

Under the Sveriges Riksbank Act the General Council of the Riksbank must present every year a proposal for the allocation of the Riksbank's profit, most of which is paid into the Treasury. Since 1988 the allocation of profit is calculated in accordance with guidelines established by the General Council and approved by the Riksdag. The detailed guidelines for calculating the dividend were drawn up to achieve stability in the transfers to the Treasury. For 1988–2010 the Riksbank paid in a total of SEK 200 billion to the Treasury and the level of annual dividends was relatively even; on average SEK 8.7 billion per year.

## The Riksbank's dividend in the past two decades

Henrik Gardholm and Joanna Gerwin

The authors work in the Administration Department and the General Secretariat respectively.

Under the Sveriges Riksbank Act, every year before 22 February, the Executive Board must report the Riksbank's profit for the year to the Riksdag, the Swedish National Audit Office and the General Council of the Riksbank.<sup>1</sup> At the same time the General Council must submit a proposal to the Riksdag and the National Audit Office for the allocation of the Riksbank's profit, most of which is transferred to the Treasury. The profit mainly consists of returns on assets managed by the Riksbank to ensure that it is able to achieve its statutory objectives and carry out its tasks: to implement monetary policy, to be prepared to intervene in the foreign exchange market and to be able to provide temporary liquidity assistance to banks. The Riksbank's assets are mainly funded through the issue of banknotes and coins as well as equity capital.<sup>2</sup> The Riksbank's profit varies from year to year, mainly as a consequence of changes in the market value of the assets.

The principles for allocation of the Riksbank's profit are not regulated by law.<sup>3</sup> However, since 1988 the allocation of profit is calculated in accordance with guidelines established by the General Council of the Riksbank and approved by the Riksdag. During that time the guidelines have been supplemented on three occasions to adapt the calculation model to new accounting policies and a new exchange rate regime so that dividend payments would not be affected by these changes.

This Economic Commentary describes the current method of calculating the Riksbank's dividend to the Treasury. It describes the principles that govern the calculation of the dividend and shows how the dividend has developed in the past two decades. The Commentary concludes with a detailed calculation of the allocation of profit for 2010.

### Principles governing calculation of dividend

The Riksbank's allocation of profit shows how large a part of the Riksbank's profit should be paid to the Treasury. It also specifies how much of the profit must be transferred to or from the Riksbank's contingency fund and balancing fund.<sup>4</sup>

Until 1988 the General Council of the Riksbank decided on the allocation of profit without the guidance of any formalised principles. The basic idea behind the allocation of the Riksbank's profit had, however, long been to maintain a certain stability in the dividend to the Treasury.

When the Riksbank for the first time recorded all assets and liabilities except gold at market value in the 1987 annual closing of the accounts it became clear that the Riksbank's financial outturn for a given year could be very strongly affected by major

1. Up to and including the 2010 financial year the Riksbank's profit was reported before 15 February in accordance with the provisions of the Sveriges Riksbank Act then in force.

2. The return on the Riksbank assets that correspond to banknotes and coins in circulation less the Riksbank's total cost of cash management is known as seignorage.

3. The Sveriges Riksbank Act provides, however, that if the reserve fund has fallen below SEK 500 million at least 10 per cent of the year's profit must be transferred to the reserve fund until it has again reached that amount.

4. The contingency fund and the balancing fund are part of the Riksbank's reserves included in the item "Equity capital" on the liability side of the balance sheet. Apart from the provisions made under the guidelines for the allocation of profits, the contingency fund also includes write-up amounts transferred to the fund when the value of Riksbank assets has been written up.

changes in interest rates and exchange rates. The new valuation principle then highlighted the need to establish guidelines for allocation of profit to avoid substantial fluctuations in the transfers to the Treasury. Consequently, at the time of the 1988 annual closing of the accounts the General Council adopted new guidelines for the allocation of the Riksbank's profit according to the following three basic principles:

- dividends must be stable over time so as to avoid unjustified fluctuations in the Central Government budget outcome
- the major part of the Riksbank's profit shall be distributed but the Riksbank is to continue to have substantial funding
- the dividend must not be subject to short-term considerations regarding the Central Government budget development.

A more detailed description of how the new guidelines were drawn up is given below.

### **The level of dividends shall be stable**

To ensure that transfers to the Treasury do not fluctuate too much the General Council decided that the average profit before appropriations for the last five years should be used as the basis for calculation of the allocation of profit. Neither may a write-up or write-down of the value of the krona be allowed to affect the dividend. These effects are instead levelled out using the contingency fund.

### **Most of the profit is distributed**

To comply with the principle that the major part of the profit must be distributed the General Council decided that 80 per cent of the average profit for the past five years is to be transferred to the Treasury. The remaining 20 per cent, on the other hand, is paid into funds to build up equity capital. The payments are made to the contingency fund and a balancing account.<sup>5</sup> The balancing account changed its name to balancing fund at the time of the 1994 annual closing of the accounts.

The General Council put forward two arguments in favour of the Riksbank making allocations to different funds. One is that in various situations the Riksbank needs to be able to utilise the amounts put into funds to deal with exchange rate and interest rate risks and to some extent credit risks. The second concerns the need to promote some stability in the transfer of profit from the Riksbank to the Treasury by allocation to funds.

Consequently, the General Council decided that the part of the Riksbank's profit that derives from exchange rate effects shall be transferred to the contingency fund. If the exchange rate effect is negative, the equivalent funds may be utilised so that the transfer to the Treasury is not affected by the effect of the change in the exchange rate. Ten per cent of the average profit before appropriations for the last five-year period shall also be allocated to the contingency fund, provided that this amount does not exceed the profit for the current year. If this is the case the allocation must not exceed the net profit for the year before appropriations to avoid building up the contingency fund using the balancing fund.

The amount remaining after dividend and allocations to or from the contingency fund must be transferred to or from the balancing fund.

### **Dividend is not affected by national budget considerations**

The third basic principle – that the dividend should not be subject to short-term considerations regarding the Central Government budget development – is satisfied in that the General Council decided to describe clearly how the allocation of profits should be calculated, thus not allowing scope for arbitrary interpretations.

The General Council memorandum of 1988 states, however, that the system for calculating the Riksbank's allocation of profits may of course be modified if it proves to have unforeseen disadvantages.

5. The Riksbank's allocations to the contingency fund were built up gradually in the 1970s and 1980s. At the close of 1988 there was SEK 17 178 million in the contingency fund. At the same time the balance of the balancing fund was SEK 29 934 million.

## Supplements to the calculation of dividend

The guidelines for calculating the Riksbank's allocation of profits were applied in their original form up to and including the 1992 annual closing of the accounts. After that time the guidelines have been supplemented on three occasions to adapt the calculation model to a new exchange rate regime and new accounting policies so that the dividend would not be affected by these changes.

When the exchange rate regime with a floating krona was introduced in autumn 1992 the General Council of the Riksbank noted that the new exchange rate effects could correspond to previously decided revaluations and devaluations of the krona exchange rate. It was therefore decided to continue to exclude the exchange rate effects that impacted profit when calculating the Riksbank's dividend. Hence as of the 1992 annual closing of the accounts the basis for transfers to the Treasury are to consist of the average profit before appropriations for the past five years excluding the impact on profit of a changed krona exchange rate for the same period. The basis for the transfers is therefore not affected by each change in the krona exchange rate.

When the Riksbank started to record its gold reserve at market value in 1998 the General Council decided that the gold value effects should also be excluded from calculation of the allocation of profits.<sup>6</sup> This means that the value change arising on the Riksbank's holdings of gold is treated in the same way as exchange rate effects and hence may not affect the size of the dividend. The basis for transfers as of the 1998 annual closing of the accounts thus constitutes the last five years' average profit before appropriations excluding exchange rate effects and effects of gold valuation changes.

In 2003 the Executive Board of the Riksbank decided that unrealised gains due to price changes in securities as of 2004 would no longer be included in the accounting profit. Instead they are reported as a change in revaluation accounts on the balance sheet. To achieve the same dividend amount as if this change in accounting policy had not been implemented the General Council modified the guidelines for calculating the allocation of profit once more. Since then the accounting profit is adjusted when calculating the allocation of profits by the price effects reported in the revaluation accounts. When the price of securities rises, the accounting profit is adjusted upwards by an amount corresponding to the increase in the revaluation accounts; that is by the price gain recorded on the balance sheet. When the price of securities falls, the reverse takes place, the accounting profit is adjusted downwards by the price loss recorded on the balance sheet, provided that there are gains from previous years' price changes reported in the revaluation accounts.<sup>7</sup>

### Stable dividend 1988–2010

A comparison between the Riksbank's accounting profit and the amounts transferred to the Treasury for the years 1988–2010 shows only minor changes in the dividend over time in relation to the annual profit (see Figure 1). The accounting profit varied between a high of SEK 26.7 billion in 1993 and a low of SEK –10.0 billion in 1994. At the same time the dividend varied between a high of SEK 9.8 billion in 1999 and a low of SEK 3.6 billion in 2007, if two extra dividends of SEK 20 billion each are disregarded. These extra dividends for 2000 and 2001 were transferred to the Treasury after a decision by the General Council of the Riksbank. The decisions were a departure from the guidelines for the allocation of the Riksbank's profit. The General Council's justification for this was that the current principles for allocation of profit had led to over-capitalisation of the Riksbank and that the extra transfers would assist the Riksbank to achieve a long-term well-balanced consolidation level.

6. The gold value effects are excluded both because they partly consist of exchange rate effects (when the gold is valued on the market in US dollars) and to achieve a stable dividend. One alternative would have been to only exclude the exchange rate component from the dividend, but that would have complicated the calculations, since in accordance with the ECB General Council decision the Riksbank has decided that gold value effects may not be subdivided when reporting exchange rate and price effects.

7. The accounting profit is not adjusted for price effects if the price changes in the current year entail unrealised losses in excess of previously reported profits due to price changes. In such cases the negative price effects are included in the accounting profit.

Including both the extra dividends the total transfer in accordance with the profit allocation principles amounts to SEK 200 billion for 1988–2010, which corresponds to 96 per cent of the accounting profit for the same period. The Riksbank's contingency fund and balancing fund increased in the same period from SEK 47 billion to 71 billion. The share of the dividend of the Riksbank's reported equity capital showed at the same time small changes and amounted on average to 12 per cent. At the end of 2010, it corresponded to 9 per cent of the equity capital of SEK 72 billion.

## Calculation of the Riksbank's allocation of profits for 2010

The profit allocation principle can be expressed in short by stating 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 accounts 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 is transferred to or from the balancing fund.

For 2010 the General Council of the Riksbank proposes the following allocation of profits:

- transfer to the Treasury SEK 6 200 million
- transfer from the Riksbank's contingency fund SEK 6 540 million
- transfer to the Riksbank's balancing fund SEK 888 million

A detailed description of how the proposal has been calculated is given below.

### Transfer to the Treasury

The Riksbank's profit for 2010 is SEK 548 million (see Table 1). This amount includes exchange rate effects of SEK –7 088 million but no gold value effects, as the Riksbank neither sold any gold during the year nor wrote down the value of its holdings of gold. Since the exchange rate effect affects the profit for 2010 it is excluded from the profit for the year in accordance with the principles for calculation of the dividend. The profit on which the calculation of the dividend is based is accordingly adjusted upwards.

Total price effects recorded in the revaluation accounts on the Riksbank's balance sheet for 2010 amount to SEK –859 million. This amount is calculated by deducting the balance of the part of the revaluation accounts referring to effects of changes in securities prices at the close of 2009 from the corresponding balance at the close of 2010. Since the balance decreased in 2010 the profit on which the dividend is based is adjusted downwards by SEK 859 million.

After the above adjustments the profit for 2010 amounts to SEK 6 777 million. This amount is then added to the adjusted profit for 2006–2009 to calculate the average profit for the five last years. The total of the adjusted profit for the five last years, 2006–2010, amounts to SEK 38 934 million, which gives an average profit of SEK 7 787 million.

After this 80 per cent of the average profit is calculated, which for the period 2006–2010 corresponds to SEK 6 229 million. Rounded off to even 100 millions this is SEK 6 200 million, which is the amount the General Council of the Riksbank proposes be transferred to the Treasury.

**Table 1. Calculation of the Riksbank's transfer to the Treasury for 2010**

<b>Adjustment of the year's profit</b>	
Net interest income	5 582
Exchange rate loss	-7 088
Gold value effect	-
Other expenses and income	2 054
<b>Profit for 2010</b>	<b>548</b>
Less: Exchange rate gain	7 088
Plus: Price loss recorded on the balance sheet	-859
<b>Adjusted profit for 2010</b>	<b>6 777</b>
<b>Calculation of average adjusted profit</b>	
Adjusted profit for 2006	2 586
Adjusted profit for 2007	7 061
Adjusted profit for 2008	18 318
Adjusted profit for 2009	4 192
Adjusted profit for 2010	6 777
<b>Total adjusted profit for the past five years</b>	<b>38 934</b>
<b>Average adjusted profit for the last five years</b>	<b>7 787</b>
<b>Calculation of transfer amount</b>	
80 % of the average adjusted profit	6 229
Rounding off to SEK 100 millions	-29
<b>Transfer amount for 2010</b>	<b>6 200</b>

### **Transfer from the Riksbank's contingency fund**

The exchange rate effects that are excluded when calculating the transfer to the Treasury are transferred from the contingency fund. Since the accounting profit for 2010 is lower than 10 per cent of the average adjusted profit for the last five years, only SEK 548 million, corresponding to the accounting profit, is transferred to the contingency fund. In total the General Council of the Riksbank proposes that SEK 6 540 million be transferred from the contingency fund, as shown in Table 2.

**Table 2. Calculation of the transfer from the Riksbank's contingency fund for 2010**

<b>Transfer from the Riksbank's contingency fund</b>	
Exchange rate loss	-7 088
10 % of the average adjusted profit reduced to the profit for the year	548
<b>Total</b>	<b>-6 540</b>

### **Transfer to the Riksbank's balancing fund**

After dividend and transfer from the contingency fund SEK 888 million remains to allocate. The General Council proposes that this amount be transferred to the balancing fund. The amount includes 10 per cent of the adjusted average profit, 10 per cent of the adjusted average profit reduced by the profit for the year, the price loss recorded on the balance sheet and rounding off of the dividend amount to even 100 millions, which is shown in Table 3. In addition the transfer includes the difference between the adjusted profit for 2010 of SEK 6 777 million and the adjusted average profit for 2006–2010 of SEK 7 787 million, that is SEK -1 010 million, which is also specified in the table.

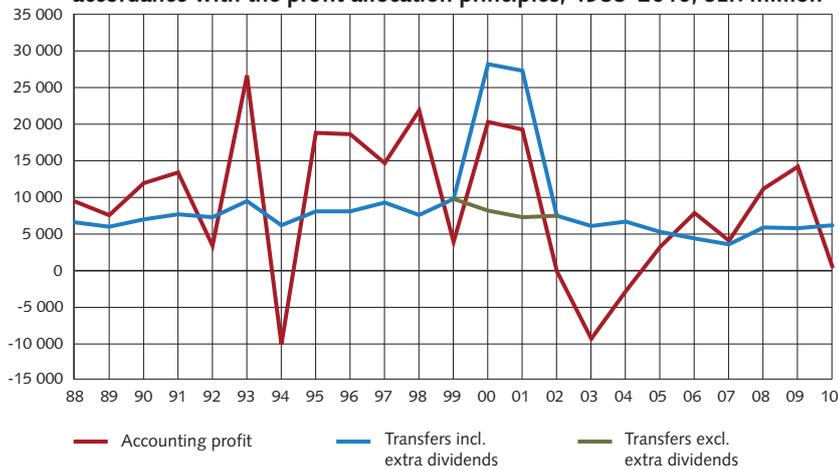
**Table 3. Calculation of transfer to the Riksbank's balancing fund for 2010**

<b>Transfer to the Riksbank's balancing fund</b>	
10 % of the average adjusted profit	779
10 % of the average adjusted profit reduced by the profit for the year	231
Price loss recorded on the balance sheet	859
Rounding off of transfer	29
Adjusted profit less average profit	-1 010
<b>Total</b>	<b>888</b>

The Riksbank's dividend is paid in to the Treasury at the latest one week after the Riksdag's decision on profit allocation. Normally the transfer is made at the time when the Riksbank implements the weekly open market operation. At that time the transfers to or from the contingency fund and balancing fund are also booked. The decision on the Riksbank's profit allocation calculated on the basis of profit for 2010 will be made by the Riksdag in spring 2011.

**Figure**

**Figure 1. The Riksbank's accounting profit and transfer to the Treasury in accordance with the profit allocation principles, 1988–2010, SEK million**



Note: The green line denotes the part of the transfer to the Treasury for 2000 and 2001 respectively, calculated in accordance with the profit allocation principles. That part amounted to SEK 8.2 billion for 2000 and 7.3 billion for 2001.

Source: The Riksbank.