

Account of monetary policy 2020

Riksdag Committee on
Finance
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Governor of the Riksbank

2020 – an unusual year

- The WHO declared COVID-19 to be a pandemic on 11 March
- Great uncertainty on the financial markets
- Heavy falls in GDP around the world, synchronised global crisis
- Essential to ensure credit granting to prevent a financial crisis, and to keep interest rates low

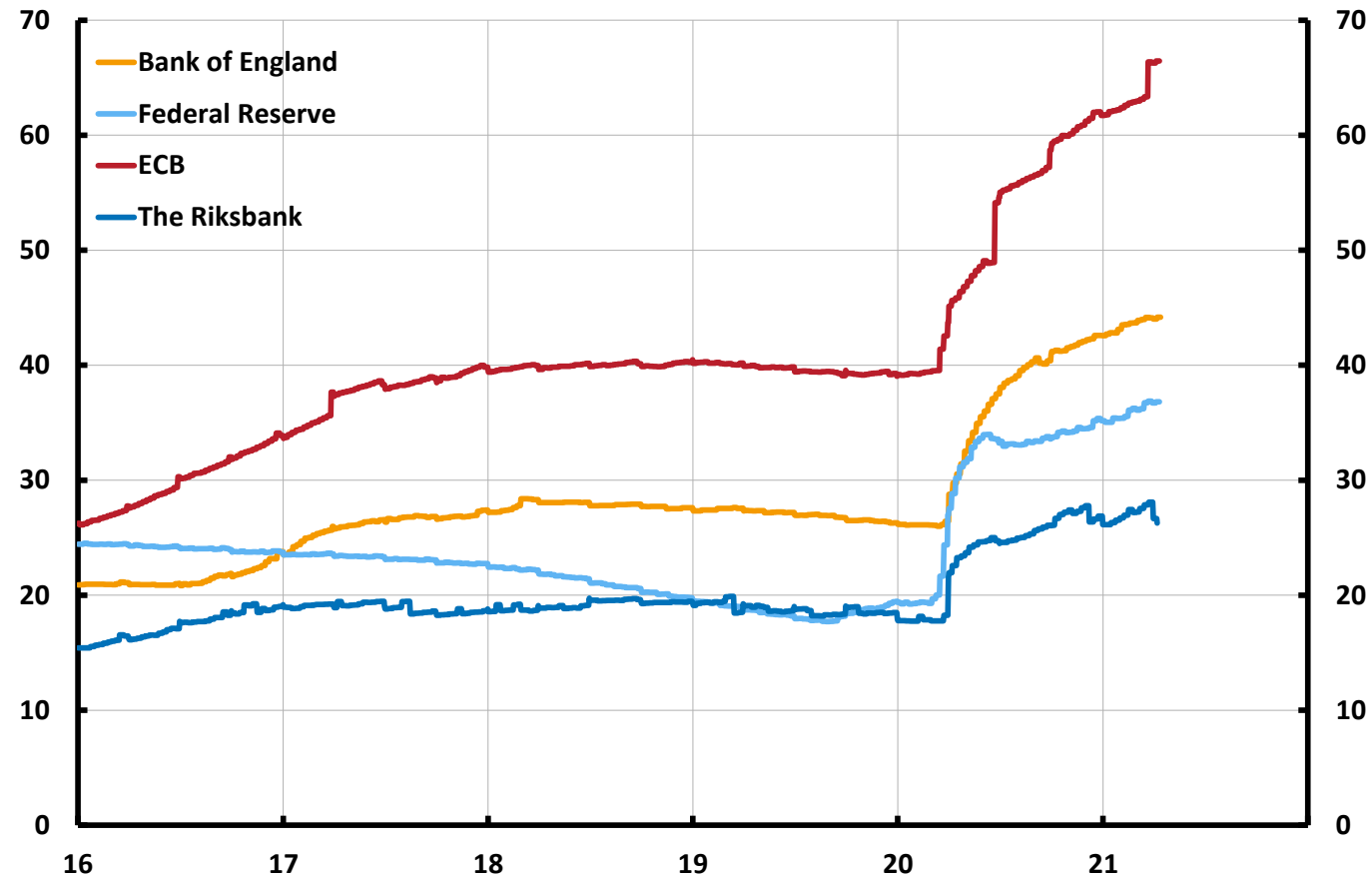


Clip from early March 2020.

Many and rapid decisions on measures in 2020

- 21 monetary policy decisions in contrast to 5 per year normally
- Necessary to take rapid, powerful action with a broad spectrum of measures that are in place for a sufficiently long time
- Difficult to know in advance what combination of measures supports the economy in the best way
- Other central banks acted in similar ways

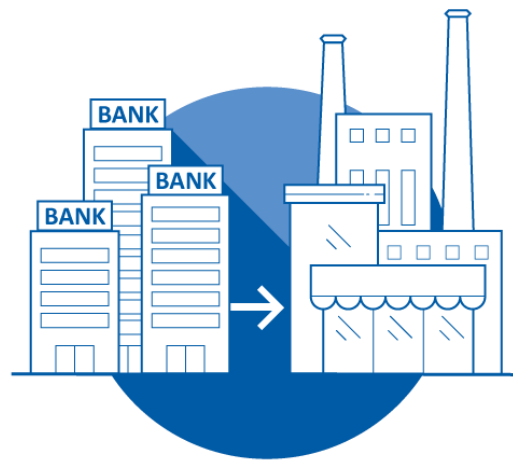
Central banks' balance sheets have increased during the coronavirus crisis



Per cent of annual GDP. Annual GDP is calculated as the total of the present quarter and the three previous quarters. The latest available GDP outcome is used for the most recent observations.

Sources: Macrobond, Bank of England and the Riksbank

A combination of measures is the most effective policy



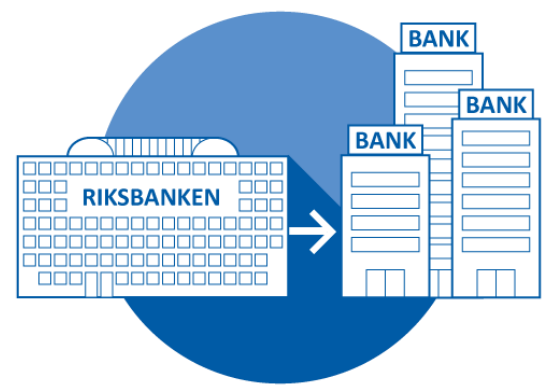
Loans to companies via banks

Envelope decided (Utilised)
SEK 500 bn (165 bn)



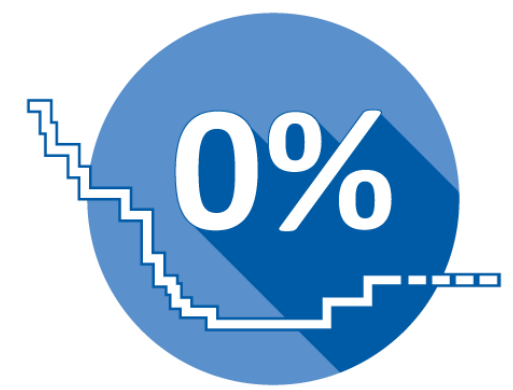
Purchases of interest-bearing securities

SEK 700 bn (466 bn)



Increased access to safe and liquid assets

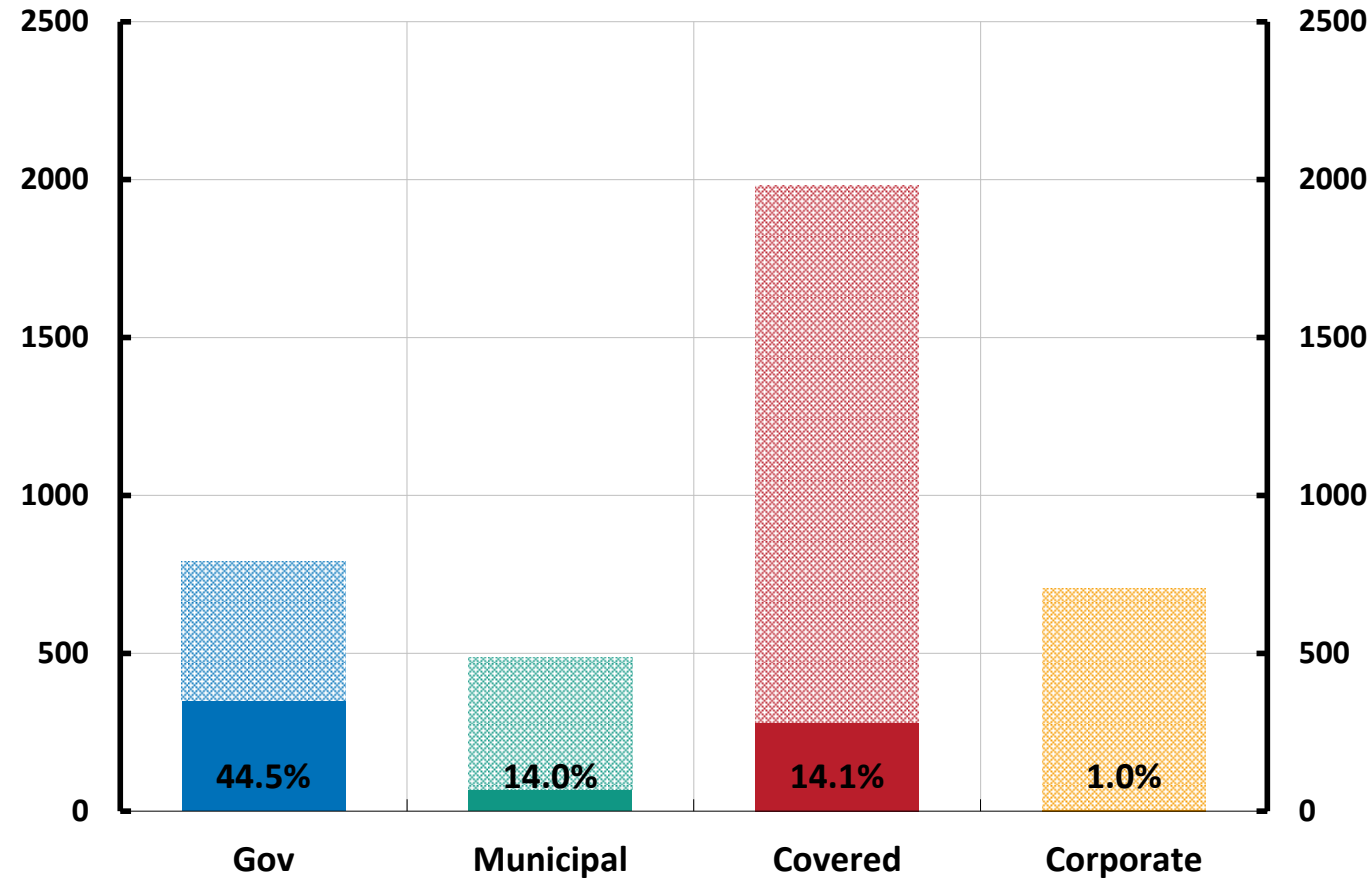
Unlimited SEK, USD 60 billion (32 bn, 2 bn)



Repo rate 0%

The Riksbank has purchased new types of securities during the corona crisis

The Riksbank's holdings in relation to outstanding stock



Nominal amounts, SEK billion, 31/03/2021. Solid part depicts the Riksbank's holdings, shaded part depicts remaining total outstanding stock.

Sources: Swedish National Debt Office, the Riksbank and Statistics Sweden.

Price stability and financial stability especially clearly interwoven during crises

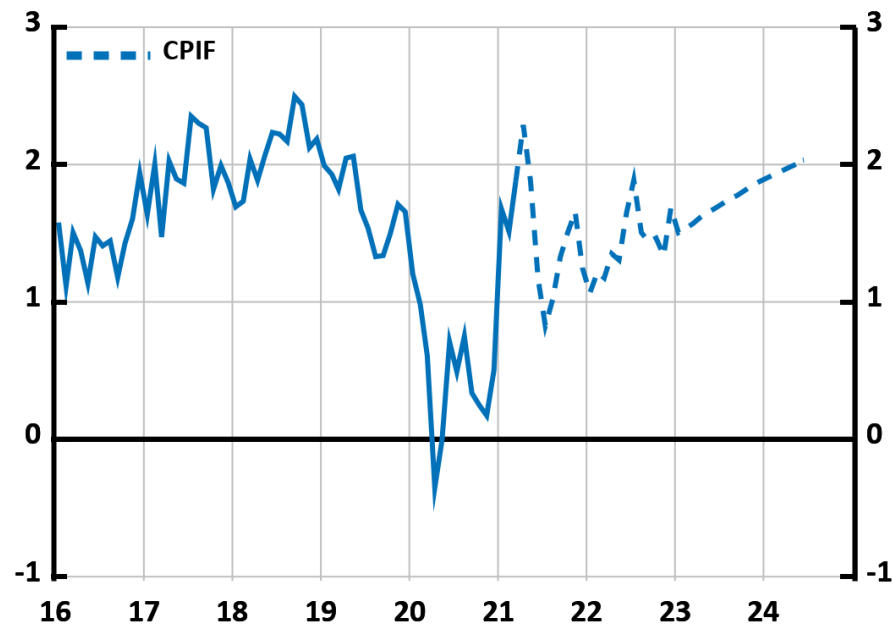


The objective of monetary policy is to maintain price stability and the policy impacts and works via the financial markets.

Unstable financial markets make it impossible to maintain price stability

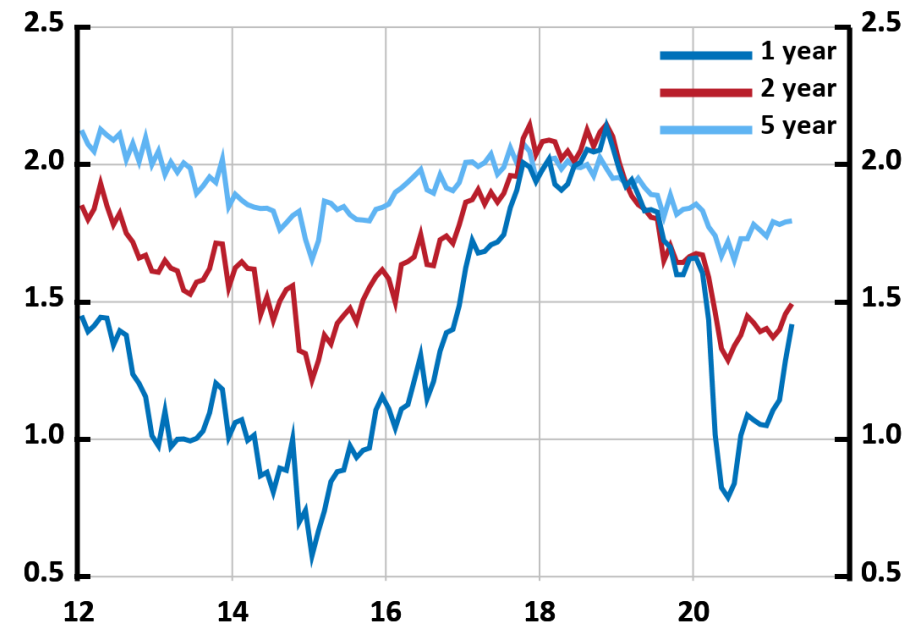
The measures are good for both financial stability and price stability

Inflation unavoidably below target, but expected to rise (and vary a lot)



Annual percentage change. Right-hand figure shows mean value of money market players expectations.

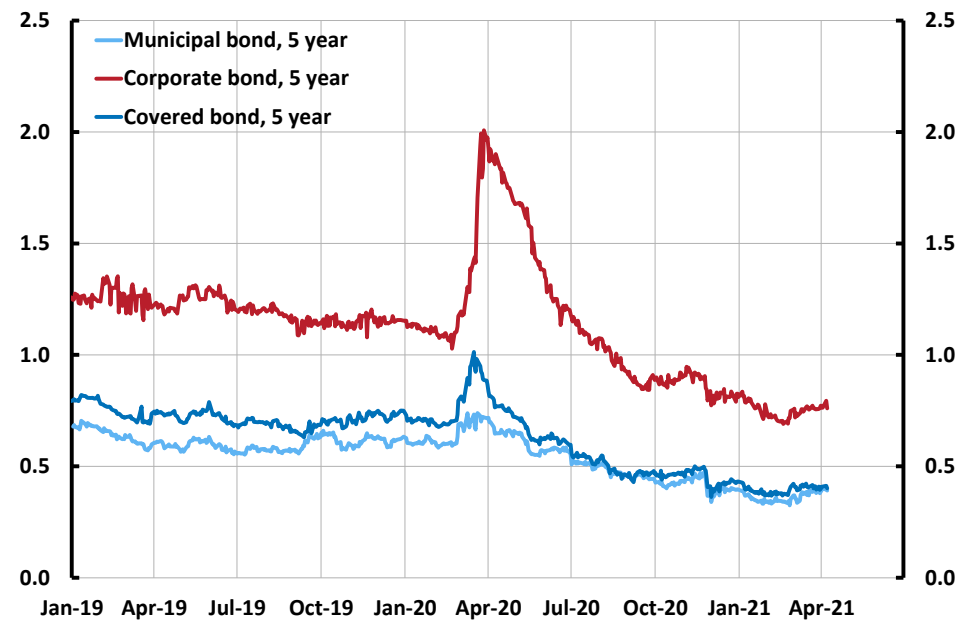
...and long-term expectations have been maintained relatively well



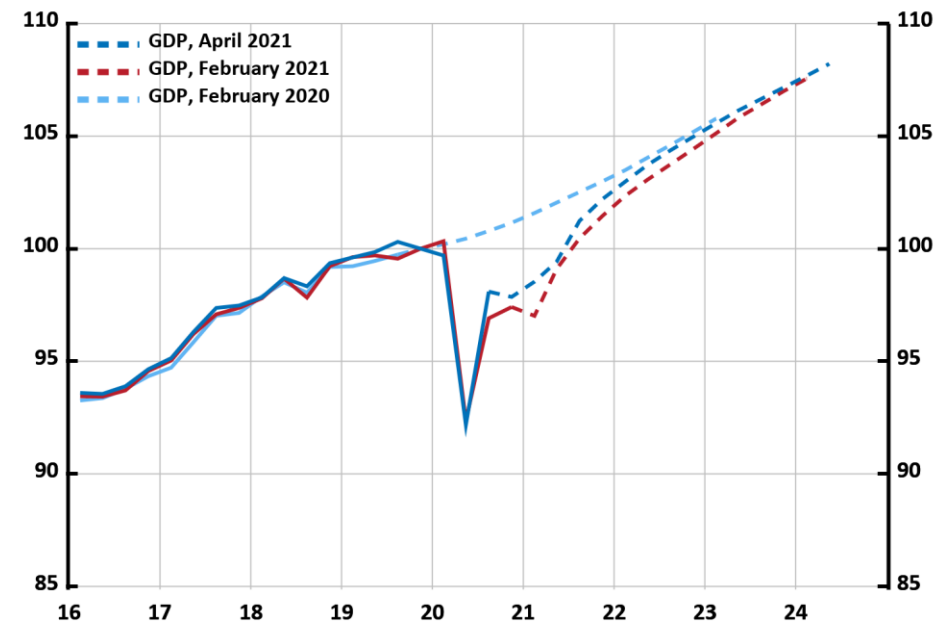
Sources: Statistics Sweden, TNS SIFO Prospera and the Riksbank

The overall economic policy has functioned

More stable on financial markets



... and a return to earlier growth path in sight

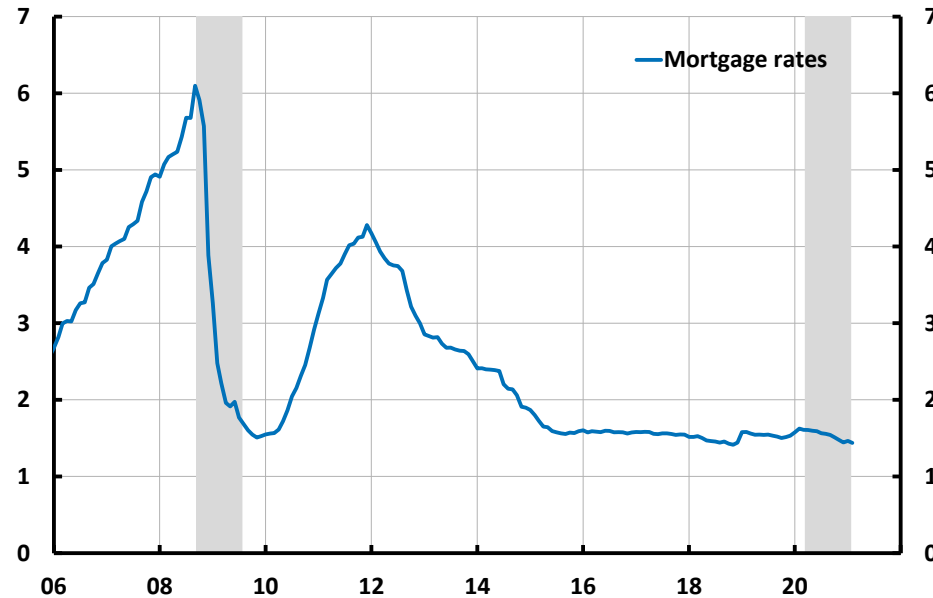


Yield spread between different types of bonds and government bonds. Corporate bonds refer to companies with a high credit rating. Municipal bonds are issued by Kommuninvest i Sverige AB. Right-hand figure shows an index, 2019 Q4 = 100.

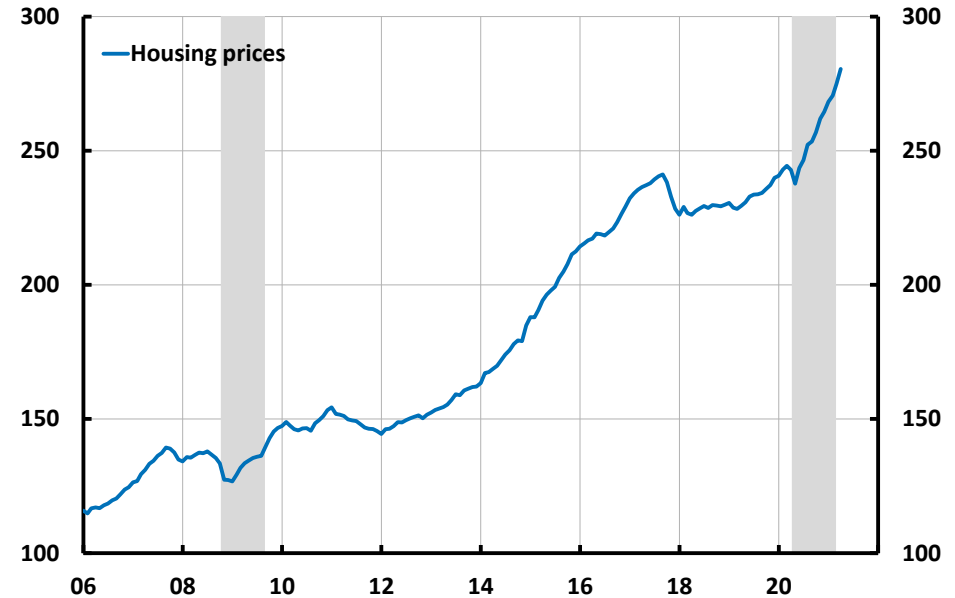
Sources: Statistics Sweden and the Riksbank.

Mortgage rates and housing prices during the financial crisis and the Covid-19 pandemic

Mortgage rates



Housing prices



Monthly data. Percent and index 2005 = 100. Seasonally adjusted data for housing prices. The gray areas shows the first 10 months after the start of the financial crisis and the Covid-19 pandemic.

Sources: Statistics Sweden and Valueguard.

Summary

- Powerful measures by governments and central banks prevented an even deeper crisis
- Financial markets stabilised and a financial crisis could be avoided
- Inflation below target but long-term expectations maintained relatively well
- Pandemic crisis probably different from earlier crises – Swedish GDP expected to return to earlier path
- However, monetary policy needs to provide continued support and recovery is divided