

Hearing on monetary policy

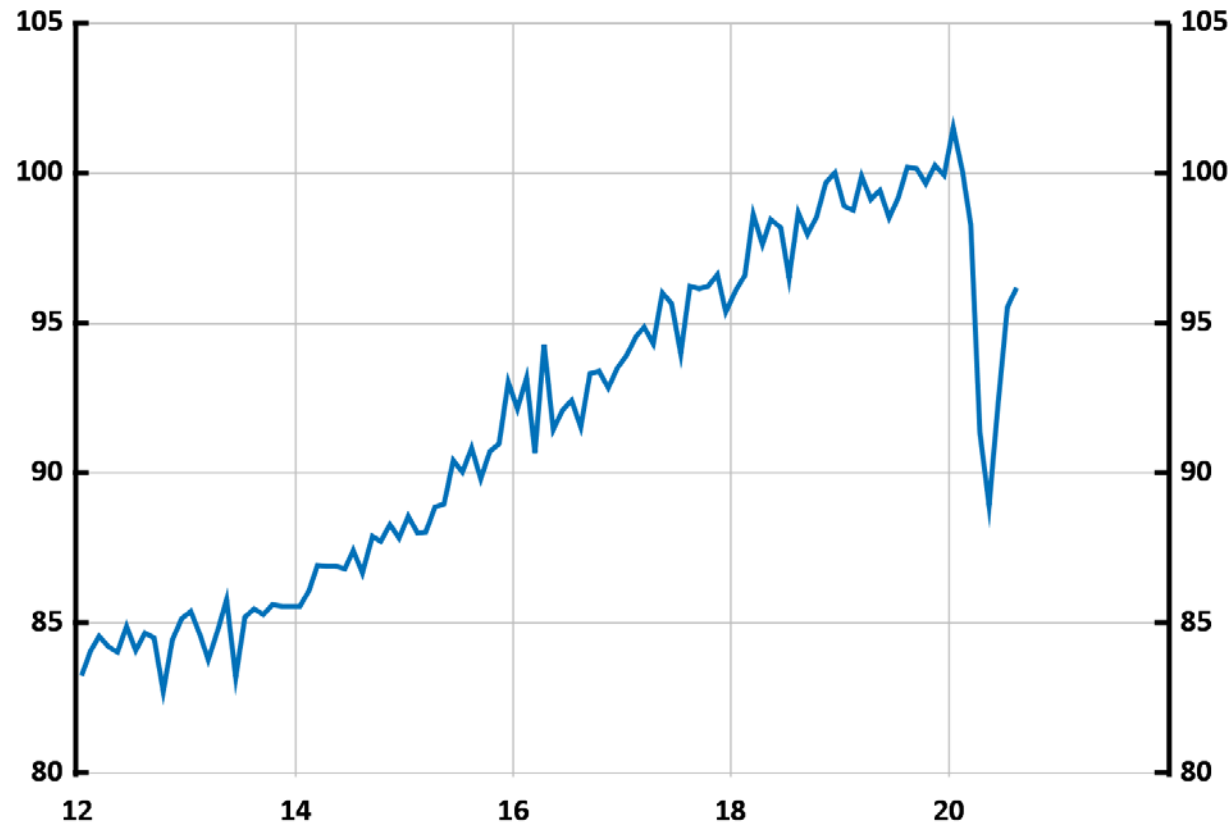
Riksdag Committee on Finance
20 October 2020

S V E R I G E S R I K S B A N K

Stefan Ingves

Governor of Sveriges Riksbank

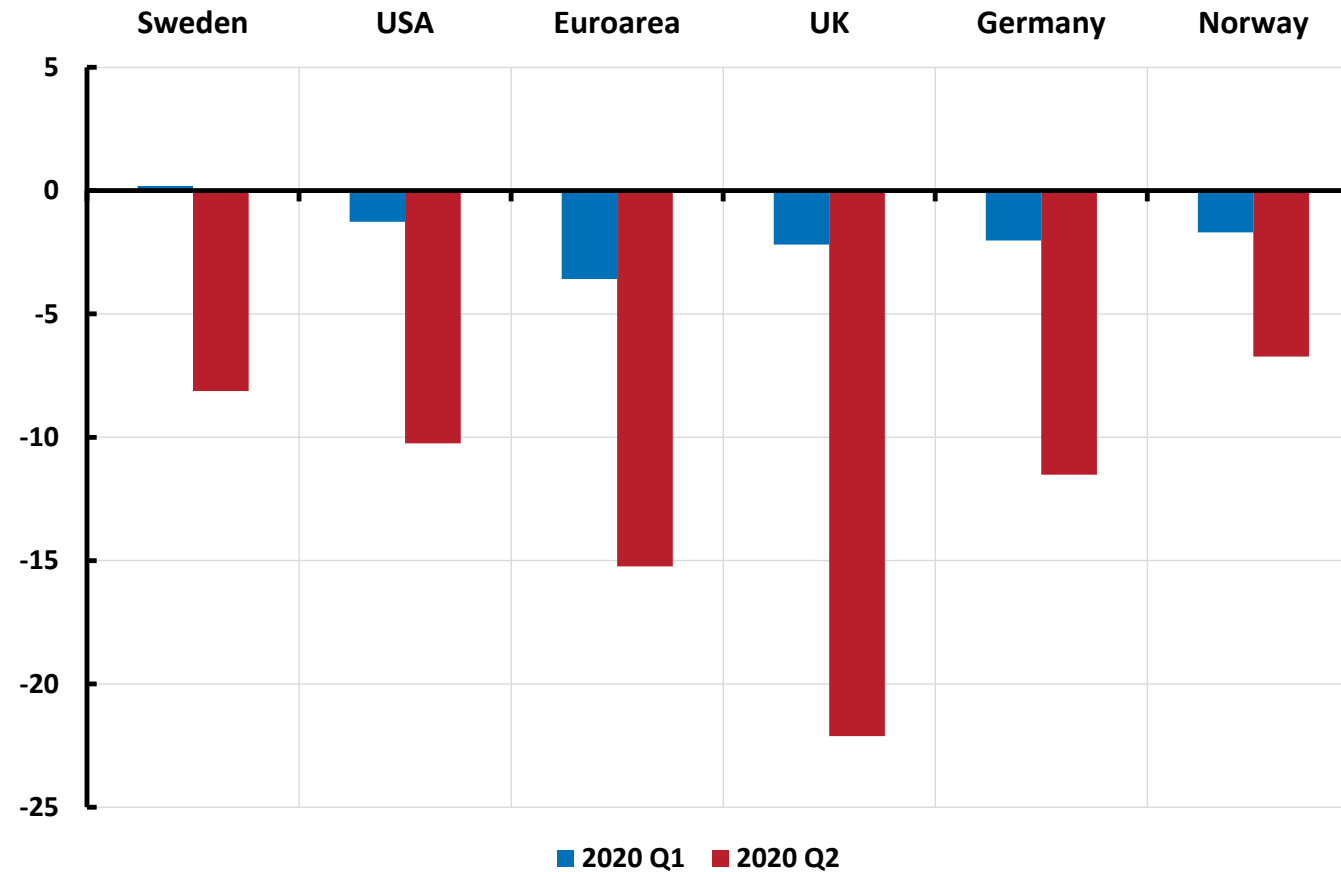
The Swedish economy has begun to recover



The activity indicator. Index, 2019 Q4 = 100.

Sources: Statistics Sweden and the Riksbank.

Substantial fall in global GDP in the spring of 2020



Percentage change from 2019 Q4.

Source: The Riksbank

But considerable uncertainty and risk of setbacks

COVID-19 infections are rising again in several parts of the world

It has not been possible to ease restrictions further

Financial markets are functioning with the support of central banks

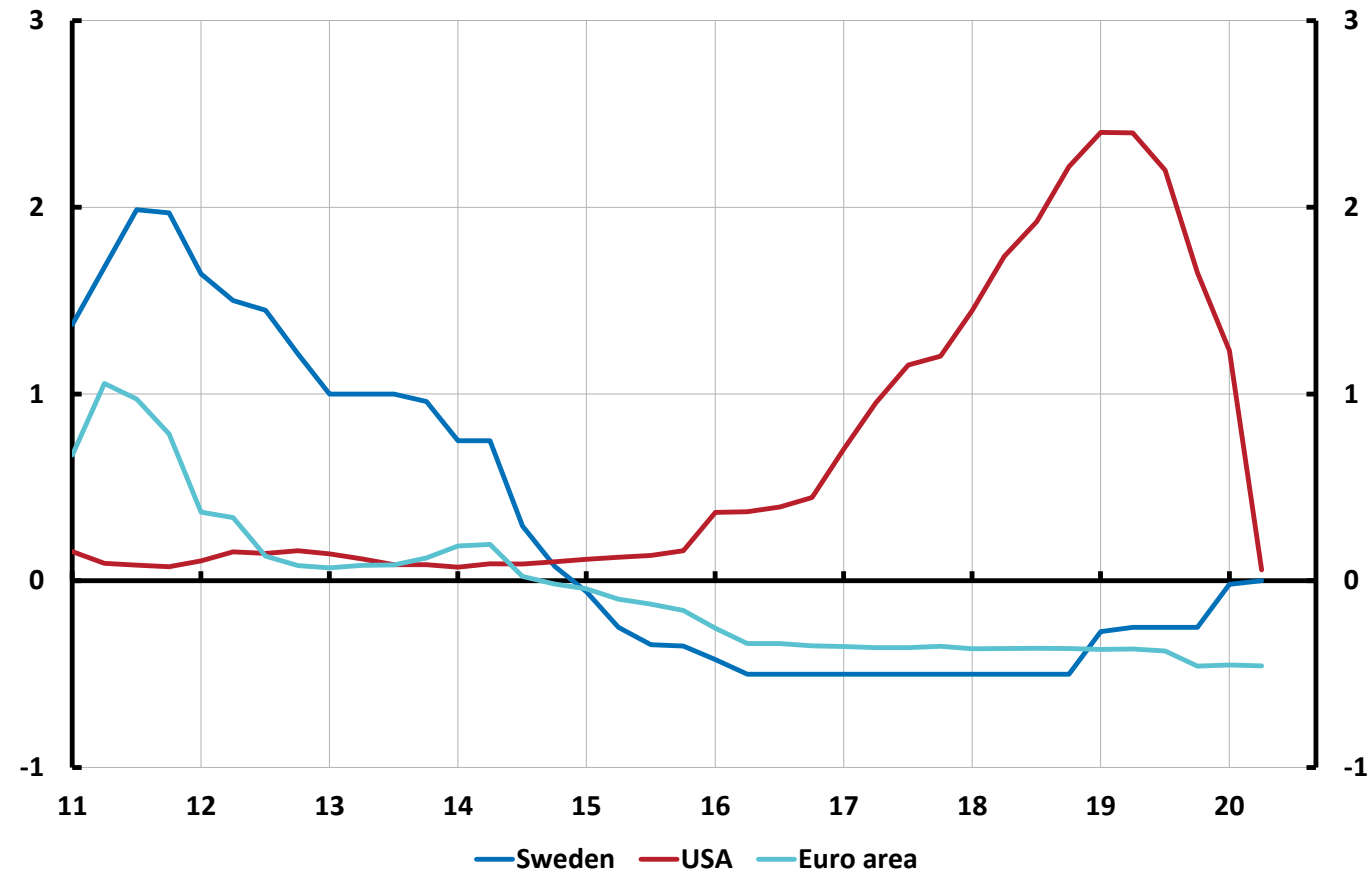
High debt levels and large budget deficits in many countries

Longer term effects of the crisis?



The conditions for conducting monetary policy have changed

Policy rates at the lower bound...

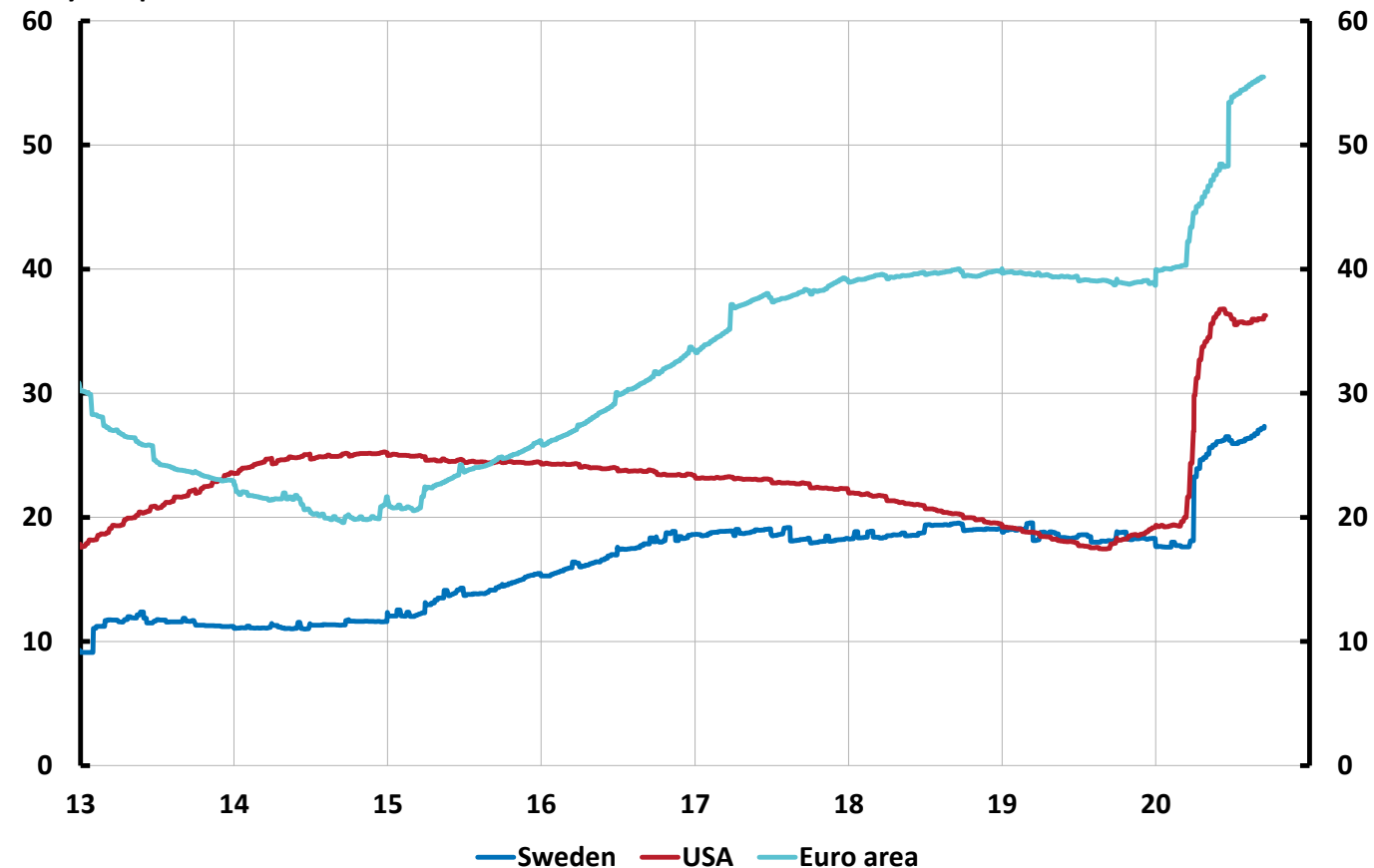


Per cent.

Sources: The Riksbank and Macrobond.

The conditions for conducting monetary policy have changed

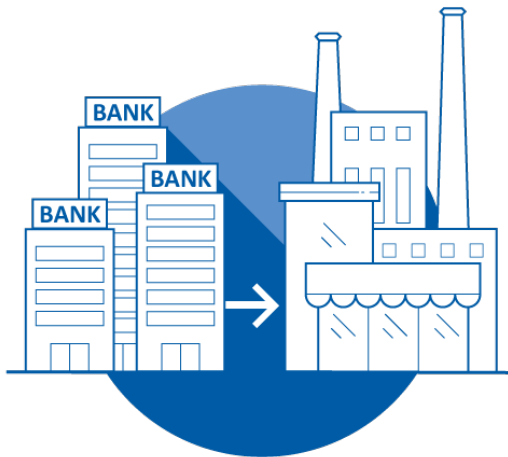
... and substantially expanded balance sheets



Note. Per cent, share of GDP.

Sources: The Riksbank and Macrobond.

A combination of measures most effective to support the economy



**Loans to companies
via banks**

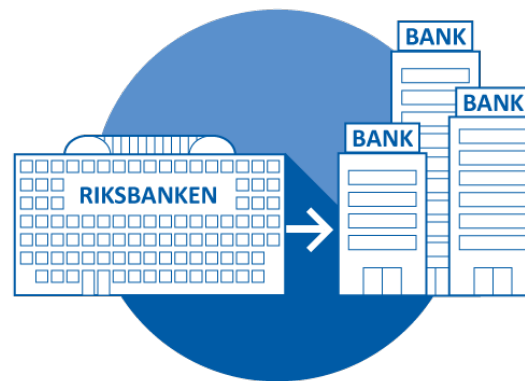
**Decided
(Utilised)**

**SEK 500 bn
(165 bn)**



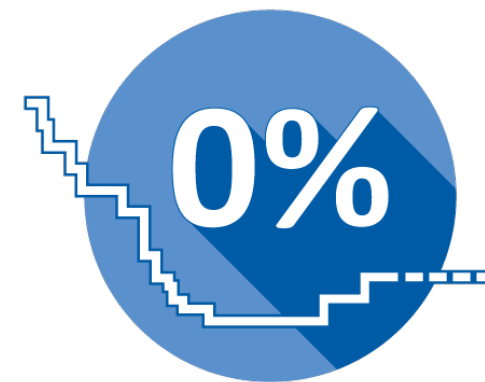
**Purchases of interest-bearing
securities**

**SEK 500 bn
(228 bn)**



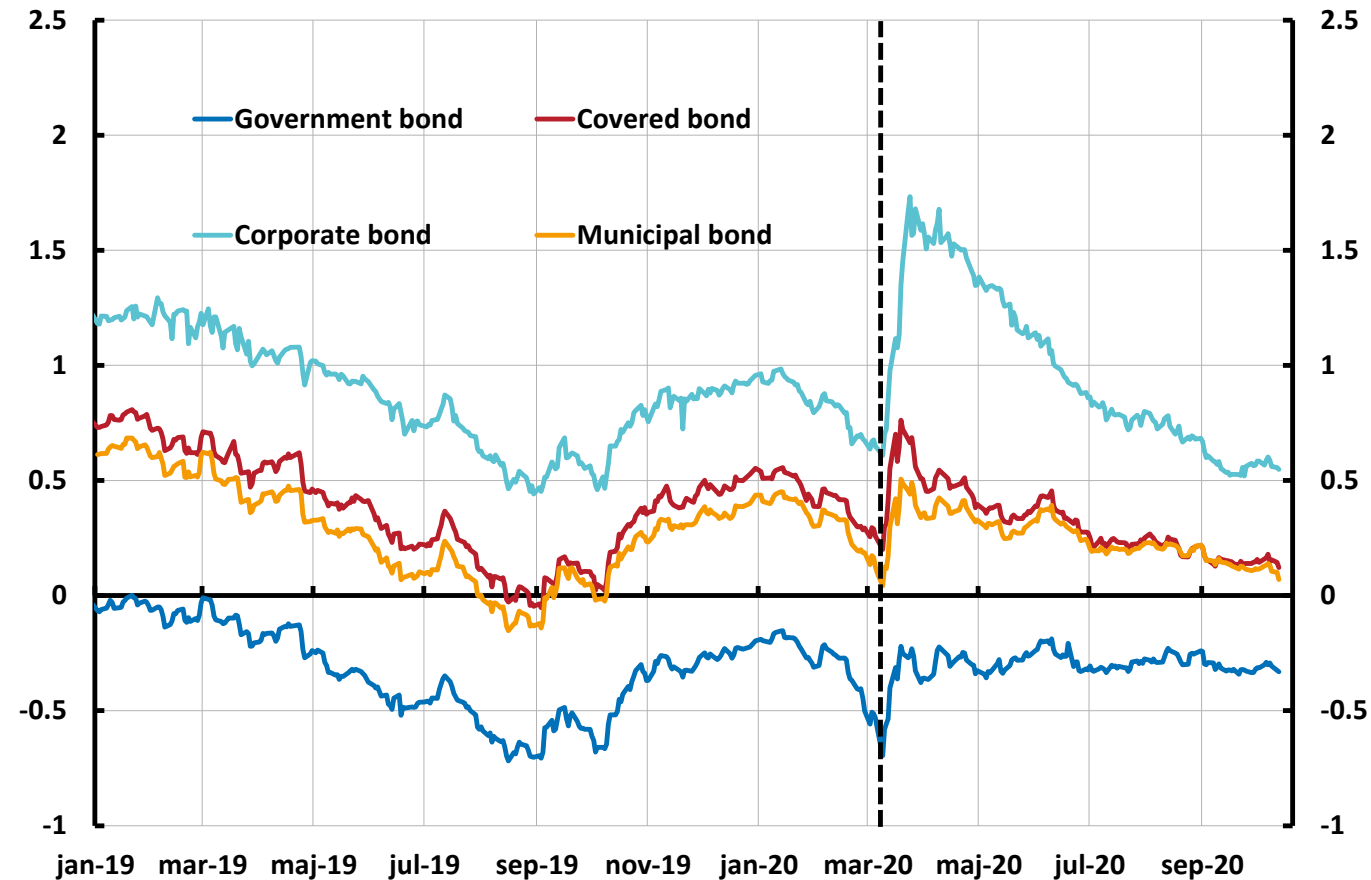
**Increased access to safe
and liquid assets**

**Unlimited SEK, USD 60 bn
(29 bn, 2 bn)**



Repo rate 0%

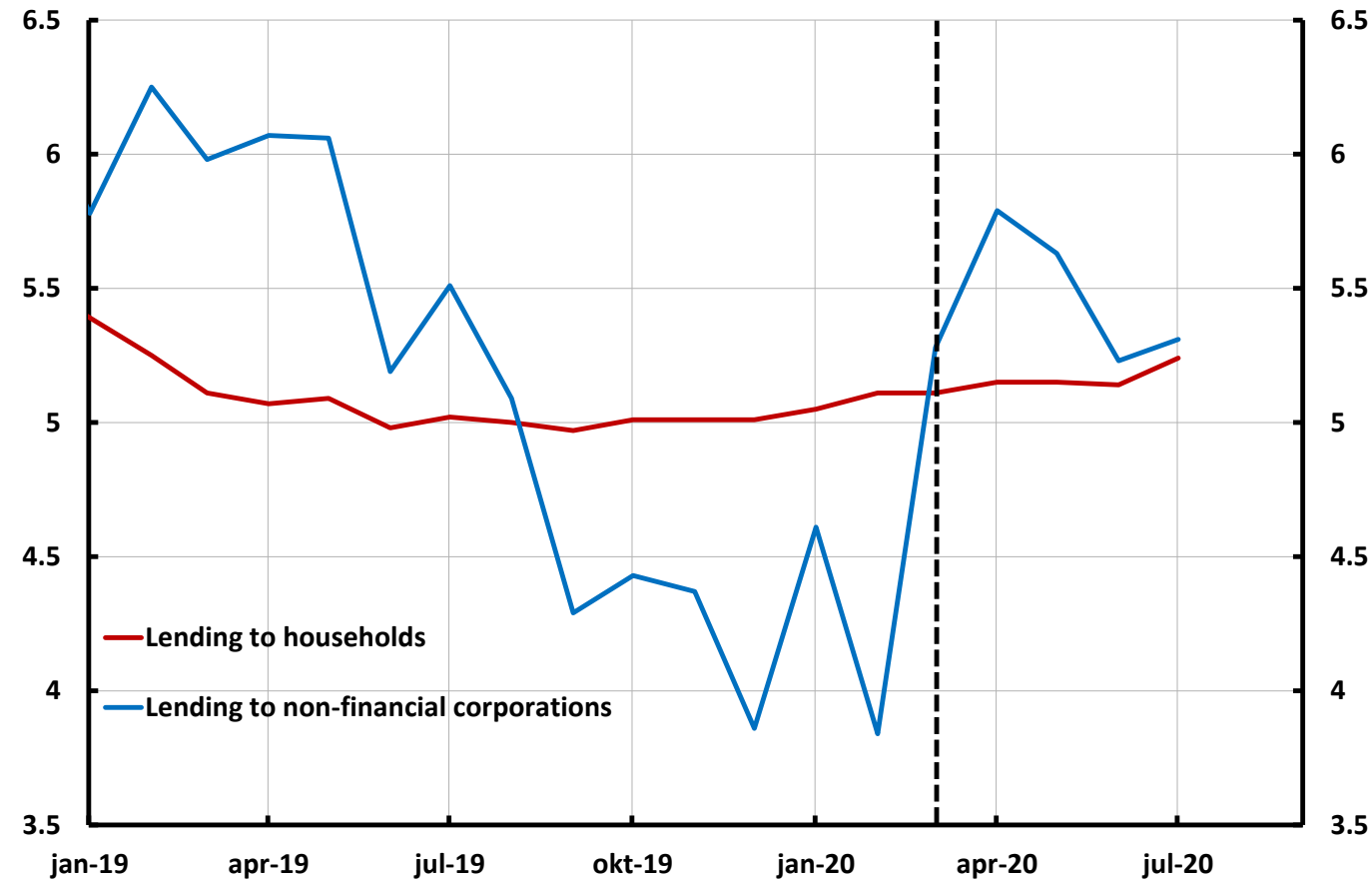
Interest rates have come down...



Interest-bearing securities with 5-year maturity in percentage points. The broken line refers to 11 March, when the WHO declared COVID-19 a pandemic.

Sources: Bloomberg, Refinitiv and the Riksbank.

...and credit supply has been maintained



Loans to companies and households in annual percentage change from MFI. MFI stands for Monetary Financial Institutions. The broken line refers to 11 March, when the WHO declared COVID-19 a pandemic.

Source: The Riksbank.

Monetary policy needs to be expansionary to provide support

Without the measures, the crisis would have been even worse for households and companies

Supporting the recovery in the economy and inflation

Helping to keep unemployment lower than it otherwise could have been

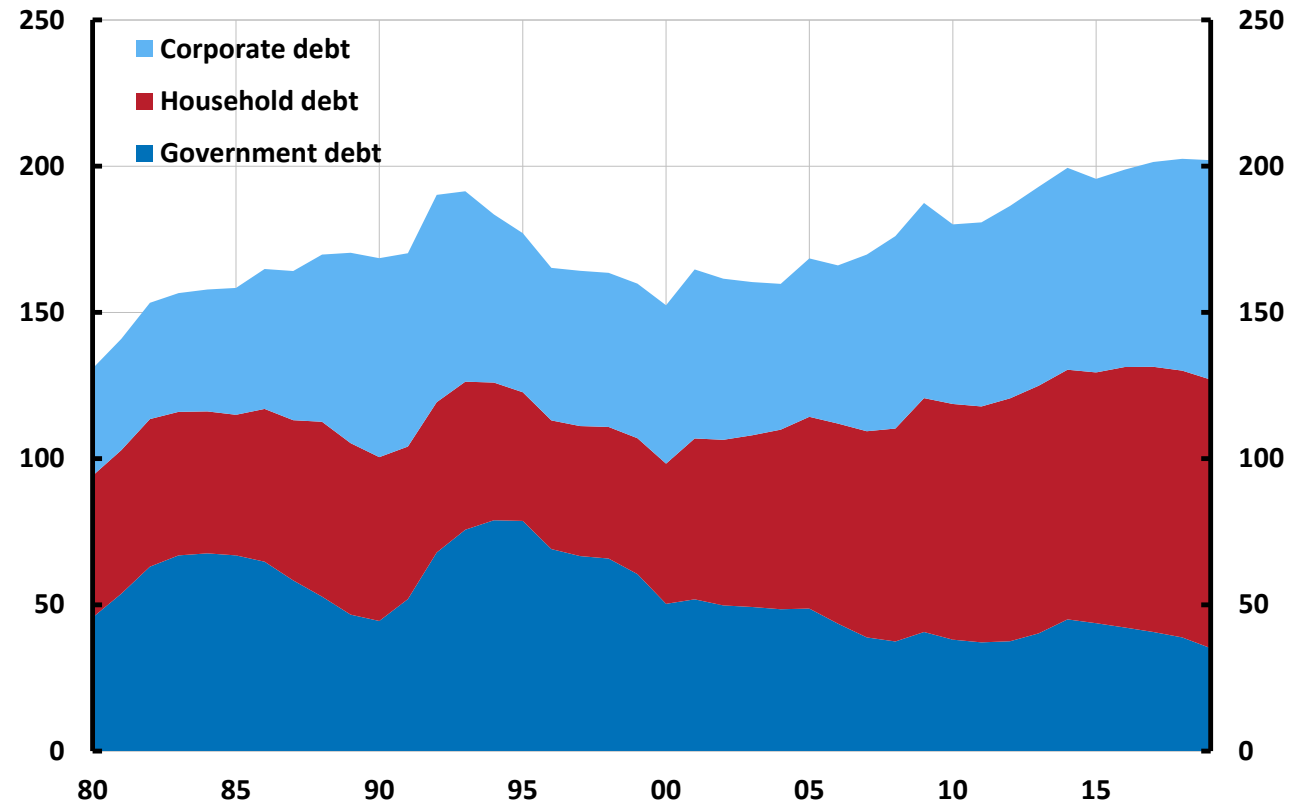
But low interest rates lead to

- rising asset prices
- increased private and public indebtedness

Imbalances need to be monitored and addressed with targeted measures from various policy areas



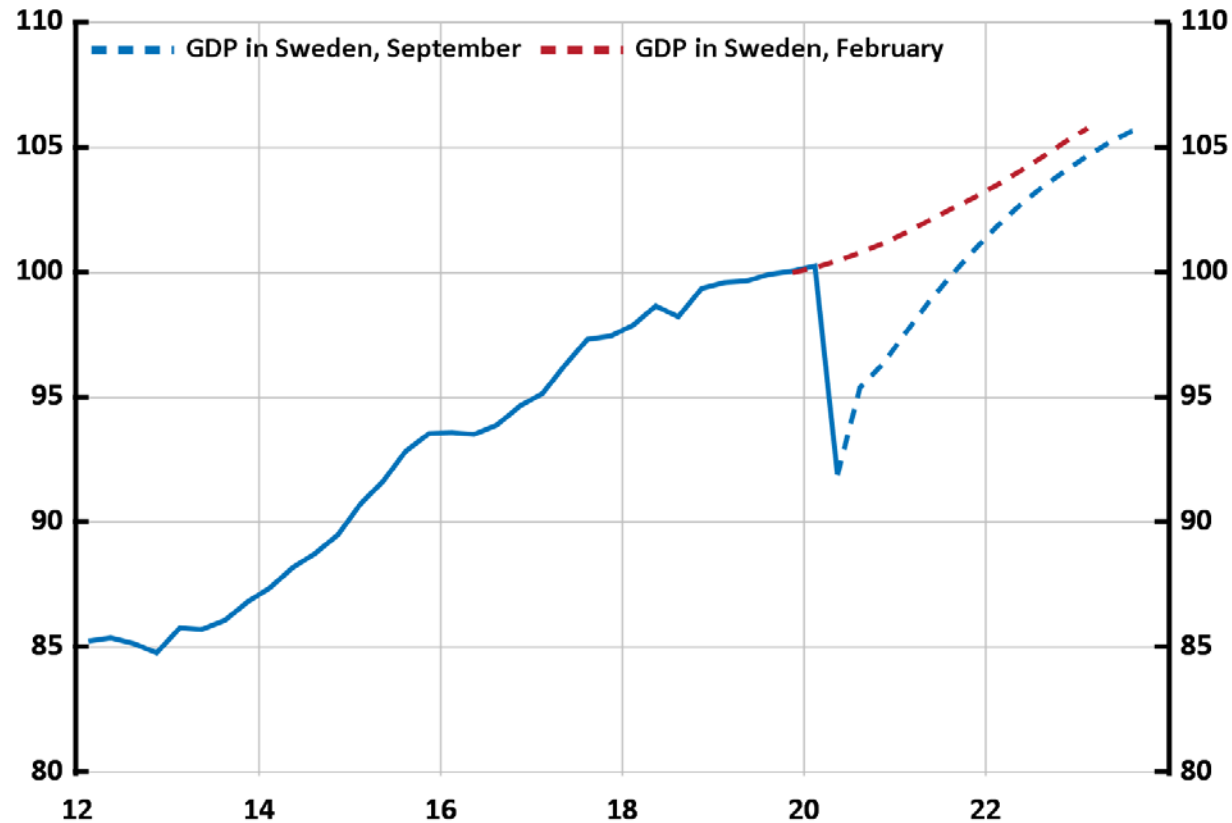
Government debt is low, but society's debt is high



Per cent, share of GDP.

Sources: Statistics Sweden and the Riksbank

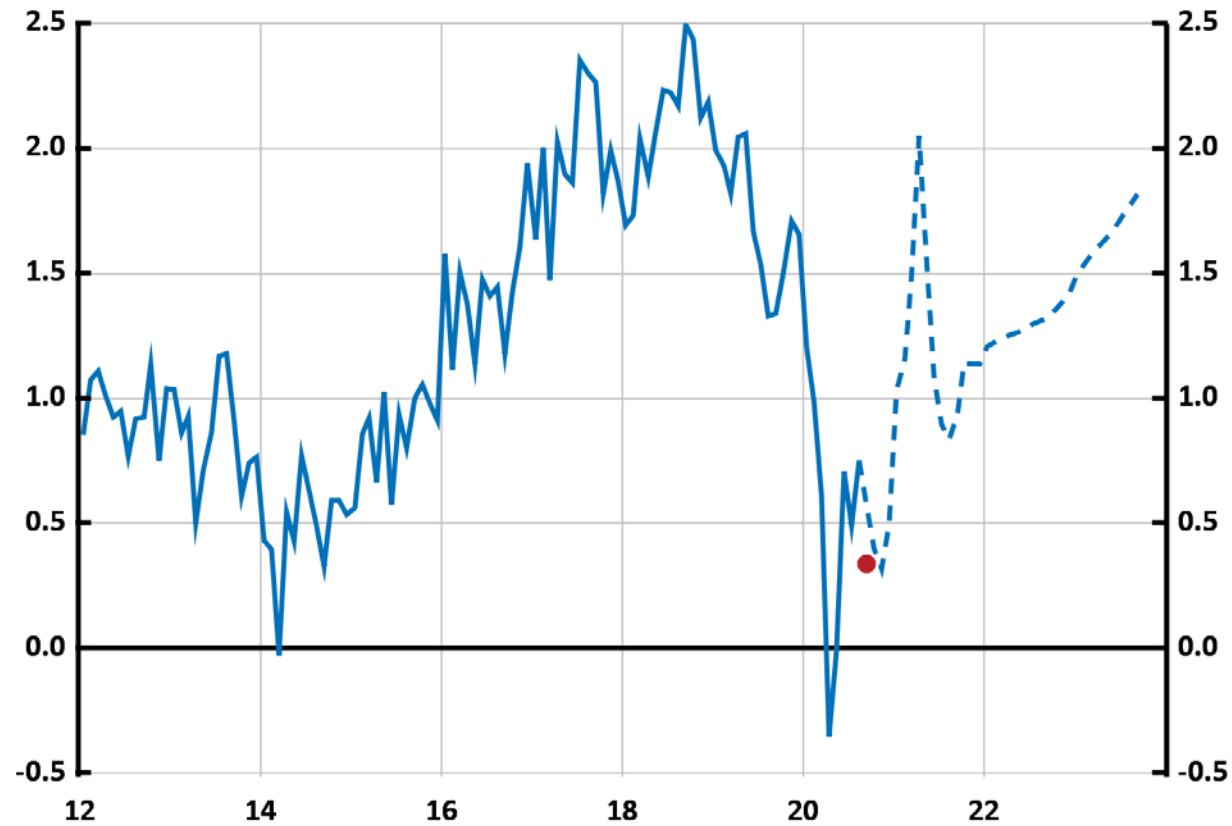
Greatest risk just now is a more drawn-out economic recovery



Index, 2019 Q4 = 100.

Sources: Statistics Sweden and the Riksbank.

Inflation low during the forecast period



Annual percentage change. The red dot is the outcome for September which came after the Monetary Policy Report.

Sources: Statistics Sweden and the Riksbank.

Important interaction between different policy areas

- The Riksbank's measures effective in keeping interest rates low
- Fiscal policy more effective support for impacted sectors
- Fiscal policy important factor for recovery 2021

