



# Monetary policy in a changing world

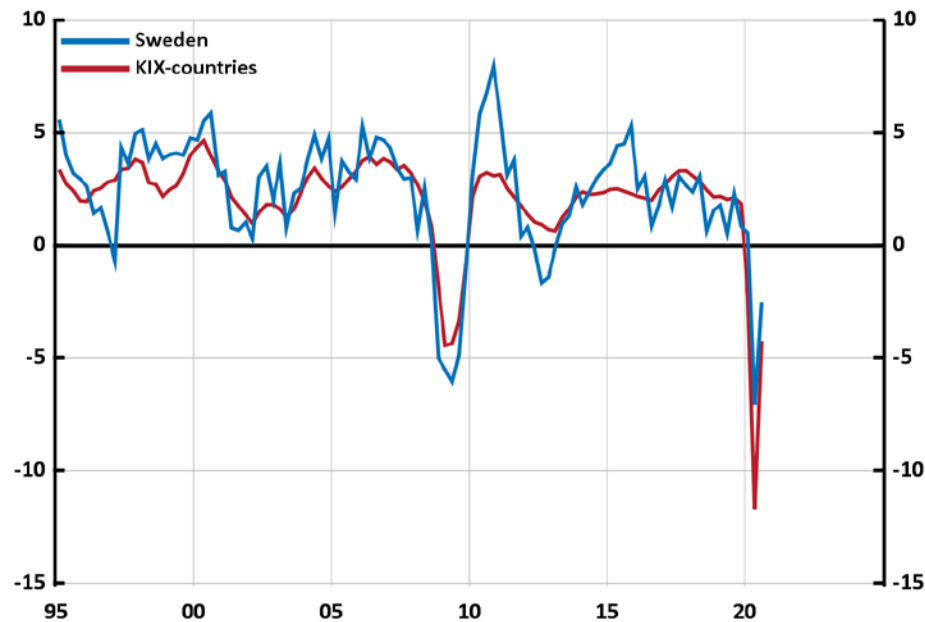
# World-changing economic events in recent decades

- Downward trend for interest rates over whole world
- The financial sector has grown ever larger
- Three extensive crises in just over ten years

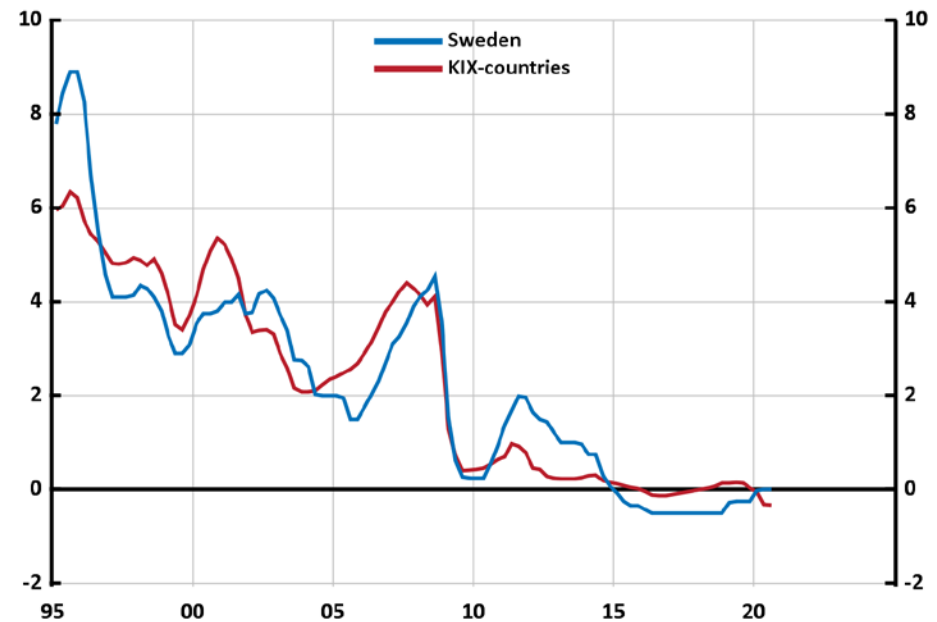


# Swedish economy: Small, open and heavily correlated with rest of world

## GDP growth



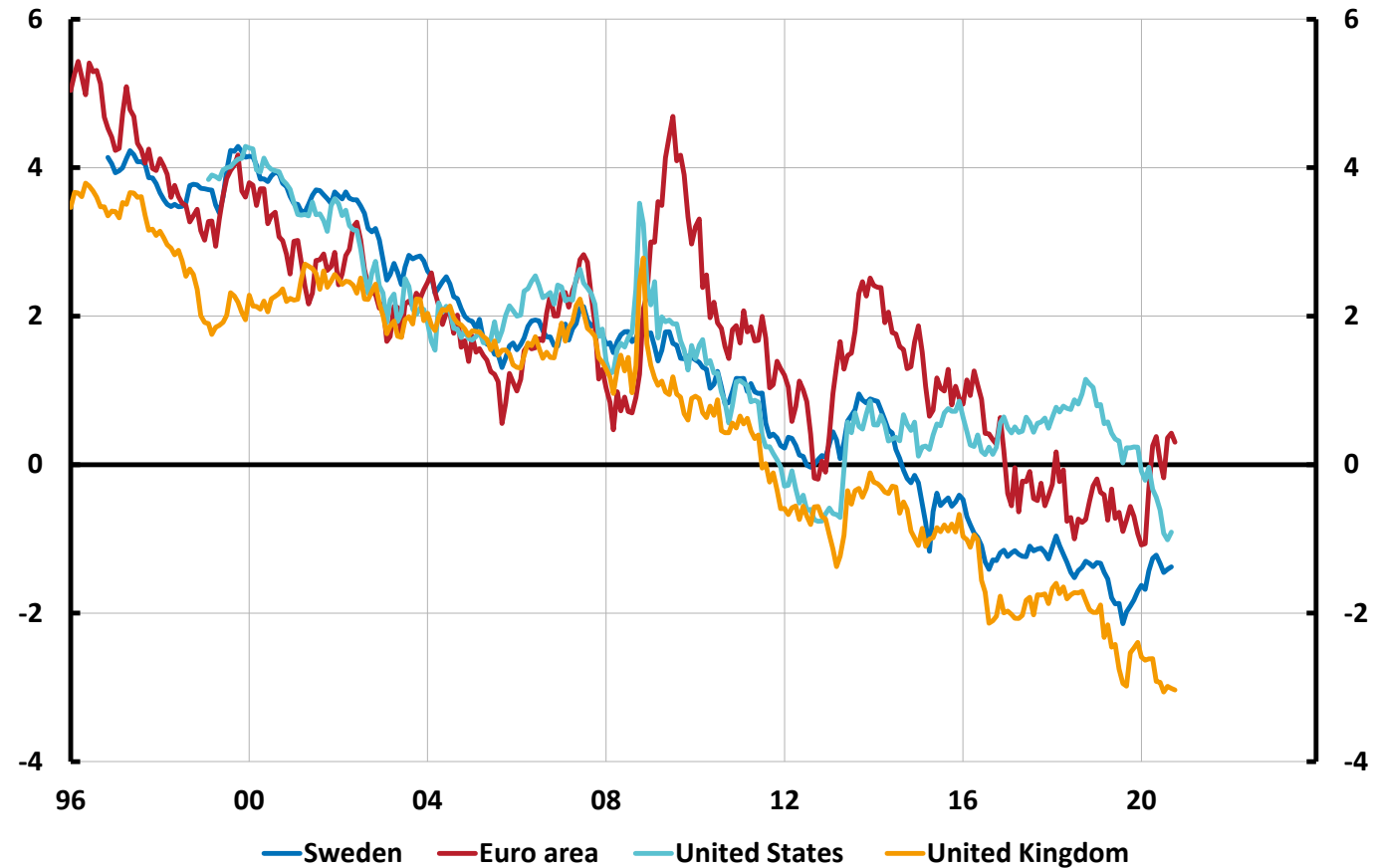
## Policy rates



The KIX is an aggregate of the countries that are important for Sweden's trade.

Sources: Statistics Sweden and the Riksbank

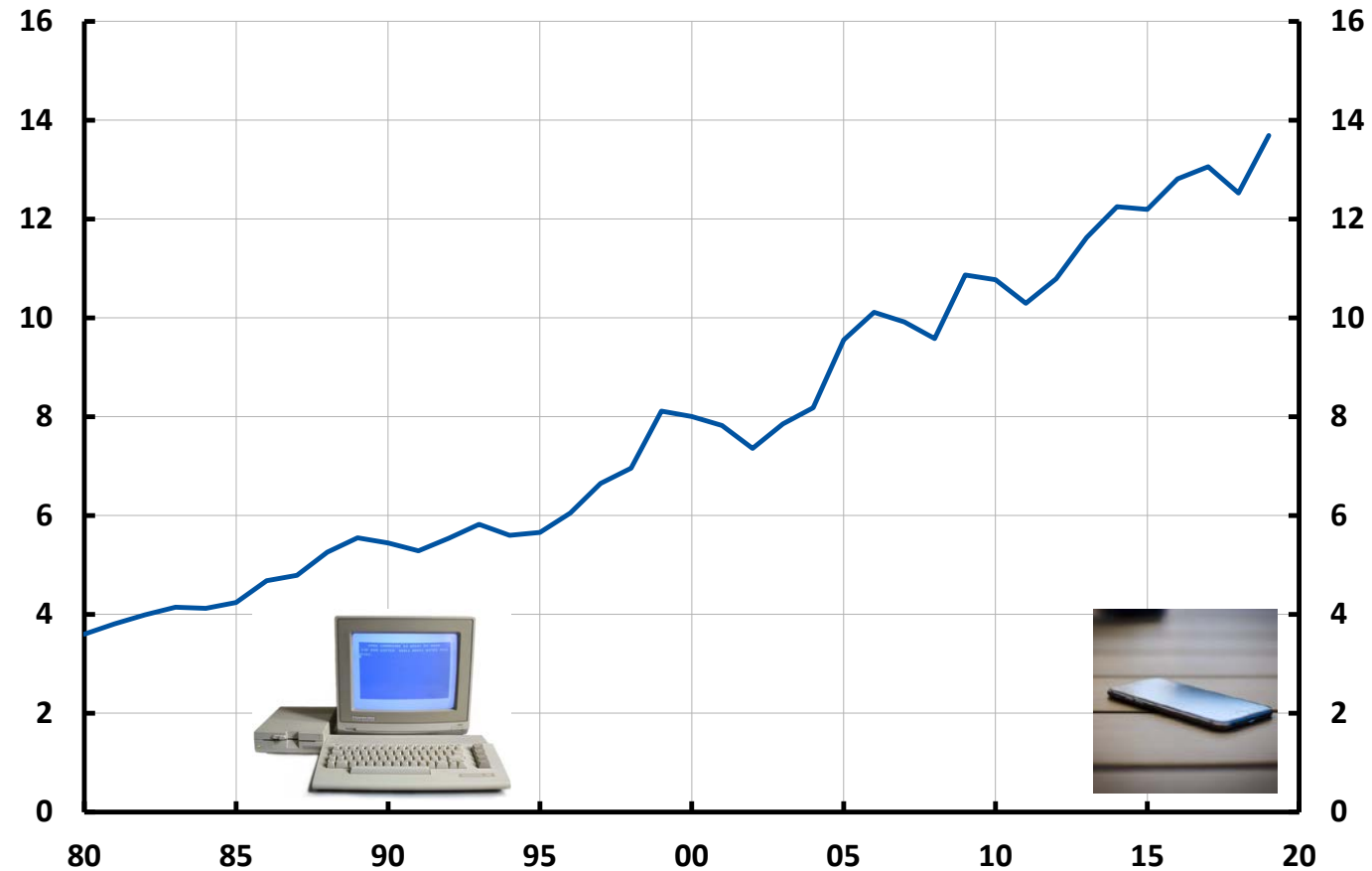
# Global interest rates have fallen for decades



Yields on index-linked government bonds, 10-year maturity.

Sources: National central banks and the Riksbank

# The financial sector has increased in importance



Financial assets in Sweden in relation to GDP.

Source: Statistics Sweden

# The monetary policy model before the financial crisis

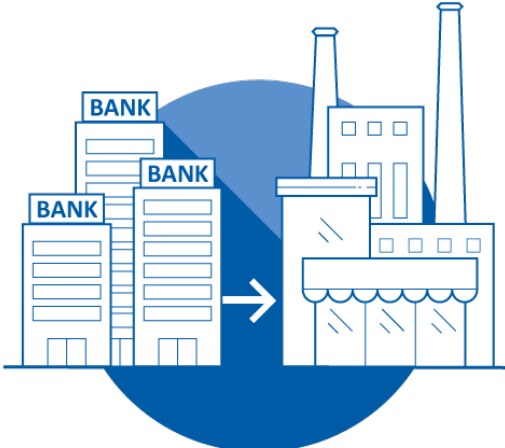
- Financial sector a neglected part in analysis
- Over-simplified view of how the interest rate acts in the economy and on inflation
- Good as an illustration of the principles of inflation targeting
- But far too simple for a thorough discussion of monetary policy in practice
- Not least in a financial crisis!

# Central banks need to be able to act rapidly and broadly

- The target is the same but the way there looks different
- Financial crisis, euro crisis and coronavirus crisis
- Central banks have acted under great uncertainty and with several different tools
- Measures that more directly affect interest rate levels on different markets
- Preparedness to act where ever necessary, whenever necessary



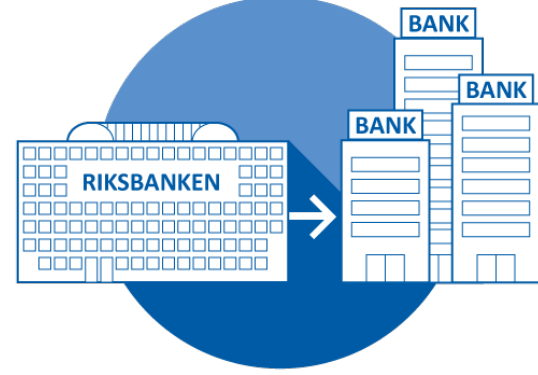
# A combination of measures most effective to hold interest rates to households and companies low



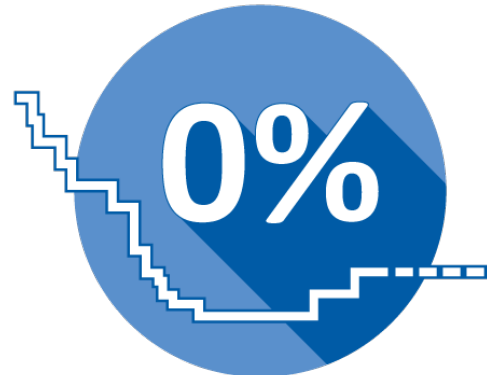
Loans to companies via banks



Purchases of interest-bearing securities



Increased access to safe and liquid assets



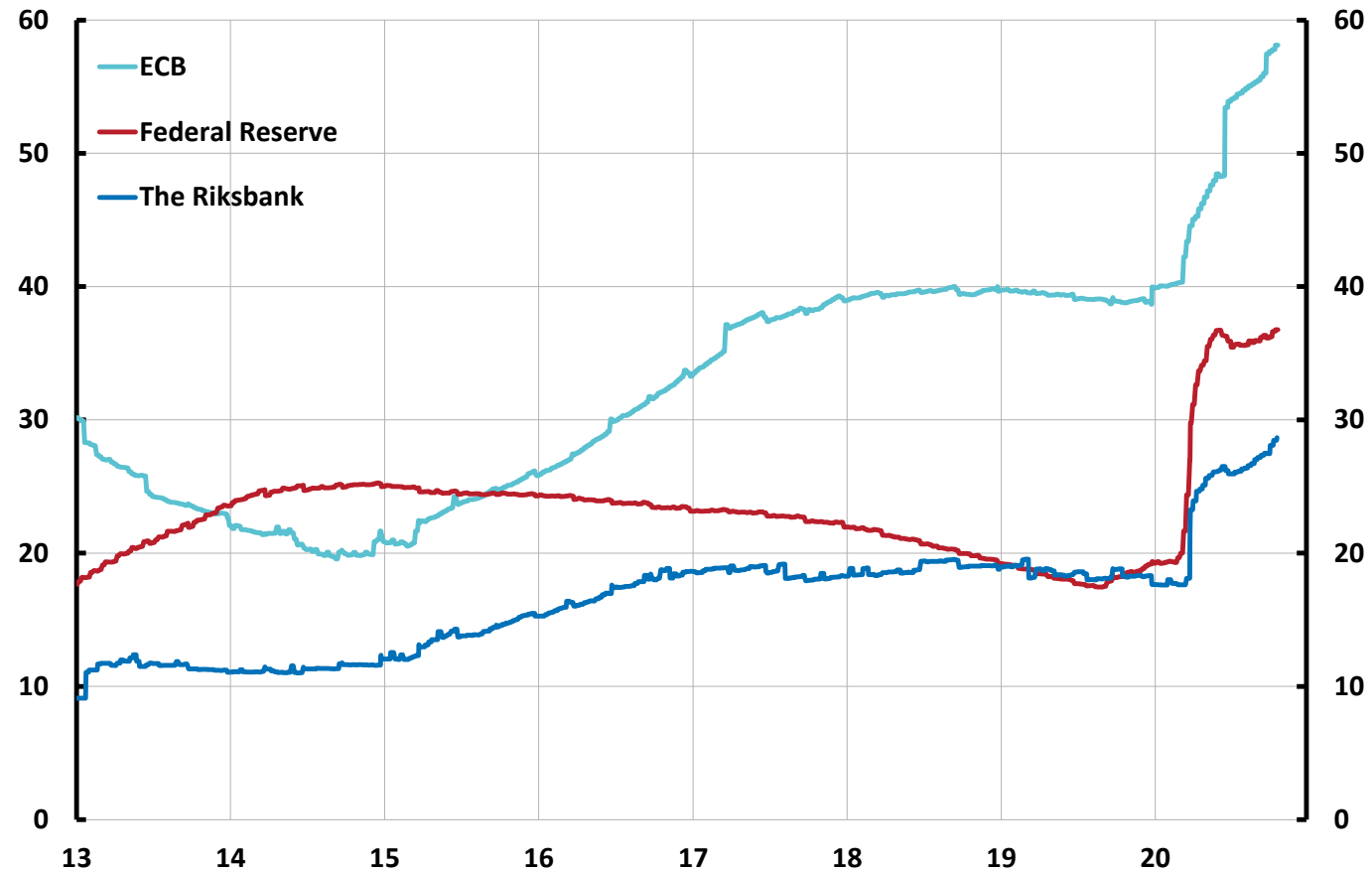
Repo rate 0%

Balance sheet's asset side

Balance sheet's liability side



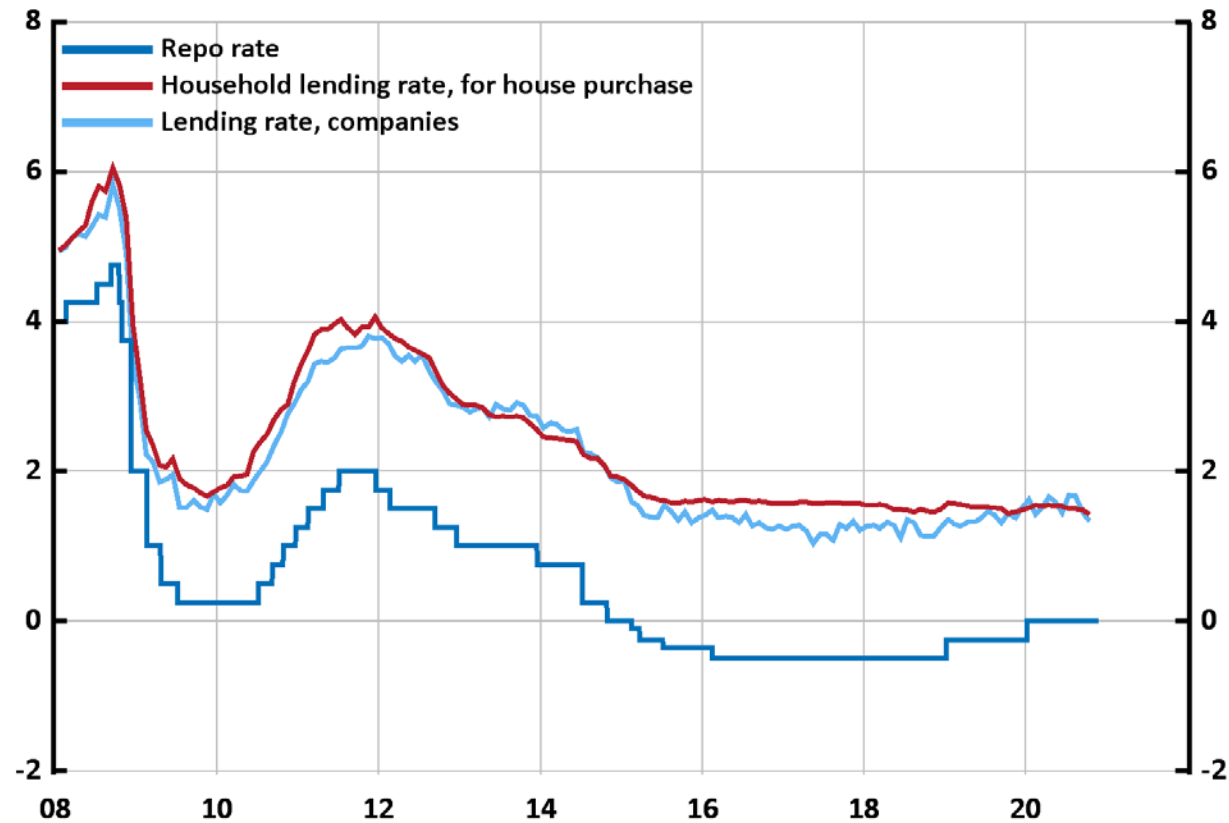
# Central bank balance sheets are playing an ever greater part



Balance sheet total, per cent of GDP.

Source: Macrobond

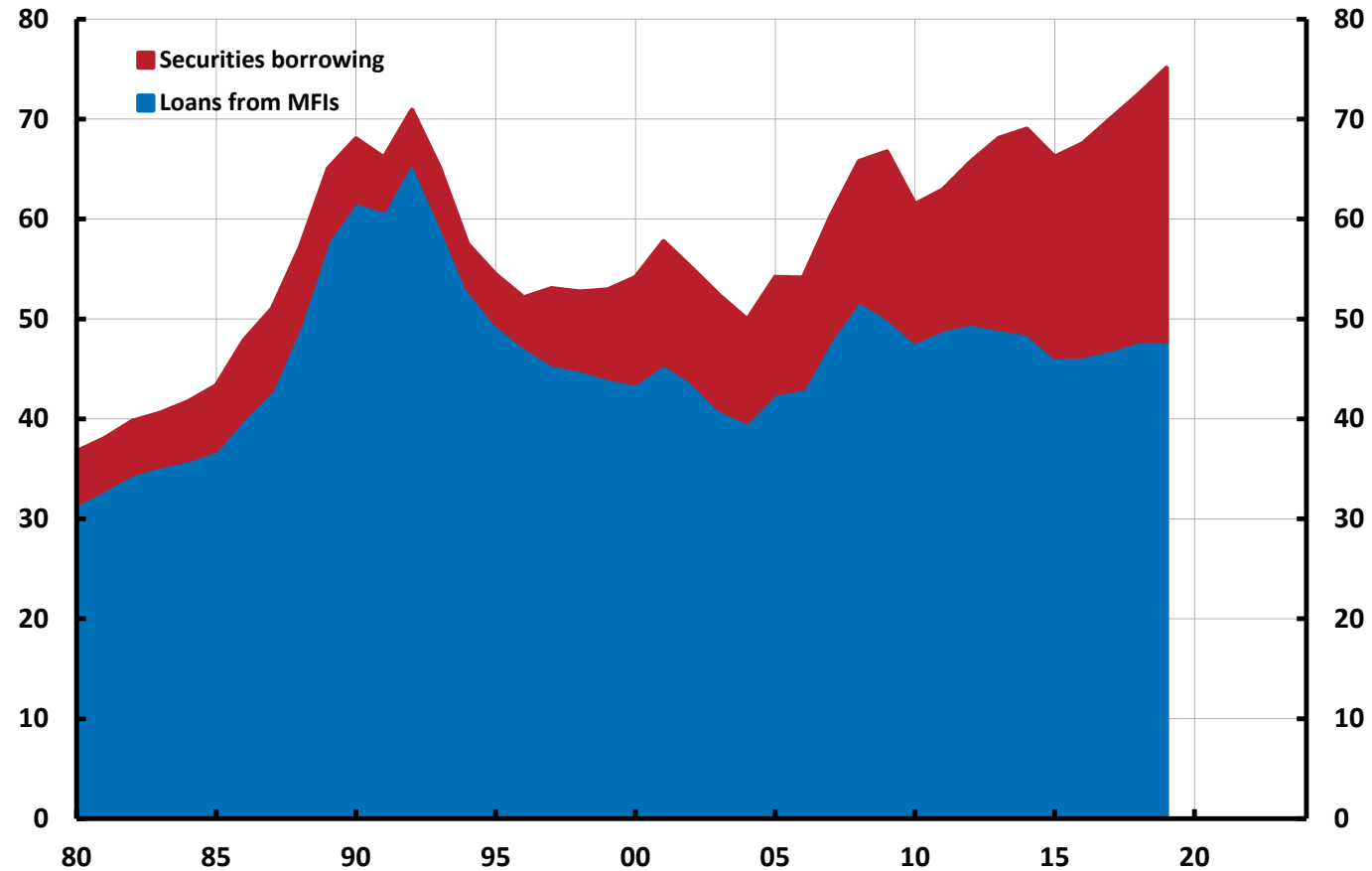
# Low interest rates to households and companies – supporting the recovery and inflation



Per cent.

Sources: Statistics Sweden and the Riksbank

# Securities borrowing increasingly important for corporate funding



Per cent of GDP. Securities borrowing and loans in both Swedish kronor and foreign currency. Securities borrowing 1980-1984 is based on the older classifications in the Financial Accounts.

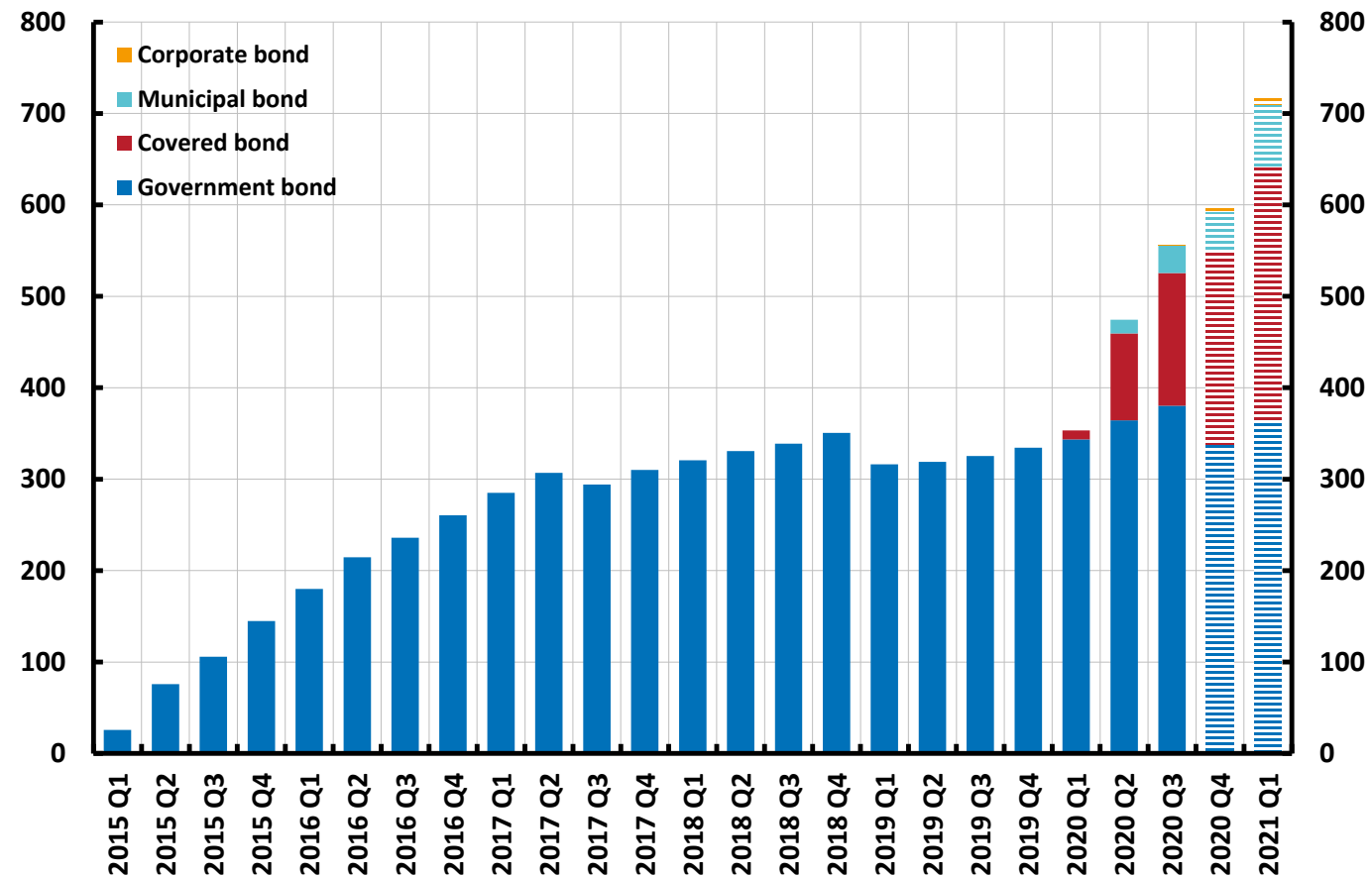
Sources: Statistics Sweden and the Riksbank

# A law for a central bank in all weathers

- The proposed new Sveriges Riksbank Act takes its starting point from a vanished world
- Sweden needs a new Sveriges Riksbank Act that allows leeway for a changing world
- Clarity over tasks and flexibility over how they can be achieved



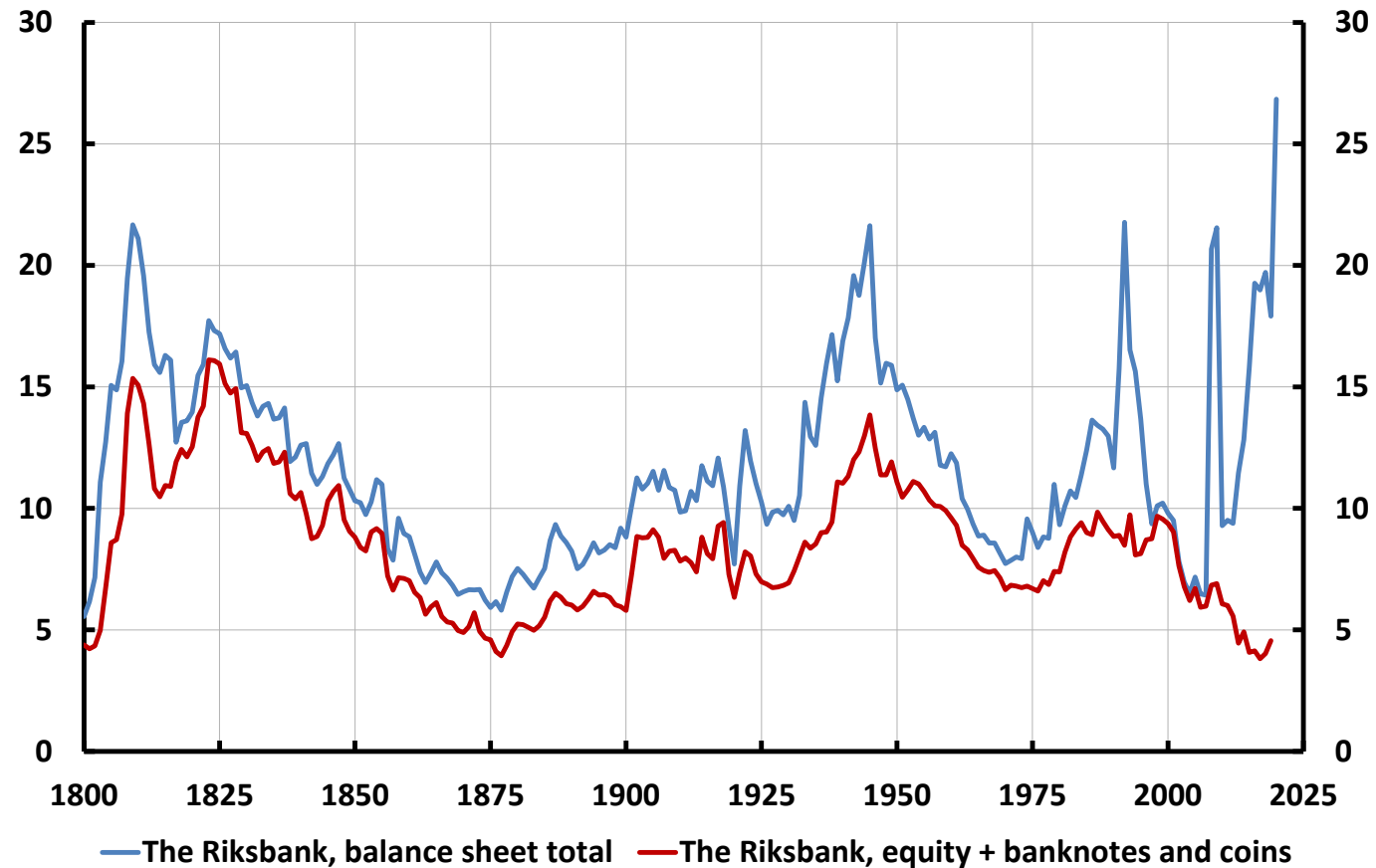
# The Riksbank's holdings of securities have increased



Nominal amounts, SEK billion Holdings up to Q1 2021 refer to decided purchases of government securities, municipal bonds and covered bonds. Government securities include both government bonds and treasury bills. For corporate bonds, the purchase decision covers the whole period up to 30 June 2021, without division into quarters.

Source: The Riksbank

# Possible measures to strengthen the Riksbank's contingency for managing crises



Per cent of GDP.

Source: Statistics Sweden and the Riksbank

# A central bank equipped for the future

- Changes in the financial sector affect central banks' work
- The toolbox needs to be flexible and easily accessible
- Asset purchases and policy rate will be central tools for a long time to come
- Constant preparedness to develop analyses and tools

