

Annual Report 2012



■ The tasks and role of the Riksbank

The Riksbank is Sweden's central bank and a public authority under the Riksdag (the Swedish parliament). The Riksbank is responsible for conducting Swedish monetary policy, with the objective of maintaining price stability. The Riksbank is also entrusted with the task of promoting a safe and efficient payment mechanism.

Maintaining the value of money – price stability

Under the Sveriges Riksbank Act, the Riksbank shall maintain price stability, which means that inflation should be low and stable. The Riksbank has specified an inflation target, according to which the annual change in the consumer price index (CPI) is to be 2 per cent. However, the CPI is often affected by factors to which the Riksbank should not react, as these are only deemed to have temporary effects on inflation. Consequently, the Riksbank also describes and explains inflation and monetary policy using other inflation measures. One important measure is the CPIF, in which inflation is adjusted for mortgage interest expenditure, which directly affects the CPI when the Riksbank adjusts the repo rate.

The Riksbank's monetary policy is aimed at attaining the inflation target, and at the same time it is to support the objectives of general economic policy with a view to achieving sustainable growth and high employment.

The Riksbank determines the level of its policy rate, the repo rate, to influence inflation and economic developments. The repo rate affects other interest rates in the economy and ultimately economic activity and inflation.

A safe and efficient payment mechanism – financial stability

The Riksbank has the Riksdag's mandate to promote a safe and efficient payment mechanism. This means that the Riksbank shall act to promote stability in the Swedish financial system as a whole. The mandate also includes issuing banknotes and coins. In addition, the Riksbank provides an electronic payment system, RIX, which handles large-value payments between banks and other actors in a safe and efficient way.

The Riksbank analyses the stability of the financial system on a continuous basis in order to detect, at an early stage, changes and vulnerabilities that could lead to disruptions. The analysis focuses primarily on the major Swedish banking groups, the functioning of the financial markets and the financial infrastructure required for the payments and the financial markets in Sweden to function smoothly. In a crisis situation, the Riksbank may in certain circumstances provide temporary liquidity assistance to banks.

The Riksbank's independence

The Riksbank is a public authority under the Riksdag. The Riksdag appoints the members of the Riksbank's General Council, and the General Council, in turn, appoints the members of the Riksbank's Executive Board. The General Council also supervises and scrutinises the work of the Executive Board.

The Riksdag has given the Riksbank an independent status. This means that the Executive Board of the Riksbank makes the monetary policy decisions without instruction from any other parties. By delegating the task of maintaining inflation at a low and stable level to the Riksbank, the Riksdag has ensured that monetary policy is based on a long-term perspective and that there is a sound basis for the credibility of the inflation target.

The Riksbank's independent status is also reflected in its financial independence, guaranteed through the right to manage financial assets. The Riksbank's assets are mainly funded through the issue of banknotes and coins as well as by equity capital. The Riksbank manages its financial assets to ensure that it can fulfil its statutory objective and perform its tasks. With this as a starting point, asset management concentrates on achieving as high a long-term return as possible in relation to the risk taken.

Openness and communication

The Riksbank attaches great importance to being open and clear about the bank's activities. A wide range of external parties must be able to understand what the bank does and why. This increases the credibility of the inflation target, which makes it easier to attain the target.

Openness and clarity also create confidence in how the Riksbank assesses and handles the situation on the financial markets. Openness and clarity in the Riksbank's assessments of financial stability is one of several conditions that enable economic agents to form an opinion of the risks in the financial system, and to act accordingly.

The independent status of the Riksbank also places great demands on the transparency of the bank's activities so that they can be examined and evaluated. Openness is apparent, for example, in the fact that the Riksbank publishes on its website minutes and background material from the meetings of the Executive Board, as well as the minutes of the monetary policy meetings. Moreover, the models used by the Riksbank in its analyses are publicly available – both macroeconomic forecast models and models for stress tests of banks.

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The General Council's Annual
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Profits for 2012



■ Annual Report of the General Council

The General Council consists of eleven members and as many deputies. The members are appointed by the Riksdag, after each general election, for a term of office of four years. The General Council selects from among its members a Chairman and a Vice Chairman. The General Council's annual report for 2012 gives an overall description of the matters discussed at its meetings (12) during the year and the information the General Council has received at the meetings. The General Council's report also states how it has exercised its controlling function.

The members of the General Council as of 19 October 2010 are Johan Germandt (Chairman), Sven-Erik Österberg (as of 31 May 2011, Vice Chairman as of 22 June 2011), Peter Egardt, Sonia Karlsson, Bertil Kjellberg, Anders Karlsson, Gun Hellsvik, Lena Sommestad, Allan Widman, Peter Eriksson and Roger Tiefensee (as of 14 October 2011). The deputy members are Hans Birger Ekström, Tommy Waidelich (as of 23 March 2012), Ulf Sjösten, Ann-Kristine Johansson, Chris Heister, Bosse Ringholm, Per Landgren (as of 25 August 2011), Catharina Bråkenhielm, Christer Nylander, Agneta Börjesson (as of 16 December 2011) and Håkan Larsson.

The General Council's tasks

The General Council has the task of monitoring and controlling how the Riksbank conducts its activities and how the members of the Executive Board manage its business. One of the ways the General Council can perform its supervisory role is through the Chairman and Vice Chairman attending the Executive Board meetings. The Chairman and Vice Chairman also have the right to speak at the Executive Board's meetings, but they do not have the right to vote or make proposals. The General Council has an audit function that, among other things, examines how members of the Executive Board perform their duties and examines the Riksbank's closing procedures, in particular the calculation of the Riksbank's profits. The work of the audit function is carried out by an external audit firm under the leadership of an authorised public accountant.

The General Council appoints the members of the Executive Board and decides on their salaries and other terms of employment. It also adopts the Riksbank's Rules of Procedure and decides on the design of banknotes and coins.

Furthermore, the General Council submits proposals to the Riksdag concerning the allocation of the Riksbank's profits and makes a recommendation to the Riksdag with regard to the discharge from liability of the members of the Executive Board. In this recommendation, the General Council assesses how the Executive Board members have performed their tasks.

The General Council also submits consultation responses within its field of competence. In addition, the Executive Board consults with the General Council on proposals to the Riksdag and the

Government regarding government amendments to statutes or other central government measures.

The Chairman and Vice Chairman also report on the work of the General Council to the Riksdag Committee on Finance. This usually takes place twice a year.

The General Council's activities in 2012

During the year, the General Council held twelve meetings.

The General Council made decisions during the year on the Executive Board members' terms of employment and also took a position on their external assignments.

Communications to the Riksdag

During the year the Executive Board has consulted with the General Council on communications to the Riksdag concerning

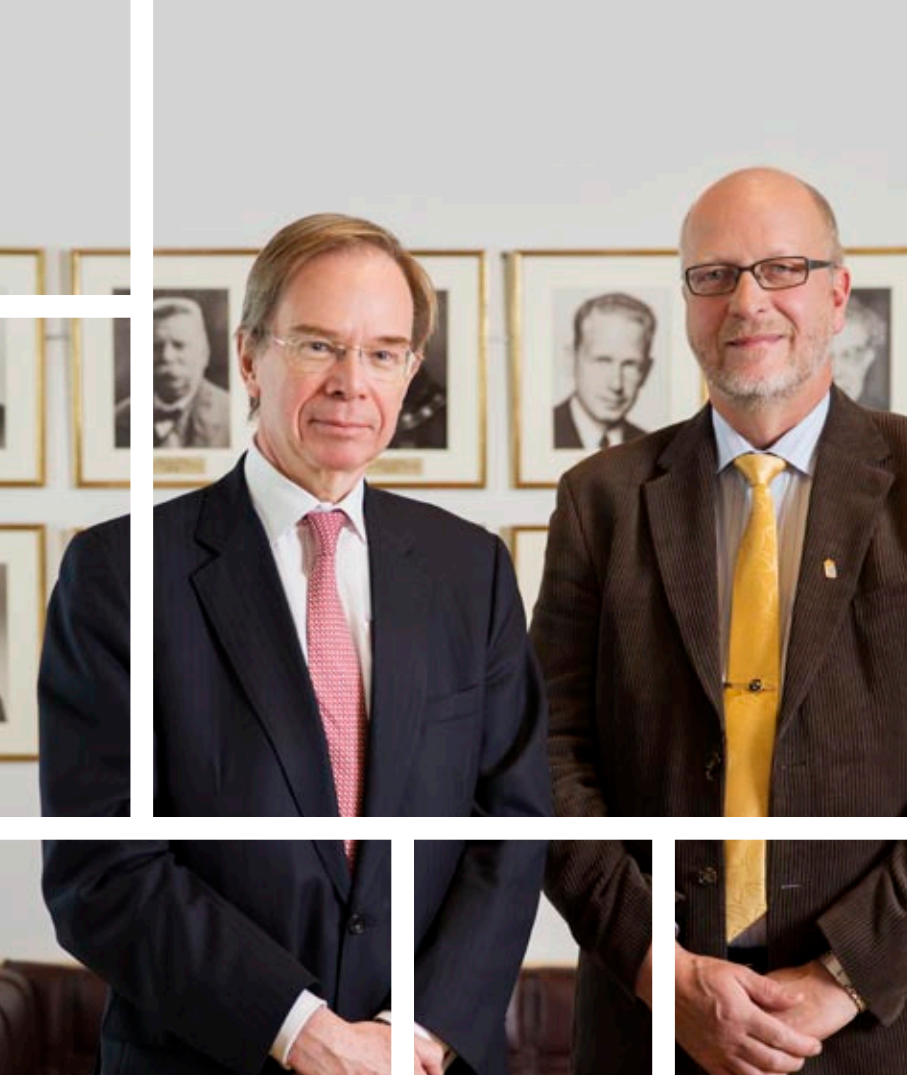
- consent for the Riksbank to participate in the International Monetary Fund (IMF) Poverty Reduction and Growth Trust
- consent for the Riksbank to extend credit to the IMF
- withdrawal of older versions of the 50- and 1 000-krona banknotes
- certain areas that require investigation as a result of the insolvent liquidation of Panaxia.

Work on designing new banknotes and coins

Four members of the General Council and four external experts make up the Drafting Committee for the design of banknotes and coins. The Committee is led by member of the General Council Peter Egardt. The other group members from the General Council during the year were Allan Widman, Sonia Karlsson and Anders Karlsson. The experts in the group are the State Herald of Sweden, the Head of the Royal Coin Cabinet and one representative each from the National Museum of Fine Arts and the Royal Swedish Academy of Fine Arts. The group has the task of drafting questions relating to the graphic and artistic design of banknotes and coins.

On three occasions during the year the General Council made decisions on matters concerning the design of the new series of Swedish banknotes and coins. The General Council also received regular information over the year on the continuing work on the new series of Swedish banknotes and coins. More information on this can be found in the box "New banknote and coin series".





*Chairman Johan Gernandt
and Vice Chairman
Sven-Erik Österberg of
the General Council*

Riksbankens Jubileumsfond

The General Council decided at its meeting in August to propose to the Riksdag Nominations Committee that Sarah McPhee be appointed for a new period as member of the board of Stiftelsen Riksbankens Jubileumsfond (formerly known internationally as the Bank of Sweden Tercentenary Foundation).

Follow-up of the work of the Executive Board

Part of the General Council's control function was exercised in that the Chairman and Vice Chairman of the General Council followed the work of the Executive Board during the year. For instance, they used their right to participate in Executive Board meetings and in a number of informal meetings.

The members of the Executive Board normally participated in the General Council meetings and regularly contributed accounts of important decisions and events in the Riksbank's activities. They reported for example on current monetary policy and the work of monitoring stability in the financial system. They also presented information on the state of the financial markets, both in Sweden and in Europe and globally.

Moreover, the General Council received regular information on the budget and the business plan, the follow-up of financial and operational risks and asset management performance, on the outcome of activities in other respects and on the activities of the internal audit department. The General Council was also given information on the continued work of outsourcing parts of the Riksbank's IT operations.

In addition, the General Council received information on the consultation responses decided on by the Executive Board during the year.

At its meeting in December the General Council adopted the amendments to the Riksbank's Rules of Procedure regarding a clarification concerning deputies for the Governor of the Riksbank. At the same meeting the Executive Board presented information on adopted amendments to the Riksbank's Instructions.

The Executive Board also provided information on important international meetings and on important discussions within various international bodies. The General Council received in-depth information on the international commissions to which Governor Stefan Ingves has been appointed. Further, the General Council received regular information on the Riksbank's commitments in relation to the IMF.

In October the General Council was informed about the discussion in the Executive Board on a possible strengthening of the foreign exchange reserve. This was followed up by more in-depth information on the matter at the November meeting of the General Council. The account covered the background, size and reason for the required increase. The General Council decided that the presentation did not give rise to any comments concerning a strengthening of the foreign exchange reserve. After the decision by the Executive Board on the matter the General Council was then informed of the Executive Board's final decision at its December meeting.

As a supplement to the information given at the meetings, the Executive Board invited the General Council to breakfast meetings on a couple of occasions, to provide direct information after the monetary policy decisions that were made between General Council meetings. In addition the General Council was invited to thematic lunches with in-depth information on various operational matters in connection with several meetings during the year.

Other

In the autumn the General Council made a study visit to the new Riksbank Office in Broby.

At the beginning of October the General Council made a study visit to Tallinn and visited the central bank, Eesti Pank, the Ministry of Finance and the parliament. At the end of October study visits were made to Frankfurt am Main and London, to visit the European Central Bank (ECB), the European Systemic Risk Board (ESRB), Deutsche Bundesbank, the European Banking Authority (EBA) and the Bank of England. The purpose of these visits was for the General Council members to obtain in-depth information on current issues in Europe. The discussions were characterised by recent economic developments in Europe. An important issue, which was discussed in several contexts, was the introduction of a banking union. Another topical area was the imminent regulatory changes for banks and their consequences.

New banknote and coin series



Banknotes

The General Council's representatives on the Drafting Committee for the design of banknotes and coins, together with the artists Jordi Arkö and Karin Granqvist, formed the jury for the design competition for the new banknote series. The winner of the competition was the graphic designer Göran Österlund. In April the General Council decided that his entry, "Cultural journey" would be the artistic starting point for designing the new banknote series, forming the basis for the continued adaptation and final presentation of the banknotes.

The criteria for the jury's decision were overall artistic concept, feasibility, innovation in Swedish banknote tradition, composition of text, numbers and image, and differences between the denominations in the context of the overall concept. The jury's motivation for choosing "Cultural journey" was as follows:

"The submission is a tightly cohesive series in which the different banknotes share a common idiom and the interplay of the face and reverse sides is unambiguous and harmonic. The portraits take up a good-sized part of the face of each banknote and are well-suited for engraving.

The reverse sides are clear and distinct and the motifs chosen seem typical of the relevant provinces. The composition of the banknotes is consistent and confident, and the interplay of denomination and image is harmonic.

The overall impression is of a beautiful and user-friendly banknote series based on a fine balance of innovation and Swedish banknote tradition. The colour scale corresponds well with the competition's focus on sober but bold colours. The design and placement of the watermark follows a traditional pattern. The denominations, repeated twice on each side, are timeless, clear and easy to read. The differences between the denominations are clear. The submission is well-suited to the production of banknotes. The final design will correspond well with the artistic concept."

After some adaptation of the competition entry, the General Council decided on the fundamental design of the new banknotes at its meeting in October. Introduction of the new banknotes will start in 2015.

Coins

In August the General Council decided that the design proposal on the theme "Sun, wind and water" would be the artistic starting point for the new 1-, 2- and 5-krona coins. The proposal was designed by Ernst Nordin. The motivation for the choice is as follows:

"The proposal constitutes a highly cohesive coin series and the design is of high artistic quality with a distinct graphical character.

The symbols on the coins are of an exemplary design. The theme "Sun, wind and water" is an appropriate and apt theme that complements the main theme of the series "Sweden's head of state". The overall impression is of a beautiful and user-friendly coin series based on a fine balance of innovation and Swedish coin tradition."

Introduction of the new coins will start in 2016.



Disappearance of some older banknotes

In May the General Council dealt with a submission to the Riksdag that the older version of the 50- and 1 000-krona banknotes should cease to be legal tender at the end of 2013. The Riksdag approved the submission in November.

(M) = Moderate Party
 (S) = Social Democratic Party
 (FP) = Liberal Party
 (MP) = Green Party
 (C) = Centre Party



Johan Gernandt (M)
 Chairman
 Member of the Swedish Bar
 Association, Law firm Vinge
 Chairman, Arbitration
 Institute of the Stockholm
 Chamber of Commerce



Sven-Erik Österberg (S)
 Vice Chairman
 Member of the Riksdag
 Former minister

The General Council's examination of the Riksbank's activities

The General Council's examination of the Riksbank's activities is carried out by its audit function. BDO Nordic Stockholm AB was engaged as the General Council's audit function up to and including March 2012. In March 2012 a new agreement was signed with KPMG AB for the period 1 April 2012 up to and including 31 March 2014. The agreement was signed after a tendering procedure under the Riksbank's framework agreement for audit services.

The General Council annually establishes an audit plan for its audit function. In accordance with the plan, during the year the audit function audited the Riksbank's proposed allocation of profit, outsourcing of parts of the IT operations, the management of the foreign exchange reserve and the Executive Board members' exercise of their duties.

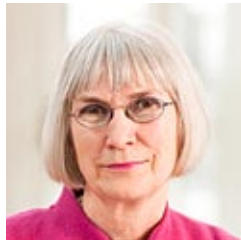
In addition, the General Council received follow-up information in the spring concerning the measures taken by the Riksbank in response to a previous audit report on management of the foreign exchange reserve and an audit report on banknote production and records checks.

The General Council also received information on the Swedish National Audit Office's annual financial audit of the Riksbank's activities and the measures taken by the Riksbank as a result of the Swedish National Audit Office's report.

Nothing in the follow-up of the work of the Executive Board members in 2012 emerged to give reason for the General Council to direct any remark against the performance of their duties.



Peter Egardt (M)
 County Governor,
 County of Uppsala
 Chairman, Swedish National
 Space Board and Swedish
 National Defence College



Sonia Karlsson (S)
 Former Member of the Riksdag



Bertil Kjellberg (M)
 Former Member of the Riksdag
 Member of the Swedish Bar
 Association, Law firm
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Anders Karlsson (S)
 Member of the Riksdag



Gun Hellsvik (M)
 Former Minister
 Former Member
 of the Riksdag
 Senior Lecturer



Lena Sommestad (S)
 Former Minister
 Professor



Allan Widman (FP)
 Member of the Riksdag
 Member of the Swedish
 Bar Association



Peter Eriksson (MP)
 Member of the Riksdag
 Chairman, Committee
 on the Constitution
 Economist



Roger Tiefensee (C)
 Member of the Riksdag

■ Proposal for the allocation of profits for 2012

Under Chapter 10, Section 3 of the Sveriges Riksbank Act (1988:1385), the General Council shall present a proposal to the Riksdag (the Swedish Parliament) and the Swedish National Audit Office regarding the allocation of the Riksbank's profits. The General Council applies a principle for calculation that can be expressed in brief by stating that 80 per cent of the past five years' average profit shall be transferred to the Treasury. The profit is calculated excluding exchange rate and gold value effects, but including the price effects reported in the revaluation account in the balance sheet. For 2012 the General Council therefore proposes a transfer of SEK 6 800 million.

The Riksdag, when reviewing the Riksbank's management for 2011 (2011/12:FiU23), approved the proposals put forward by the General Council that the allocation of profit for 2011 should be based on the 1988 principle for allocation of profits with the subsequent supplements to the principle. The principle implies in brief that 80 per cent of the past five years' average profit, excluding the exchange rate and gold value effects, but including the price effects reported in the revaluation account on the balance sheet, shall be transferred to the Treasury. The exchange rate and gold value effects and normally 10 per cent of adjusted average profit shall be transferred to or from the contingency fund. The amount remaining after this shall be transferred to or from the balancing fund. The General Council applies the same basis for calculation for 2012.

In accordance with Chapter 10, Section 3 of the Sveriges Riksbank Act (1988:1385) the General Council has received a report for the 2012 financial year from the Executive Board. The General Council notes that on the basis of current accounting policies, the Riksbank reports a profit for 2012 amounting to SEK 1 934 million. In accordance with the 1988 principle for the allocation of profits and the supplements to the principle made since then, the following adjustments are made to the accounting profit when calculating the result used as a basis for the transfer:

- The accounting profit was negatively affected by an exchange rate loss of SEK 3 366 million. In accordance with the allocation of profits principle, this loss is excluded when calculating the result on which the transfer to the Treasury is based.
- The accounting profit was not affected by any gold value effect and for that reason no such adjustment was made.
- A price loss of SEK 2 315 million was recorded in the revaluation account in the balance sheet as a result of the accounting policies that were to some extent changed in 2004. The General Council has included this loss when calculating the allocation of profits, in accordance with the principle.

The General Council proposes, as stated below, a transfer to the Treasury of SEK 6 800 million.

The foreign exchange loss plus 10 per cent of the adjusted average profit, which corresponds, net, to SEK 2 513 million, is transferred to the contingency fund. As the proposed transfer and allocation to the contingency fund is higher than the accounting profit, it is proposed that SEK 2 353 million be transferred from the balancing fund, in accordance with the allocation of profits principle. The calculation on which the proposed allocation of profit is based can be found in the Appendix.

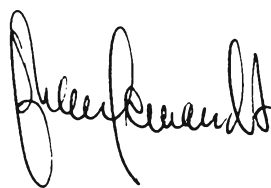
The audit function of the General Council has examined the basis for calculating the profit allocation proposal. The audit function did not find any reason for remark.

Profit for 2012, before appropriations, amounts to SEK 1 934 million, and the General Council decided on 8 February 2013 to propose the following allocation of the Riksbank's profit:

SEK million	
Transfer to the Treasury	6 800
Transfer from the Riksbank's contingency fund	-2 513
Transfer from the Riksbank's balancing fund	-2 353

The General Council also proposes that the transfer should be made no later than one week after the Riksdag's decision, most appropriately in connection with the Riksbank's implementation of the weekly open market operation.

Stockholm, 8 February 2013



Johan Gernandt
Chairman

■ Calculation of the Riksbank's allocation of profits for 2012

SEK million	
1 CALCULATION OF THE RIKSBANK'S TRANSFER TO THE TREASURY	
Adjustment of the year's profit	
Profit for 2012	1 934
Less: Foreign exchange rate loss	3 366
Plus: Price loss recorded on the balance sheet	-2 315
Adjusted profit for 2012	2 985
Calculation of average adjusted profit	
Adjusted profit for 2008	18 318
Adjusted profit for 2009	4 192
Adjusted profit for 2010	6 777
Adjusted profit for 2011	10 356
Adjusted profit for 2012	2 985
Total adjusted profit for the past five years	42 628
Average adjusted profit for the past five years	8 526
Calculation of transfer amount	
80 % of the average adjusted profit	6 820
Rounding off to SEK 100 million	-20
Transfer 2012	6 800
2 CALCULATION OF TRANSFER FROM THE RIKSBANK'S CONTINGENCY FUND	
Transfer from the Riksbank's contingency fund	
Foreign exchange rate loss	-3 366
10 % of the average adjusted profit	853
Total	-2 513
3 CALCULATION OF TRANSFER FROM THE RIKSBANK'S BALANCING FUND	
Transfer from the balancing fund	
10 % of the average adjusted profit	853
Price loss recorded on the balance sheet	2 315
Rounding off of transfer	20
Adjusted profit less average profit	-5 541
Total	-2 353

Annual Report for Sveriges Riksbank 2012



■ Statement by the Governor

The Swedish economy has so far coped well in the international financial and sovereign debt crisis that is still underway in various parts of the world. With a variable exchange rate and an inflation target as monetary policy anchor, monetary policy has played a central role for the economic development of Sweden. So have the extraordinary measures previously taken by the Riksbank. Large current account surpluses, strong public finances and well-capitalised banks have also contributed to the stable situation in Sweden. The financial policy regulations have also worked well and have contributed towards creating both long-term stability and room for financial policy to manoeuvre.

Expansionary monetary policy and active stability work

Consequently, in 2012, the Swedish economy was able to show resilience against the sovereign debt crisis in the euro area and the attendant unease on the financial markets. However, already at the start of the year, the weak developments abroad dampened the prospects for Swedish growth. We therefore cut the repo rate to 1.50 per cent in February. After this, we held the repo rate unchanged. However, the relatively strong growth slowed down in the autumn and the recovery of the labour market was delayed, at the same time as inflationary pressures were low. We therefore had to cut the repo rate again on two occasions, to 1.0 per cent, to stimulate the economy and thus counteract inflation becoming too low in the period ahead.

The credit supply in Sweden worked well over the entire year. The Swedish banks had good access to wholesale funding and were able to obtain funding for lower prices than many other European banks. Neither did they have any problems providing Swedish households and companies with credit. Consequently, unlike many other central banks, we did not need to adopt any measures to stimulate the economy by increasing liquidity in the banking system.

The Swedish banking system is closely interlinked with international markets and is large in relation to the Swedish economy. Problems in one bank can therefore rapidly spread through the whole system and, in the event of a crisis, the socioeconomic costs can be very high. If the situation in the euro area is not managed in a satisfactory manner, unease on the market may increase, and access to wholesale funding may risk deteriorating. In such a situation, the banks may be vulnerable.

The longer-term resilience of the Swedish banks needs to be further strengthened. We therefore recommended the banks to strengthen capital adequacy, reduce liquidity risks and clarify liquidity reporting. A large part of our work, in several international forums, also concerned inquiring into and influencing the formulation of financial regulations so as to reduce, as far as is possible, the likelihood of financial crises arising in the future and, should a crisis nevertheless occur, help us to manage it. By participating in the funding of the International Monetary Fund's lending programmes, we were also able to contribute towards facilitating funding for several countries that had been severely impacted by the consequences of the financial and sovereign debt crisis.

Parts of our foreign exchange reserve have been called into requisition by the various international support commitments. To simultaneously maintain both our preparedness for these commitments and our capacity to act rapidly should turbulence abroad increase, we decided, at the end of the year, to increase the foreign exchange reserve by borrowing foreign currency from the Swedish National Debt Office. During the year, we also complemented our monetary policy toolkit by deciding to set up a securities portfolio in Swedish kronor. This allows us to ensure that the required systems, agreements, routines and knowledge are in place should we be forced to rapidly take extraordinary measures in the future.

Risks of household indebtedness

For just over four years, we have been stimulating the Swedish economy by maintaining a low repo rate. Our monetary policy is thus counteracting inflation becoming too low in the period ahead. But the gains made from further stimulating the economy must be weighed against the costs that may arise as a result of this in the future. This is particularly important when the situation in the world around us is as turbulent as it has been in recent years.

My experience of economic crises in Sweden and abroad tells me that high indebtedness cannot be ignored, regardless of whether these debts are in the private or the public sector. When households have large debts, they become vulnerable to economic downturns, interest rate increases and falls in housing prices. With less remaining in their wallets, households buy less, demand in the economy declines and companies are forced to give notice to their employees.

High indebtedness thus makes the economy fragile, which can have severe consequences in the form of a dwindling economy and rising unemployment. Spain, Ireland and the United States have been struggling with such consequences for several years. I therefore argued on several occasions that we must do what we can to prevent Swedish households and the Swedish economy from entering a similar situation.

If the Riksbank does not take indebtedness among households and companies into account, the consequences may be serious. We therefore decided, through the year, to hold the repo rate at a level allowing us to attain the inflation target and stabilise employment over a slightly more long-term perspective, at the same time as we take into account the risks of financial imbalances.

The need for tools and structures for macroprudential policy

The repo rate is by no means the best tool for managing Swedish households' indebtedness. But it is a tool that the Riksbank possesses and my colleagues in the Executive Board and I must take its various effects into consideration. Today, there are of course other tools that can be used to efficiently manage these risks. We have continued, therefore, to actively work to develop methods and tools for macroprudential policy. With these methods and tools, it will be easier to discover and prevent systemic risks that could threaten



Governor
Stefan Ingves

financial stability and, ultimately, the country's economic development. These methods and tools will also help us to prevent macrofinancial risks that could lead to long periods of poor growth in the real economy and low inflation. In 2012, we analysed several macroprudential policy instruments such as countercyclical capital buffers, sectoral risk-weighting and various types of loan ceilings. We also studied how the Stibor reference rate is determined and submitted a recommendation for how the framework of this interest rate should be reformed.

However, our sharpest tool in macroprudential policy still consists of words. As our communication policy for financial stability clearly states, we can warn and recommend, but when it comes to real measures, other authorities currently hold responsibility. We have therefore extended our cooperation with Finansinspektionen by forming a temporary council for cooperation in which we discuss systemic risks, financial stability and macroprudential policy. However, the Council is a temporary solution while awaiting a more permanent distribution of the responsibility for macroprudential policy. At present, this matter is being analysed by the Financial Crisis Committee, which submitted an interim report with an initial proposal for the division of responsibility in January 2013. Furthermore, the inquiry on capital adequacy regulations focuses specifically on responsibility for the countercyclical capital buffers. The results of these inquiries will be of great significance to our ability to prevent and manage financial crises together with other authorities in the best possible way with the help of new tools and a clear responsibility structure.

More efficient, secure and environmentally-friendly cash provision

Our task also includes responsibility for cash provision in Sweden. Cash has an important function as legal tender in our society. If the flow of cash does not function, security risks can arise and households and companies can experience problems in conducting payments. Developments in the autumn showed that there is a need to make special demands of the companies participating in the handling of cash. We therefore turned to the Riksdag with a proposal for reviewing how the regulations for the flow of cash in the country should be formulated. This inquiry work should be focused on establishing a coherent and effective framework that contributes to ensuring the well-functioning, secure and socioeconomic handling of cash.

Our way of handling cash in Sweden is to be modern and efficient. The Riksbank is thus continuing its work on the new banknote and coin series. The artistic basis for the design of new banknotes and coins has now been determined and a preliminary timetable for their introduction has been set. Construction work on the new cash-handling office at Broby is now also entering its final phase. As of the autumn of 2013, all banknote handling will be collected in this extensively-automated office. These changes will make cash handling in Sweden safer, more efficient and more environmentally friendly.

Continued development of our activities

Efficiency and a functional working method are also key concepts for our internal working processes. To successfully be able to carry out our tasks, our organisation must be flexible and able to act quickly. Inventiveness, a great analytical capacity and flexibility must be combined with orderliness and efficient processes. Our tasks and our independence also require the Riksbank to be easy to assess. The need for this has become even clearer during recent years' turbulence on the financial markets. Consequently, we have already changed our way of working in several areas. For example, cooperation between the Financial Stability, Asset Management and Monetary Policy Departments has increased. As of 2013, parts of our IT operations will be carried out by an external supplier, allowing us to ensure modern and functional IT support.

These conditions and changes will now be weighed together in a review of the Riksbank's organisation and decision-making processes which has been underway since the autumn of 2012. At the same time, we will continue to develop our activities on the basis of our present tasks while awaiting clarification of our formal mandate after the Financial Crisis Committee and the Commission of Inquiry into the Riksbank's financial independence have presented their proposals in 2013. And, of course, a vital part of this is that our competent and committed employees continue their focused and invaluable work with results that are every bit as good as during the past year.

Stefan Ingves

■ The year at a glance

During 2012, the Riksbank conducted an expansionary monetary policy and actively worked to safeguard financial stability. The following economic outcomes and events had a great impact on the Riksbank's activities:

- Developments in the euro area continued to affect the Swedish economy. Thanks to its strong public finances, Sweden did not need to carry out any financial policy tightening, unlike several other European countries. The Swedish krona appreciated over the year, which contributed towards the decrease of import prices and inflationary pressures. However, the weak development of the euro area led to a dampening of growth in Sweden's export markets and the deterioration of growth prospects for the whole Swedish economy.
- The sovereign debt problems in the euro area had a great impact on the development of the financial markets. Unease on the markets increased during the year's first months before again decreasing during the autumn when the European Central Bank and the countries of the euro area announced and decided on a series of measures to facilitate funding for the countries with sovereign debt problems and their banks. The Swedish banks were little affected by the unease on the financial markets and had good access to wholesale funding throughout the year.
- The uncertain situation in the euro area in particular led to increased risks for the Swedish financial system at the same time as Sweden's commitments to the International Monetary Fund (IMF) increased. Although the unease on the financial markets decreased in the second six-month period, the crisis in the euro area continued to entail risks that were both very significant and difficult to assess. To ensure its ability to safeguard financial stability, the Riksbank decided to strengthen the foreign exchange reserve.
- The Riksbank cut the repo rate by 0.25 percentage points on three occasions: in February, in September and in December. At the end of the year, the repo rate was 1.0 per cent. The repo-rate path was lowered slightly in February compared with the Riksbank's earlier assessment, and left unchanged until July, when it was again adjusted downwards. The repo rate path was then further lowered at all three monetary policy meetings. Monetary policy thus became significantly more expansionary during the year. All in all, the repo rate was cut by 0.75 percentage points, while the repo-rate path was lowered by 0.45 percentage points one year ahead and by 0.40 percentage points two years ahead.

Key figures

	2010	2011	2012
At year-end			
Profit for the year (SEK billion)	0.5	3.9	1.9
Gold and foreign exchange reserves (SEK billion)	301	323	318
Total assets (SEK billion)	327	348	346
Average number of employees (full-year equivalents)	339	332	354
On average			
Repo rate (per cent)	1.25	1.75	1.00
Short-term interest rate (three-month T-bills, per cent)	1.32	1.40	0.98
Long-term interest rate (ten-year government bonds, per cent)	3.28	1.62	1.53
On average			
GDP (percentage change)	6.6	3.7	0.9
Unemployment (per cent)	8.4	7.5	7.7
Inflation, CPI (percentage change)	1.2	3.0	0.9
Inflation, CPIF (percentage change)	2.0	1.4	1.0

Note: The table presents the actual outcome for all items with the exception of GDP data for 2012, which is stated according to the Riksbank's forecast from December 2012. CPIF is estimated as CPI with a fixed mortgage rate.



- The Riksbank and Finansinspektionen (the Swedish Financial Supervisory Authority) set up a temporary council for cooperation to develop cooperation around the analysis of systemic risks, financial stability and macroprudential policy. The council held two meetings in 2012.
- The Riksbank decided on the artistic basis for the design of the new Swedish banknotes and coins and determined a preliminary timetable for their introduction. In accordance with the Riksbank's proposal, the Riksdag (the Swedish parliament) decided that two of the older banknotes without foil strips would cease to be legal tender on 31 December 2013.
- The Riksbank made a submission to the Riksdag regarding the appointment of one or more inquiries to review how the regulations for the flow of cash in Sweden should be formulated.
- The Riksbank reported a profit of SEK 1.9 billion. Compared with 2011, the profit decreased by SEK 2.0 billion, primarily because interest income was SEK 1.2 billion lower than in 2011 due to falling interest rates in most of the markets in which the Riksbank invested. At the same time, the net result of financial transactions fell by SEK 0.8 billion, which is mainly explained by write-downs resulting from unrealised exchange rate losses.

- Inflation measured as the change in the consumer price index (CPI) was 0.9 per cent during the year. Inflation declined from 1.9 per cent in January to -0.1 per cent in December. Inflation measured as the CPI with a fixed mortgage rate (CPIF) was 1.0 per cent on average over the year. The Riksbank's assessment in December was that total production in Sweden (measured as GDP) increased by 0.9 per cent in 2012. Unemployment increased from 7.5 per cent in 2011 to 7.7 per cent in 2012.
- The analysis of the Riksbank's target fulfilment showed that CPI inflation in Sweden over the period 1995–2011 amounted, on average, to 1.47 per cent, which is below the inflation target of 2 per cent. In terms of the CPIF, inflation measured 1.85 per cent in the same period.
- Reform work involving future regulations and improved supervision of the financial system continued over the year. The Riksbank participated in this work in various international forums and carried out its own studies. This included the preparation of three special reports by the Riksbank: a study of how the Swedish reference rate Stribor is determined, an inquiry into various tools for macroprudential policy and an analysis of countercyclical capital buffers in Swedish banks.

The year in figures

The Riksbank's profit for 2012 amounts to SEK 1.9 billion, which is a decrease of SEK 2.0 billion compared with the previous year. The decrease is largely due to interest income being SEK 1.2 billion lower than in 2011 as a result of falling interest rates in most of the markets in which the Riksbank invested. At the same time the net result of financial transactions fell by SEK 0.8 billion, which is mainly explained by write-downs resulting from unrealised exchange rate losses.

The market value of the gold and foreign exchange reserves decreased in 2012 from SEK 323 billion to SEK 318 billion. This change is mainly explained by the Riksbank exchanging funds from the foreign exchange reserve to purchase Swedish securities.

The value of total assets decreased from SEK 348 billion to SEK 346 billion, which is largely explained by a decline in value of the foreign exchange reserve.

■ Maintaining the value of money – price stability

After two years of good growth in 2010 and 2011, the Swedish economy slowed down in the second six months of 2012, primarily because of weak demand abroad. Combined with falling inflationary pressures, this led the Riksbank to gradually cut the repo rate from 1.75 per cent at the start of the year to 1.0 per cent in December. Average inflation, measured as the annual change in the CPI, was 0.9 per cent in 2012, which is below the inflation target of 2 per cent. The average annual CPIF inflation rate, that is the CPI with a fixed mortgage rate, amounted to 1.0 per cent. GDP increased by 0.9 per cent over the year and unemployment averaged 7.7 per cent.

Under the Sveriges Riksbank Act, the Riksbank shall maintain price stability, which means that inflation should be low and stable. The Riksbank has specified the target for inflation as 2 per cent a year, measured as the annual percentage change in the Consumer Price Index (CPI). Even if the inflation target is formulated in terms of the CPI, other measures of inflation may be usable for analysing and forecasting the development of inflation. One such measure is the CPIF, in which inflation is adjusted for mortgage interest expenditure, which directly affects the CPI when the Riksbank adjusts the repo rate. When the repo rate is raised or cut substantially, as has been the case in recent years, there can be a significant difference between CPI inflation and CPIF inflation. In the longer run, when the repo rate has stabilised, CPI inflation and CPIF inflation will coincide.

At the same time as monetary policy is aimed at attaining the inflation target, it is also aimed at supporting the objectives of general economic policy with a view to achieving sustainable growth and high employment. The Riksbank thus conducts what is referred to as flexible inflation targeting. At the time of each monetary policy decision, the Executive Board decides on the repo rate level until the next monetary policy meeting, and makes an assessment of how the repo rate needs to develop in the next few years for monetary policy to be well-balanced. A well-balanced monetary policy is normally a matter of finding an appropriate balance between stabilising inflation around the inflation target and stabilising the real economy. However, the inflation target is always the over-riding objective, even if the Riksbank attaches great importance to the development of the real economy in its monetary policy assessments. Risks linked to developments in the financial markets are also taken into account in the repo rate decisions. With regard to preventing an imbalance in asset prices and indebtedness, the most important factors, however, are effective regulation and supervision.

The repo rate determines what the banks have to pay to borrow from the Riksbank, or what they receive in return when they deposit funds with the Riksbank. In this way, other interest rates in the economy are also affected, and by extension economic activity and inflation. It normally takes a certain amount of time before changes to the repo rate have a full effect on the economy. Consequently, it is

important that the Executive Board of the Riksbank looks ahead when making repo rate decisions, which means that monetary policy must be based on forecasts.

The Riksbank's monetary policy work and decision-making processes

In its forecasting, the Riksbank uses various models that are based on historically observed correlations. The models are, of course, simplifications of the complex economic reality, but they are necessary to achieve consistent forecasts. The model results are then combined with assessments made by both experts in various fields and by the members of the Executive Board.

The Executive Board holds six ordinary monetary policy meetings per year, when it decides on the repo rate. In connection with three of these, the Riksbank publishes a comprehensive Monetary Policy Report that contains detailed forecasts for the economy and inflation as well as assessments of how the repo rate will develop in the period ahead. After the three other meetings, a Monetary Policy Update is published, which contains forecasts for the same variables as in the Monetary Policy Report, although this update is less extensive than the report. After every monetary policy meeting, the Riksbank publishes a press release and holds a press conference. The press release states whether any member of the Executive Board has entered a reservation against the majority assessment of the economic situation and against the decisions on the repo rate and repo-rate path, that is the development of the repo rate in the next few years. About two weeks after every monetary policy meeting, the Riksbank publishes minutes of the meeting, containing detailed and attributed accounts of the discussion at the monetary policy meeting.

The Riksbank is also obliged by law to submit a written report on monetary policy to the Riksdag at least twice a year. The first of these consists of a specific report compiled for the Riksdag Committee on Finance at the beginning of the year. The second report consists of the third Monetary Policy Report for the year. The Governor of the Riksbank also visits the Committee on Finance to answer questions about monetary policy. As of September 2012, one of the Deputy Governors also participates in these hearings according to a rotating schedule.





Activities in 2012

In February, the Riksbank cut the repo rate by 0.25 percentage points to 1.5 per cent. After that, the Riksbank held the repo rate unchanged up to the monetary policy meeting in September, when the repo rate was cut by a further 0.25 percentage points. At the meeting in October, the repo rate was left unchanged, and at the meeting in December it was further cut by 0.25 percentage points. At the end of the year, the repo rate was thus 1.0 per cent. The repo-rate path was lowered slightly in February compared with the Riksbank's earlier assessment, and left unchanged until July, when it was again adjusted downwards. After this, the repo-rate path was lowered again in September, in October and in December. Monetary policy thus became significantly more expansionary during the year. All in all, the repo rate was cut by 0.75 percentage points, while the repo-rate path was lowered by 0.45 percentage points one year ahead and by 0.40 percentage points two years ahead.

Over the year, the Riksbank continued to develop the monetary policy analysis. Among other work, the Riksbank conducted an analysis of how well the inflation target was attained over the period 1995–2011. The Riksbank also worked on deepening its analysis of the labour market, considering, among other factors, the economic policy reforms carried out in recent years. This analysis covered both the long-term development of the labour market and the functioning of the labour market over the short term. In addition, the Riksbank

strengthened the preparedness of the operational framework for the implementation of monetary policy by ensuring that there are systems, routines and knowledge to enable the bank to be ready to carry out extraordinary measures at short notice in the future. The decision to set up a securities portfolio in Swedish kronor was part of this work.

Analysis of the Riksbank's attainment of its inflation target over a longer perspective

In light of the current discussion of the development of inflation and the inflation target in Sweden over a more long-term perspective, in 2012 the Riksbank carried out an analysis of its target fulfilment. This analysis shows that CPI inflation over the period 1995–2011 amounted, on average, to 1.47 per cent, which is below the inflation target of 2 per cent.

About 0.3 percentage points, or more than half of the difference between average CPI inflation and the Riksbank's inflation target can be explained by the downward trend in the repo rate and thereby in mortgage rates over the period studied. This contributed towards pushing CPI inflation down, as household interest expenditure, which is directly linked to the level of mortgage rates, forms an important component of the CPI. CPIF inflation, which is calculated by excluding changes in mortgage rates from CPI inflation, amounted to an average of 1.85 per cent in the years 1995–2011. The downward trend in the development of mortgage rates thus seems to be a very important explanation of why CPI inflation deviated from 2 per cent over this period.

Although CPI inflation is affected by the Riksbank's interest rate decisions through their effect on mortgage rates, strong arguments exist for formulating the inflation target in terms of this index. These include the CPI's status as the best-known measure of consumer price developments among the general public, which is crucial if the inflation target is to function as a nominal anchor for monetary policy. In their evaluation of the Riksbank's monetary policy and work on financial stability 2005–2010, professors Charles Goodhart and Jean-Charles Rochet supported the Riksbank's view that the inflation target should continue to be defined in terms of the CPI. In its report on this evaluation, the Riksdag Committee on Finance said that it shared this view.

However, other measures of inflation are also useful for analysing and forecasting the development of inflation. The CPIF is one such measure. In periods in which the repo rate is raised or cut substantially, as has been the case in recent years, CPIF inflation provides a better view of current inflationary pressures.

Attainment of the inflation target is centrally important to monetary policy. Consequently, the Riksbank continues to investigate the reasons for the deviations from the inflation target and their possible consequences for the real economy.

In-depth analysis of the labour market

Over the year, the Riksbank also deepened its analysis of the labour market. This is because the situation on the labour market is highly important to the formulation of monetary policy. It acts as an important indicator of inflationary pressures and plays an important role in the assessment of resource utilisation in the economy.

In recent years, the government has made extensive changes to economic policy which have affected and will continue to affect the labour market. The Riksbank is closely monitoring current developments to make a well-founded evaluation of the situation – in both the short and long terms. The Riksbank's analysis therefore focused on updating its assessment of how long-term sustainable unemployment has been affected by these economic policy reforms, for example tax deductions for those in work and changes in unemployment insurance. In addition, among other matters, the Riksbank investigated how well matching on the labour market works.

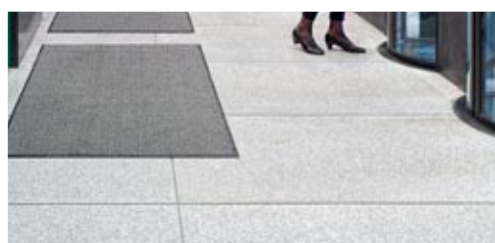
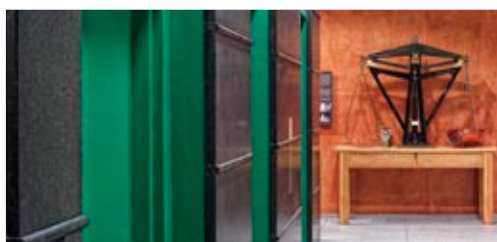
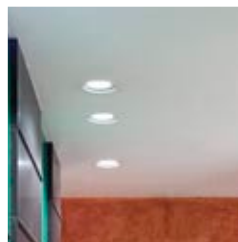
The analysis shows that uncertainty over long-term sustainable unemployment is considerable. One particularly important uncertainty factor is how long-run unemployment is affected by new groups with a weaker position in the labour market entering the labour force. Given this uncertainty, the Riksbank deemed that long-term sustainable unemployment would be within the interval 5–7.5 per cent in future. The Riksbank's analysis also indicates that matching on the Swedish labour market may have deteriorated in recent years, which may make it more difficult to achieve low unemployment in Sweden.

Securities portfolio in Swedish kronor

The Riksbank decided in May 2012 to increase the monetary policy toolbox by acquiring a bond portfolio in Swedish kronor. The gradual accumulation of this portfolio started in the second six months of 2012, and is to amount to a nominal value of SEK 10 billion after twelve months. The securities portfolio is being built up by redistributing some of the Riksbank's assets in foreign currencies to assets in kronor. This involves the Riksbank gradually selling holdings in foreign currencies in the foreign exchange reserve to a value in Swedish krona that corresponds to the purchases of permissible securities for the portfolio. This is being carried out in such a way as to not affect the exchange rate.

The holding by the Riksbank of a bond portfolio in Swedish kronor will safeguard the systems, routines and knowledge needed for the Riksbank to be ready, in future, to carry out the purchase of bonds at short notice.

This decision was taken in consideration of experiences from the financial crisis of 2008–2009. Even though the Riksbank cut the repo rate substantially several times, these cuts had a smaller effect on market rates than normal. The repo-rate level approached zero, but there was still a need for further monetary policy stimulation measures,



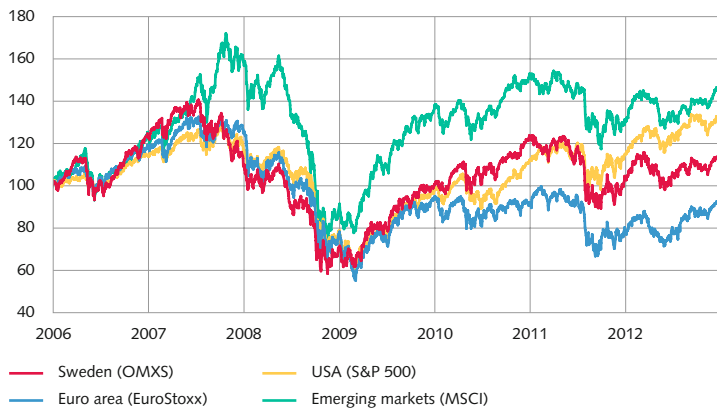
as GDP was continuing to fall heavily at the start of 2009. The Riksbank, like many other central banks, thus needed to adopt more extraordinary measures. Among these, the Riksbank offered loans to banks at a low and fixed interest rate and with long maturities, the so-called fixed interest-rate loans. These fixed interest-rate loans had the desired effect – they facilitated credit granting in society and improved the monetary policy transmission mechanism. In addition, money market rates, bond yields and variable mortgage rates all decreased, as did forward rates reflecting monetary policy expectations.

Another example of extraordinary measures that the central banks can use to bring down interest rates for households and companies is the purchase of government bonds or mortgage bonds on the secondary market. Measures of this type contribute towards decreasing interest rates for government bonds or mortgage bonds. Unlike many other central banks, during the crisis the Riksbank did not adopt any such measures, even though the alternative of purchasing securities was discussed. However, situations demanding measures of this type may arise in the future. At the same time, experience from the financial crisis shows how important it is that the Riksbank is prepared to quickly take appropriate extraordinary measures when the need arises. A further important lesson is that changes and new measures require considerable preparation before they can be carried out in practice. It is consequently important that routines and systems are in place in advance.

A financial analysis of the Riksbank's securities portfolio is presented in the section "Asset management".

Chart 1

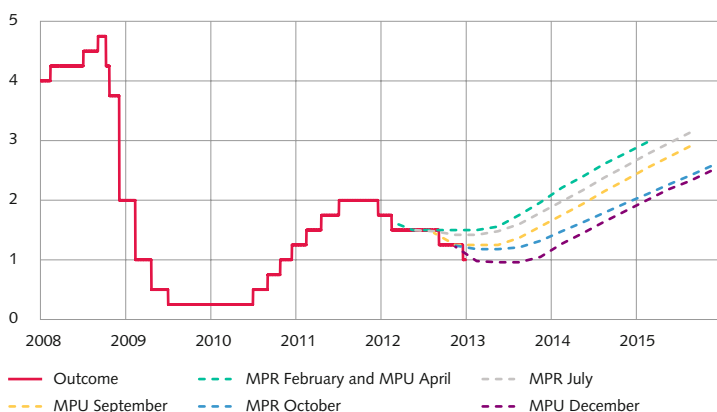
Stock market movements, index 03.01.2006 = 100



Sources: Morgan Stanley Capital International, Reuters EcoWin, Standard & Poor's and STOXX Limited.

Chart 2

Repo rate and repo-rate forecasts in 2012, per cent

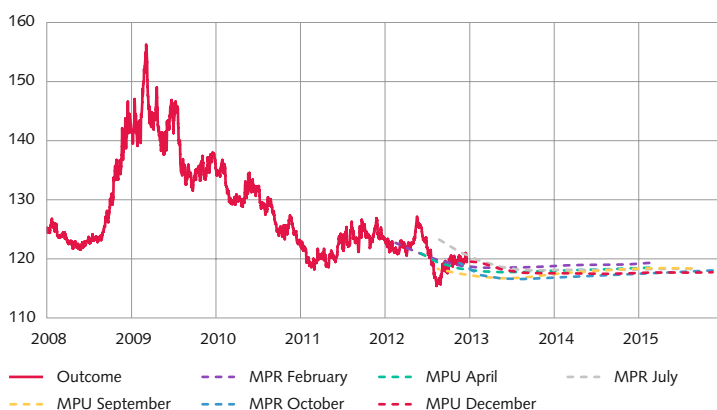


Note: MPR denotes Monetary Policy Report and MPU denotes Monetary Policy Update. The broken lines represent the Riksbank's forecasts.

Source: The Riksbank.

Chart 3

TCW-weighted exchange rate, index 18.11.1992 = 100



Note: The broken lines represent the Riksbank's forecasts. A higher index corresponds to a weakened exchange rate and vice versa.

Source: The Riksbank.

Monetary policy in 2012

The weak development of the euro area continued in 2012. Demand for Swedish exports, which had slowed down substantially at the end of 2011, was further dampened by this. The weak exports, in turn, led to a deterioration of growth prospects for the entire Swedish economy. In total, domestic demand still showed relatively strong resilience over the greater part of the year. However, at the end of the year, a clear slowdown was noticeable in the Swedish economy due to the weak international development. Both exports and important areas of domestic demand developed less strongly than was expected. At the same time, low cost increases among Swedish companies contributed towards domestic inflationary pressures remaining low. In addition, as a result of factors such as the relatively positive developments in Sweden, the Swedish krona appreciated over the year, which contributed towards a decrease of import prices.

The sovereign debt crisis in Europe weakened the prospects for Sweden's growth at the start of the year

Ahead of the monetary policy decision in February, the Executive Board of the Riksbank faced a divided view of international economic developments. Growth in the world economy as a whole was expected to remain good in the years to come, being driven above all by rapidly-growing economies such as those of the so-called BRIC countries (Brazil, Russia, India and China). At the same time, growth in the euro area was expected to remain weak – even weaker than was expected in December 2011. However, at the start of 2012, there were certain signs that the unease that had affected the development of the financial markets since the summer of 2010 due to fiscal problems in certain countries in the euro area had decreased. For example, share prices had increased (see Chart 1).

Unease on the financial markets decreased as a result of the decision by the European Central Bank (ECB) in December 2011 to offer banks in the euro area loans with a three-year maturity. In addition, some progress was made in the management of the sovereign debt crisis in the euro area in that the European Council resolved in January 2012 on the so-called fiscal compact, the aim of which was to further reinforce fiscal policy coordination in the euro area countries. The Riksbank therefore assessed that the most acute phase of the European sovereign debt crisis would abate over the course of the year.

Until the end of the third quarter of 2011, the Swedish economy had showed signs of resisting the European sovereign debt crisis relatively well. However, during the autumn of 2011, signs of weaker economic activity started to become increasingly apparent and, at the start of 2012, there were signals that a severe downturn had taken place in the fourth quarter of 2011. These included monthly statistics indicating that Swedish exports had decreased. The growth prospects for Sweden's economy were thus deemed to have deteriorated fairly tangibly since December 2011. Unemployment was now also expected to rise somewhat in 2012. The Riksbank thus assessed that Swedish resource utilisation would be below normal

in 2012 and 2013 and lower than in previous assessments, but that it would approach a normal level at the end of the forecast period.

Another aspect of the view of the Swedish economy at the start of 2012 was that inflationary pressures were low. Recent years' moderate cost increases among companies and the appreciation of the Swedish krona were considered to be behind the low rate of inflation. However, CPIF inflation was expected to rise gradually in tandem with the improvement of economic developments and the increase of resource utilisation.

The poorer economic outlook and the low inflationary pressures in the Swedish economy justified a cut in the repo rate of 0.25 percentage points to 1.50 per cent at the monetary policy meeting in February. In addition, the Executive Board of the Riksbank decided to lower the repo-rate forecast (see Chart 2 and the box "Monetary policy decisions and reservations 2012").

Ahead of the monetary policy meeting in April, it was noted that the view of international developments had remained largely unchanged since February. The Riksbank therefore assessed that the sovereign debt crisis in Europe would gradually be managed but that the continued weak outlook for the euro area would impair conditions for Swedish exports in the period ahead.

While the outcome for the fourth quarter of 2011, which became available in time for the monetary policy meeting in April, certainly showed that growth had become significantly less favourable than expected, the National Institute of Economic Research's Economic Tendency Survey and retail trade figures, among others, showed, on the other hand, an improvement in the development of the Swedish economy at the start of 2012. The Riksbank thus assessed that the prospects for economic activity in Sweden were more or less unchanged since February.

At the same time, the Riksbank noted that inflation was still low. CPIF inflation was expected to remain low in the period ahead, but increasing cost pressures and the normalisation of resource utilisation were expected to contribute to CPIF inflation gradually approaching 2 per cent in 2013.

Considering that the economic outlook and inflation prospects were largely the same as in February, the Executive Board of the Riksbank decided in April to hold the repo rate unchanged at 1.5 per cent and to hold the forecast for the repo rate unchanged (see Chart 2 and the box "Monetary policy decisions and reservations 2012").

The Riksbank's research in 2012

The aim of the Riksbank's research is to develop models and tools for the analyses that the Executive Board requires to be able to make its decisions. The researchers employed by the Riksbank also work as internal advisers for the analytical work of the Bank. The research work thus increases the Riksbank's capacity to meet the challenges that arise in the work of keeping inflation low and stable and safeguarding financial stability.

The Riksbank's research is mainly focused on areas of direct significance to the Bank's activities, such as monetary policy, the banking system and financial markets. The activities also include developing methods of analysis.

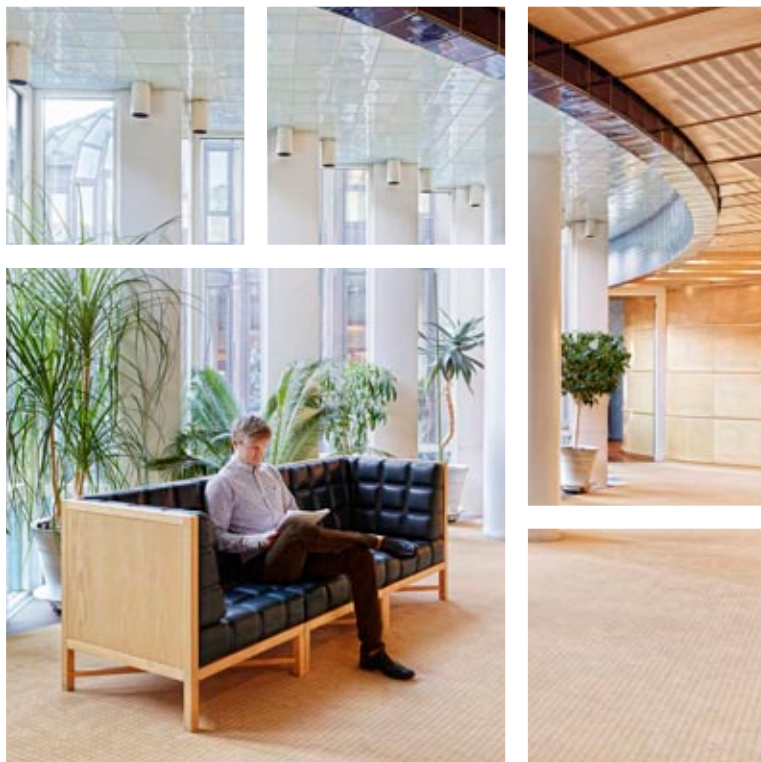
The results of the Riksbank's research are published in international scientific journals. This guarantees that the quality of the research is evaluated objectively in accordance with international standards. The research results are communicated through presentations at other central banks and universities, as well as at international conferences. The insights from the research are summarised in articles in the Riksbank's journal, *Sveriges Riksbank Economic Review*, and elsewhere.

In 2012, three researchers specialised in the analysis of financial stability were recruited with the aim of strengthening both research and policy work in this area. This is the result of a special drive to increase the Riksbank's analysis work within financial stability. These new researchers are engaged in empirical research on financial markets. More specifically, their research concerns individuals' saving patterns over their life cycles, credit risks in Swedish companies and models for how systemic risks spread across international borders.

As a further initiative in research on financial stability, the Riksbank initiated closer cooperation with the institution for financial economics at the Stockholm School of Economics. The project "Financial stability and regulation" has been started under the framework of this cooperation. It comprises up to seven subprojects and engages six researchers each from the Stockholm School of Economics and the Riksbank. The project is planned to run for four years.

Among other activities during the year, the Riksbank arranged a conference on sovereign debt and the risk that countries will default. Leading researchers in this

relatively new field of research discussed a series of important issues. A central theme was borrower countries' incentive (or lack thereof) to decide to default on their debts, to increase their debts and to reduce their debt burden through inflation, as well as (not least) the incentive for lenders to reduce the debt burden through write-offs. These incentives can be said to be key issues in the current debt crisis in the euro area. Furthermore, the conference also saw the presentation of the results of comprehensive empirical studies of how sovereign debt crises can spread across international borders as a result of increasingly integrated banking systems. Proposed empirical measures of default risks were also presented. Finally, the participants discussed the significance of various crisis management strategies for restoring the indebted countries' possibilities of raising loans in the post-crisis future.



Good Swedish growth despite increased unease in the spring

In the spring, uncertainty in the euro area increased due to the fiscal situation and the problems in the banking sector. Unease on the financial markets therefore increased again, which was reflected, among other effects, in a fall in share prices in stock exchanges around the world (see Chart 1). Spain was one of the countries that continued to struggle with problems in its banking sector and public finances. Increased concern over the situation in Spain also brought attention to the situation in Italy, which led, among other consequences, to a rise in yields on government bonds in both Spain and Italy (see Chart 10 in the section “A safe and efficient payment mechanism”).

The renewed unease on the financial markets was expected to lead to a tighter credit situation and lower confidence on the part of households and companies, and thereby weaker consumption and investment. All in all, conditions for growth in the euro area weakened compared to the Riksbank’s assessment in April.

However, the National Accounts for the first quarter indicated that growth in the Swedish economy at the start of the year had been significantly higher than expected. Stronger domestic demand seemed to have compensated for weak international demand. Nevertheless, the weaker developments in the euro area were judged to mean that growth on the Swedish export markets would be dampened in the period ahead. All in all, the revisions to the GDP forecast were minor compared to the forecast in April. This was also true of the assessment of resource utilisation.

Ahead of the monetary policy meeting in July, the Riksbank noted that current inflation was low. However, CPIF inflation was expected to rise gradually to around 2 per cent in 2013, among other reasons as a consequence of increased resource utilisation and the increasing rate of wage increases.

The Executive Board of the Riksbank assessed that the strong development of Sweden justified leaving the repo rate unchanged at 1.5 per cent, but, at the same time, considered that Swedish growth would be somewhat weaker over the rest of this year as a result of a more prolonged economic downturn in the euro area. The Executive Board therefore made the assessment that the forecast for the repo rate needed to be adjusted downwards (see Chart 2). An unchanged repo rate and a repo-rate path in which the repo rate remained at 1.5 per cent for slightly more than one year ahead implied a well-balanced monetary policy and would contribute to stabilising inflation at around 2 per cent and stabilising resource utilisation around a normal level (see also the box “Monetary policy decisions and reservations 2012”).

Weakened growth prospects and lower inflationary pressures in the autumn

In the summer, developments in the euro area continued to be marked by the sovereign debt crisis, and indicators suggested continued weak economic development in line with the Riksbank’s forecast in July. However, the situation in the financial markets had improved slightly. Rates for government bonds released by countries in Europe with sovereign debt problems remained high, but had fallen somewhat in conjunction with the signalling by the ECB of its preparedness to adopt measures if the problems in these countries should worsen (see Chart 10 in the section “A safe and efficient payment mechanism”).

As in the year’s previous monetary policy decisions, at the beginning of September, the Executive Board of the Riksbank had to strike a balance between, on one hand, the precarious economic situation in the euro area and its negative impact on Swedish exports and, on the other, the unexpectedly strong resilience being shown by the Swedish economy.

Compared with the prospects in July, several factors suggested that inflationary pressures would be lower in the period ahead. Above all, the Swedish krona had appreciated significantly over the summer (see Chart 3). Even if the Riksbank had long counted on a strengthening of the krona, among other reasons because of Sweden’s strong economic development compared to other countries, this appreciation took place significantly more rapidly than was expected. In addition, the National Accounts for the second quarter indicated that productivity was significantly higher than expected. The Riksbank thus deemed that the unexpectedly strong growth in GDP in the first six months would not contribute towards higher inflationary pressures. In light of this, the Riksbank’s inflation forecast was revised downwards compared to the assessment in July. In addition, the labour market had developed slightly better than expected, but the indicators pointed to a weakening in the period

ahead. The Riksbank's forecast for unemployment was therefore largely unchanged compared with the forecast in July.

To prevent inflation and resource utilisation from becoming too low in the period ahead, the Executive Board of the Riksbank decided to cut the repo rate by 0.25 percentage points to 1.25 per cent in September. The forecast for the repo rate was also adjusted downwards for the entire forecast period (see Chart 2). It was assessed that this repo-rate path would contribute towards increasing the rate of CPI inflation to 2 per cent and a normalisation of resource utilisation over the forecast period (see also the box "Monetary policy decisions and reservations 2012").

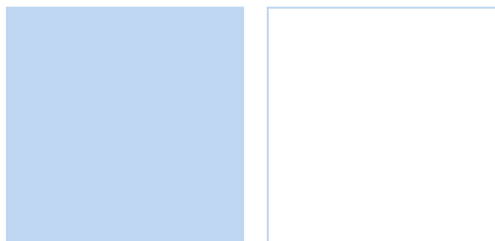
Ahead of the monetary policy meeting in October, it was observed that the economy abroad had developed in line with the assessment in September. On the financial markets, unease had subsided slightly more, among other reasons due to new measures from the ECB (see Chart 10 in the section "A safe and efficient payment mechanism"). Despite this, significant uncertainty remained regarding how the long-term problems in the euro area should be solved. Growth in the euro area was expected to continue to be weak in the period ahead, dampening the prospects for Swedish exports. Furthermore, general unease on the financial markets increased due to the uncertainty surrounding the ongoing budget negotiations in the United States.

As regards economic developments in Sweden, the revised National Accounts figures from September showed that GDP growth in the first six months was significantly weaker than the earlier, preliminary statistics had suggested. Nonetheless, after the revision, the view of relatively strong Swedish growth in the first six months remained. However, the Riksbank's assessment of GDP growth in the period ahead was largely the same as in September. Although employment increased, unemployment rose slightly as the number of people in the labour force increased even more. In addition, there were signs that matching on the labour market had weakened, thereby making it more difficult to pair jobseekers with vacancies.



The recovery of the labour market was thus assessed to take longer than had previously been expected. However, the upward revision of the Riksbank's forecast for unemployment also reflected a weakened economic situation. In relation to the assessment made in September, inflation was now expected to be slightly lower. This was mainly due to lower energy prices.

Considering that inflationary pressures were expected to be lower and unemployment higher than in the Riksbank's forecast in September, the Executive Board of the Riksbank decided, at the monetary policy meeting in October, to adjust the forecast for the repo rate downwards (see Chart 2). It was assessed that the repo rate would need to be low



Inflation means that fewer goods and services can be bought for the same amount of money. Quite simply, money becomes worth less. The Riksbank works to help money keep its value. The Riksbank affects inflation in Sweden by means of the policy rate. Its aim is to achieve equilibrium in the economy, so that prices will be at a level where households will demand just as many goods as companies are producing.

Monetary policy decisions and reservations 2012

15 February

The repo rate was cut by 0.25 percentage points to 1.5 per cent. The repo-rate path was adjusted downwards. The new repo-rate path suggested that the repo rate should remain at 1.5 per cent until the first quarter of 2013, after which it would gradually increase to 3 per cent by the end of the forecast period.

Deputy Governors Karolina Ekholm and Lars E.O. Svensson entered reservations against the decision to cut the repo rate to 1.5 per cent and against the repo-rate path in the Monetary Policy Report. They both advocated a lowering of the repo rate to 1.25 per cent and significantly lower repo-rate paths than in the Monetary Policy Report. They argued that their lower repo-rate path would result in a better-balanced monetary policy with CPIF inflation closer to 2 per cent and a faster reduction of unemployment towards a longer-run sustainable rate.

They also said that the forecast for overseas policy rates was much too high. Mr Svensson was also of the opinion that the forecasts for growth in the euro area and resource utilisation in Sweden were much too high.

17 April

The repo rate was held unchanged at 1.5 per cent. The repo-rate path was also left unchanged.

Deputy Governors Karolina Ekholm and Lars E.O. Svensson entered reservations against the decision to hold the repo rate unchanged and against the repo-rate path in the Monetary Policy Update. They both advocated a lowering of the repo rate to 1.25 per cent and significantly lower repo-rate paths. They argued that their lower repo-rate path would result in a better-balanced monetary policy with CPIF inflation closer to 2 per cent and a faster reduction of unemployment towards a longer-run sustainable rate. In addition, Mr Svensson was of the opinion that the forecasts for overseas policy rates and growth in the euro area were much too high.

3 July

The repo rate was held unchanged at 1.5 per cent. The repo-rate path was adjusted downwards. According to the new repo-rate path, the repo rate should remain at 1.5 per cent until the third quarter of

2013, after which it would gradually increase to 3.1 per cent by the end of the forecast period.

Deputy Governors Karolina Ekholm and Lars E.O. Svensson entered reservations against the decision to hold the repo rate unchanged and against the repo-rate path in the Monetary Policy Report. They both advocated a lowering of the repo rate to 1.0 per cent and significantly lower repo-rate paths than in the Monetary Policy Report. They motivated their reservations in the same manner as in April.

6 September

The repo rate was cut by 0.25 percentage points to 1.25 per cent. The repo-rate path was adjusted downwards. According to the new repo-rate path, the repo rate should remain at 1.25 per cent until the middle of 2013, after which it would gradually increase to 2.9 per cent by the end of the forecast period.

Deputy Governor Lars E.O. Svensson entered reservations against the Monetary Policy Update and the decision on the repo rate and repo-rate path. He advocated cutting the repo rate to 1.0 per cent and a significantly lower repo-rate path in line with his earlier proposals in the year.

Deputy Governor Karolina Ekholm entered a reservation against the repo-rate path and advocated a significantly lower repo-rate path.

Ms Ekholm and Mr Svensson motivated their reservations in the same manner as in April and July.

26 October

The repo rate was held unchanged at 1.25 per cent. The repo-rate path was adjusted downwards. According to the new repo-rate path, it was more likely that the repo rate would be cut than raised in the period ahead. In addition, compared with the forecast in September, the repo rate could be expected to start increasing at a later date and at a lower rate. Towards the end of the forecast period, the repo rate was expected to amount to about 2.6 per cent.

Deputy Governor Karolina Ekholm entered a reservation against the decision to hold the repo rate unchanged and against the repo-rate path in the Monetary Policy Report. She advocated cutting the repo rate to 1.0 per cent and a significantly lower repo-rate path.

Deputy Governor Lars E.O. Svensson entered reservations against the Monetary Policy Report and the decision on the repo rate and repo-rate path. He advocated cutting the repo rate to 0.75 per cent and a significantly lower repo-rate path.

Ms Ekholm and Mr Svensson motivated their reservations in the same manner as in April, July and September.

17 December

The repo rate was cut by 0.25 percentage points to 1.0 per cent. The repo-rate path was adjusted downwards. According to the new repo-rate path, the repo rate should remain at 1.0 per cent until the end of 2013, after which it would gradually increase to 2.5 per cent by the end of the forecast period.

Deputy Governor Karolina Ekholm entered a reservation against the repo-rate path in the Monetary Policy Update and advocated a significantly lower repo-rate path.

Deputy Governor Lars E.O. Svensson entered reservations against the Monetary Policy Update and the decision on the repo rate and repo-rate path. He advocated cutting the repo rate to 0.75 per cent and a significantly lower repo-rate path.

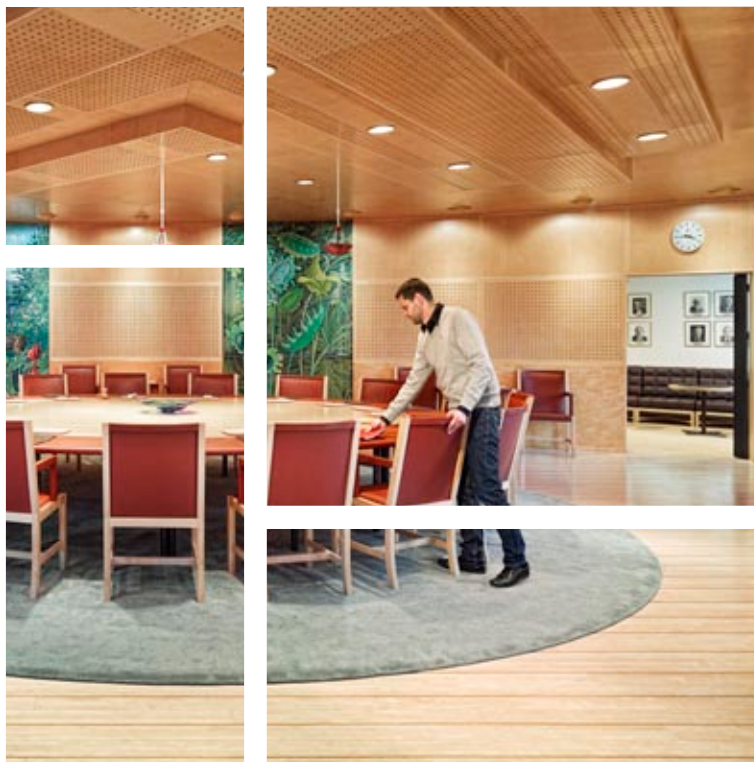
Ms Ekholm and Mr Svensson motivated their reservations in the same manner as in April, July, September and October. Alongside this, Mr Svensson said that the forecast for Swedish inflation in the Monetary Policy Update was too high. In addition, he considered that his lower repo-rate path would not have a noticeable effect on household indebtedness as monetary policy normally only has very minor short-term effects on indebtedness and, with low and stable inflation, no long-term effects of this kind.

for a longer time to stimulate the economy and bring inflation in line with the target. However, the Executive Board decided to hold the repo rate unchanged at 1.25 per cent. As monetary policy affects the economy with a certain degree of delay, an immediate repo-rate cut would probably have little effect on the low inflation and level of economic activity in the year ahead. On the other hand, if the repo rate were to be cut, CPIF inflation would risk being above target a few years later (see also the box “Monetary policy decisions and reservations 2012”).

Clear slowdown in the Swedish economy at the end of the year

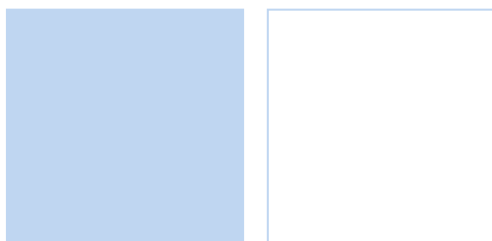
Developments abroad continued to weigh the Swedish economy down at the end of the year. Uncertainty over developments in the euro area continued to be very high, but the situation on the financial markets was largely unchanged since the end of October.

The negative effects of the weak developments abroad on the Swedish economy turned out to be greater than the Riksbank had previously expected. According to the National Accounts, the Swedish economy had certainly grown more rapidly in the third quarter than the Riksbank had expected in October. But it was clearly apparent that both exports and important areas of domestic demand, such as household consumption and corporate investment, were developing more weakly than expected. Instead, the contributing factor to the unexpectedly strong development of GDP was that companies had increased their stocks and imports had developed weakly, which could also be signs that demand had become weaker. The National Institute of Economic Research’s Economic Tendency Survey also suggested that confidence in economic development in the period ahead had fallen over a broad front and in all sectors. The labour market situation had also deteriorated and the number of redundancy notices had increased relatively rapidly. The Riksbank’s overall assessment was that GDP would increase more slowly and unemployment would be higher than had been expected in



October. At the same time, inflation was expected to be lower. The downward adjustment of the inflation forecast was primarily due to lower energy prices. The weaker labour market situation, together with the demands presented in the central wage negotiations in November, also suggested moderate wage increases and low inflation over the forecast period 2013–2015.

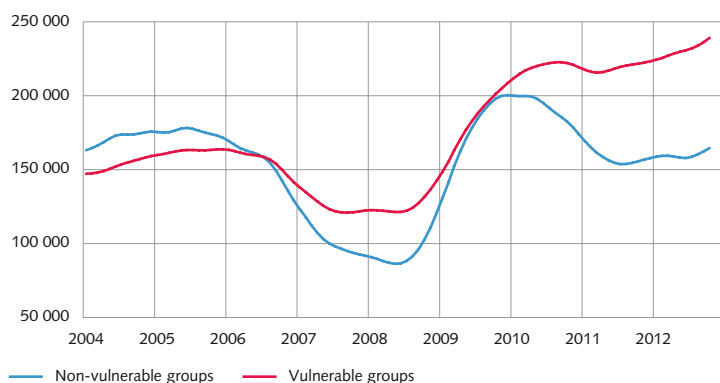
The lower inflationary pressures and the weaker economic climate justified a lower repo rate compared with the assessment in October. To support the Swedish economy so that inflation would rise towards the target of 2 per cent, the Executive Board of the Riksbank consequently decided in December to cut the repo rate by 0.25 percentage



If the economy is in balance, all parts of society can develop in a sustainable manner. Companies can expand and employment can be secured. By maintaining low and stable inflation, the Riksbank contributes towards the stable development of the economy.

Chart 4

Number of unemployed in vulnerable groups and other registered unemployed

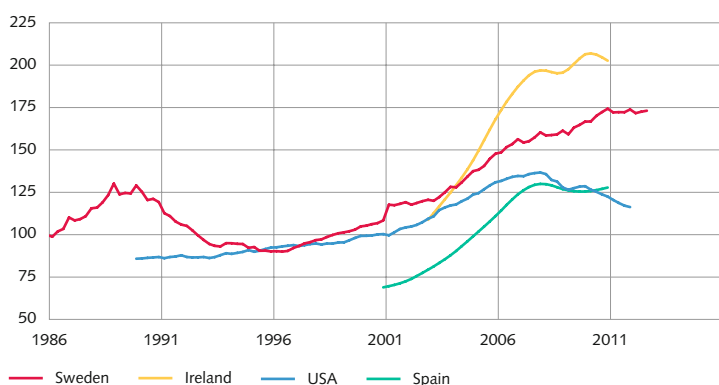


Note: Trend-adjusted value for total number of persons registered at the Swedish Public Employment Service and number of remaining job seekers at the end of the month, respectively. According to the Swedish Public Employment Service, there are four groups who have a relatively vulnerable position on the labour market and who find it more difficult to get a new job if they become unemployed: people born outside Europe, people without upper-secondary school education, people in the age group 55–64, and people with a disability that reduces their capacity to work.

Source: Swedish Public Employment Service.

Chart 5

Household indebtedness, total debt in relation to disposable income



Sources: Bank of England, Eurostat and the Riksbank.

points to 1.0 per cent. At the same time, the forecast for the repo rate was adjusted downwards (see Chart 2). This repo-rate path was deemed to contribute towards holding CPI inflation close to 2 per cent from 2014 and towards normalising resource utilisation over the forecast period (see also the box “Monetary policy decisions and reservations 2012”).

Monetary policy deliberations 2012

The slowdown of the Swedish economy and the falling inflationary pressures accordingly led the Riksbank to pursue monetary policy in a more expansionary direction. Over the year, the Riksbank therefore cut the repo rate by a total of 0.75 percentage points and successively adjusted the repo-rate path downwards by a total of 0.45 percentage points one year ahead and 0.40 percentage points two years ahead.

The Executive Board of the Riksbank was unanimous that monetary policy should be conducted in a more expansionary direction. On the other hand, opinions were divided regarding how expansionary monetary policy needed to be and what constituted a well-balanced monetary policy. Two Executive Board members entered reservations against both the repo-rate decision and the repo-rate path at all meetings, except for the meetings in September and December, when one of these members supported the actual repo-rate decision and only entered a reservation against the repo-rate forecast (all decisions and reservations are reported in the box “Monetary policy decisions and reservations 2012”).

The stance taken on monetary policy by the majority of the Executive Board was based on the forecasts for economic developments in Sweden and abroad presented in the Monetary Policy Reports and Updates over the year (see the account in the previous part of this section). The majority of the Executive Board were of the opinion that monetary policy over the year had been expansionary and well-balanced in its aim of meeting the inflation target of 2 per cent within the forecast period. Their assessment was that the high level of unemployment was mainly of a structural nature and that monetary policy’s ability to affect it was thus limited. The majority opinion was that monetary policy was already clearly expansionary and that, even with a more expansionary policy, the less efficient matching between vacancies and jobseekers would make it difficult to achieve significantly lower unemployment in the years ahead (see Chart 4).

As regards the risks associated with house prices and household indebtedness, the majority considered that these were so high that they should be taken into account in the assessment of how expansionary monetary policy should be. While lending to households had certainly increased at a slower pace recently, the majority pointed out that this development was connected with the monetary policy conducted by the Riksbank in recent years. Furthermore, household debt ratios (debt in relation to disposable income) were still at a high level from both historical and international perspectives (see Chart 5).

According to the majority, there was a risk that a more expansionary monetary policy would contribute towards the continued accumulation of debt in the household sector. Just as in many other countries, disruptions on the housing market leading to major price falls could lead households to choose to save instead of consume so as to compensate themselves for the declining value of their homes. This, in turn, could have serious consequences for the economy in the form of a longer period of weak demand, high unemployment and below-target inflation. The majority also argued that, although other instruments could certainly be as effective as the repo rate for managing the problem of high indebtedness among households, there still lacked a Swedish framework for which instruments would be relevant and how they would be used.

The minority considered that a lower repo rate and a lower repo-rate path would provide better target attainment, as the forecasts for inflation would then be higher and closer to the target and the forecasts for unemployment would be lower and closer to a long-term sustainable level. They also made partly different assessments of future economic developments, among other areas regarding the forecasts for growth in the euro area and overseas policy rates, which were deemed to be too high. In addition, their assessment of the effects of monetary policy on unemployment differed from those of the majority. They considered that a more expansionary monetary policy could push unemployment down, despite signs of worsened matching on the labour market and a greater proportion of inexperienced workers among the unemployed. The justification for this opinion was that matching for inexperienced labour and employment for vulnerable groups seems to be more cyclically-sensitive than it is for other groups.

The minority also argued that risks associated with house prices and household indebtedness did not justify a tighter monetary policy than followed from the targets of stabilising inflation around the inflation target and unemployment around a long-term sustainable level. Firstly, the increase in house prices had been dampened and the household debt ratio had stabilised recently, and secondly, according to the minority, the possible risks associated with household indebtedness would be better handled using other means than the repo rate, such as the mortgage ceiling, interest deduction regulations and risk weighting on mortgages. The minority pointed out that monetary policy only has very minor short-term effects on indebtedness and – assuming that inflation is low and stable – no long-term effects on indebtedness.

A more detailed review of these monetary policy deliberations is presented in the Riksbank's account of monetary policy 2012 submitted to the Riksdag in March 2013.

Follow-up

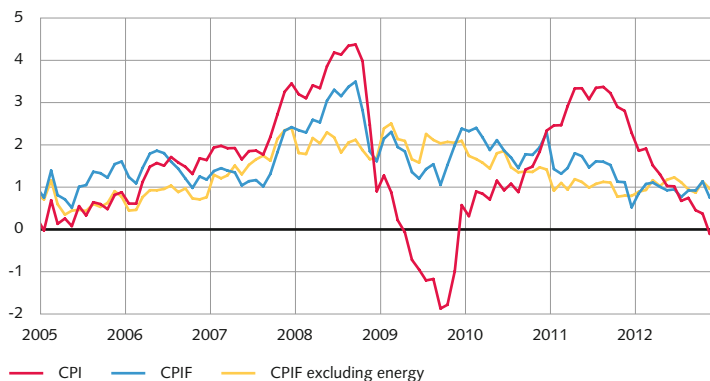
The Riksbank's monetary policy is evaluated by the Riksdag Committee on Finance. The Riksbank compiles a written account of monetary policy for this evaluation, which is published after the first Monetary Policy Report of the year. The report for 2012 will be submitted to the Riksdag in March 2013.

Inflation 2012

The deterioration of economic prospects as of the autumn of 2011 led the Riksbank to successively cut the repo rate as of December 2011. As household interest expenditure is included in the CPI, CPI inflation fell heavily from the end of 2011 and throughout the larger part of 2012 (see Chart 6). On average, CPI inflation amounted to 0.9 per cent in 2012, which can be compared with 3.0 per cent in 2011 (see Table 1).

Chart 6

The CPI, CPIF and CPIF excluding energy, annual percentage change

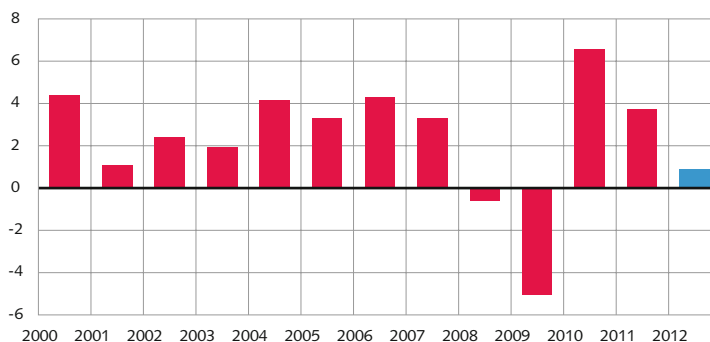


Note: The CPIF is the CPI with a fixed mortgage rate.

Source: Statistics Sweden.

Chart 7

GDP in Sweden, annual percentage change



Note: The blue bar represents the Riksbank's forecast from December 2012. Due to revisions of the National Accounts, GDP growth for 2010 is about one percentage point higher than was reported in the Annual Report for 2011.

Sources: Statistics Sweden and the Riksbank.

Table 1

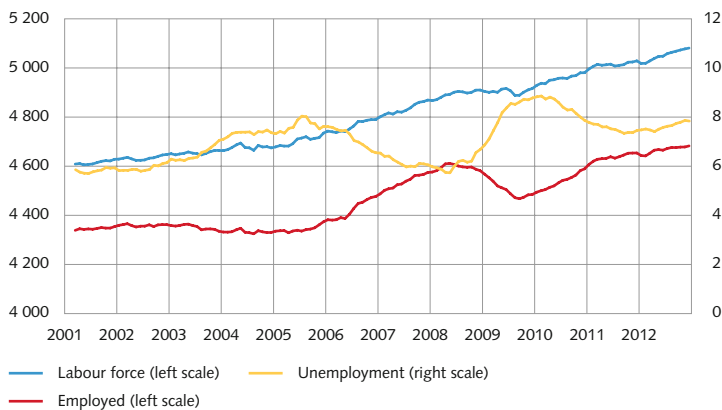
Comparison of different measures of inflation, annual percentage change

	Annual average		
	2010	2011	2012
CPI	1.2	3.0	0.9
CPIF	2.0	1.4	1.0
CPIF excluding energy	1.5	1.0	1.0

Sources: Statistics Sweden and the Riksbank.

Chart 8

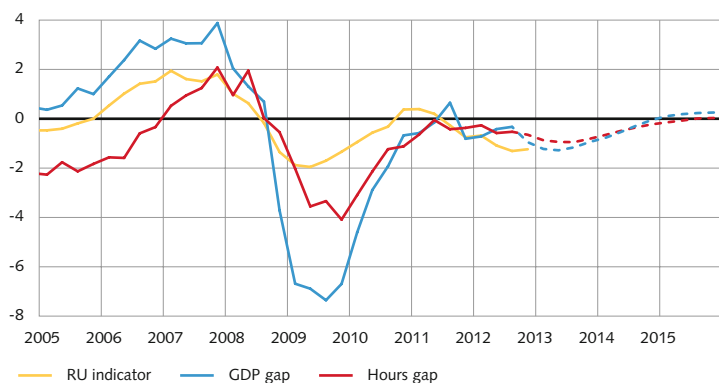
Number of employed, number of persons in the labour force and unemployment in Sweden, thousands of persons and per cent of the labour force



Note: Seasonally-adjusted data, three-month moving average. This data refers to persons aged 15–74.
Sources: Statistics Sweden and the Riksbank.

Chart 9

GDP gap, hours gap and RU indicator, per cent and standard deviation



Note: The GDP gap refers to the deviation from trend in GDP, calculated using a production function. The hours gap refers to the difference between the actual number of hours worked and the Riksbank's assessment of the trend for hours worked. The RU indicator is normalised so that the mean value is 0 and the standard deviation is 1. The broken lines represent the Riksbank's forecast from December 2012.
Sources: Statistics Sweden and the Riksbank.

The difference in average inflation between different measures of inflation was only marginal in 2012. Measured in terms of the CPIE, that is, the CPI with a fixed mortgage rate, inflation was 1.0 per cent in 2012. The CPIE excluding energy prices increased by 1.0 per cent in 2012.

The development of the real economy in 2012

During 2012, GDP increased by 0.9 per cent. This increase was significantly less than the year before, when GDP increased by 3.7 per cent (see Chart 7). This can be explained by the sharp fall in demand for Swedish export goods in 2012 due to the sovereign debt crisis in the euro area. Swedish exports therefore only increased by 0.2 per cent in 2012, compared with an increase of 7.1 per cent in 2011. Domestic demand was on the other hand relatively strong over the year. Household consumption increased by 1.4 per cent in 2012, which is 0.7 percentage points less than in 2011. Data on GDP, exports and household consumption in 2012 is based on the Riksbank's forecast from December 2012.

As the economic outlook weakened, the decline in unemployment that had been underway since the start of 2010 came to a halt at the end of 2011. Unemployment actually increased slightly in 2012. On average, unemployment was 7.7 per cent. However, the percentage of the working-age population in work remained stable over the year. The increase in unemployment can instead be explained by the continued increase of the number of people in the labour force, partly due to demographic conditions in Sweden (see Chart 8).

A resource utilisation measurement is often used as an overall measurement of the development of the real economy. However, there is no clear-cut way to measure this, and the Riksbank uses a number of different indicators to assess resource utilisation. Examples of such measurements are the GDP gap and the hours worked gap, which measure the percentage deviations of GDP and the number of hours worked from their respective sustainable long-term levels. If each measure is positive, this means that the level of activity in the economy is high and that resource utilisation in the economy is higher than normal. The opposite applies when the measurements are negative. According to both the GDP gap and the hours gap, resource utilisation was somewhat lower than normal in 2012 (see Chart 9).

The Riksbank's own indicator of resource utilisation, the RU indicator, summarises information from surveys and labour market data with the assistance of a statistical method. This indicator also shows that resource utilisation was somewhat lower than normal in 2012 (see Chart 9).

All three measures described thus indicate that resource utilisation was slightly lower than normal over the year, which also corresponds with the Riksbank's overall assessment of resource utilisation in Sweden.

Statistics

Under the provisions of the Sveriges Riksbank Act, the Riksbank shall make public statistical data concerning foreign exchange and credit conditions on a continual basis. This means that the Riksbank is responsible for statistics concerning the balance of payments, the financial markets, turnover on the money and bond markets as well as interest rates and exchange rates.

The statistics on both the financial markets and the balance of payments are produced and published on behalf of the Riksbank by Statistics Sweden. The Riksbank is responsible for the quality, content and development of the statistics.

The Riksbank compiles and publishes daily turnover statistics on the fixed-income and foreign-exchange markets from the Riksbank and Swedish National Debt Office's counterparties. In addition interest rates and exchange rates are compiled and published on the Riksbank website on a daily basis.

In the light of its experiences from the financial crisis, the Riksbank launched an initiative in 2010 to reinforce statistics in the area of securities. Statistics Sweden therefore continued its work of preparing a database on Swedish securities on behalf of the Riksbank in 2012. The database will come into operation in the spring of 2013. Statistics Sweden will then also start publishing statistics based on information from this database. With this, it will become possible for the Riksbank and other analysts to better follow and analyse securities funding at both banks and non-financial firms and thereby further develop their analysis of stability in the financial system. New regulations for the gathering of data for the database entered into effect on 1 January 2013. According to the results of an impact assessment, the new report-

ing will not entail any increased work for reporting entities in total, as other reporting of statistical data can be stopped.

As another part of the work of strengthening financial statistics, during the year the Riksbank concluded an investigation into building up a micro database with detailed information on household and corporate assets and liabilities. The inquiry, which was conducted in cooperation with Finansinspektionen (the Swedish Financial Supervisory Authority) and Statistics Sweden, suggested that the database be constructed in stages. The inquiry also showed that a micro database would be an important tool for the Riksbank and Finansinspektionen in the assessment of risks in the banks' lending and elsewhere.

In December, the commission of inquiry into certain issues regarding financial market statistics (SOU 2012:79) proposed a new law entailing the setting up of a special database at Statistics Sweden for the gathering and processing of financial statistics. It was proposed that the contents of this database be made available for both the Riksbank and Finansinspektionen, which would provide both authorities with the possibility of using the information gathered on behalf of each authority. In parallel with the public inquiry, the Riksbank and Finansinspektionen investigated the conditions for the mutual coordination of financial statistics. Among other initiatives, a survey has been started of how both authorities store collected data.

In 2012, work also continued on preparing the adjustment of balance of payments statistics to the International Monetary Fund's sixth manual specifying international standards for balance of payments statistics. This project is being conducted in cooperation between the Riksbank and Statistics Sweden and is being harmonised

within the EU. The new standard for balance of payments statistics will start to be applied in Sweden in 2014.

The Riksbank also signed a supplementary agreement with Statistics Sweden on improving the quality of statistics on overseas trade in services. The number of companies reporting this type of trade in Statistics Sweden's investigation is to be expanded so that more statistically-reliable variables can be published.

At the end of 2012, a new system for statistics and forecasts started to be used in the monetary policy analysis work. The system, called Data Library in the Riksbank, provides coherent system support for the Riksbank's internal policy work. The statistical time series used in policy assessments are stored in a joint database and taken out in a standardised manner as tables and charts, which increases the security and quality of the policy work and facilitates the evaluation of this work. As of the spring of 2013, the data library will also be used in the work of assessing financial stability.

To further ensure the quality of the basis of its policy work, the Riksbank carried out an analysis of the reliability of its own, regular business survey. This analysis showed that the indicator of economic activity developed with the support of the survey had so far made fewer forecast errors than comparable forecasting methods. It thereby forms an important basis for GDP forecasts.

■ A safe and efficient payment mechanism

The Riksbank's work was also characterised in 2012 by the repercussions of the financial crisis that seriously impacted Europe in the autumn of 2008. The Riksbank continued to participate in the work of reforming earlier regulations and improving supervision of the financial system through its own studies and discussions in various international forums. In addition, the Riksbank continued to monitor the development and analyse the effects of the continuing sovereign debt crisis in the euro area. To ensure its ability to safeguard financial stability, the Riksbank decided to strengthen the foreign exchange reserve. RIX's operations were developed by measures including the Riksbank's introduction of more flexible terms and conditions for the banks' accounts in the system, its evaluation of contingency routines and its decision on new principles for collateral for credit. The artistic starting point for the design of new Swedish banknotes and coins was determined during the year.

The Riksbank has the Riksdag's mandate to promote a safe and efficient payment mechanism. As interpreted by the Riksbank, this mandate has broad implications and in practice includes responsibility for stability in the financial system. The Riksbank shares responsibility for preventing crises with Finansinspektionen (the Swedish Financial Supervisory Authority), whereas responsibility for managing a financial crisis (should one break out) is shared by the Riksbank, Finansinspektionen, the Swedish National Debt Office and the Government through the Ministry of Finance. The allocation of responsibility between these authorities and their mandates was the subject of an official inquiry in 2011–2012.

The financial system consists of agents (such as banks) and marketplaces where the agents operate, financial markets, infrastructure that enables payments and exchanges of securities and a regulatory code in the form of legislation, regulations and other standards. The basic functions of the system are to mediate payments, convert savings into funding (capital supply), and to manage risk.

The Riksbank's practical work in the context of its mandate includes several different tasks. One such task is to take preventive action to reduce the probability of a financial crisis arising. Another is to be prepared to manage a crisis if one should nevertheless arise. The Riksbank is also responsible for issuing

banknotes and coins. Furthermore, the Riksbank provides a system for interbank payments in Swedish kronor, called the RIX system (see Figure 1).

■ Financial stability

The Riksbank has chosen to define financial stability as meaning that the financial system can maintain its basic functions and also has resilience to disruptions that threaten these functions. The Riksbank endeavours to prevent threats to financial stability by regularly monitoring developments in the financial system and in the economy in other respects, as well as informing of, and warning against, risks that are building up. The objective is to persuade banks and other agents in the financial markets to understand and mitigate the risks that are identified.

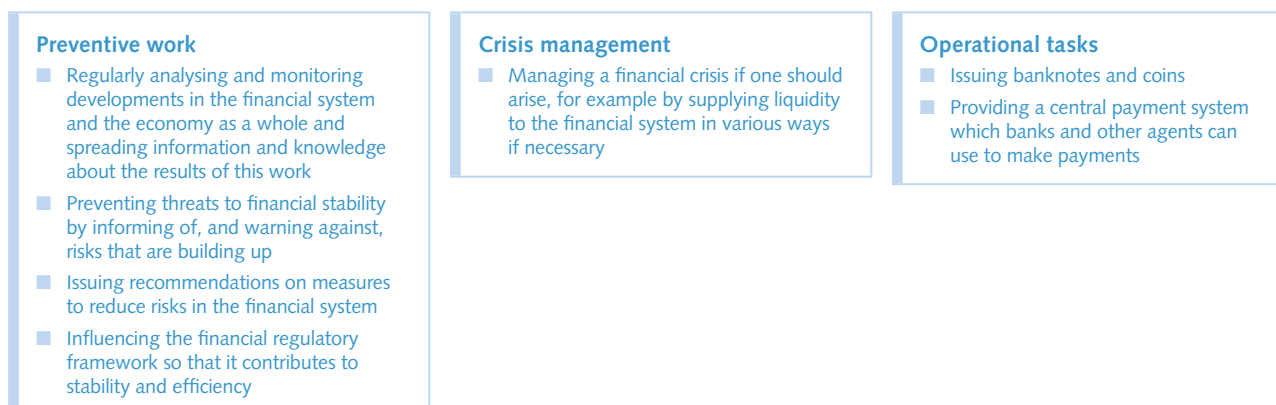
If a financial crisis nevertheless arises, the Riksbank has various ways to deal with it and can quickly supply money to the financial system if the need arises.

The Riksbank prevents problems in the financial system

An important part of the Riksbank's preventive work with financial stability involves regularly following developments in the financial system as a whole, informing of and warning against risks that are building up and, when necessary, recommending financial institutions to take measures. The main focus for surveillance is currently on the four major banking

Figure 1

The Riksbank's activities to promote a safe and efficient payment mechanism



groups in Sweden, as they play a central part in payment mediation and credit supply. The Riksbank also monitors the Swedish and international financial markets, as the banks are dependent on these markets to fund their operations and manage their risks. Another important part of the Riksbank's regular analysis is to follow developments among the banks' borrowers, in Sweden and abroad, since loans can constitute a potential source of major losses. In addition, the Riksbank monitors the financial infrastructure, with a focus on the parts that are essential for the efficient functioning of the financial markets and payments by the public. In its preventive work, the exchange of information with participants in the financial system also plays an important role.

The Riksbank is in a position to influence and shape laws and regulations that relate to supervision and crisis management by responding to consultation documents and actively participating in the work of a number of international organisations such as the Bank for International Settlements (BIS) and the European Union (EU). The international cooperation is important, not least for continuously adapting and strengthening the process for coordinating surveillance and supervision between the national authorities.

The Sveriges Riksbank Act does not give the Riksbank any binding statutory tools to influence financial market participants. Instead, the Riksbank primarily acts (in public and in dialogue with financial system participants) by calling attention to risks and events that may threaten financial stability. The Riksbank recommends, for instance, that financial system participants should take measures to reduce the risks in the system as a whole.

The Riksbank communicates its views on financial stability in several different ways. For example, twice a year the Riksbank publishes the Financial Stability Report, in which the Executive Board presents its assessment of the major banks' resilience to unexpected events, highlights potential risks to financial stability and makes recommendations concerning the necessary measures to reduce risks.

In conjunction with this report, the Riksbank also publishes the results of a survey that describes the market participants' view of the risks in the financial system. The Riksbank's assessments are also presented in speeches and in other publications. Once a year, the Riksbank describes the financial system, its structure and its participants, in the publication *The Swedish Financial Market*.

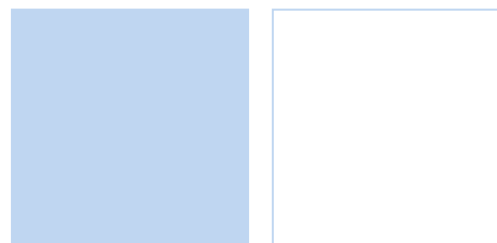
The Riksbank manages financial crises

The financial system participants are strongly inter-linked. This means that a problem arising in one bank can quickly spread through the system. This is because the banks often borrow from one another, often lend to the same groups, are dependent on the same financial markets and use the same infrastructure. They are also exposed to the same type of disruptions. Increased globalisation also means that confidence and liquidity crises affecting banks in other countries can quickly spread to the Swedish banks.

If a financial crisis occurs, the Riksbank, Finansinspektionen, the Ministry of Finance and the National Debt Office share the responsibility for dealing with the crisis so as to minimise the economic costs. The Riksbank's crisis management can be divided into three main areas: supply of liquidity to the financial system, communication of the Riksbank's assessments and cooperation with authorities in Sweden and abroad.

The Riksbank maintains liquidity in the financial system by ensuring that its participants have access to short-term funding in Swedish kronor. Under certain circumstances, the Riksbank can also offer loans in other currencies. However, the Riksbank's capacity to lend foreign currency is limited.

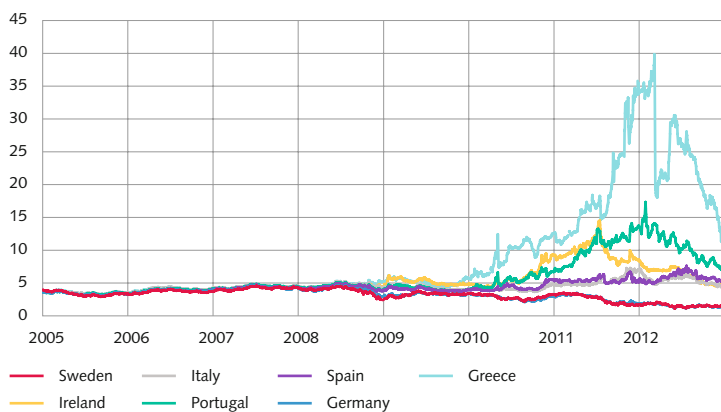
The Riksbank can provide liquidity assistance to individual institutions on special terms and conditions. The aim of such assistance is to prevent a situation in which an institution is forced to suspend payments and to prevent the effects of such an event from spreading throughout the financial system. These special terms and conditions may, for example, include the Riksbank accepting forms of collateral other than those that normally apply to the Riksbank's lending. Banking



If any of the Swedish banks should suffer an acute and temporary crisis, the Riksbank would be able to use its foreign exchange reserve to provide that bank with temporary support. The value of the Riksbank's foreign exchange reserve, measured in Swedish kronor, is affected by changes in foreign exchange rates, as the reserve consists of debt securities in foreign currencies. The Riksbank's gold reserve contributes to counteracting fluctuations in the value of the foreign exchange reserve, as the price of gold does not usually follow the same pattern as the value of the foreign exchange reserve.

Chart 10

Yields on ten-year government bonds in Sweden and a sample of European countries, per cent



Source: Reuters EcoWin.

institutions and Swedish companies that fall under the supervision of Finansinspektionen may receive emergency liquidity assistance under exceptional circumstances. One such exceptional circumstance is if the Riksbank believes that the institution concerned is systemically important in the situation prevalent at that time. The Riksbank has chosen to define a participant, a market or a part of the financial infrastructure as systemically-important if problems arising in one such agent, market or infrastructure could lead to disruptions in the financial system that would result in potentially large economic costs.

In order to manage a crisis effectively, the Riksbank must constantly keep its plans for a crisis organisation up to date. A necessary condition for this is that the Riksbank makes regular stability analyses that provide good knowledge of the financial system. Moreover, the Riksbank must maintain a practical crisis management capacity in normal conditions. The Riksbank therefore organises its own crisis exercises to evaluate and improve its crisis preparedness and also participates in exercises together with other Swedish and foreign authorities, primarily supervisory authorities and ministries of finance. As cross-border activities of banks have increased, it has become increasingly important to implement crisis exercises with the participation of authorities from different countries.

Activities in 2012

The Riksbank's work continued to be characterised in 2012 by the repercussions of the financial crisis that seriously impacted Europe in the autumn of 2008. The Riksbank continued to participate in the work of reforming earlier regulations and improving supervision of the financial system by conducting its own studies and participating in the work of various international forums. In addition, the Riksbank continued to monitor the development and analyse the effects of the continuing sovereign debt crisis in the

euro area. As the crisis in the euro area is deemed to involve major risks that are difficult to quantify, the Riksbank decided to strengthen its preparedness for emergency liquidity assistance in foreign currency.

Strengthened preparedness for emergency liquidity assistance in foreign currency

The sovereign debt problems in the euro area had a great impact on the development of the financial markets. Unease on the markets increased during the year's first months before again decreasing during the autumn when the European Central Bank (ECB) and the countries of the euro area decided to adopt a series of measures to facilitate funding for the countries with sovereign debt problems and their banks. For example, the ECB decided to purchase bonds issued by countries granted financial support programmes. In addition, the countries of the euro area started work on creating a banking union. Although it was unclear how and when the new support mechanisms would be implemented, this initiative contributed towards reassuring participants on the financial markets, which was reflected by effects including a fall in yields on government bonds issued by the countries with sovereign debt problems. It also became generally easier for European banks to obtain funding, even if many banks were still dependent on the ECB for their funding. However, the underlying problems in the euro area remained serious over the whole year and interest rates in the countries with sovereign debt problems remained on high levels compared with the years before the financial crisis (see Chart 10).

Over the year, the Riksbank was able to observe that uncertainty associated with international developments was heightened and that the crisis in the euro area continued to entail major risks that were difficult to quantify (see the description of the Riksbank's assessments of financial stability later on in this section). Even if unease on the financial markets declined slightly in the second six months and the Swedish banks were only slightly affected by the unease on the financial markets, it could not be ruled out that negative international developments could lead to the Swedish financial system coming under pressure in the period ahead. If such pressure arises, the Riksbank's capacity to provide emergency liquidity assistance in both Swedish and foreign currency will be fundamental to the financial system's ability to continue to function satisfactorily. As the Swedish banks largely obtain funding in foreign currency, the Riksbank's capacity to provide emergency liquidity assistance in foreign currency would be decisive for the replacement of such funding in a crisis situation. However, this capacity is limited and depends on the size of the Riksbank's foreign exchange reserve.

In addition, for a number of years, a part of the foreign exchange reserve has been set aside for commitments connected with Sweden's participation in the various support programmes of the International Monetary Fund (IMF) (see section "Asset

management”). Over the year, Sweden (like other member countries) expanded its commitments to the IMF, which are described in more detail in the box “International work”.

Given this, and particularly considering experiences of the banks’ need of emergency liquidity assistance in foreign currency during the financial crisis 2008–2009, the Executive Board of the Riksbank judged that the size of the foreign exchange reserve was too small. A similar assessment was made when the foreign exchange reserve was increased in 2009. To ensure the Riksbank’s ability to safeguard financial stability and fulfil Sweden’s international commitments, the Executive Board of the Riksbank decided, in December 2012, to strengthen the foreign exchange reserve. It was decided that this strengthening would take place through the borrowing by the Riksbank of foreign currency in an amount equivalent to SEK 100 billion. This is estimated to entail increased costs for the foreign exchange reserve, which, in the Riksbank’s opinion, must be balanced against the economic costs that may be incurred if the Swedish banking system encounters funding difficulties. However, as the foreign exchange reserve is a kind of insurance for banks that do not have to bear its direct costs, the banks’ risk propensity may be affected by the decision to strengthen the reserve. Consequently, in conjunction with the decision, the Riksbank pointed out the importance of there being an investigation of the costs resulting from the Riksbank maintaining a foreign exchange reserve that may eventually be returned to the banks. Until the end of January 2013, this issue was the subject of a commission of inquiry.

The strengthening of the currency reserve is temporary and, according to the Executive Board’s decision, should be settled when this is deemed appropriate considering international developments and the size of the commitments to the IMF.

Two Executive Board members entered reservations against the decision to strengthen the foreign exchange reserve as they considered that a better alternative would be to enter into an agreement

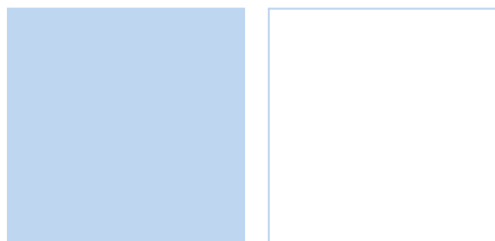
with the Swedish National Debt Office to restore the foreign exchange reserve within ten banking days of any decision to utilise it. They considered that such an agreement would solve the problem of funding the commitment to the IMF and, in addition, would be a less costly way of funding any emergency liquidity assistance. In their opinion, such an agreement would also have the advantage of letting taxpayers avoid paying for the banks’ high-risk borrowing in foreign currency.

Continued work on developing supervision and regulation

As in previous years, a large part of the Riksbank’s stability work over the year dealt with investigating and influencing the formulation of financial regulations. As Swedish banks and financial institutions are regulated by laws formulated on a European level, which in turn are largely founded on guidelines formulated by other international bodies, the Riksbank participated in continued discussions both on the EU level and in the BIS.

The BIS, the Basel Committee and the FSB

In the Basel Committee, discussions continued largely to concern the new global regulations for banks, the so-called Basel III Accord. The Riksbank was a driving force in an initiative for the Basel Committee to assess how the regulations have been implemented in various countries. These assessments have so far focused on capital adequacy requirements. This includes the implementation of the binding quantitative requirements that the new regulatory framework places on the banks’ liquidity risks to reduce these risks in the financial system as a whole. One important regulatory issue was also that of formulating a modified definition of the short-term Liquidity Coverage Ratio (LCR). A final decision on the LCR was taken in December 2012 and was confirmed at the start of January 2013. Furthermore, the Basel Committee developed principles for how banks that are systemically-important on a national level can be identified and handled. The Riksbank also took part in the work of giving the Basel Committee greater legitimacy by both



The financial sector is of great significance to society. Consequently, there is a special regulatory framework governing financial companies. The Riksbank participates in the work of drafting regulations and standards for these companies. For example, the Riksbank makes statements every year on a large number of proposed Swedish laws, regulations and general guidelines. On the EU level, the Riksbank also responds to consultations regarding proposed directives and other EU and ECB matters.

clarifying the Committee's internal working processes and managerial structure and providing the Committee's documents to the relevant authorities, even in countries outside its formal circle.

During the year, the Riksbank continued to participate in the work within the BIS of producing new principles for the systems in the financial infrastructure. Furthermore, the Riksbank participated in a study of innovations in retail payments, such as mobile payments and contactless smart cards.

The Riksbank also took part in the work conducted by the Financial Stability Board (FSB) to develop recommendations and guidelines for its work on recovery plans and plans for the liquidation and

reconstruction of global systemically-important banks. The Swedish bank Nordea is included among the banks considered to be globally systemically important. Consequently, a cross-border crisis management group was formed during the year with the task of ensuring that the authorities sharing responsibility for the management of any possible future crisis in Nordea comply with the FSB's recommendations. Participants in this work, which was led by the Ministry of Finance, included Finansinspektionen and the Ministry of Finance, in addition to the relevant authorities from Denmark, Estonia, Finland, Latvia, Lithuania, Norway and Poland, as well as the Riksbank.

International work

In addition to the work conducted within the BIS, EFC, ESRB and ESCB, the Riksbank also has other international commitments.

The International Monetary Fund

Sweden is one of 188 members in the International Monetary Fund (IMF) and cooperates there with the Nordic and Baltic countries in a joint constituency. Governor Stefan Ingves is Sweden's representative in the IMF's Board of Governors, while Deputy Governor Barbro Wickman-Parak represents the Riksbank on the Nordic-Baltic Monetary and Financial Committee (NBMFC), which is the constituency's highest policymaking body. The Committee is comprised of deputy central bank governors and state secretaries in the ministries of finance of the Nordic and Baltic countries. It meets twice a year, ahead of the IMF's Spring Meetings and Annual Meetings, to discuss current IMF issues. In 2010–2012, Denmark represented the Nordic-Baltic constituency in the IMF's Executive Board. As of 2013, Norway will be responsible for this assignment.

The Riksbank's IMF work includes developing Sweden's position on policy issues in cooperation with the Ministry of Finance ahead of discussions in and decisions by the Fund's Executive Board. For example, in 2012, it was discussed how the IMF should strengthen its surveillance of member states' economies and focus, to a greater extent, on financial issues. Among other resolutions, the IMF's Board adopted a new surveillance policy (the Integrated Surveillance Decision), which clarifies the Fund's responsibility for drawing attention to the possible global effects of individual countries' policies. The Board also decided on a detailed strategy for how the Fund is to conduct its surveillance of the financial

sector in future. According to this strategy, among other steps, the Fund could improve its understanding of macrofinancial relationships, become better at identifying contagion risks across national borders, and increase its cooperation with other organisations. The Riksbank, which actively pursued the matter of strengthening the IMF's surveillance role, welcomed both these decisions.

The Riksbank took part in the ongoing work on producing a frame of reference for the IMF's guidance and surveillance of the internal capital flows. Among other work, the Riksbank, in cooperation with other constituency countries, carried out an empirical study of Baltic and Icelandic experiences of capital flows and their regulation.

The Riksbank contributes to the IMF's funding through capital contributions and Special Drawing Rights. In accordance with the Riksdag's decision, the Riksbank remitted Sweden's share of revenue from the sale of parts of the IMF's gold reserve. The share, equivalent to about SEK 70 million, was remitted for the benefit of the IMF's Poverty Reduction and Growth Trust. The Riksbank also takes part in the IMF's New Arrangement to Borrow (NAB) which is activated when necessary if the demand for loans from the Fund becomes so great that the capital contribution is not considered sufficient. In 2012, the members of the NAB decided to renew the activation of the arrangement to borrow on two occasions. In addition, during the autumn, the Riksbank was granted the Riksdag's approval to fulfil a promise to provide loans to the IMF, giving the Monetary Fund the possibility of borrowing about SEK 70 billion from the Riksbank if the

money in the Fund's capital contributions and the NAB should prove to be insufficient. The Riksbank's transactions in connection with the NAB are described in the section "Asset management".

Nordic and Baltic cooperation in the field of financial stability

The Riksbank continued to develop Nordic and Baltic cooperation in the field of financial stability. During the year, two meetings of the Nordic-Baltic Macroprudential Forum (NBMF) were held in Stockholm. This is an informal forum for cooperation between central banks and financial supervisory authorities in these countries, which focuses on financial stability risks and cross-border banking operations in the region. In addition to general risks that could affect the region, the group discussed matters including how countercyclical capital buffers should be implemented. Governor Stefan Ingves was chairman of the NBMF until 2012.

The Riksbank also continued its work within the Nordic-Baltic financial stability group, which is a forum for ministries of finance, central banks and financial supervisory authorities in the Nordic and Baltic countries. The stability group has the task of strengthening preparedness for the management of cross-border financial stability issues in the Nordic-Baltic region.

Technical assistance

The Riksbank also provides expert assistance to central banks in developing countries, what is known as technical assistance. In 2012, this included cooperation with the central banks of Albania, Kenya, Namibia, Uganda and Vietnam. The activities were financed by funds from the Swedish International Development Cooperation Agency, Sida.

The EFC, the ESRB and the ESCB

Within the framework of the EU's Economic and Financial Committee (EFC), the Riksbank pursued the issue of increased transparency in the banking sector in Europe. An important part of this work is placing demands on the European Banking Authority (EBA) to develop its stress tests of the banking sector's resilience and to expand these to also include the banks' funding and liquidity. In addition, the results of the stress tests need to be communicated more clearly. Furthermore, the Riksbank considered that a stress test of the banking system in the EU should also be included in the IMF's oversight of the financial sector in the EU (the Financial Sector Assessment Program or FSAP). Moreover, in the Riksbank's view, the European Systemic Risk Board (ESRB) should take an active role and contribute basic data to the discussions on systemic risks within the framework of the EFC.

The Riksbank also assisted the Ministry of Finance with its opinions on the European Commission's proposed directive on the recovery, liquidation and resolution of credit institutions and securities companies, the so-called crisis management directive.

Under the framework of the ESRB, the Riksbank contributed actively in the work of identifying systemic risks within the EU and producing recommendations to counteract them. The Riksbank also actively worked for the ESRB to develop a stringent process to assess how well the recipients are complying with the recommendations. At the start of 2012, the ESRB published two recommendations. The first recommendation addressed the importance of introducing clear national mandates for macro-prudential supervision within the EU countries. The second pointed to the need to reduce dependence on funding in US dollars in credit institutions within the EU.

The Riksbank was also a driving force in the ESRB's work on developing and strengthening communication on the risks for financial stability in the EU, the results of which included the publication, by the Board, of a number of risk indicators in the autumn. In addition to this, the Riksbank was engaged in the ESRB's efforts to take a macroprudential policy perspective in decisions on the EU's new capital adequacy regulations, so as to make it possible for individual member states to introduce stricter requirements than those stipulated in EU legislation.

In 2012, the Riksbank completed its study of the costs of payments in Sweden as part of a larger investigation by 13 central banks in the European System of Central Banks (ESCB). This study showed that the Swedish retail payment system is relatively effective, at the same time as there exists potential for further streamlining if cash use can be reduced for payments over SEK 20. This could be achieved by introducing transaction charges that reflect the underlying costs of the form of payment. Alternatively, the use of cash could be reduced with the use of targeted information on its underlying costs.



Surveillance and analysis of the financial system in Sweden

In addition to participating in the international work of formulating financial regulations, the Riksbank continued to deepen its analysis of the financial system in Sweden. Among other efforts, the Riksbank worked on developing indicators for systemic risk, analysing various macroprudential policy instruments and investigating how the reference rate *Stibor* is determined. The framework surrounding *Stibor*, developments in the euro area and the ESRB's recommendations were additional issues that were discussed within the framework of a temporary council for cooperation on macroprudential policy.

Temporary council for cooperation on macroprudential policy

The temporary council for cooperation on macroprudential policy was set up in January 2012 in accordance with an agreement between the Riksbank and Finansinspektionen. The objective of the council is to establish a forum in which the Riksbank and Finansinspektionen can discuss systemic risks, financial stability and macroprudential policy while awaiting a permanent solution for macroprudential policy in Sweden. The council held two meetings during the year.

At the first meeting in February, the authorities discussed the extent to which the ESRB's recommendations concerning the European banks' dependence on funding in US dollars and the banks' lending in foreign currency are relevant to Sweden. Discussions also focused on how Finansinspektionen would, in this case, get a regulatory framework into position to comply with these recommendations. Furthermore, the authorities discussed Finansinspektionen's role when the short-



term Liquidity Coverage Ratio (LCR) is introduced as a binding requirement, as well as the ongoing work on investigating the mortgage cap. The Riksbank and Finansinspektionen also noted that there is a risk that the complete harmonisation of the future capital adequacy regulations within the EU will constitute a significant obstacle to effective macroprudential supervision in the period ahead. It is likely that systemic risks vary between member states, as there are great differences within the EU. For instance, there are major structural differences between the different financial systems. The authorities in the temporary council for cooperation therefore believe that the regulatory framework should be designed so that it permits Member States to introduce stricter regulations than those presented in the EU regulation.

At the council for cooperation's second meeting in October, the authorities discussed Finansinspektionen's continued work on the ESRB's recommendations and the introduction of rules for the LCR. The issue of how the negotiations surrounding the EU's capital adequacy regulations were progressing was also addressed. Furthermore, the authorities looked at risks on the housing market, Swedish households' amortisation patterns and Finansinspektionen's work on raising the risk weights for Swedish mortgages. Discussions also addressed the Stibor reference rate, the lack of a liquid market for bank certificates in Swedish kronor and the need for better transparency of the banks' mortgaged assets.

Analysis of the Stibor reference rate

Since the outbreak of the financial crisis in 2008, it has been clear that there have been problems and shortcomings in the system for determining and applying reference rates on the financial markets. In the light of this, the Riksbank has examined the Swedish reference rate, Stibor, on several occasions. In 2011, the Riksbank initiated a more comprehensive investigation of Stibor. This inquiry was concluded and published in 2012.

From the results of the empirical survey included in the inquiry, the Riksbank could observe that there were no signs of manipulation of Stibor. However, the inquiry revealed that there were a number of shortcomings in the framework surrounding Stibor. Among these, there lacked an agent with overall responsibility for Stibor and a clear structure for governance and control. In addition, there were shortcomings in transparency concerning the pricing of Stibor and there were difficulties in verifying how Stibor was determined, above all for longer maturities. In light of this, in November the Riksbank issued a recommendation that the framework surrounding Stibor should be reformed to remedy these insufficiencies and strengthen confidence in the reference rate (see the account of the Riksbank's recommendations in the section "Assessments of financial stability").

Forms and tools for effective macroprudential policy in Sweden

The global financial crisis has shown that traditional supervision of financial institutions needs to be complemented by a macroprudential policy focused on discovering, overseeing and preventing risks threatening the stability of the financial system as a whole. During the year, the Riksbank has collaborated with Finansinspektionen and the Ministry of Finance in the adjustment of the framework for macroprudential policy in Sweden. One part of this has been setting up the temporary council for cooperation. Acting together in international forums, the authorities have also pursued the issue of making it possible to impose higher capital requirements on the Swedish banks than are proposed in the EU regulation. Furthermore, during 2012, the financial crisis committee worked on developing a proposal for how macroprudential policy could be organised in Sweden. The financial crisis committee has been assigned to carry out a review of the Swedish regulations for the management of financial crises. Among other things, this has focused on how regulations could be improved so that future financial crises can primarily be mitigated through preventive measures and secondarily solved in an effective manner. The committee was appointed by the government in 2011, on the Riksbank's initiative.

In parallel to this, over the year, the Riksbank continued to deepen its own analyses of how macroprudential policy could be organised in Sweden and which tools for macroprudential policy would work best, considering conditions in Sweden.

Among other conclusions, the Riksbank's analysis revealed how important it is that one or more authorities be given a clear mandate for macroprudential policy and that macroprudential policy be developed into a policy area of its own. If the authorities are to be able to conduct macroprudential policy, they also need effective and well-defined tools. Several of these tools, such as countercyclical capital buffers, extra capital add-ons for systemically-important banks and liquidity demands on the banks, will be introduced in Sweden when the Basel III Accord is incorporated into Swedish legislation. In addition, there is a need to design more targeted tools that can be used with greater precision to counteract risks in the Swedish financial system. Such tools include, for example, sector-specific risk weights, caps on how high households' debts may be in relation to their incomes, and amortisation requirements on loans.

The Riksbank also carried out a special study of countercyclical capital buffers as a macroprudential policy instrument. The study focused on issues that are vital if these buffers are to function in practice, such as for which types of risks buffers are to be used, when they are to be activated and how they are to interact with other macroprudential policy instruments. In its inquiry, the Riksbank observed that countercyclical capital requirements are an important tool for managing systemic risks effectively, as

they should contribute towards ensuring that the banking sector as a whole has enough capital to be able to carry out its most important functions. In good times, when systemic risks normally increase, the countercyclical capital buffer should be activated so that the banks accumulate sufficient capital. When financial or economic circumstances are unfavourable and capital is decreasing due to losses, the banks may wish to tighten credit granting – and then the countercyclical capital buffers should be deactivated so that a credit crunch can be avoided. The authority that will be responsible for macroprudential policy in the future should thus be prepared to act when a crisis is still far off, but risks are increasing.

Oversight of the financial infrastructure in Sweden

In connection with an assessment of the Swedish financial sector in 2011 (FSAP), the IMF pointed out that oversight of the financial infrastructure in Sweden needed to be strengthened. The Riksbank itself also identified the need to review and improve its work on overseeing the systems in the Swedish infrastructure. One project aimed at meeting this need was concluded in 2012. Under the framework of this project, the Riksbank introduced a new working method aimed at identifying risk areas within the infrastructure systems.

The Riksbank also formally decided that four infrastructure companies – Bankgirocentralen (BGC), RIX, Euroclear Sweden and Nasdaq OMX DM – are to be covered by this oversight. As of 2012, the overseen systems are to conduct their own assessments of their operations in accordance with the new principles established by the BIS, after which these assessments are to be published. In the future, the Riksbank will thus no longer have to carry out any of its own annual assessments of the systems, but will instead contribute its opinions of the conclusions of the systems' own assessments. The systems' self-assessments will thereby be combined with the Riksbank's new risk-based working methods to make the work of oversight more efficient, which, in turn, will make it possible for the Riksbank to deepen its analysis of the system. The results of the Riksbank's

oversight will be published every year in a special report. The first report will be published in the spring of 2013.

In addition to the direct oversight of Swedish infrastructure systems, the Riksbank participates in several organisations that oversee foreign infrastructure systems whose operations affect the financial markets in Sweden. In 2012, the Riksbank initiated a new cooperation on the oversight of two British infrastructure systems acting on the Swedish financial markets.

Development of indicators to assess systemic risk in Sweden

The Riksbank continued to develop indicators to quantify and assess the stability of the financial system. One such indicator is a stress index for the financial markets in Sweden that started to be employed in the ongoing stability analysis in 2012. The index is based upon a method that has been developed by the ECB and is founded on an aggregate of a number of indicators from the Swedish stock, bond, money and foreign exchange markets. It thus forms a complement to the systemic risk indicator used in the assessment of the probability that the four major Swedish banks will simultaneously be exposed to problems.

As part of the continuing work of clarifying communication around its stability analysis, the Riksbank also developed a new analytical tool in the form of a diagram that illustrates, in a simple manner, how financial stability is developing. This tool is called a stability web. It started to be used in conjunction with the stability assessment in the autumn to provide an overall picture of the development of the real economy, of the financial markets and of the situation for the banks and their borrowers.

Analysis of how Swedish banks fund mortgage loans

Today, the Swedish banking system is large in relation to the Swedish economy. At the same time, the Swedish banks' mortgage lending has increased rapidly. The Swedish banks have also funded a large part of this lending on the financial markets with the mortgages as collateral. A substantial share of this wholesale funding is arranged in foreign currency. The fact that the finan-



Financial crises can be costly for society. By identifying and warning of risks building up in the financial system, the Riksbank can prevent crises. The Riksbank also issues recommendations on how such crises can be avoided. The Riksbank monitors developments on the financial markets, in Swedish banks and among the banks' borrowers both in Sweden and abroad. The Riksbank also stands prepared to provide support, when necessary, to banks in crisis to mitigate the consequences of that crisis.

cial system in Sweden is designed in this manner can partly be explained by the way in which the Swedish mortgage market functions. Consequently, the Riksbank started a study of the Swedish mortgage market in 2012. This study is to be published in the spring of 2013 and will describe how matters proceed, in practice, when a household takes a mortgage, as well as how the banks create and fund it. In addition, the study will analyse why the banks have chosen a certain funding model, as well as explain how the banks' financing costs affect the interest rates paid by households on their loans. The study will also discuss how a number of aspects of the mortgage market's functioning can affect financial stability.

Coordination of crisis preparedness in the central payment system

After the government inquiry into a higher level of crisis preparedness in the central payment system (SOU 2011:78) from the end of 2011 proposed that the Riksbank should be given statutory responsibility for coordinating operational crisis preparedness in the central payment system, the Bank carried out an internal inquiry to clarify the practical consequences of this proposal in 2012. The internal inquiry focused on the new tasks that may attend this assignment and the demands that it may place on the Riksbank's resources and organisation. Among its conclusions, the Riksbank determined that the future assignment would entail certain organisational consequences for the Riksbank and would presuppose continued cooperation within the financial sector's private-public cooperation forum for crisis preparedness (FSPOS).

Communication policy for financial stability

The Riksbank has long endeavoured to be open, clear and predictable in its financial stability communication. In 2012, the Riksbank formalised this endeavour by establishing a communication policy for financial stability. Like the policy existing since 2008 for the Riksbank's monetary policy communication, the new communication policy forms an appendix to the Riksbank's overall communication policy, which embraces all of the Riksbank's activities.

The communication policy for financial stability specifies the Riksbank's aim and approach in communication on issues of financial stability. As the Riksbank does not have any binding tools to safeguard financial stability, communication is of central importance in its work of preventing and managing financial crises. The policy thus makes clear that the Riksbank shall openly and clearly communicate its assessments and analyses of the stability of the financial system. With the aid of communication, the Riksbank shall also influence the behaviour of participants in the financial system so that risks to the financial system are noted and limited. The Riksbank shall also influence authorities and organisations in Sweden and abroad so that the financial regulatory framework and supervision create the preconditions for an effi-

cient and stable financial system. By providing information on and alerting of risks that are developing in the financial system – and by getting the participants in the system to deal with them – the Riksbank can prevent risks to financial stability.

In addition, the new communication policy emphasises that communication also plays a central role when the Riksbank is to manage financial crises. By openly and clearly communicating on problems and how these should be remedied, the Riksbank shall contribute towards creating confidence in the financial system.

Assessment of financial stability

The Riksbank deemed that the stability of the Swedish financial system was strong in 2012. The Swedish banks were financially robust and their earnings had increased at the same time as loan losses were low. In addition, the Swedish banks were well-capitalised in comparison with many European banks, which meant that they had good access to wholesale funding. However, developments in the euro area were deemed to constitute the largest single risk to financial stability in Sweden. This primarily meant the risk that the financial markets would function less effectively and that the Swedish banks would experience difficulties in obtaining funding. Consequently, it could not be ruled out that negative developments abroad could lead to the Swedish financial system being exposed to pressure in the period ahead.

The banks had good resilience to the spring's market unease but were assessed to need to further increase their resilience

Unease on the financial markets increased again during the spring as a result of the sovereign debt problems in the euro area. The three-year loans that the ECB twice offered banks operating in the euro area thus only managed to dampen the unease temporarily. This renewed unease was primarily due to uncertainty surrounding the Greek election and speculations that Greece would be leaving the monetary union. Problems in the Spanish banking sector and the risk that Portugal would be forced to renegotiate its sovereign debt also contributed to the increased unease. Despite this, the Swedish banks had access to wholesale funding. They were able to issue covered bonds both in Swedish kronor and in euros for shorter and longer maturities, as well as to increase the maturities of their unsecured bonds. In contrast, weaker banks in European countries with sovereign debt problems were still dependent on loans from the ECB.

During the spring, the Riksbank assessed that the Swedish economy would continue to grow again after the unexpectedly large GDP fall at the end of 2011. The banks' earnings would thereby develop well because lending to households and companies would continue to increase. The banks' loan losses were also expected to remain low, even if they were expected to be slightly higher than had been expected six months earlier (see Chart 11). The main increase in loan losses was from loans to households and companies in

Denmark. Loan losses were also expected to increase within the shipping sector in Denmark and Norway, as were loan losses in the Baltic countries.

Developments in the euro area continued to constitute the largest single risk to financial stability in Sweden. Above all, this concerned the risk that the euro area would be impacted by a financial shock with a deep and prolonged recession as a result. One factor that could trigger such a development would be if several countries should be forced to apply for financial assistance. Unease on the financial markets would then probably increase, thereby impairing access to wholesale funding. In such a situation, the Swedish banks would be vulnerable as they are dependent on the international financial markets for their funding. This vulnerability is connected with the development of the four major banking groups' borrowing in foreign currency, which has quadrupled since the start of the century, at the same time as the Riksbank's foreign exchange reserve, which forms part of the Swedish financial system's safety net, has only doubled.

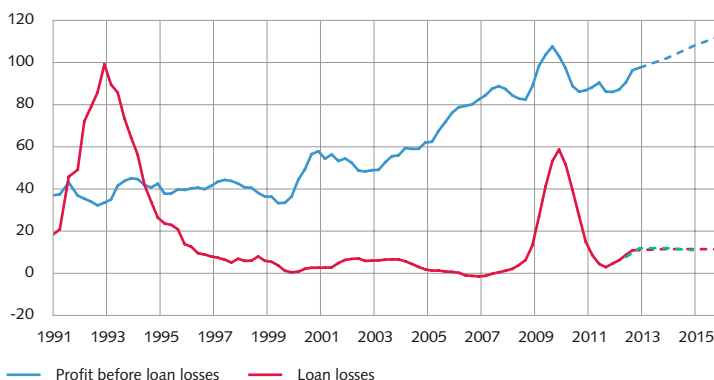
In addition, a poorer development in the euro area could lead to a deterioration in economic activity in Sweden, which, in turn, could affect Swedish house prices.

The Riksbank deemed that, should Swedish house prices fall at the same time as significant unease prevailed on the financial markets, the Swedish banks would find it difficult to obtain funding as demand for covered bonds would decline. In addition, it would become more expensive and more difficult for the banks to obtain other wholesale funding if investors generally wished to reduce their exposure to the Swedish banking sector. The weakening of economic activity could also entail higher loan losses than in the main scenario.

However, the Riksbank's stress test of the Swedish banks' resilience to higher loan losses showed that the banks' core Tier 1 capital ratio, that is, the banks' equity capital in relation to their risk-weighted assets, would remain high, even in the event of much greater

Chart 11

Profit before loan losses and loan losses (net) in the major banks, cumulative over four quarters, SEK billion, 2012 prices

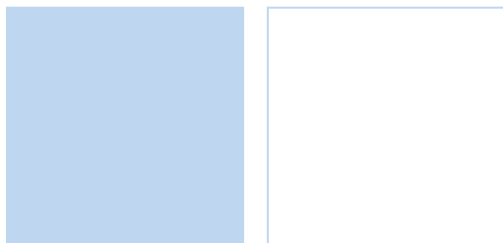


Note: The broken lines represent forecasts in the Riksbank's main scenario according to the Financial Stability Reports 2012:2 (blue and red lines) and 2012:1 (green line). The forecasts for profit before loan losses are in accordance with the consensus estimate presented in SME Direkt. Sources: Bank reports, SME Direkt and the Riksbank.

loan losses. It was primarily due to their strong capital ratios that the banks could show that they had the market's confidence and thereby good access to wholesale funding. The Riksbank's analysis additionally showed that the banks had strengthened their liquidity buffers, which was also confirmed when the Riksbank tested the banks' liquidity situation. This test made clear that the Swedish banks had relatively good resilience to short-term liquidity problems compared to many European banks, and that they were better equipped to manage short-term stress on the funding markets than was the case before the financial crisis of 2008–2009.

The Riksbank's recommendations

Although the Swedish banks are deemed to have strong resilience to a decline in economic activity, the Riksbank considered that their resilience over the longer term needed to be increased. Among other things, this assessment was based on the fact that the Swedish banking system is closely inter-



Everybody needs to make various payments. For instance, this could be a matter of paying the rent, depositing money in a savings account, or borrowing for somewhere to live. These transactions take place through the financial system. The Riksbank continually analyses and oversees developments in the financial system to ensure that the system is functioning safely and efficiently. This analysis and oversight includes financial companies such as banks and mortgage institutions, marketplaces such as stock markets and infrastructure such as Bankgirot.

linked, which means that problems in one bank risk rapidly spreading through the entire banking system. Furthermore, the Swedish banking system is large in relation to the Swedish economy, which means that the socioeconomic costs risk being greater in the event of a crisis.

In the light of the Swedish banking system's structure and the prevailing risk outlook, the Riksbank recommended the major Swedish banks to ensure that they fulfilled the proposed capital adequacy requirements for core Tier 1 capital ratios of at least 10 per cent by 1 January 2013 and at least 12 per cent by 1 January 2015. Higher demands for more and higher quality capital will strengthen confidence in the individual banks and thereby also in the system as a whole. More capital will also increase the markets' confidence in the banks, meaning that it will become easier for the banks to obtain access to wholesale funding. This, in turn, means that the banks will be able to provide households and companies with credit, even in times of financial unease.

During the spring, the Riksbank also repeated its earlier recommendation that the banks should reduce their liquidity risks, as they are still, to a great extent, using wholesale funding with short maturities, and reduce their dependence on funding in US dollars and euros. The Riksbank thereby continued to urge the Swedish banks to comply with the Basel Committee's short-term liquidity measure, the LCR, earlier than proposed by the Basel Committee, and to go beyond the requirements of the Basel III Accord by also complying with the LCR for US dollars and euros. In addition, the Riksbank recommended the major Swedish banks to continue to reduce the difference in maturities between their assets and liabilities and thereby comply with the Basel Committee's long-term liquidity measure, the Net Stable Funding Ratio (NSFR).

The Riksbank also maintained its earlier recommendations that the clarity of the major banks' liquidity reporting should be improved as the banks' reports still lacked certain information and were not completely comparable between banks.

The banks' resilience was also strong in the autumn, but the risks associated with developments abroad remained extensive

During the second six months of the year, unease on the financial markets dampened due to a series of decisions, taken by the ECB and the euro area countries, aimed at making it easier for the countries with sovereign debt problems to implement the necessary measures to put their sovereign debt problems into order and strengthen competitiveness. As a result of this, it became easier for European banks to obtain funding on the financial markets. However, many banks from countries with weak public finances remained dependent on the ECB for their funding.

The major Swedish banks remained well-capitalised compared with many other European banks. Their earnings benefited from the relatively strong demand

for credit from both households and companies due to the relatively strong economic development in Sweden. In addition, the banks' loan losses were small.

During the autumn, the Riksbank assessed that the banks' earnings before loan losses would increase in 2013–2015, even though the Swedish economy and thus household and corporate demand for credit was expected to slow down. Strong earnings and low loan losses were also expected to contribute to the Swedish banks continuing to be able to obtain funding on the financial markets without problems.

Although the unease on the financial markets had dampened, uncertainty about developments in the euro area remained so great that it was deemed to continue to form the greatest risk to financial stability in Sweden. The Swedish banks had certainly increased their liquidity buffers, but their great dependence on foreign wholesale funding meant that they were still vulnerable to increased market unease. If financial unease should increase again, the Swedish banks could find it difficult to obtaining funding on the international capital markets.

Sweden and the Swedish banks could also be affected if the recession in the euro area were to become deeper and more protracted than expected. In the event of a substantially deteriorated situation in Europe, the banks' loan losses, above all from loans to small and medium-sized companies, could increase. A significant weakening of economic activity could also contribute towards Swedish housing prices starting to fall. As Swedish household debt is at a historically high level, this could ultimately risk negatively impacting the Swedish economy and the Swedish banks.

At the same time, the Riksbank's stress tests showed in the autumn that the major banks should be able to cope with higher loan losses if the economic situation in Europe and in Sweden should deteriorate. However, the stress tests are based on historical relationships between loan losses and macroeconomic development, which do not necessarily have to apply in a stressed situation. It is therefore conceivable that the banks' losses in the stress scenario could be greater than calculated if the scenario were to become reality. In addition, the fact that the banks' losses are increasing may mean that distrust of the banks is rising and that they may therefore find it difficult to obtain funding on the financial markets, even though they can cope with greater loan losses.

According to the stress tests, the banks also had good resilience to short-term stress on the financial markets. However, their resilience declined over the longer term, which is problematic in the Riksbank's assessment, given the banks' great dependence on wholesale funding in foreign currency.

The Riksbank's recommendations

Even if the Swedish banks' resilience to a poorer development in Europe and in Sweden, over the short term, is assessed to be good, the Riksbank again pointed out in the autumn that there was a need for structural changes in the Swedish banking system. The Riksbank thus

recommended that the banks ensure that they have a core Tier 1 capital ratio of at least 10 per cent by 1 January 2013 and at least 12 per cent on 1 January 2015 to be able to manage possible future losses and disruptions to the financial markets. The Riksbank also considered that the banks should continue to decrease their structural liquidity risks and approach the minimum level of 100 per cent in the NSFR to further reduce their sensitivity to market disruptions. In addition, the Riksbank repeated its recommendation to the effect that public liquidity reporting needed to be improved through the reporting, by the banks, of comparable key ratios in the form of the sub-components of the LCR measure. As well as this, the banks should clarify their reporting of information on the degree of mortgaged assets.

The Riksbank also made a recommendation that the framework surrounding the Stibor reference rate should be reformed to rectify deficiencies and strengthen confidence in this interest rate. This would involve establishing clear responsibility, clear governance and control, better transparency, the possibility of verification and an obligation for the banks to conduct transactions at their stated bids on request. The Riksbank based this recommendation on the results of its inquiry that indicated a number of deficiencies in the framework surrounding Stibor (see the section "Analysis of the Stibor reference rate").

Follow-up

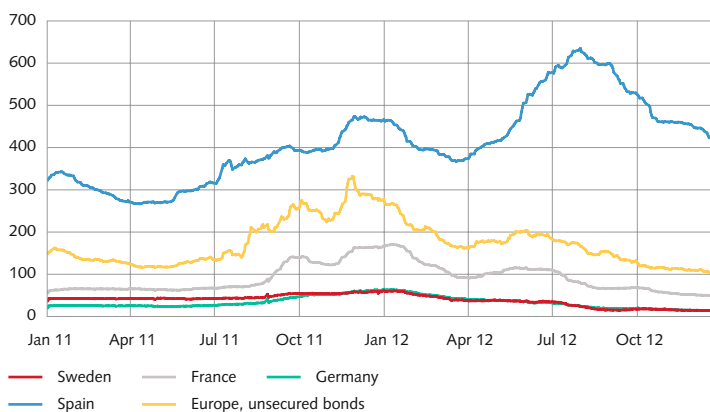
The financial system in Sweden was able to uphold its functions in 2012, even though the financial markets were characterised by unease over the sovereign debt crisis in the euro area.

This unease on the financial markets made it more difficult and more expensive for weak banks and governments within the euro area to obtain funding. The ECB was therefore forced to implement several measures to support the European banking system. Central banks in other countries outside the euro area also adopted measures to stimulate the economy. These measures helped dampen the unease on the financial markets and, for many international banks, it became both easier and cheaper to obtain funding. However, banks in a vulnerable capital situation in countries with sovereign debt problems remained dependent on the ECB for their funding.

The Riksbank continued to maintain close contacts with participants in the financial system, but did not need to adopt any measures to increase the liquidity in the Swedish banking system over the year. The Swedish banks had good access to wholesale funding and could, in addition, obtain funding for lower prices than many other European banks (see Chart 12). This meant that they did not have any problems providing households and companies with credit. Lending to households and companies continued to increase over the year, albeit at a lower rate than previously due to lower credit demand. In general, the Swedish financial infrastructure also functioned very well. Few technical disruptions were registered, even though transaction volumes increased.

Chart 12

Difference between yields for European banks' bonds and corresponding interest-rate swaps, basis points



Note: The chart shows the difference between the yields for each type of bond and an interest-rate swap with the same maturity.

Source: Barclays Research.

The clarity of the Riksbank's communication concerning financial stability increased further when the stability analysis was further developed with the help of new indicators such as the systemic risk indicator and the stability web. In addition, the Riksbank defined its recommendations to the major Swedish banks more precisely and changed the structure of the Financial Stability Report to further increase the clarity of its recommendations.

During the year, the major Swedish banks continued to adapt to the recommendations the Riksbank made at the end of 2011 and in June 2012. The banks' core Tier 1 capital ratios were high and in line with the Riksbank's recommendations. Over the autumn, all of the major banks strengthened their resilience to short-term liquidity strains by increasing the size of their liquidity buffers, both as regards the total of all currencies and separately in euros and US dollars. With this, the banks complied with the two recommendations to reduce their own short-term liquidity risks and maintain enough liquidity in these two currencies. In addition, the major banks started reporting the LCR on a quarterly basis in their interim reports, thereby complying with the recommendation for this.

The banks included in the so-called Stibor panel were also well aware of the problems with the reference rate and were actively working to review the framework for Stibor. The Riksbank participated as an observer in this work. The shortcomings that the banks identified and intended to rectify were in line with the Riksbank's recommendation for this.

However, the Riksbank assessed that there were still significant differences in maturities between the assets and liabilities in the Swedish banking system. While the banks had certainly slightly reduced their structural liquidity risks by increasing their long-term funding in relation to illiquid assets, this was a slow

process. Nor had the major banks' public reporting improved to the extent the Riksbank had advocated. Consequently, at the end of the year, the Riksbank considered that there still remained a degree of improvement work for the banks in these areas.

■ The RIX payment system

The Sveriges Riksbank Act states that the Riksbank shall promote a safe and efficient payment system. One way of doing this is to provide a system that makes it easier for the market participants to carry out mutual financial transfers without credit or liquidity risks. The RIX system is one such system. In addition, the banks, clearing houses and other market agents participating in RIX always receive access to funding in Swedish kronor during the day.

The significance of RIX to the Riksbank's policy work

RIX is constructed in such a way as to prevent exposures accumulating between its participants. When it is time to conduct a transfer, this happens immediately, assuming that the payer has liquidity available. To reduce the risk of being unable to implement transfers through the RIX system because participants lack liquidity, the Riksbank can supply liquidity to the system during the day by granting credit to the participants against collateral. This collateral mainly consists of Swedish and foreign securities with good credit ratings, but can also be foreign currency in an account with a central bank. The result of all this, in turn, is that the financial system becomes more secure. Carrying out transfers immediately also implies an increase in the efficiency of the payment system.

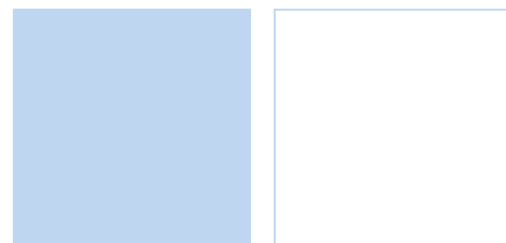
In association with RIX, the Riksbank also provides special accounts and intraday credits to make securities settlements more efficient. Euroclear Sweden, the Swedish central securities depository, manages these accounts and credits on behalf of the Riksbank.

A safe and efficient payment system also requires the financial infrastructure to be robust. This means that RIX must have a high level of accessibility, which presupposes the existence of several operating facilities and well-exercised routines in the event that disruptions occur. However, an infrastructure such as RIX is also affected by the participants in the infrastructure. Consequently, to ensure a high level of continuity and preparedness in the Swedish payment infrastructure, the Riksbank participates in the work conducted under the framework of FSPOS, a group for private-public cooperation in the financial sector.

RIX is also of great significance to the operational framework for the implementation of monetary policy. The interest rates for the participants' accounts in the Riksbank are directly linked to the repo rate (see also the box "Cash usage and the Riksbank's activities"). RIX also makes it easy for the monetary policy counterparties to balance their accounts in the Riksbank. Furthermore, it is through RIX that the Riksbank itself carries out various transactions, such as monetary policy transactions of various types, other credits that the Riksbank provides in extraordinary situations and payments for deliveries of cash to and from the banks.

RIX's role in the payment infrastructure

The RIX system brings together many agents carrying out financial transactions in Sweden. These transactions are carried out using several different systems that, together, form the Swedish payment infrastructure. Bankgirot manages payments of companies' invoices, many private individuals' Internet payments, transfers between bank accounts, card payments and so on. Euroclear Sweden manages the settlement of securities transactions, with a portion of these securities transactions being included in the Dutch company EMCF as a central counterparty. Nasdaq OMX is a Swedish central counterparty that manages the settlement of transactions in derivative products,



For society to function efficiently, people need to be able to pay for goods and services. In a modern economy, payments are made in cash, by card or by transferring money between accounts. When the banks need to transfer payments between themselves, they use the Riksbank's payment system RIX. RIX thus forms the hub of the Swedish payment system and the Riksbank functions as the banks' bank.

while CLS is an international system for the settlement of foreign exchange transactions. These clearing systems are RIX participants. In addition to these systems, banks, the Swedish National Debt Office and the Riksbank are RIX participants.

RIX ties the financial flows together, so RIX thereby forms the centre point of the payment infrastructure. The RIX participants have accounts in the Riksbank that they can use to carry out mutual transfers. These transfers may concern the participants' own financial transactions or transactions made on behalf of their customers. Certain clearing systems also send transfers to RIX on behalf of their participants. Those banks or other financial participants who have chosen not to participate in RIX engage a bank participating in RIX to carry out transfers to other banks and their customers.

Almost all of the payments in Swedish kronor that are not made internally within an individual bank are handled in the RIX system in some form. RIX therefore also plays a central role in the Swedish financial system. The turnover in RIX over seven days is equivalent to Sweden's GDP.

Objectives of RIX's operations

As RIX is of decisive importance to the efficient functioning of the financial system, the Riksbank has set a high target for its availability. The system must be available for at least 99.85 per cent of the time it is open. RIX must also comply with participant requirements for functionality. Consequently, the Riksbank's aim is that 80 per cent of the participants, corresponding to at least 70 per cent of the transaction volume in the system, are satisfied with RIX.

All costs relating to the provision of services in RIX are to be covered by fees paid by the participants. This means that a charge is also calculated for the Riksbank according to the same principle as for the other participants and, furthermore, that the Riksbank stands for the cost of the functions used to implement monetary policy.

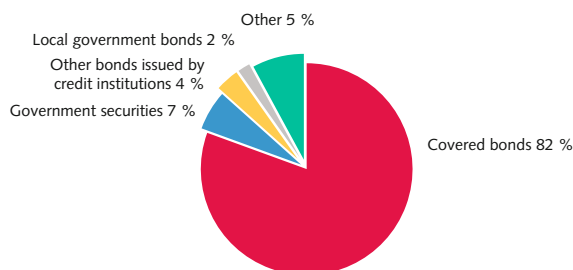
Activities in 2012

During the year, the Riksbank carried out a number of activities to develop RIX's operations and thereby further improve the conditions for fulfilling its task. Some of these activities were also initiated by the participants in RIX.

Among other initiatives, the Riksbank conducted several exercises of contingency procedures, both independently and together with the participants, to ensure efficient contingency procedures in the event of a failure of the technical system. The Riksbank also participated actively in the cooperation on continuity issues existing in the financial sector under the framework of FSPOS. In addition, the Riksbank continued to inquire into the need to introduce a solution that will offer the RIX participants access to a functioning payment system even if operations at the Bank's normal site were to cease. As such a solution would have to consider the changes arising from

Chart 13

Collateral value pledged for credit in RIX at the end of 2012, by type of security



Note: The total value of collateral pledged for credit in RIX amounted to SEK 128 billion on 31 December 2012.

Source: The Riksbank.

the takeover of the operation and administration of the Riksbank's infrastructure by an external supplier (see the section "Organisation and governance"), this inquiry work will continue in 2013.

In the autumn of 2012, the Riksbank decided on new principles for collateral for credit in the Riksbank. Among other effects, this decision limited the scope for using own covered bonds as collateral for credit. This means that the Riksbank is returning to limiting the possibilities for utilising this type of collateral in the same way as until autumn 2008. At the same time, the possibility of using other securities issued by credit institutions is also limited. Furthermore, asset-backed securities will no longer be accepted. The new principles will enter into force in April 2013, but certain transitional regulations will mean that they will not be fully applicable until July 2014.

In the spring of 2012, negotiations were concluded for an agreement for the Swedish krona's participation in Target 2 securities (T2S), a project for a pan-European platform for securities settlement run by the ECB and the national central banks of the monetary union. The Riksbank was invited to make such an agreement, but decided to decline in light of the Swedish banks' positions. In December 2011, the Swedish Bankers' Association announced that the Swedish banks are positive to Swedish participation in T2S in the slightly longer run. However, the Swedish Bankers' Association considers that, in the short term, the costs and risks involved are too high for it to be possible for the Swedish krona to join T2S. Moreover, there are still a number of questions still outstanding with regard to the platform. The Swedish Bankers' Association therefore considered that the question of joining T2S should be reviewed again in a few years' time. In light of this, the Riksbank did not take any final stance on the proposed agreement either, but declared itself prepared to address the issue if there should be interest in having the Swedish krona join T2S at a future date. Following this decision, the Riksbank concluded its active work with T2S. However, the Riksbank is following the continued discussions of the matter held by the Swedish banks.

Considering the RIX participants' desire to be able to use RIX in a more flexible manner, the Riksbank decided to amend the terms and conditions for RIX to make it possible for participants to have more than one account in the system, for example to separate a specific operation.

Since the start of 2012, one new participant has joined RIX, the Danish bank Nykredit Bank. At the close of the year, there were a total of 25 participants in system.

On average, RIX handled 14 495 transactions per day in 2012. This is an increase of 6 per cent compared with the previous year. The average transaction amounted to around SEK 34 million.

The average daily turnover was around SEK 498 billion. This implies an increase of 10 per cent compared with the previous year.

On average, the RIX participants had a credit facility of around SEK 135 billion during the year, which is a decrease of around SEK 8 billion compared with the previous year. This credit facility is equivalent to the value of collateral which is pledged by the participants to the Riksbank and which is not used as security for other credit granted by the Riksbank. The sum of the maximum credit that each participant utilised per day was equivalent on average to 63 per cent of this credit facility. At the close of 2012, covered bonds comprised 82 per cent of the value of all collateral pledged to the Riksbank (see Chart 13).

Follow-up

The Riksbank's targets for the RIX payment system were met in 2012. The system's overall function was good. During the year, there were three disruptions affecting the formal availability of the system. It is considered important to avoid such disruptions, as they can have major consequences for the participants. However, their actual consequences are dependent on the length of the disruption and the time that it happens.

The most serious disruption meant there was no communication to or from RIX for 130 minutes. This was caused by a technical fault in the computerised handling of communication with the international system SWIFT, which is used by the Riksbank to manage messages concerning transactions in RIX. All in all, the disruptions meant that RIX was available for 99.87 per cent of the time when payments were being handled, which means that the availability target was met. During the year, there were also seven minor incidents in RIX that had limited consequences for the participants.

The cost of the operations was SEK 62 million, 115 per cent of which was covered by fees. This means that operations in 2012 fully covered their costs. Over the three-year period 2010–2012, cost coverage was 106 per cent.

In 2012, the Riksbank carried out a survey among the RIX participants. This investigation included questions about their level of satisfaction with the system's functionality, availability and support. The average grade given by the participants as response to these questions was 4.7 out of 5, which shows that most participants are satisfied or very satisfied with the system. 21 of 25 participants in RIX took part in the survey.

■ Cash provision

The Riksbank has the exclusive right to issue Swedish banknotes and coins and is responsible for the provision of cash in Sweden. This means that the Riksbank supplies banknotes and coins, destroys banknotes and coins that can no longer be used and redeems banknotes that are no longer legal tender. The Riksbank also follows developments on the payment markets and analyses the use of cash and alternative means of payment in the economy.

The target of this activity is to ensure that banknotes and coins are of high quality and that the Riksbank's provision of cash is secure and efficient. The general public and companies that handle cash must have great confidence in banknotes and coins and in cash provision.

Table 2

Value of banknotes and coins in circulation, SEK billion

	2007	2008	2009	2010	2011	2012
Total value on 31 December	114	112	111	105	100	96
Banknotes	109	106	105	100	95	91
Coins	6	6	6	5	5	5
Total value, average during the year	109	107	106	103	99	94
Banknotes	104	102	100	98	94	89
Coins (excluding commemorative coins)	5	5	5	5	5	5

Note: The data in the table have been rounded off.

Source: The Riksbank.

The Riksbank supplies cash to the banks via its two branches for cash handling in Tumba and Mölndal. The banks then distribute the cash to the retail sector and the public via their 17 cash depots around the country. The practical handling of these cash depots is conducted by cash-in-transit companies on the banks' behalf. These companies are also responsible for the distribution of banknotes and coins.

Activities in 2012

During the year, the Riksbank continued its work on safeguarding the provision of cash and following the development of the value of cash in circulation. At the same time, the Riksbank continued its work on developing a new series of banknotes and coins.

Development in value of cash in circulation

The total value of the cash in circulation amounted to SEK 96 billion at the end of 2012, which is shown in the item Banknotes and coins in circulation on the liabilities side of the balance sheet. This is SEK 4 billion less than at the end of 2011 (see Table 2).

The value of the cash in circulation is governed by the demand for banknotes and coins, which varies over the course of a year. Demand increases in connection with Christmas shopping towards the end of the year, and then declines after the turn of the year. It is therefore possible to describe with greater precision how much cash is in circulation throughout the year by stating an average of the value of the cash on the final day of the month during the twelve months of the year. This average value was around SEK 94 billion in 2012, which is SEK 5 billion lower than the average for 2011 (see Table 2).

The value of the total amount of cash in circulation has been declining for five years in a row now. The 1 000-krona banknote lies behind a significant part of this decline in value. A closer analysis of the factors behind the development of the value of cash in circulation is presented in the box "Cash usage and the Riksbank's activities".

The 500-krona note is the most common banknote denomination. It comprised 32 per cent of the total number of banknotes and accounted for 61 per cent of the average value of the banknotes in circulation, which amounted to SEK 89 billion in 2012 (see Chart 14). At the end of the year, the value of banknotes was SEK 91 billion.

The average value of the coins in circulation during the year amounted to SEK 5.2 billion, excluding commemorative coins (see Chart 15). At the end of the year, the value of coins was SEK 5.3 billion, excluding commemorative coins.

The most common denomination of coin was the 1-krona coin. This coin accounted for 72 per cent of the total number of coins in circulation and for 26 per cent of the average value of coins in circulation during the year.

Chart 14

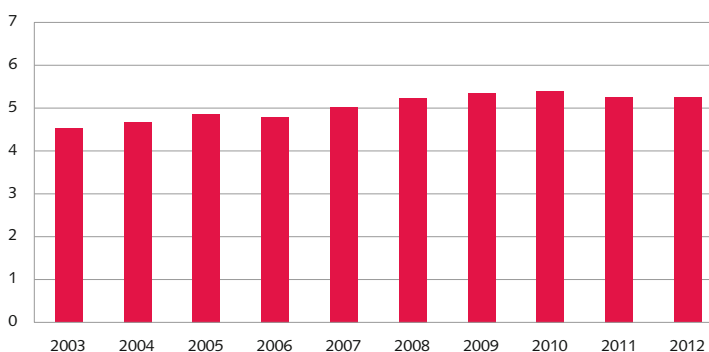
Average value of banknotes in circulation, SEK billion



Source: The Riksbank.

Chart 15

Average value of coins in circulation, SEK billion



Note: The data in the chart does not include the value of commemorative coins.

Source: The Riksbank.

Continued work on new banknotes and coins

During 2012, the Riksbank continued to work on designing a new series of banknotes and coins in accordance with the decision of the Executive Board in 2010. The objective is to modernise the banknotes so that they continue to have effective protection against counterfeiting. The coins will become lighter and smaller to reduce handling costs and environmental impact. The new series of banknotes and coins will also contain two new denominations – a 200-krona banknote and a 2-krona coin. This means that the manufacture of a 2-krona coin will be resumed after a longer period of time.

In April, the Riksbank's competition for the design of the new banknotes was concluded. After a jury had assessed all entries on the basis of overall artistic concept, practicability, innovation and originality within the traditional framework of Swedish banknotes, composition of text, figures and images and differences between denominations within the framework of the overall concept, the General Council of the Riksbank decided to appoint Göran Österlund's

Figure 2

Artistic basis for the new banknotes



Source: The Riksbank.

Figure 3

Artistic basis for the new coins



Source: The Riksbank.

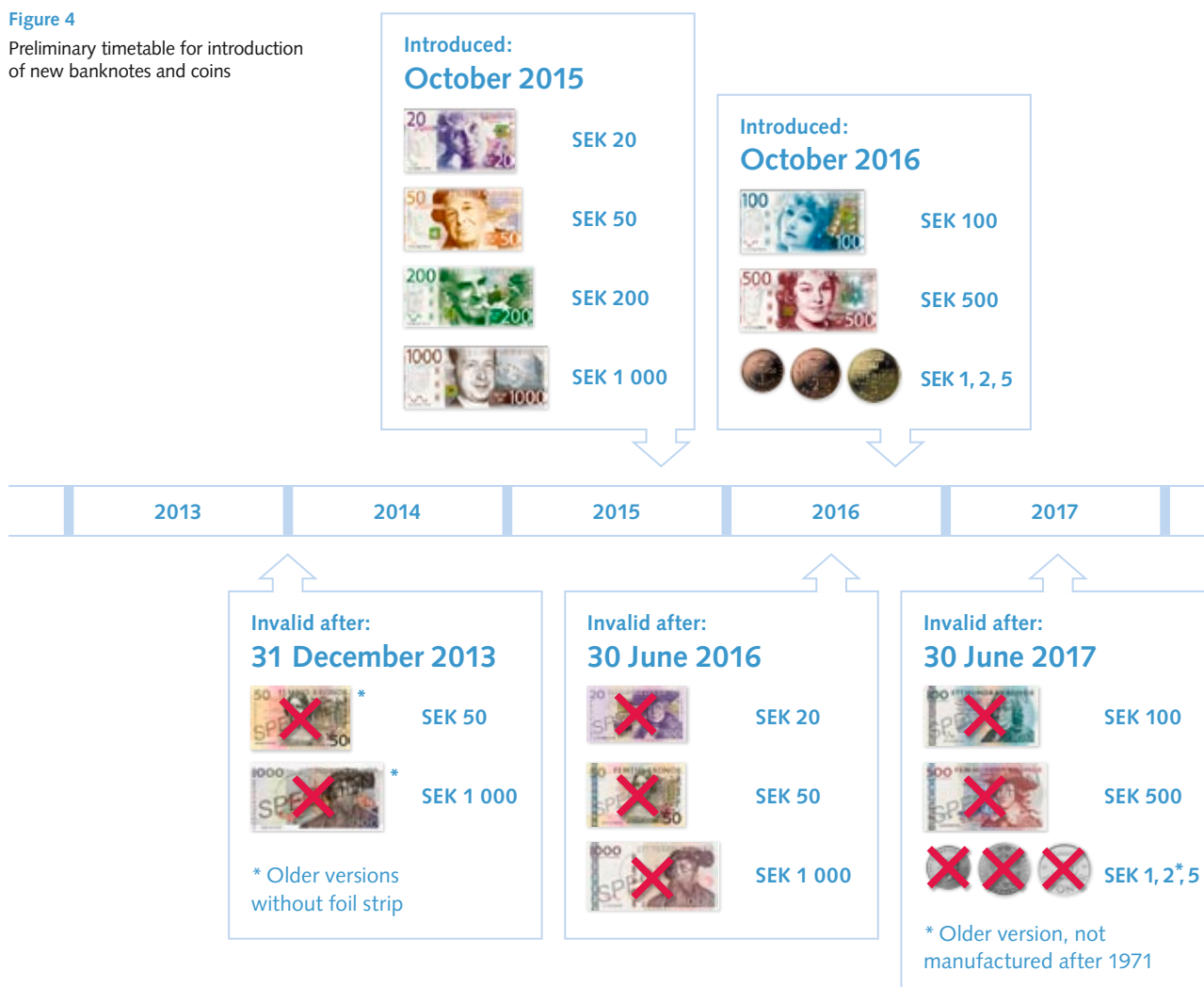
entry “Kulturrestan” (“Cultural Journey”) as winner (see Figure 2). This entry will thereby form the artistic basis for the design of the new Swedish banknote series and the foundation for the continued adaptation and final presentation of the banknotes. Following the adaptation of the banknotes’ design, in October the General Council approved the essential design of the new banknotes.

The artistic basis for the production of new 1-, 2- and 5-krona coins was decided by the General Council of the Riksbank in August. The General Council chose a design proposal on the theme of “Sun, wind and water”, designed by Ernst Nordin (see Figure 3). According to the jury’s motivation, the overall impression of the proposal is of a beautiful and user-friendly coin series based on a fine balance of innovation and Swedish coin tradition. In the new coin series, the 10-krona coin will remain unchanged.

In May, the Executive Board of the Riksbank decided on the timetable for the introduction of the new banknotes and coins. The banknotes and coins will be replaced in two stages in accordance with the recommendations of the cash market agents (see Figure 4). The first stage will be initiated in October 2015, when the Riksbank will start to issue new 20-, 50-, 200- and 1 000-krona banknotes. The current 20-, 50- and 1 000-krona banknotes are planned to become invalid on 30 June 2016. The second stage will be initiated in October 2016, when the Riksbank will start to issue new 100- and 500-krona banknotes. The current 100- and 500-krona banknotes are planned to become invalid on 30 June 2017. The new 1-, 2- and 5-krona coins will also be introduced in October 2016. The current coins of these denominations are planned to become invalid at the same time as the 100- and 500-krona banknotes, which is to say on 30 June 2017. The decision to declare banknotes and coins invalid will be taken by the Riksdag after the Executive Board, following consultation with the General Council, makes a submission on the matter.

At present, there are two valid versions of the 50- and 1 000-krona banknotes. In November, following a submission from the Riksbank, the Riksdag decided that the older 50- and 1 000-krona banknotes without foil strips would cease to be legal tender on 31 December 2013 (see Figure 4). These two banknotes will be declared invalid before the banknote changeover in accordance with the desire of banks, cash-in-transit companies and the retail trade to reduce the amount of banknotes in circulation ahead of the upcoming banknote changeover and thus make this changeover easier to manage. This decision is primarily expected to reduce the burden on the transportation and counting of banknotes during the changeover period.

Figure 4
Preliminary timetable for introduction of new banknotes and coins



Note: The decision to declare banknotes and coins invalid will be taken by the Riksdag after the Executive Board of the Riksbank, following consultation with the General Council of the Riksbank, makes a submission on the matter.

Source: The Riksbank.

Changes in cash handling by the Riksbank

The construction of a new cash-handling office for the Riksbank continued in 2012. The office is being built in Sigtuna municipality and will replace the Riksbank's present two offices for cash handling. When the office comes into operation, which is planned for 2013, the majority of the banknote handling on the new premises will be automated. The Riksbank does not plan to store and handle coins there; these operations will take place outside of the Riksbank's premises.

Responsibility for the storage and handling of the Riksbank's coins was supposed to be transferred to the cash-in-transit company Panaxia Security AB as of October. The Riksbank signed an agreement with the company in March but cancelled it in May when representatives of the company were found guilty of serious shortcomings in the exercise of their profession. The Riksbank has thus initiated a new procurement of services for the storage and handling of coins.

Follow-up

There was little counterfeiting of Swedish banknotes in 2012 (see Table 3). The value of the counterfeit notes removed from circulation amounted to SEK 181 800, which is a slight increase compared with 2011. The total number of counterfeit notes removed from circulation amounted to 533, which is slightly fewer than in 2011. It was mainly the 20-krona note and the older 50-krona note without a foil strip that were counterfeited. The increase in the value of counterfeit banknotes and the decrease in the number of counterfeit banknotes can be explained by the larger number of counterfeit 500- and 1 000-krona banknotes removed from circulation in 2012 as compared with 2011.

The Riksbank's assessment is that the security of cash handling in general is at a high level.

According to the Riksbank's assessment, there is great confidence in banknotes and coins in Sweden. A survey of the Swedish people's payment patterns, conducted in 2012, shows that 96 per cent of those asked feel secure when they use cash. About as many, 94 per cent, consider that paying with cash is fast and easy.

Table 3

The number of banknotes and coins

	2007	2008	2009	2010	2011	2012
Number of banknotes in circulation (millions)	390	392	354	351	343	336
Number of coins in circulation (millions)	2 047	2 168	2 236	2 248	1 989	1 889
Number of counterfeited banknotes	1 248	1 512	1 064	1 503	562	533

Note: The information on the number of banknotes and coins in circulation refers to the average over the year and is rounded off. The information on number of coins in circulation does not include commemorative coins.

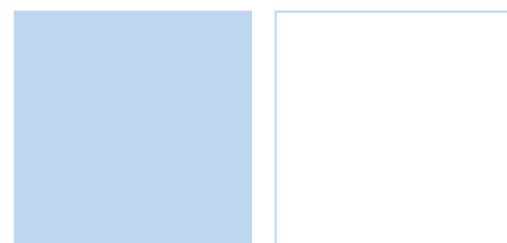
Source: The Riksbank.

Nine of ten people in Sweden consider that the quality of the 100- and 500-krona banknotes is good, and slightly fewer consider that the quality of the 50-krona banknote is good. In contrast, the quality of the 20-krona banknote is considered to be worst. Twelve per cent of those asked consider that this banknote is of poor quality, while 61 and 22 per cent consider the banknote's quality to be good or not so good. The perception of the 20-krona banknote as being of lesser quality is probably due to the careless manner in which the banknote is handled due to its low value. In addition, the banknote has a high rate of circulation between the public and the retail sector. Consequently, it is not returned to banks and cash-in-transit companies for quality control, and later for destruction by the Riksbank, as frequently as banknotes of a higher denomination.

About half of those asked consider that the quality of the 1 000-krona banknote is good. However, about as many had no opinion regarding the banknote's quality, which is probably because the 1 000-krona banknote is not used as a means of payment to such a great extent as banknotes of other denominations.

The Riksbank receives regular updates on how the provision of cash in society is functioning from the Riksbank's Cash Handling Advisory Board and the working groups linked to the Board. The Board includes representatives of the banks, bank-owned companies, cash-in-transit companies, the retail

trade, trade unions and the authorities concerned. The Cash Handling Advisory Board held one meeting in 2012. This meeting, which took place in October, mainly focused on the consequences of the bankruptcy of the cash-in-transit company Panaxia. The Board was able to establish that no general shortage of cash has arisen in society following the company's bankruptcy and that the necessary conditions existed for Panaxia to be liquidated in an orderly manner. However, there were still non-functioning ATMs and some retailers with cash handling problems. At the same time, the Riksbank noted that there is reason to question whether the existing rules for cash-in-transit companies' operations are sufficient. Consequently, in November, the Riksbank made a submission to the Riksdag regarding the appointment of one or more commissions of inquiry to review the formulation of the cash flow regulations in Sweden to ensure that cash handling takes place in a reliable manner. According to the Riksbank's proposal, the inquiry work should be focused on establishing a coherent and effective framework that contributes to ensuring the well-functioning, secure and economic handling of cash. The inquiry should include comprehensive analyses of which companies should be allowed to manage large amounts of cash, which licenses they should have, and which rules should be applied to these companies.



Banknotes and coins are used to carry out payments when the buyer and seller meet directly. In addition, households, companies and authorities hold banknotes and coins as a buffer against unforeseen expenses. The General Council of the Riksbank decides on the design of banknotes and coins and the general public obtains cash from banks, shops and ATMs. The Riksbank destroys the banknotes and coins that can no longer be used and redeems banknotes that are no longer valid.

Cash usage and the Riksbank's activities

The value of the total amount of cash in circulation in Sweden has been declining for five years in a row now. At the end of 2012, this value amounted to SEK 96 billion, which is about SEK 18 billion less than at the end of 2007. This is also clearly apparent when the value of banknotes and coins in circulation is placed in relation to gross domestic product (GDP), which shows that the value of the Swedish banknotes and coins has decreased from almost 10 per cent of GDP in 1950 to less than 2.5 per cent in 2012 (see Chart B1).

Demand for banknotes is declining. In contrast, demand for coins is increasing faintly over time.

How is demand for cash determined?

Cash is used to carry out payments in which purchaser and seller meet face to face. Cash is not the only way of paying in direct trade. There are other ways of carrying out payments, for example by means of various types of card. In addition, households, companies and authorities hold cash as a buffer against unforeseen expenses.

The declining level of cash use in Sweden is largely due to the increasing range of alternative payment instruments. The Riksbank's survey of Swedish payment behaviour shows that, in recent years, various types of debit and credit cards have become the most common instruments used by the public to carry out payments. On average, every person in Sweden has two cards, which is a large number from an international perspective. Similarly, the number of card terminals in shops is large: in Sweden, there are 22 terminals per 1 000 inhabitants. The annual number of card payments increased from 621 million to 1 697 million between 2002 and 2009, while the number of cash payments in the same period is estimated to have decreased from 1.5 billion to 1 billion. Both card payments and cash payments are perceived as secure. It is also worth noting that a small but growing share of the Swedish general public (1 per cent) uses mobile phones in various ways to pay in shops.

How demand for cash will develop in the period ahead largely depends on how many banknotes and coins households and companies will need to carry

out transactions. This, in turn, is dependent on the development of alternative payment instruments in society.

Using the available statistics for the development of household consumption together with the number and value of card transactions in society as a starting point, the value of outstanding banknotes and coins can be calculated to amount to between SEK 58 and 84 billion in 2020. In real terms, this means that the value of cash in circulation in 2020 can be expected to be between 24 and 47 per cent lower than in 2012.

This decline in the value of outstanding banknotes and coins affects the Riksbank's financial position. It is therefore important to analyse whether this change could be important to the Riksbank's activities and thereby its tasks of conducting monetary policy and promoting a safe and efficient payment mechanism.

Cash usage and the Riksbank's financial position

The value of banknotes and coins in circulation is entered as a liability in the Riksbank's balance sheet and thereby influences the Riksbank's financial position. The Riksbank pays no interest on this liability, so the issuance of banknotes and coins acts as an interest-free loan for the Riksbank.

When demand for banknotes and coins declines, the banks can hand cash in to the Riksbank, which credits the banks' accounts in the Riksbank with the same amount. The banks' account balances in the Riksbank are also reported as a liability in the Riksbank's balance sheet, but the Riksbank pays interest on this liability. If the banks are willing to commit this money to the Riksbank for a week by buying Riksbank Certificates, they receive interest equivalent to the repo rate (1.0 per cent at the end of 2012). If the banks do not wish to commit their money, they receive interest on these balances from the Riksbank at a rate 0.10 percentage points lower than the repo rate.

Consequently, when the banks hand cash in to the Riksbank, the size of the Riksbank's interest-free loan decreases. This decrease corresponds to an equally large increase of the Riksbank's interest-bearing loans. The decrease in the stock of banknotes and coins has thus meant

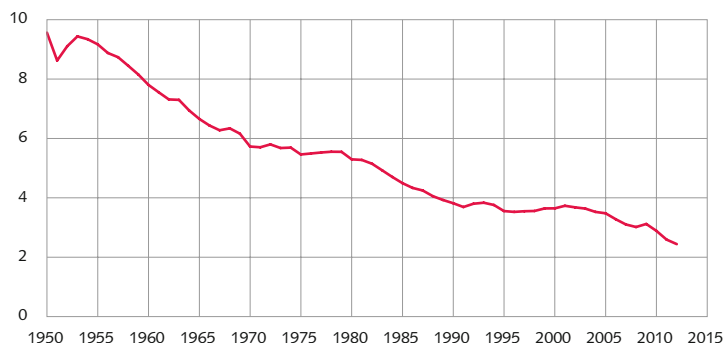
that, at the end of 2012, the Riksbank had an interest-bearing liability that was SEK 18 billion larger than it otherwise would have been. The Riksbank pays between 0.9 and 1.0 per cent in interest on this liability. In other words, the Riksbank's interest expense has increased by SEK 162–180 million per year, which is equivalent to a decrease of the Riksbank's net income (income less interest and commissions expense) of the same amount.

However, the repo rates applicable in the last five years are low, from a historical perspective. It may therefore be less appropriate to use them to calculate how much the Riksbank's expenses will increase if the value of banknotes and coins in circulation continues to decrease. Such a calculation should instead assume a repo rate compatible with an economy in balance, what is known as a neutral repo rate. According to the Riksbank's latest estimate from 2010, a reasonable interval for the neutral repo rate was stated at 3.5–4.5 per cent (see the article "What is a normal repo rate?" in Monetary Policy Report, February 2010). If the average repo rate over the last five years had been in this interval, the Riksbank's average net income would instead have decreased by SEK 630–810 million per year due to the decline in value of outstanding banknotes and coins by SEK 18 billion. If, on the other hand, it is assumed that the value of banknotes and coins will decline by a further SEK 38 billion to SEK 58 billion by 2020 in accordance with the Riksbank's forecast, the Riksbank's net income can be estimated to decrease by a further SEK 1.3–1.7 billion per year, assuming that the repo rate lies within the estimated interval. This means that net income may, in this case, be just over SEK 2 billion lower per year than in 2007. However, it is important to note that this calculation involves a degree of uncertainty, as it is based on assumptions of future cash demand and a neutral repo rate, both of which are very difficult to determine.

Over the last five years, the Riksbank's net income has amounted to about SEK 7 billion per year. This has covered the bank's operating costs, which amounted, on average, to about SEK 700 million per year over this period. This means that, even if the average net income over the

Chart B1

Value of banknotes and coins in circulation in relation to GDP, per cent



Note: The value of banknotes and coins in circulation is equivalent to public holdings of banknotes and coins issued by the Riksbank, excluding those banknotes and coins included in financial institutions' holdings. The data for 2012 has been calculated with the aid of the Riksbank's forecast for GDP from December 2012.

Sources: Statistics Sweden and the Riksbank.

years to come falls to SEK 5 billion due to the decline in value of cash in circulation, it will still cover current operating costs with a broad margin. This analysis does not consider other factors that may affect the Riksbank's income and expenditure.

The Riksbank thus deems that the value of banknotes and coins in circulation will continue to decline, leading to a reduction in net income too. However, this is not expected to affect the Riksbank's ability to carry out its operating activities in the years ahead.

Cash usage and monetary policy

Neither does the decrease in cash demand and thus the value of banknotes and coins in circulation affect the Riksbank's ability to maintain price stability. This is because the interest rate the banks receive for their account balances with the Riksbank is always based on the set repo rate, regardless of the size of the balances of the banks' accounts with the Riksbank. This means that the interest rate applied by a bank to deposits from or loans to its customers or other banks is only influenced by the repo rate that currently applies, and not by the value of banknotes and coins in circulation. In the future, the Riksbank can thus continue to directly influence the formation of interest rates in the economy and indirectly influence growth and inflation, regardless of how great demand is for cash at that time.

Cash usage and financial stability

Neither is the Riksbank's ability to safeguard financial stability and act in a crisis to support individual financial

institutions or the entire Swedish banking system affected by changes in demand for banknotes and coins in society. If a bank is deemed to need emergency liquidity assistance in Swedish kronor, that bank's account with the Riksbank is directly credited. If the emergency liquidity assistance needs to be supplied in foreign currency, the Riksbank uses funds from the foreign exchange reserve or borrows the currency from other central banks. Neither the size of the foreign exchange reserve nor the Riksbank's ability to lend foreign currency is dependent on demand for banknotes and coins.

The Riksbank's work on safeguarding financial stability is also a matter of monitoring and analysing the financial system with the aim of identifying and attempting to prevent risks that may threaten stability. From this perspective, the Riksbank deems that the fact that the value of cash is declining due to the development of such alternative payment instruments as charge cards does not constitute a risk for financial stability. On the contrary, the increasing number of alternative forms of payment may have a positive effect on the stability of the financial system as this increase may, in the long term, improve the efficiency of retail payment markets and reduce dependency on individual forms of payment.

The Riksbank has also pointed out, in several different contexts, that there are signs that cash is being used in Sweden to a greater extent than is economically efficient. However, at present, direct incentives to reduce cash usage in society

are small as the costs of cash usage are not visible to those paying in cash. However, the ongoing development of alternative payment instruments may lead to the use of cash in Sweden becoming more economically efficient.

In light of this, the Riksbank is continuing to analyse cash demand in society and the development of alternative forms of payment. This work includes regular studies of the Swedish people's payment behaviour and special inquiries into issues relating both to individual forms of payment and to the functioning of the payment system. Among other work, the Riksbank is presently inquiring into the market for retail payments in Sweden. The Riksbank is also participating in current research and policy work on the area, both in Sweden and in the international arena, for example within the framework of the BIS and ESCB.

■ Asset management

The market value of the Riksbank's financial assets was SEK 344.2 billion at year-end.

The total return was SEK –2.5 billion, while return excluding exchange rate effects was SEK 3.6 billion.

The Riksbank manages financial assets to ensure that it can fulfil its statutory objective and perform its tasks: to implement monetary policy, to be prepared to intervene in the foreign exchange market and to be able to provide temporary liquidity assistance to banks. Therefore the composition of the assets must ensure the tasks can always be performed. Given this, the assets must then be managed to provide the highest possible long-term return in relation to the risk taken. A good long-term return on the assets also strengthens the Riksbank's financial independence.

The Riksbank's financial assets

The Riksbank's financial assets consist of the gold and foreign exchange reserves, including receivables from the International Monetary Fund (IMF), assets relating to the Riksbank's monetary policy activities and derivative instruments.

Like many other central banks, the Riksbank has a gold reserve. This is, in part, a remnant of the days when the value of the banknotes and coins in circulation was linked to gold. The gold reserve contributes to counteracting fluctuations in the value of the foreign exchange reserve, as the price of gold does not usually follow the same pattern as the value of the foreign exchange reserve. The gold reserve is reported under a special heading on the Riksbank's balance sheet.

The foreign exchange reserve consists of debt securities in foreign currencies with high liquidity and low credit risk, primarily government bonds. To reduce the market risk in the foreign exchange reserve, the Riksbank invests the reserve in several currencies, including currencies not normally used to intervene on the foreign exchange market or to provide emergency liquidity assistance.

Being able to provide temporary liquidity assistance in foreign currency when needed and at short notice is the task that makes the greatest demands on the composition of the gold and foreign exchange reserve. Consequently, most of the foreign exchange 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. The Riksbank's tasks entail the foreign exchange reserve focusing on assets in US dollars and euro. The value of the reserve measured in SEK is thus affected by the fluctuations in these currencies' exchange rate against the Swedish krona.

The Riksbank's assets also include receivables from the IMF, as the Riksbank is responsible for the obligations ensuing from Sweden's participation in the Fund. The Riksbank lends money to the IMF, which in turn lends money to countries with balance

of payment problems, that is, countries that have difficulty in financing their foreign debt.

The foreign exchange reserve and the receivables from the IMF are reported on the balance sheet under the heading Claims on residents outside Sweden denominated in foreign currency.

To be able to implement its monetary policy, the Riksbank may also hold so-called monetary policy assets. These assets may consist of the claims on Swedish banks resulting from repurchase transactions with the banks – the monetary policy repo. However, nowadays the banking system has a liquidity surplus that the Riksbank borrows either by issuing Riksbank Certificates or via overnight loans, what are known as fine-tuning transactions. This borrowing means that the Riksbank has a debt to the banks. This debt is reported on the balance sheet under the heading Liabilities to credit institutions in Sweden related to monetary policy operations denominated in Swedish kronor. Since the second six-month period of 2012, the Riksbank also holds monetary policy assets in the form of securities issued in Swedish kronor (see the section "Maintaining the value of money – price stability"). These assets are reported on the balance sheet under the heading Securities of residents in Sweden denominated in Swedish kronor.

To facilitate the management of financial risk, the Riksbank can use derivative instruments. The derivative instruments with a positive value at the year-end are reported on the balance sheet under the heading Other assets, while the derivative instruments with a negative value are reported under the heading Other liabilities.

Chart 16 shows the composition of the Riksbank's financial assets at the end of 2012.

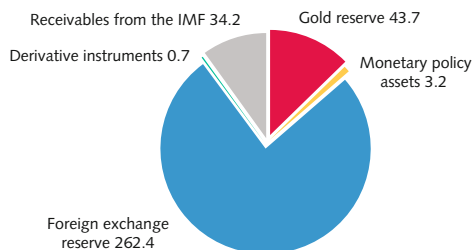
The Riksbank's financial regulatory structure and risk management

The financial risk policy of the Riksbank establishes the overall frameworks for the risk the Riksbank is prepared to accept in asset management. The Asset Management Department has a Middle Office that is responsible for day-to-day risk control and calculation of return on the Riksbank's assets. There is also a Risk Division in the Riksbank, which is part of the General Secretariat and responsible for overall risk control (see the section "Organisation and management").

The Riksbank's financial risks consist of liquidity risks, market risks and credit risks. Liquidity risk is defined as the risk that the Riksbank will be unable to perform its tasks and meet its commitments because the assets in the gold and foreign exchange reserves cannot be sold in time or can only be sold

Chart 16

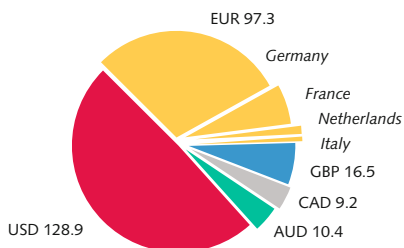
The Riksbank's financial assets at the end of 2012, SEK billion



Source: The Riksbank.

Chart 17

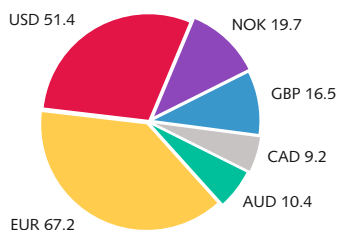
Composition of the foreign exchange reserve at the end of 2012, SEK billion



Source: The Riksbank.

Chart 18

The Riksbank's foreign currency exposure at the end of 2012, SEK billion



Source: The Riksbank.

at a significantly reduced price. Market risk, which can in its turn be divided into foreign exchange risk, interest rate risk and gold price risk, is the risk that the market value of the Riksbank's assets will fall. Credit risk is the risk of losses due to the Riksbank's counterparties or issuers of the securities in which the Riksbank has invested failing to meet their financial commitments.

The Riksbank follows up the risks in its asset management on a continuous basis using Value-at-Risk (VaR) as the main measurement of market risk. VaR measures the greatest loss that can occur as a result of price movements over a given period of time and with a given degree of probability. The return on the assets in the foreign exchange reserve is also measured

taking into account the risk the Riksbank takes when managing these assets. The risk-adjusted return is calculated with the aid of what is known as a Sharpe ratio.

In addition to regularly following up the risks in the asset management, the Riksbank also regularly tests the sensitivity of the gold and foreign exchange reserves to unexpected market events. The tests show how much the value might decline if a particular scenario, imagined or historical, were to occur.

In addition to financial risks, there are operational risks. These risks exist in all activities and can lead to losses if, for instance, someone makes a mistake or does something unlawful or if an error arises in the technical systems (see the box "Risks in the Riksbank's activities" in the section "Organisation and management").

Activities in 2012

The measures taken by various central banks to stimulate economic developments meant that market rates for government securities fell in several countries over the year. As a result, the greater part of the holdings of bonds in the Riksbank's foreign exchange reserve increased in value. In contrast, the value of the gold and foreign exchange reserves, expressed in Swedish kronor, decreased as the Swedish krona appreciated in relation to most of the currencies towards which the foreign exchange reserve is exposed.

As of the second six-month period, the foreign exchange reserve's assets were partly used to fund the purchase of securities issued in Swedish kronor, in accordance with the decision to acquire a bond portfolio in Swedish kronor to safeguard the Riksbank's crisis preparedness in the event of a new financial crisis (see the section "Maintaining the value of money – price stability"). This redistribution from foreign currency to Swedish kronor did not affect the Riksbank's balance sheet or the banking system's liquidity surplus.

The banking system's liquidity surplus was managed over the year through fine-tuning transactions and Riksbank Certificates.

Management of the gold and foreign exchange reserves

Considering economic developments in the euro area and the ongoing unease on the financial markets, during the year the Riksbank redistributed its holdings of government bonds issued in euros. This redistribution involved the Riksbank reducing its holdings of Austrian, Belgian, Italian and Spanish securities, above all in favour of German government bonds.

To spread the risks and thereby 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 mainly were made in British and Canadian government bonds, as well as Australian state and federal government bonds. At the end of the year, these amounted to 14 per cent of the foreign exchange reserve, while the assets in US dollars and euros accounted for 49 and 37 per cent respectively of the foreign exchange reserve (see Chart 17).

As the Riksbank's assets mainly consist of US dollars and euro, the Bank's equity capital is affected by the way the value of these two currencies develops in relation to the Swedish krona. However, the effect on equity capital is counteracted by the Riksbank also having liabilities in US dollars and euro. To further reduce the effect of exchange rate changes, some of the Riksbank's exposure to US dollars was converted over the year to exposure to Norwegian kroner with the aid of derivative instruments. Chart 18 shows the Riksbank's currency exposures at the end of the year.

Taking into account the low interest rates internationally and the increased risk of an increase in interest rates, the Riksbank decided to maintain the interest-rate sensitivity of the foreign exchange reserve at almost 4, measured as modified duration (see Chart 19). A modified duration of 4 means that the value of the foreign exchange reserve would fall by almost 4 per cent if interest rates increased by 1 percentage point, and the reverse if interest rates were to fall by 1 percentage point.

In 2012, the Riksbank contributed to the IMF's loans to Greece, Ireland, Portugal and Sri Lanka by injecting capital equivalent to SEK 1 195 million into the fund. Due to repayments from Iceland, Latvia, Lebanon, Saint Kitts and Nevis, Seychelles and Ukraine, the Riksbank received capital equivalent to SEK 543 million back. Under the framework of the New Arrangement to Borrow (NAB), the Riksbank lent the equivalent of SEK 762 million to the IMF which, in turn, lent these funds to Ireland, Portugal and Sri Lanka. Under the same agreement, the Riksbank received repayments from the IMF and Romania equivalent to SEK 56 million.

At the request of the Fund, the Riksbank sold a total of 17 million Special Drawing Rights (SDR) to Belarus, Turkey and Vietnam against payment in US dollars, and a total of SDR 86 million to the Dominican Republic and Portugal against payment in euro. In addition, the Riksbank purchased a total of SDR 36 million from the BIS, Saint Kitts and Nevis, and São Tomé and Príncipe against payment in US dollars.

In total, the Riksbank's transactions with the IMF meant that the Fund utilised a further SDR 16 million or SEK 161 million of Sweden's commitment (see Table 4).

Prior to 2012, the Riksbank decided that its holdings of gold, amounting to 125.7 tonnes, should remain unchanged for the year.

Follow-up

The Riksbank's balance sheet decreased over the year. At the end of 2012, the balance sheet total amounted to SEK 345.7 billion, which is SEK 2.2 billion less than at the end of 2011. The change is largely due to a decrease in the value of the foreign exchange reserve over the year.

Chart 19

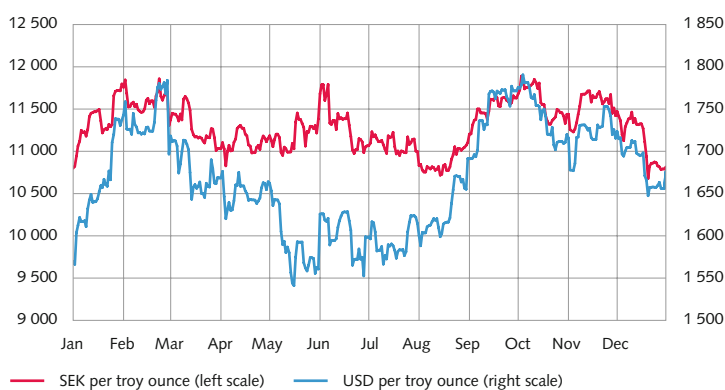
Modified duration of the foreign exchange reserve 2012



Source: The Riksbank.

Chart 20

Gold price movements 2012



Note: One troy ounce is equivalent to about 31 grammes.

Source: Reuters.

Table 4

Sweden's financial obligations to the IMF 2012, SDR million and SEK million respectively

	SDR	SEK
Sweden's maximum obligation	11 333	113 412
Used at the beginning of the year	1 134	11 344
Used during the year	16	161
Used at the end of the year	1 150	11 505
Remaining obligations	10 183	101 907

Source: The Riksbank.

Table 5

Return on the Riksbank's asset management in 2012, SEK million

	Assets	Liabilities	Return	Return excl. exchange rate effects
Gold and foreign exchange reserve incl. the IMF	340 279	111 153	-3 987	3 663
Gold reserve	43 720	-	212	-
Foreign exchange reserve	262 359	88 645	-3 679	3 652
The IMF	34 200	22 508	-520	11
Derivative instruments	714	-	1 882	277
Monetary policy operations	3 206	28 816	-386	-386
Fine-tuning	-	25 817	-384	-384
Riksbank Certificates	-	2 999	-3	-3
Securities in SEK	3 206	-	1	1
Total	344 199	139 969	-2 491	3 554

Source: The Riksbank.

In 2012, the monetary policy operations consisted of the purchase of securities in Swedish kronor and borrowing from the banks via fine-tuning transactions and Riksbank Certificates. Over the year, the Riksbank purchased securities in Swedish kronor for a nominal value of SEK 3.0 billion. At the end of the year, the market value of these assets was SEK 3.2 billion and the return amounted to SEK 1 million. Deposits from the banks amounted to SEK 28.8 billion at year-end, which is an increase of SEK 12.0 billion in relation to the previous year. The increase is mainly explained by a decline in the value of outstanding banknotes and coins of SEK 3.7 billion and by the Riksbank transferring SEK 7.5 billion to the Treasury in April 2012 in accordance with a decision by the Riksdag on the allocation of the Riksbank's profit for 2011.

The banks' liquidity surplus was mainly deposited in the Riksbank via fine-tuning transactions at an interest rate equivalent to the applicable repo rate minus 0.1 percentage points. The Riksbank's interest expenditure for total deposits from the banks amounted to SEK 387 million at the end of the year (see Table 5).

Management of the gold and foreign exchange reserves

The market value of the gold and foreign exchange reserves was SEK 317.8 billion at the end of the year. The reserves consisted of assets in foreign currency at a value of SEK 262.4 billion, gold at a value of SEK 43.7 billion and net receivables from the IMF amounting to SEK 11.7 billion (see Table 5).

The return on the foreign exchange reserve amounted to SEK -3.7 billion. The negative return is mainly due to the fact that the currencies in the foreign exchange reserve weakened against the Swedish krona by an average of 3.4 per cent over the year.

The total exchange rate effect amounted to SEK -7.3 billion. However, interest rates fell on most of the markets in which the Riksbank had assets invested, which dampened the effects of the krona's appreciation. The return excluding foreign exchange effects thus amounted to SEK 3.7 billion, or 2.4 per cent.

The price of gold continued to increase in 2012 (see Chart 20). The price of gold is normally measured in US dollars, and expressed in dollars, it increased by 7.1 per cent. As the dollar weakened against the Swedish krona, the price of gold in kronor only increased by 0.5 per cent. The value of the Riksbank's holdings of gold thus increased by SEK 0.2 billion over the year.

In May 2009, the Riksbank decided to strengthen the foreign exchange reserve with an amount equivalent to SEK 100 billion, by borrowing foreign currency from the Swedish National Debt Office. As Sweden has increased the extent of its participation in the IMF's various support programmes in recent years, the Riksbank has used parts of the foreign exchange reserve to fulfil these commitments. Therefore, during the spring, the Riksbank decided to restore the level of the foreign exchange reserve by borrowing further foreign currency equivalent to SEK 10 billion via the Swedish National Debt Office. At the end of the year, the value of the liability with the Swedish National Debt Office amounted to SEK 88.6 billion (see Table 5). This liability does not include the effects of the decision taken by the Riksbank at the end of 2012 concerning a further strengthening of the foreign exchange reserve through a loan from the Swedish National Debt Office (see the section "A safe and efficient payment mechanism"), as the Riksbank did not start to raise this loan until the end of January 2013.

The value of the Riksbank's receivables from the IMF was SEK 34.2 billion at the end of the year, while the value of the Bank's liabilities to the IMF was SEK 22.5 billion. The return on the net receivables amounted to SEK 11 million over the year, excluding exchange rate effects (see Table 5).

At the end of the year, the total value of the Riksbank's derivative instruments was positive and entailed an asset of SEK 714 million. The return on these derivative instruments excluding exchange rate effects amounted to SEK 277 million over the year.

Analysis of the management of the foreign exchange reserve

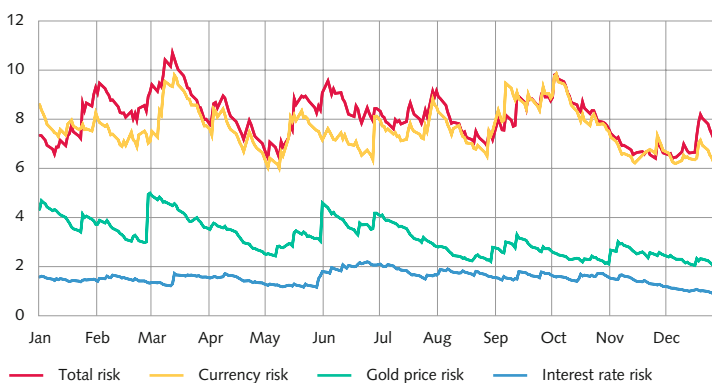
To evaluate whether the Riksbank's asset management contributes to lower risk or higher return on the foreign exchange reserve, the risk-adjusted return on the foreign exchange reserve has, with effect from 2011, been compared with a corresponding return on a "reference" portfolio. This reference portfolio is composed exclusively of the securities the Riksbank would hold to be able to carry out its tasks without considering the return. Consequently, in 2012, the reference portfolio consisted exclusively of US and German government bonds.

The return on the foreign exchange reserve excluding exchange rate effects amounted to 2.4 per cent during the year. The corresponding return on the reference portfolio also amounted to 2.4 per cent. However, the lower sensitivity to interest rates in the foreign exchange reserve caused, at the same time, the risk in the foreign exchange reserve to be lower than that in the reference portfolio. The fact that instruments in the foreign exchange reserve have also been spread over several assets where the changes in value offset one another also contributed to further reducing the risk in the foreign exchange reserve. During the year, the risk in the foreign exchange reserve amounted to 2.1 per cent, measured as a standard deviation without taking into account foreign exchange effects, while the risk in the reference portfolio amounted to 3.0 per cent.

If one adjusts the return to take these risks into account, the return on the foreign exchange reserve is higher than the return on the reference portfolio.

Chart 21

Value-at-Risk for the Riksbank's financial assets excluding receivables from the IMF 2012, SEK billion



Note: The total risk was periodically lower than the currency risk, which is due to the way in which the value of the Riksbank's different financial assets co-varied over the year.

Source: The Riksbank.

Measured as a Sharpe ratio, the risk-adjusted return on the foreign exchange reserve amounted to 1.1, while the corresponding value for the reference portfolio was 0.8.

Market risks for financial assets

Over the year, market risk for the Riksbank's financial assets amounted, at most, to SEK 10.7 billion, measured as VaR (see Chart 21). This is only SEK 2.6 billion higher than the average market risk over the year, which in terms of VaR amounted to SEK 8.1 billion. Regarded across the year as a whole, exchange rate fluctuations contributed the most to the risk.

Asset management costs

The costs of asset management include both costs for managing the gold and foreign exchange reserves and costs for conducting monetary policy. In addition to the transaction costs charged directly to the return on assets, the total costs for asset management amounted to SEK 90 million, which can be compared to the corresponding cost in 2011, which was SEK 91 million.

Seignorage

The Riksbank issues the banknotes and coins that are used as legal tender in Sweden. The nominal value of these banknotes and coins is reported as a liability on the Riksbank's balance sheet. The Riksbank does not pay interest on this liability to those who hold these

banknotes and coins, but nevertheless incurs some costs for the handling of banknotes and coins. The difference between the realised return on the Riksbank's assets that corresponds to banknotes and coins in circulation and the Riksbank's total costs for cash handling is known as seignorage.

A more detailed description of the method used to calculate the Riksbank's seignorage can be found in the Riksbank's Annual Report 2008.

The Riksbank's estimated seignorage for 2012 is SEK 1.8 billion, which corresponds to a return of 1.9 per cent.

■ Organisation and management

After several years of change and consolidation, during which activities were evaluated and rationalised, the Riksbank started to work in accordance with a new strategic plan in 2012. Among other things, the plan prioritises the increased integration of the Bank's main tasks of monetary policy and financial stability on the basis of its experiences from the latest financial crisis. The Riksbank also started a review of its organisational structure. This review will consider both the increased demands for the deepening of cooperation between departments and the demands that will be placed on IT operations after parts of this have been outsourced.

In 2012 the Riksbank consisted of seven departments (see Figure 5). Three of the departments are directly focused on the Bank's main tasks: the Monetary Policy Department, the Financial Stability Department and the Asset Management Department.

A Management Group consisting of the heads of all departments, with the exception of the Internal Audit Department, has the task of coordinating and following up activities. The head of the General Secretariat chairs the Management Group. In previous years, there have also been two sub-groups: an Administrative Management Group and a Policy Management Group. These sub-groups were phased out over the year to further increase the coordination and efficiency of the Management Group's work on handling all operational issues.

Changes in the structure of the organisation

In 2012, the Riksbank worked on preparing and making certain changes in the organisation to further adjust it to the Bank's activities and thus create more efficient decision-making and preparatory processes.

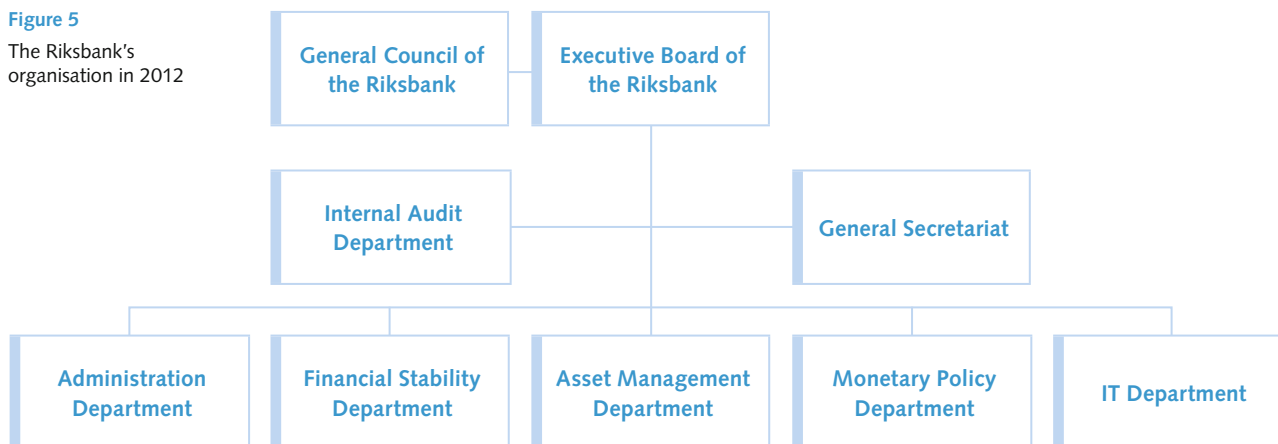
At the beginning of March, the Riksbank appointed a Chief Compliance Officer to increase the efficiency of its work of monitoring and controlling the Riksbank's adherence to the relevant regulations. The Chief Compliance Officer also carries out preventive work with support and advice for all activities. The post is located in the Risk Division within the General Secretariat.

At the end of March, a new division was created in the Financial Stability Department – the Macroprudential Policy Division. The division is responsible for working with a new policy area focused on detecting and preventing systemic risks that threaten financial stability.

In October, the Riksbank signed an agreement with the IT company Evry AB, which will take over the operation and administration of the Riksbank's IT infrastructure and IT support. These areas of IT operations are being outsourced in accordance with the Executive Board's decision that the Riksbank shall attain long-term, secure access to IT competence, shall better vary access to IT resources according to the changing needs of the Bank's activities and shall retain or improve cost-efficiency.

In addition, during the summer, the Riksbank carried out a preliminary study investigating the need to carry out organisational changes in the period ahead. This study revealed several circumstances that suggest that the organisation and decision-making processes ought to be reviewed. Among other effects, the outsourcing of parts of IT operations places new requirements on the organisational structure of this support function. In addition, there are increasing demands to further deepen cooperation, both internally between departments and externally with other central banks and authorities. A review of the Riksbank's organisation was therefore started in the autumn.

Figure 5
The Riksbank's organisation in 2012



The departments of the Riksbank and their tasks

■ Administration Department

The Administration Department is responsible for the Riksbank's work on cash provision, personnel development and recruitment, procurement support, office and property services, transport, security, budget documentation, bookkeeping and payroll administration.

Head of Department: Agneta Rönström

Number of full-time equivalents at year-end: 61

■ Financial Stability Department

The Financial Stability Department is responsible for analysing the stability and efficiency of the financial system. It provides a basis for the decisions made to fulfil the task of promoting a safe and efficient payment mechanism. The department regularly analyses the risks and threats to the stability of the Swedish financial system. In addition, it coordinates the Riksbank's international work.

Head of Department: Mattias Persson

Number of full-time equivalents at year-end: 67

■ Asset Management Department

The Asset Management Department manages the Riksbank's gold and foreign currency assets. It administers and settles transactions in the management of the Riksbank's financial assets, and regularly evaluates and measures the results and risks in this management. In addition, the department is responsible for the Riksbank's RIX payment system for interbank payments.

Head of Department: Sophie Degenne

Number of full-time equivalents at year-end: 37

■ Monetary Policy Department

The Monetary Policy Department is responsible for the economic analysis that provides a basis for the decisions made to meet the price stability target. It also conducts monetary and foreign exchange policy operations in accordance with the monetary policy decisions. In addition, the department has the main responsibility for all analysis of interest and foreign exchange rates. The department monitors and analyses economic and price developments, and is responsible for financial market and balance of payments statistics. This department also contains the Riksbank's Research Division.

Head of Department: Marianne Nessén

Number of full-time equivalents at year-end: 86

■ Internal Audit Department

The Internal Audit Department examines and assesses whether risk management and the governance and management processes fulfil their purpose with regard to the objectives established for the Riksbank's activities. The department also contributes to the effectiveness and improvement of these activities.

Head of Department: Patrick Bailey

Number of full-time equivalents at year-end: 5

■ IT Department

The IT Department's task is to provide cost-effective and user-oriented IT support to the Riksbank's different areas of activity. The department mainly works with the architecture, integration and infrastructure of the IT systems. It is responsible for the operation, maintenance, purchasing, development, change and adaptation of applications and systems, as well as for general IT security and the PC environment.

Head of Department up to 14 August 2012: Hans Ohlson

Acting Head with effect from 15 August 2012: Olof Fredriksson

Number of full-time equivalents at year-end: 47

■ General Secretariat

The General Secretariat coordinates day-to-day operations and supports the Executive Board's governance and control, as well as strategic development of the Bank's activities. The department also provides secretariat services for the General Council, the Executive Board and the Management Group. The General Secretariat coordinates the Riksbank's communications work and work on operational and financial risks. The department also contains functions for regulatory compliance assurance, business continuity coordination and legal support.

Head of Department up to 30 April 2012: Kai Barväll

Head of Department from 1 May 2012: Anders Vredin

Number of full-time equivalents at year-end: 44

■ Management of activities

The Riksbank's objectives, tasks and organisation are laid down in the Sveriges Riksbank Act and in the Riksbank's Rules of Procedure and Instructions. The work of the Riksbank is governed by a long-term vision, a strategic plan, an annual business plan and internal regulations in the form of policies, rules and procedures.

The Riksbank's vision is that the Bank shall be "among the best" with regard to quality and efficiency in order to maintain a high level of confidence. This means that the Riksbank must be among the best in comparison with other central banks and other comparable authorities, academic institutions and private companies.

Work in accordance with a new strategic plan

As of 2012, the Riksbank's work 3–5 years ahead will be based on a new strategic plan for activities. The plan is a living document that is discussed and adjusted every year in connection with operational planning. It shows how the Riksbank shall work to perform its statutory tasks and attain its vision, partly on the basis of the external factors affecting operations and partly with regard to the level of ambition established for the various areas of activity and the strategic risks the Bank needs to take into account.

The strategic plan includes ten priorities. Among other points, the Riksbank shall increase the integration of the Bank's main tasks – monetary policy and financial stability – on the basis of its experiences from the most recent financial crisis. After a number of years of change and consolidation in which the Riksbank has assessed and rationalised its activities to allow it to devote resources to its main tasks, a new phase of development has been initiated.

In 2012, the strategic plan was complemented with three more prioritised areas for the coming years: working climate, the supply of competence and communications. These additions mean that the

Riksbank needs to prioritise the continued development of a good working climate, secure the supply of competence in the long term and safeguard confidence through communications.

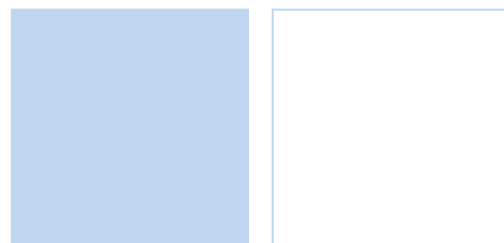
Internal control

Pursuant to the provisions of the Sveriges Riksbank Act, the Executive Board of the Riksbank presents, in the Annual Report, an assessment of the adequacy of internal control at the Bank.

The Executive Board is ultimately responsible for internal controls and establishes the overall policies and rules that govern the Bank's activities. Responsibility for the day-to-day management and control of activities – their efficiency, results and risk management – rests with the Heads of Department, who, in turn, report to the Executive Board. However, each employee has a responsibility to point out risks and report incidents in the Bank's activities.

The Risk Division in the General Secretariat supports the Riksbank's activities with guidelines, methods and advice in all risk areas. This Division also reports its independent assessment of the Riksbank's financial and operational risks to the Executive Board three times a year. The Executive Board has also commissioned the Internal Audit Department to carry out an independent evaluation of internal controls and risk management in the operational activities.

Within the scope of the work on internal control, the Riksbank continued to further develop its process for risk management over the year. In addition, in-depth surveys were carried out of several of the Riksbank's main processes with the aim of assessing the internal controls of these. Main processes are the processes within which the Riksbank's tasks, such as monetary policy and cash provision, are conducted. Prior to the Executive Board's formal assessment in the Annual Report, the internal control in the Bank's activities was evaluated with regard to factors such as the control environment, risk management, control activities, information and communication, as well as follow-up and evaluation.



Sweden's economy is dependent on events in the world around us. As countries are increasingly trading with one another and have thereby become more financially intertwined, growth and welfare have increased around the world. At the same time, problems that arise in one country can more easily spread to other countries. The Riksbank therefore continually oversees international developments in close collaboration with other central banks and institutions and participates in over 130 international groups and committees.

Most indicators point to a satisfactory result in 2012

The Riksbank divides its tasks into different target areas to be able to set targets, manage and evaluate activities. In 2012, the Riksbank's activities were divided into seven activity areas: monetary policy, financial stability, the RIX payment system, cash provision, asset management, statistics and an overall bank-wide area. The bank-wide area was further divided up into seven target areas: communication, employees, management and governance, IT, administrative support and service, environment and resources.

For each target, there are one or more indicators that together provide a picture of how operations are developing in this area and of how well the Riksbank is living up to its vision. For example, the Riksbank investigates the quality of the RIX payment system by measuring availability, while confidence in RIX is measured by investigating the proportion of satisfied customers.

The Executive Board also follows up operational risks in the Bank's activities per target area, coordinated with the follow-up of the activities.

The Executive Board received two follow-up reports in 2011 containing the status of the indicators, the prioritised action plans, the budget and the risks. In total, 93 indicators were linked to the goals in the 2012 business plan. Most of these indicators pointed to a satisfactory performance in the follow-ups (see the appropriate section in the administration report for examples).

Since the business plan for 2011 was adopted, new targets and indicators have been formulated in most areas. However, these are minor amendments aimed at improving how the Bank's results are assessed. For example, new targets and indicators have been

introduced to measure the impact of the Riksbank's recommendations in the Financial Stability Reports. There are also new indicators to measure whether the Riksbank's research activities are on target, that is are of high quality and act as an effective support to both monetary policy and financial stability.

Confidence among various target groups in society

According to the Riksbank's vision, confidence is its most important asset. The Riksbank therefore uses regular external surveys to measure the development of public confidence in the Riksbank.

Medieakademin's confidence barometer, presented in March 2012, shows that the percentage of the Swedish public with very high or fairly high confidence in the Riksbank has decreased from 63 per cent to 54 per cent over two years. However, the Riksbank still receives a high rating compared with other social institutions and remains in third place, behind universities/colleges and healthcare.

The SOM Institute in Göteborg, which conducts annual surveys of the Swedish public's confidence in various social institutions, also showed that the percentage of households with high confidence in how the Riksbank does its job has fallen from 56 per cent to 49 per cent. Despite this, the Riksbank continues to be among the five highest-ranking social institutions in Sweden, although it has fallen back to fifth place after last year's third place. The SOM Institute's survey was carried out in the autumn of 2011, and the results were presented in April 2012.

In contrast, in July 2012, a new survey by TNS SIFO indicated that the Riksbank has the best reputation of 25 authorities in Sweden. In this survey, 3 000 individuals were questioned on their perceptions of the authorities in the public debate.



Risks in the Riksbank's activities

The Riksbank's activities entail both financial and operational risks. The financial risks mainly arise in the management of the foreign currency reserve. They are described in greater detail in the section "Asset management".

The operational risks arise when the Riksbank carries out its various tasks and are thus present in all activities, both in day-to-day work and in ongoing change activities. Certain risks are of a more strategic nature and need to be considered in the control of activities to avoid negative consequences in the longer term.

To succeed in its tasks, it is important that the Riksbank has the capacity to quickly identify and manage the consequences

of events in the surrounding world. This applies to everything from, for instance, managing changes in potential threats to cash operations or IT support to adjusting processes and IT support to new conditions.

The risks that have been identified in the Riksbank's day-to-day activities primarily affect the handling of confidential information, IT security, overall internal processes and dependence on key personnel or external parties. These risks can all affect the efficiency and ability to attain the operational goals.

To limit these risks, the Riksbank works systematically with risk management. Since 2009, there has been a single bank-wide process for managing operational

risks, which involves identifying the risks and evaluating them according to the same model for all activities. This process has been developed further since then and, since 2011, risk management and operational planning have been integrated through a coordinated process for documentation and follow-up.

In 2012, the risk level was mainly affected by the preparations for outsourcing of IT activities. The incidents that occurred in the Riksbank's activities over the year did not entail any changes in the risk level compared with 2011 and could be handled through the Riksbank's normal routines.



Open communication

The Riksbank's website is the hub of its external communications. Its ambition is for the website to give a picture of the Riksbank as clear, open and modern, and to make it possible for all interested parties to easily follow the Riksbank's work. Over the year, the website was given a new, more modern graphic design to better meet the target groups' expectations and needs. In addition, the website was developed so that its layout is automatically adapted to different technical platforms, depending on whether the website is visited using a mobile phone, a tablet or a PC. The interface and the technology behind the search functions was also improved.

The Riksbank regularly analyses the view the media gives of the Bank. One of the issues receiving greatest attention in the media in 2012 was the design of Sweden's new banknotes and coins. At the start of the year, the media's reporting was also characterised by discussions of the banks' mortgage margins. After the summer, reporting came increasingly to focus on monetary policy's significance for unemployment and household indebtedness, as well as how well the Riksbank has attained its inflation target over time. The media also focused on the differences of opinion in the Executive Board about the most appropriate way of conducting monetary policy. This focus meant that the Riksbank's publicity in the second six-month period was unusually negative. Publicity over the year was otherwise largely neutral. To a large degree, the Riksbank appeared to be open and accessible.

■ Employees

According to its vision, the Riksbank must have a good working climate that motivates and inspires commitment. The Riksbank is to be a workplace to be proud of, where each employee has and assumes personal responsibility and can clearly see his or her contribution to the Bank's overall objective. It must be possible to combine work and private life in a positive manner.

The Riksbank as an attractive employer

For many years, the Riksbank has worked on strengthening the brand "the Riksbank as a workplace" to both recruit and retain competent staff. This strategic work, known as employer branding, has resulted in the Riksbank attaining a high ranking as an attractive workplace in various surveys of students and young professionals with a maximum of eight years' working experience. In the 2012 Swedish Student Survey, the Riksbank was chosen as best workplace for economists in the public sector category. This is one sign that the work on highlighting the Riksbank as an interesting and stimulating workplace has had positive results.

The work on employer branding focused in 2011 on trying to give a picture of what the Riksbank actually works with. This includes showing what tasks employees perform and in what ways managers and specialists are able to develop their careers within the organisation. Alongside promoting itself as an employer on its website, in newspaper articles, on career websites and through modernised job advertisements, the Riksbank arranged lectures and other activities for junior economists, under the framework of the network Nova 100, the Royal Institute of Technology's financial market days and elsewhere.

A second round of Framtid Finans, the trainee programme that the Riksbank leads together with Finansinspektionen (the Swedish Financial Supervisory Authority) and the Swedish National Debt Office, was initiated during the year. The eight economists recruited to the trainee programme alternate work duties at the three authorities with joint training sessions and study visits to financial organisations. During 2012, the trainee programme was extended with a collaboration between the authorities and Skandinaviska Enskilda Banken (SEB) aimed at providing the trainees with an even broader perspective of the financial market.

Long-term strategy for the supply of competence

Among other elements, the Riksbank's long-term strategy for the supply of competence includes clear recruitment processes aimed at ensuring that recruitment takes place on the basis of competence and without discrimination. Through this, the Riksbank wishes to achieve well-balanced working groups consisting of people with different skills, experiences and perspectives. As part of this work, the Riksbank

increased its recruitment channels into social media such as LinkedIn over the year. These channels will allow the Riksbank to also reach persons who are interested in working at the Bank but who have not actively sought a position.

Among the Riksbank's employees there are many specialists in various fields. An important part of competence development is the transfer of knowledge taking place within the organisation on a daily basis. Trying out new work duties internally is one way that employees can broaden or deepen their competence. Of 71 posts filled in 2012, a total of 30 were recruited internally.

The Riksbank also strives for an even gender distribution among its employees. During the year, 49 per cent of managers were female, which exceeds the target previously set that the under-represented gender should be at least 40 per cent. However, at the same time, 37 per cent of advisers were female.

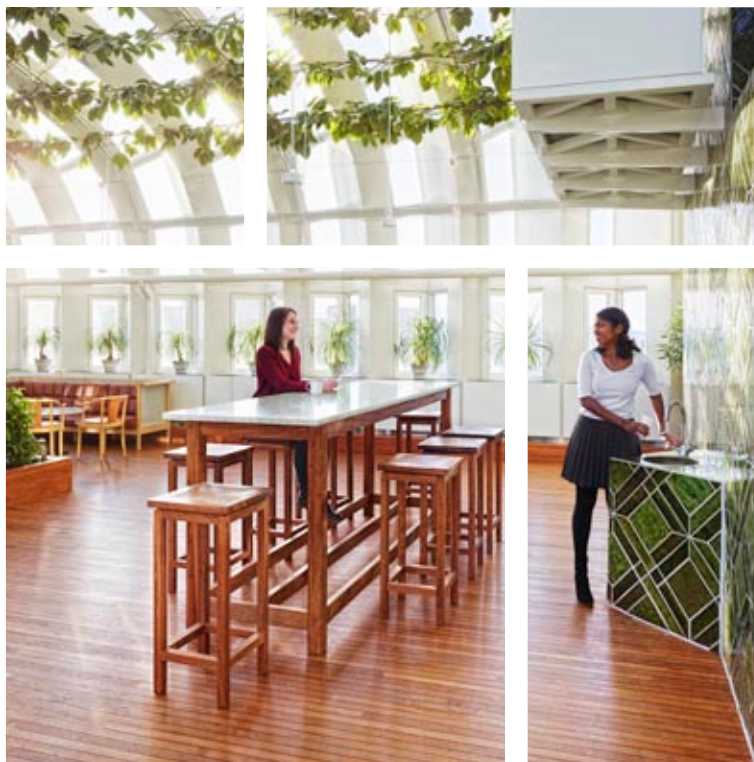
International exchange and international career opportunities

The Riksbank regularly participates in around 130 international committees and working groups, and also has direct contacts with other central banks, and with the International Monetary Fund (IMF) and the Bank for International Settlements (BIS). Several of the Riksbank's employees provide expert assistance in these contexts and represent the Riksbank in discussions regarding questions within the Bank's areas of responsibility. The need for international cooperation has increased, and the Riksbank takes a positive view of employees spending a few years working in an international environment. Such international work allows the Riksbank to increase its long-term influence in prioritised issues while its employees' competence is broadened and deepened.

Interest in temporary posts abroad has increased among the Riksbank's employees and among employees of other central banks who are interested in working at the Riksbank. In 2012, some of the Riksbank's employees were stationed in cities such as Boston, New York, Washington DC, London, Brussels and Frankfurt am Main. Several foreign researchers from China, the Netherlands and other countries worked at the Riksbank over the year.

Continued focus on leadership

The Riksbank prioritises the development of leadership and support to the organisation's managers. Over the year, leadership development focused on management get-togethers with various themes such as decision-making and the art of leading people from younger generations. In addition to the management get-togethers, many managers took advantage of the opportunity for individual coaching to strengthen their leadership, and a number of managers carried out group development together with their working groups.



All managers participated in obligatory training in alcohol- and drug-related issues to increase their knowledge of employer responsibility and improve their ability to notice and deal with alcohol- and drug-related workplace problems at an early stage. In addition, all employees were offered the chance to attend a lecture on how to act, as colleague or relative, in the case of such abuse. The Riksbank also signed an agreement with a supplier of services within medical equipment and rehabilitation in alcohol- and drug-related issues.

Assessment of the Riksbank's proactive health initiative

The comprehensive health programme that was organised for the Riksbank's employees in cooperation with the Bank's healthcare provider in 2010–2011 was assessed in 2012. This assessment indicated that many of the employees who had participated in the health programme increased their level of physical activity and improved their eating habits. In addition, they experienced fewer physical symptoms such as pain and tiredness and less stress in their professional and private lives.

The sickness rate among the Riksbank's employees was 1.9 per cent in 2012, which is an increase of 0.5 percentage points since 2011.

■ Governance

The Riksbank is led by an Executive Board appointed by the General Council. The General Council is in turn appointed by the Riksdag, the Swedish parliament. The Executive Board has a joint responsibility for the strategic management of the Bank, while the General Council mainly has a supervisory function.

Executive Board of the Riksbank

The Executive Board of the Riksbank consists of six members appointed by the General Council for a term of five or six years. The General Council appoints the Chairman of the Executive Board, who shall at the same time be Governor of the Riksbank, and at least one Vice Chairman, who shall at the same time be a Deputy Governor of the Riksbank. The General Council also determines salaries and other employee benefits for the members of the Executive Board. The Executive Board consists of the following members:



Stefan Ingves



Kerstin af Jochnick



Karolina Ekholm



Per Jansson



Lars E.O. Svensson



Barbro Wickman-Parak

■ Stefan Ingves

Term of office six years from 1 January 2012

Stefan Ingves is Governor of the Riksbank and Chairman of the Executive Board. He took up the post on 1 January 2006 for a term of office of six years and received a further term of office to lead the Executive Board of the Riksbank for another six years from 1 January 2012. Mr Ingves is a member of the General Council of the European Central Bank (ECB) and a member of the Board of Directors of the Bank for International Settlements (BIS), as well as Sweden's representative in the Board of Governors of the International Monetary Fund (IMF). He is also Chairman of the Basel Committee on Banking Supervision and Chairman of the Advisory Technical Committee (ATC) of the European Systemic Risk Board (ESRB), as well as a member of the Financial Stability Board (FSB). Mr Ingves holds a PhD in economics and, prior to taking up the post of Governor of the Riksbank, he headed the Department for Monetary and Financial Systems at the IMF. Before that, he had been Deputy Governor of the Riksbank, Director General of the Swedish Bank Support Authority, and Under-Secretary and head of the Financial Markets Department at the Ministry of Finance.

■ Kerstin af Jochnick

Term of office six years from 1 January 2012

Kerstin af Jochnick is First Deputy Governor of the Riksbank. She represents the Riksbank on the Advisory Technical Committee (ATC) of the ESRB and in the FSB's Cross-Border Crisis Management Group. Ms af Jochnick is an economist and, among other posts, has previously been Managing Director of the Swedish Bankers' Association, chaired the Committee of European Banking Supervisors (CEBS) and been head of department at Finansinspektionen (the Swedish Financial Supervisory Authority). She worked at the Riksbank during the period 1977–1991.

■ Karolina Ekholm

Term of office six years from 15 March 2009

Karolina Ekholm is Deputy Governor of the Riksbank. She is the Governor's alternate on the ECB General Council and participates together with the Governor of the Riksbank in BIS board meetings and BIS Governors' meetings. She represents the Riksbank in the ESRB and in the FSB's regional group. From 2010, Ms Ekholm is on leave of absence from her professorship at the Department of Economics at Stockholm University. She has previously been a lecturer and researcher at Stockholm University and the Stockholm School of Economics and researcher at the Research Institute of Industrial Economics.

■ Per Jansson

Term of office five years from 1 January 2012

Per Jansson is Deputy Governor of the Riksbank. He represents the Riksbank on the EU's Economic and Financial Committee (EFC) and on the BIS Committee on the Global Financial System. Mr Jansson is an associate professor in economics and prior to taking up the post of Deputy Governor of the Riksbank he was Head of the Riksbank's Monetary Policy Department. Before that, he worked as State Secretary at the Ministry of Finance and deputy head of department at the National Institute of Economic Research. He has also worked at the Riksbank as deputy head of department from 2003 to 2006 and as a head of division from 1996 to 2000.

■ Lars E.O. Svensson

Term of office six years from 21 May 2007

Lars E.O. Svensson is Deputy Governor of the Riksbank. He represents the Riksbank in the OECD's Working Party Three. Since 2009, Mr Svensson is an affiliated professor at the Institute of International Economics (IIES) at Stockholm University. He was professor at Princeton University from 2001 to 2009 (on leave of absence from 2007 to 2009). Prior to this, he was a professor at the IIES at Stockholm University. He was an economic advisor to the Riksbank from 1990 to 2007.

■ Barbro Wickman-Parak

Term of office six years from 21 May 2007

Barbro Wickman-Parak is Deputy Governor of the Riksbank. She represents the Governor on the Nordic-Baltic constituency's committee for IMF cooperation. Ms Wickman-Parak is an economist and was chief economist at the mortgage institution SBAB and an economist at the National Institute of Economic Research and at Sweden Post's economic secretariat. She worked at the Riksbank during the period 1970–1985.

The Executive Board's tasks

The Executive Board has a joint responsibility for the strategic management of the Riksbank and decides on the instructions for the bank. The role of the Executive Board as a strategic decision-maker means that its work focuses on central decisions regarding monetary and exchange rate policy, important issues in the area of financial stability and the Riksbank's asset management. The Executive Board also makes the overall decisions on the Riksbank's activities, such as decisions on strategic objectives, its business plan and budget and how these are followed up. At the same time, the Governor of the Riksbank has a clear mandate to follow up activities in relation to adopted plans and approved budget. The Governor of the Riksbank also has managerial responsibility for the heads of department, who prepare and submit proposals or background material to the Executive Board on matters that are decided by the Board.

The Executive Board makes decisions jointly at its meetings. The Chairman and the Vice Chairman of the General Council have the right to attend and to speak at the Executive Board's meetings. They are not, however, entitled to vote or make proposals.

The Executive Board in 2012

The work of the Executive Board was marked by the sovereign debt crisis in Europe and its repercussions in Sweden. One prioritised area was investigating and influencing financial regulations, both internationally and domestically. Other topics such as

Swedish households' indebtedness and the Riksbank's fulfilment of the inflation target were also the focus of the Executive Board's activities over the year.

Board members took part in many seminars and conferences and held several speeches. Among these, all members of the Executive Board participated in a seminar on the theme "What is the Executive Board's view of monetary policy?", arranged by the Swedish Economics Association in May. The speeches held by the members over the year addressed matters such as financial stability, the IMF and current monetary policy. In total, Executive Board members held 162 speeches over the year, 14 of which were published on the Riksbank's website.

At least twice a year, the Executive Board is to present a written report on monetary policy to the Riksdag Committee on Finance. This report is supplemented on each occasion by a public hearing. As of 2012, three hearings are held on monetary policy and, since the autumn, the Governor and one of the Deputy Governors (according to a rotating schedule) of the Riksbank always participate in these hearings at the Committee on Finance. In addition to the three monetary policy hearings, members of the Executive Board participated several times in open and closed hearings at the Riksdag committees to discuss other issues, such as the Riksbank's own report with material for the assessment of monetary policy, financial stability from a consumer perspective and cash-handling issues in light of Panaxia's bankruptcy.

The Board held a total of 32 meetings during 2012, seven of which were meetings by circulation and six of which were monetary policy meetings.

Formal processing of the Riksbank's Annual Report

Pursuant to the Sveriges Riksbank Act (1988:1385), the Executive Board of the Riksbank must, before 22 February, submit an Annual Report of the Riksbank's activities during the preceding financial year to the Riksdag, the Swedish National Audit Office and the General Council. The Act also states that the Annual Report shall contain a profit and loss account, a balance sheet and an administration report. In the administration report, the Executive Board describes how the Riksbank has conducted monetary policy, promoted a safe and efficient payment mechanism and performed its other tasks during the year. With effect from the financial year 2011, the Executive Board also presents an assessment of whether the internal control at the Riksbank is satisfactory.

The Riksbank's profit and loss account and balance sheet are approved by the Riksdag, which also determines how the Bank's profits shall be allocated. The proposal for the allocation of the Riksbank's profits is presented to the Riksdag by the General Council, which also examines the Bank's closing procedures with regard to the

calculation of its profits. Together with the proposal for the allocation of profits, the General Council also submits its own annual report for the financial year to the Riksdag. The General Council's Annual Report and Proposal for Allocation of Profits are submitted to the Riksdag on the same day as the Riksbank's Annual Report.

The Swedish National Audit Office's audit of the Riksbank's Annual Report shall be complete no later than one month after the Riksbank has submitted the Annual Report to the Riksdag. The Swedish National Audit Office shall then submit an Auditor's Report, containing its observations from the audit, to the Riksdag. The Auditor's Report also contains the Swedish National Audit Office's assessment of whether the Riksdag should adopt the Riksbank's profit and loss account and balance sheet in accordance with the Executive Board's proposal in the Annual Report.

The Riksbank's Annual Report is examined within the Riksdag by the Committee on Finance. The Riksdag Committee on Finance's task is to prepare the Riksdag's decision

with regard to discharging the General Council from liability for their activities and the Executive Board from liability for their administration of the Riksbank, adopting the Riksbank's profit and loss account and balance sheet for the financial year and approving the allocation of the Riksbank's profits for the financial year. When the Riksdag has discharged the Executive Board and the General Council from liability, adopted the Riksbank's profit and loss account and balance sheet and approved the General Council's proposal for the allocation of profits, the Riksbank can transfer the amount decided on to the Treasury. The transfer is normally made one week after the Riksdag's decision, in connection with the Riksbank's implementation of the weekly open market operation.

Later in the same year, the Riksbank reports to the Riksdag what measures the Bank has taken with regard to the National Audit Office's observations. This account is also provided in accordance with the provisions in the Sveriges Riksbank Act.

External assignments of the Executive Board members

If a member of the Executive Board wishes to take up employment or an assignment in addition to their employment at the Riksbank, this must be approved by the General Council. There follows a summary of the Executive Board members' external assignments at the end of 2012. These have been approved by the General Council and are reviewed every second year.

Stefan Ingves

- Member of the Board of The Toronto International Leadership Centre for Financial Sector Supervision
- Member of the Royal Swedish Academy of Engineering Sciences

Kerstin af Jochnick

- Member of a reference group under the framework of the forum for the financial sector of the Centre for Business and Policy Studies (SNS) and the Institute for Financial Research (SIFR)

Karolina Ekholm

- Member of the advisory committee of the Knut Wicksell Centre for Financial Studies
- Member of a reference group under the framework of the Ministry of Finance's inquiry into short-time work
- Author in an anthology on financial markets in Sweden

Lars E.O. Svensson

- Member of the Royal Swedish Academy of Sciences
- Member of Academia Europæa
- Foreign Member of the Finnish Academy of Science and Letters
- Foreign Member of the American Academy of Arts and Sciences
- Member of the Econometric Society
- Member of the European Economic Association
- Research Associate at the National Bureau of Economic Research
- Research Fellow at the Centre for Economic Policy Research
- Affiliated professor at the Institute of International Economics (IIES) at Stockholm University
- Member of the council for the Financial Market Research programme of the Swedish Governmental Agency for Innovation Systems (VINNOVA)

General Council

The General Council consists of eleven members and as many deputies. The members are appointed by the Riksdag after each general election, for a term of office of four years. The General Council selects from among its members a Chairman and a Vice Chairman.

The General Council consisted of the following members on 31 December 2012: Johan Gernandt (Chairman), Sven-Erik Österberg (Vice Chairman), Peter Egardt, Sonia Karlsson, Bertil Kjellberg, Anders Karlsson, Gun Hellsvik, Lena Somestad, Allan Widman, Peter Eriksson and Roger Tiefensee. The deputy members were Hans Birger Ekström, Tommy Waidelich, Ulf Sjösten, Ann-Kristine Johansson, Chris Heister, Bosse Ringholm, Per Landgren, Catharina Bråkenhielm, Christer Nylander, Agneta Börjesson and Håkan Larsson.

The General Council's tasks

The General Council has the task of monitoring and controlling how the Riksbank conducts its activities and how the members of the Executive Board manages its business. One of the ways the General Council can perform its supervisory role is through the Chairman and Vice Chairman attending the Executive Board meetings. The Chairman and Vice Chairman also have the right to speak at the Executive Board's meetings, but they do not have the right to vote or make proposals. The General Council has an audit function that, among other things, examines how members of the Executive Board perform their duties and examines the Riksbank's closing procedures, in particular the calculation of the Riksbank's profits. The work of the audit function is carried out by an external audit firm under the leadership of an authorised public accountant.

The General Council appoints the members of the Executive Board and decides on their salaries and other terms of employment. It also adopts the Riksbank's Rules of Procedure and decides on the design of banknotes and coins.

Furthermore, the General Council submits proposals to the Riksdag concerning the allocation of the Riksbank's profits and makes a recommendation to the Riksdag with regard to the discharge from liability of the members of the Executive Board. In this recommendation, the General Council assesses how the Executive Board members have performed their tasks.

The General Council also submits consultation responses within its field of competence. In addition, the Executive Board consults with the General Council on proposals to the Riksdag and the Government regarding government amendments to statutes or other central government measures.

The Chairman and Vice Chairman also report on the work of the General Council to the Riksdag Committee on Finance. This usually takes place twice a year.

The General Council in 2012

During the year, the General Council held twelve meetings.

The General Council received regular information from the Executive Board about the Riksbank's activities. The Executive Board also consulted with the General Council on some submissions to the Riksdag.

An account of the General Council's activities is presented in the chapter "The General Council's Annual Report and Proposal for Allocation of the Riksbank's Profits for 2012".

Accounting policies

The balance sheet and the profit and loss account for the Riksbank have been prepared in accordance with the Sveriges Riksbank Act and in accordance with the Rules for Bookkeeping and Annual Accounts at Sveriges Riksbank adopted by the Executive Board on 7 December 2011 (Ref. no. 2011-780-ADM), which came into force on 31 December 2011. The rules for current recording of transactions refer to the Bookkeeping Ordinance (2000:606) and the rules for annual accounts refer to the Guideline of the European Central Bank on the Legal Framework for Accounting and Financial Reporting in the European System of Central Banks (ECB/2010/20). Under Chapter 10, Article 3 of the Sveriges Riksbank Act the Riksbank must apply the accounting guidelines of the European Central Bank System where relevant.

Changes in accounting policies

No changes in accounting policies were made in 2012.

Basic accounting policies

The following basic accounting policies have been applied:

- The accounting shall reflect financial reality and be characterised by transparency.
- The valuation of assets and liabilities and income recognition shall be carried out prudently.
- Assets and liabilities shall be adjusted to take into account events that occur between the end of the financial year and the date the annual accounts are adopted by the Executive Board, provided that these events have affected the value of the assets or liabilities on the closing date.
- Assessment of assets and liabilities must be made on the assumption of a going concern.
- Income and expenditure shall be recognised as income and expenditure in the accounting period in which they were earned or arose, regardless of when payment is made.
- The criteria for measuring balance sheet items and profit and loss items must be applied consistently.

Recognition of assets and liabilities

Assets and liabilities are only recognised in the balance sheet if it is probable that any future economic benefit associated with the asset or liability item will flow to or from the Riksbank and that substantially all of the risks and rewards associated with the asset or liability have been transferred to the Riksbank.

Trade-date accounting

Foreign exchange transactions and securities transactions are recognised in the balance sheet on the settlement date. Realised gains and losses from net sales are booked on the trade date.

Balance sheet valuation rules

Gold and securities are recorded at the exchange rates and prices applying on the closing date. The exchange rates below are used for revaluation at year-end. In the table below the exchange rates have been rounded off to four decimals.

	31.12.2012	31.12.2011
EUR/SEK	8.5845	8.9141
USD/SEK	6.5111	6.8797
GBP/SEK	10.5816	10.6846
AUD/SEK	6.7612	7.0283
CAD/SEK	6.5357	6.7366
SDR/SEK	10.0070	10.5622
NOK/SEK	1.1694	1.1503
JPY/SEK	0.0753	0.0894

Receivables, balances and liabilities are recorded at their nominal amount. Amounts in foreign currency are translated at the closing rate with the exception of receivables and payables reported under the items 'Other assets' and 'Other liabilities'. These are recorded at the exchange rate on the trade date.

Shares and participations are recorded at cost of acquisition.

Tangible and intangible assets are recorded at cost of acquisition and depreciated according to plan. Write-downs are made when the impairment loss is judged to be permanent. Write-ups may only be made if the asset has a reliable and permanent value that materially exceeds the book value. Buildings are depreciated over a period of 50 years, other fixed assets over 5–10 years. Machinery and equipment, including computers, is depreciated over 3–7 years. Direct staff costs attributable to IT investments developed in-house are included in the asset's cost of acquisition.

Repurchase agreements

Repurchase agreements are reported as loan transactions and therefore do not affect the holdings of securities and gold. A repurchase agreement is an agreement to sell assets, such as securities or gold, whereby the seller simultaneously undertakes to repurchase the assets at a specified price on a specific date in the future.

Assets pledged by the Riksbank as collateral for repos continue to be reported in the balance sheet and are recorded in accordance with the applicable rules for the Riksbank's other holdings of securities and gold. An amount equivalent to the purchase sum received is reported as a liability, while the transferred assets are reported as memorandum items.

Assets received by the Riksbank under reverse repurchase agreements are not reported in the balance sheet because they constitute loan collateral. An amount equivalent to the purchase sum paid is reported as a receivable. The difference between the two payments in a repurchase agreement (spot and forward) is allocated over the term of the agreement.

Transactions carried out within the framework of agreements on automatic repurchase agreements are only reported in the balance sheet if collateral is pledged in the form of cash for the entire duration of the transaction.

Banknotes and coins

The balance sheet item 'Banknotes and coins in circulation' is equivalent to the nominal value and calculated by deducting from the value of the banknotes and coins received by the Riksbank from the manufacturers both the value of the banknotes and coins included in the Riksbank's depots and the value of the banknotes and coins the Riksbank has destroyed and cancelled. Banknotes and coins in circulation that are no longer legal tender are recognised in the profit and loss account at the latest when they are no longer redeemed by the Riksbank. However, they must be recognised in profit or loss earlier if only a small amount is expected to remain to be redeemed and a provision is made at the same time for this amount. Commemorative coins and commemorative banknotes in circulation must be recognised in profit or loss when the issue has been in circulation for more than ten years.

Recognition of income

Realised gains and losses are recognised in the profit and loss account.

Unrealised gains are transferred to a revaluation account in the balance sheet.

Unrealised losses are recognised in profit and loss if they exceed unrealised gains that may have been previously recorded in the corresponding revaluation account. Unrealised losses recognised in profit and loss may not be reversed in later years to offset new unrealised gains. Unrealised losses in a particular security, a particular currency or gold are not netted against unrealised gains in other securities, currencies or gold.

Premiums and discounts on securities purchased are calculated and reported as part of interest income and are written off during the security's remaining time to maturity.

Cost of transactions

With regard to gold, instruments in foreign currencies and securities, the average method is used daily to establish the cost of acquisition of items sold when calculating effects of exchange rates and prices. When acquisitions of currency and gold are netted, the average cost of acquisition for the day's acquisition with regard to each individual currency and gold is added to the previous day's holdings to obtain a new weighted average of the exchange rate or the gold price respectively. To calculate net sales, the realised gain/loss is calculated on the basis of the average cost of acquisition on the previous day for the holding in question.

Derivative instruments

Derivative instruments are recorded contract by contract within each group of derivative instruments. Groups with a positive value are recorded as assets and those with negative value as liabilities.

FX forwards are recorded in the amount corresponding to the contract's forward amount multiplied by the difference between closing day rates and trade date rates (spot). The difference between the trade date exchange rate (spot) and the contracted forward exchange rate is allocated as interest over the term of the contract. The currency sold is booked on the trade date, multiplied by the difference between the trade date exchange rate (spot) and the average acquisition rate, as realised gains/losses.

The spot legs of FX swaps are booked on the settlement date at the trade date rate (spot). The forward legs of FX swaps are booked the same way as FX forwards, that is at a value corresponding to the contract's forward amount multiplied by the difference between the closing day rate and the trade day rate (spot). The difference between the trade date exchange rate (spot) and the contracted forward exchange rate is allocated as interest over the term of the contract. Unlike foreign exchange forwards, no net foreign exchange gains/losses arise when recording FX swaps.

Interest rate swaps are booked, for both the incoming and outgoing transactions, at an amount corresponding to the difference between the nominal amount of the contract and the nominal amount translated at the closing day rate. The resulting amount is translated to SEK at the closing day exchange rate.

Gold options are booked on the trade date in an amount corresponding to the premium paid or received. On the closing day the book value is adjusted to a value corresponding to the number of troy ounces in the contract translated at the closing day option price and exchange rate. The option price is calculated on the basis of a recognised calculation model.

Futures contracts are booked daily as realised gains/losses in an amount corresponding to the value calculated in the daily settlement.

Balance sheet

SEK million	Note	31.12.2012	31.12.2011
ASSETS			
Gold	1	43 720	43 508
Claims on residents outside Sweden denominated in foreign currency		294 079	300 186
Receivables from the IMF	2	34 196	35 294
Balances with banks and security investments	3	259 883	264 892
Lending to credit institutions in Sweden related to monetary policy operations denominated in Swedish kronor		0	0
Main operations	4	–	–
Fine-tuning operations	5	–	–
Structural operations	6	–	–
Marginal lending facility	7	0	0
Securities of residents in Sweden denominated in Swedish kronor	8	3 152	–
Other assets		4 788	4 223
Tangible and intangible fixed assets	9	655	502
Financial assets	10	521	521
Derivative instruments	11	662	–
Prepaid expenses and accrued income	12	2 609	2 873
Other assets	13	341	327
Total assets		345 739	347 917

SEK million	Note	31.12.2012	31.12.2011
LIABILITIES AND EQUITY			
Banknotes and coins in circulation		96 441	100 136
Banknotes	14	91 056	94 771
Coins	15	5 385	5 365
Liabilities to credit institutions in Sweden related to monetary policy operations denominated in Swedish kronor		26 154	16 875
Deposit facility	16	339	44
Fine-tuning operations	17	25 815	16 831
Debt certificates issued	18	2 998	–
Liabilities to residents outside Sweden denominated in Swedish kronor	19	156	106
Liabilities to residents in Sweden denominated in foreign currency	20	88 413	86 497
Liabilities to residents outside Sweden denominated in foreign currency	21	–	–
Counterpart of Special Drawing Rights allocated by the IMF	22	22 505	23 754
Other liabilities		384	1 283
Derivative instruments	23	–	943
Accrued expenses and prepaid income	24	306	252
Other liabilities	25	78	88
Provisions	26	184	203
Revaluation accounts	27	43 363	48 356
Equity		63 207	66 777
Capital	28	1 000	1 000
Reserves	29	62 207	65 777
Profit for the year		1 934	3 930
Total liabilities and equity		345 739	347 917

Memorandum items, see Note 42.

■ Profit and loss account

SEK million	Note	2012	2011
Interest income	30	4 280	5 493
Interest expense	31	-1 196	-1 359
Net result of financial transactions	32	-603	209
Fees and commissions income	33	71	70
Fees and commissions expense	34	-8	-8
Dividends received	35	56	51
Other income	36	34	168
Total net income		2 634	4 624
Staff costs	37	-366	-372
Administrative expenses	38	-269	-261
Depreciation of tangible and intangible fixed assets	39	-47	-51
Banknote and coin expenses	40	-18	-10
Other expenses	41	-	-
Total expenses		-700	-694
Profit for the year		1 934	3 930

Cash flow statement

SEK million	31.12.2012	31.12.2011
OPERATING ACTIVITIES		
Cash flow from operating activities, profit and loss	5 589	5 160
Interest received	4 511	6 185
Interest paid	-1 141	-1 605
Net received from financial transactions	2 814	1 134
Fees and commissions received	71	70
Fees and commissions paid	-8	-8
Other income	10	26
Administrative expenses paid	-668	-642
Cash flow from operating activities, assets	-13 539	-1 609
Receivables from the IMF	-729	-2 707
Security investments	-9 645	607
Structural operations	-	500
Securities of residents in Sweden denominated in Swedish kronor	-3 151	-
Other assets	-14	-9
Cash flow from operating activities, liabilities	12 839	6 507
Banknotes and coins in circulation	-3 671	-5 123
Liabilities to credit institutions in Sweden related to monetary policy operations denominated in Swedish kronor	9 279	11 733
Debt certificates issued	2 998	-
Liabilities to residents outside Sweden denominated in Swedish kronor	50	37
Liabilities to residents in Sweden denominated in foreign currency	4 380	259
Liabilities to residents outside Sweden denominated in foreign currency	-	-343
Other liabilities	-197	-56
Cash flow from operating activities	4 889	10 058

The table continues on the next page.

SEK million	31.12.2012	31.12.2011
INVESTING ACTIVITIES		
Acquisition and disposals of tangible and intangible fixed assets	-200	-165
Acquisitions and disposals of financial assets	0	-
Dividends received	56	51
Cash flow from investing activities	-144	-114
FINANCING ACTIVITIES		
Transfer to the Treasury	-7 500	-6 200
Cash flow from financing activities	-7 500	-6 200
Cash flow for the period	-2 755	3 744
Cash and cash equivalents at beginning of period	5 834	2 094
Cash flow from operating activities	4 889	10 058
Cash flow from investing activities	-144	-114
Cash flow from financing activities	-7 500	-6 200
Exchange rate difference on cash and cash equivalents	14	-4
Cash and cash equivalents at end of period	3 093	5 834

SEK million	31.12.2012	31.12.2011
SPECIFICATION OF CASH AND CASH EQUIVALENTS		
Bank accounts and bank lending denominated in foreign currency, see Note 3	3 093	5 834
Main operations	-	-
Fine-tuning operations	-	-
Marginal lending facility	0	0
Total cash and cash equivalents	3 093	5 834

The cash flow statement shows incoming and outgoing payments during the period as well as cash and cash equivalents at the beginning and end of the period. The cash flow statement is divided into payments from operating activities, investing activities and financing activities.

Operating activities

Cash flows attributable to operating activities originate from the Riksbank's main operations. Cash flow from operating activities is based on operating profit. Adjustments are made for items that do not affect cash flow or do not belong to operating activities. In addition, cash flow includes changes that affect cash flow from such balance sheet items as those which are included in operating activities.

Investing activities

Investing activities consist of the purchase and sale of tangible and intangible fixed assets, as well as those shares and participations that are reported under financial assets. Dividends received from holdings of shares and participations are also included.

Financing activities

Financing activities consist of changes in equity that usually occur through dividends, also known as transfer to the Treasury.

Notes

SEK million. Figures in brackets refer to 2011.

Note 1 Gold

	31.12.2012	31.12.2011
Quantity		
Troy ounces (million)	4.0421	4.0421
Price		
USD/troy ounce	1 661.1471	1 564.5241
SEK/USD	6.5111	6.8797
Book value	43 720	43 508

As of 31 December 2012, the Riksbank holds 4 million troy ounces (troy/oz) of gold (4), which is equivalent to 125.7 tonnes. No gold was sold in 2012.

Note 2 Receivables from the IMF

	31.12.2012	31.12.2011
Special Drawing Rights	21 384	23 269
Reserve position in the IMF		
Capital contribution (quota)	23 972	25 302
IMF krona account	-16 664	-18 362
PRG-HIPC lending	186	196
NAB, New Arrangement to Borrow	5 318	4 889
Total	34 196	35 294

The Riksbank's holding of Special Drawing Rights amounts to SDR 2 137 million (2 203). An amount corresponding to the total SDR allocated by the International Monetary Fund (IMF) is reported as a liability. See Note 22.

The Riksbank's total capital contribution (quota) to the IMF amounts to SDR 2 395.5 million and is booked net of the IMF's account for Swedish kronor under the item 'Reserve position in the IMF'.

The item 'PRG-HIPC lending' refers to an interest-free deposit with the IMF as manager of contributions to the IMF's share of the debt relief initiative HIPC (Heavily Indebted Poor Countries) and to the Fund's concessional lending. The deposit of a total of SDR 18.6 million is to be repaid by 1 January 2019.

At the close of 2012 the Riksbank's NAB lending amounted to SDR 531 million (463).

At the close of 2012 the Riksbank also had a receivable from the IMF of SDR 12.7 million (12.7) for funds that the IMF may use for interest and credit losses due to delays. The IMF has made deductions from interest payments on the Riksbank's reserve position in the IMF to transfer the funds. The Riksbank has booked these deductions in the profit and loss account. Consequently they are not included as receivables from the IMF on the Riksbank's balance sheet.

In November 2012 the Riksbank, with the consent of the Riksdag, approved payment to the IMF Poverty Reduction and Growth Trust (PRGT) of SDR 7 million, which is Sweden's share of the profit made by the IMF on gold sales.

Note 3 Balances with banks and security investments

	31.12.2012	31.12.2011
Bank accounts	2 135	3 862
Bank lending	958	1 972
Bonds	249 628	259 058
Short-term securities	7 162	-
Total	259 883	264 892

Bank deposits and securities are issued in euro, US dollars, Pounds sterling, Australian dollars, Canadian dollars, Norwegian kroner and Japanese yen. The distribution is shown in the table below.

	31.12.2012	31.12.2011
Euro	95 663	96 653
US dollars	128 417	132 652
Pounds sterling	16 349	16 257
Australian dollars	10 252	9 992
Canadian dollars	9 200	9 335
Norwegian kroner	2	3
Japanese yen	0	0
Total	259 883	264 892

The distribution of balances with banks and security investments is shown below.

Maturity	Balances with banks	Security investments
Up to 1 month	3 093	1 185
Over 1 month, up to 3 months	-	20 448
Over 3 months, up to 1 year	-	56 171
Over 1 year, up to 5 years	-	136 187
More than 5 years	-	42 799
Total	3 093	256 790

The Riksbank did not participate in any automatic securities lending programmes in 2012.

Note 4 Main operations

The Riksbank's regular monetary policy repo operations are reported under this item. This lending is made at the Riksbank's most important policy rate (repo rate), usually with a maturity of one week.

Note 5 Fine-tuning operations

This item is used to report lending aimed at fine-tuning liquidity in the financial system. This lending is usually overnight.

Note 6 Structural operations

This item is used to report the Riksbank's lending in Swedish kronor to monetary policy counterparties, usually with a longer maturity than main refinancing and fine-tuning operations. The purpose of this lending is either to satisfy the longer-term financing needs of the financial sector or to affect the Riksbank's structural position in relation to the financial sector. These operations are not intended to send monetary policy signals. Alternatively this lending can be at a fixed rate and with up to twelve months maturity, for the purpose of sending monetary policy signals that aim to contribute to lower interest rates on loans to companies and households.

Note 7 Marginal lending facility

This item is used to report overnight loans to banks on their RIX accounts at the Riksbank.

Note 8 Securities of residents in Sweden denominated in Swedish kronor

In 2012 the Riksbank started to acquire SEK-denominated securities as a contingency plan to enable future purchases of Swedish securities at short notice for monetary policy purposes.

The breakdown of SEK-denominated securities by maturity is shown in the table below.

Maturity	Security investments
Up to 1 month	–
Over 1 month, up to 3 months	–
Over 3 months, up to 1 year	–
Over 1 year, up to 5 years	1 757
More than 5 years	1 395
Total	3 152

Note 9 Tangible and intangible fixed assets

	31.12.2012	31.12.2011
Land and buildings		
Cost of acquisition, 1 January	514	390
Acquisitions during the year	145	124
Divestments during the year	–	–
Cost of acquisition, 31 December	659	514
Acc. depreciation, 1 January	–161	–152
Depreciation for the year	–9	–9
Divestments during the year	–	–
Acc. depreciation, 31 December	–170	–161
Book value	489	353
Machinery and equipment		
Cost of acquisition, 1 January	549	534
Acquisitions during the year	55	41
Divestments during the year	–19	–26
Cost of acquisition, 31 December	585	549
Acc. depreciation, 1 January	–400	–383
Depreciation for the year	–38	–42
Divestments during the year	19	26
Write-down for the year	–	–1
Acc. depreciation, 31 December	–419	–400
Book value	166	149
Total book value	655	502
Tax assessment value		
Buildings	–	–
Land	–	1

The item 'Land and buildings' includes two properties: the head office in Stockholm and the future cash handling office in the municipality of Sigtuna. The properties are classified as special units (for the office in the municipality of Sigtuna this applies from 2012) and are therefore not taxable.

Acquisitions in 2012 include building and construction design for the new cash handling office for SEK 166 million (132) and IT applications for SEK 25 million (19).

The item 'Book value, machinery and equipment' includes intangible fixed assets in the form of application systems in an amount of SEK 94 million (81).

Note 10 Financial assets

Shares	31.12.2012	31.12.2011
Bank for International Settlements	441	441
17 244 shares at a par value of SDR 5 000 of which 25 % are paid up		
European Central Bank	79	79
Value of participation EUR 9 112 389.47		
SWIFT	1	1
16 (10) shares at a par value of EUR 125		
Total	521	521

Central banks in the European System of Central Banks (ESCB) that are not part of the euro system are obliged to pay in 3.75 per cent of their capital subscription in the ECB. The Riksbank's capital subscription amounts to 2.2582 per cent and the ECB's total subscribed capital amounts to EUR 10 760 652 402.58. The capital subscription is based on the respective country's GDP and number of inhabitants and is calculated every fifth year. The subscription paid is to cover some administration costs of participation in the ESCB.

In 2012 the Riksbank received 6 shares in SWIFT.

Note 11 Derivative instruments

	31.12.2012	31.12.2011
FX swaps, positive value	662	–
FX swaps, negative value	–	–
Total	662	–

Derivative instrument groups with a positive value are reported under this item.

The nominal amounts of the derivative contracts are shown below.

	31.12.2012	31.12.2011
FX swaps, positive value	19 017	–
FX swaps, negative value	–	–
Total	19 017	–

Note 12 Prepaid expenses and accrued income

	31.12.2012	31.12.2011
Receivables from the IMF	4	10
Bank accounts and bank lending	0	0
Bonds in foreign currency	2 476	2 775
Derivative instruments	52	53
Bonds in Swedish kronor	54	–
Other	23	35
Total	2 609	2 873

Note 13 Other assets

	31.12.2012	31.12.2011
Staff loans	313	289
Accounts receivable	3	2
VAT recoverable	10	33
Balances with banks	15	2
Other	0	1
Total	341	327

Note 14 Banknotes

Value of banknotes in circulation, by denomination:

	31.12.2012	31.12.2011
1 000 krona	21 380	25 090
500 krona	56 654	56 833
100 krona	9 368	9 187
50 krona	1 244	1 233
20 krona	1 742	1 730
Commemorative banknotes	2	2
Invalid banknotes	666	696
Total	91 056	94 771

The item "Invalid banknotes" contains banknotes in circulation that ceased to be legal tender at the end of 2005. Banknotes that have been invalid for more than ten years are written off from the liability for banknotes in circulation and carried in the profit for the year less a small amount that is recorded under 'Provisions'. The Riksbank may redeem invalid banknotes if there are particular grounds.

Note 15 Coins

Value of coins in circulation, by denomination:

	31.12.2012	31.12.2011
10 krona	2 562	2 550
5 krona	1 324	1 313
2 krona	8	8
1 krona	1 375	1 354
Commemorative coins	116	140
Total	5 385	5 365

In 2012 the item 'Commemorative coins' was written down by SEK 24 million referring to issues of commemorative coins older than ten years.

Note 16 Deposit facility

Overnight deposits from the banks in their RIX accounts at the Riksbank are reported here.

Note 17 Fine-tuning operations

This item is used to report deposits for the purpose of fine tuning liquidity in the financial system. These deposits are usually made overnight.

Note 18 Debt certificates issued

This item is used to report the Riksbank's issuance of debt certificates aimed at absorbing liquidity from the financial system. These deposits are made at the Riksbank's most important policy rate, the repo rate, as a rule with a maturity of one week.

Note 19 Liabilities to residents outside Sweden denominated in Swedish kronor

Accounts in Swedish kronor that the Riksbank holds on behalf of other central banks and international organisations are reported here.

Note 20 Liabilities to residents in Sweden denominated in foreign currency

As of June 2009 deposits of foreign currency from the Swedish National Debt Office are reported under this item. The deposits were for the purpose of strengthening the foreign exchange reserve. The distribution of foreign currency deposits is shown in the following table.

	31.12.2012	31.12.2011
Euro	29 979	27 586
US dollars	58 434	58 911
Total	88 413	86 497

Note 21 Liabilities to residents outside Sweden denominated in foreign currency

Amounts corresponding to purchase amounts in foreign currency for deposit repos are recorded under this item.

Note 22 Counterpart of Special Drawing Rights allocated by the IMF

The Riksbank's liability corresponding to the Special Drawing Rights (SDR) originally allocated by the IMF is reported here. The total allocation is SDR 2 249 million (2 249). The current holding of SDR amounts to SDR 2 137 million (2 203) and is reported under the item 'Receivables from the IMF'. See Note 2.

Note 23 Derivative instruments

	31.12.2012	31.12.2011
FX swaps, negative value	–	943
Total	–	943

Derivative instrument groups with a negative value are reported under this item.

The nominal amounts of the derivative contracts are shown in the table below.

	31.12.2012	31.12.2011
FX swaps, negative value	–	19 620
Total	–	19 620

Note 24 Accrued expenses and prepaid income

	31.12.2012	31.12.2011
Fine-tuning operations	2	1
Debt certificates issued	1	–
Deposits, Swedish National Debt Office	232	177
Counterpart of Special Drawing Rights	3	7
Other	68	67
Total	306	252

Note 25 Other liabilities

	31.12.2012	31.12.2011
Accounts payable – trade	50	46
Other	28	42
Total	78	88

Note 26 Provisions

	31.12.2012	31.12.2011
Pension provision	103	112
Invalid banknotes	41	48
Lease Malmö office	37	40
Job Security Foundation	3	3
Total	184	203

The pension provision has been calculated by the National Government Employee Pensions Board (SPV). SEK 101 million (106) refers to PA 91 pensioners with a date of retirement prior to 2003, and SEK 2 million (6) refers to persons who have been granted a partial pension from 2003 onwards or pension compensation prior to the age of 65. As at 31 December 2002 the Riksbank redeemed its pension provision for those persons who on that date were employed by or were entitled to annuity from the Riksbank.

The item 'Provisions' also includes SEK 41 million (48) for the estimated future costs of banknotes that ceased to be legal tender but that the Riksbank still may redeem.

In addition the item includes SEK 37 million (40) for estimated future lease costs for the office in Malmö that was wound up in 2006. Since 2006 the Riksbank has been working to terminate the tenancy agreement. The agreement is expected to be terminated by February 2018 at the latest by means of the Riksbank utilising a buyout clause.

The item 'Job Security Foundation' refers to provision for professional development and competence exchange in accordance with an agreement with the Job Security Foundation.

Note 27 Revaluation accounts

	31.12.2012	31.12.2011
Price effect	8 002	10 317
Exchange rate effect	3 439	6 328
Gold value effect	31 922	31 711
Total	43 363	48 356

With effect from 2004, unrealised gains and losses are reported in special revaluation accounts, which consist of the difference between the cost of acquisition value and the market value. At the transition in 2004 it was decided that the cost of acquisition values should correspond to the market values as at 31 December 2003. If the unrealised losses exceed the unrealised gains at the end of the year, the difference is reported in the profit and loss account. This calculation is made security by security and currency by currency.

The price effect consists mainly of unrealised securities gains.

Exchange rate effects are shown in the following table.

	31.12.2012	31.12.2011
Euro	-	-
US dollars	-	2 068
Pounds sterling	121	283
Australian dollars	1 624	2 022
Canadian dollars	737	1 021
Special Drawing Rights	-	293
Norwegian kroner	957	641
Total	3 439	6 328

Note 28 Capital

The Sveriges Riksbank Act states that the Riksbank shall have capital in an amount of SEK 1 000 million.

Note 29 Reserves

	31.12.2012	31.12.2011
Reserve fund	500	500
Contingency fund	35 145	35 058
Balancing fund	26 562	30 219
Total	62 207	65 777

The Sveriges Riksbank Act states that the Riksbank shall have a reserve fund amounting to SEK 500 million and a contingency fund.

The contingency fund and the balancing fund have been used since 1988, according to guidelines for the allocation of the Riksbank's profit adopted that year. The contingency fund has also been used for entering the amounts of asset write-ups. The Riksbank's gold reserve was written up to market value on 31 December 1998 and fixed assets were capitalised in the balance sheet in 1994 at cost of acquisition less depreciation. In 2012 a reposting was made of SEK 3 million (2) from the sub-item 'Write-up of fixed assets' to 'Allocation of profit', due to the year's divestments and depreciation of the written-up assets. The value of the BIS shares was written up

in 1996 to correspond to the market value of the gold used as payment for the share allocation in that year.

The above-mentioned allocations and write-ups are shown in the table below:

	31.12.2012	31.12.2011
Allocation of profit:		
Exchange rate effect	2 919	3 766
Gold value effect	7 356	7 356
Other allocation of profit	15 932	14 995
Write-up of assets:		
Gold reserve	8 604	8 604
Fixed assets	99	102
BIS shares	235	235
Total	35 145	35 058

The change in the items 'Capital', 'Reserves' and 'Profit for the year' is explained in the table below:

	Capital	Reserves	Profit for the year
Balance, 31 December 2010	1 000	71 429	548
Transfer to the Treasury	-	-	-6 200
Transfer to/from:			
Balancing fund	-	888	-888
Contingency fund	-	-6 540	6 540
Profit for the year	-	-	3 930
Balance, 31 December 2011	1 000	65 777	3 930
Transfer to the Treasury	-	-	-7 500
Transfer to/from:			
Balancing fund	-	-3 657	3 657
Contingency fund	-	87	-87
Profit for the year	-	-	1 934
Balance, 31 December 2012	1 000	62 207	1 934

Note 30 Interest income

	2012	2011
From foreign assets:		
SDR	23	90
Reserve position in the IMF	7	21
NAB (New Arrangement to Borrow)	5	9
Bilateral loans	-	2
Bank accounts	2	2
Bank lending	8	14
Bonds	3 946	4 842
Short-term securities	0	53
Derivative instruments	278	377
Securities lending programmes	-	78
	4 269	5 488
From domestic assets:		
Structural operations	-	0
Marginal lending facility	0	0
Other lending	-	0
Bonds	5	-
Staff loans	6	5
	11	5
Total	4 280	5 493

Note 31 Interest expense

	2012	2011
From foreign liabilities:		
Deposits, Swedish National Debt Office	-749	-953
Deposit repos	-	-2
Counterpart of Special Drawing Rights	-25	-90
Derivative instruments	-	-3
	-774	-1 048
From domestic liabilities:		
Fine-tuning operations	-384	-271
Debt certificates issued	-3	-
Bank accounts	0	0
Cash depots	-35	-40
	-422	-311
Total	-1 196	-1 359

Note 32 Net result of financial transactions

	2012	2011
Price effect	2 763	1 056
Exchange rate effect	-3 366	-847
Gold value effect	-	-
Total	-603	209

The price effect consists of realised gains and losses on securities of SEK 2 804 million (1 221) and unrealised losses on securities of SEK -41 million (-165), which have been transferred to profit and loss due to write-down of the securities holding.

The exchange rate effect includes realised exchange rate gains and losses of SEK 10 million (-87) and unrealised exchange rate losses of SEK -3 376 million that were recognised in the profit for the year due to write-down of the foreign currency holding (-760).

Note 33 Fees and commissions income

The item includes annual and transaction charges for the RIX system of SEK 71 million (70).

Note 34 Fees and commissions expenses

The item mainly consists of custody fees and transaction costs for management of the foreign exchange reserve.

Note 35 Dividends received

In 2012 the Riksbank received a dividend from the BIS of SEK 56 million (51).

Note 36 Other income

	2012	2011
Unredeemed cash received	2	3
Reimbursement for discoloured banknotes etc.	2	3
Coins written off	24	142
Coins sold for scrap	-	16
Sida (Swedish International Development Cooperation Agency)	3	1
Investment accounts	-	2
Other	3	1
Total	34	168

The item 'Coins written off' refers in 2012 to a write-off of commemorative coins in circulation for issues older than ten years. In 2011 the same item referred to write-off of 50-öre coins in circulation that the Riksbank ceased to redeem on 30 June 2011.

'Coins sold for scrap' referred in 2011 to sales of the 50-öre coins handed in to the Riksbank.

The income from Sida refers to remuneration for technical assistance to central banks in some developing countries.

In 2011 the Riksbank wrote off the liability corresponding to the remaining investment accounts as it had become statute-barred.

Note 37 Staff costs

	2012	2011
Salaries and benefits	-223	-214
Salary recorded as assets	1	2
Social security contributions	-70	-67
	-292	-279
Pension premiums	-40	-49
Pension payments	-16	-17
Change in pension provision	12	4
Special payroll tax	-14	-15
	-58	-77
Training	-5	-4
Staff representation	-2	-3
Other	-9	-9
	-16	-16
Total	-366	-372

Pension premiums were paid in accordance with pension agreements for central government employees and others, PA 03 and PA-91.

The item 'Pension payments' refers to payments to pensioners retiring before 2003, and to persons who have been granted a partial pension from 2003 onwards or who have been granted a pension before the age of 65.

Staff representation expenses of SEK 2.4 million (2.9) refer to costs for board, lodging and activities in connection with internal courses, conferences, staff parties and information meetings.

Salaries and benefits to the members of the Executive Board in 2012 amounted to SEK 13.0 million, broken down as follows.

	2012	2011
Stefan Ingves	2.0	1.9
Kerstin af Jochnick	2.3	–
Karolina Ekholm	2.1	2.1
Per Jansson	2.2	–
Lars E.O. Svensson	2.2	2.1
Barbro Wickman-Parak	2.1	2.1
Svante Öberg	–	2.2
Lars Nyberg	–	2.1
Qualification period salaries	0.1	4.5
Total	13.0	17.0

In addition, the Governor of the Riksbank received a board fee in 2012 of SEK 0.8 million (0.7) from the Bank for International Settlements (BIS). In accordance with a decision of the General Council a deduction is made from the gross salary of the Governor of the Riksbank corresponding to the amount of his board fee from BIS.

The item 'Qualification period salaries' refers to Lars Nyberg and Svante Öberg. The General Council has decided that during the statutory qualification period of a maximum of one year after the end of employment, members of the Executive Board shall receive a full salary without being required to perform any duties. However, deduction will be made for any income from other employment during this period. On 28 October 2011 the General Council decided that Executive Board members elected after this date will receive remuneration for a maximum of six months.

According to a decision of the General Council on 21 May 1999 regarding guidelines for pension conditions for members of the Riksbank's Executive Board, the regulation (RFS 1996:4) issued by the Administrative Board of the Riksdag on the application of the Ordinance on Pensions for Senior Government Officials (1995:1038) shall apply to members of the Executive Board of the Riksbank. Under this regulation, however, earlier provisions from 1991 shall apply to persons covered by the superseded ordinance on appointment pensions.

The Ordinance on Pensions for Senior Government Officials (1995:1038) was superseded on 1 April 2003 by the Ordinance on Severance Benefits for Certain Employees employed as Senior Government Officials (2003:55). Under this Ordinance the new provisions are applicable as of 1 January 2003. The provisions of the Ordinance on Pensions for Senior Government Officials are, however, still applicable to any person who on 31 December 2002 held a senior position as defined in the Ordinance, if that person continues employment without interruption. Furthermore, the provisions in the earlier superseded Ordinance on Appointment Pensions, etc. still apply to those previously covered by these provisions.

This implies the following: For Barbro Wickman-Parak, Lars E.O. Svensson, Karolina Ekholm, Per Jansson and Kerstin af Jochnick the Ordinance on Severance Benefits for Certain Employees Employed as Senior Government Officials (2003:55) is applicable. For Stefan Ingves the same ordinance is applicable with the exception of a reduction of the income guarantee for pension from the IMF.

Furthermore, under present arrangements, Stefan Ingves may also receive a pension from the BIS. This is paid to board members who have served on the board of the BIS for at least four years, but only when they have reached the age of 65. The pension is calculated on the basis of the board fees paid, amounting to 1.82 per cent of these fees.

For Svante Öberg the older Ordinance on Appointment Pensions (1991:1160) applies. For Lars Nyberg the older Ordinance on Pensions for Senior Government Officials (1995:1038) is applicable.

The average number of employees (full-time equivalents, FTEs) in 2012 was 351 (340), of which 151 (143) women and 200 (197) men. The number of FTEs at the end of the year was 354 (332). Total sick leave in 2012 corresponded to 1.9 per cent (1.2) of employees' total working hours. Sick leave over a continuous period of 60 days or more in 2012 was 44.8 per cent (22.6) of total sick leave. Women's sick leave in relation to total regular working hours for women amounted in 2012 to 2.0 per cent (1.7), while the corresponding figure for men in 2012 was 1.9 per cent (0.9).

The table below shows sick leave for each age group in relation to the total regular working hours for the group:

	2012	2011
29 years or younger	0.3 %	0.6 %
30–49	1.5 %	1.2 %
50 years or older	2.9 %	1.3 %

Note 38 Administrative expenses

	2012	2011
Information, representation	-8	-10
Transport, travel	-15	-14
Consultancy assignments	-48	-46
Other external services	-81	-73
IT operation	-55	-51
Economics prize	-13	-16
Office and property maintenance	-43	-44
Other	-6	-7
Total	-269	-261

Information expenses include costs for the Riksbank's regular publications, such as the Monetary Policy Reports, the Financial Stability Reports and the Annual Report.

Representation expenses amounted to SEK 2.9 million (3.7).

The item 'Transport, travel' includes the cost of the Riksbank's transport of banknotes and coins as well as travel costs.

Consultancy assignments amount to SEK 48 million (46). This amount includes the costs of IT consultants of SEK 34 million (30), of which consultancy support in connection with outsourcing IT operations accounts for SEK 6 million (3) and change of integration platform accounts for SEK 0 million (7).

The cost of statistics deliveries of SEK 54 million (47) is the largest single item in 'Other external services'. It refers mainly to remuneration to Statistics Sweden for production of balance of payments statistics and financial market statistics. In addition there are audit fees to the Swedish National Audit Office and the General Council's auditors of SEK 2 million (1).

The 'IT operations' item includes licensing expenses of SEK 41 million (38).

The 'Economics prize' item includes the prize sum of SEK 8 million (10) and administration costs for the prize of SEK 5.2 million (6.5).

The largest single items in the cost group 'Office and property maintenance' consist of refurbishment and maintenance of the Riksbank's premises, SEK 9 million (8), and rent of premises, SEK 12 million (14).

Note 39 Depreciation of tangible and intangible fixed assets

This item is used to report scheduled depreciation of tangible and intangible fixed assets.

Note 40 Banknote and coin expenses

Of the total cost of notes and coins of SEK 18 million (10), SEK 17 million (9) refers to circulation banknotes, SEK 1 million (0) to circulation coins and SEK 0 million (1) commemorative coins.

Note 41 Other expenses

The item 'Other expenses' refers to non-recurring expenses.

Note 42 Memorandum items*Pledged assets*

At the close of 2012 no securities were pledged in connection with foreign securities repos (-).

Contingent liabilities

Outstanding claims for compensation amounted to SEK 4 million (3) at the close of 2012.

Commitment to provide the Nobel Foundation with funds annually for the award of a prize in economic sciences in memory of Alfred Nobel and also administration expenses for this prize. This commitment amounted to SEK 13.2 million in 2012 (16.5).

A commitment to pay KPA Pensionsförsäkring AB supplementary compensation if so required as a result of index-linking the pension benefits to which the insured is entitled. This commitment refers to personnel transferred from the Riksbank to AB Tumba Bruk (now Crane AB) in 1971.

Contingent assets

At the end of 2012 the Riksbank had no outstanding compensation claims (-).

Lending and exchange commitments with the IMF

	31.12.2012	31.12.2011
Special Drawing Rights	46 133	47 994
Reserve position	16 664	18 362
GAB, NAB, bilateral loan	39 110	42 004
Total	101 907	108 360

The table above shows the Riksbank's remaining lending and exchange commitments under agreements with the IMF in addition to what is reported on the balance sheet. See Note 2. Under the IMF by-laws the commitment referring to Special Drawing Rights means that the Riksbank is obliged to buy Special Drawing Rights (SDR) so that the holding is a maximum of three times the Riksbank's total net SDR allocation. This commitment also includes the Riksbank's standing arrangement to buy SDR within an interval of 50 to 150 per cent of the Riksbank's total net allocation of SDR.

The commitment concerning the reserve position means that the Riksbank is obliged to exchange the balance in the IMF's krona account to foreign currency.

The commitment concerning GAB (General Arrangements to Borrow) and NAB (New Arrangements to Borrow) to provide the IMF with a credit facility means that the Riksbank is obliged to lend to the IMF an amount of up to SDR 4 440 million (4 440), which is equivalent to SEK 44 428 million (46 893). These arrangements are only activated under special circumstances and are aimed at temporarily strengthening the IMF's lending capacity over and above the funds available under the capital contribution.

The commitment referring to the bilateral loan agreement with the IMF means the Riksbank is obliged to lend a SDR amount equivalent to a total of EUR 2 470 million, equivalent to SEK 21 204 million (22 018). This lending assumes that it falls within the framework of GAB and NAB lending.

Sweden's capital contribution (quota) to the IMF at present is SDR 2 395.5 million. The Riksdag has authorised the Government to increase Sweden's quota to the IMF so that it amounts to a maximum total of SDR 4 430 million. The Riksdag has further authorised the Riksbank to pay the necessary quota amount to the IMF. The IMF has as yet not made a final decision on the quota increase. The IMF's proposed quota increase is based on an approximately equivalent reduction of Sweden's commitment in the IMF's new arrangements to borrow (NAB), which means that Sweden's total commitment to the IMF in principle will not be extended as a result of the quota increase.

Apart from the above, in January 2013 – after receiving the consent of the Riksdag – the Riksbank signed an agreement on credit to the IMF in the amount SDR 6 700 million, which is equivalent to SEK 67 000 million. In order to use this agreement the IMF's remaining funds for lending must be less than SDR 100 000 million.

Payment agreements

Commitment to pay the BIS, three months after any demand, the remaining 75 per cent of the nominal amount of the Riksbank's shareholding in the BIS. This commitment corresponded to SDR 65 million (65), equivalent to SEK 650 million (687) at the end of 2012.

Deposit agreements

Agreement with the BIS, implying that the Riksbank has the opportunity to borrow foreign currency.

Agreement with the ECB, implying that the Riksbank has the opportunity to borrow euros in exchange for Swedish kronor. No amount has been fixed in the agreement.

In December 2012 the Riksbank decided that the foreign exchange reserve is to be strengthened with foreign currency in an amount equivalent to SEK 100 000 million. Thereafter the Riksbank made a submission to the National Debt Office that the Debt Office should as soon as possible raise loans of this amount on behalf of the Riksbank. After the close of 2012 the National Debt Office decided to raise loans in accordance with the Riksbank's submission. The main part of the amount approved was loaned to the Riksbank at the end of January 2013.

■ The profit and loss account and balance sheet by function

The breakdown should reflect as closely as possible the actual use of resources for each function. The principle used is for expenses and income to be allocated as far as possible directly to the respective function without use of any cost allocation key.

The allocation model is based on the format of the profit and loss account and the balance sheet, where the Riksbank's administrative expenses for 2012 amount to SEK 700 million (694) and assets and liabilities to SEK 345 739 million (347 917).

Allocation of costs

Staff costs, excluding IT personnel

The actual payroll expense has been used when allocating staff costs for employees directly involved in a function. The payroll expenses for employees in support functions have been allocated according to a cost allocation key. The most common key is the number of directly involved employees in relation to the total number of directly involved employees in all functions. Altogether about 219 employees, or 62 per cent of the total of 354, are directly involved in one of the functions. The other 135 employees are in support functions, mainly IT, transport and security surveillance, property maintenance and internal services.

Administrative expenses, excluding IT expenses

The Riksbank's process accounting means that administrative expenses are directly allocated by function at the time of registration of invoices.

A large part of the Riksbank's costs are, however, common expenses, such as costs of premises, property maintenance, security and surveillance. These cannot be allocated directly but have been allocated using predefined keys, most often consisting of the number of employees directly involved per function in relation to the total number of directly involved employees in all functions.

Depreciation, excluding IT-related investments

Depreciation is directly allocated to the function which is supported by the respective facility or allocated on the basis of the number of directly involved employees per function in relation to the total number of directly involved employees.

Banknote and coin expenses

Costs for purchasing banknotes and coins amounted to SEK 18 million (10) in 2012. The costs are allocated in their entirety to the Cash handling function.

IT expenses

IT expenses refer to the costs of the IT Department. The model for allocation of IT expenses is based on three IT services: PC services, telephony and IT systems. PC services are allocated to users with commonly agreed prices. Telephony costs (not mobile telephony) are allocated on the basis of the number of directly involved employees per function in relation to the total number of directly involved employees in all functions. IT system costs (including licences) are allocated based on the number of logical servers per system.

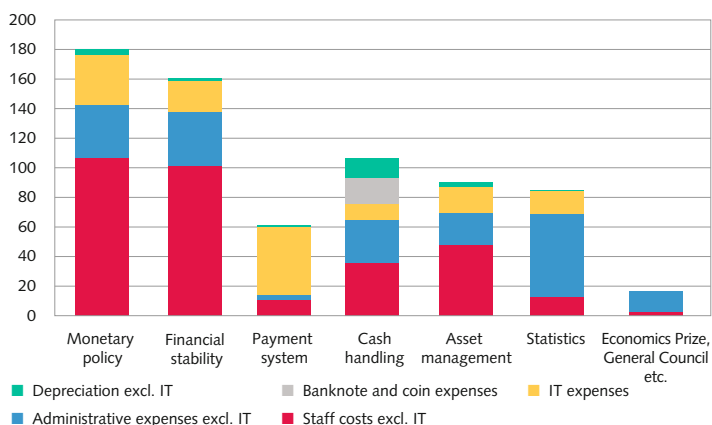
The table below shows the Riksbank's net income and expenses by function.

Breakdown of net income and expenses

Function SEK million	2012			2011		
	Net income	Expenses	Profit/loss	Net income	Expenses	Profit/loss
Monetary policy	4	-180	-176	2	-194	-192
Financial stability	60	-161	-101	54	-140	-86
Payment system	71	-61	10	70	-66	4
Cash handling	-5	-106	-111	125	-106	19
Asset management	2 502	-90	2 412	4 370	-91	4 279
Statistics	0	-85	-85	0	-77	-77
Economics prize and General Council etc.	2	-17	-15	3	-20	-17
Total	2 634	-700	1 934	4 624	-694	3 930

Chart 22

Allocation by nature of expense per function, 2012, SEK million



Source: The Riksbank.

Asset management profit/loss etc.

SEK million	2012	2011
Interest income	4 274	5 488
Interest expense	-1 161	-1 319
Net result of financial transactions reported in the profit and loss account	-603	209
Net result of financial transactions reported in revaluation accounts in the balance sheet	-4 993	13 254
Fees and commission expense	-8	-8
Asset management profit/loss	-2 491	17 624
Net interest earnings on administration	-29	-35
Income from administration	161	289
Cost of administration	-700	-694
Profit/loss including income recognised in the balance sheet	-3 059	17 184
Reversal of income recognised in the balance sheet	4 993	-13 254
Reported profit for the year	1 934	3 930

Allocation of assets and liabilities

Function	31.12.2012		31.12.2011	
	Assets	Liabilities	Assets	Liabilities
SEK million				
Financial stability	441	-	441	-
Cash handling	-	96 441	-	100 136
Asset management	344 199	139 969	346 532	128 210
Unallocated	1 099	109 329	944	119 571
Total	345 739	345 739	347 917	347 917

Strengthening of the Riksbank's foreign exchange reserve

SEK million	Net interest income		Loan amount	
	2012	2011	31.12.2012	31.12.2011
Bank balances and securities ¹	551	716	88 294	84 886
Liabilities to residents in Sweden denominated in foreign currency ²	-749	-953	-88 413	-86 497
Accrued interest	-	-	-232	-177
Total	-198	-237	-351	-1 788

¹ Contingency portfolio (market value).

² Swedish National Debt Office.

Allocation of net income

Allocation of net income by function has been done from an operational perspective. Income has been allocated to the function with the greatest potential to influence and manage it. Consequently, the fact that seignorage derives from cash handling has not been taken into consideration. Instead seignorage income has been allocated to asset management. Seignorage for 2012 amounted to SEK 1 798 million (1 887). As of 2012 the strengthening of the foreign exchange reserve is included in the seignorage calculation.

The net income in the Financial stability function mainly consists of dividend from the Riksbank's holding of BIS shares.

The total return from the Riksbank's asset management in 2012 of SEK -2 491 million (17 624) consists of net income from asset management of SEK 2 502 million (4 370), adjusted for price, exchange rate and gold value effects of SEK -4 993 million (13 254) recognised in the balance sheet, corresponding to the year's change in the revaluation account (see Note 27). See also the table "Asset management profit/loss etc." and table 5 in the 'Asset management' section of the Administration Report.

Net interest earnings on administration in the table above consists of interest income from the Riksbank's staff loans of SEK 6 million (5) and interest expenses for interest compensation to cash depots of SEK 35 million (40).

The net result of financial transactions reported in revaluation accounts in the balance sheet corresponds to the change during the year in the 'Revaluation accounts' item.

Allocation of assets and liabilities

The table "Allocation of assets and liabilities" shows the Riksbank's assets and liabilities by function in millions of kronor.

The assets in the Financial stability function consist of the shareholding in the BIS. The unallocated assets mainly contain tangible and intangible fixed assets and other assets. The unallocated liabilities mainly contain equity, revaluation account and result for the year.

Strengthening of the Riksbank's foreign exchange reserve

The table "Strengthening of the Riksbank's foreign exchange reserve" shows net interest income and loan amounts referring to the Riksbank's loans in foreign currency from the National Debt Office, which were raised in 2009 for the purpose of strengthening the foreign exchange reserve.

■ Five-year overview

The five-year overview presents the balance sheet and profit and loss account restated in accordance with current accounting policies.

No restatement has been necessary for the last four years.

Balance sheet					
SEK million	31.12.2012	31.12.2011	31.12.2010	31.12.2009	31.12.2008
ASSETS					
Gold	43 720	43 508	38 537	31 691	29 976
Claims on residents outside Sweden denominated in foreign currency	294 079	300 186	282 555	302 348	200 448
Receivables from the IMF	34 196	35 294	31 175	30 898	6 261
Balances with banks and security investments	259 883	264 892	251 380	271 450	194 187
Claims on residents in Sweden denominated in foreign currency	–	–	–	–	196 124
Lending to credit institutions in Sweden related to monetary policy operations denominated in Swedish kronor	0	0	500	368 802	266 462
Main operations	–	–	–	–	–
Fine-tuning operations	–	–	–	–	–
Structural operations	–	–	500	368 801	264 800
Marginal lending facility	0	0	0	1	0
Other lending	–	–	–	–	1 662
Securities of residents in Sweden denominated in Swedish kronor	3 152	–	–	–	–
Other assets	4 788	4 223	5 334	5 997	7 201
Tangible and intangible fixed assets	655	502	389	406	421
Financial assets	521	521	521	521	524
Derivative instruments	662	–	584	136	8
Prepaid expenses and accrued income	2 609	2 873	3 522	4 608	5 931
Other assets	341	327	318	326	317
Total assets	345 739	347 917	326 926	708 838	700 211

Balance sheet

SEK million	31.12.2012	31.12.2011	31.12.2010	31.12.2009	31.12.2008
LIABILITIES AND EQUITY					
Banknotes and coins in circulation	96 441	100 136	105 401	110 663	112 273
Banknotes	91 056	94 771	99 902	104 590	106 266
Coins	5 385	5 365	5 499	6 073	6 007
Liabilities to credit institutions in Sweden related to monetary policy operations denominated in Swedish kronor	26 154	16 875	5 142	171 163	206 696
Deposit facility	339	44	45	56	32
Fine-tuning operations	25 815	16 831	5 097	171 107	206 664
Debt certificates issued	2 998	–	–	192 222	48 946
Liabilities to residents in Sweden denominated in Swedish kronor	–	–	–	–	104
Liabilities to residents outside Sweden denominated in Swedish kronor	156	106	69	70	189 248
Liabilities to residents in Sweden denominated in foreign currency	88 413	86 497	83 774	92 544	1 862
Liabilities to residents outside Sweden denominated in foreign currency	–	–	431	–	8 688
Counterpart of SDRs allocated by the IMF	22 505	23 754	23 275	25 216	2 979
Other liabilities	384	1 283	535	662	9 998
Derivative instruments	–	943	–	3	9 254
Accrued expenses and prepaid income	306	252	488	606	697
Other liabilities	78	88	47	53	47
Provisions	184	203	220	251	264
Revaluation accounts	43 363	48 356	35 102	37 818	49 228
Equity	63 207	66 777	72 429	64 025	58 742
Capital	1 000	1 000	1 000	1 000	1 000
Reserves	62 207	65 777	71 429	63 025	57 742
Profit for the year	1 934	3 930	548	14 204	11 183
Total liabilities and equity	345 739	347 917	326 926	708 838	700 211

Profit and loss account

SEK million	2012	2011	2010	2009	2008
Interest income	4 280	5 493	7 717	10 997	10 610
Interest expense	–1 196	–1 359	–2 135	–2 796	–2 600
Net result of financial transactions	–603	209	–5 123	6 714	3 051
Fees and commission income	71	70	67	58	43
Fees and commission expense	–8	–8	–11	–43	–8
Dividends received	56	51	134	55	45
Other income	34	168	603	16	824
Total net income	2 634	4 624	1 252	15 001	11 965
Staff costs	–366	–372	–345	–342	–337
Administrative expenses	–269	–261	–240	–267	–264
Depreciation of tangible and intangible fixed assets	–47	–51	–63	–71	–68
Banknote and coin expenses	–18	–10	–56	–117	–113
Other expenses	–	–	–	–	–
Total expenses	–700	–694	–704	–797	–782
Profit for the year	1 934	3 930	548	14 204	11 183

■ Internal control

The Executive Board is responsible for the Riksbank's activities and shall ensure that they are conducted efficiently and in accordance with applicable laws, that they are reported in a reliable and fair manner and that the Riksbank is economical with public finances. This is stated in Chapter 9, Article 1 of the Sveriges Riksbank Act. The Executive Board shall ensure that the requirements are met with reasonable certainty by ensuring that the Riksbank has a process for internal control that includes risk analysis, control measures, follow-up and documentation. The Executive Board shall present in the Annual Report an assessment of whether internal control is considered satisfactory. This is stated in Chapter 10, Article 3 of the Sveriges Riksbank Act.

The Executive Board's assessment of the Riksbank's internal control

The Executive Board has evaluated the Riksbank's internal control during 2012 against the requirements in the Sveriges Riksbank Act and its conclusion is that internal control is satisfactory.

Stockholm, 6 February 2013



Stefan Ingves
Governor



Kerstin af Jochnick
First Deputy Governor



Karolina Ekholm
Deputy Governor



Per Jansson
Deputy Governor



Lars E.O. Svensson
Deputy Governor



Barbro Wickman-Parak
Deputy Governor

■ Auditor's report for Sveriges Riksbank

Translation from Swedish.

Report on the annual report

The Swedish National Audit Office has audited the annual report for Sveriges Riksbank for 2012, dated 6 February 2012.

Responsibility of the Executive Board for the annual report

The Executive Board is responsible for preparing an annual report that gives a true and fair view in accordance with the Sveriges Riksbank Act (1988:1385) and in accordance with the rules for bookkeeping and annual accounts adopted by the Executive Board. The Executive Board is also responsible for the internal controls they deem necessary to prepare an annual report that is free from material misstatement, whether due to fraud or error.

Responsibility of the auditor

The responsibility of the Swedish National Audit Office is to express an opinion on the annual report based on its audit. The Swedish National Audit Office conducted its audit in accordance with the International Standards of Supreme Audit Institutions. This standard requires that the Swedish National Audit Office complies with professional ethical requirements and plans and performs the audit to obtain reasonable assurance that the annual report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and other disclosures in the annual report and about whether the Executive Board has complied with relevant provisions and special decisions. The auditor selects the procedures to be performed, including the assessment of the risks of material misstatement in the annual report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Riksbank's preparation and fair presentation of the annual report. The purpose is to design audit procedures that are appropriate in the circumstances, but not to express an opinion on the effectiveness of the Riksbank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Executive Board, as well as evaluating the overall presentation of the annual report.

The Swedish National Audit Office believes that the audit evidence it has obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In the opinion of the Swedish National Audit Office, the annual report in all material respects gives a true and fair view of the financial position of the Riksbank as at 31 December 2012, and of the results and funding of its operations for the year in accordance with the Sveriges Riksbank Act (1988:1385) and in accordance with the rules for bookkeeping and annual accounts adopted by the Executive Board.

The Swedish National Audit Office recommends that the Riksdag adopt the balance sheet and the profit and loss account.

Report on other legal and regulatory requirements

In addition to the annual report, the Swedish National Audit Office shall also express an opinion on the administration of the General Council and the Executive Board of Sveriges Riksbank for 2012.

Responsibility of the General Council and the Executive Board and of the auditor

The General Council and the Executive Board are responsible for the administration under the Sveriges Riksbank Act (1988:1385).

The responsibility of the Swedish National Audit Office is to express an opinion with reasonable assurance based on its audit. The Swedish National Audit Office conducted its audit in accordance with generally accepted auditing standards in Sweden.

As a basis for the Swedish National Audit Office's opinion concerning discharge from liability, the Swedish National Audit Office has examined significant decisions, actions taken and circumstances of the Riksbank to be able to determine the liability, if any, to the Riksbank of any member of the General Council or Executive Board. The Swedish National Audit Office has also examined whether any member of the General Council or the Executive Board has in any other way acted in contravention of the Sveriges Riksbank Act (1988:1385).

The Swedish National Audit Office believes that the audit evidence it has obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

The Swedish National Audit Office recommends to the Riksdag that the General Council of the Riksbank be discharged from liability for its activities and that the Executive Board be discharged from liability for its administration of the Riksbank in 2012.

The auditor in charge, Staffan Nyström, made the decision on this matter. Engagement leader Tomas Janhed presented the report.

Stockholm, 22 February 2013

Staffan Nyström

Tomas Janhed

■ Consultation work of the Riksbank

Every year, the Riksbank responds to a large number of consultation documents. The heads of department are responsible for handling consultation requests within the department's area of responsibility. The responsibility of the head of department includes providing background information for assessing whether a consultation response should be decided by the Executive Board or the head of department. If the response is to be decided by the Executive Board, the head of department shall also present a draft consultation response to the Executive Board. Responsibility for overall coordination and administration of consultation work lies with the General Secretariat.

In 2012, the Riksbank submitted consultation responses on, for example, proposed measures to strengthen stability in the financial system and supervision in the financial area, as well as on several proposals concerning Finansinspektionen's regulations. The Executive Board submitted comments on the treaty on stability, coordination and governance in the Economic and Monetary Union, the proposal for enhanced emergency preparedness in the central payment system, and the report on stable municipal operations, as well as on Finansinspektionen's proposed regulation for a quantitative requirement for liquidity coverage ratio and reporting.

The Riksbank submitted the following consultation responses in 2012. Unless otherwise stated, decisions were taken by the head of the department concerned.

The Ministry of Finance

10.12.2012 Amended decision-making authority in certain cases in the areas of banking and insurance

27.11.2012 The AP funds in the pensions system – more efficient management of the pension reserve (SOU 2012:53)

23.11.2012 Regulations on OTC derivative contracts, central counterparties and trade repositories (Ds 2012:39)

19.11.2012 Amendment to the Capital Adequacy and Large Exposures (Credit Institutions and Securities Companies) Ordinance (2006:1533)

08.10.2012 Proposed guidelines for the management of sovereign debt 2013–2016

21.09.2012 The European Commission's consultation regarding Directive 2009/65/EC of the European Parliament and of the Council on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS)

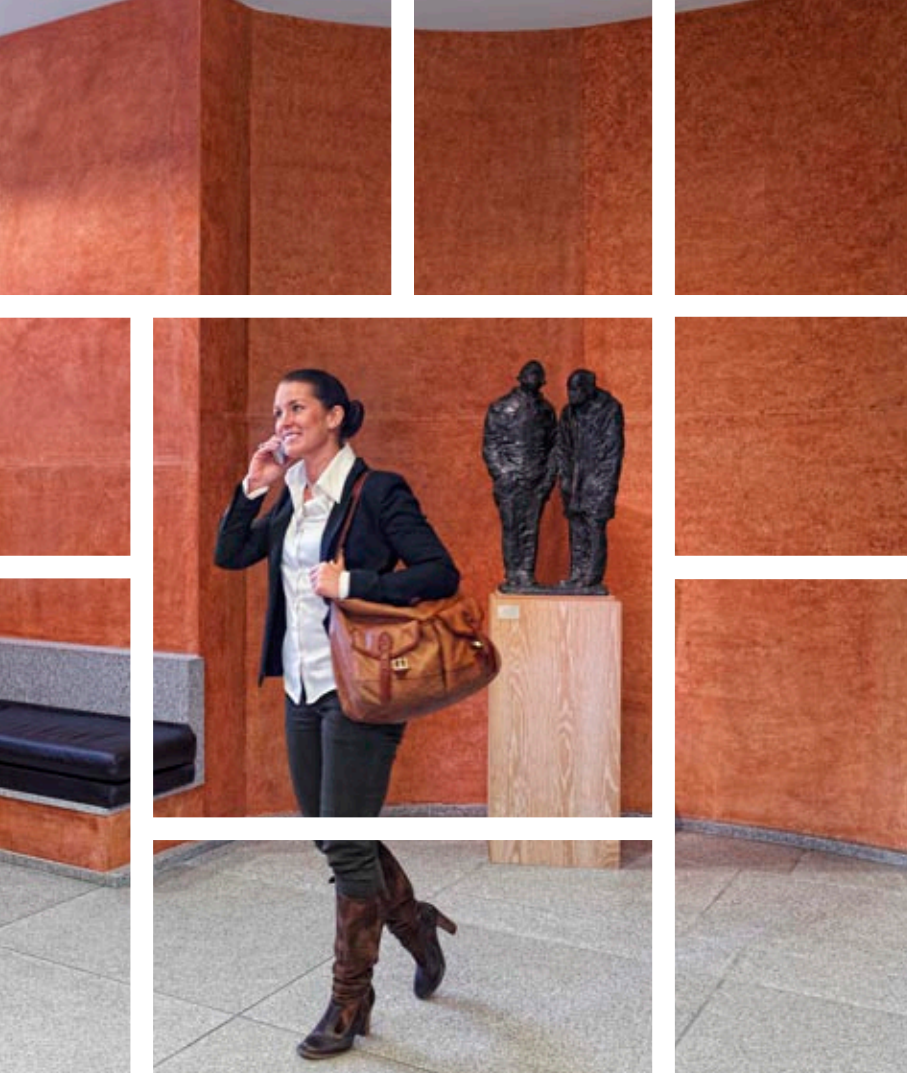
21.09.2012 European Commission Proposal for a Directive of the European Parliament and of the Council amending Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards depository functions, remuneration policies and sanctions

12.09.2012 The treaty on stability, coordination and governance in the Economic and Monetary Union. A decision on this consultation response was taken by the Executive Board of the Riksbank.

28.08.2012 European Commission Proposal for a Regulation of the European Parliament and of the Council on key information documents for investment products (COM (2012) 352 final)

09.07.2012 Further consultation document on the relationship between Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) and Directive 2003/41/EC of the European Parliament and of the Council on the activities and supervision of institutions for occupational retirement provision





29.05.2012 Regulation of the European Parliament and of the Council amending Regulation (EC) No 223/2009 of the European Council and of the Parliament on European statistics

16.05.2012 The European Commission's Green Paper 'Shadow Banking'

20.04.2012 Audit rules for financial companies (Ds 2012:4)

20.04.2012 Shortselling (Ds 2012:10)

08.03.2012 Enhanced emergency preparedness in the central payment system (SOU 2011:78). A decision on this consultation response was taken by the Executive Board of the Riksbank.

02.03.2012 Consultation regarding the European Commission's Green Paper 'Towards an integrated European market for card, internet and mobile payments'

02.03.2012 New rules regarding prospectuses (Ds 2012:1)

26.01.2012 Report Prudential regulation of insurance and occupational pension (SOU 2011:68)

12.01.2012 Report Save when times are good – for stable municipal operations (SOU 2011:59). A decision on this consultation response was taken by the Executive Board of the Riksbank.

Finansinspektionen (Swedish Financial Supervisory Authority)

19.12.2012 Memorandum prepared by former Justice of the Supreme Court Johan Munck on the implementation of the European supervisory authorities' guidelines and recommendations

23.11.2012 Extended application of certain provisions of the Regulations and General Guidelines governing capital adequacy and large exposures

18.10.2012 Proposed Regulations amending the accounting regulations (FFFS 2008:25)

03.09.2012 Finansinspektionen's proposed regulation governing covered bonds

23.08.2012 Finansinspektionen's proposed regulation governing a quantitative requirement for liquidity coverage ratio and reporting. A decision on this consultation response was taken by the Executive Board of the Riksbank.

18.06.2012 Proposed Regulations amending the regulations regarding insurance undertakings' choice of interest rate for the calculation of technical provisions

25.05.2012 Proposed amended marketplace regulations

20.02.2012 Proposed Regulation amending Finansinspektionen's Regulations and General Guidelines governing capital adequacy and large exposures

Ministry of Justice

06.12.2012 Site leasehold fees and freehold land (SOU 2012:71)

16.10.2012 Memorandum Confidentiality in international work (Ds 2012:34)

19.01.2012 EU proposal on auditing – Special requirements concerning statutory auditing of public interest entities and a directive on amendments to Directive 2006/43/EC of the European Parliament and of the Council on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC (the so-called Statutory Audit Directive)

Ministry for Foreign Affairs

16.07.2012 Accession of Croatia to the European Union (Ds 2012:19)

Publications

The Riksbank produces a number of publications each year. These include:

Monetary Policy Report

Published three times per year. This report forms a basis for monetary policy decisions. By publishing this report, the Riksbank makes its assessments generally accessible. In this way, the Riksbank can stimulate interest in and facilitate understanding of monetary policy.

Monetary Policy Update

Published three times per year between two Monetary Policy Reports. Contains a limited number of forecasts and describes the Riksbank's assessments in conjunction with monetary policy decisions that are not based on a Monetary Policy Report.

Report on monetary policy

Yearly report on the monetary policy conducted by the Riksbank in the immediately preceding years. It contains data and assessments necessary to enable the Riksdag to evaluate monetary policy. This publication was previously named Material for assessing monetary policy.

Financial Stability Report

Published twice per year. In this report, the Riksbank presents its assessment of the development of the financial system, highlights potential risks to financial stability and makes recommendations concerning the necessary measures to reduce risks.

The Swedish Financial Market

Provides an annual presentation of basic statistics on the various parts of the financial sector and contains educational explanations of how these markets, institutions and systems function.

Riksbank Studies and Economic Commentaries

These are respectively longer and shorter analyses and studies within one of the Riksbank's fields of activity. They are published on an ongoing basis over the year.

Sveriges Riksbank Economic Review

Published two to four times per year. Contains in-depth articles related to the Riksbank's fields of activity.

Annual Report

Provides an account of the Riksbank's activities during the past year. It also includes the annual accounts.

Working Paper Series

Presents reports with a connection to the Riksbank's fields of activity that are also considered to be of interest to readers outside the bank.

Publications from the European Central Bank (ECB)

Includes Swedish versions of the ECB's monthly bulletins, annual reports and convergence reports.

All the Riksbank's publications are available in full text on its website (www.riksbank.se). The majority of them are published in both Swedish and English. The simplest way to order them is via the website.

The Riksbank also publishes press releases, speeches, articles and minutes from the meetings of the Executive Board and the General Council on its website. As of 2009, it is also possible to download the results of the Riksbank's company interview surveys and risk surveys in PDF format.

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■ The Sveriges Riksbank Prize in Economic Sciences in memory of Alfred Nobel 2012

The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel 2012 was awarded to Alvin E. Roth and Lloyd S. Shapley for the theory of stable allocations and the practice of market design. Using what is known as cooperative game theory, Lloyd Shapley studied various methods for matching and demonstrated how a certain method can systematically benefit one or the other party on the market. Alvin Roth used Shapley's theoretical results as a basis for empirical studies, experiments and practical reform work to show that stability is the key to understanding which methods for matching have been successful. The combination of Shapley's underlying theory and Roth's empirical work has created a new field of research and improved the functioning of many markets.

The Sveriges Riksbank Prize in Economic Sciences was established in connection with the Riksbank's 300th anniversary in 1968. In making its donation, the Riksbank committed itself to giving the Nobel Foundation each year in perpetuity the prize money and the amount necessary to cover the Foundation's administrative and financial expenses for the prize. The Government has established the statutes for the prize.

The prize is awarded every year to a person or persons who have produced work of outstanding impor-

tance in the field of economic sciences. The Royal Swedish Academy of Sciences selects the prize-winner(s) according to the same principles as for the Nobel Prizes. The prize amount is also the same as for the Nobel Prize. As of 2012, the prize amount is SEK 8 million, in accordance with the Nobel Foundation's decision to lower the prize amount for the other Nobel Prizes. This money is paid by the Riksbank. If there is more than one winner, the prize amount is shared equally between them.

Alvin E. Roth was born in 1951 in the USA (US citizen). Ph.D. 1974 from Stanford University, Stanford, CA, USA. George Gund Professor of Economics and Business Administration at Harvard University, Cambridge, MA, USA, and Harvard Business School, Boston, MA, USA.

Lloyd S. Shapley was born in 1923 in Cambridge, MA, USA (US citizen). Ph.D. 1953 from Princeton University, Princeton, NJ, USA. Professor emeritus at University of California, Los Angeles, CA, USA.



Alvin E. Roth



Lloyd S. Shapley

Previous laureates

The prize has been awarded every year from 1969 to the following persons:

1969	R. Frisch and J. Tinbergen	1985	F. Modigliani	2000	J.J. Heckman and D.L. McFadden
1970	P.A. Samuelson	1986	J.M. Buchanan Jr	2001	G.A. Akerlof, A.M. Spence and J.E. Stiglitz
1971	S. Kuznets	1987	R.M. Solow	2002	D. Kahneman and V.L. Smith
1972	J.R. Hicks and K.J. Arrow	1988	M. Allais	2003	R.F. Engle and C.W.J. Granger
1973	W. Leontief	1989	T. Haavelmo	2004	F.E. Kydland and E.C. Prescott
1974	G. Myrdal and F.A. von Hayek	1990	H.M. Markowitz, M.H. Miller and W.F. Sharpe	2005	R.J. Aumann and T.C. Schelling
1975	L.V. Kantorovich and T.C. Koopmans	1991	R.H. Coase	2006	E.S. Phelps
1976	M. Friedman	1992	G.S. Becker	2007	L. Hurwicz, E.S. Maskin and R.B. Myerson
1977	B. Ohlin and J.E. Meade	1993	R.W. Fogel and D.C. North	2008	P. Krugman
1978	H.A. Simon	1994	J.C. Harsanyi, J.F. Nash Jr and R. Selten	2009	E. Ostrom and O.E. Williamson
1979	T.W. Schultz and A. Lewis	1995	R.E. Lucas Jr	2010	P.A. Diamond, D.T. Mortensen and C.A. Pissarides
1980	L.R. Klein	1996	J.A. Mirrlees and W. Vickrey	2011	T.J. Sargent and C.A. Sims
1981	J. Tobin	1997	R.C. Merton and M.S. Scholes		
1982	G.J. Stigler	1998	A. Sen		
1983	G. Debreu	1999	R.A. Mundell		
1984	R. Stone				

Glossary

Balance of payments Statistical report of a country's economic transactions with the rest of the world. Consists of the current account, capital account and financial account. The total is always zero, that is the payments are in balance.

Basel III International regulatory framework for financial institutions that mainly regulates banks' capital adequacy, that is how much capital a bank must hold in relation to the risk it takes, and the way they manage liquidity. The regulations were agreed on in 2010 and will be progressively phased in by 2019.

Basel Committee Global forum for cooperation on issues relating to bank supervision between supervisory authorities and other bodies responsible for financial stability work in Argentina, Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Luxembourg, Mexico, the Netherlands, Russia, Saudi Arabia, Singapore, South Africa, South Korea, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. Among other things, the Basel Committee draws up international standards, guidelines and recommendations for the regulation of banks.

BIS, Bank for International Settlements Coordinating body for central banks with its headquarters in Basel. Carries out inquiries and formulates standards for financial activities. BIS also takes deposits from and lends to central banks. The Riksbank is a partner in BIS and is represented on its Board of Directors.

Bond A fixed-interest debt instrument that can be issued by a government, municipality, credit market company, mortgage institution or large company. A bond has a long maturity, at least one year. The nominal amount of the bond is repaid when the bond matures and, during its term, the holder of the bond receives periodic interest payments.

CEBS, Committee of European Banking Supervisors An independent advisory group founded in 2004 to advise the European Commission on the design of directives in the field of banking in the EU, to contribute to the consistent implementation of the directives in the Member States and to enhance cooperation and the exchange of information between the authorities. The CEBS consisted of representatives of supervisory authorities and central banks in the EU and was succeeded in 2009 by the European Banking Authority (EBA).

Central bank Institution responsible for monetary policy in a country or currency area, that is setting an interest rate to maintain price stability. Central banks are usually also responsible for maintaining the stability of the payment mechanism and issuing legal tender. The Riksbank is Sweden's central

bank. In other countries, central banks may also have other duties, such as being responsible for financial supervision or management of the central government debt.

Central counterparty Financial company that acts as an intermediary in financial transactions and assumes responsibility for ensuring that commitments are fulfilled.

Clearing system System used to carry out, on behalf of its participants, settlements concerning their financial commitments. Clearing systems are also used by central counterparties or other parties responsible for ensuring that commitments are settled by transferring liquid funds or financial instruments. A clearing system is run by a clearing organisation.

Common Equity Tier 1 Tier 1 capital with a deduction for capital contributions and reserves that may be included in the capital base as Tier 1 capital in accordance with chapter 3, section 4 of the Capital Adequacy and Large Exposures Act (2006:1371).

Compliance Observance of external and internal regulatory frameworks. The Riksbank's compliance function ensures that the organisation complies with relevant laws and regulations.

Countercyclical capital buffers Reserves of capital that banks are to maintain to protect themselves against losses that may follow a period of excessive credit growth.

Covered bonds Bonds in which the bondholder has collateral in certain assets. As regards Swedish covered bonds, these assets may comprise credit granted against collateral in real estate or public loans.

CPI, Consumer Price Index Statistical measure of the price level. The CPI is calculated every month by Statistics Sweden. The Riksbank's inflation target is expressed in terms of the annual percentage change in the CPI.

CPIF, the CPI with a fixed mortgage rate See CPI. Unlike the CPI, the CPIF is not directly affected by changes in mortgage rates.

Currency swap See Swap agreement.

Derivative instrument Financial instrument that entails agreements on commitments, rights or other prerequisites at a given future point in time. The value of a derivative instrument is linked to an underlying asset. The most common derivative instruments are options, futures and swaps.

ECB, European Central Bank Joint central bank for the EU Member States that have adopted the euro, with its head office in Frankfurt. The Bank's duties are stipulated in a statute that is part of the EU Treaty. The goal of the ECB's monetary policy is to maintain price stability in the euro area. The Governing Council is the highest decision-making body of the ECB. It consists of the six members of the Executive Board of the ECB and the governors of the national central banks in the countries that have adopted the euro.

ECB General Council Consultative body within the European System of Central Banks (ESCB) consisting of the governors of all the EU central banks as well as the President and Vice President of the ECB.

EFC, EU Economic and Financial Committee Advisory body to the ECOFIN Council and the European Commission. Monitors, among other things, economic and financial developments in the EU and the euro area and examines the stability and convergence programmes of the Member States. The central banks are represented in the EFC by their deputy governors.

Emergency liquidity assistance Measures that a central bank may take to support the ability of one or more financial institutions to meet payment obligations in the short term with the purpose of avoiding a serious disruption in the financial system and strengthening confidence in the payment mechanism.

ESCB, the European System of Central Banks Forum for cooperation between the ECB and the national central banks in all the EU Member States.

ESRB, European Systemic Risk Board Independent EU body responsible for the macroprudential supervision of the financial system within the EU.

Euroclear Sweden Organisation that holds registers of almost all shares and debt securities traded in the Swedish financial markets. Also performs clearing and settlement of transactions with Swedish shares and debt securities.

Exchange rate or currency exchange rate Relative value between two currencies, that is the price at which one currency can be exchanged for another.

Executive Board of the Riksbank Six members appointed by the General Council of the Riksbank for terms of office of five or six years. The Executive Board is responsible for the activities of the Riksbank and makes decisions on monetary policy, matters relating to financial stability, market operations and the payment mechanism.

Financial markets Collective term for the markets where financial assets are bought and sold. The four most important markets are the foreign exchange market, the fixed income market, the stock market and the derivatives market.

Financial stability State in which the financial system can maintain its basic functions and also has resilience to disruptions that threaten these functions.

Financial system Collective term for a system that covers banks, insurance companies and other financial agents, as well as financial markets and the financial infrastructure in the form of technical systems, regulations and routines that are required to make payments and exchange securities. The financial system also includes the financial regulatory framework in the form of legislation, regulations and other standards.

Finansinspektionen (Swedish Financial Supervisory Authority) Central government agency with the task of monitoring the activities of banks, credit market companies, securities companies, securities brokers, fund management companies, stock exchanges, authorised marketplaces, clearing organisations, insurance companies and insurance brokers.

Fine-tuning operations Transactions that the Riksbank uses to absorb surplus liquidity from the banks or to enable the banks to borrow money from the Riksbank against collateral to keep the overnight rate stable and close to the repo rate.

Foreign exchange policy Measures that a central bank takes to influence its own exchange rate in relation to other currencies. Also called exchange rate policy. In Sweden, the Government decides whether the exchange rate should be fixed or floating. The Riksbank then has the task of managing the daily policy within the framework of the system decided.

Foreign exchange reserve See Gold and foreign exchange reserves.

FSAP, Financial Sector Assessment Programs Programs for the evaluation of authorities, legislation and supervision that the International Monetary Fund (IMF) uses to examine and analyse a country's financial sector. The programs are mandatory for 25 selected countries with large financial sectors.

FSB, Financial Stability Board International board that coordinates the work of national authorities and international regulatory bodies in the field of financial stability to highlight vulnerabilities and develop, coordinate and implement international regulations and supervision.

GDP, Gross Domestic Product The value of all goods and services produced in a country to be used for consumption, export and investments during a period, usually one year or one quarter.

General Council of the Riksbank Eleven members and as many deputies appointed by the Riksdag (the Swedish parliament), with the same mandate period as Members of the Riksdag. Appoints, in turn, the six members of the Executive Board of the Riksbank, monitors the Riksbank's activities and decides, among other things, on the design of banknotes and coins.

Gold and foreign exchange reserves Sweden's reserves of gold and securities in foreign currency managed by the Riksbank. This buffer can be used when necessary to defend the value of the Swedish krona and to provide emergency liquidity assistance to solvent banks which encounter difficulties.

IMF, International Monetary Fund Body that works to ensure the stability of the global financial system and to prevent international financial crises. Monitors and analyses the economic development of the 188 member countries, provides technical assistance and lends money to countries carrying out economic adjustment programmes.

Inflation General price increases that lead to a reduction in the value of money, a situation when fewer goods and services can be bought for the same amount of money. The opposite is deflation.

Inflation measure Statistical measure of inflation, see for example CPI or CPIX.

Interest rate risk Risk that the value of an interest-bearing security will fall due to a rise in market rates.

Interest rate swap See Swap agreement.

Invalidity of banknotes Declaring banknotes invalid means that these banknotes cease to be legal tender. It is therefore no longer possible to pay using the invalid banknotes. However, the banknotes can be redeemed at the Riksbank as long as the Riksbank assesses that there is no reason to assume that they were acquired by criminal means or that such redemption may conceal the profits of criminal activity.

LCR, Liquidity Coverage Ratio Measure of a bank's ability to handle a liquidity outflow over a period of 30 days. In simple terms, an LCR of 100 per cent means that a bank's liquidity reserves are adequate to enable the bank to manage an unexpected liquidity outflow for 30 days without collapsing.

Liquidity Measure of the ability of a company or organisation to meet its payment obligations in the short term. Can also describe how quickly it is possible to convert an asset into money.

Macroprudential supervision Measures to discover, monitor and prevent risks in the financial system that threaten financial stability.

Medieakademin Collaboration project between Göteborgs-Posten (a Göteborg-based daily newspaper), the University of Gothenburg, Forsman & Bodenfors and TNS Gallup (previously NFO Infra-test). Since 1997, Medieakademin has conducted an annual survey to measure confidence in social institutions, private companies and the mass media.

Modified duration Measure of how sensitive the value of a debt security is to changes in the interest rate. Expressed as a percentage change in the price of the security if the interest rate rises by one percentage point.

Monetary policy Measures that a central bank takes to maintain price stability in the economy.

Monetary Policy Counterparty Credit institution with a registered office or branch in Sweden that is a RIX participant and has access to credit facilities with the Riksbank. Since April 2009, credit institutions that have opted not to participate in RIX may become restricted monetary policy counterparties to gain access to the credit facilities.

Money market That part of the credit market where instruments with a maturity of less than one year, for example treasury bills and certificates, are

traded. One of the most important functions of the money market is to ensure access to liquidity for banks and other financial institutions.

Net interest income Interest income from lending less interest expenditure for funding and deposits.

NSFR, Net Stable Funding Ratio Measure of how much stable funding a bank has in relation to its illiquid assets.

Overnight loan Loan from one business day to the next provided by a bank or other financial institution to another bank or financial institution. Banks can also borrow from or deposit with the Riksbank for a single day.

Payment system Accounts, regulations and computer systems needed to execute payments and transfer securities between different parties.

Policy rates Interest rates that a central bank sets for monetary policy purposes. In Sweden, they are the repo rate and the deposit and lending rates to the banking system.

Price stability Condition where the prices of goods and services increase only moderately or not at all. According to the Riksbank's definition, price stability means limiting CPI inflation to 2 per cent.

Recession Slowdown in a country's economic development.

Repo, repo transaction Repurchase agreement similar to a short-term loan. The Riksbank lends money by purchasing securities from the banks. At the same time, the Riksbank undertakes to sell back these securities on a set date at a slightly higher price, where the difference in price corresponds to the repo rate. The Riksbank thus gets its money back, and the security returns to its original owner. The market participants call the Riksbank's repurchase of a security a reverse repo. Prior to the financial crisis in 2008, repos were usually carried out every week.

Repo rate The Riksbank's most important policy rate by which the Riksbank can control short market rates with the intention of affecting inflation. The banks pay the repo rate when they borrow money from the Riksbank through the Riksbank's repo transactions. On occasions when the banks deposit money with the Riksbank, they may instead purchase Riksbank Certificates. The banks receive the repo rate when investing in Riksbank Certificates.

Repo-rate path Forecast for the repo rate for a number of years ahead which is calculated to lead to the Riksbank attaining its inflation target of two per cent and to contribute to generally strong economic development. The repo-rate path is published at the same time as the Riksbank's decision on the repo rate, which normally takes place six times a year.

Resource utilisation Specifies the extent to which the production resources labour and capital are utilised.

Retail payments Retail payments is a collective term for payments between private individuals, companies and authorities. They are made in large numbers and make up most of the total number of payments in the economy. Retail payments arise, for example, at points of sale, where buyers and sellers meet directly or in remote payments during, for example, the purchase of goods over the Internet. Other examples include payments of bills, suppliers or wages.

Riksbank Certificates Securities with short maturities issued by the Riksbank for the purpose of absorbing surplus liquidity when necessary. When the banks deposit money with the Riksbank by purchasing Riksbank Certificates, they receive the repo rate. The Riksbank normally issues Riksbank Certificates with a maturity of one week, which is to say the same maturity as the repo.

Riksdag Committee on Finance Parliamentary committee that prepares matters concerning economic issues, including the activities of the Riksbank and the central government budget.

Risk-weighted assets Total assets recorded in the balance sheet and off-balance sheet commitments totalled, valued and risk-weighted in accordance with the prevailing capital adequacy regulations.

RIX, the Riksbank's Payment System Central payment system that processes payments to and from the banks' accounts with the Riksbank. The Riksbank functions as the banks' bank for payments in Swedish kronor.

SDR, Special Drawing Rights Reserve asset created by the IMF for allocation to member countries. The value of the SDR is based on a basket of currencies comprising the US dollar, euro, yen and pound sterling.

Seignorage Revenues that a central bank receives on its coins and banknotes. Equivalent to the return on a central bank's assets corresponding to banknotes and coins in circulation less the central bank's total costs for cash handling.

Settlement Final regulation of debt when money or securities are transferred from one party to another, usually payment from one account to another.

Sharpe ratio Measure of a portfolio's risk-adjusted return. Calculated as the portfolio's return in excess of the risk-free rate in relation to its risk measured as a standard deviation.

SNS, Centre for Business and Policy Studies Politically-independent, non-profit organisation comprising opinion-formers and decision-makers in the private and public sectors. The goal of the organisation is to stimulate debate and promote decisions on social issues based on scientific and rational analysis by means of its research, conference and publishing activities.

Standard deviation Statistical measure that describes the extent to which the different values for a variable deviate from the mean value. If the different values are clustered close to the mean value, the standard deviation is low, while values that are dispersed well over and above the mean value entail a high standard deviation.

Statistics Sweden Central administrative agency for official statistics and other government statistics in Sweden.

Stibor, Stockholm Interbank Offered Rate Average of the interest rates that a number of banks state they can offer each other for collateral-free loans in Swedish kronor. Stibor is determined on a daily basis for eight different maturities and is used as a reference rate in the pricing of various financial contracts in Swedish kronor to an amount equivalent to almost SEK 50,000 billion. Stibor is of great significance for the setting of interest rates in Sweden, the allocation of capital in society and the functioning of the financial markets.

Stress test Analysis of various scenarios to assess the resilience of banks and households or other entities to unexpected and negative events.

Swap agreement Bilateral agreement to exchange a specific currency or interest rate in return for another currency or interest rate for a predetermined period according to specific conditions.

Sveriges Riksbank Act The Sveriges Riksbank Act (1988:1385) stipulates the goals and tasks of the Riksbank.

TCW Index, Total Competitiveness Weights Index Index that measures the value of the Swedish currency against a basket of several other currencies. If the TCW Index rises, this means that the Swedish currency has depreciated, which is to say it has become more expensive to purchase the basket of other currencies with Swedish kronor.

The SOM Institute Centre for the survey and seminar activities conducted jointly by the Department of Journalism and Mass Communication (JMG), the Department of Political Science and the Research Centre for the Public Sector (CEFOS) at the University of Gothenburg.

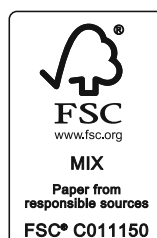
Tier 1 capital Equity less proposed dividends, deferred tax assets and intangible assets, such as goodwill. Tier 1 capital may also include some types of subordinated loan.

VaR, Value-at-Risk Statistical method that describes the maximum potential loss on an investment that may arise with a given statistical certainty (confidence level) during a given period. Used to measure the risk associated with a specific asset or portfolio of assets. The Riksbank applies the confidence level of 99 per cent and the period of ten days.

Graphic design and production: Luxlucid.

Photography: Lipkin (cover, pages 19, 21, 22, 25, 26 top, 28 top, 38, 63, 64, 91), Petter Karlberg (pages 9, 11, 17, 65), Luxlucid (pages 10, 26 bottom, 40, 42, 45, 51), iStock (pages 28 bottom, 36, 61), Sveriges Riksbank (pages 34, 49), The Nobel Foundation, Ulla Montan (page 93).

Print: Trosa Tryckeri.



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or download from the website: www.riksbank.se.

ISSN 0347-5042.

Stockholm 2013.



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