

Labour Market and Monetary Policy

National Bank of Ukraine
Narodowy Bank Polski
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Governor of the Riksbank

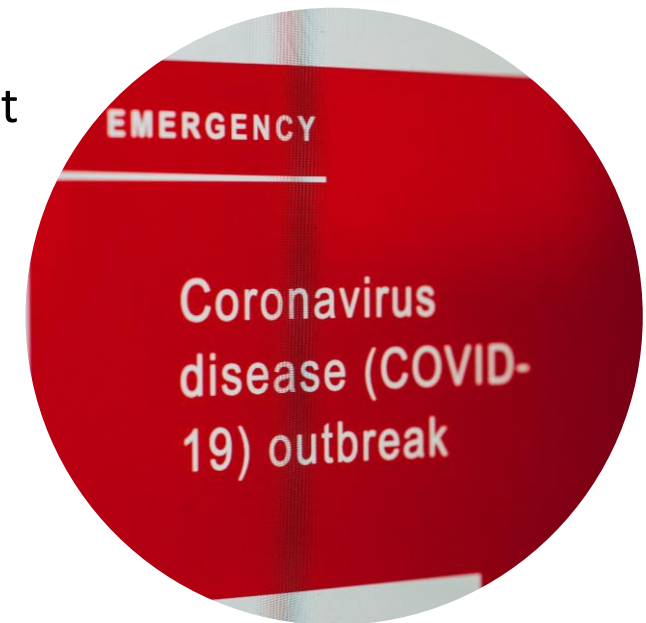
Summary

- Pandemic presents new challenges for policy overall
- Tools need to be tailored to the specific problem - and work well with other areas
- **Now:** focus to improve access to credit and to lower the cost of funding for firms
 - Important to prevent negative financial market spillovers to an already vulnerable economy
- While this is a new crisis, structural changes are always ongoing
- Monetary policy can only affect fluctuations around u^* , not u^* itself
 - Outsiders in the labour market are likely to be harder hit than insiders, with risk of persistent unemployment
- Role for structural policy to remedy structural problems

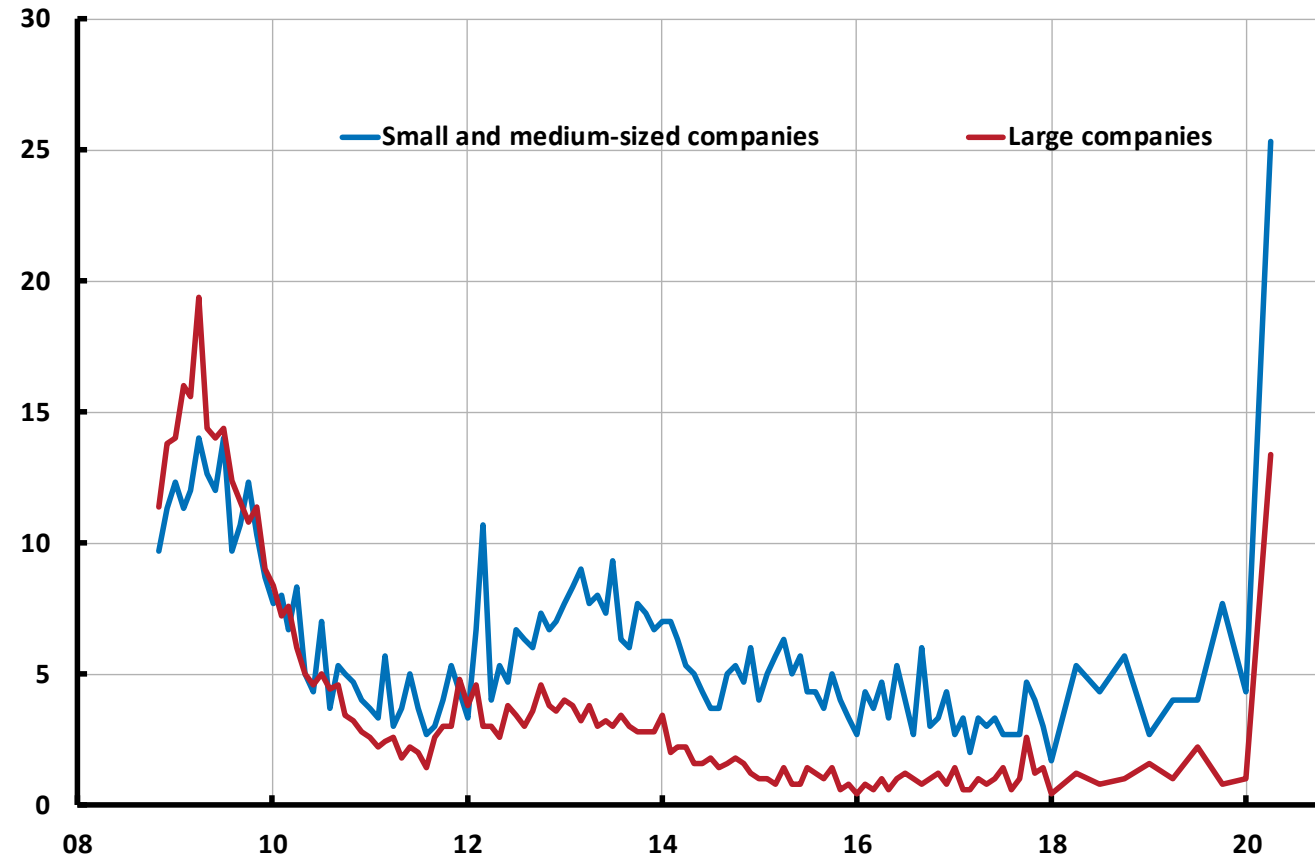
The world in a synchronized crisis

Restrictions to slow down the spread of the coronavirus has brought the global economy to a halt

- Restrictions and uncertainty regarding how long they will last
- Both production and demand falling at the same time
- Global shutdown that affects us all



Firms access to finance has deteriorated



Share of firms having it markedly more difficult to finance their operations than normal, percent.

Source: National Institute of Economic Research.

The question reads *“Financing the firms operations is currently”*: *Markedly more difficult than normal, more difficult than normal, about normal, easier than normal and markedly easier than normal.*

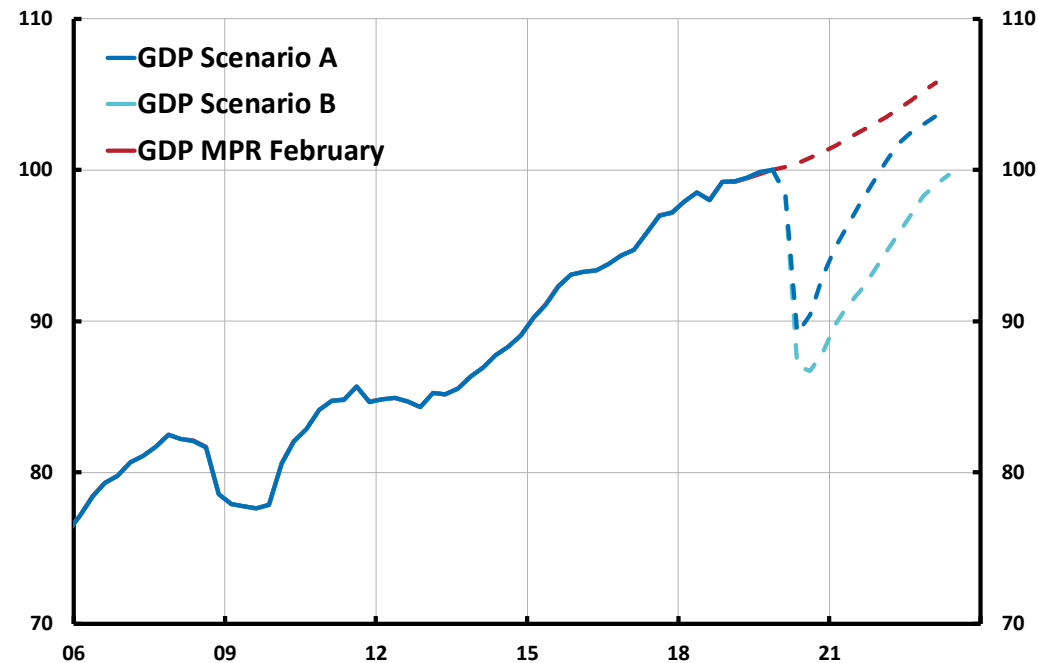
The crisis will worsen if financial markets are working poorly

- The pandemic has led to significant financial market turmoil
- Increased the cost of funding
- Substantial credit tightening would worsen the crisis



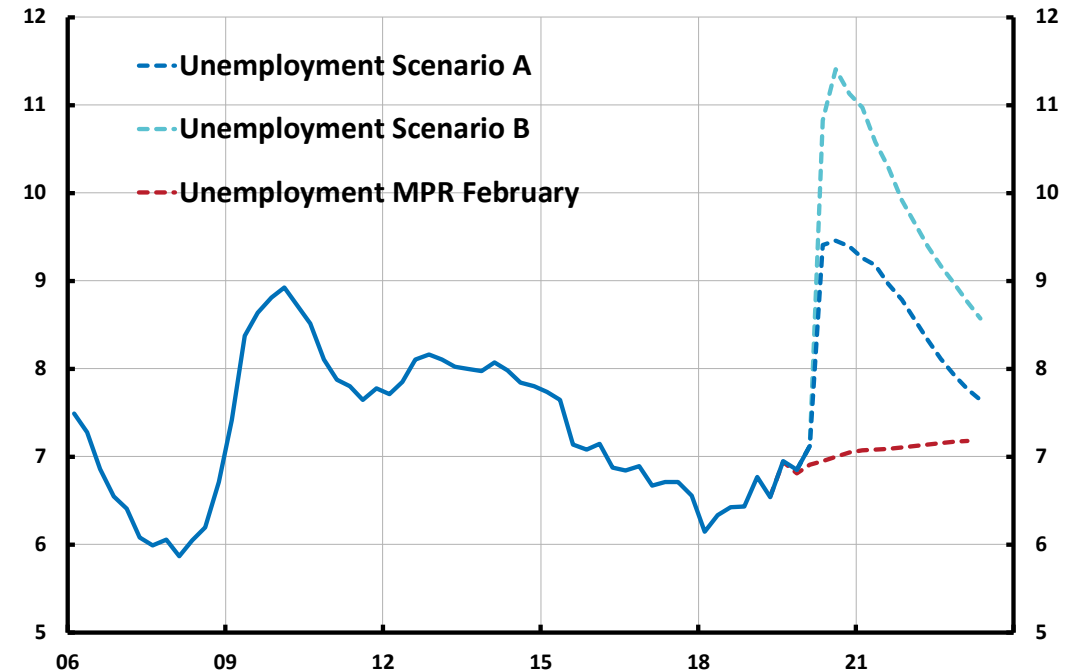
Major uncertainty regarding how deep and prolonged the economic decline will be

Large fall in Swedish GDP this year



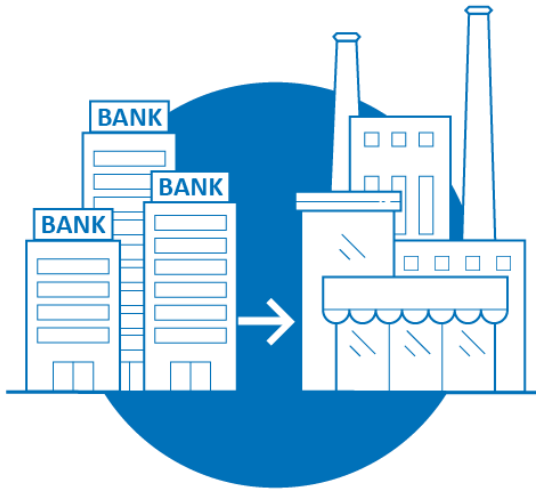
Index 2019 Q1=100 and percentage of labour force.

Rapidly deteriorated labour market



Sources: Statistics Sweden and the Riksbank.

Substantial efforts to reduce interest rates, lower the cost of funding and increase access to credit to help avoid bankruptcies



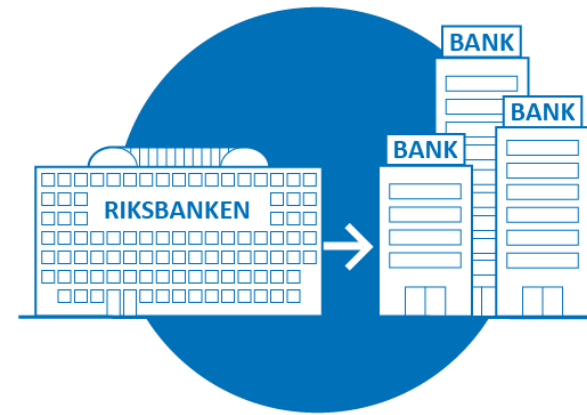
Banks can take up loans at the Riksbank for lending to firms.

500 bn. SEK



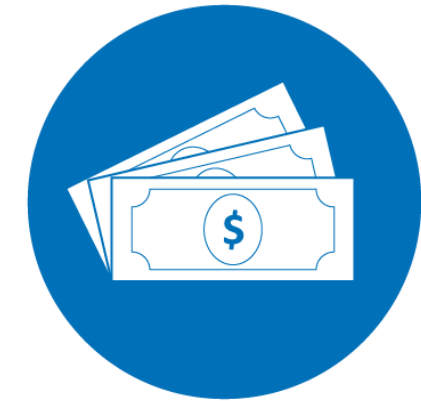
Purchase of government-issued bonds, mortgage-backed securities and corporate bonds

300 bn. SEK



Increased access to secure and liquid assets

Unlimited



Loans in US-dollars

60 bn. USD

Important that different policy tools complement each other

Historic economic policy measures to mitigate some of the consequences of the pandemic

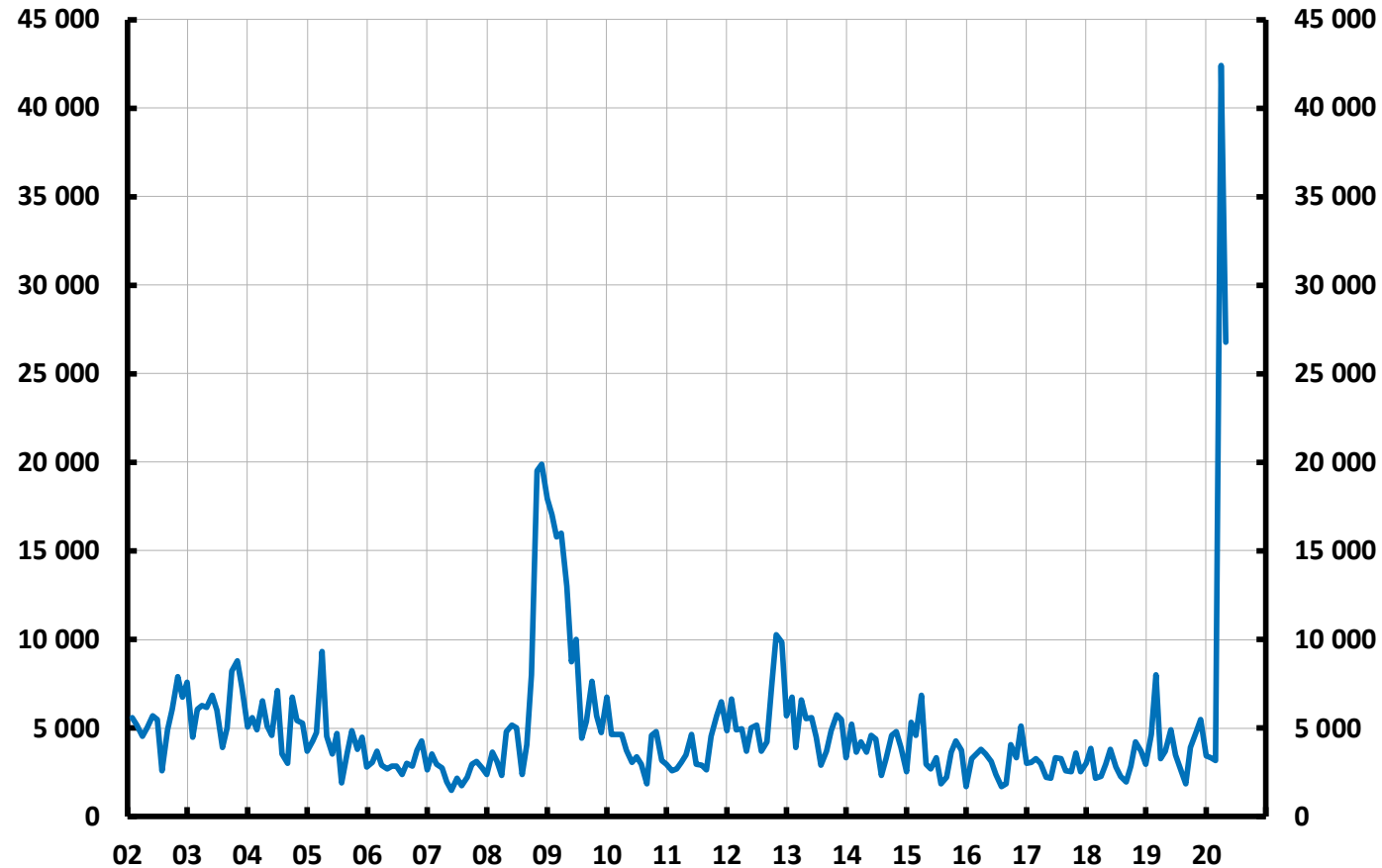
- Fiscal policy provides support to households and firms
- Monetary policy eases access to credit in the economy
- FSA and SNDO efforts improve banks ability to provide loans

The Riksbank is ready to do more if and when needed



Some labour market effects of the pandemic

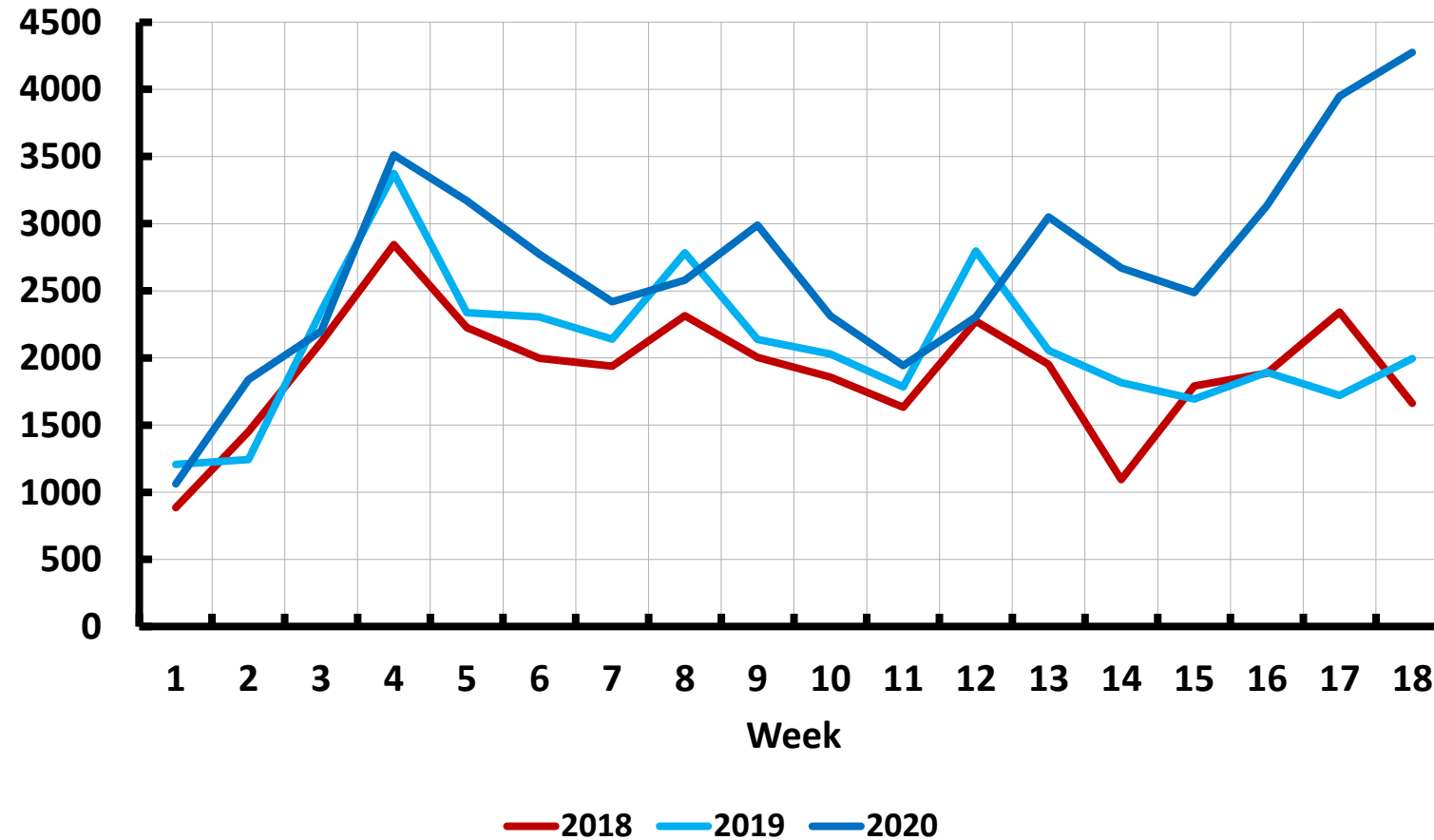
Sharp increase in redundancy notices...



Number of redundancy notices.

Source: National Institute of Economic Research.

...and more applicants for unemployment benefits than usual



Weekly new number.

Source: The Swedish Unemployment Insurance Inspectorate (IAF).

And changes in job-seeking behaviour

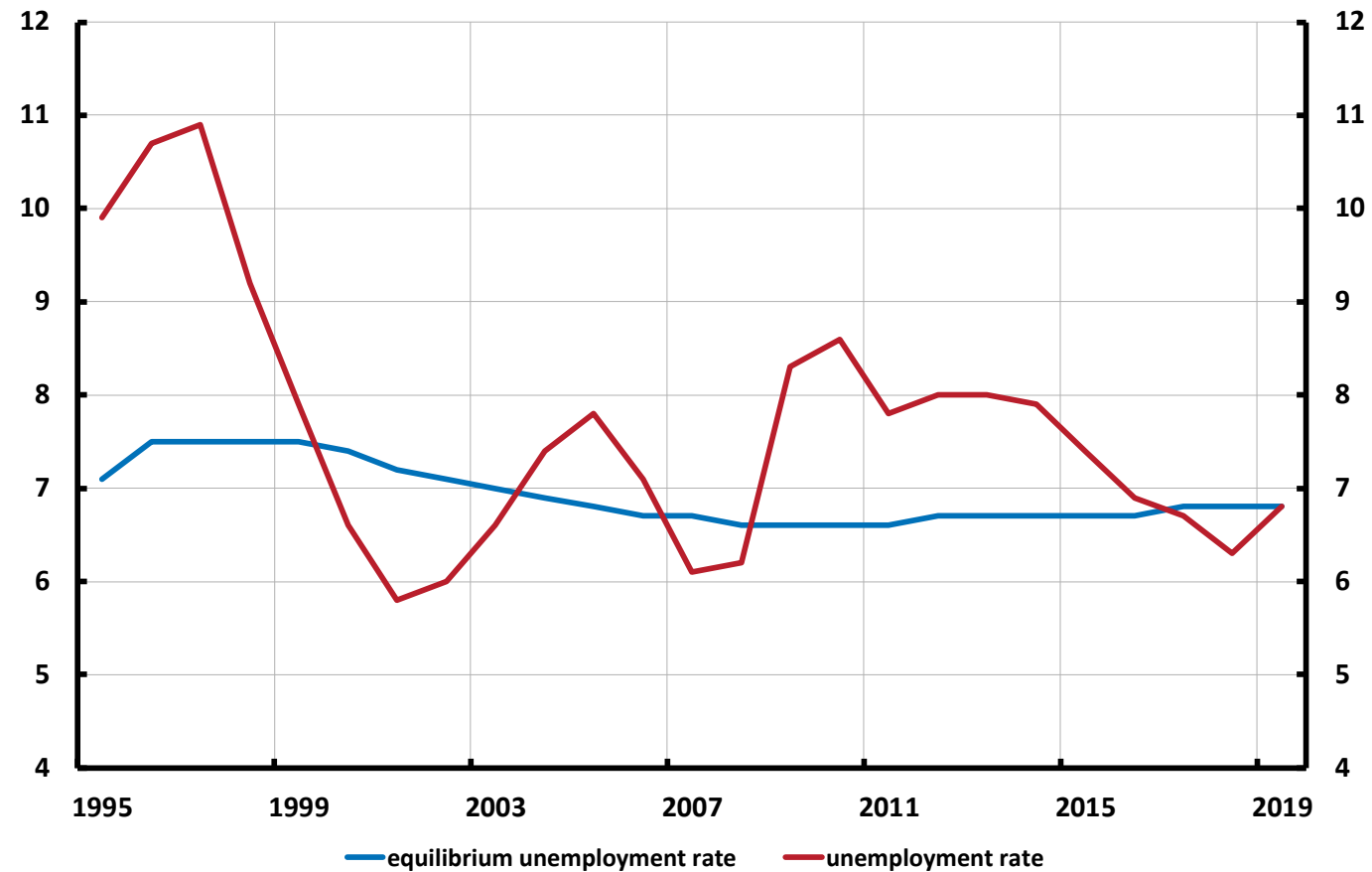
- New research (Hensvik et al., 2020) studies the reaction of job-seekers on a large job-search platform in Sweden.*
- Fewer vacancies have been posted and job-seeking has decreased
 - "Clicks" per vacancy reduced by 30%
- Job-seeking has also changed – more focus on occupations that allow working from home or “essential” jobs in, for example health care.

**Hensvik, Lena, Thomas Le Barbanchon and Roland Rathelot (2020), "Job Search during the COVID-19 Crisis", IZA – Institute of Labor Economics, DP No. 13237.*

Risk of higher structural unemployment

- In general, a central bank can help stabilize unemployment (u) along some trend (u^*)
- Support the economy and navigate through the crisis
- But central banks cannot fix the source of high structural unemployment
- Role for other, structural, policies to improve the functioning of labour markets

Reforms after the 1990s crisis lowered u^* ...



Percent of the labour force.

Source: National Institute of Economic Research.

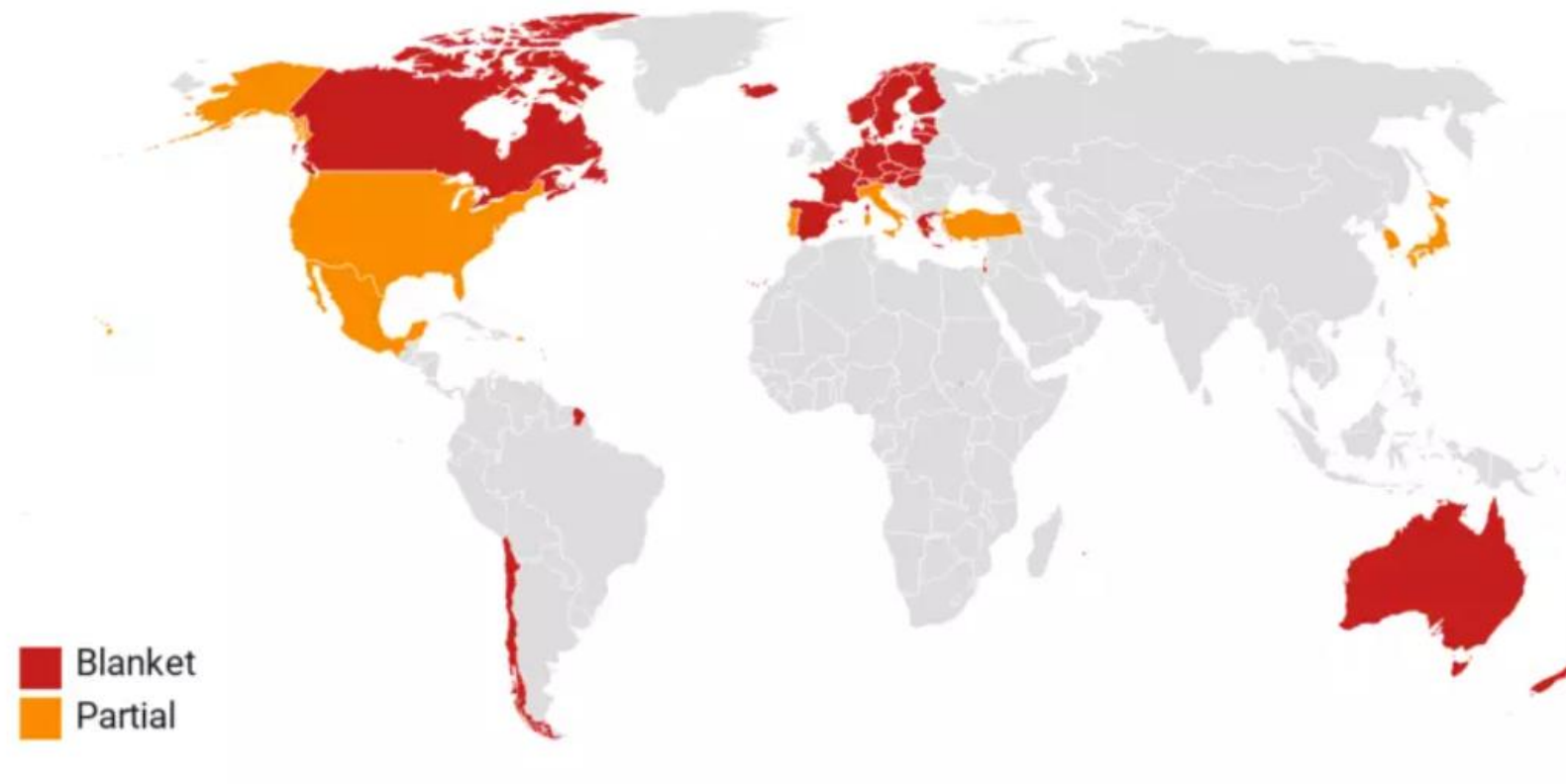
Important to avoid persistently high unemployment

- Measures to improve functioning of the labour market are needed
 - Maintain active job-seeking and incentives to accept job offers
 - Re-skilling towards jobs in high demand
 - Improve labour market integration of foreign-born persons
 - High-quality education for the young
 - Vocational education must meet the needs of the labour market

Reduced migration: problems at both ends

- Reduced labour mobility across borders of great concern
 - Firms highlight how restrictions hamper cross-border mobility of people
 - Knock-on effects on certain industries (e.g. construction and agriculture)
- Hits the source of migration as incomes are affected
- Hits recipient countries as production cannot be carried out

Restrictions on migration in several OECD economies

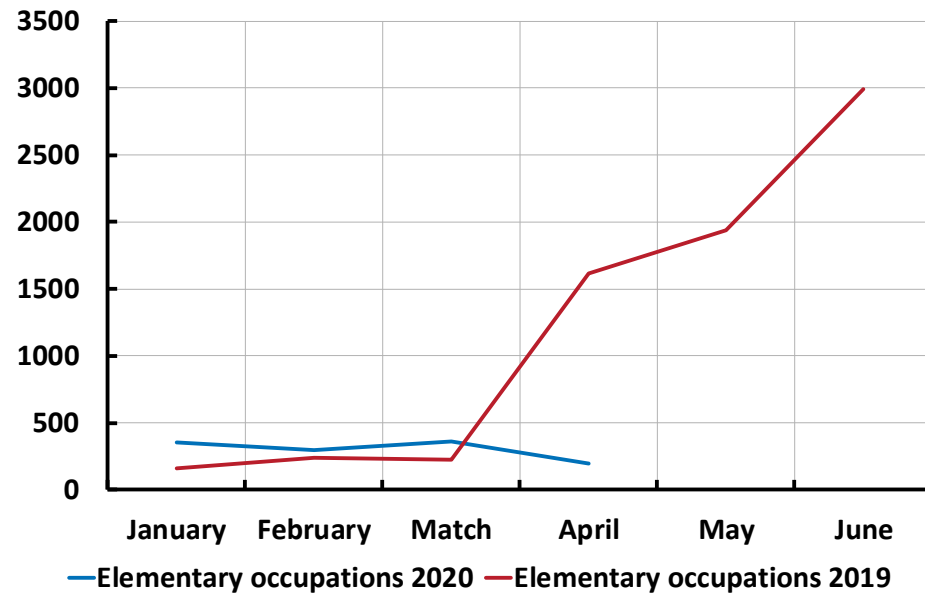


OECD member countries with blanket or partial bans on entry for non-citizens and non-residents. Certain measures implemented within EU/Schengen area

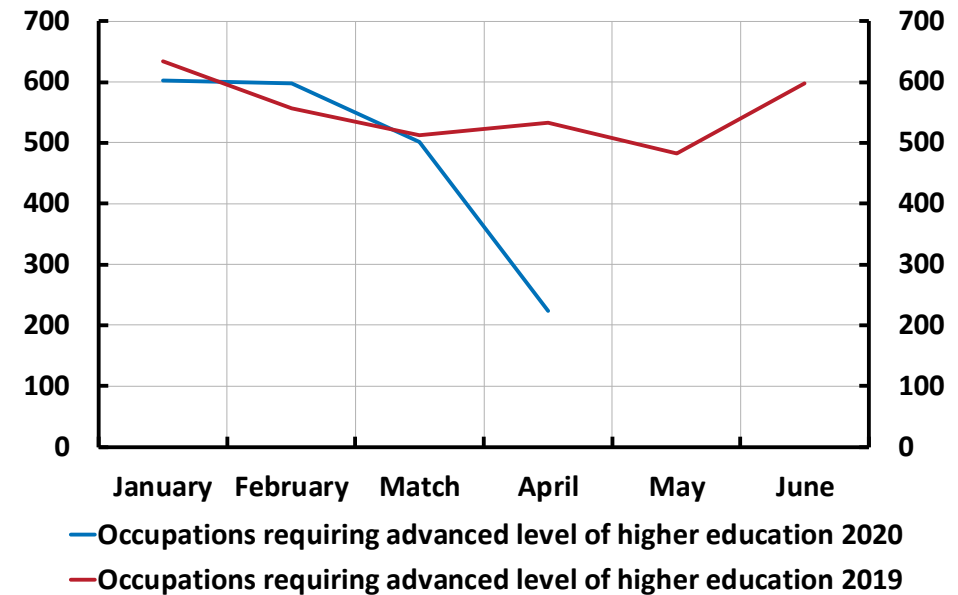
Source: World Economic Forum.

Affecting labour migration to Sweden of both low- and high-skilled labour

Migration into Sweden of lower-skilled labour



Migration into Sweden of higher-skilled labour



Number of granted permits.

Source: Swedish Migration Agency.

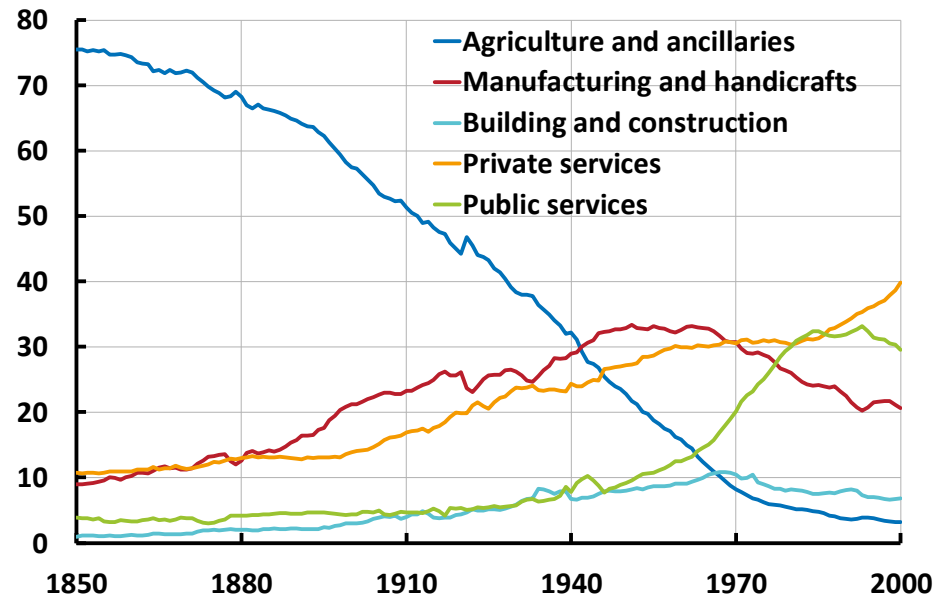
Coping with structural change

Crises and change are an ever-present feature of modern economies

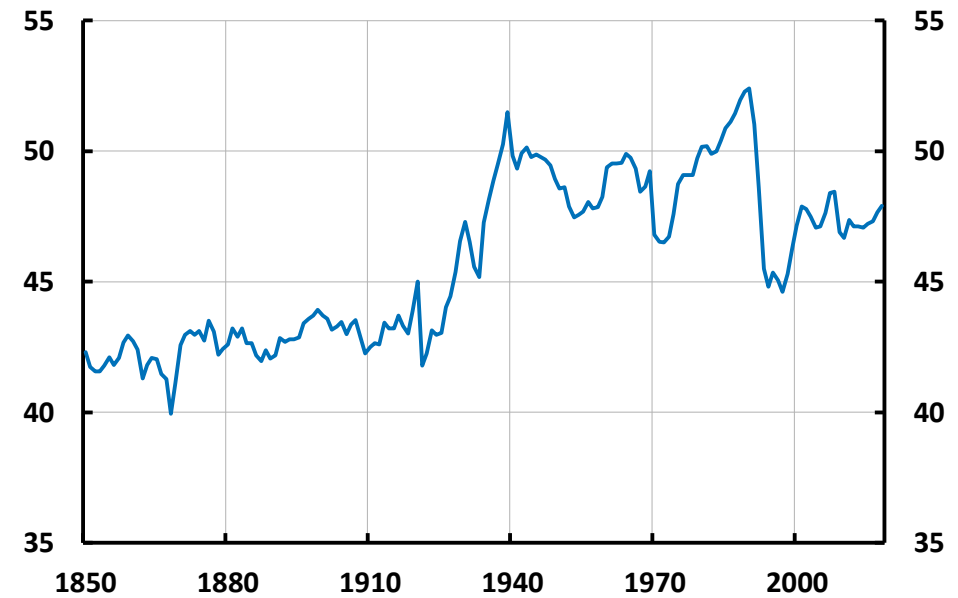
- Sweden has coped with crises and structural change before
- Adaptability key to benefit from the gains
- Structural reform cannot falter...
- ...and overall policy needs to be conducive to growth
- Central banks do their part by keeping monetary policy expansionary and by improving access to credit

Structural change and progress are mutually dependent

Significant changes in industry structure...



...has not led to job displacement overall

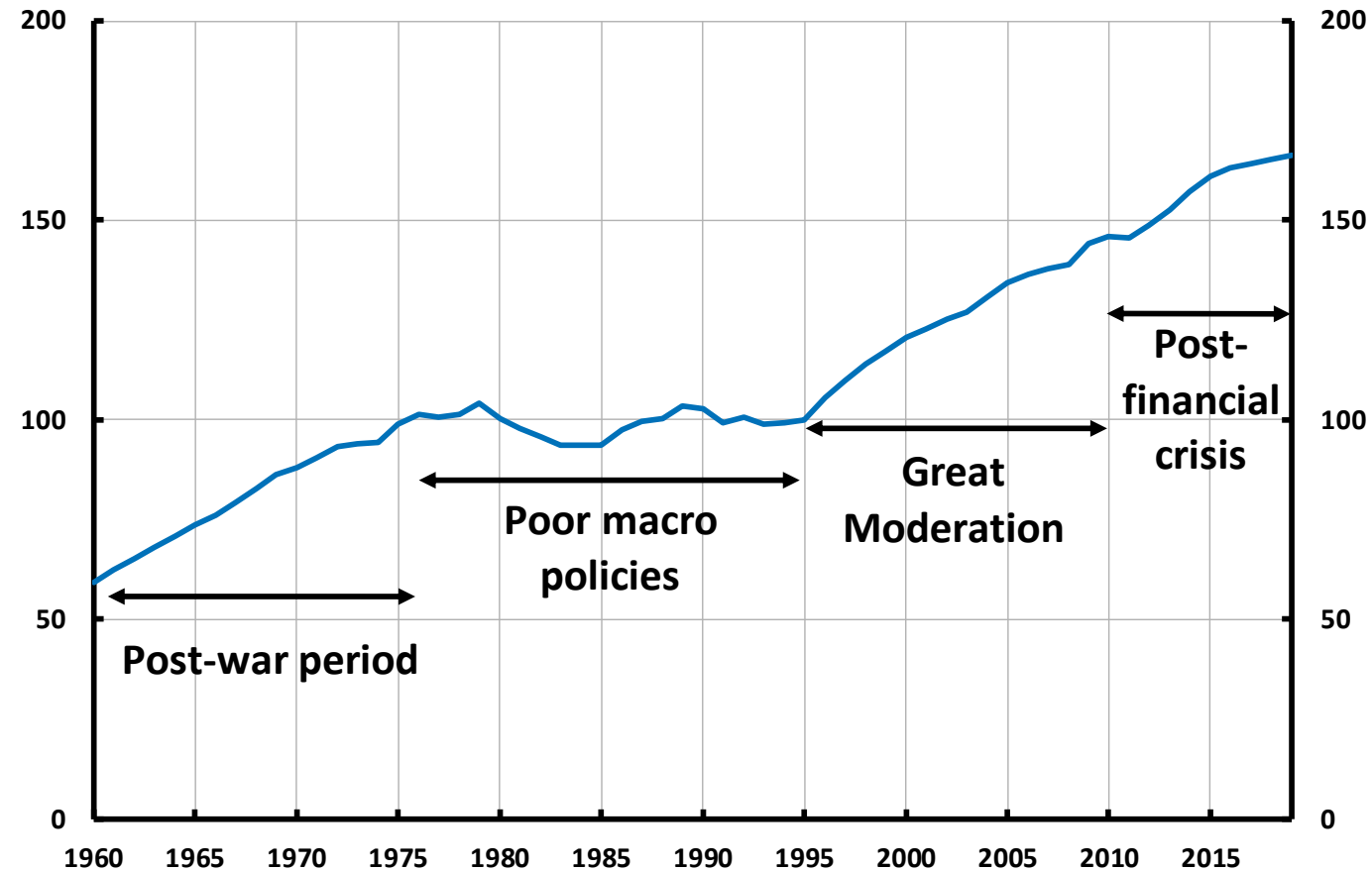


Note. LHS: Percent of business employment. RHS: employment-to-population ratio.

Sources: Edvinsson, R (2005), *Growth, Accumulation, Crisis: With New Macroeconomic Data for Sweden*. Almqvist & Wiksell International; Stockholm. Edvinsson, R et al (2014), 'The Gross Domestic Product of Sweden within present borders, 1620–2012', in *Historical Monetary and Financial Statistics for Sweden, Volume II: House Prices, Stock Returns, National Accounts, and the Riksbank Balance Sheet, 1620–2012* (eds. Rodney Edvinsson, Tor Jacobson and Daniel Waldenström) Sveriges Riksbank and Ekerlids och SCB.

Overall economic policy determines welfare

Index 1995=100.



Real wages for whole economy. Values for 2019 are preliminary.

Source: Ekonomifakta.

Structural reforms and clear game rules – such as an inflation target – are necessary to ease transitions

- Monetary policy can deflect some of the economic shock...
- ...and help prevent financial market turmoil
- However, structural policy is needed to address structural problems in the labour market
- Especially at the current juncture when structural changes might become more rapid

2 %

