



Årsredovisning för Sveriges riksbank 2017

Gold and foreign currency reserve

The gold and foreign currency reserve is primarily to be managed so that the Riksbank can always be ready to fulfil its commitments. The reserve must therefore be composed so that it can be used, when necessary, to provide temporary liquidity support to Swedish banks, to fulfil Sweden's part in the IMF's international lending and to intervene on the foreign exchange market. Secondly, management strives to achieve a good risk-adjusted return. In 2017, the Riksbank assessed that the composition of the gold and foreign currency reserve was appropriate for the Riksbank's purposes at the same time as it achieved a good risk-adjusted return. The overall distribution of assets in the gold and foreign currency reserve was therefore held unchanged over the year.

The Riksbank's preparedness to provide temporary liquidity assistance in foreign currency at short notice places heavy demands on the composition of the gold and foreign currency reserve. Most of the foreign currency reserve is maintained in those currencies in which emergency liquidity assistance may be needed and in such assets as can rapidly be converted into liquid funds. Consequently, the foreign currency reserve's assets mainly consist of government bonds in US dollars and euros. At the end of the year, the total assets in US dollars and euros amounted to 48 per cent and 32 per cent respectively of the gold and foreign currency reserve (see Chart 13).

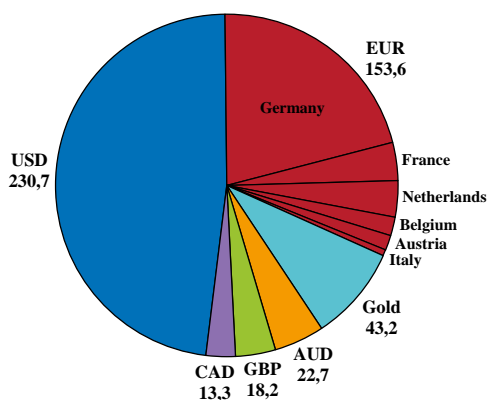
In 2017, in order to spread the risks and attain a higher risk-adjusted return, the Riksbank followed the procedure of previous years and invested a small part of the reserve in other currencies than the US dollar and the euro. These investments were mostly made in British government bonds, Australian

government and federal state bonds and Canadian government and provincial bonds.

As the Riksbank's assets mainly consist of US dollars and euro, the bank's financial result is affected by the way the value of these two currencies develops in relation to the Swedish krona. However, the effect on the result is counteracted by the Riksbank also having liabilities in US dollars and euro. To further reduce the effect of exchange rate changes, over the year the Riksbank converted some of its exposure to US dollars to exposure to Norwegian kroner with the aid of currency swaps. A currency swap is an agreement to exchange one currency for another over a predetermined period of time. Chart 14 shows the Riksbank's currency exposures at the end of the year.

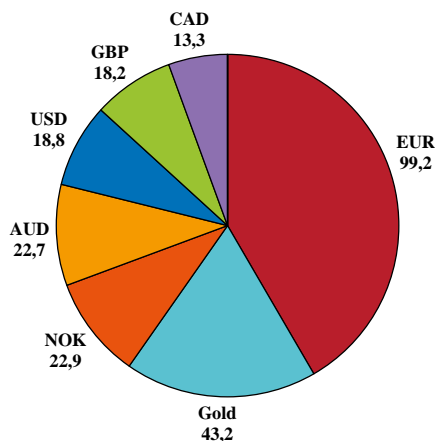
Due to the internationally-low interest rates and the increased risk of an increase in interest rates, the Riksbank decided, over the year, to retain the interest-rate sensitivity of the foreign currency reserve at a fairly low level around 3, measured as modified duration. The measure shows how sensitive the value of a debt security is to changes in the interest rate.

Chart 13 Composition of the foreign currency reserve at the end of 2017, SEK billion



Note: The figures in the chart show the market value of the gold and foreign currency reserve, including accrued interest.
Source: The Riksbank.

Chart 14 The Riksbank's foreign currency exposure at the end of 2017, SEK billion

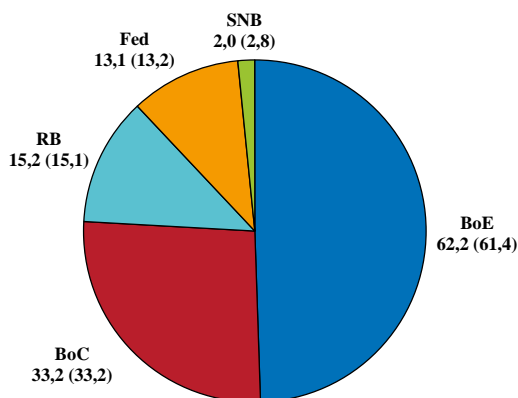


Note: The figures in the chart show the Riksbank's foreign currency exposure including accrued interest. The calculation of foreign currency exposure is based on both assets and liabilities (including currency swaps) and is reported for the Riksbank's net receivables. Source: The Riksbank.

The liquidity of the gold reserve was strengthened in 2017

The Riksbank has a gold reserve that amounts in total to 125.7 tonnes of gold. The Riksbank owns gold largely due to gold's historical link to banknotes and coins, as the Riksbank was obliged to be able to redeem banknotes for gold during a period when the gold standard was in use, among other things. Nowadays, however, gold is a financial asset that, like the currency reserve, aims to ensure that the Riksbank can carry out its tasks. The Riksbank's gold reserve is stored by the central banks in the United Kingdom (the Bank of England), Canada (the Bank of Canada), the United States (the Federal Reserve Bank of New York) and Switzerland (the Swiss National Bank), as well as at the Riksbank's own depot in Sweden (see Chart 15).

Chart 15 Storage of the gold reserve at the end of 2017, tonnes



Note: The figures in parentheses show storage of the gold reserve at the end of 2016.
Source: The Riksbank.

Storing all of the gold in the same place would entail too much of a security risk, so the Riksbank stores the gold in different locations around the world. This distribution takes account of the need to be able both to convert the gold to liquid assets and to spread risk. Almost half of the gold reserve is stored in the United Kingdom, where the world's largest commercial gold market, the London Bullion Market, is based. This market is the most liquid and central marketplace for trading bullion. Holding it at the Bank of England allows a large part of the Riksbank's gold to be converted at very short notice, should the need arise. In this sense, the gold can be considered a liquid asset.

Only gold bars that are classed as London Good Delivery (LGD) bars are acceptable for trading on the London Bullion Market. This classification entails specific requirements regarding the shape, weight, gold content and refiners of the bars. Gold bars that deviate from the LGD standard cannot be traded on this market and therefore have lower liquidity. To ensure that the Riksbank has the most liquid gold reserve possible, in 2017 the Riksbank upgraded the part of its gold reserve that did not meet the LGD standard by replacing these bars with new gold bars that do meet the standard. This exchange comprised 15.6 tonnes of gold. A few gold bars that have particular significance for Sweden's economic history and the cultural heritage maintained by Swedish authorities have been preserved in their original form. These gold bars are now stored in Sweden.

During 2017, the Riksbank also transferred 0.8 tonnes of gold from the Swiss National Bank to the Riksbank's account held at the Bank of England. Otherwise, both the geographical allocation of the gold and the gold reserve's

total size measured in tonnes are unchanged. All in all, the measures implemented in 2017 mean that the liquidity of the gold reserve has been strengthened.

As in previous years, the Riksbank also stored gold on behalf of others in 2017.