



Summary

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The Riksbank's asset purchases

– a costly experience

Summary

The Swedish National Audit Office (Swedish NAO) has audited whether the Riksbank's use of asset purchases has been effective and transparent. The overall conclusion of the Swedish NAO is that the asset purchases have not been effective. There is no indication of any appreciable effect on inflation, while the costs of the purchases will be substantial. The Riksbank's asset purchases have been largely transparent, based on sound decision-making data.

The Swedish NAO's audit shows that there is no indication that the asset purchases made to increase inflation had any appreciable effect. Our assessment is that the asset purchases in the early stages of the COVID-19 pandemic in 2020 were more effective as they helped maintain financial stability, thus curbing the negative impact on the economy. At the same time, the asset purchases have led to substantial costs for the Riksbank, which will impact central government finances. In addition, the purchases of securities have led to a number of other adverse side effects.

Asset purchasing was a new monetary policy tool, for which reason sound decision-making data and transparent reporting were particularly important. The Swedish NAO's audit shows that the Riksbank's decision-making data was sound in light of the conditions, but that there has been uncertainty surrounding the effects of the asset purchases. The Swedish NAO has also found that there have been certain shortcomings in the Riksbank's follow-up of the purchases. The

Riksbank's reporting to the public and to the Riksdag has been largely satisfactory, but there is room for improvement.

Sound decision-making data, but deficiencies in follow-up

The Swedish NAO's audit shows that, given the circumstances, the Riksbank's decision-making data was sound. The Riksbank made impact assessments ahead of its securities purchases. However, the impact assessment was marked by considerable uncertainty because the tool was untested and the state of knowledge was poor. The Riksbank developed an increasingly systematic preparatory process and improved its knowledge on asset purchases during 2015–2019. The Riksbank regularly followed up the impact of government bond purchases on financial variables and assessed the potential effects of further purchases. The documents show that the Riksbank found the impact of further purchases to be limited as of 2016 and declining over time.

The Riksbank has regularly calculated the costs that the asset purchases were expected to entail. However, these costs were underestimated as the calculations assumed a low policy rate over a very long time. The risks of adverse side effects in purchases of private securities were considered to be high. Yet, there was no systematic follow-up of the side effects when the Riksbank purchased private securities during 2020–2021. The assessment of the Swedish NAO is that such follow-up should have been given priority, considering the risks identified.

Our audit shows that the Executive Board has been aware of the costs and side effects of the asset purchases. However, we have not found that these were deemed to be serious enough to affect the decisions to purchase assets. On the other hand, the Executive Board made it clear that it was other policy areas that were responsible for reducing the risk related to the housing market and household debt.

There is no indication that asset purchases have had any appreciable effect on inflation

The Swedish NAO's assessment is that there is no basis to indicate that asset purchases have had any appreciable effect on inflation. The scientific evidence is divided and the Riksbank's evaluations show that effects have been limited. The audit shows that the short-term lending rates encountered by the majority of households and businesses were not affected, which limits the effects. At the same time, it cannot be ruled out that asset purchases, through signalling effects, have had an impact on inflation. On the other hand, it is difficult to assess the impact of the signalling effect.

The Swedish NAO considers that the asset purchases early in the COVID-19 pandemic were effective in subduing the financial stress that emerged in the wake of the outbreak of the pandemic. Interest rates were kept low and credit supply was secured, which helped to curb the impact of the pandemic on the economy. The purchases were subsequently extended with a clearer objective of stimulating growth and inflation, but there is no basis for claiming that the purchases had any appreciable effect on inflation.

The asset purchases led to considerable costs

The costs of the asset purchases have turned out to be considerable and far greater than anticipated. The most recent calculation by the Riksbank points to a loss of SEK 61 billion. The Riksbank's preliminary assessment is that a capital injection of about SEK 80 billion is needed. The Riksbank will also not pay any dividends in the near future. The purchases have also had some adverse side effects. The government bond market functions less well, purchases of private securities have affected allocation of resources and have increased the prospect of greater risk appetite among private entities. Furthermore, the asset purchases led to higher risk on the housing market, although the impact on prices appears to have been limited.

Reporting to the Riksdag was largely satisfactory

The Swedish NAO's audit shows that the Riksbank's reporting on the use of asset purchases was largely comprehensive and transparent. The reasons for the purchases and the observed effects on the financial conditions have been reported to the Riksdag. However, the Riksbank's reporting on the expected costs and financial risks brought about by the asset purchases could have been clearer and more comprehensive. Potential and observed side effects could also have been reported more clearly.

Recommendations

The Swedish NAO makes the following recommendations to the Riksbank:

- Avoid purchasing assets with the primary purpose of influencing inflation.
- Avoid large long-term holdings of government bonds, so that there is a possibility to purchase them in future financial crises.
- Report asset purchase costs and side effects more clearly to the public and the Riksdag, for example in its Account of monetary policy.