

Ministry of Finance
Financial Markets Department, Banking Division
103 33 STOCKHOLM



SVERIGES RIKSBANK
SE-103 37 Stockholm
(Brunkebergstorg 11)

Tel +46 8 787 00 00
Fax +46 8 21 05 31
registratorn@riksbank.se
www.riksbank.se

Ref.no.2019-01285

Your ref: Fi2019/04029/B

**The General Council of the Riksbank's consultation response regarding the Report
A new Sveriges Riksbank Act (SOU 2019:46)**

2020-04-03

Introduction

The General Council of the Riksbank wishes to begin by emphasising the importance of the principle of an independent central bank being retained in the new Sveriges Riksbank Act. The Riksbank Committee has to a large extent used this principle as a basis. However, in one area the Committee has chosen a legal solution that risks undermining this principle. The proposal for a new Sveriges Riksbank Act makes a division between measures regarding monetary policy and measures regarding financial stability. This division has significance not only for the work of the Executive Board, but also with regard to the scrutiny of the Executive Board, where it is proposed that the General Council should have an extended role.

The Committee's proposal is intended to create flexibility in the Riksbank's room for manoeuvre when it comes to the bank's financial measures, depending on the purpose of the measures. The General Council supports this intention. However, the legal solution may reduce the desired flexibility and make the regulations more difficult to apply than is necessary. The division into instruments for monetary policy and for financial stability can in itself lead to the regulations for the respective areas being applied in a way that creates rigidity and reduces the Riksbank's ability to take action.

This consultation response was written prior to the coronavirus crisis, although the formal decision was taken during the crisis. The crisis has led to the Executive Board of the Riksbank taking decisions on a number of measures that will affect the Riksbank's balance sheet and increase liquidity in the Swedish economy. When the crisis is over, it should therefore be examined, in relation to the sequence of events and the various measures taken, whether the proposals made by the Committee are actually reasonable, before taking a decision on a new Sveriges Riksbank Act.

Precision of the price stability target

It is proposed that the Executive Board of the Riksbank should decide on the detailed design of the price stability target. After that, the Executive Board should submit a petition to the Riksdag for approval of the target. The General Council supports a system that entails greater democratic legitimacy for the precision of the inflation target. This is attained by the approving body being assumed to have a greater democratic anchor than the Executive Board of the Riksbank. However, it is not certain that it is the Riksdag which should approve the Executive Board's petition with regard to the price stability target. One consequence of such a system is that a monetary policy discussion arises within the Riksdag that risks being confused with the general political debate. Such a development would undoubtedly make the Riksbank's work of conducting monetary policy more difficult. There is thus reason to consider giving the General Council of the Riksbank the task of approving the price stability target. The General Council is, as the Committee observes, a body within the Riksbank, but at the same time it has a stronger democratic legitimacy than the Executive Board, as the members of the General Council are elected directly by the Riksdag.

The Riksbank's equity and profit allocation model

The General Council supports the Committee's proposal for a new profit allocation model and target level for the Riksbank's equity. With regard to the Riksbank's financial position, which affects its capacity to carry out its tasks and to be financially independent, it is important that the framework is robust. It should be possible to apply this over a long period of time and to give the Riksbank the conditions to maintain its long-term earnings capacity. Petitions to the Riksdag for capital injections should only occur in exceptional cases.

The Committee's proposal means that the Riksbank's equity would amount to its target level of a maximum of SEK 60 billion and be hedged by being adjusted up every year in line with the consumer price index. Excess profits would be paid as dividends to the Treasury. According to the draft bill, the Riksbank would have an obligation to make a petition to the Riksdag to restore its equity to the basic level when its reported equity capital falls below a third of the target level. However, the EU legal principle on the financial independence of central banks means that the Riksbank should have the right to make a petition to the Riksdag for a capital injection irrespective of the level of the Riksbank's equity at the time of the petition. It is not clear from the Committee's draft bill and motivation whether the Riksbank would have this right. The draft bill therefore needs to be clarified on this account.

The General Council notes that the Committee bases its calculations of appropriate capital levels and earnings capacity on the current conditions. However, it is possible that longer term developments could jeopardise the Riksbank's capacity to finance itself. For instance, the rapid decline in the use of cash can lead to much lower income (seigniorage) than now. Lower long-term interest rates, or a scenario where the Riksbank's policy measures lead to higher financial risks in the Riksbank's balance sheet are other risks that could lead to higher costs and lower income.

Adopting the profit and loss account and balance sheet

The General Council agrees that it is the task of the General Council to adopt the Riksbank's profit and loss account and balance sheet. However, it should be made clear in the text of the act that it will continue to be the Executive Board that submits the proposal for a profit and loss account and balance sheet.

One of the appropriations that can be included in a profit and loss account and balance sheet is so-called financial risk allocations that arise as a result of concern over future falls in value on the Riksbank's assets. According to the Committee's proposal, the Riksbank is allowed to make financial allocations to a reasonable extent in line with the ECB's guideline on accounting and financial reporting. This possibility is important for the Riksbank. The draft bill implies that it is the Executive Board's responsibility to make these allocations where necessary, although it is the General Council that approves them in that it is the General Council that decides to adopt the Riksbank's profit and loss account and balance sheet. The General Council supports this system.

The Riksbank's organisation and management

The Committee proposes a number of changes that aim for increased clarity in the respective areas of responsibility of the General Council and the Executive Board. With regard to recruiting members of the Executive Board, the General Council notes that the current system has worked very well. The General Council holds a large number of interviews based on an extensive list of potential candidates. The General Council considers many more candidates than those featuring in public speculation. The rules proposed by the Committee would entail an application procedure with a public advertisement and recruitment profile. The General Council considers that these changes can contribute to maintaining the general public's confidence in the recruitment process. There will probably be no tangible difference in the transparency of the appointment procedure, as the names of the applicants will be confidential and there will not be any open hearings. Nor is it possible to appeal the appointment decision. However, the General Council shares the Committee's assessment that these limitations must remain as they increase the probability of desirable candidate choosing to participate in the process.

The General Council shares the Committee's assessment that the current system regarding the composition of the Executive Board should essentially be retained. Additionally, the General Council agrees with the Committee's description of the disadvantages of a so-called monetary committee, where monetary policy issues are separated and considered by a special decision-making body.

The question of whether the Executive Board should consist of five or six members is not decisive for good governance of the Riksbank, although a lower figure than now would undoubtedly reduce the breadth of competence represented.

The role and responsibilities of the Riksbank governor should be clarified. This should also be regarded as a measure to promote efficiency. At the same time, the Executive Board as whole is still responsible for the Riksbank's activities and other members of the

Executive Board have the possibility to take up issues for a decision at the Board meetings.

Scrutiny and evaluation

The scope for the Riksdag and society as a whole to have insight into the Riksbank, and the Riksbank's accountability regarding its operations are good under the current regulations. Given the Riksbank's special position as an independent authority under the Riksdag, there is reason to consider developing and reinforcing the system for scrutiny under which the Riksbank falls. The General Council essentially supports the proposals put forward with regard to strengthening the possibility for society to evaluate and scrutinise all of the Riksbank's activities. It is also a welcome suggestion that the Riksbank's provision of information to the general public and the Riksdag should be codified in law.

With regard to the scrutiny of the Riksbank and its management, the General Council would like to state the following.

A clear and transparent evaluation and scrutiny of the Riksbank is necessary to ensure the Riksbank can retain the trust of the general public. At the same time, it is important that the scrutiny of its operations takes place afterwards and is not so in-depth that the person scrutinising could be regarded as taking part in the decision that have been or are to be made by the body scrutinised. The Treaty on the Functioning of the European Union's ban on instructions contains special limitations in this respect.

The extended scrutiny that is now being proposed – where both the General Council and the Swedish National Audit Office will have broader responsibility and the Riksdag Committee on Finance and the Parliamentary Ombudsman will have an extended mandate – will mean that it is especially important for the authorities to coordinate their work to avoid efficiency losses in the examining bodies' activities as well as the work of the Riksbank.

The General Council takes a positive view of the extended mandate for scrutiny that is proposed with regard to the General Council and which – apart from the scrutiny of the Executive Board members' performance of their duties that is carried out now – will include the members' cooperation and division of labour within the Board as well as the efficiency of the Board. The Committee has estimated the costs of the additional work for the General Council with regard to this scrutiny as amounting to around one million SEK per year. The General Council wish to point out in this context that the proposed mandate would mean that the General Council needs to develop a new scrutiny model. It will not be possible to calculate the costs until this has been done. The General Council assesses that the scrutiny requirement will vary, depending on a number of different circumstances both within and outside of the Riksbank, and that the costs therefore must be allowed to vary over time to the same extent.



On behalf of the General Council

Susanne Eberstein

Maria Svalfors

Taking part in the decision: Susanne Eberstein (Chairperson), Michael Lundholm (Deputy Chairperson), Hans Hoff, Hans Birger Ekström, Bo Broman, Marie Granlund, Peter Helander, Ali Esbati, Chris Heister, Caroline Helmersson Olsson and Sammy Almedal.

Ali Esbati registered a difference of opinion in accordance with the enclosure.

Report presented by: Pernilla Meyersson and Eric Frieberg