

High inflation and a rising repo rate - what is happening to the Riksbank's balance sheet?

Handelsbanken
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First Deputy Governor

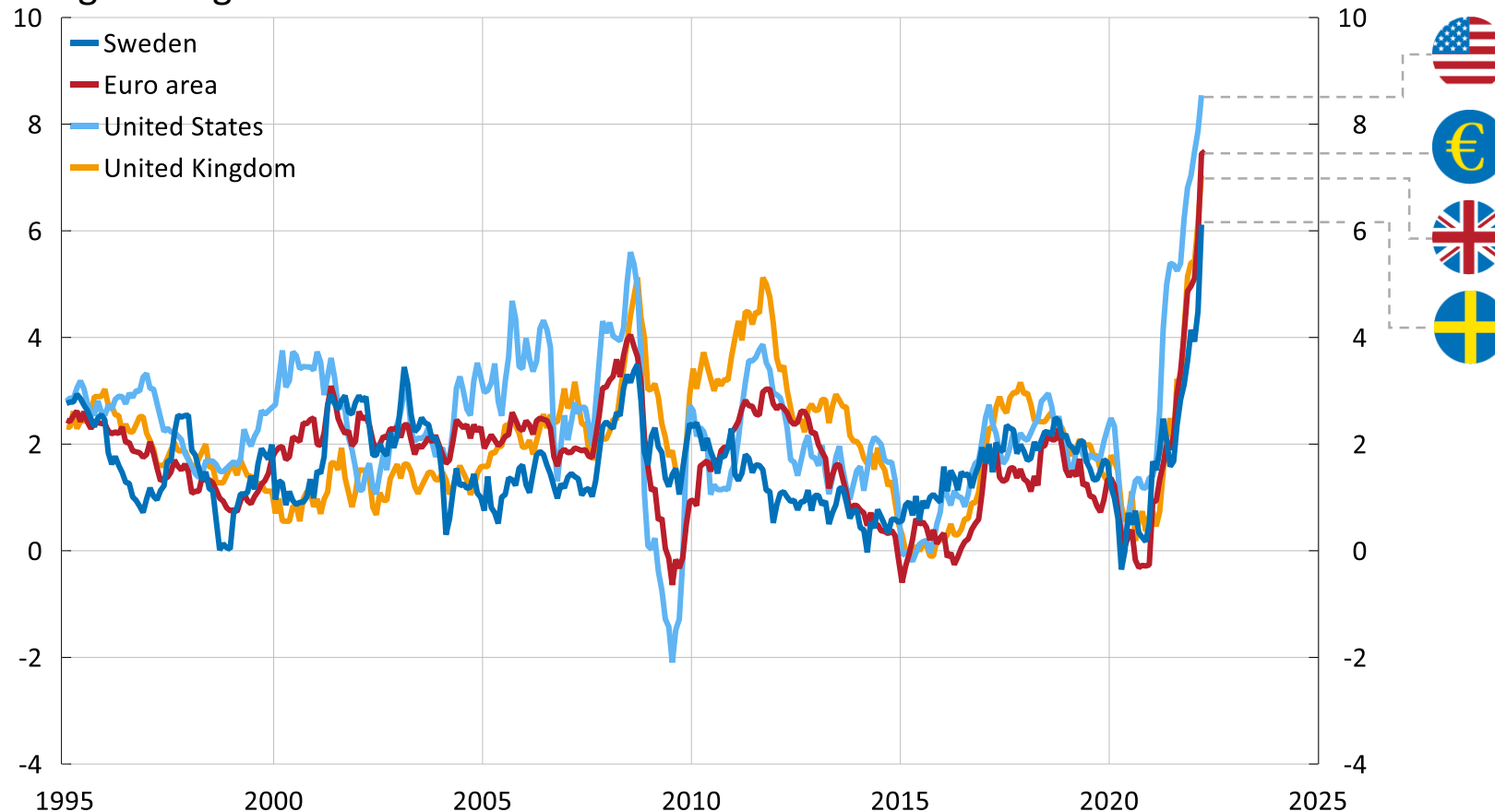
We are in a new situation

- The inflation map has been redrawn
- We have begun to raise the policy rate
- But what about the assets on our balance sheet?



Inflation is the highest in decades in many countries

Annual percentage change

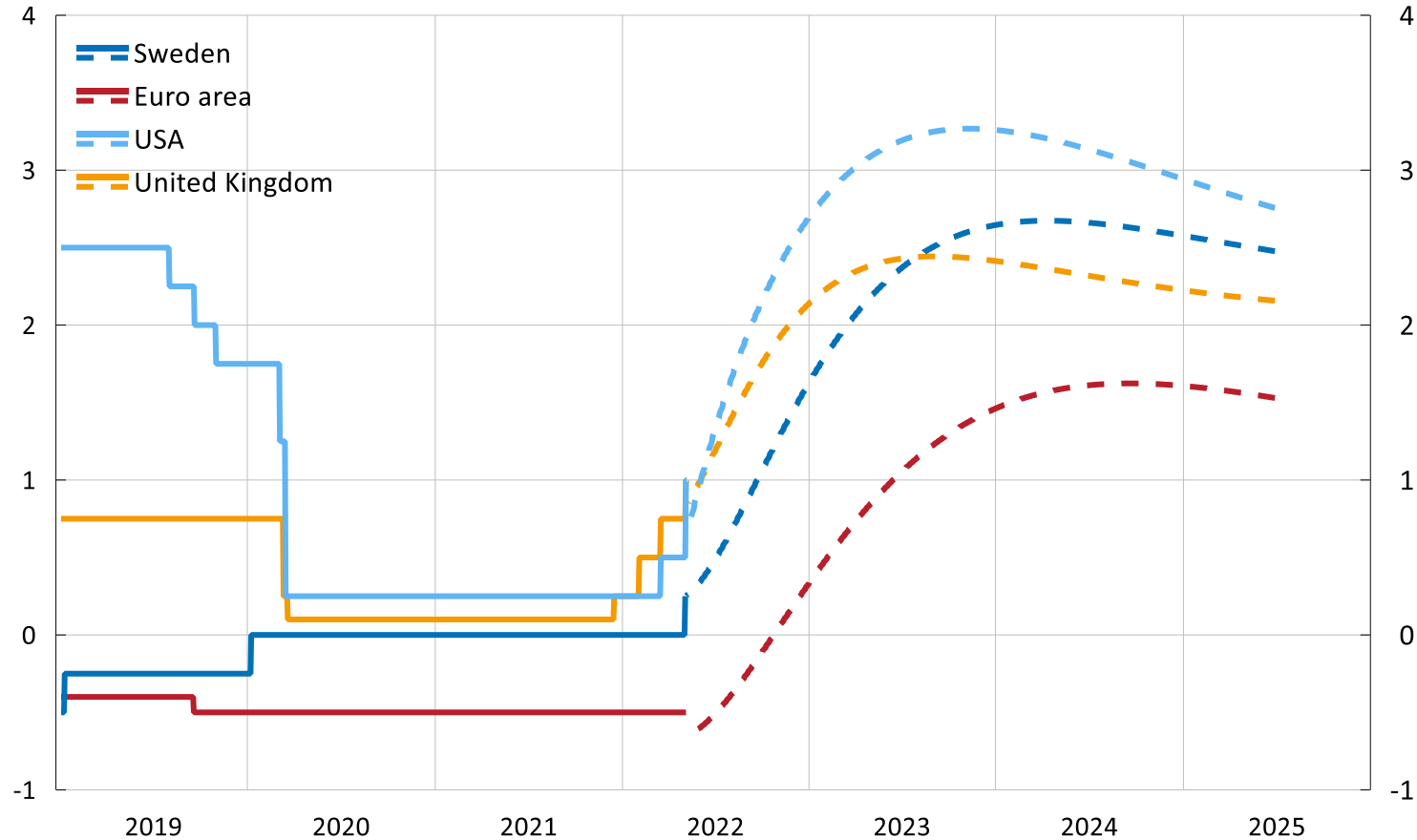


Note. Consumer prices refer to the CPI for Sweden, the CPI for the United States and the United Kingdom and the HICP for the euro area.

Sources: Eurostat, Statistics Sweden, UK Office for National Statistics, U.S. Bureau of Labor Statistics and the Riksbank.

Many central banks are expected to raise their policy rates several times

Policy rates and rate expectations according to forward pricing, per cent



Note. Forward rates describe market-based expectations of the overnight rate, which do not always correspond to the policy rate. Broken lines represent forward rates 5 May 2022.

Source: The Riksbank.

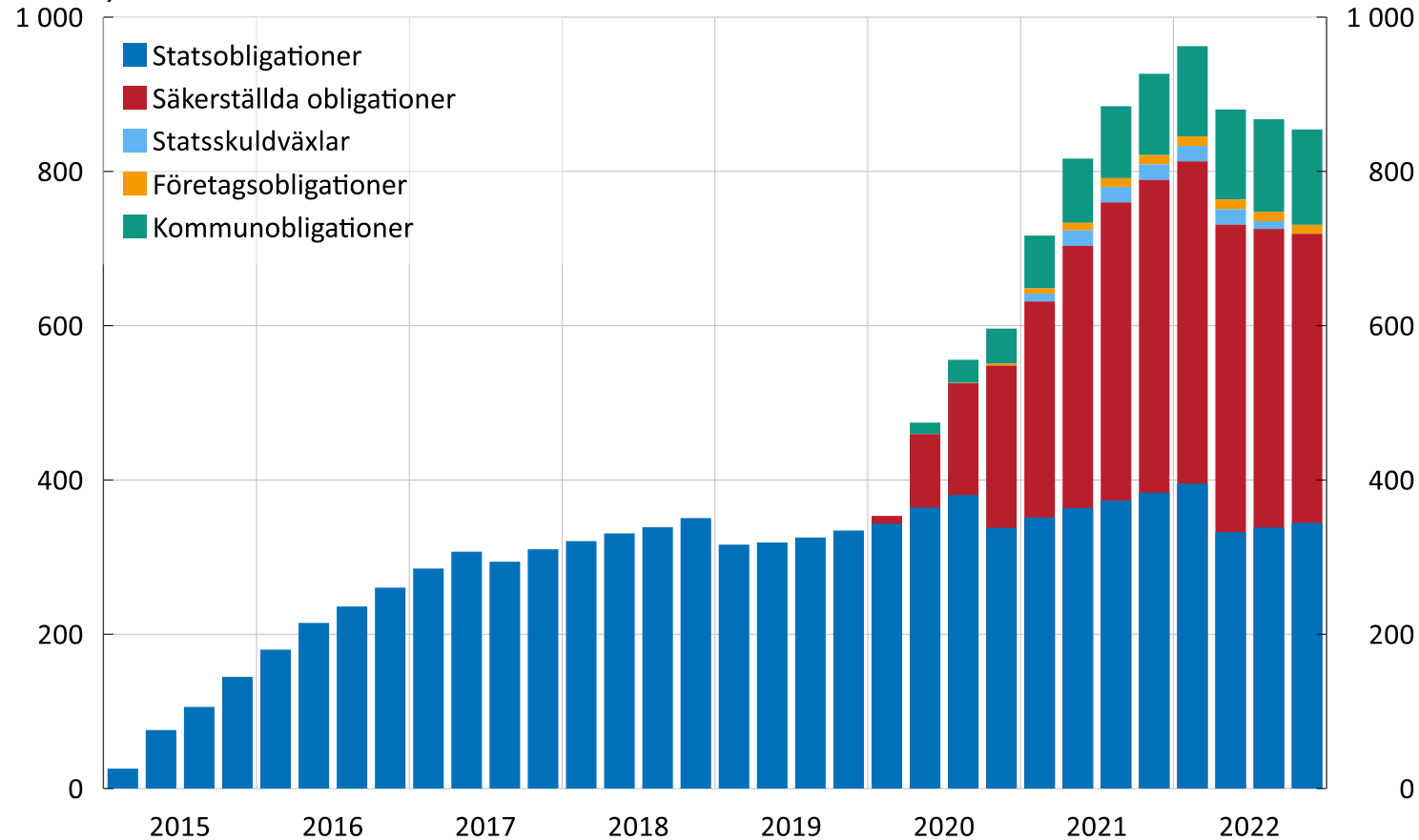
Why we purchased debt securities for SEK 700 billion



- Challenges from the global financial crisis
 - Lower bound for the policy rate a real limitation for monetary policy
 - Turbulence on financial markets
- Asset purchases can address both of these issues
 - Contribute to further stimulus when policy rate cannot be cut
 - Reduce the difference between the policy rate and the interest rate charged to households and companies when there is financial turbulence

The Riksbank's asset holdings increased substantially during the pandemic

Nominal amounts, SEK billion

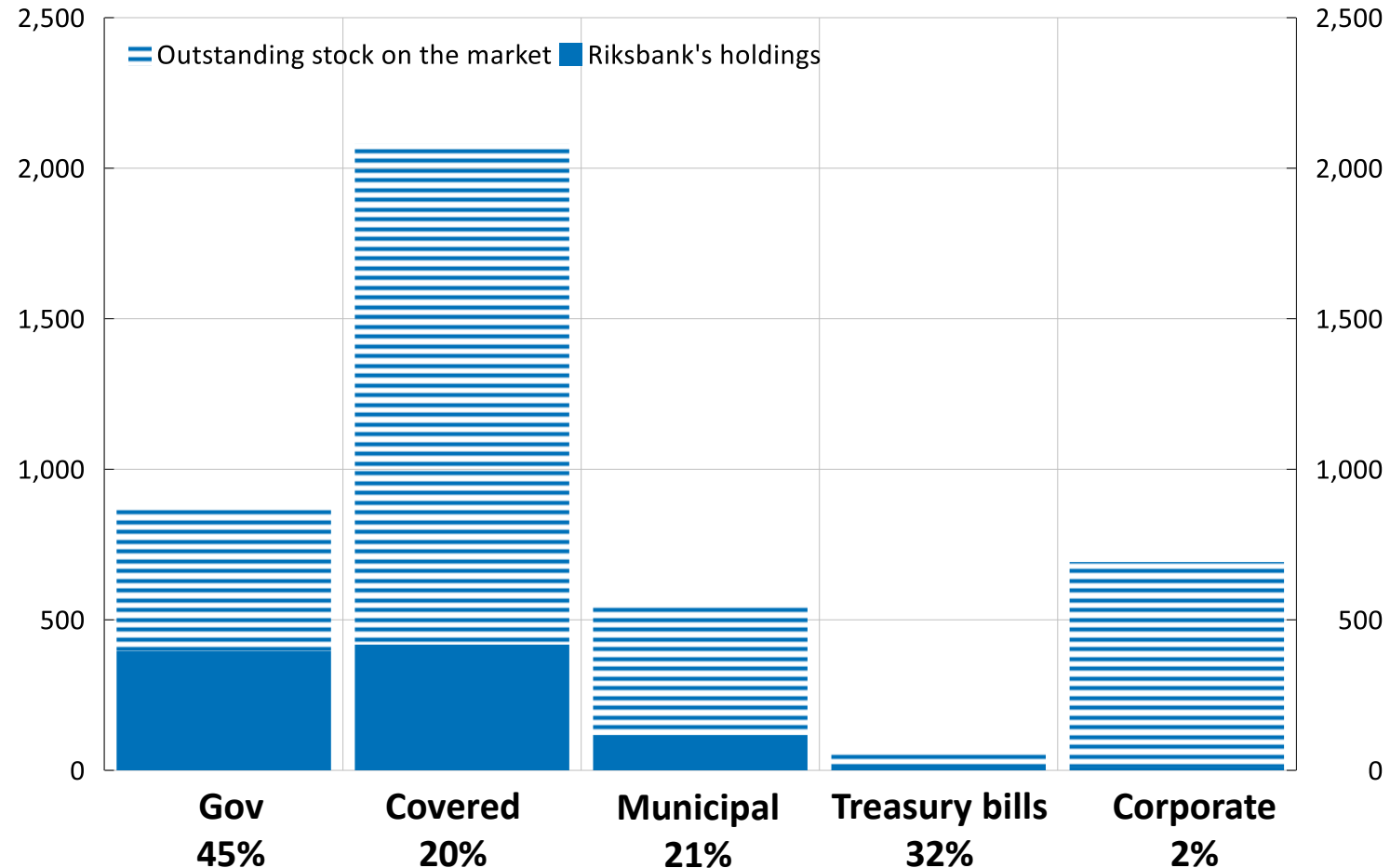


Note. The bars refer to executed and decided purchases.

Source: The Riksbank.

Keeping interest rates in the economy low required broad purchases

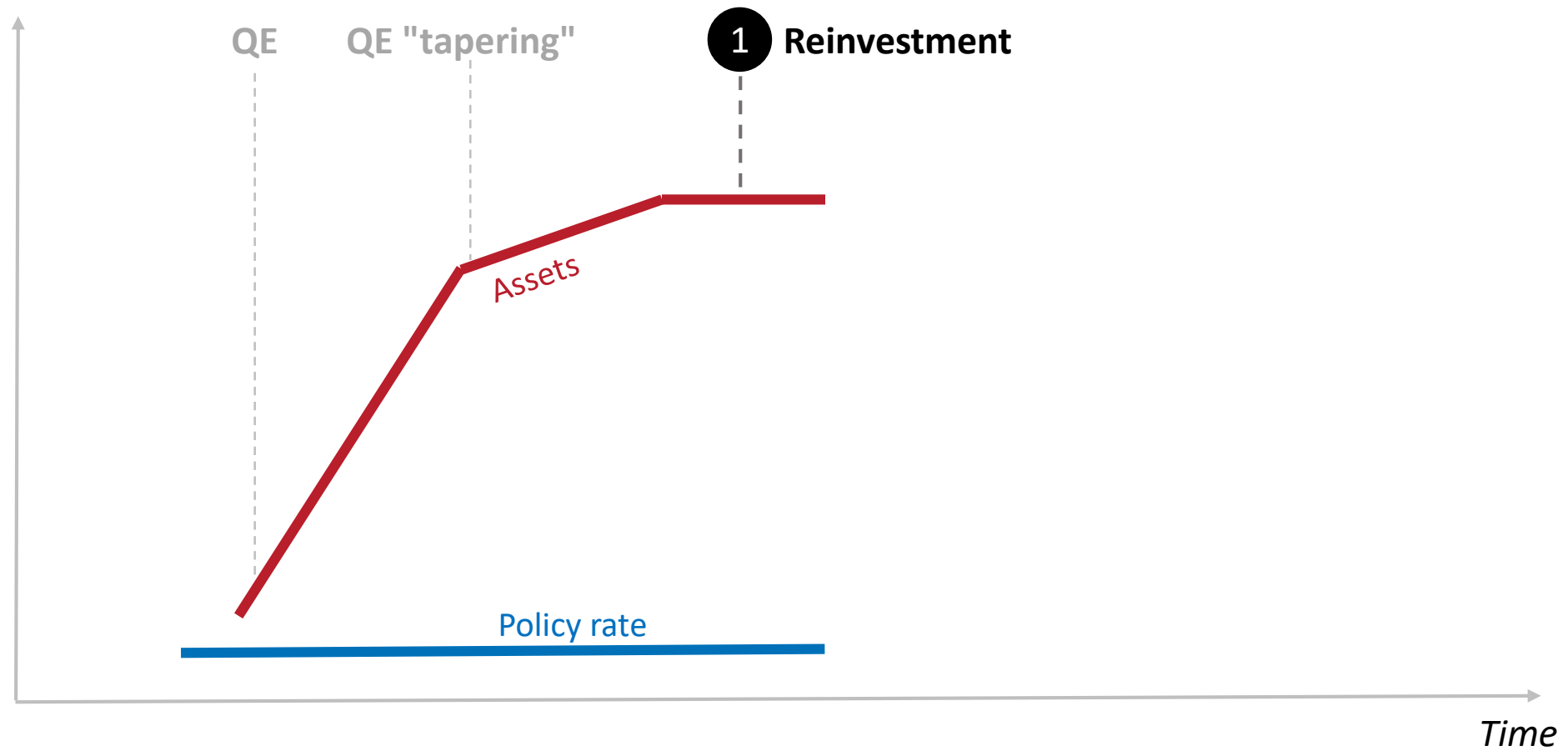
SEK billion



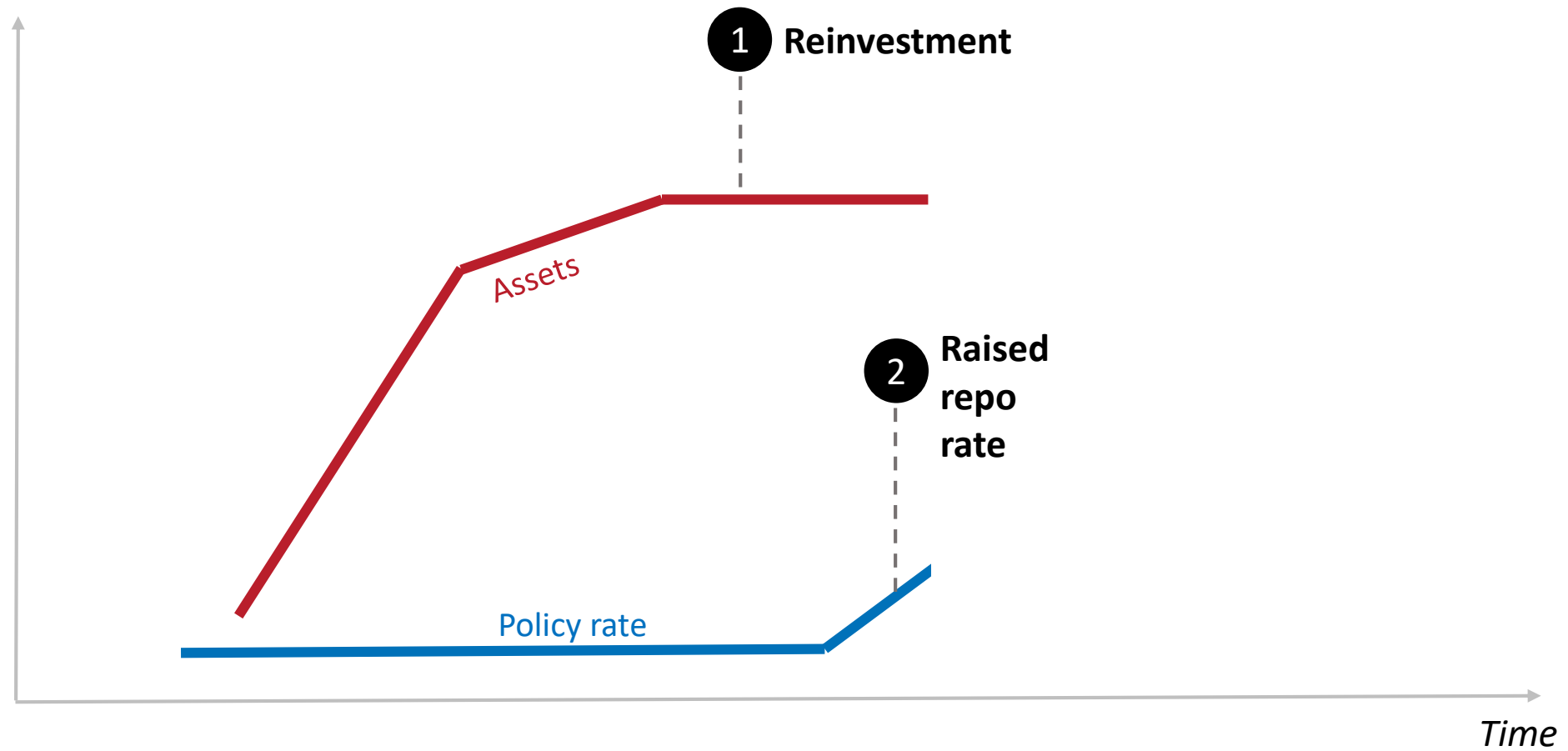
Note. The figure shows the Riksbank's asset holdings compared with the total outstanding stock for each type of security issued in SEK on the Swedish market as of 31/03/2022.

Sources: Statistics Sweden and the Riksbank.

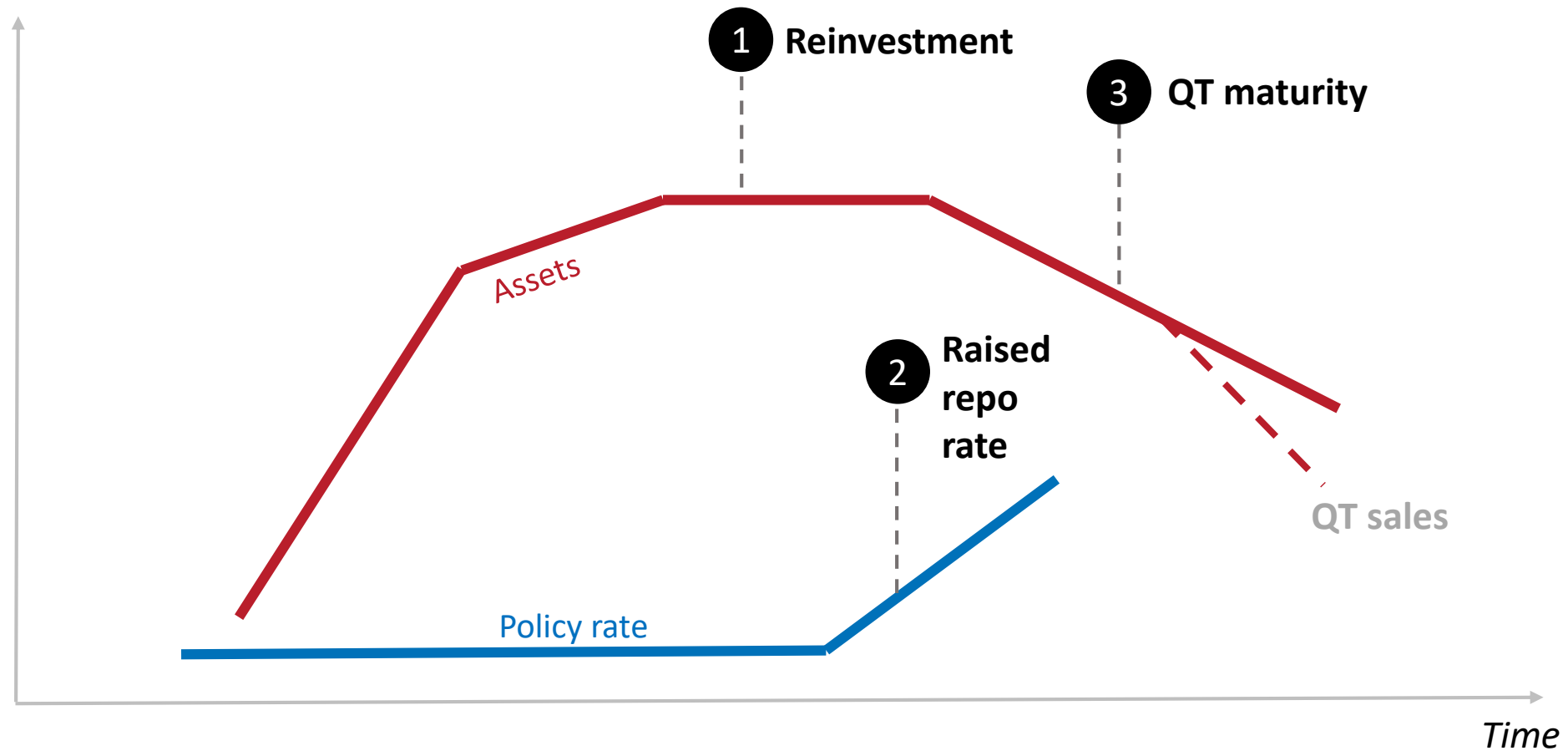
The path from “QE” to “QT”



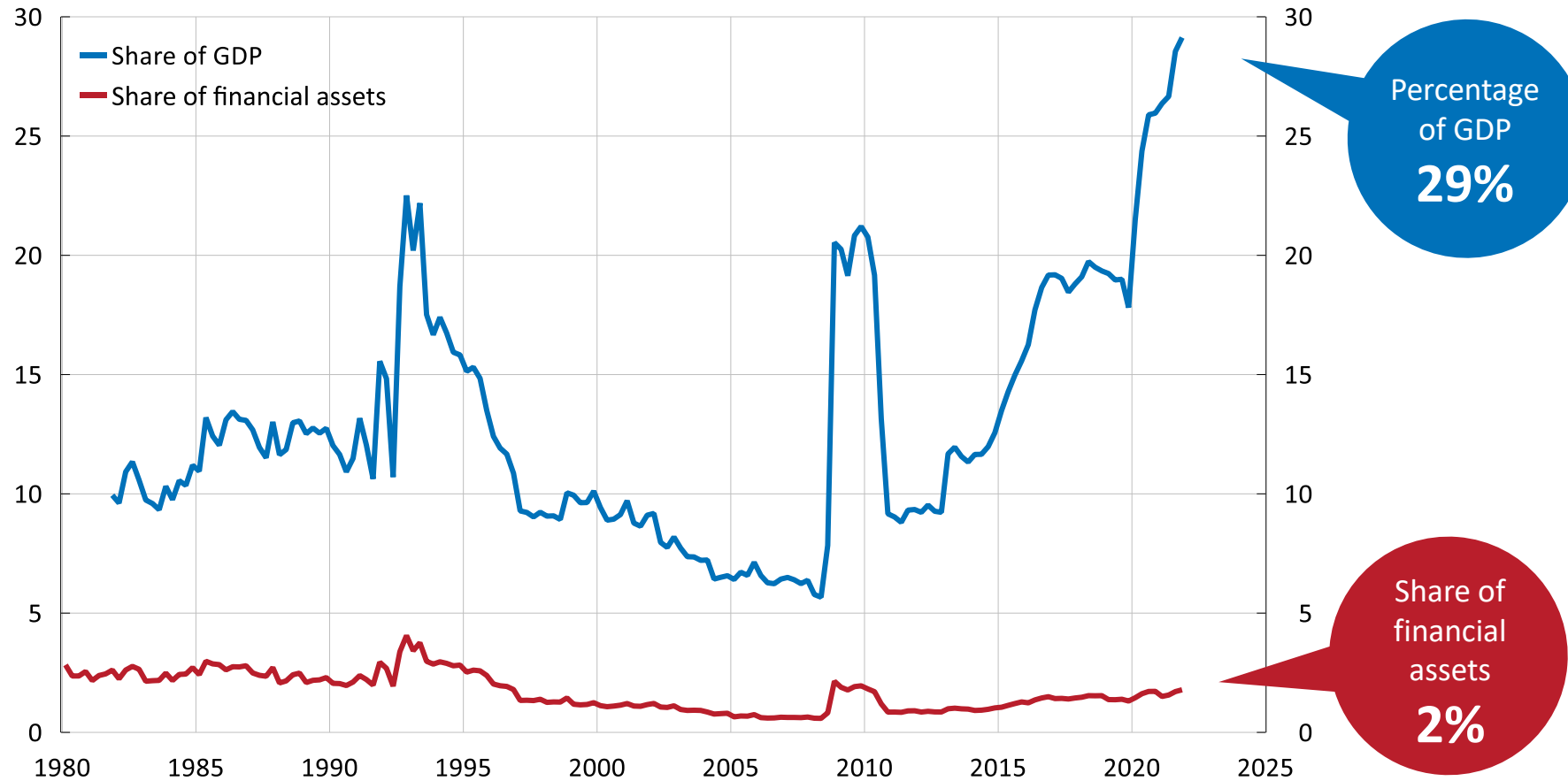
The path from “QE” to “QT”



The path from “QE” to “QT”



Perspectives on the Riksbank's balance sheet

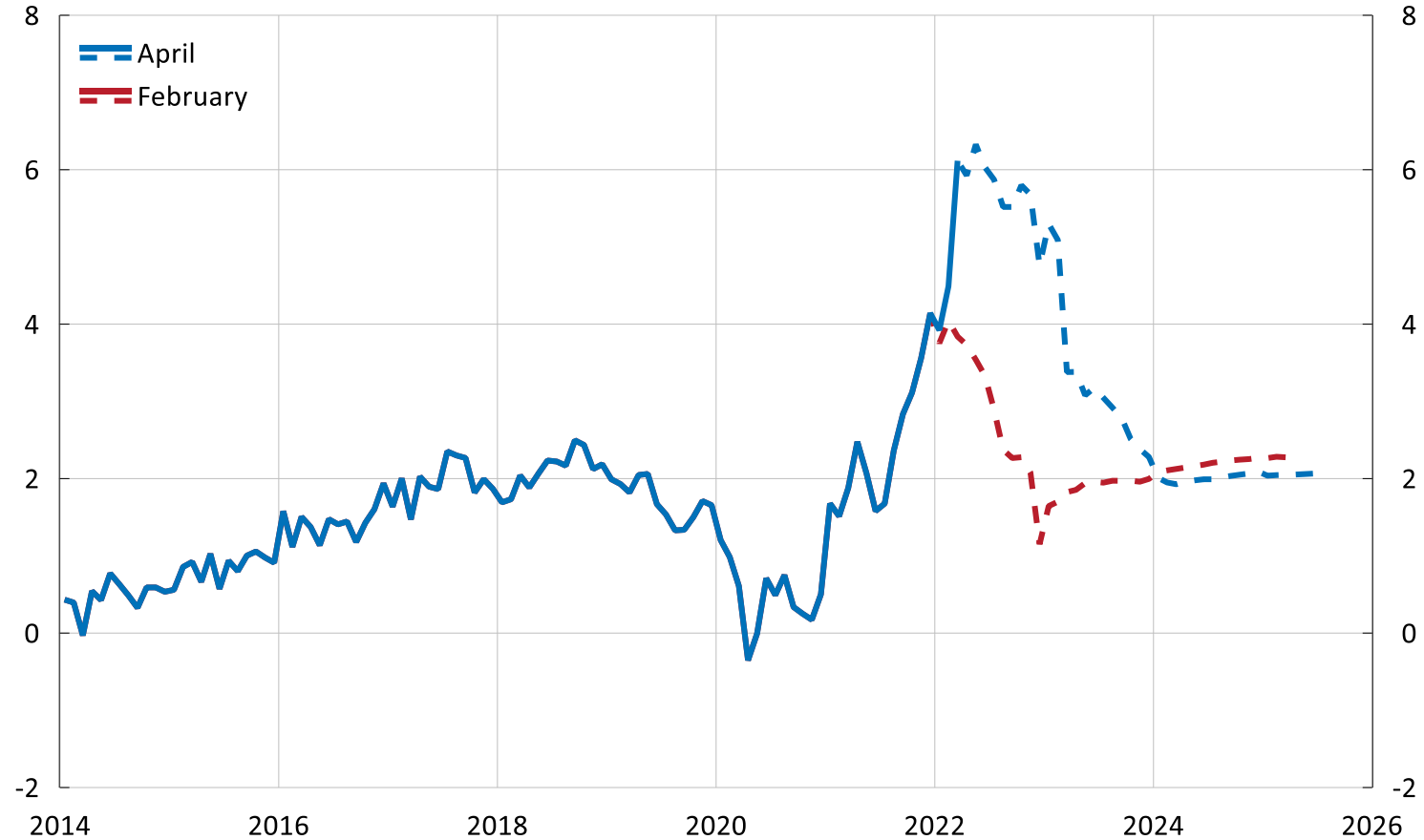


Note. The Riksbank's balance sheet as a percentage of GDP and financial assets respectively in Sweden.

Sources: Statistics Sweden and the Riksbank.

Inflation in Sweden much higher than expected...

Annual percentage change

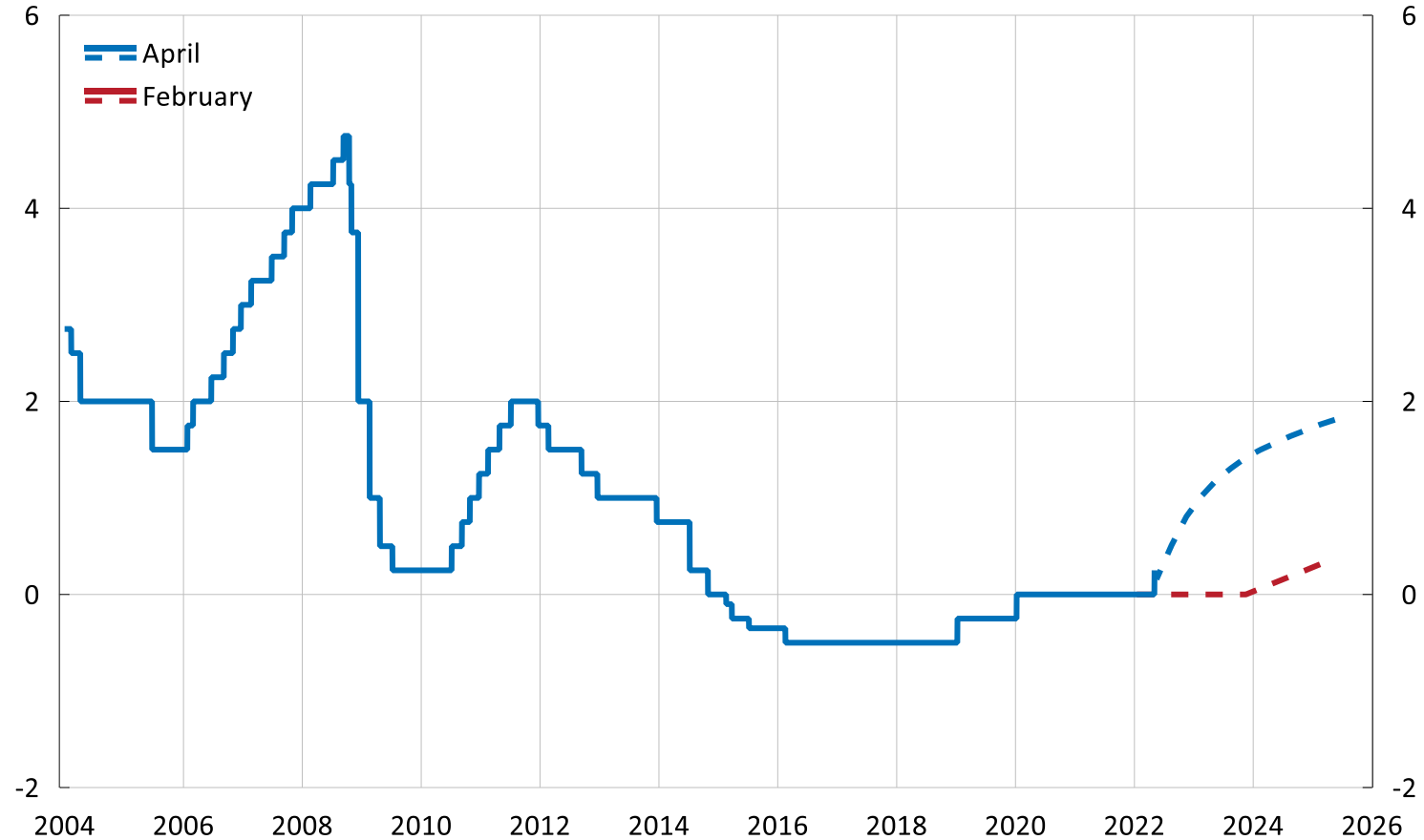


Note. Unbroken line refers to outcome, broken line represents the Riksbank's forecast.

Sources: Statistics Sweden and the Riksbank.

... which is mainly dealt with by raising the policy rate

The Riksbank's repo rate



Note. Unbroken line refers to outcome, broken line represents the Riksbank's forecast. Outcomes refer to quarterly averages.

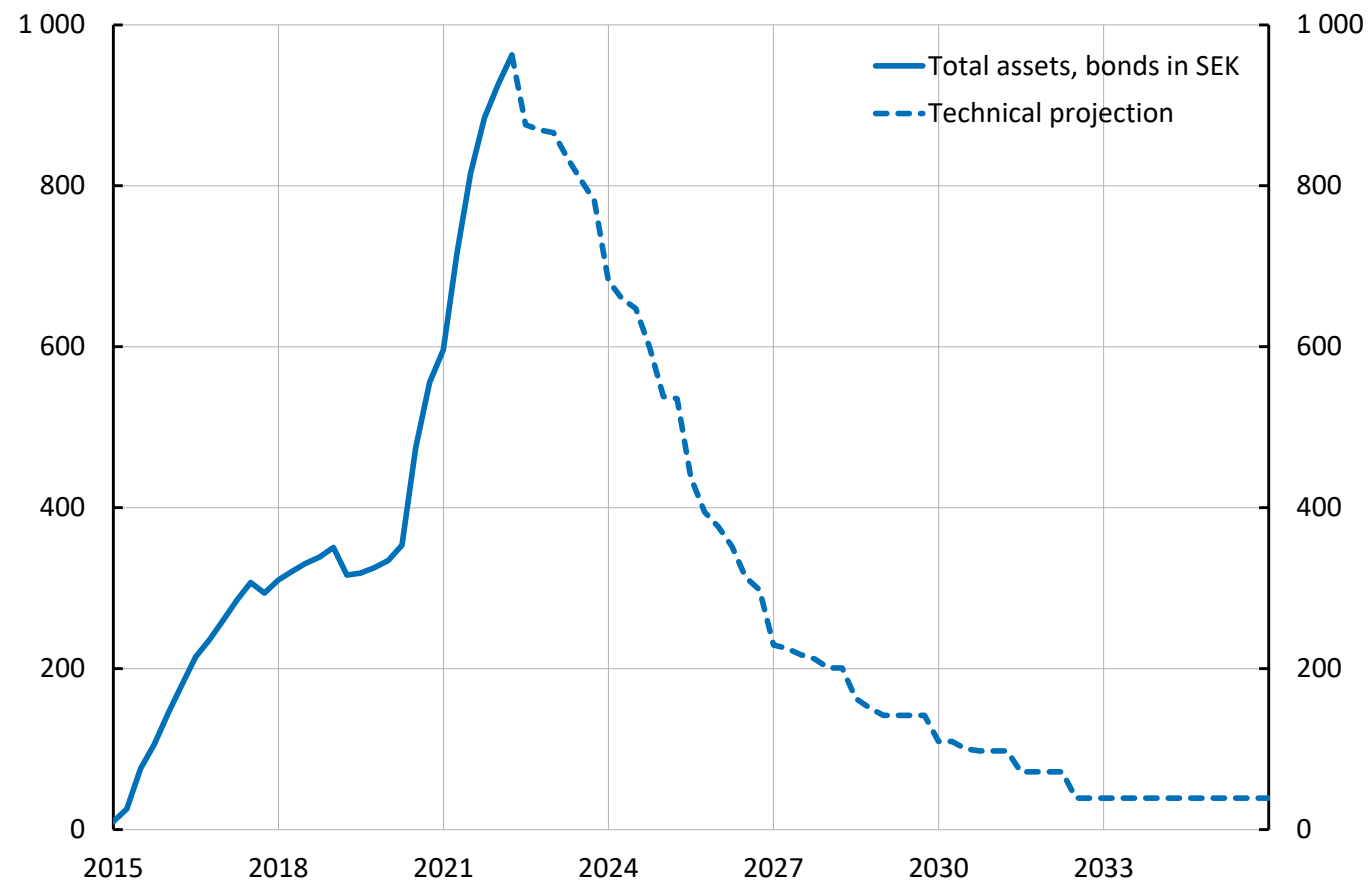
Source: The Riksbank.

Our “QT” strategy

- We do not know as much about the effects of QT on the economy as of interest rate increases
- The asset holdings should be reduced in an undramatic way
- Reinvestment is declining and assets are maturing
- Why no sales?
 - Depends on the maturity of the assets
 - If it is very long, it may be necessary for the holding to decrease at the desired pace
- But the maturity of our holding is quite short!

The Riksbank's asset holdings can be halved by maturity alone as early as 2025

Nominal amounts, SEK billion

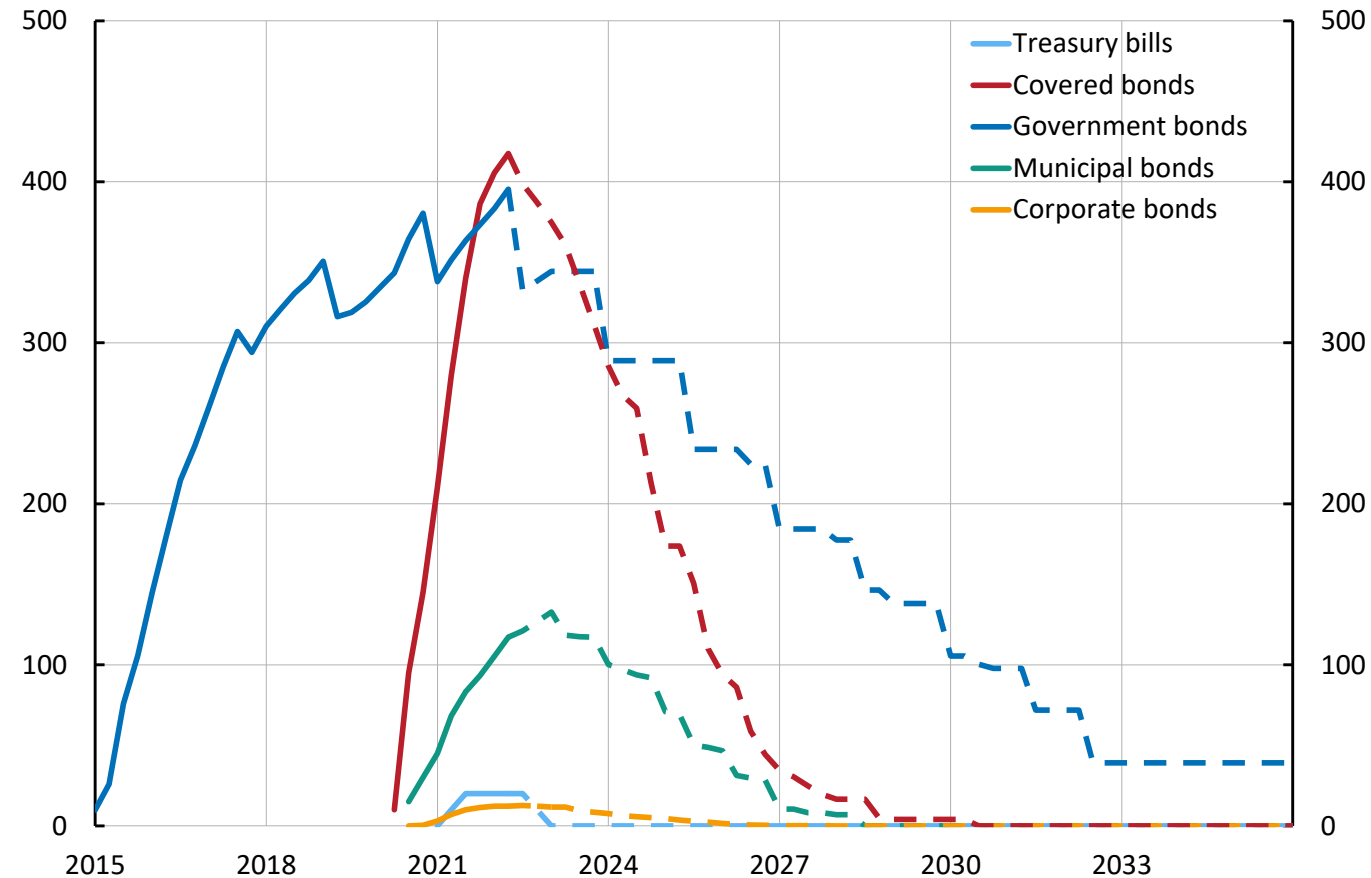


Note. Quarterly data. The figure shows a technical projection of the Riksbank's total asset holdings if no reinvestments are made after 2022.

Source: The Riksbank.

Holdings of private securities can be rapidly reduced by maturity alone

Nominal amounts, SEK billion



Note. Quarterly data. The figure shows a technical projection of the Riksbank's asset holdings if no reinvestments are made after 2022.

Source: The Riksbank.

Thoughts regarding the future

- The QE programme during the crisis has worked well
- We are gradually moving from QE to QT
- That said...
 - QE is a tool that will be used when needed
 - Communication is a challenge



THANK YOU!