Monetary policy in a changing world

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

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Agenda

The economy is changing

How large is the monetary policy toolbox?

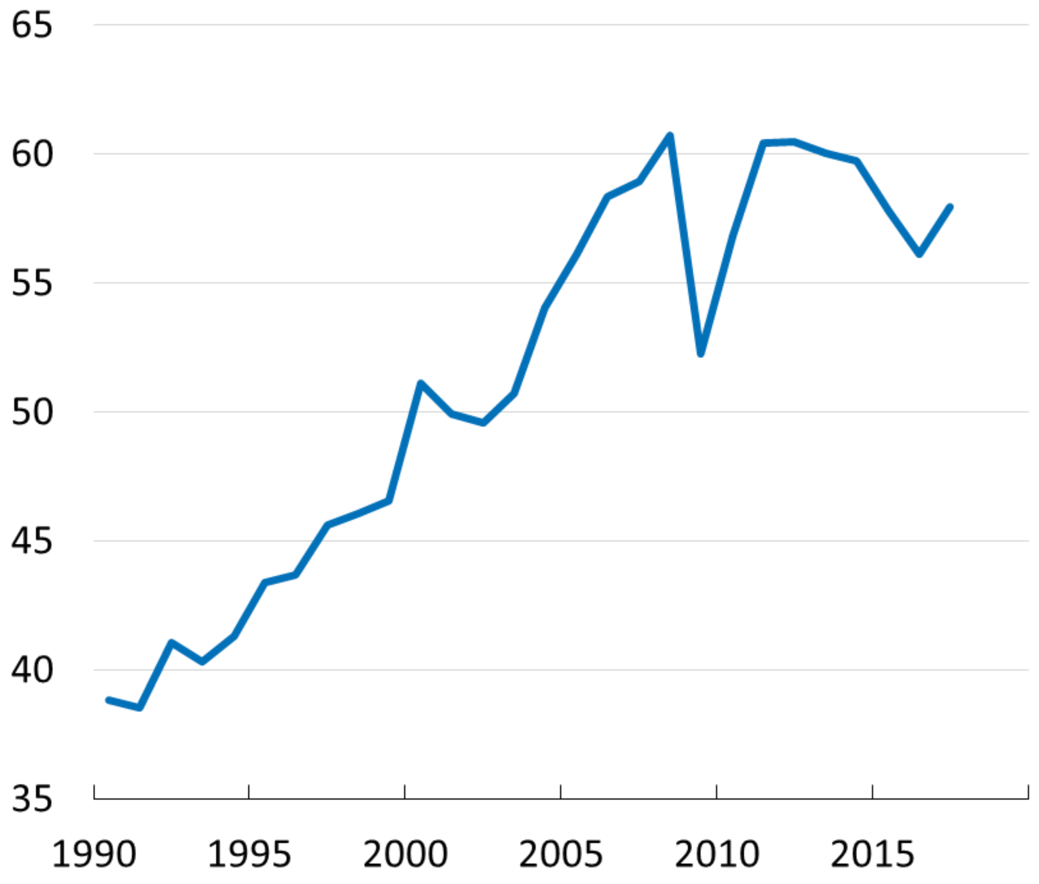
Can the Riksbank contribute towards more sustainable development?

The economy is changing

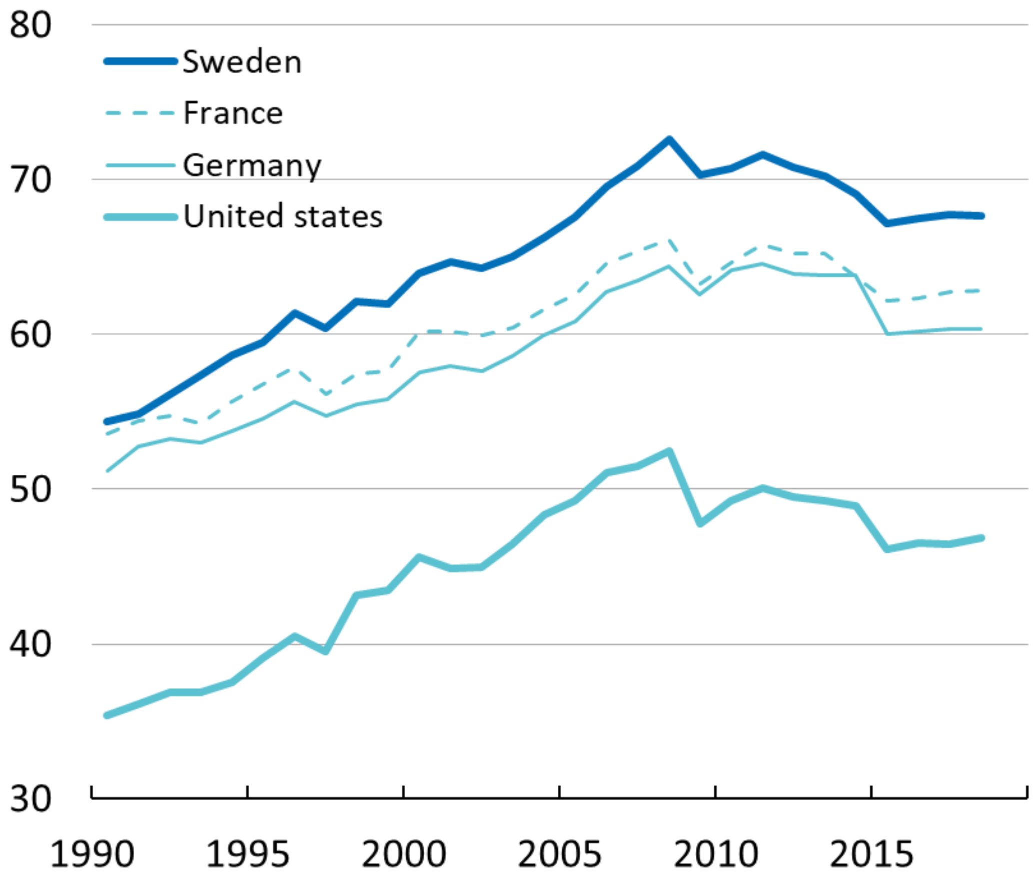
- Globalisation has taken a step back
- China is increasingly important
- Ageing population, lower population growth
- Digitalisation
- Climate change

Globalisation has taken a step back

World trade is not growing like before



Global value chains are breaking up

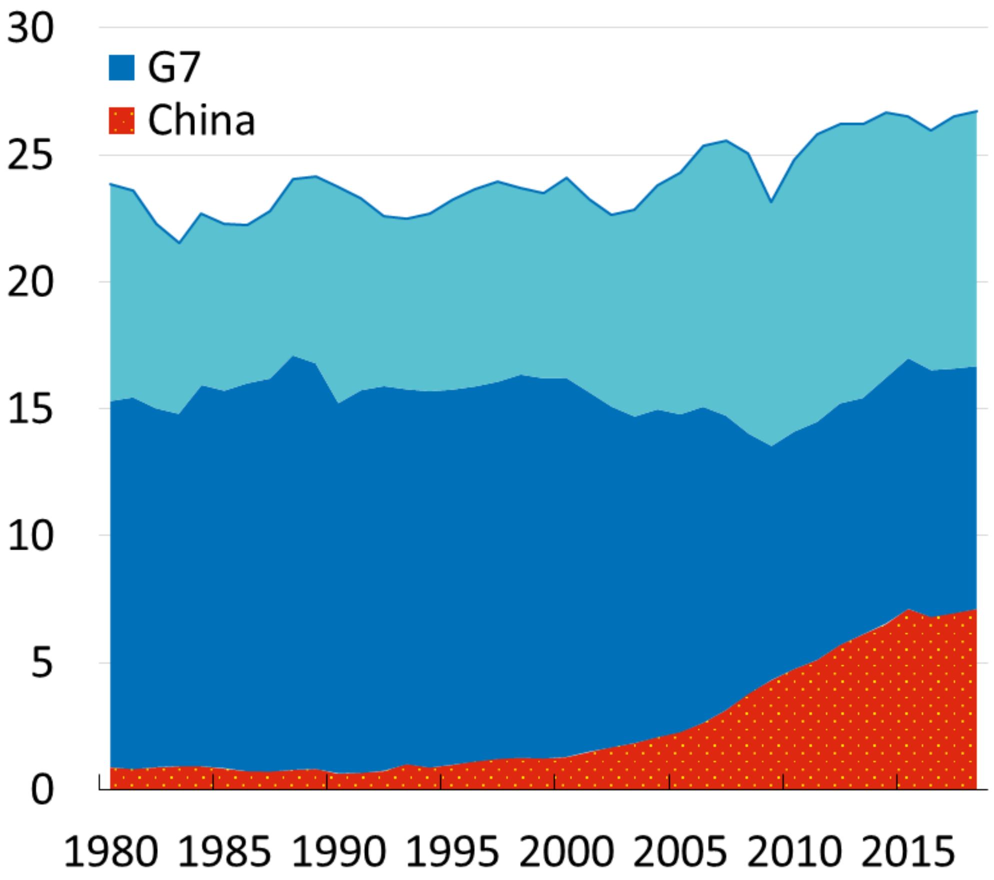


Exports and imports as a proportion of global GDP, per cent, and proportion of exports linked to global value chains, per cent, respectively.

Sources: World Bank, OECD, IMF, Riksbank and UNCTAD-Eora.

China is increasingly important

China is contributing to higher global saving



Global saving ratio, per cent of GDP, and contributions from China and the G7 countries, respectively.

Source: IMF WEO.

<u>China:</u>

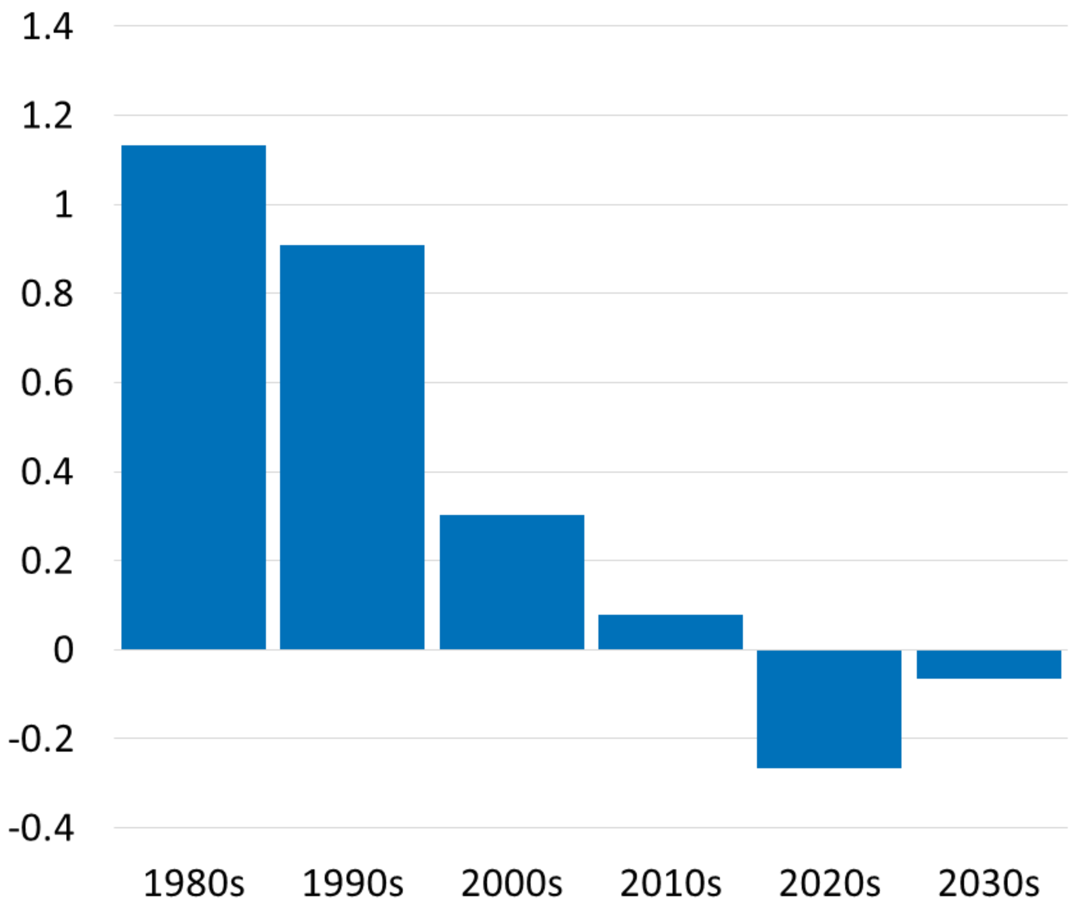
- Share of global GDP increased from 3 to 16 per cent between 1980 and 2018
- Saving ratio increased from 32 to 45 per cent

<u>G7 countries:</u>

- Saving ratio decreased from 23 to 21 per cent

Demography entails lower interest rates and growth

Lower population growth

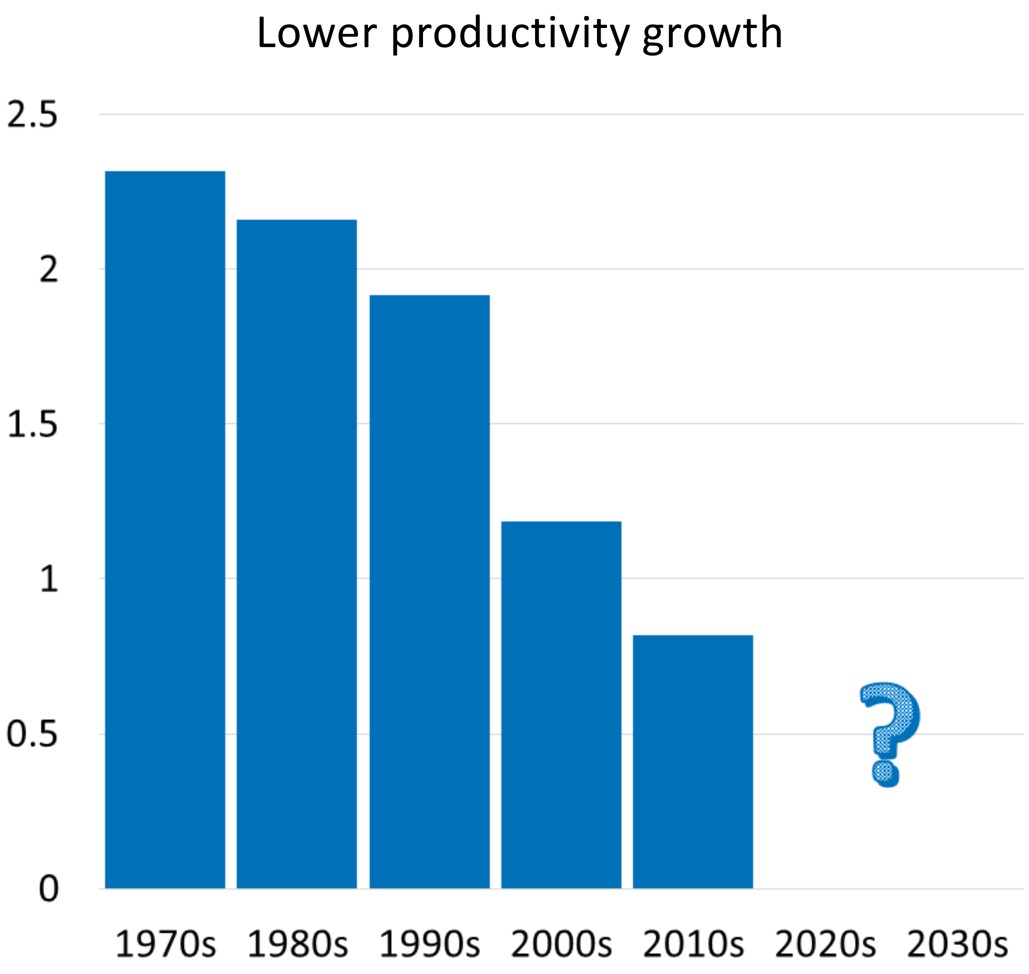


Growth in G7 countries' population, 25–29 years, annual percentage.

- Lower population growth
  - … lower willingness to invest
  - … lower GDP growth
- We are living longer
  - … want to save more for retirement
  - … increased dependency ratio

Source: UN.

Productivity has grown more slowly



… lower willingness to invest

… lower GDP growth

… lower interest rates

Growth in OECD countries' labour productivity, annual percentage.

Source: OECD EO.

The economy is changing

Willingness to invest↓

Need to save↑

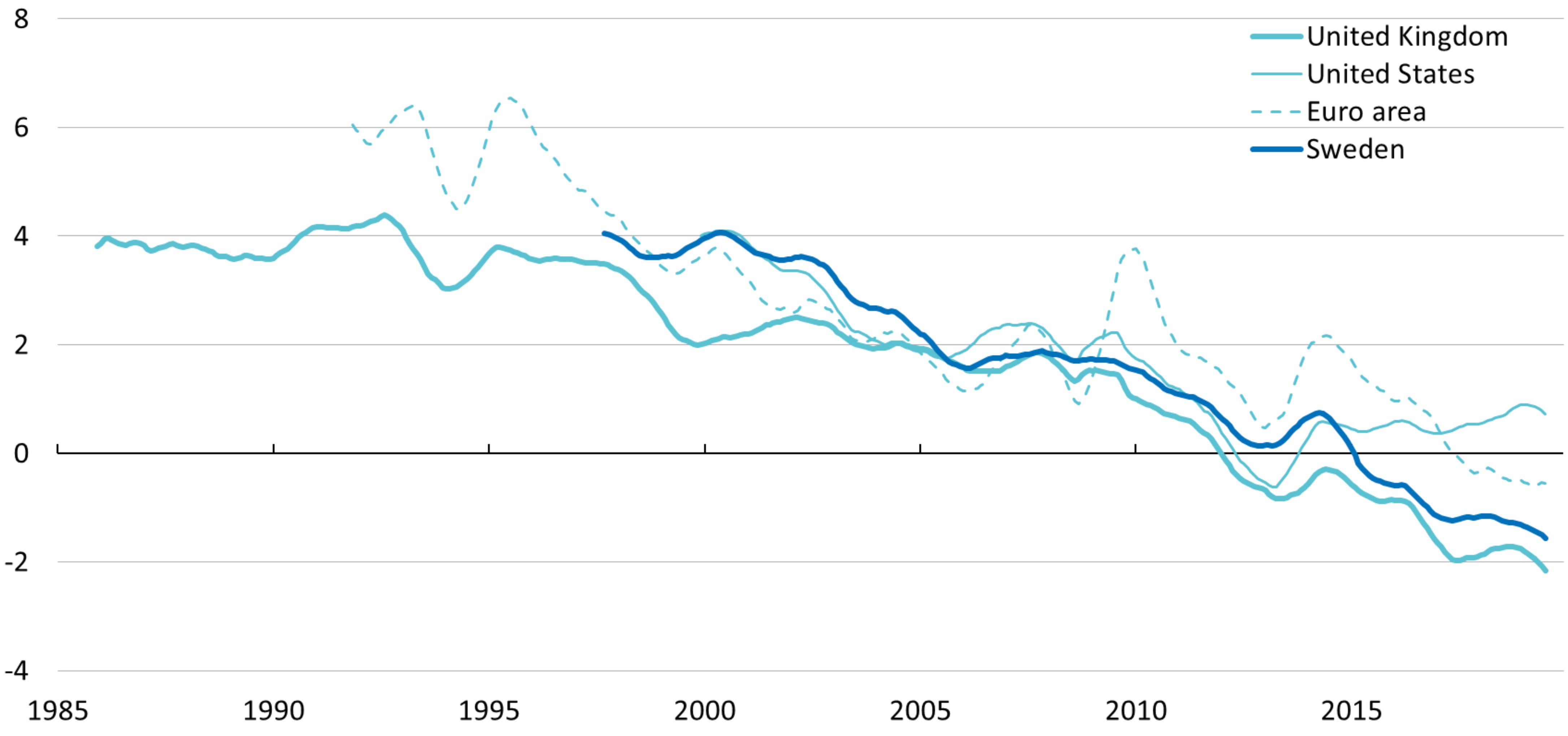
Lower productivity growth?

Lower inflationary pressures?

Low interest rates

Low growth

Many indications of continuing low real interest rates



Yield on 10-year real government bonds, per cent, 12 month moving average.

Sources: Bank of England, ECB, Federal Reserve and the Riksbank.

How large is the monetary policy toolbox?

The Riksbank's toolbox

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The interest rate can be cut

- But the interest rate is close to its *effective* lower bound

Purchase more Swedish government bonds?

- Term premiums are already very low
- No credit risk for Swedish government securities
- The Riksbank already owns a large share

'Unconventional' monetary policy

- Other asset purchases, helicopter money, …
- Could work but is *fiscal policy*
- Sweden's public finances are strong; it is the Government's task to conduct fiscal policy

Can the Riksbank contribute towards more sustainable development?

Climate change affects the economy

New risks

- Physical risk & transition risk
- Adequate supervision and regulation are needed
- Primarily Finansinspektionen's responsibility, but also the Riksbank's

The functioning of the economy is changing

- Economic relationships are changing
- More noise in the data?

Can the Riksbank contribute to better sustainability?

- Asset purchases (QE)?
- Managing the foreign exchange reserve?

Can the Riksbank contribute to better sustainability?

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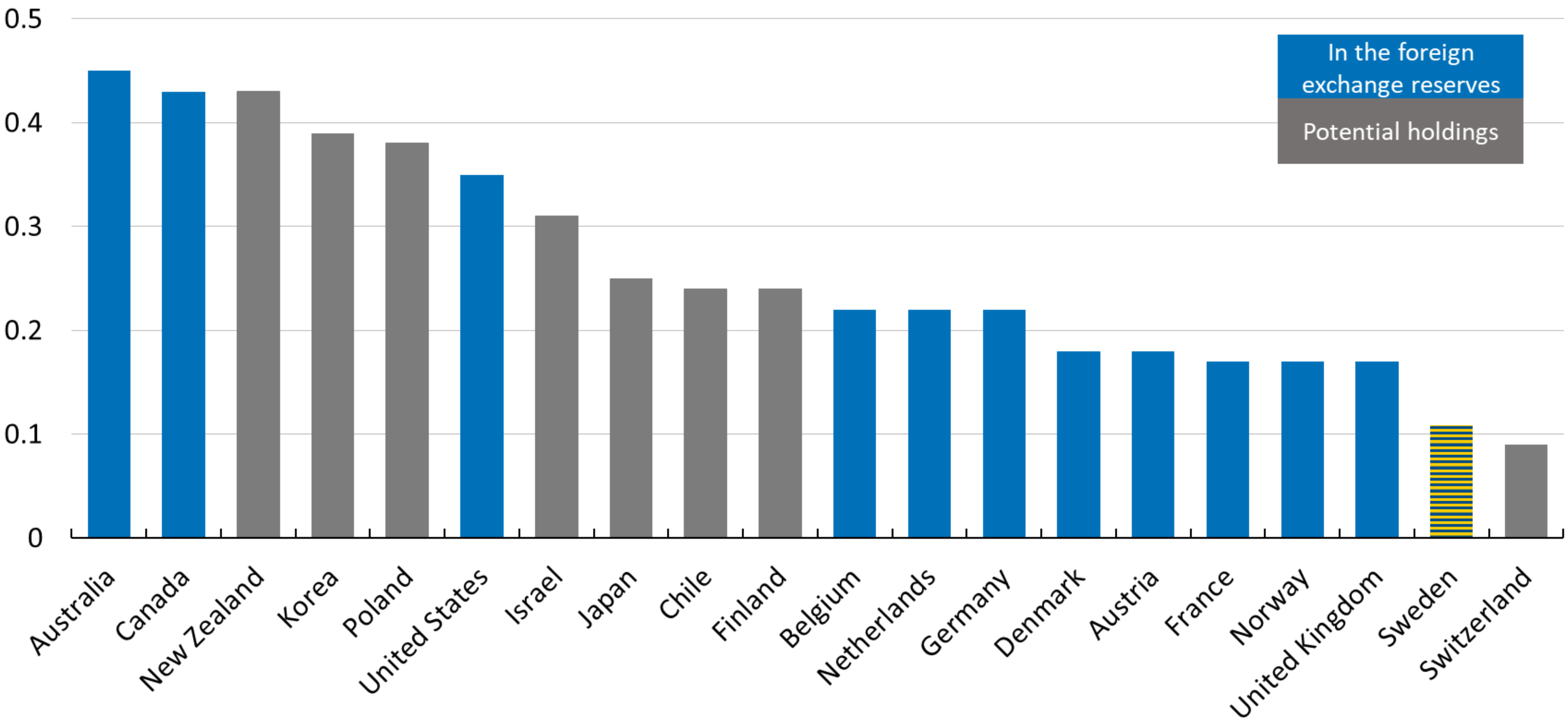
Asset purchases

- Swedish government bonds
- The central government is the Riksbank's principal
- Not appropriate for the Riksbank to attempt to affect the Government's climate work
- The Riksbank should not select among government bonds

Managing the foreign exchange reserve

- The reserve must consist of safe and liquid assets
- There is some scope for considering climate change
- New risk and investment policy

Greenhouse gas emissions

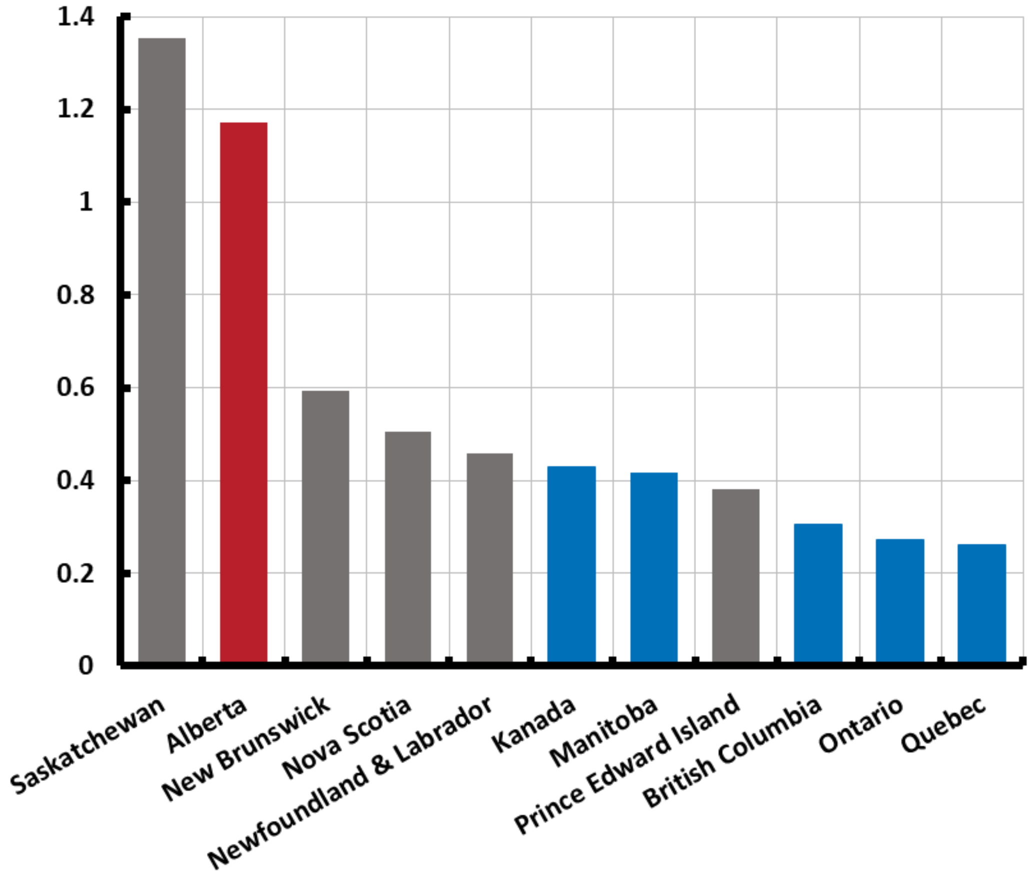


Direct greenhouse gas emissions, excluding uptake and emission of greenhouse gases from land use, GHG (kt CO_2e)/GDP (mn USD).

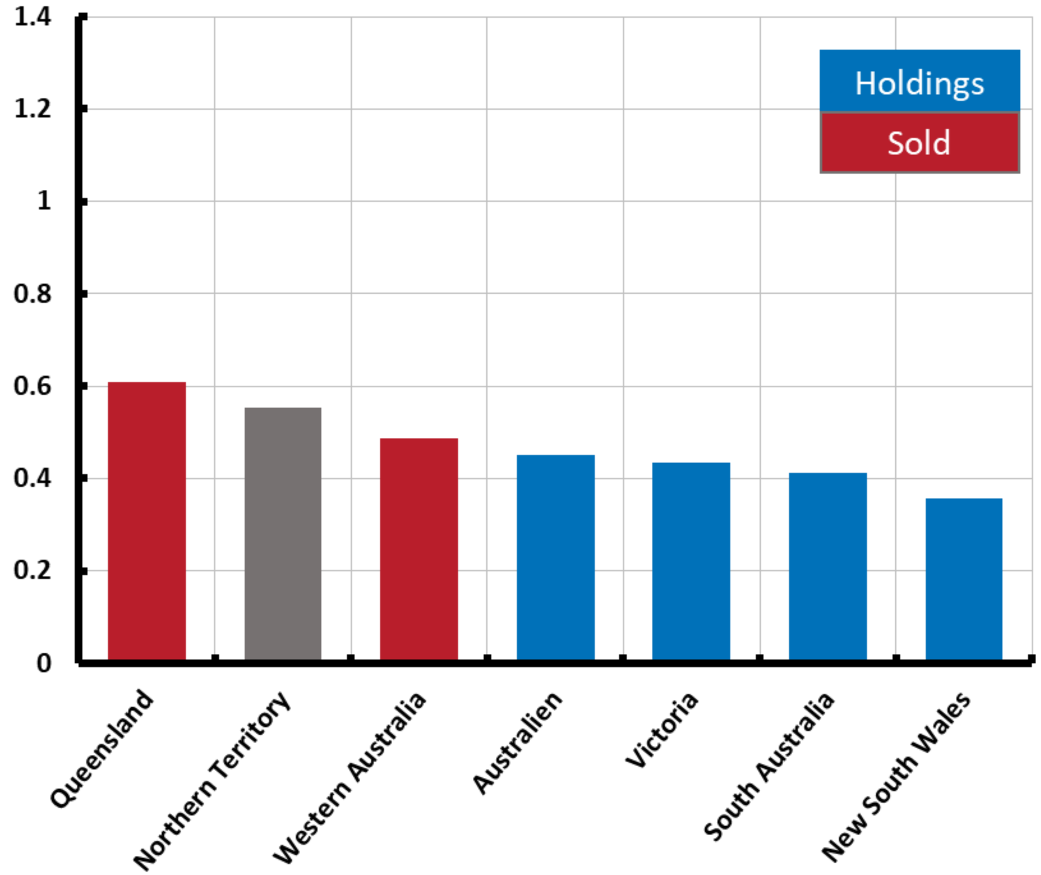
Sources: UNFCCC, OEDCD, Climate watch.

The Riksbank rejects issuers with a large climate footprint

Canada and provinces



Australia and states



Direct greenhouse gas emissions, excluding uptake and emission of greenhouse gases from land use, GHG (kt CO2e)/GDP (mn USD).

Sources: Australian Bureau of Statistics, Bloomberg, Government of Australia, Government of Canada, UNFCCC and Statistics Canada.

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The economy is changing

- What will normal levels be for interest rates and productivity and GDP growth in the period ahead?

The Riksbank must understand structural changes

- Economic correlations are changing, new risks are emerging
- However, monetary policy has little ability to *affect* these structural changes

Fiscal policy is playing a larger role in stabilisation policy

- The policy rate is close to its effective lower bound
- Fiscal policy can be made more expansionary if necessary

The Riksbank shall not conduct fiscal or climate policy

- But the Riksbank can take some consideration of climate change in its management of the foreign exchange reserves

Thank you!