

DECISION

DATE: 19 February 2025
DEPARTMENT: Markets Department
REFERENCE: Carl Mitchell and Per Selldén
DNR: 2024-01238

Foreign exchange hedging and the strategic allocation of the gold and foreign exchange reserves in 2025

The Riksbank's decision

The Riksbank has decided on the following foreign exchange hedging and strategic allocation of the gold and foreign exchange reserves in 2025.

1. The following applies to the hedging (and limits on hedging) of the foreign exchange reserves:
 - a. USD 8 billion and EUR 2 billion shall be hedged.
 - b. Foreign exchange hedging shall be maintained through foreign exchange swaps.
 - c. The following specific counterparty and settlement limits apply to those holdings and transactions of foreign exchange that are intended to hedge portions of the foreign reserve assets:
 - i. Total exposure to an individual counterparty and parties to which it is closely linked¹ may, independent of credit rating, amount to no more than a nominal amount of USD 4 billion and EUR 1 billion.
 - ii. The total settlement exposure to an individual counterparty and parties to which it is closely linked may,

¹ The term "closely linked" is defined in the Regulation for measurement of credit risk (ref. no. 2025-00198). Close links exist between two parties when an ownership of at least 20 per cent of the capital or voting rights exists in either direction between the parties. Close links also exist between two parties where one party irrevocably guarantees at least 20 per cent of the other party's commitments.

independent of credit rating, amount to no more than a nominal amount of USD 2 billion.

2. For strategic allocation, the following applies:
 - a. The currency and asset allocation and duration per currency for strategic allocation shall be as set out in Table 1 of this decision.
3. Sustainability shall be taken into account in the management of the gold and foreign exchange reserves as follows:
 - a. As a starting point, investments should be made in countries that are signatories to the Paris Agreement and that are in compliance with said agreement. As an exception to this, investments may be made in US and German government bonds needed for the foreign exchange reserves.
 - b. Investments may be made in sustainable bonds² if this is consistent with overriding liquidity, return and risk requirements.
 - c. The Riksbank shall report and monitor carbon-related metrics according to the Eurosystem's standard for central banks, including data from ISS ESG³ and C4F⁴.
4. The Executive Board gives the Head of the *Markets Department* a tactical mandate to decide on deviations from the strategic allocation as follows.
 - a. General tactical mandate:
 - i. modified duration in the foreign exchange reserves may deviate by a maximum of +/-0.25 from the target levels for each currency in the strategic allocation; and
 - ii. asset allocation by currency in a security class may deviate by a maximum of 10 percentage points⁵ from the target levels of the strategic allocation within the same currency. However, the asset allocation per currency of a class of securities may not be less than EUR 50 million in nominal terms.
 - b. Tactical mandate for implementation: the gold and foreign exchange reserves may deviate from the strategic allocation during the implementation period.
5. The Executive Board instructs the Head of the *Markets Department* to decide on rebalancing rules to ensure that the management of the strategic allocation is rebalanced on a regular basis towards the values of the strategic allocation as set out in this decision.

² Sustainable bonds refers to green and other sustainable bonds according to the ICMA standard. ICMA refers to the International Capital Market Association.

³ ISS ESG refers to Institutional Shareholder Services (ISS) and Environmental, Social & Governance (ESG).

⁴ C4F refers to Carbon for Finance.

⁵ Example: Assets denominated in EUR according to the strategic allocation are distributed as 75 per cent German government bonds, 20 per cent French government bonds and 5 per cent SSAs. If managers choose to reallocate EUR assets to 70 per cent German government bonds, 17 per cent French government bonds and 13 per cent SSAs, 8 percentage points (from 5 to 13 per cent) are used to reallocate a maximum of 10 percentage points.

- a. The Executive Board shall be informed of the rules.
6. The Head of the *Markets Department* shall implement this decision. The Head of the *Markets Department* may sub-delegate the implementation of this decision to a manager at the department.
7. Investments under the strategic allocation as per point 2 shall be completed by 1 April 2025 (implementation period).

Grounds for the decision

Legal basis

According to Chapter 10, Article 1 of the Sveriges Riksbank Act (2022:1568), the Riksbank shall hold assets in foreign currency (the foreign exchange reserves). The Riksbank also holds assets in the form of gold (the gold reserve).

According to Chapter 9, Section 1 of the Sveriges Riksbank Act, the Riksbank shall manage its assets in order to fulfil its tasks and powers and generate sufficient income to finance its activities. The assets shall be managed with low risk and taking into account the Riksbank's status as a central bank and the purpose of the asset holdings. When managing the assets, particular weight shall be attached to how sustainable development can be promoted without compromising the requirements specified above.

The Riksbank's gold and foreign exchange reserves are primarily managed on the basis of the Riksbank's contingency needs. The Riksbank has made a separate assessment of its contingency needs. The operational management of the foreign exchange reserves is decided by the Executive Board in a strategic allocation each year or when needed. Among other things, this strategic allocation involves a trade-off between preparedness, return, risk and sustainability.

The Riksbank's Financial risk policy (ref. no. 2025-00196) and Investment policy for the gold and foreign exchange reserves (ref. no. 2025-00202) are applicable to measures taken under this decision, unless otherwise stated in the decision.

Considerations

Currency hedging and hedging limits

The current currency hedging reduces the financial risk for the Riksbank and provides some protection against a strengthening of the krona. While increasing foreign exchange hedging would further reduce financial risk, it would do so at the expense of foreign exchange reserve preparedness and with the risk of effects on monetary policy. Overall, the current currency hedging is still considered to represent a good balance. Against this background, it is decided here to apply

hedging equivalent to the current currency hedging. This hedging decision replaces the previous hedging decision (ref. no. 2023-00863).

Specific counterparty and settlement limits need to be applied to those holdings of and transactions in foreign exchange that aim to hedge parts of the foreign reserve assets. The limits for individual counterparties shall also apply to closely linked parties. The limits shall correspond to the limits that apply according to the previously decided Regulation for the gold and FX reserves (ref. no. 2024-00692). This regulation has been cancelled under a separate decision taken in conjunction with this strategic allocation decision.

A detailed analysis of the hedging is set out in Section 3.3.1 (*Hedging*) of the annex to this decision.

Strategic allocation

Strategic allocation according to Table 1 below is deemed to meet the Riksbank's contingency needs and ability to fulfil its tasks at low risk. The allocation also contributes to building up the Riksbank's equity at a reasonable pace.

Table 1. Currency and asset allocation and duration for strategic allocation (SA)

Currency	USD		EUR					GBP		NOK	DKK	AUD			CAD		Total	
Share of SA	70,0%		17,5%					5,0%		2,5%		5,0%					100%	
Modified duration	4,0		4,0					4,0		4,0		4,0					4,0	
Asset	Gov	SSA	Gov GER	Gov FRA	Gov SPA	Gov ITA	SSA	Gov	SSA	Gov	Gov	Gov	State	SSA	Gov	Province	SSA	Total
Share of SA	68,0%	2,0%	10,0%	5,0%	2,0%	0,5%		4,0%	1,0%	2,5%		2,0%	3,0%					100%

Note 1: SSA means "Sovereign, Supranational and Agency", i.e. bonds issued by national, supranational or regional authorities and US agencies. BIS refers to the Bank for International Settlements.

Note 2: All proportions are expressed in relation to the size of the foreign exchange reserves, i.e. excluding the gold reserve.

Note 3: GBP stands for pounds sterling, NOK for Norwegian kroner, DKK for Danish kroner, AUD for Australian dollars and CAD for Canadian dollars.

Note 4: Government bonds are equal to bank account balances and claims on the BIS.

A detailed analysis of the strategic allocation is set out in section 3.4 (*Detailed allocation, 1-year horizon (step 3)*) of the annex to this decision.

Sustainability

As a starting point, the Riksbank follows the Paris Agreement in its asset management. However, for the Riksbank's preparedness assignment to be fulfilled, it must be possible for US and German government bonds to be included in the gold and foreign exchange reserves, even if they do not comply with the Paris Agreement. The Riksbank shall also invest in green and sustainable bonds if this is compatible with overriding requirements for liquidity, return and risk.⁶

⁶ Green and other sustainable bonds shall comply with the standard for these bonds set by the International Capital Market Association (ICMA).

The Riksbank shall report and monitor the following carbon-related metrics according to the Eurosystem's standard for central banks (data from ISS ESG and C4F⁷):

- carbon intensity
- weighted average carbon intensity
- total carbon emissions
- carbon footprint
- share of green bonds

Tactical mandate

The purpose of a tactical mandate is to create the conditions for increased earnings in addition to the return according to the strategic allocation. The tactical mandate also helps to maintain market knowledge and operational readiness in the organisation. A tactical mandate implies a limited possibility to deviate from the strategic allocation decision. Overall, the financial risk in the tactical mandate is deemed to be acceptable and the mandate is otherwise deemed to be consistent with the strategic allocation. The analysis of the tactical mandate is developed in section 4.2 (*Tactical mandate*) of the annex to this decision.

Rebalancing

The currency and asset allocation as well as the interest rate risk by currency in the foreign exchange reserves are affected by time and ongoing changes in market prices. The changes entail deviations from the strategic allocation. These deviations are dealt with in the ongoing management of the foreign exchange reserves. Rules on how to deal with this need to be established (rebalancing). The design of and decisions about these rules are best handled at the operational level by the Head of the Markets Department.

Implementation

In order to allow for an appropriate and efficient transition from the previous strategic allocation to the strategic allocation under this decision, it should be possible to implement the investments during a transition period (implementation period). An implementation period lasting until 1 April 2025 at the latest is deemed appropriate.

⁷ ISS ESG refers to Institutional Shareholder Services (ISS) and Environmental, Social & Governance (ESG). C4F refers to "Carbon for Finance".

Closer analysis

The detailed analysis underlying the hedging and strategic allocation decisions is described in the annex to this decision.

Overall assessment

All in all, the Executive Board finds that the currency hedging and strategic allocation for the gold and foreign exchange reserves in 2025 according to this decision is proportionate and well-balanced in relation to the Riksbank's needs and the objectives and principles set out in Chapter 9, Article 1 of the Sveriges Riksbank Act.

The decision has been taken by the Executive Board (Governor Erik Thedéen, First Deputy Governor Anna Breman and Deputy Governors Per Jansson, Aino Bunge and Anna Seim) following a presentation by Senior Advisor Carl Mitchell and Senior Strategist Per Selldén. Heidi Elmér, Head of Department, Lena Arfalk, Chief Risk Officer, and Annica Sandberg, General Counsel, participated in the finalisation process.