

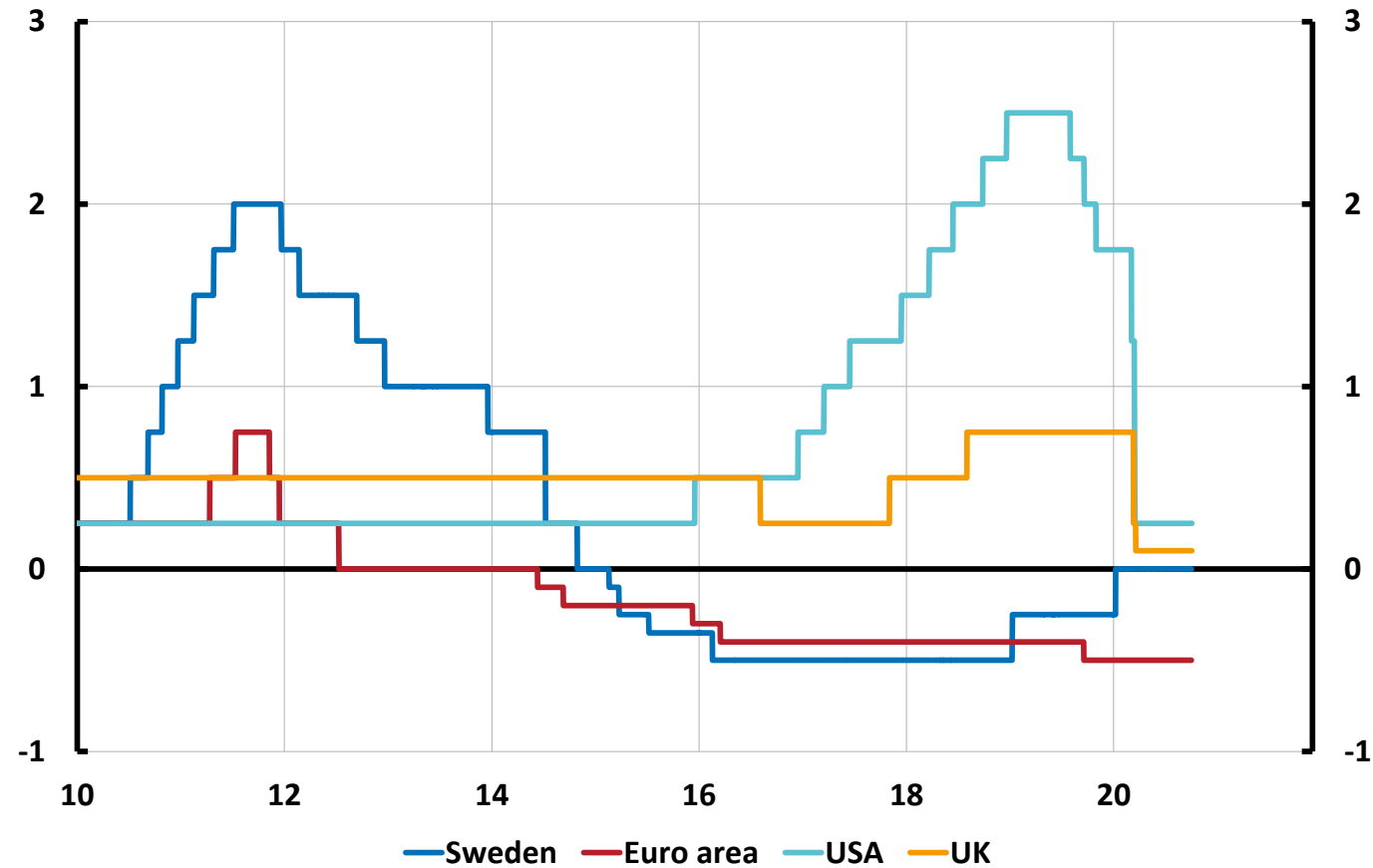
Post-pandemic monetary policy and the future of the policy-rate tool

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

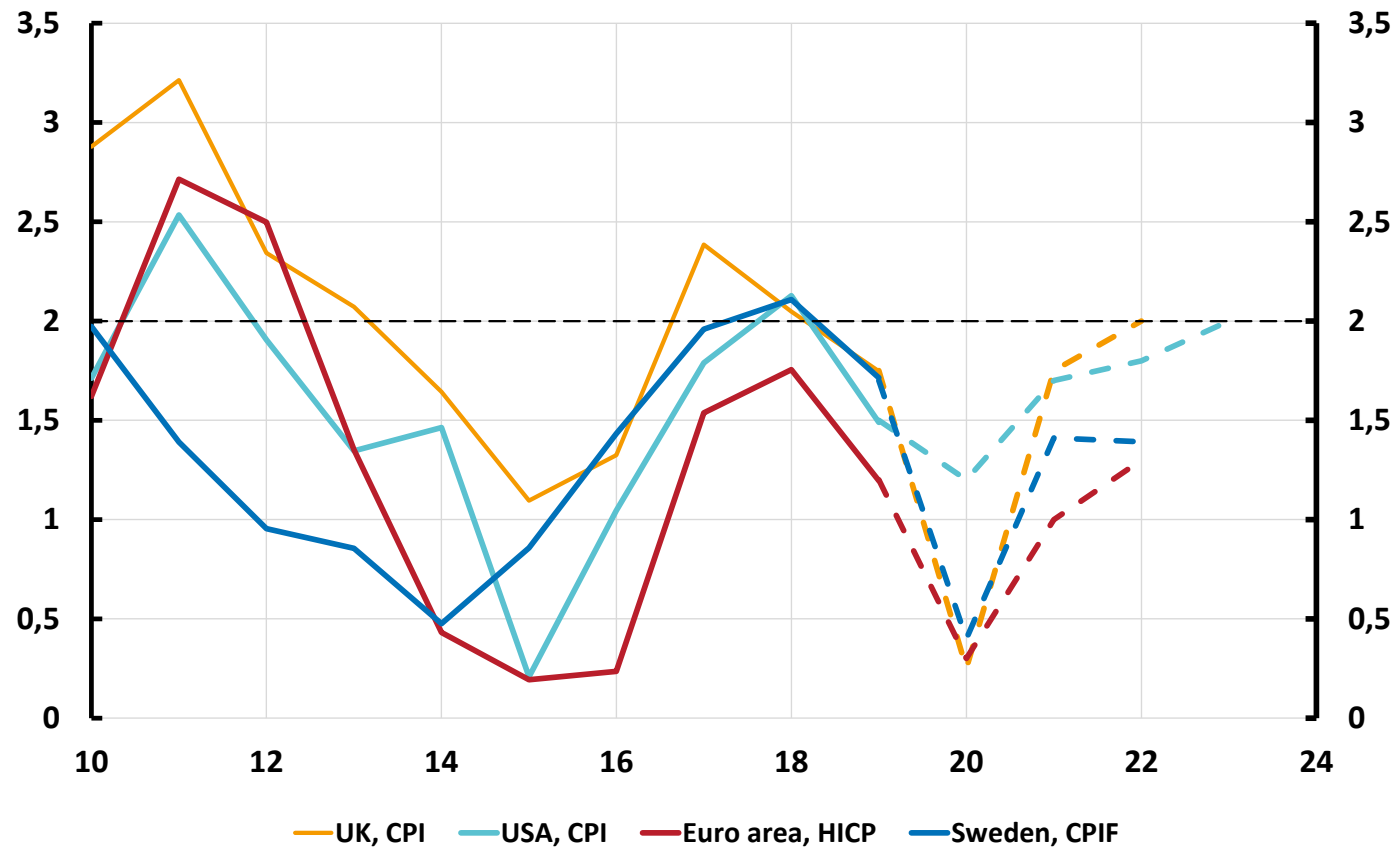
Cecilia Skingsley
First Deputy Governor

Policy rates at the lower bound



Sources: National central banks and the Riksbank

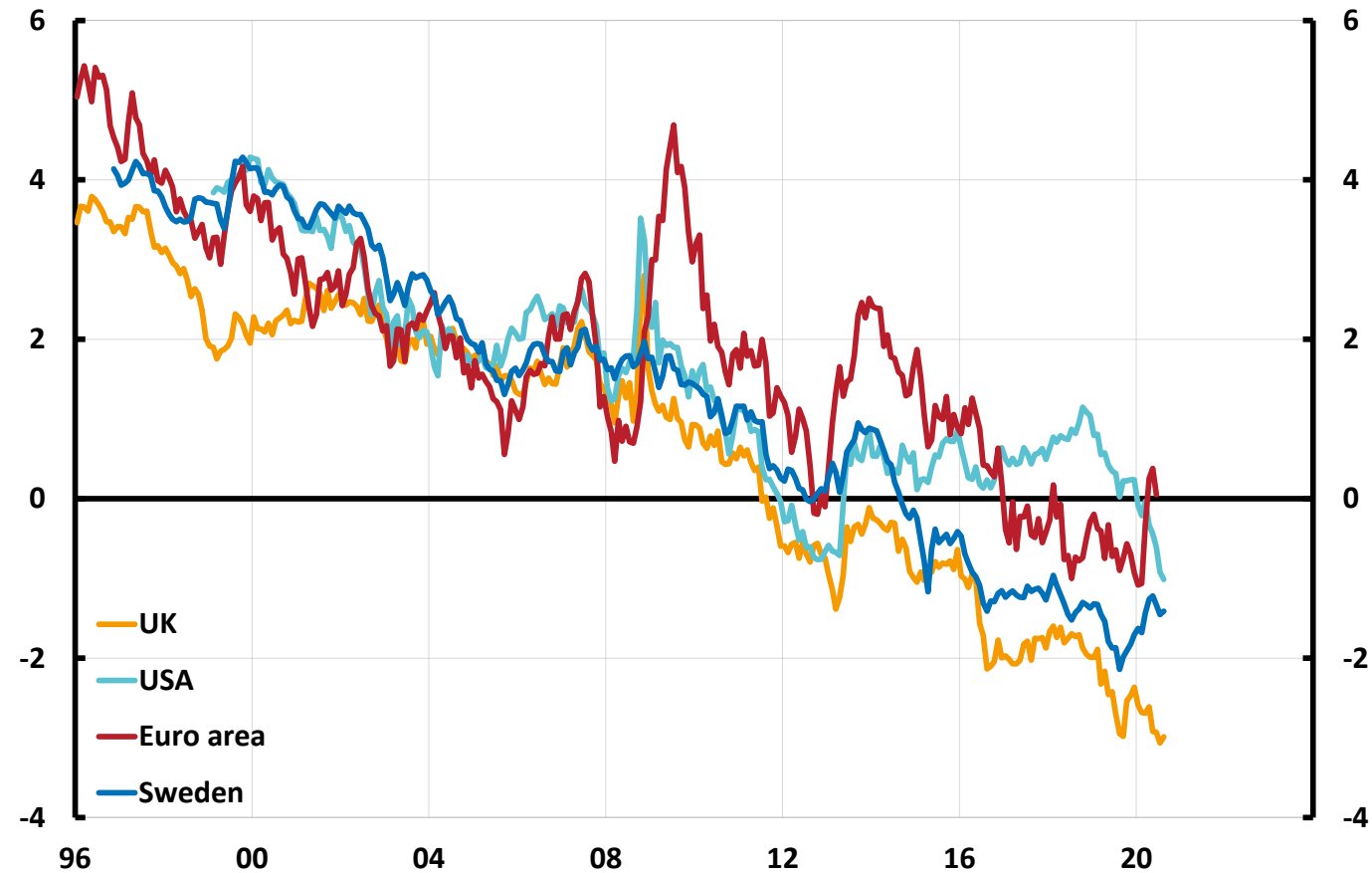
Inflation forecasts below target



Note. Inflation refers to the CPIF, the HICP and the CPI. Annual data. Inflation forecast for USA refers to the median of the members of the FOMC's individual forecasts. The euro area's inflation forecast refers to the forecasts by ECB and Eurosystem employees.

Sources: BOE, ECB, Federal Reserve and the Riksbank

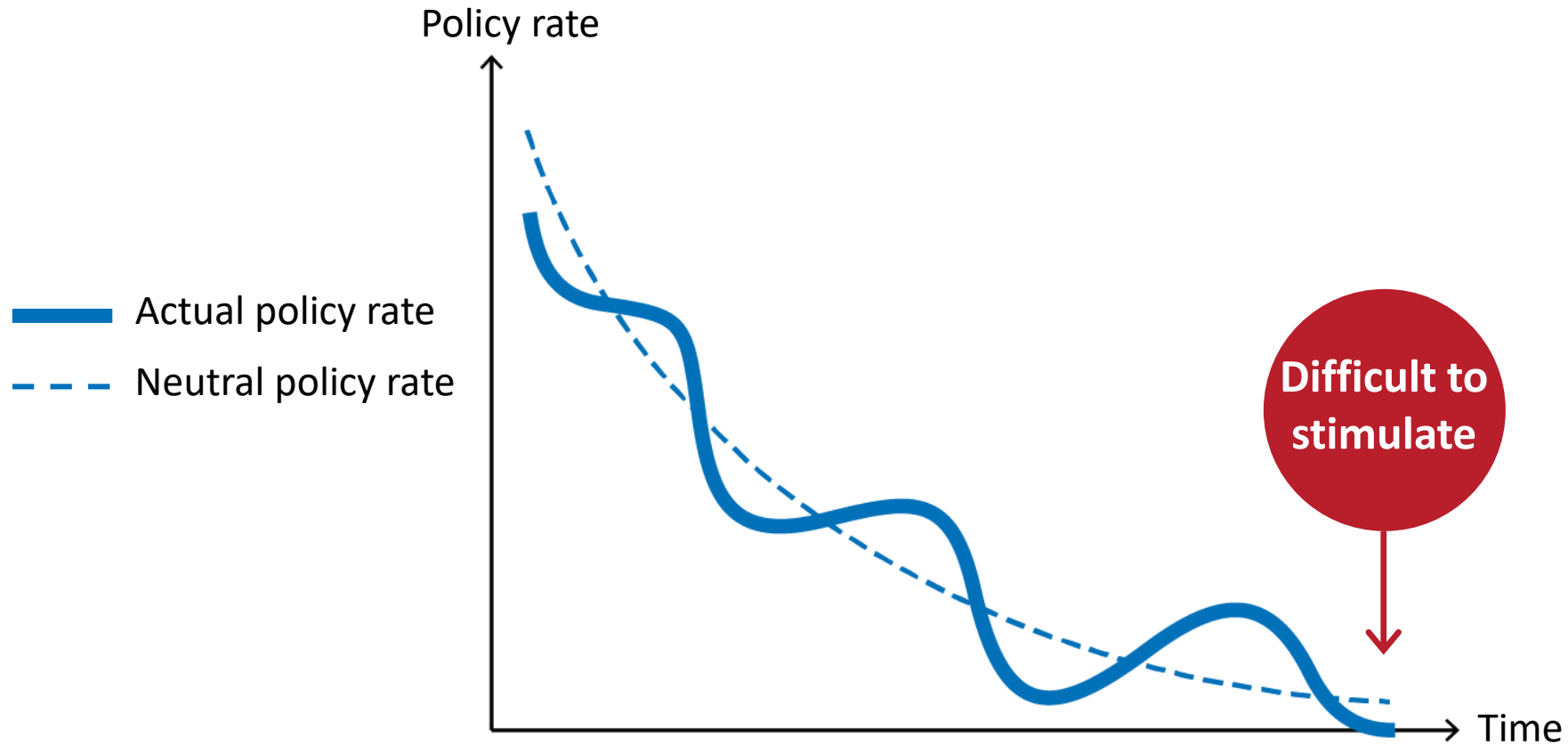
Downward trend for global interest rates



Note. Real government bond yields, 10-year maturity.

Sources: National central banks and the Riksbank

Low neutral rate makes expansionary monetary policy more difficult



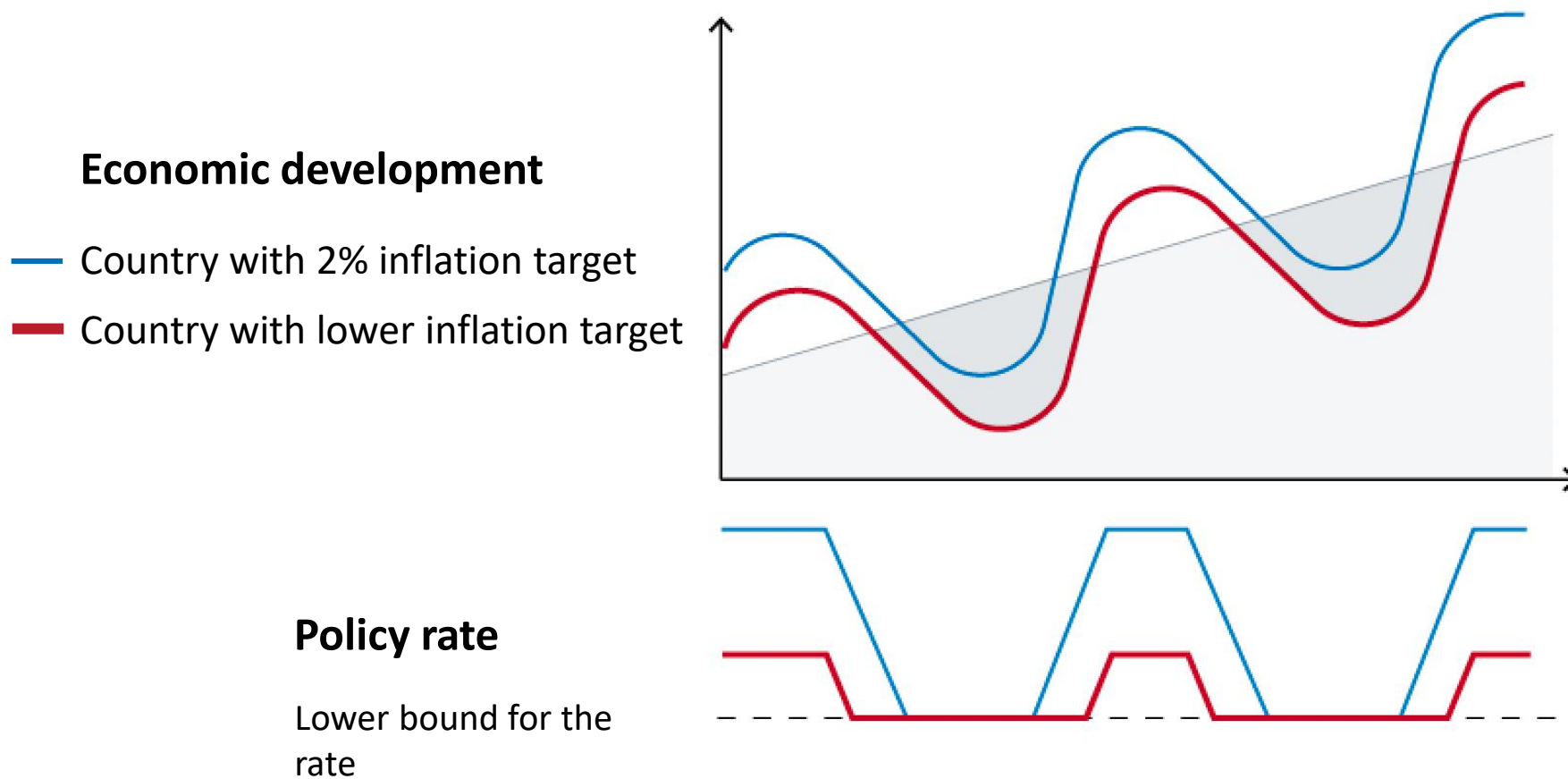
Three central questions

Is it good if the central bank can counteract recessions with policy rate cuts?

Is it easier to counteract recessions if the interest rate is normally somewhat higher than if it is very low?

Is the policy rate higher on average if inflation in general is relatively high than if it is very low?

Less monetary policy scope with lower inflation target



Three central questions

Is it good if the central bank can counteract recessions with policy rate cuts?

YES

Is it easier to counteract recessions if the interest rate is normally somewhat higher than if it is very low?

YES

Is the policy rate higher on average if inflation in general is relatively high than if it is very low?

YES

The way forward

- Communication of central importance
 - The inflation target is still our focus
- Continued expansionary policy with possible modifications
 - More important role for fiscal policy
 - Conditioning of monetary policy a possible route?
- Federal Reserve's strategy changes are interesting
 - Overshoot target if inflation has previously undershot – “Flexible Average IT”
 - Do not slow down too early in economic upturns

My most important messages

- The inflation target will take longer to attain but is still our focus
 - Facilitates the distribution of resources through wage formation (easier to adapt relative wages)
 - Preserving effective interest rate tools is of central importance in stabilising economic activity
- Fiscal policy needs to play a greater role in stabilisation policy
- Central banks need to continue discussing and analysing strategy and frameworks
 - Federal Reserve's changes an important input