

Monetary policy in a changing world

Örebro University and
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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

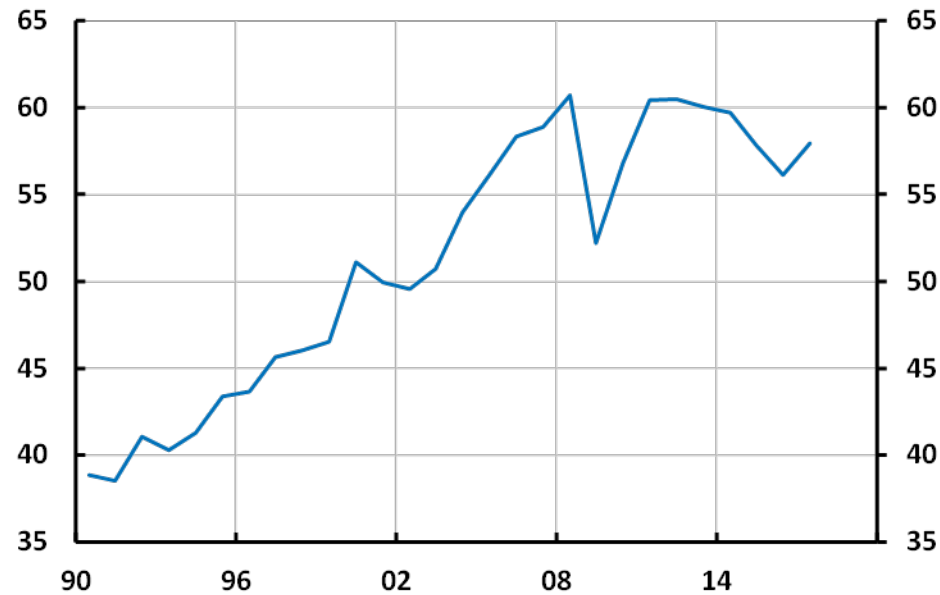
Ageing population, lower population growth

Digitalisation

Climate change

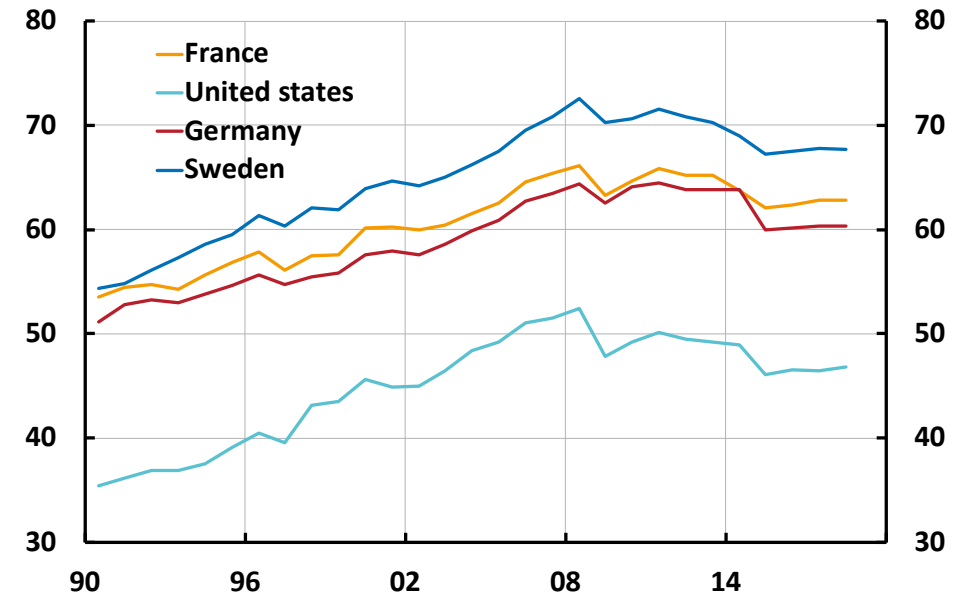
Globalisation has taken a step back

World trade is not growing like before



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

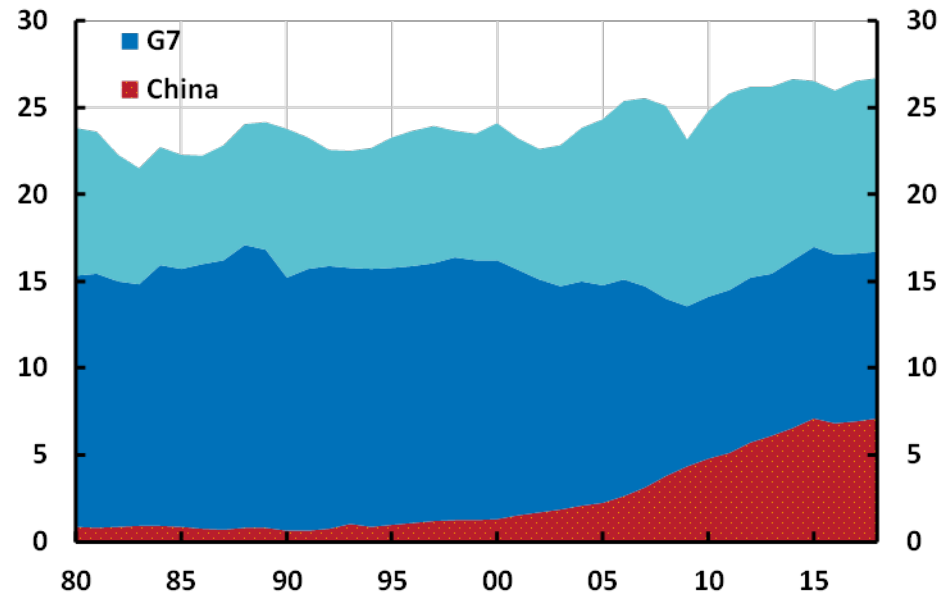
Global value chains are breaking up



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

China is increasingly important

China is contributing to higher global saving



China:

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

G7 countries:

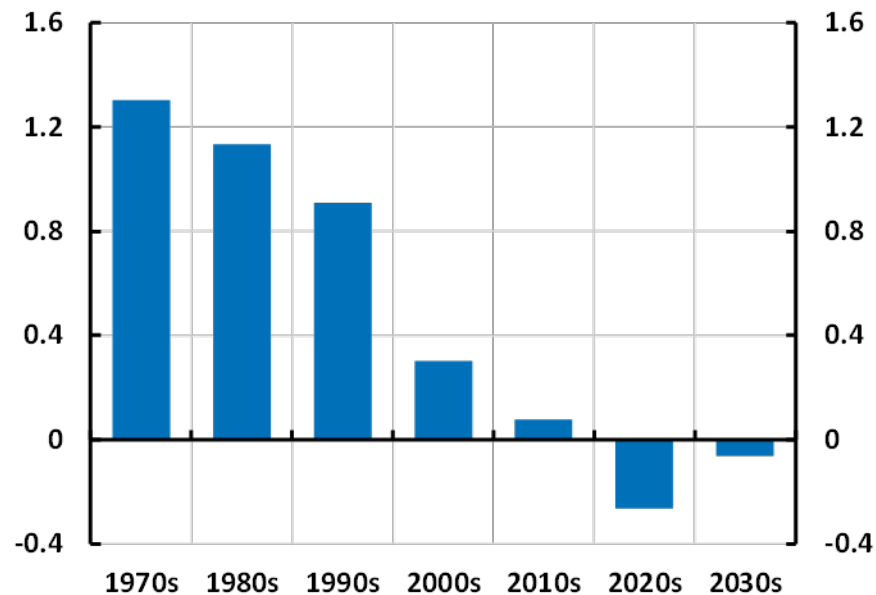
- Saving ratio decreased from 23 to 21 per cent

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

Source: IMF WEO.

Demography entails lower interest rates and growth

Lower population growth



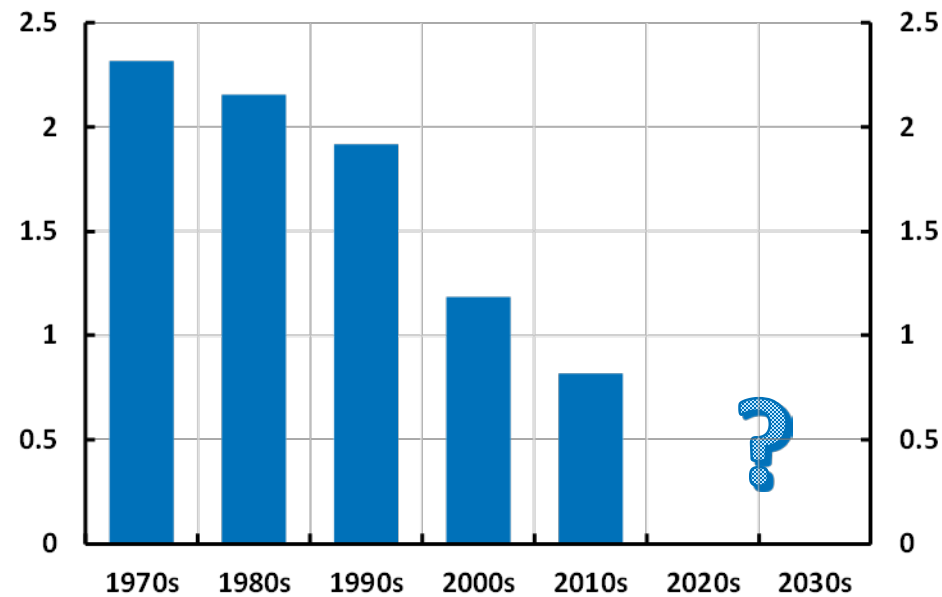
- Lower population growth
 - ... lower willingness to invest
 - ... lower GDP growth
- We are living longer
 - ... want to save more for our retirements
 - ... increased dependency ratio

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

Source: UN.

Productivity has grown more slowly

Lower productivity growth



- ... 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 ↑

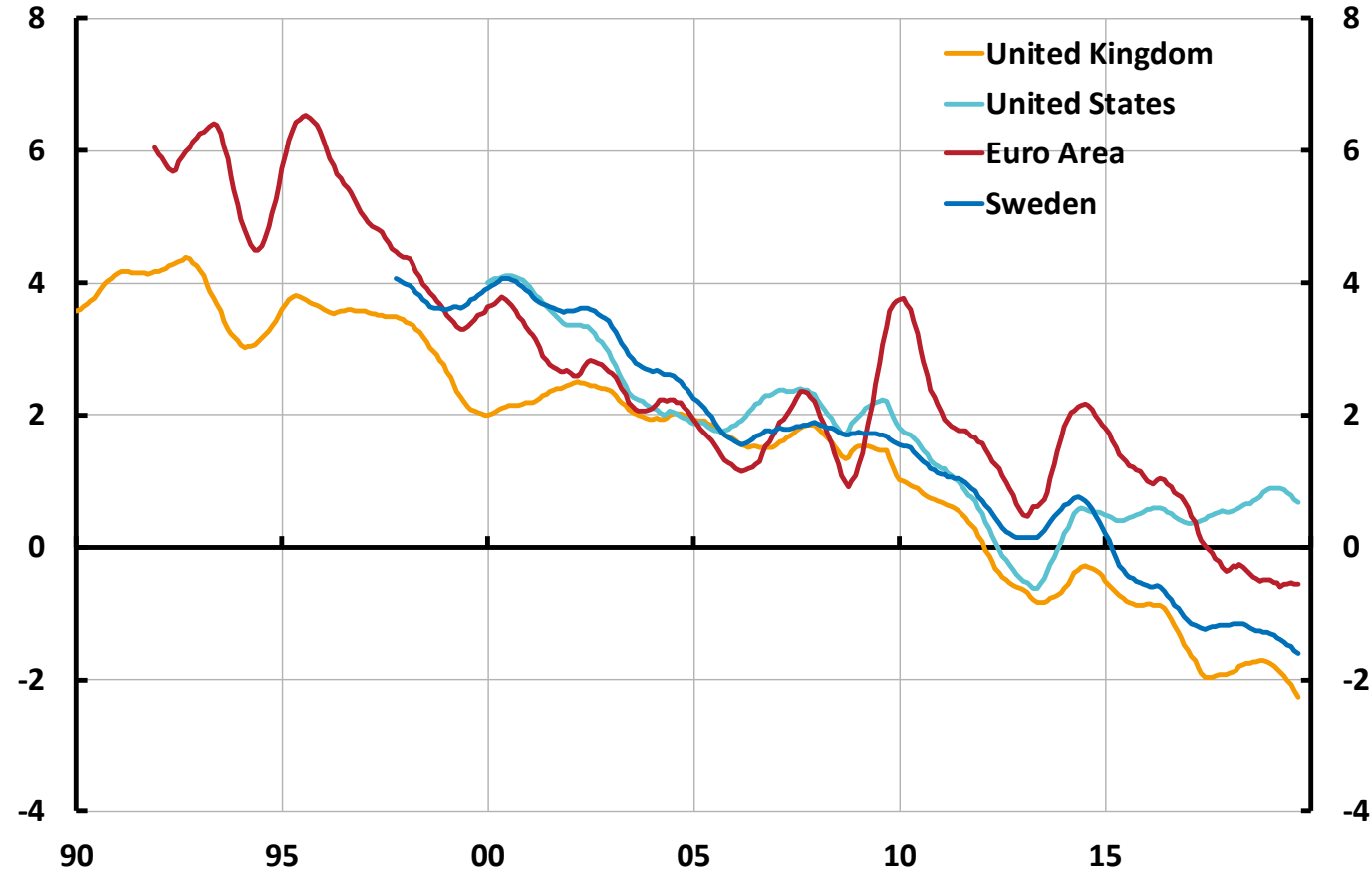
Lower
productivity
growth?

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

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?

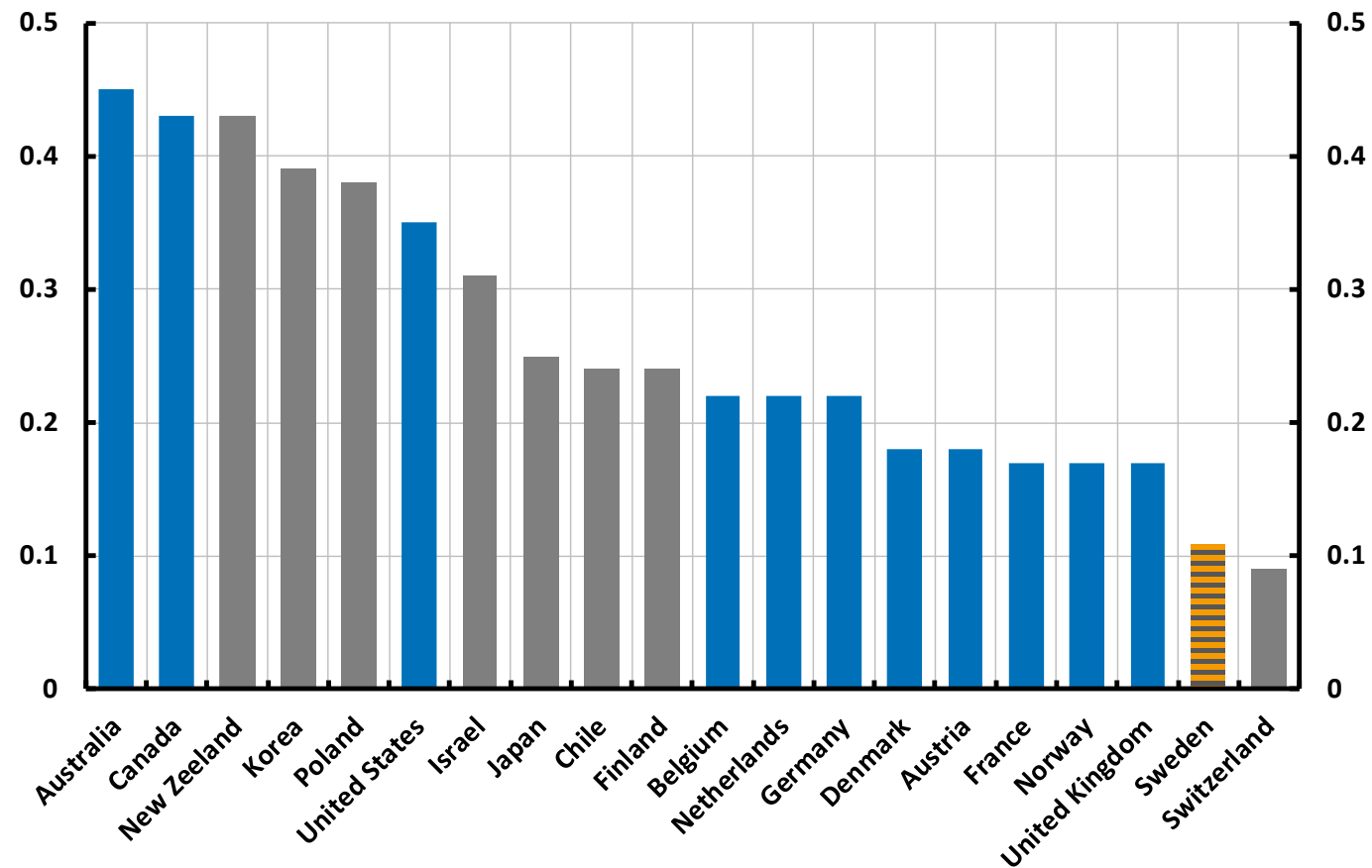
Asset purchases

- 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



In the foreign
exchange reserves

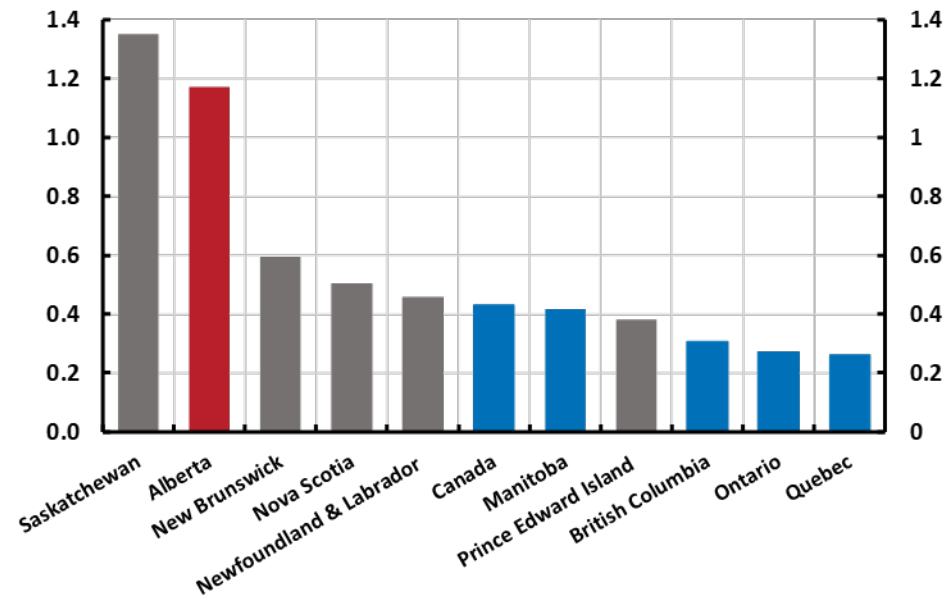
Potential holdings

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

Sources: UNFCCC, OECD, Climate watch.

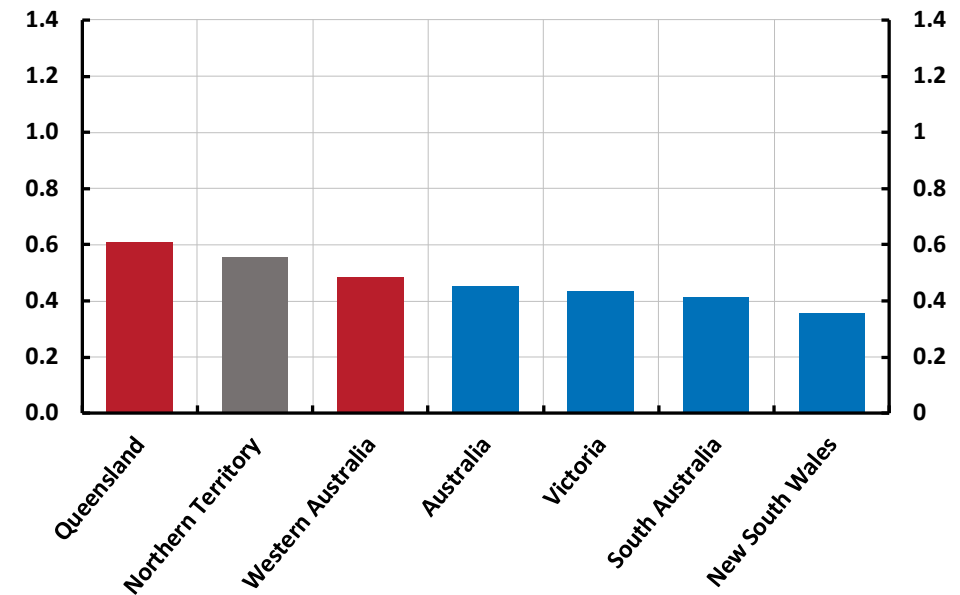
The Riksbank rejects issuers with a large climate footprint

Canada and provinces



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

Australia and states



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

Holdings
Sold

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!