

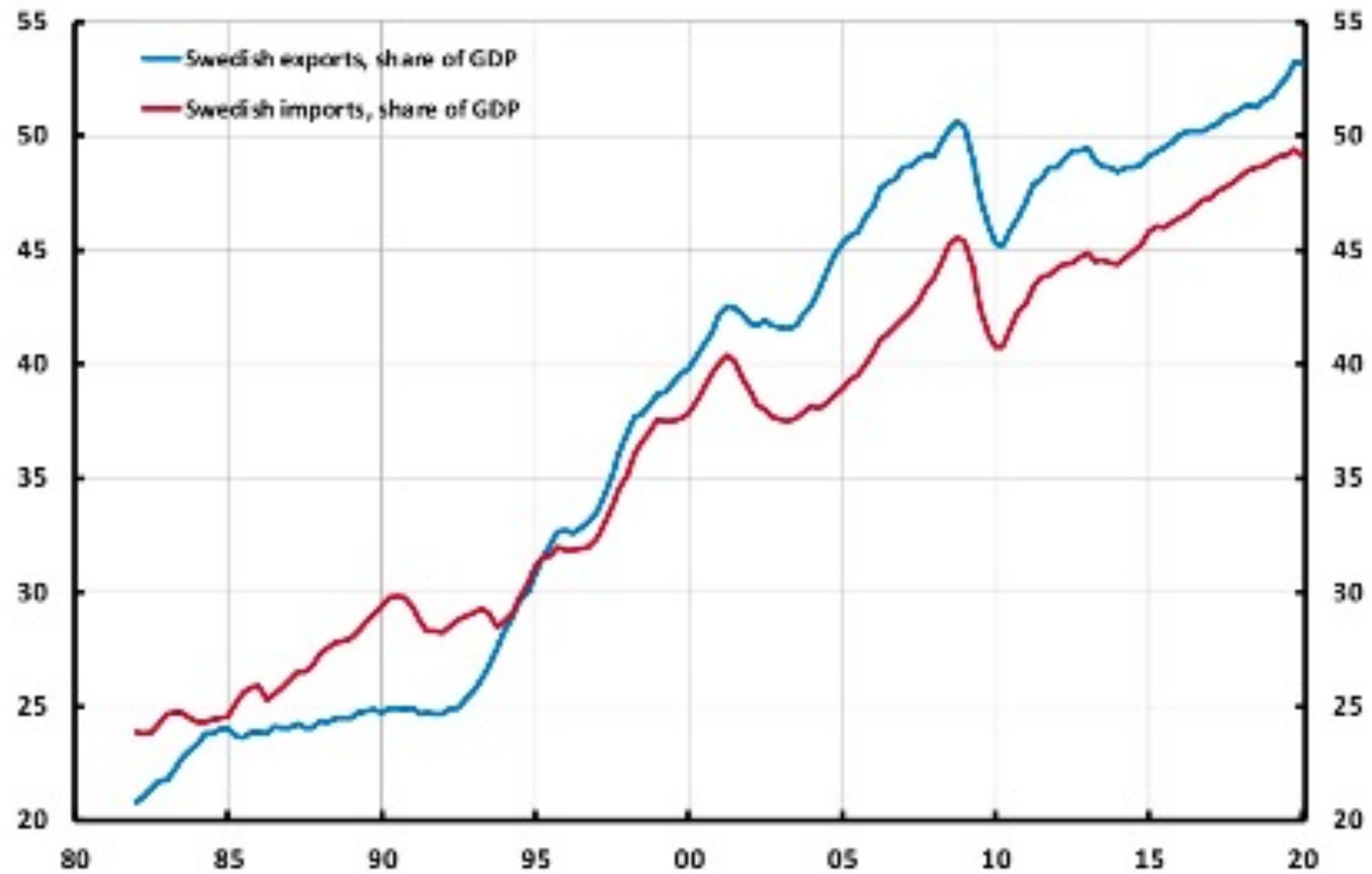
A Small Open AE Economy

The case of Sweden

Stefan Ingves, SHOF Conference August 2023

Some stylized facts

Trade

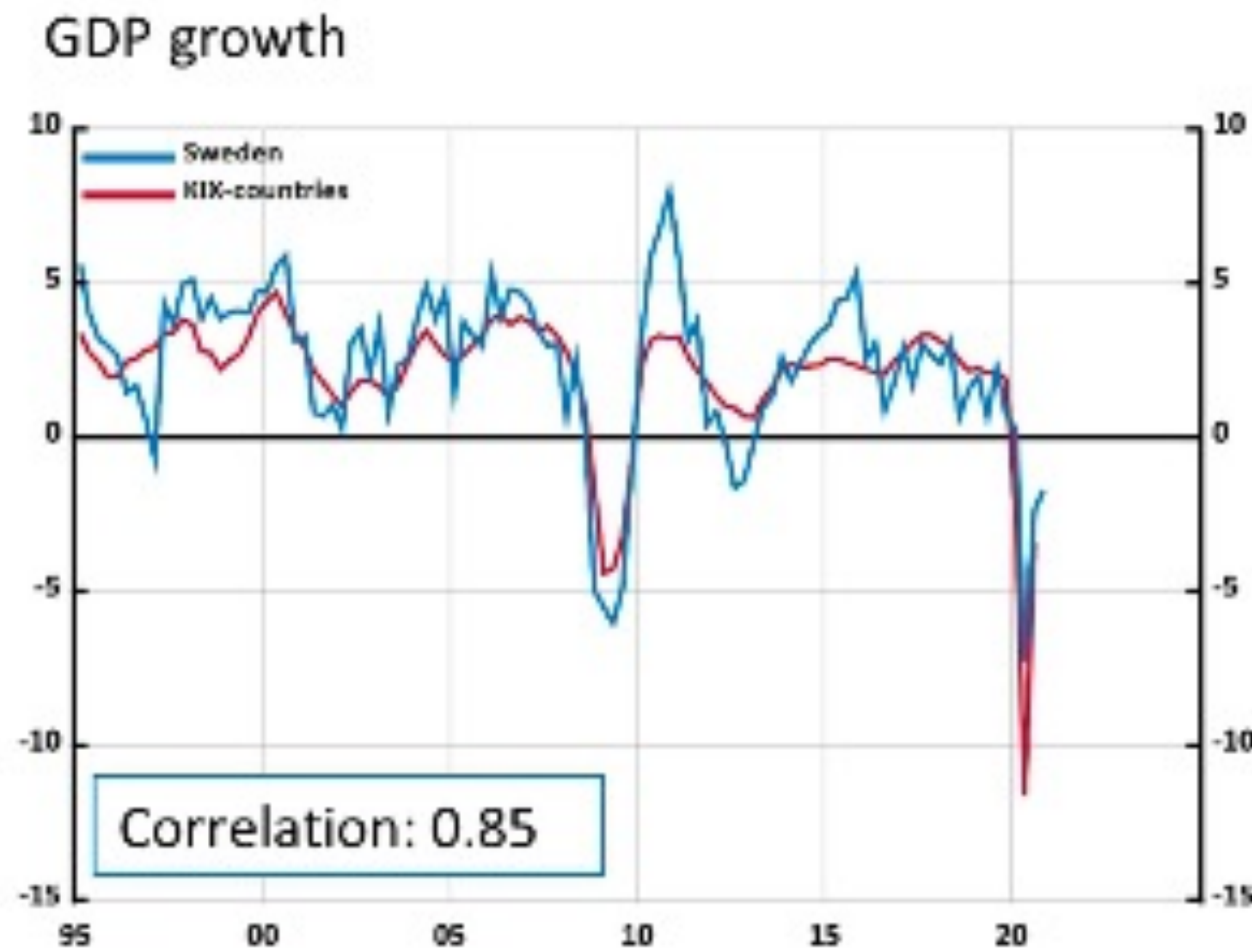


Per cent of GDP, 4 quarter moving average.

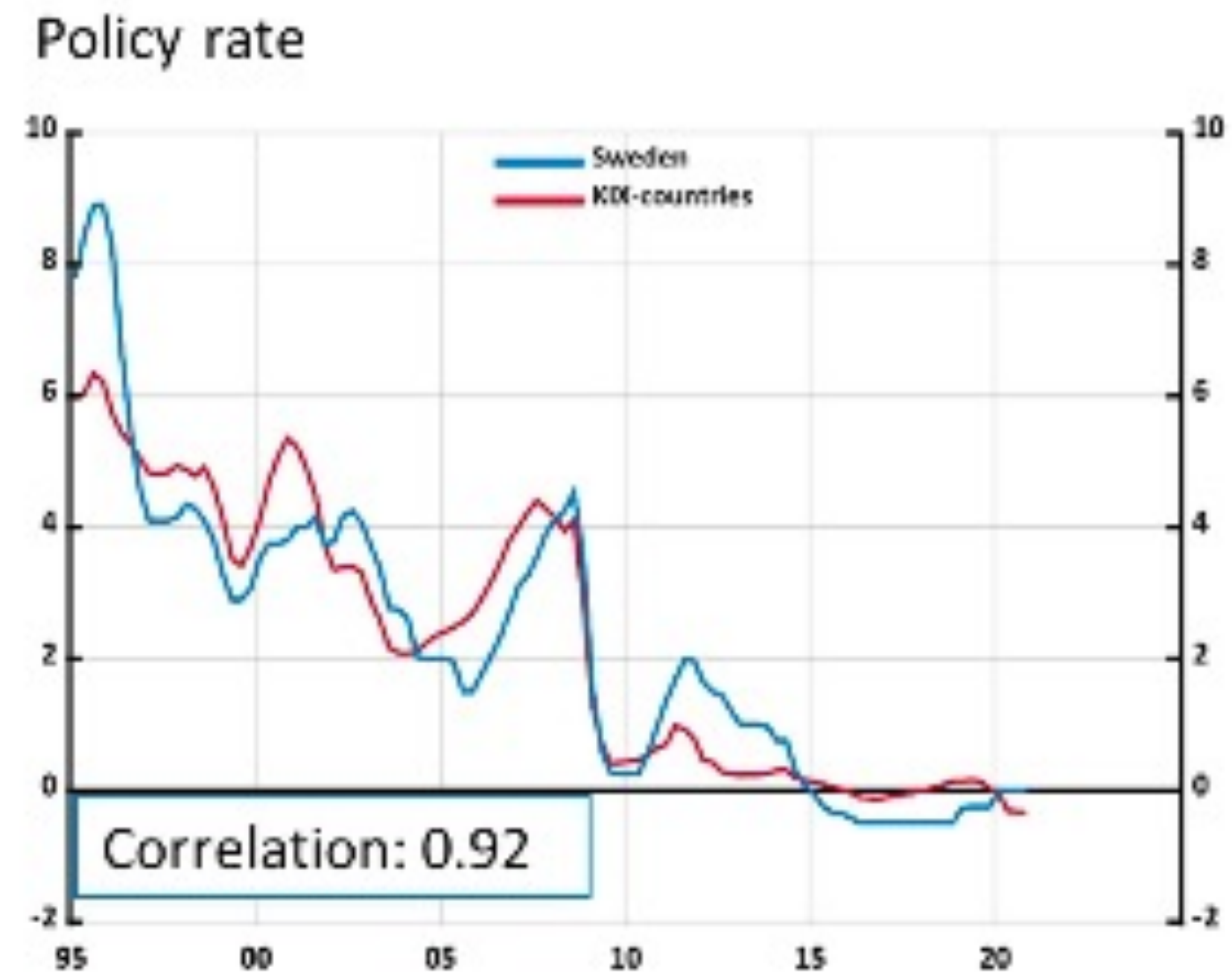
Source: Statistics Sweden

Cont.

Correlation



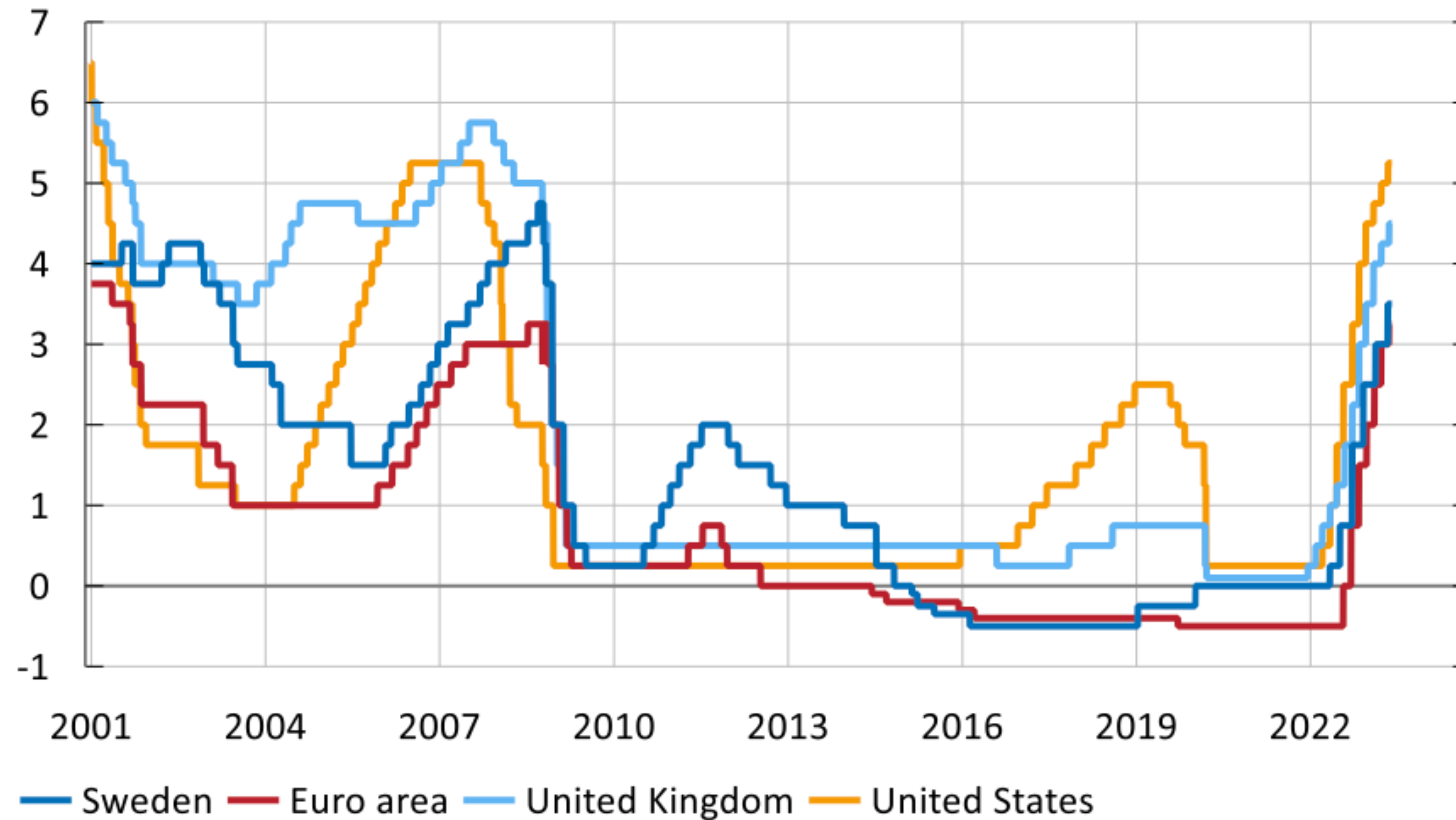
KIX is an aggregate of the countries that are important to Sweden's international transactions.



Sources: Bureau of Economic Analysis, Eurostat, national sources, Office for National Statistics, Macrobond and the Riksbank

Cont.

Recent policy rates

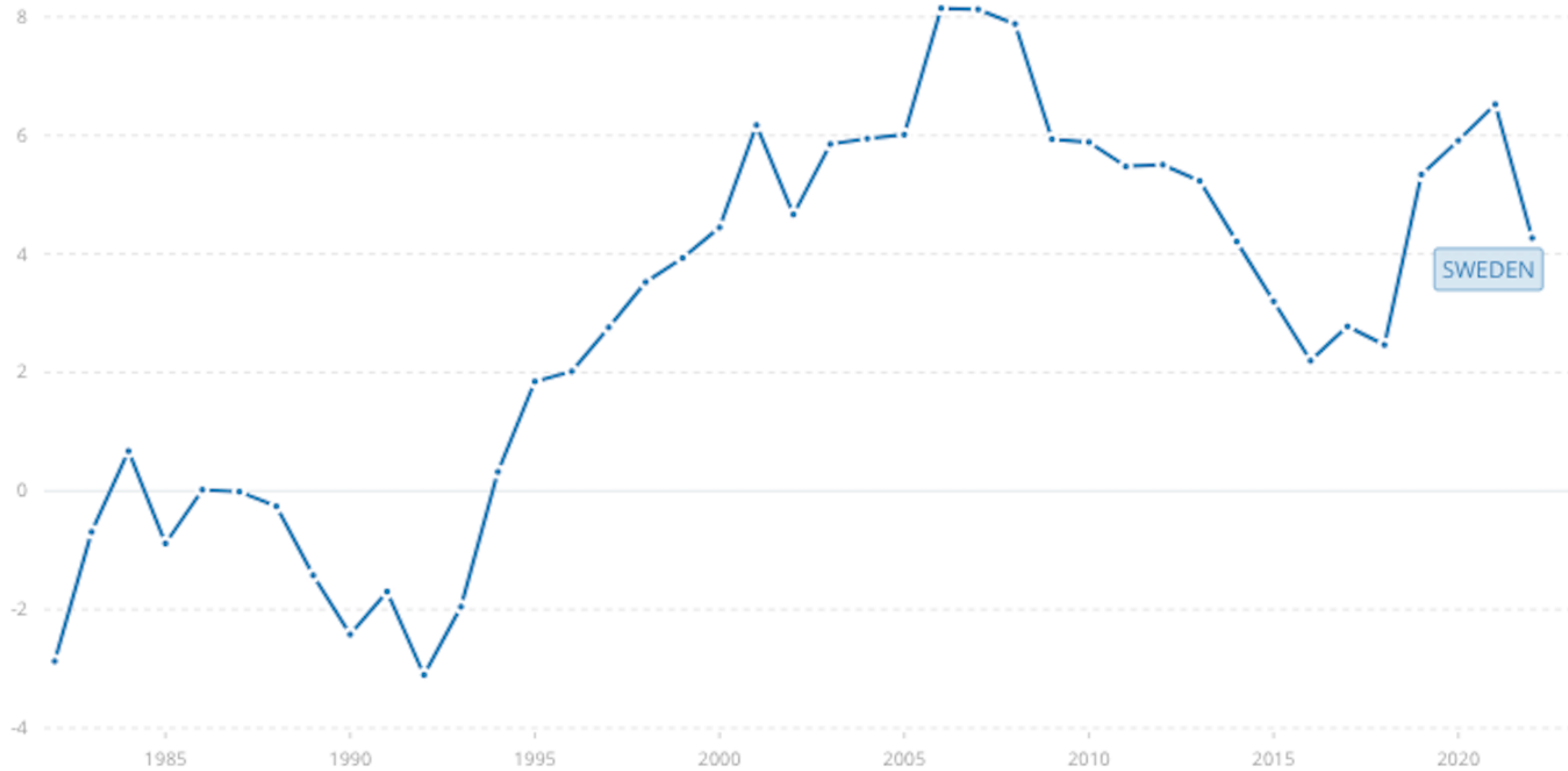


Note. For the euro area, the ECB's deposit rate is shown.

Source: Macrobond.

Cont.

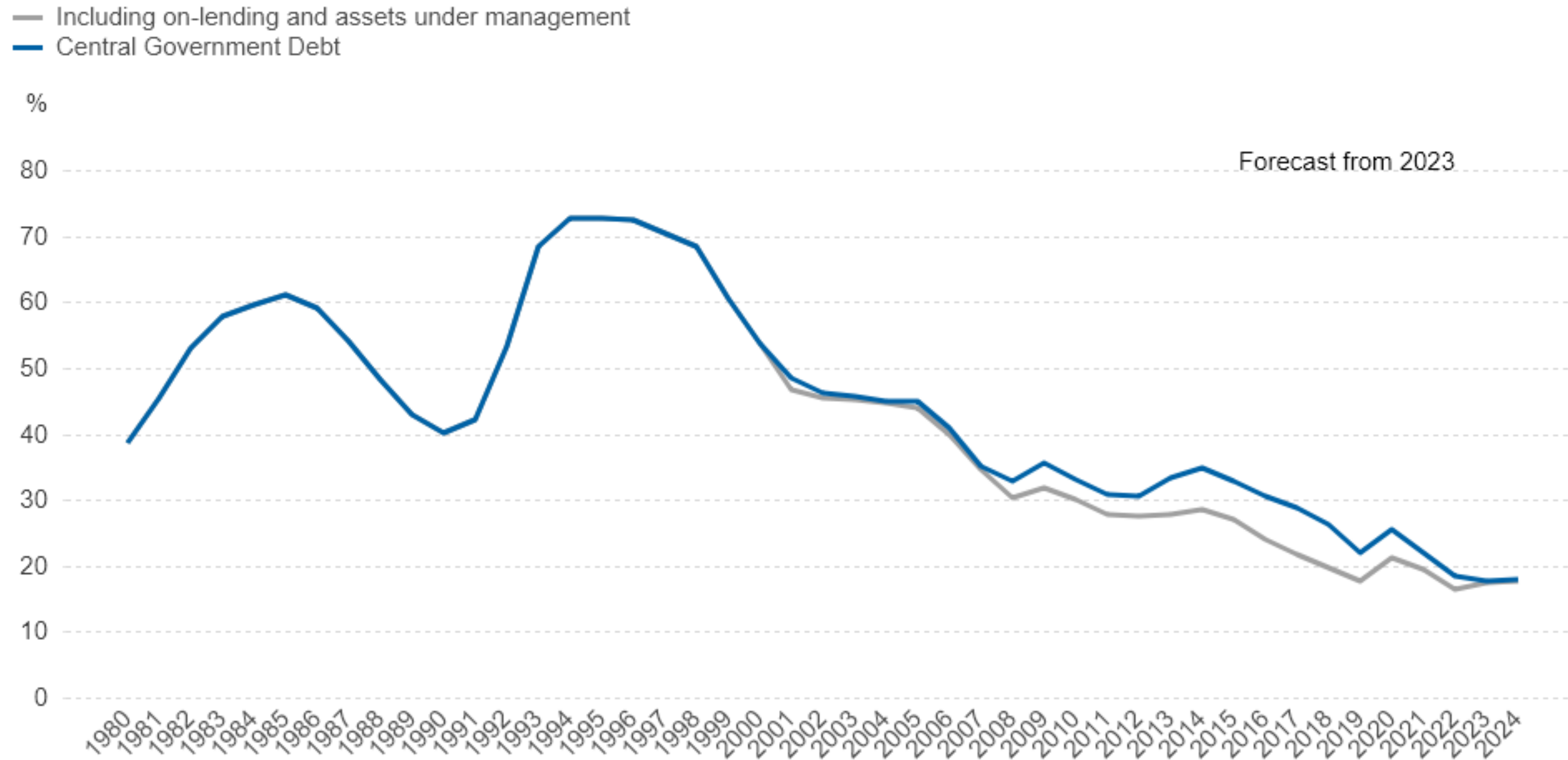
Current account



Source: World Bank

Cont.

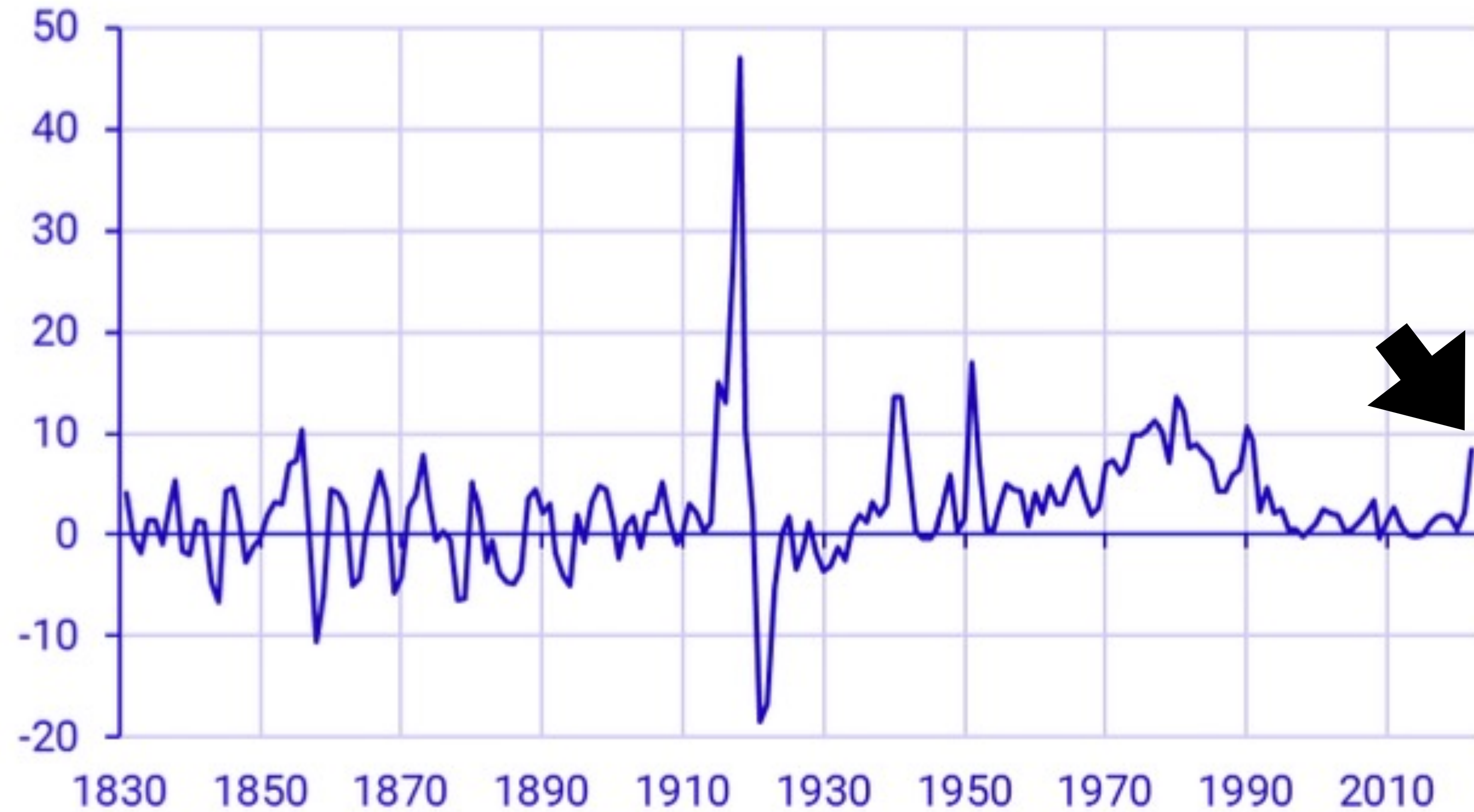
Central government debt to gdp



Source National Debt Office

Cont.

Inflation, the long view 1830 - 2022



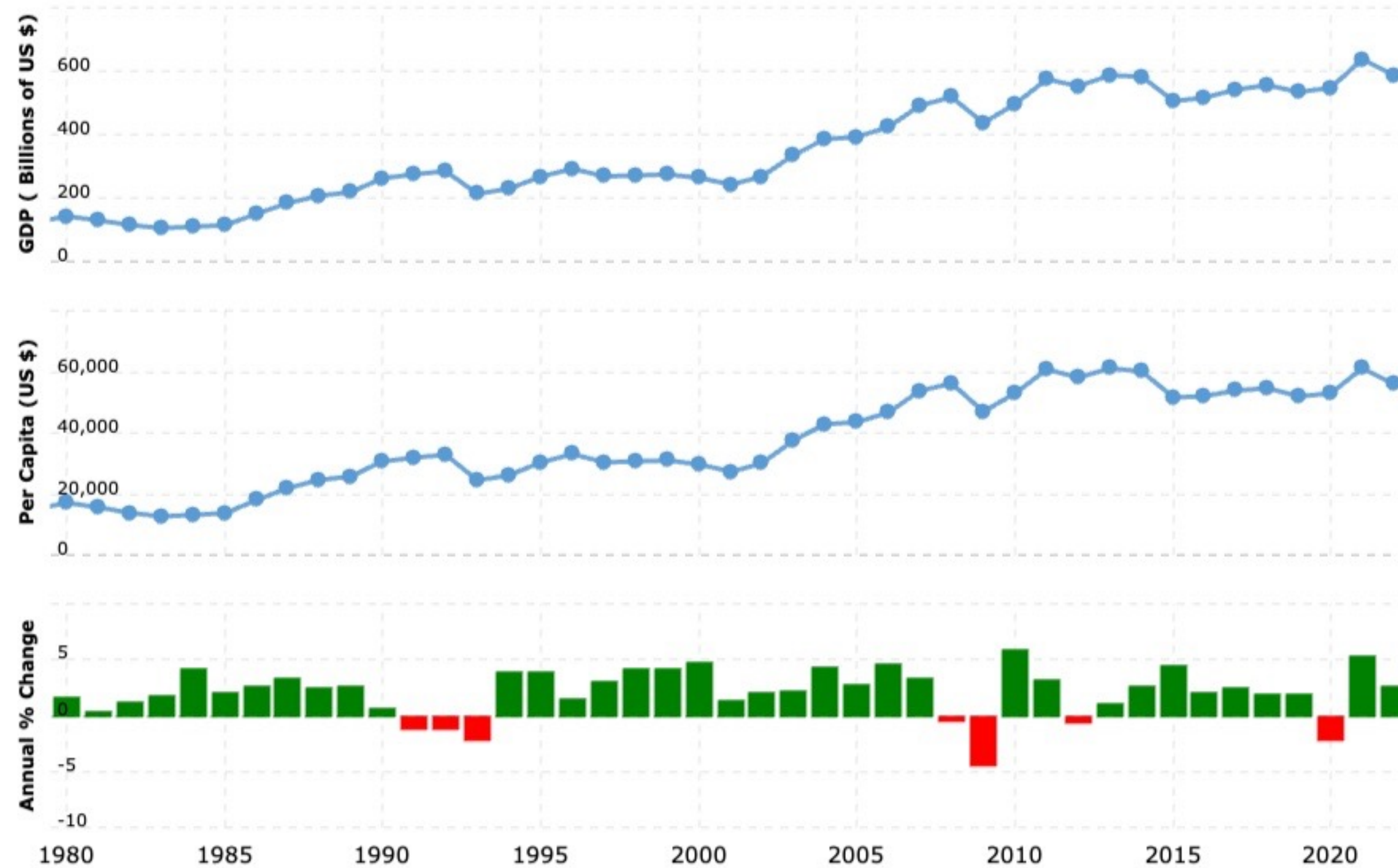
Source: Statistics Sweden

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Data up to and including 2022

Cont.

Macro summary



Source: Macrotrends.com

Cont.

Exchange rate



Cont.

Member of the EU

- Free movement of goods & services
- Free movement of labor
- Free movement of capital
- A precondition for all macro policies
- A precondition for all financial sector policies

Exchange rate regimes

Floating, Fixed, Euro membership (Euorization)

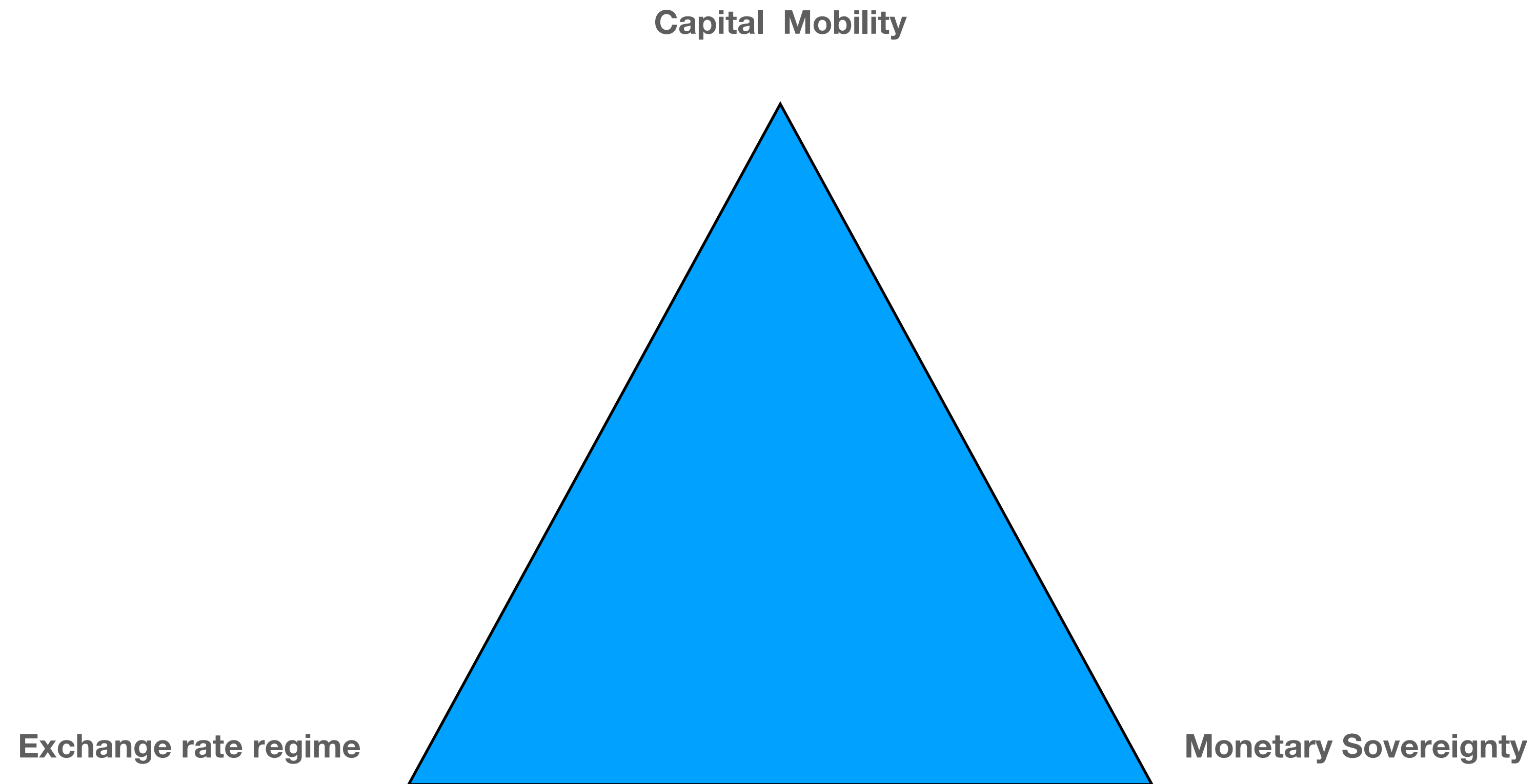
- Sweden, Floating
- Denmark, Euro peg
- Finland Euro
- All three have, as always, issues but have done quite well

Balanced economic policies are compatible with different currency regimes, but your choice of currency regime cannot save you from unbalanced policies

Ingves Ekonomik Debatt Sept 2023

Mundell - Fleming trilemma

Choose two and you get the third



Rey Argument

Trilemma becomes a dilemma

Capital Mobility

Monetary Sovereignty

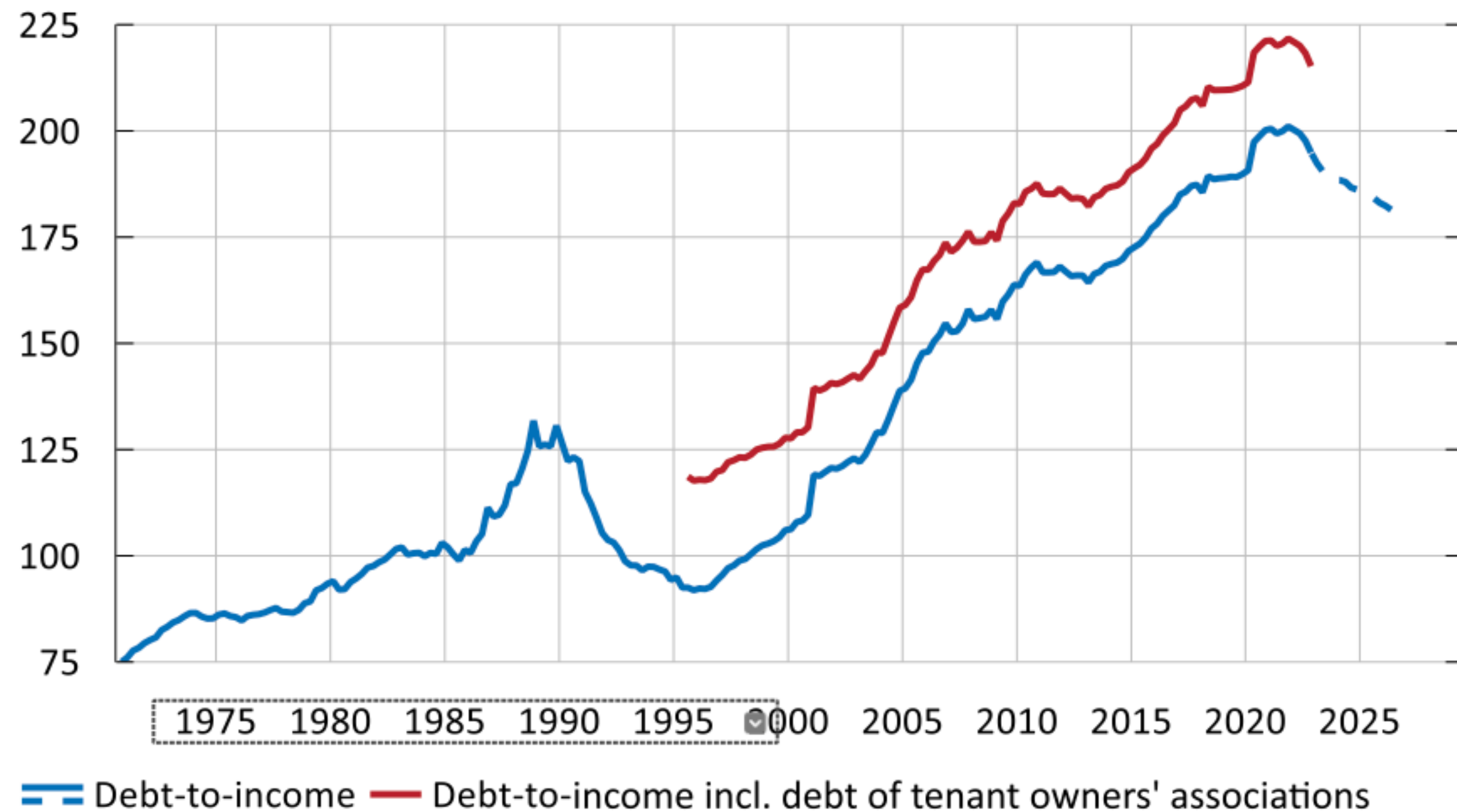


Long term implications of EU membership?

From Macro to Financialization

Household Debt

The converse of Government Debt

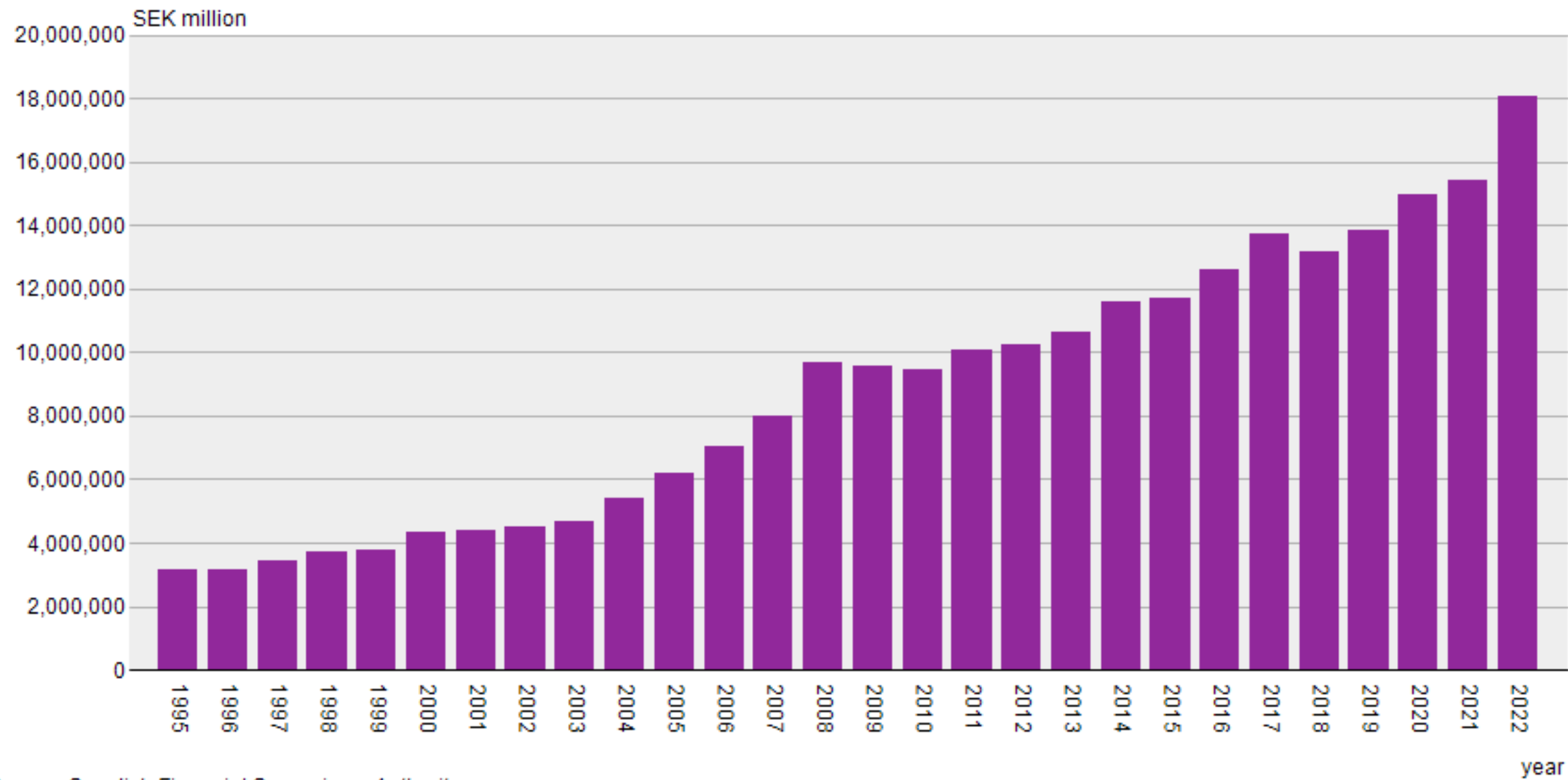


Note. Households' total debt as a share of their disposable income, totalled over the past 4 quarters. Prior to September 2010, the debts of tenant-owners' associations were estimated solely on the basis of loans from mortgage institutions.

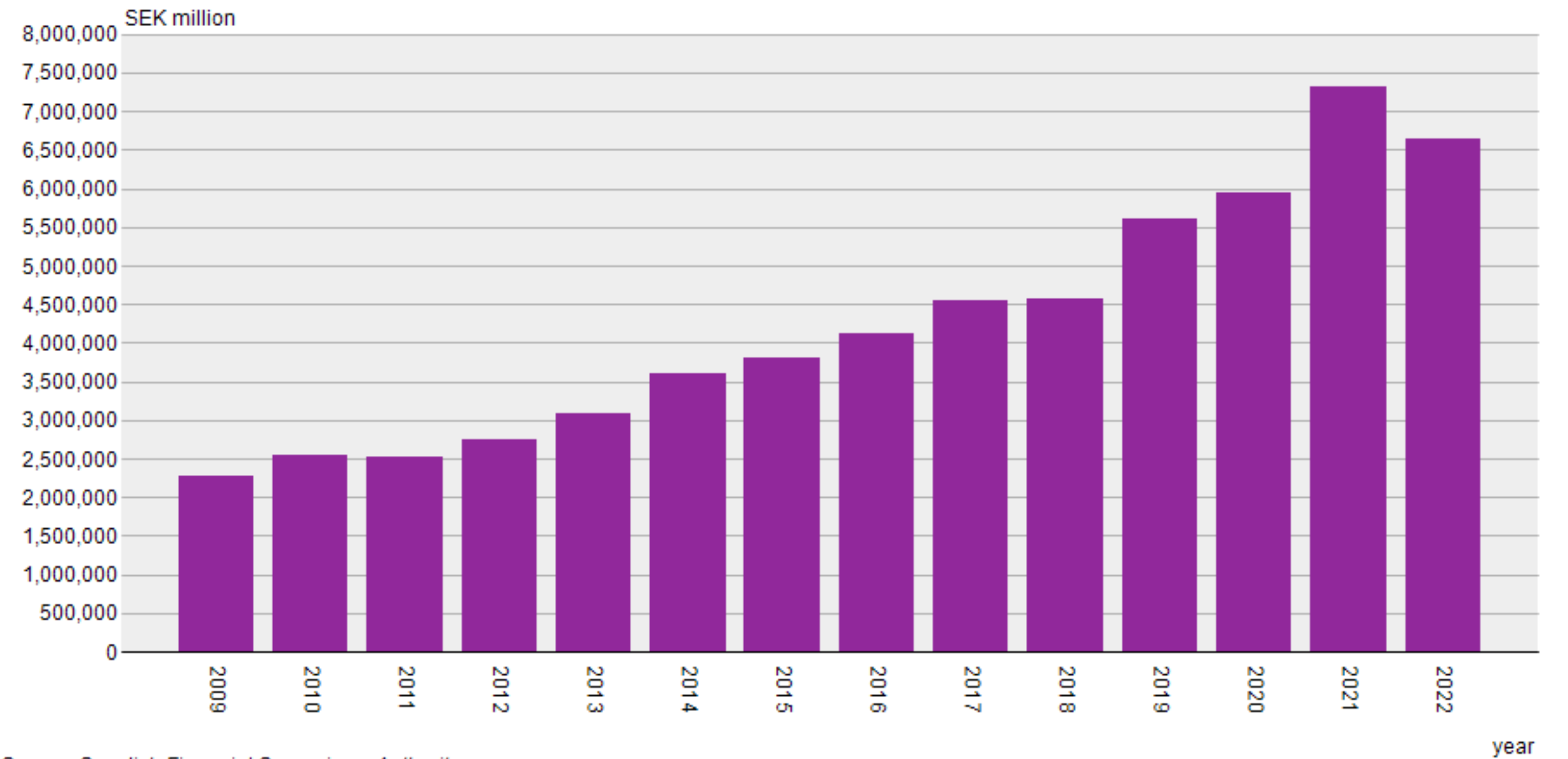
Some measures of Financilization

Total assets roughly four times gdp (some double counting)

Financial accounts, balances, SEK million by year. Monetary financial institutions excl. Central bank, Financial assets (FA), All sectors.



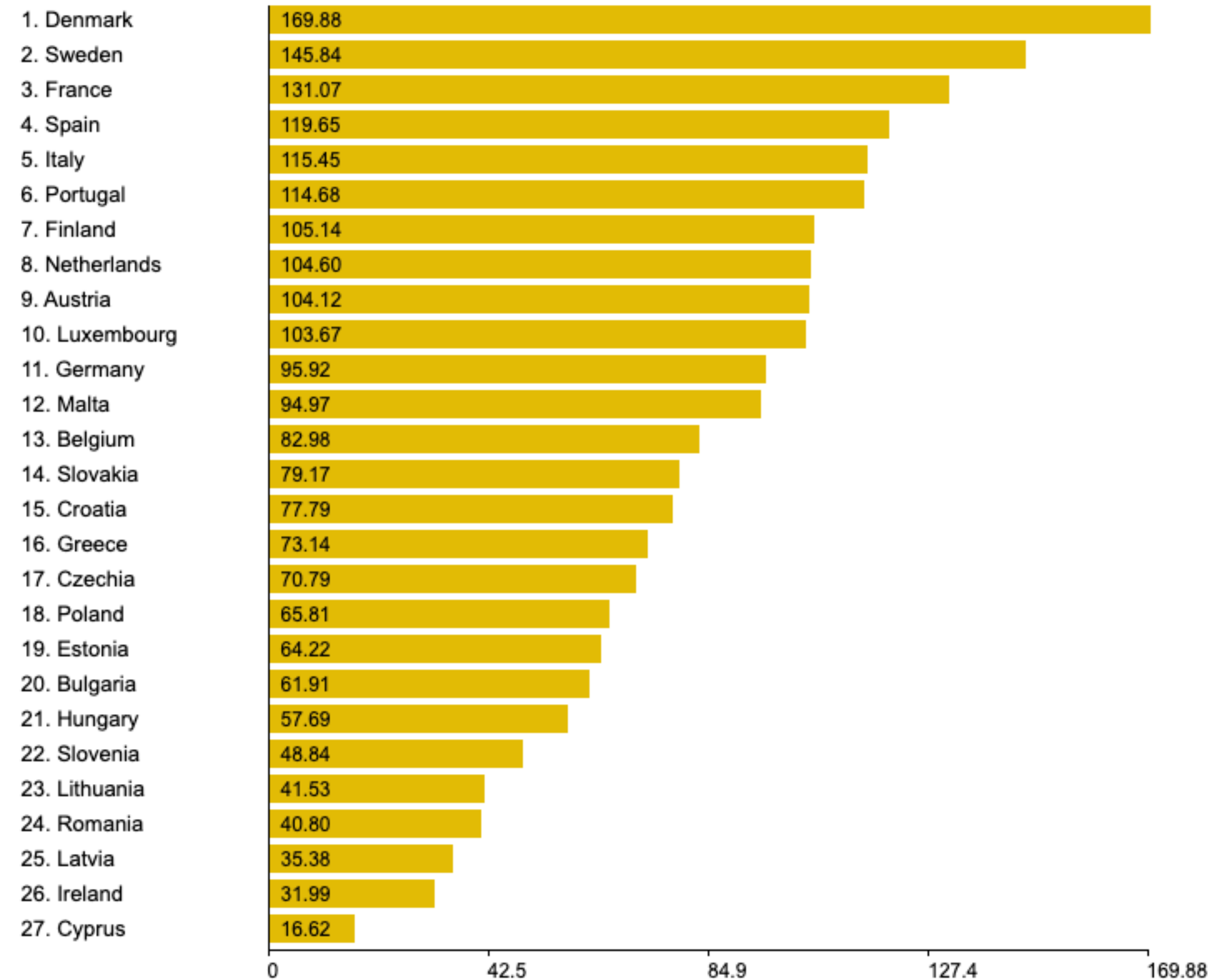
Financial accounts, balances, SEK million by year. Pension funds, Financial assets (FA), All sectors.



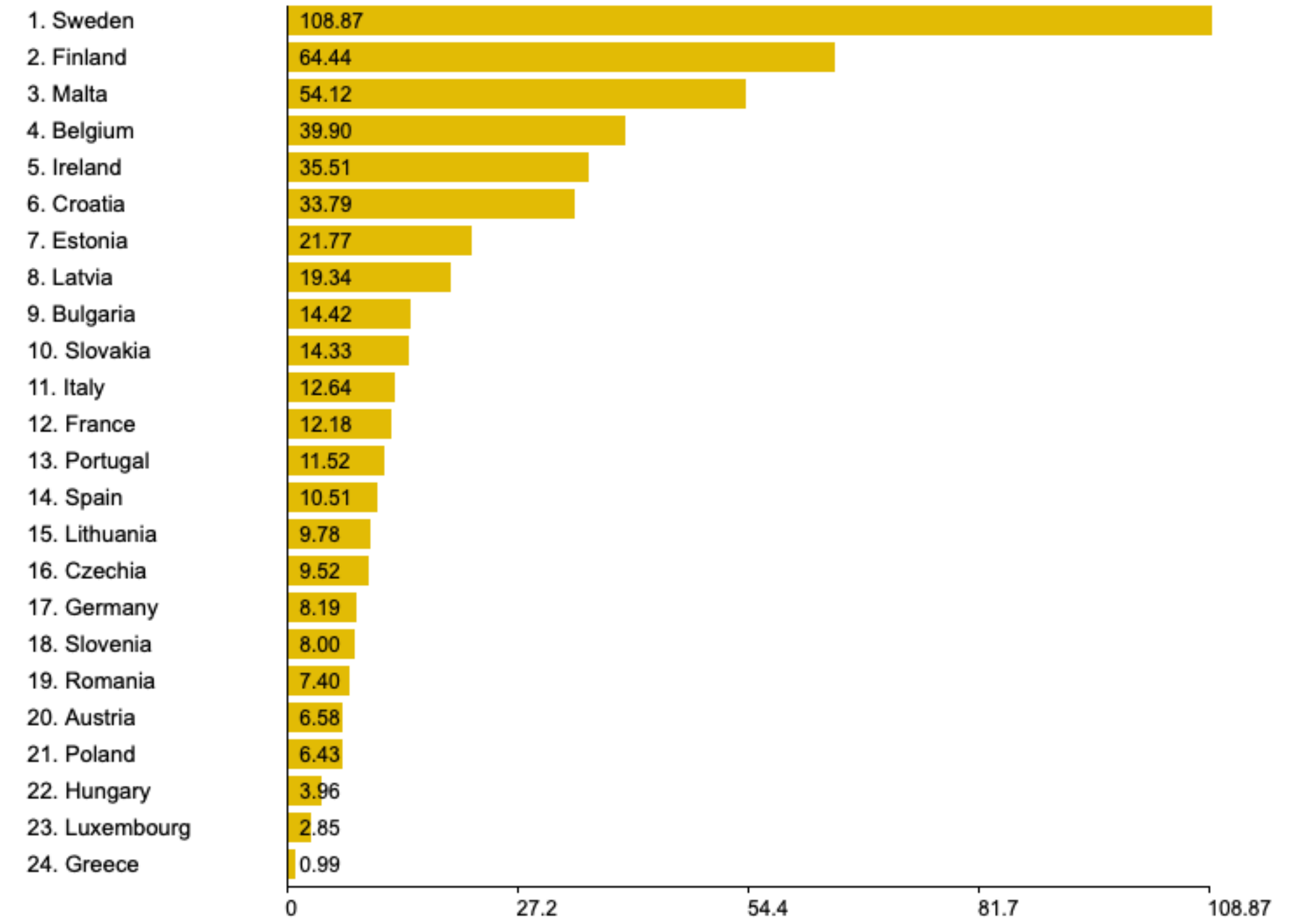
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Banks Assets and Pension Fund Assets to gdp, EU

Definition: Total assets held by deposit money banks as a share of GDP. Assets include claims on domestic real nonfinancial sector which includes central, state and local governments, nonfinancial public enterprises and private sector. Deposit money banks comprise commercial banks and other financial institutions that accept transferable deposits, such as demand deposits.



Definition: Ratio of assets of pension funds to GDP. A pension fund is any plan, fund, or scheme that provides retirement income. Data taken from a variety of sources such as OECD, AIOS, FIAP and national sources.

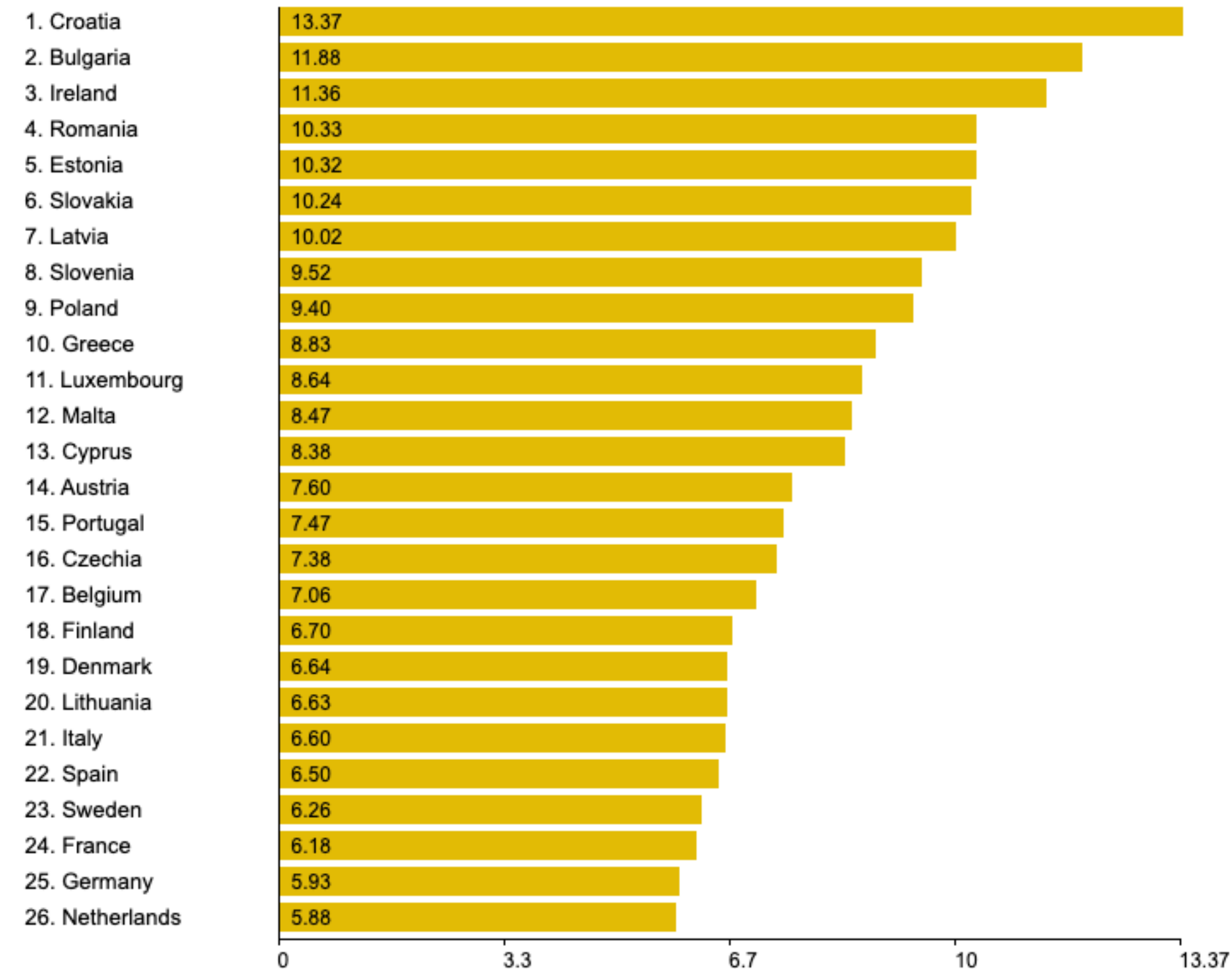


Source: theglobaleconomy.com

Cont.

Bank Capital (roughly leverage ratio)

Definition: Ratio of bank capital and reserves to total assets. Capital and reserves include funds contributed by owners, retained earnings, general and special reserves, provisions, and valuation adjustments. Capital includes tier 1 capital (paid-up shares and common stock), which is a common feature in all countries' banking systems, and total regulatory capital, which includes several specified types of subordinated debt instruments that need not be repaid if the funds are required to maintain minimum capital levels (these comprise tier 2 and tier 3 capital). Total assets include all nonfinancial and financial assets. Reported by IMF staff. Note that due to differences in national accounting, taxation, and supervisory regimes, these data are not strictly comparable across countries.



**30 Years - From Fiscal Dominance
to (potential?) Financial Dominance**

EU Choices

A reluctant member !

Monetary Union?

Banking Union?

Capital Markets Union?

**Domestic Institutional
Change?**

A Small Open Economy

- From rule maker to rule taker
- Fixed to floating, from price maker to price taker
- Status quo requires Macro Stability
- Avoid major mistakes
- A difference between perceived and actual sovereignty
- Limited degrees of freedom

Thank you for your attention