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Ref.no.2016-00100

YOUR REF Dnr 1168-
2015/16

18 March 2016

Consultation response from the General Council to the report "Review of the Riksbank's Monetary Policy 2010–2015" (2015/16:RFR6)

ESTABLISHED 1668

The General Council of the Riksbank welcomes the report's generally positive comments regarding the Riksbank's work with monetary policy and financial stability. The General Council also welcomes the recommendation regarding a review of the Sveriges Riksbank Act and considers that this should be as broad as possible and begin as soon as possible. The Council also shares the view in the report that the present inflation-targeting regime and the legal framework with an independent central bank has functioned well and that this should be taken into account in a future amendment to the act. The General Council, also in common with the report, considers it particularly important to review the Riksbank's financial stability activities and the role distribution between the Government, the Riksbank, Finansinspektionen (the Swedish financial supervisory authority) and the Swedish National Debt Office. With regard to the recommendations that lie directly within the General Council's area of responsibility, the Council considers that the questions regarding the composition of the Executive Board and the governance model for the bank may also be included in a coming evaluation. With regard to the Riksdag (Swedish parliament) Committee of Finance's hearings with the Executive Board, the Council welcomes the proposal for more members of the Board to take part in these hearings. In conclusion, the General Council wishes to give its views on areas important to a future amendment to the act.

Introduction

The Riksbank has been invited to respond to the report "Review of the Riksbank's Monetary Policy 2010–2015" (2015/16 RFR6). The Riksbank is submitting two separate consultation responses. This response concerns the questions that fall within the General Council's sphere of activity. The Executive Board will at the same time issue a consultation response regarding the issues that belong to its sphere of activity.



The General Council of the Riksbank welcomes the report's generally positive comments regarding the Riksbank's work with monetary policy and financial stability.

The General Council and the Executive Board decided on 12 February 2010 on a joint submission to the Riksdag regarding certain areas that require investigation as a result of the financial crisis. Six years have now passed since this submission was made and the General Council can conclude that several of the questions raised at the time have not been dealt with by the committees appointed by the Government. In some cases the committees have presented concrete proposals, but these have not been followed up with continued law-drafting proposals.

According to the Committee on Finance, the Sveriges Riksbank Act will soon be subjected to a review after the report now submitted has been processed by the Riksdag. The General Council considers it important that such a review is made and that both the proposals put forward in the report Review of the Riksbank's monetary policy 2010–2015 and the outstanding issues not yet dealt with following the General Council's submission are examined, analysed and processed without delay. The General Council also notes that Goodfriend and King clearly state that "The combination of an independent Riksbank and its pursuit of an inflation target has served Sweden well". When an independent review of the act is made, it is important to bear this comment in mind.

The Executive Board has given its own consultation response on the questions that lie within the Executive Board's area of responsibility. With regard to the recommendations considered to lie within the General Council's area of responsibility, the Council wishes to express the following views.

1. The report's recommendations

1.1 Riksdag Committee on Finance hearings

The report observes that the Swedish system, whereby the Riksbank's activities are monitored by the General Council, which in turn reports to the Riksdag Committee on Finance, is a unique arrangement for delegating control with democratic legitimacy. The control is carried out through the presidium of the General Council having the right to be present at the Executive Board meetings and to express their opinions. The members of the Executive Board and the presidium of the General Council also attend hearings at the Riksdag Committee on Finance.

The report proposes that the hearings with Executive Board members should be extended. The Riksdag Committee on Finance should, according to the report, hold three hearings a year with the Executive Board of the Riksbank following the publication of the Monetary Policy Reports. In addition to the Governor (who must always participate) the report states that three deputy governors



should take part to explain and defend how they have voted on the monetary policy decisions. The General Council think that an open dialogue is important and welcome the proposal that more members of the Executive Board should take part in these hearings more often. A model for the hearings can be determined in more detail later.

The members of the Executive Board of the Riksbank have considerable autonomy with regard to the instruments for steering monetary policy. The General Council considers that the Riksdag Committee on Finance's public hearings with members of the Executive Board and the media monitoring of these hearings comprise an important part of the democratic control of the monetary policy conducted, as do the closed discussions within the Committee with members of the Executive Board as and when necessary.

1.2 Submissions on amendments to the law

The report recommends that the Riksdag Committee on Finance should task the General Council with drawing up recommendations for amendments to the Sveriges Riksbank Act.

It can be observed that the General Council and the Executive Board already now have the right – within their respective areas of responsibility – to make submissions to the Riksdag regarding amendments to the law and other measures by the state. It has not always been easy in practice to draw a line between the areas of responsibility for the Executive Board and the General Council. Both the Executive Board and the General Council could be considered to have the right to make submissions within all of the Riksbank's areas of activity, which is a reasonable arrangement.

1.3 The composition of the Executive Board

According to the report, the Executive Board should be remoulded into a monetary policy council and consist of three executive members, namely the Governor and two deputy governors with responsibility for monetary policy and financial stability respectively, and three non-executive members.

The General Council assesses that the composition of the Executive Board is a question that is suitable for a coming commission of inquiry on the Riksbank. The Executive Board as decision-making body can best be described as a mixture of management board and public authority board of directors. Pursuant to the Sveriges Riksbank Act, the Governor of the Riksbank only has a special position on the Board in certain cases. The General Council thinks that the model with six full-time members has created good conditions for a broad and well-nuanced monetary policy process and observes that the writers of the report have not analysed potential problems and disadvantages of having a monetary policy council. However, there may be reason to review the governing model for the Riksbank once again, partly with regard to the efficiency of its



governance as an organisation and partly with regard to the review of the mandate regarding financial stability, as proposed by Goodfriend and King.

2. A review of the Sveriges Riksbank Act

Prior to a review of the Sveriges Riksbank Act, the General Council wishes to emphasise that even if there are several areas where the legislator can consider clarification and amendments to the Sveriges Riksbank Act, the basic model that exists now should be safeguarded. The General Council, like Goodfriend and King, considers that the current combination of an inflation-targeting regime with an independent central bank has worked very well. The report notes that following the early 1990s, "the subsequent period of monetary policy has been one of remarkable success under at times difficult circumstances".

The General Council lists here below some areas it considers need urgent attention in a coming review of the Sveriges Riksbank Act.

2.1 The Riksbank's task of promoting a safe and efficient payment system

The Riksbank is often associated with the aim of maintaining price stability, which is usually interpreted as attaining a low and stable level of inflation. The Riksbank also has the task of promoting a safe and efficient payment system. However, neither the Sveriges Riksbank Act nor the preliminary work on the Act make clear what the task of promoting a safe and efficient payment system includes. The General Council considers that the Sveriges Riksbank Act should be clarified on this point. The proposals put forward by the Financial Crisis Commission in its interim report 2013:6 – "Preventing and managing financial crises", have not yet been used as a base for legislation.

2.2 Role allocation between the responsible institutions: the Government, the Riksbank, Finansinspektionen and the Swedish National Debt Office

Both the Riksbank's and Finansinspektionen's work are central to promoting stability in the financial system. At the same time, it is essential that the state's overall supervision and oversight is organised democratically and efficiently. This is necessary to ensure that the financial stability target can be safeguarded at the same time as the costs to tax-payers and society are minimised. An unprejudiced analysis of whether the present division of responsibilities and coordination between the Government, Finansinspektionen, the Swedish National Debt Office and the Riksbank can be improved in any respect should therefore be made without delay. The advantages and disadvantages of various solutions should be reported.

2.3 The Riksbank's credit granting

The preliminary work for the Sveriges Riksbank Act reveals that monetary policy instruments are only supposed to be used to maintain price stability (see Bill 1997/98:40 p. 54). However, to promote a safe and efficient payment system,



the Riksbank has other instruments, for example the possibility of granting emergency liquidity assistance on special terms ('lender of last resort'). The General Council considers there is reason to reflect on whether the Riksbank should be given further tools to use in promoting stability in the financial system. In this context, it should be considered whether the liquidity measures the Riksbank can use to attain the price stability target could also be used "to counteract serious disruptions to the liquidity supply". The Financial Crisis Commission presented such a proposal in its interim report 2013:6 – "Preventing and managing financial crises". This proposal has not yet been used as a base for legislation.

2.4 Foreign exchange policy

The General Council observes that foreign exchange policy covers several sub-areas. A clearer definition of what is meant by foreign exchange policy, as well as the way in which it relates to monetary policy, may be needed. Pursuant to the Sveriges Riksbank Act, the Riksbank may enter into certain types of agreement if this is done for foreign exchange policy purposes. For instance, over the years the Riksbank has entered into swap agreements with other central banks for this purpose. The significance of these swap agreements for the successful management of the financial crisis was emphasised by both the Financial Crisis Commission and Goodfriend and King. However, the role of the Riksdag and the General Council in connection with the processing and decisions in these cases may need to be reviewed.

2.5 The Riksbank's financial independence

Two commissions of inquiry have been made regarding the Riksbank's financial independence and balance sheet, SOU 2007:51 and SOU 2013:9. None of the proposals put forward have been used as a base for legislation. Following these commissions of inquiry, new circumstances have arisen. As of the beginning of 2015, the Riksbank has begun to make large purchases of government bonds for monetary policy purposes. Furthermore, changes in international regulations and other structural changes have increased the role played by non-banks in the financial system. More types of financial institutions can, as a result of this, become the object of liquidity assistance in a financial crisis than has previously been assumed. A further important aspect in this context is Nordea's plans to adopt a branch structure for its operations. The consequences of the new circumstances for the Riksbank's needs regarding a foreign currency reserve and equity should be taken into account in a review of the act and in this context the Treaty on the Functioning of the European Union (TFEU) should be given consideration. The role of the Riksdag and the General Council with regard to questions on the size of the foreign currency reserve should also be clarified.



2.6 Payment systems and crisis preparedness

The Riksbank's role and responsibility for crisis preparedness within the payment mechanism have been analysed and as early as 2011 a commission of inquiry presented valuable proposals in the report "Higher level of crisis preparedness in the central payment system", SOU 2011:78. The report has unfortunately not yet been used as a base for legislation.

2.7 Cash provision

The question of the availability and usability of cash has gained increased relevance as the banks' service to the general public in particular in this field has declined in recent years. Several commissions of inquiry have looked into cash-related issues, such as the Cash management inquiry, whose report SOU 2014:61 addressed mainly provisions regarding cash-in-transit companies. The payment services inquiry has also presented proposals in this field with regard to the incorporation of the Directive (2014/92/EU) on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features (the payment accounts directive). The General Council wishes to emphasise the importance of clarifying the responsibility of the Riksbank, other public authorities and private companies for efficient cash provision in legislation. The General Council considers it is important that the citizens are able to obtain and use cash throughout the whole of Sweden.

On behalf of the General Council:

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