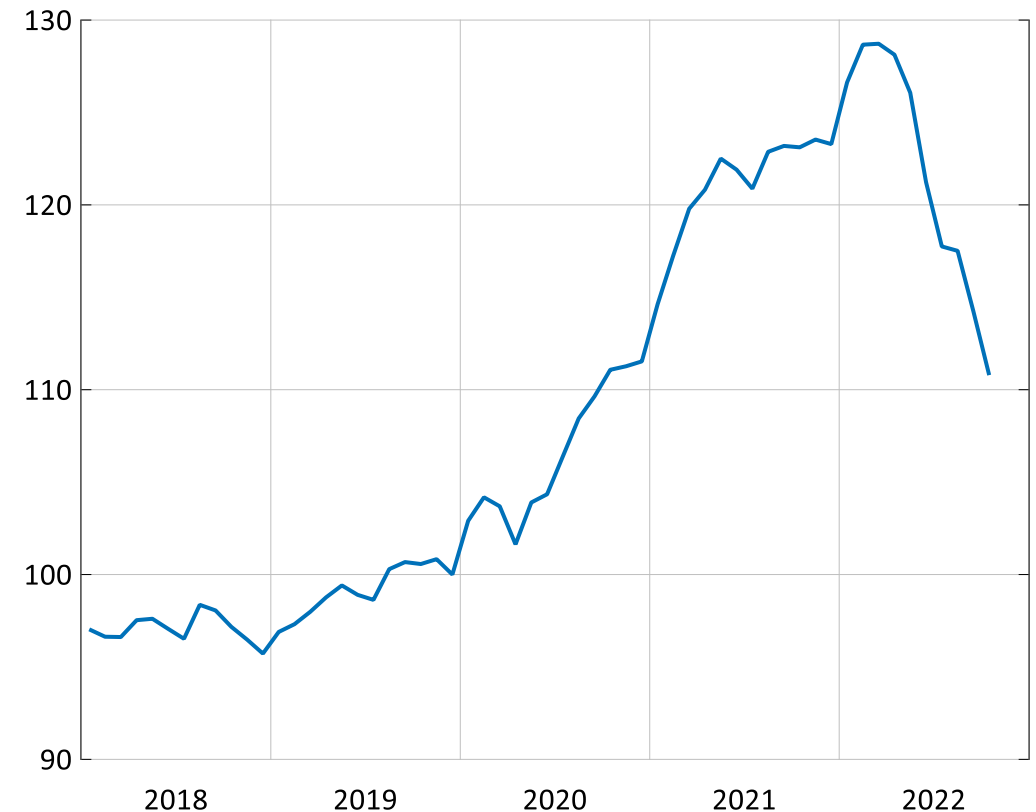


Index, 2019 Q4 = 100.

Asset purchases should have been concluded earlier

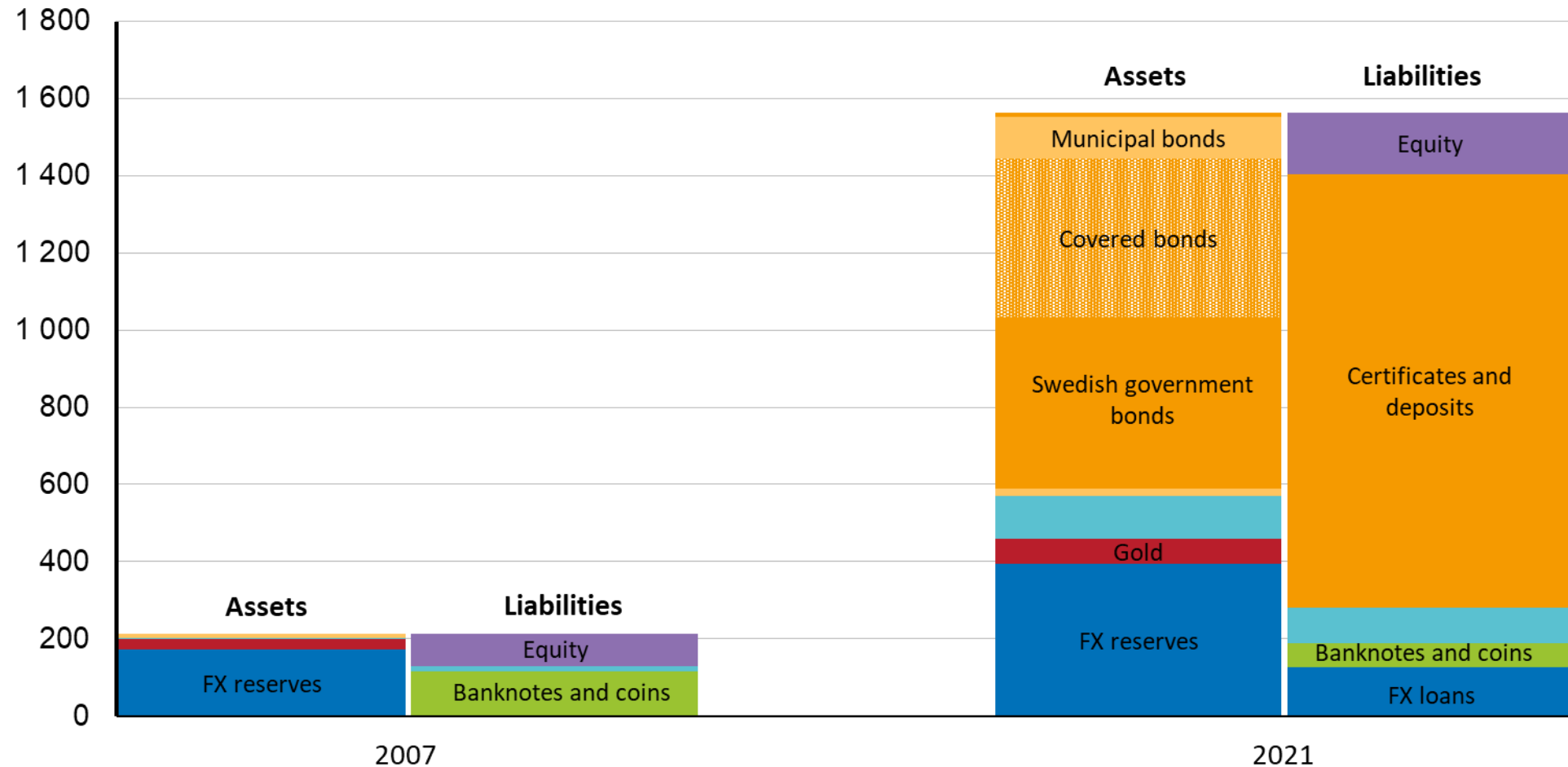
- Autumn 2020: Several signs of rapid recovery
- The Riksbank's programme was already large
- What did we want/expect to attain with the purchases?

Housing prices rose rapidly during the pandemic

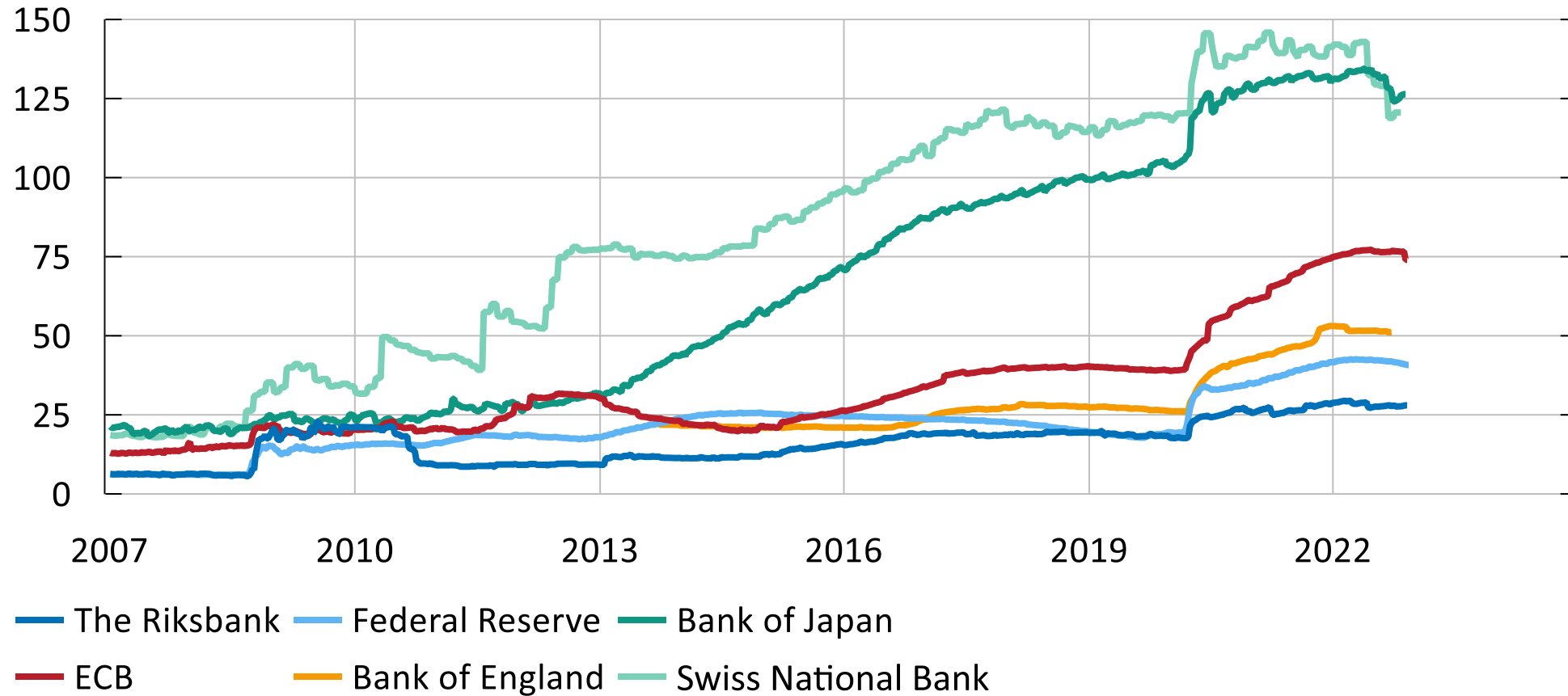


The Riksbank's earnings capacity and financial independence

The balance sheet then and now



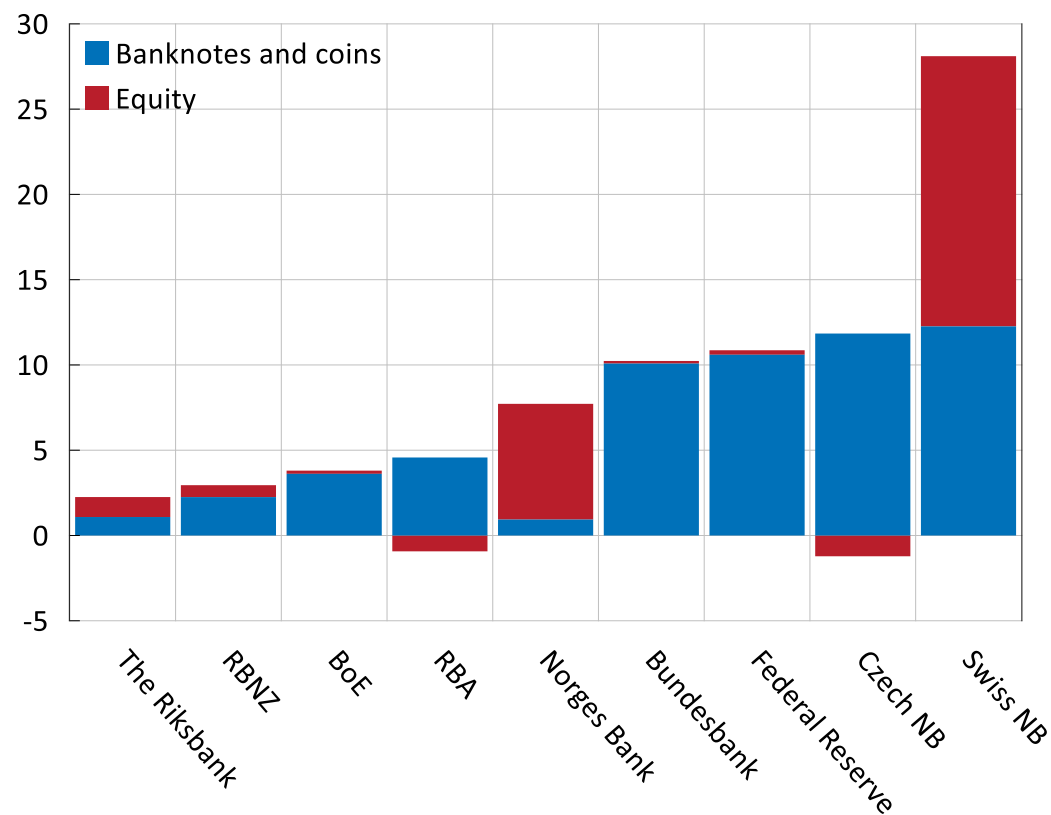
Central banks' balance sheet totals



Earnings capacity needed for financial independence

- Financial independence – the Riksbank finances its own operations
- Central banks in countries with higher cash use can manage losses more easily

The Riksbank's interest-free capital is small



Per cent of GDP

Large valuation losses this year

Changes in value of Riksbank's monetary policy assets this year

SEK billion

Government bonds	-32
Municipal bonds	-6
Covered bonds	-21
Corporate bonds	0
Total	-59

Refers to change in value up to 30 November 2022

The Riksbank's results do not reflect the economic results



- Rapid economic recovery 2020
- Strong confidence in inflation target
- Lower borrowing costs for the state

- Moral hazard
- The functioning of the market, the pricing of risk

Accumulated result of the Riksbank's purchases

SEK billion

Phase 1 (decision 2015 – 2019)	-5
Phase 2a (decision March 2020 – June 2020)	-24
Phase 2b (decision November 2020 – June 2022)	-19
Total	-47

Refers to total earnings since the start of the purchases and is based on market valuation on 30 November 2022

Does the Riksbank need capital injections?

Does the Riksbank need capital injections?

- Not clear whether the Riksbank has sufficient interest-free capital to finance its operations in the longer term
- No problem in the short term
- New Sveriges Riksbank Act at year-end:
 - Applies from 2023 annual accounts
 - Not clear how to process revaluation accounts
 - Report to Riksdag 2024?

The Riksbank's capital and reserves

SEK billion

Equity	66
Risk provisions	5
Revaluation accounts	89
... Swedish government bonds	9
... foreign securities, price	3
... foreign securities, currency	21
... gold	55
Total	161

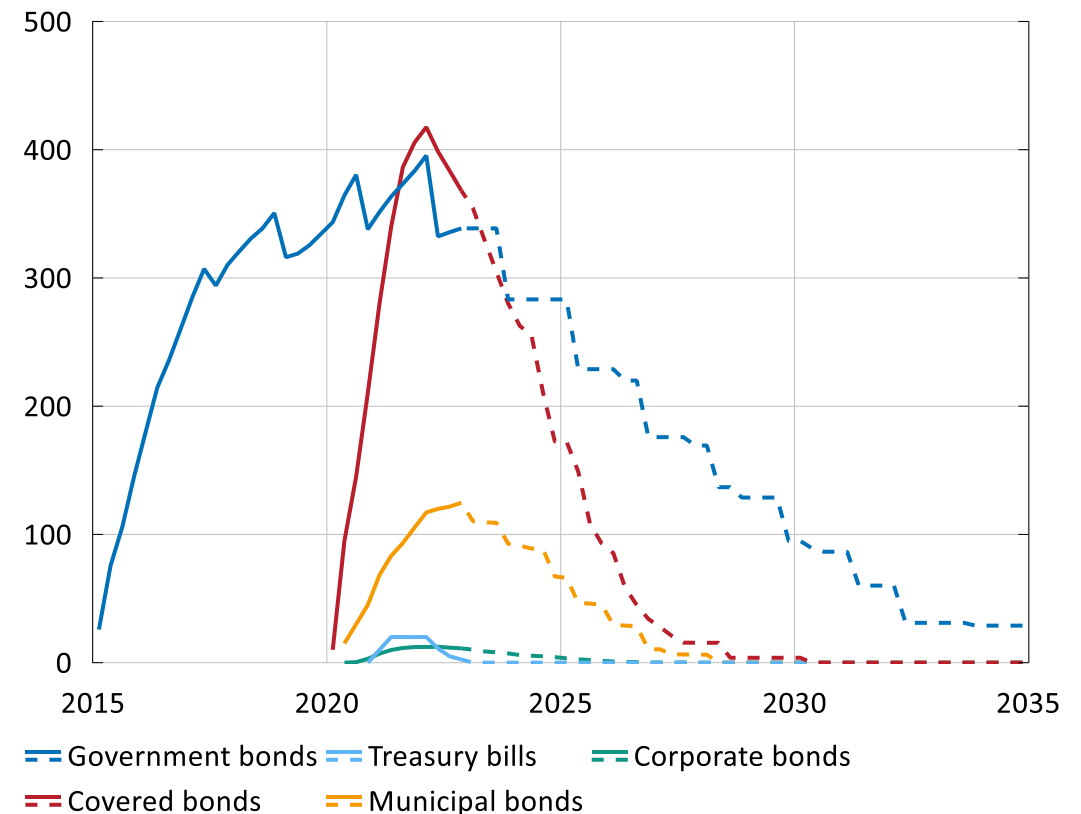
Refers to the Riksbank's financial position in 31/12 2021

Should we sell assets now?

Should we sell assets now?

- No clear effect of the Riksbank's purchases on economic activity or inflation (except during the pandemic)
 - Would sales then contribute to tightening?
- Our holdings will mature quickly
- We disturb pricing most when we buy or sell
 - Good if we are passive

Holdings will mature soon



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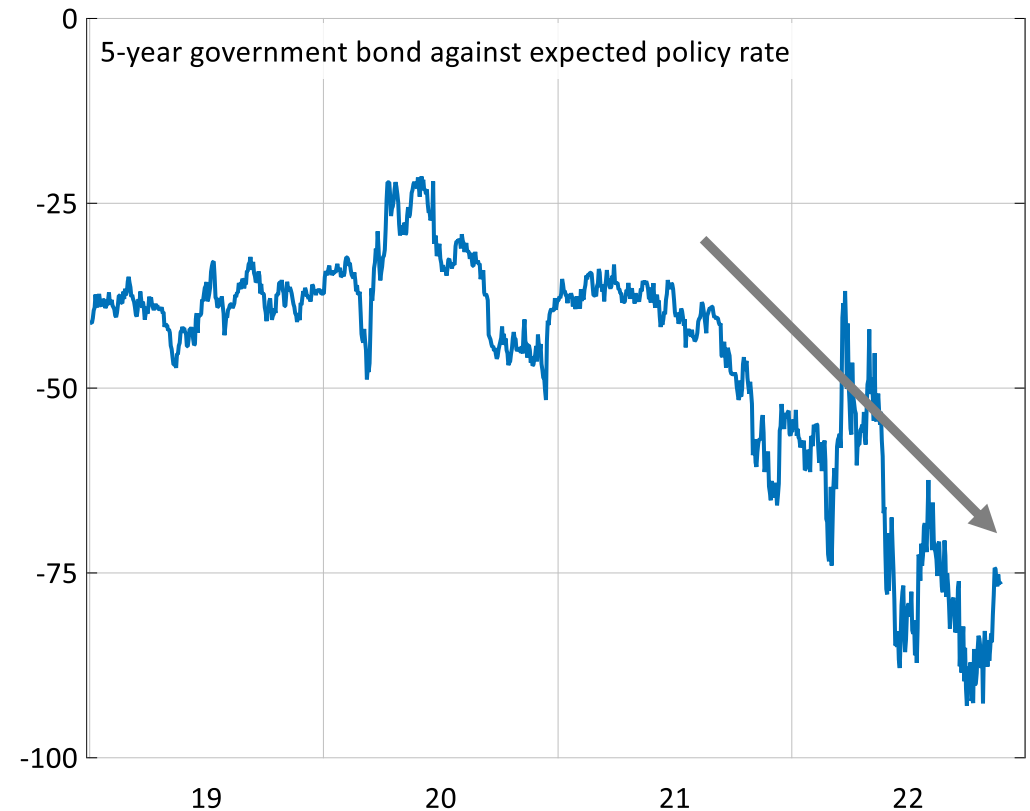
The arguments for passive strategy appear stronger

The arguments for active sales are weak

Would sales of government bonds

- push up interest on them?
- and then attract foreign capital?
- so that the krona strengthens?

Big 'shortage' of government bonds?



Basis points. Spread against expected policy rate.