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■ Sveriges Riksbank Economic Review No. 1 2006

The Riksbank's quarterly journal *Economic Review* discusses subjects related to central banking. The Swedish version of this year's first issue is published today and contains four articles:

Financial asset management at the Riksbank

The Riksbank's financial assets were valued at approximately SEK 200 billion at 31 December 2005. Foreign fixed-income securities made up the major item and the other items included gold, monetary policy repos and currency swaps. In this article Tomas Ernhagen of the Financial Stability Department and Fredrik Olsson of the Market Operations Department describe the principles and considerations that underlie the long-term direction of investment in these assets.

Controlling legal risks in financial asset management

Legal risks are prevalent in financial asset management but seldom feature in overall risk calculations. According to Magnus Georgsson of the General Secretariat, this attitude is probably partly due to legal risks seldom materialising, besides being difficult to measure and evaluate. But the damage can be considerable if, for instance, a measure aimed at reducing credit risk does not function as intended due to deficiencies in the legal conditions. There is therefore every reason to take legal risk seriously.

How do large current-account surpluses co-exist with a weak international investment position?

Sweden's current account has shown large surpluses in the past ten years. At the same time, the international investment position has not at all improved at the same rate. One explanation lies in valuation changes to external financial assets and liabilities. In this article Gunnar Blomberg and Maria Falk of the Monetary Policy Department discuss the parts played by exchange rate fluctuations, equity



- price movements in Sweden and abroad and the market value of direct investment entities.

Effective exchange rates – theory and practice

The value of the krona in terms of another currency is known as a bilateral exchange rate. The information in a number of bilateral exchange rates can be combined into a variety of weighted averages, known as effective exchange rate indices. In this article Jan Alsterlind of the Monetary Policy Department describes alternative ways of calculating an exchange rate index, the bilateral rates to include and how to weigh them together.

The journal is available as a PDF file on the Riksbank's website under the heading Publications/Published/Economic Review. It can also be collected from the main entrance to the Riksbank at Brunkebergstorg 11 or ordered by e-mail, forradet@riksbank.se, fax +46-8-7870526 or telephone +46-8-7870000.