



Lessons Learned Oral History Project Interview

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Crisis Position	Governor, Sveriges Riksbank (Sweden's central bank)
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Introduction:

The Yale Program on Financial Stability interviewed Stefan Ingves in December 2022. From January 2006 through December 2022, he was head of Sweden's central bank, the Sveriges Riksbank. In November 2021, he was elected to a three-year term as vice-chairman of the Bank of International Settlements (BIS). He was previously chairman of the Basel Committee, director of the Monetary and Financial Systems Department at the International Monetary Fund, deputy governor of the Riksbank, and general director of the Swedish Bank Support Authority. During Sweden's banking crisis of the early 1990s, he was undersecretary and head of the Financial Markets Department at the Ministry of Finance.

This transcript of a Zoom interview has been edited for accuracy and clarity.²

Transcript

YPFS: Thanks for taking part. We're going to run through your perspectives on some of the measures that Sweden took in response to the Swedish banking crisis in the early 1990s, the Global Financial Crisis of '07 to '09, post-crisis policy responses, and the COVID-19 crisis. I'd like to focus in on the lessons that the responses could have for others who may be looking at crises in the future and relying on your knowledge and experience. Let's start by discussing your perspectives on the banking crisis in Sweden. You were head of the Financial Markets Department at the Ministry of Finance. Talk about some of the challenges, the policy responses to those challenges, and their effectiveness.

Ingves: Well, first of all, a bit of a background. In Sweden, we maintained various controls in the financial sector longer than most other OECD countries. I think

¹ The opinions expressed during this interview are those of Mr. Ingves and not those any of the institutions with which he is affiliated.

² A stylized summary of the key observations and insights gleaned from this interview with Mr. Ingves is available in the Yale Program on Financial Stability's *Journal of Financial Crises*.

nowadays you would call it financial sector repression in one form or another. We had loan ceilings, we had interest rate caps, we had placement ratios, we maintained foreign exchange controls. And then it became clear, in the mid-1980s, that all of that had to go, because the financial sector was too old-fashioned. You can't really combine free trade—that was the policy of those days and still is—with no capital flows, because if you send stuff in one direction, you actually send money in the other. So, all this had to go. The whole thing had to be deregulated. And that happened. And at the same time, we had a fixed exchange rate, and we had all sorts of very difficult fiscal issues to deal with.

So, in that environment, inflation was way too high. That ended up being a problem. And with the fixed exchange rate, we couldn't really manage monetary policy the way you usually would. And then of course, doing away with all these rules and regulations, credit increased rapidly. And we expected that to settle at a higher level than in the past, because of all the changes in rules and regulations. It would seem reasonable to assume that you go from what I call a regulated equilibrium, which is an oxymoron, to an unregulated equilibrium, and then the credit stocks would be much higher than in the past. So that happened. But what we did not understand was that, given the exuberance in the system as a whole, and given the inexperience with taking risks, the whole thing just grew and grew and grew and grew and settled at a much higher level than we expected.

And that higher level essentially basically exposed credit losses in one form or the other. So, when the whole system blew up, first of all, we had a foreign exchange crisis, we had a fiscal crisis, and we had a banking crisis. And we had all of these at the same time. For a hundred years, we hadn't really dealt with a banking crisis, so there was no actual knowledge at all about how you actually deal with it and what you do. And there was zero experience on the public sector side in taking over a bank.

And that meant that we did not have any rules at all giving us guidance on what to do and how to actually go about doing this. So, everything we did was basically using the civil code: A bank goes bankrupt or is about to go bankrupt, the government takes it over. And then that was essentially what we did. Since we did not have the knowledge ourselves, we relied very heavily on outsiders—investment bankers who had done this before.

YPFS: **From where?**

Ingves: From where? From wherever we could find them. Credit Suisse First Boston, the Boston Consulting Group, McKinsey, all the regular sort of names. And if they were not working for us, they were working for the banks in trouble. So basically, it was a whole bunch of investment bankers out of London and New York who actually helped us on both sides. And then we tried to use their

knowledge in a Swedish context while we gradually built some kind of a regulatory framework to deal with these issues. And that's where the Bank Support Authority³ actually came from. But the Bank Support Authority, in a legal sense, yes, it was an authority, but we basically ran it as if it were a holding company.

So that's essentially what we did. And it's an odd way of doing things because you have banks in deep trouble and the only investor is the government. And then the government ended up being the owner of last resort. And that was essentially the name of the game and how we ran it. If you end up with a large number of banks going bankrupt or in deep trouble, particularly in more concentrated banking sectors, which is the case in many countries, ultimately at the end of the day, that's the only thing you can do. Just take over the banks and run them. And that's essentially what we ended up doing.

YPFS: **Now, this period, when you're nationalizing the banks, is roughly what years?**

Ingves: We're talking about 1991, '92, '93, sort of a three-year period when we gradually realized that this is going to go overboard and we need to deal with this as best as we can. We don't want a run on the whole banking system. And people basically believe in the government in this corner of the world and that the government would have the capacity to, in one way or the other, protect depositors, because it was beyond people's imagination that a bank could go under or that you could lose your money if you had your money in a Swedish bank.

YPFS: **Did you have a deposit insurance system at the time?**

Ingves: No, nothing. Absolutely nothing.

YPFS: **Thinking of Sweden's strategy at the time, how effective would this be as a solution going forward?**

Ingves: It was an extremely effective solution. You take over the banks, you clean them up and privatize them. And without any rules or regulations. You just use the civil code, and then you run things as best as you can. Basically, it's all about corporate finance. It's not about supervision, it's not about central banking. It's actually getting corporate finance guys into this and people who actually know how you run a bank. And so essentially, it's about profit maximization, despite the fact that you start with negative equity, and then you take it from there.

³ For a detailed discussion of the Bank Support Authority see: Leonard, Natalie. 2021. "Sweden 1991 Bank Support Authority (Bankstödsnämnden)," *Journal of Financial Crises* 3, no. 3, 650–63. Available at: <https://elischolar.library.yale.edu/journal-of-financial-crises/vol3/iss3/29>.

YPFS: **And what lessons would you pinpoint from this period?**

Ingves: One lesson is that we were pretty clueless since we didn't have any rules or regulations in place. And you are always better off designing the chair that you're going to sit on earlier than later. And it's not good to try to knit on the [fireman's] hose when the house is burning. You are much, much better off preparing.

YPFS: **One of these responses, the blanket guarantee, goes against the approach recommended by Walter Bagehot for crisis resolution, which is for the central bank to be the lender of last resort. And so, did you experience any challenges getting taxpayers to accept this approach to bank support?**

Ingves: No, not at all. Because we were way beyond the point of no return. We had, actually, potentially a run on the whole system. And then you can't do Bagehot niceties. And keep in mind that we were not at this juncture talking about the way a central bank would think about it. We're actually talking about it from a finance ministry perspective, where you realize that these banks are going to have negative equity and somebody's got to own them and somebody's got to run them. But the question that you ask is very important, because we actually adhere to the Bagehot principle in the following way: The government takes over a bank, then it becomes solvent by definition, so then the central bank can lend to that bank. That's the setup.

YPFS: **That makes sense.**

Ingves: And the other part of it, and this is also very important—you used the phrase blanket guarantee, and that is correct—but the blanket guarantee was never legally binding, and that was done on purpose.⁴ It was only a statement by the government that we guarantee that the banks will always be made whole, but we said absolutely nothing about how that would happen. And that's a totally different concept compared to having a legally binding guarantee so that, in our system, you can go to the National Debt Office and say, "Here's the legally binding guarantee. I have these claims on Bank X, please pay me because the bank is not going to pay." And that was never there. And that was incredibly important. And most people have never ever understood that, and it was done in this way on purpose.

YPFS: **Moving on to the Bank Support Authority that was established in the wake of all of this. You had no resolution path before; now you have the Bank Support Authority, which you are running. Can you talk about what**

⁴ For a detailed discussion of the Swedish government's blanket guarantee see: Makhija, Anmol. 2022. "Sweden: Bank Support Authority, Blanket Guarantee, 1992." *Journal of Financial Crises* 4, no. 4, 285–99. Available at: <https://elischolar.library.yale.edu/journal-of-financial-crises/vol4/iss4/14>.

that authority did and what worked? What could have worked better, and what you might have done differently?

Ingves: One example of our lack of knowledge was that in the early days (when this was all managed in the Finance Ministry, before the Bank Support Authority days), we ended up actually recapitalizing some of the savings banks—what is called Swedbank today—three times. And that’s of course just another way of saying that the first time we were clueless. And then, when we organized the Bank Support Authority, and when we could rely on all these outside experts, then we actually had the knowledge that we needed. And in a legal sense, we actually had almost absolute powers to tell the banks what to do and what not to do. And we had very strong powers demanding that they provide us with whatever information we deemed necessary. And that of course meant that it put us in a very good position in trying to figure out how much more capital a particular bank needed.

And if the banks did not like that, they had to sign an agreement with us at the Bank Support Authority. And if they hated us, and some of them did, we said, “That’s fine, then you just go to the stock market.” And then of course, at the end of the day, they had no choice. So, we really had the upper hand. And that was incredibly important when we gradually, gradually realized that maybe the banks themselves didn’t understand what kind of NPLs they had. And some of those transactions were pretty complicated. So, we really, really needed those experts and investment bankers to help us.

And given that a good chunk of this was also about commercial real estate, you really needed to have commercial real estate expertise to figure out where these properties were, what to do with them, how to manage these things. And we needed that outside knowledge to set up bad banks and split the banks in two parts, a good part and a bad part. And we set up a couple of bad banks, and we ran those things.⁵

But having said this, and this sounds probably very odd to you, the supervisors—our FSA, our supervisory agency—they had nothing to do with it, nor did the central bank.

And it was incredibly important for us to run it that way because they had no idea how to do these things. This is being in the investment banking business; that is what we did. And then we tried to run the thing hard, as hard as we could, and trying to get as much money back as we possibly could. And central banks, they don’t know anything about how to run banks, and supervisors, by

⁵ For a detailed discussion of Sweden’s restructuring efforts see: McNamara, Christian M., Dr. Lars Thunell, and Andrew Metrick. 2020. “Restructuring and Forgiveness in Financial Crises C: The Swedish Banking Crisis of 1990-94” *Journal of Financial Crises* 2, no. 1, 106–21. Available at: <https://elischolar.library.yale.edu/journal-of-financial-crises/vol2/iss1/8>.

the time we run into a banking crisis, it's sort of "game over" on the supervisory side, because then they have failed.

YPFS: How did you get the support authority and this kind of authority through Parliament at the time?

Ingves: We just told them that the honor of the nation is at stake. In a meeting with the full government of that day, I presented all the issues to the prime minister and the other minister sitting there, and I said, "Guys, you need to understand that the kingdom of Sweden has paid its debts and has not failed on any of this since the—I think it's the 1700s. Now, the honor of the nation is at stake because if you allow this to continue, I have no idea where this is going to go." And keep in mind that at the same time, we had a serious, serious fiscal issue.

So then there was absolute silence in the room. You could hear a pin drop. And it was a very basic conversation. This problem's got to be fixed. And the quid pro quo—so I said, "Okay, we need these powers."

"Fine, fine, fine. We'll write a draft bill and send it to Parliament." And the quid pro quo was, "You go and fix the problem; we'll give you the powers, and if you can't do it, we'll fire you. That's the deal."

YPFS: As you mentioned, there's also a fiscal problem here, but you are going to be using state money during the resolution period. You mentioned that one of the goals here was to make this as profitable as possible. Could you talk a little about how you went about resolving the banks?

Ingves: You see, the issue is that you end up with less of a fiscal problem if you put in equity instead of guaranteeing the whole liability side. So, what people never realized, is that if you put in equity, you get all the leverage on your side. And if the government is the investor, then you get all of the upside as well. And if you put in equity, then it's just a fraction of the total liability side. And that's how you could keep down the amount of money involved, compared to if you say, "I'm guaranteeing the whole liability side, the whole thing." Because then of course you end up with an enormous amount of money.

And that was the trick, and that's how we set it up. And then you recapitalize the bank over here and then you recapitalize the asset management company over there in that corner. Then you move all the bad assets from the bank over to the asset management company, and then you take a close look at what kind of stuff you actually own.

And dealing with that, the bad assets, was like a daily happening. Because you had no idea, what do you do with the helicopter company in Zimbabwe? Or what do you do with the 15 hotels in London without any visitors? And what do you do with a chicken-hatching company in the southern part of Sweden? What do you do with a company producing false teeth and God knows what

else? So that was a daily happening plus, of course, a lot of commercial real estate.

YPFS: **And the nonperforming loans weren't all class-A apartment buildings in Stockholm.**

Ingves: No, not at all.

YPFS: **During this period, what other safeguards did Sweden consider and adopt or not adopt so this wouldn't happen again?**

Ingves: Nothing, because all the rules and regulations and the law that was put in place had sunset clauses. After a few years, there was no need for the Bank Support Authority, and everything disappeared. So, we had nothing on the books when things started going south again. Everything had to be restarted.

YPFS: **Could you point out any lessons here before we move ahead to your tenure at the Riksbank?**

Ingves: It would've been better, of course, if we had maintained some of these things. But keep in mind that if you go to the late 1990s, early 2000s, conversations about global systemically [important] financial institutions, bail-in, living wills—all this stuff that came after the Global Financial Crisis—did not exist. So basically, I guess that the idea back then was to say that this is over, and if things start going wrong again, then we do a rerun of what we did in the early '90s, but then we'll put those rules in place when all these things happen.

YPFS: **Just to build context here, is there anything you'd like to mention from your time with the IMF before we get to the Riksbank?**

Ingves: Basically, what I just talked about was done in a fairly similar way, but of course in a very different context, when they were dealing with the banking crisis in Malaysia, when they were dealing with the banking crisis in Thailand, when they were dealing with these issues in Korea, where they actually set up KAMCO—the Korea Asset Management Corporation—and also in Indonesia. But the context is of course very different in those countries because they had all sorts of political issues. It was a lot harder, actually, to execute whatever it is that you wanted to do in those countries. But the intellectual content was roughly the same. And also, some of the people helping them out were the same, because back then there existed a group of individuals, I call them the undertakers, who were traveling the world and actually knew where to start when everything has gone wrong.

YPFS: **Anyway, in 2006, you came back to Stockholm and took on your position as governor of the Riksbank. Could you talk about how you would describe Sweden's economic position, financial system, etc., at this point?**

Ingves: We had spent 15 years trying to correct things, and I don't have the correct numbers now in my head, but the fiscal issue had been managed. So, for quite a number of years, on the fiscal side, we were running a surplus. By then, we had had a current account surplus for 15 years, something like that. We had good growth for a number of years, got a good handle on inflation. And real incomes had been increasing steadily, which was not an all the case in the '70s and the '80s, and definitely not in the early '90s. So, the country was actually, by all reasonable ways of measuring things, doing quite okay. And at the same time, the financial sector had kept growing and growing and growing and got just bigger and bigger because we were pretty good at financializing—if I call it that—things.

And at the same time, we struggled with the various imbalances in our housing market. We continue struggling with those imbalances. But all in all, keep in mind that the mindset is the Great Moderation. People were thinking about these things in extremely stable terms, thinking that everything would be run smoothly and in a very nice way. And running a central bank was basically about moving a policy rate up and down once in a while by 25 basis points, and everybody would live happily ever after.

YPFS: You make that sound easy.

Ingves: Yes, absolutely right. But that is in some sense what the Great Moderation did to us. Because we and many others were led to believe that we actually really could control things, which of course proved not to be the case, but that was the mindset.

YPFS: Now moving forward, we go to 2007, '08, '09. I'd like to get you to talk about Sweden's experience in those years. What the Riksbank did, why, what was effective? I'm sure you have thought and written about this at length, but let's...

Ingves: No, I have not really written anything because I have an institution to run and then you don't have time to write, which is one of the issues when it comes to dealing with crisis management, because those who actually know how to do things never have time to write. And those that have the *fingers pitch* can feel when it comes to dealing with these issues. But anyway, the setup is very different because in the early '90s, to oversimplify, we were not okay, but the rest of the world was reasonably okay. Now, fast forward to 2007, '08, and '09, we are actually as a country, as a nation, okay, but the rest of the world is not okay. So, in that sense, the setup is completely different, compared to what it used to be. And also given that we are okay, we do not have solvency issues in our system, which was what we dealt with in the early '90s.

Now in this environment, all of a sudden what happens is a perfect storm around us, because you have all the problems that you had in the US—

mortgage market collapsing, all these other things going on basically on Wall Street in one form or the other. The Fed having to step in, the FDIC doing its bit—all of this is well documented. At the same time, given the openness of our system, our banks are quite dependent on funding in the dollar market. And then of course, if you end up with a problem there, we are going to end up with a problem at home. We wanted to avoid that. At the same time, the Swedish banks had expanded very, very rapidly in the Baltic countries. And things were going way too fast and went completely overboard in the Baltic countries.

And the Baltic countries, they asked us, “Could you please help us? This is not working. This is very, very dangerous.” But those requests were basically ignored. So, no one really lifted a finger when it comes to what the Swedish banks did in the Baltic countries. My personal view is that we should take responsibility for that, which did not happen.

Then at the same time, Iceland is working toward its disaster in a very focused way. And now you can say, “Iceland is a tiny nation; it doesn’t matter to us.” But at the same time, we had Icelandic banks active in the Swedish market, and they were paying higher deposit rates than all the other banks. We sent our own people to Iceland, and they basically came back and said, “It’s impossible to disentangle who owns what, when, and why. When it comes to Icelandic banks, we think that this is going to go overboard.” And it did.

And then it became very important for us to keep the Icelandic banks, in some sense, out of our system. Then that created all sorts of issues and problems, first dealing with Iceland as such, and then secondly, dealing with Icelandic banks in our own system.

This creates a very, very complicated environment, where we try to, in some sense, do what we can in the Baltic countries so that we don’t import all the problems from the Baltic countries, and we don’t want to import all the other problems from Iceland. And we try to manage this perfect storm around us.

Now, in the middle of all of this, you have Lehman and all these other events that are well known to all of you. That of course means that the dollar market dries up completely.

And then of course, when that happens, then our whole system also goes down if we don’t get any dollars. And then, we had to struggle through that, which we did quite successfully together with the Federal Reserve, while at the same time we’re dealing with the Baltic banks together with the IMF, and we’re also dealing with Iceland, also eventually together with the IMF.

Then we try to run these things as best as we can by lending more and more money, in one form or the other, to the banks, both in Swedish krona and in US dollars. One failure of ours was that when the whole system froze, we at the central bank could not lend to the banks. So, the National Debt Office had to do

it instead for about a week or two weeks, because no one had ever expected that to happen.

YPFS: Did you have dollar reserves?

Ingves: We had reserves. That was not the issue. The issue was that we didn't have the technical capabilities to do it. You have to have IT systems and things like that. We had no lack of money, but we just didn't have the accounting systems, and we did not have the knowledge that you needed to have in order to execute. But that was very quickly fixed. So that was taken care of. And after that, follows a—I don't know what to call it—for lack of better words, a wild ride, when it comes to dealing with Iceland and the Baltic countries.

YPFS: You mentioned some of the challenges of managing Icelandic banks and their presence in Sweden. How did that inform the Riksbank decision not to approve Iceland's request to draw on the swap line that had been arranged between Denmark, Norway, and Sweden back in October 2008.

Ingves: That happens because when we agreed on the swap—and we had sort of the general agreement—which took place a very late night at Norges Bank in Oslo, there was an agreement between us and the Icelandics that was very specific. It was almost as if it was designed as an IMF program without the IMF. And that wasn't all that surprising because I used to work at the IMF, so I knew exactly how you actually do an IMF program. And then, what really upset us was that the whole thing was signed and the Icelandics delivered nothing, zero on it.

YPFS: What do you mean by that?

Ingves: They signed an agreement with us, where they said that they're going to do all sorts of things in the banking sector. Numerous things needed to be fixed. And then it went way beyond what they can manage, and the whole system blew up, and nothing was delivered, and we had an agreement. Then we said, "Guys, you signed on the bottom line," and this was an agreement actually signed by the Prime Minister, the Finance Minister, and the Governor of the Central Bank, and nothing was delivered. So, we said, "Okay, you promised, and we don't lend." Eventually they had to go to the IMF. And when they went to the IMF, they had a regular IMF program. And with a regular IMF program, we felt that somebody was keeping track of what they were doing and we could step back in, because then the IMF had designed the conditionality.

YPFS: Were you concerned that conditions in Iceland could deteriorate to the point that maybe there would have been some spillover into the Nordic region? Of course, they went to the IMF afterward, but do you think that some assistance earlier on would have benefited the region?

Ingves: Absolutely. Take Kaupthing Bank. There was a Swedish branch, or actually a Swedish subsidiary called Kaupthing Bank. And Kaupthing Bank was about to go down, because it was obvious when Kaupthing Iceland went bankrupt, that would affect the bank. And we did not want to get that into our system, while at the same time you have all these other issues going on in the US and in the UK, global markets freezing and all the rest of it. So, we actually lent to Kaupthing Bank, but we lent—and this time we used the Bagehot rule—against good collateral, and some of it was really good collateral.

At the same time, the holding company, the mother in Reykjavik, had lent money to the Swedish sub [subsidiary], but when we lent through the Swedish sub, the holding company just had to write off its claim on the Swedish sub. So, the conditions were pretty tough.

And that was, of course, because we were afraid of actually ending up owning, taking over the institution, which would not have been for us. It would have been passed on to the National Debt Office, because by then they were the ones actually managing the deposit guarantee system. It would have been natural for them to act as the owner, given that we started early in this chain lending. Now, it didn't end up that way because a white knight called Ålands Bank showed up out of the blue, and they actually bought Kaupthing Sweden, and then we were out of it. And whether that was luck or skill, we can argue about that, but that was the end result. It was a very close call.

YPFS: And one more question on that. Toward the end of the year, the swap line balances across the three Nordic countries were equalized. After the IMF program, did Sweden allow Iceland to draw on the swap line? Or how did those balances become equalized?

Ingves: Then it was easier, because then the IMF was involved, and we were part of that—the group of countries being interested in what was going on there. And then there was a third party, the IMF, involved in keeping an eye on things staying on track. And then that's actually a lot easier to do because when you do bilateral agreements between two nations, if some of the conditions are not met, then you end up with a serious diplomatic problem. So, it's actually better to point towards the IMF.

YPFS: How were the actions during this period of the monetary and fiscal authorities colored by what you had gone through with the earlier banking crisis? Did any of those experiences, lessons, carry forward, and how did they affect your approach this time?

Ingves: The setup was completely different, but if you run the risk of actually having to take over institutions, then of course everything we did was colored by what happened in the early '90s. And since I happened to be one of the few persons

around who still remembered how you do it, I spent many hours on the phone with the Finance Minister.

YPFS: **And what lessons would you draw from this period? Again, if we can pull out things that other people could use in the future?**

Ingves: You have to be very careful in a small open economy, because even in this particular case, when everything seems to be okay at home, you can still run into trouble. Because this time it wasn't for us about solvency; it was about liquidity. And when the global market freezes up, then you've got to get dollars from somewhere. And then you have to have enough foreign exchange reserves or you need to borrow, or you need to find some way of dealing with that.

You are actually better off doing these things sooner rather than later. Because like it or not, it's not good enough to say that we are fine when the rest of the world is not. Because in a small, very, very open economy with a very large financial sector, you are very, very exposed.

And then of course, with hindsight, it would've been much, much better to have stopped this huge credit expansion in the Baltic countries. By the time the whole thing fell apart in the Baltic countries, it was just way too late. Now, economically, the Baltic countries are small compared to the Swedish economy. So, Sweden certainly could afford to, in an economic sense, carry the Baltic countries, and that we did. And that was a very serious exercise trying to do that. And there was also, I would say, almost like a geopolitical aspect to it because it was important to save the Baltic countries so that they could get into the eurozone. Because had that not happened, had their currency started to float, that would have hurt the Swedish banks, and then they would have had to recreate their strategy getting into the eurozone. It would have taken them, maybe in a bad scenario, another 10, 15 years to get in. And given what's going on to the east today, it's a good idea. It was a good thing that they belonged to the eurozone under the present conditions.

So, this was a pretty serious, difficult exercise trying to achieve these things. But I must admit that what made it easier was that some of the IMF people who worked in the Baltic countries when they put in place the IMF program, they used to work for me when I was at the IMF. So, it wasn't hard to communicate.

YPFS: **Can you touch a little on what the euro crisis looked like as you looked out from Sweden?**

Ingves: Well, the euro crisis was, from our perspective, truly a euro crisis. And we didn't really understand whether it would affect us a lot or not. Given that we were not part of the euro, we were in some sense bystanders and onlookers. Now from a macro perspective, the euro crisis wasn't good at all for us,

because about 50% of our exports actually go to the eurozone. So, if the eurozone is in trouble, eventually we will end up in trouble, in one form or the other. So, it was very important for us that they dealt with their issues in the eurozone, but it wasn't really that we had to do many things as part of that. So, we were watching this thing from the sideline, but given that that of course slowed down growth, given that with slow growth you get inflation which is low, and eventually you get an inflation rate which is below target, that affected us. And it was of course in our interest for the eurozone to sort out all the issues they had with Greece. One way of expressing this domestically was for me to say, "You want to debate whether we should lend money to the Greeks or not. And you are worried about that, but keep in mind that if the Greeks don't have any money, they can't buy Volvo trucks." And that catches the difficulty in all of this and how to deal with it.

YPFS: **So, the economic connections were stronger than banking system connections.**

Ingves: Exactly.

YPFS: **Let's jump forward further, to about 2014, and let's talk about interest rates. As I understand it, the Riksbank was the first major central bank to go below the zero interest bound, even though everybody came pretty quickly after. What was the thinking about the move to negative interest rates?**

Ingves: The first time we used a negative rate was when we lowered our interest rate corridor on the low side into negative territory. And I think that actually that must have been something like 2011, 2012 or something like that. It had no economic impact at all because, basically, when you operate an interest rate corridor, the policy rate was in the middle and positive. But the nice thing about it was that we had a hunch that we might have to go negative. So, we wanted to have that in place because that forced us, and the banks, to deal with all sorts of IT issues, just in case.

So, if it would be physically necessary to actually go truly negative, which we did, 2014 or '15, then we could actually, technically speaking, do it. And that was very helpful, because when it was actually time to lower the policy rate to -0.25, then everybody could actually do it because the banks had had enough time to think through how to do it. And that made it possible for us. And given that the inflation rate was way, way too low, it made sense, the way we were thinking about it to at least go somewhat negative and see what would happen.

YPFS: **In a lot of the things I've read about that, it gets described as a monetary policy experiment. I'm not sure if you thought about it that way. But what were the results of going negative for five years? What are the results of that experiment, and what can we learn from it?**

Ingves: One result was that it was physically possible to do it and nothing major happened, which of course people would not have said five years or 10 years earlier. And that was to prove the case that it was doable to go, so to speak, slightly negative. What mattered to us, and what we also spend time on talking among ourselves here at the Riksbank, was that if you go into -0.25 or -0.5, then it was still possible to have deposits staying at zero. So essentially, the negative rate mostly affected professional money managers. And it was of course a lot easier for them to get to grips with all of this and the yield curve going negative and all those things, compared to the general population, because to them a negative policy rate is a puzzling thing. And given that most deposit rates basically stayed at zero, we were in some sense uncomfortable but still within our comfort zone.

But at the same time, there's been more of a theoretical debate about how far one could go. And clearly, we concluded that we never wanted to go to minus five. I'm using that as a straw man, because then we said to ourselves, "Do we know what will happen to the whole system if we go down that route?" There are all sorts of theoretical arguments that it might be a good thing to do. So, when we felt that we don't want to go further down, then in order to push rates down, we started doing QE and started buying government debt in 2015 instead.

YPFS: And you never went below -0.5?

Ingves: Yes, correct.

YPFS: What circumstances would policymakers be able to use this tool for in the future? If I'm reaching into my toolbox, what is the negative interest rate good for?

Ingves: Our conclusion from this exercise, or experiment if you will, was basically that you can go from zero to minus one, or somewhere in between. And then it's manageable because it mostly just affects professional money managers in one form or the other and they can understand what you do. If you go below that, then in a bad scenario, you end up with the dash for cash, physical cash, and then you get all the issues that Kenneth Rogoff describes in his book called the *Curse of Cash*. That's the range within which you can move. If you go beyond that, then it's harder to tell, but if the real rate is very low at the global level, and at the same time inflation is low, you still need to maybe be able to go down that route, because with free capital flows, with a completely open economy, then basically you import the global real rate sooner or later.

And then if your policy rate is much, much higher than everywhere else, then you would likely end up with an appreciating currency, inflation way below target, and probably increasing unemployment and, in some sense, difficult to deal with economic conditions. So basically, in a small open economy with free

capital flows, you have to go with the flow so to speak, or not exactly, but within the same ballpark.

YPFS: **And moving forward, again, we're in early 2020, when you raise the rates back up. What influenced that decision? What was the fallout from it? Why did you do this and what happened?**

Ingves: We felt in early 2020, and also '19, when we're looking into the future, that basically inflation was up. The whole exercise was to get inflation up to our inflation target. We were well on our way; the economy was doing well, and things seemed to be all right. We had bought roughly half of the outstanding stock of government debt given that the debt-to-GDP ratio is low, contrary to many other countries. And we were kind of moving in the right direction. And then we felt that getting to zero was a better place to be compared to being at -0.5 or -0.25. That was ultimately based on our view of the macro picture, that it would be doable to do that. And that would still imply a negative real rate. I'm not talking about monetary policy being dramatically contractionary or anything like that, it was just being a bit less expansionary.

And we felt that then it was a good place to be, to be at zero. And then it was also easier for us to communicate to the general public what we were doing because then we did not have to argue about the negative rate anymore. So, it was just simply a good place to be, given our projections.

YPFS: **And then, we come a few months later, to the outbreak of Covid-19. What was the Swedish reaction in the earliest part of the pandemic outbreak? I'm thinking of March of 2020.**

Ingves: In March, within a week, we came to the conclusion that we're in a completely different place compared to what we thought. And then, we had to do something in order to make sure that the economy—that's too strong a word—keeps humming, or at least things keep moving. And at the same time, clearly a pandemic is not comparable to a banking crisis. So, from that perspective, we felt that it was very important to make sure that there was a stable supply of credit in the economy. Not that we, in the spring of 2020, could tell what was going to happen, because that was impossible, nor did we have any idea at all how long the shutdown period would be and how long the pandemic would last. But we wanted to make sure, or do at least what we could do, to ensure that the pandemic would not, at the end of the day, also produce a banking crisis.

Now, during those conditions, if you want to ensure that there is a good supply of credit in the system, then the issue, the way we looked at it, was not really to argue about going negative again. What we really wanted to make sure was that there was a supply of credit. So, we started lending to the banks. And given that by now a good chunk of the funding in this Swedish economy actually

comes from the bond market, we felt that it would not be enough to just deal with the banks, because that did not necessarily ensure a flow of credit to the entire economy. So, we started buying mortgage-backed securities. And given that the mortgage-backed market completely dominates our bond market, it's absolutely vital that market functions, because it's a market which is much, much bigger than the market for government debt. At the same time, given that we already owned so much government debt, we felt that it would make sense for us to buy municipalities, and we did.

And roughly at the same time, the market for corporate bonds came to a complete halt. Given what was going on in the economy, we felt that it would make sense to first buy corporate CDs. And then after a few months, we actually started buying a limited amount of corporate debt. And all these measures pushed down the level of rates in the system as a whole; spreads narrowed in the system as a whole. And we felt that that was what we could do in order to keep things moving. All sorts of other things, of course, took place on the fiscal side, and we did not have a bit of a problem with that. So basically, we felt that during these conditions, make sure that the pandemic doesn't morph into a financial crisis; during these conditions there is no one else out there willing to accumulate debt and to take risk.

And our job is to both be the lender of last resort, but also be the risk taker of last resort. And that's what we did, and that's why we did what we did. And in that environment, we also felt that it was much more important to push down spreads than to deal with 25 basis points on the policy rate because the policy rate was at zero already. And the policy rate as such, we felt, was not a major impediment to keep credit markets working.

YPFS: **You mentioned the Riksbank's purchases of many types of assets. The Riksbank wasn't unique in purchasing corporate bonds, but you were the only one to incorporate environmental sustainability metrics into your corporate bond purchases. So how did the Riksbank think about that, and how do you anticipate central banks may or may not incorporate such sustainability metrics in the future?**

Ingves: That was a process that was running in parallel and basically had nothing to do with the pandemic, but given that this work was going on, given that this debate was going on, and given that in parallel with the pandemic, we've gone through a debate in many parts of the world on what to do and what not to do, and what's the role of a central bank in all of this. And then, we felt that given that we're buying corporate debt, then we might as well keep an eye on green issues, if I can call them that. And it would have been a bad signal on our side to say that we don't care about these things at all.

So then we actually included that as a condition, and we felt that despite the fact that we own or hold a tiny fraction of the total bond market, it's a signal to

market participants and to those who issue bonds that you're going to have to think about this in the future. And if you don't, then you probably will have a problem. It's not a major issue, by far not a major issue on our side, but there is a signaling element to it, which we felt would be helpful. And I think it has been helpful, but it just happened to be there at the same time as we started buying corporate debt.

YPFS: Do you anticipate other central banks will have to incorporate similar considerations into their asset purchases? And if so, how should they think about that?

Ingves: Well, different countries do this in different ways, but what makes it easier for all of us is that the more standardized definitions you have, the easier it becomes. As you are aware, there is a group called the Network for Greening the Financial System among central banks. That network now has, I'm guessing a bit now, about a hundred members or something like that. And that means that in the central banking community, many, many central banks are aware of this. We also got the same issue on our table, from a completely different direction, and that comes from managing our foreign exchange reserves. Because when you hold foreign exchange reserves, in order to increase the return a bit, we actually held Australian and Canadian states, not the Australian government, nor the Canadian government. And it just so happened, for example, that we were sitting on tiny sums of Alberta bonds, just to pick one example, and Alberta, that's where they had the tar sands.

And so, we actually sold them. And that raised some eyebrows in the international community, and they weren't too happy about it in Alberta. They complained a bit, but we said, "Then you need to do better." And then we have moved out of very brown assets into more sort of regular type of assets. But again, of course we're talking about small amounts of money in this context. So, it's not that we are creating a greener, better world—because we're too small for that; it's more the signaling part of it that mattered. But what it meant was that we ended up dealing with this issue both on the FX side and dealing with our domestic currency. And that made sense to us.

YPFS: Now that some time has passed, and you've been through several crises—again, I'm looking for lessons—what do you wish somebody had told you in 1990, in 2006, in 2014 or 2020?

Ingves: That I had all this knowledge when I was 25, compared to being almost 70! And with that perspective, I do think it's very helpful, the work that you do. And if you can create a database where people can read up on these things, ex ante, instead of having to do it when you have to deal with these things, I think that that's a good thing in itself. Then you're certainly better off.

I do think you are always better off if you have some sort of rules that you can read up on when you run into trouble, compared to having none, because that gives you a bit of a guidance. When a crisis happens, one crisis is rarely identical to another, but directionally, it's a very good thing that you have guidance, because it's easier to create a vision of where to start, who does what, when, and why. Doing all sorts of exercises, crisis management exercises, that's a good thing. It's never similar to what it is like to decide things at three o'clock in the morning, but at least it gives you an element of the mindset that you need to be in when you decide on these things. And that's a good thing. And then, you actually need to make sure that you have the capacity to do what you have to do. And that's really hard because it's essentially running an institution waiting for what to do. It's like owning a Cadillac, but most of the time it's just idling. But all of a sudden one day, you have to put the pedal to the metal. And if you have no idea how to do that, that's really a bad place to be in.

But it's not easy. It's not easy to do these things. And I've been through a number of episodes, when we did not have the capacity to do what I felt that we ought to do when it happened. And then, we had to scramble, and then we had to do things in a very short time period. And then you're actually better off if you can do the training in normal times, if you're lucky...

YPFS: I was just going to build on that to say, here we are in 2022, what are the lessons? What are the tools that the policymakers should have in mind as we deal with the continuing fallout from Covid-19, the threat from the east of the war in Ukraine?

Ingves: The war in Ukraine is very, very different. So that one is difficult to deal with, and particularly the financial sector as such in Ukraine. I certainly do not envy the Ukrainians, because how do you operate banks in that environment? And there we certainly have some lessons to learn, because when geopolitics gets bad, then that takes us into a completely new environment. And when you do that, then you actually also have to spend time on the cross-border aspects of moving money around. And then of course, you have to cooperate to do that, because it's one thing to deal with the national system, it's another completely different thing to deal with cross-border banking in one form or the other.

But as to the rest of it, all these things that we have put in place, bail-in, frameworks, deposit insurance, doing regular exercises, trying to understand how you do these things, trying as best as we can to do cross-border exercises—which we have done in the Nordic-Baltic region—in order to be prepared and also make sure that you keep the conversation going between all the interested parties.

And maybe sometimes that's actually not that exciting because nothing much is going on, but you need to be prepared because all of a sudden something big

happens. And if you have no idea how to deal with those issues during very adverse circumstances, then you run a very high risk of not really knowing what you are doing.

That is usually very costly to society as a whole. If you look at GDP numbers, we do know that it takes—simplifying now: It takes about three to five years to destroy a good bank, and it takes about another three to five years to put the pieces back together. And during this period, you are going to be below your normal GDP growth level, and you will never recuperate that. So, a financial crisis is always a loss to society forever. And the loss measured in GDP terms is basically the integral under the growth curve that you would have had and the actual growth that you ended up with, which is, of course, during a serious financial crisis, usually negative, with all the pain and agony and high unemployment that follows from that. So, the return for society as a whole of knowing what you are doing in this field is enormous, enormous. Because the cost of making mistakes and not understanding how you sort out the mess is just so high.

YPFS: I don't want to keep you past our time, but if you could just tell me a little about what you plan to do after leaving the Riksbank—and anything else you want to add before I let you go?

Ingves: No, I just don't know what I'm going to do because I have just been so busy doing what I've been doing. Maybe somebody will ask me to do something in the future as well. Let me also mention that I continue being chairman of the Toronto Centre for Global Leadership Training in Financial Supervision. And in that context, the Toronto Center, during my tenure, has trained 20,000 supervisors in developing countries, in one form or the other, among other things dealing with crisis management. So, I keep myself busy in one way or the other.

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