SPEECH

DATE:	25 May 2018
SPEAKER:	Governor Stefan Ingves
LOCALITY:	Sveriges Riksbank Anniversary conference, Stockholm

SVERIGES RIKSBANK
SE-103 37 Stockholm
(Brunkebergstorg 11)

Tel +46 8 787 00 00
Fax +46 8 21 05 31
registratorn@riksbank.se
www.riksbank.se

Concluding remarks

Let me start by expressing my gratitude to everybody for being here today and participating in this anniversary conference. It is not every day you throw a celebration for a 350 year-old. Thank you all for making this a memorable occasion.

The ambitious theme for this conference has been the past, the present and the future of central banking. There were many intriguing observations on this during the Nordic session before lunch, and we have been treated to further insights during this afternoon's international assembly. My congratulations to the editors of, and the contributors to, the commemorative book on the history of central banking for a job very well done. And I must thank my esteemed colleagues in this afternoon's panel, and the moderator Ms Flanders, for sharing their views on the future of central banking.

Today we have in effect covered a period stretching from 1668 until the present day – and beyond. To sum up the main conclusions from all of the presentations and discussions on those 350 plus years in 15 minutes would be an overwhelming task. So in these concluding remarks my more modest aim is to draw inspiration from today's discussions and say a few words on what I see as some of the general challenges for the Riksbank moving forward, adapting to a changing environment and adjusting to its role in the economy.

As we have seen today, central banking experiences differ over time. You don't have to go very far back in history to realise that. Just prior to the change to a floating exchange rate and inflation-targeting framework in 1992/93, the Riksbank looked very different from today. The flagship of the organisation was the trading room, with the responsibility of maintaining the exchange rate stable. The majority of the 750 employees of the bank worked with the manufacture and distribution of cash.

Today, the Riksbank's involvement in cash management is down to a minimum, and the organisation is much slimmer. There are now around 320 employees. And close to half of them are involved with monetary policy and financial stability – two policy areas that only a few were directly concerned with just 30 years ago.

So, *what* the Riksbank does, and *how* it does it, is certainly different today than it was in the 1980s. But the fundamental functions the bank is performing, the underlying reason *why* the Riksbank does what it does, have not really changed that much.

Actually, let's imagine that we had been able to bring representatives of the Riksbank from all of the previous centuries to join the 350th birthday celebration of the bank. What would they think of the organisation of today?

Depending on their century of origin, they would obviously struggle with different features and concepts. For one thing, our colleagues from the 17th and 18th century would be unfamiliar with the very term "central bank". The representatives from the 1800s would likely be appalled by the lack of decorum in today's Riksbank – just imagine, a governor of the bank appearing out of uniform! And all, including the people from the early 1900s, would be amazed to hear that half of the management positions in the bank are presently held by women.

But these kinds of things aside, I imagine that all of our time-travelling guests would be nodding in recognition if you told them that the fundamental role of the Riksbank is to lay the foundation for a smoothly functioning trade in goods and services by making sure that there is a stable and efficient payment system, and that there is confidence in the usability and the value of the means of payment.

But in order to meet these objectives, it has been, and will continue to be, necessary for the Riksbank and other central banks, to adjust day-to-day operations and organisational frameworks to new challenges as the economy, and society in general, evolve. In other words, to change *what* we do and *how* we do it.

Not often, but still more frequently than we would like, changes are forced upon us by some crisis. That was, for example, the case in 1993 when the Riksbank's inflation target was announced. More often, it is advances in the functioning of the economy and structural shifts that present different types of challenge for the bank to come to grips with and adjust to.

There is probably no more striking example of this right now than the rapidly declining demand for banknotes and coins in Sweden and the question of what this implies for the Riksbank. Since 2008, the demand for cash has declined by around 40 per cent in Sweden. Today, 15 per cent of payments in the retail trade are made in cash – a number that was around 40 per cent not even ten years ago. Internationally, this is unique. But the increasing popularity of digital payment solutions is a global trend, and more countries will probably be in a similar situation before long.

What would it actually mean if cash disappears from the economy? Well, the general public, unlike the banks, would no longer have access to money issued by the central bank. In other words, they would no longer be able to keep notes and coins without credit risk, issued by a government body tasked with maintaining the long-term value of money. The public would only have access to account-based private bank money.

Would this be a problem? During normal times, probably not. But what happens when there is financial stress, which, unfortunately, is not uncommon? In those times, you would expect both banks and the general public to want access to money that is free from credit risk.

This goes straight to the core of the Riksbank's objectives, so it is not surprising that we feel it important to investigate this further. Have the arguments for providing the general public with assets and means-of-payment free of credit risk actually lost their significance? Do Swedes in general no longer see the need for central-bank money? Or is it rather that they don't want to keep physical notes and coins? If that is the case, I believe the Riksbank has a duty to investigate the scope for issuing an *e-krona* – a digital alternative to the traditional krona made from pieces of cotton and metal. By the way, our Riksbank guests from the late 1800s could probably join this discussion with surprising ease. The basic questions are the same that they debated over a century ago, which resulted in the Riksbank's monopoly on issuing banknotes in 1904.

The rapid decline in the use of cash in Sweden is, of course, part of a broad digitalisation trend that affects all parts of society. And the implications of this trend do not restrict themselves to the Riksbank's role in the management of cash and our large-value payment system, RIX. Basically, all policy areas and every part of the bank's operations are affected – from the fundamental economic relationships that we rely on in our policy deliberations to the way the Riksbank communicates with the public and the way we organise ourselves and work within the bank.

Another trend with far-reaching implications is the growing interdependence between economies on a global scale. The rapid increase in cross-border movements of goods, services, and capital creates benefits. But it also means that the effects of shocks, as well as policies, are transmitted across borders to an increasing extent. This presents challenges for all policy areas of a central bank. In a small open economy, monetary policy will for example need to deal with the fact that asset prices and the exchange rate are increasingly influenced by monetary policy in the major currency areas.

Another example of the challenges with expanding financial linkages is the fall in real interest rates that has taken place around the world. This is a feature that most likely will continue to shape the economic landscape for some time. And it entails a number of challenging questions:

Do our monetary policy frameworks need to adapt to the fact that there is less scope to cut policy rates when interest rates are low on average? Since this environment tends to trigger increasing indebtedness, what are the implications for financial stability? How much attention should monetary policy give to financial stability concerns? In general, what instruments should central banks use to promote financial stability? And, importantly, if our mandates change, what demands are placed on central bank accountability and transparency?

From the discussions today it has been reassuring to see that these questions are also being pondered by many colleagues around the world. At the Riksbank, we hope to learn from your experiences and insights and to continue cooperating with you on many of these issues. Thank you!