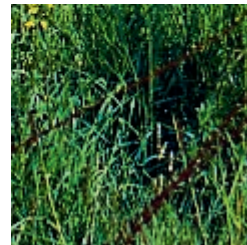
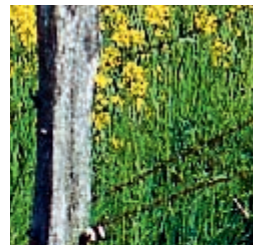
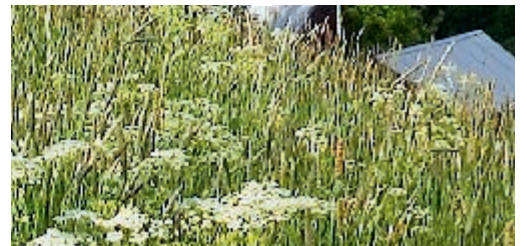
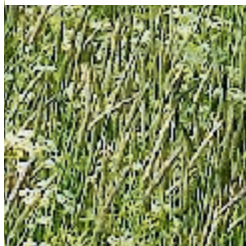
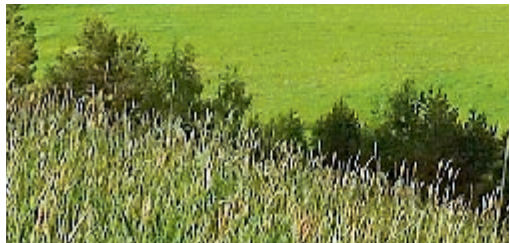
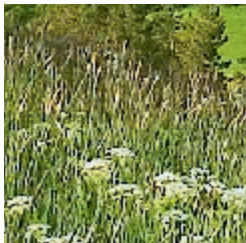
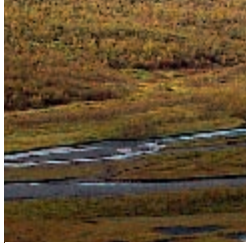


Annual Report 2005



Sveriges Riksbank is Sweden's central bank and a public authority reporting to the Riksdag, the Swedish Parliament. The Riksbank is responsible for the conduct of Swedish monetary policy with the objective of maintaining price stability. The Bank is also entrusted with the task of promoting a safe and efficient payment system.

The Riksbank has more than 400 employees and is led by an Executive Board consisting of the Governor, Stefan Ingves, and five deputy governors. The members of the Executive Board are appointed by the General Council of the Riksbank for a term of office of six years.

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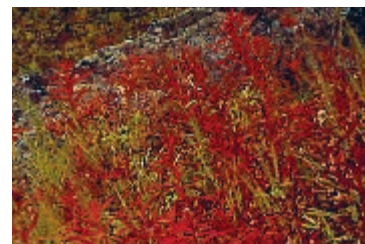
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MAINTAINING THE
VALUE OF MONEY
– PRICE STABILITY



A SAFE AND EFFICIENT
PAYMENT SYSTEM
– FINANCIAL STABILITY



ASSET MANAGEMENT



■ 2005 in brief

- Inflation, in terms of changes in the consumer price index (CPI) and UNDEX, a widely used measure of underlying inflation, averaged 0.5 per cent and 0.8 per cent, respectively, during the year. According to the Riksbank's most recent estimates, the economic growth rate in Sweden was 2.4 per cent.
- The stability of the financial system continued to be sound.
- On 20 June, the Riksbank decided to reduce the repo rate by 0.5 percentage points to 1.5 per cent.
- During the year the Riksbank published four Inflation Reports and two Financial Stability Reports.
- The Riksbank reported a profit of SEK 3.3 billion. The value of the foreign exchange reserve increased by SEK 16 billion as a result of a weakening of the Swedish krona. This unrealised increase in value is reported in a special revaluation account in the balance sheet, however, and as a result does not affect the profit and loss account.
- On 11 October, the General Council decided to appoint Stefan Ingves to be the Riksbank's new governor. At the same time, Svante Öberg was appointed as a new member of the Riksbank's Executive Board. The General Council also re-elected Lars Nyberg to be Deputy Governor for a new term of office.



Lena Endre presented some of Dag Hammarskjöld's texts in connection with the Riksbank's commemoration of the 100th anniversary of his birth.



Dag Hammarskjöld was Chairman of the Riksbank's General Council during the years 1941-1948.



Lars Heikensten together with Ricardo Lagos Escobas, President of Chile, and Vittorio Corbo, the Governor of the Chilean central bank, in connection with the Riksbank's conference on inflation targeting (above).



Karin Bjers and Tommy Persson presented the Riksbank's information film for upper-secondary school students.

■ The year in figures

THE YEAR IN FIGURES

Key data	2005	2004	2003
<i>At year-end</i>			
Result for the year (SEK billion)	3.3	-2.8	-9.3
Gold and foreign exchange reserve (SEK billion)	195	163	159
Number of employees (full-time equivalent)	410	434*	426
<i>Repo rate (per cent)</i>			
Repo rate (per cent)	1.5	2.0	2.75
<i>Short-term interest rate (3 month T-bills, per cent)</i>			
Short-term interest rate (3 month T-bills, per cent)	1.69	1.99	2.65
<i>Long-term interest rate (10-year government bonds, per cent)</i>			
Long-term interest rate (10-year government bonds, per cent)	3.34	4.03	4.78
<i>Annual average</i>			
GDP (percentage change)	2.4**	3.7	1.7
Unemployment (per cent)	5.9**	5.9***	3.3***
<i>Headline inflation, CPI (percentage change)</i>			
Headline inflation, CPI (percentage change)	0.5	0.5	2.0
<i>Underlying inflation, UNDIX (percentage change)</i>			
Underlying inflation, UNDIX (percentage change)	0.8	0.9	2.3

* of which 33 relate to previous employees of SKAB

** Forecast in Inflation Report 2005:4

*** The Riksbank has linked the historical unemployment series backwards

Sources: Statistics Sweden and the Riksbank



The King and Queen visited the Riksbank in 2005 for a presentation of the Riksbank's activities.



Stefan Ingves (above), Johan Germandt, Vice Chairman of the General Council, Jan Bergqvist, Chairman of the General Council, and Svante Öberg.



Mervyn Allister King, Governor of the Bank of England, visited the Riksbank in connection with the presentation of the Riksbank's Prize in Economic Sciences.

■ Statement by the Governor

The Riksbank's main tasks are to maintain stable prices and work for a financial system that functions smoothly. These are the prerequisites for a stable society and economic growth and, as a result, it is a great responsibility and a privilege to take up my duties as Governor of the Riksbank.



Stefan Ingves

Sveriges Riksbank is highly respected and has a good reputation, both in Sweden and in an international context. We are considered to be competent and efficient. Price stability is satisfactory, and we are in the forefront as regards ways of analysing stability and efficiency in the financial system.

Central banks must have strong roots and support in the society in which they operate, and they need to win the confidence of the general

public. For my part – I was around during the crisis years of the early 1990s – it is very pleasing to see how confidence in the Riksbank has been reinforced since then. Maintaining confidence among broad groups in society is a key assignment for me, and for my colleagues on the Executive Board.

The Riksdag has given the Riksbank a mandate to take independent decisions. We have an obligation to openly report the reasons for our decisions, and to ensure that the principles governing our actions are clear. Monetary policy must be easy to understand.

The Riksbank is one of the smallest central banks in the world in relation to the size of the nation's economy. There are many ways of measuring efficiency, but the number of employees provides some indication. A great deal has been done to modernise and rationalise activities since I left the Bank in 1998. The business plan for 2006 envisages further measures, although the really significant structural changes have already been implemented.

My aim is to continue along the path that has been staked out. The focus must be on basing monetary policy on sound economic analysis, continuing to concentrate on our core activities, and explaining our assessments and decisions by applying good communications techniques. All this calls for continued, purposeful day-to-day endeavours by a large number of experienced and competent employees.

I look forward with some pride to helping to shape the Riksbank's work.

A handwritten signature in blue ink, which appears to read 'Stefan Ingves'. The signature is fluid and cursive.

Stefan Ingves
Governor of the Riksbank

■ The tasks and role of the Riksbank

The Riksbank is Sweden's central bank and a public authority that reports to the Swedish Riksdag (parliament). The Riksbank is responsible for the conduct of Swedish monetary policy, with the goal of maintaining price stability. The Bank is also entrusted with the task of promoting a safe and efficient payment system.

MAINTAINING THE VALUE OF MONEY

– PRICE STABILITY

The Riksbank's price stability objective, laid down by the Riksdag, calls for a low and stable rate of inflation. This provides good prerequisites for favourable, sustainable economic growth.

The Riksbank has defined its price stability objective in terms of limiting inflation (the rate of price increases) to 2 per cent per year, as measured by the consumer price index (CPI), with a fluctuation band of ± 1 percentage point. The purpose of the fluctuation band is to make it clear that deviations from target are probable but that the Riksbank's ambition is to try to limit such deviations. In practice, monetary policy is often based on measures of underlying inflation, that is to say indicators from which the effects of temporary disturbances have been excluded. The most commonly used indicator in this context has been UNIDX, which excludes the effects of mortgage interest expenditure and the direct impact of changes in indirect taxes and subsidies.

The Riksbank uses its key rate – the “repo rate” – to control inflation. The repo rate determines what commercial banks have to pay when they borrow from the Riksbank, thus affecting other interest rates in the economy and, ultimately, the level of economic activity and inflation.

A SAFE AND EFFICIENT PAYMENT SYSTEM

– FINANCIAL STABILITY

The Riksbank has interpreted its task of promoting a safe and efficient payment system to mean that it should foster stability in the financial system as a whole. This assignment also includes responsibility for providing the country's banknotes and coins. Furthermore, the Bank has operational responsibility for the system that enables banks to execute large payment trans-

actions with other banks in a safe and secure manner.

The Riksbank's analysis of financial stability is primarily concerned with the risk of problems in the major Swedish commercial banks and the central financial infrastructure, since they are considered to be crucial for the stability of the system as a whole. Financial stability is also essential if the Riksbank is to maintain price stability. However, there is no instrument comparable with the repo rate that can directly influence the stability of the financial system. The Riksbank may, on the other hand, provide emergency liquidity assistance to banks under certain circumstances in the event of a crisis.

THE RIKSBANK'S INDEPENDENCE

The Riksbank is a public authority that reports to the Riksdag, which appoints the eleven members of the Riksbank's General Council. In its turn, the General Council appoints the six members of the Riksbank's Executive Board for mandate periods of six years. In other respects, the role of the General Council is to supervise and scrutinise the work of the Executive Board.

In the late 1990s, the Riksdag gave the Riksbank independent status, making the Executive Board responsible for decisions regarding Swedish monetary policy without following directives from other parties. In delegating the task of maintaining price stability to the Riksbank, the Riksdag wanted to give monetary policy a long-term perspective and to improve the prerequisites for attaining confidence in the monetary policy objective. The Chairman and Vice Chairman of the General Council are entitled to attend Executive Board meetings and express their opinions at such meetings, but they cannot make proposals or participate in decisions.



■ Maintaining the value of money – price stability

The Sveriges Riksbank Act stipulates that the Riksbank shall maintain price stability. The Riksbank has defined this in terms of a monetary policy target of an annual change in the consumer price index of 2 per cent, with a fluctuation band of ± 1 percentage point. In the event of deviation from the target, the Riksbank normally endeavours to bring inflation on target within two years. In the case of major disruptions, the Riksbank may decide to allow more than two years for the adjustment.

DESCRIPTION OF ACTIVITIES

Objective and monetary policy strategy

According to the Sveriges Riksbank Act the objective of the Riksbank's activities is to maintain price stability. The Riksbank has defined this objective as keeping inflation at 2 per cent a year, with a fluctuation band of ± 1 percentage point. The inflation target is defined in terms of the change in the consumer price index (CPI).

The CPI measures the price of a basket of goods and services for household consumption, calculated on a monthly basis by Statistics Sweden. Monetary policy is normally based on underlying inflation indicators, since these are considered to provide a better picture of underlying, cyclical inflationary pressures. The most commonly used measure is UNDIX, which excludes households' mortgage interest expenditure and the direct effects of changes in indirect taxes and subsidies.

One purpose of the fluctuation band for the inflation target is to clearly establish that deviations from the target are likely and, hence, that it is not realistic to try to achieve an inflation rate of exactly 2 per cent on all occasions. However, the fluctuation band also makes it clear that excessive deviations from the inflation target are not acceptable, and that the Riksbank's ambition is to try to limit them. One of the guiding principles for monetary policy is that the Riksbank normally endeavours to bring inflation back on target within two years, if there has been a deviation. Hence, the repo rate is normally set with the aim of achieving the inflation target within two years.

In some situations, however, the Riksbank may conclude that a departure from the principle of getting inflation in line within two years may be justified. Firstly, inflation may be affected by factors which undoubtedly result in deviation of prices from the target for a relatively extensive period, but which are nonethe-

less not regarded as having any permanent impact on inflation. In this case, the Riksbank may decide not to counteract the effects of such disturbances. Secondly, disturbances may have occurred which involve substantial deviation from the inflation target. In this case, the Riksbank may decide to allow a rather longer period for inflation to return to target in order to avoid excessive fluctuation in economic activity. This is in line with the spirit of the preparatory text for the Sveriges Riksbank Act, which assumes that the Riksbank will support the goals for economic policy, without neglecting the price stability objective, in order to achieve sustainable growth and a high level of employment.

THE TRANSMISSION MECHANISM IN MONETARY POLICY

The Riksbank controls inflation by adjusting its key interest rate – the repo rate. This is changed with a view to influencing other interest rates in the economy which in their turn influence economic activity and inflation.

However, the current repo rate is not the only factor involved. Consumers' and companies' expectations about future developments of interest rates and inflation are also important.

The way in which repo rate adjustments affect inflation and the rest of the economy is normally referred to as the transmission mechanism, which actually comprises a number of different interacting mechanisms. Some of them affect inflation more or less immediately, while other mechanisms take longer before they have an impact. It is generally considered that the main impact of a change in the repo rate on inflation is felt after one to two years.

In practice, the Riksbank controls the market's shortest interest rate for loans between commercial banks - the overnight rate – via the repo rate. The Riksbank influences the overnight



rate by meeting the banking system's demand for borrowing from the Riksbank at the current repo rate. Once a week, the banks are offered financing in the Riksbank through repo agreements.

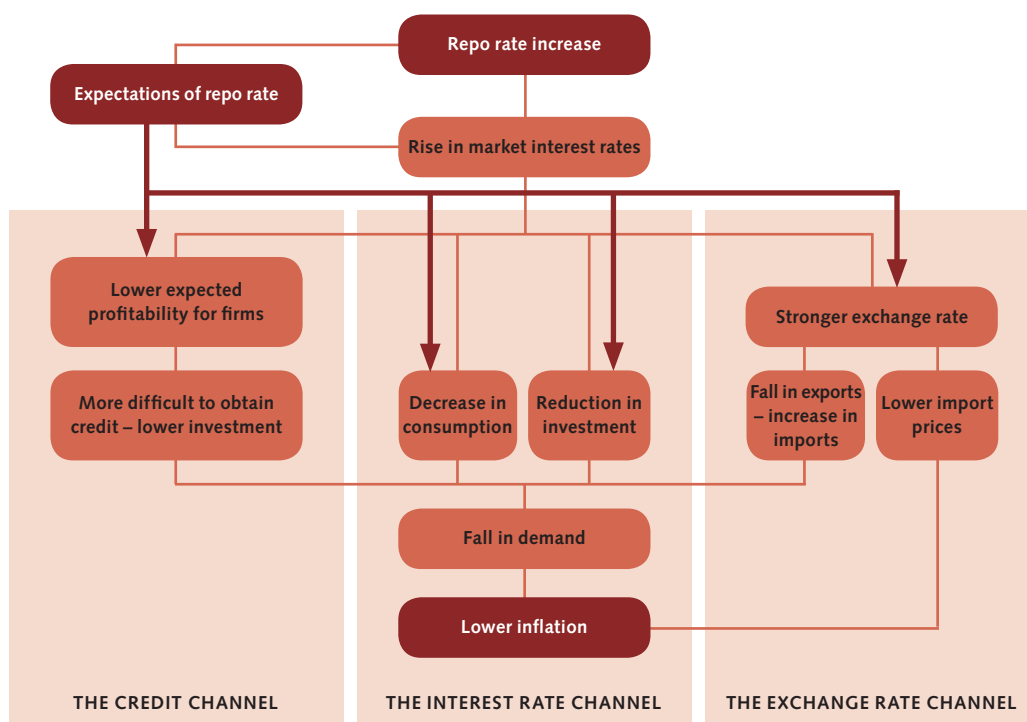
Short-term market interest rates are closely linked to the expected development of the overnight rate and hence to expectations about the way the Riksbank's repo rate will be adjusted. Longer-term interest rates are also affected by other factors, such as interest rate developments abroad and expectations about future inflation and growth. The quantitative effect of a change in the repo rate on other interest rates depends, for example, on the extent to which such a change is anticipated. The Riksbank aims to conduct a monetary policy based on clear principles, in order to make it easier to understand and evaluate monetary policy. The Riksbank can prepare the general public and market participants for future changes in monetary policy by means of speeches and other forms of communication.

Thus, the commercial banks' lending rates and the interest rate on securities are influ-

enced both by the actual and the expected repo rate. As a result, an increase in the repo rate does not necessarily have any major impact on market rates when the actual announcement of an increase in the repo rate is made. If the increase was anticipated, market rates will have normally risen in advance.

Monetary policy has an impact on the interest rates experienced by the general public via the repo rate, and hence affects factors such as consumption and investment. In this way, aggregate demand and capacity utilisation in the economy as a whole are affected. In principle, this influence – the transmission mechanism – is exerted through various channels, of which the major forms are the interest rate channel, the credit channel and the exchange rate channel (see Figure 1). The relative importance of these channels may vary over time, and their interactions make it difficult to discuss the impact of each specific channel. This applies, in particular, to the effects at various stages, as a result of changes in consumers' and companies' expectations.

FIGURE 1
Outline of the transmission mechanism of monetary policy; Example in the event of an increase in the repo rate.



OPENNESS AND COMMUNICATING MONETARY POLICY

If monetary policy is to be credible and its objective widely accepted, it is important that the policy is understood, openly discussed and evaluated. As a result, the Riksbank tries to achieve as great a degree of transparency and clarity as possible in the monetary policy area. This includes explaining the analytical framework for monetary policy and reporting and motivating the forecasts and assessments on which monetary policy is based. This is primarily achieved by the Inflation Reports which the Riksbank publishes four times a year, but also takes the form of press conferences, speeches, publication of the minutes of meetings and contributions to the general debate. The Governor of the Riksbank also has a statutory obligation to submit a written report on monetary policy to the Riksdag at least twice a year. At the same time, the Governor attends a public hearing at the Riksdag Committee on Finance.

These Inflation Reports are designed to make it easier for external parties to follow and understand monetary policy, and to encourage discussion of monetary policy issues. The Riksbank bases its decisions on forecasts of future developments, partly because there is a time lag in the impact of monetary policy on inflation. The Inflation Reports provide an overview of the factors that determine inflation and also present forecasts for a number of economic variables and a presentation of the way in which the Riksbank has arrived at its assessment of inflation, based on these factors.

THE MONETARY POLICY PROCESS

The process of preparing an Inflation Report starts about six weeks before the report is published. A number of econometric models are used, in combination with the views of experts in the various sectors concerned. This work is summarised in an internal report which is presented to the Executive Board and subsequently redrafted to produce an Inflation Report in accordance with the Executive Board's instructions.

The forecast process normally commences with an assessment of the international cyclical

and inflation outlook. Assumptions are also made about future developments in the financial markets and, in particular, about the way in which interest rates in Sweden and other countries are expected to develop. Forecasts of domestic activity and inflation are prepared, based on these assessments and after detailed analysis of current developments in the Swedish economy. When combined with an analysis of inflation expectations and an estimate of possible temporary shocks to the economy, these assessments provide an overall inflation forecast in a main scenario. When making monetary policy decisions, the Riksbank also takes into account possible risks involving the inflation outlook in the main scenario.

Decisions about changes in the repo rate are taken by the Executive Board in the course of monetary policy meetings. The Board normally holds seven or eight scheduled meetings of this nature during the year, but additional meetings may be convened if required. Four of these meetings result in the publication of an Inflation Report that reflects the views of the majority of the Executive Board's members. At other meet-

The Riksbank's research in the monetary policy area

The Riksbank's Research Division has three tasks: to conduct and publish research on major issues affecting the Riksbank's objectives, to support and assist ongoing analysis activities which enable the Riksbank to meet its objectives, and to provide links between the Riksbank and the academic world.

The monetary policy research and support function was dominated during 2005 by work on the Riksbank's new macroeconomic model. This type of model, which is currently employed by several central banks, endeavours to provide a satisfactory description of historical developments in the aggregate economy without neglecting a rigorous underpinning in microeconomic theory. The innovative contribution to the research area in the model project consists of the generalisation of the model for a small open economy and the associated statistical analysis. During the year, this model has been integrated into the monetary policy process, and it is used, for example, to understand the underlying causes of the current economic situation and the forces driving future inflation. The model is also employed to develop forecast paths for inflation and GDP, for example by applying assumptions for future interest rate paths or patterns of development in other countries. This project has been documented in a number of scientific articles. In December 2005, the Riksbank arranged a research conference, designed among other things to ensure the quality of the Riksbank's model development process. Some 12 studies were presented and discussed by central-bank researchers and other academics. The issues discussed included theories for the impact of changes in the exchange rate on the economy, and interactions between monetary policy and fiscal policy.





Sweden is one of the countries that invests most in research in relation to the size of the economy. Researchers from all around the world gather at Esrange in Kiruna to carry out joint projects with high-altitude balloons and sounding rockets and steering satellites. Kiruna's geographical position is particularly suitable for studying the aurora borealis, atmospheric changes and for communicating with satellites in a polar orbit.

Sources: The Swedish National Space Board and the European Space Agency

ings, the Board arrives at decisions on the repo rate based on a brief internal report.

An interest rate decision is announced the day after the monetary policy meeting, in the form of a press release. The press release indicates the arguments employed by the majority of the Board's members as regards economic developments and the conclusions drawn with respect to monetary policy. About two weeks after the meeting, the Bank publishes the minutes of the meeting reporting the Board's discussions. The minutes also indicate whether one or more members of the Board entered a reservation against the decision, and why. Interest rate decisions take effect in connection with the next repo transaction, normally on the following Wednesday.

ACTIVITIES IN 2005

As in the past, the most significant events in the Riksbank's monetary policy activities in 2005 were the interest rate decisions taken during the year and publication of the Inflation Reports in this context. The change in the method of calculating the rate of inflation introduced by Statistics Sweden and changes in the Riksbank's forecasting methods implemented during the year were other important factors in the monetary policy process. In June 2005, the Riksbank arranged a conference on inflation-targeting monetary policy, with participation by several governors of central banks and some of the world's leading researchers in the monetary policy field. At this meeting, policy-makers and researchers discussed ways in which open communications can help to make monetary policy more effective.

Monetary policy decisions during 2005

In early 2005, the information available - for example the National Institute of Economic Research's cyclical barometer and statistics for new orders booked in the private sector - suggested that the upturn in the business cycle was progressing more or less in line with previous expectations. Growth appeared to have slackened somewhat, but was still considered to be strong. Although there were no signs of an improvement in the labour market, forecasts indi-

cated a satisfactory growth rate and continued increase in capacity utilisation which were expected to lead to a subsequent increase in employment. Inflation was low but, since capacity utilisation was expected to rise, it was reasonable to assume that there would be a gradual increase in inflationary pressures.

At the same time, there were other factors that indicated that inflation would remain at a low level for much of the coming two-year period, including favourable cost conditions and spare capacity. There were also signs that strong competitive pressures - both at the global level and in the Swedish market, particularly in the domestic food industry - were reducing inflation more than had been assumed previously. This pressure on prices was expected to contribute to a continued low rate of inflation for much of the next two years. But it was also considered that an expansionary economic policy was stimulating domestic demand and, on the whole, economic growth was considered to significantly exceed a rate that could be sustained in the long term. Low interest rates had also contributed to higher borrowing on the part of consumers, and a rapid rise in house prices. Overall, growth assessments and rising house prices indicated that some caution was called for in interest rate policy, and the monetary policy meetings in January and March left the repo rate unchanged at 2 per cent.

At the monetary policy meeting held in April, it was noted that there was growing uncertainty about the strength of the upswing in economic activity. Unexpectedly high oil prices and signs of a weaker euro area outlook tended to indicate a slower global recovery than previous forecasts. Swedish exports of goods and industrial production figures also appeared to be below forecast, and the labour market remained weak. At the same time, there was a general indication that domestic demand was nonetheless rising roughly in line with the forecasts. On the whole, the inflation outlook was considered to be more or less the same, and therefore the April meeting also left the repo rate unchanged.

In June, the repo rate was cut by 0.5 percentage points to 1.5 per cent. According to recent national accounts data, the economy had

expanded much more slowly than anticipated during the last quarter of 2004 and the first quarter of 2005. The slowdown was broadly based, and involved both exports and consumption. The Riksbank considered that this was a question of a temporary slowdown in the economy, but the weak development resulted in a substantial revision of the growth forecast for 2005, and also for 2006. As a result, it was assumed that capacity utilisation and domestic cost pressures would increase at a slower rate than previously forecast during the year. Oil prices had also continued to rise and there was a weaker exchange rate during the first six months of the year. This indicated a somewhat higher rate of inflation, despite weaker growth. But nonetheless, the overall assessment was that inflation would be lower than in previous forecasts in the time perspective that applied for monetary policy. Consumer borrowing and developments in the housing market continued to give some cause for anxiety that monetary policy was too expansionary, but the weaker development of the real economy and the fact that inflation was now expected to be significantly below target on a two-year timescale was considered to outweigh the debt problem. As a result, it was concluded that there were grounds for shifting monetary policy onto a more expansionary path.

During the second half of the year, there were several signs of a resumption of the cyclical upturn in the economy. Revised national accounts data also indicated that the hesitation at the beginning of the year was less serious than previously envisaged, even if growth forecasts earlier in the year still appeared to have been overly optimistic. A more expansionary economic policy as a result of lower interest rates and the plans for fiscal policy presented in the Budget Bill for 2006 also pointed to a somewhat higher growth rate, and there were indications that the situation in the labour market was improving. Inflation was expected to continue to increase, as a result of rising domestic and international capacity utilisation for example. But it was considered that the increase in inflation would be modest. As a result, the repo rate was not changed, either in August or in October.





Just over 40 per cent of Swedish electricity production comes from hydroelectric power. The major part of this comes from Luleälven, which includes Akkats power station.

Source: Svensk energi/
Swedenergy AB

In December, the statistics indicated that the international and domestic growth outlook was now less uncertain. Inflation had increased, but was still low, and it was still considered that inflation would rise, but at a limited rate. As a result, interest rates were left unchanged in December. The Executive Board pointed out that the risk of higher inflation was now greater than the risk of lower inflation, and that the possibility that the repo rate might need to be raised during the winter and spring more than market rates implied could not be excluded. The national accounts data for the third quarter published after the final Inflation Report for the year confirmed the strong cyclical upturn.

CHANGES IN CALCULATION METHODS FOR THE INFLATION RATE

In May 2004, Statistics Sweden's consumer price index committee decided to introduce certain changes in the methods employed for computing the CPI and the rate of inflation, and also for indicators for underlying inflation. These new methods started to apply as from January 2005. Somewhat simplified, the methods previously employed meant that inflation was calculated as a price increase for an unchanged basket of goods. The new method also takes into account changes in the pattern of consumption which normally occur when the relative prices of goods change.

It is not clear what the precise impact of the new method of calculation was on the change in the rate of inflation between December 2004 and January 2005, since the former method was no longer applied. A historical comparison between the two methods of measuring the rate of change in the CPI suggests that both methods give roughly the same picture of how inflation has developed, but that there may be appreciable differences for specific years. According to Statistics Sweden, in the long run CPI inflation may be about 0.2 per cent lower per year, using the new method. It is more difficult to estimate the impact of the underlying inflation indicator. The Riksbank's estimates indicate that the effect is relatively limited on average, but that the impact may be considerable in specific years, particularly in the case of imported inflation.

INTEREST RATE DECISIONS IN 2005

- 27 January: The repo rate was held unchanged at 2 per cent.
- 14 March: The repo rate was held unchanged at 2 per cent.
- 28 April: The repo rate was held unchanged at 2 per cent.
- 20 June: The repo rate was cut by 0.5 percentage points to 1.5 per cent.
- 23 August: The repo rate was held unchanged at 1.5 per cent.
- 19 October: The repo rate was held unchanged at 1.5 per cent.
- 1 December: The repo rate was held unchanged at 1.5 per cent. Villy Bergström, Lars Nyberg and Eva Srejber entered a reservation against this decision and considered that the interest rate should be increased by 0.25 percentage points, citing, for example, increased signs of a stable and lasting upturn in the economy, increased capacity utilisation and some improvement in the labour market. The Inflation Report indicated that the interest rate would have to be raised in stages during the next few years. They considered that, in the current position, a strongly expansionary economic policy, recently accentuated by a weak Swedish krona, indicated that monetary policy should be tightened, thus reducing the risk of further weakening of the exchange rate and signalling to the housing market that the current rate of price increases was not sustainable in the long run.

Imports involve a relatively higher proportion of goods, and since the substitution between goods is larger than between services, the substitution effect will be greater for imported inflation.

In view of the fact that the change in methods may only be expected to have a marginal effect on the average rate of inflation, the Riksbank has not considered that a change in the formulation of the objective for monetary policy is justified.

CHANGES IN THE RIKSBANK'S FORECASTING METHODS

In 2005, certain changes were made in the way the Riksbank prepares its forecasts. The aim was to improve the basis for monetary policy decisions and the pedagogic aspects of the communication of monetary policy. These changes were primarily of a technical nature and do not involve any fundamental change in monetary policy strategy. As from the third Inflation Report for the year, forecasts in the main scenario are based on the assumption that the repo rate will develop in line with market expectations, as reflected in implied forward rates. Previously, forecasts in the main scenario were based on the assumption that the repo rate would not change during the forecast period. In connection with introduction of the new interest rate assumption, the forecast horizon was also extended from two years to three years.

One advantage of assuming that interest rates change in line with expectations in the financial markets is that this normally provides a more realistic picture of future monetary policy

than an assumption of a fixed rate of interest.

Another advantage is that it is easier to compare the Riksbank's forecasts with forecasts from other sources (e.g. the National Institute of Economic Research and commercial banks).

A more realistic assumption about interest rates also facilitates evaluation of the forecasts. The extended forecast horizon is, for example, designed to clarify the way in which inflation is affected by various temporary disturbances that are not considered to subside within two years.

FOLLOW-UP

Inflation: Outcome and deviations from target in 2005

Inflation was again below target during 2005, despite low interest rates and satisfactory growth. According to UNDIX, average inflation in the period amounted to 0.8 per cent, and 0.5 per cent according to the CPI (see Table 1). The difference in the inflation rate between these two indicators is due, for example, to exclusion of consumer interest costs for private housing in the UNDIX index. Changes in the CPI are affected both by changes in mortgage interest rates and by house price changes. As a result, CPI inflation was lower than UNDIX. There is no reason why monetary policy should attempt to offset this temporary effect on the CPI and, as a result, monetary policy in recent years has been largely determined by UNDIX.

Imported inflation was lower than domestic inflation. UNDIMPX, which primarily indicates the price of imported goods and services in UNDIX, increased by 0.2 per cent on average over the year, while UNDINHX, which measures the

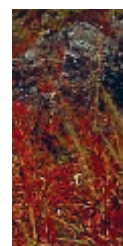
TABLE 1

Comparison of different inflation indexes, annual percentage change and standard deviation.

	ANNUAL AVERAGE			STANDARD DEVIATION		
	2005	1995-2005	1995-2004*	2005	1995-2004	1995-2004*
CPI	0.5	1.1	1.4	0.3	1.1	1.1
UND1X	0.8	1.6	1.9	0.4	0.8	0.8
UNDIMPX	0.2	0.3	0.6	0.8	1.4	1.4
UNDIMPX excl. oil products	-1.7	-0.1		0.5	1.5	
UNDINHX	1.0	2.1	2.4	0.2	1.0	1.0

Note: * inflation index measured in accordance with methods employed prior to 1 January 2005.

Sources: Statistics Sweden and the Riksbank



price of domestically produced goods and services, increased by 1.0 per cent. Imported inflation would have been even lower if there had been no upward pressure from higher oil prices. Excluding oil products, prices of imported consumer goods declined by 1.7 per cent. This was the third year in a row that these import prices declined. It is not unusual to find that imported inflation is lower than domestic inflation, on average, since import prices largely relate to goods while domestic prices reflect services to a greater extent. Productivity growth is normally higher in sectors that produce goods than in the service sector. Imported inflation has, however, also been considerably lower than the price increases for domestic goods.

WHY WAS INFLATION SO LOW IN 2005?

The major reason for low inflation in 2005 was various supply factors that resulted in small

price increases for goods at the producer level and which also restricted price mark-ups in the distribution sector.

Although prices of consumer goods at the producer level increased during the autumn of 2005, prior to this they had remained in principle unchanged since 2003. A breakdown indicates that this may be partly explained by relatively limited price increases for goods produced domestically, but above all by the fact that prices for imported goods declined for most of the most recent three-year period (see Diagram 1). However, during the second half of 2005, import prices started to rise, resulting in some overall increase in prices of consumer goods at the producer level.

The price for imported goods paid by importers is determined by the price in foreign currency in importing countries and changes in the exchange rate. The Swedish krona strengthened more or less continuously from 2002 until the end of 2004, but there was a change in 2005, and the value of the krona weakened. It is assumed that there is normally some time lag before changes in the exchange rate affect prices in Swedish kronor. This suggests that the previous strengthening of the exchange rate probably had some effect on the low import prices for goods at the beginning of the year, but also that the weakening exchange rate in 2005 contributed to the increase in import prices in the second half of the year.

Another major reason for the decline in import prices in recent years appears to be a change in the import pattern, as imports from countries with relatively high prices are increasingly replaced by imports from countries with relatively low prices. This shift of imports to cheaper countries is estimated to have resulted in a reduction of a couple of percentage points in the prices paid by Swedish importers in 2004. The EU's abolition of import quotas on clothes and textiles at the beginning of 2005 may have contributed to a further reduction in import prices. The reintroduction of restrictions on Chinese clothing imports should have counteracted this in the second half of the year but, on the whole, the tendency for increased imports from low-price countries is considered to have

DIFFERENT MEASURES OF INFLATION:

Consumer price index (CPI): The change in the CPI measures how the prices of goods and services for private consumption develop over time.

Underlying inflation (UND1X): CPI inflation, excluding household mortgage interest expenditure and the direct impact of changes in indirect taxes and subsidies.

Imported underlying inflation (UNDIMPX): UND1X, excluding mainly domestically-produced goods and services.

Domestic underlying inflation (UNDINHX): UND1X, excluding mainly imported goods and services.

Harmonised Index of Consumer Prices (HICP): An EU-harmonised index developed to measure inflation in the EU area and calculated in the same manner for all EU countries. A substantial proportion of price changes for housing that are included in the CPI are not included in the HICP. On the other hand, the HICP includes certain components that are currently excluded from the CPI, such as charges for childcare and care of the elderly.



been a major factor in the continued decline of imported inflation during 2005, if oil products are excluded.

Another major factor underlying the low rate of inflation in recent years is productivity growth, which has held back cost pressures. Wages and salaries are a significant cost item for companies, and changes in productivity largely determine the extent to which pay increases affect the labour cost per unit of production, and ultimately product prices. The unit labour cost increases if the hourly rate of pay rises more than the productivity of labour (production per hour). In the reverse situation, the unit labour cost declines if productivity increases more than the rate of pay.

In recent years, productivity growth has been particularly high, and this has resulted in low cost pressures in the private sector. It has been possible to raise production rapidly without more than a marginal increase in unit labour costs (see Diagram 2). In the private sector, unit labour costs actually dropped during 2003 and 2004. High productivity growth and relatively modest pay increases have not only limited price increases for goods and services produced in Sweden but they have also contributed to low prices for imported goods. Imported goods have to be processed and distributed throughout the country before they are sold to consumers. This means that productivity improvements also affect the rate of price increase for imported goods.

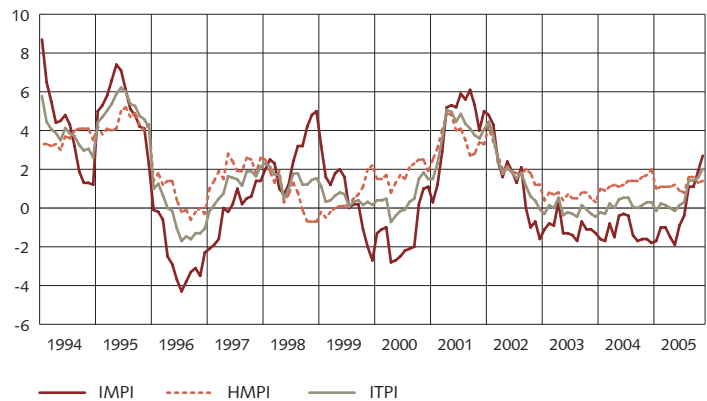
The reasons for these rapid improvements in productivity are not entirely clear. There is probably some cyclical element involved. In the early stages of an upturn in the economy, there is normally a period in which production increases rapidly as a result of more intensive utilisation of existing labour resources, and this means higher productivity growth. However, even if this factor is taken into account, there has still been a marked increase in productivity. Therefore, other factors of a more permanent nature are probably at work. One possibility is that the extensive investments in information technology implemented in many sectors in the late 1990s have started to produce results. In combination with the outsourcing of certain tasks to low-wage countries, this may have cre-

ated opportunities for more rapid productivity growth than in the past.

Greater domestic and international competition, resulting in rationalisation measures in many sectors, may also have had an impact on productivity. Keener competition, per se, presumably also served to restrict price increases as a result of reduced mark-ups. During 2005, the focus was very much on developments in the food industry and the downward pressure on prices resulting from the establishment of

DIAGRAM 1

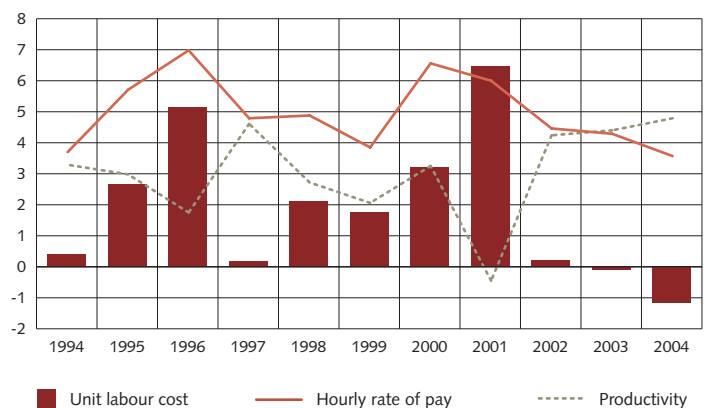
Producer prices of consumer goods according to the domestic price index (HMPI), the import price index (IMPI) and a weighted average (ITPI), annual percentage change.



Source: Statistics Sweden

DIAGRAM 2

Unit labour cost, hourly rate of pay and productivity in the private sector, annual change, calendar adjusted.



Sources: Statistics Sweden and the Riksbank

low-price retail chains. Food prices declined during the year, but not as much as anticipated, particularly by participants in the industry itself. Food represents a relatively large proportion of the basket of consumer items in UNDINHX, however, so food prices nonetheless contributed to a reduction of more than 0.1 percentage points in domestic inflation during the year.

Opportunities for companies to raise their prices are also affected by the demand situation. If demand is low in relation to production capacity, companies may decide to reduce their profit margins. Low utilisation of the available labour resources also tends to hold back wage demands. Rapid productivity growth has helped to reduce the demand for labour, and this has meant that there has been relatively good access to unused labour resources. As a result, inflation should also be seen in the light of low capacity utilisation in the economy.

FORECASTS FOR 2005, PREPARED IN 2003-2005

How well did the Riksbank succeed with its forecasts for developments in 2005? Monetary policy is subject to some time lags, and hence foresight is required. For this reason, the fore-

casts made during 2003 and 2004, and the interest rate decisions taken are highly relevant for an evaluation of monetary policy in 2005. Table 2 shows forecasts for various measures of inflation in 2005, and also forecasts for some variables which are particularly crucial for inflation forecasting.

One problem in analysing the accuracy of the Riksbank's forecasts is that, prior to the second Inflation Report in 2005, they were based on the assumption of no change in the repo rate for two years. Since the repo rate normally changes during the forecast period, thus affecting the outcome for inflation and other economic factors, it is difficult to gain a satisfactory picture of the accuracy of the forecast. As already mentioned, as from the third Inflation Report in 2005, forecasts have instead been based on the assumption that the repo rate complies with market expectations, as reflected in implied forward rates. This new assumption for monetary policy facilitates evaluation of the forecasts, since it is normally more realistic.

GDP growth in 2004, which may be assumed to have affected the inflation outcome in 2005, was rather seriously underestimated in the forecasts made during 2003 and early 2004.

TABLE 2

The Riksbank's forecasts and outcomes for some key variables in inflation forecasting, annual average.

	IR 03:1	IR 03:2	IR 03:3	IR 03:4	IR 04:1	IR 04:2	IR 04:3	IR 04:4	IR 05:1	IR 05:2	IR 05:2 IT	IR 05:3 IT	IR 05:3	IR 05:4 IT	IR 05:4	Out- come
GDP growth 2004	2.4	2.4	2.4	2.4	2.8	2.9	3.6	3.6								3.7
GDP growth 2005	2.4	2.4	2.5	2.5	2.6	2.8	3.2	3.0	3.2	1.9	1.9	2.3	2.3	2.4		
GDP growth 2006					2.8	3.1	3.2	3.2	3.2	2.7	2.6	3.0	3.3	3.2		
GDP OECD 19 2004	2.7	2.5	2.8	2.9	3.2	3.3	3.5	3.4								3.2
GDP OECD 19 2005	2.6	2.6	2.6	2.7	2.8	2.8	2.8	2.6	2.6	2.5		2.4		2.5		
TCW 2005	123.7	124.0	123.7	123.7	123.7	123.7	124.7	123.8	123.6	125.4		127.6		128.5		128.0
Oil price USD 2005	20.7	20.7	22.8	22.8	28.2	29.4	38.4	40.3	43.3	48		55		54.0		54.5
Productivity in business sector 2004	2.3	2.3	2.1	2.2	2.7	3.2	3.5	3.4	3.6	3.6						3.9
Productivity in business sector 2005	2.2	2.2	2.1	2.1	2.4	2.5	2.7	2.7	2.8	2.6		2.3		2.3		
Business sector wages, KL (nominal wages) 2005	3.8	3.6	3.7	3.6	3.5	3.5	3.5	3.4	3.3	3.3		3.3		3.3		
Unit labour costs in business sector 2005	1.7	1.5	1.7	1.6	1.3	1.2	1.0	0.9	0.7	0.6		1.1		1.0		
International producer prices 2005	2.1*	1.8*	1.9*	1.9*	1.6	1.6	2.1	2.3	2.3	2.5		3.1		3.4		
UNDINHX 2005	2.5**	2.3**	2.2	2.3	1.9	1.6	1.6	1.7	0.9	1.1		1.0		1.0		1.0
UNDIMPX 2005	0.2**	0.3**	0.4	0.3	0.0	0.1	0.5	0.5	-1.3	-0.8		0.2		0.2		0.2
UND1X 2005	1.8**	1.6**	1.6	1.6	1.2	1.1	1.2	1.3	0.2	0.5		0.3	0.8	0.8	0.8	0.8 0.8
UNDIMPX excl. oil 2005				0.7	0.3	0.3	0.5	0.6	-1.6	-2.2		-1.8		-1.6		-1.7
CPI 2005	2**	1.9**	1.9	1.9	1.5	1.2	1.3	1.2	0.1	0.3		0.5	0.5	0.5	0.4	0.4 0.5

* average export prices in national currency,

** 12-month figures, IR= Inflation Report, KL = short-term wage statistics, IT = implied forward rates. As from Inflation Report 2005:2, two forecast columns are shown in the Table. The column headed "IT" shows the forecasts in the relevant Inflation Report that are based on the assumption that the repo rate is developing in line with the implied forward rates. The second column shows forecasts based on the assumption that the repo rate is constant during the forecast period. In other Inflation Reports, the forecasts are based on the assumption of a constant repo rate.

Nonetheless, at the same time, the forecasts made during 2003 overestimated the inflation outcome in 2005. It was considered that the business cycle would improve during the next few years, partly as a result of a more expansionary monetary policy, and that inflationary pressures would simultaneously increase, in line with traditional cyclical patterns.

This view of international and domestic cost pressures was gradually revised in early 2004, however. The rise in the inflation rate was then expected to slow down and, as a result, forecasts for both imported and domestic inflation were adjusted downwards.

The reappraisal in early 2004 was partly due to low import prices. The forecast for imported inflation, excluding oil products, has been gradually adjusted downwards during the second half of 2003, but it was nonetheless considerably lower than expected. This affected assessment of the international pressure on prices, and it was noted that increased trade and keener competition – for example from countries with a very low cost base – might have led to more intensive pressure on prices than previously envisaged. To some extent, this reappraisal was also due to a more optimistic view of productivity developments as a result of unexpectedly high productivity growth. The labour market had also developed more sluggishly than anticipated and, as a result, there were grounds for greater pessimism about future employment, and also for assumptions about more modest pay increases. All in all, this contributed to a revised view of domestic cost pressures.

As already mentioned, in May 2004 Statistics Sweden decided to make certain changes in the methods employed to calculate the rate of inflation, and that these new methods were to be applied as from January 2005. From the Riksbank's point of view, this meant that inflation forecasts for 2005 based on the CPI and the underlying indicators (estimated as from the second Inflation Report in 2004) were revised downwards to some extent. From a historical viewpoint, the estimates indicated, as already mentioned, that the difference between the old and the new index had varied significantly from year to year and that, on the whole, the difference

had been greater for imported inflation than for domestic inflation. Under the new method, however, CPI inflation was only 0.2 percentage points lower per year on average. As a result, the forecasts were reduced. Hence, in Table 2 the forecasts after the second Inflation Report in 2004 are not directly comparable with the previous forecasts.

After the summer of 2004, the growth forecast was adjusted upwards in line with the final outcome, since new statistics indicated that Swedish exports during the year had developed better than expected, due to a rather stronger international cyclical upturn. This more optimistic view of the economic outlook also resulted in an increase in the forecast for GDP growth in 2005. As a result of a higher growth rate and expansionary fiscal and monetary policies, it was considered that domestic demand would gradually take over and become the driving force in the upturn in the business cycle.

Although the growth forecasts for 2004 and 2005 were adjusted upwards, inflation forecasts were not modified to any great extent. The analyses indicated that the inflationary impulses from improved growth and higher oil prices would be offset by favourable cost factors, as a



Approximately 90 000 people in Sweden have the forestry, timber products, pulp, paper or cardboard industries as their main source of employment. Forestry and forest products account for 12 per cent of Swedish exports.

Source: The Swedish Forest Agency

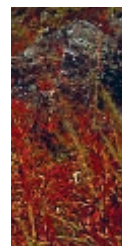
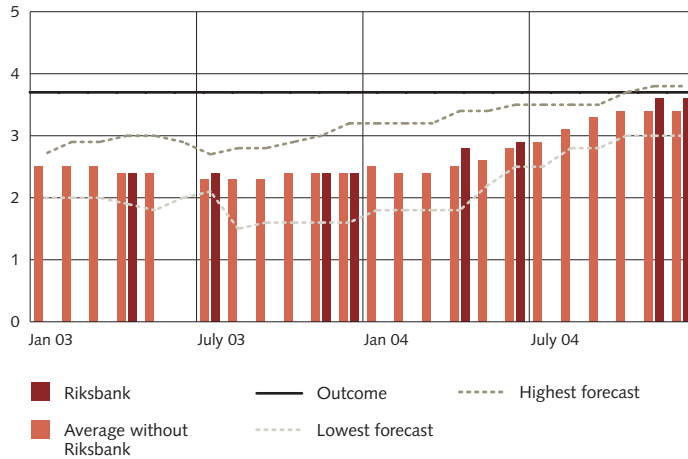


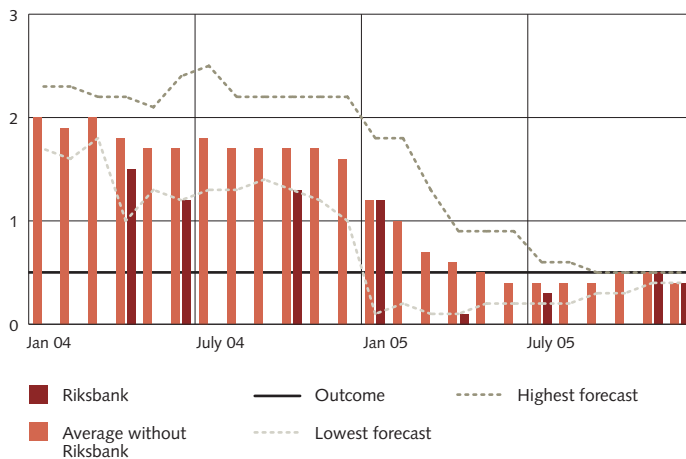
DIAGRAM 3
Forecasts of GDP growth in 2004 at various time points, the Riksbank's forecasts and an average of other forecasters, annual average.



Note: The average includes forecasts by the forecasters included in a tabulation prepared by Consensus Economics Inc. (including the National Institute of Economic Research and Swedish and foreign banks) and the Swedish Ministry of Finance, the Swedish Trade Union Confederation and certain international organisations.

Sources: Consensus Economics Inc., the Ministry of Finance, the Swedish Trade Union Confederation, Statistics Sweden and the Riksbank

DIAGRAM 4
Forecasts of inflation for 2005 at various time points, the Riksbank's forecasts and an average of other forecasters, annual average.



Note: The average includes forecasts by the forecasters included in a tabulation prepared by Consensus Economics Inc. (including the National Institute of Economic Research and Swedish and foreign banks) and the Swedish Ministry of Finance, the Swedish Trade Union Confederation and certain international organisations.

Sources: Consensus Economics Inc., the Ministry of Finance, the Swedish Trade Union Confederation, Statistics Sweden and the Riksbank

result of a further, somewhat greater improvement in productivity, and by plenty of spare capacity and resources in the initial stages.

Therefore, the forecasts for domestic and underlying inflation were only increased marginally. On the other hand, the forecast for imported inflation was adjusted upwards slightly, partly as a result of a higher oil price forecast.

In the first Inflation Report of 2005, the inflation forecast was reduced by a relatively significant amount. This was due to a number of specific factors that were considered to have a greater impact on the inflation outlook than previously anticipated, rather than any decisive change in the view of the economic outlook.

Prices of food and clothing, for example, had developed unusually sluggishly, and had even declined over the previous year. More intensive competition in the food sector was considered to be one reason for the decline in food prices. The EU's abolition of import quotas for clothing and textiles at the beginning of the year had probably helped to hold back price increases on clothing. In addition, the prices of imported consumer goods, excluding oil products, had continued to decline to an unexpected extent, which suggested that the impact of increased imports from low-cost countries had been underestimated previously. As a result, the forecasts for imported and domestic inflation were adjusted downwards.

Following this downward adjustment, the forecast of domestic inflation proved to be in line with the final outcome for 2005, while the CPI and UNIDX forecasts underestimated inflation. The short-term outlook for these measures of inflation was adjusted upwards slightly in the next two Inflation Reports, partly because higher oil prices resulted in increased imported inflation.

COMPARISON WITH FORECASTS FROM OTHER SOURCES

Diagram 3 compares the forecasts produced by some 20 economic analysts for growth in 2004 at various time points. Judging from the diagram, the strong growth rate of 3.7 per cent surprised all those concerned. The estimates of growth in 2004 were in the 2-3 per cent range in early 2003,

and even after the Riksbank's interest rate cuts during the first half of the year, the average forecast was still around 2.5 per cent, as in the Riksbank's forecast.

The Riksbank, together with some other forecasters, adjusted the GDP upwards in the spring of 2004, and the forecast average was also subsequently raised. It is, however, remarkable that growth in 2004 was underestimated by more than 0.5 percentage points as late as June 2004, both by the Riksbank and in the average for other forecasters. The upward adjustment of the Riksbank's forecast during the autumn was largely the result of the fact that new export statistics during the year indicated higher growth than previously estimated. Forecasts from other sources show that this strong surge in exports took most observers by surprise.

Diagram 4 indicates that there was no similar underestimation of inflationary pressures corresponding to underestimation of GDP growth. On the contrary, nearly all forecasters overestimated inflation in 2005. As last year's forecast evaluation indicates, inflation was overestimated in 2004 in a similar manner. Thus, one reasonable interpretation is that the factors that held back international price increases and domestic cost increases have been stronger and have had more lasting effects than generally anticipated. Most economic forecasters gradually adjusted the inflation forecast to a level compatible with the final outcome of 0.4 per cent during early 2005 as awareness of these effects grew, and as a result of temporary hesitation in the economic upturn at the beginning of the year.

Although the Riksbank's assessment of growth in 2004 was virtually on the same level as the average forecast, its assessment of inflation in 2005 was consistently less than the average, and was often among the very lowest forecasts. This might imply that, at a relatively early stage, the Riksbank's forecast started to take into account the factors that were reducing the underlying inflationary pressures in the economy.

Comparison with other forecasters is somewhat misleading, however, since the repo rate was cut during the period, while the Riksbank's forecasts were based on the assumption that the interest rate would be unchanged. As already

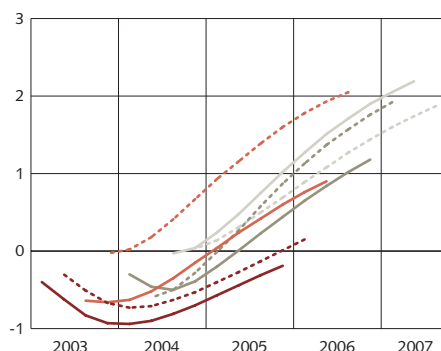
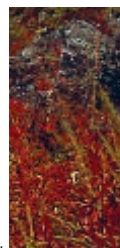


DIAGRAM 5
The difference between implied forward rates and a constant repo rate at different forecasting time points.

- 2003 Q1
- - - 2003 Q2
- 2003 Q3
- - - 2003 Q4
- 2004 Q1
- - - 2004 Q2
- 2004 Q3
- - - 2004 Q4

Note: The implied forward rates are for a 15-day average.

Source: The Riksbank



described, this assumption was replaced during 2005 by the assumption that interest rates follow the interest rate path anticipated by the market, in accordance with the implied forward rates. Diagram 5 illustrates the difference between the implied forward rates that applied during the period and the constant interest rate used when the forecasts were made. The diagram indicates that, with one or two exceptions, the implied forward rates pointed to a more expansionary monetary policy (the difference is negative) than that implied by the assumption of a constant interest rate. The interest rate was, in fact, cut in early 2003 and early 2004. Thus, if the Riksbank's forecasts for 2003-2004 had been based on the implied forward rates, the forecasts for both growth in 2004 and inflation in 2005 would probably have been somewhat higher than those depicted in Diagrams 3 and 4. However, after the event it is not possible to say exactly what these forecasts would have been.

THE EXECUTIVE BOARD'S MONETARY POLICY DECISIONS IN 2003-2004

Since monetary policy is subject to some time lag, inflation during 2005 was primarily affected by the monetary policy conducted during 2003 and 2004. As a result, an analysis of monetary policy should focus, in the first instance, on the assessments and the repo rate decisions made during these years.

At the end of 2002, the Riksbank cut the repo rate to 3.75 per cent in two stages. During 2003, the Riksbank continued to take monetary policy in a more expansionary direction, and the repo rate was cut in March, June and July by a total of 1 percentage point to 2.75 per cent. These

cuts were implemented in the light of the gradual deterioration of the international and Swedish cyclical picture and postponement of the expected recovery. Developments appeared to confirm, for example, fears that the adjustment process following the dramatic stock exchange downturn after 2000 would be protracted, and would hold back consumption and investment for a relatively long time. At the beginning of the year, geopolitical anxieties in connection with the war in Iraq also contributed to expectations of a weaker economy.

After the reduction in July, there were no further repo rate changes during 2003. The Riksbank's Executive Board held the view that the recovery which had been held back for some time had now started, assisted for example by the repo rate cuts that had been implemented. During the autumn, inflation, excluding energy prices, was somewhat lower than anticipated, partly due to unexpectedly low imported inflation and domestic cost pressures. Total inflation nonetheless developed in line with the forecasts. Future inflation was expected to develop on lines that could not normally be antic-

The Swedish tourist industry provides around 127,000 full-time jobs. Its export value amounted to around SEK 50 billion in 2004, which is roughly the same as Sweden's iron and steel exports.

Source: Svensk Turism



ipated during a cyclical upturn. In this context, the weak development of the labour market gave cause for anxiety, and its relative importance in the risk scenario was discussed by the Executive Board, in view of the possible ripple effects of higher electricity prices in the coming wage negotiations.

The rate of inflation declined in early 2004. This development was anticipated, to some extent, as a result of previous increases in the price of electricity, but the decline was nonetheless greater than expected, thus reinforcing the Riksbank's view that underlying inflation was less than previously assumed, despite an increasingly clear international and domestic cyclical upturn. Lower import prices, a weaker labour market and productivity that was higher than previously forecast all indicated reduced pressures on wages and prices. As a result, the repo rate was further cut in February and March 2004 by a total of 0.75 percentage points to 2 per cent.

The repo rate was subsequently left unchanged for the remainder of 2004. Views on the Swedish economy became more optimistic during the summer and autumn, when new information pointed to increasingly positive international and domestic developments. Towards the end of the year, the growth outlook appeared to be robust, but there was still reason to assume that inflationary pressures would gradually increase and that monetary policy would sooner or later have to be revised in a less expansionary direction. Inflation was expected to continue to increase in line with growing capacity utilisation, while a favourable cost situation - for example continued high productivity growth - was considered likely to ensure that inflation growth was modest and in line with the target for the next two years or so.

THE RELATIONSHIP BETWEEN INTEREST RATE DECISIONS AND FORECASTS

One requirement that may be proposed for monetary policy is that it should appear to be reasonable and consistent in the light of the prerequisites prevailing at the time the various decisions were taken. One way of determining whether this has been the case is to consider

whether the Riksbank's interest rate changes were easy to understand in the light of the forecasts made. In line with the Riksbank's strategy of normally restoring inflation to target within two years of the occurrence of deviations, and given the assumption of a constant repo rate, the repo rate should normally be increased when the inflation forecast has exceeded the target, while in the case of inflation forecasts below target, this should normally result in a reduction in the repo rate.

However, it is important to bear in mind that there is no mechanical rule stating that the repo rate must always change when there is sufficient deviation in the UNDEX forecast from the inflation target two years ahead. There may, for example, be situations in which the economy is affected by temporary disturbances whose impact on inflation does not entirely disappear within two years. It may also be the case that a major disruption of inflation means that a return to target within two years is considered to involve excessively undesirable effects in the real economy. Constraints of this nature also impose certain limitations on the correlations that may be anticipated between changes in the repo rate and UNDEX forecasts on a two-year time scale.

Diagram 6, which shows the forecast deviation from target, and repo rate decisions at various forecasting time points, demonstrates that there is nonetheless a positive correlation between expected target deviations and repo rate decisions. The diagram also demonstrates, as expected, that small forecast deviations do not always result in a change in the repo rate. In addition, it is clear that deviations from target must be relatively substantial if the change in the interest rate is to exceed the 0.25 percentage point level, which has been the most common figure in recent years. It should be noted that interest rate decisions prior to and including the 2005:2 Inflation Report are covered. As previously mentioned, the assumption of a constant repo rate was subsequently no longer applied and, instead, forecasts were based on the assumption that the interest rate during the forecast period was determined by implied for-

REPO RATE DECISIONS IN 2003

- 6 February: The repo rate was held unchanged at 3.75 per cent.
- 17 March: The repo rate was cut by 0.25 percentage points to 3.5 per cent.
- 24 April: The repo rate was held unchanged at 3.5 per cent. Lars Nyberg and Kristina Persson entered a reservation against the decision, favouring instead a rate cut of 0.25 percentage points, partly because capacity utilisation and inflation were expected to be somewhat lower than in the most recent assessments and partly because the Bank's normal approach indicated a cut in interest rates. Moreover, the international downside risks to inflation could be assumed to be greater than the domestic upside risks.
- 4 June: The repo rate was cut by 0.5 percentage points to 3.0 per cent.
- 3 July: The repo rate was cut by 0.25 percentage points to 2.75 per cent.
- 15 October: The repo rate was held unchanged at 2.75 per cent. Kristina Persson entered a reservation against the decision, and considered that the rate should be cut by 0.25 percentage points on the grounds, for example, that the labour market was still weak and that it would take some time before firms began to recruit new staff and the economic upturn had stabilised. Since the domestic upside risks were negligible in her view, she considered that a further cut in interest rates was appropriate.
- 4 December: The repo rate was held unchanged at 2.75 per cent. Villy Bergström and Kristina Persson entered a reservation against the decision, favouring a reduction of 0.25 percentage points in the repo rate in view of the risk of weaker development in economic activity in Sweden than the assessment in the Inflation Report. They considered this was indicated by the weak development in the labour market.

REPO RATE DECISIONS IN 2004

- 5 February: The repo rate was cut by 0.25 percentage points to 2.5 per cent. Kristina Persson entered a reservation against the decision, arguing that the rate should be cut by 0.5 percentage points in view of the fact that the inflation forecast in December 2003 had already indicated scope for a reduction and that subsequent developments indicated even weaker price pressures, for example due to continued improvements in productivity growth.
- 31 March: The repo rate was cut by 0.5 percentage points to 2.0 per cent. Villy Bergström and Eva Srejber entered a reservation against the decision and considered that the reduction should only be 0.25 percentage points. They advocated greater caution in applying monetary policy stimulation in order not to encourage households to increase their indebtedness, for example. Another reason was uncertainty about the strength and durability of the productivity growth and increasing international competition which had limited inflation, despite expansionary economic policies in many parts of the world.
- 28 April: The repo rate was held unchanged at 2.0 per cent.
- 27 May: The repo rate was held unchanged at 2.0 per cent.
- 23 June: The repo rate was held unchanged at 2.0 per cent.
- 19 August: The repo rate was held unchanged at 2.0 per cent.
- 13 October: The repo rate was held unchanged at 2.0 per cent.
- 8 December: The repo rate was held unchanged at 2.0 per cent.

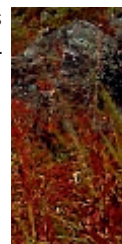


DIAGRAM 6
Relationship between interest rate decisions and forecasts. Repo rate changes on the vertical axis and forecast deviations from target on the horizontal axis.

Note: The forecasts refer to risk-adjusted UND1X two years ahead.

Source: The Riksbank

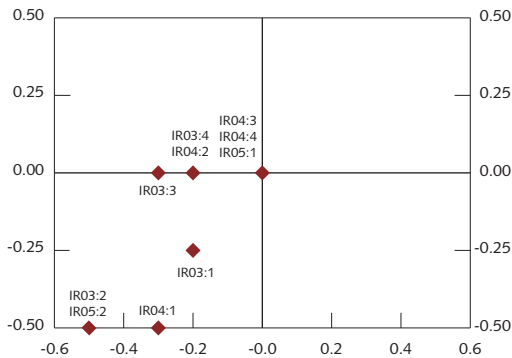


DIAGRAM 7
Expectations of various economic agents during 2005 for inflation in 2007, per cent.



Source: Prospera Research AB

ward rates. This assumption makes the diagram less relevant since the inflation forecast and interest rate decisions at the forecast date depend on the series of interest rate changes assumed during the forecast period.

INFLATION EXPECTATIONS

Inflation expectations may be regarded as a measure of the general public's confidence that the Riksbank will achieve its objectives. A high degree of confidence also improves opportunities to take into account factors other than inflation when drawing up monetary policy, for example economic growth and employment. Diagram 7 indicates inflation expectations for 2007 on the part of the money market agents, employer and employee organisations, and procurement managers in the distribution sector and manufacturing industry. Although inflation in 2005 was clearly below target, there ap-

pears to be a broad measure of confidence in the inflation target. The economic agents expect inflation to be at or close to 2 per cent within a couple of years.

SUMMARY

To summarise, it may be noted that the Riksbank's forecasts overestimated inflation to a relatively large extent prior to the beginning of 2005. This was partly due to lower domestic inflation than anticipated. As already mentioned, the surprisingly low level of cost pressures restricted price increases for domestic goods and services. Above all, there was an unexpectedly strong improvement in productivity during 2004. This may be partly explained by the fact that, historically speaking, companies postponed new recruitment for an unusually long time in this upturn in the business cycle, but it is also probably due to more lasting changes in the conditions for productivity growth. On the other hand, productivity and labour costs in the private sector in 2005 gave fewer surprises. The overestimation of domestic inflation was also due to the fact that keener competition resulted in greater pressure on prices than anticipated.

Low imported inflation in 2005 was predicted in 2003 and 2004. The apparent precision of the UNDIMPX forecasts is an illusion to some extent, however. UNDIMPX inflation has been greatly affected by higher oil prices, and oil price forecasts were adjusted upwards, particularly in 2004-2005. If oil prices are excluded from the UNDIMPX, prices of imported goods and services actually declined by an average of 1.7 per cent in 2005, which is considerably more than what the Riksbank forecast in 2003-2004.

Probably, one underlying factor in the overestimation of import prices is the shift in the pattern of imports to increased imports from low-cost countries in recent years. It is difficult to obtain a clear picture of the extent of this change, but the indicators employed in forecasting to measure trends for international prices in foreign currency have probably failed to fully depict the effects of this shift. This may be one reason why the forecasts have not suc-

ceeded in picking up the decline in import prices. As in the case of domestic inflation, the impact of competition in reducing prices may also have been underestimated.

It should also be noted that the low rate of imported inflation may also, to some extent, be a result of the switch to the new method of calculating the rate of inflation introduced in January 2005. The new method tends to reduce the rate of inflation by 0.2 percentage points on average, but its impact may be considerably greater in a specific year. Imported inflation, in particular, may be significantly lower with the new calculation method, since the substitution effect is presumably greater. As noted above, the proportion of imports from low-cost countries has increased. As a result, the limited price increases registered for imports may be partly the result of the change in the calculation method. Import prices have not increased significantly for some time, however, which suggests that additional factors contributed to the limited imported inflation in 2005.

Thus, it is clear that overestimation of inflation is largely due to structural changes in the economy. Changes of a structural nature are not easy to pinpoint in the forecasting process since they cannot be readily identified, and since the result of the changes is that the historical correlations the forecast methods utilise no longer apply. Some time will be required to conclude definitively that unexpected developments in the economy are actually caused by structural changes, and not by temporary factors. One indication that the low rate of inflation in 2005 was due to a structural shift is that it was overestimated by most forecasters, despite appreciably stronger growth in 2004 than anticipated. Although, at times, some forecasters took a more optimistic view of productivity growth than the Riksbank, views on the inflation outlook did not differ greatly.

In early 2004, the Riksbank predicted that inflation would be below target in 2005, and would not be on target for a couple of years. In hindsight, it is evident that inflation in 2005 was even lower than the forecasts prepared in 2004, which might have argued for an even more expansio-



nary monetary policy stance in this period. Demand during the period in question was strong, however, and unexpected supply-side changes meant that the labour market started to move forward later than anticipated. It is not clear that further monetary policy stimulus in a situation characterised by rapid structural change would have had much impact on the labour market. In addition, the risks of a substantial slowdown in future growth and employment, in the wake of a rapid increase in consumer debt and house prices, indicated that a cautious policy was appropriate. As a result, even in hindsight, it is doubtful whether it would have been appropriate to cut interest rates by any greater extent. On the other hand, the period of interest rate cuts in 2003-2005 might have been initiated and implemented more rapidly if it had been possible to foresee the low rate of inflation.

Northern Sweden's natural assets offer unique opportunities for the world's vehicle manufacturers. Car and component testing in Arjeplog, Arvidsjaur, Jokkmokk, Kiruna and Älvsbyn are expected to bring in around one billion kronor during the winter season 2005/06, including related sectors.

Source: Arvidsjaur municipality



■ A safe and efficient payment system – financial stability

The Sveriges Riksbank Act stipulates that the Riksbank is to promote a safe and efficient payment system. In addition to regular surveillance of the financial system and crisis management, this involves a statutory responsibility for the provision of banknotes and coins, and operational responsibility for the system that enables banks to implement large interbank payments in a secure manner.

In light of its central role in the payment system, the Riksdag has assigned the Riksbank to promote a safe and efficient payment system. This assignment is also closely related to the Riksbank's objective of maintaining price stability. If the payment system does not function efficiently, it may be difficult to implement monetary policy, thus restricting the possibilities of ensuring price stability.

A central bank's traditional role in the payment system is to issue banknotes and coins and to provide accounts that enable banks to execute payments between one other in a secure manner. Financial institutions and markets have, however, become increasingly important factors in ensuring the smooth operation of the payment system. As a result, the Riksbank interprets its assignment as meaning that it should foster stability and efficiency in the financial system as a whole.

Financial stability

DESCRIPTION OF ACTIVITIES

The financial system's assignments are to convert savings into investments, to facilitate payments and to manage financial risks. An inefficient financial system leads to major economic costs. As a result, the state has strong reasons for safeguarding stability and promoting efficiency in the financial system in various ways, for example by drawing up regulations and legislation, and by oversight of companies and institutions operating in the system.

THE ROLE OF BANKING OPERATIONS IN THE PAYMENT SYSTEM

The payment system is especially important because all economic activities assume that payments can be made. The most significant form of payment today is the electronic transfer of funds between transaction accounts in banks.



FIGURE 2

The Riksbank's promotion of a safe and efficient payment system.





The Swedish motor vehicle industry employs 140 000 people, including sub-contractors. The industry accounts for exports of goods worth SEK 140 billion, which corresponds to around 15 per cent of Sweden's total goods exports.

Source: BIL Sweden

As a result, the banking system has a crucial role in the payment system. If the entire banking system were to collapse, the payment services provided by banks could not be carried out by other parties.

Owing to the large volume of interbank payments, there is a risk that a crisis in one bank will spread to other banks via the payment system. Other reasons are that the banks borrow from one another, are exposed to the same borrower categories and obtain funding in the same markets. At the same time, banks are inherently unstable due to the fact that both their deposits from the general public and their loans from other banks could rapidly dry up in a crisis situation, whereas it takes longer for them to realise their assets.

OVERSIGHT OF THE FINANCIAL SYSTEM

The Riksbank's assignment to promote a safe and efficient payment system involves supervision of the financial system as a whole, since financial institutions and markets have come to play an increasingly important part in ensuring that the system functions satisfactorily. The Riksbank concentrates primarily on the banks, in particular the major banks, and on the infrastructure that is crucial for payments, including the technical systems, rules and routines employed for payments for securities, currencies, goods and services. The Riksbank's oversight is primarily designed to prevent financial crises.

The Riksbank is required to respond to official requests for consultation and statements of opinion, thus enabling it to influence the drawing up of regulations and legislation for Swedish financial institutions. Expressing its opinion on parliamentary bills and official reports is an important part of the Riksbank's opportunities to influence the formulation of regulatory structures that are important for the achievement of financial stability.

The Riksbank's oversight of the financial system has much in common with the activities of Finansinspektionen (the Swedish Financial Supervisory Authority), which has the main responsibility for supervision of individual financial institutions. The division of responsibilities and the forms for cooperation between these two public authorities on matters concerning financial stability and crisis management are defined in a written memorandum of understanding between the Riksbank, Finansinspektionen and the Ministry of Finance.

CRISIS MANAGEMENT

If a crisis occurs in the financial system despite preventive efforts on the part of the Riksbank, the Bank must act to limit the economic costs of the crisis. In order to ensure readiness for effective crisis management, the Riksbank organises its own crisis management exercises and also participates in similar exercises in cooperation with Swedish and foreign authorities.

In the event of a crisis, the Riksbank can provide emergency liquidity assistance to a bank or a financial institution under the supervision of Finansinspektionen that has encountered payment problems. If a bank is to borrow from the Riksbank without providing normal collateral, it must be solvent and there must also be a risk that the financial system would be so seriously disrupted that its functions could not be maintained. The fact that a bank is large is not, per se, sufficient reason for assistance from the Riksbank. The Bank's preventive supervision is a prerequisite for the ability to rapidly make such assessments in a crisis situation.

PREPARING FINANCIAL STABILITY REPORTS

The Riksbank's capacity to prevent disruptions in the banking system and the infrastructure mainly depends on its ability to identify risks and influence key participants with a crucial role in the financial system. The participants include banks, the systemically-important infrastructure, legislators and international institutions. If it is to influence events, it is essential that the Riksbank has a high level of credibility, and this calls for expertise and considerable openness on the part of the Riksbank.

The Executive Board presents its assessment of the stability of the financial system in Financial Stability Reports, which are published by the Riksbank twice a year. These reports are designed to facilitate discussion of stability issues, for example, and to influence participants with a key role in maintaining stability. The starting point for the Board's assessment is the risks in financial markets which may affect participants in the Swedish payment system. The Riksbank also analyses changes in borrowers' ability to pay their loans and the banks' resilience to unexpected losses, by studying their profitability, the quality of their assets and their financing. The financial infrastructure is also analysed in order to form an opinion about structural weaknesses that might have spin-off effects via the payment system. The reports also include articles on topics that are relevant to stability and the efficiency of the financial system.

ACTIVITIES IN 2005

The Riksbank's analysis of financial stability indicated a continued rise in the profitability of the major Swedish banks, and hence an improved ability to cope with unexpected losses. Net interest is still the banks' primary source of income, but the increase in profitability during the year may be chiefly ascribed to increased commission revenues and an appreciation in the value of the banks' financial assets. Reduced loan losses also contributed to improved profits.

The Riksbank considered that the favourable economic outlook reduced the risk of major bank loan losses due to bad debts during the next two years. This applied both to Sweden and the principal foreign markets in which the major Swedish

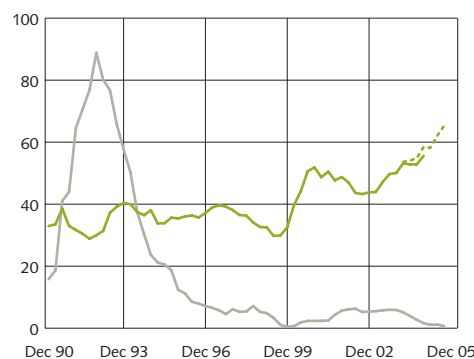


DIAGRAM 8

Profit before loan losses and net loan losses in the major banks.

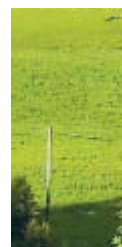
- Profit before loan losses
- - - Profit before loan losses (IFRS rules)
- Loan losses

Note. IFRS = International Financial Reporting Standards. Sources: Commercial bank earnings forecasts and the Riksbank

banks have extensive operations (i.e. Germany, the other Nordic countries and the Baltic countries).

In Sweden, household debt also continued to increase rapidly during 2005, and liabilities rose to 127 per cent of disposable income. The ability to service debt continued to be satisfactory, however. Low interest rates meant that the proportion of disposable income devoted to interest expenditure – the interest ratio – remained low at around 4 per cent. In its second stability report, however, the Riksbank pointed out that there were regional differences and that the interest ratio was higher in the major urban areas although, on the whole, households' ability to service debt was satisfactory.

House prices have risen rapidly at the same time as household debt has increased. In its second stability report in 2005, the Riksbank presented a detailed analysis of the house-price trend, both in Sweden and other countries. Several simple regression models indicated that Swedish house-price developments are essentially



explained by low interest rates, increasing disposable incomes and low construction activity. The sensitivity of house prices to changes in the interest rate was also tested in the light of the unusually low level of long-term interest rates. Higher interest rates in line with the expectations of market participants result in a reduction of the rate of price increases in the model. However, this does not exclude the possibility that prices could drop if the factors that determine the price trend were to change in a more dramatic manner.

During 2005, there was increased borrowing on the part of Swedish companies for the first time since 2001. However, higher earnings indicate a satisfactory ability to service debt.

During 2005, the Riksbank prepared a survey of Swedish private equity investment companies and their connection to the major com-

mercial banks. It was noted that the banks provided loans for leveraged buyouts, but that this kind of financing only constitutes a small share of their total corporate lending. Since the risk in Swedish leveraged buyouts is lower than the European average and did not increase during 2004, it was considered that the risks associated with such operations were probably relatively limited in the case of the major Swedish banks. However, in the Riksbank's view, the increasing size of private equity investment companies' transactions, higher prices for acquired companies and rising leverage rates might indicate higher risk in this type of operation.

During 2005, the Riksbank evaluated all key systems in the financial infrastructure - Bankgirocentralen, BGC AB, VPC AB and Stockholmsbörsen AB - in their capacity as crucial counterparties in derivative clearing operations. The Riksbank also evaluated its own system, RIX, in the same manner. It was concluded that the regulatory structure and technical systems complied with internationally agreed requirements in all essential respects.

The second Financial Stability Report also discussed aspects of the European rules for cross-border banking. The increasingly transnational character of banking groups calls for some form of consolidated oversight and supervision. There are several different ways of achieving this. In economic terms, this suggests a joint European framework, at least for transnational banking operations, but other transitional solutions may be envisaged. Major political considerations are involved, and as a result, it may take time before solutions of this nature are achieved.

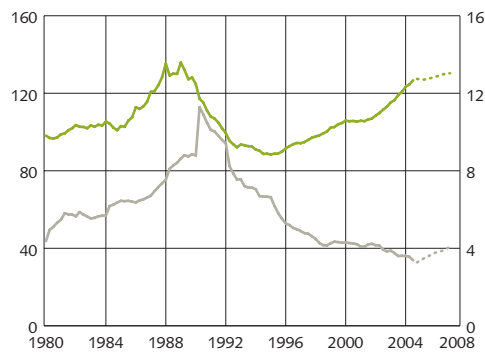
In March, a crisis exercise was implemented in cooperation with the Ministry of Finance and Finansinspektionen. This was the first time that all three public authorities participated in a joint exercise designed to test information exchange and coordination capabilities.

During 2005, the memorandum of understanding concerning the division of responsibilities and cooperation in a stability context between the Riksbank and Finansinspektionen was revised to include the Ministry of Finance.

During 2005, the Riksbank made 22 responses to requests for consultation and partici-

DIAGRAM 9
Household debt and post-tax interest expenditure as a percentage of disposable income.

— Debt ratio (left)
— Post-tax interest expenditure ratio (right)
- - - Forecast



Sources: Statistics Sweden and the Riksbank

pated in three official reports in areas related to financial stability and efficiency (see pages 77-78).

FOLLOW-UP

There is no simple way of judging whether the Riksbank has fulfilled its assignment in the stability area. The financial system is stable as long as it can maintain its key functions in the economy. Failure to fulfil this assignment is only noted when serious disruption occurs. The absence of serious crises does not necessarily mean that the Riksbank has fulfilled its assignment since it may take some time before risks in the system lead to a crisis. As a result, it is essential to evaluate whether the stability analysis has focused on the appropriate issues and drawn the right conclusions, whether communications have been satisfactory and whether the preparations have been sufficient to ensure effective management of a financial crisis.

In 2004, the Riksbank asked a group of external experts to assess the Riksbank's Financial Stability Reports. They concluded that the Riksbank's stability process is relevant and that it focuses on the right questions, although they suggested a number of improvements which the Riksbank has been working on during 2005.

The crucial recommendation in the expert group's view – introduction of a recurrent chapter on current issues that affect the public framework – was covered by the thematic chapter on aspects of the European banking regulatory structure presented in the second Financial Stability Report of 2005. The Riksbank decided to discuss a number of issues under the same heading rather than attempt an exhaustive review of all the issues involved.

Another recommendation was that the analysis of borrowers in other Nordic countries, the Baltic countries and Germany could be more cohesive. This analysis was improved during the year and further improvements will be made.

The Riksbank has also improved its analysis of the banks, based on these recommendations. Comparisons with other Nordic banks are made in terms of profitability, cost-effectiveness, loan losses and the Tier 1 capital ratio, that is to say the banks' shareholders' equity in relation to risk-weighted assets. A number of tests are used to

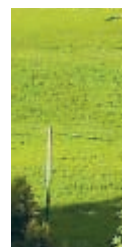
The Riksbank's research in the financial stability area

The Riksbank's Research Division has been conducting research on bankruptcy and credit risks in Swedish companies since 1999. One sub-project is analysing the bankruptcy trend for Swedish limited companies in the light of macroeconomic developments, using data available over a substantial period. During 2005, an article was published which demonstrated that corporate bankruptcies were closely linked to losses in the banks' credit portfolios and, as a result, were potentially relevant as an indicator of financial stability. This analysis also indicated the importance of taking macroeconomic developments into account when modelling insolvency trends over time. The model provides consistent forecasts of future inflation and bankruptcy frequencies, thus permitting a cohesive analysis of the Riksbank's principal spheres of interest, namely price stability and financial stability. The current follow-up project is investigating whether the correlation between bankruptcies and macroeconomic trends differs from one industry to another and, if so, whether precision can be improved by developing industry-specific forecast models.

analyse the banks' capacity to withstand unexpected losses – for example the volume of loan losses before the bank reports negative earnings.

A further recommendation involved a clearer account of the Riksbank's assignment in the financial stability area and the division of responsibilities between the Bank and Finansinspektionen. This recommendation was already complied with in the second Financial Stability Report of 2004, to some extent.

The crisis management exercise implemented in 2005 in cooperation with the Ministry of Finance and Finansinspektionen indicated the importance of insights on the part of the authorities concerned as regards the way various public authorities handle crisis management issues. This exercise clarified the roles played by the Riksbank, the Ministry of Finance and Finansinspektionen in an emergency situation. Cooperation proved to be satisfactory, but further exercises are required.



Payment system

DESCRIPTION OF OPERATIONS

The Riksbank's RIX system for the settlement of major payments may be regarded as the hub of the Swedish payment system. All payments between commercial banks and other parties are processed via the RIX system, which currently has 20 participants.

The RIX system comprises two parallel systems, one for settling payments in Swedish kronor (K-RIX) and one for euro payments (E-RIX). E-RIX is linked to the European central bank TARGET system which permits interbank payments throughout the EU. Payments in RIX are settled on a real-time gross settlement (RTGS) basis.

The Riksbank has set the following targets for the RIX system:

- Availability – the system must be 99.9 per cent accessible during hours of operation during the calendar year.
- Customer satisfaction – 80 per cent of RIX participants must be satisfied and customer satisfaction is to be better than the average for government authorities.
- Cost coverage – K-RIX must achieve cost coverage as a result of fees paid by participants.

This system plays a key role in society, and failures may have considerable consequences in the banks' liquidity management. The availability target is defined as an interruption of not more than two hours a year in K-RIX and three hours in E-RIX.

ACTIVITIES IN 2005

The average daily turnover in K-RIX amounted to SEK 436 billion in 2005, and EUR 8 billion in E-RIX. Turnover increased somewhat in comparison with the previous year, both in K-RIX and E-RIX. The number of transactions per day also increased from 5,250 in 2004 to 5,800 in 2005, due to a tendency for banks to dispatch transactions separately rather than net, in a block.

The current RIX system came into operation in 1990 in a mainframe computer environment. Operating costs for the system have increased substantially in recent years since other banking systems are no longer based on a mainframe configuration. A tendering process for a replacement system for K-RIX was initiated during 2004, and an agreement was signed with SIA/Perago in August 2005. Implementation of the new system commenced immediately. In autumn 2005 an analysis was made of the way the system was to be used, as well as the design and technical configuration. This analysis was carried out in close cooperation with participants in the payment system. Implementation of the new process is continuing during 2006, and the participants involved in the payment system will take part in functional tests. The new system will come into operation in the first quarter of 2007. The Riksbank will simultaneously terminate settlements in euro in connection with the phasing out of E-RIX as from December 2006. The Riksbank has decided not to link up with Target 2, the new European central bank system for euro payments due to lack of interest on the part of the major Swedish banks in payments in euro via the Riksbank. Swedish banks and clearing houses can obtain access to the European market via participation in Target 2 through banks in other EU countries.

FOLLOW-UP

The availability of the RIX system was 99.75 per cent during 2005, which was slightly lower than the target of 99.9 per cent. If we exclude external disturbances, then the availability figure is 99.88 per cent for 2005.

A new customer survey for the RIX system was carried out during 2005. The results indicate that all customers had considerable confidence in these operations. The target of 80 per cent satisfied customers was met with room to spare. The survey also indicates that areas where there was room for improvement according to the previous survey in 2003 now have a higher proportion of satisfied customers.

The Riksbank achieved full cost coverage for K-RIX during 2005, and revenues amounted to SEK 23.8 million.

Banknotes and coins

DESCRIPTION OF ACTIVITIES

The Riksbank is responsible for supplying banknotes and coins in Sweden. Extensive changes have been implemented in recent years and the Riksbank's role and responsibilities in the provision of notes and coins have been defined in a clearer manner. The goal has been to reduce the Riksbank's involvement in operative cash management in order to improve economic efficiency and reduce the Riksbank's costs.

The Riksbank's responsibilities in the cash management area are to:

- supply new notes and coins that are difficult to counterfeit,
- maintain strategic stocks of notes and coins,
- implement authenticity checks, particularly in the case of the destruction of banknotes,
- define standards for banknote quality,
- redeem defective and invalid notes and coins,
- destroy worn banknotes, and
- arrange transportation from suppliers to strategic storage points.

The Riksbank ensures that cash is available by means of a system in which the banks order cash from, and deliver surplus holdings to, the Riksbank's offices in Tumba, Mölndal or Malmö. Subsequently, the banks are responsible for distribution to the general public.

The Riksbank's objective for the provision of cash is that the general public should have a high measure of confidence in, and knowledge of, Swedish banknotes and coins. In addition, the Riksbank endeavours to achieve a high degree of security in its cash management activities.

ACTIVITIES IN 2005

Cash management

The rationalisation of cash management routines continued in 2005 as a result of the closing of the Härnösand office on 30 September. In 2004, it was decided to offer the banks an opportunity to establish private depots for deposits and disbursement of cash. The banks receive interest compensation for cash resources held in these depots. In December 2005, Swedbank opened the first bank-owned depot in Härnösand.

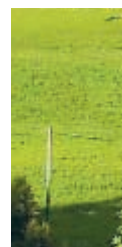


The pharmaceutical industry's significance for the Swedish economy has increased in recent years. Exports of pharmaceuticals have increased by around 180 per cent over the past decade.

Sources: The Swedish Association of the Pharmaceutical Industry and Statistics Sweden

The Riksbank's cash-handling offices have introduced new, safer entry control systems in order to improve security. The Riksbank has also taken steps to ensure that security companies' transport arrangements to and from the Riksbank are more secure and more flexible.

During the year, there was a focus in the public debate on the increased number of robberies involving security transports. The Riksbank has actively participated in discussions with banks and security transport companies in order to reduce the risks. Following consultation with the Riksbank's General Council, the Executive Board also submitted a report to the Government regarding measures to prevent robbery of security transports and cash depots. The Riksbank is also studying the feasibility of allowing the banks to destroy worn banknotes at their own cash depots, since this would reduce the need





In 2004 the market for electronic communications in Sweden had a turnover of SEK 49.5 billion. During the first half of 2005 the turnover was SEK 24.5 billion. This is largely unchanged from the same period in 2004.

Source: PTS, the Swedish National Post and Telecom Agency

for the transportation of cash, and hence the risk of robbery.

The Riksbank charges the banks a fee to cover the cost of cash-handling operations. During 2005, revenues from this source amounted to SEK 24 million.

BANKNOTES AND COINS

As from 1 January 2006, three older types of banknote and one type of coin were no longer legal tender. The notes in question are older versions of the 100 and 500-krona banknotes, which have no foil strip or see-through image, and older 20-krona notes which have a slightly larger format and a bluer tone than the smaller notes with a purple that will continue to be legal tender. The old silver-coloured 50-öre coin is no longer legal tender. The withdrawal of these notes and coins was preceded by an information campaign that included mailings to all Swedish households.

In order to maintain satisfactory banknote quality, the Riksbank issued new notes in 2005 with a face value of SEK 11 billion, and destroyed damaged notes or notes that had been withdrawn with a total nominal value of SEK 20 billion. In addition, the Riksbank and the security companies have jointly taken a number of steps to raise the quality of banknotes in circulation and increase the withdrawal of low-denomination notes. The Riksbank has decided to introduce upgraded 50 and 1000-krona notes during the first six months of 2006 in order to further increase the level of security.

A commemorative 100-krona banknote was issued during 2005 in honour of the 250th anniversary of the Tumba Bruk printing works. The Riksbank also issued three commemorative coins to celebrate the 100th anniversary of the dissolution of the union between Sweden and Norway, the 100th anniversary of Dag Hammarskjöld's birth and the 150th anniversary of Sweden's first postage stamp.

FOLLOW-UP

The task of changing the Riksbank's role and responsibilities in the provision of banknotes and coins was largely completed during 2005. The planned closure of the office in Malmö has been postponed until 30 June 2006, however, due to delays in the establishment of the commercial banks' private depots. See pages 56-60 for a summary of the Riksbank's new cash management role.

An evaluation of the campaign that preceded the withdrawal of three banknotes and one coin that was implemented during 2005 showed that more than 85 per cent of the population was aware of the information concerned.

TABLE 3

Banknotes and coins	2001	2002	2003	2004	2005
Average value of banknotes and coins in circulation (SEK billion)	95	99	101	103	106
Average value of coins in circulation (SEK billion)	4.6	4.8	5.1	5.3	5.5
Number of banknotes in circulation (million)	333	343	357	359	382
Number of banknotes issued (million)	278	230	169	28	50
Number of banknotes destroyed (million)	178	217	126	107	111
Number of counterfeit banknotes (number)	2 400	1 865	1 832	2 054	1 849
Banknotes and coins in circulation in relation to GDP on 31 December (per cent)	3.4	3.4	3.4	3.2	3.2

Source: The Riksbank

The face value of counterfeit banknotes withdrawn from circulation amounted to SEK 418 000, which is a reduction of about 50 per cent compared with the preceding year. The number of counterfeit notes declined by 10 per cent. Swedish banknotes are forged on a relatively limited scale by international standards. This is partly because the krona is a relatively small currency, and partly because Swedish banknotes maintain a high level of security.

The total value of cash in circulation is increasing as a result of the general growth in the economy. The average annual rate of increase over a five-year period is 3.2 per cent, but this rate is gradually declining as other forms of payment become increasingly attractive.





■ Asset management

The Riksbank's asset management must meet two overall objectives. Firstly, assets must be managed in a manner that allows the Riksbank to carry out its statutory tasks regarding monetary and exchange rate policy and stability in the financial system. Secondly, asset management must generate a satisfactory return under the constraints implied by the first objective. Asset management must also be cost effective.

DESCRIPTION OF ACTIVITIES

In the Riksbank's case, the balance-sheet total is primarily determined by items on the liabilities side, that is to say banknotes, coins and capital, which the Riksbank cannot influence in the short term. The volume of banknotes and coins is determined by public demand and the total capital is determined by the profit reported by Riksbank, and the dividend distributed.

BANKNOTES AND COINS

The Riksbank is responsible for the provision of Sweden's banknotes and coins, and in addition has the exclusive right to issue them. The volume of banknotes and coins is determined by demand from the general public which, in the short term is affected by interest rates, for example, and in the long term by factors such as the structure of the cash market. At year-end 2005, the stock of notes and coins in circulation amounted to SEK 111 billion, but this figure varies during the year, with peaks just before major public holidays and monthly wage and salary payments, when public demand for cash rises.

CAPITAL

If it is to conduct its activities in a credible and independent manner, the Riksbank must have sufficient capital to avoid the need for an injection of funds. This is why the Riksbank needs capital resources which can generate revenues, thus enabling it to meet its operating costs and cover any losses incurred in its activities.

Such losses may occur in connection with the provision of emergency liquidity assistance to avert a threat of disruption of the payment system. Losses can also stem from the day-to-day management of the Riksbank's gold and foreign exchange reserve. Since the Riksbank values its assets at market prices, the book value of assets is affected by changes in exchange rates, market interest rates and the price of gold. Such chang-

What is seignorage?

The Riksbank is sometimes asked what seignorage means. Seignorage is normally defined as the return on the issue of banknotes, but what does this mean in practice?

The general public requires banknotes and coins for cash payments. The value of notes and coins appears on the liability side of the Riksbank's balance sheet. Holders of notes and coins do not receive any interest, so the Riksbank has no interest expense for these items. Theoretically, seignorage might be regarded as the return on the assets corresponding to notes and coins in circulation*.

A central bank's balance-sheet liabilities involve other items in addition to banknotes and coins – mainly shareholders' equity (capital). So what are the assets that may be said to generate seignorage? Since the Riksbank does not link certain assets to the banknotes and coins balance-sheet item, the most accurate method is to calculate the seignorage and multiply the note and coin proportion of the balance-sheet total by the return realised on total assets. In this case, the seignorage for 2005 would amount to SEK 2.8 billion.

* The issue of banknotes and coins involves production and distribution costs, but these costs are ignored in this context.

FIGURE 3
Functional breakdown of the balance sheet.

Assets	Liabilities
Gold and foreign exchange reserve	Banknotes and coins
Assets denominated in kronor	Capital



es in value are only realised, however, if the Riksbank sells securities or exchanges foreign currencies.

Unrealised gains are set aside as a reserve item in the balance sheet, and they do not affect profit for the year or the capital item. Unrealised losses may, however, affect the capital item on the balance sheet. If, for example, the krona appreciates, the value in SEK of the currencies in the foreign exchange reserve will be reduced, and this results in an unrealised loss. If the Riksbank has previously made the corresponding unrealised gains, they will offset such losses. But if the unrealised gains in the balance sheet are not sufficient to meet the unrealised losses, the accounting rules stipulate that they must be charged to profit for the year, thus reducing the Riksbank's capital.

Guidelines for the allocation of the Riksbank's profits were approved by the General Council in 1988. In accordance with these guidelines, 80 per cent of the Riksbank's average net income for the previous five years, excluding gold valuation and exchange rate effects, is normally transferred to the Treasury, and the remainder is consolidated. The Riksbank's capital, that is to say the capital and reserves and profit for the year items, amounted to SEK 60 billion at year-end.

GOLD AND FOREIGN EXCHANGE RESERVE

The Riksbank is required to hold gold and foreign exchange reserves to enable it to intervene in the foreign exchange market, when necessary. The foreign exchange reserve may also be used to provide foreign exchange liquidity support to the bank system in an emergency.

Currency interventions are primarily applied when there is a fixed exchange rate. Since 1992, Sweden has had a floating exchange rate, which means that the value of the krona in relation to other currencies is determined by the market. Interventions may, however, also be undertaken with a floating exchange rate in order to counteract currency fluctuations that threaten price stability. The Riksbank did not intervene in the market during 2005.

The gold and foreign exchange reserves consist of gold and securities in foreign currency, and also claims on the International Monetary

Fund (IMF). At year-end, the value of the gold and foreign exchange reserve amounted to SEK 195 billion.

ASSETS IN SWEDISH KRONOR

The Swedish banking system normally has an overall borrowing requirement in kronor in relation to the Riksbank. This borrowing requirement varies, in accordance with the general public's demand for cash, for example. The banks' loans are entered as an asset in the Riksbank's balance sheet.

The bulk of lending to banks takes the form of refinancing transactions – also referred to as monetary policy repos. This type of repo means that the Riksbank meets the banks' borrowing requirements by buying securities from them and simultaneously agreeing to sell them back after a specific period has elapsed. The term for such transactions is normally one week. The amount involved is based on a forecast of the payments or flows between the Riksbank and the banks which affect the relevant items on the Riksbank's balance sheet. In addition to lending via repos, some deposit and lending transactions to the banks are conducted via accounts. Lending to the banks amounted to SEK 10 billion at year-end.

FINANCIAL RISK MANAGEMENT

The Executive Board approves the overall principles for managing the Riksbank's financial risks. The heads of department concerned are responsible for satisfactory risk management in their own operations. A separate Risk Control Division ensures independent supervision of the Riksbank's financial risks. In addition, the Internal Audit Division audits and evaluates the efficiency and integrity of risk management activities.

Management of the Riksbank's assets involves financial risks in the form of credit, market, liquidity and operational risks. The Riksbank monitors the risks that occur by employing predetermined methods of identifying, quantifying and controlling risks. This contributes to secure management and a satisfactory return.

Liquidity risk is the risk that the Riksbank cannot meet its payment commitments on time

because its assets cannot be divested, or can only be sold at a reduced price or at increased cost. In order to reduce the liquidity risk, the Riksbank only invests in securities for which there are substantial and liquid markets.

Credit risk is the risk of losses due to the inability of a counterparty to fulfil its obligations to the Riksbank in a financial transaction, or default by an issuer of securities. The Riksbank manages the credit risk by requiring qualitative assurances, for example credit certificates from its counterparties and for the securities accepted as collateral when lending to financial institutions.

Market risk is the risk of losses due to changes in the price of gold, in exchange rates or interest rates. In terms of Swedish kronor, the currency risk is the greatest single item, since the Riksbank's assets primarily consist of gold and interest-bearing assets in foreign currency. The Riksbank manages the currency risk by diversifying the foreign exchange reserve, which is held in six different currencies. The Executive Board determines the allocation between these currencies. Interest rate risk is managed by determining the duration, which is a measure of the sensitivity of the market value of the asset to changes in interest rates. The Riksbank employs modified duration, which indicates sensitivity in percentage terms.

These risk indicators are supplemented by other measures such as Value at Risk (var) and stress and scenario analyses. The var model permits risk assessment for various types of assets and risks, for example gold-prices, currencies and interest rates.

Operational risk is the risk of losses as a result of inadequate internal routines, deliberate or unintentional human error, defective systems or external events. The operational risks are managed by ensuring that routines are sound and sufficiently well documented, that personnel resources are adequate and have appropriate expertise, that operations are conducted with suitable support in the form of systems, organisational structure, etc., and that preparations have been made for dealing with extreme situations. The level of operational risks in financial operations is measured and evaluated on an annual basis.



The furniture industry in Sweden covers a total of around 800 companies with around 15 500 employees, most of them in the provinces of Småland and Västra Götaland. The value of the furniture industry's production is estimated at SEK 20.5 billion for 2005.

Source: The Employers Association of the Swedish Wood Products Industry and Statistics Sweden

ACTIVITIES IN 2005

Asset management must be conducted in a manner that, firstly, enables the Riksbank to carry out its statutory assignments and, secondly, generates a satisfactory risk-adjusted net return.

These objectives are an important factor in placement of the gold and foreign exchange reserve. If it is to intervene in the foreign exchange market, the Riksbank must have foreign currency assets that are very easy to convert into cash. This means that assets are largely held in the form of government bonds. In addition, the financial management risks must be limited so as to ensure that the capital earmarked for operating costs and possible losses as a result of emergency liquidity assistance can be maintained.

The Riksbank's claims on the IMF are not actively managed, but they provide the return determined by the IMF's rules regarding the rate of return, the allocation of the IMF's costs and the SDR interest rate. When the foreign exchange reserve is mentioned in the following, this refers to exclusive claims on the IMF, unless stated otherwise.

During 2005, the gold and foreign exchange reserve primarily consisted of government bonds and gold. In addition, reserves were also held in securities issued by institutions with state guarantees, intergovernmental organisations and us agencies.

The Riksbank's foreign exchange assets were denominated in the following six currencies: the us dollar (37 per cent), the euro (37 per cent), the British pound (11 per cent), the Japanese yen (8



per cent), the Canadian dollar (4 per cent) and the Australian dollar (3 per cent).

A review of the Riksbank's asset management was completed during 2005, with the aim of assessing the scope for further diversification of the gold and foreign exchange reserve. As a result, the Executive Board approved new rules for financial asset management that permit placements in a wider range of assets. The new rules also make it possible to increase the risk-adjusted return, and they clarify the forms for decisions on the focus of the Riksbank's placements. The rules stipulate that the Executive Board is to review the strategic focus of asset management on an annual basis. This review is to cover both currency allocations and long-term holdings of various types of assets.

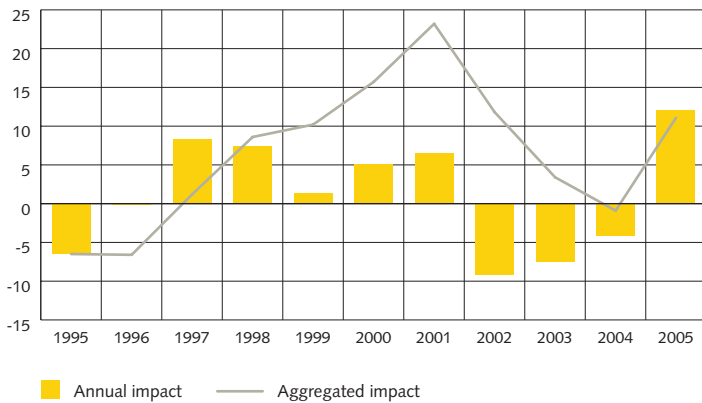
In view of the strategic focus, active management of interest rate risks in the foreign exchange reserve's assets was also carried out during the year. As in previous years, this took the form of positions in relation to a benchmark portfolio mainly consisting of government bonds. This involved, for example, the sale and purchase of government bonds in order to generate a better return than the benchmark portfolio. Some of the Riksbank's securities were also lent via three custody banks in exchange for securities, in order to improve the return. Trading in unlisted interest-rate swaps also commenced during the year.

The Riksbank manages its gold assets in accordance with the Central Bank Gold Agreement (CBGA) between 15 European central banks and which originally entered into force on 27 September 1999. This agreement, which was renewed in 2004 and will continue until 2009, gives the Riksbank an opportunity to sell up to 60 tonnes of gold during the period covered by the agreement. During 2005, the Riksbank sold 17 tonnes of the gold reserve in order to raise the risk-adjusted return on the gold and foreign exchange reserve as a whole. As a result, the income from this transaction was reinvested in the foreign exchange reserve (i.e. securities in foreign currency). At year-end, gold stocks amounted to 168.4 tonnes. Unlisted gold options were also used in the sales programme during 2005.

The main reason for the increase in the value of the gold and foreign exchange reserve during 2005 in terms of the krona was the weakening of the Swedish currency in relation to the currencies in the foreign exchange reserve. This change in value was also due to a higher gold price and changes in interest rates. During the year, short-term interest rates rose, while long-term rates were virtually unchanged or declined. Overall, there was a positive change in value as a result of the interest rate trend.

Since 1992, when the Swedish krona was floated, the value of the gold and foreign exchange reserve in terms of the krona has varied from year to year, in line with the strength or weakness of the national currency.

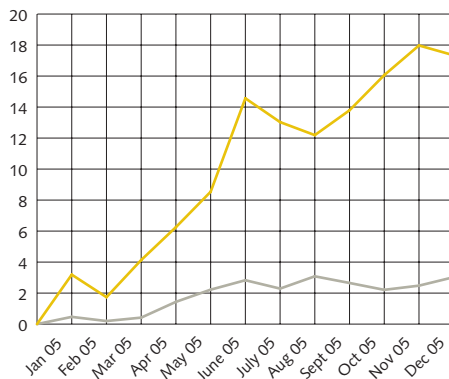
DIAGRAM 10
Exchange-rate impact on gold and foreign exchange reserve.



Source: The Riksbank

DIAGRAM 11
Return on gold and foreign exchange reserve in 2005.

— Including exchange-rate impact
— Excluding exchange-rate impact



Source: The Riksbank

FOLLOW-UP

During 2005, the risks in the gold and foreign exchange reserves were well balanced within the frameworks established by the Executive Board regarding the Riksbank's statutory tasks and the requirement to generate a satisfactory return.

RETURN

During 2005, the total return on the gold and foreign exchange reserve, including claims on the IMF, amounted to SEK 26 billion, of which SEK 16 billion was attributable to a weaker krona, SEK 6 billion to the appreciation in the gold holding and SEK 5 billion to interest income. There was also a negative impact of SEK 1 billion on the return, mainly as a result of a realised exchange rate and price effect. The return on the currency reserve was higher than for the benchmark portfolio.

RISK LEVEL

The Riksbank's Executive Board has approved a modified duration of 4.0 per cent, with deviation limits of ± 1.5 percentage points. The modified duration was 3.85 per cent at year-end. This means that a 1 per cent increase in interest on the markets in which the Riksbank invests would result in a decline in the value of the portfolio by about 3.85 per cent, which corresponds to approximately SEK 5.7 billion.

The market risk in the gold and foreign exchange reserve in terms of Value at Risk amounted to SEK 5.7 billion at year-end – an increase on 2004. The higher risk is primarily due to the higher market value of the gold and foreign exchange reserve and the change in the correlations between interest rates, currencies and gold.

During the year, the foreign exchange reserve has been managed at a low active risk in relation to its benchmark portfolio, that is to say with relatively small deviations from the predetermined strategic allocation.

MANAGEMENT COSTS

Operating costs, excluding transaction costs for the Riksbank's overall financial organisation, amounted to SEK 51 million during 2005.



Total corn production has increased by 130 per cent since the end of the 1920s. During the same period the number of people employed in agriculture has declined by over 80 per cent and the acreage used for cultivation has fallen by around 30 per cent.

Sources: Swedish Board of Agriculture/Official Statistics of Sweden

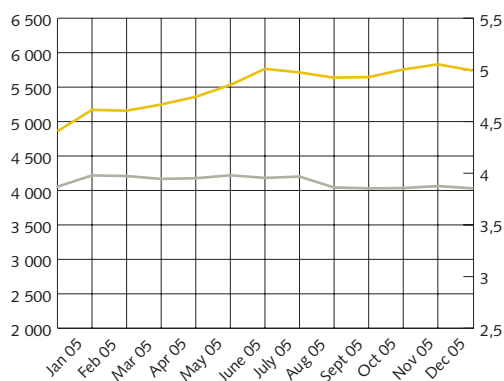


DIAGRAM 12
Interest-rate risk in the foreign exchange reserve.

— Delta 1%, SEK million (left scale)
— Modified duration (right scale)

Note: Delta 1% is a measure of interest-rate risk which roughly describes the change in the market value of the foreign exchange reserve in kronor if the interest rate rises or falls by 1 percentage point.

Source: The Riksbank

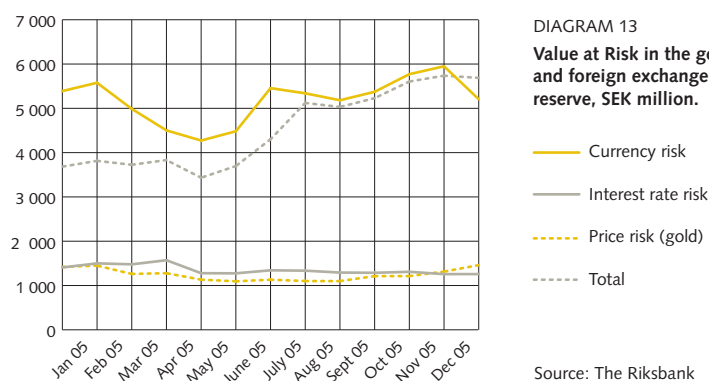


DIAGRAM 13
Value at Risk in the gold and foreign exchange reserve, SEK million.

— Currency risk
— Interest rate risk
- - - Price risk (gold)
- - - Total

Source: The Riksbank

■ Statistics

The Sveriges Riksbank Act requires the Riksbank to provide access to statistical information about the foreign exchange and credit conditions. Money and banking and balance of payments statistics, including the balance on the current account and capital flows, are published on a monthly and quarterly basis, respectively. In addition, information about short-term and long-term market interest rates and exchange rates for major currencies is also provided. These statistics are distributed to, and used by, a large number of international organisations and market participants.

DESCRIPTION OF ACTIVITIES

The Riksbank's objectives for its statistical activities stipulate that the statistics supplied must comply with European standards and be easy to understand and readily accessible to users. In addition, the collection of statistical data must be cost effective, both for the Riksbank and for suppliers of such information.

International organisations set high standards for the statistical information provided by the Riksbank, and there is extensive cooperation with other EU countries within the Eurostat and ECB frameworks.

Balance of payments statistics are used for Swedish national accounts and financial accounts, and they affect key economic indicators such as GDP and GNI. The money and banking statistics contain information about household and corporate indebtedness to banks, mortgage institutions and finance companies. The money supply is another variable included in the money and banking statistics.

The Riksbank works in close cooperation with Statistics Sweden, which has for several years been commissioned by the Riksbank to produce money and banking statistics and some of the balance of payments statistics. Under this arrangement, the Riksbank is responsible for funding and the content of the statistical information concerned, while Statistics Sweden collects the data on a continuous basis.

ACTIVITIES IN 2005

During the year, the focus was on a more detailed analysis of the correlations between the balance of payments and Sweden's international position. There have been substantial surpluses in Sweden's current account balance in the last 10 years, but net liabilities with foreign countries have not declined to the same extent. The Riksbank's analysis indicated, for example, that various types of changes in value, for example exchange rates and share prices, now have a much greater impact on Sweden's external position than in the early 1990s.

During the year, the Riksbank approved the installation of a new computer system for balance of payments statistics. This is partly because the Riksbank's mainframe platform is being phased out and partly because the present system has become outmoded and inefficient. Development of the new system is under way and is scheduled for service in daily operations in November 2006. The new balance of payments system will be based on the same concept as that used by Statistics Sweden for the production of money and banking statistics.

In autumn 2005, the Riksbank introduced a new Internet application for external access to interest rate and foreign exchange statistics. Statistics for interest rates and foreign currency involve about 60 Swedish and foreign interest rate series and approximately 50 exchange rates. This new way of publishing statistics is designed to make the website more user-friendly, for example by making it easier for users to search for information in a more dynamic manner.

FOLLOW-UP

Certain quality problems in the balance of payments statistics have become increasingly apparent during 2005. In particular, the net errors and omissions item increased substantially during the first half of the year, and this has implications for the quality of the statistics. This item is an indicator of inaccuracies and other inadequacies in the balance of payments statistics. There is an international rule of thumb that if net errors and omissions account for more than 5 per cent of the total current account balance (exports plus imports) during a 12-month period, this is an indication of quality problems in the statistics which must be rectified. Although the net errors and omissions item for 2005 was less than 5 per cent, steps have been taken to improve the quality of these statistics, including comparison of balance of payments statistics with other comparable figures, both domestic and international, in order to analyse differences and, as a result, provide a basis for improved data collection.

Publication of the balance of payments and money and banking statistics is scheduled in advance. During the year, statistics were published on 30 occasions, all of these on schedule.

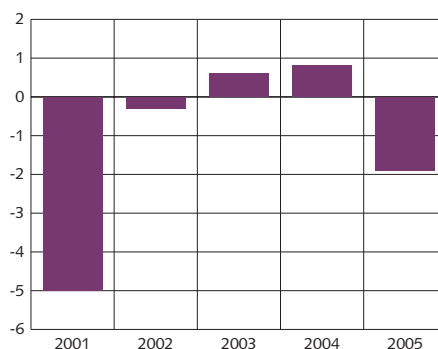


DIAGRAM 14
Net errors and omissions as a percentage of GDP, 2001-2005.

Note: Information for 2005 covers the period January-November.
Source: The Riksbank

■ International cooperation

As the national central bank, the Riksbank is affected in various ways by Sweden's integration in the world economy. International economic developments have an impact on the conditions for Swedish monetary policy and for maintaining financial stability in Sweden. The Riksbank's international contacts make substantial contributions to the internal analytical process, and the Bank also endeavours to contribute to international monetary and financial stability through its participation in various international organisations.

DESCRIPTION OF ACTIVITIES

The Riksbank contributes to the capital resources of the International Monetary Fund (IMF), the European System of Central Banks (ESCB) and the Bank for International Settlements (BIS). In addition to cooperation within these organisations, the Riksbank also participates in international groupings within the European Union (EU), the Organization for Economic Cooperation and Development (OECD) and the Group of Ten (G10), where macroeconomic and financial developments as well as rules, standards and norms for the financial sector are discussed.

Sweden is normally represented by the Riksbank and the Ministry of Finance in the cooperation in the EU, the OECD and the IMF.

Contributing to international and financial stability is an important objective of the Riksbank's international activities and, to this end, the Riksbank endeavours to exert an influence in key groups and have a high degree of legitimacy in core international issues. Overall, the Riksbank aims to promote efficient use of resources, openness and market-conform solutions in international cooperation. In all, the Riksbank participates in about 130 international committees and working groups. In addition, the Riksbank has many bilateral contacts and participates in and arranges conferences and seminars in order to learn more, and to influence international discussions.

ACTIVITIES IN 2005

Participation in international fora has enabled the Riksbank to obtain more detailed information about economic and political developments in various parts of the world, and also to present its views on appropriate economic policy measures. One of the key questions in the past year has been the imbalances in the current account between the United States and other parts of the world, particularly Asia. The Riksbank's view is that a gradual and calm adjustment process will be facilitated if several countries act simultaneously. As part of the international exchange of information and discussions of economic developments, the Riksbank has also presented analyses of the Swedish economy and monetary policy. In a European context, Sweden's relatively healthy macroeconomic development and strong productivity growth have attracted considerable interest.

The EU has completed a five-year plan for financial sector regulation, and 40 out of 42 of the new rules have been implemented. The Commission has presented a 'white paper' outlining measures for the next few years. Financial integration has not yet progressed to the same extent in all parts of Europe, but the Riksbank has specifically stressed the growing need for closer cooperation between supervisory authorities and for coordinated action between public authorities in different countries in cases where problems emerge in cross-border financial operations with repercussions on the stability of the financial system. The Riksbank has, for example, highlighted the interlinkages between supervision, crisis management and deposit guarantee schemes in ensuring the satisfactory handling of financial crises. In the G10, BIS and EU frameworks, the Riksbank has also been actively involved in the development of analyses and the practical aspects of crisis management, and has, for example, initiated or chaired a number of working groups and projects in this area.

Developments in public sector finances in the EU countries and the reformed Stability and Growth Pact have been of key interest in Europe. Reform of the rules for the Pact has been primarily discussed in fora in which the Riksbank is not represented, but the Bank has nonetheless involved itself in the European debate, for example in the form of speeches and newspaper articles, including stronger demands for consolidation in good economic times and the need for supplementary national rules.

In the context of the current strategic review of the IMF's activities, Sweden has stressed the crucial role that the Fund plays in its surveillance of economic developments, and has argued for a greater emphasis on analysing how measures in one country affect other countries. In addition, Sweden has continued to advocate that the Fund's rules for lending to countries with balance of payments problems should be applied in a clearer manner and that private-sector creditors should be involved more in the handling of financial crises. In connection with the decision to write off the debts of the most indebted poor countries to the IMF and the World Bank, Sweden argued for a solution which would ensure lasting improvements in the debt situation of the countries concerned. Sweden has also been involved in the question of the future governance of the Fund and has, for example, prepared proposals for greater efficiency and transparency in the Executive Board's work.

Parts of the Riksbank's international activities also involve the Bank's operational tasks, such as the production of statistics, the payment system and accounting. International norms and rules may have a considerable impact on the Riksbank's activities, and the Bank makes use of various ways to present its views on appropriate rules in this domain. The Riksbank has also commented on ECB consultation opinions regarding changes in legislation and regulations in the monetary and financial area.

Riksbank experts contribute technical assistance to other central banks, mainly in developing countries. More far-reaching measures have been undertaken in recent years, on assignment from the Swedish International Development Cooperation Agency (Sida), to support the de-

velopment of key banking functions, primarily at the central bank in Sri Lanka, and also on a smaller scale at the central banks in Vietnam and Uganda. The Riksbank has also seconded experts for other bilateral assignments, partly through the IMF and the EU. In addition, the Riksbank has cooperated with the Chinese central bank and arranged, for example, in the past year a conference in Beijing on Swedish experience of the deregulation of the credit and capital markets.

FOLLOW-UP

It is difficult to gauge the Riksbank's influence in various international groups since the outcome of most international discussions often depends on protracted negotiations with many participants involved. In addition, as regards the actual impact on international monetary and financial stability that is being achieved, considerable time may elapse between the introduction of a measure or a rule and the subsequent evaluation of the results.

One indicator of the Riksbank's legitimacy in major international issues may be the extent to which its representatives are assigned leading posts in international cooperation. During the year, representatives of the Riksbank have chaired several international working groups and headed BIS/G10 and EU projects, primarily in the areas of financial stability and IMF activities. Representatives of the Riksbank have also been invited, for example, to participate in panel discussions and to give speeches at various international events.

Another indicator of the extent to which the objectives have been achieved is how Board members assess the quality of internal analyses and briefing notes, the Bank's influence in international fora and the legitimacy of the Bank's actions concerning major international issues. During the year, such assessments were on the whole positive.

■ Organisation

In recent years, the Riksbank's tasks have been characterised by a focus on its core activities, an endeavour to attain greater openness, and continuous efforts to improve the professional competence of the organisation. The Riksbank's Executive Board has also reinforced governance and management of the Bank's activities and resources through a number of decisions. During 2005, new forms for the Riksbank's management and governance were introduced in order to clarify the division of responsibilities between members of the Board and heads of department, and to achieve a more cohesive management structure.

FOCUS

Focus on core activities

The focus on core activities aims to ensure efficiency in the Bank's work. The Riksbank has endeavoured to refine its activities in recent years. As part of this process, operations such as supplies of notes and coins and the production of statistics have been transferred to other bodies.

Openness and clarity

The Riksbank's independent status calls for a high degree of openness and clarity. Openness is an essential aspect of establishing credibility and legitimacy, both for monetary policy decisions and the Riksbank's activities in the financial stability area. As a public authority, the Riksbank must report its activities openly, explain its decisions and provide information about the management of public funds. Openness is also a prerequisite for the evaluation of its activities. In addition, openness and the subsequent scrutiny are crucial instruments in promoting quality and efficiency in the Bank's activities.

Professional competence

Expert analysis is a necessary condition for sound decisions, and the Riksbank constantly strives to improve its professional competence in its fields of analysis. This is achieved partly by establishing close links between the practical application of the analysis and theoretical and empirical re-

search. Participation in international cooperation also provides useful experience. In recent years, an extensive renewal of the professional competence within the Riksbank has taken place. Analytical competence in economics has been extended, while the need for administrative and operational staff has declined as activities have become more efficient, and some parts have been transferred to other agents.

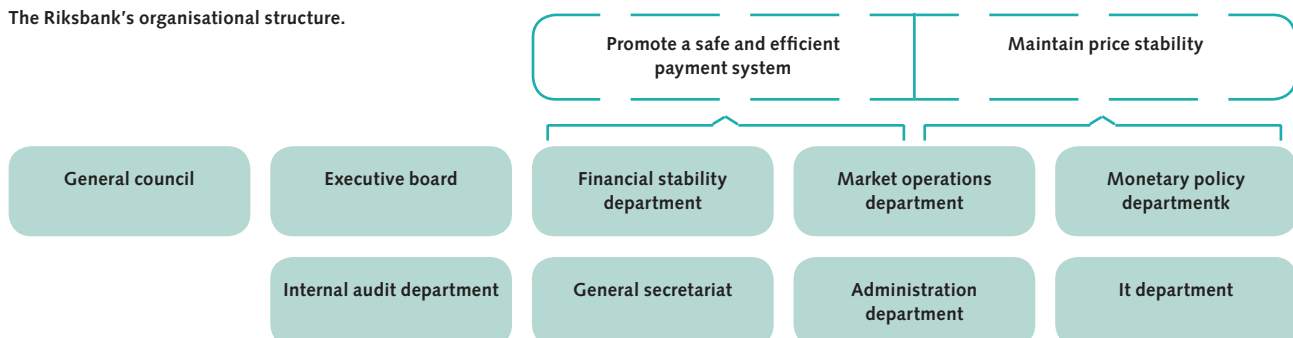
A developing workplace

The Riksbank encourages a work climate that motivates its employees. The aim is that all employees should have a clear responsibility, and clearly see their contribution to the Riksbank's overall objectives. The Riksbank must also provide a workplace in which it is possible to combine work and private life in a reasonable manner, and which offers men and women equal career opportunities.

GOVERNANCE OF ACTIVITIES AND RESOURCES

In recent years, the Riksbank's Executive Board has taken a number of decisions which are designed to reinforce governance and management of the Bank's activities and resources. In 2003, the Board decided that the number of employees (in full-time equivalent terms) would be reduced by 10 per cent over a three-year period, that more effective utilisation of premises was

FIGURE 4
The Riksbank's organisational structure.



to be achieved, and that the Riksbank would no longer lease premises in central Stockholm. The Riksbank was able to vacate its leased premises at year-end 2005, three years earlier than planned.

The planning and follow-up of activities are based on the Riksbank's strategic plan and the Executive Board's special planning requirements. The strategic plan is the Executive Board's assignment to the line organisation. It contains strategic targets, based on quality, efficiency and confidence, with a planning horizon of 3-5 years. The strategic plan also defines the way achievement of these targets is to be evaluated. The Executive Board's special planning requirements specify high-priority projects and activities on a one-year time scale.

The Riksbank's guidelines for external communications and its equality, work-environment and diversity plans are other important aspects of the planning and follow-up of operations. A new strategy for the Riksbank's external communications was approved by the Executive Board in 2005. The aim is to provide a platform for openness and communications, and form a basis for priorities, governance and follow-up of the Riksbank's communications. An annual communications plan was drawn up for the first time.

ORGANISATION AND FORMS FOR MANAGEMENT

The Riksbank has seven departments. Three departments are directly focused on the Bank's main tasks: the Monetary Policy Department, the Financial Stability Department and the Market Operations Department.

The Executive Board is responsible for governing the Riksbank's activities. The Governor of the Riksbank chairs the Executive Board. The Governor is also responsible for presenting proposals regarding appointments to posts decided by the Executive Board and for management of the heads of department. In addition, the Governor must take decisions regarding urgent monetary or foreign exchange policy situations, if there is insufficient time for a decision by the Board.

The Executive Board has appointed a specific member of the Board to be responsible for:

- presenting proposals for Inflation Reports and for decisions on monetary and foreign exchange policy measures,
- presenting proposals for Financial Stability Reports and on measures aimed at ensuring the stability and efficiency of the payment system,
- presenting proposals in the field of asset management,
- presenting proposals regarding consultation opinions involving major principles and for making decisions in other matters relating to consultation documents,
- presenting proposals regarding strategic information and communication issues.

A management group comprising the heads of all departments, with the exception of the Internal Audit Department, is responsible for coordinating and monitoring activities. This group is chaired by the head of the General Secretariat.

During 2005, there was a follow-up of the changes in the organisational structure and management forms that had been implemented. The follow-up indicated positive results. The new management forms were considered to be effective.

THE RIKSBANK'S DEPARTMENTS

The Monetary Policy Department

This department is responsible for monetary policy analyses that provide a basis for decisions to meet the price stability target. The department monitors and analyses price develop-



Josefín Regmyr and Laya Amiri



Antti Koivisto

ments and is responsible for financial market and balance of payments statistics. It also includes the Riksbank's Research Division.

Head of Department: Anders Vredin

Number of employees: 74

The Financial Stability Department

The Financial Stability Department is responsible for analysing the stability and efficiency of the financial system, thus providing a basis for decisions made to achieve the objective of promoting a safe and efficient payment system. This department monitors and analyses the payment system infrastructure, major individual banks and the private sector's cash management. The department is also responsible for controlling the risks that arise in the Riksbank's financial activities.

Head of Department: Martin Andersson

Number of employees: 35

The Market Operations Department

The Market Operations Department implements monetary and foreign exchange policy measures with the aim of influencing the interest and/or exchange rates in accordance with monetary policy decisions. The department also manages the Riksbank's foreign currency assets and compiles statistics on interest rates and foreign exchange markets. In addition, the department is responsible for the Riksbank's system for large-value payments between banks and for the supply of banknotes and coins.

Head of Department: Kai Barvèll

Number of employees: 78

The Administration Department

The Administration Department is responsible for development of personnel and professional competence, office services, building maintenance, transportation, security, documentation for business planning and budgets, accounting, wages and accounting systems, and financial administration.

Head of Department: Agneta Rönström

Number of employees: 99

The General Secretariat

The General Secretariat is responsible for coordinating daily activities and for supporting the

Executive Board's governance and strategic development of activities. The Secretariat coordinates the Riksbank's communication activities, international work, and handles legal issues.

Head of Department: Mats Galvenius

Number of employees: 50 (including the Executive Board)

The IT Department

The IT Department is responsible for operation, integration and development of the Bank's IT infrastructure, and for operation of the Bank's computer systems.

Head of Department: Marie Rudberg

Number of employees: 69

The Internal Audit Department

The Internal Audit Department undertakes independent evaluation of internal management and controls, risk management and governance and management processes, as assigned by the Executive Board.

Head of Department: Ulrika Bergelöv

Number of employees: 5

The number of employees refers to the number of full-time equivalents at the end of the year.

EMPLOYEES

The Riksbank tries to ensure that all employees feel that they are participating in the Bank's work and that they see the importance of the contribution that each individual employee makes to the organisation's performance.



Fredrika Lindsjö Hermelin and Robert Wiklund

The Riksbank also aims to offer its employees a satisfactory work environment by taking steps to prevent ill-health and accidents in the workplace. All the Riksbank's employees must feel that they are able to combine work and private life in a reasonable manner.

All Riksbank employees are to be ensured that they are assessed on the basis of their own performance and personality, and are not judged by their belonging to a group. The Riksbank considers that groups consisting of people with different backgrounds and perspectives are more effective and dynamic than homogenous groups. As a result, the Riksbank is promoting greater diversity in several different areas - for example diversity in gender, age, previous job experience, and ethnic and cultural background.

TABLE 4
Average number of employees
(full-time equivalent).

	2003	2004	2005
Total	439	420	429
Of whom women	199	189	190
Of whom men	240	231	239

DEVELOPMENT OF PROFESSIONAL COMPETENCE

Competence development and career opportunities are essential features of a knowledge-intensive organisation such as the Riksbank, with a high proportion of professional and highly-committed employees. The Riksbank provides both external and internal opportunities for career development. One of the most effective forms

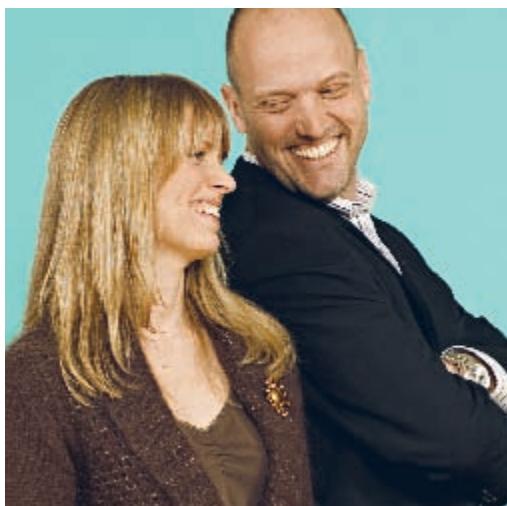
of competence development is internal mobility, providing opportunities to learn from colleagues. During 2005, approximately 40 per cent of all vacancies were filled internally. Overall personnel turnover amounted to 5 per cent.

The Riksbank also offers internal courses in various fields, as well as external training both nationally and internationally. Exchanges with other central banks, work in international committees and participation in seminars provide excellent opportunities for acquiring additional experience and in-depth expertise in the employee's specific area. During the year, some employees participated in an exchange programme designed to extend their competence. This exchange programme involves people from different public authorities following each other at work for a number of days, thus gaining new experience and greater insights.

During the spring, the management training programme initiated in 2003, in which all the Riksbank's managers have participated, was completed. The aim was to develop managerial and leadership qualities and to establish a consensus view of leadership at the Riksbank. The focus was on active leadership, with an emphasis on clear management by objectives and communications. Management training will continue during 2006 in the form of seminars and individual tuition.

EQUALITY AND DIVERSITY

In order to counter discrimination, the Riksbank continued to develop its recruitment process, and



Annika Otz and Roger Nilsson



Marie Rudberg, Pether Burvall and Stefan Palmqvist

instituted quality assurance procedures during 2005. This was achieved by clarifying roles and responsibilities, and by developing succinct routines. A discrimination policy was also drawn up, embodying the Riksbank's principle of zero tolerance for discrimination and harassment.

The task of achieving successful group combinations is an important aspect of managerial responsibilities at the Riksbank, and is a natural element in the Bank's long-term competence development programme. Men and women are to have equal opportunities to develop their competence and pursue their careers. The Riksbank has successfully promoted gender equality for many years, and employment for women and men is relatively even – 45 per cent women and 55 per cent men. At the managerial level, the ratio is 30 per cent women and 70 per cent men, and the corresponding figures for the Executive Board are three men and three women. Since systematic adjustment of pay differentials was initiated in 2003, the salaries of 26 persons have been amended, following the identification of unjustified differences in pay.

As in the case of equality, the diversity process involves increasing awareness and changing

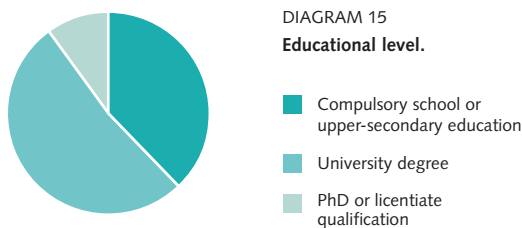
attitudes. During the year, additional resources were devoted to developing the diversity process. In October 2005, for example, the Riksbank arranged a seminar under the heading "Success factors and pitfalls in the diversity process" in which a number of other authorities participated. The purpose of this seminar was to encourage an exchange of experience and discussion of various problem areas and ways in which they can be tackled. Attitudes to equality, the different ways in which men and women communicate with others, diversity legislation and the responsibility of the employer are dealt with within the framework of the management training programme.

WORKING ENVIRONMENT

The Riksbank endeavours to provide a stimulating workplace in which employees can combine private life and a high level of professional ambition. Personal development discussions and employee surveys help to form a picture of the way staff members experience their work situation. Debriefing interviews when employees resign or retire have also been carried out for some time in order to improve this information.

The Riksbank also offers opportunities for flexible working hours and working from home to enable parents with small children to fulfil their responsibilities, both as parents and employees. During the autumn of 2005, all employees were offered an opportunity to participate in a widely appreciated seminar on leading a balanced life, in which the reasons for and the symptoms of stress-related health problems were discussed.

The Riksbank has an extensive preventive health care programme and offers its employees a well-equipped gym and various forms of physical training, relaxation and nutrition advice.



Source: The Riksbank



Christina Wejshammar, Mats Wallinder and Pernilla Meyersson

TABLE 5
Absence due to sickness in 2005 (2004).

	TOTAL	WOMEN	MEN
≤ 29	0.6% (1.5%)	0.8%	0.3%
30-49	2.0% (1.9%)	2.9%	1.4%
≥ 50	9.1% (8.6%)	8.6%	9.4%
All	4.7% (4.4%)	5.0%	4.4%

Note: Absence due to sickness was defined as absence for the age-group concerned in relation to the age group's total normal working hours.

■ Governance

THE RIKSBANK'S EXECUTIVE BOARD

The Riksbank is led by an Executive Board with the following six members:

Stefan Ingves,

term of office of six years, from 1 January 2006

Stefan Ingves is Governor of the Riksbank and Chairman of the Executive Board. Mr Ingves is responsible for presenting proposals regarding appointments for posts approved by the Board and exercising managerial responsibilities for heads of department. Mr Ingves is a member of the ECB General Council and a member of the BIS Board. He is also Sweden's Governor in the IMF. Mr Ingves has a PhD in economics and, prior to his appointment as Governor of the Riksbank, he was head of the Monetary and Financial Systems Department at the IMF. He has previously been Deputy Governor of the Riksbank, General Director of the Swedish Bank Support Authority, and Under-Secretary and head of the Financial Markets Department at the Ministry of Finance.

Eva Srejber,

term of office of six years, from 1 January 2003

Eva Srejber is First Vice Chairman and First Deputy Governor of the Riksbank. Ms Srejber is responsible for presenting proposals in the asset management area. Ms Srejber is the Governor's alternate in the ECB General Council and a member of the EU's Economic and Financial Committee and of the ESCB's International Relations Committee. Ms Srejber is an economist and has previously been head of the Riksbank's Monetary and Foreign Exchange Policy Department, a member of the Executive Board of the IMF, and Deputy CEO of Swedbank where she was responsible, among other things, for EMU issues.

Lars Nyberg,

term of office of six years, from 1 January 2006

Lars Nyberg is Deputy Governor of the Riks-

bank and is responsible for presenting proposals for Financial Stability Reports and on measures aimed at ensuring the stability and efficiency of the payment system. Mr Nyberg has been appointed by the Government to the Board of Finansinspektionen (the Swedish Financial Supervisory Authority) and is the Riksbank's representative in the group of deputies for the G10 Ministers and Governors and a member of the ESCB's Banking Supervision Committee. Mr Nyberg is an associate professor in economics and has previously been Deputy CEO at Svenska Handelsbanken and Swedbank and CEO of Länsförsäkringsbolagens förening.

Kristina Persson,

term of office of six years, from 1 May 2001

Kristina Persson is Deputy Governor and is responsible for presenting proposals concerning strategic information and communications issues. Ms Persson is the Governor's alternate in the IMF and represents the Governor in the Nordic-Baltic Constituency for IMF cooperation. Ms Persson is a graduate in business administration and has previously been Governor of the County of Jämtland. She has also worked at the Ministry of Finance, the Institute for Futures Studies, and as an economist at the Swedish Confederation of Professional Employees (TCO). In addition, she has been a member of the Riksdag and its Committee on Finance, the Riksbank's General Council and the European Parliament.

Irma Rosenberg,

term of office of six years, from 1 January 2003

Irma Rosenberg is Deputy Governor and is responsible for presenting proposals for Inflation Reports and for decisions on monetary and exchange rate policy measures. Ms Rosenberg is also responsible for questions relating to the Riksbank's subsidiaries. Ms Rosenberg participates in BIS meetings together with the Governor.



Stefan Ingves



Eva Srejber



Lars Nyberg



Kristina Persson



Irma Rosenberg

She has a PhD in economics and has worked as chief economist at the mortgage institution SBAB and at Sweden Post and Postgirot Bank. Prior to this Ms Rosenberg was head of research and forecasting at the National Institute of Economic Research.

Svante Öberg,

term of office of six years, from 1 January 2006

Svante Öberg is Deputy Governor and is responsible for presenting proposals regarding consultation opinions involving major principles and for making decisions in other matters relating to consultation documents. Mr Öberg represents the Riksbank in the OECD's Working Party Three. He is an economist, and prior to his appointment as Deputy Governor, he was General Director of Statistics Sweden. Prior to this, he was Director-General of the National Institute of Economic Research, State Secretary at the Ministry of Finance, and an adviser at the IMF.

Members of the Executive Board who resigned at year-end 2005:

Lars Heikensten,

term of office of six years, from 1 January 2003

Lars Heikensten was Governor of the Riksbank and Chairman of the Executive Board. Mr Heikensten was responsible for presenting proposals regarding appointments for posts approved by the Board and exercised managerial respon-

sibilities for heads of department. Mr Heikensten was a member of the ECB General Council and a member of the BIS Board. He was also Sweden's Governor in the IMF. Previously, he had been chief economist at Svenska Handelsbanken and the Swedish National Debt Office, and he has also been head of the economics department at the Ministry of Finance. Mr Heikensten, who has a PhD in economics, was Deputy Governor of the Riksbank in the period 1995-2002. Mr Heikensten resigned at his own request as from 31 December 2005.

Villy Bergström,

term of office of six years, from 1 January 2002

Villy Bergström was Deputy Governor and was responsible for presenting proposals regarding consultation opinions involving major principles and for making decisions on other matters relating to consultation documents. Mr Bergström represented the Riksbank in the OECD's Working Party Three. He is an associate professor in economics and had previously been head of the Trade Union Institute for Economic Research (FIEF), a member of the Economic Policy Group of the Centre for Business Policy Studies (SNS) and Editor in Chief of the Dala-Demokraten newspaper. Mr Bergström resigned at his own request as from 31 December 2005.

The Executive Board's assignments

The Executive Board is responsible for the entire activities of the Bank, that is to say monetary



Svante Öberg



Lars Heikensten



Villy Bergström

policy, questions concerning financial stability and efficiency, market operations and the payment system. The Executive Board is also responsible for the Bank's administration and budget.

The Executive Board makes decisions collectively at its meetings, which are normally held on alternate Thursdays. The Chairman and Vice Chairman of the General Council have the right to attend and speak at Executive Board meetings, but not the right to make proposals or to vote. The Riksbank is required to inform the Government prior to important monetary policy decisions. During 2005, the Board held 28 meetings, eight of which were monetary policy meetings.

The Executive Board in 2005

During 2005, members of the Executive Board made about 100 public speeches covering matters such as current monetary policy and the economic situation, financial stability and general political issues such as globalisation and demography.

Each year, one Executive Board meeting is held outside Stockholm. The purpose of this is to give greater opportunity to discuss economic developments with representatives from various industries and regions and to hear views on the Riksbank's activities. The Executive Board meeting on 7-8 April was held in Östersund.

During the year, the Executive Board and the General Council visited North America for study purposes, including visits to the Bank of

Canada, the Board of the Federal Reserve System, the Federal Reserve Bank of New York, the IMF and the World Bank.

The Executive Board presents a written report on monetary policy to the Riksdag Committee on Finance twice a year. The Inflation Report was used as the report to the Riksdag, supplemented by two public hearings with questioning of the Governor by the Committee on Finance.

OTHER ASSIGNMENTS UNDERTAKEN BY MEMBERS OF THE EXECUTIVE BOARD

In accordance with the Sveriges Riksbank Act, members of the Executive Board are obliged to notify the General Council, subject to approval, if they hold posts or assignments in addition to their employments as members of the Executive Board of the Riksbank. The following is a summary of other assignments undertaken by members of the Executive Board which have been approved by the General Council are which are reviewed on a bi-annual basis:

Stefan Ingves

- Board member of the Toronto International Leadership Centre for Financial Sector Supervision.

Eva Srejber

- Member of the Advisory Board in Economics for the Blekinge Institute of Technology.
- Participant in the reference group for the



Jan Bergqvist



Johan Gernandt



Sinikka Bohlin



Susanne Eberstein



Peter Egardt

Stockholm University 4-year mathematics-economics programme.

Lars Nyberg

- Member of the Board of Finansinspektionen (the Swedish Financial Supervisory Authority).
- Participant in the Emergency Delegation for Economic Policy.

Kristina Persson

- Member of the Advisory Board of the Nordic Retail College.
- Member of the Bank of Sweden Tercentenary Foundation's area group for research in the non-profit sector and civilian society.
- Member of the Freja Foundation Fund's programme committee.
- Member of the steering group for the "Global challenge" popular education project.

THE GENERAL COUNCIL

The General Council has 11 members, and as many alternates. Members are appointed by the Riksdag after a general election for a mandate period of four years. The General Council elects a Chairman and a Vice Chairman from among its members.

The members of the General Council are Jan Bergqvist (Chairman), Johan Gernandt (Vice Chairman), Sinikka Bohlin, Susanne Eberstein, Peter Egardt, Kenneth Kvist, Lennart Nilsson, Kjell Nordström, Mats Odell, Karin Pilsäter and Bengt Westerberg. The alternate members are

Marianne Carlström, Camilla Dahlin Andersson, Lars U. Granberg, Siv Holma, Sonia Karlsson, Maria Larsson, Carin Lundberg, Stephan Tolstoy, Margareta af Ugglas, Göte Wahlström and Tommy Waidelich.

The General Council's tasks

The General Council appoints the members of the Executive Board and determines their salaries and terms of employment. It also adopts the Riksbank's Rules of Procedure and decides on the design of banknotes and coins.

The General Council has the task of regularly monitoring the Riksbank's activities and how the members of the Executive Board conduct activities. One of the ways for the General Council to exercise control is for the Chairman and the Vice Chairman to utilise their right to attend and address meetings of the Executive Board, although they are not permitted to make proposals or to vote. The General Council has an Audit Unit that examines how members of the Executive Board perform their duties and examines the calculation of the Riksbank's profits in the procedures for closing the accounts. The Audit Unit's assignments are performed by an external authorised public accountant.

The General Council may submit consultation opinions within its area of competence and, in consultation with the Executive Board, the General Council may present proposals to the Riksdag and the Government regarding statutory amendments or other measures within its area of responsibility.



Kenneth Kvist



Lennart Nilsson



Kjell Nordström



Mats Odell and Karin Pilsäter



The General Council presents proposals to the Riksdag and the Swedish National Audit Office regarding the allocation of the Riksbank's profits.

The General Council in 2005

In 2005, the General Council met on 13 occasions. The Chairman and the Vice Chairman monitor the work of the Executive Board, for example through participation in the Executive Board's meetings. The Council received regular reports on activities from the Executive Board. These reports included presentations of current monetary policy and the oversight of the financial system, and also concerned the transfer of the operations of Svensk Kontantförsörjning AB to the Riksbank and the phasing out of the remaining group of subsidiaries. The General Council has also received a report concerning the Board's follow-up of changes in the governance and management structure introduced in the preceding year.

In October, the General Council approved Lars Heikensten's request to resign at year-end 2005, three years before the expiry of his normal term of office, and appointed Stefan Ingves as Governor of the Riksbank as from 1 January 2006. The General Council also approved Villy Bergström's request to resign at year-end 2005, two years before the expiry of his normal term of office. At the same time, the Council appointed Svante Öberg as a new member of the Executive Board, and Lars Nyberg for a new term of office.

During the year, the General Council approved the design of commemorative coins to celebrate the 100th anniversary of Dag Hammarskjöld's birth, the 150th anniversary of Sweden's first postage stamp, and the 100th anniversary of the dissolution of the union between Sweden and Norway.

Following consultation with the General Council, the Executive Board submitted a report to the Government concerning steps to prevent robberies from transports by security vehicles and cash depots.

During the year, the General Council and the Executive Board visited North America for study purposes, including visits to the Bank of Canada, the Board of the Federal Reserve System, the Federal Reserve Bank of New York, the IMF and the World Bank.

The General Council's Audit Unit mainly focused on ensuring that the Riksbank's Rules of Procedure and Internal Instructions did not contradict one another and that they were observed, as well as how the members of the Executive Board discharged their duties and the Riksbank's proposals for allocation of profits. The General Council's Audit Unit also examined the instructions, documentation and controls employed by the Riksbank to ensure the reliability and correctness of the Bank's annual accounts. These audits did not give rise to any criticism. The General Council also received information regarding the Swedish National Audit Office's examination of the Riksbank's activities.



Bengt Westerberg

■ Changes in the Riksbank's role in cash management – a summary of developments during the period 1998-2005

BACKGROUND

The Sveriges Riksbank Act stipulates that the Riksbank is to promote a safe and efficient payment system. The Act also states that the Riksbank is to be responsible for the provision of Swedish banknotes and coins.

Prior to the mid-1980s, the Riksbank had offices in each county for cash management operations. Subsequently, gradual rationalisation was initiated and the number of offices was reduced. A study carried out by the Riksbank in 1997-1998 indicated that cash-handling could be managed more efficiently.

One of the reasons for the lack of efficiency was the Riksbank's own behaviour. By offering the commercial banks services for which it did not receive full payment, the Riksbank had helped to preserve an outmoded structure in the provision of banknotes and coins, and inefficient methods, including unnecessary transportation to and from the Riksbank. The banks and other participants in the cash management market had little incentive to change or rationalise their methods.

The study estimated that the total annual cost of supplying banknotes and coins was more than SEK 10 billion, of which the Riksbank's gross cost for cash supplies, including the cost of production of notes and coins, amounted to approximately SEK 250 million. The study indicated that there was scope for appreciable rationalisation of the overall cash-handling process. As a result, the Riksbank wanted to make its own cash-handling costs visible, and transfer them to banks and other participants, thus giving them a greater incentive to rationalise their operations. The aim was to encourage greater competition and product development through the cash-handling chain which, in the long run, might result in a reduction in the overall cost to society.

In addition, the Riksbank had reason to review its own role in the cash-handling process, since

its network of offices and its methods were considered to be too expensive. Despite the change process initiated during the 1980s, there was excessive floor space and there were too many employees. The Riksbank wanted to reduce its costs and refine its activities by transferring the office network to the commercial banks, in the first instance. A transfer of cash-handling operations was discussed with the banks, but it was not possible to reach agreement.

In the light of these developments, the Pengari Sverige AB (PSAB) subsidiary was formed, following approval by the General Council in 1998.

FORMATION OF PENGARI SVERIGE AB

The Riksbank decided to conduct activities in a limited liability company format because management independent of the Riksbank offered better scope for development, and a corporate structure would facilitate future transfer of the company, which had been the Riksbank's goal throughout the change process. Incorporation also made the costs more visible than in the past since the new operation had a separate profit and loss statement and balance sheet. It was considered that the transfer of operations to a subsidiary with clear profit targets would permit rationalisation and ensure a stronger focus on the cash market – for many years a commercial operation conducted by the Riksbank on a limited scale as a result of operations involving the counting of daily takings and the replenishment of ATM cassettes.

During the period 1999-2002, PSAB's operations focused on the development of business processes and the adjustment of the office network and personnel resources to achieve an operating surplus. Most of the 10 properties transferred to PSAB when it was formed were successively divested. At the same time, the competitive operations expanded. A security transport service operation was set up, since the development of commercial operations proved to be difficult if

the company could not offer such services under its own auspices. Subcontracting to existing operators was not a viable option. Initially, PSAB acquired two existing security transport companies and operations then expanded rapidly so that there were about 75 vehicles by 2002 and 115 employees (full-time equivalents).

Despite the restructuring of PSAB's operations and expansion of commercial activities, the earnings trend was less favourable than anticipated. In addition, there were unforeseen costs for the development and installation of a new IT system which were charged against PSAB's income in 2001 and 2002.

NEW GUIDELINES FOR THE PROVISION OF BANKNOTES AND COINS

In April 2002, the Riksbank decided to review the principles for cash management operations in the light of economic developments, and also growing criticism and complaints of unfair competition by other security transport companies. This resulted in a decision by the Executive Board to issue new guidelines for the provision of banknotes and coins.

Under the new guidelines, the Riksbank was to supply new banknotes and coins that were more difficult to counterfeit, to maintain strategic stocks and to destroy worn notes. The Riksbank would also arrange transportation of notes and coins from the suppliers to strategic depots. As a result of this decision, operations closely associated with the Riksbank were consolidated into Svensk Kontantförsörjning AB (SKAB). SKAB's operations were concentrated on four locations: Tumba, Mölndal, Härnösand and Malmö. A change in the structure of payments for the issue and receipt of banknotes was implemented, with the object of improving overall economic efficiency. This counteracted the banks' tendency to return temporary banknote surpluses to the Riksbank on an overnight basis, and it led to a substantial reduction in the number of security transport movements to and from the Riksbank's offices.

Commercial operations were transferred to PSAB's security transport subsidiary, which was renamed Pengar i Sverige AB (subsequently PIS). Following these changes, PIS was able to stream-

line its commercial operations, but it continued to have profitability problems. In the spring of 2003, the PIS Board of Directors approved a new restructuring programme, and operations were concentrated on four locations: Stockholm, Mölndal, Härnösand and Malmö.

PHASING OUT COMMERCIAL OPERATIONS

During the spring of 2002, divestment of commercial operations was resumed (i.e. PSAB/PIS). A consultant was assigned to report on the feasibility of achieving profitability, and hence the conditions for selling the company. The report indicated that the company could become profitable, but that this would call for considerable effort. The sale of the company's shares was discussed with several parties, but no agreement was reached. Discussions were renewed in the spring of 2003 with a number of interested parties, including the Swedish banks and Swedish and foreign security transport companies.

No potential buyer was prepared to acquire the shares in PIS, however, unless the Riksbank agreed to cover any future losses. The Riksbank considered that a far-reaching commitment of this nature was neither feasible nor appropriate, for example in the light of the EU's rules regarding state subsidies. Instead, as from the summer of 2003, the Riksbank started to discuss the sale of the PIS assets to interested parties. A preliminary agreement was reached in December 2003 for the sale of the major part of these assets to Securitas Värde AB.

It was considered that acquisition of these assets by Securitas Värde AB called for notification to the Swedish Competition Authority in accordance with the Competition Act (1993:20). In May 2004, the Competition Authority stated that it wanted to make a more detailed study of whether Securitas Värde AB would have an unduly dominant position in the security transport market after such an acquisition. The Riksbank then decided that the only reasonable alternative was termination of the operations, and this was formally approved in June 2004. All personnel received notice of redundancy and the PIS operations ceased as of 30 June 2004. The remaining assets were sold by tender. Securitas Värde AB submitted the highest bid, and could

thus acquire the assets without any objection being raised by the Competition Authority.

As a result, the only remaining activities in the SKAB Parent Company were closely linked with the Riksbank's activities, and it was therefore considered appropriate to transfer these activities back to the Bank. This was implemented on 1 October 2004.

As from the autumn of 2004, members of the Board of SKAB continued the process of phasing out subsidiaries. Primarily, this involved personnel redundancies, the sale of the remaining properties and inventories, the termination of leases, and settling disputes with a number of former customers and suppliers. In addition, there were also disputes with the insurer regarding compensation for losses in connection with two security transport robberies. One of these disputes involved a lawsuit which has not yet been settled.

The phasing out of subsidiaries has resulted in substantial costs, most of which were expensed in 2004. The major items were:

- Personnel redundancies (SEK 87 million),
- Write-off of fixed assets (SEK 66 million),
- Compensation to customers and suppliers for premature termination of contracts (SEK 37 million),
- Other termination costs (SEK 23 million).

CONSEQUENCES FOR EMPLOYEES

At year-end 1998, the Riksbank's Cashier's Department had 350 employees, 250 of whom decided to transfer to PSAB, 25 preferred to continue to be employed by the Riksbank, and about 75 accepted severance pay or pension offers.

Expansion of PSAB's commercial operations – particularly in the security transport area – resulted in an increase in the number of staff employed by the company to about 550, prior to division of the company in September 2002. 485 employees transferred to the new PIS subsidiary, which provided commercial services, while 54 employees became involved in the provision of SKAB services closely linked to the Riksbank (including the Svenska Kontanthanteringssystem AB subsidiary which was responsible for IT operations). Some 10 employees were offered retirement solutions at this point.

There was a substantial reduction in the number of PIS employees in the following year, in an attempt to achieve profitability. In July 2004, when operations in PIS ceased, the company still had 300 employees, who all received notice of termination of employment. Most of them were entitled to three months' redundancy pay, but about 30 were entitled to one year's compensation (senior management and former Riksbank employees). A number of PIS employees who had reached the age of 58 were offered pension solutions.

In the case of SKAB employees, 35 continued to work for the Riksbank, nine received notice of redundancy and five were offered pension solutions. Four of the five staff members employed by the Svenska Kontanthanteringssystem AB subsidiary transferred to other employers and one was made redundant.

The majority of the redundancy payments by subsidiaries were subject to a condition under which payment would cease if the employees obtained new employment. As a result, a monthly follow-up process was conducted by SKAB on behalf of the Group. This indicated that almost 80 former employees reported that they had received new employment during the redundancy payment period.

Following the transfer of SKAB's operations to the Riksbank, further rationalisation of operations has been implemented, including closure of the office in Härnösand in 2005. At year-end 2005, 30 people were employed in the Riksbank's operations involving the provision of banknotes and coins. The Riksbank also plans to close its office in Malmö during 2006.

COST OF RESTRUCTURING

The Riksbank's change process as regards the provision of banknotes and coins is expected to be completed during 2006. As a result, it may be appropriate to make an estimate of the costs incurred at this point. The question of the incorporation of the Riksbank's cash-handling operations has been investigated on a number of occasions by the Bank and by external experts. The report which the Governor of the Riksbank submitted to the General Council in August 2005 noted that the change process in the cash-

handling area had proved more expensive than indicated in the original estimates, and that, with hindsight, some of these costs could have been avoided. The Governor stated, for example, that:

■ “One aspect of the decision in 1998 was that PSAB would have an opportunity to compete in the cash management market without abusing the special status implied by initial ownership by the Riksbank. The reaction from competitors was a problem that was underestimated at this time. One alternative would have been to refrain from extending commercial operations in this subsidiary and, instead, to have tried to get the banks to agree to take over responsibility for the traditional operations. The Canadian central bank chose this solution, for example. If the Riksbank had adopted this path, the costs incurred would have probably been lower.”

■ “If, as intended when the company was formed, operations had been transferred to the banks in 1999 or 2000, subsequent costs for the Riksbank could probably have been avoided. Restructuring of the company and the costs involved would have been the responsibility of the new owners in this case. The Riksbank's interests could have been safeguarded in some other way, for example through retention of a shareholding in the company for a transitional period, and by ensuring that the Bank had a satisfactory degree of influence in other respects, for example as a result of representation on the Board. This is what the Norwegian central bank did in a similar situation.”

■ “It would also have been feasible to terminate commercial operations in 2002, rather than split the company with a view to divestment, which would probably have involved lower costs.”

The Riksbank's costs for subsidiary operations in the form of financial contributions by the owner in the period 1999-2004 amounted to SEK 1,176 million. Assessment of the additional cost of the way the Riksbank dealt with the change in cash handling must be seen in the light of the costs for an alternative scenario. One such scenario would have been to continue operations under the auspices of the Riksbank from

1999-2004, prior to subsequent termination. The Riksbank's cash-handling operations in 1998 involved net costs of SEK 64 million, excluding production costs for banknotes and coins, of which SEK 47 million was attributable to operations that were transferred to Pengar i Sverige AB. As a result, it is reasonable to assume that continued operation from 1999-2004 under the Riksbank's auspices would have cost slightly more than SEK 280 million, with an additional cost of SEK 150 million for redundancy pay for about 300 employees and a write-down of offices and depreciation of assets corresponding to SEK 150 million. A further SEK 70 million should be added for development of a new IT system that would have been required for continued operations under the Riksbank's auspices. In other words, the second scenario would have involved a total cost of about SEK 650 million.

Hence, with hindsight, it may be noted that restructuring, including the transfer of cash-handling operations to a limited company, resulted in an additional cost of more than SEK 500 million, compared with a situation involving continued operation under the auspices of the Riksbank from 1999-2004, prior to subsequent phasing out of operations. The net cost of the establishment and termination of PSAB's commercial operations, in particular security transport operations, represents about SEK 250 million of this sum. Other additional costs include VAT and insurance premiums, for example.

Any comparison of this nature is subject to reservations, however. In 1998, the termination option was not considered to be sufficiently realistic to merit serious consideration in the study of cash-handling operations conducted at that time. There are several reasons for this. One is that the view of central banking operations has changed to some extent, so that a limited involvement in cash-handling operations is more acceptable today. Implementation of the phasing out of operations was also easier when it could be clearly compared with the costs resulting from continued operation. In addition, attitudes to what is considered to be legally feasible have changed. Hence, the current structure of cash-handling operations has developed in the light of the experience gained in the course of the process.

THE NEW CASH-HANDLING PROCESS

In August 2004, it was decided to confine the Riksbank's cash-handling operations to two offices: Tumba and Mölndal. It was also decided to permit the banks to hold stocks of banknotes in depots. The banks may receive interest rate compensation from the Riksbank for banknotes held in such depots, providing that they observe the principles established by the Riksbank. On the one hand, the Riksbank pays interest on balances in the depots and, on the other hand, the banks defray the cost of operating the depots. This arrangement provides satisfactory incentives for effective management of the distribution of banknotes nationwide, and it means that storage of notes in a secure manner can be achieved in the locations required by the market. A fully developed depot structure under the auspices of the banks is expected to result in a further reduction in the number of security transports, for example, and safer and more efficient cash-handling operations. These changes have been successively agreed with banks and security transport companies, and are being implemented in 2005 and 2006.

When the new cash-handling structure is in place, it is estimated that the number of Riksbank employees involved in these operations will decline to 25, in comparison with about 300 in 1998, and that there will be a corresponding reduction in the number of offices from 11 to two. It is estimated that the Riksbank's gross cost for cash-handling operations, excluding the cost of producing banknotes and coins, will amount to about SEK 60 million a year, in comparison with SEK 164 million in 1998. One of the main reasons why this cost is not expected to decline even more is the significantly higher safety and security standards for such operations since 1998. At the same time, the revenues of SEK 100 million for such operations in 1998 will no longer apply, since the commercial aspects of the activities have been terminated and the aim is that no fees of any description are to be charged for services linked with the Riksbank.

FINAL COMMENTS

The Riksbank has carried out extensive restructuring of its cash-handling operations in recent years. The aim has been both to reduce the Riksbank's costs for such activities and to achieve greater economic efficiency. Initially, it was considered that the efficiency of the Riksbank's cash-handling operations was low, and that there was considerable scope for reduced costs, both for the Riksbank and the private sector.

With hindsight, it may be noted that this change process could have been accomplished at a lower cost if it had been conducted in a different manner. The changes which have been implemented have resulted in an effective and efficient structure for cash-handling operations, however. The Riksbank has largely confined its role in the provision of banknotes and coins to supplying new notes and coins that are difficult to counterfeit, maintaining strategic stocks, destroying worn notes, and arranging transportation from suppliers to strategic depots. In the future, the Riksbank will only provide these services from two offices: Tumba and Mölndal. Other cash-handling services will be undertaken on commercial terms by private agents. The Banks have an opportunity to establish depots for the storage of banknotes in exchange for interest rate compensation from the Riksbank.

This change establishes favourable conditions for greater efficiency in the cash-handling sphere as a result of new incentives for the issue and receipt of banknotes to ensure a substantial reduction in such flows. Opportunities for the banks to establish their own depots for the storage of banknotes without incurring interest charges mean that the number of security transport operations can probably be reduced. Overall, this change has resulted in the establishment of a new structure for cash-handling operations which is more rational from a general economic viewpoint.

■ Accounting principles

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. The bookkeeping rules are taken from the Bookkeeping Ordinance (2000:606) and the rules for annual accounts from the Guideline of the European Central Bank on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2002/10).

CHANGES IN ACCOUNTING PRINCIPLES

The accounting principles were not changed in 2005.

BASIC ACCOUNTING ASSUMPTIONS

The following fundamental accounting policies have been applied:

- Accounting shall reflect the financial reality and be characterised by transparency.
- The valuation of assets and liabilities, as well as the recognition of income, 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, on condition that these events have affected the value of the assets or liabilities on the closing day.
- Assessment of assets and liabilities must be made on the assumption of a going concern.
- Income and expenditure will be reported as income and expenditure in the accounting period they were earned or arose, regardless of when payment is made.
- The recognition criteria for balance sheet items and for the profit and loss account must be applied consistently.

RECOGNITION OF ASSETS AND LIABILITIES

Assets and liabilities are only reported in the balance sheet if it is probable that any future financial results connected to the asset or liability will comprise a flow to or from the Riksbank and that in principle all risks and rights related to the asset or liability have been transferred to the Riksbank.

TRADE DATE ACCOUNTING

Foreign exchange transactions and securities transactions are recorded 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 market rates and market prices applying on the closing day.

Receivables, balances due and liabilities are recorded at the nominal amount. Amounts in foreign currency are translated at the closing day market 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 acquisition date.

Shares and participations are recorded at cost of acquisition or net worth if this is deemed to be permanently lower.

Property, plant and equipment and intangible assets are recorded at cost of acquisition and amortised/depreciated according to plan. Write-downs are made when the impairment loss is judged to be permanent. Revaluation is only allowed if the asset has a reliable and permanent value that materially exceeds the carrying amount. Buildings are depreciated over a period of 50 years, other fixed assets over 5-10 years. Machinery and equipment, including computers, is written off 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 equivalent assets at a specified price on a specific date in the future.

Assets pledged by the Riksbank as collateral for repos are still 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 received purchase sum 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 paid purchase sum is reported as a receivable. The difference between the two payments in a repurchase agreement (spot and forward) is treated on an accrual basis 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 for the entire duration of the transaction.

BANKNOTES AND COINS

The balance sheet item "banknotes and coins in circulation" is calculated by deducting from the value of the banknotes and coins the Riksbank has received from the manufacturers both the value of the banknotes and coins the Riksbank has destroyed and the value of the banknotes and coins in the Riksbank's stocks.

RECOGNITION OF INCOME

Realised gains and losses are transferred to the profit and loss account.

Unrealised gains are transferred to the revaluation account in the balance sheet.

Unrealised losses are transferred to the profit and loss account if they exceed unrealised gains that may have been previously recorded in the

corresponding revaluation account. Unrealised losses that are transferred to the profit and loss account may not be reversed during 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 net acquisitions of currency and gold are made, the average acquisition cost 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 and the gold price respectively. To calculate net sales, the realised outcome is calculated on the basis of the average cost of acquisition on the previous day for the holding in question.

OFF-BALANCE SHEET INSTRUMENTS

Derivative instruments with a positive net market value are reported as assets and those with a negative value as liabilities.

Balance sheet SEK MILLION

Assets	NOTE	31.12.2005	31.12.2004
Gold	1	22 235	17 393
Claims on residents outside Sweden denominated in foreign currency			
Receivables from the IMF	2	5 729	10 148
Balances with banks and security investments	3	167 429	135 108
		173 158	145 256
Lending to monetary policy counterparties denominated in Swedish kronor			
Main refinancing operations	4	9 600	17 000
Fine-tuning operations	5	–	–
Marginal lending facility	6	1	2
		9 601	17 002
Other assets			
Tangible and intangible fixed assets	7	512	538
Financial assets	8	594	410
Off-balance sheet instruments	9	19	–
Prepaid expenses and accrued income	10	2 183	1 963
Other assets	11	305	294
		3 613	3 205
Total assets		208 607	182 856
Liabilities and capital			
	NOTE	31.12.2005	31.12.2004
Banknotes and coins in circulation			
Banknotes	12	105 516	103 452
Coins	13	5 559	5 442
		111 075	108 894
Liabilities to monetary policy counterparties denominated in Swedish kronor			
Deposit facility	14	23	86
Fine-tuning operations	15	227	527
		250	613
Liabilities to residents outside Sweden denominated in Swedish kronor			
	16	94	306
Liabilities to residents outside Sweden denominated in foreign currency			
	17	10 159	4 912
Counterpart of Special Drawing Rights allocated by the IMF	18	2 797	2 537
Other liabilities			
Off-balance sheet instruments	19	1	85
Accrued expenses and prepaid income	20	111	100
Other liabilities	21	82	69
		194	254
Provisions	22	289	304
Revaluation accounts	23	23 680	1 523
Equity capital			
Capital	24	1 000	1 000
Reserves	25	55 813	65 317
		56 813	66 317
Result for the year		3 256	-2 804
Total liabilities and equity		208 607	182 856

Memorandum items, see Note 38.

■ Profit and Loss Account SEK MILLION

	NOTE	2005	2004
Interest income	26	5 421	4 778
Interest expenses	27	-320	-290
Net result of financial operations	28	-1 116	-6 317
Fees and commission income	29	45	19
Fees and commission expenses	30	-7	-9
Income from equity shares	31	43	42
Other income	32	10	24
Total net income		4 076	-1 753
Staff costs	33	-308	-309
Administrative expenses	34	-249	-231
Depreciation of tangible and intangible fixed assets	35	-84	-69
Banknote and coin expenses	36	-179	-160
Other expenses	37	-	-282
Total expenses		-820	-1 051
Result for the year		3 256	-2 804

Notes

SEK MILLION. FIGURES IN PARENTHESES REFER TO 2004

Note 1 Gold

	31.12.2005	31.12.2004
Quantity		
Troy ounces (million)	5.41	5.96
Price		
US-dollar per ounce	517.16	439.05
SEK/USD	7.94	6.65
Book value	22 235	17 393

As of 31 December 2005, the Riksbank holds 5.41 million ounces (troy/oz) of gold, which is equivalent to 168.4 tonnes. During 2005, the Riksbank has sold 0.55 million troy ounces of gold. The Riksbank has also entered into gold option agreements in 2005 which mature in 2006. See Notes 19 and 38.

Note 2 Receivables from the IMF

	31.12.2005	31.12.2004
Special Drawing Rights	1 401	1 387
Reserve Position in the IMF	4 117	8 570
Other receivables	211	191
Total	5 729	10 148

The Riksbank holds Special Drawing Rights of SDR 123 million. The Riksbank's total capital contribution (quota) to the IMF of SEK 27 179 million, 2 395.5 million SDR, is reported net under the item Reserve Position in the IMF, with the IMF's account for Swedish kronor of SEK -23 062 SEK million.

The items Other receivables refers to an interest-free deposit with the IMF as manager of contributions to 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.

Note 3 Balances with banks and security investments

	31.12.2005	31.12.2004
Balances with banks	21 839	13 270
Security investments	145 590	121 838
Total	167 429	135 108

This item consists mainly of foreign government securities and state-guaranteed securities as well as balances with foreign banks, such as deposits and nostro accounts. The securities are denominated in US dollars, euro, British pounds, Japanese yen, Canadian dollars and Australian dollars. Net balances in Target/E-RIX are also reported here.

Note 4 Main refinancing operations

The Riksbank's regular monetary policy repo operations are reported under this item. The decline is due to the fact that the dividend payment to the Treasury in 2005, totalling SEK 6,700 million, was financed through a reduction in the monetary policy repo.

Note 5 Fine-tuning operations

This item is used to report funds lent with a view to fine-tuning liquidity in the financial system.

Note 6 Marginal lending facility

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

Note 7 Tangible and intangible fixed assets

	31.12.2005	31.12.2004
Land and buildings		
Acquisition value	338	340
Accumulated depreciation	-107	-98
Book value buildings and land	231	242
Machinery and equipment		
Acquisition value	577	532
Accumulated depreciation	-296	-236
Book value machinery and equipment	281	296
Total	512	538

The item Land and buildings is used to report two properties, the Head Office and Baggensnäs. The item Book value, machinery and equipment includes applications systems at SEK 113 million (121). On 1 January 2005, the Riksbank acquired fixed assets from Svensk Kontantförsörjning AB for SEK 13 million in connection with the take-over of the rental agreement for the office in Malmö.

Note 8 Financial assets

	31.12.2005	31.12.2004
Shares and participation rights		
Svensk Kontantförsörjning AB		
150 000 shares with a par value of SEK 100	61	61
Tumba Kulturfastigheter AB		
1 000 shares with a par value of SEK 100	0	0
Fastighets AB Växjö Lågan 22		
1 000 shares with a par value of SEK 100	9	-
Swift		
45 (33) shares at a par value of EU with a par value of EUR 125	1	0
BIS		
17 244 (16 021) shares with a par value of 5 000 SDR of which 25% are paid up	441	267
European Central Bank		
7% of 2.4133% of the total capital subscriptions	82	82
Total	594	410

On 21 December 2005, Svenska Kontanthanteringsfastigheter AB transferred 100% of the shares of Fastighets AB Växjö Lågan to the Riksbank.

On 31 May 2005, the Riksbank acquired 1 223 shares in the Bank for International Settlements (BIS) for SEK 175 million. During 2005, the Riksbank also acquired 12 shares in Swift for SEK 0.2 million.

Note 9 Off-balance sheet instruments

	31.12.2005	31.12.2004
FX swaps, negative value	-19	-
FX swaps, positive value	37	-
Interest swaps, negative value	-	-
Interest swaps, positive value	1	-
Total	19	-

Derivative instruments with a positive net market value are reported under this item.

The nominal amounts of the derivative contracts, which are reported as memorandum items, see Note 38, are shown below:

	31.12.2005	31.12.2004
FX swaps, negative value	3 644	-
FX swaps, positive value	3 483	-
Interest swaps, negative value	-	-
Interest swaps, positive value	271	-
Total	7 398	-

Note 10 Prepaid expenses and accrued income

This item is used to report prepaid expenses and accrued income of which SEK 1 924 million (1 840) is accrued bond interest.

Note 11 Other assets

	31.12.2005	31.12.2004
Staff loans	258	252
Claim on Crane & Co. Inc.	26	25
VAT recoverable	16	13
Other	5	4
Total	305	294

The claim on Crane & Co. Inc. refers to part of the sale amount for Crane AB and will be settled by the payment of USD 1 million in 2008 and USD 3 million in 2011.

Note 12 Banknotes

The value of banknotes in circulation, by denomination:

	31.12.2005	31.12.2004
1 000 kronor	45 496	45 561
500 kronor	47 235	45 116
100 kronor	9 584	9 621
50 kronor	1 232	1 207
20 kronor	1 659	1 639
10 kronor	228	228
5 kronor	80	80
Commemorative banknotes	2	-
Total	105 516	103 452

Note 13 Coins

The value of coins in circulation, by denomination:

	31.12.2005	31.12.2004
10 kronor	2 218	2 150
5 kronor	1 183	1 171
2 kronor	8	8
1 kronor	1 214	1 195
0.50 kronor	287	288
Commemorative coins	649	630
Total	5 559	5 442

Note 14 Deposit facility

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

Note 15 Fine-tuning operations

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

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 outside Sweden denominated in foreign currency

Amounts corresponding to purchase amounts received in foreign currency for deposit repos are reported here.

Note 18 Counterpart of Special Drawing Rights allocated by the IMF

The Riksbank's liability corresponding to the special drawing rights allocated by the IMF is reported here. The accumulated amount granted totals SDR 246.5 million.

Note 19 Off-balance sheet instruments

	31.12.2005	31.12.2004
Gold forwards, negative value	-	22
Gold forwards, positive value	-	-9
Gold options, negative value	2	-
Gold options, positive value	-1	-
FX swaps, negative value	-	150
FX swaps, positive value	-	-78
Total	1	85

Off-balance sheet instruments with a negative market value are reported here. Valuation of gold option contracts is made in accordance with an accepted model for calculation

The nominal amounts for the derivative contracts, which are reported as Memorandum Items, see Note 38, are shown below:

	31.12.2005	31.12.2004
Gold forwards, negative value	–	683
Gold forwards, positive value	–	479
Gold options, negative value	82	–
Gold options, positive value	82	–
FX swaps, negative value	–	1 618
FX swaps, positive value	–	4 821
Total	164	7 601

Note 20 Accrued expenses and prepaid income

This item is used to show accrued expenses and prepaid income.

Note 21 Other liabilities

	31.12.2005	31.12.2004
Accounts payable – trade	63	47
Other	19	22
Total	82	69

Note 22 Provisions

	31.12.2005	31.12.2004
Pension liability	160	171
Other provisions	129	133
Total	289	304

The pension liability has been calculated by the National Government Employee Pensions Board, SPV, and relates to PA91 pensioners with a date of retirement prior to 2003, and 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 liability for those persons who at this time had employment or entitlement to annuity at the Riksbank.

The item Other provisions includes SEK 61 million (61) for an as yet unpaid capital contribution to Pengar i Sverige AB and SEK 58 million (62) for estimated costs arising from the lease for the office in Malmö in connection with the office being wound up in 2006. Furthermore, SEK 7 million is included for an undertaking to the National Property Board for neglected maintenance for the buildings donated by Tumba Kulturfastigheter in 2002. An additional SEK 3 million is included for funds for competence development and competence exchange which was decided upon in connection with the reduction of the charge to the Job Foundation.

Note 23 Revaluation accounts

	31.12.2005	31.12.2004
Price effect	1 698	1 500
Exchange rate effect	15 548	23
Gold value effect	6 434	–
Total	23 680	1 523

With effect from 2004, unrealised gains and losses are reported in special revaluation accounts. If the unrealised losses exceed the unrealised gains at the end of the year, the difference is reported in the profit and loss account. The calculation is made security by security and currency by currency.

Note 24 Capital

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

Note 25 Reserves

	31.12.2005	31.12.2004
Reserve fund	500	500
Contingency fund	30 188	36 396
Balancing account	25 125	28 421
Total	55 813	65 317

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 account have been used since 1988 according to guidelines for the Riksbank's allocation of net revenue adopted that year. It 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 entered in the balance sheet in 1994 at acquisition value minus depreciation. In 2005, a transfer has been made from the items write-up of the gold holding and fixed assets to allocation of net revenue at SEK 1 160 and SEK 3 million respectively as result of divestments during the year and amortisation of the written-up assets. The value of the BIS shares were written up in 1996 to correspond to the market value of the gold paid for the share allocation the same year. The above-mentioned allocations and write-ups are shown in the table below:

	31.12.2005	31.12.2004
Allocation of net revenue:		
Exchange rate effect	6 321	11 938
Gold valuation effect	3 605	4 196
Other profit allocation	8 386	7 223
Write-up of assets:		
Gold reserve	11 526	12 686
Fixed assets	115	118
BIS shares	235	235
Total	30 188	36 396

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

	Capital	Reserves	Result for the year	Total
Balance 31 December 2004	1 000	65 317	-2 804	63 513
Transfer to the Treasury			-6 700	-6 700
Transfer to/from				
Balancing account		-3 296	3 296	0
Contingency fund		-6 208	6 208	0
Result for the year			3 256	3 256
Balance 31 December 2005	1 000	55 813	3 256	60 069

Note 26 Interest income

	2005	2004
Foreign assets	5 276	4 492
Main refinancing operations	135	274
Other	10	12
Total	5 421	4 778

The item primarily includes bond interest and interest received from the main refinancing operations.

Note 27 Interest expenses

	2005	2004
Foreign liabilities	-315	-280
Domestic liabilities	-5	-10
Total	-320	-290

Interest expenses mainly consist of interest on deposit accounts.

Note 28 Net result of financial operations

	2005	2004
Price effect	-299	-109
Exchange rate effect	-875	-5 617
Gold value effect	58	-591
Total	-1 116	-6 317

The price effect consists of realised gains and losses on securities of SEK 497 million and realised losses on securities of SEK -796 million.

The exchange rate effect includes realised exchange rate gains and losses of SEK -875 million. The realised exchange rate effect includes SEK -1 733 million for an exchange rate recalculation of the IMF's account for Swedish kronor. The exchange rate recalculation has arisen due to the fact that the account has been hedged in SDR in relation to the IMF which is regulated by payment transactions in Swedish kronor on the account.

The gold value effect includes a realised gain of SEK 58 million.

Note 29 Fees and commission income

This item includes annual and transaction charges for the RIX system at SEK 21 million and banknote and coin delivery charges of SEK 24 million.

Note 30 Fees and commission expenses

This item mainly includes expenses for securities custody accounts.

Note 31 Income from equity shares

Income has been received from BIS amounting to SEK 43 million (40).

Note 32 Other income

The item Other income includes SEK 2 million for payment for the Scandinavian Cash Pool service and SEK 1 million for daily payment from SIDA for staff on loan. This item is also used to report the reversal of a provision of SEK 4 million for costs arising in connection with the lease for the Malmö office and SEK 1 million for the operation of the Malmö office in the fourth quarter of 2005.

Note 33 Staff costs

	2005	2004
Salaries and benefits	-193	-183
Pension costs	-34	-48
Social security charges	-71	-68
Training	-5	-6
Staff representation	-1	-1
Other	-4	-3
Total	-308	-309

Salaries and benefits to the members of the Executive Board amounted to SEK 12.2 million in 2005, broken down as follows.

	2005	2004
Lars Heikensten	1.5	1.5
Eva Srejber	1.8	1.8
Villy Bergström	1.8	1.8
Lars Nyberg	1.7	1.7
Kristina Persson	1.7	1.6
Irma Rosenberg	1.7	1.7
Qualification period salaries	2.0	-
Total	12.2	10.1

In addition, Lars Heikensten has received a board fee of SEK 0.6 million (0.6) from the Bank for International Settlements.

The General Council has decided that during the statutory qualification period, of no longer than a year after the cessation of employment, members of the Executive Board shall receive a full salary without obligation to perform official duties. However, a deduction will be made for any income from other employment during this period. The General Council has granted Executive Board members Lars Heikensten and Villy Bergström two monthly salaries, SEK 0.3 million, and 12 monthly salaries, SEK 1.7 million, respectively in qualifying period salary to be paid during 2006. This expenditure has been recorded as an expense in 2005 due to it being decided that their obligation to work should cease on 31 December 2005.

According to a decision of the General Council on 21 May 1999, regarding guidelines for pension conditions for members of the Riksbank's Executive Board, the regulation (RFS 1996:4) issued by the Administrative Board of the Riksdag on the implementation of the Ordinance on Pensions for Senior Government Officials, etc. (1995:1038) shall apply to members of the Executive Board. This regulation stipulates, however, that earlier provisions shall apply to persons covered by the regulations that were rescinded on 31 December 1996, which means that Eva Srejber and

Lars Heikensten are covered by the earlier regulation (1991:1160) on pensions for government officials, etc. while the four other Board members are covered by the newer regulation (1995:1038). According to the present arrangements, Lars Heikensten also receives some pension from BIS. This is paid to Board members who have had a commission at BIS for at least four years, although only when they have attained the age of 65. The pension is calculated on the basis of the board fees paid and amounts to 1.82 per cent of these.

During 2005, staff costs attributable to IT investments developed in-house have been included in the acquisition value of the asset in an amount of SEK 7 million (3).

The average number of employees (full-time equivalents, FTEs) in 2005 totalled 429 (420) of which 190 (189) were women and 239 (231) men. The number of FTEs at the end of the year was 410 (434).

Sick leave in 2005 was 4.7 per cent (4.4) of the employees' total working hours. Sick leave over a continuous period of 60 days or more in 2005 was 66.0 per cent (63.5) of total sick leave.

Women's sick leave in relation to total regular working hours for women amounted in 2005 to 5.0 per cent (6.0) while the corresponding figure for men was 4.4 per cent (3.0).

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

	2005	2004
29 years or younger	0.6 %	1.5 %
30-49 years	2.0 %	1.9 %
50 years or older	9.1 %	8.6 %

Note 34 Administrative expenses

	2005	2004
Information, hospitality	-15	-11
Transport, travel	-15	-13
Consultancy assignments	-33	-37
Other external services	-40	-38
IT operation	-50	-49
Economics prize	-18	-19
Office and property maintenance	-70	-47
Other	-8	-17
Total	-249	-231

Information expenses include costs for the Riksbank's regular publications (Inflation Report, Financial Stability Report and Annual Report, among other publications). In 2005, the Riksbank has carried out an information campaign to the public as certain banknotes and coins ceased to be legal tender on 31 December 2005. This campaign cost SEK 5 million. External hospitality expenses totalled SEK 1.6 million (1.3).

The item Other external services includes costs of SEK 22 million (30). This outcome includes expenses for Tumba Bruk museum of SEK 10 million.

The Economics Prize item includes the prize sum of SEK 10 million and administration costs for this prize of SEK 8 million. The costs also cover the Riksbank's annual grant to the interactive internet museum developed by the Nobel Foundation.

The largest single items in the cost group office and property maintenance consists of refurbishment and maintenance of the Riksbank building, SEK 9 million, repairs and upgrading of note and coin machines, SEK 9 million, and rents for premises, SEK 17 million. Expenses for rent of premises include the Riksbank's offices in the rest of the country. These were only included for three months of 2004.

Note 35 Depreciation of tangible and intangible fixed assets

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

Note 36 Banknote and coin expenses

Of the total cost for banknotes and coins of SEK 179 million (160), SEK 87 million (64) is in respect of the purchase of banknotes, SEK 1 million (-) purchase of commemorative banknotes, SEK 76 million (84) purchase of coins and SEK 15 million (12) purchase of commemorative coins.

Note 37 Other expenses

The item Other expenses refers in 2004 to capital contributions to subsidiaries and the assessed costs arising from the lease for the office in Malmö.

Note 38 Memorandum items

Pledged collateral

Securities with a market value of SEK 10 078 million (4 876) have been pledged in connection with the foreign securities repos.

No gold has been lent at the end of 2005.

No securities have been lodged as marginal collateral at the end of 2005 due to this requirement ceasing in 2005.

Contingent liabilities

Agreements under GAB (General Arrangements to Borrow) and NAB (New Arrangements to Borrow) to provide the IMF with a credit facility of up to SDR 850 million (850).

Undertaking to pay BIS, if so demanded, the remaining 75 per cent of the nominal value of the Riksbank's shareholding in BIS. This undertaking corresponded to SEK 734 million (618) at the end of 2005.

The nominal value of outstanding FX swaps, the market value of which is shown in note 9 and note 19, totalled SEK 7 127 million (6 439).

The nominal value of outstanding interest swap agreements, the market value of which is shown in note 9, was SEK 271 million (-).

The nominal value of outstanding gold option contracts, the market value of which is shown in note 19, amounted to SEK 164 million (-).

An undertaking to pay KPA Pensionsförsäkring AB supplementary compensation if so required as a result of index-linking the pension benefits to which the insured is entitled. The undertaking refers to personnel transferred from the Riksbank to AB Tumba Bruk (now Crane AB) in 1971.

A capital adequacy guarantee for Pengar i Sverige AB of SEK 275 million of which SEK 200 million has been paid out and SEK 61 million recorded as a provision. Accordingly SEK 14 million remains of the total amount of guarantee.

Agreements where the Riksbank guarantees the value of Swedish government bonds, Treasury bills and mortgage bonds pledged as collateral for intraday credits between commercial banks and central banks in the euro area.

Undertaking 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 costs for this prize. This undertaking amounted to SEK 18 million in 2005 (SEK 19 million).

■ Five-year overview SEK MILLION

The five-year overview presents the balance sheet and profit and loss account in accordance with current accounting principles, with the exception of no translation being made for the years 2001-2003 with regard to reporting unrealised gains and losses in special revaluation accounts.

Balance sheet	31.12.05	31.12.04	31.12.03	31.12.02	31.12.01
Assets					
Gold	22 235	17 393	18 030	18 210	17 436

Claims on residents outside Sweden denominated in foreign currency

Receivables from the IMF	5 729	10 148	12 241	14 269	13 254
Balances with banks and security investments	167 429	135 108	129 031	133 659	132 321
	173 158	145 256	141 272	147 928	145 575

Lending to monetary policy counterparties denominated in Swedish kronor

Main refinancing operations	9 600	17 000	23 800	29 179	65 030
Fine-tuning operations	-	-	-	1 415	3 986
Lending facility	1	2	0	87	29
	9 601	17 002	23 800	30 681	69 045

Other assets

Tangible and intangible fixed assets	512	538	509	455	406
Financial assets	594	410	324	382	617
Off-balance sheet instruments	19	-	-	-	-
Prepaid expenses and accrued income	2 183	1 963	2 005	2 558	2 238
Other assets	305	294	291	226	215
	3 613	3 205	3 129	3 621	3 476

Total assets 208 607 182 856 186 231 200 440 235 532

Liabilities and capital

Banknotes and coins in circulation

Banknotes	105 516	103 452	103 675	101 979	102 367
Coins	5 559	5 442	5 265	5 005	4 744
	111 075	108 894	108 940	106 984	107 111

Liabilities to monetary policy counterparties denominated in Swedish kronor

Deposit facility	23	86	49	87	48
Fine-tuning operations	227	527	491	-	-
	250	613	540	87	48

Liabilities to residents outside Sweden denominated in Swedish kronor

	94	306	125	207	161
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Balance sheet

cont. 31.12.05 31.12.04 31.12.03 31.12.02 31.12.01

Liabilities to residents in Sweden denominated in foreign currency	-	-	-	-	2 198
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Liabilities to residents outside Sweden denominated in foreign currency

Counterpart of SDRs allocated by the IMF	2 797	2 537	2 647	2 929	3 258
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Other liabilities

Off-balance sheet instruments	1	85	16	17	176
Accrued expenses and prepaid income	111	100	81	143	143
Other liabilities	82	69	71	77	1 927
	194	254	168	237	2 246

Provisions	289	304	396	443	394
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Revaluation accounts

	23 680	1 523	-	-	-
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Equity capital

Capital	1 000	1 000	1 000	1 000	1 000
Reserves	55 813	65 317	80 697	88 268	96 291
	56 813	66 317	81 697	89 268	97 291

Result for the year	3 256	-2 804	-9 280	-71	19 277
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Total liabilities and capital

208 607 182 856 186 231 200 440 235 532

Profit and Loss Account

Account	2005	2004	2003	2002	2001
Interest income	5 421	4 778	5 316	7 220	9 197
Interest expenses	-320	-290	-121	-206	-445
Net result of financial operations	-1 116	-6 317	-13 287	-5 717	11 410
Fees and commission income	45	19	18	10	11
Fees and commission expenses	-7	-9	-8	-3	-4
Income from equity shares	43	42	185	39	35
Other income	10	24	5	4	11
Total net income	4 076	-1 753	-7 892	1 347	20 215

Staff costs	-308	-309	-323	-337	-279
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Administrative costs	-249	-231	-228	-216	-211
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Tangible and intangible fixed assets	-84	-69	-72	-69	-63
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Banknote and coin expenses	-179	-160	-244	-322	-332
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Other expenses	-	-282	-521	-474	-53
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Total expenses	-820	-1 051	-1 388	-1 418	-938
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Result for the year 3 256 -2 804 -9 280 -71 19 277

■ The Riksbank's subsidiaries

SEK MILLION

Svensk Kontantförsörjning AB and subsidiaries

Besides Svensk Kontantförsörjning AB (SKAB), the group consists of the subsidiaries Pengar i Sverige AB, Svenska Kontanthanteringssystem AB, Swedcash AB (dormant) and Svenska Kontanthanteringsfastigheter AB. SKAB is 100 per cent owned by the Riksbank. Activities in all companies in the SKAB group are in the process of being wound up.

During 2005, the Board has focused work on winding up the remaining activity at as low a cost as possible. A provision of SEK 39 million was made in the accounts for 2004 for the remaining work of winding up. SKAB's board has decided to make a further provision of an additional SEK 8 million for 2006. The additional costs compared with the provision for 2004 are mainly attributable to the assessed cost of achieving final agreements in a number of disputes and consultancy and attorney fees.

SKAB's sub-subsidiary Fastighets AB Härnösand Bänken 1, which administers one of the previous Riksbank offices, was sold in April 2005. A capital gain of approximately SEK 1 million arose on sale. In December 2005, Fastighets AB Växjö Lågan 22, which manages the property of the former Riksbank office in Växjö, was transferred to the Riksbank. This transfer led to a capital loss of just over SEK 1 million in the SKAB group. The transfer was a component in the preparations for winding up the companies in the SBAB group.

Otherwise, work has been focused on resolving a number of disputes with previous customers and suppliers to the companies in the group and on disposing of the remaining assets and paying redundancy pay. All employees in the SKAB group are leaving their employment in 2005 and all redundancy pay has been paid. SKAB's head office in Tumba has been closed during the year.

The most important dispute concerns Pengar i Sverige AB's demand for insurance indemnity with regard to the robbery of a secure transport in 2003. This dispute has led to legal proceedings in Oslo City Court.

Extensive parts of SKAB's and Pengar i Sverige AB's archives were damaged by water in the storm in January 2005 when flooding took place at Recall AB which keeps the companies' records. This led to additional expense for freezing the archive material. At the end of 2005, the companies submitted an application to the Tax Agency requesting to be allowed to destroy the material.

In autumn 2005, the board prepared a winding up of the subsidiaries Svenska Kontanthanteringssystem AB, Svenska Kontanthanteringsfastigheter AB and Swedcash AB, by merger with the parent company SKAB. The merger plan has been approved by SKAB's shareholder, the Riksbank, and will be carried out in the first half of 2006.

Profit and loss account (consolidated), SEK million

	2005	2004
Operating income	2	143
Operating expenses	-10	-413
Operating profit/loss	-8	-270
Financial items	0	-9
Profit/loss after financial items	-8	-279
Tax on the year's result	-	-
Result for the year	-8	-279

Balance sheet (consolidated), SEK million

	31.12.2005	31.12.2004
Fixed assets	-	29
Current assets	75	111
Total assets	75	140
Equity capital	60	68
Provisions	11	42
Current liabilities	4	30
Total equity capital and liabilities	75	140

The Board of Directors (parent company)

Björn Hasselgren, Chairman

Kai Barvell

Kersti Eriksen

Heine Andersson, Employee representative (until June 2005 inclusive)

Address

Svensk Kontantförsörjning AB

c/o Sveriges Riksbank

SE-103 37 Stockholm

Tumba Kulturfastigheter AB

The company is 100 per cent owned by the Riksbank and was acquired in December 2001 with a view to purchasing properties and equipment from AB Tumba Bruk (now Crane AB). The area of listed buildings in Tumba Bruk and the immediately adjacent land was transferred in 2002, after approval by the Riksbank and by the Riksdag, the Swedish parliament, to the National Property Board. The intention is to conserve the industrial site with its unique industrial and cultural history and its buildings for future generations.

The company participated in the preparations for developing and inaugurating Tumba Bruk Museum in four of the buildings in the area. The museum was inaugurated on 4 June 2005.

Tumba Kulturfastigheter AB is now preparing for the sale of the remaining areas of land in Tumba, consisting of land for housing in Uttran, and a larger area of land in Lilltumba. The land has been valued in autumn 2005. This valuation indicates that the future sales prices will be substantially above the book value of the land.

Planning for the future sale of the land is continuing in 2006.

Profit and loss account, SEK million

	2005	2004
Operating income	0.0	0.4
Operating expenses	-0.0	-0.0
Operating profit/loss	-0.0	0.0
Financial items	0.0	0.0
Profit/loss after financial items	-0.0	0.4
Tax on the year's result	-	-0.1
Result for the year	-0.0	0.3

Balance sheet, SEK million

	31.12.2005	31.12.2004
Current assets	1.8	1.8
Total assets	1.8	1.8
Equity capital	1.8	1.8
Liabilities	0.0	0.0
Total equity capital and liabilities	1.8	1.8

The Board of Directors

Björn Hasselgren, Chairman
Kersti Eriksen

Address

Tumba Kulturfastigheter AB
c/o Sveriges Riksbank
SE-103 37 Stockholm

Fastighets AB Växjö Lågan 22

The company is 100 per cent owned by the Riksbank and was acquired in December 2005 as a step in the winding up of the companies in the SKAB group.

Växjö Lågan manages a property in the municipality of Växjö where the former Riksbank office was situated. The building was transferred to the Riksbank subsidiary Pengar i Sverige AB in 1999, as well as other properties where the payment operations of the Riksbank were conducted.

The property has three premises that are or have been let. The Swedish Forest Agency rents the largest part of the office space at the premises. The cash management premises were let to Securitas Värde AB until 30 June 2005, but have since been vacant. Adjacent premises in a separate building on the same site have been let to a firm of locksmiths.

Växjö Lågan has been put up for sale in recent years. However, it has neither been possible to sell the property nor the company for a reasonable price. The Riksbank has made the assessment that the property, with strategically valuable cash management premises, should command a higher market value given the new cash management depot structure established during 2006. The Riksbank intends to make further efforts to sell the company in the coming year.

In conjunction with the transfer to the Riksbank, the Board has drawn up a maintenance plan for the property and had it valued. The intention is to carry out necessary maintenance in coming years. In connection with the transfer, the previous owner of the company, Svenska Kontanthanteringsfastigheter AB, also decided to convert the company's debt to the parent company into equity by an unconditional shareholder's contribution. The equity capital of the company has subsequently been approximately SEK 10 billion.

Profit and loss account, SEK million

	2005	2004
Operating income	1.5	1.8
Operating expenses	-1.2	-1.1
Operating profit/loss	0.3	0.7
Financial items	0.0	0.0
Profit/loss after financial items	0.3	0.7
Tax on the year's result	-0.1	-0.2
Result for the year	0.2	0.5

Balance sheet, SEK million

	31.12.2005	31.12.2004
Fixed assets	9.5	9.7
Current assets	0.9	1.3
Total assets	10.4	11.0
Equity capital	9.8	0.1
Liabilities	0.6	10.9
Total equity capital and liabilities	10.4	11.0

The Board of Directors

Björn Hasselgren, Chairman
Kersti Eriksen
Kai Barvèll

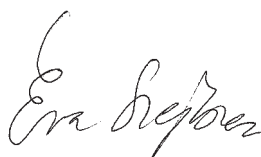
Address

Fastighets AB Växjö Lågan 22
c/o Sveriges Riksbank
SE-103 37 Stockholm

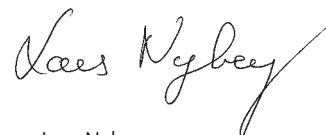
Stockholm, 9 February 2006



Stefan Ingves
Governor



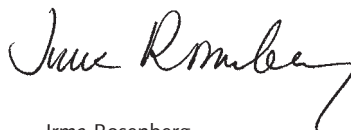
Eva Srejber
First Deputy Governor



Lars Nyberg
Deputy Governor



Kristina Persson
Deputy Governor



Irma Rosenberg
Deputy Governor



Svante Öberg
Deputy Governor

■ Proposal for the allocation of profits for 2005

The Riksdag approved in connection with its consideration of the Riksbank's management for the year 2004 (2004/05 FIU:23) that the allocation of profits for 2004 should be based on the 1988 principle of allocation of profits with the supplements to the principle made since then, which was the proposal put forward by the General Council. The principle of allocation of profits entails 80 per cent of the average profits for the past five years, excluding exchange rate and gold evaluation effects, being transferred to the Treasury.

The General Council noted in its consideration of the proposal for the allocation of profits in 2004 that as the principles for the Riksbank's accounting had changed, as of 2004 unrealised gains were no longer included in the Riksbank's reported financial result. This meant that the General Council included the unrealised price effect gains on debt securities reported in the revaluation account when calculating the transfer to the Treasury in order to continue applying the 1988 principle for the allocation of profits. The General Council applies the same basis for calculation for the year 2005.

Pursuant to Chapter 10, Article 3 of the Sveriges Riksbank Act (1988:1385), the General Council has received a report for the financial year 2005 from the Executive Board. The General Council observes that the Riksbank with the application of the current accounting principles reports a profit for 2005 amounting to SEK 3 256 million. In accordance with the 1988 principle on the allocation of profits, the following adjustments are made to the reported result when calculating the result on which the transfer to the Treasury is based:

1. The reported result is adversely affected by a realised exchange loss of SEK 875 million. In accordance with the allocation of profits principle, this loss is excluded when calculating the result on which the transfer to the Treasury is based.

2. The Riksbank has reported a realised gain of SEK 58 million as a result of sales of gold during 2005. The General Council considers that as a consequence of the profit allocation principles, the realised gold effects should be treated in the same way as realised exchange rate gains and has therefore also excluded this gain when calculating the allocation of profits.

3. An unrealised price effect gain on the bond holdings of SEK 198 million is included in the calculation of the result used as a basis for the transfer, in accordance with the above-mentioned adjustment resulting from the change in accounting principles.

The General Council proposes as described below a transfer to the Treasury of SEK 5 300 million.

As the proposed transfer is larger than the profits reported for the year, it is proposed that SEK 157 million be transferred from the contingency fund and SEK 1 887 million be transferred from the balancing account.

The Audit Unit of the General Council has examined the basis for calculating the profit allocation proposal. The Audit Unit did not find any reason for objections.

The General Council decided on 10 February 2006 to submit the following proposal for the allocation of the Riksbank's profits.

The profit before appropriations for 2005 amounts to SEK 3 256 million.

The General Council proposes that:

SEK Million	
Transfer from the contingency fund	157
Transfer from the balancing account	1 887
Transfer to the Treasury	5 300

■ Auditor's report

The Swedish National Audit Office (Riksrevisionen) has audited the Annual Report of Sveriges Riksbank, approved by the Executive Board of the Riksbank on 9 February 2006, for the financial year 2005.

The Executive Board of the Riksbank is responsible for the annual accounts.

It is the responsibility of Riksrevisionen to examine the Riksbank's Annual Report in accordance with generally accepted auditing standards with the aim of reaching an assessment of whether the Annual Report and the underlying documentation are reliable, that the accounts are true and fair, and whether the Executive Board's administration has observed applicable regulations and any special decisions.

The audit has been carried out in accordance with generally accepted auditing standards. This means that the audit has been planned and performed with the aim of obtaining reasonable grounds for making an assessment of whether the Annual Report is true and fair. The examination has accordingly included a selection of significant transactions and administrative decisions.

The audit gives reasonable ground for the statements set out below.

The Annual Report has been prepared in accordance with the Sveriges Riksbank Act and with the application of the principles for book-keeping and annual accounts adopted by the Executive Board of the Riksbank.

It is the opinion of Riksrevisionen that the Annual Report gives a true and fair view of the Riksbank.

Riksrevisionen recommends to the Swedish Parliament (the Riksdag) that the balance sheet and the profit and loss account be adopted.

Furthermore, Riksrevisionen recommends to the Swedish Parliament that the General Council of the Riksbank be discharged from liability for operations and that the Executive Board be discharged from liability for administration of the Riksbank in 2005.

The decision in this matter was made by Lennart Grufberg, Auditor General. The audit was presented by Filip Cassel, Audit Director.

Stockholm, 10 February 2006

Lennart Grufberg Filip Cassel

■ The Riksbank's consultation responses

Every year, the Riksbank makes responses to a large number of consultation documents. The Executive Board has delegated to a Deputy Governor of the Riksbank to prepare these responses that are to be decided upon by the Executive Board or the General Council and to reply to other consultation documents. The Deputy Governor is assisted in this work by a consultation group consisting of representatives of the departments that respond to most consultation documents. These representatives are appointed by the respective head of department. The responses are usually submitted by the Deputy Governor who leads this work. Responses involving major matters of principle or which are otherwise of great importance for the Riksbank are dealt with by the Executive Board instead. Matters that are of importance for the General Council are dealt with by that body.

In 2005, the Executive Board adopted new guidelines for work with consultation responses that clarify the forms of work and provide guidelines for the Riksbank's approach to responses in some of the bank's key areas of activities. Consultation work during 2005 has been dominated by matters relating to financial stability. To a great extent, this has concerned the incorporation of EU regulations in Swedish legislation or regulations from Finansinspektionen. Otherwise, there are normally a number of consultation documents in the field of monetary policy, although there have only been a few consultation documents in this area in 2005. However, the Riksbank has responded to a number of consultation documents relating to information security and emergency preparedness. In these areas, the Riksbank ensures in its consultation work that consideration is taken to the Riksbank's responsibility for the stability of the financial system, in particular, matters relating to the security and protection of the payment system.

The following consultation responses were made by the Executive Board of the Riksbank in 2005. Unless otherwise stated, decisions have been made by Deputy Governor Villy Bergström who was responsible for preparing matters relating to consultation documents.

Ministry of Finance

20-12-2005

Comments on the consultation document concerning the memorandum on the right of transfer of pension savings.

12-12-2005

Comments on the memorandum on extension of the transitional period for certain financial undertakings (Fi2005/6048).

08-12-2005

Comments on the memorandum Consumer protection in the financial sphere (12-09-2005) (Fi2005/1958). A decision in this matter has been made by the Executive Board of the Riksbank.

07-10-2005

Comments on the consultation document of the National Debt Office's proposed guidelines for management of central government debt. A decision in this matter has been made by the Executive Board of the Riksbank.

04-10-2005

Comments on the consultation document Consequential changes resulting from the ministerial memorandum Simplified accounting rules, etc.

12-09-2005

Comments on the consultation document Responsibility for prospectuses – final report by the Prospectus Commission (SOU 2005:18).

18-07-2005

Comments on the memorandum Certain tax-related issues arising from the new Companies Act, etc.

17-06-2005

Comments on the Committee Report A reformed system for the deposit guarantee (SOU 2005:16). A decision in this matter has been made by the Executive Board of the Riksbank.

02-05-2005

Comments on the memorandum on proposed new legislation on special supervision of financial conglomerates and on additional amendments to existing legislation in the sphere of the financial market (Ds 2005:1).

24-02-2005

Comments on the Ministry of Finance's memorandum on a reformed survivor protection in the premium pension system.

13-01-2005

Comments on the memorandum on changed fees for the deposit guarantee.

13-01-2005

Comments on the interim report Implementation of the Occupational Pension Directive (SOU 2004:101).

12-01-2005

Comments on the Ministry of Finance's memorandum Certain issues relating to coupon tax.

Finansinspektionen

21-11-2005

Comments on the consultation document – Accounting of technical provisions (FTA) and new information in insurance companies with activities relating to occupational pension insurance and on leasing in legal entities.

03-11-2005

Comments on the consultation document Adaptations to IFRS of accounting rules for the 2006 financial year.

27-10-2005

Comments on proposed amendment of Finansinspektionen's regulations and general guidelines FFFS 2003:10 on capital adequacy and large exposures.

07-10-2005

Comments on the consultation document Proposed amendments and adjustments of accounting guidelines arising from the fair value option and the Swedish Financial Accounting Standards Council's norms.

26-09-2005

Comments on the consultation document concerning Regulations and general guidelines on internal risk classification (IRK) and regulations on operational risk.

Ministry of Defence

20-12-2005

Comments on the final report Information security policy – Organisational consequences (SOU 2005:71).

27-10-2005

Comments on the consultation document Adaptations to defence intelligence activities (Ds 2005:30).

04-10-2005

Comments on the interim report Secure information – a proposed information security policy (SOU 2005:42).

07-07-2005

Comments on the consultation document of The development of emergency preparedness – the Swedish Emergency Management Agency's (KBM) documentation for the 2005 Emergency Preparedness Bill and KBM's overview of Ordinance (2002:472) on Measures for Peacetime Crisis Management and Increased Preparedness.

Ministry of Justice

19-12-2005

Comments on the ministerial memorandum Europe Co-operative (Ds 2005:45).

12-12-2005

Comments on the memorandum Electronic submission to the Swedish Companies Registration Office (Ju2005/10549/L1).

12-09-2005

Comments on New rules for public offers (SOU 2005:58).

25-08-2005

Comments on the memorandum on the advanced date of application of the new valuation regulations in the Annual Accounts Act.

10-03-2005

Comments on the memorandum Simplified accounting rules, etc.

25-02-2005

Comments on the memorandum on payments to senior executives in limited companies and insurance undertakings

Swedish Emergency Management Agency

14-04-2005

Comments on the consultation document of the report Swedish emergency management in international collaboration.

11-02-2005

Comments on the consultation document of the Swedish Emergency Management Agency's planning documentation on emergency preparedness.

03-02-2005

Comments on the consultation document of the Swedish Emergency Management Agency's review of Ordinance (2002:472) on Peacetime Emergency Management and Increased Preparedness.

Ministry of Industry, Employment and Communications

11-04-2005

Comments on the consultation document of the report Strategy to safeguard the Internet's infrastructure.

National Post and Telecom Agency

12-01-2005

Comments on the consultation document on the need for secrecy on information relating to transmitters (base stations) for mobile telephony.

Riksdag Administration

18-11-2005

Comments on the Riksdag Administration's Committee Report on the introduction of certain provisions of the Budget Act on the Riksdag's agencies. A decision in this matter has been made by the Executive Board of the Riksbank.

12-05-2005

Comments on the Riksdag Administration's consultation document on the Act concerning Security Protection of the Riksdag and its agencies.

Swedish Agency for Administrative Development

06-04-2005

Comments on proposals concerning the regulations on security of information for 24-hour agencies.

Ministry for Foreign Affairs

21-11-2005

Comments on the ministerial memorandum (Ds 2005:37) on the accession of Bulgaria and Romania to the European Union.

10-03-2005

Comments on the memorandum Treaty on the drawing up of a constitution for Europe (Ds 2004:52) part 1-4.

■ Glossary

Balance of payments The statistical reporting of a country's economic transactions with the rest of the world.

BIS The Bank for International Settlements. Sometimes known as "the central banks' bank" and acts as bank and cooperation organisation for the central banks in 55 countries. BIS has its head office in Basel.

Consumer price index (CPI) Official price index established each month by Statistics Sweden regarding price trends in consumption. The development of the CPI forms a base for the Riksbank's definition of its price stability target.

Duration A measure of how the value of a securities portfolio changes when interest rates change.

ECB The European Central Bank. The ECB is a joint central bank for the twelve EU member states who have adopted the euro. The ECB is situated in Frankfurt.

EFC The EU's Economic and Financial Committee. Advises the Ecofin Council within the EU on economic policy and financial matters.

EMU Economic and monetary union. Cooperation within the EU aimed at adopting the euro as single currency. Decisions on monetary policy are then transferred from the national central banks to the ECB Governing Council. Twelve of the EU member states have adopted the euro so far.

ESCB The European System of Central Banks. This is the generic term for the ECB and the 25 national central banks in the EU countries.

Eurosystem Term referring to the ECB and the national central banks in the twelve EU member states that have adopted the euro.

Exchange rate The price of a currency expressed in units of another currency.

Exchange rate policy A central bank's actions to influence its own currency's exchange rate against other currencies.

Foreign currency reserve A central bank's holdings of foreign currency to enable intervention when necessary and to affect the value of the country's own currency in relation to other currencies.

Foreign exchange intervention When a central bank buys or sells currency in the foreign exchange market with the aim of influencing its own country's exchange rate.

G10 The Group of Ten. An association of industrial nations, eleven in total, to promote cooperation on international financial issues and to support the IMF with liquidity for its loans. Sweden is a member of the G10. Finance ministries, financial supervisory authorities and central banks are involved in various forms of cooperation. A number of G10 committees have secretariats in the BIS and work on developing standards for financial activities that can strengthen international financial stability.

IFRS International Financial Reporting Standards.

IMF The International Monetary Fund (IMF). The International Monetary Fund was formed in 1944, to promote trade and growth by fostering economic, monetary and financial stability. The organisation currently has 184 member countries and the Riksbank serves as the contact body for Sweden.

Inflation General price rises that cause a reduction in the value of money. The opposite is known as deflation.

Key interest rates The interest rates the Riksbank sets for deposits from and loans to the banking system.

Long-term interest Interest on loans with a longer duration than one year.

Modified duration A measure of risk that states how sensitive the value of the currency reserve is to changes in the interest-rate level, i.e. by how many per cent the value of the currency reserve will change when the interest-rate level falls or rises by one percentage point.

Monetary policy The Riksbank's actions to influence the interest rate level and, indirectly, the price level.

Money market A market consisting of banks and other financial institutions that accept short-term deposits and grant short-term loans for a period of one day up to one year.

Payment system The systems, routines and regulations needed to implement payments.

Price stability A fixed value of money. According to the Riksbank's definition, price stability means keeping CPI inflation at 2 per cent \pm 1 percentage point.

Real-time gross settlement A settlement system where payments are mediated and settled in real time (continuously) as the orders are received (without netting).

Repo A repurchase transaction whereby the Riksbank lends money to the banks through so-called monetary policy repos. A monetary policy repo means that the Riksbank supplies funds to the banking system by buying securities from the banks and at the same time agreeing to sell back the securities to the banks after one week (among market participants this is known as a reverse repo). The Riksbank then receives back the funds, and the securities are returned to the original owner. The Riksbank usually carries out repos every week.

Repo rate The interest rate banks have to pay when borrowing from the Riksbank through a repo transaction.

Riksbank reference rate An interest rate set half-yearly by the Riksbank and corresponding to the Riksbank's repo rate at the end of the previous half-year, if necessary rounded off to the nearest half a percentage point.

RIX The Riksbank's system for the settlement of large-value interbank payments. The system settles payments both in kronor (K-RIX) and in euro (E-RIX) in accordance with the principle of real-time gross settlement. E-RIX is linked to Target (see below).

SDR Special Drawing Rights. International reserve asset created by the IMF for allocation to member states. See the Riksbank's balance sheet. The value of the SDR is based on a basket of dollars, euro, yen and sterling.

Settlement The final regulation of a debt, that is to say when money or assets are transferred from one party to another. In RIX settlement occurs by transferring funds between two participants' accounts.

Short-term interest rate Interest on loans with a duration of less than one year.

TARGET The EU's common payment system to which member states' national payment systems for payments in euro are connected. It links together the central banks in the EU and around 5 000 commercial banks.

Underlying inflation A measure of cyclical inflation. The Riksbank usually uses UND1X as a measure of underlying inflation. UND1X is defined as the change in the CPI excluding household mortgage interest expenditure and the direct effects of changes in indirect taxes and subsidies.

Value dating A physical transaction whereby cash is placed in/distributed from the Riksbank's cash stocks on behalf of a bank or the Swedish Cashier Service (Svensk kassaservice). The cash is thereby deposited in/withdrawn from the bank's account at the Riksbank and the calculation of interest for the bank in question changes.

VaR (Value at Risk) A measure of the estimated market risk in a portfolio of assets, based on historical correlations and variations in the market value of different assets in the portfolio.

■ Publications

The Riksbank produces a number of publications each year. These include:

The Inflation Report is published four times a year. The report forms a basis for monetary policy decisions. It is also intended to make the Riksbank's assessments generally accessible in order to stimulate interest in and facilitate understanding of monetary policy.

The Financial Stability Report is issued twice a year. The report describes the Riksbank's view of developments in the financial system and what these developments entail for stability. The aim is to promote better stability in the financial system and to stimulate discussion regarding issues concerning the stability of the payment system.

Sveriges Riksbank Economic Review is issued three times a year and contains articles on subjects in the Riksbank's field of activities.

The Annual Report provides an account of monetary and foreign exchange policy during the past year and an account of how the Riksbank has worked to promote a safe and efficient payment system. The Annual Report contains the Riksbank's annual accounts.

The Working Paper Series presents reports connected to the Riksbank's field of activities that are also considered to be of interest to parties outside the bank.

Publications from the European Central Bank, ECB

All of the Riksbank's publications are available on its website (www.riksbank.se). The majority of them are published in both Swedish and English. The simplest way to order them is through the order function on the website. The Riksbank also publishes press releases, speeches, articles and minutes from its meetings of the Executive Board and the General Council on its website.

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■ Tumba Bruk Museum

The Tumba Bruk Museum was inaugurated on 4 June 2005 as part of the Riksbank's commemoration of the 250th anniversary of Tumba Bruk. Tumba Bruk Museum displays the history of the Riksbank's banknotes and of Tumba Bruk.

The Riksbank established a paper mill for banknotes in Tumba in 1755. Since the early 1970s, there has also been a printing works for banknotes in Tumba. Tumba Bruk has been operated since 2001 by the US company Crane&Co, a company which, among other things, has manufactured paper for US dollar banknotes since the end of the nineteenth century.

Tumba Bruk Museum is located in an historical industrial environment where staff housing, the paper mill and the printing works still comprise a living industrial environment. The museum has a comprehensive exhibition of banknotes, conference facilities, and a cafeteria. During its first year of operation from June to December 2005, Tumba Bruk Museum had approximately 11,000 visitors.

Tumba Bruk Museum is run by the Royal Coin Cabinet. Its operations are financed by a grant from the Tumba Bruk Foundation, to which the Riksbank has contributed capital, after approval by the Riksdag. The industrial area with land and buildings is managed by the National Property Board after the Riksbank donated the land to the state in 2002.

COMMEMORATIVE BANKNOTE AND ANNIVERSARY STAMP

In May 2005, the Riksbank issued a commemorative banknote in a denomination of 100 kronor to commemorate the 250th anniversary of Tumba Bruk. The banknote was printed by Crane AB in accordance with the current agreement with the company. The banknote includes motifs from earlier Swedish banknotes and depicts scenes from banknote manufacture in past times and from Tumba Bruk. Around 19,000 examples of the banknote have been sold. An anniversary stamp was issued at the same time as the commemorative banknote in collaboration with the Swedish Post Office, Posten AB. The stamp shows motifs from the commemorative banknote and is in the denomination of 15 kronor.



Tumba Bruk museum has a comprehensive collection of banknotes, conference facilities and a cafeteria.

The Riksbank issued a commemorative banknote to mark the 250th anniversary of Tumba Bruk. The post office issued a commemorative stamp on the same date.

■ The Riksbank's Prize in Economic Sciences 2005

Sveriges Riksbank's Prize in Economic Sciences in Memory of Alfred Nobel was awarded in 2005 to Robert J. Aumann at the Center for Rationality, Hebrew University of Jerusalem, Israel and Thomas C. Schelling at the Department of Economics and School of Public Policy, University of Maryland, College Park, MD, USA. They were awarded the prize "for having deepened our understanding of conflict and co-operation through game theory analysis".



Thomas C. Schelling and Robert J. Aumann received Sveriges Riksbank's Prize in Economic Sciences in Memory of Alfred Nobel in 2005.

Thomas C. Schelling and Robert J. Aumann

Sveriges Riksbank's Prize in Economic Sciences was established in connection with the Riksbank's 300th anniversary in 1968. In making its donation, the Riksbank committed itself irrevocably and for all time to enable the prize to be awarded by putting at the disposal of the Nobel Foundation each year a sum for the prize money and a sum to cover the Foundation's costs for management and finance. The Government has established the statutes governing Sveriges Riksbank's Prize in Economic Sciences in Memory of Alfred Nobel.

The prize is awarded every year to a person or persons in the field of economic sciences who have produced work of outstanding importance. The Royal Swedish Academy of Sciences appoints the economic prize-winner(s) according to the same principles as for the Nobel Prizes. The prize amount is also the same as for the Nobel Prizes, SEK 10 million, and is paid by the Riksbank. If there is more than one prize-winner, the prize money is shared between them.

Robert J. Aumann was born in 1930 in Frankfurt, Germany (Israeli and us citizen). PhD in Mathematics in 1955 at Massachusetts Institute of Technology (MIT), Cambridge, MA, USA. Professor at the Center for Rationality, Hebrew University of Jerusalem, Israel.

Thomas C. Schelling was born in 1921 in Oakland, CA, USA (us citizen). PhD in Economics in 1951 at Harvard University, Cambridge, MA, USA. Distinguished University Professor Emeritus at the Department of Economics and School of Public Policy, University of Maryland, College Park, MD, USA and Lucius N. Littauer Professor Emeritus in Political Economics at Harvard University.

Previous prize-winners

The prize has been awarded every year from 1969 as follows:

1969 R. Frisch and J. Tinbergen	1990 H.M. Markowitz, M.H. Miller and W.F. Sharpe
1970 P. A. Samuelson	1991 R.H. Coase
1971 S. Kuznets	1992 G.S. Becker
1972 J.R. Hicks and K.J. Arrow	1993 R.W. Fogel and D.C. North
1973 W. Leontief	1994 J.C. Harsanyi, J.F. Nash Jr and R. Selten
1974 G. Myrdal and F.A. von Hayek	1995 R.E. Lucas, Jr.
1975 L.V. Kantorovich and T.C. Koopmans	1996 J.A. Mirrlees and W. Vickrey
1976 M. Friedman	1997 R.C. Merton and M.S. Scholes
1977 B. Ohlin and J.E. Meade	1998 A. Sen
1978 H.A. Simon	1999 R.A. Mundell
1979 T.W. Schultz and A. Lewis	2000 J.J. Heckman and D.L. McFadden
1980 L.R. Klein	2001 G.A. Akerlof, A.M. Spence and J.E. Stiglitz
1981 J. Tobin	2002 D. Kahneman and V.L. Smith
1982 G.J. Stigler	2003 R.F. Engle and C.W.J. Granger
1983 G. Debreu	2004 F.E. Kydland and E.C. Prescott
1984 R. Stone	2005 R.J. Aumann and T.C. Schelling
1985 F. Modigliani	
1986 J.M. Buchanan Jr	
1987 R.M. Solow	
1988 M. Allais	
1989 T. Haavelmo	



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