

Time to rethink - inside the head of a central bank governor

Swedish Economic Association,
Stockholm

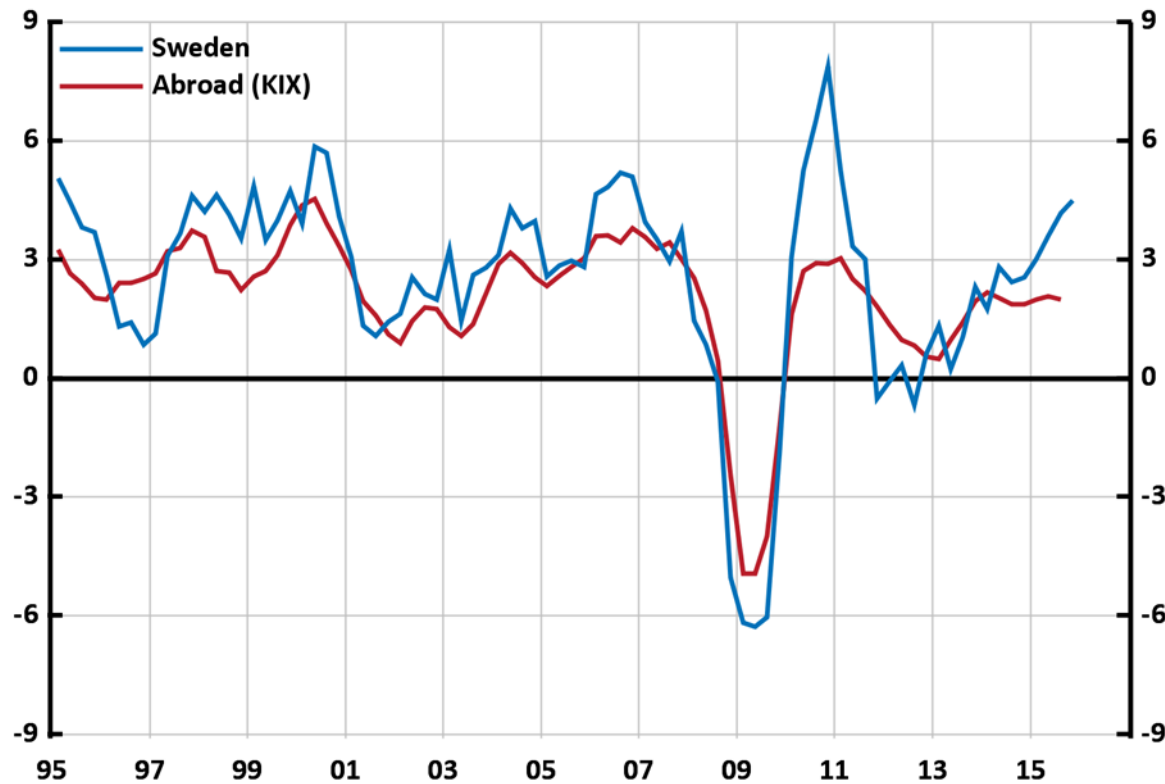
6 April 2016

Governor
Stefan Ingves

New challenges – new choices

- Financial innovations and globalisation
- Challenges after the financial crisis
 - How should monetary policy be conducted?
 - How to create an efficient and robust financial system?
 - What role should central banks have as regards financial stability and supervision?
 - How independent should central banks be and how should political oversight and influence be exercised?

High level of international dependence



Note. GDP, annual percentage change. International refers to KIX. The KIX is an aggregate of the countries that are important to Sweden's international transactions.

Sources: National sources and the Riksbank

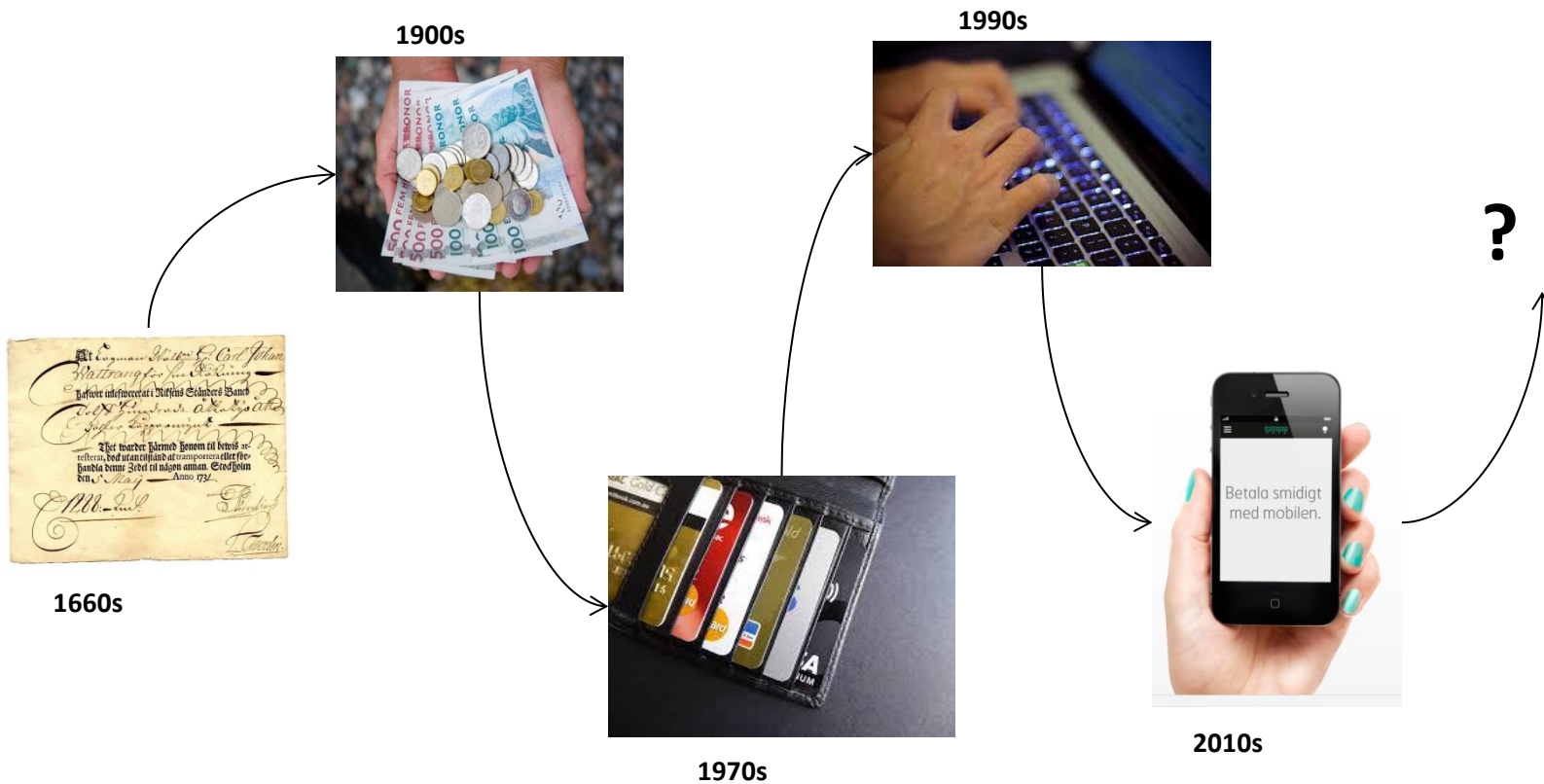
Reassessments

- Flexible inflation targeting regime:
Has worked well, but there is room for improvement within the framework.
- Financial stability:
A major rethink is necessary here.

Who should have the responsibility for cash?



From transport bills to mobile payments in 350 years



Hub of the payment system – new requirements?



 **RIKSGÄLDEN**
SWEDISH NATIONAL DEBT OFFICE



BiR

CLS

 **Nasdaq**



EuroCCP



Lender of last resort



Lender of last resort – new reasons and needs



Note. SEK billion.

Source: The Riksbank

The Riksbank has a responsibility for financial stability



- The central bank is where the money is - lender of last resort
- Focus on identifying systemic risks and measures
- Recommendations for measures to reduce systemic risks
- In a crisis – Riksbank key role rapid loans via RIX
- But...
 - ...the Riksbank's mandate is unclear

Flaws in the Swedish macroprudential policy framework

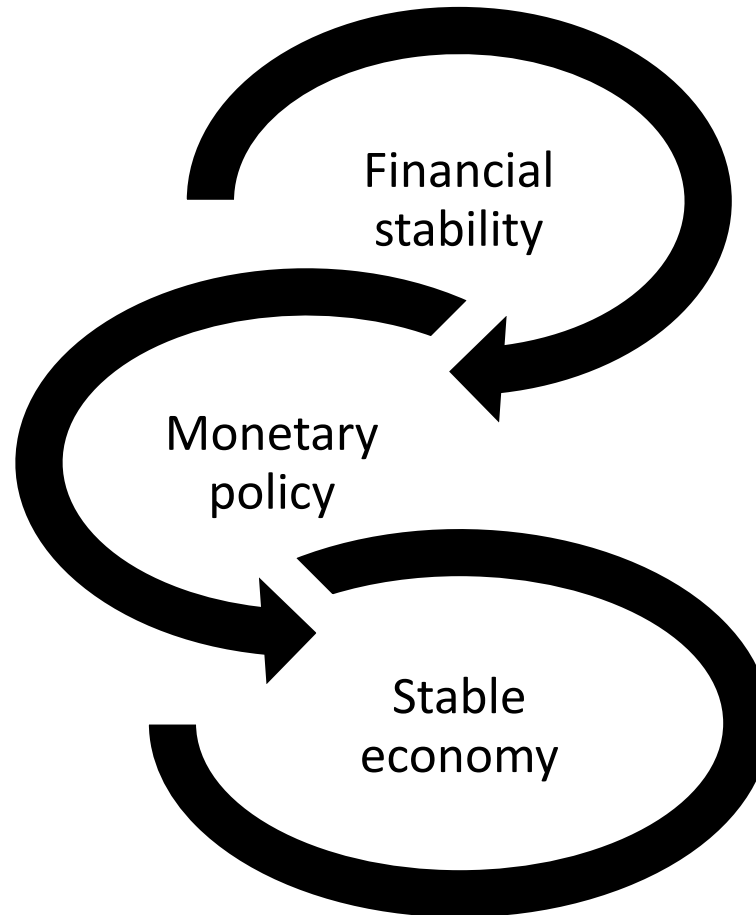


- Flaws in decision-making power and rapid and clear process when new tools need to be launched
- Flaws in clarity and division of responsibility – no statutory responsibility
- Stability Council – an unclear role
- Sweden an oddball internationally

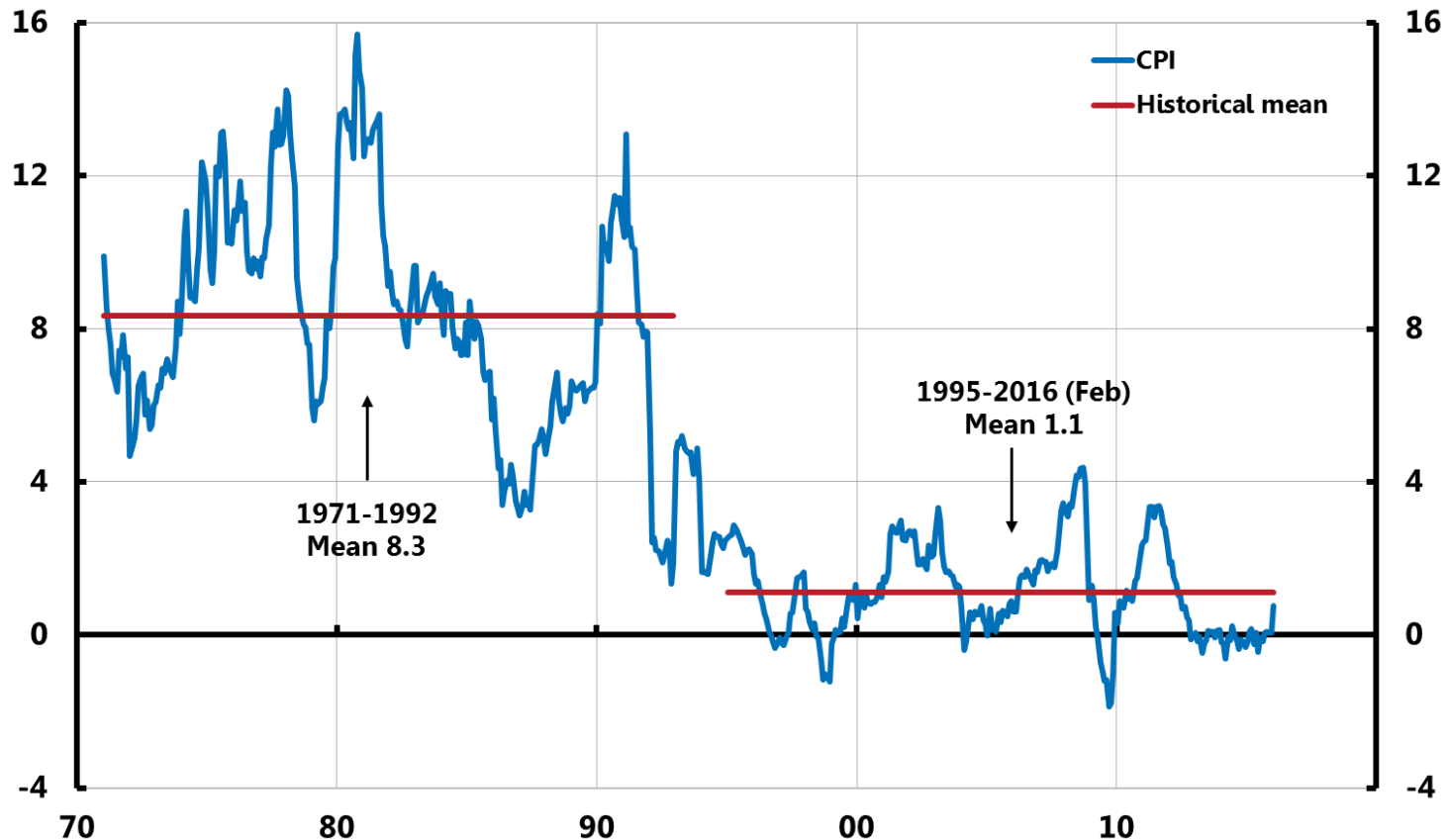
Need for “a rethink” – a reanalysis

- Both mandates and division of responsibility in need of review
- Sweden is a small country - gather and utilise skills in the macroprudential policy area
- Many other ways of doing it – central bank must have a central role
- Structural transformation needed in public sector regulation and oversight of the financial system

Financial stability and monetary policy – strong links



Flexible inflation targeting has worked well...



Note. Annual percentage change CPI inflation does not refer to real-time data, but is calculated using the current method. The average for the period from 1995 is therefore two tenths of a percentage point lower than with real-time data.

Source: Statistics Sweden

...but there is room for improvements



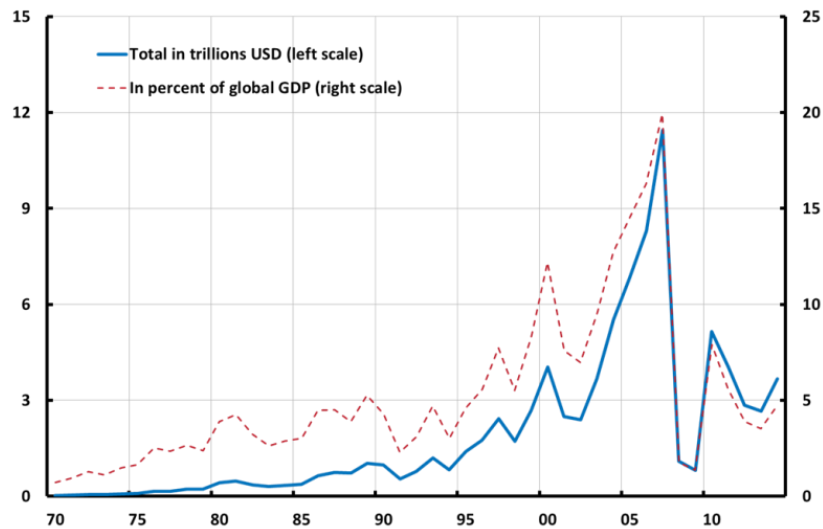
- Should the level of the inflation target be changed?
- Which target variable is best?
- Interval around the target?
- Other targets in addition to the inflation target?
- Consideration for financial stability in monetary policy?

Central bank laws not set in stone – some thoughts

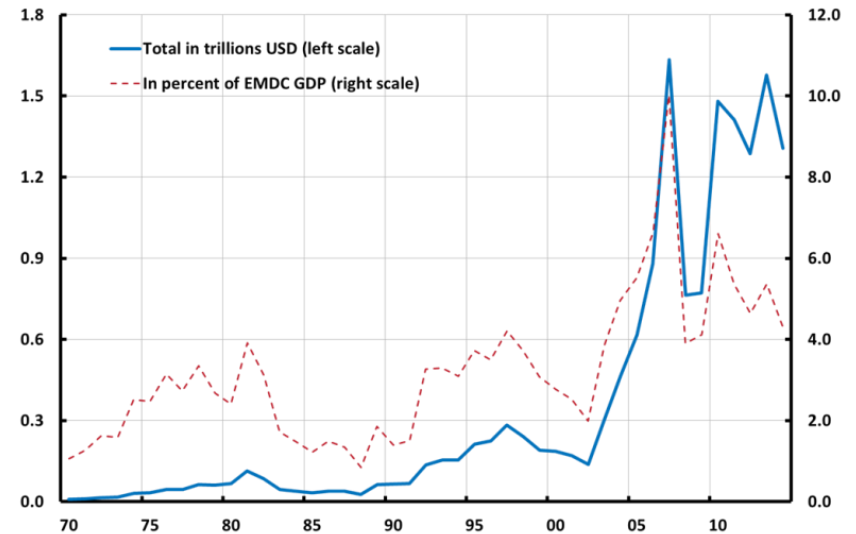
- Independence and mandate – positive experience in general
- Fiscal policy and monetary policy – cannot be completely decoupled
- Price stability and financial stability easier to achieve with a sound and sustainable fiscal policy and vice versa
- Debt problem must be solved jointly by governments, central banks and other authorities
- Large central bank balance sheets pose risks

And increased financial globalisation

Global capital flows



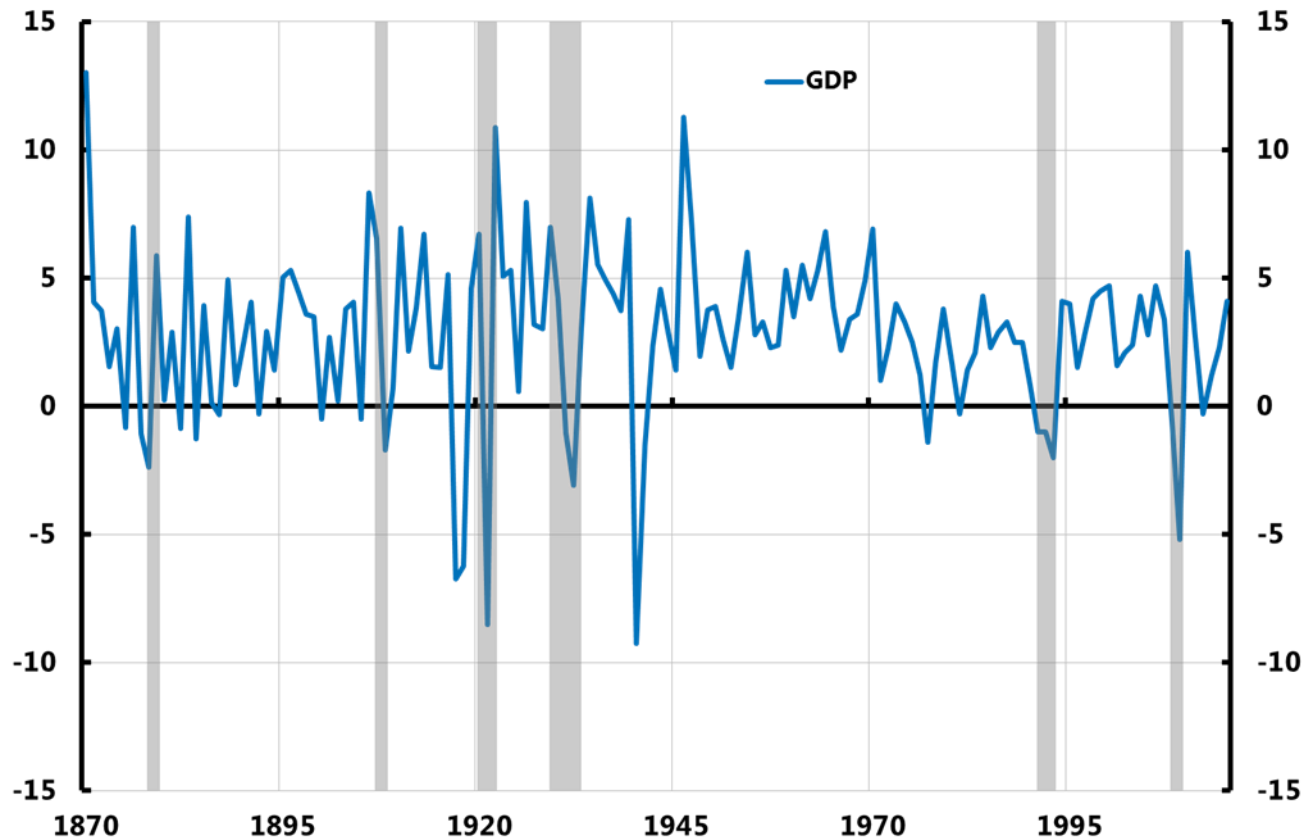
Capital flows to developing countries



Note. Capital flows are defined as the sum of the inflow of foreign direct investment, portfolio investment, derivative instruments and other flows.

Source: World Economic Outlook

Financial crises will return – but we can increase our resilience



Note. Data for 1870 retrieved from www.historia.se and the rest of the data for 1951 comes from Statistics Sweden. Shaded area indicates major financial crises in Sweden (1878-79, 1907-08, 1920-22, 1929-33, 1991-93 and 2008-09).

Sources: Historia.se and Statistics Sweden

Heart of the financial lifeblood – “24/7”



- Central bank tasks:
 - issue banknotes and coins
 - determine the price of money – interest rate
 - responsible for RIX
 - provide liquidity when needed
- Central banks need:
 - clear mandates, authorities and tools
 - flexibility and liquidity when a crisis actually occurs

Role of the central bank in the future – conclusions



- Technological development places new demands
- Responsibility for financial stability needs to be clarified
- Flexible monetary policy works well but improvements can be made
- The rest of the world sets the framework for a small, open economy

Thank you!