Contribution to panel discussion on:

“Monetary policy beyond normalisation”

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The views expressed here are my own and do not necessarily reflect those of the Executive Board of Sveriges Riksbank.
"Unconventional" monetary policy the new normal

Policy rates and expectations according to forward rates

The Riksbank’s holdings of Government bonds

Note. Per cent and nominal amounts, SEK billion. The figure to the right shows a forecast up until June 2019, after that a technical projection under the assumption that no further reinvestments are made. The development of the holdings is also affected by bonds’ market prices and by which bonds the Riksbank chooses to reinvest in.

Source: The Riksbank
Forecasts of the Fed’s SOMA holdings

Reasons for low policy rates and large balance sheets

• Real interest rates have declined globally
• Financial innovations, increased capital mobility, general “globalization”
• New financial imperfections, new risks, increased risk-taking (Rajan, 2005)

• Policy rates will be lower than prior to the GFC
• Central bank balance sheets will be larger
Negative real interest rates and large central bank balance sheets – not new phenomena

**Long-run real interest rates**

![Graph showing long-run real interest rates](image)

Note: The left-hand figure shows 11-year centered moving averages. The right-hand figure shows the average for 12 advanced economies: Australia, Canada, Finland, France, Germany, Italy, Japan, Norway, Sweden, Switzerland, the United Kingdom, and the United States.

**Balance sheet assets relative to financial sector lending and M2**

![Graph showing balance sheet assets Relative to financial sector lending and M2](image)


Balance sheet assets relative to financial sector lending and M2
Are financial frictions important?

• No:
  • A short run interest rate is the only important instrument for monetary policy
  • The central bank’s asset holdings have no significant effects
  • Financial stability should not be an objective for monetary policy

• Yes:
  • Asset purchases and sales may be both a complement to, and a substitute for, changes in a short term policy rate
  • Financial stability should be an objective for monetary policy, in addition to price and real stability

• Can monetary policy remain independent if financial stability becomes an additional objective for monetary policy?
Extras
Real policy rates

Sources: Macrobond and the Riksbank
Long-run real interest rates

Note: 11-year centered moving average

Sources: IMF, Haver and authors’ calculations (Yi K-M, Zhang Jing, 2016, “Real Interest Rates over the Long Run”).
Central bank balance sheets relative to GDP


Average across all countries
Median across all countries
Balance sheet assets relative to financial sector lending and M2