

# Annual report

2015



**Cover picture:** Colour-shifting images that make up one of several security features on the new 20, 50 and 1,000-krona banknotes and on the new 200-krona denomination introduced in 2015. Each image also shows the banknote's denomination. The image and the denomination gradually change colour between gold and green when you tilt the banknote. Each colour-shifting image has a motif connected with the person on that banknote.



The new 20-krona banknote has author Astrid Lindgren (1907–2002) as main motif.

Astrid Lindgren is known world-wide for her books about Pippi Longstocking, Emil of Lönneberga and many others. Her books have sold over 145 million copies and have been translated into 95 languages. The colour-shifting image shows a book, which is a reference to Astrid Lindgrens' works.



The new 50-krona banknote features poet, composer and artist Evert Taube (1890–

1976) as main motif. Evert Taube is considered one of Sweden's national poets due to his contributions to Swedish balladry. The colour-shifting image shows a ship, which is a reference to Evert Taube's life as a sailor and his many ballads about the sea.



The new 200-krona banknote has film director Ingmar Bergman (1918–2007) as

main motif. Ingmar Bergman is considered to be one of the foremost directors in film history. The colour-shifting image depicts a clapperboard, which was used in the director's film shoots to synchronise sound and image.



The new 1,000-krona banknote features Dag Hammarskjöld (1905–1961)

as main motif. Dag Hammarskjöld, Secretary-General of the United Nations between 1953–1961 and member of the Swedish Academy from 1954, made a great contribution towards world peace. He died in an aviation accident in what is now Zambia in 1961 and was posthumously awarded the Nobel Peace Prize in the same year. The colour-shifting image depicts an olive branch, often used as a symbol of peace.

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### INTERNAL CONTROL

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# Annual report of the General Council

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

*As of 14 October 2014, the General Council consists of the following members: Susanne Eberstein (Chairperson), Michael Lundholm (Vice Chairperson), Hans Hoff, Peter Egardt, Caroline Helmersson Olsson, Martin Kinnunen (as of 23 October 2014), Hans Birger Ekström, Anders Karlsson, Roger Tiefensee, Agneta Börjesson and Chris Heister. The deputy members are Catharina Bråkenhielm, Elisabeth Björnsdotter Rahm, Tommy Waidelich, Oskar Öholm, Ann-Kristine Johansson, Olle Felten (since 23 October 2014), Carl B Hamilton, ClasGöran Carlsson, Karin Nilsson, Esabelle Dingizian (since 2 December 2014) and Stefan Attefall.*

## The General Council's tasks

The General Council appoints the members of the Executive Board and decides on their salaries and other terms of employment. The General Council adopts the Riksbank's Rules of Procedure, which specify the Riksbank's overall organisation and the regulation of certain managerial and decision-making matters. The General Council also determines 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.

According to the preparatory works from 1997/98 to amendments to the Sveriges Riksbank Act (1988:1385), the General Council also 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 Chairperson and Vice Chairperson attending the Executive Board meetings. The Chairperson and Vice Chairperson 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 submits consultation responses within its field of competence and the Executive Board consults with the General Council on reports and formal communica-

tions with proposals to the Riksdag and the Government regarding government amendments to statutes or other central government measures.

The Chairperson and Vice Chairperson 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 2015

During the year, the General Council held nine meetings.

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

### Banknotes and coins

Over the year, the General Council received regular information on the current work on the new Swedish banknote and coin series and on the withdrawal of invalid banknotes. The Chairperson of the General Council participated in a press conference on the new banknotes in February, as well as in an exhibition to present the new banknotes in Stockholm in September. In addition, the General Council and Executive Board arranged a dinner in conjunction with the launch of the new banknotes, in which persons and organisations connected to the new banknotes participated.

In connection with issues linked to the banknote and coin changeover, the question of the banks' responsibility for cash and the general public's possibilities for depositing cash has been addressed on a number of occasions due to the general public's concerns about being able to use its cash.

At its meeting in August, the General Council decided to increase the number of members in the Drafting Committee for the Design of Banknotes and Coins. The Committee will hereafter consist of six members of the General Council. In addition, the State Herald of Sweden, the Head of the Royal Coin Cabinet and one representative each from the National Museum of Fine Arts and the Royal Swedish Academy of Fine Arts will be invited to participate in the Committee as experts. The group will be headed by General Council member Peter Egardt.

### Follow-up of the work of the Executive Board

Part of the General Council's control was exercised in that the Chairperson and Vice Chairperson of the General Council followed the work of the Executive Board during the year, for example by attending the meetings of the Executive Board and a number of informal meetings.



*The General Council of the Riksbank's Chairperson Susanne Eberstein and Vice Chairperson Michael Lundholm.*

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. There has been particular focus on information on the Executive Board's measures to reach the inflation target. The Executive Board also provided information on the state of the financial markets, in Sweden, in Europe and globally. In particular, the General Council requested and received information on Greece, China and Ukraine.

The Executive Board also provided information on the establishment of two new statistical databases and the Riksbank's increased cooperation with Statistics Sweden.

Furthermore, the General Council received regular information on the follow-up of 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.

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 International Monetary Fund (IMF).

To gain supplementary information, the General Council participated in theme lunches at which the Executive Board provided more in-depth information on various current operational matters. The themes addressed were the RIX payment system, the methodology and evaluation of the Riksbank's inflation forecasts, communication initiatives connected with the banknote and coin changeover, preparations ahead of study tour, the new graphic profile, research trips to Greece and the debate on household indebtedness and amortisation requirements.

#### **Other**

During the spring, the General Council carried out a visit to the Riksbank's banknote-handling office in Sigtuna Municipality.

In September, the General Council spent half a day as hosts to the Supervisory Council of Norges Bank. Subjects addressed were the respective organisational structures of the Riksbank and Norges Bank, the Riksbank's work on management and governance and work in the areas of monetary policy, financial stability and macroprudential policy.

In September, the General Council carried out a study tour to Frankfurt am Main, where visits were made to the European Central Bank (ECB), the European Systemic Risk Board (ESRB), the Single Supervisory Mechanism (SSM) and



**Susanne Eberstein (S)**  
Chairperson  
Member of the Riksdag  
Judge, Administrative Court of Appeal



**Michael Lundholm (M)**  
Vice Chairperson  
Professor, Stockholm University



**Hans Hoff (S)**  
Member of the Riksdag  
Ombudsman



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



**Caroline Helmersson Olsson (S)**  
Member of the Riksdag  
Ombudsman  
Assistant nurse



**Martin Kinnunen (SD)**  
Member of the Riksdag  
Press Secretary



**Hans Birger Ekström (M)**  
General Secretary, Moderate Party Parliamentary Secretariat



**Anders Karlsson (S)**  
Former Member of the Riksdag



**Roger Tiefensee (C)**  
Former Member of the Riksdag  
Environmental economist



**Agneta Börjesson (MP)**  
Member of the Riksdag  
Master of Engineering



**Chris Heister (M)**  
County Governor, Stockholm County  
Former Member of the Riksdag

Deutsche Bundesbank. The aim of the tour was to provide the General Council with more detailed information on institutions important to the Riksbank and on specific issues surrounding supervisory work on the European level.

### 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 from 1 April 2012 until 31 March 2016. It will not be possible to extend the agreement with KPMG AB after this date. During the autumn, a decision was taken to procure a new consultant for the General Council's audit function.

The General Council annually establishes a plan for the audit function's work. The examination of the Executive Board's information and reporting to the General Council, the Riksbank's work with banknotes and coins and the members of the Executive Board's performance of their duties was carried out at the end of 2014 and reported at the start of 2015. In accordance with the audit plan, a follow-up audit of the Riksbank's outsourcing of parts of its IT operations was conducted on the basis of governance and internal controls. A review of internal governance and control surrounding the banknote changeover and of routines for the governance of supplies to and from external parties was also conducted over the year. In addition, the performance of the duties of the members of the Executive Board is reviewed every year. No observations were made in connection with the review of their work in 2015.

The General Council was also informed about the Swedish National Audit Office's annual examination of the Riksbank's activities. The Swedish National Audit Office reports 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 has completed its audit.

# Proposal for the allocation of profits for 2015

When reviewing the Riksbank's management- for the year 2014 (2014/15:FiU23), the Riksdag approved the proposal put forward by the General Council that the allocation of net income for the year 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 2015.

In accordance with Chapter 10, Article 3 of the Sveriges Riksbank Act (1988:1385), the General Council has received a report for the 2015 financial year from the Executive Board. The General Council notes that the Riksbank reports a profit of SEK 1,954 million for 2015. In accordance with the 1988 principle for the allocation of profits and the supplements to this, the following adjustments are made to the accounting profit when calculating the result used as a basis for the transfer:

- The reported result has been positively affected by an exchange rate gain of SEK 822 million. This profit is excluded from the calculation.
- The accounting profit was not affected by any gold value effect and therefore no adjustment was made for such an effect.
- A price loss of SEK 2,720 million was recorded as a price effect decrease in the revaluation account on the balance sheet. The General Council has included this loss when calculating the allocation of the net income.

In accordance with the account below, the General Council proposes a transfer to the Treasury of SEK 2,800 million.

The foreign exchange gain is transferred to the contingency fund. In addition, 10 per cent of the adjusted average profit is transferred there. As the proposed transfer and reversal to the contingency fund is higher than the accounting profit, it is proposed that the remaining SEK 2,016 million be transferred from the balancing account.

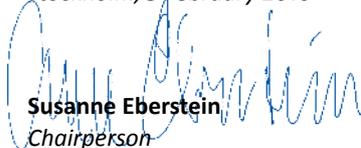
In conjunction with its annual examination of the Riksbank's annual report, the National Audit Office has also examined the proposed allocation of profit, even though the National Audit Office has no obligation to comment in the proposal itself. The National Audit Office has not noted any deviations from the previously applied principle for the allocation of profit.

Profit for 2015 amounts to SEK 1,954 million. The General Council decided, on 5 February 2016, to submit the following proposal for the allocation of the Riksbank's profits:

- SEK 2,800 million will be transferred to the Treasury.
- SEK 1,170 million will be transferred to the Riksbank's contingency fund.
- SEK 2,016 million will be transferred from the Riksbank's balancing account.

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, 5 February 2016

  
**Susanne Eberstein**  
Chairperson

# Calculation of the Riksbank's allocation of profit 2015

SEK million

## 1 CALCULATION OF THE RIKSBANK'S TRANSFER TO THE TREASURY

### Adjustment of the year's profit

Profit for 2015	1 954
Less: Foreign exchange rate gain	-822
Plus: price loss recorded on the balance sheet	-2 720

**Adjusted profit 2015** **-1 588**

### Calculation of average adjusted profit

Adjusted profit 2011	10 356
Adjusted profit 2012	2 985
Adjusted profit 2013	-3 392
Adjusted profit 2014	9 019
Adjusted profit 2015	-1 588

**Total adjusted profit for the past five years** **17 380**

**Average adjusted profit for the past five years** **3 476**

### Calculation of transfer amount

80% of the average adjusted profit	2 781
Rounding off to SEK 100 millions	19

**Transfer 2015** **2 800**

## 2 CALCULATION OF TRANSFER TO THE RIKSBANK'S CONTINGENCY FUND

### Transfer to the Riksbank's contingency fund

Foreign exchange rate gain	822
10% of the average adjusted profit	348

**Total** **1 170**

## 3 CALCULATION OF TRANSFER FROM THE RIKSBANK'S BALANCING FUND

### Transfer from the Riksbank's balancing fund

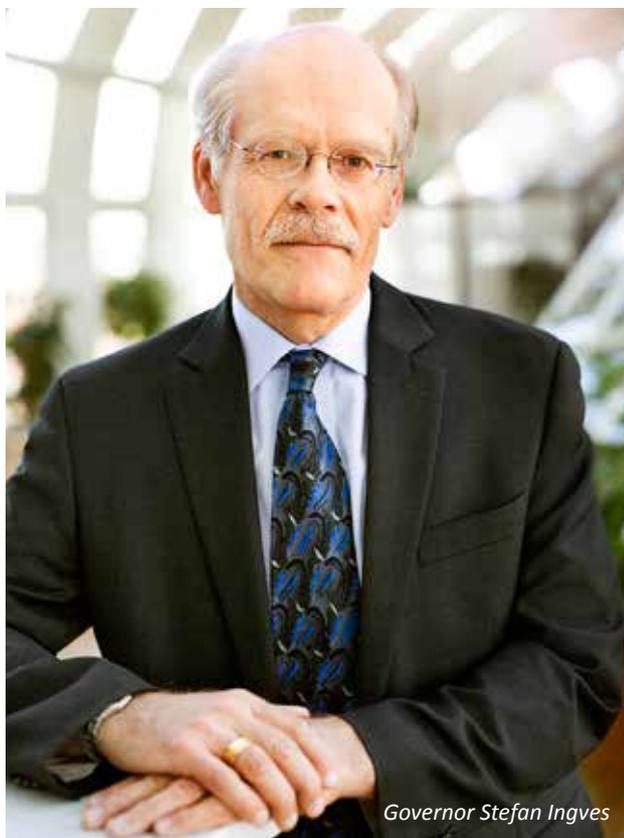
10% of the average adjusted profit	347
Price loss recorded on the balance sheet	2 720
Rounding off of transfer	-19
Adjusted profit less average profit	-5 064

**Total** **-2 016**

# Annual Report for Sveriges Riksbank 2015



## Statement by the Governor



Governor Stefan Ingves

*The Swedish economy went through some unusual times in 2015. Growth was relatively strong and unemployment fell – very much due to the expansionary monetary policy – while international development was weak. However, the historically low interest rates are increasing the risk that Swedish households will continue to take on debt. The Riksbank has raised the need for measures to dampen this trend on several occasions.*

*Sweden's largest banknote changeover was initiated in 2015, and the Riksbank started to issue the new 20, 50, 200 and 1,000-krona banknotes. To ensure that the banknote changeover went smoothly, the Riksbank implemented measures including a comprehensive information campaign*

### **Expansionary monetary policy to safeguard the inflation target**

The international recovery continued in 2015 from a weak starting point, but uncertainty prevailed concerning the strength of global economic activity. Inflation was low internationally, and many central banks pursued a very expansionary monetary policy aimed at pushing up inflation towards their respective targets. International interest rates therefore remained very low. Despite the weak interna-

tional development, growth in Sweden was relatively favourable. Consumption, housing investments and lower unemployment in Sweden contributed towards this development. However, Swedish inflationary pressures continued to be low. If the effects of the Riksbank's repo rate cuts and energy prices are excluded, inflation was 0.9 per cent measured in terms of the CPIF and 1.4 per cent measured in terms of the CPIF excluding energy.

In 2015, the Riksbank continued to conduct an increasingly expansionary monetary policy to support the positive development of the Swedish economy and maintain the strength of the upturn in inflation. The repo rate was gradually lowered to –0.35 per cent and purchases of Swedish nominal government bonds were conducted for monetary policy purposes. The Riksbank also decided that these purchases of government bonds were to amount to a total of SEK 200 billion by the end of the first six months of 2016. The Riksbank's assessment is that the repo rate will not be raised until the first half of 2017, when CPIF inflation has stabilised around 2 per cent. The Riksbank also maintained a high level of preparedness to rapidly make monetary policy even more expansionary, even between ordinary monetary policy meetings, should inflation prospects have deteriorated over the year. The purchases of nominal Swedish government bonds were the main reason that the balance sheet had increased by SEK 161 billion to SEK 663 billion by the end of the year. At the same time, deposits from the banking system increased by SEK 165 billion to SEK 214 billion.

It is the Riksbank's task to safeguard price stability. This is emphasised by the Riksbank's expansionary monetary policy which, over the year, contributed towards CPIF inflation continuing to rise towards 2 per cent. However, the trend of long-term inflation expectations has been below the Riksbank's target of 2 per cent for a longer time. A well-anchored inflation target makes it easier for households and companies to make well-founded economic decisions and lays the foundation for efficient pricesetting and wage formation. Continued high confidence in the inflation target creates the conditions for a good economic development. The Riksbank therefore considered that monetary policy needed to become even more expansionary over the year.

### **Necessary to brake household indebtedness**

As monetary policy has become increasingly expansionary, the Riksbank has, on many occasions, emphasised the risks the low interest rate situation may entail. These risks are linked with continued rising housing prices and increased indebtedness among households in Sweden, among other things. Over the long term, these risks may threaten both the Swedish economic development and the financial stability. The experiences from the international financial crisis of

2007–2009 have shown that financial stability is one of several necessary conditions for macroeconomic stability and price stability. This unease over household indebtedness is shared by Finansinspektionen (the Swedish Financial Supervisory Authority), the National Institute of Economic Research, the Swedish National Debt Office and the Riksbank. International analysts also warning about indebtedness include the Bank for International Settlements (BIS), the European Commission and the European Parliament, the International Monetary Fund (IMF) and the Organisation for Economic Cooperation and Development (OECD).

The basic problem is that the Swedish housing market does not function well – it is unable to meet the rising demand for housing. It is therefore important that more housing be built, but this takes time. During this time, reforms are needed to obtain a better balance between supply and demand on the housing market. The tax system also needs to be reviewed to reduce households’ incentives to incur debt. The responsibility for such reforms lies with the Riksdag and the Government. It is also of the utmost importance that the Riksdag and the Government bring clarification to Finansinspektionen’s mandate for macroprudential policy. Regarding the need for macroprudential policy measures, we consider that a legislative amendment making it possible to introduce an amortisation requirement is a step in the right direction, but that further measures are needed.

### Vulnerabilities in the Swedish banking system

We assessed that the Swedish financial system functioned well in 2015, at the same time as the financial infrastructure was highly secure and efficient. The Riksbank’s payment system for large-value payments (RIX) also functioned well. We conducted several exercises, both independently and together with the participants in RIX, to ensure that payments can continue to be made in the event of technical disruptions.

However, the Riksbank considers that the Swedish banking system is vulnerable, partly because it is large in comparison to the Swedish economy, and partly because it is concentrated around a small number of participants who are closely interlinked. In addition, the major Swedish banks are dependent on wholesale funding, a large part of which is in foreign currency. The banks are thus sensitive to both disruptions on the international financial markets and to impaired confidence in the Swedish banking system. In a situation of heavily-increased stress, it may become significantly more difficult and expensive for Swedish banks to obtain funding.

The expansionary monetary policies in Sweden and abroad are contributing towards increased investment and higher consumption and thereby to higher economic growth. At the same time, the monetary policy being conducted, with low interest rates worldwide, risks increasing the vulnerability of

the financial system through assets being overvalued and various types of risk not being fully priced. We therefore deem that the long period of low interest rates has increased the vulnerability of the Swedish banking system. The increasing indebtedness of Swedish households is fuelling this development. It may take nothing more than unease over an imminent fall in housing prices for the banks’ wholesale funding of lending to mortgage holders to be impacted. The risk of this would probably increase with higher indebtedness. In our opinion, the banks need to introduce further stability measures to reduce the vulnerability of the Swedish banking system.

### Sweden received new banknotes

In October 2015, we entered the first stage of the changeover of Sweden’s banknotes and coins when the new 20, 50 and 1,000-krona banknotes were introduced. The banknotes have new security features providing better protection against counterfeiting. We also introduced a new denomination, the 200-krona banknote, to make cash usage more efficient.

In 2015, we carried out a major information campaign to keep the general public, banks and retail trade well-informed over the banknote changeover. We also worked on various practical preparations ahead of the changeover and consulted with cash market agents. We made it simpler for the general public to redeem invalid banknotes and streamlined this part of our operations. Over the year, we also made it possible for private individuals and others to redeem commemorative coins at the Riksbank by sending them to us.

After many years’ work preparing for the changeover, it feels very satisfying to see the banknotes out in society. I hope that everyone in Sweden likes the new banknotes and finds them easy to pay with. I also hope that everyone is aware of the new security features and remembers to tilt the banknote to check that it is genuine.

### Committed and motivated employees

Our employees’ expertise and efforts form a precondition for the Riksbank’s ability to take care of its policy tasks and fulfil its commitments. During the spring, we once again carried out an employee survey, which showed that 8 out of 10 employees feel motivated and committed to their work, and that even more report that their work duties feel meaningful. I find this cheering, together with the fact that so many have a high level of confidence in management and feel that there is a good discussion climate here.

  
**Stefan Ingves**

# The year at a glance

*In 2015, the following economic outcomes and events had a great impact on the Riksbank's activities:*

- Growth in the Swedish economy was relatively good, despite the weak demand abroad. According to the Riksbank's assessment in December, GDP grew by 3.7 per cent in 2015. Consumption, housing investments and lower unemployment in Sweden contributed towards this development.
- The number of persons in the labour force and the number of persons employed increased by 0.8 and 1.4 per cent over the year. Unemployment thereby fell gradually and averaged 7.4 in 2015, which was 0.5 percentage points lower than in 2014.
- Inflation, measured as the change in the consumer price index (CPI), amounted to 0.0 per cent as an annual average. If the effects of the Riksbank's repo rate cuts and the decrease in energy prices are excluded, inflation averaged 0.9 per cent measured in terms of the CPIF and 1.4 per cent measured in terms of the CPIF excluding energy.
- In 2015, the Riksbank continued to conduct an expansionary monetary policy to support the positive development of the Swedish economy and maintain the strength of the upturn in inflation. The repo rate was gradually cut to -0.35 per cent and Swedish nominal government bonds were purchased for monetary policy reasons to a value of SEK 135 billion. The forecast for when it will be possible to start to raise the repo rate was also moved back by six months, from mid-2016 to the start of 2017.
- It is important that inflation rises and stabilises around 2 per cent. This contributes to long-term inflation expectations that are compatible with the inflation target. In addition to holding the repo rate at a historically-low level, the Riksbank thus decided in 2015 that purchases of Swedish nominal government bonds should amount to a total of SEK 200 billion by the end of the first six months of 2016. The Riksbank also maintained a high level of preparedness to quickly make monetary policy even more expansionary if inflation prospects were to deteriorate, even between the ordinary monetary policy meetings.
- The Riksbank assessed that the Swedish financial system was functioning well at the same time as the financial infrastructure was highly secure and efficient. The Riksbank considered that there were vulnerabilities in the structure of the Swedish banking system and risks linked to the globally-low interest rates. Low interest rates may lead to a high level of risk-taking among financial participants, companies and households, and to assets being overvalued. In a situation of heavily-increased stress on the financial markets, it may become significantly more difficult and expensive for Swedish banks to obtain funding.
- The low lending rates to Swedish households have also contributed towards housing prices having risen and towards indebtedness having increased among households. The Riksbank pointed out the risks entailed by this on a number of occasions over the year. Over the long term, this indebtedness may threaten both the development of the real economy and financial stability in Sweden. A stable financial system is a prerequisite for the Riksbank to be able to conduct an effective monetary policy. The Riksbank emphasised the need for structural reforms to increase the supply of housing and for macroprudential policy measures such as the Government's proposed amortisation requirements. In addition, other measures are necessary, such as a review of tax relief on mortgages.

- In October 2015, the new 20, 50, 200 and 1,000 krona banknotes were introduced. The banknotes have new security features providing better protection against counterfeiting. A major information campaign was conducted to keep the general public, the banks and the retail trade well-informed of the banknote changeover. The Riksbank consulted with cash market agents to get various practical preparations into place ahead of the changeover.
- The Riksbank reported a profit of SEK 2.0 billion for 2015. Compared with 2014, the profit fell by SEK 1.3 billion, primarily due to write-downs related to the Riksbank's assets. The balance sheet total increased over the year by SEK 161.0 billion to SEK 663.4 billion, primarily due to the Riksbank's purchases of Swedish government bonds with the aim of making monetary policy more expansionary.
- The market value of the gold and foreign exchange reserves, including net receivables from the International Monetary Fund (IMF), increased in 2015, from SEK 464.0 billion to SEK 465.0 billion.

Key figures	2013	2014	2015
<b>At year-end</b>			
Profit for the year (SEK billion)	-2.0	3.3	<b>2.0</b>
Gold and foreign currency reserves (SEK billion)	398	464	<b>465</b>
Total assets (SEK billion)	432	502	<b>663</b>
Average number of employees	336	329	<b>341</b>
<b>On average</b>			
Repo rate (per cent)	0.75	0.00	<b>-0.35</b>
Short-term interest rate (three-month T-bills, per cent)	0.73	0.09	<b>-0.46</b>
Long-term interest rate (ten-year government bonds, per cent)	2.49	0.92	<b>0.99</b>
GDP (percentage change)	1.2	2.3	<b>3.7</b>
Unemployment (per cent)	8.0	7.9	<b>7.4</b>
Inflation, CPI (percentage change)	0.0	-0.2	<b>0.0</b>
Inflation, CPIF (percentage change)	0.9	0.5	<b>0.9</b>

Note. The table presents the outcome for all items with the exception of GDP and unemployment data for 2015, which are stated according to the Riksbank's forecast from December 2015. Statistics Sweden revised the National Accounts in 2014, entailing an adjustment of the GDP figure for 2013, compared with the Annual Report from 2014. The GDP figure for 2014 is the outcome for the year, while that given in the Annual Report for 2014 was a forecast. CPIF is estimated as CPI with a fixed mortgage rate. The data in the table have been rounded off.

Sources: Macrobond, Statistics Sweden and the Riksbank.

In accordance with Chapter 10, Article 3 of the Sveriges Riksbank Act (1988:1385), the Annual Report for Sveriges Riksbank includes an administration report, a balance sheet, a profit and loss account and a statement of internal control. In the administration report, the Riksbank describes how the Bank has conducted monetary policy, promoted a safe and effective payment mechanism and carried out other tasks during the financial year. In its appendices, the Annual Report also reports on a number of other areas such as the operations of the Riksbank's departments, consultation work and publications.

In accordance with Chapter 10, Article 3 of the Sveriges Riksbank Act, the Executive Board of the Riksbank submits this report of the activities of the Riksbank in 2015 to the Riksdag, the Swedish National Audit Office and the General Council of the Riksbank.

## 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. The Riksbank also describes and explains inflation and monetary policy using other inflation measures. One important 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. The CPIF is thus inflation measured in terms of the CPI with a fixed mortgage rate.

The Riksbank's monetary policy is aimed at attaining the inflation target at the same time as it supports the objectives of general economic policy, whose aim is to achieve sustainable growth and high employment. The Riksbank does this by endeavouring both to stabilise inflation around the inflation target and to stabilise production and employment around paths that are sustainable in the long term. The Riksbank thus conducts what is referred to as flexible inflation targeting. The inflation target, however, takes precedence.

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. When the repo rate is close to its lower bound, complementary monetary policy measures may be necessary if monetary policy needs to become more expansionary. Another common purpose of complementary measures may be to clearly signal that the central bank is taking sufficient measures to ensure that inflation expectations are compatible with the inflation target in the long run. This also contributes to inflation rising towards the inflation target.

The Riksbank monitors and analyses risks in the financial system to ascertain how these affect general economic development. Over the long term, these risks may threaten both the development of the real economy and financial stability in Sweden. Responsibility for measures reducing these risks, such as those linked to households' rapidly growing indebtedness, lies with the Government and other authorities.

### **A safe and efficient payment mechanism – financial stability**

The Sveriges Riksbank Act states that the Riksbank shall 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 through preventive work and crisis management. The fundamental functions of the financial system are mediating payments, converting savings into funding (capital supply), and managing risks. As the financial system has 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. Many companies on the financial market are supervised by Finansinspektionen. Recently, a framework for

supervision of the financial system as a whole and tools for managing risks in it, known as macroprudential policy, has also been developed nationally and internationally.

The Sveriges Riksbank Act does not describe in detail what is meant by promoting a safe and efficient payment system. However, it is clear that the Riksbank has responsibility for the supply of cash and for providing a central payment system (RIX). A stable financial system is also needed for payments and the supply of capital to function well. The Riksbank, like other central banks, must therefore also safeguard financial stability by managing financial crises and other serious disruptions to the financial system, above all by adding liquidity to the system.

The Riksbank has a responsibility to reduce the risks to the financial system as a whole if it is to be able to carry out both its policy tasks – maintaining price stability and promoting a safe and efficient payment system. 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.

#### *Financial stability – preventive work and crisis management*

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 analysis focuses primarily on the major Swedish banking groups (Handelsbanken, Nordea, SEB and Swedbank), the functioning of the financial markets and the financial infrastructure required for payments by the public and the financial markets in Sweden to function.

The Riksbank works preventively by calling attention, in public and in dialogue with financial system participants, to risks and events that may threaten financial stability, both in Sweden and internationally. In this connection, the Riksbank makes recommendations, not only to banks and other participants in the financial markets but also to legislators and other authorities, with the aim of getting them to understand and rectify the risks identified.

The Riksbank is in a position to influence the framing of laws and regulations that relate to supervision and crisis management, both by responding to consultation documents and by actively participating in the work of a number of international organisations. This international cooperation is important for several reasons. The globalised financial sector needs a clear and strong regulatory framework. As well as this, cooperation is also needed to make it possible to continually adjust and reinforce the forms for coordinated oversight and supervision by national authorities. Cooperation is also important as it facilitates the exchange of information the discussion of current risks and the development of risk-prevention work.

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 in a way that will 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.



*On 6 August, the Riksbank, with Deputy Governor Cecilia Skingsley as speaker, inaugurated the exhibition on the 200-krona banknote at the Bergman Centre on the island of Fårö.*

Supplying liquidity may mean that the Riksbank makes it easier for banks to borrow temporarily from the Riksbank under specific conditions. The Riksbank can also provide liquidity assistance to individual institutions on special terms and conditions. A more detailed description of the Riksbank's preventive work and crisis management can be found in the Riksbank's publication *The Riksbank and financial stability* (2013).

#### *Macroprudential policy's importance for the Riksbank's tasks*

The international financial crisis of 2007–2009 led to parts of the work of trying to discover, analyse and counteract risks in the financial system as a whole being gathered in the new policy area of macroprudential policy. Macroprudential policy has two primary functions. Firstly, it is to strengthen the resilience of the financial system, for example by measures giving the banks enough capital to manage loan losses. Secondly, it should counteract the build-up of financial imbalances, such as untenable indebtedness and lending that could later lead to costly adjustments. Exactly what is to be included in macroprudential policy, which tools should be used, and the effects these tools should have are still not clear as the policy area is under development.

In Sweden, Finansinspektionen holds responsibility for the instruments so far in place to influence financial stability. The Swedish framework for financial stability was also complemented in 2014, when the Financial Stability Council was established with representatives of the Government, Finansinspektionen, the Swedish National Debt Office and the Riksbank. The Council discusses issues of financial stability and possible measures to counteract the accumulation of financial imbalances. In the event of a financial crisis, the Council will discuss possible measures to deal with the situation. However, the Council is only a forum for discussion and not a decision-making body. This means that the authorities represented can communicate their opinions on what they consider should be addressed, but decisions on which measures should be adopted are taken independently within each member's area of responsibility.

#### *Secure and efficient financial transfers*

One way for the Riksbank to promote a safe and efficient payment mechanism is to provide the central payment system RIX that makes it easier for the market participants to make mutual financial transfers without credit or liquidity risks. RIX handles large payments between banks and other players in a safe and efficient way. In addition, the banks, clearing houses and other market agents participating in RIX always receive access to funding in Swedish kronor during the day against collateral in securities. The Riksbank accepts as collateral mainly bonds or other debt instruments with a high credit rating. 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 is thus of decisive importance to the efficient functioning of the Swedish financial system. Consequently, the Riksbank has set high targets for its availability and functionality.

RIX is also of great significance to the operational framework for the implementation of monetary policy. This is because the interest rates on the participants' accounts in the Riksbank are directly linked to the repo rate. These interest rates steer short-term interest rates on the financial markets. The Riksbank itself also carries out various transactions via RIX, such as monetary policy transactions of various types, and provides credits for extraordinary measures. More information on RIX and the framework for the implementation of monetary policy can be found in the Riksbank's report *The Swedish Financial Market* (2015).

### *Safe and efficient cash supply*

The Riksbank's task of promoting a safe and efficient payment system also includes the exclusive right to issue banknotes and coins in Sweden and responsibility for the country's cash provision. 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 and commemorative coins. 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 also follows developments on the payment markets and analyses the use of cash and alternative means of payment in the economy.

### **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 conditions exist for the credibility of the inflation target.

The Riksbank's independent status is also reflected in its financial independence, guaranteed, among other things, through the right to manage financial assets. The aim of asset management is to ensure that it can fulfil its statutory objective and perform its tasks of implementing monetary policy, being prepared to intervene in the foreign exchange market and being able to provide temporary liquidity assistance to banks. Therefore the composition of the assets must ensure the tasks can always be performed. On the basis of this, asset management concentrates on achieving as high a long-term return as possible in relation to the risk determined for this management by the Riksbank. A good long-term return on the assets also strengthens the Riksbank's financial independence.

### **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. This also creates confidence in how the Riksbank assesses and handles the situation on the financial markets. The Riksbank's explanations of its assessments also 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 communication 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. Much of the Riksbank's analysis work is also presented in report form (see Appendix 3). Moreover, the models used by the Riksbank in its analyses are publicly available – both macroeconomic forecast models and models for stress tests of banks.

# 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. No major organisational changes were carried out in 2015 and operations proceeded on the basis of the strategic plan A 350-year old at the forefront. The Riksbank's employee survey showed that employees are committed and motivated in their work.*

## ORGANISATION

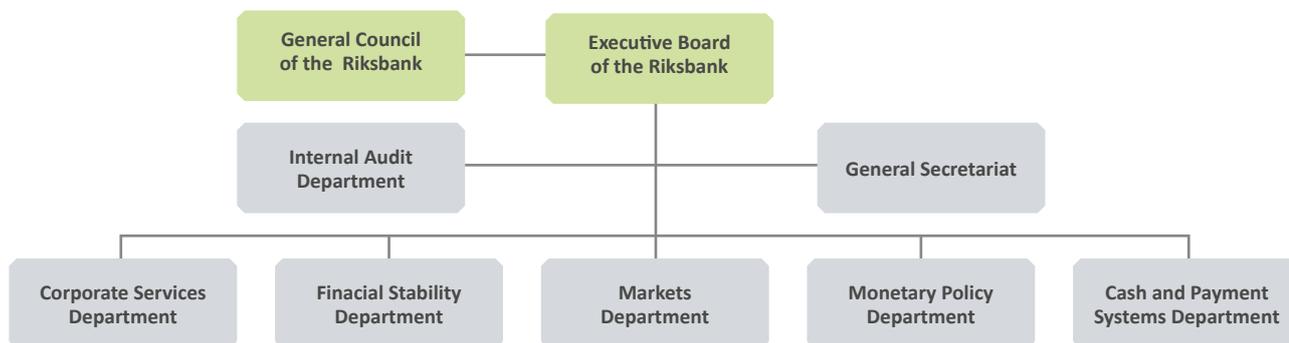
In 2015, the Riksbank consisted of seven departments (see Chart 1 and Appendix 1). Four of the departments work directly with the bank's main tasks: the Monetary Policy Department, the Financial Stability Department, the Markets Department and the Cash and Payment Systems Department.

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 Communications Department is also included in this group. The Head of the General Secretariat chairs the Management Group.

### Changes in the organisational structure

Since the partial reorganisation of the Riksbank in 2014, no major organisational changes have been carried out. On a departmental level, the largest changes were made by the Markets Department, which made further adjustments to its operations, partly to maintain preparedness to implement complementary monetary policy measures, and partly to develop the management of the foreign exchange reserve.

Figure 1. The Riksbank's organisation in 2015



## 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 holds joint responsibility for the Bank's strategic management, while the General Council appoints the members of the Executive Board, adopts the Riksbank's Rules of Procedure and monitors operations.

### Executive Board of the Riksbank

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

#### The Executive Board'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, in accordance with the Instructions that the Executive Board decides upon itself, 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 Board held a total of 32 meetings during 2015, six of which were meetings by circulation and six of which were monetary policy meetings.

At least twice a year, the Executive Board is required to present a written report on monetary policy to the Riksdag Committee on Finance. The first of these consists of a specific report, the Account of Monetary Policy, compiled for the Riksdag Committee on Finance at the beginning of the year. The second report is presented to the Committee in the autumn, in conjunction with the publication of a Monetary Policy Report. This report is supplemented on each occasion by a public hearing. As of 2012, three hearings are held on monetary policy per year and, since the autumn of 2012, 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, members of the Executive Board participated in one open hearing on cash handling and four closed hearings at the Committee on Finance.

## The Executive Board on 31 December 2015



**Stefan Ingves**, term of office six years from 01 January 2012

Stefan Ingves is Governor of the Riksbank and Chairman of the Executive Board. He took up the post on 1 January 2006 for a term of office of six years and received a further term of office to lead the Executive Board of the Riksbank for another six years from 1 January 2012. Mr Ingves is a member of the General Council of the European Central Bank (ECB) and a member of the Board of Directors of the Bank for International Settlements (BIS), as well as Sweden's representative in the Board of Governors of the International Monetary Fund (IMF). He is also Chairman of the Basel Committee on Banking Supervision (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 General Board of the ESRB and the Resolution Steering Group (ReSG) of the FSB, and is a Swedish member of the BCBS. She is also the Governor of the Riksbank's alternate on the ECB General Council. Kerstin 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.



**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' (SNS) Economic Policy Group.



**Per Jansson**, term of office five years from 1 January 2012

Per Jansson is Deputy Governor of the Riksbank. He represents the Riksbank on the EU Economic and Financial Committee (EFC), in the IMF cooperation between Sweden, the Netherlands, Belgium and Switzerland (G4) and on the Nordic-Baltic Monetary and Financial Committee (NBMFC). He is also a deputy on the International Monetary and Financial Committee (IMFC). 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 from 2003 to 2006 and as a Head of Division from 1996 to 2000.



**Henry Ohlsson**, term of office six years from 12 January 2015

Henry Ohlsson is Deputy Governor of the Riksbank. He represents the Riksbank on the ATC of the ESRB, on the International Relations Committee (IRC) of the ECB, and on the Regional Consultative Group (RCG) of the FSB. Mr Ohlsson is professor of economics at Uppsala University and his previous positions include Chair of the Economic Council of Swedish Industry, member of the board of the Swedish Public Employment Service and chairman of the Economic Council for the Manufacturing Industry.



**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 Committee on the Global Financial System (CGFS) and on the Euro Retail Payments Board (ERPB). She is also the Governor of the Riksbank's alternate on the Board of Directors of the BIS. 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.

## The 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 a Chairperson and a Vice Chairperson from among its members.

The General Council consisted of the following members on 31 December 2015: Susanne Eberstein (Chairperson), Michael Lundholm (Vice Chairperson), Hans Hoff, Peter Egardt, Caroline Helmersson Olsson, Martin Kinnunen, Hans Birger Ekström, Anders Karlsson, Roger Tiefensee, Agneta Börjesson and Chris Heister. The deputy members were Catharina Bråkenhielm, Elisabeth Björnsdotter Rahm, Tommy Waidelich, Oskar Öholm, Ann-Kristine Johansson, Olle Felten, Carl B Hamilton, ClasGöran Carlsson, Karin Nilsson, Esabelle Dingizian and Stefan Attefall.

### The General Council's tasks

The General Council appoints the members of the Executive Board and decides on their salaries and other terms of employment. The General Council adopts the Riksbank's Rules of Procedure, which specify the Riksbank's overall organisation and the regulation of certain managerial and decision-making matters. The General Council also determines 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.

According to the preparatory works from 1997/98 to amendments to the Sveriges Riksbank Act, the General Council also 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 Chairperson and Vice Chairperson attending the Executive Board meetings. The Chairperson and Vice Chairperson 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 submits consultation responses within its field of competence and the Executive Board consults with the General Council on reports and formal communications with proposals to the Riksdag and the Government regarding government amendments to statutes or other central government measures.

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

During the year, the General Council held nine meetings.

An account of the General Council's activities is presented in the General Council's submission to the Riksdag 2015/16:RB2 Proposal for the allocation of the Riksbank's profits for the accounting year 2015 and the General Council's annual report for 2015.



*Media attention was great when Governor Stefan Ingves walked to the nearby bookshop Akademibokhandeln and bought a book of stories about Pippi Longstocking with the very first 200-krona banknote.*

## 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 vision, a strategic plan, an annual business plan and internal regulations in the form of policies, rules and procedures.

The Riksbank's vision is to be among the best in terms of quality and efficiency in order to maintain a high level of public confidence. This means that the tasks are to be fulfilled to a high standard and for a reasonable cost. The Riksbank thus contributes to a stable development of the economy for companies and households in Sweden.

The vision's level of ambition means that the Riksbank must be among the best in comparison with other central banks and other comparable authorities, academic institutions and private companies. The vision is given more concrete form in operational objectives and result indicators for the Riksbank's different target areas. In 2015 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 Riksbank area. The bank-wide area was, in turn, divided up into seven parts: communication, employees, management and governance, IT, administrative support and service, environment and resources.

### Activities developed on the basis of a strategic plan

The Riksbank's business plan is based on a strategic plan that describes the task, vision and direction of future business plans. The strategic plan used as a guide for 2015 has the theme A 350-year old at the forefront, aimed at the Riksbank's jubilee in 2018. The plan was adopted in the autumn of 2014 and consists of three strategic objectives: that all areas of the Riksbank's operations are to be in line with the times and the rest of the world, that it is to have an inspiring working climate that contributes to setting the right priorities and effective work, and that it is to achieve results of high quality to earn a high level of public confidence. These strategic objectives are to be attained with the aid of ten strategic priorities which will, in turn, be given more concrete form with action plans in the annual business plans.

### 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 of the General Secretariat follows up internal control on the basis of the governance and control environment, risk analysis, control mechanisms, information and communication, and follow-up and evaluation.

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

### **The Riksbank uses indicators to measure results**

Each target area within the Riksbank's operations has its own targets that are intended to put the implications of the vision's ambition, "among the best", into concrete terms for the area. One or more result indicators are linked to each target, and these are intended to give a view of how well the Riksbank is fulfilling this ambition level. One example is the Riksbank's forecasting performance, where one of the indicators is an annual comparison with nine other forecasters. For this indicator, "among the best" has been interpreted as being placed among the three best in the ranking.

The Executive Board received two follow-up reports over the year summarising the status of the indicators, the action plans, the budget and the operational risks. Any measures or reprioritisation that the results suggested may have been necessary were discussed in conjunction with these follow-ups. In total, 94 indicators were linked to the targets in the 2015 business plan. Of the 86 indicators that could be evaluated, just over 80 per cent recorded positive results in the follow-ups. The results from the Riksbank's various operational areas are presented under the respective sections of the annual report.

### *Confidence among the Riksbank's target groups*

The Riksbank's vision is to be among the best in order to maintain a high level of public confidence. To monitor the development of public confidence and the confidence of various target groups in the Riksbank, the Riksbank uses regular external surveys. The SOM Institute's report *Förtroendet för Riksbanken* (Confidence in the Riksbank) and *Medie-Akademins* confidence barometer measure and compare confidence in a number of different institutions and organisations in Sweden. In 2015, these surveys showed that the general public continues to have high and rising confidence in the Riksbank. TNS Sifo's annual survey of the reputation of Swedish authorities showed continuing high confidence in the Riksbank, even if this had decreased slightly against the previous year.

### *Communication*

Media reporting on the Riksbank was more comprehensive in 2015 than in the previous year, among other reasons because the members of the Executive Board of the Riksbank were more active in the media. Reporting most often focused on monetary policy, but financial stability and the launch of the new banknotes also received significant attention in the media.

### **Risks in the Riksbank's activities**

The Riksbank's activities entail both financial and operational risks. The Risk Division reports its independent assessment of the Riksbank's financial and operational risks to the Executive Board three times a year. The financial risks arise above all in the management of the gold and foreign exchange reserves and are described in more detail in the article "The Riksbank's financial risks" 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 in manning, internal processes or IT systems, or are due to 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 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 Riksbank works systematically with the management of operational risks on the basis of an established, bank-wide process. This process is subject to continuous development, and risk management and business planning are integrated through coordinated follow-up processes.

The risks that have been identified historically in the Riksbank's activities primarily relate to the handling of confidential information, IT support, 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 operations' annual risk analyses and incident reports indicate that the risk level for the Bank as a whole has not changed significantly in 2015.

The Riksbank's monetary policy communication was characterised both by the message that inflation is on the way up and by the decision that the Riksbank is prepared to adopt more monetary policy measures if necessary. At the same time, media reporting was characterised by issues surrounding the Riksbank's ability to cause inflation to rise and the design of the inflation target, as well as by the consequences of the low repo rate for housing prices and household indebtedness. However, the proportion of reporting that was critical of monetary policy was smaller than in the previous year. The inflation target also formed a prominent part of discussions between employee and employer organisations during the opening phase of wage bargaining rounds.

Over the year, the Riksbank continued to highlight the risks inherent in households' high levels of indebtedness via its Monetary Policy Reports, its Financial Stability Reports, the Financial Stability Council, speeches, and opinion pieces in newspapers.

The banknote and coin campaign ahead of the launch of the new banknotes on 1 October contributed towards frequent attention from the media over the year (see the section "Cash provision"). The launch day received great attention from the media. The campaign was successful and resulted in over 90 per cent of the general public being aware that Sweden would receive new banknotes in October.

## EMPLOYEES

At the end of 2015, the Riksbank had a total of 386 employees (341 full-year equivalent positions). Employees often face challenges in the form of complex tasks and high demands. According to the Riksbank's strategic plan, the working climate should be inspiring and should contribute towards setting the right priorities and working efficiently. An important part of achieving an inspiring working climate in which everybody takes responsibility for a good working environment is efficient leadership and employeeship.

### **Strategic investment in leadership and employeeship**

An investment in a more in-depth leadership and employeeship programme was initiated with the aim of meeting the bank's prioritised objectives in the strategic plan. At the annual leadership conference, the focus lay upon coaching leadership and innovation. During the year, the Riksbank's managers also met in a forum to go into various issues such as recruitment, wage-setting, alcohol abuse and stress.

### **The Riksbank as an attractive workplace**

For many years, the Riksbank has worked on strengthening its brand as an employer to recruit and retain competent staff. The results of this work, known as employee branding, include students of economics ranking the Riksbank as the most attractive employer within the public sector in the Business Tendency Survey for the third year in a row. Stefan Ingves was also nominated as CEO of the year by research company Universum.

### Motivation and commitment among employees

This positive view of the Riksbank as employer was also confirmed internally by the employee survey conducted in spring 2015 and participated in by 96 per cent of employees. The results show that employees are committed and motivated in their work and have a high level of confidence in management. There is a good climate for discussion and many employees feel confident in presenting their own ideas and points of view. On the other hand, a strong commitment can make it difficult to prioritise among work duties, which has led to stress in some groups. Action plans were developed on the basis of the results of the employee survey and part of these initiatives were concentrated on methods for stress management.

### Continued focus on health

The sickness rate among the Riksbank's employees was 1.8 per cent in 2015, which is an increase of 0.1 percentage points since 2014. As the sickness rate is low and the need for rehabilitation limited, the Riksbank has good possibilities to prioritise preventive health measures such as exercise, mindfulness and subsidised massage.

## ENVIRONMENTAL WORK

As far as is possible and compatible with the tasks and duties of the bank, the Riksbank strives to work preventively and promote reduced environmental impact. Environmental work is an integral part of operations and is part of the responsibility of every manager. The measures used by the Riksbank in its environmental work and their outcomes are presented in Table 1.

Table 1

#### Measures used to monitor environmentally-sustainable development

Measure	2013	2014	2015
Carbon dioxide emissions from official travel (tons), total per employee	1.21	1.35	1.42
Energy usage, total per employee (per square metre)	21.1 (0.31)	19.1 (0.27)	17.4 (0.23)

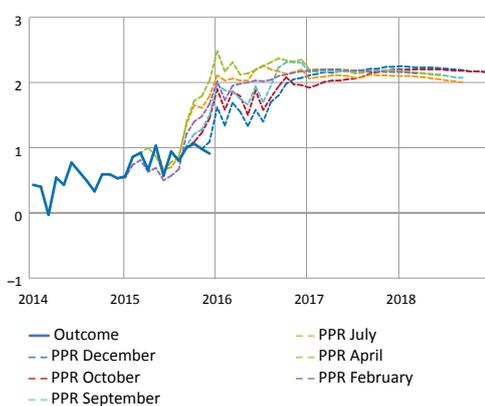
Source: The Riksbank.



Employees of the Riksbank were treated to a banknote cake in the staff dining hall on 1 October.

# Maintaining the value of money – price stability

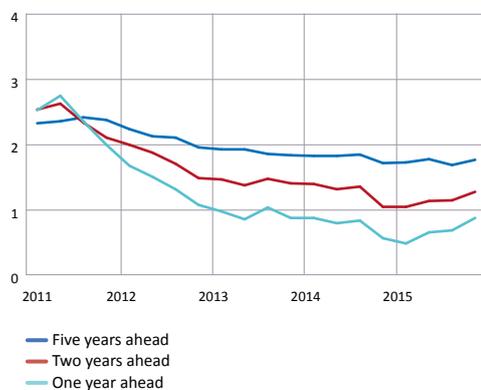
**Chart 1**  
CPIF and CPIF forecasts in 2015, annual percentage change



Note: The CPIF is the CPI with a fixed mortgage rate. The broken lines represent the Riksbank's forecasts.

Sources: Statistics Sweden and the Riksbank.

**Chart 2**  
Inflation expectations among all participants surveyed, per cent



Note: Participants surveyed are labour market parties, purchasing managers and money market participants.

Source: TNS Sifo Prospera.

Growth in the Swedish economy was relatively high in 2015. According to the Riksbank's assessment in December, GDP grew by around 3.7 per cent on an annual basis. Unemployment fell during the year and averaged 7.4 per cent according to the assessment made in December. The employment rate rose slightly over the year, while the labour force participation rate was largely unchanged. Inflation continued to be low, despite increasing gradually. The annual average of CPI inflation was 0.0 per cent and for CPIF inflation it was 0.9 per cent. In addition, if inflation is adjusted for the volatile energy prices, inflation amounted to 1.4 per cent (CPIF excluding energy).

Monetary policy became increasingly expansionary over the year to support the rise in inflation. The repo rate was cut from 0 per cent at the start of the year to -0.35 per cent by the end of the year. In addition, the Riksbank purchased Swedish nominal government bonds to make monetary policy even more expansionary.

## MONETARY POLICY DECISIONS

The Executive Board of the Riksbank normally holds six ordinary monetary policy meetings per year, at which it decides on the repo rate and other monetary policy measures. On these occasions, a Monetary Policy Report (MPR) is also published, which includes forecasts for the repo rate, inflation and other economic variables. A decision was also taken in 2015 to cut the repo rate at a meeting that was not included in the ordinary monetary policy meetings. Repo rate decisions are summarised in the article "Monetary policy decisions 2015".

The most important factor behind the increasingly expansionary monetary policy in 2015 was the low level of inflation. If inflation continued to be low for even longer, it was deemed that a risk would arise that long-term inflation expectations would fall. The inflation target's role as guideline for price and wage formation would thus also be weakened. The low interest rates also contributed towards rising housing prices and increasing indebtedness among households. The Riksbank therefore emphasised the importance of adopting measures to reduce the risks inherent in household indebtedness in particular. However, responsibility for implementing such measures lies with the Government and other public authorities.

The remaining part of this section presents a more detailed description of the development of the economy over the year and the background to the monetary policy decisions.

### More expansionary monetary policy in February so that inflation will rise towards the target

At the start of 2015, the Riksbank judged that the international recovery would continue at a slow rate in line with previous forecasts, but that the risks for a less favourable development had increased. This was for reasons including differences in economic development from region to region, which

resulted in differences in monetary policy between the United States and the euro area, as well as in large fluctuations on the foreign exchange markets. The economic-political developments in Greece also contributed towards the increased risks.

The prospects for the Swedish economy looked comparatively bright. GDP growth was expected to increase more rapidly and the labour market to become stronger in the period ahead. The most important factors behind this development were the low oil price, a weaker krona and the low repo rate. Inflation developed approximately as expected, and there were signs that inflation measured as the CPIF and CPIF excluding energy had bottomed out and could be expected to rise.

Consequently, ahead of the monetary policy meeting in February, the assessment was made that inflation was on the way up (see Chart 1). However, the prevailing level of inflation was still low and well below the Riksbank's target of 2 per cent. There was also deemed to be a risk that the low oil price would dampen inflation expectations, and thus inflation, more strongly than had been assumed in the forecast. Long-term inflation expectations had also shown a declining trend for a longer period and were below 2 per cent (see Chart 2).

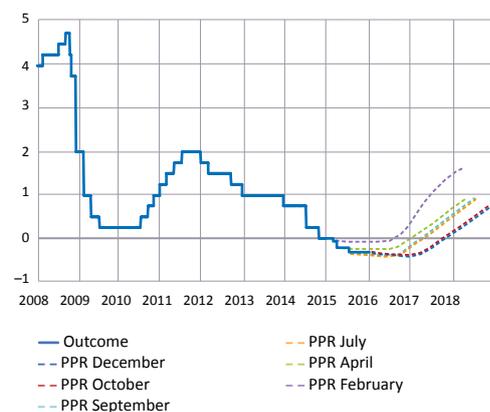
In light of this development, the Executive Board therefore considered that monetary policy needed to become more expansionary. The repo rate was cut by 0.10 percentage points to -0.10 per cent, and the forecast for the future repo rate was also adjusted slightly downwards (see Chart 3). In addition, it was decided that the Riksbank would purchase nominal government bonds with maturities from 1 year up to about 5 years in an amount of SEK 10 billion to make monetary policy more expansionary (see Chart 4 and the section "Monetary policy analysis" for a description of the effects of the purchase of nominal government bonds).

The more expansionary monetary policy was needed to safeguard the role of the inflation target as a nominal anchor for price-setting and wage formation. The Riksbank also announced that it could quickly make monetary policy even more expansionary if necessary, even between the ordinary monetary policy meetings. For example, the repo rate could be cut further, repo rate rises could be postponed, and purchases of government bonds could be extended. In addition, it stated that possibilities also existed to lend Swedish kronor directly to companies, to intervene on the foreign exchange market and to purchase other types of securities.

### Additional monetary policy measures in March to counteract the appreciation of the krona

In January, the European Central Bank (ECB) decided that, as of 9 March, it would purchase bonds to a value of EUR 60 billion per month, with a focus on government bonds. The ECB would continue to do this until September 2016, or until it could be seen that inflation was moving sustainably towards the target of just under 2 per cent. The ECB thereby intended to purchase financial assets for about EUR 1,100 billion over the period, corresponding

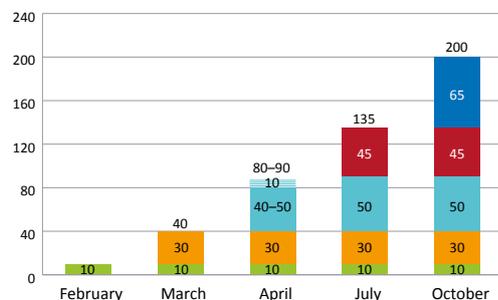
**Chart 3**  
**Repo rate and repo rate forecasts in 2015, per cent**



Note: The unbroken line represents outcome (daily data) and the broken lines represent the Riksbank's forecasts (quarterly averages).

Source: The Riksbank.

**Chart 4**  
**Purchases of nominal government bonds decided by the Riksbank, SEK billions**



Note: Government bond purchases will continue until the end of June 2016.

Source: The Riksbank.

to about SEK 10,000 billion. Since mid-February, the Swedish krona had started to strengthen against the euro at a rapid rate, which was linked with the ECB's planned asset purchases (see Chart 5).

Under these circumstances, the development of the krona was highly uncertain. A continuing appreciation of the krona could put a stop to the ongoing upturn in inflation. Continuing low inflation over an even longer period of time could increase the risk that long-term inflation expectations, which were already well below the inflation target, could fall further. In such a case, the role of the inflation target as guideline for price and wage formation would be seriously threatened. In addition, a continued appreciation of the krona would have a negative impact on the conditions for exports, with an increasingly strong appreciation of the krona having a correspondingly greater effect.

At a meeting outside the ordinary monetary policy meetings on 18 March, the Executive Board therefore decided that further measures were needed to safeguard the upturn in inflation. The repo rate was cut by 0.15 percentage points to  $-0.25$  per cent (see Chart 3). It was also decided to extend purchases of nominal government bonds with maturities of up to 25 years by a further SEK 30 billion (see Chart 4). These purchases were expected to be concluded by the start of May 2015.

#### Unchanged repo rate in April but extended purchases of government securities

Indications that inflation had started to rise from low levels became stronger in April. The Swedish krona had weakened over the previous year, entailing higher prices for imports and goods. Prices for services, which are not affected as much by the exchange rate, had also increased more rapidly than in 2014. There were also signs that inflation expectations had started

#### Monetary policy decisions 2015

**11 February** The repo rate was cut by 0.10 percentage points to  $-0.10$  per cent and the forecast for the future repo rate was adjusted slightly downwards. In addition, the Riksbank decided to buy nominal government bonds for SEK 10 billion. Deputy Governor Martin Flodén entered a reservation against the purchase of government bonds.

**18 March** The repo rate was cut by 0.15 percentage points to  $-0.25$  per cent and a decision was taken for the purchase of nominal government bonds for a further SEK 30 billion.

**28 April** The repo rate was held unchanged at  $-0.25$  per cent and a decision was taken

for the purchase of nominal government bonds for a further SEK 40–50 billion. In addition, the forecast for the future repo rate was lowered significantly compared with the decision in February.

**1 July** The repo rate was cut by 0.10 percentage points to  $-0.35$  per cent and the purchases of nominal government bonds were extended by a further SEK 45 billion from September until the end of the year. Deputy Governor Henry Ohlsson entered a reservation against the decision to cut the repo rate and preferred to hold it unchanged at  $-0.25$  per cent.

**2 September** The repo rate was held unchanged at  $-0.35$  per cent and the previ-

ous decision to purchase nominal government bonds until the end of the year was upheld.

**27 October** The repo rate was held unchanged at  $-0.35$  per cent. An initial raise of the repo rate was deferred for about six months compared with the previous assessment. The purchases of nominal government bonds were extended by a further SEK 65 billion.

**14 December** The repo rate was held unchanged at  $-0.35$  per cent and purchases of nominal government bonds continued according to the decision in October.

to rise slightly (see Chart 2). Additional positive signs included the continued improvements on the labour market and the good GDP growth. However, there was also some uncertainty over how rapidly Swedish companies would be able to continue to raise their prices.

Economic activity abroad improved slowly, more or less in line with the Riksbank's forecast, and the recovery of the euro area seemed to be on firmer ground. However, uncertainty over economic activity abroad remained high. Weaker international economic activity or a rapid appreciation of the krona could lead to inflation in Sweden not rising fast enough. The risk of a rapid appreciation of the krona remained heightened in light of the ECB's comprehensive bond purchases.

Against this background, the Executive Board decided, at the monetary policy meeting in April, to hold the repo rate unchanged but to extend purchases of nominal government bonds by an additional SEK 40–50 billion over the period May to September (see Charts 3 and 4). In addition, the forecast for the future repo rate was lowered significantly (see Chart 3). Slow increases in the repo rate were not expected to begin until the second six months of 2016. The forecast of the future repo rate also reflected the presence of some probability that the Riksbank would make further cuts to the repo rate.

The meeting emphasised that monetary policy needed to be highly expansionary to push up inflation and thus reduce the risks associated with a situation in which inflation is too low. Excessively low inflation over an extended period could weaken the credibility of the inflation target, which is to say that households and companies may stop expecting a rate of inflation of around 2 per cent a few years ahead. Among other effects, this would make it more difficult for them to form accurate expectations of the future development of prices and wages, which, in turn, would make it more difficult to agree on conditions for various types of agreements and contracts, such as wage agreements. Concerns were also expressed that the low interest rates could contribute towards the trends of rising housing prices and increasing indebtedness among households continuing (see Chart 6). To reduce the risks of household indebtedness in particular, several proposals for appropriate measures were made, including the introduction of an amortisation requirement. However, responsibility for implementing such measures lies with the Government and other public authorities.

### More expansionary monetary policy in July to support the upturn in inflation

By the start of the summer, it was possible to see increasing signs that the expansionary monetary policy was starting to have an effect. Inflation measured in terms of the CPIF had risen to 1.0 per cent. At the same time, economic activity was continuing to strengthen and the situation on the labour market to improve. Economic activity also strengthened in the euro area, even if several countries continued to be weighed down by high indebtedness and as-yet unsolved structural problems. Another source of unease was provided by developments in Greece, which made the situation for the euro area as a whole hard to assess.

Chart 5

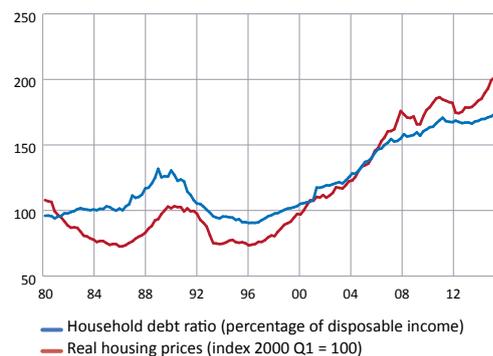
The development of the krona against the euro, SEK per EUR



Sources: The ECB and the Riksbank.

Chart 6

Real housing prices and household debt



Note: Real housing prices refer to the property price index (single-family houses) and debt refers to total debt. Housing prices have been converted from nominal to real terms by using the CPI.

Sources: Statistics Sweden and the Riksbank.



*Stefan Ingves presented Sweden's new banknotes at the exhibition on the 100-krona banknote at the Saga cinema in Stockholm, 9 September 2015.*

Since the monetary policy meeting in April, the foreign exchange and fixed-rate markets had been characterised by relatively wide fluctuations. The ECB's asset purchases and uncertainty over the timing and speed of the approaching interest-rate increases in the United States formed two factors contributing to this. The Swedish krona had also appreciated against several currencies, meaning that the trade-weighted exchange rate, KIX, was slightly stronger than was forecast in April. Uncertainty and the relatively strong fluctuations on the foreign exchange market made it difficult to assess how the exchange rate would continue to develop. If the exchange rate were to become too strong in relation to earlier forecasts, this could mean that prices of imported goods would increase more slowly and that demand in the Swedish economy would become lower. Such a development would risk breaking the upturn in inflation.

At the monetary policy meeting in July, we consequently made the assessment that monetary policy needed to be even more expansionary to ensure that inflation would continue to rise towards the target of 2 per cent. The repo rate was cut by 0.1 percentage points to –0.35 per cent. In addition, the planned purchases of nominal government bonds were extended by SEK 45 billion to a total of SEK 135 billion until the end of the year (see Chart 4). The purchases decided upon in April were expected to be concluded in September, at which point the new purchases would be initiated. The new bond purchases were expected to be concluded by the end of the year.

#### **Unchanged repo rate in the autumn but extended purchases of government securities in October**

Incoming statistics over the summer indicated that the international recovery was continuing. Growth improved in the United States and United Kingdom in the second quarter, while the euro area continued to grow at a moderate pace. However, uncertainty over economic developments abroad remained high. Among other things, there were tendencies towards less favourable development in China and other emerging market economies, which contributed towards prices for oil and other commodities falling. However, the Swedish economy continued to develop strongly and revisions to the forecasts were small overall.

For a longer period, the Riksbank had adopted strong measures to reduce interest rates in general in the Swedish economy and thereby to make monetary policy more expansionary. These measures were deemed largely to have functioned as expected (see the section "Monetary policy analysis"). The expansionary monetary policy was considered to have provided an important explanation for why inflation measured as the CPIF excluding energy had risen from around 0.5 per cent to 1.5 per cent over the last year. Monetary policy was expected to grant support to the continued positive development of the Swedish economy, and the forecast for CPIF inflation was close to 2 per cent in 2016.

The rising inflation in Sweden and the fact that the economy had developed according to the forecast formed the basis for the Executive Board's decision at the monetary policy meeting in September to hold the repo rate unchanged

at -0.35 per cent and to continue to purchase nominal government bonds according to the earlier plan. However, there were factors that could call for making monetary policy even more expansionary. The fall in oil prices could come to have a more significant effect on long-term inflation expectations. However, the risk of this was deemed to be slighter than previously, as inflation was now higher and inflation expectations had stopped falling. Another factor that entailed continued risks for the development of inflation was the uncertain development abroad, which was linked to unease over weaker development in China, among other things.

The international recovery had continued in the run-up to the monetary policy meeting in October, but uncertainty remained over the strength of it. Inflation was judged to be somewhat lower than in the previous forecast, and many central banks were expected to conduct an expansionary monetary policy for even longer. This was something that Swedish monetary policy needed to consider, as it risked strengthening the krona exchange rate further and faster than in the forecast. A new source of uncertainty was the large numbers of people fleeing to and seeking protection in Europe. However, it was too early to assess the macroeconomic effects of this either in Sweden or in the rest of Europe.

The worsened inflation prospects abroad and the new assessment that it would take stronger demand in Sweden to stabilise inflation around 2 per cent led to the inflation forecast being revised downwards slightly against September's forecast. The Executive Board decided that monetary policy needed to be more expansionary in order to underpin the positive development in the Swedish economy and safeguard the robustness of the upturn in inflation. Purchases of nominal government bonds were therefore extended by a further SEK 65 billion, bringing them to a total of SEK 200 billion by the end of the first six months of 2016 (see Chart 4). The repo rate was left unchanged at -0.35 per cent but an initial raise in the rate was deferred by approximately six months compared with the assessment from September (see Chart 3).

After the monetary policy meeting in October, the Swedish economy developed slightly more strongly than had been expected. The situation on the labour market continued to improve and indicators showed that labour demand remained high. The increased immigration was also expected to lead to higher employment in the short term, even if developments in the longer term were deemed to be less certain. In Prospera's quarterly survey for December 2015, inflation expectations rose compared with the survey from September.

Inflation remained low among many of Sweden's most important trading partners, even if it was expected to rise in the near future. It was deemed that international monetary policy was continuing to be expansionary: among other things, the ECB extended its bond purchases and lowered its deposit rate at the start of December. According to market pricing, the Federal Reserve was expected to raise the policy rate in December but continued increases were expected to take place slowly and from a low level.

The low level of international interest rates also meant that Swedish monetary policy needed to continue to be expansionary. Otherwise the krona exchange rate would be at risk of strengthening earlier and at a faster rate

**Table 2**  
**Comparison of different measures of inflation, annual percentage change**

	Annual average		
	2013	2014	2015
CPI	0.0	-0.2	0.0
CPIF	0.9	0.5	0.9
CPIF excluding energy	1.1	0.7	1.4

Sources: Statistics Sweden and the Riksbank.

**Chart 7**  
**The CPI, CPIF and CPIF excluding energy, annual percentage change**



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

Source: Statistics Sweden.

than in the forecast, which would make it harder to get inflation up and stabilise it around 2 per cent. A continued expansionary monetary policy was also needed to support a high level of demand in the Swedish economy and thus an upturn in more domestically-generated inflation. In light of this, the Executive Board decided, at the monetary policy meeting in December, to maintain the repo rate at –0.35 per cent and to continue to purchase government bonds in the first six months of 2016, as decided in October.

## 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 balance of payments, the financial markets and securities issues are produced and published on behalf of the Riksbank by Statistics Sweden (SCB). The Riksbank is responsible for the quality, content and development of the statistics. The Riksbank also participates in comprehensive international cooperation aimed at improving financial statistics. This includes providing statistical expertise to help develop international statistical standards and providing data for organisations like the Bank for International Settlements (BIS), ECB, Eurostat and the IMF.

The Riksbank compiles and publishes daily statistics for the turnover 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 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.

Reliable, accessible and relevant data and statistics form a necessary basis for the Riksbank's analysis. To ensure access to relevant data, the Riksbank has set up a committee for the supply of statistics and information. In 2015, this committee primarily worked on developing a strategy for the supply of data and information by the Riksbank. The Riksbank needs to organise its manage-

ment of data and information usage in a more appropriate manner for several reasons: The financial crisis demanded new analytical requirements at the same time as the possibilities for gathering new and significantly more detailed information are continually improving due to increasing Internet usage and other developments. As part of the development of the information supply strategy, the Statistics and Research Divisions arranged a workshop in the autumn on big data (large, complex data sets). This workshop discussed how other central banks use new, unconventional data sources and organise their information supply. The progress made by both academia and the private sector in the management and analysis of big data were also discussed.

For several years, the Riksbank has cooperated with Statistics Sweden on statistics, in which the Riksbank has commissioned Statistics Sweden to gather, compile and publish periodical statistics. The forms for cooperation and the statistical areas to be covered are clarified under 2015 in the Agreement on cooperation on statistics. The aim of the agreement is to create a framework for a long-term and trusting collaboration between the Riksbank and Statistics Sweden in their roles as the authorities responsible for economic statistics of different types.

In the spring of 2015, the Executive Board decided that the Riksbank should develop new statistical surveys to obtain an understanding of corporate credits and securities holdings in Sweden. These surveys will provide detailed information on Swedish companies' loans (loan by loan) and securities

holdings (security by security). This information is important if the Riksbank is to be able to deepen its analysis within financial stability and monetary policy of the risks in the banks' lending and securities holdings, for example. Statistics Sweden is conducting the surveys, and data is expected to be available for analysis towards the end of 2017.

The Statistics Division's tasks include critically reviewing the quality of statistics. In the spring of 2015, a report was published that analysed the growing gap between Sweden's financial net saving (current account) and Sweden's financial net position in relation to the rest of the world (international investment position). The background to this is that, for a long period, Sweden has had a significant surplus on the current account that has not been reflected by a corresponding increase in wealth in relation to the rest of the world. The report, which focused on statistical outcomes for the years 2008–2013, highlighted a number of factors that may explain why wealth has not developed in tandem with net savings in relation to the rest of the world. Among other observations, it was noted that the development of the Swedish krona is of great significance for the value of foreign assets in that the stronger the krona exchange rate is, the lower the value of foreign assets becomes when expressed in Swedish kronor. In addition, the report emphasised that Swedish statistics on the balance of payments and international investment position are of insufficient quality in some respects. For example, reliable statistical data for Swedish households' foreign assets are lacking.

## Follow-up

The Riksbank's monetary policy is evaluated by the Riksdag Committee on Finance. For this evaluation, the report Account of Monetary Policy is compiled and then published after the first Monetary Policy Report of the year. The report for 2015 will be submitted to the Riksdag in March 2016.

### Inflation still low

Inflation, measured in terms of the CPI, was, on average, 0.0 per cent in 2015 (see Table 2 and Chart 7). If the effect of the Riksbank's repo rate cuts is removed, inflation was higher. The repo rate cuts have reduced household mortgage costs, which has had a dampening effect on CPI inflation and led to CPIF inflation becoming higher than CPI inflation. Inflation, measured in terms of the CPIF, was, on average, 0.9 per cent (see Table 2 and Chart 7).

The oil price has fallen substantially over the last year, which has led to falling energy prices, among other effects. Inflation measured in terms of both the CPI and CPIF has thereby become lower than it would otherwise have been. If the effect of the lower energy prices is excluded from CPIF inflation, inflation was 1.4 per cent (see Table 2 and Chart 7). It can thus be observed that all three inflation measures – the CPI, CPIF and CPIF excluding energy – were higher in 2015 than they were in 2014.

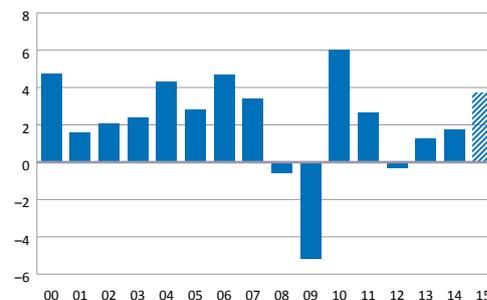
### Relatively good growth and rising resource utilisation

Despite weak international demand, growth in the Swedish economy has been relatively good in recent years. In 2015, GDP growth was around 3.7 per cent according to the Riksbank's assessment in December (see Chart 8). This growth has largely been driven by domestic demand, with strong growth in consumption and housing investment.

The improved situation on the labour market provided another reason for the good growth. The number of persons employed has increased at the same rate as the working age population, which is one reason that the number of hours worked, and thus GDP, has increased. Unemployment fell gradually over the year and averaged 7.4 in 2015 (see Chart 9), which was 0.5 percentage points lower than in 2014. The employment rate (the ratio of the employed to the working-age population) increased slightly over the year, while the labour force participation rate (the labour force divided by the working-age population) remained largely unchanged (see Chart 9).

To measure the level of activity in the economy, the Riksbank uses different measures of resource utilisation, such as the GDP gap and the hours gap, which measure the deviations of GDP and the number of hours worked from their respective long-term trends. Both measures showed that resource utilisation was lower than normal over the year, even if they had been rising (see Chart 10). The chart also shows that both GDP and the number of hours worked are expected to be close to their long-term levels in 2016.

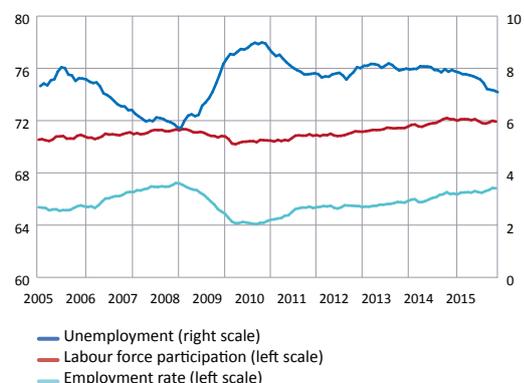
**Chart 8**  
**GDP in Sweden, annual percentage change**



Note: The striped bar represents the Riksbank's forecast from December 2015. Due to revisions of the National Accounts, GDP growth for 2013 is about 0.04 percentage points lower than was reported in the Annual Report for 2014.

Sources: Statistics Sweden and the Riksbank.

**Chart 9**  
**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**

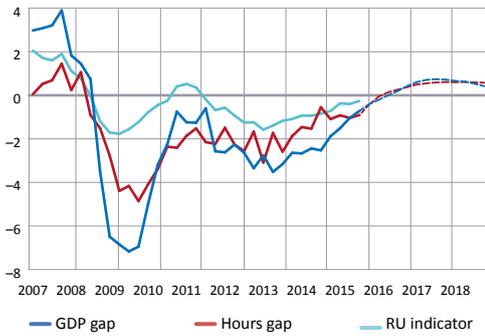


Note: Seasonally-adjusted data. Three-month moving average. The data refers to persons aged 15–74.

Sources: Statistics Sweden and the Riksbank.

Chart 10

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



Note: The GDP gap refers to the deviation from trend in GDP, calculated using a production function. The hours gap refers to the difference between the actual number of hours worked and the Riksbank's assessment of the trend for 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 2015.

Sources: Statistics Sweden and the Riksbank.

The Riksbank also calculates its own measure of resource utilisation, known as the RU indicator. This is a measure that summarises information from surveys and labour market data. One advantage of this measure is that it has been revised very little, in historical terms, when new information has been received. This indicator also shows that resource utilisation was slightly lower than normal in 2015 (see Chart 10).

### The Riksdag Committee on Finance's assessment of monetary policy

In June 2014, the Riksdag Committee on Finance decided to commission a third external evaluation of the Riksbank's monetary policy. This evaluation is a complement to the Committee's own annual evaluations of monetary policy and the open hearings with the Governor and Deputy Governors of the Riksbank. The evaluation of monetary policy 2010–2015 was made by Marvin Goodfriend, professor at Carnegie Mellon University in Pittsburgh, USA, and Mervyn King, formerly Governor of the Bank of England. On 19 January 2016, the Committee on Finance published the report "An assessment of Swedish monetary policy 2010–2015". The Riksbank announced that the evaluation was an important contribution to the Riksdag's work on examining monetary policy. Openness and evaluation are important parts of the effort to generate confidence in the Riksbank's work. The Executive Board will present its comments on the evaluation at the coming consultation procedure.

### The Riksbank's inflation target

Since 1999, the Sveriges Riksbank Act has stated that the objective of the Riksbank's operations is to maintain price stability. Keeping inflation low and stable is the primary way in which monetary policy can contribute towards a good development of the economy. When inflation is high it also tends to fluctuate substantially. High and fluctuating inflation has harmful effects. It impairs the economy's ability to distribute resources efficiently and it becomes more difficult for households and companies to make the right decisions. High and fluctuating inflation also leads to arbitrary and unfair redistribution of income and wealth.

The Riksbank has chosen to set the inflation target at 2 per cent. This is because a certain amount of inflation can facilitate necessary adjustments of relative prices and wages. For instance, it may be difficult to cut nominal wages in cases where lower real wages would be justified to achieve good growth in employment. Another reason is that the real interest rate, that is, the nominal interest rate minus expected inflation, may in some cases need to be negative to stimulate demand in the economy. As there are limits as to how far the nominal interest rate can be cut, a certain level of inflation creates additional scope for action.

Countries with an inflation target have often chosen to formulate targets that entail an inflation rate of around 2 per cent. In other words, consensus has become established among many central banks that a suitable level of inflation is about 2 per cent.

The Riksdag has supported the inflation target on repeated occasions, most recently in the Riksdag Committee on Finance's report 2014/15:FiU24, the present wording of which emphasises the importance of the Riksbank conducting a monetary policy that ensures that inflation rises toward the target.

## MONETARY POLICY ANALYSIS

Over the year, the Riksbank continued to develop the monetary policy analysis. Among other things, new methods were developed to study the effects of the negative repo rate, the Riksbank's purchases of government bonds and the reasons for the low inflation.

### Effects of expansionary monetary policy on market rates

Inflationary pressures have been low in the Swedish economy for several years. To ensure that inflation rises towards the target and that long-term inflation expectations remain anchored around 2 per cent, the Riksbank has successively cut the repo rate to -0.35 per cent. In addition to this, the Riksbank has also carried out comprehensive purchases of nominal government bonds for monetary policy purposes.

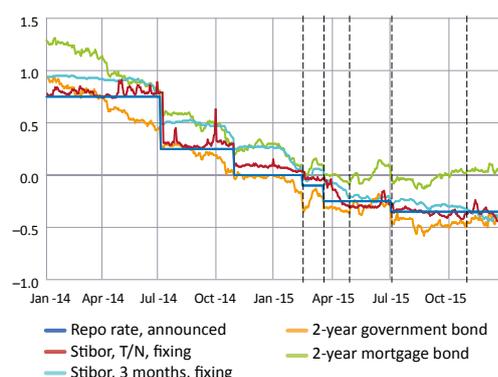
From a historical perspective, negative policy rates have been very unusual. At present, the only other central banks with negative policy rates are those of Denmark and Switzerland. There is thus a need to evaluate the effects on the economy of negative policy rates. The Riksbank has analysed how far it will be possible to cut the repo rate and how great the impact will be on other interest rates when the repo rate is negative.

How far the repo rate can be cut – where the repo rate's lower boundary lies, in other words – depends on factors including how expensive it is to handle cash. For example, cash must be stored safely, and this costs money. Households may also find it awkward to have to pay their bills by going to the bank instead of paying them over the Internet at home. However, it is likely that various types of friction will arise that will reduce the impact of further cuts before this lower boundary is reached. The risks to the financial system may also increase if the repo rate becomes very low, which is an important factor for consideration. The expansionary monetary policy partly acts through increased risk-taking. This can create greater vulnerability in the financial system if it leads to assets becoming overvalued or different types of risk not being priced in full. Lower mortgage rates are also contributing to the growing trends of rising housing prices and increasing household debt.

So far, Sweden has had a negative repo rate for a short period, just less than a year. But our experiences this far indicate that the impact on other short-term market rates has been more or less normal. These interest rates have fallen at about the same rate as the repo rate and have become negative (see Chart 11). At the same time as cutting the repo rate, the Riksbank has purchased government bonds for monetary policy purposes. It may therefore be difficult to determine whether market rates have become negative due to the negative repo rate or due to the purchases of government bonds. Chart 12 shows that deposit and lending rates have also fallen largely in tandem with the repo rate. However, deposit rates have not followed the repo rate down to negative levels.

Following the outbreak of the financial crisis in 2008–2009, several central banks have purchased nominal government bonds in a large scale to make monetary policy more expansionary as the repo rate approaches what is considered to be its lower limit. Their experiences indicate tangi-

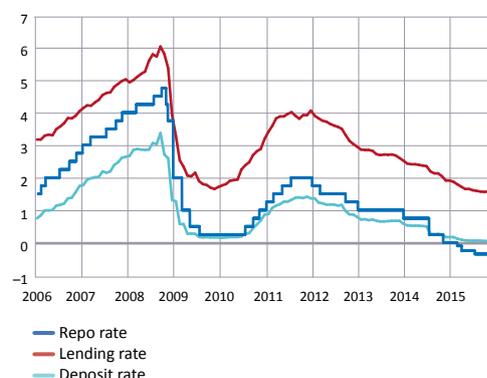
Chart 11  
 Interest rates in Sweden with up to 2-years maturity, per cent



Note: The rate for government bonds and mortgage bonds refers to the implied zero coupon rate. The broken vertical lines indicate the dates on which the Riksbank's government bond purchases were announced.

Source: The Riksbank.

Chart 12  
 Repo rate, deposit rate (household and corporate) and lending rate (household), new agreements



Sources: Statistics Sweden and the Riksbank.

ble effects on market rates, above all on rates linked to the assets purchased by the central banks, in the Riksbank's case government bond yields. The results of the Riksbank's analyses of government bond purchases indicate that government bond rates have been impacted in line with these international experiences. The effects have largely taken place via what is known as the maturity premium, which is to say compensation for the extra risk involved in holding a bond over a certain period of time.

The Riksbank's purchases of government bonds have reduced demand on the market. Assuming that these purchases continue in accordance with

### The Riksbank's research

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 aim of this research is to provide better material for the Riksbank's policy decisions.

The results of the Riksbank's research are published in international scientific journals. This guarantees that the quality of the research is evaluated objectively in accordance with international standards. The research results are communicated through presentations at other central banks and universities, as well as at international conferences. When the Research Division provides support and advice to the Riksbank's policy work, it is important that the Division's assessments are based on results that are of a high scientific quality. The results of research are also summarised, when necessary, in the Riksbank's journal, *Sveriges Riksbank Economic Review*, and elsewhere.

At present, those of the Riksbank's researchers who are specialised in financial stability are conducting comprehensive studies of Swedish companies and households with the aim of understanding their economic behaviour. One example of this research is an article studying the significance of trade credits for cyclical fluctuations that was recently published in the journal *Econometrica*. The authors quantify how trade credits can spread company bankruptcies in the economy. The

reason for this is that a company entering bankruptcy will default on its payments to its suppliers. If these trade loan losses are big enough, the suppliers may, in turn, enter into bankruptcy and spread the losses further along the supply chain to such an extent that the downturn in the economy is amplified.

The more macro-oriented research of the Research Division also makes clear contributions to the Riksbank's ability to understand a complex world. An example is provided by an article in the Riksbank's journal *Sveriges Riksbank Economic Review* that analyses the possibility of using complementary monetary policy measures when inflation is low and the policy rate has approached its lower limit. One alternative studied involves the central bank announcing (providing guidance) that the policy rate will remain low for longer than normal. If the decision is deemed credible by households and companies, monetary policy will immediately become more expansionary, contributing to rising inflation. Another alternative involves the central bank purchasing government and/or corporate bonds for longer maturities. This measure contributes to lower forward premiums and risk premiums, and monetary policy thereby becomes more expansionary. Empirical studies cited by the article provide similar conclusions, which suggests that complementary measures can be used as a complement to traditional monetary policy in countries where the central

bank only uses the repo rate to guide inflation towards target.

In June, the Research Division organised a conference in which researchers from leading universities and other central banks discussed the causes of deflation, the consequences of deflation and appropriate policy measures to manage deflation. Large parts of this conference dealt with complementary monetary policy measures implemented around the world since the financial crisis. Subjects addressed included how sovereign debt and the central bank's balance sheet can affect inflation.

The Research Division also arranged a workshop together with the Bank for International Settlements (BIS) in November, where it was discussed how monetary policy should relate to the risk of financial imbalances accruing that could entail major negative macroeconomic consequences in the future. Researchers from universities and economists from leading central banks participated.

In addition to arranging these conferences, the Riksbank's researchers have also taught doctoral students and master's students at Swedish universities over the year. These initiatives reflect the Riksbank's willingness to interact with other central banks and the academic world to exchange knowledge and safeguard the future supply of competence. The Division is thus an important link between the Riksbank and the outside world.

the decision taken in October, by the end of the first six months of 2016, they will correspond to about 6 per cent of GDP and around one-third of the outstanding stock of Swedish nominal government bonds as of December 2015. The reduced supply has put downward pressure on the maturity premium and thereby also government bond yields. The bond purchases may also have had a so-called signalling effect, which is to say that the purchases have signalled that the repo rate will be low for a longer period. This pushes market rates down in that market participants expect a lower repo rate level in the period ahead.

All in all, the Riksbank's analysis indicates that the effects of the government bond purchases have been in line with the effects of similar purchases in other countries. The purchases have contributed to reducing interest rate differential in relation to other countries and to the krona having become weaker than it otherwise would have been. These effects have been important for assisting inflation to continue to rise towards the Riksbank's inflation target.

### Why has inflation been so low?

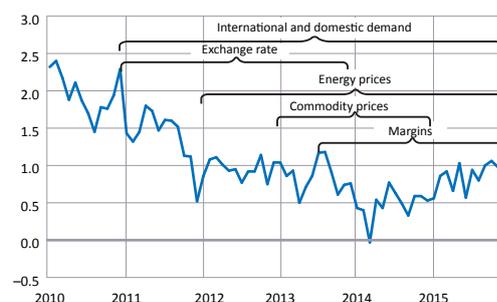
For large parts of the last five-year period, inflation measured as the CPIF has been below the Riksbank's target of 2 per cent. Chart 13 illustrates the most important factors, in the Riksbank's assessment, behind the low inflation and the periods in which these have contributed most towards restraining inflation. The factors that normally affect the rate of price increase, such as the level of demand and the exchange rate, have contributed towards pushing inflation down over the last five years. The weak economic developments abroad and associated restrained demand in Sweden seem to have been of particularly great significance. In addition, low commodity prices, above all for electricity and oil but also briefly for food, have restrained cost increases in companies and have dampened inflationary pressures.

Over the last two years, companies also seem to have pushed their profit margins down to a greater extent than could be expected from historical patterns. It is difficult to determine exactly what this is due to, but, in a survey on corporate pricing, companies themselves have emphasised factors such as uncertainty over future economic developments and increased competition as reasons.

Monetary policy has had little opportunity to affect some of the driving forces behind the low level of inflation, such as the low energy prices. But monetary policy can affect other factors over the short term, such as demand and the exchange rate, and contribute, through them, towards the increase or decrease of inflation. Over the last five years, the Riksbank's expansionary monetary policy has also contributed towards bringing inflation up – without the expansionary monetary policy, inflation would have been even lower.

Chart 13

### The CPIF and the most important explanatory factors for the low inflation in Sweden, annual percentage change



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

Sources: Statistics Sweden and the Riksbank.

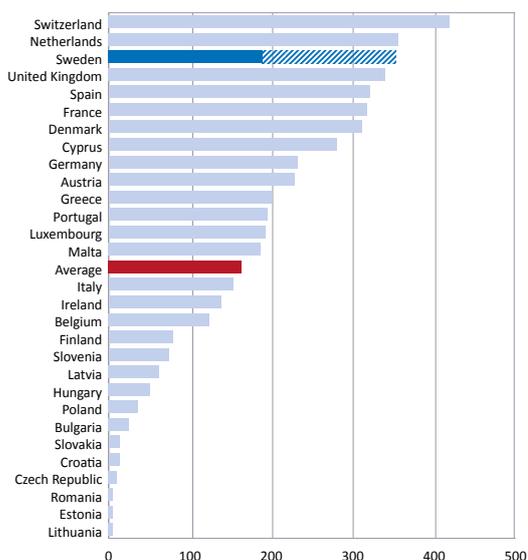
# A safe and efficient payment system

The financial system in Sweden functioned well in 2015. However, the Riksbank judged that vulnerabilities in the structure of the Swedish banking system, risks linked to household indebtedness in Sweden and the globally-low interest rates could eventually threaten financial stability. The Riksbank continued its work on influencing the financial regulatory framework in national and international forums. In addition, the Riksbank continued to deepen its analyses of important stability issues.

The financial infrastructure in Sweden is deemed to be safe and efficient to a high degree. The Riksbank's payment system RIX and cash provision functioned well over the year. The Riksbank started to issue the new 20-, 50-, 200- and 1,000-krona banknotes in October. To ensure that the banknote changeover went smoothly, the Riksbank implemented measures including a comprehensive information campaign.

Chart 14

The banks' assets in relation to GDP in December 2014, per cent



Note: Banking assets include the assets of the country's banking groups, both foreign and domestic. The banks' insurance operations are, however, excluded. The shadowed part of the blue bar shows the four major Swedish banks' assets in foreign subsidiaries and branches in relation to Sweden's GDP.

Sources: The ECB, the European Commission, the Swiss Bankers Association, Swiss Statistics and the Riksbank.

## FINANCIAL STABILITY

The Riksbank's financial stability work in 2015 largely consisted of monitoring developments in Sweden and abroad so as to analyse any risks that may be accumulating in the financial system and threatening its stability. Above all, this concerned risks linked to the Swedish banking system, the low level of international interest rates and household indebtedness in Sweden. The Riksbank also proposed measures to reduce these risks.

Otherwise, work continued on influencing the formulation and introduction of national and international financial regulations. As part of this, the Riksbank participated in international work and also submitted several consultation responses (for a complete list, see [www.riksbank.se](http://www.riksbank.se)). The Riksbank also participated in the Financial Stability Council.

### National work to strengthen the financial system

The Riksbank considered that the Swedish financial system functioned well in 2015, but that there were vulnerabilities in the structure of the Swedish banking system and risks linked to the low level of interest rates and high household indebtedness. These vulnerabilities are described in more detail in the following section.

### Large banking system in Sweden

There are vulnerabilities in the Swedish banking system that increase its sensitivity to various shocks. The Swedish banking system is large in relation to the Swedish economy (see Chart 14), which means that any problems in the banking system may be expensive for the government to manage. In addition, the banking system is concentrated around a few participants with close links to each other. Consequently, should problems arise in one of the banks, it is likely that the entire Swedish banking system, and thereby the entire financial system, would be impacted negatively. As the major Swedish banks have a large proportion of mortgages on their balance sheets, there also exists a strong connection between the banking system and the Swedish housing market.

The major Swedish banks are also dependent on wholesale funding, a large part of which is in foreign currency (see Chart 15). This further

increases vulnerability by making the banks sensitive to both disruptions on the international financial markets and to impaired confidence in the Swedish banking system. In addition, the assets and liabilities of the major banks have wide maturity differentials and certain banks also have comparatively small liquidity buffers in Swedish kronor. All in all, this means that they are exposed to major liquidity risks. Funding problems may therefore arise faster than would otherwise have been the case.

#### *Low interest rates may lead to increasing financial risk-taking*

The Riksbank noted that recent years' expansive monetary policy in many parts of the world has helped support the development of the real economy. However, the Riksbank deemed that an extended period of low inflation and thus low interest rates may also lead to high risk-taking among financial participants, companies and households. The risks in the financial system may increase if, for example, assets become too highly valued from a historical perspective and financial risks are incorrectly priced. Any disruptions leading to a sudden and sharp decrease in demand for these assets could bring about significant price adjustments, increase volatility and force investors to realise losses that they are unable to manage. Such a development in the global financial system could also impact financial stability in Sweden. Above all, this is because both access to and the price of the Swedish banks' wholesale funding could be affected negatively in a situation of increased stress.

Over the year, the Riksbank studied market valuations of Swedish shares, bonds and housing and found that certain asset prices were highly valued from a historical perspective. According to the study, a high valuation does not necessarily mean that asset prices will fall in the period ahead. On the other hand, highly-valued assets imply that the likelihood of a price fall is increased, which in turn implies a heightened risk to financial stability. The study also emphasised that all three asset classes are probably vulnerable to higher interest rates, even if interest rates rise as a result of higher inflation.

Over the year, the Riksbank also analysed how Swedish financial institutions are affected by the low level of interest rates and the consequences this may have for financial stability in Sweden. Low interest rates may lead to institutions changing their behaviour in such a way as to make them more vulnerable to disruptions, for example via increased risk-taking to obtain greater returns on their assets. According to the study, the low level of interest rates has led to an increase in vulnerabilities in financial institutions and the financial system. If interest rates remain low for a long time, this may lead to financial institutions changing their behaviour and thereby becoming even more vulnerable to, for example, falls in asset prices.

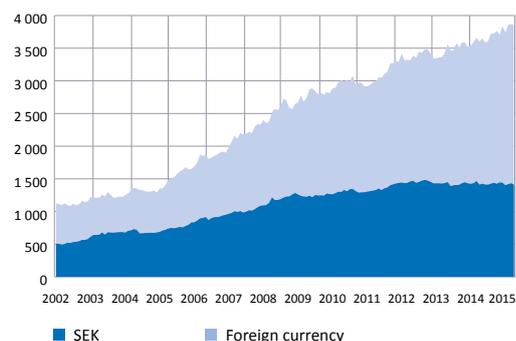
#### *High and growing indebtedness among Swedish households*

The Riksbank assessed the high and growing indebtedness among Swedish households to be a risk that could threaten both macroeconomic and financial stability in Sweden in the long run. The aggregate debt ratio, which is to say debts in relation to disposable incomes, was high from both historical (see Chart 6) and international perspectives (see Chart 16).

Historical experience indicates that financial crises have often been preceded by rapid growth in credit and property prices. In the event that

Chart 15

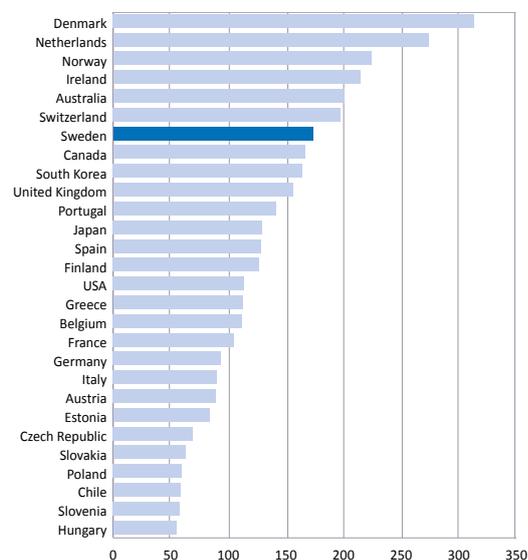
The major Swedish banks' wholesale funding via Swedish parent companies and subsidiaries, SEK billion



Sources: Statistics Sweden and the Riksbank.

Chart 16

Household debt ratios in different countries, per cent



Note: Note that data has been collected under different years for different countries. Data for Australia, Chile, Greece, Ireland, Japan, Poland and Switzerland is from 2013, while data for other countries is from 2014.

Source: OECD.



*There was a great interest from the general public when the completely new denomination – the 200-krona banknote – was released on 1 October, along with the new 20-, 50- and 1,000-krona banknotes. About 1,600 external visitors took the opportunity to exchange money for a “Bergman” and visit the Riksbank’s banknote exhibitions.*

a shock occurs that affects, for example, household incomes, interest expenditure or the value of housing, household consumption may fall in that more households may choose to save and amortise their debts. The higher the debts are, the greater these effects may be. As a consequence, demand in the economy could be weakened, which, in turn, could impact the development of the real economy. It could also lead to higher loan losses on the banks’ lending to companies. Financial stability could thus also be impacted. The Riksbank deemed that the direct loan losses on the banks’ lending to households would probably remain small in such a situation. But, as a large portion of the banks’ lending consists of mortgages, which, in turn, are largely funded by mortgage bonds, there is a strong link between the banking system and the Swedish housing market. The Riksbank therefore observed that confidence in the Swedish banking system could become impaired if housing prices were to fall. Lower confidence in the Swedish banks could impact negatively on the banks’ access to wholesale funding. Financial stability could also be affected directly as a result of falling housing prices.

In the spring, the Riksbank recommended the Government and the Riksdag to urgently act to make it possible to introduce an amortisation requirement for new mortgages. The Riksbank also expressed an opinion on Finansinspektionen’s proposals for new regulations stipulating an amortisation requirement for new mortgages. In its consultation response, the Riksbank welcomed Finansinspektionen’s proposal for the introduction of amortisation requirements on mortgages, viewing this as a step in the right direction to manage the risks inherent in household debt. However, the Riksbank noted the importance of clarifying the regulations to allow a uniform application of the rules, particularly as concerns the reassessment of the value of housing. In addition, the Riksbank considered it important that Finansinspektionen continually evaluates the application of the amortisation requirement and its consequences. However, Finansinspektionen withdrew its proposed amortisation requirement as the authority considered that the mandate for drafting rules in the area needed to be clarified. This lack of clarity is delaying and obstructing the introduction of measures to manage the risks posed by household indebtedness. The Riksbank therefore recommended that the Riksdag and the Government urgently clarify Finansinspektionen’s mandate and tools for macroprudential policy.

During the autumn, the Government presented new proposed legislation on an amortisation requirement. The Riksbank assessed that it may take some time until legislation is in place and therefore repeated its recommendation from the spring that the Riksdag and Government should urgently act to make it possible to introduce an amortisation requirement for new mortgages. In addition, the Riksbank recommended the Government and responsible authorities to take further measures as soon as possible to reduce the risks in the household sector. Such measures should affect both the loan stock and new lending, as well as improving the functionality of the housing market. The Riksbank considered that the exact selection of measures was not decisive as long as they reduce the risk of households’ high indebtedness. The Riksbank pointed out that it is important that the measures are not delayed and that they are implemented in such a way that the stability risks do not increase further.

Over the year, the Riksbank studied households' balance sheets and found that indebtedness among Swedish households is on a level that may entail heightened risks for the economy. In addition, the Riksbank analysed how a debt-to-income limit could act as a complement to the existing loan-to-value limit. Such a measure would restrict how much a household may borrow in relation to its income. Households' credit limits would thus be limited in the event that housing prices rise without incomes rising to a corresponding extent. An upward spiral, in which higher housing prices lead to larger loans which in turn enable even higher housing prices, can thus be avoided. In the study, the Riksbank found that the effects of the debt-to-income limit vary for individual households, depending on income, age group and region, and depending on which bank the household approaches.

Over the year, the Riksbank also studied interest-rate fixation periods for Swedish mortgages. In the study, the Riksbank noted that it has become increasingly common for Swedish households to choose mortgages with short interest-rate fixation periods, which has contributed towards households becoming more sensitive to interest rate adjustments. The study concluded that the high percentage of mortgages at variable interest rates in Sweden could entail risks, both for the macroeconomy and for financial stability, if households were to cut down their consumption substantially in the event of a rise in interest rates. The Riksbank's overall assessment was that it would be positive for households with low resilience, such as highly-indebted households with low incomes and modest savings, to reduce their vulnerability to higher mortgage costs. Sensitivity for interest rate adjustments could be reduced if these households signed mortgages with longer fixed-rate periods to a greater extent. Moreover, longer interest-rate fixation periods for mortgages could create incentives for the banks to extend the maturities of their bonds. This could reduce the banks' refinancing risks, which would be positive from the point of view of financial stability.

#### *Follow-up*

In 2015, the major Swedish banks reported high levels of profitability and their customers had a strong debt-servicing ability. This contributed towards the Riksbank's assessment that the Swedish financial system functioned well over the year and was able to uphold its functions.

Lending to households, in particular lending for housing purchases, continued to increase over the year. The Riksbank pointed out the risks inherent in the development of household indebtedness and highlighted the need for structural reforms and macroprudential policy measures. Among these, it mentioned the proposed amortisation requirement and reforms to increase the supply of housing, but also other measures, for example a debt-to-income limit and a review of tax relief on mortgages. However, responsibility for measures to dampen the development of household indebtedness lies with the Riksdag, the Government and other authorities. In addition, the Riksbank deemed that the banks should tighten the requirements in their credit assessments to ensure, for example, that they are making reasonable assessments of living costs in their assessments of individual households.



*Deputy Governor Martin Flodén answered questions on the new 1,000-krona banknote at the inauguration at Abisko on 27 August.*

As previously, the Riksbank considered that the banks need to adopt further stability measures to reduce the vulnerability of the Swedish banking system. One measure that should be adopted is a leverage ratio requirement for the Swedish major banks. The leverage ratio is a measure that is not risk-based but instead sets the banks' capital in relation to their total assets. By placing a minimum leverage ratio requirement, a limit is created for how much the banks can expand their balance sheets. The Riksbank also considered that the countercyclical capital buffer value should be set at 2.5 per cent with the aim of increasing the banks' resilience. Furthermore, the Riksbank considered that the liquidity risks in the major banks are still too large. In 2015, the net stable funding ratio (NSFR) remained, on average, slightly below 100 per cent for the major Swedish banks. The NSFR restricts the banks' liquidity risks by setting a limit to how much of the banks' assets with long maturities may be funded with short-term liabilities. As the major Swedish banks have relatively small liquidity buffers in Swedish kronor, the Riksbank also considered that Finansinspektionen should extend requirements on the banks' liquidity cover ratios (LCRs) to also cover Swedish kronor. The LCR is a measure of a bank's ability to handle a liquidity outflow over a period of 30 days. Extending requirements for the LCR would ensure that the banks have a certain minimum level of liquid funds in kronor.

The Riksbank deemed that the financial infrastructure in Sweden was secure and efficient, but that it could be further strengthened by various measures. For example, scope existed for improvements both in the infrastructure systems and in the regulations covering the infrastructure systems and their participants.

### **International work to strengthen the financial system**

Swedish banks and financial institutions are regulated by laws based on regulations that are largely formed on a global level, primarily by the Basel Committee and the global Financial Stability Board (FSB). An important part of the Riksbank's work on financial stability is therefore participating in various international forums to influence the formulation of financial regulations and financial supervision. In many of these issues, the Riksbank usually cooperates with other Swedish authorities, for example Finansinspektionen, the Swedish National Debt Office and the Department of Finance. Over the year, the Riksbank participated in discussions and decisions on the formulation of both regulatory frameworks and supervision on both EU and international levels, for example in the Basel Committee, the Financial Stability Board (FSB) and the Bank for International Settlements (BIS).

#### *International cooperation*

During the year, the Basel Committee continued its work on what is known as the Basel III packet of banking regulations. The Riksbank actively participated in this work on several levels. Governor Stefan Ingves is chairman of the Basel Committee and the Riksbank is also represented in several of the Basel Committee's working groups.

Among other tasks, in 2015, the Basel Committee drafted a new proposal for standard methods for calculating credit risks. A decision was also taken concerning rules for banks' exposure in trading books. Over the year, the

Committee also continued its work of setting a limit on how much the banks can borrow, regardless of the level of risk their operations are considered to entail (level of the leverage ratio requirement) and of developing a lower limit for risk weights on assets (known as a risk-weight floor). In all these areas, the Riksbank actively participated in the work of formulating regulations that will also apply to Swedish banks. Over the year, the evaluation, initiated in 2012, continued of how well different countries have implemented the Basel regulatory framework.

The Riksbank also participated in the work of the FSB. Sweden is not a member of the FSB, but participates in a number of the FSB's sub-groups and in the FSB's regional consultation group for Europe. Governor Stefan Ingves participated in the FSB's meetings as part of his role as chairman of the Basel Committee.

Over the year, among its other tasks, the FSB completed rules stipulating that globally systemically-important banks must maintain a minimum level for capital and debt instruments (Total Loss Absorbing Capacity, TLAC), which may be used to cover losses if a bank encounters problems instead of having taxpayers contribute capital. Based on the FSB's recommendations for globally systemically-important institutions, the Riksbank, in cooperation with other authorities, carried out a preliminary assessment of the remaining legal and other obstacles to an effective resolution (method for crisis management in banks) for the banking group Nordea. In addition, the Riksbank participated in the FSB's work of, among other things, developing guidelines for how banks facing serious problems and needing to be wound up or reconstructed may nevertheless be able to obtain funding and continue to have access to services that are of key importance to the group as a whole.

### *European cooperation*

Over the year, the so-called Capital Markets Union was discussed under the framework of the EU Economic and Financial Committee (EFC). The aim of this union is to allow non-financial corporations within the EU to increase their funding via the financial markets, which could reduce their dependence on bank loans. Particular focus was placed on small and medium-sized enterprises, and their importance for higher growth and lower unemployment in the EU was emphasised. During the year, the Riksbank welcomed the initiative for a Capital Markets Union and, particularly, the ambition of improving the possibilities for market-based funding as a complement to bank funding. Furthermore, the Riksbank emphasised that the Union should not be seen as a substitute for managing problems in the banking sector or for continuing work on improving supervisory requirements.

Under the framework of the European Systemic Risk Board (ESRB), the Riksbank actively contributed to the work of identifying, analysing and counteracting financial systemic risks in the EU, which is to say the risk that a shock that could lead to major socioeconomic costs arises in the financial system. The Riksbank participated in the ESRB's work of analysing potential systemic risks arising from banks and insurance companies' holdings of government securities within the EU. In a report, the ESRB surveyed the management of these holdings in current and future financial legislation within the EU. The report shows that exposures in government

securities receive preferential treatment compared to other types of holding, as the capital requirements for government securities are often lower or completely absent. The report also discusses a number of possible measures to counteract potential systemic risks in this area.

The Riksbank was also active in the ESRB's work of identifying possible systemic risks in the insurance sector of the EU countries and of proposing

## International commitments

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

### International Monetary Fund (IMF)

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. Discussions in 2015 addressed matters including the IMF's special drawing rights (SDRs) and which currencies should be included in the so-called SDR basket. The value of the SDR is currently based on a basket of currencies comprising the US dollar, euro, Japanese yen and pound sterling. On 30 November 2015, the IMF's Executive Board decided that the Chinese currency, the renminbi, should also be included in the basket as of October 2016. This decision was supported by the Nordic-Baltic constituency, of which Sweden is a part.

SDRs are a reserve asset created by the IMF and are included in the member countries' foreign currency reserves. SDRs are allocated by the IMF and may then be exchanged with other IMF member countries against currencies in the SDR basket. To make SDRs a liquid reserve asset, a number of parties, including the Riksbank, have entered into a voluntary trade agreement with the IMF, in which the Riksbank has committed to purchase or sell SDRs for payment or liquidity in any of the currencies in the SDR basket. The trade agreement means that the Riksbank may receive a request to sell SDRs so that only 50 per cent of the Riksbank's allocation remains. Conversely, the Riksbank may purchase SDRs against any of the currencies in the SDR basket up to 150 per cent of its allocation. The Riksbank's SDR allocation is SDR 2,249 million, corresponding to SEK 26,030 million at the exchange rate prevailing on 31 December 2015, and, at present, the Riksbank holds just under 100 per cent of its allocation. If a country cites balance of payment problems, what are known as designa-

tion rules are applied, which means that, in such a case, the Riksbank must purchase SDRs in an amount up to three times the allocation.

In May 2015, Thomas Östros took up the post of deputy Executive Director for the Nordic-Baltic constituency in the IMF Executive Board. For four years, starting in January 2016, Sweden will chair the constituency with Mr Östros as Executive Director.

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 2015, the members of the NAB decided to renew the activation of the arrangement to borrow 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. The agreement gives the IMF the opportunity to borrow the equivalent of about SEK 80 billion from the Riksbank if the Fund's capital contributions and NAB should be insufficient. The agreement includes the possibility of extending the loan twice by one year at a time. In the summer of 2015, the IMF requested a second and last extension, which the Executive Board of the Riksbank supported at its meeting on 20 August. The Riksbank's transactions with the IMF are described in the section "Asset management".

The IMF visited Sweden in September 2015 for the annual Article IV Consultation, at which the Fund discussed the Swedish economy with various authorities and evaluated the implemented policy. In its statement on Sweden's economy, the IMF gave its general support to the direction of Sweden's financial and monetary policies. However, the IMF mentioned the importance of reforms to address the structural problems on the housing and labour markets to maintain growth and stability. The

IMF also considered that Sweden should phase out tax relief on mortgages, implement the proposed amortisation requirement and introduce a debt-to-income limit as a complement to the current loan-to-value limit. In addition, the IMF recommended that Sweden deregulate the rental market and increase the construction of housing.

### Agreement with National Bank of Ukraine

Since March 2015, Ukraine has been receiving financial support from the IMF via what is known as an Extended Fund Facility Programme which will run for four years. During the year, the Riksbank received a query from the National Bank of Ukraine as to whether the Riksbank would be willing to provide a swap facility in US dollars as short-term funding support. The aim of this was to strengthen confidence in the economic reform programme in Ukraine. On 14 September 2015, the Executive Board of the Riksbank decided to enter into such a swap agreement with the National Bank of Ukraine. Executive Board member Martin Flodén entered a reservation against the decision. The agreement covers the purchase and sale of a maximum of USD 500 million against the Ukrainian hryvnia and will run for six months. The Riksbank's swap agreement with the National Bank of Ukraine assumes compliance with the demands placed by the IMF on the implementation of various reforms in the country. It is also in line with the Riksbank's previous agreements on support concluded with foreign central banks dealing with financial shocks.

### Technical assistance

In 2015, the Riksbank also provided expert assistance in central banks issues, so-called technical assistance. This expert assistance included initiatives in Albania, Namibia and Ukraine. The activities were financed by funds from the Swedish International Development Cooperation Agency, Sida.

measures to reduce these risks. The Riksbank also participated in the ESRB's survey and analysis of vulnerabilities in the property sectors of the EU countries. As regards the housing market, the ESRB's review observed that high levels of indebtedness in the banking sector and more favourable tax treatment for housing will increase vulnerability in the event of a crisis. In addition, the Riksbank participated in the work of drafting the ESRB's response to the consultation paper from the European Securities and Markets Authority (ESMA) on obligatory clearing for derivative instruments traded over the counter (OTC). This form of clearing fulfils an important function in the financial system by reducing counterparty risk and increasing insight into the trading of financial instruments. In the response published in July 2015, the ESRB supports obligatory clearing of interest rate derivative instruments denominated in Swedish kronor and certain other currencies.

Over the year, the ESRB conducted follow-ups of two of its recommendations – the recommendation on lending in foreign currency and the recommendation on credit institutions' funding in US dollars. These follow-ups indicated generally good compliance.

Within the framework of the European System of Central Banks (ESCB), the Riksbank was active in various financial infrastructure issues. One issue concerned the new Central Securities Depositories Regulation (CSDR) and the degree of insight a country's central bank should have into the authorisation and supervision of a central securities depository located in another country. Over the year, the Riksbank also actively participated in another issue concerning whether services for automatic payment of e-invoices should be equated with direct debit services. As the regulations for these various types of payment differ on the European level, such a distinction may be of decisive importance for the future development of these payment services. Together with a couple of other central banks, the Riksbank argued against the proposal of equating these payment services.

#### *Nordic-Baltic cooperation*

During the year, the Riksbank continued to work with the Nordic and Baltic cooperation in the field of financial stability. In 2015, two meetings were held with the Nordic-Baltic Macroprudential Forum (NBMF). The NBMF is a cooperation forum for central banks and supervisory authorities in the Nordic and Baltic countries, which focuses on financial stability risks and cross-border banking operations in the region. Governor Stefan Ingves is chairman of the NBMF. In addition to general risks that could affect the region, the group continued to discuss matters including how authorities can mutually recognise each other's measures for macroprudential policy. The Riksbank also continued its work within the Nordic-Baltic Stability Group (NBSG), which is a forum for ministries of finance, central banks, financial supervisory authorities and resolution authorities in the Nordic and Baltic countries. The stability group has the task of strengthening preparedness for the management of cross-border financial stability issues in the Nordic-Baltic region.

#### **Further work to promote financial stability**

In addition to participating in the current national and international work of formulating financial regulations, the Riksbank continued to deepen its analysis of the financial system. Over the year, the Riksbank participated in the Financial Stability Council's ongoing discussions and initiated the



*First Deputy Governor Kerstin af Jochnick presented the new 20-krona banknote at the inauguration of the banknote exhibition at Astrid Lindgren's World in Vimmerby on 3 August.*



*Deputy Governor Henry Ohlsson was interviewed by Radio Sweden P4 Gothenburg on 19 August in conjunction with the inauguration of the banknote exhibition at Evert Taube's World at Liseberg amusement park.*

first meeting of the Swedish retail payments council. In addition, the Riksbank reviewed codes of conduct on the foreign exchange market and studied structural changes on the Swedish payment market.

#### *The Financial Stability Council*

The Financial Stability Council met twice in 2015. The Council's first meeting in June discussed capital levels in the Swedish banking system and the advantages and disadvantages of the regulations surrounding risk-based capital requirement rules, leverage ratio requirements and risk-weight floors. The Riksbank considered that capital requirements for the Swedish banks should be reviewed to strengthen the resilience of the Swedish banking system in the longer term. The Riksbank would like to see an increase of capital levels through the combination of various measures.

The year's first meeting also discussed household indebtedness. Together with Finansinspektionen and the Swedish National Debt Office, the Riksbank presented an analysis of the driving forces behind the substantial increase in household indebtedness since the end of the 1990s. All members of the Council observed risks linked to this high indebtedness and therefore wished to introduce an amortisation requirement. In addition, the Riksbank considered that further measures were also needed to manage the risks.

At the Council's second meeting in December, the members of the Council continued to discuss household indebtedness. There was broad agreement that measures were needed to address household indebtedness. The members of the Council considered it positive that an amortisation requirement was to be implemented. However, the Riksbank considered that an amortisation requirement is not sufficient, but that a combination of different measures was necessary to manage the risks inherent in household indebtedness. The Riksbank also considered that it was important for Finansinspektionen to have clear legal preconditions to fulfil its assignment as macroprudential policy authority. The meeting also discussed stability risks arising from low interest rates and the authorities' different roles in the new framework for the management of banks in crisis to be introduced by the Resolution Act on 1 February 2016.

#### *A changing payment market*

Increasing numbers of payments on the Swedish payment market are conducted electronically, sometimes using technology that is relatively new. At the same time, usage of cash and cash services is continuing to decline. The banks that have long dominated the payment market are now facing competition from new players. According to a study that the Riksbank carried out over the year, the structural transformation of the payment market, taken as a whole, is beneficial and should not be impeded. However, this structural transformation entails new challenges such as finding an appropriate level for cash services over the long term and ensuring that Internet and mobile payments can function across the entire country.

In autumn 2014, the Riksbank took the initiative to form a payments council. This council provides a platform for dialogue in which authorities, industry representatives for payment intermediaries, infrastructure suppliers and users of payment services can meet with the aim of promoting

the development of the payment market. The council's first meeting in February discussed the need for new statistics, and the work of developing a work programme started. At the second meeting in the autumn, the council, following discussion, supported the proposals presented on statistics and the work programme.

#### *New provisions on collateral for credit at the Riksbank*

At the end of the year, the Executive Board of the Riksbank adopted amended terms and conditions governing collateral for loans at the Riksbank. These amendments are a partial return to the provisions that applied prior to the financial crisis and aim to limit the Riksbank's credit risk.

Much of the collateral for credit normally pledged to the Riksbank by counterparties comprises covered bonds. As a way of diversifying the collateral received by the Riksbank, the Riksbank decided to place certain limits on counterparties' use of covered bonds. In addition, the minimum credit rating requirement for securities used as collateral was raised. The amendments to the terms and conditions will gradually enter into force over 2016.

#### *The Riksbank reviews foreign exchange reference rates and codes of conduct on the foreign exchange market*

Over the year, in light of new international recommendations and principles for financial guidelines from the global supervisory organisation IOSCO and others, the Riksbank reviewed the arrangement for the foreign exchange reference rates for the Swedish krona published by the Riksbank. In addition, over the year, the Riksbank participated in the ongoing international reform work aimed at improving standards of conduct on the foreign exchange market. As part of this, the Riksbank carried out a study to highlight the ongoing reform work with the aim of encouraging discussion around the introduction of the new guidelines into Sweden.

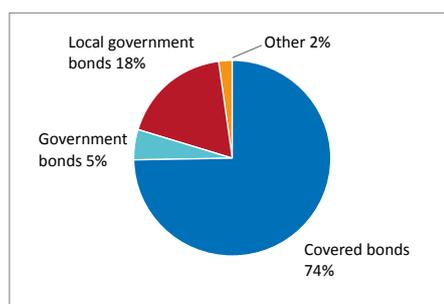
#### *The Riksbank arranges a conference on macroprudential policy*

Over the year, the Riksbank took the initiative for a conference on macroprudential policy, arranged in cooperation with Finansinspektionen and the Swedish House of Finance. Policymakers, representatives of the private sector and academics participated and shared their experiences of the area. The subjects discussed included household indebtedness, the long-term effects of capital regulation on the economy, how the ability to predict financial crises can be improved and how liquidity regulations should be formulated.

## THE RIX PAYMENT SYSTEM

The RIX payment system is a system for large-value payments in Swedish kronor. Payments are made in the form of transfers between accounts held by the different participants – banks, clearing organisations, etcetera – with the Riksbank. For RIX to function in a safe and efficient manner it requires sufficient credit limits among the participants, well-functioning management of collateral and well-functioning technical systems. In addition, the Riksbank continually exercises, on its own and together with the participants, implementing payments in a situation in which the technical system does not function.

Chart 17

**Collateral value pledged for credit in RIX per 31 December 2015, by type of security**

Note: The total value of collateral pledged for credit in RIX amounted to SEK 118 billion on 31 December 2015.

Source: The Riksbank.

**Increased number of participants, transactions and turnover**

In 2015, one new participant joined RIX and two participants chose to leave, meaning that at year-end there were a total of 26 participants in the system.

On average, RIX handled 17,367 transactions per day in 2015. This is an increase of 6.1 per cent compared with the previous year.

Daily turnover, adjusted for monetary policy instruments, averaged about SEK 433 billion. This implies an increase of 0.4 per cent compared with the previous year. The average transaction amounted to around SEK 31 million. The corresponding figure for 2014 was SEK 29 million.

**Management of collateral and credit limits**

To reduce the risk of being unable to implement transfers through the RIX system because a participant lacks liquidity, the Riksbank supplies liquidity to the system during the day by granting credit to the RIX participants against collateral. This means that transfers can be made more quickly and it increases the efficiency of the payment system. The collateral mainly consists of Swedish and foreign securities but may also be in foreign currency.

Swedish securities transactions are settled in special accounts provided by the Riksbank. Euroclear Sweden, the Swedish central securities depository, manages these accounts and credits on behalf of the Riksbank.

On average, the RIX participants had a credit facility of around SEK 179 billion per day, which is an increase of around SEK 18 billion compared with the previous year. This credit facility was equivalent to the value of collateral which was pledged by the participants to the Riksbank. The sum of the maximum credit that each participant utilised per day was equivalent on average to 54 per cent of this credit facility. At the close of 2015, covered bonds comprised 74 per cent of the value of all collateral pledged to the Riksbank (see Chart 17).

**Upgrades and improvements of technical systems**

To ensure that RIX continues to function securely and efficiently, the system has to be developed continually. In April 2015, RIX was upgraded to a new version. A number of minor upgrades and corrections were carried out in the autumn and, in November 2015, two new functions in the system came into operation: EMS (cooperative platform) and BI (new report generator).

No upgrades or error corrections were made to the Riksbank's system for managing securities (Colin) over the year. The work of introducing a new system for managing collateral is proceeding according to plan and is expected to be concluded in 2016.

**Crisis management in the payment system**

Ensuring that RIX can continue to fulfil its role even in the event of a technical system failure requires efficient contingency routines and the continual testing of these. This is carried out by allowing participants in RIX to practice various realistic scenarios with the possibility of making adjustments to routines afterwards and of identifying new exercises. In 2015, the Riksbank carried out about twenty different exercises of varying scope, both indepen-

dently and with the participants. For example, two joint exercises were carried out with all RIX participants, in which the scenario involved a total stop in RIX with subsequent transition to manual routines.

Over the year, the Riksbank investigated whether there was any need to strengthen the continuity solution for RIX, so that it would be possible to process normal transaction volumes in a crisis situation and ultimately probably reduce the manual reserve routines existing at present. The assessment was that the Riksbank should reinforce the continuity solution for RIX. Planning for this project will be initiated in 2016.

The Riksbank also participated actively in the cooperation on continuity issues existing under the framework of FSPOS, a group for private-public cooperation in the financial sector, and in an exercise arranged by FSPOS. The FPSO sector exercise for 2015 was the third and final exercise under the framework of its exercise strategy 2012–2015. The overall aim of the exercises was to strengthen the ability to manage shocks and interruptions in the financial sector.

## Follow-up

One of the targets for RIX concerns technical availability, which is to say the time in which the system functions and payments are settled. The target value for this is 99.85 per cent. The outcome for 2015 was 99.98 per cent.

An interruption in RIX and adjacent systems can impact operations in different ways depending on how comprehensive the interruption is and the time of day at which it occurs. All interruptions are classified according to a four-grade scale: very extensive impact, extensive impact, significant impact and minor impact. In 2015, one incident occurred with very extensive impact, meaning that RIX was unable to process payments for 24 minutes.

Every second year, the Payment System Division conducts a survey to measure how satisfied users of RIX are with the Riksbank's services. The survey for 2015 showed that customer satisfaction is very high, as 100 per cent are satisfied or very satisfied, which is an increase of 6 percentage points from the previous survey. The target value for this is 80 per cent.

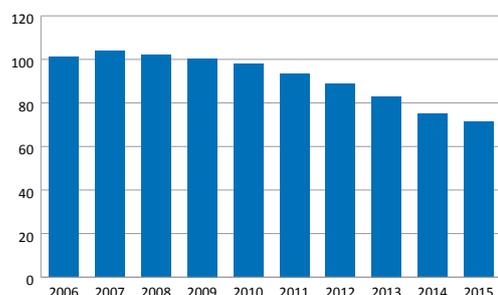
All costs relating to the provision of services in RIX are to be covered by fees paid by the participants. In 2015, costs amounted to SEK 53 million, 100 per cent of which was covered by fees. This means that operations in 2015 fully covered their costs. Over a three-year period (2013–2015), cost coverage was 109 per cent. On 1 March 2015, the fee for all participants was cut from SEK 50,000 to SEK 40,000. The total additional fee, which is shared by participants with domestic revenues of at least SEK 1 billion, was cut from SEK 2,200,000 to SEK 1,100,000 per month.

## CASH PROVISION

In 2015, the Riksbank continued to provide banknotes and coins to the banks and to follow the development of the value of cash in circulation. In October 2015, the Riksbank entered the first stage of the changeover of Sweden's banknotes and coins when the new 20-, 50-, 200- and 1,000-krona banknotes were introduced. Ahead of the introduction, the Riksbank carried out a major information campaign. Over the year, the

Chart 18

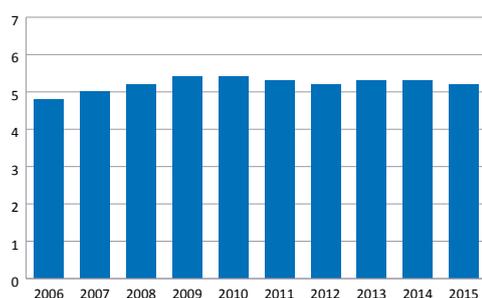
## Average value of banknotes in circulation, SEK billion



Source: The Riksbank.

Chart 19

## 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.

Riksbank also worked on practical preparations ahead of the changeover and consulted with cash market agents on the changeover.

### Development in value of cash in circulation

The Riksbank is following the development of the amount of cash in circulation and assesses that it will continue to decrease in the years to come. This is because the Swedish people are changing their payment habits and using other methods of payment than cash. All older banknotes and coins except the 10-krona coin will become invalid in 2016 and 2017. It is also likely that this will influence the amount of cash in circulation, as some of the banknotes and coins will not be replaced by new ones. For example, it is likely that some of the cash currently saved by the general public will not be replaced by new cash.

The total value of cash in circulation was SEK 73 billion at year-end 2015. The value is governed by the demand for banknotes and coins, which varies over the course of a year. Another way of describing the amount of cash in circulation over a year is to calculate an average for the value on the final day of the month over the twelve months of the year. This average value amounted to SEK 77 billion in 2015, of which the value of banknotes amounted to SEK 71 billion (see Chart 18) and the value of coins amounted to SEK 5 billion (see Chart 19). At the end of 2015, the value of banknotes amounted to SEK 68 billion and the value of coins to SEK 5 billion (see Table 3).

Table 3

## Average value of banknotes and coins in circulation, SEK billion

	2011	2012	2013	2014	2015
<b>Total value on 31 December</b>	100	96	86	83	73
Banknotes	95	91	80	78	68
Coins	5	5	5	5	5
<b>Total value, average during the year</b>	99	94	88	80	77
Banknotes	94	89	83	75	71
Coins (excluding commemorative coins)	5	5	5	5	5

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

Source: The Riksbank.

### Sweden gets new banknotes and coins

In October 2015, the Riksbank started to issue new 20, 50 and 1,000-krona banknotes, together with banknotes in the new 200-krona denomination. For a time, it will be possible to pay with both the older and the new banknotes. The Riksbank's assessment, after contacts with cash market agents, is that the introduction of the new banknotes went smoothly. Among other things, the distribution and adjustment of equipment for handling banknotes worked well. At the end of 2015, there were new banknotes in a value of SEK 3 billion and older banknotes in a value of SEK 63 billion (see Table 4).

Table 4

Value of banknotes in circulation per 31 December 2015, allocated by new and older banknotes (SEK million)

Denomination	New banknotes	Older banknotes	Total
20	511	1 339	1 850
50	397	717	1 114
100	Not issued yet	8 045	8 045
200	932	Not issued	932
500	Not issued yet	49 789	49 789
1 000	1 073	3 125	4 198
Commemorative banknotes			2
Invalid banknotes*			2 262
<b>Total</b>	<b>2 914</b>	<b>63 015</b>	<b>68 193</b>

\* The item invalid banknotes includes banknotes that had ceased to be legal tender at the end of 2005 and 2013.

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

Source: The Riksbank.

### Information campaign

In 2015, the Riksbank carried out a major information campaign due to the start of the banknote and coin changeover. This campaign was conducted through many different channels and was aimed at different target groups, including the general public, banks, shops and cash-in-transit companies. In planning the campaign, the Riksbank consulted with the banks, the retail trade and others to ensure that the information channels selected would have a strong impact.

In August and September, the Riksbank held exhibitions on the new banknotes at six different locations in Sweden associated with the personalities on the banknotes. These exhibitions were held in collaboration with organisers linked to the cultural figure on each banknote. The exhibitions were held at Astrid Lindgren's World in Vimmerby (20-krona banknote), Evert Taube's World at Liseberg in Göteborg (50-krona banknote), the Saga cinema in Stockholm (100-krona banknote), the Bergmancenter on Fårö (200-krona banknote), the Birgit Nilsson Museum outside Båstad (500-krona banknote) and STF Abisko Mountain Station (1,000-krona banknote).

On 1 October, members of the public were offered the opportunity to exchange money for the new 200-krona banknote at the Riksbank and then browse an exhibition about the new banknotes. On this day, Governor Stefan Ingves also made the first purchase with a 200-krona banknote when he bought a book by Astrid Lindgren.

In September, the Riksbank's pamphlet "Sweden gets new banknotes and coins" was distributed to Swedish households. It contained information on the four banknotes due for release in October and information on what to do with the banknotes due to become invalid. The pamphlet was translated into 30 languages. It was also made available in braille and as a CD, and is available in sign language on the Riksbank's website.

The Riksbank has also produced an information film on the changeover as well as printed material, including stickers and posters, to make it easier for banks and shops to inform their customers of the changeover. Educational material for banking and retail employees and schools has also been produced.



In conjunction with the major information campaign for the banknote and coin changeover, the Riksbank launched the app "Kolla pengarna" (Check your money).



Many young visitors thought the Riksbank's banknote exhibitions were exciting.

The Riksbank launched the app “Kolla pengarna” (Check your money) this year. The app acts as a support tool for the visually-impaired, who can use it to scan a banknote and have the denomination read aloud. Using the app, it is also possible to learn to recognise a genuine banknote and get information on when the older banknotes will become invalid. It is also possible to read the Riksbank’s pamphlet or have it read aloud. The pamphlet can also be read in other languages using the app. To make it easier for the visually-impaired, the Riksbank has also developed a banknote measure, which is to say a small plastic card that can be used to measure a banknote and thereby determine its denomination.

The Riksbank’s website and “Kolla pengarna” on Facebook are two other channels the Riksbank has actively used over the year to provide information on the banknote and coin changeover. Over the year, the changeover received great attention in the media and the Riksbank’s representatives for the banknote and coin changeover participated in many interviews. The Riksbank also actively worked on informing social groups that may find it more difficult to obtain information through the usual channels to ensure that everybody had a chance of obtaining information on the changeover.

*Agreement on redemption period in banks*

In 2016, the new 100 and 500 krona banknotes, together with new 1, 2 and 5 krona coins will be introduced. For a period, both the older and the new banknotes and coins will work as a means of payment at the same time. Nine months after the new banknotes and coins have been introduced, the older ones will become invalid. However, for a time after the banknotes and coins have become invalid, it will be possible to deposit them in a bank account.

In association with their members, the Swedish Bankers’ Association and Sparbankernas Riksförbund (the national federation of savings banks) reached an agreement with the Riksbank in 2015 for a redemption period in banks after it stops being possible to make payments with the banknotes and coins. The banks will assist their customers to redeem banknotes and coins during the following periods:

Denominations	Final date of validity	Final redemption day in banks
Banknotes: 20, 50 and 1,000 kronor	30 June 2016	31 August 2016
Banknotes: 100 and 500 kronor	30 June 2017	30 June 2018
Coins: 1, 2 and 5 kronor	30 June 2017	31 August 2017

*Practical preparations and consultations on the changeover*

Over 2015, the Riksbank worked on various practical preparations ahead of the changeover and consulted with cash market agents, including banks, the retail industry and cash-in-transit companies. The Riksbank offered companies manufacturing equipment for banknote handling access to the new banknotes to help adjust their equipment. The Riksbank also worked with various preparations ahead of the next stage of the changeover, in which the storage and sale of the coins to be melted down are two important components.

### Environmental review

Over the year, the Riksbank commissioned an environmental review of the coin changeover. This investigation highlighted the kind of environmental impact the changeover will have and the extent of its environmental impact. In addition, an estimate was made of the environmental gains to be made from usage of the new coins, as opposed to the current ones.

### Redemption of banknotes and commemorative coins

Since 2013, when the Riksbank declared the 50 and 1,000-krona banknotes without foil strips invalid, interest in redeeming invalid banknotes has been high. The Riksbank expects that many people will continue to wish to redeem banknotes via the Riksbank. Consequently, over the year, the Riksbank has streamlined its internal banknote handling and made it easier for the general public to redeem invalid banknotes by making it possible to fill in the information required directly via the Riksbank's website. When assessing whether invalid banknotes can be redeemed, the Riksbank has, as before, complied with the Act on Measures Against Money Laundering.

Since June 2015, it has been possible for private individuals and others to redeem commemorative coins via the Riksbank. Previously, it was only possible to redeem them via the banks, but now it is also possible to send them to the Riksbank.

## Follow-up

There was little counterfeiting of Swedish banknotes in 2015 (see Table 5). The value of the counterfeit notes removed from circulation amounted to SEK 114,000, which is a slight increase compared with 2014, when the value of counterfeit notes removed from circulation was very low. The total number of counterfeit notes amounted to 295, which is slightly more than in 2014. Almost half of the counterfeits were 500-krona banknotes. 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 2015. The banknote and coin changeover was the main issue addressed by the meeting.

The Riksbank deems that cash provision functioned well in 2015, that the quality of the banknotes was good and that confidence in banknotes and coins was high in Sweden.

*Table 5*

#### Number of banknotes and coins

	2011	2012	2013	2014	2015
Number of banknotes in circulation (millions)	343	336	334	325	317
Number of coins in circulation (millions)	1 989	1 889	1 911	1 918	1 917
Number of counterfeited banknotes	562	533	1 048	246	295

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.

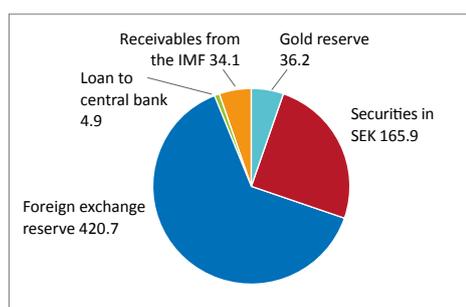
Source: The Riksbank.

## Asset management

The Riksbank manages 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. Over 2015, the balance sheet total increased by SEK 161.0 billion to SEK 663.4 billion, primarily due to the Riksbank's purchases of Swedish government bonds with the aim of making monetary policy more expansionary. By the end of the year, the Riksbank's holdings of securities in Swedish kronor amounted to 25 per cent of the Riksbank's assets. The vast majority of these assets was made up of the gold and foreign exchange reserves. The Riksbank reported a profit of SEK 2.0 billion for 2015.

Chart 20

The Riksbank's financial assets at the end of 2015, SEK billion



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

Source: The Riksbank.

## FINANCIAL ASSETS AND LIABILITIES

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 (see Chart 20).

Like many other central banks, the Riksbank has a gold reserve. This originates from the days of the gold standard, when banknotes and coins could be redeemed for a certain quantity of gold. There is no such link today and gold is instead a financial asset that, like the foreign exchange reserve, aims to ensure that the Riksbank can carry out its tasks. 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.

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 (see the article "International commitments").

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".

The Riksbank also holds assets in the form of securities issued in Swedish kronor. These assets mainly consist of the government bonds the Riksbank purchased in 2015 and are reported on the balance sheet under the heading "Securities of residents in Sweden denominated in Swedish kronor".

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 repo. However, since the autumn of 2008, the banking system has a liquidity surplus, which means that the Riksbank regularly draws in liquidity from the banking system

instead of supplying liquidity, as previously. The Riksbank mainly borrows the liquidity surplus, either through overnight loans, so-called fine-tuning operations, or by issuing Riksbank Certificates. This borrowing means that the Riksbank has a debt to the banks. This debt is reported on the balance sheet under the headings “Debt certificates issued” and “Liabilities to credit institutions in Sweden related to monetary policy operations denominated in Swedish kronor”. The Riksbank also provides so-called standing facilities, which means that the banks can borrow money from or deposit money with the Riksbank overnight. This borrowing and lending is reported on the balance sheet under the headings “Deposit facility” and “Marginal lending facility”.

The Riksbank also has financial liabilities in foreign currencies to the National Debt Office. These liabilities consist of US dollars and euros that the Riksbank has borrowed from the National Debt Office in order to strengthen the foreign exchange reserve. Borrowing from the National Debt Office is reported on the balance sheet under the heading “Liabilities to residents in Sweden denominated in foreign currency”.

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”.

### Management of the gold and foreign exchange reserves

The gold and foreign exchange reserves are primarily to be managed so that the Riksbank can always be ready to fulfil its commitments. Secondly, management strives to achieve a good risk-adjusted return. In 2015, the Riksbank assessed that the composition of the gold and foreign exchange reserves was appropriate for the Riksbank’s purposes at the same time as it achieved a good-risk-adjusted return. The overall distribution of assets in the gold and foreign exchange reserves was therefore held unchanged over the year.

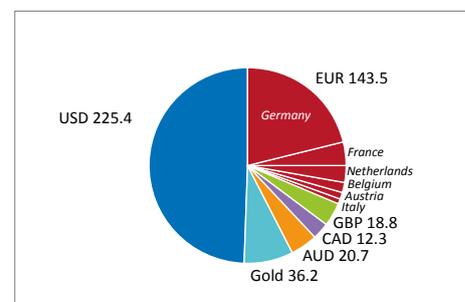
Being able to provide temporary liquidity assistance in foreign currency at short notice is the task that makes the greatest demands on the composition of the gold and foreign exchange reserve. Consequently, most of the foreign exchange reserve is maintained in those currencies in which emergency liquidity assistance may be needed and in such assets as can rapidly be converted into liquid funds. The Riksbank’s task entails the foreign exchange reserve focusing on assets in US dollars and euro. At the end of the year, the assets in US dollars and euros amounted to 49 per cent and 31 per cent respectively of the gold and foreign exchange reserves (see Chart 21).

In 2015, in order 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 were mostly made in British government bonds, Australian government and federal state bonds and Canadian government and provincial bonds.

As the Riksbank’s assets mainly consist of US dollars and euro, the bank’s financial result is affected by the way the value of these two currencies

Chart 21

Composition of the gold and foreign exchange reserves at the end of 2015, SEK billion

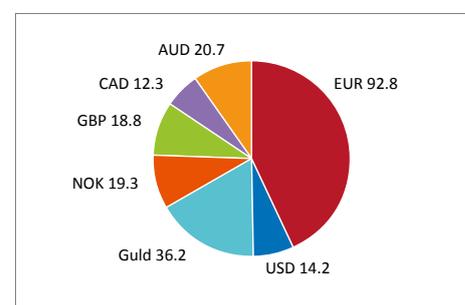


Note: The figures in the chart show the market value of the gold and foreign exchange reserves, including accrued interest.

Source: The Riksbank.

Chart 22

The Riksbank’s foreign currency exposure at the end of 2015, SEK billion



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

Source: The Riksbank.

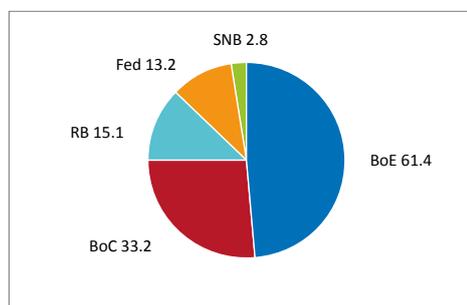
Chart 23

**Modified duration of the foreign exchange reserve, 2015**

Note: The calculation of the foreign exchange reserve's modified duration is based on both assets and liabilities and is reported in the chart for the Riksbank's net receivables.

Source: The Riksbank.

Chart 24

**Storage of the gold reserve at the end of 2015, tonnes**

Source: The Riksbank.

Table 6

**Sweden's financial commitments to the IMF 2015, SDR million and SEK million respectively**

	SDR	SEK
<b>Sweden's maximum commitment</b>	<b>18 033</b>	<b>210 970</b>
Used at the beginning of the year	767	8 969
Change during the year	-118	-1 382
Used at the end of the year	649	7 587
<b>Unutilised share of the commitment</b>	<b>17 385</b>	<b>203 383</b>

Note: The SDR amounts have been converted at the exchange rate applying at year-end.

Source: The Riksbank.

develops in relation to the Swedish krona. However, the effect on the result is counteracted by the Riksbank also having liabilities in US dollars and euro. To further reduce the effect of exchange rate changes, some of the Riksbank's exposure to US dollars was converted over the year to exposure to Norwegian kroner with the aid of what are known as currency swaps. A currency swap is an agreement to exchange commitments in one currency for commitments in another currency over a predetermined period of time. Chart 22 shows the Riksbank's currency exposures at the end of the year.

Due to the internationally-low interest rates and an increased risk of an increase in interest rates, the Riksbank decided over the year to retain the interest-rate sensitivity of the foreign exchange reserve at a fairly low level around 3, measured as modified duration (see Chart 23). The measure shows how sensitive the value of a debt security is to changes in the interest rate. 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.

The size of the gold reserve was held unchanged in 2015 at 125.7 tonnes. 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 24). As in previous years, the Riksbank also stored gold on behalf of others in 2015.

Under the framework of the Riksbank's reserve position in the IMF and the New Arrangement to Borrow (NAB), the Riksbank paid US dollars equivalent to SEK 723 million to the IMF. The IMF lent these funds to Jamaica, Pakistan and Ukraine. Due to repayments from the Dominican Republic, Greece, Ireland, Iceland, Portugal, Sri Lanka and Ukraine, the Riksbank received US dollars equivalent to SEK 3,402 million.

In addition to these transactions, the Riksbank purchased a total of 90 million Special Drawing Rights (SDR) on behalf of the IMF from Pakistan. Furthermore, the Riksbank sold a total of SDR 23 million to Iceland and Cambodia. These transactions were executed against payment in US dollars within the Riksbank's standing arrangement to purchase/sell SDR on behalf of the IMF (see the article "International commitments").

All in all, the Riksbank's transactions with the IMF meant that Sweden's unutilised commitments to the IMF increased by SEK 1,382 million (see Table 6).

## Follow-up

The Riksbank's purchases of Swedish government bonds entailed an increase of the bank's financial assets. At the end of 2015, the value of the Riksbank's financial assets amounted to SEK 661.9 billion, which is SEK 161.0 billion more than at the end of 2014 (see Table 7). The Riksbank's financial liabilities were valued at SEK 483.9 billion and the total return amounted to SEK -7.0 billion.

The monetary policy operations in 2015 consisted of standing facilities and deposits from the banking system via fine-tuning operations and Riksbank Certificates. Deposits from the banking system amounted to SEK 214.3 bil-

lion at year-end, which is an increase of SEK 164.5 billion in relation to the previous year. This increase can largely be explained by the Riksbank's purchases of Swedish government bonds for monetary policy purposes (see the section "Maintaining the value of money – price stability"). The increased deposits can also be explained by a decline in the value of outstanding banknotes and coins of SEK 9.8 billion (see the section "Cash provision") and by the Riksbank transferring SEK 4.1 billion to the Treasury in April. Over the year, negative deposit rates led to total deposits generating SEK 435 million in interest income (see Table 7). Average deposits during the year via Riksbank Certificates and fine-tuning operations amounted to SEK 81.9 billion and SEK 48.8 billion respectively.

### Purchases of Swedish government bonds

Over the year, the Riksbank purchased government bonds for monetary policy purposes in a nominal amount totalling SEK 135 billion. The bond purchases were conducted on the secondary market at a total of 36 auctions (see Chart 25). The holding of Swedish government bonds was negatively impacted by the development of interest rates in Sweden and generated a return of SEK -2.0 billion. At the end of the year, the market value of the Riksbank's holdings of securities in Swedish kronor amounted to SEK 165.9 billion.

Table 7

Return on the Riksbank's asset management in 2015, SEK million

	Assets	Liabilities	Return	Return excl. exchange rate effects
<b>Gold and foreign exchange reserves incl. the IMF</b>				
Gold reserve	491 043	267 891	-7 530	596
Foreign exchange reserve	36 241	-	-1 288	-
IMF	420 684	241 579	-6 761	593
Derivative instruments	34 118	26 312	519	3
Derivative instruments	19	974	2 097	167
<b>Monetary policy transactions</b>				
Standing facilities	2	214 342	435	435
Fine-tuning operations	-	96	1	1
Riksbank Certificates	1	143 420	257	257
<b>Loan to central bank</b>				
Loan to central bank	4 867	645	4	4
<b>Securities in SEK</b>				
Securities in SEK	165 928	-	-2 042	-2 042
<b>Total</b>	<b>661 859</b>	<b>483 852</b>	<b>-7 036</b>	<b>-840</b>

Note: The calculation of the return is based on both assets and liabilities and is reported in the table for the Riksbank's net receivables.

Source: The Riksbank.

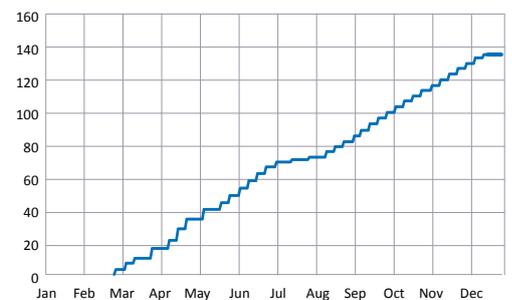
### Management of the gold and foreign exchange reserves

The market value of the gold and foreign exchange reserves (including net receivables from the IMF) was SEK 464.7 billion at the end of the year. The reserves consisted of assets in foreign currency at a value of SEK 420.7 billion, gold at a value of SEK 36.2 billion and net receivables from the IMF amounting to SEK 7.8 billion (see Table 7).

The return on the foreign exchange reserve amounted to SEK -6.8 billion. The negative return is mainly due to the fact that the currencies in the foreign exchange reserve weakened on average against the Swedish krona over the year. The total exchange rate effect, which is to say return attributable to exchange rate fluctuations, amounted to SEK -7.4 billion or -2.9

Chart 25

The Riksbank's purchases of Swedish government bonds 2015, SEK billion

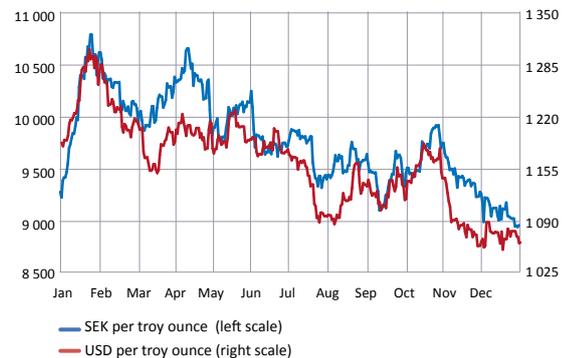


Note: The chart shows the nominal value of the Riksbank's purchases of Swedish government bonds over the year.

Source: The Riksbank.

Chart 26

Gold price movements, 2015



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

Source: Reuters.

### The Riksbank's financial risks

The financial risk policy of the Riksbank establishes the overall frameworks for the risk the Riksbank is prepared to accept in asset management. The follow-up of the risks the Riksbank is exposed to is mainly carried out in the Markets Department, where the Middle Office is responsible for day-to-day risk control and for calculating the return on the Riksbank's assets. There is also a Risk Division in the Riksbank, which is part of the General Secretariat and is responsible for overall risk control (see the section "Organisation and governance").

The Riksbank's financial risks consist of liquidity risks, market risks and credit risks. Liquidity risk is defined as the risk that the Riksbank will be unable to perform its tasks and meet its commitments because the assets in the gold and foreign exchange reserves cannot be sold in time or can only be sold 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 potential loss that may arise, with a particular probability, from an investment as a result of price movements during a given period of time. The measure is based on historical data. 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. The measure specifies the portfolio's return in excess of the risk-free rate in relation to its risk measured as a standard deviation.

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

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

per cent. The level of interest rates was generally low over the year on the markets in which the Riksbank invested its assets. Combined with small interest rate movements, this meant that return excluding exchange rate effects amounted to SEK 0.6 billion or 0.7 per cent.

The price of gold is usually measured in US dollars, and, in 2015, the price of gold expressed in dollars fell by 10.5 per cent (see Chart 26). However, as the dollar strengthened against the Swedish krona, the price of gold in kronor only decreased by 3.4 per cent. The value of the Riksbank's holdings of gold thus decreased by SEK 1.3 billion over the year.

Over the year, the Riksbank's liability to the Swedish National Debt Office was held unchanged in nominal amounts. However, the value of this liability increased by SEK 12.3 billion due to exchange rate fluctuations and amounted to SEK 241.6 billion by year-end (see Table 7). Loans in US dollars and euros amounted at year-end to 79 per cent and 21 per cent respectively of the liability to the Swedish National Debt Office.

The value of the Riksbank's receivables from the IMF was SEK 34.1 billion at the end of the year, while the value of the Bank's liabilities to the IMF was SEK 26.3 billion. The return on the net receivables amounted to SEK 3 million over the year, excluding exchange rate effects (see Table 7).

At the end of the year, the total value of the Riksbank's derivative instruments (excluding the Riksbank's swap agreement with the National Bank of Ukraine) was negative and entailed a debt of SEK 1.0 billion. The return on these derivative instruments excluding exchange rate effects amounted to SEK 167 million over the year (see Table 7).

In September 2015, the Riksbank entered into a six-month long swap agreement with the National Bank of Ukraine (see the article "International commitments"). The lending in US dollars against collateral in Ukrainian hryvnia that the Riksbank offered the National Bank of Ukraine is included as part of the item "Balances with banks, loans and security investments on the balance sheet's asset side (see the section "Balance sheet and profit and loss account"). The Riksbank funded this lending of dollars by selling assets in the foreign exchange reserve. The lending to Ukraine had a positive impact on the Riksbank's net interest income in an amount equivalent to SEK 4 million.

### Analysis of the management of the foreign exchange reserve

The Riksbank's management of the foreign exchange reserve is evaluated by making a comparison of the risk-adjusted return on the foreign exchange reserve with a corresponding return on a so called reference portfolio. This reference portfolio is composed of the securities the Riksbank would hold only to be able to carry out its tasks without considering the return. In 2015, the reference portfolio therefore consisted exclusively of 60 per cent US and 40 per cent German government bonds, whose overall interest-rate sensitivity, measured as modified duration, was 4.0. The risk-adjusted return is calculated both excluding and including exchange rate effects.

The return on the foreign exchange reserve excluding exchange rate effects amounted to 0.7 per cent during the year. The corresponding return on the reference portfolio amounted to 0.6 per cent. The higher return on the foreign exchange reserve is primarily due to the reserve

having partly been invested in Australia, Canada and the United Kingdom. In addition, over the year, the lower sensitivity to interest rates in the foreign exchange reserve meant that the risk in the reserve was lower than in the reference portfolio. The risk in the foreign exchange reserve amounted to 2.0 per cent, measured as a standard deviation without taking into account foreign exchange effects, while the risk in the reference portfolio amounted to 2.6 per cent.

If one adjusts the return to take the standard deviation 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 0.4, while the corresponding value for the reference portfolio was 0.3.

However, the risk-adjusted return on the foreign exchange reserve was lower than the corresponding value for the reference portfolio when exchange rate effects are taken into account. Measured in Swedish kronor, the risk-adjusted return on the foreign exchange reserve amounted to -0.3, while the corresponding value for the reference portfolio was 0.5. The lower value for the foreign exchange reserve was mainly due to the fact that the appreciation of the US dollar had a greater positive effect on the reference portfolio than on the foreign exchange reserve.

### Market risks in the Riksbank's financial assets and liabilities

The total market risk in the Riksbank's financial assets and liabilities, measured as VaR with a confidence level of 99 per cent and a period of 10 days, was, on average, slightly higher in 2015 than in the previous year. The higher market risk was mainly caused by the wider exchange rate fluctuations. At its peak, market risk amounted to SEK 11.3 billion during the year (see Chart 27).

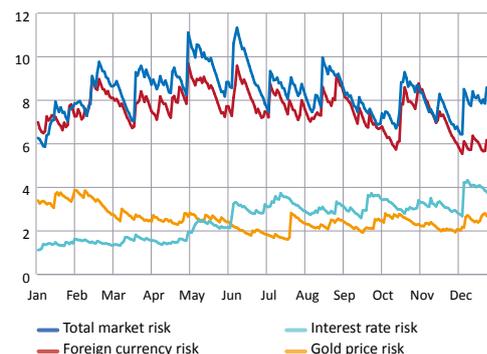
The increased volume of assets, due to the Riksbank's purchases of Swedish government bonds, led the interest rate risk to increase over the year. In addition, the higher modified duration in the holding of Swedish government bonds compared with the modified duration of the foreign exchange reserve meant an increased interest rate risk. The modified duration of the Riksbank's total holding of Swedish securities amounted to 5.2 at year-end. The increased interest rate risk can be illustrated by specifying the decline in value, expressed in kronor, that would accompany a 1 percentage point interest rate increase. All in all, the interest rate risk, measured in this way, increased from SEK 6.6 billion to SEK 14.0 billion over the year.

### 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. These costs amounted to SEK 101 million over the year, which can be compared with SEK 97 million in 2014 (see the section "Balance sheet and profit and loss account").

Chart 27

**Value-at-Risk for the gold and foreign exchange reserves (excluding net receivables from the IMF) and securities denominated in Swedish kronor, 2015, SEK billion**

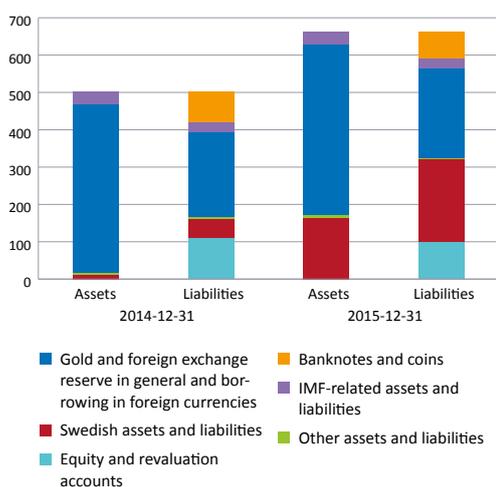


Note: Seen over the whole year, exchange rate fluctuations answered for the greatest contribution to total risk. Total risk was periodically lower than currency risk as other risks counteracted currency risk. The calculation of market risk is based on both assets and liabilities and is reported in the chart for the Riksbank's net receivables. Market risk normally increases in periods of unease on the financial markets. During the financial crisis of 2008–2009, the gold and foreign exchange reserves' total VaR reached a maximum of SEK 25.9 billion.

Source: The Riksbank.

Chart 28

The Riksbank's balance sheet at the end of 2014 and 2015, SEK billion



Source: The Riksbank.

## 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 varies over time. Over the year, the balance sheet total increased by SEK 161.0 billion to SEK 663.4 billion, mainly due to the Riksbank's purchases of Swedish government bonds. The Riksbank's equity (including the financial result for the year and the revaluation accounts) decreased by SEK 11,884 million to SEK 97,524 million, primarily as a result of the value of the gold and foreign exchange reserves decreasing. Chart 28 shows the composition of the balance sheet at the end of 2014 and 2015.

The vast majority of the Riksbank's assets (74 per cent) was made up of the gold and foreign exchange reserves (5 per cent of which were receivables from the IMF), while 25 per cent consisted of holdings of Swedish securities. The largest part of the balance sheet's liabilities side (the Riksbank's liabilities and equity), 36 per cent, was made up of borrowing from the Swedish National Debt Office for the foreign exchange reserve, while 34 per cent consisted of Swedish liabilities, mainly to the Riksbank's counterparties in the form of deposits (deposit facility, fine-tuning operations and issued Riksbank Certificates). These assets and liabilities are presented in more detail in the section "Financial assets and liabilities".

Banknotes and coins made up 11 per cent of the balance sheet's liabilities side, while the revaluation accounts and equity formed 15 per cent. The item "Banknotes and coins" is described in more detail in the section "Cash provision". Other assets and liabilities are reported in more detail in the section "Balance sheet and profit and loss account".

Over the year, the Riksbank continued to analyse the potential development of its result over the next few years in light of the effects that the development of exchange rates and international interest rates may have on the Riksbank's assets. Recent years' low interest rates have meant that the direct yield from the Riksbank's foreign securities is low. If interest rates remain low, the direct yield will also remain low. If interest rates instead start to rise, the direct yield will gradually rise, although the value of the securities will simultaneously fall, impairing the total return from 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 was the case over the previous five-year period, regardless of whether interest rates remain low or rise. In the latter case, the Riksbank may show significant losses. If this occurs, the Riksbank's ability to make dividend payments to the government will decrease.

The purchases of Swedish government bonds that the Riksbank executed in 2015 will also have a negative impact on its result in the period ahead and will further restrict the possibility of making dividend payments to the government. As the bonds were purchased at rates close to 0 per cent, the yield on these securities will be low. The factor that will be of greatest significance to the result in the long term is therefore the cost of funding the holding of bonds and the manner in which this cost develops. The holding of bonds is funded through increased deposits from the banks. The cost for this is determined by the interest rate on the Riksbank's deposits in the form of Riksbank Certificates (the repo rate), fine-tuning

operations (the repo rate minus 0.10 percentage points) and deposit facilities (the repo rate minus 0.75 percentage points). The repo rate is currently negative, meaning that deposits from the banks are making a positive contribution to the Riksbank's result. When the repo rate starts to be increased, the funding cost for the holding of government bonds will increase, which will impact the result negatively.

The buffers, in the form of unrealised profits, that have been built up in the revaluation accounts in recent years may prove to be important for protecting the Riksbank's equity if market rates rise in the next few years. However, it is important that the Riksbank has sufficient resources to be able to carry out its tasks independently, in all situations. The current amount of equity is deemed to be sufficient to carry out the complementary monetary policy measures already decided upon and also to adopt further measures without jeopardising the Riksbank's financial independence.



*Deputy Governor Per Jansson together with Gitte Lindström-Harmark, managing director of the Birgit Nilsson Museum, and Margareta Dellefors, childhood friend of Birgit Nilsson, at the inauguration on 10 August.*

### Composition of the balance sheet, result and seigniorage

The Riksbank's financial result depends on the return on the Bank's assets, the costs of its liabilities and its operating costs. However, "result" is not a clear-cut concept. There are several ways to calculate the result of the Riksbank's operations and different measures are used in different contexts.

The broadest measure of the result can be termed *total result* and describes how the Riksbank's equity (including the revaluation accounts) has changed over the year. In 2015, equity decreased by SEK 11,884 million. In that equity fell by SEK 4,100 million when the Riksbank made dividend payments to the government over the year, the total result for 2015 amounted to SEK -11,884 million + SEK 4,100 million = SEK -7,784 million.

The total result can be divided up into different components. For example, a distinction can be made between realised and unrealised results. Realised results arise, for example, when the Riksbank earns interest on its bank balances and securities, when it sells previously purchased securities or when it pays wages. Unrealised results arise when the value of assets that the Riksbank still owns changes, for example if the price of gold changes. Another way of dividing up the Riksbank's result is to separate items relating to interest rates and securities holdings from items relating to gold and currency holdings.

In Table 8, the total result for 2015, that is SEK -7,784 million, has been divided into four parts. The realised result from interest rates and securities amounted to SEK 1,132 million. This includes the Riksbank's interest income and interest expenditure and the net result of all transactions and write-downs relating to securities. It also includes the item "Other income", which largely consists of dividends on the Riksbank's shares in the BIS and fees from users of the RIX payment system, and costs for personnel, administration and write-downs. The realised result from gold and currency transactions, including write-downs, amounted to SEK 822 million. The unrealised result as a result of rising interest rates amounted to SEK -2,720 million, while the result relating to falling gold prices and exchange rates was SEK -7,018 million.

*Table 8*

**Result matrix, SEK million**

	Interest and securities	Gold and currency
Realised result	1 132	822
Unrealised result	-2 720	-7 018

Source: The Riksbank.

The Riksbank's *reported result*, that is the result taken up in the Riksbank's income statement, comprises all the realised results stemming from interest rates and securities transactions as well as from gold and currency transactions. The Riksbank's reported result for 2015 amounted to SEK 1,132 million + SEK 822 million = SEK 1,954 million.

The *result on which the dividend to the State is based* comprises both realised and unrealised results linked to interest rates and securities, but excludes all results relating to gold and currency. In 2015, this result amounted to SEK 1,132 million – SEK 2,720 million = SEK –1,588 million. The size of the dividend itself is arrived at by calculating the average of the result over the past five years and multiplying it by 80 per cent. A compilation of how the different results relate to each other is presented in Table 9.

#### What is seigniorage?

The Riksbank's *seigniorage* is part of the Bank's reported result and arises from the right to issue banknotes and coins. The value of all banknotes and coins in circulation is reported as a liability on the Riksbank's balance sheet. At year-end 2015, this value amounted to SEK 73,451 million. The Riksbank does not pay interest on this liability but incurs costs for managing banknotes and coins. Of the Riksbank's total costs for personnel, administration and depreciation of SEK 887 million, SEK 263 million were costs for managing banknotes and coins.

By issuing banknotes and coins the Riksbank can finance assets of the same value, but the Riksbank has no earmarked assets that exactly correspond to the item banknotes and coins. A standard calculation is therefore used when estimating the earnings from these assets. As the stock of banknotes and coins averaged 12.9 per cent of the balance sheet, it is assumed that 12.9 per cent of the total earnings come from the assets corresponding to banknotes and coins. Calculated in this way, SEK 579 million of the Riksbank's total interest income from assets of SEK 4,500 million (SEK 4,936 excluding interest income regarding deposits from the Riksbank's counterparties of SEK 436 million) can be said to come from these assets. Similarly, SEK 578 million of the total net result of financial transactions, excluding write-downs, of SEK 4,491 million can be said to come from the assets corresponding to banknotes and coins. The total of the Riksbank's earnings and costs that can be related to banknotes and coins thus amounted to SEK 579 million + SEK 578 million – SEK 263 million = SEK 894 million. It is this sum that is referred to as the Riksbank's seigniorage.

Seigniorage for the year was SEK 118 million higher than the corresponding value for the financial year 2014. This higher seigniorage, despite the average proportion of banknotes and coins in the balance sheet having decreased by 4.1 percentage points, can be explained by the Riksbank's interest income and net result from financial transactions, excluding write-downs, being higher than in the previous year.

Table 9

#### Result measures 2015, SEK million

	Total	Reported	Basis for dividend
Interest income	4 936	4 936	4 936
Interest expense	–2 164	–2 164	–2 164
Net result of financial transactions and write-downs	–45	–45	–867
of which, sale of securities	1 771	1 771	1 771
and gold and currency respectively	2 720	2 720	
of which, write-downs of securities	–2 638	–2 638	–2 638
and gold and currency respectively	–1 898	–1 898	
Net result of changes in value (unrealised result)	–9 738		–2 720
of which, changes in value of securities	–2 720		–2 720
and gold and currency respectively	–7 018		
Other income	114	114	114
<b>Total net income</b>	<b>–6 897</b>	<b>2 841</b>	<b>–701</b>
<b>Personnel and administration costs and depreciation</b>	<b>–887</b>	<b>–887</b>	<b>–887</b>
of which, costs for managing banknotes and coins	–263	–263	–263
other costs	–624	–624	–624
<b>Result for the year</b>	<b>–7 784</b>	<b>1 954</b>	<b>–1 588</b>

Source: The Riksbank.

## 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 2015.

### Basic accounting policies

The following basic accounting policies have been applied:

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

### Recognition of assets and liabilities

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

### Trade-date accounting

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

### Balance sheet valuation rules

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

	31.12.2015	31.12.2014
EUR/SEK	9.1689	9.4807
USD/SEK	8.4424	7.8274
GBP/SEK	12.4471	12.1991
AUD/SEK	6.1482	6.4059
CAD/SEK	6.0860	6.7585
SDR/SEK	11.6989	11.3404
UAH/SEK	0.3514	–
NOK/SEK	0.9539	1.0463
JPY/SEK	0.0702	0.0653

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. 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 paid into an account at the Riksbank.

#### *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 exchange rates and trade date exchange 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 exchange 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 exchange rate and the trade day exchange 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	<b>31.12.2015</b>	31.12.2014
<b>Assets</b>			
Gold	1	<b>36 241</b>	37 529
Claims on residents outside Sweden denominated in foreign currency		<b>456 969</b>	448 840
Receivables from the IMF	2	<b>34 115</b>	34 684
Balances with banks, loans and security investments	3	<b>422 854</b>	414 156
Lending to credit institutions in Sweden related to monetary policy operations denominated in Swedish kronor		–	33
Marginal lending facility	4	–	33
Securities of residents in Sweden denominated in Swedish kronor	5	<b>163 762</b>	11 126
Other assets		<b>6 409</b>	4 873
Tangible and intangible fixed assets	6	<b>670</b>	671
Financial assets	7	<b>522</b>	522
Derivative instruments	8	–	–
Prepaid expenses and accrued income	9	<b>4 900</b>	3 323
Other assets	10	<b>317</b>	357
<b>Total assets</b>		<b>663 381</b>	502 401

<i>SEK million</i>	Note	31.12.2015	31.12.2014
<b>LIABILITIES AND EQUITY</b>			
Banknotes and coins in circulation		<b>73 451</b>	83 224
Banknotes	11	<b>68 193</b>	77 887
Coins	12	<b>5 258</b>	5 337
Liabilities to credit institutions in Sweden related to monetary policy operations denominated in Swedish kronor		<b>70 922</b>	14 803
Deposit facility	13	<b>96</b>	130
Fine-tuning operations	14	<b>70 826</b>	14 673
Debt certificates issued	15	<b>143 420</b>	35 004
Liabilities to residents outside Sweden denominated in Swedish kronor	16	<b>8 292</b>	1 983
Liabilities to residents in Sweden denominated in foreign currency	17	<b>240 537</b>	228 331
Counterpart of Special Drawing Rights allocated by the IMF	18	<b>26 310</b>	25 504
Other liabilities		<b>2 832</b>	4 032
Derivative instruments	19	<b>1 619</b>	2 905
Accrued expenses and prepaid income	20	<b>1 174</b>	1 063
Other liabilities	21	<b>39</b>	64
Provisions	22	<b>93</b>	112
Revaluation accounts	23	<b>43 373</b>	53 111
Equity		<b>52 197</b>	53 030
Capital	24	<b>1 000</b>	1 000
Reserves	25	<b>51 197</b>	52 030
Profit for the year		<b>1 954</b>	3 267
<b>Total liabilities and equity</b>		<b>663 381</b>	502 401

Memorandum items, see note 37.

## Profit and loss account

<i>SEK million</i>	Note	2015	2014
Interest income	26	4 936	4 193
Interest expense	27	-2 164	-1 761
Net result of financial transactions and write-downs	28	-45	1 631
Fees and commission income	29	53	64
Fees and commission expense	30	-18	-15
Dividends received	31	45	39
Other income	32	34	33
<b>Total net income</b>		<b>2 841</b>	<b>4 184</b>
Staff costs	33	-379	-361
Administrative expenses	34	-338	-322
Depreciation of tangible and intangible fixed assets	35	-51	-62
Banknote and coin expenses	36	-119	-172
<b>Total expenses</b>		<b>-887</b>	<b>-917</b>
<b>Profit for the year</b>		<b>1 954</b>	<b>3 267</b>

# Cash flow statement

<i>SEK million</i>	<b>31.12.2015</b>	31.12.2014
<b>OPERATING ACTIVITIES</b>		
Cash flow from operating activities, profit and loss	<b>4 863</b>	3 974
Interest received	<b>3 238</b>	4 458
Interest paid	<b>-2 103</b>	-1 573
Net received from financial transactions	<b>4 491</b>	1 921
Fees and commissions received	<b>53</b>	64
Fees and commissions paid	<b>-18</b>	-15
Other income	<b>16</b>	33
Administrative expenses paid	<b>-814</b>	-914
Cash flow from operating activities, assets	<b>-174 438</b>	-8 588
Receivables from the IMF	<b>4 390</b>	5 397
Securities in foreign currency	<b>-20 594</b>	-13 027
Securities of residents	<b>-158 227</b>	-960
Other assets	<b>-7</b>	2
Cash flow from operating activities, liabilities	<b>171 040</b>	1 899
Banknotes and coins in circulation	<b>-9 755</b>	-2 476
Liabilities to credit institutions in Sweden related to monetary policy operations denominated in Swedish kronor	<b>56 119</b>	-6 862
Debt certificates issued	<b>108 416</b>	10 015
Liabilities to residents outside Sweden denominated in Swedish kronor	<b>6 309</b>	1 276
Liabilities to residents in Sweden denominated in foreign currency	<b>61</b>	3 796
Other liabilities	<b>9 890</b>	-3 850
<b>Cash flow from operating activities</b>	<b>1 465</b>	-2 715

The table continues on the next page.

<i>SEK million</i>	<b>31.12.2015</b>	31.12.2014
<b>INVESTING ACTIVITIES</b>		
Acquisition and disposal of tangible and intangible fixed assets	-50	-43
Acquisition and disposal of financial assets	-	-
Dividends received	45	39
<b>Cash flow from investing activities</b>	<b>-5</b>	<b>-4</b>
<b>FINANCING ACTIVITIES</b>		
Transfer to the Treasury	-4 100	-3 300
<b>Cash flow from financing activities</b>	<b>-4 100</b>	<b>-3 300</b>
<b>Cash flow for the period</b>	<b>-2 640</b>	<b>-6 019</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>16 116</b>	<b>19 803</b>
Cash flow from operating activities	1 465	-2 715
Cash flow from investing activities	-5	-4
Cash flow from financing activities	-4 100	-3 300
Exchange rate difference on cash and cash equivalents	-2 394	2 332
<b>Cash and cash equivalents at end of period</b>	<b>11 082</b>	<b>16 116</b>

<i>SEK million</i>	<b>31.12.2015</b>	31.12.2014
<b>SPECIFICATION OF CASH AND CASH EQUIVALENTS</b>		
Bank accounts and bank lending denominated in foreign currency, see Note 3	11 082	16 083
Marginal lending facility	-	33
<b>Total cash and cash equivalents</b>	<b>11 082</b>	<b>16 116</b>

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 2014.

## Note 1 Gold

	31.12.2015	31.12.2014
Quantity		
Troy ounces (million)	4.0421	4.0421
Price		
USD/troy ounce	1 061.9800	1 186.1423
SEK/USD	8.4424	7.8274
<b>Book value</b>	<b>36 241</b>	<b>37 529</b>

As of 31 December 2015, the Riksbank holds 4 million troy ounces (troy oz) of gold (4), which is equivalent to 125.7 tonnes. No gold was sold in 2015.

## Note 2 Receivables from the IMF

	31.12.2015	31.12.2014
Special Drawing Rights	25 349	23 808
Reserve position in the IMF		
Capital contribution (quota)	28 025	27 166
IMF krona account	-24 502	-22 521
PRG-HIPC lending	218	211
NAB New Arrangements to Borrow	5 025	6 020
<b>Total</b>	<b>34 115</b>	<b>34 684</b>

The Riksbank's holding of Special Drawing Rights amounts to SDR 2 167 million (2 099). An amount corresponding to the total SDR allocated by the International Monetary Fund (IMF) is reported as a liability (see Note 18).

The Riksbank's 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 IMF's account in Swedish kronor is a liabilities account that shows how large a share of capital contribution the Riksbank has paid into the IMF by utilising the overdraft facility of this account. Because these items are reported net, only the part of the capital contribution used by the IMF for lending to member countries is reported as a receivable from 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 2015 the Riksbank's NAB lending amounted to SDR 430 million (531).

At the close of 2015 the Riksbank also had a receivable from the IMF of SDR 12.8 million (12.8) 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.

## Note 3 Balances with banks, loans and security investments

	31.12.2015	31.12.2014
Bank accounts	5 173	140
Bank lending	5 909	15 943
Bonds	402 238	363 912
Short-term securities	9 534	34 161
<b>Total</b>	<b>422 854</b>	<b>414 156</b>

Bank deposits and securities are issued in euro, US dollars, Pounds sterling, Australian dollars, Canadian dollars, Norwegian kroner, Ukrainian hryvnia and Japanese yen. The balance in Ukrainian hryvnia is obtained in the exchange of US dollars according to swap agreements with Ukraine's central bank. The distribution is shown in the table below. The securities have been recorded at quoted prices.

	31.12.2015	31.12.2014
Euro	141 870	139 434
US dollars	224 725	221 260
Pounds sterling	18 661	19 343
Australian dollars	20 483	20 824
Canadian dollars	12 249	13 295
Ukrainian hryvnia	4 866	-
Norwegian kroner	0	0
Japanese yen	0	0
<b>Total</b>	<b>422 854</b>	<b>414 156</b>

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

Maturity	Balances with	
	banks	Securities
Up to 1 month	11 082	4 941
Over 1 month, up to 3 months	-	26 102
Over 3 months, up to 1 year	-	127 907
Over 1 year, up to 5 years	-	203 477
More than 5 years	-	49 345
<b>Total</b>	<b>11 082</b>	<b>411 772</b>

The Riksbank did not participate in any automatic securities lending programmes in 2015.

## Note 4 Marginal lending facility

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

## Note 5 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 to contribute to a better functioning transmission mechanism, in the event of a crisis in the financial system. In 2015 the Riksbank acquired further securities in SEK in order to make monetary policy even more expansionary.

The securities have been recorded at quoted prices.

The breakdown of SEK-denominated securities by time to maturity is shown in the table below:

Maturity	Securities
Up to 1 month	–
Over 1 month, up to 3 months	–
Over 3 months, up to 1 year	3 434
Over 1 year, up to 5 years	86 178
More than 5 years	74 150
<b>Total</b>	<b>163 762</b>

## Note 6 Tangible and intangible fixed assets

	31.12.2015	31.12.2014
<b>Land and buildings</b>		
Cost of acquisition, 1 January	587	689
Acquisitions during the year	7	11
Divestments during the year	–	–
Reposting to Machinery and equipment	–	–113
<b>Cost of acquisition, 31 December</b>	<b>594</b>	<b>587</b>
Acc. depreciation, 1 January	–193	–179
Depreciation for the year	–16	–14
Divestments during the year	–	–
<b>Acc. depreciation, 31 December</b>	<b>–209</b>	<b>–193</b>
<b>Book value</b>	<b>385</b>	<b>394</b>
<b>Machinery and equipment</b>		
Cost of acquisition, 1 January	637	596
Acquisitions during the year	43	32
Divestments during the year	–75	–104
Reposting from land and buildings	–	113
<b>Cost of acquisition, 31 December</b>	<b>605</b>	<b>637</b>
Acc. depreciation, 1 January	–360	–416
Depreciation for the year	–35	–47
Divestments during the year	75	104
Write-down for the year	–	–1
<b>Acc. depreciation, 31 December</b>	<b>–320</b>	<b>–360</b>
<b>Book value</b>	<b>285</b>	<b>277</b>
<b>Total book value</b>	<b>670</b>	<b>671</b>
<b>Tax assessment value</b>		
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 (Broby). The properties are classified as special units and are therefore not taxable.

Acquisitions in 2015 include IT applications of SEK 33 million (18).

The write-down relates to the assets of the cash handling offices in Tumba and Mölndal, whose operations ceased in 2014.

The item 'Book value, machinery and equipment' includes intangible fixed assets in the form of application systems in an amount of SEK 101 million (84).

## Note 7 Financial assets

Shares and participations	31.12.2015	31.12.2014
<b>Bank for International Settlements</b>		
17 244 shares at a par value of SDR 5 000, of which 25% are paid up	441	441
<b>European Central Bank</b>		
Value of participation EUR 9 226 559.46 (9 226 559.46)	80	80
<b>SWIFT</b>		
16 (16) shares at a par value of EUR 125	1	1
<b>Total</b>	<b>522</b>	<b>522</b>

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 2.2729 per cent (2.2729) and the ECB's total subscribed capital amounts to EUR 10 825 007 069.61 (10 825 007 069.61). 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.

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

## Note 8 Derivative instruments

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

## Note 9 Prepaid expenses and accrued income

	31.12.2015	31.12.2014
Receivables from the IMF	3	3
Bank accounts and bank lending	–	0
Bonds in foreign currency	2 696	3 088
Derivative instruments	20	61
Bonds in Swedish kronor	2 166	144
Fine-tuning operations	1	–
Debt certificates issued	1	–
Other	13	27
<b>Total</b>	<b>4 900</b>	<b>3 323</b>

**Note 10 Other assets**

	31.12.2015	31.12.2014
Staff loans	296	318
Accounts receivable	2	5
VAT recoverable	6	13
Balances with banks	13	20
Other	0	1
<b>Total</b>	<b>317</b>	<b>357</b>

**Note 11 Banknotes**

Value of banknotes in circulation, by denomination

	31.12.2015	31.12.2014
1 000 krona	4 198	6 160
500 krona	49 789	57 203
200 krona	932	–
100 krona	8 045	9 223
50 krona	1 114	1 093
20 krona	1 850	1 738
Commemorative banknotes	2	2
Invalid banknotes	2 263	2 468
<b>Total</b>	<b>68 193</b>	<b>77 887</b>

The item 'Invalid banknotes' contains banknotes in circulation that ceased to be legal tender at the end of 2005 and 2013. Banknotes that have been invalid for more than ten years are normally written off from the liability for banknotes in circulation and carried in the profit for the year less a small amount that is recorded under 'Provisions'. The Riksbank may redeem invalid banknotes if there are particular grounds.

**Note 12 Coins**

Value of coins in circulation, by denomination

	31.12.2015	31.12.2014
10 krona	2 492	2 513
5 krona	1 310	1 337
2 krona	8	8
1 krona	1 390	1 404
Commemorative coins	58	75
<b>Total</b>	<b>5 258</b>	<b>5 337</b>

In 2015 the item 'Commemorative coins' was written down by SEK 14 million (22) referring to issues of commemorative coins that are older than ten years.

**Note 13 Deposit facility**

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

**Note 14 Fine-tuning operations**

This item is used to report deposits for the purpose of fine tuning liquidity in the financial system.

**Note 15 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 done at the Riksbank's most important policy rate, the repo rate, as a rule with a maturity of one week.

**Note 16 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 17 Liabilities to residents in Sweden denominated in foreign currency**

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

	31.12.2015	31.12.2014
Euro	50 248	51 938
US dollars	190 289	176 393
<b>Total</b>	<b>240 537</b>	<b>228 331</b>

**Note 18 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 2 167 million (2 099) and is reported under the item 'Receivables from the IMF' (see Note 2).

### Note 19 Derivative instruments

	31.12.2015	31.12.2014
Foreign exchange swaps, USD	581	1 881
Foreign exchange swaps, NOK	1 148	1 024
Foreign exchange swaps, UAH	-110	-
<b>Total</b>	<b>1 619</b>	<b>2 905</b>

The table above shows the valuation of the Riksbank's foreign exchange swaps broken down by currency.

The purpose of outstanding foreign exchange swaps is to convert part of the Riksbank's exposure in US dollars to exposure to Norwegian kroner, and to lend US dollars to the Ukrainian central bank, secured by Ukrainian hryvnia.

The nominal amounts of the derivative contracts, translated into Swedish kroner, are shown in the table below:

	31.12.2015	31.12.2014
Foreign exchange swaps, USD	16 048	23 295
Foreign exchange swaps, NOK	-19 295	-20 390
Foreign exchange swaps, UAH	4 866	-
<b>Total</b>	<b>1 619</b>	<b>2 905</b>

### Note 20 Accrued expenses and prepaid income

	31.12.2015	31.12.2014
Fine-tuning operations	-	-
Debt certificates issued	-	-
Deposits, Swedish National Debt Office	1 042	980
Counterpart of Special Drawing Rights	2	2
Other	130	81
<b>Total</b>	<b>1 174</b>	<b>1 063</b>

### Note 21 Other liabilities

	31.12.2015	31.12.2014
Accounts payable – trade	21	45
Other	18	19
<b>Total</b>	<b>39</b>	<b>64</b>

### Note 22 Provisions

	31.12.2015	31.12.2014
Pension provision	78	88
Invalid banknotes	14	22
Job Security Foundation	1	2
<b>Total</b>	<b>93</b>	<b>112</b>

The pension provision has been calculated by the National Government Employee Pensions Board (SPV). SEK 75 million (85) refers to PA 91 pensioners with a date of retirement prior to 2003, and SEK 3 million (3) 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 14 million (22) for the estimated future costs of banknotes that ceased to be legal tender but that the Riksbank still may redeem.

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 23 Revaluation accounts

	31.12.2015	31.12.2014
Price effect	7 134	9 854
Exchange rate effect	11 795	17 525
Gold value effect	24 444	25 732
<b>Total</b>	<b>43 373</b>	<b>53 111</b>

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 to 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. When calculating the Riksbank's allocation of profit, the reported profit is adjusted by the difference between the opening and closing value in the price effect.

Exchange rate effects are shown in the following table:

	31.12.2015	31.12.2014
Euro	4 016	7 487
US dollars	2 601	2 866
Pounds sterling	2 824	2 637
Australian dollars	1 178	2 012
Canadian dollars	41	1 366
Special Drawing Rights	1 135	1 157
Ukrainian hryvnia	-	-
Norwegian kroner	-	-
Japanese yen	0	0
<b>Total</b>	<b>11 795</b>	<b>17 525</b>

**Note 24 Capital**

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

**Note 25 Reserves**

	31.12.2015	31.12.2014
Reserve fund	500	500
Contingency fund	30 628	29 569
Balancing fund	20 069	21 961
<b>Total</b>	<b>51 197</b>	<b>52 030</b>

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 2015 a reposting was made of SEK 2 million (2) 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:

	31.12.2015	31.12.2014
<b>Allocation of profit:</b>		
Exchange rate effect	-2 966	-3 510
Gold value effect	7 356	7 356
Other allocation of profit	17 306	16 789
<b>Write-up of assets:</b>		
Gold reserve	8 604	8 604
Fixed assets	93	95
BIS shares	235	235
<b>Total</b>	<b>30 628</b>	<b>29 569</b>

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

	Capital	Reserves	Profit for the year
<b>Balance, 31 December 2013</b>	<b>1 000</b>	<b>57 341</b>	<b>-2 011</b>
Transfer to the Treasury	-	-	-3 300
Transfer to/from:			
Balancing fund	-	-2 248	2 248
Contingency fund	-	-3 063	3 063
Profit for the year	-	-	3 267
<b>Balance, 31 December 2014</b>	<b>1 000</b>	<b>52 030</b>	<b>3 267</b>
Transfer to the Treasury	-	-	-4 100
Transfer to/from:			
Balancing fund	-	-1 892	1 892
Contingency fund	-	1 059	-1 059
Profit for the year	-	-	1 954
<b>Balance, 31 December 2015</b>	<b>1 000</b>	<b>51 197</b>	<b>1 954</b>

**Note 26 Interest income**

	2015	2014
<b>From foreign assets:</b>		
SDR	13	19
Reserve position in the IMF	1	4
NAB (New Arrangements to Borrow)	3	5
Bank accounts	1	1
Bank lending	21	23
Bonds	3 982	3 657
Short-term securities	45	34
Derivative instruments	169	303
<b>Total</b>	<b>4 235</b>	<b>4 046</b>
<b>From domestic assets and liabilities:</b>		
Fine-tuning operations	-	0
Marginal lending facility	1	2
Bonds	259	135
Other	3	5
Staff loans	4	5
Negative interest fine-tuning operations	177	-
Negative interest debt certificates issued	257	-
<b>Total</b>	<b>701</b>	<b>147</b>
<b>Total</b>	<b>4 936</b>	<b>4 193</b>

**Note 27 Interest expense**

	2015	2014
<b>From foreign liabilities:</b>		
Deposits, Swedish National Debt Office	-2 149	-1 487
Deposit repos	-1	-
Counterpart of Special Drawing Rights	-14	-20
Derivative instruments	0	-1
<b>Total</b>	<b>-2 164</b>	<b>-1 508</b>
<b>From domestic liabilities:</b>		
Fine-tuning operations	-	-78
Debt certificates issued	-	-154
Deposit repos	-	-3
Bank accounts	-	0
Cash depots	-	-18
<b>Total</b>	<b>-</b>	<b>-253</b>
<b>Total</b>	<b>-2 164</b>	<b>-1 761</b>

### Note 28 Net result of financial transactions and write-downs

	2015	2014
Price effect	-867	1 087
Exchange rate effect	822	544
Gold value effect	-	-
<b>Total</b>	<b>-45</b>	<b>1 631</b>

The price effect consists of realised gains and losses on securities of SEK 1 771 million (1 142) and unrealised losses on securities of SEK -2 638 million (-55), 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 exchange rate losses of SEK 2 720 million (779) and unrealised exchange rate losses of SEK -1 898 million (-235) that were recognised in the profit for the year due to write-down of the foreign currency holding. When calculating the Riksbank's allocation of profit, the exchange rate effect is excluded from reported profit.

### Note 29 Fees and commissions income

The item includes annual and transaction charges for the RIX system of SEK 53 million (64).

### Note 30 Fees and commissions expenses

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

### Note 31 Dividends received

In 2015 the Riksbank received a dividend from the BIS of SEK 45 million (39).

### Note 32 Other income

	2015	2014
Reimbursement for the redemption of invalid banknotes	3	3
Unredeemed cash received	8	-
Reimbursement for discoloured banknotes etc.	1	1
Coins written off	18	22
Sida (Swedish International Development Cooperation Agency)	2	4
Other	2	3
<b>Total</b>	<b>34</b>	<b>33</b>

In 2015 the item 'Coins written off' was written down by SEK 18 million (22) referring to issues of commemorative coins in circulation that are older than ten years.

The income from Sida refers to remuneration for technical assistance to central banks in some developing countries (see the box 'International undertakings').

### Note 33 Staff costs

	2015	2014
Salaries and benefits	-231	-224
Salary recorded as assets	2	2
Social security contributions	-73	-70
	<b>-302</b>	<b>-292</b>
Pension premiums	-45	-42
Pension payments	-11	-11
Change in pension provision	12	11
Special payroll tax	-14	-13
	<b>-58</b>	<b>-55</b>
Training	-4	-3
Staff representation	-2	-2
Other	-13	-9
	<b>-19</b>	<b>-14</b>
<b>Total</b>	<b>-379</b>	<b>-361</b>

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 (2.0) 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 2015 amounted to SEK 13.2 million, broken down as follows:

	2015	2014
Stefan Ingves	2.1	2.0
Kerstin af Jochnick	2.2	2.3
Martin Flodén	2.2	2.2
Per Jansson	2.3	2.2
Cecilia Skingsley	2.2	2.2
Henry Ohlsson	2.2	-
Karolina Ekholm	-	1.7
Qualification period salaries	-	0.3
<b>Summa</b>	<b>13.2</b>	<b>12.9</b>

In addition, the Governor of the Riksbank received a board fee in 2015 of SEK 0.9 million (0.7) from the Bank for International Settlements (BIS). In accordance with a decision of the General Council a deduction is made from the gross salary of the Governor of the Riksbank corresponding to the amount of the board fee from BIS.

The item 'Qualification period salaries' 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, before he turns 65 years of age, ensuing from the position he held with the IMF, which he had before he was appointed Governor of the Riksbank, 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 2015 was 332 (330), of which 151 (150) women and 181 (180) men. The number of FTEs at the end of the year was 341 (329). Total sick leave in 2015 corresponded to 1.8 per cent (1.7) of employees' total working hours. Sick leave over a continuous period of 60 days or more in 2015 was 40.0 per cent (38.8) of total sick leave. Women's sick leave in relation to total regular working hours for women amounted in 2015 to 2.5 per cent (2.6), while the corresponding figure for men in 2015 was 1.2 per cent (0.9).

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

	2015	2014
29 years or younger	1.0 %	0.5 %
30–49 years	1.4 %	1.6 %
50 years or older	2.6 %	2.2 %

### Note 34 Administrative expenses

	2015	2014
Information, representation	-20	-8
Transport, travel	-16	-15
Consultancy assignments	-37	-38
Other external services	-93	-88
IT operations	-105	-112
Economics prize	-13	-13
Office and property maintenance	-45	-39
Other	-9	-9
<b>Total</b>	<b>-338</b>	<b>-322</b>

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 3.4 million (3.1).

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 37 million (38). This amount includes the costs of IT consultants of SEK 17 million (17).

The cost of statistics deliveries of SEK 63 million (59) 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 audit fees to the Swedish National

Audit Office and the General Council's auditors are included in the amount of SEK 2 million (2).

The 'IT operations' item includes licensing expenses of SEK 37 million (43) and IT services of SEK 64 million (64).

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 of SEK 11 million (8), and rent of premises of SEK 9 million (4).

### Note 35 Depreciation of tangible and intangible fixed assets

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

### Note 36 Banknote and coin expenses

Of the total cost of notes and coins of SEK 119 million (172), SEK 83 million (138) refers to circulation banknotes and SEK 36 million (34) to circulation coins. No commemorative coins were bought in 2015 (-).

### Note 37 Memorandum items

#### Pledged assets

At the close of 2015 no securities were pledged in connection with foreign securities repos (-).

#### Contingent liabilities

Outstanding claims for compensation amounted to SEK 6 million (2) at the close of 2015.

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 2015 (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 2015 the Riksbank has no outstanding compensation claims.

#### Lending and exchange commitments with the IMF

	31.12.2015	31.12.2014
Special Drawing Rights	53 583	52 706
Reserve position	24 502	22 521
GAB, NAB	46 915	44 328
Credit agreement	78 383	75 981
<b>Total</b>	<b>203 383</b>	195 536

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). The Riksbank's total commitment and utilised part of the commitment are shown below.

##### *Special Drawing Rights*

Under the IMF by-laws the commitment referring to Special Drawing Rights means that the Riksbank, through what is known as designation, may 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 per cent of the ordinary allocation, i.e. 3 x SDR 2 249 million. This equals SEK 78 932 million (76 514). 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. Because the Riksbank's SDR holding amounts to SEK 25 349 million (23 808), see Note 2, the outstanding commitment amounts to SEK 53 583 million (52 706).

##### *Reserve position*

The commitment concerning the reserve position (capital contribution 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.

At year-end the balance in the IMF's krona account was SEK 24 502 million (22 521), see Note 2.

Sweden's capital contribution 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). In December 2015 the United States Congress resolved to approve the increase, and hence a sufficient number have ratified for it to enter into force. However, the procedure also requires a letter from the United States Governor, in which the latter formally notifies the IMF of the decision and Member States subsequently have 30 days to pay in their share to the IMF. The Riksbank's share will thus probably be paid in during 2016. 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 (see below).

##### *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 4 439.7 million (4 439.7), which is equivalent to SEK 51 940 million (50 348).

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. Because the Riksbank's NAB lending at year-end amounted to SEK 5 025 million (6 020), see Note 2, the outstanding commitment amounts to SEK 46 915 million (44 328).

##### *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 of SDR 6 700 million, which is equivalent to SEK 78 383 million (75 981). 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 757 million (737) at the end of 2015.

The Riksbank has entered a swap agreement with the Ukrainian central bank – National Bank of Ukraine (NBU) – according to which the NBU may, subject to a specific agreement, borrow US dollars from the Riksbank in exchange for Ukrainian hryvnia. The term of the agreement extends to 16 March 2016. At the end of the year, the Riksbank has received Ukrainian hryvnia equalling SEK 4 866 million under this agreement, see Notes 3 and 19.

##### *Deposit agreements*

BIS has issued a 'non-binding credit commitment', according to which BIS, upon the Riksbank's request and subject to a specific agreement, may borrow foreign currency. This credit commitment has a term until 25 April 2016.

Swap agreement with the ECB implying that the Riksbank, subject to a specific agreement, may borrow euros in exchange for Swedish kronor.

## The profit and loss account and balance sheet by function

The table below shows the Riksbank's net income and expenses by function. The amounts are expressed in SEK million.

Function	2015			2014		
	Net income	Expenses	Results	Net income	Expenses	Results
Monetary policy	2	-175	-173	4	-184	-180
Financial stability	49	-181	-132	43	-178	-135
Payment system	53	-53	0	64	-57	7
Cash handling	30	-263	-233	9	-282	-273
Asset management	2 702	-101	2 601	4 061	-97	3 964
Statistics	0	-97	-97	0	-103	-103
Economics prize and General Council, etc.	5	-17	-12	3	-16	-13
<b>Total</b>	<b>2 841</b>	<b>-887</b>	<b>1 954</b>	<b>4 184</b>	<b>-917</b>	<b>3 267</b>

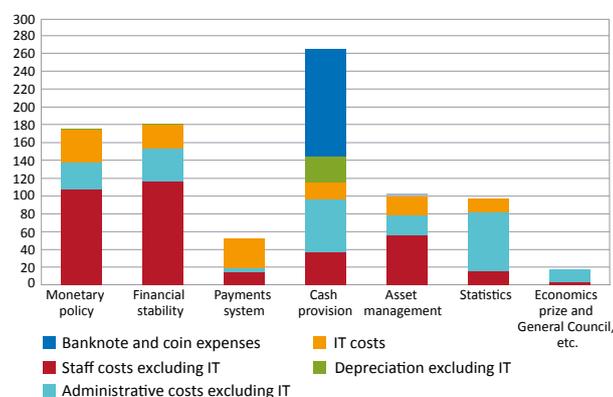
The breakdown should reflect as closely as possible the actual use of resources for each function. The principle used is for expenses and income to be allocated as far as possible directly to the respective function without use of any cost allocation key.

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 2015 amounts to SEK 1 954 million (3 267) and assets and liabilities to SEK 663 381 million (502 401).

Chart 29

Allocation by nature of expense by function, 2015, SEK million



Source: The Riksbank

### 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 227 employees, or 67 per cent of the total of 341, are directly involved in one of the functions. The other 114 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, which usually consist 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 119 million (172) in 2015. The costs are allocated in their entirety to the Cash handling function.

#### IT expenses

IT expenses refer to the costs of the IT operations. These operations are assigned to the Corporate Service Department. The model for allocation of IT expenses is primarily based on the following principles: Expenses for workstations, data storage and basic systems 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. Expenses for application operation of business systems and server operation, and other IT expenses (staff, consultants, licences, etc.) are allocated on the basis of the fixed expense of the business system for application operation divided by the total fixed expense for application operation for all business systems. Depreciation for business systems belonging to one or more functions is allocated directly to each system.

### 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 2015 amounted to SEK 894 million (776).

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 2 705 million (4 061).

Total return from the Riksbank's asset management for 2015 was SEK -7 033 million (31 495). See also table 6 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).

	2015	2014
Interest income	4 929	4 188
Interest expense	-2 164	-1 743
Net result of financial transactions and write-downs reported in the profit and loss account	-45	1 631
Fees and commission expense	-18	-15
<b>Net income, asset management</b>	<b>2 702</b>	<b>4 061</b>
Net result of financial transactions reported in revaluation accounts in the balance sheet	-9 738	27 434
<b>Total return, asset management</b>	<b>-7 036</b>	<b>31 495</b>
Net interest earnings on administration	7	-13
Income from administration	132	136
Cost of administration	-887	-917
<b>Profit/loss including income recognised in the balance sheet</b>	<b>-7 784</b>	<b>30 701</b>
Reversal of income recognised in the balance sheet	9 738	-27 434
<b>Reported profit for the year</b>	<b>1 954</b>	<b>3 267</b>

Net interest earnings on administration in the table above consist of interest income from the Riksbank's staff loans of

SEK 4 million (5), loan interest income of SEK 3 million (-) and interest expenses for interest compensation to cash depots of SEK - million (18).

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	31.12.2015		31.12.2014	
	Assets	Liabilities	Assets	Liabilities
Financial stability	441	-	441	-
Cash handling	-	73 451	-	83 224
Asset management	661 859	483 852	500 824	307 529
Unallocated	1 081	106 078	1 136	111 648
<b>Total</b>	<b>663 381</b>	<b>663 381</b>	<b>502 401</b>	<b>502 401</b>

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 according to current accounting policies. No restatement has been necessary for the last four years.

### Balance sheet

SEK million	31.12.2015	31.12.2014	31.12.2013	31.12.2012	31.12.2011
<b>ASSETS</b>					
Gold	36 241	37 529	31 425	43 720	43 508
Claims on residents outside Sweden denominated in foreign currency	456 969	448 840	385 784	294 079	300 186
Receivables from the IMF	34 115	34 684	32 873	34 196	35 294
Balances with banks, loans and security investments	422 854	414 156	352 911	259 883	264 892
Lending to credit institutions in Sweden related to monetary policy operations denominated in Swedish kronor	–	33	–	0	0
Marginal lending facility	–	33	–	0	0
Securities of residents in Sweden denominated in Swedish kronor	163 762	11 126	9 534	3 152	–
Other assets	6 409	4 873	4 884	4 788	4 223
Tangible and intangible fixed assets	670	671	690	655	502
Financial assets	522	522	522	521	521
Derivative instruments	–	–	–	662	–
Prepaid expenses and accrued income	4 900	3 323	3 314	2 609	2 873
Other assets	317	357	358	341	327
<b>TOTAL ASSETS</b>	<b>663 381</b>	<b>502 401</b>	<b>431 627</b>	<b>345 739</b>	<b>347 917</b>
<b>LIABILITIES AND EQUITY</b>	<b>31.12.2015</b>	<b>31.12.2014</b>	<b>31.12.2013</b>	<b>31.12.2012</b>	<b>31.12.2011</b>
Banknotes and coins in circulation	73 451	83 224	85 700	96 441	100 136
Banknotes	68 193	77 887	80 294	91 056	94 771
Coins	5 258	5 337	5 406	5 385	5 365
Liabilities to credit institutions in Sweden related to monetary policy operations denominated in Swedish kronor	70 922	14 803	21 665	26 154	16 875
Deposit facility	96	130	580	339	44
Fine-tuning operations	70 826	14 673	21 085	25 815	16 831
Debt certificates issued	143 420	35 004	24 989	2 998	–
Liabilities to residents outside Sweden denominated in Swedish kronor	8 292	1 983	707	156	106
Liabilities to residents in Sweden denominated in foreign currency	240 537	228 331	193 117	88 413	86 497
Counterpart of SDR allocated by the IMF	26 310	25 504	22 265	22 505	23 754
Other liabilities	2 832	4 032	1 008	384	1 283
Derivative instruments	1 619	2 905	197	–	943
Accrued expenses and prepaid income	1 174	1 063	763	306	252
Other liabilities	39	64	48	78	88
Provisions	93	112	169	184	203
Revaluation accounts	43 373	53 111	25 677	43 363	48 356
Equity	52 197	53 030	58 341	63 207	66 777
Capital	1 000	1 000	1 000	1 000	1 000
Reserves	51 197	52 030	57 341	62 207	65 777
Profit for the year	1 954	3 267	–2 011	1 934	3 930
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>663 381</b>	<b>502 401</b>	<b>431 627</b>	<b>345 739</b>	<b>347 917</b>

## Profit and loss account

<i>SEK million</i>	2015	2014	2013	2012	2011
Interest income	4 936	4 193	4 113	4 280	5 493
Interest expense	-2 164	-1 761	-1 684	-1 196	-1 359
Net result of financial transactions and write-downs	-45	1 631	-3 784	-603	209
Fees and commission income	53	64	65	71	70
Fees and commission expense	-18	-15	-12	-8	-8
Dividends received	45	39	55	56	51
Other income	34	33	26	34	168
<b>Total net income</b>	<b>2 841</b>	<b>4 184</b>	<b>-1 221</b>	<b>2 634</b>	<b>4 624</b>
Staff costs	-379	-361	-375	-366	-372
Administrative expenses	-338	-322	-316	-269	-261
Depreciation of tangible and intangible fixed assets	-51	-62	-48	-47	-51
Banknote and coin expenses	-119	-172	-51	-18	-10
<b>Total expenses</b>	<b>-887</b>	<b>-917</b>	<b>-790</b>	<b>-700</b>	<b>-694</b>
<b>Profit for the year</b>	<b>1 954</b>	<b>3 267</b>	<b>-2 011</b>	<b>1 934</b>	<b>3 930</b>

# 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 regulated in Chapter 9, Section 1a 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 Riksbank's internal control in 2015 against the requirements in the Sveriges Riksbank Act and its conclusion is that internal control is satisfactory.

*Stockholm, 3 February 2016*



**Stefan Ingves**  
*Governor of Sveriges Riksbank*



**Kerstin af Jochnick**  
*First Deputy Governor*



**Martin Flodén**  
*Deputy Governor*



**Per Jansson**  
*Deputy Governor*



**Henry Ohlsson**  
*Deputy Governor*



**Cecilia Skingsley**  
*Deputy Governor*

# Auditor's report for Sveriges Riksbank 2015

## Report on the annual report

Pursuant to section 5 of the Act on the Audit of Central Government Activities, etc. (2002:1022), the Swedish National Audit Office has audited the annual report for Sveriges Riksbank for 2015, dated 3 February 2016.

The authority belongs to Auditor General Margareta Åberg's audit area. The audit was conducted under the leadership of the auditor in charge Anders Herjevik with Jesper Fagerberg as engagement leader.

## 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 (ISSAI) and the Swedish National Audit Office's instructions for the audit of the profit and loss account and other information in the annual report (RRI). Our responsibility in accordance with these standards requires the Swedish National Audit Office to comply with professional ethical requirements and to plan and perform the audit to obtain reasonable assurance that the annual report is free from material misstatement. We are independent from the authority in accordance with ISSAI 30 Code of Ethics and have fulfilled our commitments in accordance with these ethical regulations.

The objectives of our audit have been to obtain reasonable assurance that the annual report as a whole is free from material misstatement, and to design an auditor's report containing the statement of the Swedish National Audit Office. Reasonable assurance is a high level of assurance but is not a guarantee that an audit in accordance with ISSAI and RRI will always discover a material misstatement when such is present. Misstatement may arise due to fraud or error and is considered to be material if, together or separately, it can reasonably be expected to affect the economic decisions made by the user on the basis of the annual report.

As part of an audit in accordance with ISSAI, we have planned and performed the audit with professional judgement and have maintained professional scepticism. We have also:

- identified and assessed risks of material misstatement in the annual report, whether this is due to fraud or error, designed and performed our audit procedures to manage these risks, and thereby obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement due to fraud is greater than for other errors, as fraud may involve collusion, falsification, wilful misconduct, misleading or false presentation of information or circumvention of internal control.
- obtained an understanding of the internal control relevant to the audit so as to design audit procedures that are appropriate in the circumstances, but not to express an opinion on the effectiveness of the authority's internal control.
- evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related information presented by management in the annual report.
- evaluated the overall presentation, structure and content of the annual report, including information, and whether the annual report reasonably represents the underlying transactions and events in a manner that achieves fair presentation.
- obtained sufficient and appropriate audit evidence regarding the financial information for the authority.

As part of an audit in accordance with RRI, we have also planned and performed the audit so as:

- for essential information of financial or non-financial nature given in the administration report, to obtain sufficient and appropriate audit evidence that such information has been prepared, together with the other parts of the annual report, with a view to conveying an accurate picture of operations based on the rules.
- for other information not directly linked to the financial components, to implement measures to assure ourselves that this is consistent with the other parts of the annual report and free from material misstatement, based on our knowledge of the authority.

Our communication with management includes the planned scope and focus of the audit, and significant results of the audit, including any significant deficiencies in internal control that we identify during the audit.

We believe that the audit evidence we have received is sufficient and appropriate to provide a basis for the Swedish National Audit Office's opinion as presented below.

## Opinion

In the opinion of the Swedish National Audit Office, the authority has, in all material respects:

- prepared the annual report 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 of the Riksbank.

- given a true and fair view of the economic result, funding and financial position of Sveriges Riksbank as at 31 December 2015.
- provided an administration report and information in general that is consistent with and supports a true and fair view of the annual report as a whole.

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

### **Report on other requirements in accordance with laws and other statutes**

#### *Administration of the General Council and the Executive Board*

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 2015.

#### *Responsibility of the General Council and the Executive Board*

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

#### *Responsibility of the auditor*

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 carried out this audit in accordance with ISSAI, with the application of relevant parts of RevR 209: Audit of the administration of the board of directors and managing director.

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. Our audit covered:

- the Rules of Procedure, instructions and any division of duties of the General Council and the Executive Board.
- the essential administrative measures undertaken by the Chairperson of the General Council and the Governor of the Riksbank.
- supervision of the organisation to ensure that bookkeeping, management of funds and economic conditions in general are subject to satisfactory internal control. Supervision also covers risk-taking, other risk exposures and protection against risk.
- measures to ensure the legal accounting and prudent management of funds, including the appropriate organisation, including responsibilities, systems and procedures for handling receipts and accounts, monitoring, supervision and control of accounting records and financial statements including adaptation to new conditions.

• management's ongoing assessment of the bank's financial situation.

- the work of the General Council and the Executive Board on minutes, decisions and decision-making material.
- individual management measures which, with regard to the scope and nature of the bank's activities are of an unusual nature and of major importance.
- other areas resulting from the bank's operations and the provisions 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*

On the basis of the audit procedures undertaken, 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 2015.

### **The Executive Board's assessment of internal control**

#### *Responsibility of the Executive Board for internal control*

In accordance with the requirements of the Sveriges Riksbank Act (1988:1385), the Executive Board has issued an opinion on the internal control of the authority.

#### *Responsibility of the auditor*

Our responsibility is to express an opinion on the annual report based on our audit. We have carried out our audit in accordance with ISSAI and RRI. The planning and performance of the audit have considered the parts of the internal control relevant to the authority's preparation and fair presentation of the annual report. Our responsibility does not include conducting an audit of the efficiency of the authority's internal control. Our statement regarding management's assessment of internal control is therefore based on the actions we have taken to examine the annual report and consequently does not have the same assurance as a statement based on an audit.

#### *Opinion*

In our audit of the annual report, we have found nothing to indicate that management's assessment of internal control has not complied with the Sveriges Riksbank Act (1988:1385).

The auditor in charge, Anders Herjevik, made the decision on this matter. Engagement leader Jesper Fagerberg presented the report.

*Stockholm, 23 February 2016*

*Anders Herjevik*

*Jesper Fagerberg*

## 1. THE DEPARTMENTS OF THE RIKSBANK AND THEIR TASKS

### *Cash and Payment Systems Department*

The Cash and Payment Systems Department is responsible for cash provision, the RIX payment system and the coordination of crisis preparedness in the central payment system.

Head of Department: Christina Wejshammar

Number of full-time equivalents (number of employees) at year-end: 34 (36)

### *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: Kasper Roszbach

Number of full-time equivalents (number of employees) at year-end: 66 (81)

### *Markets Department*

The Markets 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. The department conducts monetary and foreign exchange policy transactions in accordance with the monetary policy decisions. In addition, the department is responsible for the ongoing monitoring of the markets.

Head of Department: Heidi Elmér

Number of full-time equivalents (number of employees) at year-end: 34 (41)

### *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. 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 (number of employees) at year-end: 88 (104)

### *Corporate Services Department*

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

Head of Department: Marianne Olsson

Number of full-time equivalents (number of employees) at year-end: 63 (67)

### *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 (number of employees) at year-end: 5 (5)

### *General Secretariat*

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

Head of Department: Anders Vredin

Number of full-time equivalents (number of employees) at year-end: 44 (46)

## 2. CONSULTATION WORK OF THE RIKSBANK

Every year, the Riksbank responds to a large number of consultation documents. All consultation responses from the Riksbank have been published on the Riksbank's website ([www.riksbank.se](http://www.riksbank.se)). 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 2015, the Riksbank answered 43 consultation responses, concerning, among other matters, supervision in the financial area and proposed measures to strengthen the stability of the financial system. Several consultation responses have also dealt with amendments to Finansinspektionen's regulatory framework. Most consultation responses were issued by the head of the appropriate department.

### **The Executive Board's consultation responses**

The Executive Board has issued six consultation responses of particular importance within the Riksbank's area of activity.

In its response to the proposals of the Government inquiry on cash handling, the Riksbank supported the inquiry's proposals that the Riksbank take overall responsibility for cash handling in the country and that the Riksbank's task of cash provision be clarified. However, the Riksbank opposed the proposal that the Riksbank be appointed supervisory authority over cash processing companies.

Finansinspektionen's proposed amendment of its regulations on countercyclical capital buffer values was welcomed by the Riksbank, which considered, however, that the value should be set higher and be applied for a longer period than presented in the proposal.

Two proposals from Finansinspektionen and the Ministry of Finance, respectively, dealing with amortisation requirements were welcomed as a step in the right direction for the management of the risks entailed by households' debts. However, the Riksbank considered that the measures were not sufficient to reduce the risks inherent in household indebtedness.

The Riksbank welcomed the proposed legislative amendments for the implementation of the EU Directive on Deposit Guarantee Schemes. At the same time, the Riksbank pointed out that a number of proposals needed to be clarified, amended or investigated further.



## 3. PUBLICATIONS

*The Riksbank produces a number of publications each year. Full texts of the following publications, among others, are available for download from the Riksbank's website ([www.riksbank.se](http://www.riksbank.se)). The majority of them are published in both Swedish and English. The Riksbank also publishes press releases, speeches, articles and minutes from the meetings of the Executive Board and the General Council on its website.*

### **Monetary Policy Report**

Published six 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.

### **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.

### **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 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 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.

### **The Riksbank's Business Surveys**

Gives in-depth information on how the companies view the current economic situation and how they intend to act on the basis of the present conditions. This information is included in the material the Riksbank uses as a basis for monetary policy decisions.

### **Annual Report**

Provides an account of the Riksbank's activities during the past year. It also includes the annual accounts.

### **Working Paper Series**

Presents research with a connection to the Riksbank's fields of activity that is 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.

## 4. THE SVERIGES RIKSBANK PRIZE IN ECONOMIC SCIENCES IN MEMORY OF ALFRED NOBEL 2015

*The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel for 2015 was awarded to Angus Deaton for his analysis of consumption, poverty and welfare. If we are to design an economic policy that increases welfare and reduces poverty, we must first understand individuals' consumption choices. More than anybody else, Mr Deaton has contributed to such understanding. By shedding light on the connection between each individual's choice and the outcome for society as a whole, his work has helped reshape research in microeconomics, macroeconomics and development economics.*

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 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 economic sciences. The prize has been awarded every year since 1969 and previous laureates are listed on the Riksbank's website ([www.riksbank.se](http://www.riksbank.se)).

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.



*Angus Deaton* was born in 1945 in Edinburgh, United Kingdom (British and US citizen). Ph.D. 1974, University of Cambridge, United Kingdom. Professor of Economics and International Affairs, Princeton University, NJ, USA, since 1983.

## 5. GLOSSARY

**Balance of payments** Statistical report of a country's economic transactions with the rest of the world. Consists of the current account, capital account and financial account. The total is always zero, i.e. the payments are in balance.

**Banknotes and coins in circulation** The total amount of banknotes and coins actually in circulation in society outside the Riksbank. A decrease of this amount means that the banks have returned banknotes and coins to the Riksbank and been paid for this via deposits in their accounts in the Riksbank's payment system RIX. The liabilities item banknotes and coins thereby decreases at the same time as the liabilities item in Swedish kronor to the Riksbank's counterparties (deposits via fine-tuning operations or Riksbank Certificates) increases to a corresponding degree.

**Basel III** International regulatory framework for financial institutions that mainly regulates banks' capital adequacy, i.e. how much capital a bank must hold in relation to the risk it takes, and the way they manage liquidity.

**Basel Committee** Global forum for cooperation on issues relating to bank supervision for supervisory authorities and other bodies responsible for financial stability work.

**BIS, Bank for International Settlements** Coordinating body for central banks with its headquarters in Basel.

**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.

**CEBS, Committee of European Banking Supervisors** Independent organisation founded in 2004 with representatives for supervisory authorities and central banks in the EU. It was replaced by the European Banking Authority (EBA) in 2009.

**Clearing house** Type of company within the financial sector that acts as a neutral intermediary in financial transfers and that registers transactions in the administrative and legal senses for payment.

**Covered bonds** Bonds in which the bond holder has collateral in certain assets.

**CPI, Consumer Price Index** Statistical measure of the price level. The CPI is calculated every month by Statistics Sweden (SCB).

**Currency swaps** See Swap agreement.

**Deposit facility** See Standing facilities.

**Derivative instruments** 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.

**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.

**ESCB, the European System of Central Banks** Forum for cooperation between the ECB and the national central banks in all the EU Member States.

**ESRB, European Systemic Risk Board** Independent EU body responsible for the macroprudential policy 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.

**Eurosystem** The Eurosystem consists of the ECB and the national central banks in the EU member states that have the euro as currency.

**Extraordinary measures** Measures taken by the Riksbank during the financial crisis 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.

**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. As a rule, these deposits are made overnight at an interest rate equal to the repo rate minus 0.10 percentage points.

**Foreign exchange 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.

**FSB, Financial Stability Board** International committee that coordinates the work between national authorities and international regulatory bodies in the field of financial stability.

**GDP, Gross Domestic Product** 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.

**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 188 member countries, provides technical assistance and lends money to countries carrying out economic adjustment programmes.

**Inflation** General price increases that lead to a reduction in the value of money, a situation when fewer goods and services can be bought for the same amount of money. The CPI and CPIF are examples of inflation measures.

**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.

**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.

**Main operations** Transactions at the repo rate that the Riksbank normally carries out each week. If the banking system has a need to deposit money, the Riksbank issues Riksbank Certificates. If the banking system instead needs to borrow money from the Riksbank, monetary policy repos or loans (against collateral) are used.

**Medieakademin** Cooperation project between Göteborgs-Posten newspaper, the University of Gothenburg, Forsman & Bodenfors and TNS Gallup (formerly NFO Infratest) that investigates confidence in social institutions, individual companies and the mass media.

**Monetary policy** Measures that a central bank takes to maintain price stability in the economy.

**Monetary policy operations** The main, fine-tuning and structural operations as well as standing facilities that the Riksbank uses to steer the overnight rate, the shortest market rate on the money market.

**Monetary policy repo** Main operation in which 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.

**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 in a stress scenario that covers a period of one year.

**Price stability** Condition where the prices of goods and services increase only moderately or not at all.

**Policy rates** Interest rates that a central bank sets for monetary policy purposes.

**Repo rate** The Riksbank's most important policy rate, see Main transactions.

**Riksdag Committee on Finance** Parliamentary committee that prepares matters concerning economic issues, including the activities of the Riksbank and the central government budget.

**Riksbank Certificates** Main transaction, see the section Balance sheet and profit and loss account, note 15.

**Settlement** Final regulation of debt when money or securities are transferred from one party to another, usually payment from one account to another.

**Statistics Sweden** Central administrative agency for official statistics and other government statistics in Sweden.

**SNS, Centre for Business and Policy Studies** Politically-independent, non-profit organisation comprising opinion-formers and decision-makers in the private and public sectors.

**The 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 Gothenburg University.

**Standard deviation** Statistical measure that describes the extent to which the different values for a variable deviate from the mean value.

**Standing facilities** Banks and certain other financial participants may borrow money from or deposit money with the Riksbank overnight at the repo rate +/- 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.

**Stress test** Analysis of different scenarios to assess the resilience of banks, for example, to unexpected and negative events.

**Swap agreement** Bilateral agreement to exchange a specific currency or interest rate in return for another currency or interest rate for a predetermined period according to specific conditions.

**Transmission mechanism** The process through which monetary policy affects inflation and the economy in general. The process includes interest rate, credit and exchange rate channels.

**Design and production:**  
Intellecta Corporate

**Photo:** Cover, pages 5, 10, 22, 25, 34, 38,  
50, 86: Sandra Birgersdotter,

pages 6 and 20: Petter Karlberg,  
pages 15, 40, 43, 44, 49, 59: Jessica Bühler

**Printed by:** TMG Sthlm



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ISSN 0347-5042 (print), ISSN 2001-5003 (online)  
Stockholm 2016



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