

# New financial environment – how is the Riksbank meeting the new challenges?

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

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Governor

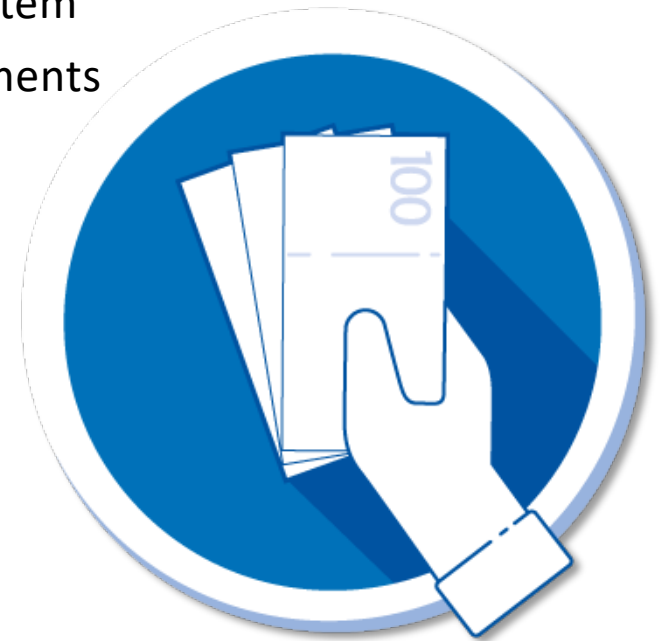
# All of the Riksbank's areas are connected



- Financial stability is a prerequisite for monetary policy
- Smoothly-functioning payments are the base of almost all financial transactions
- Stable price developments a condition for a stable banking system

# The Riksbank provides the economy with safe and efficient money

- Money and payments are the foundation of the economy
- Many things are needed to create *trust* in money, e.g.
  - Monetary policy preserves its value
  - Deposit guarantee, legislation, LoLR secures the banking system
  - Central bank money for settlement gives confidence in payments
- Money must also be *easy to use*
- The state is needed to secure the currency



# Agenda



Payment market  
undergoing rapid change



The financial system is  
more integrated and risky



Role of the balance sheet  
rate in monetary policy

# New participants entering the payment market

- FinTech sector is growing
- Also Big Tech companies beginning to show an interest
- Cryptocurrencies becoming more accepted?
- Market with network effects – state must regulate and encourage competition

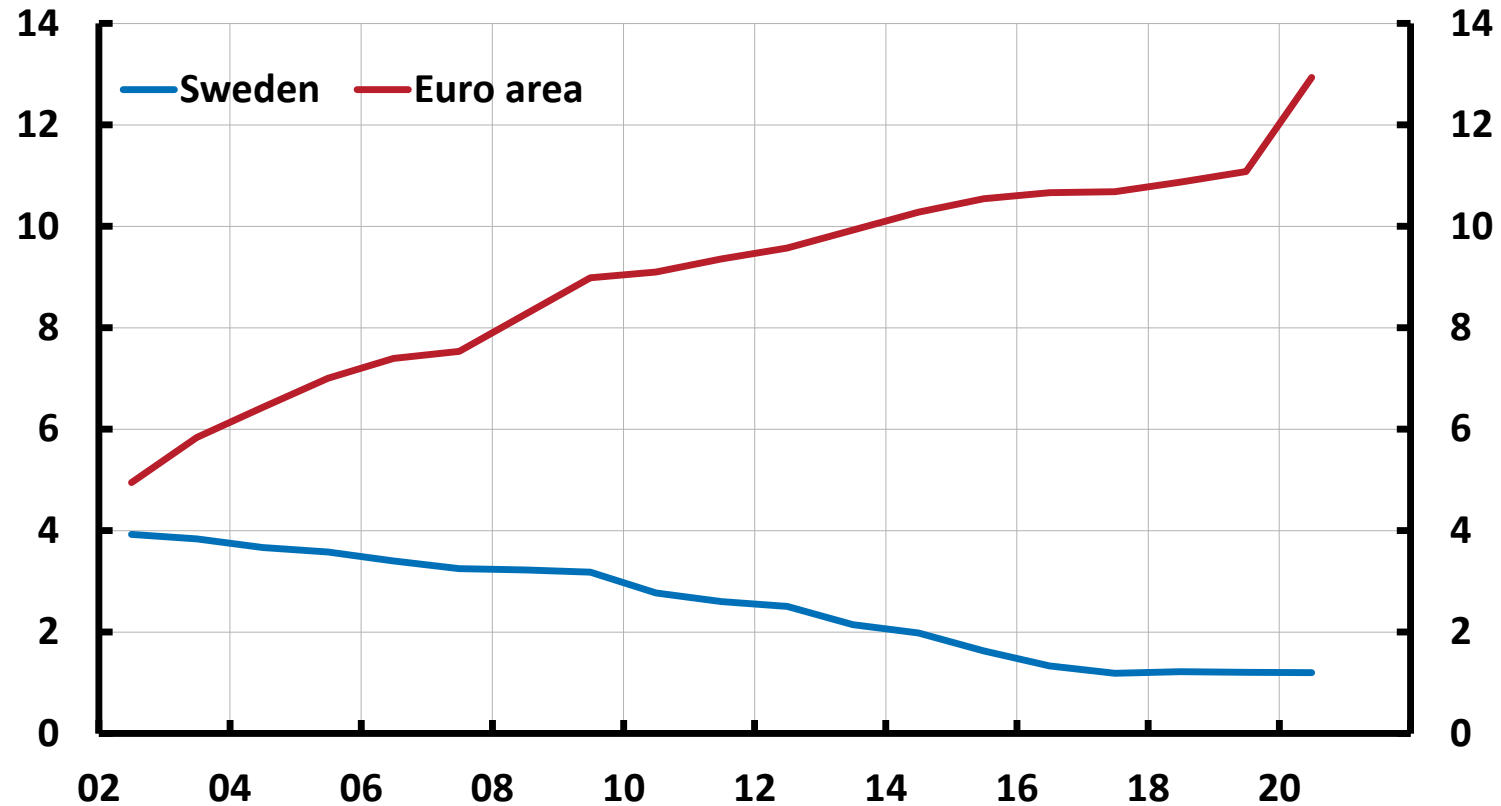


# New payment methods emerging

- More online commerce
- Cross-border payments must be improved
- Instant payments are a must
- Cash usage continuing to decline



# Developments in Sweden stand out



Note. Cash in circulation. Per cent of GDP.

Sources: The Riksbank and the ECB

# The e-krona a digital complement to cash

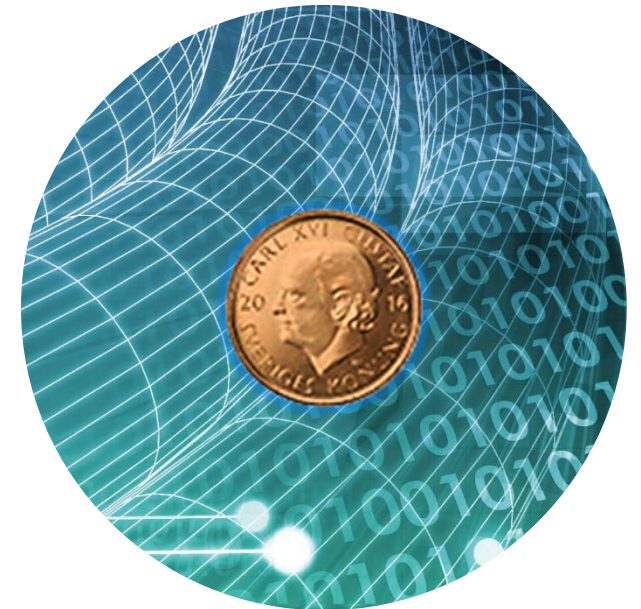
- Swedish kronor issued by the Riksbank to the general public guarantee the uniformity of the krona
- Better adapted to our digital society
- Distributed together with the private sector
- Increases robustness of the payment system



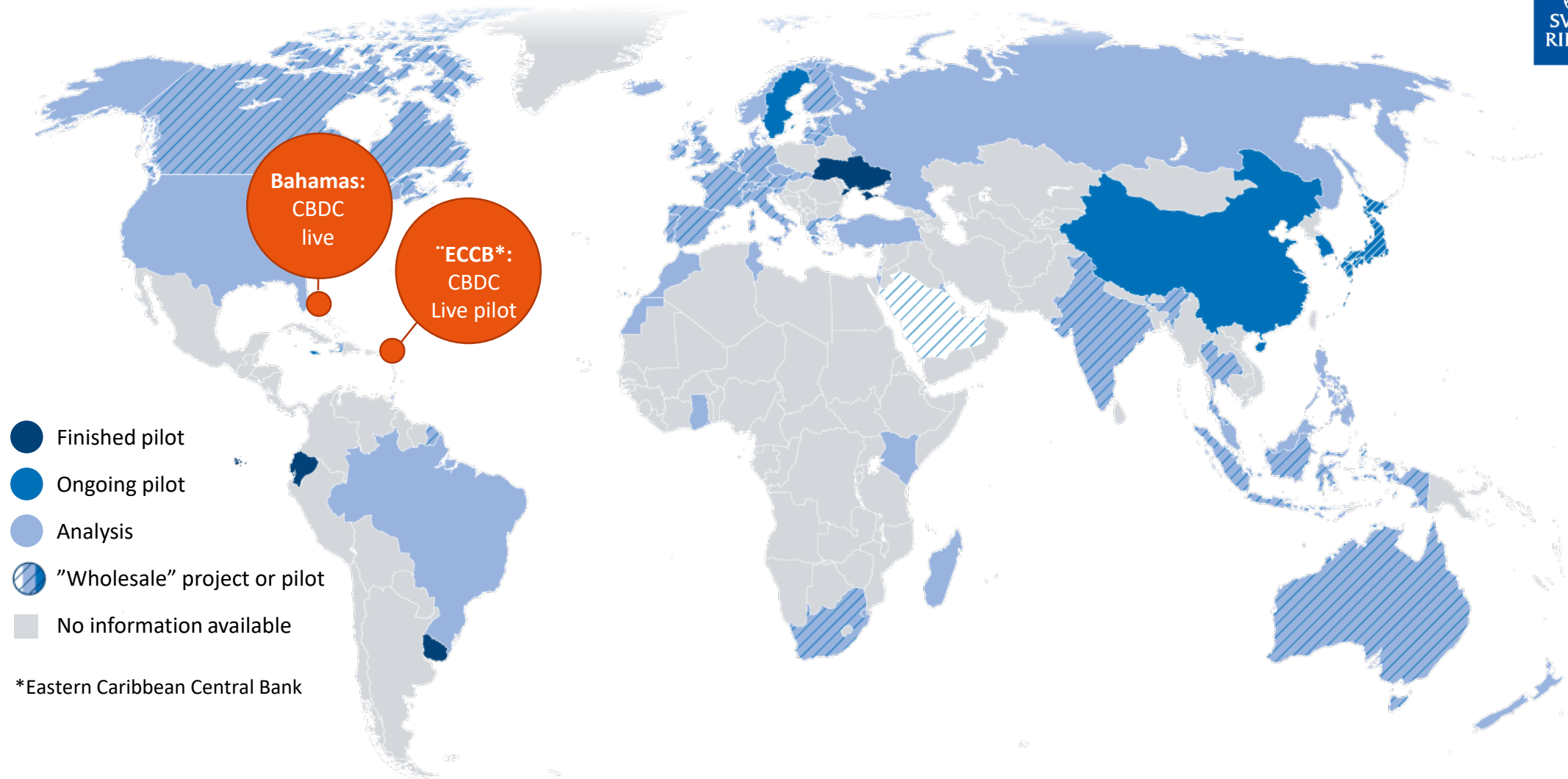


# E-krona: implications for financial stability and monetary policy

- Can be interest-bearing or not
- Holding can be limited in many ways
- The design is adapted to avoid too large an impact on the financial system:
  - Lower bound for monetary policy
  - Competition with the banks on deposits
  - Spoke in the wheels if risk for ‘bank runs’



# Many central banks are working with CBDC



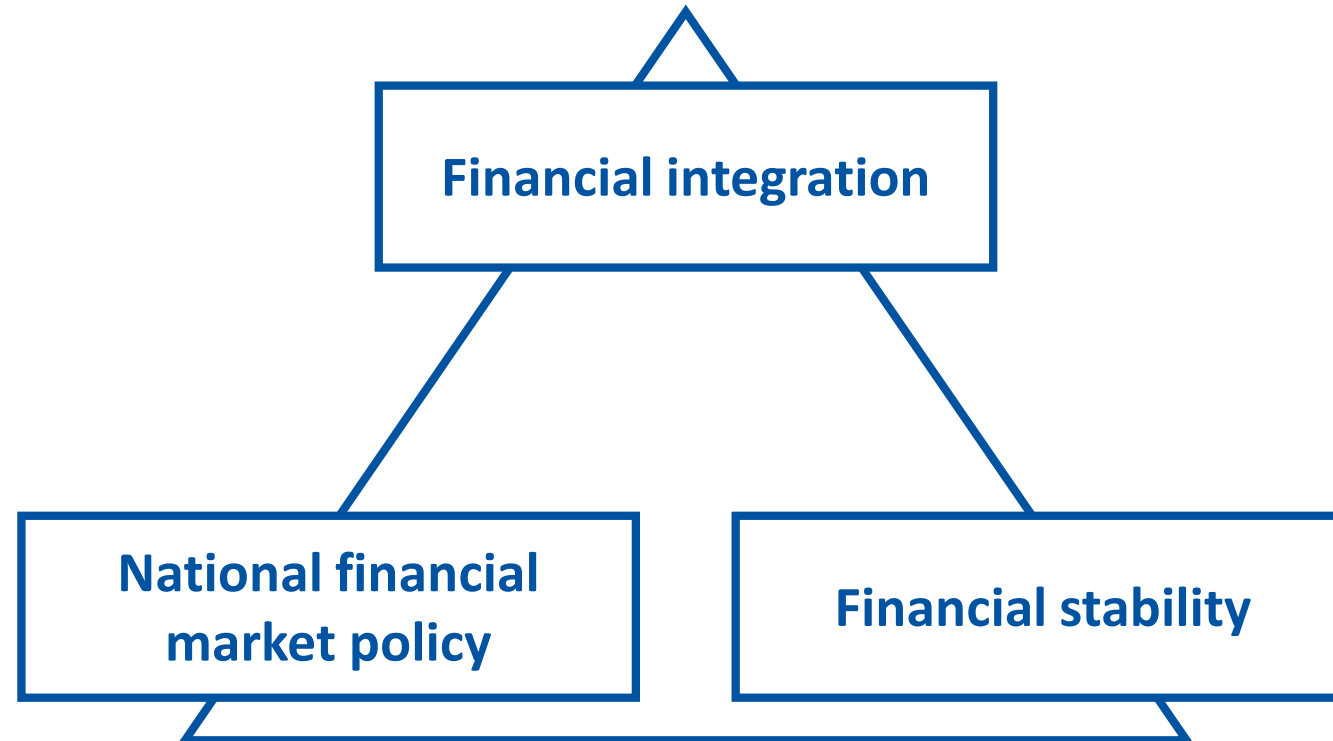
Source: Updated version of data in April, from Auer, R. Cornelli, G. and Frost, J. (2020), "Rise of the central bank digital currencies: drivers, approaches and technologies". BIS WP No 880, data downloaded from BIS web page.

# Financial system larger and more integrated

- Is the monetary policy trilemma a ‘dilemma’?
  - Is the choice really about *independent monetary policy* or free movement of capital?
- The financial trilemma
  - *National financial market policy* is not compatible with both a high degree of financial integration and financial stability
- Monetary policy and financial market policy more limited



# The financial trilemma – only two of these three things can be attained simultaneously



# The financial trilemma indicates Swedish membership of the European Banking Union

- Increased financial integration in Europe and financial stability require that parts of financial market policy be conducted at European level – the Banking Union is a part of this process
- Swedish membership is also important to gain influence when various regulations are drawn up



# Financial markets more efficient but also riskier

- Rapid digitalisation and globalisation positive for economic developments and the financial markets
- A more sophisticated financial system – new actors and services – benefits households and companies
- **But also increased risks that need to be managed by governments and authorities**

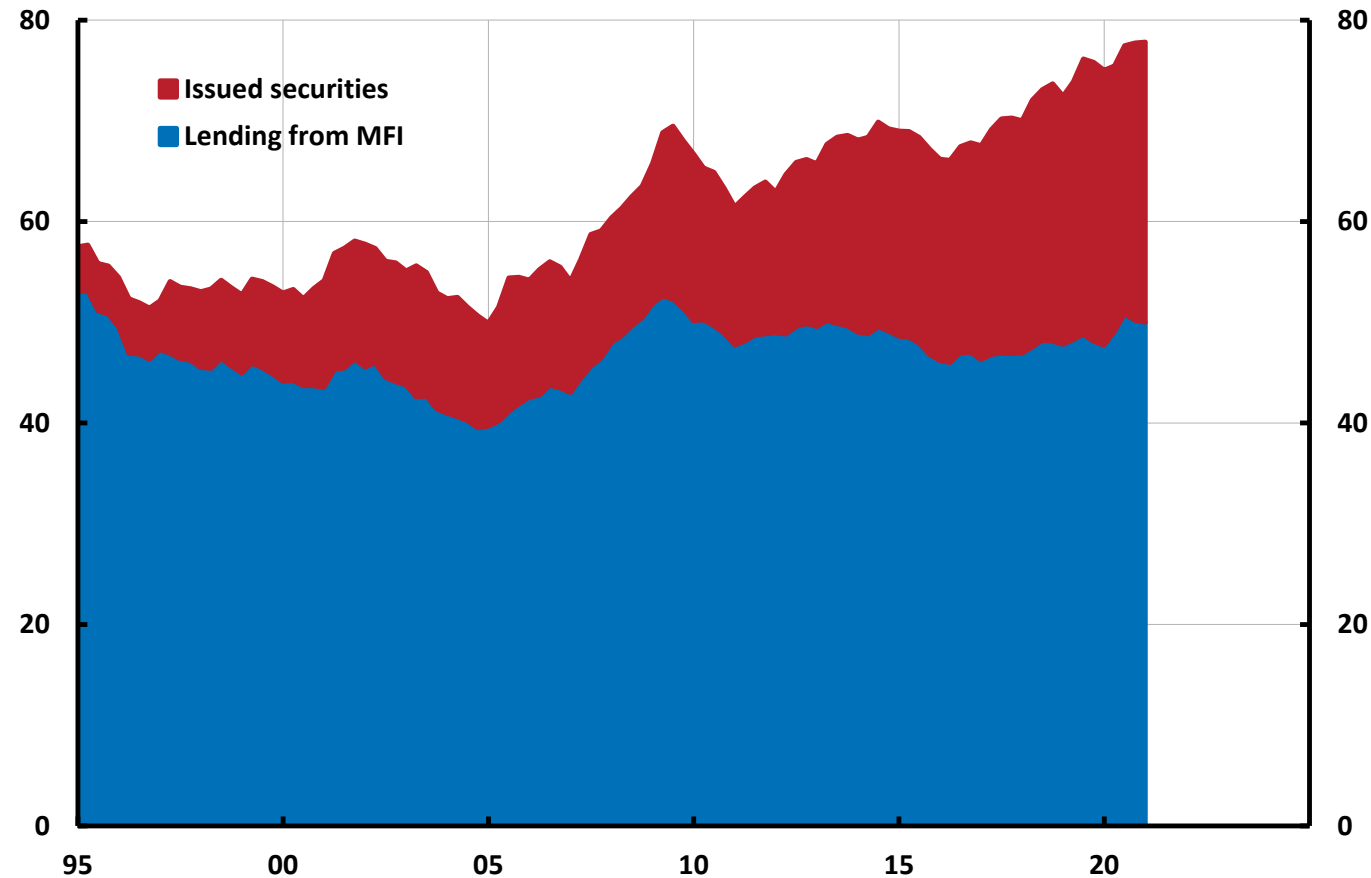


# Market participants' behaviour riskier

- Actors are increasingly evaluated against other market actors – herd behaviour
- Actors evaluated also in the short term
- Complicated financial products – such as securitisation



# Increased market financing – companies more sensitive to disruptions on the financial markets

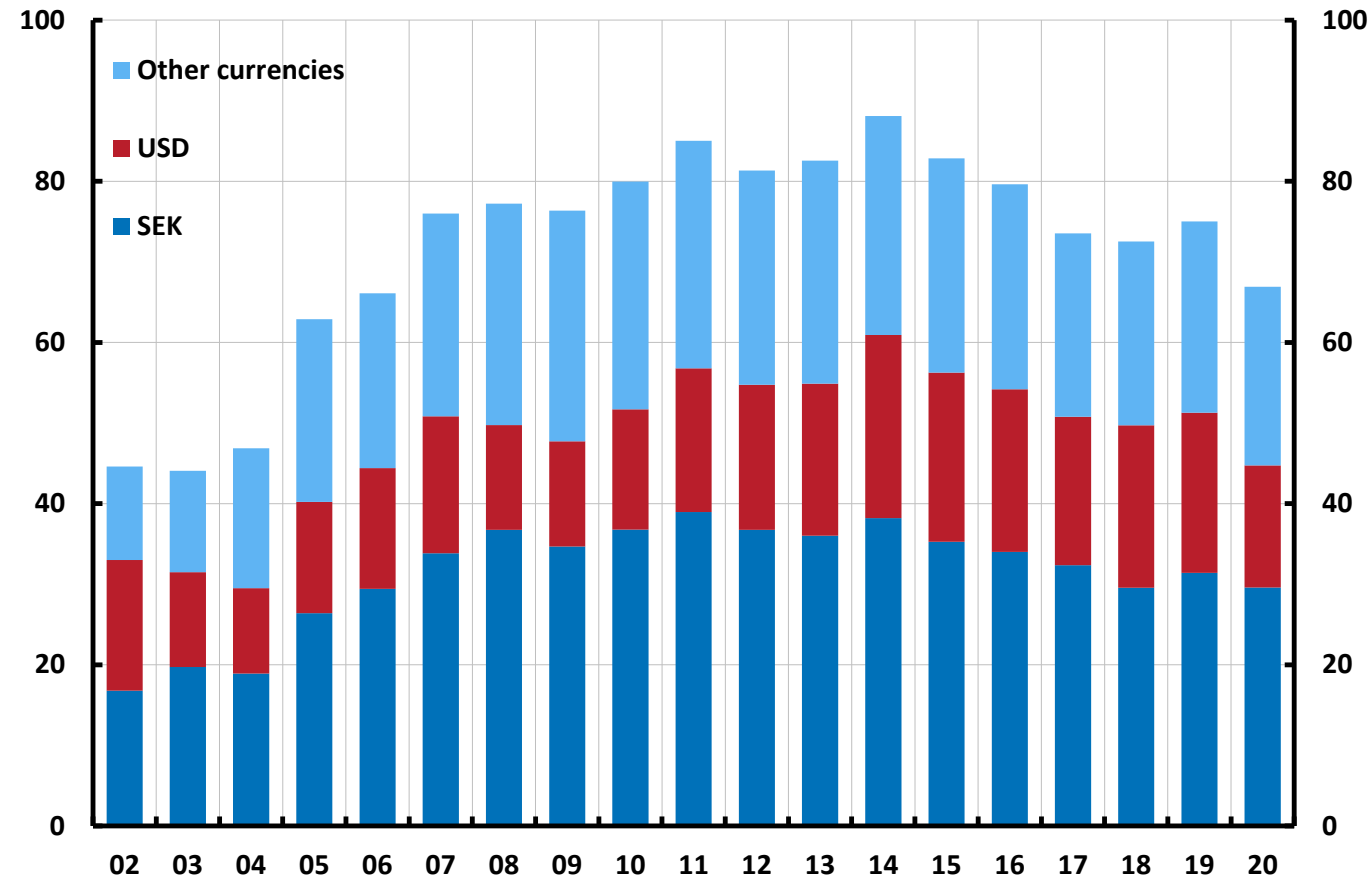


Note. Per cent of GDP, quarterly data. Includes securities borrowing in both Swedish kronor and foreign currency.

Sources: Statistics Sweden and the Riksbank



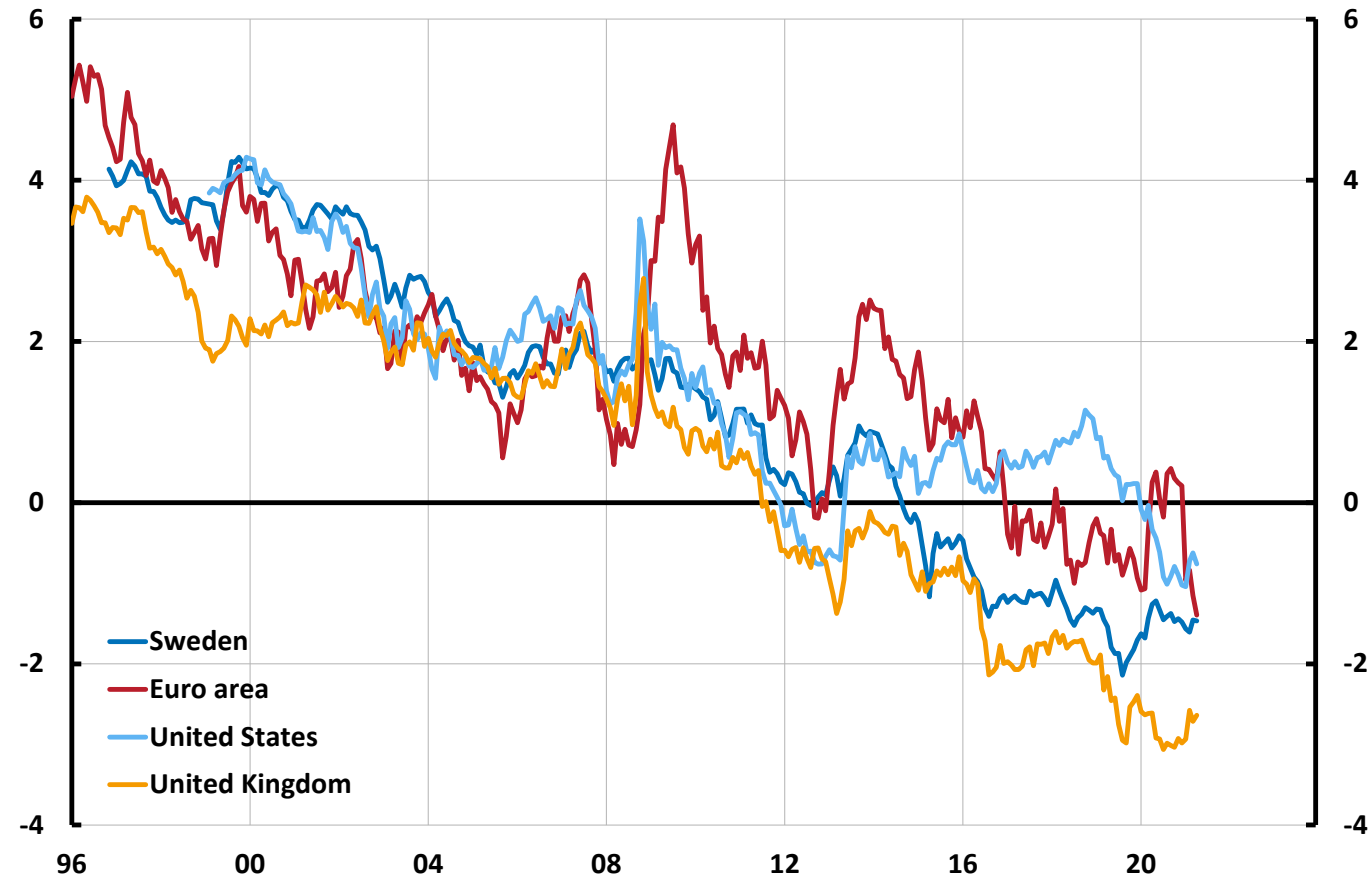
# Banks: substantial market financing – plus large share in foreign currency



Note. Per cent of GDP. Securities issued among 3 major banks broken down by currency type.

Sources: Handelsbanken, SEB, Swedbank and Statistics Sweden

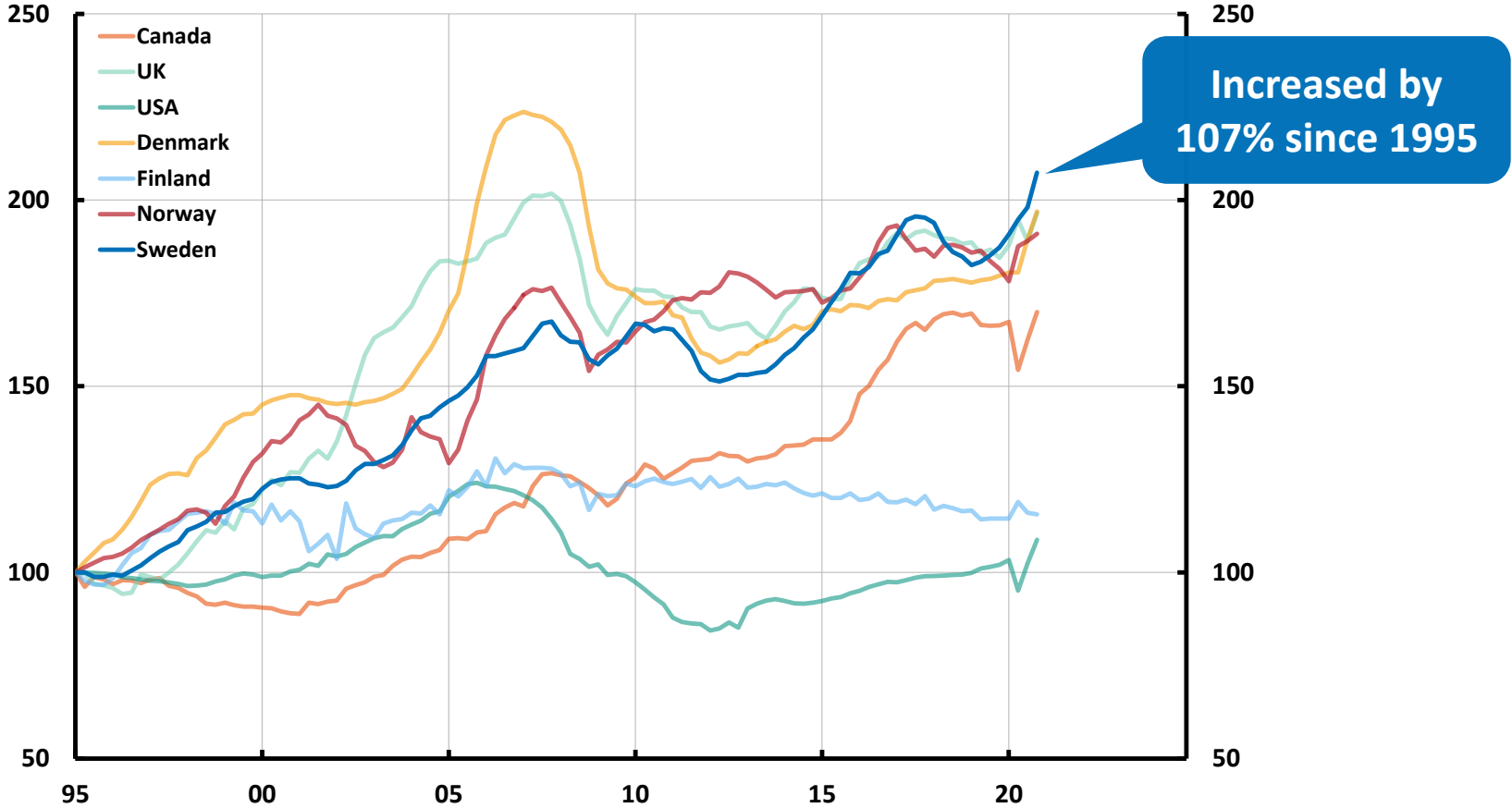
# Low real interest rates: can increase risk of 'search for yield'



Note. 10-year real government bond yields. Monthly data. For the euro area a series of a representative real interest rate is used, compiled by the ECB.

Sources: National central banks and the Riksbank

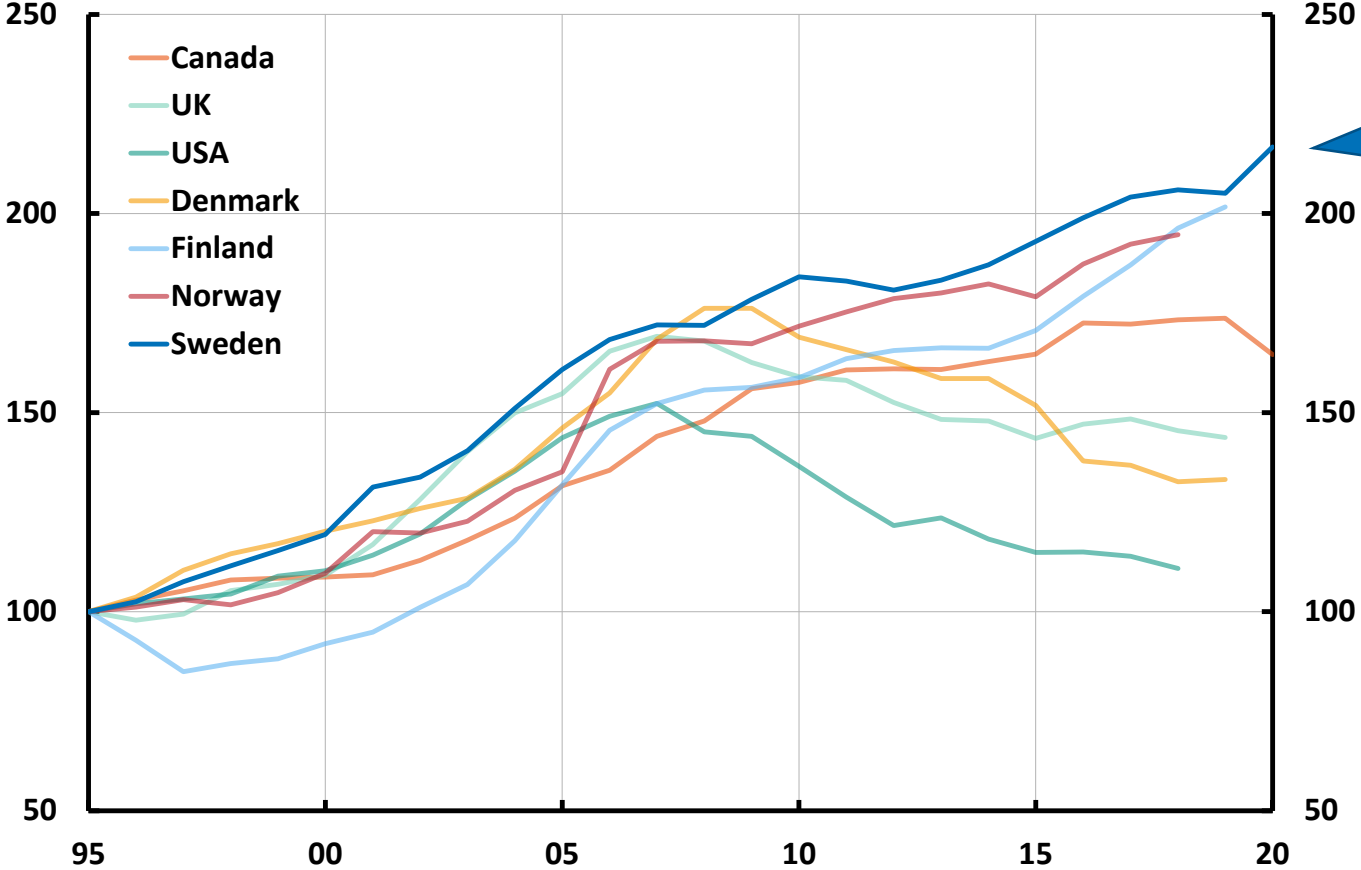
# Rising housing prices in relation to disposable incomes – sensitivity to fall in housing prices



Note. Quarterly data, index 1995 Q1 = 100. The index shows nominal house price index in relation to nominal disposable income per capita.

Source: The OECD

# Household liabilities an increasing part of disposable incomes – sensitive to rate rises



Increased by 117% since 1995

Note. Annual data, index: 1995 =100. Shows household debts as per cent of annual disposable income.

Sources: OECD, Statistics Sweden and the Riksbank

# The monetary policy tools need to be fit-for-purpose and flexible



- The pandemic showed that the Riksbank needs access to a combination of several tools – not just the policy rate – to obtain the desired effect
- Great uncertainty – at the same time as the Riksbank needed to act *rapidly, clearly and powerfully*
- The Sveriges Riksbank Act not to govern in detail under what conditions and in what sequence monetary policy tools should be used

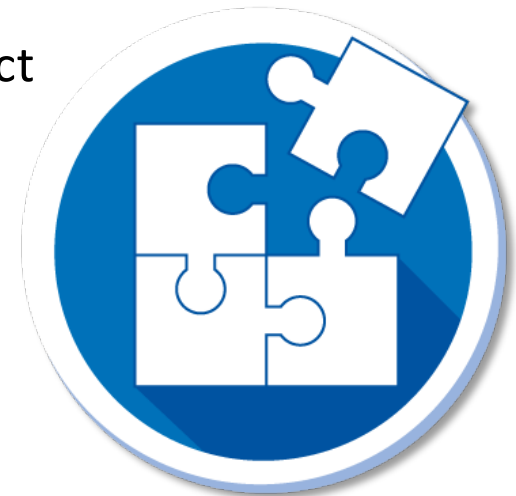
# Government proposal for new Sveriges Riksbank Act is problematic

- Proposal for a new Riksbank Act entails **several restrictions** to practical monetary policy
- The Riksbank's possibilities to safeguard a smoothly-functioning financial system are hampered
- Difficult to understand what one intends to achieve with the new proposal

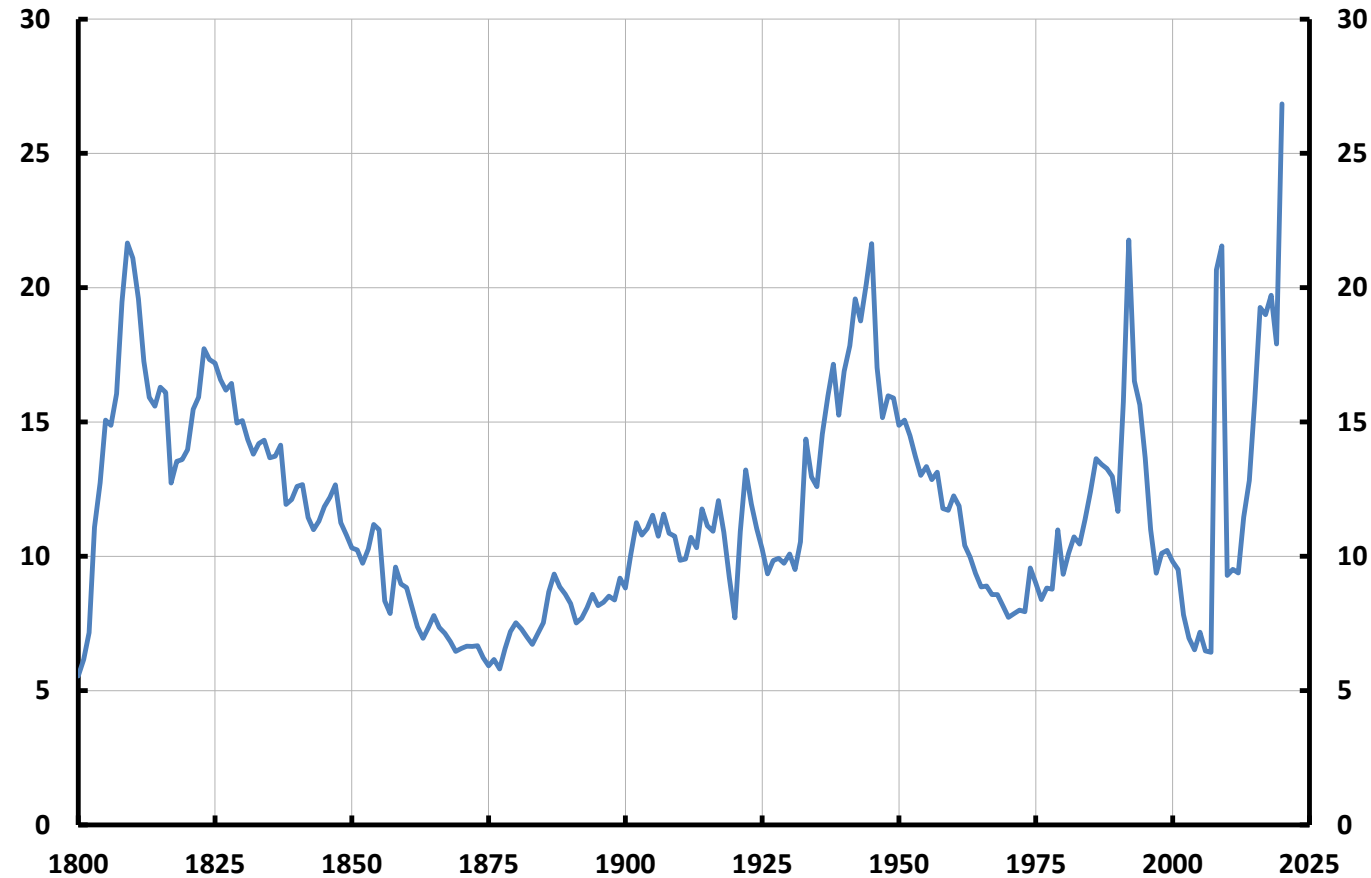


# Role of the balance sheet rate in monetary policy

- The Riksbank's balance sheet is currently very large, which is mainly due to the purchases of government bonds we began in 2015, and to the measures taken during the pandemic
- Common for all of the Riksbank's tools is that they in one way or another affect the balance sheet – this includes the policy rate
- Extensive asset purchases and liquidity support to banks always has a direct impact on the balance sheet



# The Riksbank's balance sheet varies substantially from one period of time to another

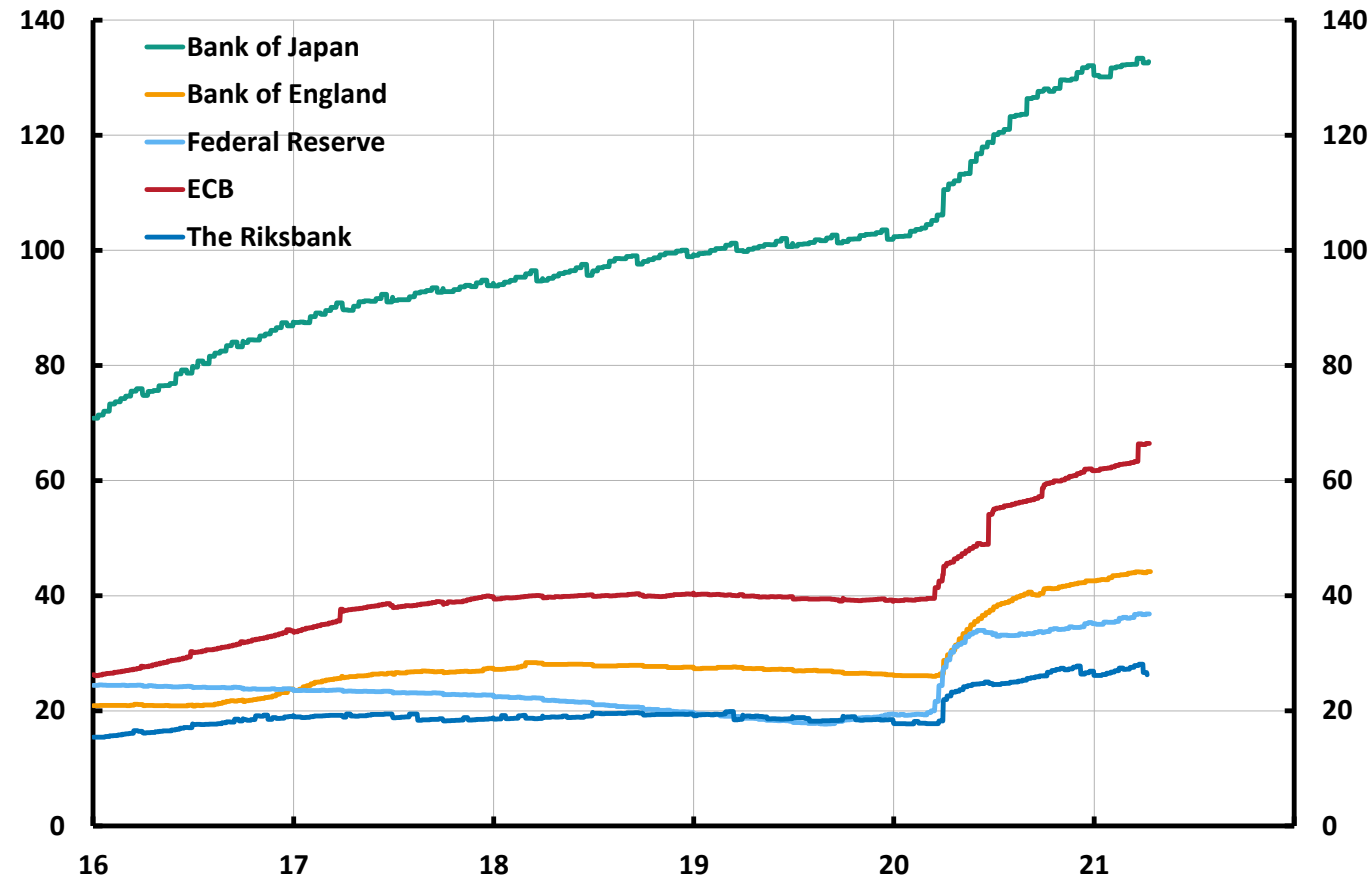


Note. Per cent. Riksbank's balance sheet as a share of GDP.

Source: The Riksbank



# The Riksbank's balance sheet is less than those of several comparable central banks



Note. Per cent of GDP. GDP is calculated as the total of the current quarter and the three previous quarters. For any quarter(s) that GDP has not yet been published, the most recently-published GDP statistics are used.

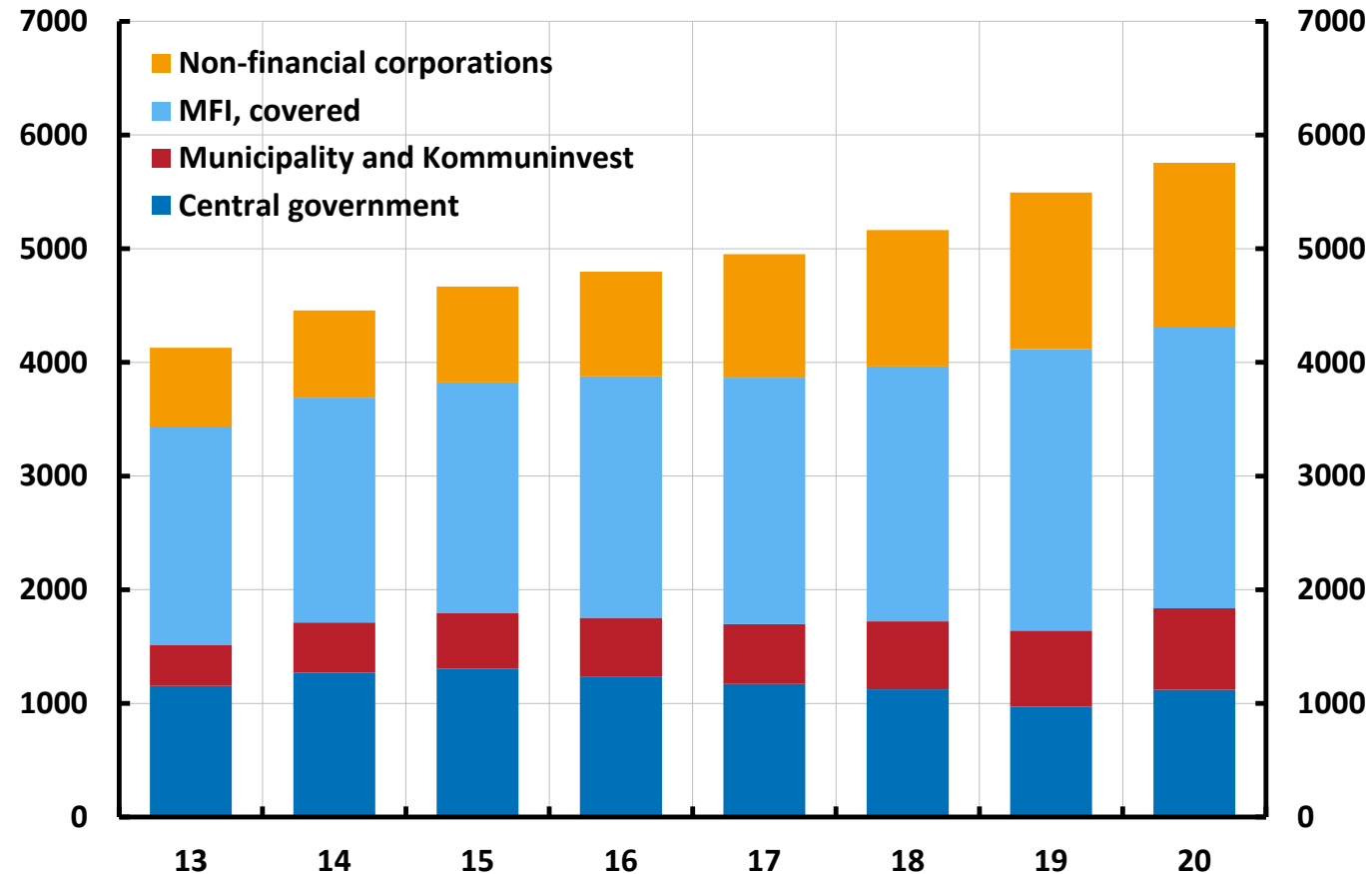
Sources: Bank of England, Federal Reserve, Macrobond and the Riksbank

# A large balance sheet may be the new normal

- Balance sheet already large – will take time to phase out
- General low interest rate situation
- The financial system has changed
- Counteract disruptions to monetary policy impact due to liquidity shortage
- Reduce the banks' unwillingness (stigma) to borrow from the Riksbank
- Increased supply of safe assets to the banks in the economy



# Mortgage bond market large and dominant – important for Riksbank’s asset purchases



Note. Nominal amounts, SEK billion. Securities debt in different sectors. The series for municipalities' securities debt refers to individual municipalities' and regions' borrowing and the borrowing through Kommuninvest i Sverige AB. The statistics refer to securities debt in SEK and foreign currencies.

Sources: Statistics Sweden and the Riksbank

# Change and development – also within the Riksbank's field of operations



Changes in the payment market mean the Riksbank needs to develop

- RIX-INST
- Digital 'e-krona'



Changes on the financial markets have made them more integrated and riskier

- Independent monetary policy and national financial market policy more limited
- The monetary policy tools need to be fit-for-purpose and flexible
- Extensive bond purchases and holdings of bonds will probably play a larger role than before



Very unfortunate that the Government's proposal for a new Sveriges Riksbank Act entails restrictions on monetary policy



Thank you!