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Strategy

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Sustainability strategy for the Riksbank

The Riksbank is a public authority under the Riksdag. The state's core values guide the Riksbank's work. The Riksbank takes account of sustainability in both its internal operations and its policy work. This document describes the principles the Riksbank follows in this work. The document also provides a more solid description of how work is conducted in different areas of policy work.

Sustainable social development

By sustainable development, the Riksbank means what has by now become a commonly-used definition: Development that meets the needs of the present without compromising the ability of future generations to meet their own needs, and in which consideration is given to economic, ecological and social aspects.¹ This definition of sustainable development comes originally from the United Nations and is used by the Government of Sweden and the Riksdag, among others.

The 2030 Agenda - a resolution adopted by the General Assembly of the United Nations in 2015 - identifies 17 goals for sustainable development. Several of these goals have a bearing on the Riksbank's operations, for example those concerning climate change, sustainable consumption and production, decent working conditions, equality and global partnership.

The Riksbank's mandate

According to the Sveriges Riksbank Act, the Riksbank is to maintain price stability and promote a safe and efficient payment system. The Riksbank therefore needs to understand and take account of sustainability issues if these affect the Riksbank's ability to carry out its policy tasks.

¹ The Brundtland Report 1987, "Report of the World Commission on Environment and Development: Our Common Future".

According to the preparatory works for the Sveriges Riksbank Act, the Riksbank, in its work, is to support the objectives of general economic policy, whose aim is to achieve sustainable growth and high employment. Consequently, also in its policy work, the Riksbank is to act for sustainable development in line with the ambitions of the Riksdag and Government, assuming that these are compatible with the overall policy tasks.

The Riksbank's tasks also include using public finances prudently and, in its work, taking account of the state's core values, which are based on democratic principles. The Riksbank shall also be a workplace that gives its employees the opportunity to contribute to sustainable social development.

Principles for the consideration of sustainability by the Riksbank in its policy work

1. The Riksbank's work uses the United Nations' 2030 Agenda as its starting point.
2. The Riksbank shall analyse climate change and developments in the area of sustainability to understand how the economy as a whole is affected and thus how the Riksbank can best carry out its policy tasks.
3. The Riksbank is to act for international cooperation to promote sustainable development and reduce the risks linked to climate change. Consequently, in line with the intentions of the Riksdag and the Government, the Riksbank shall act for regulation of the financial system that reduces risks linked to climate change.
4. The Riksdag and the Government have main responsibility for conducting climate policy in Sweden. The Riksbank can contribute the means available within its mandate, and as a complement to other policy. However, the most effective measures to limit climate change fall within the remit of other policy areas.
5. The Riksbank is obliged to ensure that its operations are run efficiently and that it uses public finances prudently. It follows on from this that the Riksbank, among other things, shall manage the risks that arise when purchasing corporate bonds, especially risks to the Riksbank's financial position. Some of these risks are linked to sustainability on the basis of the assumption that it is more risky to buy bonds issued by companies that are breach of universal norm-based principles.
6. The Riksbank is to apply a sustainability perspective in management of the foreign exchange reserves. The Riksbank's financial risk and investment policy describes how this is to be implemented.

Sustainability in internal work

The Riksbank's operations are to be grounded in social responsibility and long-term sustainability. The Riksbank is to take account of the global goals defined in the 2030 Agenda.

The Riksbank has an *environmental policy* that states that the Riksbank, as far as is possible and compatible with the tasks and duties of the bank, is to work preventively and promote long-term, sustainable development. This policy is linked to Goal 12 in the 2030 Agenda, "Ensure sustainable consumption and production patterns" and Goal 13 "Take urgent action to combat climate change and its impacts".

The *working environment policy* states that the aim of the Riksbank's working environment initiative is to create an attractive workplace with a work environment that increases staff motivation, job satisfaction and efficiency.² The *policy for diversity and equal treatment* states that the Riksbank's diversity work is aimed at promoting equal rights, possibilities and obligations for all members of staff at the Riksbank. These policies are linked to Goal 5, "Achieve gender equality and empower all women and girls" and Goal 8, "Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all".

The *purchasing policy* stipulates that sustainability aspects must be considered in procurements. This means that the possible impact on environmental or social issues will affect the decision. The policy is primarily linked to Goal 8 "Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all" and Goal 12 "Ensure sustainable consumption and production patterns".

The policy for the Riksbank's work against money laundering and terrorist financing and its work to prevent offences against international sanctions describes how the Riksbank is to work to counteract the risk of participation in money laundering and terrorist financing or the breach of sanctions. The policy is linked to Goal 16 "Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels".

Examples of sustainability work in the Riksbank's policy areas

Monetary policy

According to the Sveriges Riksbank Act, the objective for monetary policy is to maintain price stability. The Riksbank has defined this as a 2 per cent annual increase in the consumer price index with a fixed interest rate (the CPIF). 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.

Monetary policy is guided by forecasts for inflation and economic developments in general. Climate change is expected to entail physical risks, for example in the form of extreme weather, which can rapidly have severe and unpredictable consequences for the economy. It is also expected to lead to structural changes that could have both short and long-term effects on inflation, production and employment as society transitions to a less fossil-based economy. This means that forecast and analysis work in monetary policy needs to take account of climate change.

The Riksbank works constantly on improving its forecasting methods, including methods for capturing the great uncertainty prevailing over the economic effects of climate change. This also includes deepening our understanding of how climate change affects long-term economic developments, both in Sweden and globally. The Riksbank cooperates with public authorities in Sweden and global organisations to contribute to

² The Riksbank complies with the Work Environment Act (1977:1160) and other regulations in this area that are applicable to the Riksbank's activities.

this accumulation of knowledge. The Riksbank also conducts research into climate change and economic development. Financial stability

One of the Riksbank's tasks is to promote a safe and efficient payment system. This means that the Riksbank shall contribute to the stability of the financial system and ensure that it is possible to make payments safely and efficiently.

The Riksbank's practical work on safeguarding financial stability consists of several different tasks. One is working to prevent financial crises, among other means by analysing and overseeing risks and vulnerabilities in the financial system. Both of these risks include climate-related risks – physical risk and transition risk – that can create financial risks. If these risks are not managed, they can entail risk for the financial system, which can in turn have consequences for financial stability. It is therefore part of the Riksbank's mandate to promote resilience to climate-related risks in the financial system.

The realisation that climate-related risks are a source of financial risks has deepened in recent years. The Riksbank participates in several international partnerships where concrete measures are prepared and adopted to strengthen the ability of the financial system also to manage climate-related risks. Examples of measures include stress tests based on different climate scenarios and contributions to recommendations and standards in the area. Through its membership in the Network for Greening the Financial System, a global partnership between central banks and supervisory authorities, the Riksbank makes an active contribution to strengthening the resilience of the international financial system. The Riksbank also participates in the Basel Committee to strengthen the resilience of the banking system and in the Committee on Payments and Market Infrastructures (CPMI) to strengthen the resilience of the financial infrastructure. Under the framework of the European Union, the Riksbank participates in working groups to develop tools on a European level.

Asset management

The Riksbank's assets consist of gold and foreign exchange reserves, together with a portfolio of Swedish assets. The Riksbank's foreign exchange reserves can be used to provide the financial system with liquidity in foreign exchange, to buy and sell currencies for monetary and foreign exchange policy purposes, and to fulfil international commitments, for example to the International Monetary Fund. This task places high demands on the composition of the foreign exchange reserves and their day-to-day management. To be able to meet contingency needs, it must be possible to sell the assets rapidly, which demands liquidity and collateral. Management of the assets shall also contribute to safeguarding the Riksbank's financial independence. On the basis of these requirements, this management shall consider sustainability in its choice of assets in the foreign exchange reserves. Since 2019, analysis of the composition of the foreign exchange reserves does not just consider risk and yield but also by how much the assets increase the amount of greenhouse gases, and this has resulted in some assets being sold.

The Riksbank weighs sustainability into asset management for two reasons. The first of these is to reduce the financial risks that could follow from climate change or from companies failing to comply with international standards and norms. The second is so

that, when choosing assets, the Riksbank can contribute, as far as possible, to safeguarding long-term sustainable economic development.

The portfolio held by the Riksbank in Swedish kronor consists of bonds issued by the Swedish government, Kommuninvest i Sverige AB, certain municipalities, covered bonds, corporate bonds and commercial paper. The portfolio is a result of the Riksbank's monetary policy, under which assets have been purchased to hold the level of interest rates in the economy low.

However, the Riksbank normally only purchases assets that comply with certain minimum requirements. These requirements concern financial risks. For example, corporate bonds are only purchased for companies with a credit rating equivalent to *investment grade*. For corporate bonds, the bond is also required to have been issued by a company that complies with international standards and norms for sustainability.

The Riksbank deems that this norms-based negative screening contributes to limiting financial risks as the risks are higher when purchasing bonds issued by companies that infringe norms and principles for sustainability. Rejecting such bonds allows the Riksbank to manage government funds prudently and contributes to good management based on the state's core values.

Starting from 2021, the Riksbank is measuring and reporting the carbon footprint of the corporate bond portfolio to promote the measurement, compilation and reporting of climate pollutant factors in general. The importance of compiling and spreading such information has been emphasised by several international organisations.

The Riksbank places no particular importance on whether or not the assets are classified as green. In the management of both the foreign exchange reserves and the Swedish portfolio, green bonds are treated and assessed on the same basis as other assets.

Payments

The Riksbank shall promote a secure and efficient payment system. The Riksbank also has the exclusive right to issue banknotes and coins in Sweden, as well as responsibility for the provision of cash. This means that the Riksbank supplies and also destroys banknotes and coins, as well as redeeming banknotes that are no longer legal tender.

In its work for a *secure* payment system, the Riksbank's objective is to ensure sustainability by preventing money laundering in conjunction with the redemption of invalid banknotes. We are also taking account of sustainability under the framework of development work for an e-krona. This is connected to Goal 16 of the 2030 Agenda. In its work for an *efficient* payment system, the Riksbank shall ensure sustainability by deepening its knowledge of the climate impact of various payment instruments.

In the Riksbank's work of providing banknotes and coins, it considers sustainability aspects in many ways, including in the work of designing banknotes and coins, in procurements and agreements, and in the Riksbank's handling of banknotes and coins. In this work, the selection of materials and distribution of denominations are important factors for obtaining an efficient, environmentally-friendly and sustainable banknote and coin series. The Riksbank requires the manufacturers of our banknotes and coins to have ISO certification concerning quality, the environment and the working environment, and to have developed Corporate Social Responsibility (CSR) work. When

the Riksbank destroys worn and invalid banknotes, the waste material is burned and used for district heating, while worn and invalid coins are sold to be melted down and recycled.

Furthermore, the Riksbank follows developments on the payment market and analyses the use of cash and alternative means of payment in the economy to be able, if necessary, to adapt its operations to changes in society.

Summary: The Riksbank follows and contributes to sustainability work in Sweden and internationally

Long-term sustainability is a key issue for the future. The Riksbank works both to strengthen sustainability in its internal operations and to adjust policy work to more sustainable development. The Riksbank has a mandate that entails promoting price stability and an efficient and safe payment system. Within the scope of this mandate, the Riksbank is to contribute to limiting climate change by, for instance:

- Promoting regulation of the financial markets that reduces the risks climate change may entail for the financial system. This could be stress tests, reporting climate-related risks or banks' capital adequacy requirements.
- Taking a sustainability perspective in its asset purchases and in the management of the foreign exchange reserves under the framework of the Riksbank's mandate.
- Participating in various international networks that work on climate-related issues, for instance, the International Monetary Fund, the Financial Stability Board (FSB), the Basel Committee and the Network for Greening the Financial System (NGFS).
- Initiating internal processes to ensure, in the longer run, that its own activities are in line with international agreements, such as the Paris Agreement, and do not unnecessarily contribute to global warming.
- Helping to increase knowledge of the effects of climate change on the economy by supporting and contributing its own research. Together with other institutions, the Riksbank has contributed to research on climate change since 2016.