



The Riksbank's complementary monetary policy

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What can a central bank do
when the policy rate is close
to its lower bound?

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Swedish Centre for Business and
Policy Studies/SIFR Finance panel

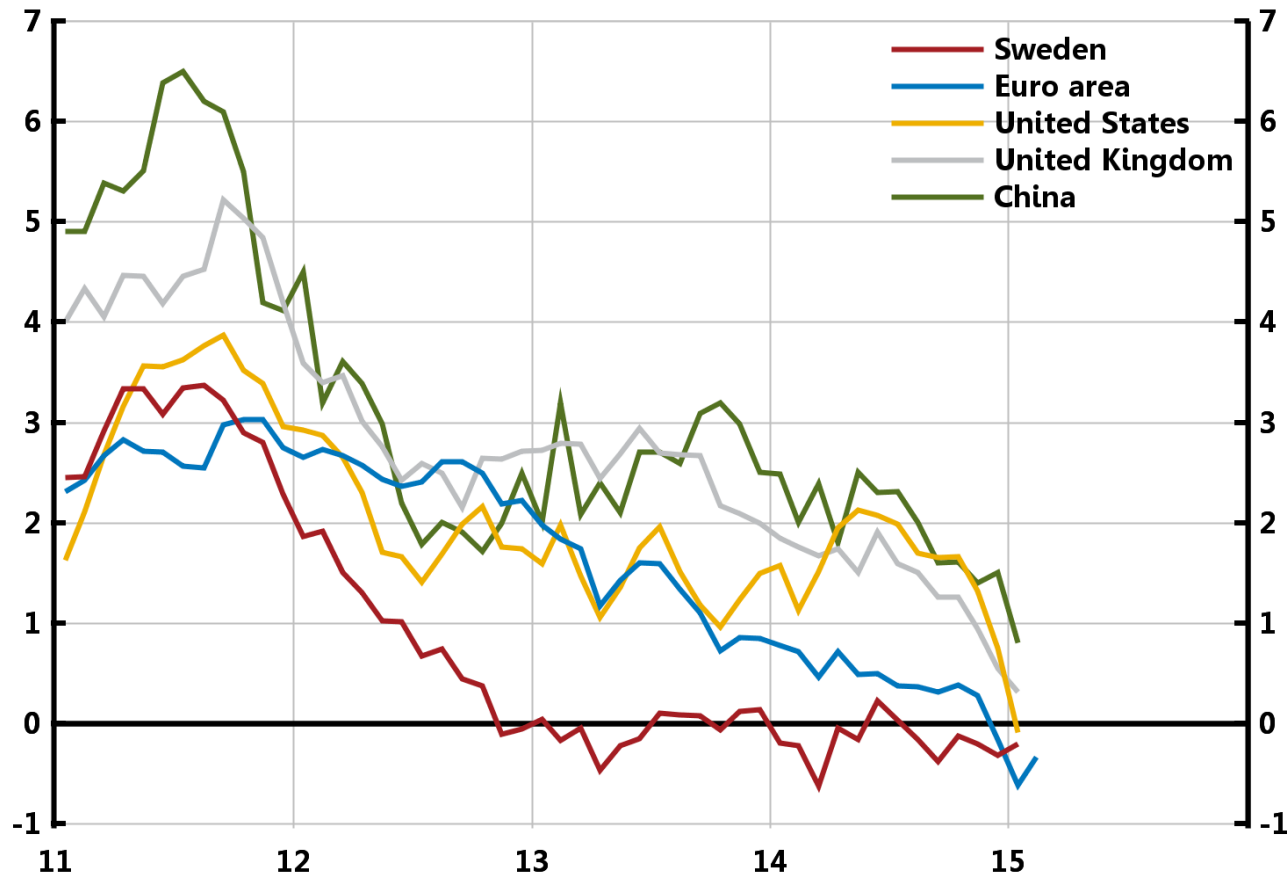
6 March, 2015

What can a central bank do when the policy rate is close to its lower bound?

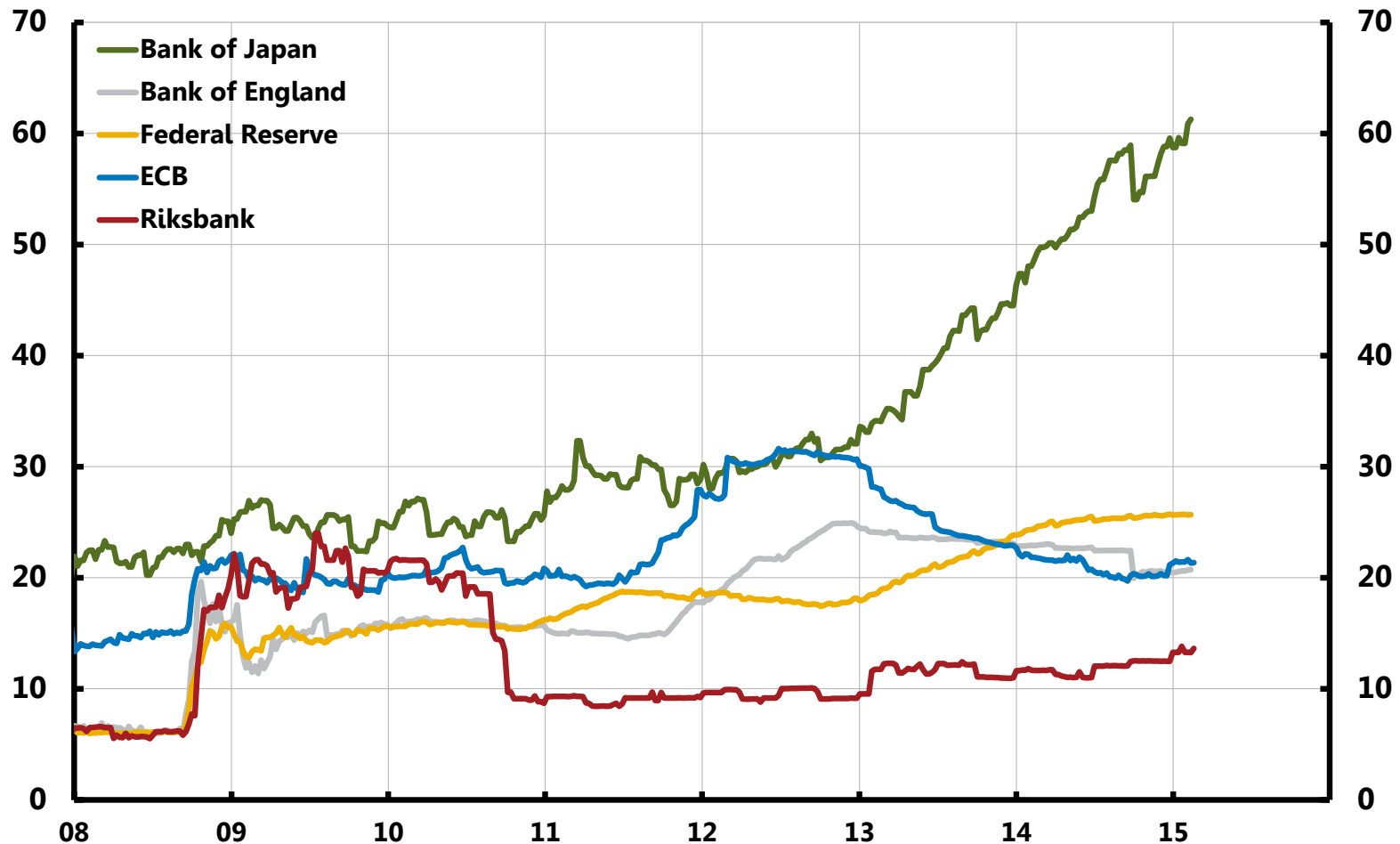


- Inflation is low at present
 - The repo rate is therefore very low
 - Monetary policy can then be conducted in a variety of different ways
 - The most relevant alternatives for the Riksbank:
 - Negative repo rate
 - Purchasing government securities
 - Loans to companies via banks
 - Foreign exchange interventions
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Inflation is currently low in many countries



Many central banks have used complementary measures



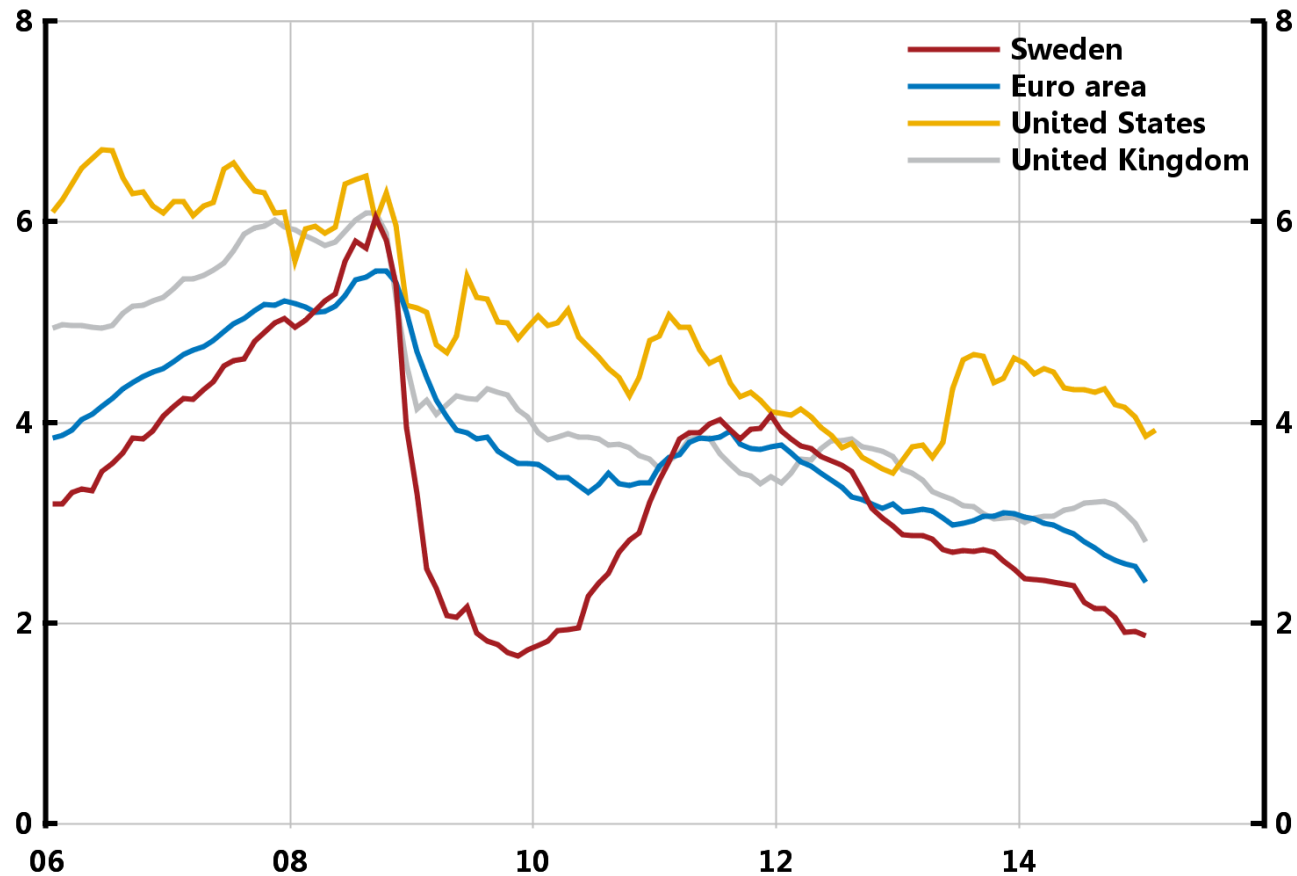
Note. Balance sheets as a share of GDP.

Sources: EcoWin and national central banks

The interest rates offered to households in Sweden and the rest of the world



Average



Note. Lending rates from MFIs to households with housing as collateral.

Sources: ECB, Mortgage Bankers Association and Statistics Sweden

Complementary monetary policy measures act through different channels

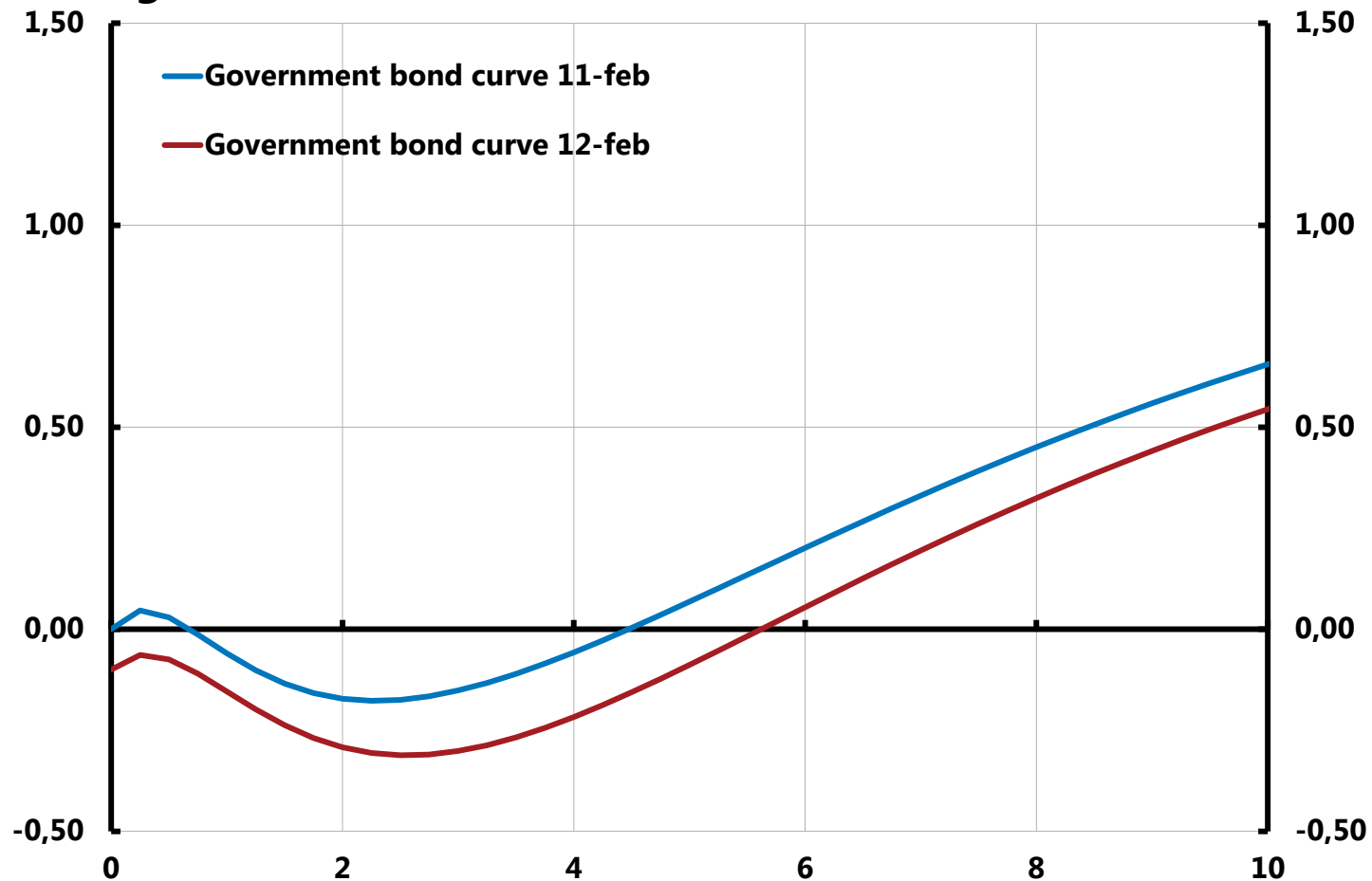
- Reduce the general level of interest rates
 - Directly for longer government bond rates
 - Via portfolio choices, also rates for higher-risk assets
 - Increase the amount of money in the economy
 - Increase wealth among those owning the above assets
 - More liquidity among the banks may lead to increased lending
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Monetary policy decision in February

- Economic activity and inflation roughly as expected
 - But inflation risks have increased
 - To support upturn in inflation – more expansionary monetary policy
 - Lowered repo rate and repo-rate path
 - Purchases of government bonds
 - Lending to companies via banks has been signalled
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The yield curve before and after the interest rate decision in February

Yield curve, government bonds

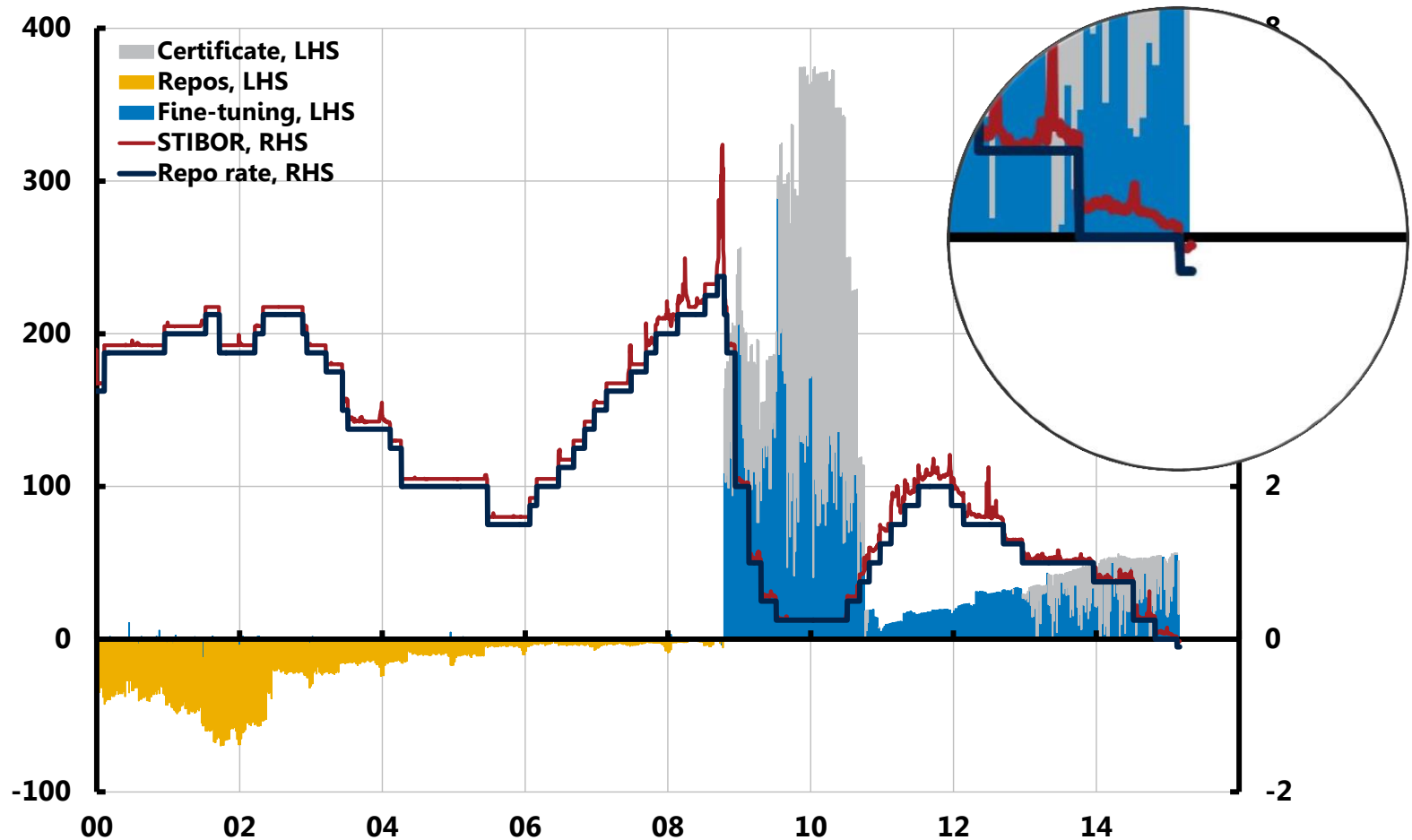


Note. The yield curves are interpolated zero coupon rates.

Sources: Macrobond and the Riksbank

How does the Riksbank control interest rates?

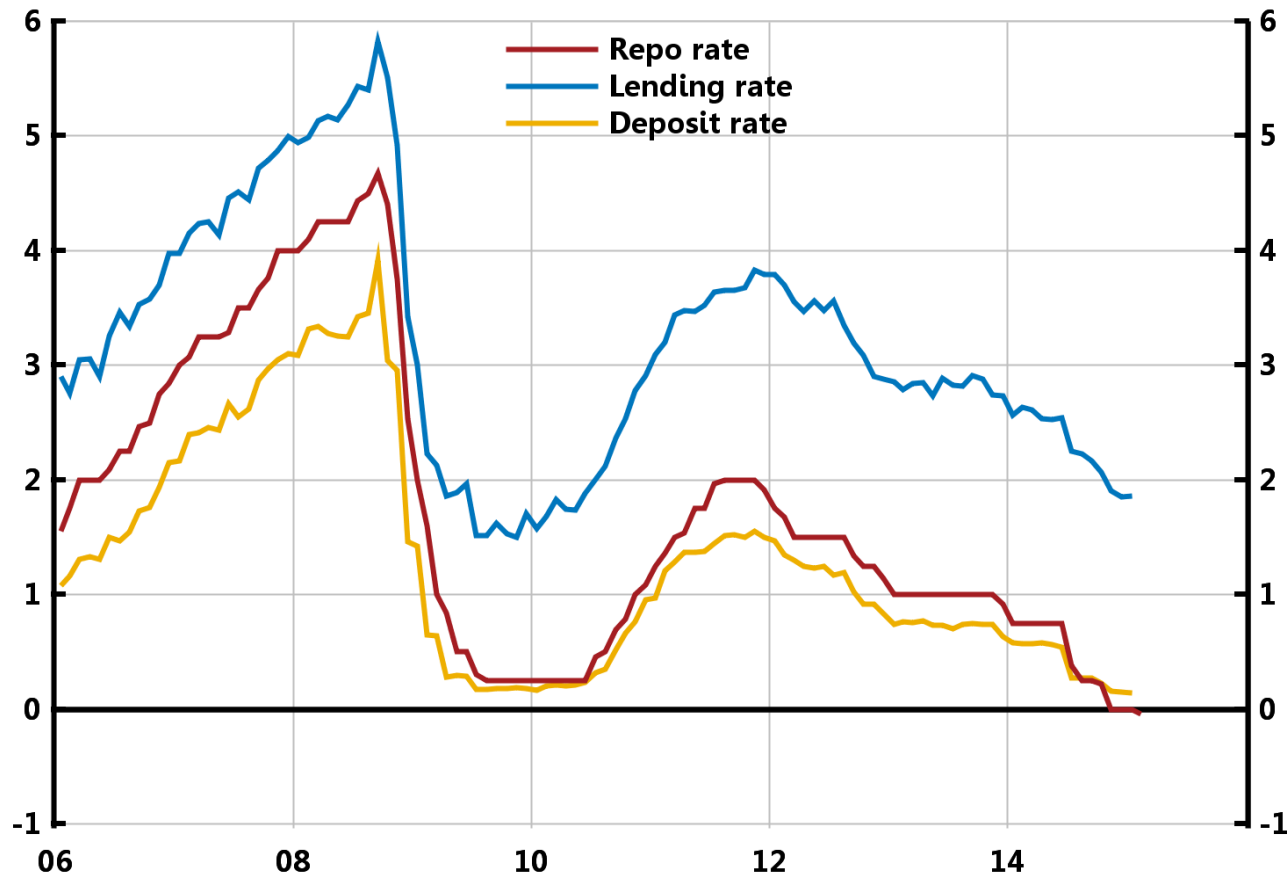
Banks' deposit/lending requirements at the Riksbank



Note. Billions SEK on the left axis and per cent on the right axis.

Sources: Macrobond and the Riksbank

Deposit and lending rates when the repo rate is low



What effects will the purchase of government securities have?

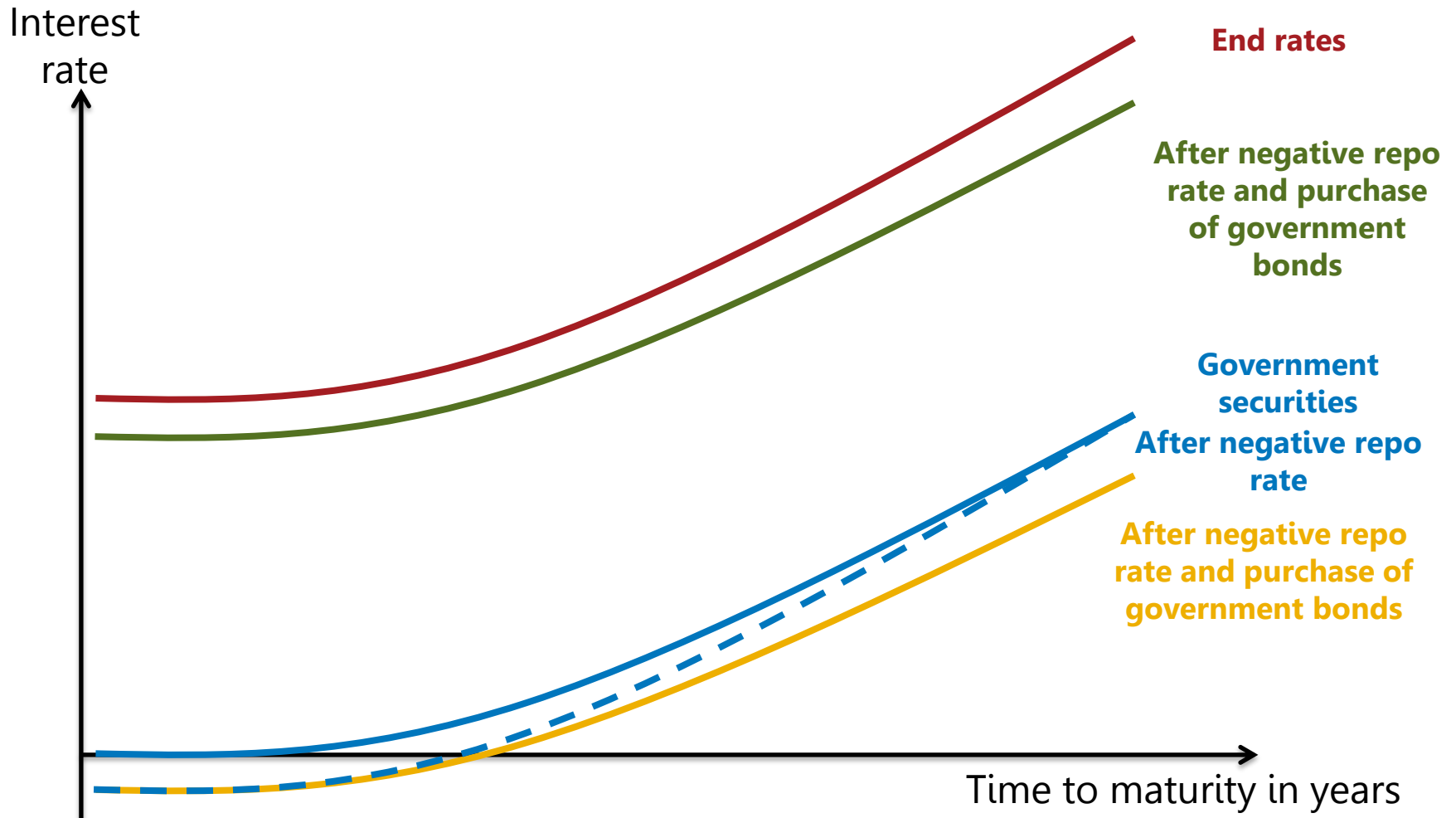
Step 1

Central bank's balance sheet				Private banks' balance sheet				Non-financial sector's balance sheet			
Assets		Liabilities		Assets		Liabilities		Assets		Liabilities	
Government securities	+100	Deposits from banks	+100	Deposits with CB	+100	Deposits from general public	+100	Government securities	-100		
								Deposits in banks	+100		

Step 2

- Spreads to higher-risk assets
- Higher general demand and inflation

Purchase of government securities affects yield curves



What effects will loans to companies via the banks have?

The central bank lends

Central bank's balance sheet

Assets		Liabilities	
Loans to the banks	+100	Deposits from banks	+100

Private bank I's balance sheet

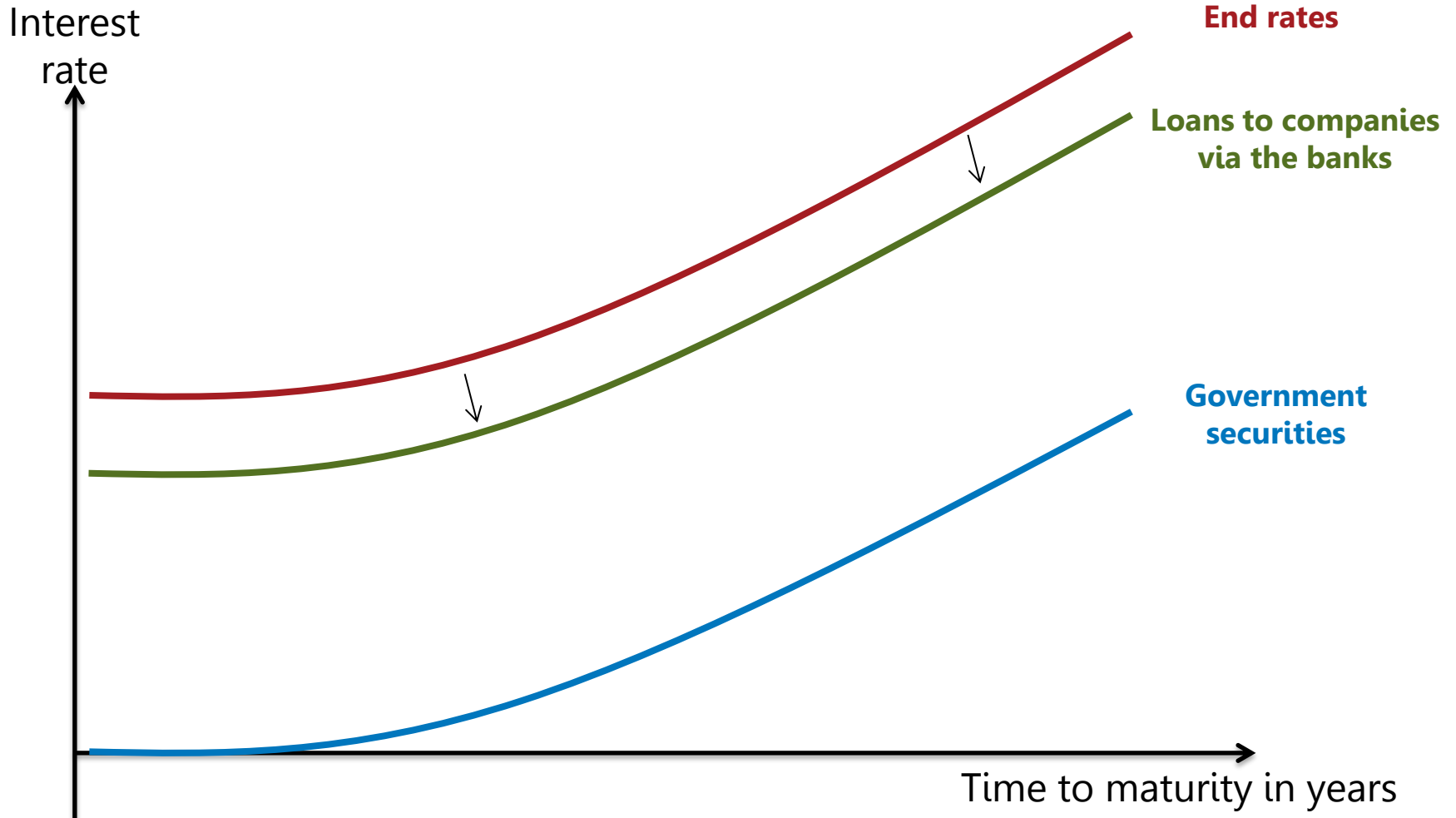
Assets		Liabilities	
Deposits with CB	+100	Loans from CB	+100

What effects will loans to companies via the banks have?

The banks increase their lending

Central bank's balance sheet				Private bank I's balance sheet				Company A's balance sheet			
Assets		Liabilities		Assets		Liabilities		Assets		Liabilities	
Loans to the banks	100	Deposits from banks	100	Deposits with CB	100	Loans from CB	100	Bank account	100	Bank loan	100
				Loan to Company A	100	Co. A's account	100				

Loans to companies affect the yield curves



What effects will the purchase of foreign exchange have?

Central bank's balance sheet

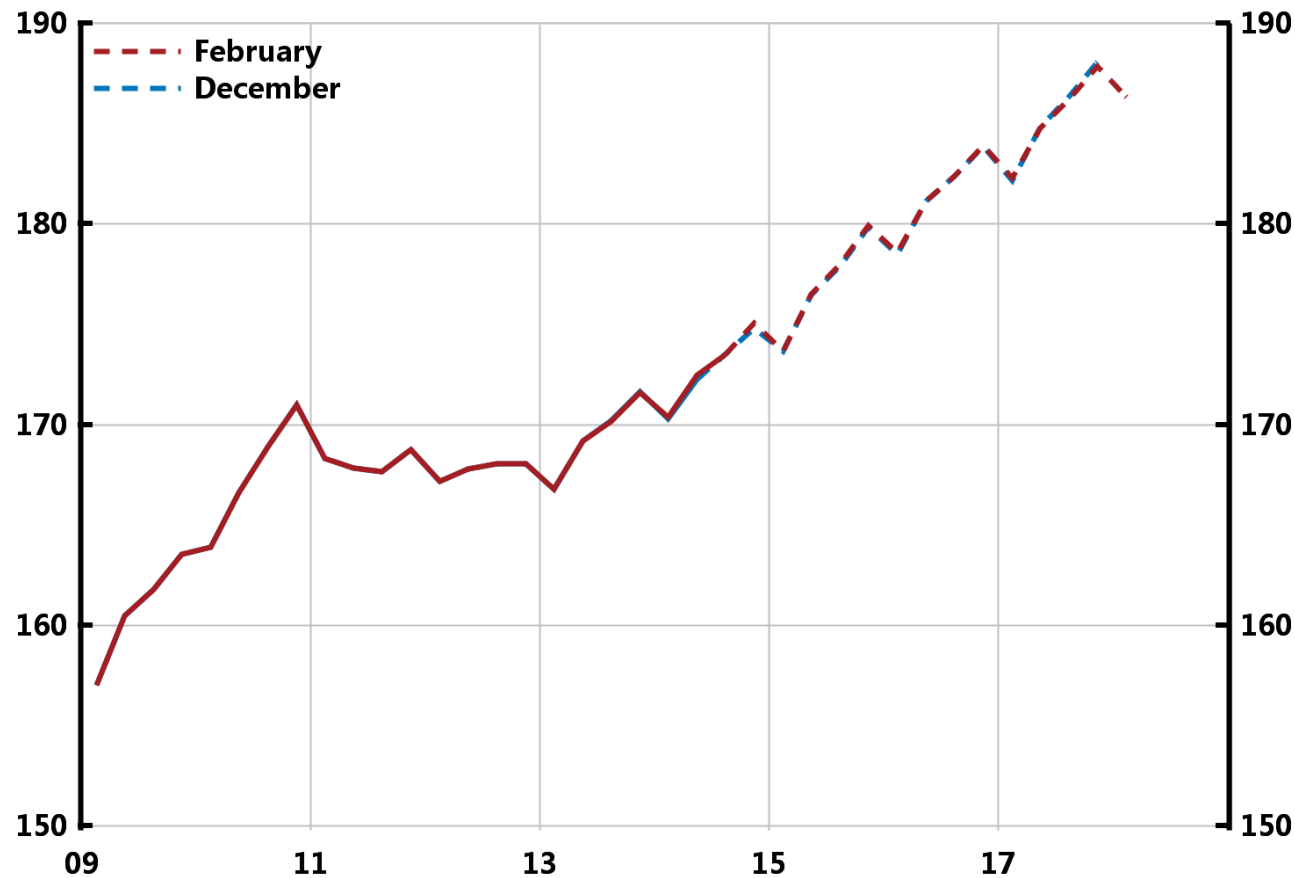
Assets		Liabilities	
Foreign government securities	+100	Deposits from banks	+100

Private banks' balance sheet

Assets		Liabilities	
Foreign government securities	-100		
Deposits with CB	+100		

The highly expansionary monetary policy is leading to increased risk

Household debt as a percentage of disposable income, per cent



If more is required, we will do more

- If needed to get inflation to rise towards the target
 - Cut the repo rate and lower the repo-rate path
 - Extend purchases of government bonds
 - Lend to companies via banks

 - All of this can be done rapidly on a large scale

 - If this is not enough
 - Foreign exchange interventions
 - Purchases of other securities
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