

Introduction on monetary policy

Riksdag Committee on Finance
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S V E R I G E S R I K S B A N K

Stefan Ingves

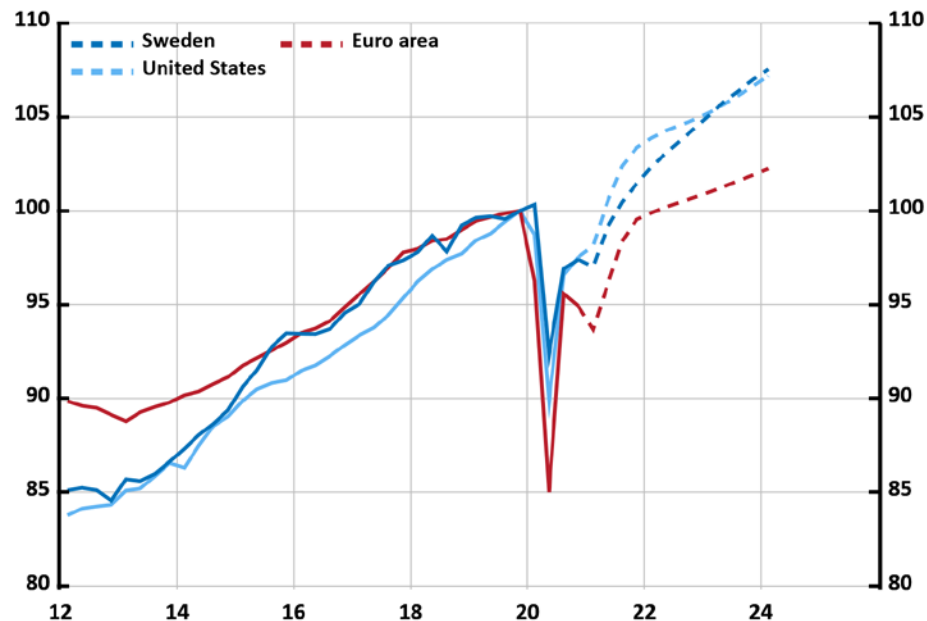
Governor of Sveriges Riksbank

Summary

- The real economy has been more resilient
- Rising inflation and inflation expectations – but low inflationary pressures
- Monetary policy remains expansionary
- Good impact from monetary policy
- Stabilisation policy has prevented major contagion effects

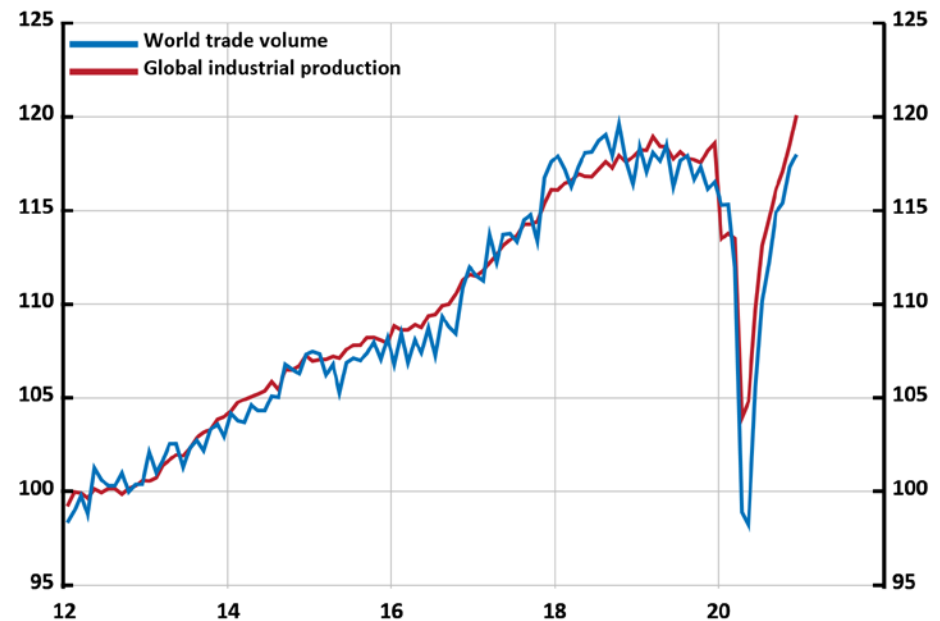
Weak start to the year before the recovery continues

GDP



Index, 2019 Q4 = 100 and index 2012=100, seasonally-adjusted data.

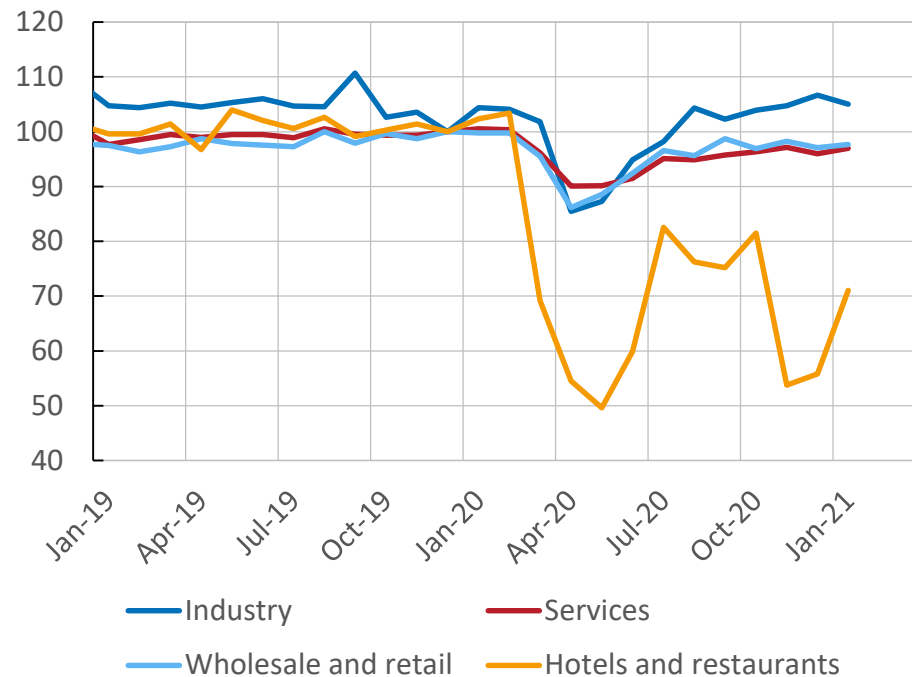
World trade and global industrial production



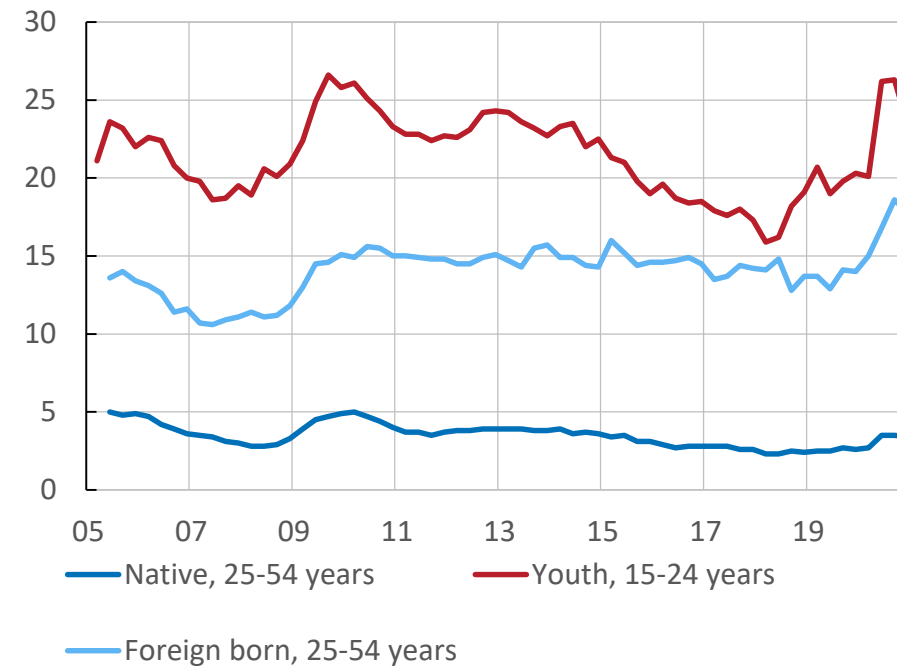
Sources: CPB, Bureau of Economic Analysis, Eurostat, national sources
Statistics Sweden and the Riksbank

But the recovery is divided

Production has been hit hard in some sectors



Leading to high unemployment in certain groups



24%
Young people

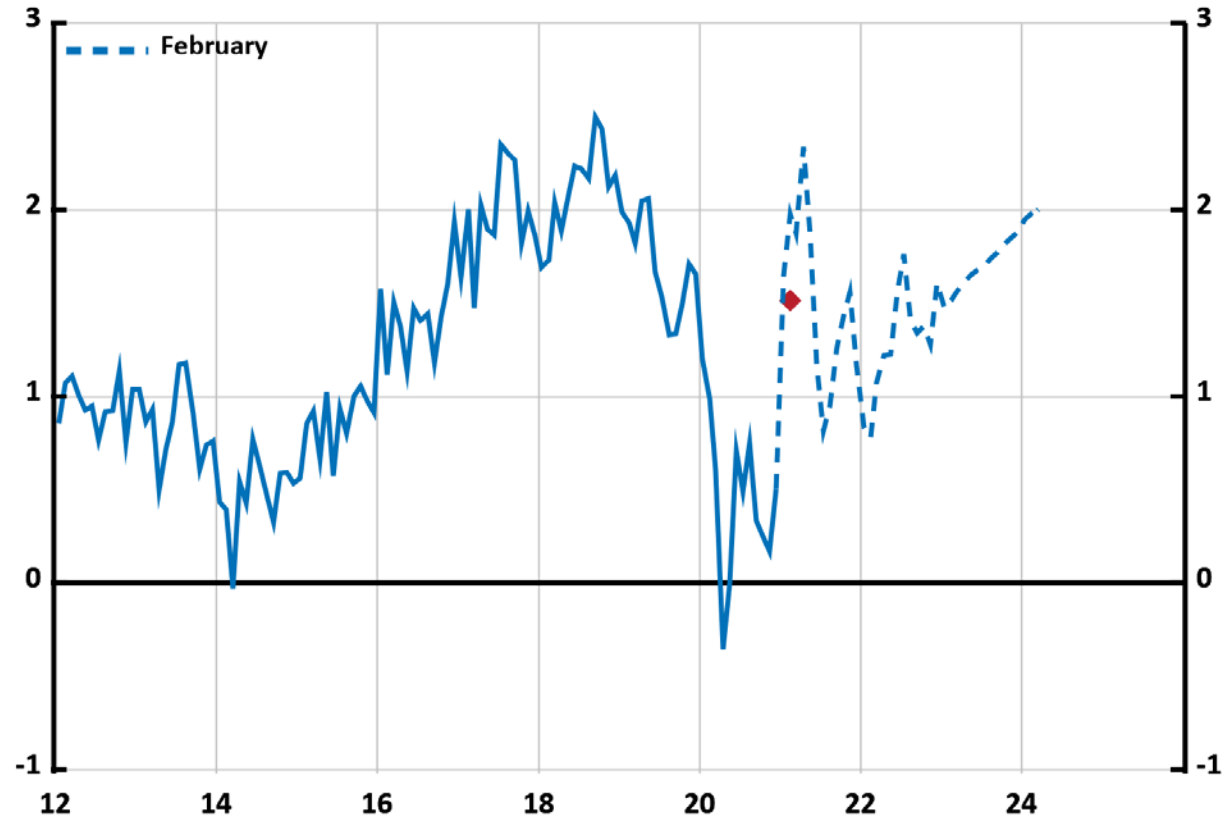
18%
Born abroad

3%
Born in Sweden

Index, December 2019 = 100, seasonally-adjusted data and percent of labour force in respective age group.

Sources: Statistics Sweden

Volatile inflation to rise in the longer term

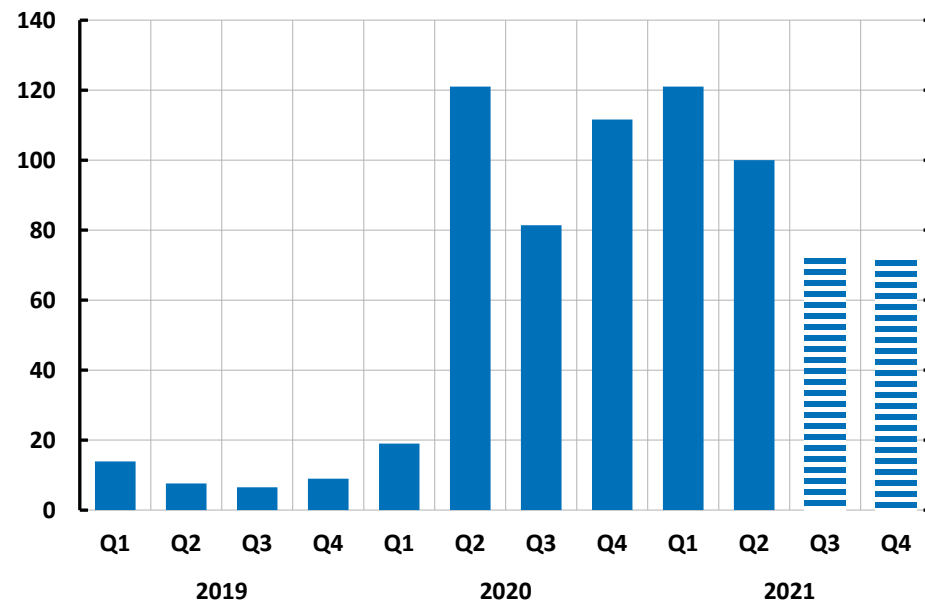


The CPIF, annual percentage change. Solid line represents outcome, broken line represents forecast from the Monetary Policy Report in February. The red diamond refers to the outcome in February 2021.

Sources: Statistics Sweden and the Riksbank

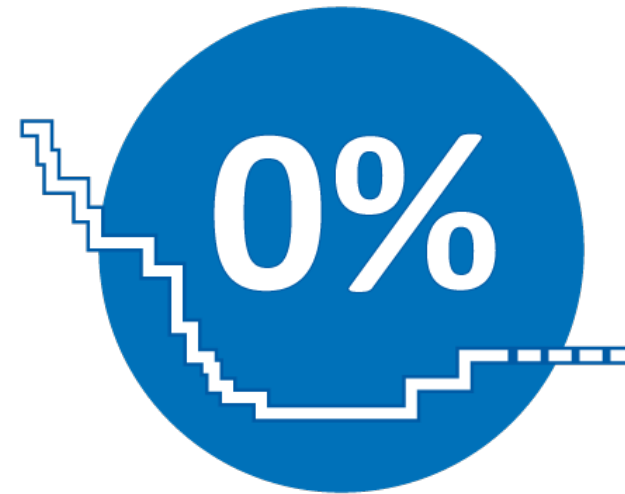
Monetary policy supporting recovery and inflation

Asset purchases



Solid bars are decided and implemented purchases of government, municipal, covered and corporate bonds and treasury bills. Shaded bars illustrate an even purchase pace for the remainder of 2021.

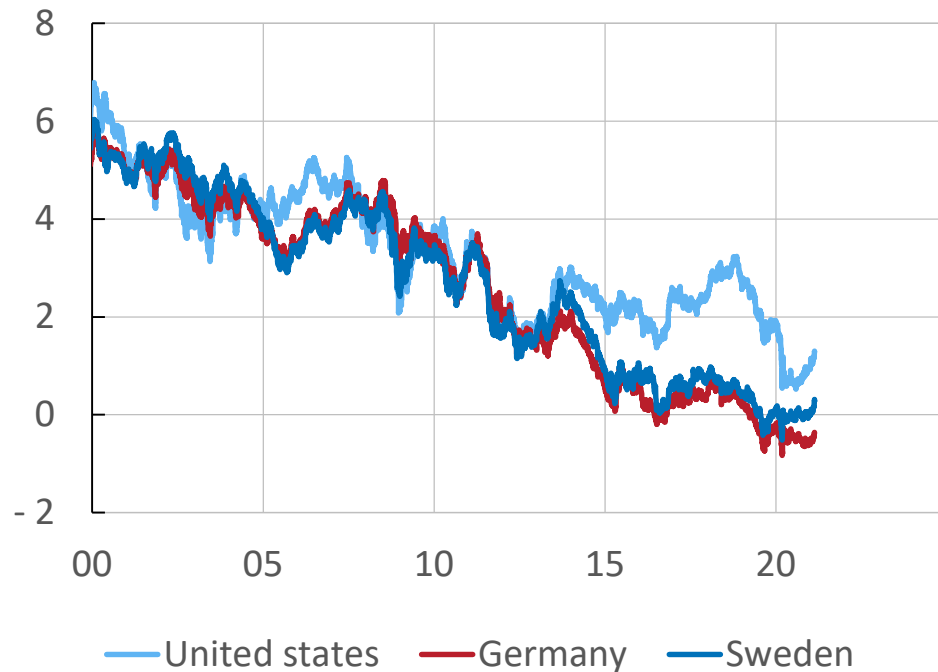
Zero repo rate in the years ahead



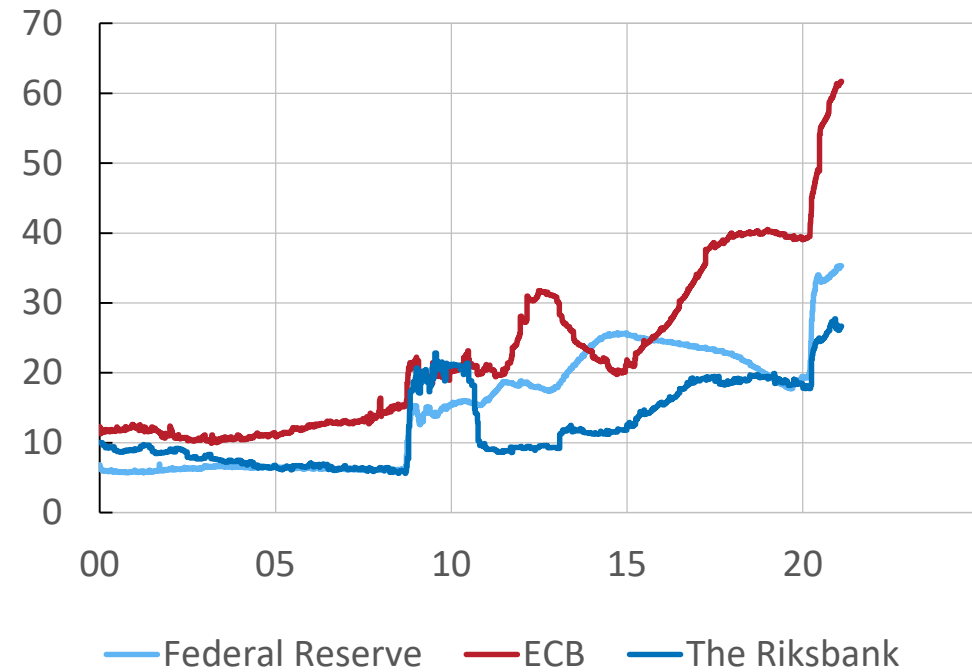
Source: The Riksbank

The conditions for conducting monetary policy have changed

Global interest rates have fallen



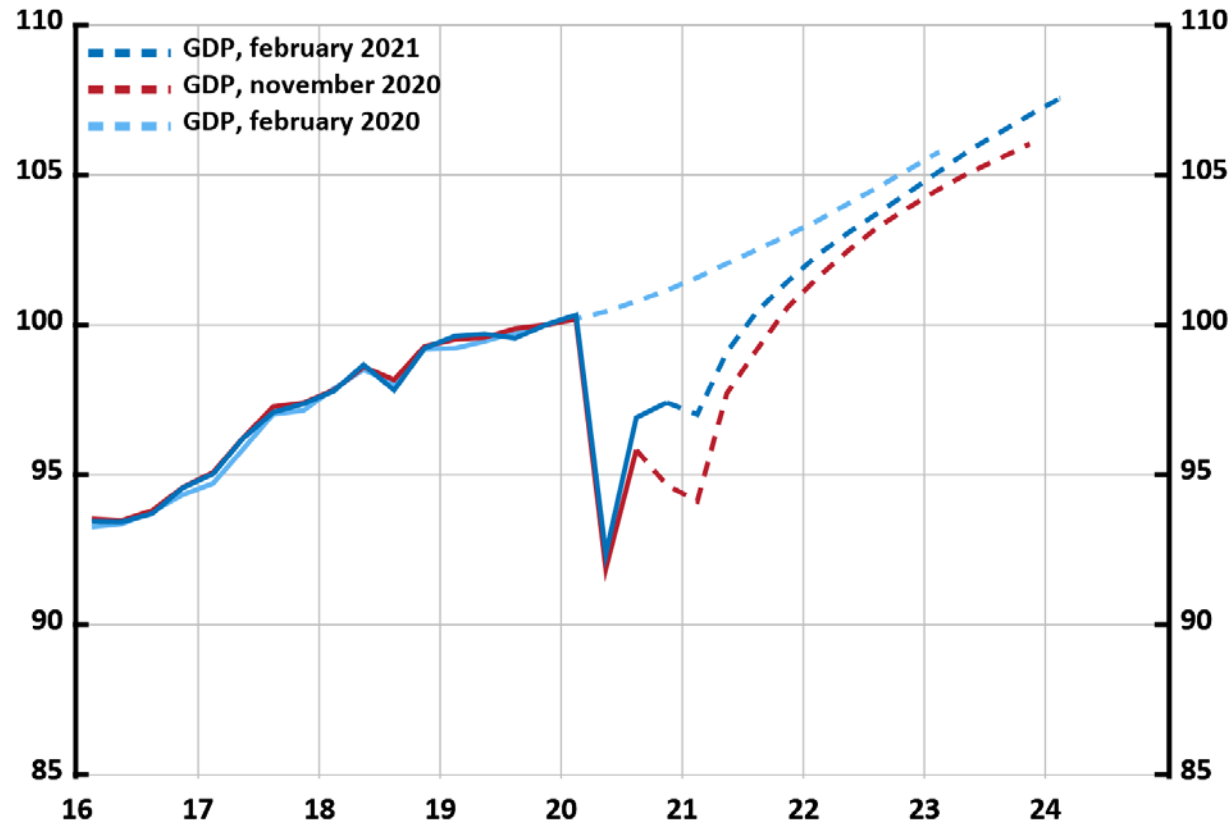
Central banks' balance sheets are increasing



Percent and percent of GDP. Interest rates refer to nominal government bond rates with 10 year maturity.

Sources: Macrobond

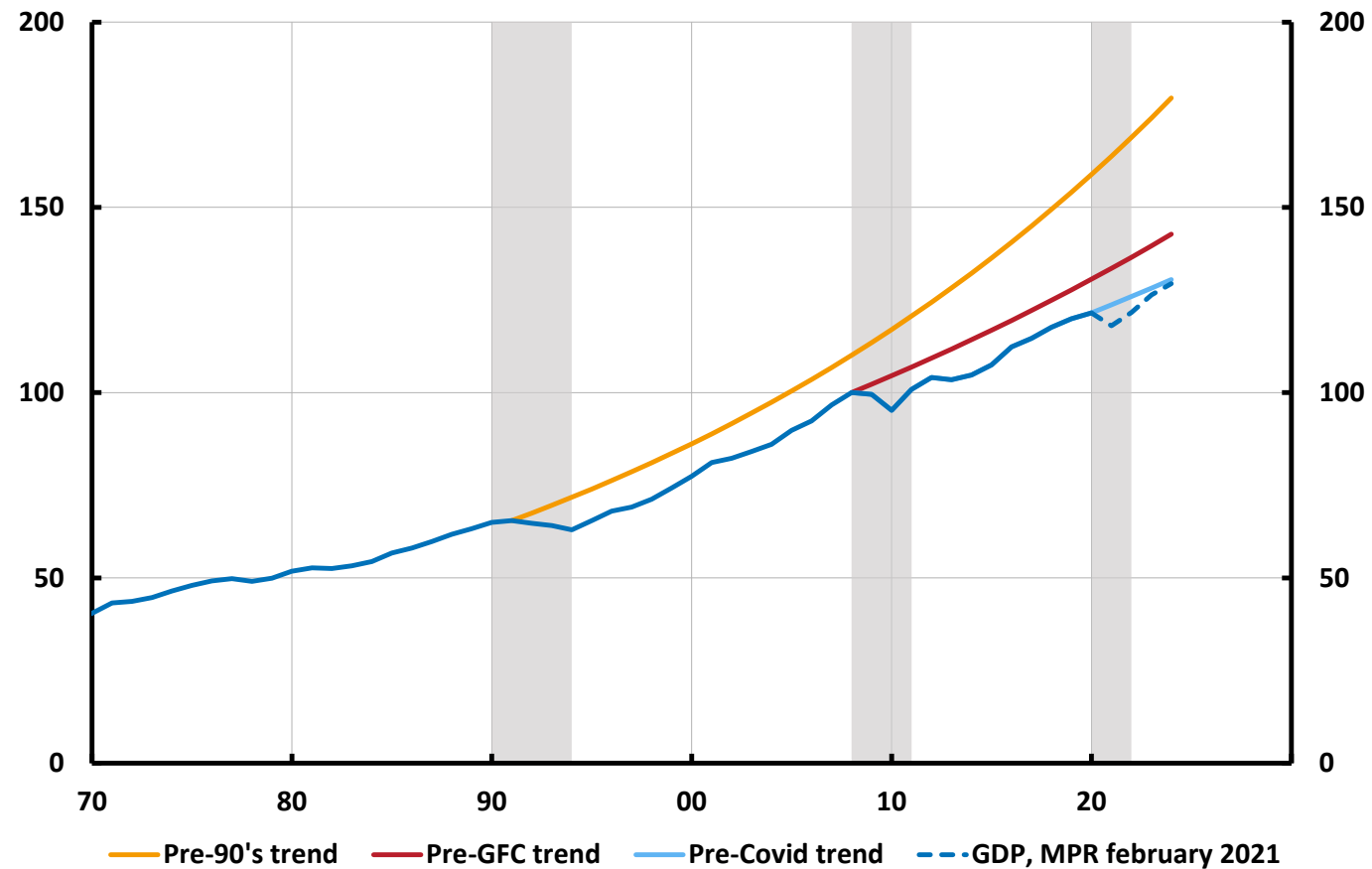
Swedish GDP expected to return to earlier levels...



Index, 2019Q4 = 100, seasonally adjusted data.

Sources: Statistics Sweden and the Riksbank

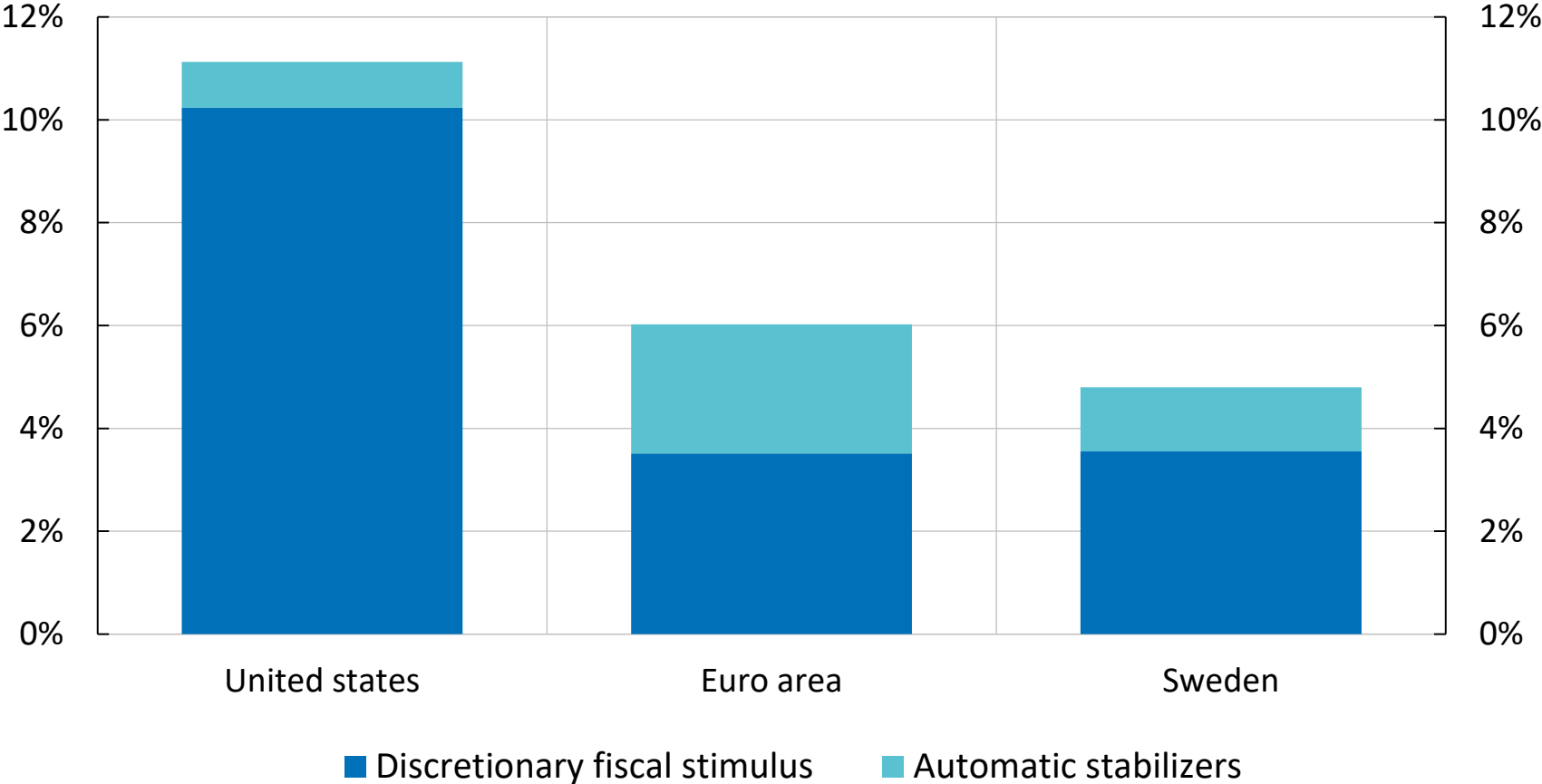
...unlike earlier crises



Growth in the long term prior to COVID-19 is based on the Riksbank's assessments published 2019H2. Prior to the financial crisis, the Riksbank's assessment was that potential GDP growth was between 2 and 2.5 per cent. The projection from the 1990s crisis is based on average growth between 1950 and 1989

Sources: Statistics Sweden and the Riksbank

Substantial fiscal policy stimulation supports recovery



The dark-blue column refers to expected discretionary fiscal policy measures in 2021 as a share of expected nominal GDP 2021. Expected fiscal policy measures and automatic stabilisers in the euro area and the United States in 2021 are based on an assessment by Unicredit Research, 10 February 2021. The assumption regarding the share of Biden's stimulation package of USD 1,900 billion used in 2021 has been adjusted from USD 1,200 billion according to Unicredit's assessment to USD 1,400 billion in accordance with CBO. Fiscal policy measures and automatic stabilisers in Sweden and GDP for 2021 in all countries are the Riksbank's assessment.

Sources: CBO, Unicredit, national sources and 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

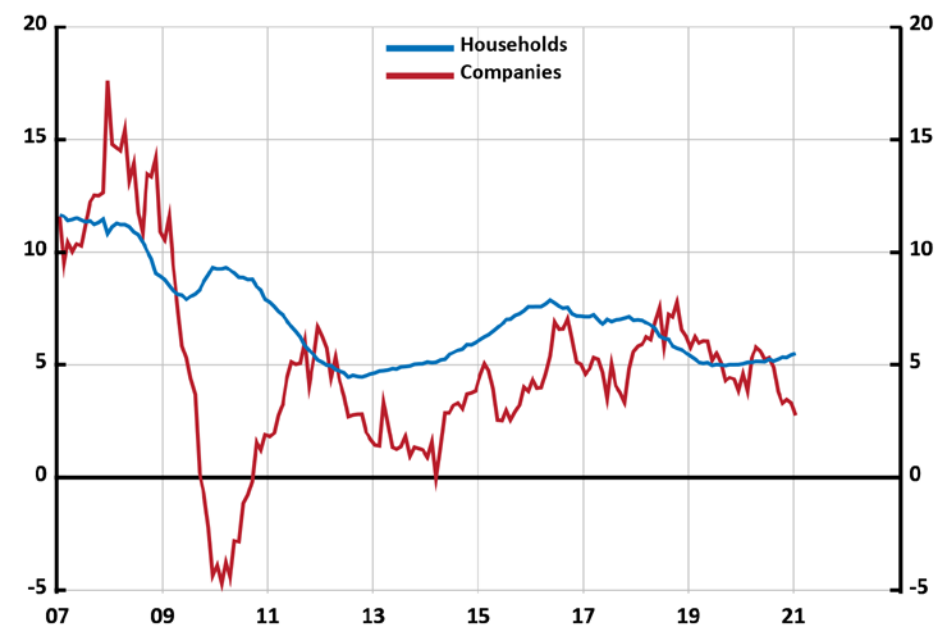
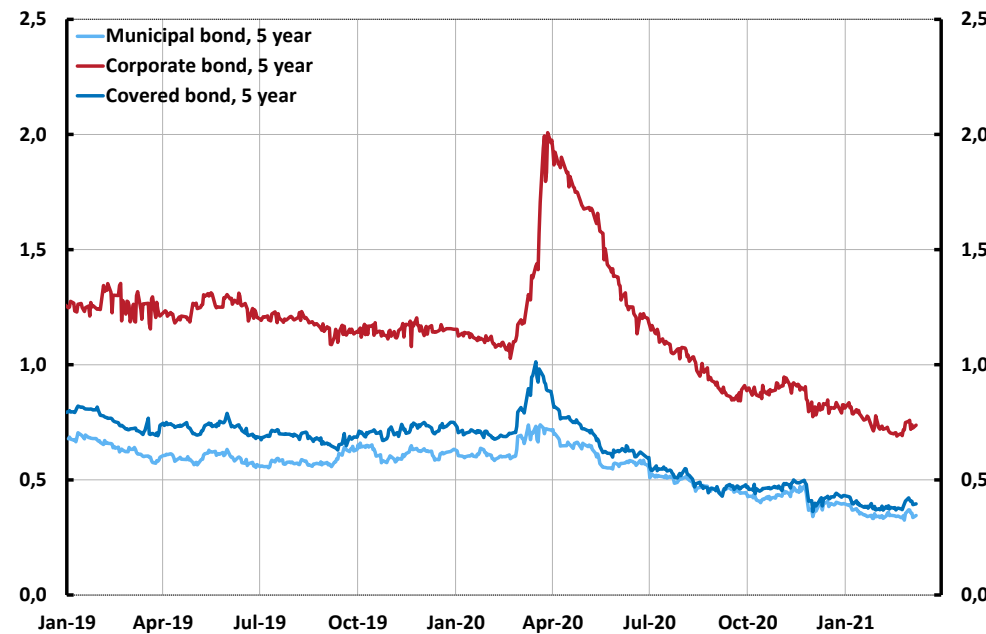
Imbalances need to be addressed with targeted measures from various policy areas



Broad measures to avoid a financial crisis

Despite increased stress on the markets...

...the rate of lending has been held stable



Percentage points and annual percentage change. Spread between different bond types and government bonds, where yields on covered bonds, corporate bonds and government bonds are zero coupon rates calculated using the Nelson-Siegel method. Corporate bonds refer to companies with a high credit rating. Municipal bonds are issued by Kommuninvest i Sverige AB. MFI lending to households and non-financial companies adjusted for reclassifications and purchased and sold loans.

Sources: Statistics Sweden and the Riksbank

Thank you!