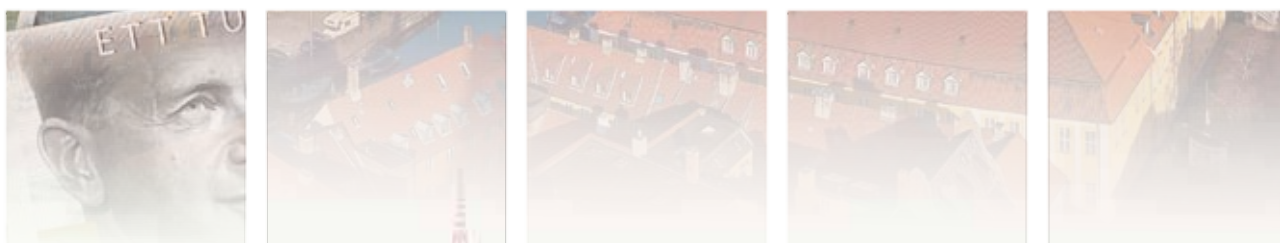




ANNUAL REPORT 2013



*"We cooperate internationally to strengthen
the financial system"*

Stefan Ingves, Governor of the Riksbank

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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 (1988:1385), 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. This is achieved through the Riksbank, in addition to stabilising inflation around the inflation target, endeavouring to stabilise production and employment around paths that are sustainable in the long term. The Riksbank therefore conducts what is generally referred to as flexible inflation targeting. This does not mean that the Riksbank neglects the fact that the inflation target is the overriding objective.

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.

The Riksbank monitors and analyses risks in the financial system with the aim of ascertaining how these affect general economic development and thereby monetary policy. Risks linked to financial imbalances, such as high indebtedness among Swedish households, are taken into account in the repo rate decisions. Such risks can create serious threats to inflationary and macro stability over the longer term. Several policy areas will probably need to cooperate to manage the risks linked to household debt, particularly if housing prices and debt increase rapidly. A smoothly functioning regulatory framework and efficient supervision form central conditions for this work.

A safe and efficient payment mechanism – financial stability

The Riksbank has the Riksdag's (the Swedish parliament) mandate to promote a safe and efficient payment system. 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 a central 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 international financial crisis of 2007–2009 has led to a comprehensive review of the area of financial stability in Sweden and in many other countries, in terms of both preventive stability work and crisis management work. This concerns developing the area that has come to be known as macroprudential policy so that risks in the financial system as a whole can be discovered, analysed and counteracted. However, exactly what should be included in macroprudential policy and which tools can be used is still to be determined as this is an emerging policy area. In Sweden, Finansinspektionen (the Swedish Financial Supervisory Authority) will be given the main responsibility for the instruments existing to influence financial stability.

A stable financial system is a prerequisite for the Riksbank to be able to conduct an effective monetary policy. This is because the financial markets and the way they work affect the impact of monetary policy. The Riksbank therefore has to consider the risks in the financial system as a whole, as well as which decisions are taken in macroprudential policy, if it is to be able to fulfil both its policy tasks – maintaining price stability and promoting a safe and efficient payment system.

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 Executive Board of the Riksbank takes 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 manages its financial assets to ensure that it can fulfil its statutory objective and perform its tasks. On the basis of this, 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 its activities. A wide range of external parties must be able to understand what the Riksbank does and why. By being open and clear about what forms the basis for the monetary policy decisions, the Riksbank increases confidence in the inflation target. Openness and clarity also create confidence in how the Riksbank assesses and handles the situation on the financial markets. The Riksbank's explanations of its assessments help economic agents to form an understanding of economic developments and the risks in the financial system.

The independent status of the Riksbank also places great demands on communications and the transparency of the Riksbank's activities so that these can be examined and evaluated by the general public and the principal, the Riksdag. 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 detailed 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.

Annual report of the General Council

Under Chapter 10, Article 3 of the Sveriges Riksbank Act (1988:1385), the General Council shall present proposals to the Riksdag (the Swedish parliament) and the Swedish National Audit Office regarding the allocation of the Riksbank's profits.

For several years, the General Council has applied 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 on the balance sheet. For 2013 the General Council therefore proposes a transfer of SEK 3 300 million.

The General Council's account of activities for 2013 reports that the Council has met on 14 occasions during the year and gives an overall description of the matters discussed and the information the General Council has received at its meetings. The Council's report also states how it has conducted its controlling function.

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 then selects from among its members a Chairman and a Vice Chairman.

The members of the General Council as of 19 October 2010 are Johan Gernandt (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 their 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 also has an audit function whose work is carried out by an external accounting 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. The recommendation presents the General Council's assessment of 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 submit a report on the General Council's work to the Riksdag Committee on Finance. This usually takes place twice a year.

The General Council's activities in 2013

During the year, the General Council held fourteen meetings.

The General Council made decisions during the year on the terms of employment and external assignments of the members of the Executive Board.

New members of the Executive Board

In May, the General Council decided to appoint Cecilia Skingsley and Martin Flodén as deputy governors with a term of office of six and five years respectively with effect from 22 May 2013. Decisions on salary and other terms were taken at the same meeting. These decisions had been preceded by a hearing of the nominated individuals by the General Council.

Communications to the Riksdag

Over the year, the Executive Board has consulted with the General Council on a submission to the Riksdag on the solution of the International Monetary Fund (IMF) for funding in favour of low-income countries.

Opinions

In June, the General Council and the Executive Board submitted a joint statement on the report on preventing and managing financial crises (SOU 2013:6). The Social Democratic members of the General Council wished it recorded in the minutes of this meeting that they considered that the General Council should not be issuing a statement.

In addition, in June, the General Council and the Executive Board each submitted a statement on the report on the Riksbank's financial independence and balance sheet (SOU 2013:9). The main items on which the General Council's view differs from that of the Executive Board are the size of equity and the foreign currency reserve. In its statement, the General Council considered that a target capital should be established in the legislation from the start, that the General Council should have the right to determine dividends and capital transfers without the consent of the Executive Board as long as such payments do not encroach upon the target capital, and that the General Council should have the right, in consultation with the Executive Board, to grant an increase of equity in urgent situations when it is impossible to await a decision from the Riksdag. As regards the size of the foreign currency reserve, the General Council considered that any decision on increases or decreases should be taken in consultation with the General Council.



Vice Chairman Sven-Erik Österberg and Chairman Johan Gernandt.

The 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 group is headed by General Council member Peter Egardt. The other group members from the General Council over 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 at the National Museum of Economy, one representative of the National Museum of Fine Arts and one representative of 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.

The General Council took decisions on the design of the new banknote and coin series on four occasions over the year. In March, the General Council also decided on the design of a specially minted 1-krona coin to mark the king's 40th jubilee as head of state in 2013. Over the year, the General Council also received regular information on the current work on the new Swedish banknote and coin series and on the withdrawal of the old 50- and 1 000-krona banknotes without foil strip. More information on this can be found in the box New banknote and coin series.

Riksbankens Jubileumsfond

At its meeting in August, the General Council decided to propose to the parliamentary nominating committee that Hans Mertzig should be appointed member of the board of Stiftelsen Riksbankens Jubileumsfond for the remaining mandate period of Sarah McPhee, who had resigned. The Riksdag resolved in accordance with the General Council's proposal on 26 September.

Follow-up of the work of the Executive Board

Part of the General Council's control 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 the 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. For example, they described current monetary policy and the work of overseeing the stability of the financial system. They also provided

information on the state of the financial markets, in Sweden, in Europe and globally.

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

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

The Executive Board provided regular information on important international meetings and on important discussions within various international bodies. The General Council also received in-depth information on a number of the international assignments held by Governor Stefan Ingves. Furthermore, the General Council received regular information on the Riksbank's commitments to the IMF.

Over the autumn, the General Council received information on the Government's proposal for macroprudential policy in Sweden and how this proposal would affect the Riksbank. The General Council also received information on new regulations for capital adequacy from a broad perspective, as well as how these would affect Swedish banks.

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 themed lunches with indepth information on various current operational issues in conjunction with several meetings over the year.

The General Council received regular information over the year on how the construction of the new cash handling office in Sigtuna Municipality was proceeding. The office will enter into operation at the start of 2014, according to plan.

Other

At the end of October, the General Council went on a study tour of Washington and New York together with some members of the Executive Board. Over four days, visits were made to the Office of the Comptroller of the Currency, Freddie Mac, the Institute of International Finance, the IMF, the Department of the Treasury, the



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



Sven-Erik Österberg (S)
Vice Chairman
Former minister
Former Member of the Riksdag
County Governor, Norrbotten
County

Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation in Washington, together with the Federal Reserve Bank of New York and Norges Bank Investment Management in New York.

The aim of the study tour was for the members of the General Council to gain detailed information on the activities of these institutions together with their views of structural and current issues within the financial sectors of the United States and Europe. The discussions were characterised by recent economic developments in the United States and Europe. Particular focus was aimed at supervisory issues as these are of immediate interest in both Sweden and the United States.

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

The General Council examines the Riksbank's activities through its audit function. KPMG AB will undertake this assignment on behalf of the General Council over the period 1 April 2012 until 31 March 2014.

The General Council annually establishes an audit plan for the audit function. The Riksbank's proposed allocation of profit, the outsourcing of parts of IT operations and the Executive Board members performance of their duties are examined in accordance with this plan. In addition, a follow-up was made of measures taken due to previous findings.

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

As of the audit of operations in 2013, the Swedish National Audit Office has undertaken to report the results of its audit to the General Council ahead of and in conjunction with the General Council's decision on its proposal for the allocation of profits, as well as when the Swedish National Audit Office presents its audit to the Riksdag.

Nothing in the follow-up of the work of the Executive Board members in 2013 gives reason for the General Council to direct any criticism 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 Berggren
& Stoltz



Anders Karlsson (S)
Member of the Riksdag



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



Lena Sommerstad (S)
Member of the Riksdag
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

New banknote and coin series

Banknotes

The work with the new banknote and coin series has continued in 2013. At its meeting in March, the General Council decided on the texts to be used as the basis of the mini- and microtexts to be used on the new Swedish banknotes.

At its meeting in April, the General Council decided on the design of the 50- and 200-krona banknotes. At its November meeting, the General Council decided upon the design of the 20- and 1 000-krona banknotes and, finally, at the December meeting, it decided on the design of the 100- and 500-krona banknotes.

At its meeting on 20 December, the General Council also decided on regulations for the new banknote series.

Certain older banknotes removed from circulation

Following its decision of May 2012, the General Council received ongoing information on the Riksbank's campaign for the withdrawal of the older versions of the 50- and 1 000-krona banknotes as these were to cease to be legal tender at the end of 2013.

Proposal for the allocation of profits for 2013

When reviewing the Riksbank's management for the year 2012 (2012/13 FiU23) the Riksdag approved the proposal put forward by the General Council that the allocation of net income for 2012 should be based on the 1988 principle for the allocation of net income with the supplements to the principle made since then. 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 2013.

In accordance with Chapter 10, Article 3 of the Sveriges Riksbank Act (1988:1385), the General Council has received a report for the 2013 financial year from the Executive Board. The General Council notes that on the basis of current accounting policies, the Riksbank reports a loss of SEK 2 011 million for 2013. 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 reported result was negatively affected by an exchange rate loss of SEK 3 063 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 therefore no such adjustment was made.
- A price loss of SEK 4 444 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 applied.

In accordance with the account below, the General Council proposes a transfer to the Treasury of SEK 3 300 million.

The foreign exchange loss will be transferred from the contingency fund. As the proposed transfer and reversal from the contingency fund is higher than the accounting profit, it is proposed that the remaining SEK –2 248 million be transferred from the balancing account. In accordance with the principle applied, no transfer to the contingency fund equivalent to 10 per cent of the average profit has been proposed, as profit for the year is negative. The calculation on which the proposed allocation of profit is based can be found in the Appendix.

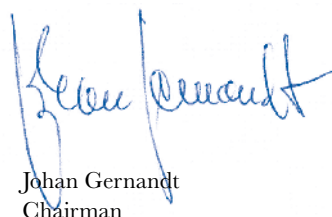
In conjunction with its annual examination of the Riksbank's annual report, the Swedish National Audit Office has also examined the proposed allocation of profit. The Swedish National Audit Office has no objections to it.

Profit for 2013, before appropriations, amounts to SEK –2 011, and the General Council decided on 7 February 2014 to propose the following allocation of the Riksbank's profit:

SEK million	
Transfer to the Treasury	3 300
Transfer from the contingency fund	–3 063
Transfer from the Riksbank's balancing account	–2 248

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 7 February 2014



Johan Gernandt
Chairman

Calculation of the Riksbank's allocation of profit 2013

SEK million

1 CALCULATION OF THE RIKSBANK'S TRANSFER TO THE TREASURY

Adjustment of the year's profit

Profit/loss for 2013	-2 011
Less: Foreign exchange rate loss	3 063
Plus: Price loss recorded on the balance sheet	-4 444

Adjusted profit/loss 2013 **-3 392**

Calculation of average adjusted profit/loss

Adjusted profit/loss 2009	4 192
Adjusted profit/loss 2010	6 777
Adjusted profit/loss 2011	10 356
Adjusted profit/loss 2012	2 985
Adjusted profit/loss 2013	-3 392

Total adjusted profit/loss for the past five years **20 918**

Average adjusted profit/loss for the past five years **4 184**

Calculation of transfer amount

80% of the average adjusted profit/loss	3 347
Rounding off to SEK 100 millions	-47

Transfer 2013 **3 300**

2 CALCULATION OF TRANSFER FROM THE RIKSBANK'S CONTINGENCY FUND

Transfer from the Riksbank's contingency fund

Foreign exchange rate loss	-3 063
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Total **-3 063**

3 CALCULATION OF TRANSFER TO THE RIKSBANK'S BALANCING FUND

Transfer from the Riksbank's balancing account

20% of the average adjusted profit/loss	837
Price loss recorded on the balance sheet	4 444
Rounding off of transfer	47
Adjusted profit/loss less average profit/loss	-7 576

Total **-2 248**

■ ANNUAL REPORT FOR
SVERIGES RIKSBANK 2013



Statement by the Governor

During 2013, growth in the world around us remained weak, even if signs of improved economic activity were becoming increasingly clear. This contributed towards a modest growth in the Swedish economy as well. To support the recovery and help inflation rise towards the target of 2 per cent, the Riksbank held the repo rate unchanged at 1 per cent for most of the year. As inflationary pressures fell unexpectedly in the late autumn, the Riksbank cut the repo rate to 0.75 per cent in December.

The financial strength of the Swedish banks contributed to the efficient functioning of the financial system during the year. To prevent systemic risks that could threaten financial stability, the Riksbank continued to participate in the drafting of national and international financial regulations. In addition, the development of analyses of financial stability and macro-prudential policy continued.

Continued expansionary monetary policy

The Swedish economy was strongly affected by the weak development of the euro area, in which problems in the countries with sovereign debt crises continued to create uncertainty and restrain demand. This led to the weak development of Swedish exports, despite the economic recovery in the United States and growth in Asia. However, Swedish households' economy and consumption held up relatively well. The weaker economic climate, combined with factors such as dampened export prices abroad, contributed towards inflation becoming low. Monetary policy had to remain expansionary to support the recovery and cause inflation to rise to the target of 2 per cent.

Monetary policy also had to consider that household indebtedness and prices on the housing market were developing in a way that could entail increasing risks for the economy going forward. For the greater part of the year we made the assessment that an appropriate balance, in which monetary policy was tangibly expansionary but still considered these risks to a certain degree, could be struck by holding the repo rate at 1 per cent. An even lower repo rate could certainly have caused inflation to rise towards the target more rapidly, but it would also, at the same time, have increased the risks inherent in household indebtedness and the development of the housing market. However, in the late autumn, inflation was unexpectedly low and, despite the continued recovery, inflationary pressures in 2014 were expected to be clearly lower than in the Riksbank's forecast in October. The need for short-term stimulation was deemed to weigh heavier and, in December, we cut the repo rate to 0.75 per cent.

The stability of Sweden's financial system and infrastructure

The relatively good economic conditions in Sweden benefited the Swedish banks' earnings and contributed towards loan losses being small over the year. The banks were also relatively well-capitalised compared with many other European banks, which meant that they had good access to wholesale funding in both Swedish kronor and foreign currencies. We deemed that the Swedish banks' financial strength contributed to the stability of the Swedish financial system. However, the Swedish banking system is large in relation to the Swedish economy. In addition, the banks are closely inter-linked with each other and to international markets, which means

that problems in one bank can rapidly spread to the entire banking system. This creates a vulnerability that can negatively impact financial stability. To reduce the vulnerability of the Swedish banking system's structure, we therefore recommended the banks to be well-capitalised and to have stable funding. We have also argued for the need for a foreign currency reserve charge for the banks, as this could lead them to reduce the risks inherent in obtaining wholesale funding in foreign currencies. We also continued to investigate and influence the drafting of national and international financial regulations to prevent future financial crises.

Ensuring the security and efficiency of the payment system requires financially robust banks but also an efficiently functioning financial infrastructure. We chose to publish our assessments of this area in 2013 by introducing an annual report on the financial infrastructure. The Riksbank considered that the financial infrastructure in Sweden worked well, but that there was room for improvement to strengthen it further.

The Riksbank's payment system for large-value payments, RIX, is of decisive significance for market participants to carry out financial transfers with each other without credit or liquidity risks. Our availability goal for RIX has therefore been set at the very high level of almost 100 per cent availability, meaning that an interruption of a few hours would be enough to prevent the goal from being met. In 2013, we did not fully meet this high target, but the disruptions that occurred were managed well by all involved and these experiences contributed towards improvements in incident management in RIX.

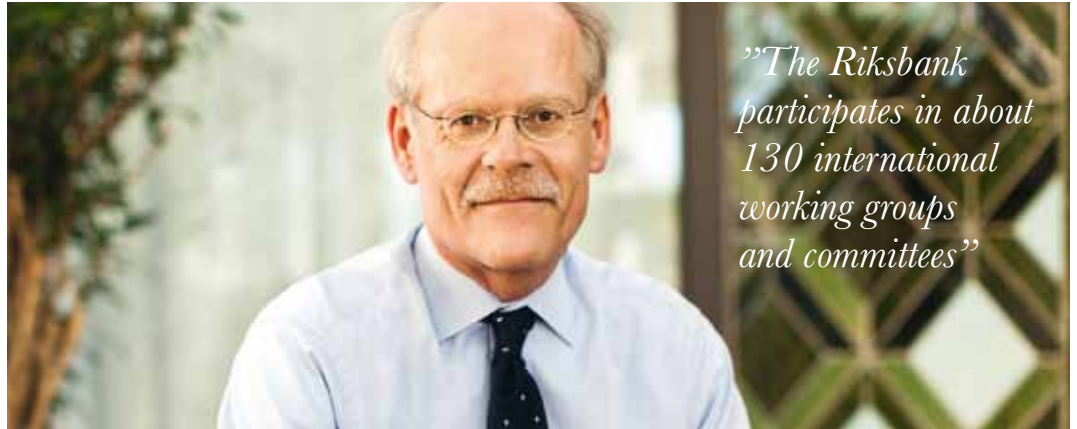
Indebtedness an indicator of macroeconomic risks

There are many lessons to be learnt from the international financial crisis and subsequent sovereign debt crisis in Europe. One important lesson is that a substantial increase of indebtedness in a society can bring about major problems, particularly if it is connected with price rises on an important asset market.

Swedish households are currently highly indebted, in both a historical and international perspective. At the same time, prices for homes have risen. While household debt is certainly not increasing as rapidly as it was a couple of years ago, there is a risk that indebtedness will start to accelerate again. What we do know is that if such a trend should continue, there will be problems sooner or later.

When households have large debts, they become vulnerable to economic downturns, interest rate increases and falls in housing prices. When assets decline in value, households attempt to compensate for the loss by saving instead of consuming. The fall in demand can be reinforced if weak economic activity means that borrowers, households and companies experience difficulties in meeting their obligations and the banks thus suffer loan losses. The economic cycle and the financial system can thus pull each other down.

In light of this circumstance, the Riksbank has had good reason to consider the risks linked to a substantial and long-lasting credit expansion and a trend of rising housing prices. This is a precondition for being able to discharge our task of maintaining price stability over time. Counteracting financial imbalances is not a task that monetary policy can carry out entirely alone over the long term. The new macroprudential policy area has arisen as a reaction to just these difficulties in managing financial imbalances and their consequences. Over the year, the government made it clear that



Governor Stefan Ingves

Finansinspektionen (the Swedish Financial Supervisory Authority) would be given the main responsibility for the instruments existing to influence financial stability. The removal of uncertainty regarding responsibility and the allocation of the main responsibility to one authority is a positive development.

Even if we have now made good progress in attaining a framework for macroprudential policy, there remain some questions of principle for consideration, for example with regard to the interaction of macroprudential policy and monetary policy. I believe, for instance, it is important that there is some degree of concordance between both policy areas so that they do not pull in different directions, but rather help one another.

Over the year, the Riksbank and Finansinspektionen discussed systemic risks, financial stability and macroprudential policy under the framework of the temporary council for cooperation. During the year, the council carried out an investigation of how the risks associated with households' high and rising indebtedness and long amortisation periods could affect future financial stability. In addition, the Riksbank requested more information from the banks than previously concerning household loans to gain a clearer view of the risks inherent in household indebtedness.

Clear and open communication

Our independent position means that it is important that our communication is open and clear so that our decisions can be examined and evaluated. This communication can also contribute to a high level of confidence in our activities and in the financial system. Openness has long been a characteristic of ours and the Riksbank, once again, received international recognition of this in 2013. At the same time, this openness has created new challenges for our communications. The world around us is placing significantly higher demands for clarity, as well as for rapidity, responsiveness and dialogue. We have therefore revised our communication policy and have also drawn up a communications strategy to adapt ourselves to this changed playing field.

Over the year, the Executive Board of the Riksbank met with many different target groups in Sweden and abroad to present its view of monetary policy and financial stability. Participants could also discuss these areas with the members of the Executive Board, contributing to the Riksbank's open approach. Another example of our work in being more open is provided by the discussions we have had during the year with all central banks keeping Sweden's gold reserve. This means that we can now openly report the countries in which our gold reserve is kept and in what quantities. The Riksbank has also decided how the stocktaking of gold is to proceed.

Clarity has also been important in our information campaign Check Your Money!, aimed at all Swedish households and urging them to get rid of any older versions of the 50- and 1 000-krona banknotes, as these ceased to be legal tender at the end of 2013. One of the effects of the withdrawal of the older versions of the banknotes will be to simplify banknote handling for the banks, cash-in-transit services and the retail trade when the new banknote series starts to be introduced in autumn 2015.

An improved organisation to attain our vision

A dynamic organisation needs to develop and be attentive to changes in the world around us. The Riksbank's tasks have successively become increasingly policy-focused while other operational activities have decreased in scope. An organisational review was initiated in 2012 to help us attain our vision of being among the best in terms of quality and efficiency. One proposal for improvements in the organisation has been drafted for implementation in 2014. Even before the organisational review, we had made the decision to outsource parts of our IT operations to give us good access to IT expertise at the same time as our operations are conducted in a cost-effective manner. The practical implementation of this decision was largely conducted in 2013.

We have also long striven to make our cash handling as efficient and high-quality as possible. At the start of 2014, we will open our new cash-handling office in Broby. Our office in Mölndal was closed in September 2013, and our office in Tumba is being successively phased out. The Riksbank will thereby soon only issue cash to the banks at a single location in Sweden. The banks will then distribute the cash to the retail sector and the public via their cash depots.

Employees a precondition for attaining operational objectives

Our employees' expertise and efforts form a precondition for the Riksbank's ability to attain its policy tasks and commitments. In the autumn of 2013, we once again conducted an employee survey, which revealed that nine out of ten employees are proud to work for the Riksbank and feel motivated in their work. I find this cheering, together with the fact that so many feel that there is a good discussion climate here. This bodes well for our analytical expertise.

Stefan Ingves

The year at a glance

During 2013, the following economic outcomes and events had a great impact on the Riksbank's activities:

- The economic development of the euro area continued to be weak and had a negative effect on growth in Sweden. Swedish exports and Swedish investments developed weakly as growth on the Swedish export markets was dampened. At the same time, households' economies and consumption were comparatively strong. The labour market also developed relatively well and the employment rate increased. Participation in the labour force also increased, meaning that unemployment increased at the start of the year but then decreased again.
- Inflation measured in terms of the consumer price index (CPI) was close to 0 per cent throughout 2013 and was also 0.0 as an annual average. Inflation measured as the CPI with a fixed mortgage rate (CPIF) was 0.9 per cent on average over the year. The Riksbank's assessment in December was that total production in Sweden increased by a moderate 0.9 per cent in 2013. Unemployment was, on average, 8.0 per cent in 2013, which is the same level as in 2012.
- The Riksbank continued its expansionary monetary policy by holding the repo rate unchanged at 1 per cent for most of the year. In December, the repo rate was cut to 0.75 per cent. In April, the repo-rate path was changed and the forecast for when the repo rate would start to be raised was moved back to the end of 2014, about one year later than in February's forecast. The forecast for the repo-rate path was largely unchanged between April and December, when the repo rate was again lowered, and the forecast for when the repo rate would start to be raised was moved back to the start of 2015.
- Monetary policy in 2013 involved balancing how low the repo rate needs to be for inflation to approach the target soon enough against the increased risks linked to household debt that can stem from a low interest rate. As inflation was unexpectedly low in the late autumn, the need for short-term stimulation weighed heavier, which is why the repo rate was cut in December. Households' high indebtedness remains a risk to sustainable long-run development.
- The Riksbank deemed that the Swedish banks' financial strength and the efficiently-functioning financial infrastructure contributed towards keeping the Swedish financial system stable. The banks continued to have good access to market funding, but their comparatively high proportion of wholesale funding in foreign currencies constitutes a risk that may threaten financial stability. Indebtedness in the household sector continues to be a risk that could threaten financial stability. To reduce these vulnerabilities, the Swedish banks need to ensure that they have enough capital to cope with future losses and disruptions on the financial markets.
- The Riksbank has worked with macroprudential issues in various ways, for example by analysing capital adequacy issues for the banks and the risks associated with household indebtedness. These issues were also discussed and analysed in the temporary council for cooperation that the Riksbank has formed together with Finansinspektionen (the Swedish Financial Supervisory Authority). During the year, the Riksbank responded to the Financial Crisis Commission's interim report Preventing and managing financial crises. The Riksbank welcomed the fact that the regulatory framework for managing and preventing financial crises was being investigated and presented its view of how an organisational structure for macroprudential policy could be designed.
- The Executive Board responded to the report on the Riksbank's financial independence and balance sheet. The Riksbank agreed with the inquiry's view that a new regulatory framework is needed to ensure the Riksbank's financial independence, meaning, among other things, that the Riksbank should have enough resources to carry out its tasks independently. The Executive Board proposed processes for decision-making, for the size of its equity, and for the foreign exchange reserve.

- The Riksbank reported a loss of SEK –2.0 billion. Compared with 2012, the financial result fell by SEK 3.9 billion, primarily due to write-downs related to the Riksbank’s holdings of securities. The balance sheet total increased over the year by SEK 85.9 billion to SEK 431.6 billion, primarily due to the implementation of the Riksbank’s decision from the end of 2012 to increase the foreign currency reserve by the equivalent of about SEK 100 billion.
- In May, the General Council of the Riksbank decided to appoint Martin Flodén as Deputy Governor and Cecilia Skingsley as Deputy Governor. The two new Executive Board members took up their posts on 22 May 2013, after Deputy Governor Lars E.O Svensson and Deputy Governor Barbro Wickman-Parak had left their posts on 21 May.
- The Riksbank held two international conferences. The one in June included discussion of whether and how central banks can reduce the risk of financial crises. It also marked 20 years of inflation targeting in Sweden. The conference in September dealt with the emergence of financial bubbles and their management.
- In 2013, the Riksbank conducted the public information campaign “Check Your Money!”, as the older versions of the 50- and 1 000-krona banknotes (without foil strips) were to become invalid as a means of payment at the end of 2013.

The year in figures

The Riksbank’s financial result for 2013 amounted to SEK –2.0 billion, which is a decrease of SEK 3.9 billion compared with the previous year. This reduction can primarily be explained by write-downs in the Riksbank’s securities holdings resulting from the rise in market rates over the year.

The market value of the gold and foreign currency reserves increased in 2013, from SEK 318 billion to SEK 398 billion. This change can mainly be explained by the implementation of the Riksbank’s decision from the end of 2012 to increase the foreign exchange reserve by the equivalent of about SEK 100 billion.

The value of the total assets increased from SEK 346 billion to SEK 432 billion, which can largely be explained by the strengthening of the foreign currency reserve.

Key data	2011	2012	2013
At year-end			
Profit/loss for the year (SEK billion)	3.9	1.9	–2.0
Gold and foreign currency reserves (SEK billion)	323	318	398
Total assets (SEK billion)	348	346	432
Average number of employees	332	354	336
Repo rate (per cent)			
Repo rate (per cent)	1.75	1.00	0.75
Short-term interest rate (three-month T-bills, per cent)			
Short-term interest rate (three-month T-bills, per cent)	1.40	0.98	0.73
Long-term interest rate (ten-year government bonds, per cent)			
Long-term interest rate (ten-year government bonds, per cent)	1.62	1.53	2.53
On average			
GDP (percentage change)	2.9	0.9	0.9
Unemployment (per cent)	7.8	8.0	8.0
Inflation, CPI (percentage change)	3.0	0.9	0.0
Inflation, CPIF (percentage change)	1.4	1.0	0.9

Note. The table presents the outcome for all items with the exception of GDP and unemployment data for 2013, which are stated according to the Riksbank’s forecast from December 2013. Statistics Sweden revised the National Accounts in 2011 and unemployment in 2013, which has led to adjustments in the table compared with the Annual Reports for 2011–2012. CPIF is estimated as CPI with a fixed mortgage rate.

Maintaining the value of money – price stability

Weak growth abroad dampened Swedish exports in 2013. The Riksbank assessed that GDP had increased by a moderate 0.9 per cent over the year. Monetary policy in 2013 involved balancing how low the repo rate needs to be for inflation to approach the target soon enough against the increased risks linked to household debt that can stem from a low interest rate. Over most of the year, the Riksbank held the repo rate unchanged at 1 per cent. As inflationary pressures were lower than expected in the late autumn, the repo rate was lowered to 0.75 per cent in December. Both employment and the labour force increased over the year, with average unemployment being 8.0 per cent. The annual average of CPI inflation was 0.0 per cent, while inflation measured as the CPIF amounted to 0.9 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, after 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, the aim of which is to achieve 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 question of finding an appropriate balance between stabilising inflation around the inflation target and stabilising the real economy. Flexible inflation targeting does not mean that the Riksbank neglects the fact that the inflation target is the overriding objective. Risks linked to financial imbalances, such as high indebtedness among Swedish households, are taken into account in the repo rate decisions. Such risks can create serious threats to inflationary and macro stability over the longer term. Several policy areas will probably need to cooperate to manage the risks linked to household debt, particularly if housing prices and debt increase rapidly. Effective regulation and supervision play a central role in preventing an imbalance in asset prices and indebtedness.

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 simplifications of the complex economic reality, but they are necessary to achieve consistent forecasts. The model results are then combined with assessments made both by 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 the forecast for 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 2013

The Riksbank held the repo rate unchanged at 1.0 per cent up to the monetary policy meeting in December, when the repo rate was cut to 0.75 per cent. The forecast for the repo-rate path was lowered in April, but then remained largely unchanged until December, when it was lowered again.

Over the year, the Riksbank continued to develop the monetary policy analysis. Among other things, the Riksbank has analysed the possible causes of the low inflation in Sweden over the last two years. The Riksbank has also continued its work on analysing how monetary policy affects the risks linked with household indebtedness and the development of the housing market. There has been an extensive discussion of this issue in conjunction with monetary policy decisions. Over the year, the Riksbank also deepened its analysis of the labour market. The situation on the labour market is highly important to the formulation of monetary policy. It acts as an indicator of inflationary pressures and plays an important role in the assessment of resource utilisation in the economy.

In 2012, the Riksbank decided to increase the monetary policy toolbox by acquiring a securities portfolio in Swedish kronor. In 2013, this portfolio reached the agreed amount of SEK 10 billion. In the autumn of 2013, the Riksbank also started conducting repo transactions in the securities portfolio.

Monetary policy in 2013

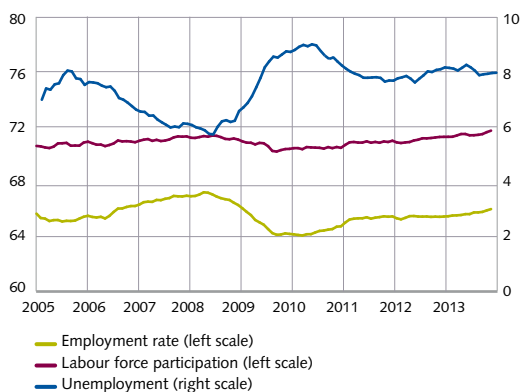
This section briefly describes economic developments and the background to the monetary policy decisions taken over the year. Following this, it presents a few important questions in the monetary policy discussion.

Weak growth and low inflationary pressures in Sweden

The weak growth abroad in 2012 contributed to growth in Sweden being lower than normal, at the same time as inflation amounted to 1 percentage point below the inflation target measured in terms of both the CPI and the CPIF. The repo rate was therefore successively lowered to 1 per cent at the end of 2012.

Chart 1

Participation in the labour force and employment rate as a percentage of the Swedish population and unemployment as a percentage of the Swedish labour force

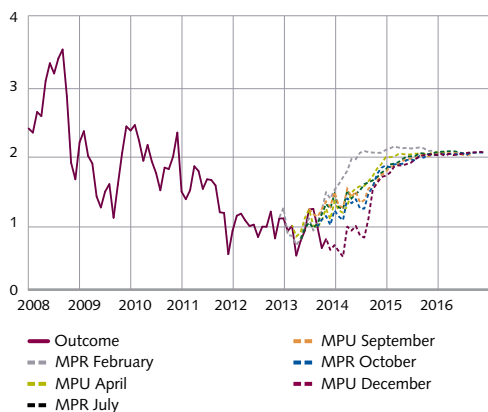


Note. Seasonally-adjusted data. Three-month moving average. This data refers to persons aged 15–74.

Sources: Statistics Sweden and the Riksbank.

Chart 2

CPIF and CPIF forecasts in 2013, annual percentage change



Note. The CPIF is the CPI with a fixed mortgage rate. MPR denotes Monetary Policy Report and MPU denotes Monetary Policy Update. The broken lines represent the Riksbank's forecasts.

Sources: Statistics Sweden and the Riksbank.

Growth in the Swedish economy was also weak and inflationary pressures were also low in 2013. While the situation in the euro area certainly improved over the year, the problems in the sovereign debt crisis countries continued to create uncertainty and weak demand. In the second quarter, the GDP of the euro area increased after having fallen for six quarters in a row. The GDP of the euro area continued to increase in the third quarter, albeit at a slightly slower rate, while other indicators suggested that confidence was continuing to rise among households and companies. In the United States, the economy gradually recovered, although growth was still low compared with other periods of economic recovery. The emerging markets slowed down somewhat following the very high growth in recent years.

Developments in the Swedish economy were divided. The weak demand in the euro area contributed towards a reduction of Swedish exports and the weak development of investments over most of the year. At the same time, the development of Swedish households' finances and consumption was comparatively strong. The Swedish labour market also developed relatively well. Participation in the labour force increased, as did the employment rate (see Chart 1). As the labour force was increasing slightly more rapidly than employment at the start of the year, unemployment increased, following which unemployment decreased again. Over the year, unemployment averaged 8.0 per cent.

As inflation in 2012 was lower than expected by the Riksbank and other observers, at the start of 2013, the Riksbank conducted a review of the assessments used as a basis for the inflation forecast. This review resulted in a downwards revision of the inflation forecast, above all for 2014 (see Chart 2). The downward revision of the inflation forecast was primarily due to the assessment that companies were finding it more difficult than the Riksbank had previously anticipated to pass on increased costs to consumer prices, given the weak state of the economy. From April to October, inflation developed largely in line with the Riksbank's forecasts, which were only changed to a small extent during this period. However, during the late autumn, inflation again became lower than expected. This was partly due to inflation abroad being lower than expected, but primarily because prices of services in Sweden were increasing at an unexpectedly slow rate. This broad dampening of the rate of increase of service prices indicated that the underlying inflationary pressures were lower than the Riksbank had previously anticipated. The Riksbank thus lowered its inflation forecast in December, primarily for 2014 (see Chart 2).

The development of economic activity in Sweden and abroad in 2013 was largely in line with the Riksbank's forecasts and the revisions to the forecasts were minor. The National Accounts figures published at the end of the year indicated that Sweden's GDP for the third quarter of 2013 had increased slightly more slowly than in the Riksbank's previous forecasts, but also that growth in the first six months had been slightly higher than in previous statistics. The level of GDP was in line with the Riksbank's forecasts from October. The National Institute of Economic Research's Economic Tendency Survey, which measures household and corporate confidence in the Swedish economy, continued to rise in the second six months and indicated higher growth in 2014. Another bright spot was that employment, particularly in the second six months, was slightly higher than the Riksbank had expected.

Prices for tenant-owned apartments and houses continued to increase over the year and households expected continued increases in housing prices. Households' debt ratios remained on a historically high level (see Chart 3), also in comparison with many other countries. Surveys showed that households' expectations of mortgage rates five years ahead were lower than was compatible with the Riksbank's assumptions regarding the repo rate in the long term. This led the Riksbank to warn of the risk that unrealistically low expectations of future mortgage rates may contribute towards a renewed upward trend in both housing prices and indebtedness.

Financial markets characterised by central bank communication and expectations of reduced asset purchases in the United States

All of the world's major central banks conducted a highly expansionary monetary policy. The Japanese central bank, the Bank of Japan, increased its monetary policy stimulation measures, while the European Central Bank (ECB) cut its policy rate again. The OMT (Outright Monetary Transactions) programme, launched by the ECB in August 2012 and giving the ECB the possibility of purchasing government bonds issued by countries in crisis, was not activated but still contributed towards calming financial market participants, thereby giving rise to lower interest rates. However, in tandem with increasingly clear signs of increased activity in the US economy, the development of the financial markets was impacted by shifting expectations of when and how the US central bank, the Federal Reserve, would initiate a normalisation of monetary policy.

In May, long-term bond rates rose worldwide after the Federal Reserve announced that it was considering reducing its monetary policy stimulation by tapering the bond purchases it has conducted in various forms since 2008. Over the summer, long-term bond rates increased further due to continued expectations that the Federal Reserve would start to phase out its purchases of financial assets later in the year. But interest rates were also affected by signs of stronger development in both Europe and the United States.

In September, the Federal Reserve decided to continue with its monthly asset purchases at an unchanged scale. This meant that government bond yields fell slightly in relation to the strong increase since May. During the late autumn, government bond yields in the United States and United Kingdom rose again following signs of increasingly strong economic activity, while government bond rates in the euro area countries were restrained, partly as a reaction to the ECB's unexpected decision in November to cut its policy rate. This development on the financial markets is a reflection of how, in returning to a normal policy-rate based monetary policy without quantitative easing, the United States and other countries are entering uncharted territory with the risk of continued significant fluctuations on the financial markets. However, in its forecasts, the Riksbank assumed that the approaching adjustment will be made so that the financial conditions do not impede the international recovery.

Unchanged repo rate until repo rate cut in December

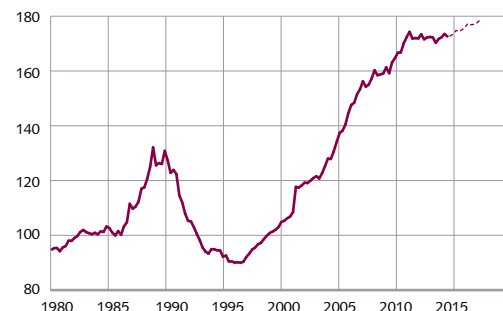
In 2013, monetary policy had to balance how low the repo rate needs to be for inflation to approach the target soon enough against the increased risks linked to household debt that can stem from a low interest rate. To continue to support the recovery in economic activity and help inflation rise towards the target of 2 per cent, while simultaneously considering the risks of household indebtedness, the Riksbank held the repo rate unchanged at 1 per cent for most of the year. As inflation was unexpectedly low in the late autumn, the repo rate was lowered to 0.75 per cent in December. Despite the continued recovery, inflationary pressures in 2014 were deemed to be much lower than in the Riksbank's forecast in October, which justified a lower repo rate to give a further stimulation to the economy.

Repo-rate path lowered in April and December

In conjunction with the downward revision of the inflation forecast in April, the repo-rate path was also lowered and the forecast for when the repo rate would start to be raised was moved back about a year to the end of 2014. The new forecast meant that, by the end of 2014, the repo rate was expected to be around 0.5 percentage points lower than in February's forecast. The forecast for the repo-rate path was largely unchanged until December, when it was

Chart 3

Household debt ratio, percentage of disposable income

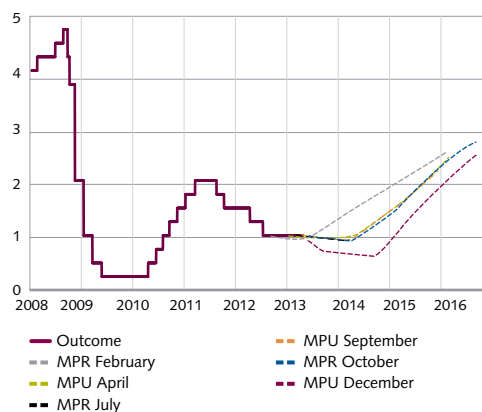


Note. The broken line represents the Riksbank's forecast in December 2013.

Sources: Statistics Sweden and the Riksbank.

Chart 4

Repo rate and repo rate forecasts in 2013, per cent



Note. The broken lines represent the Riksbank's forecasts.

Source: The Riksbank.

lowered again and the forecast for when the repo rate would start to be raised again was moved back to the start of 2015 (see Chart 4).

Some important issues in the monetary policy discussion 2013

The Executive Board was agreed that the continued weak level of economic activity and the low inflationary pressures meant that monetary policy needed to continue to be expansionary in 2013. However, opinions were divided on the issues of how expansionary monetary policy had to be and what constituted a well-balanced monetary policy (all decisions and reservations are shown in the box “Monetary policy decisions and reservations 2013”). The monetary policy discussion largely involved balancing how low the repo rate needs to be for inflation to approach the target soon enough against the increased risks linked to household debt that can stem from a low interest rate. The different assessments reflected differences in opinion on matters such as how monetary policy affects unemployment and inflation on one hand and household indebtedness on the other. In this context, the Executive Board discussed the risk that prolonged low interest rates could contribute towards households forming unrealistic expectations of low interest rates and rising housing prices, as well as the risk that the inflation target could lose credibility if it takes too long for inflation to attain the target level. There were also different opinions within the Executive Board regarding how differences between the repo rate and foreign policy rates would affect the krona.

Despite the weak level of economic activity, the Swedish labour market developed relatively well and the employment rate rose (see Chart 1). However, as the labour force also increased, unemployment remained at around 8 per cent.

There were different opinions within the Executive Board regarding how rapidly and by how much unemployment could fall. Most Executive Board members argued that the high level of unemployment was mainly of a structural nature and that monetary policy’s ability to attain lower unemployment was thus slight. One reason for this view was that a larger proportion than previously of job seekers was deemed to be on the periphery of the labour market, which was reflected in the less efficient matching of vacancies and job seekers. However, two members of the Executive Board argued that a more expansionary monetary policy, which would lead to higher demand pressure in the economy, was particularly important for increasing opportunities for groups with a weak position on the labour market to find employment. This would prevent unemployment from remaining persistently on a high level.

Most members of the Executive Board considered that the high level of household indebtedness entailed significant risks for macroeconomic development. In the same way as in many other countries, steep falls in housing prices could force households to rapidly reduce their debts, risking weak demand and high unemployment. Such a development could also give rise to persistent difficulties in stabilising inflation around the inflation target. It was also observed that several other countries that, like Sweden, had coped relatively well with the crisis, for example Canada and Norway, were struggling with more or less the same problems as Sweden in terms of indebtedness and the housing market.

The extent to which monetary policy should consider these risks depends, in part, on to which extent monetary policy itself influences the risks, and on this point the opinions of the members of the Executive Board diverged. Most members of the Executive Board considered that household indebtedness limited how expansionary the monetary policy could be in 2013. The slightly longer time it may take to attain normal resource utilisation and the inflation target was seen as an acceptable cost for reducing the risk of a significantly worsened macroeconomic development later on. A couple of members of the Executive Board made the assessment that monetary policy would have far too

International cooperation on new statistics



Sofia Kähre
 Senior economist at the
 Monetary Policy Department

*“Statistics must follow
 global developments”*



RELIABLE, HIGH quality statistics that are comparable over time and between different countries are the foundation that ensures that the analyses and reports on which the Riksbank's decisions are based are as good as possible. The statistics

for which the Riksbank is responsible are developed in collaboration with the other EU member states, but there is also close cooperation with other international organisations, such as the IMF, the BIS and the OECD.

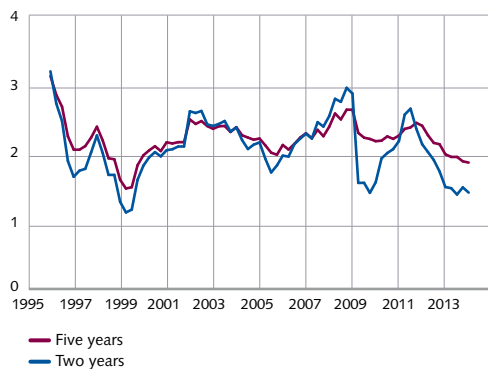
Sofia Kähre is, for instance, member of a statistics committee within

the European System of Central Banks (ESCB) in Frankfurt and a working group for balance-of-payments statistics at Eurostat, in Luxembourg. This work aims to develop the statistics by harmonising definitions and statistical methods. Technical and legal issues are also discussed and decisions on new statistics are drafted. The need for detailed financial statistics has increased in the wake of the financial crisis, which has meant that the Riksbank has begun to prepare the development of more data at micro level. One example is a credit register with detailed information on companies' debts.

Capturing economic and financial activities and making them measurable is a major challenge and a well-developed cooperation at international level is necessary to succeed.

Chart 5

Inflation expectations two and five years ahead, per cent



Source: TNS Sifo Prospera.

slight an effect on household indebtedness compared to the costs associated with a longer period of inflation below target and low resource utilisation. They therefore considered that no consideration should be taken of household indebtedness in the monetary policy decision.

Households' expectations of the repo rate and mortgage rates tend to be influenced by the prevailing level of interest rates. Most members of the Executive Board were therefore concerned that prolonged low interest rates could contribute to households forming unrealistic expectations of low interest rates and rising housing prices, which could lead to a course of events in which housing prices and debts increase much too rapidly.

One important task for monetary policy is to safeguard the credibility of the inflation target, and over the year the Executive Board also discussed the role that the low level of inflation may play in inflation expectations. If more long-term inflation expectations glide below target, it may be more difficult for the Riksbank to attain the inflation target. Even though some members of the Executive Board argued that this risk gave reason for a more expansionary monetary policy, most members did not presently see any more tangible signs that more long-term inflation expectations, measured as expected inflation five years ahead, were on the way to deviating too much from target (see Chart 5).

There was a broad consensus within the Executive Board over the forecasts for growth, inflation and policy rates abroad. However, opinions were divided as to how the krona exchange rate would be affected by the gap between the repo rate and policy rates abroad. The Executive Board was agreed that the forecast for the krona exchange rate is very uncertain and that the krona is affected by many different factors. However, two members of the Executive Board considered that the interest rate differentials in the Riksbank's forecast should lead to a stronger krona than anticipated by the forecast, and thus to lower inflationary pressures and a need for a more expansionary monetary policy.

Factors behind low inflation

Inflation has been low over the last two years, lying below the Riksbank's inflation target. The low level of CPI inflation is partly connected with the lowering

Monetary policy decisions and reservations 2013

12 February The repo rate was held unchanged at 1 per cent. The forecast for the repo-rate path was adjusted marginally downwards. Deputy Governor Karolina Ekholm entered a reservation against the repo-rate decision and the repo-rate forecast. Deputy Governor Lars E.O. Svensson entered a reservation against the Monetary Policy Report, the repo-rate decision and the repo-rate forecast. Both advocated lower repo-rate paths.

16 April The repo rate was held unchanged at 1 per cent. The forecast for the repo rate was lowered significantly, and the forecast for when the repo rate would start to be increased was moved back to the end of 2014. Deputy Governor Karolina Ekholm entered a reservation against the repo rate decision and the repo-rate forecast. Deputy Governor Lars E.O. Svensson entered a reservation against the Monetary Policy Update, the repo-rate decision and the repo-rate forecast. Both advocated lower repo-rate paths.

2 July The repo rate was held unchanged at 1 per cent. The forecast for the repo-rate path was held unchanged. Deputy

Governors Karolina Ekholm and Martin Flodén entered reservations against the repo-rate decision and the repo-rate forecast and advocated lower repo-rate paths.

4 September The repo rate was held unchanged at 1 per cent. The forecast for the repo-rate path was held unchanged. Deputy Governors Karolina Ekholm and Martin Flodén entered reservations against the repo-rate decision and the repo-rate forecast and advocated lower repo-rate paths.

23 October The repo rate was held unchanged at 1 per cent. The forecast for the repo-rate path was adjusted marginally downwards. Deputy Governors Karolina Ekholm and Martin Flodén entered reservations against the repo-rate decision and the repo-rate forecast and advocated lower repo-rate paths.

16 December The repo rate was cut by 0.25 percentage points to 0.75 per cent. The forecast for the repo rate was lowered significantly, and the forecast for when the repo rate would start to be increased was moved back to the beginning of 2015.

The Riksbank's research in 2013

The aim of the Riksbank's research is to develop models and tools for use in 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 results of the Riksbank's research are published in international academic journals. This guarantees that the quality of the research is evaluated objectively in accordance with international standards. The research results are also 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.

The Riksbank's researchers carry out comprehensive studies of Swedish companies and households with the aim of understanding their economic actions and with the objective of supplying better supporting material for the formulation of economic policy. In many cases, this research is based on micro data gathered from Swedish banks and credit-information agencies, which makes possible in-depth analyses of areas that have not been documented in the international literature due to a lack of data.

A working report published in 2013 inves-

tigated how Swedish households managed perhaps the two most important risks that could jeopardise their housing investments: the risk of unemployment and the risk of a fall in housing prices. Households whose risk of being impacted by unemployment increases at the same time as local housing prices are tending to fall choose to rent instead of own their homes to a greater extent. In cases in which such households choose to own their home anyway, on average they choose to buy a cheaper home. This behaviour corresponds with the established theory of households' choices in times of uncertainty and suggests that households manage their risks rationally.

Another report studied how the valuation of companies' loan collateral affected banks' perceptions of the companies' credit ratings, their loan conditions and access to credit, as well as how intensively the banks monitor their borrowers. The study is based on a change in the legislation for the valuation of companies' collateral. This change led to a general lowering of the value of Swedish companies' collateral volume. The report showed that a lower value of collateral is associated with a lower credit rating, higher interest rates and worsened access to bank loans for the companies.

Another report quantified the significance of so-called trade credit chains for the spread of bankruptcies among Swedish limited liability companies. Suppliers selling goods and services on credit to customers who never pay these loans as a result of bankruptcy may accumulate loan losses that seriously increase the risk of the suppliers themselves becoming bankrupt. The total value of trade loan losses

is greater than the loan losses that affect the banks in their lending to the corporate sector.

In September, the Riksbank's Research Division arranged an international conference on financial bubbles with empirical and particularly theoretical contributions on the emergence of bubbles and their management. The conference was aimed at both presenting new findings and attempting to confirm the state of our knowledge: What do we know about bubbles and what do we need to understand better?

Professor Jean Tirole from the Toulouse School of Economics summarised the state of our knowledge on the basis of the research conducted since the 1970s. We know that assets characterised by durability and with limited supply, such as housing, are a breeding ground for the emergence of price bubbles. But Tirole also pointed out that knowledge is lacking of what is needed for a bubble to arise, how bubbles can be identified and how they can be eliminated in such a way that the crisis measures do not create greater problems than the bubble itself was causing.

Professor Michael Woodford of Columbia University, scientific advisor to the Riksbank, presented an argument for a robust monetary policy that does not assume that households necessarily have rational expectations of future housing prices. Woodford showed how monetary policy can take into account that households can make incorrect assessments of future prospects by having monetary policy explicitly take house price developments into account.

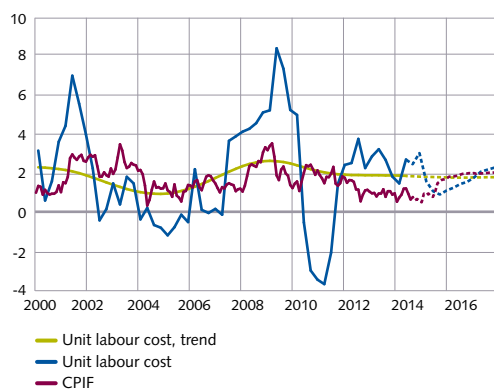
Chart 6

Nominal exchange rate and import prices, annual percentage change

Note. Import prices refer to prices of consumer goods in accordance with the producer price index (PPI). KIX is an index for the Swedish krona's exchange rate in which countries important to Sweden's transactions with the rest of the world are weighed together.

Sources: Statistics Sweden and the Riksbank.

Chart 7

Unit labour costs and the CPI, annual percentage change

Note. The CPI is the CPI with a fixed mortgage rate. The broken lines represent the Riksbank's forecast from December.

Sources: Statistics Sweden and the Riksbank.

of the repo rate by 1 percentage point by the Riksbank between December 2011 and December 2012, leading to a fall in mortgage rates. But even disregarding these changes in mortgage rates, inflation has been low. Both the CPIF and the CPIF excluding energy have been significantly below 2 per cent since 2010. During the period 2010–2013, the CPIF and the CPIF excluding energy have averaged 1.3 per cent and 1.2 per cent respectively.

In 2013, the Riksbank analysed the factors affecting inflation in Sweden with the aim of gaining a better understanding of recent years' developments.

One fundamental reason for the slow increase of consumer prices in the last two years is that international economic activity weakened in the second six months of 2011. Neither the Riksbank nor other analysts foresaw this. When it became apparent that economic development was weakening, the Riksbank cut the repo rate. As a result of the weak level of economic activity abroad, global export prices were significantly dampened.

After having strengthened slightly at the start of 2013, the Swedish krona weakened and, at the end of the year, was at about the same level as at the start of the year. However, on average, the krona was slightly stronger in 2013 than in the previous year. Lingering effects of the appreciation of the krona in recent years together with the low rate of increase in global export prices continued to push import prices down over most of 2013 (see Chart 6).

A further factor contributing to the low inflation was companies' low price mark-ups. The size of the mark-ups depends, for instance, on competition in the sector in which the companies are active, and on demand. There is significantly more variation in the companies' costs than there is in the prices they charge their customers. The fact that companies relatively seldom change their prices means that they allow temporary fluctuations in costs to affect their profits. But when changes in costs are more lasting, prices also eventually change. This means that the development of inflation measured in terms of the CPIF over time should reflect the trend rate of change of unit labour costs (see Chart 7). However, the weak economic situation over the last two years has made it difficult for companies to raise prices. Inflation measured in terms of the CPIF has thereby been significantly lower than the trend rate of change in unit labour costs. The difficulties faced by companies in passing their cost increases on to consumers are reflected in the profit share, which has fallen since 2010 and which was lower in 2013 than it is expected to be in the long run.

In the late autumn of 2013, the rate of increase of Swedish service prices dampened to an unexpectedly large extent and on a broad front. The circumstance that service prices increased significantly more slowly than unit labour costs for the economy as a whole indicated that companies were facing even greater difficulties in raising prices in tandem with their cost increases and that the underlying inflationary pressures were even lower than the Riksbank had previously expected.

Financial imbalances in the monetary policy assessment

Whether monetary policy should consider the accumulation of financial imbalances has long been discussed among central banks. As a result of the financial crisis, this discussion has intensified, both in Sweden and abroad. A new policy area, macroprudential policy, has also arisen. The aim of this is to manage and counteract risks threatening the financial system as a whole. In August 2013, the government proposed that Finansinspektionen (the Swedish Financial Supervisory Authority) be given the main responsibility for the instruments existing to influence financial stability. The clear allocation of responsibility and new macroprudential policy instruments will provide better conditions for reducing the risk of financial imbalances such as household indebtedness (see the section "A safe and efficient payment mechanism").

Valuable exchange of experience

The need to consider financial imbalances has also been discussed heavily in conjunction with the monetary policy decisions in recent years. The Riksbank's mandate under the Sveriges Riksbank Act and its preliminary works allows financial imbalances to be taken into account in the monetary policy decisions, among other reasons because such imbalances risk jeopardising both the stability of the real economy and the stable development of consumer prices. In 2013, the Riksbank continued to further develop its analysis of how financial imbalances can be taken into account in the overall monetary policy deliberations, in which both the short-term and long-term effects of a certain repo-rate path are considered.

Macroprudential policy and monetary policy act partly through the same channels in that both affect the situation on different financial markets. Macroprudential policy thus affects economic development and thereby also the conditions for monetary policy. The Riksbank consequently also worked on the further development of the analysis so as to allow the background material for monetary policy to also take account of the effects of different macroprudential policy instruments.

Lessons from 20 years of inflation targeting and new challenges

The financial crisis demonstrated that countries with inflation targeting that had achieved a fairly good level of target attainment were not spared the effects of the crisis. Consequently, one central lesson to be learned is that price stability by itself does not form a guarantee against being impacted by financial crises. Low and stable inflation may be a necessary condition for financial stability, but it is not a sufficient condition. Risks may accumulate in the financial system anyway. An international discussion is thus currently underway concerning the role the central banks ought to play in reducing the risk of financial crises. To this can be added comprehensive work by national authorities and international organisations for cooperation to introduce new macroprudential policy instruments that can counteract risktaking on the financial markets and increase the resilience of the financial system.

According to one point of view in the international discussion of a new monetary policy framework, the central bank should focus on its traditional objectives, while an authority for macroprudential policy receives responsibility for counteracting financial imbalances. Such financial imbalances can have a more long-term effect on price and macro stability and can lead to financial instability. According to another point of view, the authority for macroprudential policy will be unable to manage these imbalances fully. Monetary policy may then need to provide assistance by 'leaning against the wind' and using the policy rate to take actions beyond those justifiable by more short-term stability considerations. This latter point of view tends to be more common in countries struggling with problems involving high and rising indebtedness.

In June 2013, the Riksbank arranged an international conference to discuss these issues and, at the same time, observe the 20th anniversary of inflation targeting in Sweden. Among the countries that pioneered inflation targeting can be counted New Zealand and Canada who introduced inflation targeting in 1990 and 1991 respectively. The United Kingdom and Sweden were also among the first, introducing inflation targeting in 1992 and 1993 respectively. In the autumn, the Riksbank published a special issue of the journal Sveriges Riksbank Economic Review that reported on the conference.

Even if inflation targeting could not prevent the accumulation of large financial imbalances, inflation targeting has an important purpose. In the countries that introduced inflation targeting, inflation was low and inflation expectations were clearly anchored around the target. Inflation targeting has also worked well in Sweden. Its great merit is that it has provided the Swedish economy with a



PATRICK BAILEY IS A MEMBER of the European Central Bank's Internal Auditors Committee (IAC), which develops common standards for auditing Euro-system operations and audits joint projects and joint operational systems at the Eurosystem/ESCB level. All of the EU countries' central banks are represented on the IAC and in 2013 the members met regularly in Frankfurt.

As international developments move so quickly, it is important to be involved and influence developments in one's own field. Building international networks is therefore more important than ever and discussing and exchanging experiences with other central banks on questions one is grappling with oneself is very valuable.



Patrick Bailey
 Head of Internal
 Audit Department

“Building networks is more important than ever”

The Riksbank increases its focus on financial 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.

Statistics on the financial market, securities issues 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 itself 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. The Riksbank also conducts and publishes a business survey three times a year with the aim of obtaining detailed information on how companies perceive the current economic situation.

In the light of its experiences from the financial crisis, the Riksbank has focused on strengthening financial statistics in recent years. An important part of this ambition has been to develop and improve Swedish securities statistics. New regulations for the gathering of data on issued securities on an individual level entered into effect on 1 January 2013. During the spring, a new database entered into service and monthly securities statistics started to be published for use by analysts both within and outside the Riksbank. Information from the securities database enables deeper and faster analyses of the wholesale funding of both various sectors and individual systemically-important banks. The improved securities statistics also form part of an adjustment and harmonisation of Swedish statistics to European standards.

Under the framework of the international statistics cooperation, the Riksbank has worked over the year to prepare its statis-

tics for a series of changes. Money and banking statistics and interest rate statistics for the monetary and financial institutions are updated by the European System of Central Banks (ESCB), while more detailed statistics for the banks' foreign assets and liabilities are prepared by the Bank for International Settlements (BIS). The reasons for these updates include new requirements from the users of the data and adjustments to updates of the European national accounts system. One area that has come increasingly into focus in recent years is statistics for insurance companies. Work over the year has been focused on identifying central banks' needs for increased financial insurance statistics and for investigating how the collection of data can best be coordinated with the upcoming EU Solvency II Directive on the supervision of insurance companies.

Over the year, work also continued on preparing the adjustment of balance of payments statistics to the sixth manual of the International Monetary Fund (IMF), which specifies international standards for balance of payments statistics. The new standard will start to be applied in Sweden in 2014. In September 2013, the government resolved in favour of Swedish participation in the IMF's extended international statistics standard (Special Data Dissemination Standard or SDDS Plus). This participation entails an increase in the amount of data within economic and financial statistics that is covered by the IMF's regulations. During the autumn, the Riksbank, which is the national coordinator with responsibility for SDDS in Sweden, took a decision to the effect that, in accordance with its area of responsibility, the Riksbank will adopt the measures needed for Sweden to participate in this cooperation.

Experiences from the financial crisis have also led to a greater need for co-ordination and the sharing of financial statistics between different authorities. The report

"A database for the oversight and supervision of the financial markets" (SOU 2012:79) proposes a new law entailing that a specific database for the collection and treatment of financial data be set up at Statistics Sweden. This law would give the Riksbank and Finansinspektionen the possibility of accessing each other's data and coordinating their collection of statistics. This would allow data collection, processing and publication to be made more efficient. Over the year, preparatory discussions have been held between the Riksbank and Finansinspektionen on the form to be taken by work on the joint database.

The level of indebtedness of Swedish households has long been in focus, both in the financial stability analysis and in the monetary policy analysis. To obtain a more complete analysis of the risks associated with household indebtedness, the Riksbank collected data on household loans from the eight largest credit institutions (see the section "A safe and efficient payment mechanism"). This data was analysed and assessed by the Riksbank.

Interest in more detailed statistics on areas such as trade in services has successively increased. A user forum for foreign trade has been formed, in which the Riksbank has responsibility for statistics on cross-border trade in services. Over the year, the precision of the statistics for trade in services has been improved and more detailed statistics can now be published. The amount of detailed data published has thereby more than doubled.

nominal anchor – it has succeeded in anchoring inflation expectations to the inflation target. After the inflation target was introduced, inflation in Sweden fell from the double figures that could be seen in the 1970s and 1980s to small variations relatively close to the target of 2 per cent. In addition, contrary to what many had feared, GDP growth did not become lower but higher in connection with this.

In-depth analysis of the labour market

The degree of resource utilisation on the labour market is an important component of the economic analysis and of the assessment of how the actual development of the economy relates to what can be regarded as sustainable over the long term. Unemployment averaged 8.0 per cent in 2013 and was thus higher than the Riksbank's assessed interval for long-term unemployment of 5–7.5 per cent. This indicates that there was spare capacity in the labour market, which contributed to low inflation and justified the low repo rate. At the same time, unemployment in Sweden has been at a high level for a long time (just over 7 per cent on average since 2001), which indicates that it is largely a structural problem.

A broader analysis of labour market indicators was carried out over the year to improve support in assessing resource utilisation. Various 'vulnerable' groups on the labour market formed a larger proportion of the unemployed in 2013 than in 2006 (see Chart 8). Arbetsförmedlingen (the Swedish Public Employment Service) usually points out four groups as 'vulnerable' unemployed people: those born outside Europe, people with less than uppersecondary school education, individuals in the age group 55–64 and people with a disability that reduces their capacity to work. Both the composition of the group unemployed and the length of unemployment suggested that unemployed people had a more tenuous foothold in the labour market in 2013 than in recent decades. Furthermore, matching efficiency continued to be weak, to the extent that it took longer for unemployed people and employers to locate each other. All in all, various indicators thus suggested that the proportion of unemployed people furthest away from the labour market had increased in recent years.

There is great uncertainty over the proportion of unemployment that is due to structural and cyclical factors respectively, as the economy has been impacted by major shocks at the same time as reforms have been implemented with the aim of encouraging people into work. The expected improvements in the economy should have a positive impact on the labour market and unemployment is expected to fall in the years ahead. But assessing the level of long-term unemployment is very difficult. If it should be the case that this is relatively high, measures will need to be taken mainly in policy areas other than monetary policy to attain a lasting low rate of unemployment.

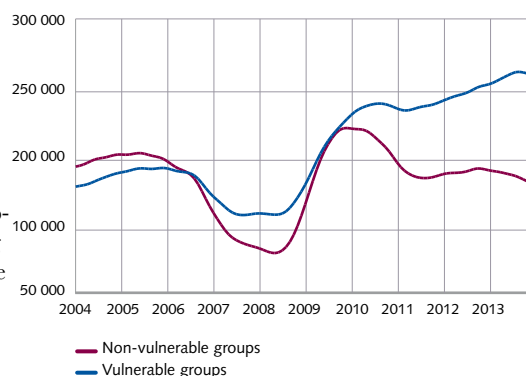
Securities portfolio in Swedish kronor

The Riksbank decided in May 2012 to increase the monetary policy toolbox by acquiring a securities portfolio in Swedish kronor. The aim of this tool is either to safeguard financial stability or to contribute towards a better functioning transmission mechanism in the event of a crisis in the financial system. The portfolio should handle both the buying and selling of debt instruments in Swedish kronor that are issued by the Swedish government, as well as covered bonds in Swedish kronor. The holding by the Riksbank of a securities portfolio in Swedish kronor will safeguard the systems, routines and knowledge needed for the Riksbank to be ready, in the future, to carry out the purchase and sale of securities at short notice.

This securities portfolio started to be built up gradually in the second six months of 2012 to reach a nominal value of SEK 10 billion. The portfolio has been built up by redistributing some of the Riksbank's assets in foreign currencies to assets in Swedish kronor. Holdings in foreign currencies in the foreign currency reserve have thus been sold for a value in Swedish kronor equivalent to that used

Chart 8

Number of unemployed in vulnerable groups and other registered unemployed



Note. Trend-adjusted value for total number of persons registered at Arbetsförmedlingen and number of remaining job seekers at the end of the month, respectively.

Source: Arbetsförmedlingen (Swedish public employment service).

Table 1

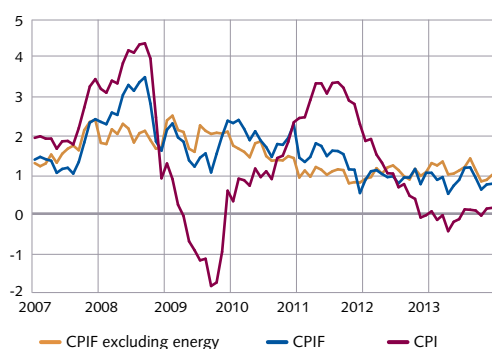
Comparison of different measures of inflation, annual percentage change

	2011	2012	2013
CPI	3.0	0.9	0.0
CPIF	1.4	1.0	0.9
CPIF excluding energy	1.0	1.0	1.1

Source: Statistics Sweden.

Chart 9

CPI, CPIF and CPIF excluding energy, annual percentage change

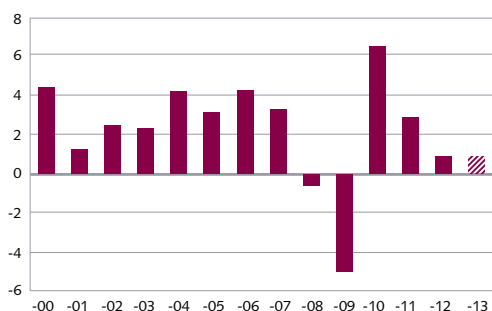


Note. The CPIF is the CPI with a fixed mortgage rate.

Source: Statistics Sweden.

Chart 10

GDP in Sweden, annual percentage change

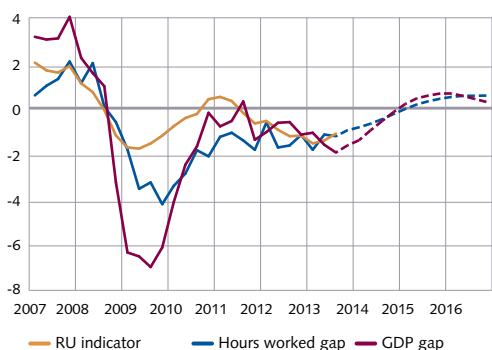


Note. The striped bar represents the Riksbank's forecast from December 2013. Due to revisions of the National Accounts, GDP growth for 2011 is about 0.8 percentage points lower than was reported in the Annual Report for 2012.

Sources: Statistics Sweden and the Riksbank.

Chart 11

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 deviation from the Riksbank's assessed trend for the number of 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 2013.

Sources: Statistics Sweden and the Riksbank.

to purchase securities for the portfolio. The transactions have been made in such a way that the exchange rate has not been affected and no monetary policy signals have been sent. The redistribution from foreign currency to Swedish kronor was concluded in 2013 when the agreed portfolio size was reached. In the autumn of 2013, the Riksbank also started to conduct repo transactions in the securities portfolio. A financial analysis of the Riksbank's securities portfolio in Swedish kronor is presented in the section "Asset management".

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 2013 will be submitted to the Riksdag in March 2014.

Inflation was low

On average, CPI inflation was 0.0 per cent in 2013 (see Table 1). The low level of CPI inflation was largely due to the Riksbank lowering the repo rate by 1 percentage point from December 2011 to December 2012, after which the repo rate was held at 1 per cent for almost all of 2013 before being lowered to 0.75 per cent in December. When the repo rate is cut, household's interest expenditure for mortgages decreases, giving lower CPI inflation (see Chart 9).

However, the CPIF inflation rate, that is the CPI with a fixed mortgage rate, was also low in 2013. CPIF inflation has varied around 1 per cent over the last two years, averaging 0.9 per cent in 2013 (see Chart 9 and Table 1). The CPIF excluding energy prices increased by 1.1 per cent in 2013.

Growth was weak and resource utilisation lower than normal

GDP increased by 0.9 per cent in 2013, which was the same moderate growth as in 2012 (see Chart 10). The development of the Swedish economy continued to be affected by weak growth in the euro area. Demand for Swedish export goods continued to be low and Swedish exports decreased by 1.7 per cent in 2013. Investments also developed weakly and fell by 1.2 per cent. However, household consumption was robust and increased by 1.8 per cent despite the weak level of economic activity.

Both the number of persons employed and the number of people in the labour force increased by 1.1 per cent over the year. On average, unemployment amounted to 8.0 per cent (see Chart 1).

When the development of the real economy is to be summarised, some form of measure of resource utilisation is often used. However, there is no clearcut way to measure this, and therefore 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 estimated 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 lower than normal in 2013 (see Chart 11).

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 lower than normal in 2013 (see Chart 11).

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

A safe and efficient payment mechanism

Swedish banks' financial strength and the efficiently-functioning financial infrastructure contributed towards keeping the Swedish financial system stable in 2013. Indebtedness in the household sector and the Swedish banks' wholesale funding in foreign currency still constitute serious risks that could threaten financial stability. The Riksbank continued to participate in the work of drafting national and international financial regulations and improving the supervision of the financial system in 2013.

In cash management, the older versions of the 50- and 1 000-krona banknotes ceased to be legal tender at the end of the year. The Riksbank therefore carried out the public information campaign "Check Your Money!" to inform all Swedish households of this.

The Riksbank has the Riksdag's (the Swedish parliament) mandate to promote a safe and efficient payment system. 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). 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 fundamental functions of the financial system are mediating payments, converting savings into funding (capital supply), and managing risk. In light of the financial system's great significance for the economy, the participants (such as the banks) in the system are regulated via special legislation, statutes and regulations from Swedish and European authorities.

The Riksbank's practical work in the context of its mandate of promoting a safe and efficient payment system includes a number of 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).

Figure 1. The Riksbank's activities to promote a safe and efficient payment mechanism

Preventive work	Crisis management	Operational tasks
<ul style="list-style-type: none"> • Regularly analysing and monitoring developments in the financial system and the economy as a whole and spreading information and knowledge about the results of this work • Preventing threats to financial stability by informing of, and warning against, risks that are building up • Issuing recommendations on measures to reduce risks in the financial system • Influencing the financial regulatory framework so that it contributes to stability and efficiency 	<ul style="list-style-type: none"> • Managing a financial crisis if one should arise, for example by supplying liquidity to the financial system in various ways if necessary 	<ul style="list-style-type: none"> • Issuing banknotes and coins • Providing a central payment system which banks and other agents can use to make payments

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 analysing and 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 liquidity to the financial system, which is to say that the Riksbank can make it easier for the banks to borrow from the Riksbank.

The Riksbank prevents problems in the financial system

An important part of the Riksbank's preventive work with financial stability involves regularly analysing and following developments in the financial system as a whole, informing of and warning against risks that are building up and, when necessary, issuing recommendations to reduce these risks. The main focus for surveillance is currently on the four major banking groups in Sweden (Handelsbanken, Nordea, SEB and Swedbank), 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 are often a potential source of major losses. The Riksbank also monitors the financial infrastructure, which plays a central role in the financial system and forms a precondition 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 also in a position to influence the framing of 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), the Basel Committee for Banking Supervision (BCBS), the International Monetary Fund (IMF) and various EU bodies such as the Economic and Financial Affairs Council (ECOFIN), the Economic and Financial Committee (EFC), the European Central Bank (ECB) and the European Systemic Risk Board (ESRB). This international cooperation is important, not least for continuously adapting and strengthening the forms for coordinating oversight and supervision between the national authorities. In addition, international cooperation is important as it facilitates the exchange of information the discussion of current risks and the development of riskprevention work.

The Sveriges Riksbank Act does not give the Riksbank any binding statutory tools for use in its preventive work to influence participants in the financial system. Instead, the Riksbank primarily acts (in public and in dialogue with financial system participants), both in Sweden and internationally, 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. These recommendations may be grounded in the economic situation or in structural imbalances. In its communication, the Riksbank strives to be as open, clear and predictable as possible. At the same time, communicating risks that may mean a threat to financial stability is a delicate task.

The Riksbank communicates its views on financial stability in several different ways. For example, twice a year the Riksbank publishes the Financial Stability

Learning by comparing

Report, in which the Executive Board presents its assessment of the major banks' resilience to unexpected events, highlights potential threats 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 also publishes an annual report with an assessment of the financial infrastructure. 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 interlinked. 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 also 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 entire 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 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.

Communication and information are central elements of the Riksbank's crisis management. By open and clear communication on problems and measures, the Riksbank can contribute towards creating confidence in the financial system in a crisis situation.

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, central banks and ministries of finance. As



THE RIKSBANK ABROAD

OVER THE PAST FIVE YEARS, a group of around ten central banks have cooperated on comparing IT costs. For instance, they have produced a joint method to measure costs and attain the fairest possible comparison. They also look at to what extent the respective central bank offers IT services and which other operations and functions are available at the respective central bank. Olof Fredriksson and Anders Hellström have headed up this activity for the past two years.

Comparing ourselves with other central banks of a corresponding size and complexity and with similar IT requirements is a good means of determining how well the Riksbank attains its goals in the IT field. It also provides an opportunity to see how the Riksbank can increase cost efficiency and quality. There is a key ratio in the business plan that states that the Riksbank's IT operations should be better than the average of the participating central banks, which it is, according to the most recent survey.

“The Riksbank's IT operations will be better than average”



*Anders Hellström and Olof Fredriksson
 Acting head of division at the IT Department and acting head of the IT Department*

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 2013

Over the year, the Riksbank continued to monitor developments abroad and in Sweden so as to analyse any risks that may be accumulating in the financial system and threatening its stability. This was primarily a matter of the development of the euro area and of Swedish households' high level of indebtedness.

Otherwise, work continued on influencing and implementing national and international financial regulations. The Riksbank also submitted several consultation responses over the year, including reports on how financial crises can be prevented and managed, as well as how the new capital adequacy regulations should be implemented into Swedish legislation. The Riksbank also submitted a consultation response on the Riksbank's financial independence (see the section "Asset management").

International work to strengthen the financial system

Alongside the current analysis of the state of the financial system, the Riksbank's stability work has continued to be characterised by the need to investigate and influence the framing of future financial regulatory frameworks and supervision. Swedish banks and financial institutions are regulated by laws drawn up on a European level. To a large extent, these laws are based on guidelines set by other international bodies. The Riksbank participated in the discussions on both the EU and international levels (for example in the BIS) on the formulation of both regulatory frameworks and supervision.

International cooperation

Over the year, the Basel Committee continued its work on completing the different parts of the Basel III package of regulations. The Riksbank contributed actively to this work, not least because Governor of the Riksbank Stefan Ingves is chairman of the Basel Committee. An important milestone in 2013 was the completion of the rules for requirements based on the short-term liquidity measure, the Liquidity Coverage Ratio (LCR).

The Basel Committee has worked on developing proposed requirements based on the structural liquidity measurement, the Net Stable Funding Ratio (NSFR), global minimum regulations for major exposures, regulations for a required minimum leverage ratio and tightened rules for banks' capital adequacy requirements for the exposures existing in the trading book.

In 2012, the Committee on Payment and Settlement Systems (CPSS) of the BIS published new international principles for the financial infrastructure. In 2013, work started in the BIS on assessing the implementation of these principles in various countries. The Riksbank participated in this work. Sweden was also one of the countries assessed. Consequently, as part of this assessment, the Riksbank and Finansinspektionen carried out a self-assessment of the implementation of the principles in Sweden. The BIS assessment resulted in a report indicating that many countries had started implementation and that the principles can be incorporated in various ways via a combination of laws, guidelines and strategies. For Sweden's part, the result showed that Sweden has come far in some areas, while there remains some work to be done in others. For example, the principles for payments systems have not been incorporated into law. The next assessment will take place in 2014.

The Riksbank also participated in the work of the global Financial Stability Board (FSB). Sweden is not a member of the FSB, but participates in the FSB's regional consultation group for Europe. However, Governor of the Riksbank Stefan Ingves participates in the FSB's meetings as part of his role as chairman of the Basel Committee.

In 2012, the Riksbank started an initiative together with the Ministry of Finance, Finansinspektionen and the Swedish National Debt Office as well as the relevant authorities from Denmark, Estonia, Finland, Latvia, Lithuania, Norway and Poland. The aim of this work was to develop a recovery plan and plans for the resolution and reconstruction of the banking group Nordea so as to ensure the existence of a cross-border crisis management plan in the event of a crisis. This work, based on the FSB's recommendations for global systemically important banks such as Nordea, continued in 2013.

Under the framework of the FSB, the Riksbank also initiated and participated in the work of developing guidelines for cooperation and the exchange of information between the crisis management groups for systemically important banks and countries not included in these groups but in which the specific bank in question nevertheless performs a systemically important function in the host country. The issues that the working group has focused on over the year are how to identify the host countries and authorities with which the crisis management group should cooperate, how this cooperation should take place and which information should be shared in the group and between host countries.

European cooperation

Over the year, the Riksbank has assisted the Ministry of Finance with opinions on the negotiations in the EU on the so-called banking union. The banking union involves both new regulations for the capital adequacy of banks and other financial institutions, together with crisis management in the EU as a whole, and a deepening of cooperation in supervision and the management of banks in distress for the euro area countries. EU countries outside the euro area will be given the opportunity to join this deepened collaboration if interested.

As regards the new joint regulations for the entire EU, the Riksbank has assisted the Ministry of Finance in the negotiations on the European Commission's proposed capital adequacy regulations (CRD IV/CRR) with the aim of carrying out the Basel III Accord in Europe. Similarly, the Riksbank has assisted in the negotiations on the directive on the recovery, liquidation and resolution of credit institutions and securities companies (the so-called crisis management directive). In the negotiations over the crisis management directive, it has been important to ensure that the regulations can even function in the event of a more comprehensive systemic crisis when extraordinary measures may be necessary to maintain financial stability. As regards the deepened cooperation, one important aspect for the Riksbank has been to ensure that countries and banks outside the euro area are not disadvantaged by the new regulatory framework, for example as regards the influence of countries outside the euro area.

Under the framework of the ESRB, the Riksbank contributed actively in the work of identifying systemic risks within the EU and producing recommendations to reduce these risks. The ESRB published three recommendations over the year. The first of these addressed the banks' funding and is based on the ESRB's assessment that the increased proportion of encumbered (or pledged) assets in the banks around the world reduces the banks' resilience in periods of stress, which may jeopardise financial stability. The ESRB therefore recommended strengthened supervision, improved tools for managing these risks and increased transparency. The second recommendation is addressed at reducing the systemic risks that certain types of money market fund can give rise to. The

third recommendation concerns the introduction of intermediate targets and instruments for macroprudential policy by the EU countries. The aim is to assist the EU countries in developing a well-considered toolbox to prevent or reduce risks that may jeopardise the stability of the financial system.

Over the year, the Riksbank has also responded to a consultation from the European Commission on the ESRB and EU's three microprudential policy authorities (the European Banking Authority EBA, the European Securities and Markets Authority ESMA, and the European Insurance and Occupational Pensions Authority EIOPA). This consultation forms a part of the background material upon which the Commission will base its assessment of the European supervisory structure. The Riksbank responded to the part of the consultation dealing with the ESRB. In its response, the Riksbank said that, on the whole, the ESRB had managed to perform its task and that its area of responsibility should remain unchanged. As possible areas for improvement, the Riksbank pointed out that the ESRB secretariat's resources need to be strengthened, that the ESRB's access to data should be improved and that external communications could be developed further.

Nordic and Baltic cooperation

The Riksbank continued with the Nordic and Baltic cooperation in the field of financial stability over the year. In 2013, two meetings were held with the Nordic-Baltic Macroprudential Forum (NBMF). The NBMF is a cooperation forum for central banks and 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 continued to discuss matters including how countercyclical capital buffers should be implemented. Governor of the Riksbank Stefan Ingves was chairman of the group.

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

International commitments

Apart from the international and European cooperation with various regulatory issues, the Riksbank has also other international commitments.

The International Monetary Fund

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 IMF's Executive Board. In 2013, the Fund produced a framework for how it is to give advice in macroprudential issues as part of its surveillance. Other current issues included the ongoing review of the quota formula that determines the voting power of each country in the IMF, how much capital contributions each country should make to the IMF and the amount each country should be able to borrow from the Fund.

The Riksbank contributes to the IMF's funding through capital contributions and Special Drawing Rights. Among other things, the Riksbank 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 2013, the members of the NAB decided to renew the activation of the lending arrangement on two occasions. The Riksbank has also effected a temporary agreement to provide loans to the IMF, which was approved by the Riksdag in 2012. This arrange-

ment entered into force in 2013 after both parties signed the agreement. The agreement gives the IMF the opportunity to borrow the equivalent of SEK 66.3 billion from the Riksbank if the Fund's capital contributions and NAB should be insufficient. Like several other countries and central banks, following the Riksdag's decision, the Riksbank also remitted Sweden's remaining share of revenue from the sale of the IMF's gold reserve, equivalent to SEK 176 million, to the IMF's fund for low-income countries the Poverty Reduction and Growth Trust, (PRGT). The Riksbank's transactions with the IMF are also described in the section "Asset management".

The IMF visited Sweden on two occasions in 2013, both for the annual Article IV Consultation and for the Nordic Regional Report (NRR). Together with Eesti Pank (the Estonian central bank) and the IMF, the Riksbank arranged a conference in Tallinn on Nordic-Baltic financial links and challenges.

Technical assistance

The Riksbank also provides expert assistance to central banks in developing countries, which is known as technical assistance. In 2013, this included contributions in Albania, Kenya, Namibia, Uganda and Vietnam. The activities were financed by funds from Sida (the Swedish International Development Cooperation Agency).

IMF assignments with a focus on the Nordic countries



*Åsa Ekelund, Emelie Mannefred, Caroline Leung
IMF coordinators at the Financial Stability
Department*

“It is often useful to hear an outsider’s view of the issues we are grappling with domestically and we therefore find the discussions with IMF economists very useful”



HOW ARE THE NORDIC ECONOMIES faring and how can we reduce the risk of potential problems in one country spreading to a neighbouring country? In April, a team from the International Monetary Fund (IMF) carried out a cross-border, regional review of Sweden, Norway, Denmark and Finland to answer the questions above.

The Nordic region is characterised by a very concentrated banking sector, where the banks are to a large degree dependent on market funding. This entails some benefits, but also a number of challenges. The IMF pointed out, for instance, that the Nordic countries should phase out their tax deductions for interest, introduce macroprudential tools immediately and coordinate the use of these tools. Hearing the views of external economists on the issues we are dealing with is very valuable. In particular, the Riksbank has long requested regional reviews, as many countries’ economies and financial systems are closely interlinked.



supervisory authorities in the Nordic and Baltic countries. The stability group has the task of strengthening preparedness for the management of crossborder financial stability issues in the Nordic-Baltic region.

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 things, the Riksbank worked on the analysis of risks in the Swedish household sector, published a report on the financial infrastructure and a report on retail payments, and developed methods for assessing the consequences of threats to the financial system. The Riksbank also participated in the work of the Temporary Council for Cooperation on Macroprudential Policy.

The Temporary Council for Cooperation on Macroprudential Policy

Over the year, while waiting for the permanent stability council to be established, the Riksbank and Finansinspektionen continued to discuss systemic risks, macroprudential policy and financial stability as part of the Temporary Council for Cooperation on Macroprudential Policy. The council held two meetings during the year.

Among other matters, the first meeting discussed the current situation on the financial markets, which had just started to show signs of optimism despite the weak development of the real economy. Swedish households' indebtedness was also discussed, the development of which both authorities considered needed to be monitored carefully. The Riksbank also presented its view of Finansinspektionen's intention of raising the risk-weight floor for Swedish mortgages to 15 per cent. Both authorities noted that they needed to analyse together the consequences of structural changes on the mortgage market. The participants agreed at the meeting that the authorities would appoint a joint analysis group for this purpose.

Other macroprudential issues discussed included the ongoing monitoring of the ESRB's recommendation on loans in foreign currency, issued in 2011. Both the Riksbank and Finansinspektionen noted that such loans are highly unusual in Sweden, but more common in other countries in which the Swedish banks are represented. However, loans in foreign currency form a smaller part of Swedish banks' loan portfolios than previously. In addition to these issues, the importance of a clear mandate for macroprudential policy and the proposed banking union and its consequences for Sweden were discussed. The Stibor reference rate was also taken up at the meeting, together with the importance of considering the consequences that the current international work on reference rates may have for how the framework for Stibor is designed and how supervision is conducted.

At the year's second meeting, the Riksbank and Finansinspektionen noted that the major Swedish banks (Handelsbanken, Nordea, SEB and Swedbank) had reported strong profits. Their capital situations and short-term liquidity situations were also comparatively good. However, the authorities pointed out that the banks' leverage ratios were relatively low from an international perspective and that their high dependence on overseas wholesale funding could constitute a risk. The authorities also discussed Finansinspektionen's work on carrying out the ESRB's recommendations and the work of implementing the Basel III Accord into Swedish legislation.

At the meeting, the Riksbank expressed concern over the possibility that Swedish banks' resilience to potential liquidity problems in Swedish kronor could be too low and was thus a question requiring further investigation. Both authorities also expressed a desire for increased transparency regarding the banks' liquidity buffers.

Furthermore, the Riksbank considered that the work of the analysis group had contributed to greater knowledge of household indebtedness, but that ultimately it was a question of subjective assessments with regard to the risks linked to household indebtedness. The Riksbank emphasised the opinion that there was uncertainty over the explanatory value of fundamental factors in the question of the upturn in Swedish housing prices and debt. The Riksbank considered that it would be interesting to supplement the work of the analysis group, which is based on how the situation looks today, with studies of long-term scenarios, where the loan-to-value ratio and particularly indebtedness continue to increase.

With regard to measures to reduce the risk of households' high and rising indebtedness, the Riksbank saw a need to implement further measures in the near term. The Riksbank considered that one possible measure would be to further raise the risk weights for mortgages. The Riksbank's representatives at the meeting advocated raising the risk weight floor in stages up to 35 per cent. In addition, the Riksbank considered it would be desirable to have a stronger amortisation culture so that households pay off their loans to a greater extent. Moreover, the Riksbank pointed out that the countercyclical capital buffers would probably have been activated if the regulations for this had been in place today. The Riksbank also said that there is a need for the banks to review and harmonise their standard calculations of the loan scope for new mortgage applicants, which are known as discretionary income calculations.

Analysis of the risks in the Swedish household sector

In Sweden, house prices and household indebtedness have risen substantially for a longer period of time (see Chart 3). At the same time, loan-to-value ratios and amortisation periods have increased. Even if fundamental factors can largely explain the rising housing prices, the high and rising level of indebtedness and the long amortisation periods are a risk to future financial stability. It is important that these areas be more closely analysed. In accordance with the Temporary Council for Cooperation's decision, the Riksbank and Finansinspektionen therefore appointed a joint analysis group during the year to analyse and illuminate the risks of this development. The Riksbank also took part in Finansinspektion's work of producing this year's mortgage survey.

To better understand and analyse household indebtedness and how it could impact the real economy, the Riksbank also gathered new data based on information on households' loans during the year. Even if the Riksbank has made analyses of this kind before, this data made it possible to obtain a more detailed and complete view of household loans. It is now possible to take consideration of how debts are divided among the stock and not just among new loans, as in Finansinspektionen's mortgage survey. With supporting material based on the entire stock, a better assessment can be made of systemic risks (see also the box "The Riksbank increases its focus on financial statistics").

Oversight of the financial infrastructure

In 2013, the Riksbank published the annual Financial Infrastructure Report for the first time. The report has two aims: to present the Riksbank's assessments of the stability and efficiency of the financial infrastructure in Sweden, and to describe the starting points of the Riksbank's oversight work and how this is carried out in practice. By publishing its assessments, the Riksbank wishes to encourage continual improvements to benefit the financial infrastructure of Sweden. The report replaces the assessments that the Riksbank previously made of the Swedish infrastructure systems. In the report, the Riksbank deemed that the financial infrastructure in Sweden worked well on the whole, but that there was room for improvements to strengthen it further.

Over the year, the Riksbank became a participant in two colleges for the supervision of central counterparties, one regarding NASDAQ OMX Clearing and the other regarding European Multilateral Clearing Facility (EMCF). The formation of supervisory colleges follows a new EU regulation aimed at strengthening the supervision and stability of central counterparties. The relevant authorities in the EU participate in the supervisory colleges. The Riksbank oversees NASDAQ OMX Clearing, which has the Swedish krona as one of the largest currencies in its derivatives clearing, making the Riksbank into a natural participant in this college. EMCF is a Dutch central counterparty that, among other activities, clears shares on Swedish marketplaces and for large values in Swedish kronor. This is the reason that the Riksbank also participates in this supervisory college. The new EU regulation required all existing central counterparties to apply for authorisation in 2013 if they were to continue operations. During the year, the Swedish central counterparty NASDAQ OMX Clearing applied for such authorisation.

Over the year, the Riksbank also carried out an analysis of how Sweden's economy would be affected if Bankgirot were to be closed for a longer period. The aim of this analysis was to investigate the extent to which payment flows would be hindered or could be redirected in such a situation and the effect this would have on the national economy. The result indicated that it would be difficult to find an alternative to payments based on Bankgirot numbers, that the most severe impact of an interruption would be on small companies and companies with low credit ratings, and that household consumption of durable goods would be affected. Another conclusion was that the effect on payment flows and the national economy would largely depend on how crisis management was organised and implemented.

Inquiry into retail payments

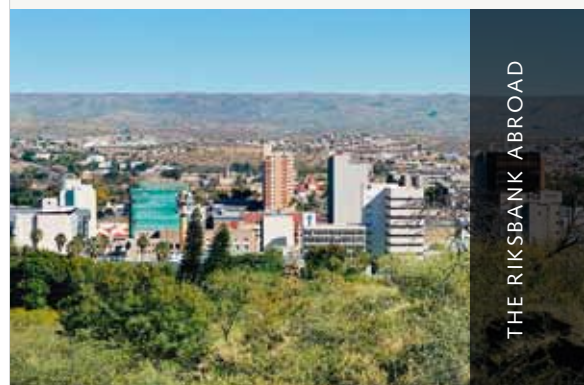
In 2013, the Riksbank concluded a study of retail payments initiated in 2012. The aim of this study was to illuminate the process of change that the Swedish retail payment market is currently undergoing, with new market players becoming established and new innovative payment services being launched.

In the report, the Riksbank deemed that the current changes could increase the efficiency of the Swedish retail payment market but that certain risks may simultaneously arise. It is deemed that these risks could arise within the financial infrastructure, within the supply and demand of payment services, within legislation and within the roles of authorities. The use of cash is expected to decrease with time, but cash will remain as a means of payment until the 2030s at least. However, if the use of cash reduces significantly, it could weaken the position of cash as legal tender and as an alternative means of payment in a crisis situation in which electronic payments cannot be made. In the report, the Riksbank also identified four areas in which it is particularly important that market participants and authorities follow developments in the period ahead: cash, competition, technical development and regulatory processes at the EU level.

Development of methods for assessing the consequences of risks for the financial system

Over the year, the Riksbank produced a heat map to allow it systematically to capture the consequences that various financial shocks may have for the financial institutions, the financial markets, the financial infrastructure and the real economy. This heat map makes it possible to obtain a view of how severe the consequences may be for financial stability should a risk scenario be realised. A heat map is a visual and analytical aid that uses subjective assessments to explore reactions to specific risks. However, a heat map can contribute towards creating an awareness of these risks and their consequences.

Improved forecasting work in Namibia



The Riksbank's consultation response to the interim report "Preventing and managing financial crises"

In February 2011, the Government decided to appoint a committee to review the regulations for the management of financial crises. The Financial Crisis Commission (FCC) submitted an interim report "Preventing and managing financial crises" (SOU 2013:6) to the Government in January 2013.

The Riksbank submitted its consultation response to the Financial Crisis Commission's interim report on 10 June 2013. The Riksbank welcomed the fact that the Swedish regulatory framework for preventing and managing financial crises has become subject to an inquiry. The Riksbank supported several of the assessments and proposals made in the interim report. These included, for example, the proposed amendment of the Sveriges Riksbank Act to specify the Riksbank's mandate regarding financial stability, and the funding arrangement for crisis management. However, the Riksbank took a different view to the Committee as regards an appropriate organisational structure for macroprudential policy.

One starting point for the Riksbank's considerations in its consultation response was to strengthen central government's ability to prevent financial crises. The Riksbank considered that the institutional framework for macroprudential policy that the FCC proposed, with a council for macroprudential policy in which the Riksbank and Finansinspektionen would consult with each other on macroprudential policy measures, was insufficient in this respect. Such a macroprudential policy council would risk leading to a lack of clarity surrounding ownership of responsibility for and the entitlement to take decisions on macroprudential policy tools. Thus it would probably also be difficult to hold a party to account once a crisis had arisen. The Riksbank argued that, if financial crises are to be prevented, the central issue is that there must be an organisational structure that provides not only enough decision-making power but also enough tools to manage identified risks in the financial system.

The Riksbank proposed the creation of a macroprudential policy body with clear responsibility for macroprudential policy and clearly defined tools. There were also a number of fundamental aspects to be considered in the choice of organisational structure, such as the need for a sound and enduring ability to analyse risks to the financial system as a whole, resource efficiency and interaction with related policy areas both in Sweden and internationally. The Riksbank argued that the Riksbank alone should hold responsibility for macroprudential policy in Sweden, in the event that a small number of cyclical instruments were to be introduced, but that it was important to make use of Finansinspektionen's expertise. The Riksbank therefore advocated clear forms of cooperation between the Riksbank and Finansinspektionen. As usual, the Government and the Riksdag should decide upon and set the frameworks for the use of the new tools.

The Riksbank also pointed out how important it is that a broad toolkit for macroprudential policy be put into place so it can be used to counteract risks linked with high credit growth and indebtedness, together with the Swedish banks' dependence on wholesale funding and liquidity. More specifically, the Riksbank advocated that the toolbox should initially contain countercyclical capital requirements, sectoral capital requirements and mortgage caps. The Riksbank noted that macroprudential policy can have a great impact on the economy, making it important to ensure democratic control. In this respect, the General Council of the Riksbank could play an important part.

The Executive Board and General Council of the Riksbank supported the consultation response with the exception of the Social Democratic members of the General Council, who argued that the General Council should not issue a

THE RIKSBANK HAS AN AGREEMENT WITH THE Swedish International Development Cooperation Agency (SIDA) to support a number of countries in building up efficiently-functioning central banks, what is known as technical assistance. One of these countries is Namibia. The Bank of Namibia has previously cooperated with the Riksbank on developing its Financial Stability Report, they have introduced stress tests and are now working on developing their analysis of the housing market. They have also developed their communication and, for example, now hold press conferences after each monetary policy meeting.

In November, Carina Selander and Michael Andersson visited the Bank of Namibia to assess and help develop the bank's forecasting work. This included going through their existing forecasting models, discussing new forecasting tools and constructing a means of showing the uncertainty of the forecasts. Moreover, they provided suggestions of how they can improve their forecasting process.

Like many developing countries, Namibia has problems obtaining access to reliable data, which makes the analysis and forecasting work more difficult. The Riksbank therefore wishes to help the Bank of Namibia to develop its own business survey, similar to the regular survey carried out by the Riksbank, to gather expectations.

"It is impressive how much you have accomplished in such a short time"

Mr Ebson Uanguta, Deputy Governor Bank of Namibia.



*Michael Andersson, Carina Selander
 Economists at the Monetary Policy
 Department*

response. Deputy Governor Karolina Ekholm submitted a separate statement of opinion regarding the Riksbank's consultation response.

On 26 August 2013, the Government issued a resolution concerning a strengthened framework for financial stability. It proposed that Finansinspektionen be given the main responsibility for the instruments existing to influence financial stability. A formalised stability council is to be formed for consultation on financial stability measures. The Riksbank's analysis and monitoring of the financial system and its cooperation with other authorities in the area will continue with the stated framework as a basis.

The Riksbank's response to the report "Stronger capital adequacy regulations"

In 2012, the Government appointed an inquiry to propose the legislative changes needed to adapt Swedish law to the EU's new capital adequacy regulations. The proposal was presented to the Government in the report "Stronger capital adequacy regulations" (SOU 2013:65) in September 2013.

The Riksbank submitted its consultation response to the report on 20 November 2013. The Riksbank supported several of the commission of inquiry's assessments and proposals. These included, for example, the commission of inquiry's proposal to incorporate into Swedish law all of the capital buffers listed in the EU Directive. The Riksbank also supported the commission's assessment that the provisions regarding the capital conservation buffer and the countercyclical capital buffer should begin to apply as soon as permitted by the Directive, as this would contribute to safeguarding financial stability. The Riksbank agreed with the commission's proposal that calculations based on models are required to establish the countercyclical capital buffer, but wished to highlight the need to also use qualitative assessments of the sustainability of credit growth and the level of systemic risk.

In contrast to the commission of inquiry, the Riksbank considered that, when assessing whether special own fund requirements should be imposed on an institution (Pillar 2 requirements), the supervisory authority should consider both the risk to which the individual institution is exposed and the risk to which an institution exposes the financial system. This would increase flexibility for Finansinspektionen in its assessment of the capital requirements of the institution. The Riksbank also considered that Swedish legislation should introduce a requirement for Finansinspektionen to publish decisions on a bank's special own fund requirement (Pillar 2 requirements) and also for the banks to publish the own fund requirements imposed upon them. This would make it easier for external market participants to perform a risk assessment of the bank. In addition, the Riksbank argued that the law on capital buffers should make clear that the systemic-risk buffer should be used to counteract the risks to the financial system posed by systemically important institutions. According to the Riksbank, the same law should make clear that different systemic buffer requirements may be introduced for different parts of the financial sector.

Coordination of crisis preparedness in the central payment system

In 2011, the government inquiry "Enhanced emergency preparedness in the central payment system" (SOU 2011:78) proposed that the Riksbank should be given statutory responsibility for the coordination of emergency preparedness measures in the central payment system. In 2013, the Government has worked on preparing the proposal and the Riksbank has planned for how it should be implemented. An implementation would mean that the Riksbank will establish a function for the coordination of measures to prevent and manage serious errors, interruptions or disruptions to the central payment system. In parallel to

this work, the Riksbank has continued to act for strong crisis preparedness as part of FSPOS, a group for private-public cooperation in the financial sector.

Assessment of financial stability

The Riksbank deemed that the stability of the Swedish financial system was strong in 2013. The relatively good economic conditions in Sweden benefited the Swedish banks' earnings and contributed towards loan losses being small. In addition, the banks were relatively well capitalised in comparison to many other European banks, meaning that their access to wholesale funding was good. The greatest threats to financial stability came from developments in the euro area and the high level of indebtedness of Swedish households.

During the spring, the banks were financially robust but more resilience was needed in the long run

During the spring, unease on the global financial markets dampened, even though the real economic challenges in the euro area remained. The economic recovery of the euro area proceeded slowly and several countries needed to improve their competitiveness and consolidate their public finances. In addition, the ECB continued to provide the European banking system with liquidity. Reduced unease and a long period of low global interest rates contributed towards an increase in search for yield among investors and, consequently, increase interest in high-yield bonds and shares.

The Riksbank deemed that the major Swedish banks were financially robust and that, compared with 2012, the risk that they would become distressed in the period immediately ahead had decreased (see Chart 12). Part of the explanation for this development was that economic growth in Sweden had been relatively strong compared with in many other countries and that the Swedish banks had benefited from relatively strong demand for credit, above all from Swedish households. The economic conditions also contributed to the banks' loan losses being small. When their capital was measured in relation to risk-weighted assets, the Swedish banks were also well-capitalised compared with many other European banks. On the other hand, the low risk weights for mortgages in particular meant that capital in relation to total assets was lower than in many other countries.

The Riksbank deemed that growth in the Swedish economy, as in Swedish companies' demand for credit, would be relatively weak in 2013. This was due to the weak development abroad, particularly in the euro area. Households' demand for credit was expected to increase and, as a result of this, the banks' earnings were also expected to increase. Alongside increased lending, lower costs also contributed to the major banks' improved profits. In addition, the major banks' loan losses were expected to be small over the forecast period (see Chart 13), even if loan losses in Denmark continued to be relatively high.

The Riksbank also noted that Swedish household indebtedness was high from both historical and international perspectives. For example, the Riksbank deemed that a sudden and steep fall in housing prices could weaken household economies and lead to a longer period of lower economic activity. This is because households would save more to restore the balance between their assets and liabilities. If other sectors in the economy then failed to increase their consumption or their investments to compensate for households' lower consumption, the low level of activity in the economy could make it more difficult for companies to pay their current expenses such as interest on loans. This could, in turn, lead to significant loan losses for the banks. In addition, a sudden, rapid fall in housing prices could lead to investors choosing to reduce their exposures to the Swedish banking sector. Demand for the Swedish banks' covered bonds

Chart 12

Systemic risk indicators for the Swedish financial system, probability percentage

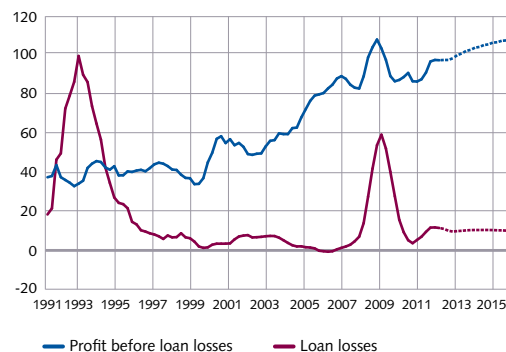


Note. The indicator shows the probability of all four major banks becoming distressed within one year. See "A systemic risk indicator for the Swedish banking system", article in the Financial Stability Report 2011:2 and Economic Commentaries 2011:7, Sveriges Riksbank.

Source: The Riksbank.

Chart 13

Profits before loan losses and net loan losses in the major banks, summarised over four quarters, SEK billion, fixed prices, March 2013

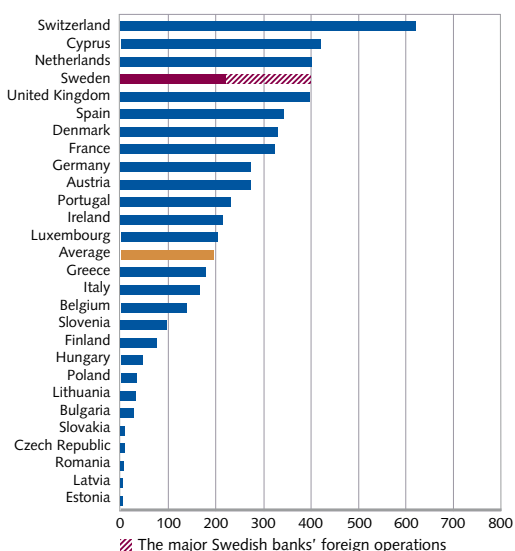


Note. The broken lines refer to the Riksbank's main scenario as in the current assessment and assessments from the Riksbank's Financial Stability Reports.

Sources: Bank reports and the Riksbank.

Chart 14

The banks' assets in relation to GDP, December 2012, per cent



Note. Banking assets include all of the assets of the banking groups, both foreign and domestic. The shadowed part of the red bar shows the four major banks' assets abroad in relation to Sweden's GDP.

Sources: The ECB, the European Commission, the Swiss National Bank and the Riksbank.

could thereby decrease, entailing more expensive wholesale funding. This could further exacerbate the negative development of the economy.

Economic developments in the euro area were considered to form the greatest risk in the coming period. Many European countries still had major structural problems that needed to be managed if the euro area was to avoid entering a prolonged recession that could also have a negative effect on the Swedish economy. In addition, there was a risk that unease on the financial markets could rapidly increase. Unease on the financial markets and a weaker development of the real economy could, in turn, mean that the major Swedish banks' earnings would worsen, their loan losses would increase and their wholesale funding would become both more expensive and less accessible.

The Riksbank's stress tests indicated that the major Swedish banks were sufficiently well-capitalised to be able to manage the steeply rising loan losses that could arise if economic development was much worse than expected. However, at the same time, there existed factors that the stress tests did not consider, such as the risks of contagion in the Swedish banking system. The risks in the banking system may thus be greater than suggested by the results of the stress tests. In addition, a seriously worsened development could have a greater effect on the banks' access to wholesale funding than the stress tests suggest. An increase in the credit risk in the banks' lending could result in a risk that the banks' credit ratings would be lowered. This could, in turn, limit the number of investors willing to invest in securities issued by the major Swedish banks.

The Riksbank's recommendations

Even though the major Swedish banks were deemed to be financially strong, there were vulnerabilities in the structure of the Swedish banking system that could have a negative effect on financial stability in the long term. For example, the Swedish banking system is large in relation to the Swedish economy, measured as the banks' assets in relation to GDP (see Chart 14), which may mean that the social costs would be great in the event of a financial crisis. The major Swedish banks are also closely interlinked. This is reflected, for instance, by the great extent to which they borrow from or trade with one another. At the same time, they often obtain funding on the same markets. This means that problems in one bank can rapidly spread to the banking system as a whole. In addition, the Swedish banks have a comparatively large element of wholesale funding – approximately half of the banks' lending is funded in this way. Just over 60 per cent of wholesale funding is in foreign currency.

In the light of the risks identified by the Riksbank and the structural circumstances of the banking system, the Riksbank again recommended that the major Swedish banks should ensure a core Tier 1 capital ratio of 12 per cent by 1 January 2015. More capital would increase the banks' resilience to unexpected losses. This would strengthen the market's confidence in individual banks and in the financial system as a whole.

The Riksbank also again recommended the major Swedish banks to continue to reduce their structural liquidity risks and approach the minimum level of 100 per cent in the structural liquidity measure (NSFR). For example, the banks could do this by extending the maturities of their funding, thereby reducing the difference in maturities between assets and liabilities. Reduce this difference would increase the banks' ability to cope both with longer periods of disruption on the financial markets and with other, more permanent changes that could impact their funding possibilities. The Riksbank also recommended the major banks to include the structural liquidity measurement in their public reporting, as more information on the banks' risks contributes towards increasing transparency and thus confidence in the banking sector.

The Riksbank had previously directed recommendations to the banks in the Stibor panel and the Swedish Bankers' Association concerning strengthening the framework surrounding the Stibor reference rate. Even if great progress had been made in this compared with the autumn of 2012, the Stibor framework needed to be strengthened by a requirement for independent follow-up and control. The reference rate plays an important role for Swedish interest rates and thus for the allocation of capital in society, as well as for the functioning of the financial markets. With a clear framework, confidence in Stibor can increase.

During the autumn, the Riksbank deemed that financial stability was good but that there were risks to be managed

There were several signs of brighter economic prospects abroad and continued central bank measures contributed towards reducing uncertainty on the financial markets in 2013. However, uncertainty remained surrounding the state of the European banking sector and several European countries were still struggling with structural problems. In addition, uncertainty prevailed on how a return to a normal policy-rate based monetary policy in the United States would affect global financial markets. All of these factors risked affecting the international economic outlook.

Despite a longer period of weak development in the real economy, the major Swedish banks continued to show good results. Among other causes, this was due to comparatively strong demand for credit, primarily from households, and low loan losses. The Riksbank's main scenario expected the major banks' earnings (profit before loan losses) to continue to increase alongside the positive economic development (see Chart 13). In accordance with the Riksbank's recommendations, the major banks had increased their core Tier 1 capital ratios and were well-capitalised when measured on a risk-adjusted basis. However, just as previously, equity formed a relatively small part of total assets, both from a historical and an international perspective.

The Riksbank assessed that the domestic risk outlook was dominated by Swedish households' high and rising indebtedness. In addition, the average amortisation period for Swedish mortgages was very long and the number of first mortgages not to be amortised was still high. Part of this development could be explained by both demand and supply factors, such as lowered interest rates, tax changes and a low level of housing construction. However, households have become more sensitive to changes in such factors because household debt in relation to household disposable income has almost doubled since the 1980s. The Riksbank considered that a particularly large risk would arise if households had unrealistic future expectations, primarily as regards the interest rate situation. If mortgage rates become higher than households have expected, they may be forced to make major adjustments to their economies, which may have major consequences for the real economy. At the same time, the fact that mortgage lending forms a dominant part of the Swedish banks' assets means that the financial system is sensitive to risks linked with indebtedness. The banks' lending is largely funded through the financial markets. This funding is possible because the investors have a high level of confidence in the security of the underlying assets.

The Riksbank considered that a series of measures were needed to reduce the risks inherent in households' high and growing indebtedness and the continued housing price increases. One measure could be a focused capital requirement. In this way, the economic costs of counteracting the identified risks would also be minimised. Another measure that would probably both strengthen resilience and dampen the growth of household indebtedness would be to raise the risk-weight floor from the current level of 15 per cent. In this context, the Riksbank also took a positive view of the current work on developing regulations for a counter-

cyclical capital buffer in the Swedish banking system. If the regulations for such a buffer had been in place, the buffer would probably have been activated.

The Riksbank's recommendations

The Riksbank recommends that the risk weight floor for Swedish mortgages should be raised in light of the risks associated with the high and increasing level of indebtedness in the household sector and the potential consequences of this indebtedness for both the real economy and financial stability. The Riksbank shared Finansinspektionen's assessment of the need to raise the risk-weight floor to 25 per cent and considered that this floor should be introduced as soon as possible. Higher risk weights would strengthen the banks' resilience and the financial system and thereby also investors' confidence in the banks. A raised floor for risk weights would involve raising capital requirements so that the banks further build up their buffers. The risk of liquidity problems in the banks in the event of a drastic fall in prices on the housing market would decrease if investors' confidence that Swedish banks have enough capital is maintained.

The Riksbank also recommended the major Swedish banks to report their leverage ratios at least once a quarter. The banks are increasingly using risk-based assessments in their operations. This has its advantages, but it has also been questioned whether the assessments really accurately reflect the risks in the assets. By publishing leverage ratios, the Swedish banks would fully provide investors with information that can be compared both over time and between banks. They would also receive a more complete view of the banks' capital strength.

The Riksbank also considered that the major Swedish banks should report their short-term liquidity measure, the Liquidity Cover Ratio (LCR) in Swedish kronor at least once a quarter. The Swedish banks already report this measure for all currencies together and separately in euros and US dollars.

Supplementing the present reporting with the short-term liquidity measure in Swedish kronor would provide a more complete view of the Swedish banks' liquidity risks in various currencies. As yet, none of the four major banks has reported the measure in Swedish kronor.

In light of the vulnerabilities in the structure of the Swedish banking system, the Riksbank maintained its earlier recommendation that the major Swedish banks ensure that they have core Tier 1 capital ratios of at least 12 per cent by 1 January 2015. The Riksbank also repeated its recommendation that the major Swedish banks should reduce their structural liquidity risks and approach the minimum level of 100 per cent in the structural liquidity measure (NSFR). The Riksbank considered that the potential for the major Swedish banks to reduce their structural liquidity risks was good due to their ability to obtain funding for longer maturities and for lower costs than many other European banks. So far, only one of the major Swedish banks has publicly reported its structural liquidity measure. The Riksbank therefore also repeated its recommendation that the major Swedish banks should report this measure at least once a quarter.

Follow-up

The Swedish financial system was able to maintain its functions well in 2013.

Unease on the financial markets in the euro area dampened over the year and government bond yields issued by countries with sovereign debt problems decreased. This was partly because the ECB purchased government bonds issued by these countries on the secondary market. In addition, the ECB continued to provide the European banking system with liquidity. For example, the ECB offered the euro area's banks unlimited loans at a low interest rate against collateral.

The Swedish banks had good access to wholesale funding and interest in the

Network with a focus on IT security

banks' covered bonds at longer maturities continued to increase over the year. This meant that the banks' funding costs for longer maturities decreased. In this respect, the Swedish banks did not have any problems providing households and companies with credit. Lending to households and companies continued to increase over the year. The financial infrastructure functioned well over the year, even though slightly more disruptions than usual were reported in the central payment system RIX.

The major Swedish banks had core Tier 1 capital ratios of at least 10 per cent on 1 January 2013, in line with the Riksbank's recommendation. Their structural liquidity risks decreased slightly over the year, but the structural liquidity measure (NSFR) was still below 100 per cent. The major banks' public reporting of the structural liquidity measure had not improved, with only one of the four major banks reporting this measure.

The banks included in the Stibor panel and the Swedish Bankers' Association made significant progress in reforming the framework for the Stibor reference rate. During the year, the Swedish Bankers' Association took official responsibility for the Stibor framework at the same time as a new framework was published. The new framework for Stibor established an organisational structure for the Swedish Bankers' Association for decision making and case management for Stibor, including clear conditions for participants in the Stibor panel. The Swedish Bankers' Association also introduced binding commitments for the Stibor banks to trade at their stated Stibor rates on request. In addition, transparency surrounding the framework and other important information increased. The board of the Swedish Bankers' Association also resolved to introduce a requirement for external auditing of the Stibor framework.

The RIX payment system

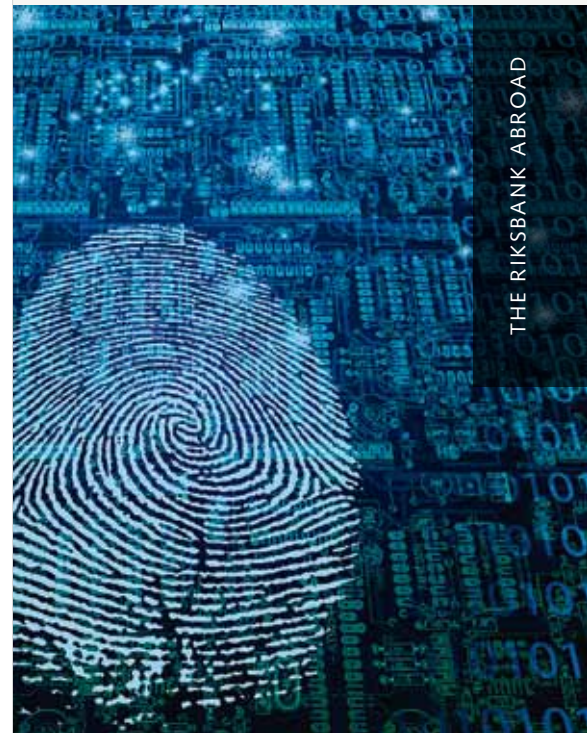
The Sveriges Riksbank Act states that the Riksbank shall promote a safe and efficient payment system. One way of contributing to this is to provide a system that makes it easier for the market participants to carry out mutual financial transfers without credit or liquidity risks. The RIX payment system 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 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



THE RIKSBANK ABROAD

INFORMATION AND IT SECURITY covers many areas and the work is easier if one has a large network for cooperation. Ian Vitek at the Riksbank's Risk Division is a member of the Working Party on Security Issues, WPSI, along with 15 colleagues from other central banks. The WPSI is a sub-group to the Group of Computer Experts, G10, which is part of the Bank for International Settlements, BIS. The group meets twice a year to share experiences of IT security incidents and ongoing information security projects. They also discuss the best ways of identifying weaknesses and protecting against threats, work that is both educational and extremely interesting.

The Risk Division also takes part in the Security and Risk Management Working Group, SRM-WG, which is part of the ESCB cooperation. There is an exchange of information here, too, but the group also works on more practical matters such as drafting joint regulations for information and IT security.



Ian Vitek
 Information Security
 Officer at the General
 Secretariat

“If you don't have good business intelligence you can easily focus on the wrong things”

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 on the participants' accounts in the Riksbank are directly linked to the repo rate. 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, provides credits for extraordinary situations, and pays 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. Euro-clear Sweden manages the settlement of securities transactions; in some of these securities transactions, the Dutch clearing company EMCF is included as a central counterparty. NASDAQ OMX is a Swedish central counterparty that manages the settlement of transactions in derivative products, 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 plays a central role in the Swedish financial system. The turnover in RIX in about eight 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; furthermore, the Riksbank stands for the cost of the functions used to implement monetary policy.

Activities in 2013

The Riksbank conducted several exercises, both independently and together with the participants, to ensure that contingency procedures will work well 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 and in an exercise arranged by FSPOS. In addition, in 2013, the Riksbank continued to inquire into the need and the alternatives for a solution that will offer the RIX participants access to a functioning payment system even if operations at the Riksbank's normal site were to cease. Such a solution needs to take account of the changes arising as a consequence of an external supplier taking over parts of the Riksbank's IT operations (see the section "Organisation and management"). As the changeover to the new supplier's facilities was not fully implemented in 2013, the inquiry will not be completed until 2014.

In the autumn of 2012, the Riksbank decided on new principles for collateral for credit in the Riksbank. Among other changes, these include limitations to the possibility of using own covered bonds and other securities issued by credit institutions and that Asset-Backed Securities will no longer be accepted. These new principles entered into force in April 2013. Certain transitional regulations mean that they will not enter fully into force until July 2014. The Riksbank also initiated the procurement of a new system for collateral management during the year.

At the close of the year, there were a total of 25 participants in system.

On average, RIX handled 15 324 transactions per day in 2013. This is an increase of 6 per cent compared with the previous year. The average transaction amounted to around SEK 29 million.

The average daily turnover was around SEK 450 billion. This implies a decrease of 10 per cent compared with the previous year.

On average, the RIX participants had a credit facility of around SEK 143 billion during the year, which is an increase 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 62 per cent of this credit facility. At the close of 2013, covered bonds comprised 79 per cent of the value of all collateral pledged to the Riksbank (see Chart 15).

Follow-up

The Riksbank's targets for the RIX payment system were not met in 2013. During the year, there were three disruptions affecting the formal availability of the system. It is important to avoid such disruptions, as they can have severe consequences for the participants. However, their actual consequences are dependent on the length and timing of the disruption.

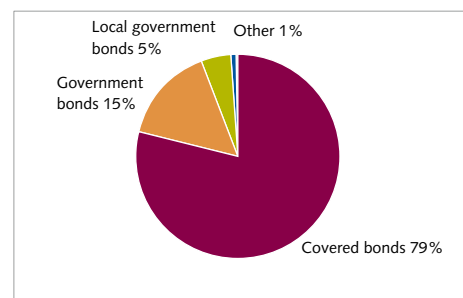
The most serious disruption meant that RIX did not function for 360 minutes. It was caused by two faults in the technical RIX system. One fault triggered the disruption and the other fault prevented the system from being restarted. These technical faults have been attended to.

Another disruption affected the RIX system in conjunction with faults in the Riksbank's network. This disruption meant that, for just over nine hours, the participants had no access to the application allowing them to see balances and make manual transfers. However, for most of this time, the RIX system itself functioned, albeit with an interruption of 92 minutes.

A further serious disruption also affected the application that the participants can use to see balances and make manual transactions, meaning, in this case too, that the application was unavailable for just over nine hours. This disruption only had a minor impact on formal availability. The disruption was caused by a certificate change in the Riksbank's data system.

Chart 15

Collateral value pledged for credit in RIX at the end of 2013, by type of security

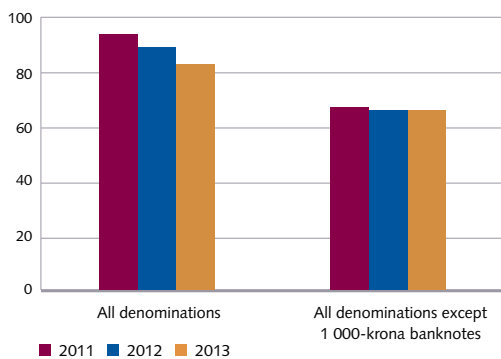


Note. The total value of collateral pledged for credit in RIX amounted to SEK 127 billion on 31 December 2013.

Source: The Riksbank.

Chart 16

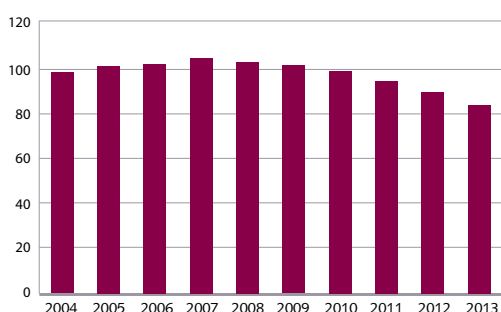
Average value of banknotes in circulation 2011–2013, SEK billion



Source: The Riksbank.

Chart 17

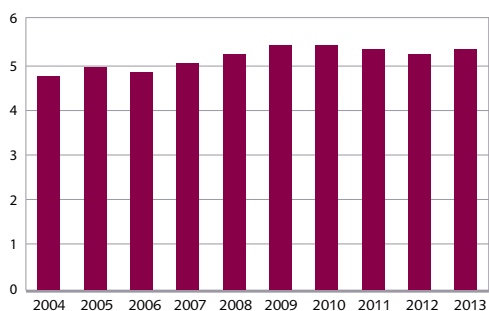
Average value of banknotes in circulation, SEK billion



Source: The Riksbank.

Chart 18

Average value of coins in circulation, SEK billion



Note. The figures in the chart do not include the value of commemorative coins.

Source: The Riksbank.

In the latter two disruptions, the Riksbank chose not to immediately make changes in the technical system so as to avoid any risk that the RIX system itself would become unavailable during the period in which important payments are made. This meant that the period in which the participants' application was unavailable was longer than it would have been if the changes had been made immediately.

All in all, the disruptions meant that RIX was available for 99.70 per cent of the time when payments were being handled, which means that the availability target was not met. During the year, there were also twelve minor incidents in RIX that had limited consequences for the participants.

The cost of the operations was SEK 57 million, 115 per cent of which was covered by fees. This means that operations in 2013 fully covered their costs. Over the three-year period 2011–2013, cost coverage was 111 per cent.

In 2013, the Riksbank carried out a client survey among the RIX participants. According to this survey, 94 per cent of participants were satisfied with RIX. Those satisfied corresponded to 100 per cent of the transaction volume.

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.

The Riksbank provides cash to the banks, who then distribute the cash to the retail sector and the public via their 16 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 2013

During the year, the Riksbank continued its work of providing banknotes and coins to the banks and following the development of the value of cash in circulation. The Riksbank also worked on preparing for the upcoming banknote and coin changeover and on providing information on the withdrawal of the older versions of the 50- and 1 000-krona banknotes at the end of the year.

Development in value of cash in circulation

The total value of cash in circulation was SEK 86 billion at year-end 2013 (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. 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. The average value amounted to SEK 88 billion in 2013.

The large reduction of the amount of cash in circulation between 2012 and 2013 was due to the decreasing number of 1 000-krona banknotes. The

number of banknotes of this denomination has been decreasing for many years and the number of 1 000-krona banknotes more than halved in 2013. The reason for the substantial reduction over the last year is that the older version of the 1 000-krona banknote ceased to be legal tender as of the end of 2013. However, the amount of banknotes of other denominations has remained at a relatively constant level over the last three years (see Chart 16).

The most common banknote denomination is the 500-krona banknote. It comprised 32 per cent of the total number of banknotes and accounted for 65 per cent of the average value of the banknotes in circulation, which amounted to SEK 83 billion in 2013 (see Chart 17). At the end of the year, the value of banknotes was SEK 80 billion (see Table 2).

The average value of the coins in circulation during the year amounted to SEK 5 billion (see Chart 18). At the end of the year, the value of coins was also SEK 5 billion (see Table 2). The most common denomination of coin is the one-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.

Table 2. Value of banknotes and coins in circulation, SEK billion

	2009	2010	2011	2012	2013
Total value on 31 December	111	105	100	96	86
Banknotes	105	100	95	91	80
Coins	6	5	5	5	5
Total value, average during the year	106	103	99	94	88
Banknotes	100	98	94	89	83
Coins (excluding commemorative coins)	5	5	5	5	5

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

Source: The Riksbank.

Continued work on new banknotes and coins

In 2013, the Riksbank continued its preparations for the banknote and coin changeover in the period 2015–2017, according to the plan adopted by the Riksbank in 2012. According to this plan, the banknotes and coins will be replaced in two stages as recommended by the cash market agents.

Over the year, the Riksbank concluded work on the agreements with the copyright holders for the images and symbols that will be used on the new banknotes. In conjunction with this, the image of Dag Hammarskjöld on the 1 000-krona banknote has been changed for a new picture of him (see Figure 2).

In March 2013, the General Council of the Riksbank decided on the mini- and microtexts to be used on the new banknotes. These texts, which will be interwoven in the banknotes motifs, will act as extra security features and will help to make the banknotes more difficult to counterfeit. The texts are linked to the individuals portrayed on the respective banknotes.

In 2012, the General Council approved the principal design of the new banknote series and, in 2013, it decided on the final design of the banknotes.

Over the year, the Riksbank also worked on ensuring that the new banknotes and coins will work in automated cash handling.

In 2013, the Riksbank carried out the information campaign “Check Your Money!” as, after 31 December 2013, it would no longer be possible to pay using the older versions of the 50- and 1 000-krona banknotes without foil strip (see Figure 3). The reason these banknotes became invalid is that there is a need to reduce the number of banknotes and the number of versions of banknotes prior to the major banknote and coin changeover, which will start in

Figure 2

Artistic starting point for the new 1 000-krona banknote featuring Dag Hammarskjöld



Source: The Riksbank.

Figure 3

Banknotes invalid after 31 December 2013



Banknotes valid after 31 December 2013



Source: The Riksbank.

Figure 4

Specially-minted one-krona coin, 2013



Source: The Riksbank.

New banknotes tested in Copenhagen



COPENHAGEN PLAYS AN IMPORTANT role in the work on developing Sweden's new banknotes. This city is home to a central bank-owned test centre that has the task of buying in equipment and materials for use in testing security features on banknotes.

The Riksbank makes use of the centre for a number of weeks every year to ensure that Sweden has one of the world's most secure banknote series. Both the design of the banknotes and their security features are tested to create notes that are difficult to counterfeit. The research work on the new banknotes will continue in the coming years.

Every year all of the members of the 14 central banks behind the test centre meet up. They then discuss different techniques and materials and exchange experiences. This cooperation is important in helping the Riksbank build up knowledge of banknotes and banknote technology.



*Mårten Gomer
Senior officer at the
Administration Department*

“Swedish banknotes shall have world-class standard with regard to security”

2015. The withdrawal of these banknotes is in accordance with the wishes of banks, cash-in-transit companies and the retail trade to facilitate the approaching banknote changeover. The Riksbank issued public information announcing that it would no longer be possible to make payments with these banknotes, including sending a pamphlet to every household in Sweden.

In 2013, the Riksbank issued a one-krona coin with a special design on its reverse. The coin commemorated the 40th anniversary of Sweden's king, Carl XVI Gustaf, as head of state (see Figure 4).

The construction of the Riksbank's new office for cash handling was completed in 2013. The Riksbank is planning to put the new office into operation at the start of 2014. The Riksbank is not planning to store and handle coins in its new premises. Consequently, during the year, an agreement was signed with Loomis Sverige AB, which has been storing, providing and receiving coins on behalf of the Riksbank since November 2013.

In 2013, the Riksbank carried out a public procurement for a supplier for the manufacture of coins. The Dutch mint, Koninklijke Nederlandse Munt, was the company given the assignment of manufacturing Swedish coins as from 2014.

Follow-up

There was little counterfeiting of Swedish banknotes in 2013 (see Table 3). However, the value of the counterfeit banknotes removed from circulation amounted to SEK 347 070, which is an increase compared with 2012. The total number of counterfeit banknotes removed from circulation amounted to 1 048, which is more than in 2012. Almost half of the counterfeits were 20-krona banknotes. The second commonest counterfeit was the 1 000-krona banknote, mainly the version of the 1 000-krona banknote that became invalid at the end of 2013.

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 2013. One issue taken up by the Board was the Government inquiry into cash handling, the aims of which included surveying and analysing all stages and participants in cash handling and identifying shortcomings in the regulations for cash handling. Another issue discussed by the Cash Handling Advisory Board was the changeover of banknotes and coins.

In the light of the discussions at the Board meeting and among its working groups, the Riksbank assessed that cash handling was functioning smoothly in 2013, that the quality of the banknotes was good and that there was substantial confidence in banknotes and coins as a means of payment. Over the year, the Riksbank also took note of an investigation into Swedish attitudes towards cash. The result of this investigation showed that there is great confidence in cash as a means of payment.

Table 3. The number of banknotes and coins

	2009	2010	2011	2012	2013
Number of banknotes in circulation (millions)	354	351	343	336	334
Number of coins in circulation (millions)	2 236	2 248	1 989	1 889	1 911
Number of counterfeited banknotes	1 064	1 503	562	533	1 048

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.

Asset management

The market value of the Riksbank's financial assets was SEK 430.0 billion at the end of 2013. The total return was SEK –19.0 billion, while return excluding exchange rate effects was SEK –2.7 billion. The vast majority of the assets (90 per cent) was made up of the gold and foreign exchange reserves. The balance sheet total increased over the year by SEK 85.9 billion to SEK 431.6 billion, primarily due to the implementation of the Riksbank's decision at the end of 2012 to increase the foreign exchange reserve by the equivalent of SEK 100 billion. At the end of the year, Swedish banknotes and coins in circulation made up 20 per cent of the liabilities side.

The Riksbank manages financial assets to ensure that it can fulfil its statutory objective and perform its tasks of implementing 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 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, securities issued in Swedish kronor 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 its own 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.

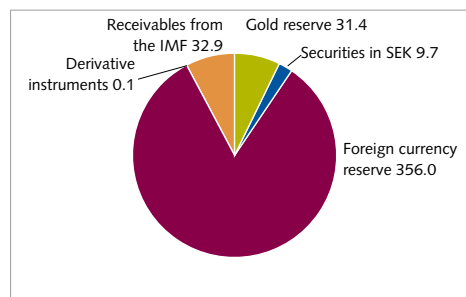
Being able to provide temporary liquidity assistance in foreign currency when needed and at short notice is the most important consideration for the composition of the gold and foreign currency reserve. Consequently, most of the foreign exchange reserve is maintained in those currencies in which emergency 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 the monetary policy repos. However, nowadays the banking

Chart 19

The Riksbank's financial assets at the end of 2013, SEK billion

Note. The figures in the chart show the market value of the Riksbank's financial assets including accrued interest.

Source: The Riksbank.

system has a liquidity surplus that the Riksbank borrows either by issuing Riksbank Certificates or via overnight loans, known as fine-tuning operations. 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 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 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 19 shows the composition of the Riksbank's financial assets at the end of 2013.

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 risk, market risk and credit risk. 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 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 as well as if an error arises in the technical systems (see also the box "Risks in the Riksbank's activities").

Activities in 2013

Over the year, the financial markets were characterised by expectations of better economic development in the United States and expectations of a tapering of the US central bank's asset purchases, among other things. As a consequence, market rates for US government bonds rose, which in turn meant that the value of the

overall holdings of bonds in the Riksbank's foreign exchange reserve decreased. In addition, on average, the Swedish krona appreciated against the currencies to which the foreign exchange reserve was exposed. This meant that the value of the gold and foreign exchange reserves decreased further when expressed in Swedish kronor.

In 2013, the Riksbank continued to purchase securities issued by the Swedish government in Swedish kronor, in accordance with the decision to obtain a securities portfolio (see the section "Maintaining the value of money – price stability"). These purchases were funded by the sale of parts of the foreign exchange reserve's assets, so they did not affect the Riksbank's balance sheet total or the banking system's liquidity. The redistribution from foreign currency to Swedish kronor was concluded in the second six-month period when the agreed portfolio size was reached.

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

Management of the gold and foreign exchange reserves

In accordance with the decision taken by the Riksbank at the end of 2012 to further strengthen the foreign exchange reserve by the equivalent of SEK 100 billion, the Riksbank borrowed further US dollars and euros from the Swedish National Debt Office at the start of 2013. In conjunction with this, the proportion of US securities in the foreign exchange reserve was increased. The Riksbank's euro assets were invested in a larger number of countries than previously. New investments were made in Belgian and Austrian securities at the same time as the Dutch holdings were increased. The proportion of euro assets temporarily increased in conjunction with the strengthening of the foreign exchange reserve but, by the end of the year, the proportion of euro assets was held unchanged from the previous year. At the end of the year, the assets in US dollars and euros amounted to 46 per cent and 34 per cent respectively of the gold and foreign exchange reserves (see Chart 20).

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 entailed British and Canadian government bonds, as well as Australian state and federal government bonds. Over the year, the Riksbank increased the proportion of Australian assets in the foreign currency reserve and made new investments in the Canadian market in bonds issued by Canadian provinces.

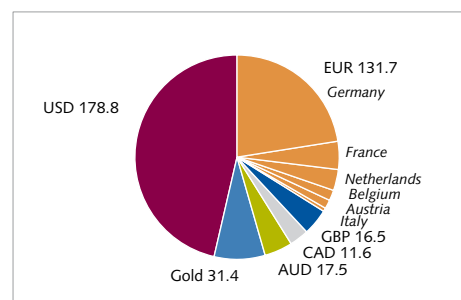
As the Riksbank's assets mainly consist of US dollars and euro, the Bank's equity capital is affected by the way the value of these two currencies develops in relation to the Swedish krona. However, the effect on equity capital is counteracted by the Riksbank also having liabilities in US dollars and euro.

Over the year, the proportion of currency loans in US dollars increased as the Riksbank refinanced loans in euros with loans in US dollars. This refinancing involved borrowing dollars that were converted into euros and then used to settle due loans in euros. As the proportion of dollar loans increased, currency exposure against the US dollar decreased. Exposure to the dollar also decreased when the Riksbank converted US dollars into Australian and Canadian dollars and invested in Australian and Canadian securities. To further reduce the effect of exchange rate changes, some of the Riksbank's exposure to US dollars was converted to exposure to Norwegian kroner with the aid of derivative instruments. Chart 21 shows the Riksbank's currency exposures at the end of the year.

Due to the low interest rate environment internationally and the increased risk of an increase in interest rates, the Riksbank decided over the year to reduce the interest-rate sensitivity of the foreign exchange reserve, measured as modified duration (see Chart 22). A modified duration of 3 means that the value of the foreign exchange reserve would fall by almost 3 per cent if interest rates increased by 1 percentage point, and the reverse if interest rates were to fall by 1 percentage point.

Chart 20

Composition of the foreign exchange reserve at the end of 2013, SEK billion

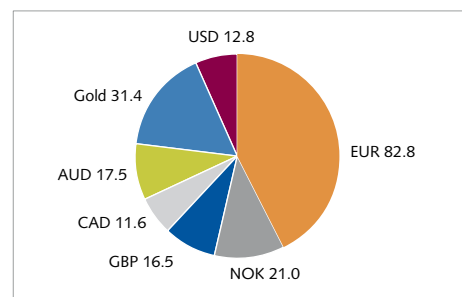


Note. The figures in the chart show the market value of the gold and foreign exchange reserves, including accrued interest.

Source: The Riksbank.

Chart 21

The Riksbank's foreign exchange exposure at the end of 2013, SEK billion



Note. The figures in the chart show the Riksbank's foreign currency exposure including accrued interest.

Source: The Riksbank.

Chart 22

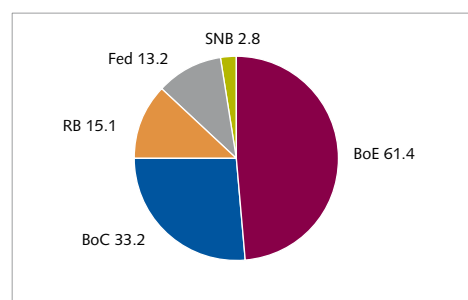
Modified duration of the foreign exchange reserve 2013



Source: The Riksbank.

Chart 23

Storage of the gold reserve at the end of 2013, tonnes



Source: The Riksbank.

Prior to 2013, the Riksbank decided that its holdings of gold, amounting to 125.7 tonnes, should remain unchanged for the year. Information on the Riksbank's holdings of gold and their value has been public for a long time, but for reasons of confidentiality no information has been given on where the gold is stored. After consulting the central banks involved, the Riksbank decided during the year to publicly announce that the Riksbank's gold reserve is stored with the central banks in the United Kingdom (the Bank of England), Canada (the Bank of Canada), the United States (the Federal Reserve Bank of New York), Switzerland (the Swiss National Bank) and at the Riksbank (see Chart 23). The Riksbank also stored gold on behalf of other parties in 2013.

In 2013, the Riksbank contributed to the IMF's loans to Greece and Ireland by injecting capital equivalent to SEK 1 079 million into the International Monetary Fund. Due to repayments from Belarus, Ireland, Lebanon, Pakistan, Romania, Saint Kitts and Nevis as well as Seychelles, the Riksbank received capital equivalent to SEK 2 484 million back. Under the framework of the New Arrangement to Borrow (NAB), the Riksbank lent the equivalent of SEK 938 million to the IMF which, in turn, lent these funds to Cyprus, Greece, Ireland and Portugal. Under the same agreement, the Riksbank received repayments from Belarus and Pakistan equivalent to SEK 475 million.

In addition to these transactions, the Riksbank sold a total of 41 million Special Drawing Rights (SDR) on behalf of the IMF to Georgia against payment in US dollars. In addition, the Riksbank purchased a total of SDR 59 million from the Bank for International Settlements (BIS) and Trinidad and Tobago against payment in US dollars.

All in all, the Riksbank's transactions with the IMF meant that Sweden's remaining commitments to the IMF increased by SEK 1 081 million (see Table 4). Sweden's financial commitments towards the International Monetary Fund also increased in February 2013, when the Riksbank signed a new agreement to lend the equivalent of SEK 66.3 billion if necessary (see the box "International commitments" in the section "A safe and efficient payment mechanism").

Table 4. Sweden's financial obligations to the IMF 2013, SDR million and SEK million respectively

	SDR	SEK
Sweden's maximum obligation	18 033	178 528
Used at the beginning of the year	-1 162	-11 505
Change over the year	109	1 081
Used at the end of the year	-1 053	-10 424
Remaining obligations	16 980	168 104

Note. The SDR amount has been converted at the exchange rate applying at year-end.

Source: The Riksbank.

Follow-up

At the end of 2013, the value of the Riksbank's financial assets amounted to SEK 430.0 billion, which is SEK 85.8 billion more than at the end of 2012. The change is largely due to the strengthening of the foreign exchange reserve at the start of the year. The total return amounted to SEK -19.0 billion. The monetary policy transactions in 2013 consisted of deposits from the banking system via fine-tuning operations and Riksbank Certificates. Deposits from the banking system amounted to SEK 46.1 billion at year-end, which is an increase of SEK 17.3 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 10.7 billion and by the Riksbank transferring SEK 6.8 billion to the Treasury in April 2013 in accordance with a decision by the Riksdag on the allocation of the Riksbank's profit for 2012. The Riksbank's interest expenditure for total deposits from the banking system amounted to SEK 396 million at the end of the year (see Table 5).

Over the year, the Riksbank purchased securities in Swedish kronor for a nominal value of SEK 6.1 billion. At the end of the year, the market value of the Riksbank's holdings of such securities was SEK 9.7 billion and the return amounted to SEK –103 million.

Table 5. Return on the Riksbank's asset management in 2013, SEK million

	Assets	Liabilities	Return	Return excl. exchange rate effects
Gold and foreign exchange reserve incl. the IMF	420 290	216 060	-17 948	-2 504
Gold reserve	31 425	-	-12 294	-
Foreign exchange reserve	355 986	193 791	-5 323	-2 512
The IMF	32 879	22 269	-331	8
Derivative instruments	57	197	-577	282
Monetary policy operations	-	46 081	-396	-396
Fine-tuning operations	-	21 085	-197	-197
Riksbank Certificates	-	24 996	-199	-199
Securities in SEK	9 699	-	-103	-103
Total	430 046	262 339	-19 025	-2 721

Source: The Riksbank.

Management of the gold and foreign exchange reserves

The market value of the gold and foreign exchange reserve was SEK 398.0 billion at the end of the year. The reserves consisted of assets in foreign currency at a value of SEK 356.0 billion, gold at a value of SEK 31.4 billion and net receivables from the IMF amounting to SEK 10.6 billion (see Table 5).

The return on the foreign exchange reserve amounted to SEK –5.3 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 2.2 per cent over the year. The total exchange rate effect amounted to SEK –2.8 billion. Interest rates rose over the year on most of the markets in which the Riksbank had assets invested. The return excluding foreign exchange effects thus amounted to SEK –2.5 billion, or –1.1 per cent.

The price of gold decreased in 2013 (see Chart 24). The price of gold is normally measured in US dollars, and expressed in dollars it decreased by 27.8 per cent. As the dollar also weakened against the Swedish krona, the price of gold in kronor decreased by 28.1 per cent. The value of the Riksbank's holdings of gold thus decreased by SEK 12.3 billion over the year.

At year-end, the Riksbank's liability to the Swedish National Debt Office amounted to SEK 193.8 billion, which is SEK 105.1 billion more than at the start of the year (see Table 5). At year-end, loans in US dollar and euros amounted to 75 per cent and 25 per cent respectively of this liability.

The value of the Riksbank's receivables from the IMF was SEK 32.9 billion at the end of the year, while the value of the Bank's liabilities to the IMF was SEK 22.3 billion. The return on the net receivables amounted to SEK 8 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 negative and entailed a debt of SEK 140 million. The return on these derivative instruments excluding exchange rate effects amounted to SEK 282 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

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 return on the Riksbank's assets that correspond to banknotes and coins in circulation less the Riksbank's total costs for cash management is known as seignorage.

It is not possible to say exactly which assets correspond to banknotes and coins as no assets are linked to the amount of banknotes and coins in circulation. This means that seignorage cannot be calculated with precision. To manage this, the Riksbank makes a standardised calculation of the return by multiplying the proportion of the balance sheet total made up by the volume of banknotes and coins by the realised return on all assets. The cost of cash handling is then subtracted from this standardised calculation of return. To avoid negative seignorage resulting from unrealised write-downs, only realised return (that is interest income and realised price, exchange rate and gold price effects) is included in the calculation.

Due to the financial crisis, the Riksbank made an exception to the accepted calculation principles for the years 2009–2011. For these years, the extraordinary measures taken by the Riksbank and the strengthening of the foreign exchange reserve were excluded, partly because they were not attributable to the issue of banknotes and coins and partly because they had a significant effect on the calculation. The strengthening of the foreign exchange reserve was included in the calculation after 2011 as it was no longer considered to be an extraordinary measure.

The Riksbank's estimated seignorage for 2013 was SEK 0.8 billion, which corresponds to a return of 0.9 per cent.

Chart 24

Gold price movements 2013

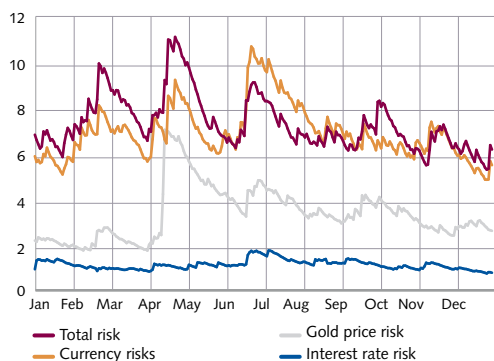


Note. One troy ounce is equivalent to about 31 grammes.

Source: Reuters.

Chart 25

Value-at-Risk for the Riksbank's financial assets excluding receivables from the IMF 2013, SEK billion

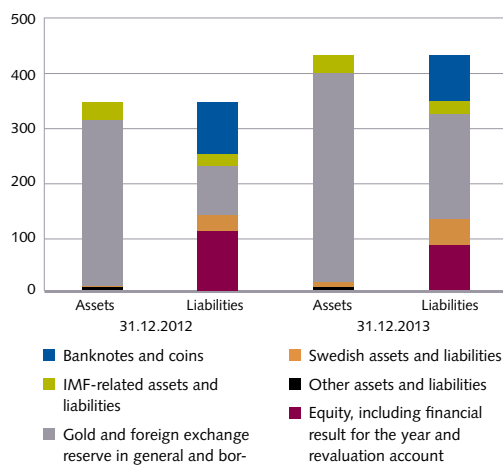


Note. Seen over the whole year, exchange rate fluctuations made the greatest contribution to total risk. Total risk was periodically lower than currency risk as other risks counteracted currency risk.

Source: The Riksbank.

Chart 26

The Riksbank's balance sheet on 31 December 2012 and 2013, SEK billion



Source: The Riksbank.

return on a so called 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. In 2013, the reference portfolio therefore consisted of 60 per cent US and 40 per cent German government bonds, whose interest-rate sensitivity, measured as modified duration, was 4.0.

The return on the foreign exchange reserve excluding exchange rate effects amounted to -1.1 per cent during the year. The corresponding return on the reference portfolio amounted to -2.0 per cent. As the foreign exchange reserve had a lower interest-rate sensitivity than the reference portfolio, the assets in the foreign exchange reserve did not decrease in value as much when market rates rose during the year. At the same time, the lower sensitivity to interest rates in the foreign exchange reserve caused 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 1.6 per cent, measured as a standard deviation without taking into account foreign exchange effects, while the risk in the reference portfolio amounted to 2.3 per cent.

If the return is adjusted to take these risks into account, the return on the foreign exchange reserve is higher than the return on the reference portfolio. Measured as a Sharpe ratio, the risk-adjusted return on the foreign exchange reserve amounted to -0.7, while the corresponding value for the reference portfolio was -0.9.

Market risks for financial assets

Over the year, the reduced interest-rate sensitivity in the foreign exchange reserve and the reduced currency exposure against the US dollar contributed towards reducing market risk for the Riksbank's financial assets. Market risk for the assets, measured as VaR with a confidence level of 99 per cent and a period of 10 days, was slightly lower than in the previous year and amounted, at most, to 11.1 billion kronor (see Chart 25). Market risk normally increases in periods of unease on the financial markets. During the financial crisis of 2007-2009, the gold and foreign exchange reserves' VaR reached a maximum of SEK 25.9 billion.

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. The costs of asset management amounted to SEK 93 million over the year, which can be compared with SEK 90 million in 2012 (see the section "Balance sheet and profit and loss account").

Composition of the balance sheet

Many of the measures taken by the Riksbank influence its balance sheet. This means that the size and composition of the balance sheet can vary considerably. For example, in 2008 and 2009, the Riksbank's extraordinary measures meant that the size of the Riksbank's balance sheet (the balance sheet total, which is the total value of the Riksbank's assets) surged, exceeding figures for 2013. The Riksbank has no explicit policy for the composition of the balance sheet. The composition of the Riksbank's balance sheet is a consequence of the operations conducted by the Riksbank. Chart 26 shows the composition at the end of 2012 and 2013.

The balance sheet total amounted to SEK 431.6 billion at year-end 2013. The vast majority of the Riksbank's assets (98 per cent) was made up of the gold and foreign currency reserves, 8 per cent of which were receivables from the IMF. The largest part of the liabilities side (the Riksbank's liabilities and equity), 45 per cent,

was made up of borrowing for the currency reserve from the Swedish National Debt Office. 11 per cent of the liabilities side consisted of Swedish liabilities, primarily to the Riksbank's counterparties in the form of fine-tuning operations and Riksbank Certificates. These assets and liabilities are reported in more detail in the section "Asset management". Banknotes and coins made up 20 per cent of the Riksbank's liabilities side, while the revaluation accounts and equity formed 19 per cent. The item "Banknotes and coins" is described in more detail in the section "A safe and efficient payment mechanism". Other assets and liabilities are reported in more detail in the section "Balance sheet and profit and loss account".

Activities in 2013

The balance sheet total increased over the year by SEK 85.9 billion to SEK 431.6 billion, primarily due to the implementation of the Riksbank's decision at the end of 2012 to increase the foreign exchange reserve by the equivalent of SEK 100 billion. The amount of banknotes and coins in circulation continued to decrease (see the section "A safe and efficient payment mechanism"), which led the liquidity surplus in Swedish kronor in the banking system to increase to the equivalent of 11 per cent of the balance sheet total by year-end 2013.

To prevent the build-up of the Swedish securities portfolio from leading to an equivalent increase of the banking system's surplus in Swedish kronor, the Riksbank sold foreign securities from the foreign exchange reserve and converted payment for these into Swedish kronor. These kronor were then used for the purchase of Swedish securities (see also the section "Maintaining the value of money – price stability").

Over the year, the Riksbank also analysed the possible development of net income over the next five years in light of the effects that the development of international interest rates may have on the Riksbank's holdings of foreign securities. The low interest rates presently prevailing mean that the current yield of securities is low. If interest rates remain low, current yield will remain low. If interest rates instead start to rise, the current yield will gradually rise, although the value of the Riksbank's foreign securities will simultaneously sink, impairing the yield of asset management. The analysis thus shows that, over the next five-year period, the Riksbank is expected to achieve a result that is significantly lower than over the previous five-year period, regardless of whether interest rates remain low or rise. In the latter case with rising interest rates, the Riksbank may show significant losses over the short term. If this occurs, the Riksbank's possibilities for making dividend payments to the Government will be limited.

The Riksbank also submitted a consultation response to the report on the Riksbank's financial independence and balance sheet (SOU 2013:9) to the Government.

The Riksbank's consultation response to the report "The Riksbank's financial independence and balance sheet"

In 2011, the Government decided to appoint a special commission of inquiry to review how experiences from the financial crisis have affected the view of the Riksbank's balance sheet. Its remit also included investigating the size of the foreign exchange reserve and its funding and determining an appropriate size for the Riksbank's equity. In January 2013, the inquiry submitted the report "The Riksbank's financial independence and balance sheet" (SOU 2013:9) to the Government.

The commission proposes that the Riksbank be assured by law of a capital of SEK 75 billion, free of charge and protected against inflation (cost-free capital). Of this cost-free capital, SEK 30 billion would be made up of equity and the rest of banknotes and coins in circulation. Under the commission's proposal, dividends (that is a reduction of equity) would be allowed as long as it does not lead to the fixed level of equity becoming jeopardised. The commission furthermore proposes that equity be

Balance sheet items are interrelated

When the Riksbank conducts financial transactions, the balance sheet is affected. Exactly how it is affected depends on the nature of the transaction, as different transactions affect different balance sheet items. However, more than one item is always affected, as the items are interrelated. The composition and size of the balance sheet can also be influenced by factors beyond the Riksbank's control. Two examples follow.

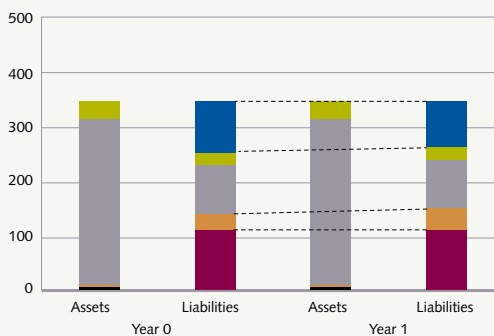
A reduction of the amount of banknotes and coins in circulation means that the banks have returned banknotes and coins to the Riksbank and been paid for this via deposits in their accounts in RIX. The consequence of this is that the liabilities item banknotes and coins decreases at the same time as the liability items referring to liabilities in Swedish kronor to the Riksbank's counterparties (deposits via fine-tuning operations or Riksbank Certificates) increase to a corresponding degree (see Chart 27). If the banking system has a surplus of Swedish kronor, as has been the case since the autumn of 2008, a reduction of banknotes and coins in circulation will not, in itself, affect the size of the balance sheet, but it will mean an increase in the Riksbank's interest-bearing liabilities.

Another example concerns the Riksbank's foreign exchange reserve, where the need to maintain reserves depends on the bank's policy tasks and duties. The Riksbank can increase its foreign exchange reserve in two ways, by purchasing or borrowing foreign currency. If the Riksbank purchases foreign currency, it simultaneously sells Swedish kronor by making payments in kronor to the counterparties in the RIX system. This means that the banking system's liquidity surplus in Swedish kronor and the size of the balance sheet increase (see Chart 28). In addition, the Riksbank's exposure towards foreign currency increases, as does the risk that exchange rate fluctuations will affect the Riksbank's net income.

The other way in which the Riksbank can increase its foreign exchange reserve is for the Riksbank to borrow foreign currency from the Swedish National Debt Office which, in turn, borrows that currency on the market. The borrowed currency is then invested in foreign securities that become part of the foreign exchange reserve. This also means that the size of the balance sheet increases, but without currency risk necessarily increasing (see Chart 29). The Riksbank has used this approach to increase the foreign exchange reserve in recent years.

- Banknotes and coins
- Swedish assets and liabilities
- IMF-related assets and liabilities
- Other assets and liabilities
- Gold and foreign exchange reserve in general and borrowing in foreign currencies
- Equity, including financial result for the year and revaluation account

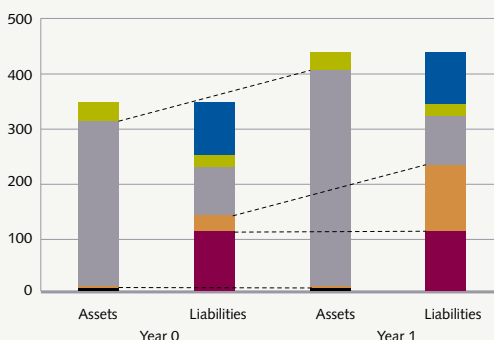
Chart 27 Schematic outline of the connection between banknotes and coins as well as liabilities to counterparties in Swedish kronor, SEK billion



Note. Year 0 shows the Riksbank's balance sheet on 31 December 2012, while Year 1 shows how the balance sheet was affected when the amount of banknotes and coins in circulation decreased in 2013 (other changes in the balance sheet in 2013 are not illustrated in the chart).

Source: The Riksbank.

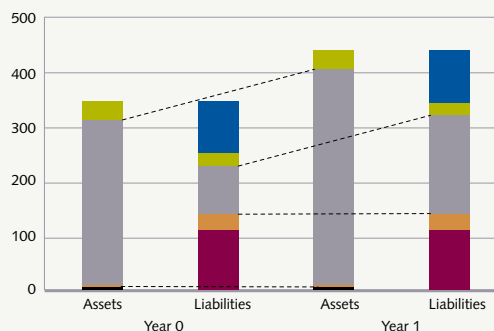
Chart 28 Schematic outline of the effects on the balance sheet if an increase of the foreign exchange reserve is carried out through the purchase of foreign currency, SEK billion



Note. Year 0 shows the Riksbank's balance sheet on 31 December 2012, while Year 1 shows how the balance sheet would look if the increase of the balance sheet that took place in 2013 had been carried out through the purchase of foreign currency (other changes in the balance sheet in 2013 are not illustrated in the chart).

Source: The Riksbank.

Chart 29 Schematic outline of the effects on the balance sheet if an increase of the foreign exchange reserve is carried out through the borrowing of foreign currency, SEK billion



Note. Year 0 shows the Riksbank's balance sheet on 31 December 2012, while Year 1 shows how the balance sheet was affected by the increase of the foreign currency reserve occurring in 2013 (other changes in the balance sheet in 2013 are not illustrated in the chart).

Source: The Riksbank.

A successful visit to New York

protected against losses by retaining profits in the Riksbank until equity has been restored, rather than transferring them to the government. In the event of losses leading to equity falling below SEK 20 billion, capital should be injected by the Government to restore equity. The commission also proposes that the Riksbank be allowed to increase the balance sheet total to SEK 200 billion to retain a greater foreign exchange reserve than is implied by the cost-free capital. It proposes that the ceiling for the balance sheet should be calculated using inflation plus economic growth. If the Riksbank provides liquidity assistance in foreign currency, it should be permitted to restore the foreign exchange reserve through unlimited borrowing of foreign currency. Under exceptional circumstances, the Riksbank should have the possibility of further strengthening the foreign exchange reserve, but this would require a decision by the Riksdag. The commission also sees a need for Swedish banks to pay a charge for the retention of foreign currency in the foreign exchange reserve.

The commission's proposals involve the repayment of capital in an amount of about SEK 73 billion by the Riksbank to the Government and the repayment to the Swedish National Debt Office of existing currency loans in an amount of about SEK 125 billion. All in all, this implies a decrease of the foreign exchange reserve by almost SEK 200 billion.

On 18 June 2013, the Riksbank submitted its consultation response to the commission of inquiry to the Ministry of Finance. The Riksbank welcomed the selection of the Riksbank's financial independence and balance sheet as subject of a commission of inquiry. The Riksbank agreed that a new regulatory framework is needed to secure the Riksbank's financial independence under EU law. In the Riksbank's assessment, there is also a need to secure democratic control of how capital is tied up by the Riksbank. The Riksbank welcomed the commission's stance as regards the fee to be paid by the banks for the Riksbank's retention of foreign currency in the foreign exchange reserve. This would give the banks the incentive to reduce funding risks in foreign currency and would contribute towards covering the costs of the foreign exchange reserve.

However, in its consultation response, the Riksbank argued that the commission had not taken sufficient consideration of the requirements placed by EU law on a financially independent central bank. Both the Riksbank and the commission considered that financial independence means that the Riksbank is to have sufficient resources to be able to carry out its tasks independently, in all situations – even in a crisis. However, the Riksbank did not agree with the commission's proposals for the levels of cost-free capital and a ceiling for the foreign exchange reserve. Furthermore, it considered that the commission's dividend model would hinder adjustment of the Riksbank's equity requirement to rapid international changes. The Riksbank also considered that transfers of capital and dividend payments exceeding the net income for the year should only be made if the Executive Board had granted its consent, as specified by EU law. The Riksbank should also have the right to request that the Swedish National Debt Office borrow the amount that the Riksbank deems necessary, assuming that this decision has been taken after a broad and open preparatory process including consultation with the General Council of the Riksbank, the Ministry of Finance and the Swedish National Debt Office. The Riksbank also rejected the proposed reduction of the foreign exchange reserve via repayment to the Swedish National Debt Office without the Riksbank's consent, as the size of foreign exchange loans is constantly being examined by the Executive Board. The Riksbank wished to establish processes for decisions on equity and the foreign exchange reserve that safeguard democratic transparency and grant the Executive Board flexibility as regards the amounts in question.

The General Council of the Riksbank submitted its own consultation response to the commission of inquiry. Deputy Governors Karolina Ekholm and Martin Flodén entered a joint reservation against the Riksbank's consultation response. They supported the fundamental principles upon which the commission's proposals were based.



THE RIKSBANK ABROAD

THE RIKSBANK REGULARLY visits its custodial banks to examine and assess whether the Riksbank's securities in the currency reserve are stored securely and whether the custodial banks have good internal control. During two days in May, Johan Arveklint and Agneta Granlund visited one of these custodial banks in New York. They met a total of 18 different people there and discussed the questions they had sent to the bank in advance, as well as being given presentations of the activities and organisation of the custodial bank.

The overall assessment is that the Riksbank's currency reserve is being kept in safe and professional custody. In addition to the results of the assessment, this type of visit is very rewarding for both parties. It helps to develop and improve relations when activities and processes are studied in detail during a few intensive days' work.

“Developing and improving international relations”



*Johan Arveklint och Agneta Granlund
 Senior analyst and Head of Back Office
 Division at the Asset Management
 Department.*

Organisation and management

The Riksbank continued to develop its organisation and management with the aim of achieving its vision to be among the best in comparison with other organisations. The main organisational change in 2013 was that parts of the Riksbank's IT operations were outsourced. The strategic plan was complemented with the areas working climate, personnel development and recruitment and communication. The employee survey conducted during the year showed that the Riksbank's employees are motivated and satisfied with their work situation.

In 2013, 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.

Changes in the organisational structure

A number of changes were made in the Riksbank's operations in 2013, the most significant being the outsourcing of parts of the IT operations.

On 1 May 2013, the IT company EVRY took over the IT operations. EVRY is responsible for the operation and support of the Riksbank's IT systems and computers as well as the service desk. These areas of IT operations were outsourced in accordance with the Executive Board's decision that the Riksbank should attain long-term, secure access to IT competence, be better able to vary access to IT resources according to changing operational needs and retain or improve cost-efficiency. In the autumn of 2013, work began on transferring all the IT systems from the Riksbank's data centres to EVRY's data centres and it is expected that this work will be completed in the first quarter of 2014. In connection with the outsourcing, the IT Department was reorganised and now consists of a System Services Division and an IT Services Division.

In early April, a person was employed to coordinate the Riksbank's responsibilities regarding crisis preparedness in the central payment system. The post is located in the Risk Division within the General Secretariat.

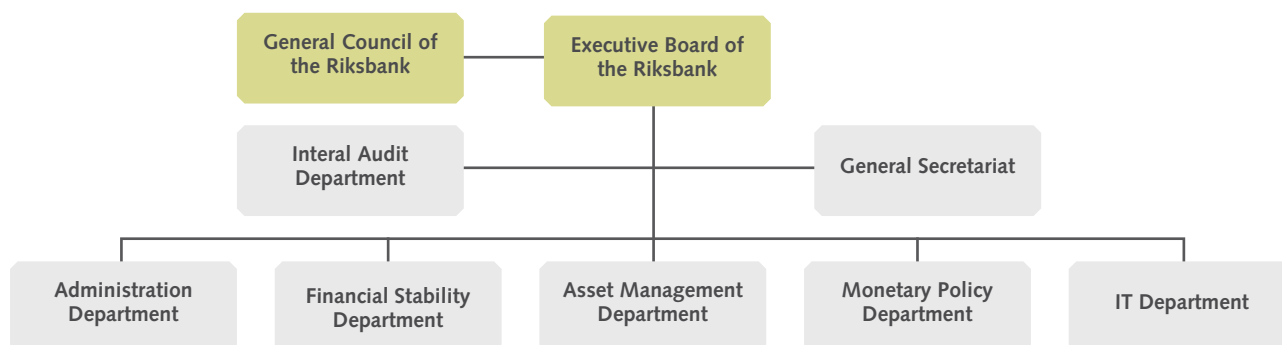
A preliminary study was conducted in 2012 to investigate the need to carry out organisational changes. The study identified many good reasons for conducting review. The organisational review was conducted in 2013 and led to several proposals that will be implemented in 2014.

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.

Figure 5. The Riksbank's organisation in 2013



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 up to 31 August 2013:

Agneta Rönström

Head of Department from 1 September 2013:

Marianne Olsson

Number of full-time equivalents at year-end: 62

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 up to 15 July 2013: *Mattias Persson*

Acting Head with effect from 16 July 2013 to 3 November 2013:

Martin W Johansson

Head of Department from 4 November 2013:

Kasper Roszbach

Number of full-time equivalents at year-end: 66

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: 34

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 transactions 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: 88

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. Together with external suppliers, it is responsible for the operation, maintenance, purchasing, development, change and adaptation of applications and systems, as well as for the PC environment.

Acting Head of Department: *Olof Fredriksson*

Number of full-time equivalents at year-end: 29

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 Riksbank'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: *Anders Vredin*

Number of full-time equivalents at year-end: 46

Risks in the Riksbank's activities

The Riksbank's activities entail both financial and operational risks. The financial risks arise above all in the management of the gold and foreign exchange reserves and are described in more detail in the section "Asset Management".

Operational risks may damage the activities, assets or reputation of the Riksbank and arise as a result of human error or shortcomings, internal processes or IT systems, or are affected by external events. Risks of this type are to be found throughout the Riksbank's operations, both in the course of day-to-day work and in connection with changes. Certain risks are of a more strategic nature and are monitored in order to avoid negative consequences in the longer term.

To succeed in its tasks, it is important that the Riksbank can quickly identify and manage both internal disruptions and external events. This applies to everything from managing changes in potential threats to cash operations or IT support to adjusting processes and systems to new conditions.

The risks that are identified in the Riksbank's activities primarily relate to the handling of confidential information, IT systems, internal processes and dependence on external parties. These risks can above all affect the Riksbank's efficiency and ability to attain its operational goals.

The Riksbank works systematically with risk management on the basis of an established, bank-wide process for operational risks. This process is subject to continuous development and is integrated with operational planning through coordinated processes for follow-up and documentation.

In 2013, the risk level was mainly affected by the outsourcing of parts of the IT activities. However, incident reports during the year did not indicate any significant changes in the risk level compared to 2012. All incidents were managed with the support of the Riksbank's existing procedures.

Activities developed on the basis of a new plan

The strategic plan describes the overall direction of the Riksbank's activities and is a living document that is discussed 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 current strategic plan has ten priorities. These include increasing the integration of the Bank's main tasks – monetary policy and financial stability – on the basis of the experience gained during the financial crisis. After a number of years of change and consolidation in which the Riksbank assessed and rationalised its activities to allow it to devote resources to its main tasks, a new phase of development has begun.

Ahead of 2013, the strategic plan was complemented with three more prioritised areas: working climate, supply of competence and communications. These additions were made because the Riksbank needs to prioritise the continued development of a good working climate, secure the supply of knowledge and expertise in the long term and safeguard confidence by communicating the Riksbank's analyses and decisions.

Internal control

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

The Executive Board is ultimately responsible for internal control 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. In addition, the Risk Division follows up internal control on the basis of the control environment, risk analysis, control mechanisms, information and communication as well as follow-up and reporting.

The Executive Board has also commissioned the Internal Audit Department to carry out an independent evaluation of internal control, including operational risks.

Most indicators point to a satisfactory result in 2013

In 2013, the Riksbank's activities were divided into seven target 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 parts: communication, employees, management and governance, IT, administrative support and service, environment and resources.

In each target area there are one or more indicators that provide a picture of how well the Riksbank is meeting the targets and how well the Riksbank is living up to its vision. One of the indicators is forecasting performance, which is

evaluated by means of comparisons with the performance of other forecasters. Another example is confidence in the work with monetary policy, which among other things is evaluated by means of in-depth interviews with the Riksbank's prioritised target groups.

The Executive Board 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 during the year presenting the status of the indicators, the prioritised action plans, the budget and the risks. In total, 90 indicators were linked to the targets in the 2013 business plan. Of the 78 indicators that could be evaluated, approximately 70 per cent recorded positive results in the follow-ups.

High confidence among the Riksbank's target groups in society

According to the Riksbank's vision, confidence is the Bank's most important asset. The Riksbank therefore uses regular external surveys to measure the development of public confidence and the confidence of various target groups in the Riksbank. Surveys presented in 2013 showed that the level of confidence of the public and the target groups in the Riksbank remains high. In both the SOM Institute survey and the Medicakademin survey, the Riksbank was once again among the five Swedish social institutions with the highest level of confidence. However, confidence has fallen somewhat. The picture of a slight decline in confidence was confirmed in TNS Sifo's annual survey of the reputation of Swedish authorities, in which the Riksbank lost its top position from the previous year but is still among the five highest-ranked authorities in the country.

In 2013, a target group survey was conducted among the Riksbank's most important target groups. The results showed that knowledge about the Riksbank's monetary policy and work with financial stability was high and that attitudes were positive.

Communication

Public confidence was probably affected by the fact that the picture of the Riksbank presented in the media was more critical than normal in 2013. Media reporting during the year focused on the monetary policy decisions and the degree to which the high level of household indebtedness was taken into account in these decisions, and on the issue of which authority would be given responsibility for the macroprudential policy instruments. Towards the end of the year, there was an increase in the number of reports about the approaching changeover of banknotes, as the Riksbank began an information campaign on the 50-krona and 1 000-krona banknotes that became invalid at the turn of the year (see the section "A safe and efficient payment mechanism"). Openness and clarity has continued to characterise the Riksbank's communication and the Bank received international recognition for this in several contexts in 2013.

In 2013, the Riksbank revised its existing communications policy, which had been adopted in 2008, and decided on a long-term communications strategy. The guiding principles for communication are still openness and clarity, but now with a greater focus on dialogue in order to better clarify the Riksbank's tasks and operations. For the sake of clarity, three different documents have now been compiled into a single policy; previously there was an appendix for communication on monetary policy and an appendix for communication on financial stability. The attitude to be adopted by the Executive Board in connection with external communication is also dealt with in the revised policy.

Employees

According to its strategic plan, the Riksbank should work for a good working climate that motivates and inspires commitment among its employees. 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 objectives. It must be possible to combine work and private life in a positive manner.

The Riksbank as an attractive workplace

For many years, the Riksbank has worked on strengthening its 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 being highly ranked as an attractive workplace for students and young economists. In the 2013 Swedish Student Survey, the Riksbank was once again chosen as the best workplace for students of economics in the public sector category.

High commitment

The basis for being able to successfully recruit and retain the best specialists is that the Riksbank's employees are motivated and act as ambassadors for the Riksbank. The employee survey conducted in the autumn of 2013 showed that the Riksbank's employees are more motivated and satisfied with their work situation than employees at other workplaces in the private and public sectors. Nine out of ten employees said that they are proud to work at the Riksbank and that they are motivated in their work. They felt that there was a good discussion climate at the Bank and said that they dare to ask questions if there is something they do not understand. There were high scores for leadership and the level of confidence in managers was high.

Meetings in focus

Meetings are an important strategic tool in the Riksbank's efforts to further increase efficiency at the Bank. Well-planned and well-conducted meetings make it easier to achieve the organisation's objectives. The corporate culture and values that the Riksbank stands for are also created and maintained in meetings. The Riksbank therefore began work to develop its meetings culture in 2013. All of the employees have been involved in the work of producing common rules for meetings at the Riksbank. Examples of these rules are that every meeting should have a clear purpose and that the responsibilities of those leading and those attending the meeting should be clear. This work will continue in 2014 and will be assessed on an ongoing basis.

Employeeeeship – how we behave towards each other

The Riksbank has been using the four key concepts results, initiative, competence and cooperation for a number of years. These have, for example, been used as assessment criteria in connection with personal development discussions and pay discussions. A fifth concept was added in 2013 – job satisfaction. The Riksbank invited all of its employees to help in listing concrete behaviours that are important in enabling them to live up to the five key concepts. The Riksbank formulated its view of employeeeeship on the basis of these behaviours, and work on establishing and gaining support for this view in the organisation has begun.

The Riksbank invests in health

The sickness rate among the Riksbank's employees was 1.6 per cent in 2013, which is a fall of 0.3 percentage points since 2012. As the sickness rate has been low and the need for rehabilitation limited in recent years, the Riksbank has continued to be able to prioritise preventive health measures. On the top floor of the Riksbank building there is a popular gym and group exercise classes are held several times a week, for example in the form of circle training or functional training sessions.

In 2013, the Riksbank also offered a "get going" project aimed at employees who wanted to begin exercising and to improve their diet. This project was run with the help of the corporate health company Feelgood. The follow-up showed that all of the employees who completed the programme improved their training results. The Riksbank's assessment is that the investments made to make it easier for the employees to exercise improves their health and well-being in the long term and thus ensures that their knowledge and expertise will remain available to the organisation.

The Riksbank offers international career opportunities

The need for international cooperation has increased in recent years. The Riksbank regularly participates in around 130 international committees and working groups, and also has direct contacts with other central banks, with the International Monetary Fund (IMF) and with 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.

As a complement to the ongoing international work, the Riksbank takes a positive view of employees living and working abroad for a while. This increases the Riksbank's influence on international issues while also broadening and deepening the expertise of the employees. In 2013, several of the Riksbank's employees and their families were stationed in cities such as Brussels, Paris, Chicago, London and Frankfurt.

The trainee programme Framtid Finans – increased cooperation with other authorities

A second round of the trainee programme that the Riksbank runs together with Finansinspektionen (the Swedish Financial Supervisory Authority) and the Swedish National Debt Office, was completed in 2013. The eight people recruited for the programme alternated work at the three authorities during the course of the year with joint training courses and study visits to financial organisations in the private and public sectors. The trainee programme has increased cooperation between the authorities, above all at the administrator level. The programme ended with a thesis project for the participants that aimed to further strengthen the cooperation between the authorities.

Governance

The Riksbank is led by an Executive Board appointed by the General Council of the Riksbank. 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 of the Riksbank 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 the 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 employment benefits for the members of the Executive Board.

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 there.

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

The Executive Board in 2013

The work of the Executive Board was marked by the lingering debt crisis in the euro area and by weak international growth. The repo rate was low throughout 2013 in order to support the upturn in the Swedish economy and to contribute to inflation rising towards the target of two per cent. The focus of the Executive Board's monetary policy deliberations was on attaining the inflation target and the risks associated with the increasing indebtedness of the Swedish households. The extensive national and international work on designing future regulatory frameworks and improving supervision in the financial system continued during the year.

Board members took part in many seminars and conferences and held several speeches. For example, all of the members of the Executive Board participated in the seminar "Two decades of inflation targeting – lessons and challenges" that the Riksbank arranged in June. The speeches held by the members over the year addressed matters such as macroprudential policy, household indebtedness and current monetary policy. In total, Executive Board members held 157 speeches over the year, 13 of which were published on the Riksbank's website.

At least twice a year, the Executive Board is required 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 of 2012, both the Governor and one of the Deputy Governors of the Riksbank (according to a rotating schedule) always participate in these hearings at the Committee on Finance. In addition to the three monetary policy hearings, the Riksbank also participated several times in open and closed hearings to discuss other issues, including the Riksbank's own report "Account of monetary policy" and IMF issues.

Executive Board of the Riksbank



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 on the Board of Governors of the International Monetary Fund (IMF). He is also Chairman of the Basel Committee on Banking Supervision (BCBS) 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 Ph.D. 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 of the ESRB and the FSB's Cross-Border Crisis Management Group (CBCM), and is a Swedish delegate to the Basel Committee on Banking Supervision. Ms af Jochnick is an economist. She 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. 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 of the Riksbank'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 on the ESRB, the regional group of the FSB and on the Committee on Global Financial Systems (CGFS). 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 member of the Economic Council of Sweden and the Swedish Fiscal Policy Council.



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 Nordic-Baltic constituency's committee for IMF cooperation. 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 worked at the Riksbank as Deputy Head of Department 2003–2006 and as a Head of Division 1996–2000.



Martin Flodén
 term of office five years
 from 22 May 2013

Martin Flodén is Deputy Governor of the Riksbank. He represents the Riksbank in the OECD's Working Party Three and in the Bellagio Group. Mr Flodén is professor of economics at Stockholm University. He has previously been a member of the Economic Council of Sweden, the Swedish Fiscal Policy Council and the Swedish Centre for Business and Policy Studies' Economic Policy Group.



Cecilia Skingsley
 term of office six years
 from 22 May 2013

Cecilia Skingsley is Deputy Governor of the Riksbank. She represents the Riksbank on the EU's Economic and Financial Committee (EFC) and on the ECB's International Relations Committee. Ms Skingsley has a BSc in economics and a financial analyst diploma. She was previously Chief Economist at Swedbank and has also worked at Dagens industri, ABN Amro Bank and the Ministry of Finance.

Members who left their posts on 21 May 2013:

Lars E.O. Svensson

term of office six years from 21 May 2007

Lars E.O. Svensson was Deputy Governor of the Riksbank. He represented 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 2001–2009 (on leave of absence 2007–2009). Prior to this, he was a professor at the IIES at Stockholm University. He was an economic advisor to the Riksbank 1990–2007.

Barbro Wickman-Parak

term of office six years from 21 May 2007

Barbro Wickman-Parak was Deputy Governor of the Riksbank. She represented the Riksbank on the Nordic-Baltic constituency's committee for IMF cooperation. Ms Wickman-Parak is an economist. She was previously 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.

Governor Stefan Ingves also participated in the Riksdag Committee on Finance's open hearing "Macroprudential policy for better financial stability".

The Board held a total of 32 meetings during 2013, six of which were meetings by circulation and six of which were monetary policy meetings.

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. Here follows a summary of the Executive Board members' external assignments at the end of 2013. 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

Martin Flodén

- > Research Fellow at the Centre for Economic Policy Research
- > Co-author of the anthology "Marknad & Politik"

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 accounting year to the Riksdag, the Swedish National Audit Office and the General Council of the Riksbank. 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 internal control at the Riksbank are 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 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 conducting its main 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.

General Council of the Riksbank

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 2013: Johan Gernandt (Chairman), Sven-Erik Österberg (Vice Chairman), Peter Egardt, Sonia Karlsson, Bertil Kjellberg, Anders Karlsson, Gun Hellsvik, Lena Sommestad, 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 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 also has an audit function whose work is carried out by an external accounting 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. The recommendation presents the General Council's assessment of 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 measures.

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

The General Council in 2013

During the year, the General Council held fourteen 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 a submission to the Riksdag. The General Council appointed two new Executive Board members in May – Cecilia Skingsley for a term of office of six years and Martin Flodén for a term of office of five years, both from 22 May 2013.

An account of the General Council's activities is presented in the General Council's submission to the Riksdag 2013/14:RB2 Proposal for the allocation of the Riksbank's profits for the accounting year 2013 and the General Council's Annual Report 2013.

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 2013.

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.

	2013-12-31	2012-12-31
EUR/SEK	8.8538	8.5845
USD/SEK	6.4286	6.5111
GBP/SEK	10.6499	10.5816
AUD/SEK	5.7501	6.7612
CAD/SEK	6.0510	6.5357
SDR/SEK	9.9000	10.0070
NOK/SEK	1.0587	1.1694
JPY/SEK	0.0611	0.0753

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 groups with a 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

<i>SEK million</i>	Note	31.12.2013	31.12.2012
ASSETS			
Gold	1	31 425	43 720
Claims on residents outside Sweden denominated in foreign currency		385 784	294 079
Receivables from the IMF	2	32 873	34 196
Balances with banks, loans and security investments	3	352 911	259 883
Lending to credit institutions in Sweden related to monetary policy operations denominated in Swedish kronor		–	0
Structural operations	4	–	–
Marginal lending facility	5	–	0
Securities of residents in Sweden denominated in Swedish kronor	6	9 534	3 152
Other assets		4 884	4 788
Tangible and intangible fixed assets	7	690	655
Financial assets	8	522	521
Derivative instruments	9	–	662
Prepaid expenses and accrued income	10	3 314	2 609
Other assets	11	358	341
Total assets		431 627	345 739

<i>SEK million</i>	Note	31.12.2013	31.12.2012
LIABILITIES AND EQUITY			
Banknotes and coins in circulation		85 700	96 441
Banknotes	12	80 294	91 056
Coins	13	5 406	5 385
Liabilities to credit institutions in Sweden related to monetary policy operations denominated in Swedish kronor		21 665	26 154
Deposit facility	14	580	339
Fine-tuning operations	15	21 085	25 815
Debt certificates issued	16	24 989	2 998
Liabilities to residents outside Sweden denominated in Swedish kronor	17	707	156
Liabilities to residents in Sweden denominated in foreign currency	18	193 117	88 413
Liabilities to residents outside Sweden denominated in foreign currency	19	–	–
Counterpart of Special Drawing Rights allocated by the IMF	20	22 265	22 505
Other liabilities		1 008	384
Derivative instruments	21	197	–
Accrued expenses and prepaid income	22	763	306
Other liabilities	23	48	78
Provisions	24	169	184
Revaluation account	25	25 677	43 363
Equity		58 341	63 207
Capital	26	1 000	1 000
Reserves	27	57 341	62 207
Profit for the year		–2 011	1 934
Total liabilities and equity		431 627	345 739

Memorandum items, See note 39

Profit and loss account

<i>SEK million</i>	Note	2013	2012
Interest income	28	4 113	4 280
Interest expense	29	-1 684	-1 196
Net result of financial transactions and write-downs	30	-3 784	-603
Fees and commission income	31	65	71
Fees and commission expense	32	-12	-8
Dividends received	33	55	56
Other income	34	26	34
Total net income		-1 221	2 634
Staff costs	35	-375	-366
Administrative expenses	36	-316	-269
Depreciation of tangible and intangible fixed assets	37	-48	-47
Banknote and coin expenses	38	-51	-18
Total expenses		-790	-700
Profit for the year		-2 011	1 934

Cash flow statement

<i>SEK million</i>	31.12.2013	31.12.2012
OPERATING ACTIVITIES		
Cash flow from operating activities, profit and loss	2 046	5 589
Interest received	3 434	4 511
Interest paid	-1 249	-1 141
Net received from financial transactions	554	2 814
Fees and commissions received	65	71
Fees and commissions paid	-12	-8
Other income	9	10
Administrative expenses paid	-755	-668
Cash flow from operating activities, assets	-87 678	-13 539
Receivables from the IMF	992	-729
Security investments	-82 273	-9 645
Securities of residents in Sweden denominated in Swedish kronor	-6 381	-3 151
Other assets	-16	-14
Cash flow from operating activities, liabilities	110 339	12 839
Banknotes and coins in circulation	-10 724	-3 671
Liabilities to credit institutions in Sweden related to monetary policy operations denominated in Swedish kronor	-4 489	9 279
Debt certificates issued	21 991	2 998
Liabilities to residents outside Sweden denominated in Swedish kronor	551	50
Liabilities to residents in Sweden denominated in foreign currency	103 356	4 380
Other liabilities	-346	-197
Cash flow from operating activities	24 707	4 889

The table continues on the next page.

<i>SEK million</i>	31.12.2013	31.12.2012
INVESTING ACTIVITIES		
Acquisition and disposal of tangible and intangible fixed assets	-83	-200
Acquisition and disposal of financial assets	-1	0
Dividends received	55	56
Cash flow from investing activities	-29	-144
FINANCING ACTIVITIES		
Transfer to the Treasury	-6 800	-7 500
Cash flow from financing activities	-6 800	-7 500
Cash flow for the period	17 878	-2 755
Cash and cash equivalents at beginning of period	3 093	5 834
Cash flow from operating activities	24 707	4 889
Cash flow from investing activities	-29	-144
Cash flow from financing activities	-6 800	-7 500
Exchange rate difference on cash and cash equivalents	-1 168	14
Cash and cash equivalents at end of period	19 803	3 093

<i>SEK million</i>	31.12.2013	31.12.2012
SPECIFICATION OF CASH AND CASH EQUIVALENTS		
Bank accounts and bank lending denominated in foreign currency, see Note 3	19 803	3 093
Marginal lending facility	0	0
Total cash and cash equivalents	19 803	3 093

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 2012.

Note 1 Gold

	31.12.2013	31.12.2012
Quantity		
Troy ounces (million)	4.0421	4.0421
Price		
USD/troy ounce	1 209.3411	1 661.1471
SEK/USD	6.4286	6.5111
Book value	31 425	43 720

As of 31 December 2013, the Riksbank holds 4 million troy ounces (troy/oz) of gold (4), which is equivalent to 125.7 tonnes. No gold was sold in 2013.

Note 2 Receivables from the IMF

	31.12.2013	31.12.2012
Special Drawing Rights	21 345	21 384
Reserve position in the IMF		
Capital contribution (quota)	23 715	23 972
IMF krona account	-18 093	-16 664
PRG-HIPC lending	184	186
NAB New Arrangements to Borrow	5 722	5 318
Total	32 873	34 196

The Riksbank's holding of Special Drawing Rights amounts to SDR 2 156 million (2 137). An amount corresponding to the total SDR allocated by the International Monetary Fund (IMF) is reported as a liability (see Note 20).

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 2013 the Riksbank's NAB lending amounted to SDR 578 million (531).

At the close of 2013 the Riksbank also had a receivable from the IMF of SDR 12.8 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 August 2013 the Riksbank, with the consent of the Riksdag, approved payment to the IMF Poverty Reduction and Growth Trust (PRGT) of SDR 17.6 million, which is Sweden's share of the profit made by the IMF on gold sales.

Note 3 Balances with banks, loans and security investments

	31.12.2013	31.12.2012
Bank accounts	148	2 135
Bank lending	19 655	958
Bonds	290 205	249 628
Short-term securities	42 903	7 162
Total	352 911	259 883

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.

	31.12.2013	31.12.2012
Euro	129 493	95 663
US dollars	178 299	128 417
Pounds sterling	16 289	16 349
Australian dollars	17 333	10 252
Canadian dollars	11 497	9 200
Norwegian kroner	0	2
Japanese yen	0	0
Total	352 911	259 883

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

Maturity	Balances with banks	Security investments
Up to 1 month	1 168	3 713
Over 1 month, up to 3 months	2 571	12 595
Over 3 months, up to 1 year	16 064	85 447
Over 1 year, up to 5 years	-	184 129
More than 5 years	-	47 224
Total	19 803	333 108

The Riksbank did not participate in any automatic securities lending programmes in 2013.

Note 4 Structural operations

The Riksbank did not conduct any structural operations in 2013.

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.

Note 5 Marginal lending facility

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

Note 6 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, either to secure financial stability or contribute to a better-functioning transmission mechanism, in the event of a crisis in the financial system.

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	3 824
More than 5 years	5 710
Total	9 534

Note 7 Tangible and intangible fixed assets

	31.12.2013	31.12.2012
Land and buildings		
Cost of acquisition, 1 January	659	514
Acquisitions during the year	30	145
Divestments during the year	–	–
Cost of acquisition, 31 December	689	659
Acc. depreciation, 1 January	–170	–161
Depreciation for the year	–9	–9
Divestments during the year	–	–
Acc. depreciation, 31 December	–179	–170
Book value	510	489
Machinery and equipment		
Cost of acquisition, 1 January	585	549
Acquisitions during the year	56	55
Divestments during the year	–45	–19
Cost of acquisition, 31 December	596	585
Acc. depreciation, 1 January	–419	–400
Depreciation for the year	–36	–38
Divestments during the year	42	19
Write-down for the year	–3	–
Acc. depreciation, 31 December	–416	–419
Book value	180	166
Total book value	690	655
Tax assessment value		
Buildings	–	–
Land	–	–

The item 'Land and buildings' includes two properties: the head office in Stockholm and the cash handling office in the municipality of Sigtuna. The properties are classified as special units and are therefore not taxable.

Acquisitions in 2013 include the new cash handling office for SEK 74 million (166) and IT applications for SEK 8 million (25).

The write-down relates to the assets of the cash handling office in Tumba, whose operations will cease in 2014.

The item 'Book value, machinery and equipment' includes intangible fixed assets in the form of application systems in an amount of SEK 82 million (94).

Note 8 Financial assets

Shares and participations	31.12.2013	31.12.2012
Bank for International Settlements		
17 244 shares at a par value of SDR 5 000, of which 25% are paid up	441	441
European Central Bank Value of participation EUR 9 179 064.74 (9 112 389.47)	80	79
SWIFT		
16 (16) shares at a par value of EUR 125	1	1
Total	522	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 2.2612 per cent (2.2582) and the ECB's total subscribed capital amounts to EUR 10 825 007 069.61 (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. Central banks in the ESCB that are not included in the euro system are not entitled to any allocation of profit from the ECB, and have no obligation to cover any losses in the ECB.

Following Croatia joining the EU on 1 July 2013, the Riksbank's capital subscription was adjusted to 2.2612 per cent and the paid-up subscription amount to EUR 9 179 064.74.

At 1 January 2014, the Riksbank's capital subscription and subscription amount were again adjusted due to the capital keys being updated, which takes place once every five years. Following this adjustment, the Riksbank's capital subscription is 2.2729 per cent and the paid-up subscription amount is EUR 9 226 559.46.

Note 9 Derivative instruments

	31.12.2013	31.12.2012
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.

	31.12.2013	31.12.2012
FX swaps, positive value	–	19 017
FX swaps, negative value	–	–
Total	–	19 017

Note 10 Prepaid expenses and accrued income

	31.12.2013	31.12.2012
Receivables from the IMF	6	4
Bank accounts and bank lending	0	0
Bonds in foreign currency	3 075	2 476
Derivative instruments	57	52
Bonds in Swedish kronor	165	54
Other	11	23
Total	3 314	2 609

Note 11 Other assets

	31.12.2013	31.12.2012
Staff loans	333	313
Accounts receivable	4	3
VAT recoverable	12	10
Balances with banks	9	15
Other	0	0
Total	358	341

Note 12 Banknotes

Value of banknotes in circulation, by denomination:

	31.12.2013	31.12.2012
1 000 krona	9 709	21 380
500 krona	57 378	56 561
100 krona	9 506	9 368
50 krona	1 236	1 244
20 krona	1 742	1 742
Commemorative banknotes	2	2
Invalid banknotes	721	759
Total	80 294	91 056

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. The comparative figure for 2012 for invalid banknotes has been adjusted upwards by SEK 93 million, and the value of the valid 500 krona note has been adjusted downwards by the same amount.

Note 13 Coins

Value of coins in circulation, by denomination:

	31.12.2013	31.12.2012
10 kronor	2 570	2 562
5 kronor	1 336	1 324
2 kronor	8	8
1 krona	1 393	1 375
Minnesmynt	99	116
Summa	5 406	5 385

In 2013 the item 'Commemorative coins' was written down by SEK 17 million (24) referring to issues of commemorative coins older than ten years.

Note 14 Deposit facility

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

Note 15 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 16 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 17 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 18 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. In 2013 deposits from the Swedish National Debt Office increased due to the Riksbank's decision at the end of 2012 to increase the foreign exchange reserve by an amount equalling SEK 100 billion. The distribution of foreign currency deposits is shown in the following table.

	31.12.2013	31.12.2012
Euro	48 503	29 979
US dollars	144 614	58 434
Total	193 117	88 413

Note 19 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 20 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 2 156 million (2 137) and is reported under the item 'Receivables from the IMF' (see Note 2).

Note 21 Derivative instruments

	31.12.2013	31.12.2012
FX swaps, positive value	-116	-
FX swaps, negative value	313	-
Total	197	-

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.

	31.12.2013	31.12.2012
FX swaps, positive value	10 564	-
FX swaps, negative value	10 560	-
Total	21 124	-

Note 22 Accrued expenses and prepaid income

	31.12.2013	31.12.2012
Fine-tuning operations	0	2
Debt certificates issued	7	1
Deposits, Swedish National Debt Office	673	232
Counterpart of Special Drawing Rights	4	3
Other	79	68
Total	763	306

Note 23 Other liabilities

	31.12.2013	31.12.2012
Accounts payable – trade	31	50
Other	17	28
Total	48	78

Note 24 Provisions

	31.12.2013	31.12.2012
Pension provision	96	103
Invalid banknotes	35	41
Lease Malmö office	34	37
Job Security Foundation	4	3
Total	169	184

The pension provision has been calculated by the National Government Employee Pensions Board (SPV). SEK 94 million (101) refers to PA 91 pensioners with a date of retirement prior to 2003, and SEK 2 million (2) 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 35 million (41) 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 34 million (37) 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 provisions for professional development and competence exchange in accordance with an agreement with the Job Security Foundation.

Note 25 Revaluation accounts

	31.12.2013	31.12.2012
Price effect	3 558	8 002
Exchange rate effect	2 491	3 439
Gold value effect	19 628	31 922
Total	25 677	43 363

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.

	31.12.2013	31.12.2012
Euro	2 257	-
US dollars	-	-
Pounds sterling	234	121
Australian dollars	-	1 624
Canadian dollars	-	737
Special Drawing Rights	-	-
Norwegian kroner	-	957
Total	2 491	3 439

Note 26 Capital

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

Note 27 Reserves

	31.12.2013	31.12.2012
Reserve fund	500	500
Contingency fund	32 632	35 145
Balancing fund	24 209	26 562
Total	57 341	62 207

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 2013 a reposting was made of SEK 2 million (3) from the subitem '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.

	31.12.2013	31.12.2012
Allocation of profit:		
Exchange rate effect	-447	2 919
Gold value effect	7 356	7 356
Other allocation of profit	16 787	15 932
Write-up of assets:		
Gold reserve	8 604	8 604
Fixed assets	97	99
BIS shares	235	235
Total	32 632	35 145

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 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
Transfer to the Treasury	-	-	-6 800
Transfer to/from:			
Balancing fund	-	-2 353	2 353
Contingency fund	-	-2 513	2 513
Profit for the year	-	-	-2 011
Balance, 31 December 2013	1 000	57 341	-2 011

Note 28 Interest income

	2013	2012
From foreign assets:		
SDR	17	23
Reserve position in the IMF	4	7
NAB (New Arrangements to Borrow)	5	5
Bilateral loans	-	-
Bank accounts	1	2
Bank lending	44	8
Bonds	3 620	3 946
Short-term securities	34	0
Derivative instruments	282	278
Securities lending programmes	-	-
	4 007	4 269
From domestic assets:		
Fine-tuning operations	0	-
Marginal lending facility	1	0
Other lending	1	-
Bonds	100	5
Staff loans	4	6
	106	11
Total	4 113	4 280

Note 29 Interest expense

	2013	2012
From foreign liabilities:		
Deposits, Swedish National Debt Office	-1 236	-749
Deposit repos	0	-
Counterpart of Special Drawing Rights	-18	-25
Derivative instruments	-	-
	-1 254	-774
From domestic liabilities:		
Fine-tuning operations	-197	-384
Debt certificates issued	-199	-3
Deposit repos	-1	-
Bank accounts	-1	0
Cash depots	-32	-35
	-430	-422
Total	-1 684	-1 196

Note 30 Net result of financial transactions and write-downs

	2013	2012
Price effect	-721	2 763
Exchange rate effect	-3 063	-3 366
Gold value effect	-	-
Total	-3 784	-603

The price effect consists of realised gains and losses on securities of SEK 702 million (2 804) and unrealised losses on securities of SEK -1 423 million (-41), 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 -148 million (10) and unrealised exchange rate losses of SEK -2 915 million (-3 376) that were recognised in the profit for the year due to write-down of the foreign currency holding.

Note 31 Fees and commissions income

The item includes annual and transaction charges for the RIX system of SEK 65 million (71).

Note 32 Fees and commissions expenses

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

Note 33 Dividends received

In 2013 the Riksbank received a dividend from the BIS of SEK 55 million (56).

Note 34 Other income

	2013	2012
Unredeemed cash received	1	2
Reimbursement for discoloured banknotes etc.	3	2
Coins written off	17	24
Sida (Swedish International Development Cooperation Agency)	2	3
Other	3	3
Total	26	34

In 2013 the item 'Coins written off' was written down by SEK 17 million (24) referring to issues of commemorative coins in circulation older than ten years.

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

Note 35 Staff costs

	2013	2012
Salaries and benefits	-231	-223
Salary recorded as assets	0	1
Social security contributions	-72	-70
	-303	-292
Pension premiums	-41	-40
Pension payments	-12	-16
Change in pension provision	8	12
Special payroll tax	-13	-14
	-58	-58
Training	-4	-5
Staff representation	-2	-2
Other	-8	-9
	-14	-16
Total	-375	-366

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 2.2 million (2.4) 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 2013 amounted to SEK 17.3 million, broken down as follows.

	2013	2012
Stefan Ingves	1.8	2.0
Kerstin af Jochnick	2.3	2.3
Karolina Ekholm	2.1	2.1
Martin Flodén	1.3	-
Per Jansson	2.2	2.2
Cecilia Skingsley	1.3	-
Lars E.O. Svensson	1.1	2.2
Barbro Wickman-Parak	1.0	2.1
Qualification period salaries	4.2	0.1
Total	17.3	13.0

In addition, the Governor of the Riksbank received a board fee in 2013 of SEK 0.7 million (0.8) 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 the board fee from BIS.

The item 'Qualification period salaries' for 2013 refers to Lars E.O. Svensson and Barbro Wickman-Parak. 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.

The General Council has decided that the Ordinance on Severance Benefits for Certain Employees employed as Senior Government Officials (2003:55) shall be applied for all present Executive Board members.

The General Council has, however, decided on an exception for Stefan Ingves, such that if he receives a pension ensuing from the position he held with the International Monetary Fund (IMF), which he had before he was appointed Governor of the Riksbank, before he turns 65 years of age, there will be no reduction in the income guarantee. Neither shall the pension from the IMF involve any reduction in his salary, if the pension is paid out during the period in which he receives salary from the Riksbank.

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.

The average number of employees (full-time equivalents, FTEs) in 2013 was 341 (351), of which 149 (151) women and 192 (200) men. The number of FTEs at the end of the year was 336 (354). Total sick leave in 2013 corresponded to 1.6 per cent (1.9) of employees' total working hours. Sick leave over a continuous period of 60 days or more in 2013 was 39.9 per cent (44.8) of total sick leave. Women's sick leave in relation to total regular working hours for women amounted in 2013 to 2.1 per cent (2.0), while the corresponding figure for men in 2013 was 1.3 per cent (1.9).

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

	2013	2012
29 years or younger	0.9 %	0.3 %
30–49 years	1.5 %	1.5 %
50 years or older	2.0 %	2.9 %

Note 36 Administrative expenses

	2013	2012
Information, representation	-14	-8
Transport, resor	-14	-15
Konsultuppdrag	-40	-48
Övriga externa tjänster	-92	-81
IT-drift	-94	-55
Ekonomipris	-13	-13
Kontors- och fastighetsdrift	-41	-43
Övrigt	-8	-6
Summa	-316	-269

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 2.8 million (2.9).

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 40 million (48). This amount includes the costs of IT consultants of SEK 22 million (34), of which consultancy support in connection with outsourcing IT operations accounts for SEK 6 million (6).

The cost of statistics deliveries of SEK 59 million (54) 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 (2).

The 'IT operations' item includes licensing expenses of SEK 41 million (41) and IT services of SEK 47 million (5). The change in IT services is largely explained by the former in-house IT operation being purchased as a service. Costs for staff, consultants, etc. for such services has decreased.

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

The largest single items in the cost group 'Office and property maintenance' consist of refurbishment and maintenance of the Riksbank's premises, SEK 6 million (9), and rent of premises, SEK 13 million (12).

Note 37 Depreciation of tangible and intangible fixed assets

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

Note 38 Banknote and coin expenses

Of the total cost of notes and coins of SEK 51 million (18), SEK 34 million (17) refers to circulation banknotes and SEK 17 million (1) to circulation coins. No commemorative coins were bought in 2013 (-).

Note 39 Memorandum items

Pledged assets

At the close of 2013 no securities were pledged in connection with foreign securities repos (–).

Contingent liabilities

Outstanding claims for compensation amounted to SEK 6 million (4) at the close of 2013.

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 2013 (13.2).

A commitment to pay KPA Pensionsförsäkring AB supplementary compensation if so needed 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 2013 the Riksbank had outstanding compensation claims of SEK 10 million (–).

Lending and exchange commitments with the IMF

	31.12.2013	31.12.2012
Special Drawing Rights	45 450	46 133
Reserve position	18 093	16 664
GAB, NAB, bilateral loan	38 231	39 110
Credit agreement	66 330	–
Total	168 104	101 907

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).

Special Drawing Rights

Under the IMF by-laws the commitment referring to Special Drawing Rights means that the Riksbank may, through what is known as designation, be obliged to buy Special Drawing Rights (SDR) in exchange for foreign currency to such an amount that the Riksbank's total SDR holding is a maximum of 300% of the ordinary allocation. This commitment also includes the Riksbank's standing arrangement to, on the IMF's request, buy or sell SDR in exchange for payment in US dollars or euro within an interval of 50 to 150 per cent of the Riksbank's total net allocation of SDR.

Reserve position

The commitment concerning the reserve position (quota minus the IMF krona account) means that the Riksbank is obliged to exchange the balance in the IMF's krona account to foreign currency if the IMF needs such funds for lending to other countries.

Sweden's capital contribution (quota) to the IMF at present is SDR 2 395.5 million. In the autumn of 2011, the Riksdag granted authorisation to increase Sweden's capital contribution (quota) in the IMF by SDR 2 034.5 million such that it amounts to a total of SDR 4 430 million. The increase will not be implemented until a sufficient number of Member States (70 per cent) have ratified the proposed increase, and ratified a related proposal regarding IMF governance (85 per cent). The IMF's proposed quota increase is based on an approximately equivalent reduction of Sweden's commitment in the IMF's arrangements to borrow (NAB).

GAB and NAB

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 43 953 million (44 428).

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.

Bilateral loans

The commitment referring to the bilateral loan agreement with the IMF, equalling EUR 2 470 million, expired on 15 December 2013.

Credit agreement

In February 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 66 360 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 amounted to SDR 65 million (65), equivalent to SEK 644 million (650) at the end of 2013.

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.

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.

Payment system expenses are to be financed by fees from participants. Asset management is to generate a return that is as high as possible in relation to the task and the risk taken. For the other functions, there is no cost coverage requirement.

The allocation model is based on the format of the profit and loss account and the balance sheet, where the Riksbank's outcome for 2013 amounts to SEK -2 011 million (1 934) and assets and liabilities to SEK 431 627 million (345 739).

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 65 per cent of the total of 336, are directly involved in one of the functions. The other 117 employees are in support functions, mainly IT, communications 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 51 million (18) in 2013. The costs are allocated in their entirety to the Cash handling function.

IT expenses

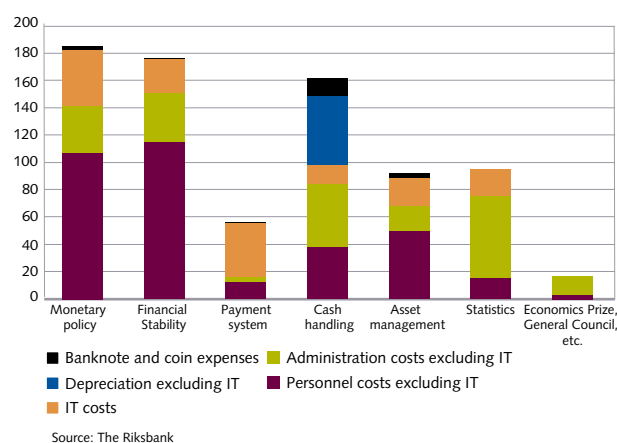
IT expenses refer to the costs of the IT Department. The model for allocation of IT expenses is based on three IT services: PC services, telephony and IT systems. PC services are allocated to users with commonly agreed prices. Telephony costs (not mobile telephony) are allocated on the basis of the number 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. The amounts are expressed in SEK million.

Function	2013			2012		
	Net income	Expenses	Profit /Loss	Net income	Expenses	Profit /Loss
Monetary policy	3	-187	-184	4	-180	-176
Financial stability	59	-178	-119	60	-161	-101
Payment system	65	-57	8	71	-61	10
Cash handling	-10	-163	-173	-5	-106	-111
Asset management	-1 339	-93	-1 432	2 502	-90	2 412
Statistics	0	-95	-95	0	-85	-85
Economics prize and General Council, etc.	1	-17	-16	2	-17	-15
Total	-1 221	-790	-2 011	2 634	-700	1 934

Chart 30

Allocation by nature of expense by function, 2013, SEK million



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 2013 amounted to SEK 774 million (1 798).

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

The net income for Asset management reported in the profit and loss account amounted to SEK -1 339 million (2 502). Total return from the Riksbank's asset management for 2013 was SEK -19 025 million (-2 491). See also table 5 in the 'Asset management' section of the Administration Report. The difference is explained by the change in the item 'Revaluation account in the balance sheet' (see table below).

	2013	2012
Interest income	4 109	4 274
Interest expense	-1 652	-1 161
Net result of financial transactions and write-downs reported in the profit and loss account	-3 784	-603
Fees and commission expense	-12	-8
Net income, asset management	-1 339	2 502
Net result of financial transactions reported in revaluation accounts in the balance sheet	-17 686	-4 993
Asset management profit/loss	-19 025	-2 491
Net interest earnings on administration	-28	-29
Income from administration	146	161
Cost of administration	-790	-700
Profit/loss including income recognised in the balance sheet	-19 697	-3 059
Reversal of income recognised in the balance sheet	17 686	4 993
Reported profit for the year	-2 011	1 934

Net interest earnings on administration in the table above consist of interest income from the Riksbank's staff loans of SEK 4 million (6) and interest expenses for interest compensation to cash depots of SEK 32 million (35).

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 below shows the Riksbank's assets and liabilities by function in millions of kronor.

Function	31.12.2013		31.12.2012	
	Assets	Liabilities	Assets	Liabilities
Financial stability	441	-	441	-
Cash handling	-	85 700	-	96 441
Asset management	430 046	262 339	344 199	139 969
Unallocated	1 140	83 588	1 099	109 329
Total	431 627	431 627	345 739	345 739

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.

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

<i>SEK million</i>	31.12.2013	31.12.2012	31.12.2011	31.12.2010	31.12.2009
ASSETS					
Gold	31 425	43 720	43 508	38 537	31 691
Claims on residents outside Sweden denominated in foreign currency	385 784	294 079	300 186	282 555	302 348
Receivables from the IMF	32 873	34 196	35 294	31 175	30 898
Balances with banks, loans and security investments	352 911	259 883	264 892	251 380	271 450
Lending to credit institutions in Sweden related to monetary policy operations denominated in Swedish kronor	–	0	0	500	368 802
Structural operations	–	–	–	500	368 801
Marginal lending facility	–	0	0	0	1
Securities of residents in Sweden denominated in Swedish kronor	9 534	3 152	–	–	–
Other assets	4 884	4 788	4 223	5 334	5 997
Tangible and intangible fixed assets	690	655	502	389	406
Financial assets	522	521	521	521	521
Derivative instruments	–	662	–	584	136
Prepaid expenses and accrued income	3 314	2 609	2 873	3 522	4 608
Other assets	358	341	327	318	326
TOTAL ASSETS	431 627	345 739	347 917	326 926	708 838

Balance sheet

<i>SEK million</i>	31.12.2013	31.12.2012	31.12.2011	31.12.2010	31.12.2009
LIABILITIES AND EQUITY					
Banknotes and coins in circulation	85 700	96 441	100 136	105 401	110 663
Banknotes	80 294	91 056	94 771	99 902	104 590
Coins	5 406	5 385	5 365	5 499	6 073
Liabilities to credit institutions in Sweden related to monetary policy operations denominated in Swedish kronor	21 665	26 154	16 875	5 142	171 163
Deposit facility	580	339	44	45	56
Fine-tuning operations	21 085	25 815	16 831	5 097	171 107
Debt certificates issued	24 989	2 998	–	–	192 222
Liabilities to residents outside Sweden denominated in Swedish kronor	707	156	106	69	70
Liabilities to residents in Sweden denominated in foreign currency	193 117	88 413	86 497	83 774	92 544
Liabilities to residents outside Sweden denominated in foreign currency	–	–	–	431	–
Counterpart of SDR allocated by the IMF	22 265	22 505	23 754	23 275	25 216
Other liabilities	1 008	384	1 283	535	662
Derivative instruments	197	–	943	–	3
Accrued expenses and prepaid income	763	306	252	488	606
Other liabilities	48	78	88	47	53
Provisions	169	184	203	220	251
Revaluation accounts	25 677	43 363	48 356	35 102	37 818
Equity	58 341	63 207	66 777	72 429	64 025
Capital	1 000	1 000	1 000	1 000	1 000
Reserves	57 341	62 207	65 777	71 429	63 025
Profit for the year	–2 011	1 934	3 930	548	14 204
TOTAL LIABILITIES AND EQUITY	431 627	345 739	347 917	326 926	708 838

Profit and loss account

<i>SEK million</i>	2013	2012	2011	2010	2009
Interest income	4 113	4 280	5 493	7 717	10 997
Interest expense	-1 684	-1 196	-1 359	-2 135	-2 796
Net result of financial transactions and write-downs	-3 784	-603	209	-5 123	6 714
Fees and commission income	65	71	70	67	58
Fees and commission expense	-12	-8	-8	-11	-43
Dividends received	55	56	51	134	55
Other income	26	34	168	603	16
Total net income	-1 221	2 634	4 624	1 252	15 001
Staff costs	-375	-366	-372	-345	-342
Administrative expenses	-316	-269	-261	-240	-267
Depreciation of tangible and intangible fixed assets	-48	-47	-51	-63	-71
Banknote and coin expenses	-51	-18	-10	-56	-117
Total expenses	-790	-700	-694	-704	-797
Profit for the year	-2 011	1 934	3 930	548	14 204

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 regulated 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. In the Annual Report, the Executive Board shall present an assessment of whether internal control is considered satisfactory. This is regulated in Chapter 10, Section 3 of the Sveriges Riksbank Act.

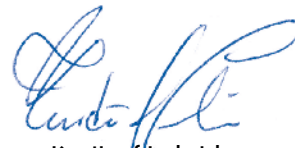
The Executive Board's assessment of the Riksbank's internal control

The Executive Board has evaluated the the Riksbank's internal control in 2013 against the requirements in the Sveriges Riksbank Act and its conclusion is that internal control is satisfactory.

Stockholm, 6 February 2014



Stefan Ingves
Governor



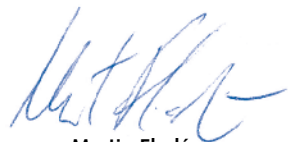
Kerstin af Jochnick
First Deputy Governor



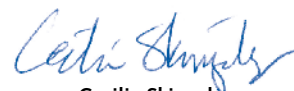
Karolina Ekholm
Deputy Governor



Per Jansson
Deputy Governor



Martin Flodén
Deputy Governor



Cecilia Skingsley
Deputy Governor

Auditor's report for Sveriges Riksbank 2013

Translation from Swedish.

Report on the annual report

The Swedish National Audit Office has audited the annual report for Sveriges Riksbank for 2013, dated 6 February 2014.

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 2013, 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 2013.

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 2013.

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

Stockholm, 21 February 2014

Staffan Nyström

Agneta Bergman

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 2013, 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 (the Swedish Financial Supervisory Authority) regulations. The Executive Board and the General Council commented on the interim report on preventing and managing financial crises (see the section "A safe and efficient payment mechanism") and the report on the Riksbank's financial independence and balance sheet (see the section "Asset management"). The Executive Board also commented on consultation documents on a risk-weight floor for Swedish mortgages (see the section "A safe and efficient payment mechanism"), a review of the statistics system and Statistics Sweden and a database for the oversight and supervision of the financial market.

The Riksbank submitted the following consultation responses in 2013. Unless otherwise stated, decisions were taken by the head of the department concerned.

Ministry of Finance

- 19.12.2013** Collateral and settlements – an alternative implementation of two directives (Ds 2013:71)
- 19.12.2013** Collateral when clearing at a central counterparty (Ds 2013:68)
- 18.12.2013** Report: A developed budget process – increased clarity and structure (SOU 2013:73)
- 20.11.2013** Report: Stronger capital adequacy regulations (SOU 2013:65)
A decision on this consultation response was taken by the Executive Board of the Riksbank
- 15.11.2013** Revised memo: Certain credit granting to consumers (Ds 2013:26)
- 12.11.2013** Memo: Technical and business requirements for payments and direct debits in euro
- 15.10.2013** Proposed guidelines for the management of sovereign debt 2014–2017
- 18.09.2013** European Commission proposal to the European Parliament and Council directive on payment services on the single market and on amendments to directives 2002/65/EG, 2013/36/EG and 2009/110/EG and the repeal of directive 2007/64/EG (COM 2013 547)
- 18.09.2013** European Commission Proposal to the European Parliament and Council regulation on interchange fees for card-based payment transactions
- 13.09.2013** Memo on fees in accordance with the EU regulation on supervisory requirements for credit institutions and securities companies
- 29.08.2013** Views regarding the European Commission proposal to the European Parliament and Council directive on the comparability of charges related to payment accounts, payment account switching and access to payment accounts with basic features (COM 2013 266)

- 29.08.2013** Alternative routes for the premium pension scheme (Ds 2013:35)
- 25.06.2013** Report: Budget framework – does it comply with the EU directive? (SOU 2013:32)
- 25.06.2013** Proposal to the European Parliament and Council regulation on the provision and quality of statistics for procedures in connection with macroeconomic imbalances
- 18.06.2013** Report: The Riksbank's financial independence and balance sheet (SOU 2013:9)
A decision on this report was taken by the Riksbank's Executive Board
- 18.06.2013** Report: The Riksbank's financial independence and balance sheet (SOU 2013:9)
A decision on this report was taken by the Riksbank's General Council
- 10.06.2013** Report Preventing and managing financial crises (SOU 2013:6)
A decision on this consultation response was taken by the Riksbank's Executive Board and General Council
- 20.05.2013** Prospectus liability (Ds 2013:16)
- 20.05.2013** Memo: Certain credit granting to consumers (Ds 2013:26)
- 19.03.2013** Report: What are official statistics? A review of the statistics system and Statistics Sweden (SOU 2012:83)
A decision on this consultation response was taken by the Executive Board of the Riksbank
- 19.03.2013** Report: A database for the oversight and supervision of the financial markets (SOU 2012:79)
A decision on this consultation response was taken by the Executive Board of the Riksbank
- 07.03.2013** Consultation response on the European Commission proposal for a Council directive implementing enhanced cooperation in the area of financial transaction tax, COM (2013) 71 final

28.02.2013 Report: Stronger protection for insurance policy-holders (SOU 2012:64)

22.02.2013 Memo on new regulations for financial conglomerates and groups

31.01.2013 Memo on government support in the event of short-time work (Ds 2012:59)

02.01.2013 Report: Managers of alternative investment funds (SOU 2012:67)

Finansinspektionen (The Swedish Financial Supervisory Authority)

13.12.2013 Proposal on new regulations for the management of operational risks and new regulations on IT systems, information security and deposit systems in credit institutions and securities companies

31.10.2013 Proposal on new instructions regarding supervisory requirements for credit institutions and securities companies

01.10.2013 Proposal on amendments to Finansinspektionen's regulations and general guidelines (FFFS 2009:1) on measures to counteract money laundering and the financing of terrorism

27.09.2013 Updated proposal on new regulations on methods to determine the discount rate for insurance

29.08.2013 Proposed amendments to the accounting regulations

29.08.2013 Proposal on new regulations and general guidelines on governance, risk management and control in credit institutions

10.07.2013 Proposal on new regulations and general guidelines on insurance companies' choice of interest rate for the calculation of technical provisions

24.04.2013 Proposal on amendments to regulations on reserves and accounting regulations for insurance companies

23.04.2013 Proposal on amendments to Finansinspektionen's regulations and general guidelines on information regarding insurance and occupational pensions (FFFS 2011:39)

22.03.2013 Proposal on regulations on managers of alternative investment funds and amended fund regulations etc.

31.01.2013 Risk-weight floor for Swedish mortgages
A decision on this consultation response was taken by the Executive Board of the Riksbank

25.01.2013 Proposal on amended market regulations (FFFS 2007:17)

Ministry of Justice

14.08.2013 Memo: Interest rate differential compensation etc. in connection with mortgages (Ds 2013:38)

07.03.2013 Consultation document from the Council on Legislation: Secrecy in international cooperation

Swedish Civil Contingencies Agency

30.09.2013 Action plan for the protection of operations vital to society

Sveriges Riksdag (the Swedish parliament)

07.11.2013 Proposal on new Riksdag Act (2012/13:URF3)

Publications

The Riksbank issues 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.

Account of 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 entitled "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.

Financial Infrastructure

Published once per year. Contains the Riksbank's assessments of the stability and efficiency of the financial infrastructure in Sweden.

The Swedish Financial Market

Provides an annual presentation of basic statistics on the various parts of the financial sector and contains instructive 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 business surveys and risk surveys as separate publications in PDF format.

Address: Sveriges riksbank, SE-103 37 Stockholm **Telephone:** +46 8 787 00 00 **Website:** www.riksbank.se

The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel 2013

The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel 2013 was awarded to Eugene F. Fama, Lars Peter Hansen and Robert J. Shiller for their empirical analyses of asset prices. Eugene F. Fama has shown that share prices are very difficult to predict in the short term and that new information affects prices more or less immediately. However, although prices are almost impossible to predict in the short term it is quite possible to roughly predict the development of shares prices several years ahead. This is because Robert Shiller found that share prices fluctuate much more than dividends and that the ratio between prices and dividends tends to decrease when it is high and increase when it is low. This relation applies not only to shares but also to bonds and other assets. Lars Peter Hansen has developed a statistical method that is particularly well suited to testing rational theories on asset prices. The laureates have laid the foundations for today's research on asset prices.

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 importance in the field of eco-

nomie 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 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.



Eugene F. Fama was born in 1939 in Boston, MA, USA (US citizen). Ph.D. 1964, University of Chicago, IL, USA. Robert R. McCormick Distinguished Service Professor of Finance at the University of Chicago, IL, USA.



Lars Peter Hansen was born in 1952 in the USA (US citizen). Ph.D. 1978, University of Minnesota. Minneapolis, MN, USA. David Rockefeller Distinguished Service Professor in Economics & Statistics at the University of Chicago, IL, USA.



Robert J. Shiller was born in 1946 in Detroit, MI, USA. Ph.D. 1972, Massachusetts Institute of Technology (MIT), Boston, MA, USA. Sterling Professor of Economics at Yale University, New Haven, CT, USA.

Previous laureates

The prize has been awarded every year from 1969 to the following persons:

1969	R. Frisch and J. Tinbergen	1984	R. Stone	1999	R.A. Mundell
1970	P.A. Samuelson	1985	F. Modigliani	2000	J.J. Heckman and D.L. McFadden
1971	S. Kuznets	1986	J.M. Buchanan Jr	2001	G.A. Akerlof, A.M. Spence and J.E. Stiglitz
1972	J.R. Hicks and K.J. Arrow	1987	R.M. Solow	2002	D. Kahneman and V.L. Smith
1973	W. Leontief	1988	M. Allais	2003	R.F. Engle and C.W.J. Granger
1974	G. Myrdal and F.A. von Hayek	1989	T. Haavelmo	2004	F.E. Kydland and E.C. Prescott
1975	L.V. Kantorovich and T.C. Koopmans	1990	H.M. Markowitz, M.H. Miller and W.F. Sharpe	2005	R.J. Aumann and T.C. Schelling
1976	M. Friedman	1991	R.H. Coase	2006	E.S. Phelps
1977	B. Ohlin and J.E. Meade	1992	G.S. Becker	2007	L. Hurwicz, E.S. Maskin and R.B. Myerson
1978	H.A. Simon	1993	R.W. Fogel and D.C. North	2008	P. Krugman
1979	T.W. Schultz and A. Lewis	1994	J.C. Harsanyi, J.F. Nash Jr and R. Selten	2009	E. Ostrom and O.E. Williamson
1980	L.R. Klein	1995	R.E. Lucas Jr	2010	P.A. Diamond, D.T. Mortensen and C.A. Pissarides
1981	J. Tobin	1996	J.A. Mirrlees and W. Vickrey	2011	T.J. Sargent and C.A. Sims
1982	G.J. Stigler	1997	R.C. Merton and M.S. Scholes	2012	A.E. Roth and L.S. Shapley
1983	G. Debreu	1998	A. Sen		

Glossary

Asset-Backed Securities

Bonds that have underlying assets, often in the form of different types of loan, for example mortgages. Such bonds are used to fund so-called securitisation, where a lender sells part of its loan stock to a company especially formed for this purpose.

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.

Bankgirot

A bank-owned clearing organisation and is the central participant in the mediation of retail payments in Sweden.

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.

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.

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 organisation founded in 2004 to advise the European Commission on the design of directives in the banking sphere in the EU and to work for the uniform implementation of the directives in the Member States and for greater cooperation and a more extensive 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).

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 bond holder has collateral in certain assets. In the case of Swedish covered bonds, these assets may comprise loans provided against collateral in property 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 risk

The risk that the market value of assets, measured in Swedish krona, will fall when the krona strengthens against the currencies that the assets are invested in.

Currency swaps

See Swap agreement.

Deposit facility

See Standing facilities.

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.

EBA, European Banking Authority

Authority that establishes joint regulatory and supervisory standards in the EU and conducts stress tests of European banks.

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.

EIOPA, European Insurance and Occupational Pensions Authority

An EU body since 2011 which is part of the European system for financial supervision and is an independent advisory body to the European Parliament and the Council. Eiopa replaces the former organisation Ceiops.

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.

ESMA, European Securities and Markets Authority

Authority that, among other things, works to design the supervision of securities companies and markets with operations in several countries, promotes the consistent application of EU regulations among supervisory authorities in different countries and extends cooperation between supervisory authorities in different countries.

ESRB, European Systemic Risk Board

Independent EU body responsible for the macroprudential supervision of the financial system within the EU.

Euroclear Sweden

Subsidiary of Euroclear 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.

Extraordinary measures

Measures taken by the Riksbank during the financial crisis, for example structural transactions in Swedish kronor, to help the banks gain access to liquidity, ease the workings of the money market and strengthen the impact of monetary policy on the economy.

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 and the regulations and routines they require 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 (The 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 even out fluctuations in the banking system's loan or investment needs with the Riksbank and to keep the overnight rate stable and close to the repo rate. Normally, fine-tuning operations are carried out in the form of loans (against collateral) or deposits overnight at the repo rate plus/minus 10 basis points.

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 29 selected countries with systemically-important 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 international 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.

Gold price risk

The risk that the market value of the gold reserve will fall as a result of a fall in the price of gold.

IMF, International Monetary Fund

International organisation 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 185 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 CPIF.

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.

Lending facility

See Standing facilities.

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 policy

Measures to discover, monitor and prevent risks in the financial system that threaten financial stability.

Main operations

Transactions that the Riksbank normally carries out each week. If the banking system has a need to deposit money, the Riksbank caters to this need by issuing Riksbank Certificates. If the banking system instead needs to borrow money from the Riksbank, the Riksbank caters to this through monetary policy repos or loans (against collateral). The interest rate for the monetary policy repos, loans or certificates is called the repo rate, and this signals where the overnight rate should lie during the maturity of the transaction.

Medieakademin

Collaboration project between Göteborgs-Posten (a Göteborg-based daily newspaper), the University of Gothenburg, Forsman & Bodenfors and TNS Gallup (previously NFO Infratest). 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. All monetary policy counterparties may participate in main and structural transactions and standing facilities. Since October 2008, they may also participate in fine-tuning operations. Since April 2009, credit institutions that have opted not to participate in RIX may become restricted monetary policy counterparties to gain access to certain monetary policy operations.

Monetary policy operations

Transactions that the Riksbank has at its disposal to control the overnight rate. These are divided into main operations, standing facilities, fine-tuning operations and structural operations.

Monetary policy repo

The Riksbank lends money by purchasing securities from monetary policy counterparties. 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 then receives back the funds, and the securities are returned to the original owner. The market participants call the Riksbank's repurchase of a security a reverse repo. Prior to the financial crisis in the autumn of 2008, repos were usually carried out every week. Since then, Riksbank certificates have been issued.

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 rate

Interest on a loan from one business day to the next provided by a bank or other financial institution to another bank or financial institution. This is the shortest market rate on the money market and in turn affects the rates charged to the general public and thereby also affects activity and the development of prices in the economy.

Payment system

Accounts, regulations and computer systems needed to execute payments and transfer securities between different parties.

Pillar 2 requirement

The basic capital requirement (Pillar 1) stipulates that a bank, at any one point in time, shall have a minimum capital base equal to the sum of the capital requirements for credit risks, market risks and operational risks. In addition, the capital base shall also cover the capital requirement for additional identified operational risks not captured in Pillar 1, so-called internal capital adequacy assessment (Pillar 2). Pillar 2 is an individual capital requirement that varies between different banks. For Swedish banks, the Pillar 2 requirement is determined by Finansinspektionen. While the Pillar 1 requirement is public and affects the risk-weighted assets, the Pillar 2 requirement is not public as yet and does not affect the banks' risk-weighted assets.

Policy rates

Interest rates that a central bank sets for monetary policy purposes. In Sweden, these are the repo rate and the deposit and lending rates for the banking system; see Repo rate, Fine-tuning operations and Standing facilities.

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 rate

The Riksbank's most important policy rate by which the Riksbank can control the overnight rate with the intention of affecting inflation. The interest rate that the monetary policy counterparties receive when they invest money with the Riksbank by buying Riksbank Certificates or pay when they borrow money from the Riksbank through monetary policy repos.

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 2 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.

Repo transaction

A repurchase agreement similar to a short-term loan in which one party agrees to sell a security to another party in return for liquid funds. At the same time, the parties also agree that the same security will be repurchased at a predetermined price at a certain time in the future. The party that lends the security pays an interest rate equivalent to the difference between the purchase and sale prices.

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.

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.

Riksbank Certificates

Securities with short maturities issued by the Riksbank for the purpose of absorbing surplus liquidity from the banking system when necessary. When the monetary policy counterparties deposit money with the Riksbank by purchasing Riksbank Certificates, they receive the repo rate. See also main operations.

Riksdag Committee on Finance

Parliamentary committee that prepares matters concerning economic issues, including the activities of the Riksbank and the central government budget.

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 management.

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 made up of opinion-makers 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 spread well over and above the mean value entail a high standard deviation.

Standing facilities

Banks and certain other financial participants may borrow money from or deposit money with the Riksbank overnight at the repo rate plus/minus 75 basis points. The interest the counterparty receives when it deposits money with the Riksbank overnight is known as the Riksbank's deposit rate. Correspondingly, the counterparty pays the Riksbank's lending rate if the bank borrows funds from the Riksbank overnight.

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.

Structural transactions

Transactions that usually have longer maturities than the main and the fine-tuning operations. The purpose is to meet longer-term funding requirements in the banking system and to adjust the structural position of the Riksbank vis-à-vis the banking system. These transactions do not aim to send monetary policy signals.

Sveriges Riksbank Act

The Sveriges Riksbank Act (1988:1385) stipulates the goals and tasks of the Riksbank.

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.

The SOM Institute

Centre for the survey and seminar activities conducted jointly by the Department of Journalism, Media and Communication (JMG), the Department of Political Science and the Research Centre for the Public Sector (Cefos) at 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.

Transmission mechanism

The transmission mechanism is the process through which monetary policy affects inflation and the economy in general. It comprises several different mechanisms that work in conjunction, which are usually described as the interest rate channel, the credit channel and the exchange rate channel.

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.

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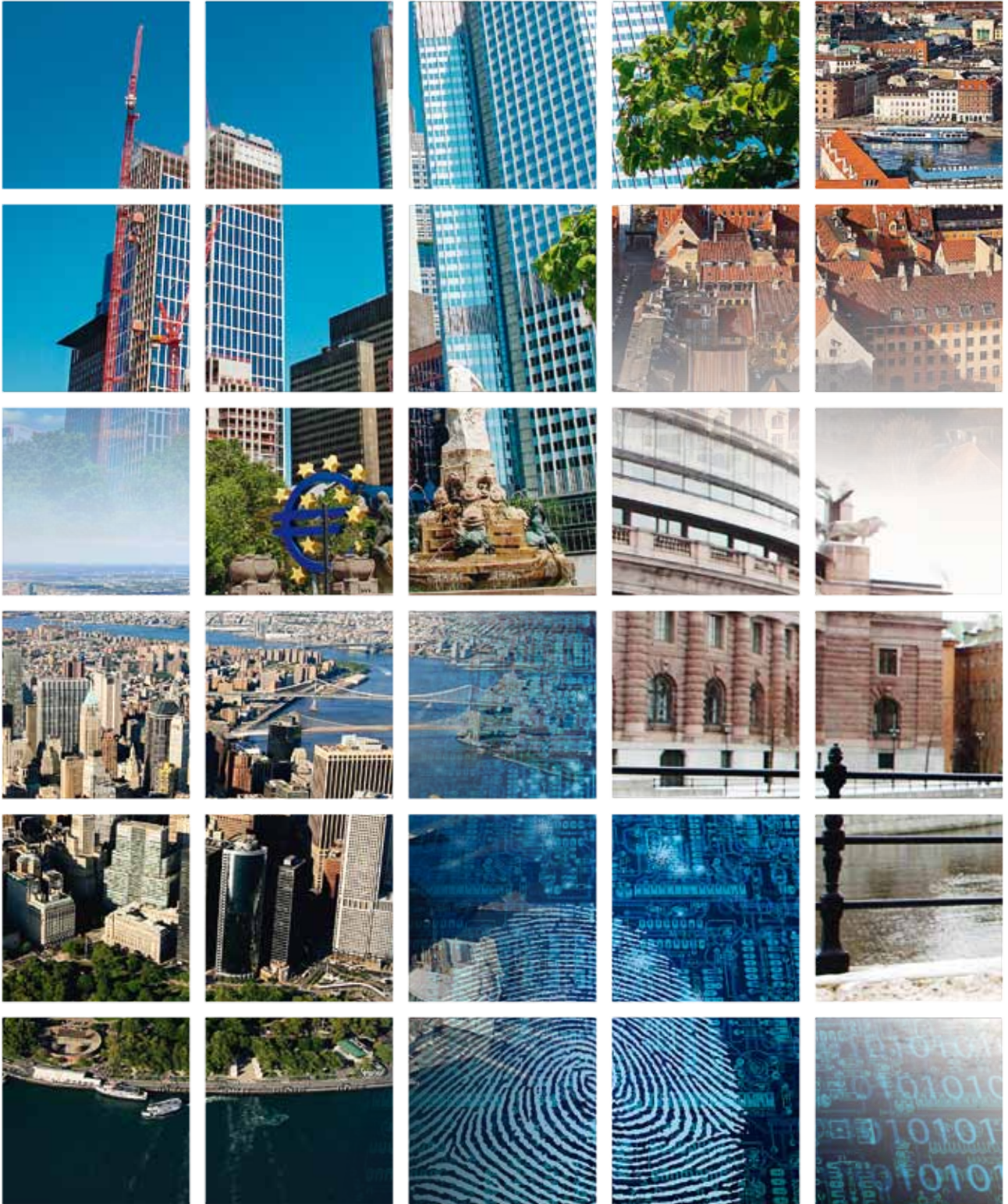


To order this publication, contact:

Sveriges Riksbank, Kontorsservicecenter,
SE-103 37 Stockholm, fax: +46 8 21 05 31,
e-mail: kontorsservicecenter@riksbank.se
or download from website: www.riksbank.se

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SVERIGES RIKSBANK
 SE-103 37 Stockholm
 (Brunkebergstorg)
www.riksbank.se
 Tel: +46 8 787 00 00
 Fax: +46 8 21 05 31